CONSOLIDATED FINANCIAL STATEMENTS

Contents

Consolidated financial statements

Consolidated income statement

(€m)

	NOTE	2022	2021
A - REVENUE			
1. Revenue from sales and services	1	2,898.1	2,534.5
of which: related parties		*1,718.7*	*1,766.9*
2. Other revenue and income	2	66.4	71.8
of which: related parties		*0.8*	*1.6*
Total revenue		**2,964.5**	**2,606.3**
B – OPERATING COSTS			
1. Raw and consumable materials used	3	247.8	206.4
of which: related parties		-	*0.1*
2. Services	4	276.9	218.3
of which: related parties		*9.7*	*11.0*
3. Personnel expenses	5	348.1	295.3
- gross personnel expenses		*464.2*	*401.1*
- capitalised personnel expenses		*(116.1)*	*(105.8)*
of which: related parties		*3.7*	*3.5*
4. Amortisation, depreciation and impairment losses	6	725.7	654.4
5. Other operating costs	7	32.5	31.5
of which: related parties		*0.1*	*0.1*
Total operating costs		**1,631.0**	**1,405.9**
A - B OPERATING PROFIT/(LOSS)		**1,333.5**	**1,200.4**
C - FINANCIAL INCOME/(EXPENSES)			
1. Financial income	8	22.7	16.6
2. Financial expenses	8	(121.8)	(95.8)
3. Share of profit/(loss) of investees accounted for using the equity method	9	(1.0)	0.3
D – PROFIT/(LOSS) BEFORE TAX		**1,233.4**	**1,121.5**
E – INCOME TAX EXPENSE	**10**	**355.4**	**317.9**
F – PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**878.0**	**803.6**
G – PROFIT/(LOSS) FOR THE YEAR FROM DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE	**11**	**(20.3)**	**(12.8)**
H – PROFIT FOR THE YEAR		**857.7**	**790.8**
Profit attributable to owners of the Parent		**857.0**	**789.4**
Profit attributable to non-controlling interests		**0.7**	**1.4**
Earnings per share	**12**		
Basic earnings per share		0.427	0.393
Diluted earnings per share		0.427	0.393
Earnings per share from continuing operations			
Basic earnings per share	12	0.438	0.400
Diluted earnings per share		0.438	0.400

Consolidated statement of comprehensive income*

(€m)

	NOTE	2022	2021
PROFIT FOR THE YEAR		**857.7**	**790.8**
Other comprehensive income for the year reclassifiable to profit or loss			
- Cash flow hedges	24	223.3	74.9
- Financial assets at fair value through other comprehensive income	24	(4.4)	(3.0)
- Gains/(Losses) from translation of financial statements in currencies other than the euro	24	34.9	5.5
- Cost of hedges	24	(0.6)	0.4
Other comprehensive income for the year not reclassifiable to profit or loss			
- Actuarial gains/(losses) on provisions for employee benefits	24	(10.4)	9.6
Total other comprehensive income		**242.8**	**87.4**
COMPREHENSIVE INCOME FOR THE YEAR		**1,100.5**	**878.2**
COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Parent		*1,101.1*	*876.8*
Non-controlling interests		*(0.6)*	*1.4*

* Amounts are shown net of tax, where applicable.

Consolidated statement of financial position

(€m)

	NOTE	31 DECEMBER 2022	31 DECEMBER 2021
A - NON-CURRENT ASSETS			
1. Property, plant and equipment	13	16,200.9	15,316.6
of which: related parties		*41.1*	*60.3*
2. Goodwill	14	251.5	256.5
3. Intangible assets	15	524.3	400.0
4. Deferred tax assets	16	121.0	146.6
5. Investments accounted for using the equity method	17	73.8	76.2
6. Non-current financial assets	18	494.4	287.7
7. Other non-current assets	19	15.9	17.5
Total non-current assets		**17,681.8**	**16,501.1**
B - CURRENT ASSETS			
1. Inventories	20	83.0	69.9
2. Trade receivables	21	2,358.3	2,777.4
of which: related parties		*333.2*	*302.3*
3. Current financial assets	18	255.3	980.6
4. Cash and cash equivalents	22	2,155.1	1,566.8
of which: related parties		*0.1*	*0.1*
5. Income tax assets	23	6.8	4.8
6. Other current assets	19	191.9	83.1
Total current assets		**5,050.4**	**5,482.6**
C - Discontinued operations and assets held for sale	**30**	**70.7**	**375.5**
TOTAL ASSETS		**22,802.9**	**22,359.2**

(€m)

	NOTE	31 DECEMBER 2022	31 DECEMBER 2021
D - EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
1. Share capital		442.2	442.2
2. Other reserves		1,875.2	683.4
3. Retained earnings/(accumulated losses)		3,180.9	2,964.3
4. Interim dividend		(213.3)	(197.4)
5. Profit for the year		857.0	789.4
Total equity attributable to owners of the Parent	**24**	**6,142.0**	**4,681.9**
E - EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	**24**	**27.1**	**31.1**
Total equity attributable to owners of the Parent and non-controlling interests		**6,169.1**	**4,713.0**
F - NON-CURRENT LIABILITIES			
1. Long-term borrowings	25	8,416.7	8,835.0
2. Employee benefits	26	48.4	60.8
3. Provisions for risks and charges	27	140.8	134.2
4. Non-current financial liabilities	25	247.2	83.7
5. Other non-current liabilities	28	971.4	884.8
Total non-current liabilities		**9,824.5**	**9,998.5**
G - CURRENT LIABILITIES			
1. Short-term borrowings	25	444.1	1,947.0
2. Current portion of long-term borrowings	25	1,909.3	1,640.0
3. Trade payables	29	3,687.7	3,275.6
of which: related parties		*60.9*	*59.9*
4. Tax expense	29	43.8	28.1
5. Current financial liabilities	25	44.9	45.8
6. Other current liabilities	29	669.9	453.4
of which: related parties		*22.7*	*19.4*
Total current liabilities		**6,799.7**	**7,389.9**
H - Liabilities related to discontinued operations and assets held for sale	**30**	**9.6**	**257.8**
TOTAL LIABILITIES AND EQUITY		**22,802.9**	**22,359.2**

Consolidated statement of changes in equity

31 December 2021 - 31 December 2022

Group's share capital and reserves

(€m)

	SHARE CAPITAL	LEGAL RESERVE	SHARE PREMIUM RESERVE	CASH FLOW HEDGE RESERVE	RESERVE FOR TREASURY SHARES	RESERVE FOR EQUITY INSTRUMENTS - PERPETUAL HYBRID BONDS	OTHER RESERVES	RETAINED EARNINGS/ (ACCUMULATED LOSSES)	INTERIM DIVIDEND	PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT AND NON-CONTROLLING INTERESTS
EQUITY AT 31 DECEMBER 2021	442.2	88.4	20.0	(141.6)	(19.5)		736.1	2,964.3	(197.4)	789.4	4,681.9	31.1	4,713.0
PROFIT FOR THE YEAR										857.0	857.0	0.7	857.7
OTHER COMPREHENSIVE INCOME:													
- Change in fair value of cash flow hedges				223.3							223.3		223.3
- Actuarial gains/(losses) on employee benefits							(10.4)				(10.4)		(10.4)
- Gains/(Losses) from translation of financial statements in currencies other than the euro								36.2			36.2	(1.3)	34.9
- Financial assets at fair value through other comprehensive income							(4.4)				(4.4)		(4.4)
- Cost of hedges				(0.6)							(0.6)		(0.6)
Total other comprehensive income				222.7			(14.8)	36.2			244.1	(1.3)	242.8
COMPREHENSIVE INCOME				222.7			(14.8)	36.2		857.0	1,101.1	(0.6)	1,100.5
TRANSACTIONS WITH SHAREHOLDERS:													
- Appropriation of profit for 2021:													
Retained earnings								*204.3*		*(204.3)*			
Dividends									*197.4*	*(585.1)*	*(387.7)*	*(3.4)*	*(391.1)*
- Interim dividend 2022									(213.3)		(213.3)		(213.3)
- Purchase of treasury shares					(10.0)						(10.0)		(10.0)
Total transactions with shareholders					(10.0)			204.3	(15.9)	(789.4)	(611.0)	(3.4)	(614.4)
Change in scope of consolidation								(1.7)			(1.7)		(1.7)
Equity instruments – Perpetual hybrid bonds						989.0					989.0		989.0
Share option reserve							5.8				5.8		5.8
Coupon payable to holders of hybrid bonds								(21.1)			(21.1)		(21.1)
Other changes							(0.9)	(1.1)			(2.0)		(2.0)
Total other changes						989.0	4.9	(23.9)			970.0		970.0
EQUITY AT 31 DECEMBER 2022	442.2	88.4	20.0	81.1	(29.5)	989.0	726.2	3,180.9	(213.3)	857.0	6,142.0	27.1	6,169.1

31 December 2020 - 31 December 2021
Group’s share capital and reserves

(€m)

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

Consolidated statement of cash flows

(€m)

	NOTE	2022	2021
PROFIT FOR THE YEAR		**857.7**	**790.8**
ADJUSTED BY:			
Amortisation, depreciation and impairment losses /(reversals of impairment losses) on non-current property, plant and equipment and intangible assets*	6	736.1	664.8
Accruals to provisions (including provisions for employee benefits) and impairment losses		51.7	28.4
(Gains)/Losses on sale of property, plant and equipment		(6.9)	(13.7)
Financial (income)/expense	8	101.5	99.3
Income tax expense		356.7	321.5
Other non-cash movements		(24.1)	5.2
CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN NET WORKING CAPITAL		**2,072.7**	**1,896.3**
Increase/(decrease) in provisions (including provisions for employee benefits and taxation)		(36.9)	(70.3)
(Increase)/decrease in inventories		(20.7)	(19.8)
(Increase)/decrease in trade receivables and other current assets		285.9	(1,592.3)
Increase/(decrease) in trade payables and other current liabilities		604.8	1,168.5
Increase/(decrease) in other non-current liabilities		(126.1)	(33.4)
(Increase)/decrease in other non-current assets		14.7	(38.5)
Interest income and other financial income received		64.2	54.3
Interest expense and other financial expenses paid		(154.8)	(214.6)
Income tax paid		(380.1)	(317.9)
CASH FLOW FROM OPERATING ACTIVITIES [A]		**2,323.7**	**832.3**
- of which: related parties		*(26.6)*	*(89.6)*
Capital expenditure in non-current property, plant and equipment after grants received	13	(1,492.3)	(1,344.2)
Revenue from sale of non-current property, plant and equipment and intangible assets and other movements		15.6	32.9
Capitalised financial expenses		24.8	10.8
Capital expenditure in non-current intangible assets after grants received	15	(212.4)	(130.8)
(Increase)/decrease in investments in associates and joint ventures	17	2.4	(0.4)
Movements in short- and medium/long-term financial investments		(350.5)	600.0
Consideration paid for new acquisitions net of cash		-	(31.6)
Proceed collected from the sale of companies		157.0	-
CASH FLOW FOR INVESTING ACTIVITIES [B]		**(1,855.4)**	**(863.3)**
- of which: related parties		*19.2*	*(5.9)*
Movement in the reserve for treasury shares	24	(10.0)	(10.0)
Movement in the reserve for equity instruments	24	989.0	-
Dividends paid		(595.8)	(546.7)
Movements in short- and medium/long-term financial liabilities (including short-term portion)**		(289.0)	(480.8)
Increase/(decrease) in retained earnings and accumulated losses	24	(1.7)	2.0
Increase/(decrease) in equity attributable to non-controlling interests	24	-	(16.3)
CASH FLOW FROM FINANCING ACTIVITIES [C]		**92.5**	**(1,051.8)**
INCREASE/(DECREASE) IN CASH AND EQUIVALENTS [A+B+C]		**560.8**	**(1,082.8)**
Cash and cash equivalents at beginning of year		1,606.2	2,689.0
Cash and cash equivalents at end of year ***		2,167.0	1,606.2
- of which cash and cash equivalents from acquisitions		-	*5.4*

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

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

*** *Of which "Cash and cash equivalents" at 31 December 2022, totalling €2,155.1 million, and "Cash and cash equivalents" attributable to assets held for sale at 31 December 2022, totalling €11.9 million.*

Notes

A. Accounting policies and measurement criteria

Introduction

Terna S.p.A.'s registered office is at Viale Egidio Galbani 70, Rome, Italy. The consolidated financial statements at and for the year ended 31 December 2022 include the Company's financial statements and those of its subsidiaries (the "Group"). The subsidiaries included within the scope of consolidation are listed below.
Publication of the consolidated financial statements was authorised by the Board of Directors on 22 March 2023.
The consolidated financial statements at and for the year ended 31 December 2022 are available for inspection on request at Terna S.p.A.'s registered office at Viale Egidio Galbani 70, Rome, or on the Company's website at www.terna.it.
The Board of Directors has authorised the Chairwoman and the Chief Executive Officer to make any alterations to the form of the financial statements that may be necessary during preparation of the final text to be presented to the Annual General Meeting, and to make any additions and adjustments to the sections concerning significant subsequent events.

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

As of the financial statements for the year ended 31 December 2021, the Terna Group has complied with the requirement introduced by the European Transparency Directive and publishes its Annual Report using the xhtml format, tagging all the numbers in the consolidated financial statements and the issuer's basic financial information using the ixbrl format. In addition, as of 31 December 2022, all the notes to the consolidated financial statements have been block tagged.

Compliance with IAS/IFRS

The consolidated financial statements at and for the year ended 31 December 2022 have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), as endorsed by the European Commission ("IFRS").
This document has also been prepared taking into account the provisions of Legislative Decree 38 of 28 February 2005, of the Italian Civil Code and CONSOB Resolutions 15519 ("Provisions governing financial statements in implementation of art. 9, paragraph 3 of Legislative Decree 38/2005") and 15520 ("Amendments to the implementing rules for Legislative Decree 58/1998"), as well as CONSOB Communication DEM/6064293 ("Disclosure requirements for listed issuers and issuers of financial instruments that are widely held among the public pursuant to art. 116 of the Consolidated Law on Finance").

Basis of presentation

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

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

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

Given that the requirements of IFRS 5 have been met, the total results for 2022 and 2021 attributable to the South American subsidiaries included in the planned sale of assets have been classified in the item "Profit/(Loss) for the year from discontinued operations and assets held for sale" in the Group's consolidated income statement. Likewise, the attributable assets and liabilities at 31 December 2022 and 2021 have been classified in the item "Discontinued operations and assets held for sale" and "Liabilities related to discontinued operations and assets held for sale" in the Group's consolidated statement of financial position.

Certain amounts in the financial statements at and for the year ended 31 December 2021 have been restated in order to provide an improved basis of comparison, without however modifying the amount of equity at 31 December 2021 or amounts in the income statement and statement of comprehensive income for 2021.

Use of estimates

Preparation of the consolidated financial statements requires the Group to use estimates and assumptions that affect the carrying amounts of assets and liabilities and the related disclosures, in addition to contingent assets and liabilities at the reporting date. The estimates are made on the basis of the information available to the management at the date of preparation of the financial statements. These estimates and the associated assumptions are based on previous experience and various factors that are believed to be reasonable under the circumstances. The resulting estimates form the basis for making the judgements about the carrying amounts of assets and liabilities that are not readily apparent from other objective sources. Actual results may differ from these estimates.
The estimates and underlying assumptions are reviewed periodically and the effects of any changes are recognised in the income statement for the year, if they relate solely to that period. In the case that the revision affects both current and future years, the change is recorded in the year in which the estimate is reviewed as well as in the relevant future years.
The assets and liabilities subject to estimates and key assumptions used by the Group in applying the IFRS endorsed by the European Commission, and that could have a significant impact on the consolidated financial statements, or that could give rise to risks that would entail significant adjustments to the carrying amounts of assets and liabilities in subsequent years, are summarised below.

Revenue related to incentives

Recognition in the financial statements of output-based incentives requires management to use estimates and assumptions based on judgements made using actual data and estimates of the quantity and likelihood of future events. In the case of incentive mechanisms where the performance obligation is satisfied over a period of time, the Group estimates how to allocate the reward in the period, estimating the potential for the return of all or part of the accrued amounts. The amount recognised as revenue in the accounting period is the amount that is most likely not to be returned in the future. The Group also evaluates, for each incentive mechanism, whether or not the right (or obligation) is subject to confirmation or verification by the regulator, ARERA.
If the mechanism includes a significant financial component, the Group determines a discount rate that takes into account the credit risk associated with the asset which, given the way in which the mechanisms work and the guarantees provided to Terna under the regulatory framework, broadly coincides with the electricity system.
Certain incentive mechanisms may result in penalties for underperformance.

Impairment losses

Property, plant and equipment and intangible assets with finite useful lives are tested at least once a year to check for evidence of impairment. If there is evidence that an asset may be impaired, its recoverable amount is estimated.
The recoverable amount of goodwill and intangible assets with indefinite useful lives, where present, as well as intangible assets not yet available for use, is estimated at least annually. The recoverable amount is equal to the greater of the fair value less costs to sell and value in use. Value in use is measured by discounting estimated future cash flows considering information available at the time of estimate and on the basis of estimates of the performance of future variables, such as prices, costs, demand growth rates, production profiles, and discounted at a pre-tax rate that reflects current market assessments of the time value of money for the investment period and risks specific to the asset. If the intangible asset does not generate cash inflows, the asset's recoverable amount is calculated as part of the Cash Generating Unit ("CGU") to which it belongs.
An impairment loss is recognised in the income statement when the asset's carrying amount, or the net invested capital of the CGU to which it belongs, is greater than its recoverable amount.
Impairment losses on CGUs are first taken as a reduction in the carrying amount of any allocated goodwill and then as a reduction in other assets allocated to the CGU on a pro rata basis. Except for goodwill, impairment losses may be reversed up to the recoverable amount or the original cost of the asset if there is an indication that the impairment loss no longer exists or when there is a change in the methods used to measure the recoverable amount.

Allowance for doubtful accounts

Trade receivables are initially recognised at fair value net of any losses relating to sums considered non-recoverable, for which specific provisions have been made in the allowance for doubtful accounts. Credit losses are determined in application of IFRS 9 (a model based on expected credit losses). This requires the Group to assess expected credit losses, and the related changes, at each reporting date.
Specifically, the Group has applied the simplified approach permitted by IFRS 9 to trade receivables, finance lease receivables and assets deriving from contracts with customers, in order to measure the allowance for doubtful accounts based on expected losses over the life of the receivable. The Group has thus determined the amount of expected credit losses using a provisioning matrix, based on information regarding historical credit losses for similar past due exposures, adjusted to take into account current conditions and forward-looking elements.

Provisions for risks and charges

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

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

Employee benefits

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

Conflict between Russia and Ukraine and macroeconomic environment

The Terna Group has been closely monitoring the current macroeconomic environment and the recent international political events, particularly focusing on geopolitical developments and the relevant legislation.
In this respect, in its Public Statement of 28 October 2022, "European common enforcement priorities for 2022 annual financial reports", ESMA highlighted the need to ensure the correct degree of transparency in financial reporting in order to adequately reflect the current and, as far as possible, foreseeable impact of the conflict on entities' financial position, financial performance and cash flows.

Despite the current extremely volatile macroeconomic environment and slowing economic growth, marked by extremely high inflation at global level, monetary tightening by central banks (completely the opposite of the easing seen during Covid-19), rising interest rates, the geopolitical crisis caused by the ongoing conflict between Russia and Ukraine and continuing commodity market tensions, which are affecting the world's ability to recover from the Covid-19 pandemic, the Group is continuing to focus on delivering on our "Driving Energy" 2021-2025 Industrial Plan. As a result, to date, we are not aware of any circumstances requiring an in-depth assessment of the validity of application of the going concern basis.

This assumption is based on the fact that the largest part of the Group's income is represented by revenue generated by Regulated Activities in Italy and that this revenue consists of remuneration to cover both operating and capital expenditure, with both components revised annually based on the performance of inflation and a deflator. In addition, the return on invested capital is based on a WACC that is periodically revised by ARERA to enable the parameters used in calculating the cost of equity and debt to be updated.

Assessment of the impact of the current macroeconomic environment and the conflict between Russia and Ukraine has not, moreover, resulted in trigger events requiring the conduct of an impairment test of the value of the property, plant and equipment owned by the Group or of intangible assets with finite useful lives.

With regard to the recoverable amount of property, plant and equipment and intangible assets with finite useful lives forming part of the RAB (regulated asset base), the assessment of expected future cash flows generated by these assets has shown that the macroeconomic effects of the conflict between Russia and Ukraine have not given rise to impacts constituting trigger events requiring the Group to test for impairment.

In addition, neither the impact of the changed macroeconomic environment or the conflict between Russia and Ukraine has resulted in an increase in credit risk and has not affected the outcome of the measurement of expected credit losses. The Group's trade receivables fall within the hold to collect business model, primarily fall due within 12 months and do not include a significant financial component. The effect of these events has not, therefore, had any impact, including with regard to the identified business model for financial instruments, thus avoiding any changes to the chosen classification.

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

In terms of recoverable amount, it should be noted that there has not been any deterioration in 2022 in the receivables due from the Group's main counterparties (dispatching customers for injections or for withdrawals and distributors), considered solvent by the market and therefore assigned high credit ratings.

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

Terna is not exposed to any risk of greater contract expenses due to rising inflation or increased costs incurred as a result of rising commodity and energy prices and salaries, or to the possibility that, as an issuer of financial instruments, it is unable to pass such increases on by raising the prices of its own services or goods. This is because any price increases agreed by law are covered by tariff revisions, which envisage adjustments for inflation.

It should, moreover, be noted that Terna S.p.A. and its subsidiaries do not have offices or significant operations in the regions affected by the conflict.

Climate change

Awareness of the progress of climate change and its effects has led to a growing need to provide disclosure in Report on Operations. Although there is no international accounting standard governing how the impact of climate change should be taken into account in the preparation of financial statements, the IASB has issued certain documents providing support for IFRS-adopters seeking to satisfy the demand for disclosure from interested parties. Similarly, ESMA, in its European Common Enforcement Priorities dated 28 October 2022, highlighted the need for issuers to consider climate risks when preparing their IFRS financial statements to the extent that such risks are material, regardless of whether or not this is explicitly required by the relevant accounting standards.

The Terna Group describes its considerations on the actions linked to the need to mitigate the impact of climate change primarily in the sections, "Reference Scenario – Energy scenario" and "Opportunities and risks linked to climate change" in the Report on Operations. In these sections, as a TSO providing transmission and dispatching services, the Terna Group undoubtedly plays an active role in supporting the system in achieving the challenging targets linked to efforts to reduce CO_2

emissions. Indeed, in addition to the emissions connected with electricity consumption, the most significant component relating to Terna's indirect emissions is linked to grid losses that in turn lead to the indirect need to produce CO_2 to offset such losses with additional electricity. In themselves, a TSO's emissions (scopes 1 and 2 in the 'GHG emission protocol') are extremely modest when compared with the potential system-level reduction resulting from the integration of renewable sources and electrification.

The Group has chosen to report its considerations on climate change in a single note. The following is a summary of management's considerations on aspects deemed material.

IAS 1 – Presentation of Financial Statements

In the event of uncertainties, IAS 1 requires entities to analyse potential impacts in terms of the entity's ability to continue as a going concern and, with regard to the assumptions and estimates made when preparing the financial statements. Entities are required to provide disclosure of the forward-looking estimates used and that have a significant risk of resulting in a material adjustment within the next financial year. As recommended by ESMA, which, as mentioned above, requires entities to take into account climate risks when preparing financial statements, disclosures are provided that, despite not being specifically required by IFRS, are relevant to an understanding of the financial statements.

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

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

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

IAS 16 – Property, Plant and Equipment

With specific regard to the grid and the related transmission service, the action plan requires a commitment to the planning, approval and delivery of investment projects related to work in response to current and future needs to integrate renewable sources, guarantee the reliability, security, adequacy and efficiency of the electricity system, such as, for example, cross-border interconnections and the development of infrastructure to enable the growing integration of renewable energy sources.

In addition, as described in the Group's Risk Framework, the Group is exposed to the risks linked to the increased intensity of weather events (tornados, heavy snowfall, ice, flooding) with a resulting impact on the continuity and quality of the service provided by Terna and/or damage to equipment, machinery, infrastructure and the grid. In response, the Group continues to carry out new investment designed to increase the resilience of the electricity grid and identify mitigation strategies.

In line with our role in driving the country's energy transition, Terna's strategic plans, further described in the chapter "The value creation strategy", include action to tackle climate change, identifying:

- the works needed to develop and strengthen the electricity grid in the ten-year Development Plan, including overseas interconnections, to ensure the integration of renewable sources;
- tools to ensure the security and reliability of the electricity system in the Security Plan, in a scenario where renewable sources are increasingly more widespread and thermoelectric plants are decommissioned, resulting in issues relating to system inertia and voltage regulation;
- predictive solutions for maintenance and renewal in the Renewal Plan for electricity assets.

Common to all these plans is the Resilience Plan, which includes all the initiatives designed to increase grid resilience to enable it to withstand increasingly intense and frequent severe weather events, damaging infrastructure and resulting in outages at plants connected to the NTG. For example, it involves the development of innovative technologies through structured collaborations with start-ups ("Open Innovation"), designed to monitor weather events and increase NTG resilience.

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

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

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

IAS 38 – Intangible Assets

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

With the Resilience Methodology, approved by ARERA in Resolution 9/2022, Terna has established a new innovative and probabilistic tool to plan work that will increase the resilience of the NTG. This involves measuring the related benefit in terms of reducing expected energy not supplied, above all due to ice, snow and strong winds.

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

In response to the risk linked to the greater intensity and frequency of extreme weather events (tornados, heavy snowfall, ice, flooding), the Group could also benefit from the "Patentability" of the above innovative solutions, with resulting non-regulated business opportunities.

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

IAS 36 – Impairment of Assets

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

IFRS 9 – Financial Instruments

With regard to borrowings and bond issues, the Group has obtained ESG-linked loans and has issued green bonds, as further described in the section "Sustainable Finance". In terms of borrowings (other than "Green Bonds") there is a link between the achievement or not of ESG targets and the related interest payment mechanisms. The Group believes that there may thus be a risk, albeit not significant, connected with the achievement of such goals. Failure to achieve the targets within a contractually agreed date would result in a slight increase in the cost of debt. Nevertheless, the impact of this risk on financial expenses is entirely negligible. The Group constantly monitors activities relating to climate change and has not so far identified any critical issues.

IAS 37 - Provisions, Contingent Liabilities and Contingent Assets

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

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

IFRS 15 – Revenue from Contracts with Customers

In terms of Regulated Activities, part of the remuneration for transmission and dispatching services derives from regulatory incentive mechanisms linked to specific targets. The achievement of these targets may be influenced by climate change risks, as for example the intensification of extreme weather events could have an impact on the continuity and quality of the service offered by Terna. The Group monitors these risks and, at this time, has not identified a need to revise the estimates relating to these incentives.

With regard to Non-regulated Activities, above all Energy Solutions, given the portfolio of products and services offered to promote the development of renewable energy in Italy, for example through the construction and operation of photovoltaic plants, infrastructure connecting the photovoltaic plants to the grid and services offered to industrial clients, and with regard to the production of cables and transformers, the Group is not exposed to new uncertainties having an impact on the current revenue recognition model. In addition, the Group did not deem it necessary to conduct a review of existing contracts.

Climate change and the subsequent adoption of policies designed to reduce CO_2 emissions and achieve Net Zero Emissions targets by most industrial clients could result in increased business opportunities.

IFRS 2 – Share-based Payments

The current long-term incentive plans, so called Performance Share Plans, are 25% linked to the inclusion of a series of ESG indices, selected to represent the Group's ability to deliver an all-round sustainability performance, including the Dow Jones Sustainability Index World, Stoxx ESG Leaders and the MIB 40 ESG. The inclusion is subject to assessments conducted by three rating agencies: S&P Global, Sustainalytics and Moody's ESG in that order. A significant part of these assessments is linked to the issue of climate change: specifically, in order to be included in the selected ESG indexes every year, and for the whole duration of the LTI Plan, performance and positioning in terms of, for example, climate strategy, the assessment and management of climate risks, cuts in greenhouse gas emissions and public disclosures on relevant metrics, is of great importance.

Subsidiaries and scope of consolidation

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

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

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST	METHOD OF CONSOLIDATION
SUBSIADIARIES CONTROLLED DIRECTLY BY TERNA S.P.A.					
Terna Rete Italia S.p.A.	Rome	Euro	300,000	100%	Line-by-line
Business	Design, construction, management, development, operation and maintenance of power lines and grid infrastructure and other grid-related infrastructure, plant and equipment used in the above electricity transmission and dispatching activities and in similar, related and connected sectors.				
Terna Crna Gora d.o.o.	Podgorica (Montenegro)	Euro	208,000,000	100%	Line-by-line
Business	Authorisation, construction and operation of the transmission infrastructure forming the Italy-Montenegro interconnector on Montenegrin territory.				
Terna Plus S.r.l.	Rome	Euro	16,050,000	100%	Line-by-line
Business	Design, construction, management, development, operation and maintenance of plant, equipment and infrastructure for grids and systems, including distributed storage and pumping and/or storage systems.				
Terna Interconnector S.r.l.	Rome	Euro	10,000	65%*	Line-by-line
Business	Responsible for construction and operation of the private section of the Italy-France interconnector and civil works on the public section.				
Rete S.r.l.	Rome	Euro	387,267,082	100%	Line-by-line
Business	Design, construction, management, development, operation and maintenance of high-voltage power lines.				
Terna Energy Solutions S.r.l.	Rome	Euro	2,000,000	100%	Line-by-line
Business	Design, construction, management, development, operation and maintenance of distributed energy storage systems, pumping and/or storage systems, plant, equipment and infrastructure, including grids; research, consultancy and assistance in matters relating to the core business; any other activity capable of improving the use and development of plant, resources and expertise.				
ESPERIA-CC S.r.l.	Rome	Euro	10,000	1%**	Line-by-line
Business	A technical centre owned by a number of transmission system operators, which acts as the regional security coordinator for the TSOs, with the aim of improving and upgrading the security and coordination of the electricity system in south-eastern Europe.				
Terna Forward	Rome	Euro	10,000	100%	Line-by-line
Business	Development of new technological solutions for the Terna Group, investing in start-ups and small, medium and large enterprises with high innovation and technological potential.				

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

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST	METHOD OF CONSOLIDATION
SUBSIDIARIES CONTROLLED THROUGH TERNA PLUS S.R.L.					
Terna Chile S.p.A.	Santiago del Cile (Chile)	Chilean peso	2,315,194,500	100%	Line-by-line
Business	Design, construction, administration, development, operation and maintenance of any type of electricity system, plant, equipment and infrastructure, including interconnectors; provision of all types of product and service, construction, electrical and civil engineering work; research, consultancy and assistance in matters relating to the core business; any other activity capable of improving the use and development of plant, resources and expertise.				
Terna Peru S.A.C.	Lima (Peru)	Sales	116,813,900	99.99%*	Line-by-line
Business	Design, construction, administration, development, operation and maintenance of any type of electricity system, plant, equipment and infrastructure, including interconnectors; provision of all types of product and service, construction, electrical and civil engineering work; research, consultancy and assistance in matters relating to the core business; any other activity capable of improving the use and development of plant, resources and expertise.				
Terna 4 Chacas S.A.C.	Lima (Peru)	Sales	13,734,560	99.99%*	Line-by-line
Business	Responsible for construction of a new 16 km power line in Peru.				
SPE Transmissora de energia Linha Verde I S.A.	Belo Horizonte (Brazil)	Real	434,999,313	75%**	Line-by-line
Business	Provision of public electricity transmission services, including construction, operation and maintenance of electricity transmission infrastructure or any other activity necessary in order to fulfil the above purpose.				
TERNA USA LLC.	New York (USA)	US dollar	1	100%	Line-by-line
Business	Acquisition, development and construction of major infrastructure projects regarding onshore and offshore electricity transmission in the United States.				

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

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST	METHOD OF CONSOLIDATION
SUBSIDIARIES CONTROLLED THROUGH TERNA ENERGY SOLUTIONS S.R.L.					
Tamini Trasformatori S.r.l.	Legnano (MI)	Euro	4,285,714	100%	Line-by-line
Business	Construction, repair and trading in electrical equipment.				
Avvenia The Energy Innovator S.r.l.	Rome	Euro	10,000	100%	Line-by-line
Business	Provision of energy efficiency, energy consulting and process engineering services to companies and public and private entities; the application of technology to increase energy end-use efficiency; the design, construction, development and maintenance of plant, equipment and infrastructure for networks and other uses.				
Brugg Kabel Services AG	Brugg (Switzerland)	Swiss franc	1,000,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
LT S.r.l.	Rome	Euro	400,000	75%*	Line-by-line
Business	Design, construction and maintenance of renewable power plants.				
SUBSIDIARIES CONTROLLED THROUGH TAMINI TRASFORMATORI S.R.L.					
Tamini Transformers USA LLC	Sewickley - Pennsylvania	US dollar	52,089	100%	Line-by-line
Business	Commercialisation of industrial-grade and high-power electricity transformers.				
Tamini Transformatori India Private Limited	Maharashtra (India)	Indian rupee	13,175,000	100%	Line-by-line
Business	Commercialisation of industrial-grade and high-power electricity transformers.				
SUBSIDIARIES CONTROLLED THROUGH BRUGG KABEL SERVICES AG					
Brugg Kabel Manufacturing AG	Brugg (Switerland)	Swiss franc	7,000,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
Brugg Kabel AG	Brugg (Switerland)	Swiss franc	22,000,000	90%**	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
SUBSIDIARIES CONTROLLED THROUGH BRUGG KABEL MANUFACTURING AG					
Brugg Cables Italia S.r.l.	Milan	Euro	10,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
SUBSIDIARIES CONTROLLED THROUGH BRUGG KABEL AG					
Brugg Cables Middle East DMCC	Dubai (UAE)	Dirham	100,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
Brugg Kabel GmbH	Schwieberdingen (Germany)	Euro	103,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
Brugg Cables (Shanghai) Co. Ltd	Shanghai	US dollar	1,600,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
Brugg Cables (India) Pvt. Ltd	Haryana (India)	Indian rupee	48,000,000	99.74%***	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
Brugg Cables Middle East Contracting LLC	Dubai (UAE)	Dirham	200,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
Brugg Cables Inc USA	Chicago (USA)	US dollar	1,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
Brugg Cables Company Saudi Arabia	Riyadh (Saudi Arabia)	Saudi Riyal	50,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
SUBSIDIARIES CONTROLLED THROUGH BRUGG CABLES (SHANGHAI) CO. LTD					
Brugg Cables (Suzhou) Co. Ltd	Suzhou (China)	Chinese renminbi	32,000,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
SUBSIDIARIES CONTROLLED THROUGH LT S.r.l.					
Halfbridge Automation S.r.l.	Rome	Euro	10,000	70%****	Line-by-line
Business	Research, design and production of electronic circuit boards for innovative energy efficiency systems.				

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

The following changes in the structure of the Group have taken place with respect to 31 December 2021:

Companies established:

- The US-registered company, Terna USA LLC., a wholly owned subsidiary of Terna Plus S.r.l., was established on 2 August 2022. The company is responsible for overseeing development of the business in North America;
- Terna Forward S.r.l., engaged in the development of new technological solutions for use by the Terna Group and a wholly owned subsidiary of the parent Company, Terna S.p.A., was established on 11 November 2022.

Liquidations and disposals:

- the voluntary liquidation of PI.SA. 2 S.r.l., which began on 10 December 2021, was completed on 27 January 2022;
- the first transaction closing for the sale to CDPQ of the Brazilian companies, SPE Transmissora de Energia Linha Verde II S.A., SPE Santa Lucia Transmissora de Energia S.A. and SPE Santa Maria Transmissora de Energia S.A., was completed on 7 November 2022. From this date, the companies are no longer a part of the Terna Group;
- the second transaction closing for the sale to CDPQ of Difebal S.A. was completed on 22 December 2022. From this date, the company is no longer a part of the Terna Group.

Associates

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

The list of associates is shown below:

(€m)

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL*	PROFIT FOR THE YEAR*	% INTEREST	METHOD OF CONSOLIDATION	CARRYING AMOUNT AT 31 DECEMBER 2022 (€M)
ASSOCIATES							
Cesi S.p.A.	Milan	Euro	8,550,000	(9,690,980)	42.698%	Equity Method	45.4
Business	Experimental research and provision of services related to electro-technology.						
Coreso S.A.	Bruxelles (Belgium)	Euro	1,000,000	728,400	15.84%	Equity Method	0.8
Business	Technical centre owned by several electricity transmission operators, responsible for coordinating joint operations of TSOs, in order to improve and upgrade the security and coordination of the electricity system in central and western Europe.						
CGES A.D.	Podgorica (Montenegro)	Euro	155,108,283	16,852,684	22.0889%	Equity Method	26.7
Business	Provision of transmission and dispatching services in Montenegro.						
Equigy B.V.	Arnhem (Netherlands)	Euro	50,000	1,292,744	20%	Equity Method	0.4
Business	Provision of support for electricity balancing by TSOs through the development and implementation of blockchain technology.						

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

Joint arrangements

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

The list of joint ventures is shown below:

(€m)

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL*	PROFIT FOR THE YEAR*	% INTEREST	METHOD OF CONSOLIDATION	CARRYING AMOUNT AT 31 DECEMBER 2022 (€M)
JOINT VENTURES							
ELMED Etudes S.a.r.l.	Tunis (Tunisia)	Tunisian dinar	1,527,120	(173,404)	50%	Equity Method	0.2
Business	Conduct of preparatory studies for the construction of the infrastructure required to connect the Tunisian and Italian electricity system.						
SEleNe CC S.A.	Thessaloniki (Greece)	Euro	200,000	12,479	25%	Equity Method	0.1
Business	A technical centre owned by a number of transmission system operators, which acts as the regional security coordinator for the TSOs, with the aim of improving and upgrading the security and coordination of the electricity system in south-eastern Europe.						
BMT Energy Transmission Development LLC	Wilmington (USA)	US Dollar	500,000	-	40%	Equity Method	0.2
Business	Acquisition, development and construction of major infrastructure projects regarding onshore and offshore electricity transmission in the United States.						

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

Compared with 31 December 2021, the US-registered company, BMT Energy Transmission Development LLC, 40% owned by the subsidiary, Terna USA LLC, with the remaining shares held by non-controlling shareholders, was established on 2 November 2022.

Basis of consolidation

All the separate financial statements of the investees used to prepare the consolidated financial statements were drafted as of 31 December 2022 and have been approved by their respective Boards of Directors and, for the most part, by shareholders; they have been adjusted, where necessary, to align them with the Parent Company's accounting policies.
During preparation of the consolidated financial statements, intercompany balances, transactions, revenue and costs are fully eliminated, net of the related tax effect, where material ("consolidation on a line-by-line basis").
Unrealised gains and losses on transactions with associates and joint ventures are eliminated in proportion to the Group's interest therein. In both cases, unrealised losses are eliminated, unless they represent an impairment.

Translation of foreign currency items

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

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

Property, plant and equipment

Property, plant and equipment is recognised at historical cost, including costs directly attributable to preparing the asset for its intended use. In the event of legal or constructive obligations, cost also includes the present value of the estimated cost of dismantling or removing the asset. The corresponding liability is recognised in provisions for risks and charges.
Borrowing costs directly attributable to the purchase, construction or production of an asset that qualify for capitalisation pursuant to IAS 23 are capitalised as part of the cost of the asset. Costs incurred after purchase are recognised as an increase in the carrying amount of the asset to which they relate if it is probable that the future benefits of that cost will flow to the Group, and if the cost can be reliably measured. All other costs are expensed as incurred.
Each element of an item of property, plant and equipment of material value, with respect to the total value of the item to which it belongs, is recognised and depreciated separately.
Property, plant and equipment is shown net of accumulated depreciation and any impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful economic life of the asset, which is reviewed annually, with revisions applied on a prospective basis. Depreciation of an asset begins when the asset becomes available for use.
Liabilities associated with items of property, plant and equipment are taken to a specific provision as a contra account of the related asset. The amount is taken to the income statement through depreciation of the asset.
Property, plant and equipment is derecognised either at the time of disposal or when no future economic benefit is expected from their use or disposal. Any profit or loss, recognised in the income statement, is determined as the difference between the net proceeds deriving from disposal and the net carrying amount of the assets eliminated.

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

RATES OF DEPRECIATION

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

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

This item also includes right-of-use assets arising from lease arrangements relating to the use of property, plant and equipment, as recognised under IFRS 16. A lease arrangement is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Applying this standard, the lessee recognises: (i) a right-of-use asset in its statement of financial position and a liability representing its obligation to make the payments provided for under the arrangement, for all leases with terms in excess of twelve months where the asset cannot be considered of low value (the Group has elected to apply the practical expedient provided for in the standard, recognising payments relating to arrangements that do not fall within the scope of this type of lease in the income statement); (ii) depreciation of the recognised assets and interest expense on the lease liability separately in the income statement.
In determining the lease term, the Group considers the non-cancellable period of the lease and the additional periods resulting from any options to extend the lease, or from the decision not to exercise the option to terminate the lease early (where there is reasonable certainty that such options will be exercised).

The lease liability is initially recognised at the present value of the remaining lease payments at the commencement date: (i) fixed payments; (ii) variable lease payments that depend on an index or a rate; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and finally (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease. The present value of the payments is determined using a discount rate equal to the Group's incremental borrowing rate, bearing in mind the frequency and duration of the payments provided for in the lease contract.

Following initial recognition, the lease liability is accounted for at amortised cost and remeasured, with a matching change in the value of the related right-of-use asset, when there is a change in future lease payments as a result of: (i) a renegotiation of the contract; (ii) changes in the index or rate; or (iii) changes in the assessment of whether or not the options contained in the contract will be exercised (e.g., the purchase of the leased asset, extension or termination of the lease). The right-of-use asset is initially recognised at cost, measured as the sum of the following components: (i) the amount of the initial measurement of the lease liability; (ii) any initial direct costs incurred by the lessee; (iii) any lease payments made at or before the commencement date, less any lease incentives received; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located (or restoring the underlying asset to the condition required by the terms and conditions of the lease). Following initial recognition, the right-of-use asset is adjusted to take into account (i) any accumulated depreciation, (ii) any accumulated impairment losses, and (iii) the effects of any remeasurement of the lease liability.

Intangible assets

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

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

Other intangible assets essentially refer to software developments and upgrades, which have a useful life of three years.

Development costs are capitalised by the Terna Group only if they can be reliably estimated and there is the technical possibility and intention to complete the intangible asset so that it will be available for use, and the asset can be used and it is possible to demonstrate that it will generate probable future economic benefits.

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

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

Infrastructure rights

Infrastructure includes the property, plant and equipment and intangible assets employed in dispatching activities in Italy and in the operations in Peru. These activities are carried out under concession arrangements, which fall within the scope of application of IFRIC 12, since the services provided are regulated and control exists over the residual interest. More specifically, infrastructure rights have been recognised as an intangible asset, as valued on the basis of the Intangible Asset model, given the return generated by dispatching activities thanks to the charges paid by users. These assets have a useful life of three years.
The revenue and costs relating to investment activities are recognised with reference to the contracts concerned on a stage-of-completion basis; revenue recognised during the construction phase is limited to the amount of the internal and external construction costs incurred, considering that the fair value of the construction services is equivalent to the construction cost paid to third-party contractors plus the internal cost of the technical personnel employed on such construction activities. The assets continue to be amortised and depreciated in accordance with the initial schedule.
By contrast, dispatching revenue continues to be recognised in accordance with IFRS 15 and financial expenses continue to be capitalised pursuant to IAS 23.
IFRIC 12, instead, is not applicable to the part of the Parent Company's concession arrangement relating to transmission activities, since neither the concession nor the related legislation envisages that ownership of the NTG is to be restored to the public grantor, even for a consideration.

Goodwill

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

Inventories

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

Financial instruments

Financial assets

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

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

Infrastructure rights

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

Trade receivables

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

Cash and cash equivalents

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

Trade payables

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

Financial liabilities

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

Derivative financial instruments

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

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

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

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

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

When derivatives cover the risk of changes in the cash flows of the hedged instruments (cash flow hedges), the portion of changes in the fair value qualifying as effective is initially recognised in "Other comprehensive income" (accumulated in equity) and subsequently in profit or loss, as the cash flows from the hedged item affects profit or loss. The portion of the fair value of the hedging instrument that does not qualify as effective is recognised in profit or loss.
When hedging derivatives cover the risk of changes in the fair value of hedged instruments (fair value hedges), they are recognised at fair value in profit or loss. Accordingly, the hedged items are adjusted to reflect changes in the fair value associated with the hedged risk.
Changes in the fair value of derivatives that do not meet hedge accounting requirements in accordance with the IFRS are recognised in profit or loss.

Fair value is measured on the basis of official quotations for instruments traded in regulated markets. The fair value of instruments not traded in regulated markets is measured by discounting projected cash flows along a yield curve prevailing in the market at the reporting date, and by translating amounts in currencies other than the euro at closing exchange rates. Financial and non-financial contracts (which are not already measured at fair value) are also analysed to identify any embedded derivatives, which must be separated and measured at fair value. The aforesaid analyses are carried out both at the moment in which the contract is entered into, and when a renegotiation of the same takes place which involves a significant change in the related original cash flows.

Hybrid bonds

Issues of non-convertible, perpetual hybrid bonds are classified as equity instruments. These are in fact instruments that allow Terna to defer coupon payments over time and whose early redemption is permitted on the occurrence of certain events or at the reset date. These instruments cannot be converted into shares and, in the event of the Company's liquidation, winding up or insolvency, interest payments are subordinated to all the issuer's other payment obligations.
The proceeds received from the sale of the instruments and subsequent returns of capital are accounted for as an increase or a reduction in equity, respectively, in compliance with the requirements applicable to equity instruments in IAS 32. Interest expense, at the time the payment obligation arises, is recognised as a reduction in equity.

Non-current assets held for sale

Non-current assets and current and non-current assets included in disposal groups are classified as held for sale if their carrying amount is to be recovered primarily through sale rather than through continued use. This classification only applies if the non-current assets (or disposal groups) are available for immediate sale in their present condition and the sale is highly probable. An entity that is committed to a sale plan involving loss of control of a subsidiary must classify all the assets and liabilities of that subsidiary as held for sale, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale. The assessment of whether or not the conditions have been met for classification of an asset as held for sale requires management to make a subjective judgement, using reasonable and realistic assumptions based on the available information.
Non-current assets held for sale, current and non-current assets included in disposal groups and the directly attributable liabilities are recognised in the statement of financial position separately from the entity's other assets and liabilities. Before their classification as held for sale, the assets and liabilities included in a disposal group are measured in accordance with the applicable accounting standards. Subsequently, the non-current assets held for sale are no longer subject to depreciation or amortisation and are measured at the lower of carrying amount and fair value less costs to sell.
If the carrying amount of the non-current assets is lower than fair value less costs to sell, the entity must recognise an impairment loss. The entity must recognise a gain for any subsequent increase in fair value less costs to sell of the assets, but not in excess of the cumulative impairment loss previously recognised, including those recognized prior to the assets' classification as held for sale.
Non-current assets and disposal groups classified as held for sale constitute a discontinued operation if they: i) represent a major line of business or geographical area of operations; ii) are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or iii) relate to a subsidiary acquired exclusively with a view to resale.
Profits and losses from discontinued operations, and any gains or losses realised following the sale, are shown in a separate line item in the income statement, net of any tax, with amounts for comparative periods also shown.
When events no longer permit the entity to classify the non-current assets or disposal groups as held for sale, the assets or disposal groups must be reclassified to the respective items in the statement of financial position and recognised at the lower of: (i) their carrying amount at the date of classification as held for sale; and (ii) the recoverable amount at the date of reclassification.
On 29 April 2022, Terna S.p.A., Terna Plus S.r.l. and Terna Chile S.p.A. signed an agreement with CDPQ, a global investment group, for the sale of all the Group's power line assets, approximately 1,200 km, in Brazil, Perù and Uruguay.

The value of the assets being sold (the equity value) is more than €265 million. Transaction closing, due to take place in phases, took place for the most part in the second half of the year. On 7 November 2022, the first transaction closing for the Brazilian companies, "SPE Santa Maria Transmissora de Energia S.A.", "SPE Santa Lucia Transmissora de Energia S.A." and "SPE Transmissora de Energia Linha Verde II S.A.", owners of three power lines in Brazil, totalling 670 km, was completed. The value of the assets being sold (the equity value) is more than €145 million. On 22 December 2022, the transaction closing for Difebal S.A., the owner of a power line in Uruguay, totalling 214 km, was completed. The value of the assets being sold (the equity value) is more than €27 million. Both transaction closings are in line with the agreement.

Following the above transaction, in accordance with IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations, the consolidated assets and liabilities of the companies for which the sale process has yet to complete at 31 December 2022 are included in "Assets held for sale" and in "Liabilities related to assets held for sale". In the consolidated income statement, the consolidated profit/(loss) of the companies included in the transaction has been reclassified as "Net profit/(loss) for the year from assets held for sale".

Employee benefits

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

Share-based payments

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

Provisions for risks and charges

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

Government grants

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

Revenue

The Group's revenue can be categorised as follows:

- **Revenue from sales and services**, including revenue from contracts with customers and therefore falling within the scope of IFRS 15.

  In accordance with the provisions of IFRS 15, revenue from contracts with customers is recognised when the performance obligations identified in the contract are satisfied and control over the goods or services is transferred to the customer for an amount that reflects the consideration that the Group expects to receive in exchange for the goods or services.

  The standard envisages two methods for identifying the correct time at which to recognise the revenue attributable to each performance obligation: at contract inception, the Group determines if the goods or services covered by the performance obligation will be transferred to the customer over a period of time or at a point in time:

  - Revenue from the sale of goods is recognised when control of the goods is transferred to the customer (at a point in time). The Group determines if there are other promises in the contract representing a performance obligation to which a part of the transaction consideration must be allocated. In determining the sale price, the Group takes into account the effects of a variable consideration, significant financial components, non-monetary components and amounts to be paid to the customer (if present);
  - Revenue from services is recognised with reference to the stage of completion of the activity, in accordance with the provisions of IFRS 15 (over a period of time).

  Revenue from sales and services also includes output-based incentives, as defined by ARERA, for both transmission and dispatching activities. The incentive mechanisms fall within the scope of application of IFRS 15. If the counterparties through which Terna collects an incentive are not active in the market in the year in which achievement of the targets underlying the incentive scheme is confirmed, IFRS 15 is applied in accordance with the analogy-based approach provided for in IAS 8, as confirmed with reference to the Conceptual Framework for Financial Reporting.
  If the mechanism includes a significant financial component, the amounts recognised in the financial statements are discounted to present value. Based on the specific nature of each mechanism, the Group assesses whether the performance obligation is satisfied over a period of time or at a point in time, also taking into account whether or not the right is subject to confirmation or verification by the regulator, ARERA.

- **Other revenue and income**, which includes revenue from lease arrangements and other residual forms of revenue, included within the scope of application of IFRS 15, deriving from sales of goods not forming part of the Group's ordinary activities.

Costs

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

Financial income and expenses

Financial expenses directly attributable to the acquisition, construction or production of an asset that qualify for capitalisation are capitalised as part of the cost of the asset. The property, plant and equipment and intangible assets involved are those that require at least one year in order to prepare them for use. The directly attributable financial expenses are expenses that would not have been incurred had the expenditure for the asset not been incurred.
Where funds are borrowed specifically, the costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings. Where loans are obtained for general purposes, the eligible amount is determined by applying a capitalisation rate to the expenditure on that asset equal to the weighted average of the financial expenses applicable to the borrowings outstanding for the year, excluding any specifically borrowed funds. The amount of capitalised financial expenses during a year will in any case not exceed the amount of financial expenses incurred during that year.
Capitalisation commences as from the date all the following conditions are first met: (a) expenditure has been incurred for the asset; (b) financial expenses have been incurred; and (c) the activities involved in preparing the asset for its intended use or sale are in progress. Capitalisation ceases when the activities involved in preparing the asset for its intended use or sale are substantially complete.
The average capitalisation rate used for 2022 is approximately 1.3% (0.8% for 2021).
Financial income and expenses other than capitalised amounts are recognised on an accruals basis in respect of the interest on the net value of the related financial assets and liabilities, using the effective interest rate.

Treasury shares

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

Dividends

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

Earnings per share

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

Income taxes

Current income taxes are recognised as “Tax liabilities”, net of advances paid, or “Tax assets” where the net balance of the items is positive. They are based on the estimated taxable income and in accordance with current legislation, taking account of applicable exemptions.
Deferred tax assets and liabilities are calculated on temporary differences between the carrying amounts of assets and liabilities recognised in the separate financial statements and the corresponding amounts recognised for tax purposes, using current tax rates or the rates expected to be in effect when the temporary differences reverse, based on rates approved at the reporting date.
Deferred tax assets are recognised when their recovery is considered probable, i.e., when future taxable income will be available against which the asset can be used. The recoverability of deferred tax assets is reviewed at the end of each year.
Deferred tax liabilities are recognised in any case if they exist. Taxes relating to items recognised directly in equity are also allocated to equity.

New accounting standards

International financial reporting standards effective as of 1 January 2022

A number of new amendments to standards already applied, none of which have had a significant impact, came into effect from 1 January 2022. The relevant standards are as follows:

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

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

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

The adoption of these amendments has not had an impact on the Group’s consolidated financial statements.

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

At the date of approval of this document, the following standards, amendments or interpretations have yet to become effective and the Group has not opted for early adoption at 31 December 2022:

IFRS 17: Insurance contracts

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

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

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

On 2 March 2022, the European Commission issued Regulation 2022/357, endorsing the amendment making changes to IAS 1 Presentation of financial statements and IAS 8 Accounting standards, and changes to the treatment of accounting estimates and errors. These amendments aim to improve the disclosure of accounting policies in order to provide more useful information for investors and other primary users of financial statements and to help companies to distinguish changes in accounting estimates from changes in accounting policy.
The amendments will come into effect from 1 January 2023 and the Group will not opt for early adoption. The Group is currently assessing the potential impact of the introduction of these amendments on its consolidated financial statements.

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

On 11 August 2022, the European Commission issued Regulation 2022/1392, endorsing the amendment that clarifies how to account for deferred tax on certain transactions that can generate assets and liabilities of equal amounts, such as leasing and decommissioning obligations.
The amendments are applicable from 1 January 2023, and the Group will not opt for early adoption. The Group is currently assessing the potential impact of the introduction of these amendments on its consolidated financial statements.

Amendment to IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative information

On 8 September 2022, the European Commission issued Regulation 2022/1491, endorsing the amendment that enables to overcome one-off classification differences in comparative information from the previous year when first applying IFRS 17 and IFRS 9. The amendment is, therefore, designed to prevent temporary accounting imbalances between financial assets and insurance contract liabilities and improve the usefulness of comparative information for readers of the financial statements. The standard will be effective from 1 January 2023 and will not have an impact on the Group's financial statements.

International financial reporting standards, amendments and interpretations awaiting endorsement

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

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

On 23 January 2020, 15 July 2020 and 31 October 2022 the IASB published the amendment to IAS 1 that aims to clarify how to classify payables and other short- or long-term liabilities, including those subject to covenants. The Group is currently assessing the potential impact of the introduction of these amendments on its consolidated financial statements.

Amendment to IFRS 16: Lease Liability in a Sale and Leaseback

On 22 September 2022, the IASB published the amendment to IFRS 16, aiming to clarify how to account for a sale and leaseback that involves variable payments based on the performance or use of the asset included in the transaction.

B. Notes to the consolidated income statement

Revenue

1. Revenue from sales and services – €2,898.1 million

(€m)

	2022	2021	CHANGE
Transmission charges billed to grid users and incentives	1,968.6	2,041.0	(72.4)
Dispatching and metering charges and other energy-related revenue	115.3	113.8	1.5
Incentives for dispatching activities	334.7	-	334.7
Revenue from services performed under concession	67.4	46.9	20.5
Quality of service	23.2	11.6	11.6
Other sales and services	388.9	321.2	67.7
TOTAL	**2,898.1**	**2,534.5**	**363.6**

Transmission charges and incentives

The charges for use of the NTG regard the revenue attributable to the Parent (€1,823.8 million) and the subsidiaries Rete S.r.l. (€129.7 million) and Terna Crna Gora d.o.o. (€15.1 million).

The reduction in the item (down €72.4 million) primarily reflects the impact of the reduction in the WACC recognised for 2022 (Resolution 614/21) and the volume effect, partly offset by the increase in the RAB during the period and the output-based incentives related to the delivery of additional transmission capacity between market areas (€34.5 million, Resolution 567/2019) after the incentives recorded in 2021 (down €48.1 million).

Dispatching and metering charges and other energy-related revenue

This refers to the charges recognised in return for provision of the dispatching and metering service (the dispatching component amounts to €112.5 million, whilst the metering component totals €0.3 million) and other energy-related revenue of €2.5 million.

This item is broadly in line with the previous year.

Incentives for dispatching activities

The item regards output-based incentives for dispatching, totalling €334.7 million.

These incentives result from the mechanisms referred to in resolutions 597/2021 and 132/2022, designed to cut DSM costs, the shortfall in wind production and essential plants (€194.2 million, representing the accrued share of the present value of the incentive due for the period 2022-2024, amounting to €644 million gross of the effect of discounting) and Resolution 699/2018, which provided incentives for grid development projects in the three-year period from 2019 to 2021 designed to relieve congestion within market areas and grid constraints due to voltage regulation and improve conditions for essential service provision (€140.5 million, representing the present value of the amount established in Resolution 26/2023, to be collected over three years from 2023).

With regard to the mechanism introduced by Resolution 597/2021, the revenue represents the accrued portion of the estimated overall incentive for the three-year period. This also incorporates factors that could result in a reduction in the incentive in the years 2023 and 2024, due to the partial increase in DSM costs associated with an increase in the volume of market trades in the event of critical situations caused by system inadequacies, tensions on overseas markets and/or extreme weather conditions due to factors that are not neutralised by the calculation rules.

With regard to the mechanism introduced by Resolution 699/2018, the revenue represents the maximum amount of the incentive due (€150 million gross of the effect of discounting) for work carried out in the period between 2019 and 2021, to the extent it was possible to assess the related amount only in 2022 and finally approved by ARERA in Resolution 26/2023.

Revenue from services performed under concession

This item includes revenue from infrastructure construction and upgrade services performed under concession, recognised in application of IFRIC 12, amounting to €67.4 million.
The increase with respect to the previous year, amounting to €20.5 million, reflects increased investment during the period in dispatching infrastructure.

Quality of service

This item, amounting to €23.2 million, regards the RENS (Regulated Energy Not Supplied) incentive mechanism introduced by Resolution 653/2015/r/eel, calculated on a pro rata basis taking into account the estimated overall results expected in the 2020-2023 regulatory period.

The increase of €11.6 million in this item compared with the previous year is broadly due to the recognition of the pro-rata assessment of the estimated overall performance for the 2022-2023 regulatory period.

Other sales and services

The item, "Other sales and services", amounting to €388.9 million, mainly regards revenue from Non-regulated Activities, regarding:

- the sale of transformers by the subsidiary, Tamini (€145.5 million);
- revenue contributed by Brugg Cables Group, essentially relating to contracts with third parties for the supply of cables and accessories (€129.1 million);
- Energy Solutions (€81.2 million) above all HV services, totalling €30.1 million and Smart Grids, totalling €51.1 million, including the contribution from the LT Group, which specialises in O&M services for photovoltaic plants (€30.0 million) and the energy efficiency services provided by the subsidiary, Avvenia The Energy Innovator S.r.l. amounting to €1.6 million;
- Connectivity (€31.5 million) with specific regard to support and housing services for fibre networks (€27.1 million) and fibre maintenance (€3.6 million).

This item also includes revenue from connections to the NTG (€8.7 million) and relating to the private Italy-Austria Interconnector (€0.3 million), representing the accrued portion of the revenue attributable to the Group for services provided during construction.

This item is up €67.7 million compared with 2021, primarily due to the increased contribution from the subsidiaries, Tamini Group and Brugg Cables Group (up €27.9 million and €19.0 million, respectively), increased revenue from Energy Solutions (up €30.2 million, including €19.9 million due to the contribution from the LT Group acquired in October 2021) and an increase in revenue from the provision of Connectivity services (up €1.0 million) and revenue from connections to the NTG (up €3.3 million), after the reduction in revenue from the Italy-France interconnector (down €12.9 million) due to a contractual penalty payable to energy intensive users for delayed completion of work.

Pass-through revenue/expenses

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

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

(€m)

	2022	2021	CHANGE
Power Exchange-related revenue items	**11,308.4**	**6,506.7**	**4,801.7**
- Uplift	1,394.5	2,357.8	(963.3)
- Electricity sales	1,278.2	963.7	314.5
- Imbalances	3,689.1	1,580.0	2,109.1
- Congestion revenue	710.7	316.8	393.9
- Charges for right to use transmission capacity and market coupling	1,160.0	438.6	721.4
- Interconnectors/shippers	66.3	70.6	(4.3)
- Load Profiling for public lighting	1,833.5	264.6	1,568.9
- Other Power Exchange-related pass-through revenue items	1,176.1	514.6	661.5
Total over-the counter revenue items	**2,788.8**	**1,759.5**	**1,029.3**
- Capacity market	1,204.3	-	1,204.3
- Coverage of wind farm costs	40.5	36.5	4.0
- Transmission revenue passed on to other NTG owners	1.8	4.9	(3.1)
- Charge to cover cost of essential plants	703.5	727.1	(23.6)
- Charge to cover cost of energy delivery capacity	-	213.9	(213.9)
- Charge to cover cost of interruptibility service	314.3	326.6	(12.3)
- Charge to cover cost of LV capacity and protection service	425.4	366.2	59.2
- Other pass-through revenue for over-the-counter trades	99.0	84.3	14.7
TOTAL PASS-THROUGH REVENUE	**14,097.2**	**8,266.2**	**5,831.0**
Total Power Exchange-related cost items	**11,308.4**	**6,506.7**	**4,801.7**
- Electricity purchases	3,581.1	3,978.1	(397.0)
- Imbalances	3,039.6	1,192.0	1,847.6
- Congestion revenue	527.6	245.0	282.6
- Charges for right to use transmission capacity and market coupling	542.0	198.5	343.5
- Interconnectors/Shippers	874.7	200.9	673.8
- Load Profiling for public lighting	1,886.4	288.6	1,597.8
- Other Power Exchange-related pass-through cost items	857.0	403.6	453.4
Total over-the-counter cost items	**2,788.8**	**1,759.5**	**1,029.3**
- Capacity market	1,204.3	-	1,204.3
- Shortfall in wind production	40.5	36.5	4.0
- Transmission costs passed on to other NTG owners	1.8	4.9	(3.1)
- Fees paid for essential units	703.5	727.1	(23.6)
- Fees paid for energy delivery capacity	-	213.9	(213.9)
- Fees paid for interruptibility service	314.3	326.6	(12.3)
- Fees paid for LV capacity and protection service	425.4	366.2	59.2
- Other pass-through costs for over-the-counter trades	99.0	84.3	14.7
TOTAL PASS-THROUGH COSTS	**14,097.2**	**8,266.2**	**5,831.0**

In 2022, the total uplift was approximately €1,789 million (provisional data), down 24% on the previous year (€2,360 million). The reduction was due to the reduced cost of procuring services, the fall in the consideration due for Goodwill and Change of Structure Tokens[1], the reduced cost of contracts providing an alternative to essential providers[2] and a sharp rise in congestion revenue in Italian and Overseas market areas[3], only partly offset by a significant increase in the cost of virtual interconnection services[4].

1 Goodwill and Change of Structure Tokens are payments made to production plants who have the right to receive them when Terna requests them to fire up the plant or change their structure.
2 These are the costs incurred by Terna for payments to production plants defined as essential for the electricity system, pursuant to Annex A27 of the Grid Code, and who chose the alternative regime described in art 63 of Resolution 111/06.
3 Congestion revenue is generated when there are differences in the balanced prices in the energy markets in the various market areas.
4 Virtual interconnection is a net cost: Terna plans, builds and operates a new cross-border interconnection infrastructure, the cost of which is partly covered by revenue from auctions in which third party finance providers take part and who will then have access to the available transport capacity.

2. Other revenue and income – €66.4 million

(€m)

	2022	2021	CHANGE
Penalties receivables from suppliers	14.3	0.1	14.2
Sales to third parties	12.9	13.3	(0.4)
Sundry grants	9.2	9.0	0.2
Gains on sale of infrastructure components	6.8	5.7	1.1
Private Italy-Montenegro interconnector	6.4	6.4	-
Contingent assets	4.4	20.0	(15.6)
Insurance proceeds as compensation for damages	3.2	4.1	(0.9)
Rental income	2.2	2.2	-
Revenue from IRU contracts for fibre	1.3	8.9	(7.6)
Other revenues	5.7	2.1	3.6
TOTAL	**66.4**	**71.8**	**(5.4)**

"Other revenue and income" includes penalties receivables from suppliers (€14.3 million) accrued during construction of the private Italy-France interconnector, in addition to other significant items relating to sales to third parties (€12.9 million), sundry grants (€9.2 million), the gain on the sale of infrastructure components (€6.8 million), revenue generated by the private Italy-Montenegro interconnector (€6.4 million), revenue from Connectivity services linked to IRU contracts for fibre (€1.3 million) and other revenues (€5.7 million).
This item, totalling €66.4 million, is down €5.4 million compared with the previous year, primarily reflecting the recognition in 2021 of the revenue resulting from the outcome of the claim for a refund of stamp duty paid on the acquisition of Rete S.r.l. (totalling €13.4 million) and reduced revenue from Connectivity services linked to IRU contracts for fibre (down €7.6 million). These reductions were partially offset by the recognition of penalties receivable from suppliers in relation to construction of the private Italy-France interconnector (up €14.0 million) and increased revenue from gains on sale of infrastructure components (up €1.7 million).

Operating costs

3. Raw and consumable materials used – €247.8 million

This item includes the value of the various materials and equipment used in the ordinary operation and maintenance of the plant belonging to the Group and third parties, and the materials consumed in the performance of contract work by the Tamini Group, in the production of cables and accessories by the Brugg group.
The increase of €41.4 million compared with the previous year primarily reflects the cost of materials incurred by Brugg Cables Group and Tamini Group (up €20.6 million and €18.1 million, respectively) and the contribution from the LT Group (up €7.5 million, acquired in October 2021). This item also reflects reduced costs (down €3.1 million) linked to construction and development of the infrastructure operated under concession, accounted for in application of IFRIC 12.

4. Services – €276.9 million

(€m)

	2022	2021	CHANGE
Maintenance and sundry services	123.7	103.4	20.3
Tender costs for plant	68.5	46.7	21.8
IT services	38.5	28.4	10.1
Lease expense	19.4	15.4	4.0
Insurance	16.8	15.4	1.4
Remote transmission and telecommunications	10.0	9.0	1.0
TOTAL	**276.9**	**218.3**	**58.6**

This item, totalling €276.9 million, is up €58.6 million compared with 2021 (€218.3 million). This primarily reflects increased costs linked to the construction and development of infrastructure under concession, recognised in application of IFRIC 12 (up €23.2 million, in particular reflecting cost increases of €12.8 million for tenders for plant, IT services,up €8.6 million, and maintenance, up €2.3 million) and increased activity and new initiatives carried out by the Group, above all the LT Group (up €14.8 million).
Fees payable to members of the Board of Statutory Auditors amount to €0.5 million whilst those payable to members of the Supervisory Board set up in compliance with Legislative Decree 231/2001 amount to €0.6 million.

5. Personnel expenses – €348.1 million

(€m)

	2022	2021	CHANGE
Salaries, wages and other short-term benefits	427.7	375.5	52.2
Directors' remuneration	2.3	1.8	0.5
Termination benefits (TFR), energy discounts and other employee benefits	21.6	20.6	1.0
Early retirement benefits	12.6	3.2	9.4
Gross personnel expenses	***464.2***	***401.1***	***63.1***
Capitalised personnel expenses	(116.1)	(105.8)	(10.3)
TOTAL	**348.1**	**295.3**	**52.8**

Personnel expenses, amounting to €348.1 million in 2022, are up €52.8 million compared with the previous year (€295.3 million). This is due to an increase in the average workforce and in net provisions for early retirement incentives, partly offset by the higher amount of capitalised expenses.The following table shows the Group's workforce by category at the end of the year and the average for the year.

(unit)

	AVERAGE WORKFORCE			WORKFORCE AT	
	2022	2021	DELTA	31 DECEMBER 2022	31 DECEMBER 2021
Senior managers	98	90	8	94	92
Middle managers	819	730	89	841	765
Office staff	2,941	2,693	248	3,090	2,815
Blue-collar workers	1,476	1,431	45	1,472	1,464
TOTAL	**5,334**	**4,944**	**390**	**5,497**	**5,136**

The net increase in the average workforce compared with 2021 is 390. This is essentially linked to the requirements relating to delivery of the investment programme provided for in the 2021-2025 Industrial Plan.

At 31 December 2022, the Terna Group's workforce breaks down as follows:

	TERNA S.P.A.	TERNA RETE ITALIA S.P.A.	TERNA ENERGY SOLUTIONS S.R.L.	TERNA PLUS S.R.L.	AVVENIA THE ENERGY INNOVATOR S.R.L.
No.	1,067	3,369	72	16	17

TAMINI GROUP	LT GROUP	BRUGG CABLES GROUP	TERNA CRNA GORA D.O.O.	SPE TRANSMISSORA DE ENERGIA LINHA VERDE I S.A.	TERNA PERU S.A.C.
349	123	455	11	14	4

6. Amortisation, depreciation and impairment losses – €725.7 million

(€m)

	2022	2021	CHANGE
Amortisation of intangible assets	93.2	66.8	26.4
- of which on infrastructure	*26.7*	*18.2*	*8.5*
Depreciation of property, plant and equipment	624.2	589.2	35.0
Impairment losses on property, plant and equipment	7.0	0.3	6.7
Impairment losses on current assets	-	0.8	(0.8)
Impairment losses on trade receivables	1.3	(2.7)	4.0
TOTAL	**725.7**	**654.4**	**71.3**

Amortisation, depreciation and impairment losses, amounting to €725.7 million (including €9.7 million recognised in application of IFRS 16), are up €71.3 million compared with 2021. This primarily reflects the entry into service of infrastructure and the higher value of impairment losses on assets recognized during the year (up €6.7 million).

7. Other operating costs - €32.5 million

(€m)

	2022	2021	CHANGE
Indirect taxes and local taxes and levies	11.8	7.1	4.7
Quality of service costs	1.9	5.9	(4.0)
of which mitigation and sharing mechanisms	*1.6*	*4.9*	*(3.3)*
of which the Fund for Exceptional Events	*0.1*	*0.8*	*(0.7)*
of which compensation mechanisms for HV users	*0.2*	*0.2*	*-*
Fees paid to regulators and membership dues	9.3	7.3	2.0
Adjustment of provisions for litigation and disputes	(3.2)	(1.3)	(1.9)
Net contingent liabilities	1.0	0.9	0.1
Losses on sales/disposals of plant and net contingent liabilities	1.3	0.8	0.5
Other	10.4	10.8	(0.4)
TOTAL	**32.5**	**31.5**	**1.0**

The Group's other operating costs, amounting to €32.5 million, are primarily attributable to the Parent Company (€19.8 million), the subsidiary, Terna Rete Italia S.p.A. (€3.7 million) and the Tamini Group (€2.4 million). They include indirect taxes, local taxes and levies (€11.8 million), membership dues and fees paid to trade bodies and associations relating to the Group's activities (€9.3 million), quality of service costs (€1.9 million) and other costs (€10.4 million) including provisions for risks and charges connected with the activities of the subsidiary, Tamini (€2.1 million, primarily in the form of provisions for product warranties) and other operating costs linked to the Brugg Group, relating to the cost of scrapping waste materials, donations and other expenses.

The increase of €1.0 million in the item, primarily reflects the increase in indirect taxes, local taxes and levies (up €4.7 million), an increase in the fees paid to regulators and membership dues (up €2.0 million), partly offset by a decrease in quality of service costs (down €4.0 million), primarily linked to the repayment made to Terna to cover the amount in excess of the threshold paid in 2021 to distribution companies for mitigation services (down €2.7 million, pursuant to Resolution 623/2022) and a reduction in faults and non-postponable unavailability and the adjustment of provisions for litigation and disputes (down €1.9 million).

8. Financial income/(expenses) – (€99.1) million

(€m)

	2022	2021	CHANGE
FINANCIAL EXPENSES			
Interest expense on medium/long-term borrowings and related hedges	(137.3)	(102.9)	(34.4)
Discounting of receivables, termination benefits (TFR), operating leases and other liabilities	(3.7)	(2.9)	(0.8)
Capitalised financial expenses	24.8	10.8	14.0
Other financial expenses	(5.6)	(0.8)	(4.8)
Total expenses	**(121.8)**	**(95.8)**	**(26.0)**
FINANCIAL INCOME			
Interest income and other financial income	14.6	11.6	3.0
Adjustment of borrowings and related hedges	5.4	1.2	4.2
Positive translation differences	2.7	3.8	(1.1)
Total income	**22.7**	**16.6**	**6.1**
TOTAL	**(99.1)**	**(79.2)**	**(19.9)**

Net financial expenses of €99.1 million are essentially attributable to the Parent Company (€99.2 million) and reflect €121.8 million in financial expenses and €22.7 million in financial income. The increase in net financial expenses compared with 2021, amounting to €19.9 million, primarily reflects the following:

- an increase of €35.8 million in financial expenses on medium/long-term debt due to rising inflation and the greater amount of debt;
- an increase of €14.0 million in capitalised financial expenses due to increased capital expenditure during the year.

9. Share of profit/(loss) of investees accounted for using the equity method – (€1.0) million

This item, amounting to €1.0 million, reflects a reduction of €1.3 million euro compared with the previous year (€0.3 million), broadly due to the negative impact of the adjustment of the Group's share of equity in the subsidiary, CESI (down €2.7 million), partially offset by the adjustment to the value of the investment in CGES (up €1.5 million).

10. Income tax expense – €355.4 million

Income tax expense for the year totals €355.4 million, an increase of €37.5 million on the previous year, essentially due to the increase in pre-tax profit and the higher amount of tax-exempt income recognised in the previous year. The tax rate of 28.8%, compares with the rate of 28.3% for 2021.

(€m)

	2022	2021	CHANGE
Income tax for the year			
Current tax expense:			
- IRES (corporate income tax)	327.7	296.2	31.5
- IRAP (regional tax on productive activities)	71.3	63.4	7.9
Total current expense	**399.0**	**359.6**	**39.4**
New temporary differences:			
- deferred tax assets	(56.4)	(14.7)	(41.7)
Reversal of temporary differences:			
- deferred tax assets	15.5	13.9	1.6
- deferred tax liabilities	(1.1)	(34.3)	33.2
Total deferred tax (income)/expense	**(42.3)**	**(35.1)**	**(7.2)**
Adjustments to taxes for previous years and other one-off changes	(1.3)	(6.6)	5.3
TOTAL	**355.4**	**317.9**	**37.5**

Current income tax expense of €399.0 million, is up €39.4 million, compared with the previous year, essentially due to the increase in pre-tax profit and the higher amount of tax-exempt income recognised in the previous year, as described above.

Net deferred tax expense of €42.3 million is up €7.2 million compared with the figure for the previous year (down €35.1 million). This reflects the impact of taxation on depreciation and amortisation, movements in provisions for risks and charges and for employee benefits recognized by the Group during the year.
Adjustments to taxes for previous years, amounting to expense of €1.3 million, primarily regard subsidiaries and include contingent assets resulting from recognition of the effective amount payable when filing annual tax returns. This item is €5.3 million lower than the figure for the previous year, primarily due to Brugg Cables Group.

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

(€m)

	2022	2021
Profit before tax	1,233.4	1,121.5
THEORICAL IRES TAX CHARGE (24%)	**296.0**	**269.2**
IRAP	71.3	63.4
Permanent differences	(10.6)	(8.1)
TAX (after adjustment for previous years and one-off changes)	**356.7**	**324.5**
TAX RATE	**28.9%**	**28.9%**
Adjustments to taxes for previous years and other one-off changes	(1.3)	(6.6)
INCOME TAX EXPENSE FOR THE YEAR	**355.4**	**317.9**
EFFECTIVE TAX RATE	**28.8%**	**28.3%**

11. Profit/(Loss) for the year from discontinued operations and assets held for sale – (€20.3) million

This item reflects the net result from the assets included in the agreement signed by the Terna Group and CDPQ, a global investment group, on 29 April 2022 for the sale of all the Group's power line assets in Brazil, Peru and Uruguay.
The first transaction closing for the sale of the Brazilian companies, SPE Transmissora de Energia Linha Verde II S.A., SPE Santa Lucia Transmissora de Energia S.A. and SPE Santa Maria Transmissora de Energia S.A., was completed on 7 November 2022. The transaction closing for the sale of Difebal S.A., which operates a power line in Uruguay, was completed on 22 December 2022. The sale of the other assets in Brazil and Peru is due to take place in phases, following fullfilment of the conditions provided for in the agreement.

The revenue and cost items resulting in the net result for the year from assets held for sale, amounting to a loss of €20.3 million, are shown below:

(€m)

	2022	2021	CHANGE
Total revenue	49.3	43.2	6.1
Total operating costs	45.3	18.8	26.5
OPERATING COSTS	**4.0**	**24.4**	**(20.4)**
Financial income/(expenses), net	(9.7)	(16.3)	6.6
Impairment loss recognised on remeasurement of the fair value less costs to sell	(20.0)	(17.1)	(2.9)
PROFIT/(LOSS) BEFORE TAX	**(25.7)**	**(9.0)**	**(16.7)**
Income tax expense for the year	5.9	3.8	2.1
Profit/(Loss) for the year attributable to ownrs of the Parent	**(31.6)**	**(12.8)**	**(18.8)**
Net gains on disposals	23.0	-	23.0
Reserve for translation differences	(11.7)	-	(11.7)
Profit/(Loss) for the year from discontinued operations and assets held for sale	**(20.3)**	**(12.8)**	**(7.5)**

Revenue

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

Operating costs

Operating costs essentially regard the costs incurred for the construction work being carried out in Brazil, in addition to operating costs incurred in South America.

Net gains on disposals

The item includes the gains on the planned sale of the net assets at fair value of the companies, SPE Santa Maria Transmissora de Energia S.A. (€3.2 million), SPE Santa Lucia Transmissora de Energia S.A. (€10.5 million), SPE Transmissora de Energia Linha Verde II S.A. (€14.5 million) and Difebal S.A (down €5.2 million) after costs to sell.

Reserve for translation differences

The items includes the differences deriving from the translation of financial statements denominated in foreign currency and is reclassified to profit or loss following the deconsolidation of companies from which it originates (down €11.7 million).

The loss from assets held for sale, amounting to €20.3 million, marks a deterioration of €7.5 million compared with the previous year. This essentially reflects greater operating costs (up €26.5 million) primarily related to the subsidiary, Linha Verde I, adjustment of the fair value of the net assets held for sale in application of IFRS 5 (down €2.9 million), partly offset by net gains on disposals (up €23.0 million).

Basic and diluted earnings per share from discontinued operations and assets held for sale, amounting to a loss of €0.010 per share (the numerator of €20.3 million represents the net loss from assets held for sale, whilst the denominator of 2,006,683,355.2 shares is the weighted average number of shares outstanding during the year).

Under the agreements concluded with CDPQ for the sale of the Brazilian companies, the purchaser has been granted a put option for the sale of SPE Transmissora de Energia Linha Verde II S.A. back to Terna Plus, exercisable under certain conditions, no earlier than 31 December 2025. At the date of preparation of these financial statements the option is not exercisable, is designed to be protective of the counterparty, which does not have a significant economic incentive to exercise it.

At the date of preparation of this document, the following litigation is pending. The outcome has been classed as possible and, as a result, no provision has been made in the financial statements:

- ongoing arbitration between SPE Santa Lucia Transmissora de Energia S.A. and Planova Planejamento e Construções S.A. and Krasis Participações S.A., over responsibility for the delay in achieving the Commercial Operation Date ("COD"), as defined in the EPC contract;
- ongoing arbitration between SPE Transmissora de Energia Linha Verde I S.A. and Québec Engenharia S.A. and Construtora Quebec S.A., over cessation of the obligations provided for in the EPC contract;
- ongoing arbitration between SPE Transmissora de Energia Linha Verde II S.A. and Québec Engenharia S.A. and Construtora Quebec S.A., over cessation of the obligations provided for in the EPC contract.

12. Earnings per share

Basic earnings per share, which corresponds to diluted earnings per share, amount to €0.427 (based on profit for the year attributable to owners of the Parent, totalling €857.0 million divided by the number of shares outstanding, totalling 2,006,683,355.2 shares). Earnings per share from continuing operations, which corresponds to diluted earnings per share from continuing operations, is €0.438 (the numerator of €878.0 million is net profit for the year from continuing operations, whilst the denominator of 2,006,683,355.2 shares, is the weighted average number of shares outstanding during the year).

C. Operating segments

In line with the 2021-2025 Industrial Plan, and in compliance with IFRS 8, the Terna Group's identified operating segments are described below:

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

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

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

On the other hand, the International segment includes the results deriving from opportunities for international expansion, which the Group aims to exploit by leveraging its core competencies developed in Italy as a TSO, where such competencies are of significant importance in its home country. Overseas investment focuses on countries with stable political and regulatory regimes and a need to develop their electricity infrastructure. This segment includes the results of the subsidiary Terna Plus S.r.l., the Peruvian company, Terna 4 Chacas S.A.C. (a charitable project), the Chilean company, Terna Chile S.p.A. and the US subsidiary, Terna USA LLC, acquired in August 2022.

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

(€m)

	2022	2021	CHANGE	% CHANGE
REGULATED REVENUE	2,542.3	2,253.5	288.8	12.8%
NON-REGULATED REVENUE	421.4	350.9	70.5	20.1%
INTERNATIONAL REVENUE*	0.8	0.4	0.4	100.0%
Cost of international activities	-	1.5	(1.5)	(100.0%)
TOTAL REVENUE	**2,964.5**	**2,606.3**	**358.2**	**13.7%**
GROSS OPERATING PROFIT (EBITDA)**	**2,059.2**	**1,854.8**	**204.4**	**11.0%**
of which regulated EBITDA ***	2,007.0	1,800.5	206.5	11.5%
of which non-regulated EBITDA	57.5	61.8	(4.3)	(7.0%)
of which International EBITDA	(5.3)	(7.5)	2.2	(29.7%)
Reconciliation of segment result with the Company's profit before tax				
GROSS OPERATING PROFIT (EBITDA)	**2,059.2**	**1,854.8**		
Amortisation, depreciation and impairment losses	725.7	654.4		
OPERATING PROFIT/(LOSS) (EBIT)	**1,333.5**	**1,200.4**		
Financial income/(expenses)	(99.1)	(79.2)		
Share of profit/(loss) of investees accounted for using the equity method	(1.0)	0.3		
Profit/(Loss) before tax	**1,233.4**	**1,121.5**		

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

The Group's revenue for 2022 amounts to €2,964.5 million, an increase of €358.2 million (13.7%) compared with 2021. Gross operating profit (EBITDA) of €2,059.2 million is up €204.4 million (11.0%) on the €1,854.8 million of 2021.

EBITDA from Regulated Activities amounts to €2,007.0 million, an increase of €206.5 million compared with the figure for the previous year. This primarily reflects the impact on tariff revenue and incentives (up €263.8 million) of the effect of output-based incentive mechanisms, the increase in the regulated asset base during the period, after the decrease reflecting the reduction in the WACC recognised for 2022 (equal to 5%, compared with the previous 5.6%) and the volume effect.

EBITDA from Non-regulated Activities amounts to €57.5 million in 2022, a decrease of €4.3 million compared with 2021. This reflects the reduced volume of IRU contracts for fibre concluded classified under revenue from connectivity services (down €7.6 million), partially offset by the greater contribution of the private Italy-France interconnector (up €2.2 million), essentially following its entry into service in November 2022.

Negative EBITDA from International Activities, amounting to €5.3 million for 2022 essentially reflects the costs incurred by central departments to support overseas initiatives and marks an improvement of €2.2 million compared with the previous year (negative EBITDA of €7.5 million). This primarily reflects the impact on personnel expenses of a reduction in the average workforce following the reorganisation carried out within the Group.

Discontinued operations and assets held for sale report a net loss of €20.3 million, marking a deterioration of €7.5 million compared with the previous year. This essentially reflects increased losses and the adjustment to the value of discontinued operations and net assets held for sale, partially offset by the gain resulting from the first two transaction closings for the sale to CDPQ of the Latin American assets, which took place in November and December 2022. Further details are provided in the specific section of the notes to the consolidated financial statements.

Information on the financial position periodically reported to senior management is not provided directly on the basis of each individual segment, but based on the measurement and presentation of gross invested capital as a whole, given that the contribution from Non-regulated and International Activities is not material. The following table shows this indicator at 31 December 2022 and 31 December 2021.

(€m)

	31 DECEMBER 2022	31 DECEMBER 2021
Net non-current assets *	17,485.3	16,352.9
of which investments in associates and joint ventures	*73.8*	*76.2*
Net working capital **	(2,732.8)	(1,706.7)
Gross invested capital ***	14,752.5	14,646.2

* *Net non-current assets include the value of "Property, plant and equipment", "Goodwill", "Intangible assets", "Investments accounted for using the equity method", "Other non-current assets" and "Non-current financial assets", excluding the value of cash flow hedges (€75.5 million).*

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

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

D. Notes to the consolidated statement of financial position

Assets

13. Property, plant and equipment – €16,200.9 million

(€m)

	LAND	BUILDINGS	PLANT AND EQUIPMENT	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER ASSETS	ASSETS UNDER CONSTRUCTION AND PREPAYMENTS	TOTAL
COST AT 31 DECEMBER 2021	**211.7**	**2,287.9**	**20,162.3**	**213.1**	**211.1**	**2,192.7**	**25,278.8**
Investment	1.0	3.6	1.3	7.6	40.1	1.491.2	1,544.8
of which right-of-use assets	*1.0*	*2.8*	-	-	*32.8*	-	*36.6*
of which finance leased assets	-	-	*0.4*	-	-	-	*0.4*
Assets entering service	3.8	110.7	957.8	8.3	20.1	(1,100.7)	-
Translation differences	-	2.0	-	3.6	0.3	-	5.9
of which right-of-use assets	-	*(0.1)*	-	-	-	-	*(0.1)*
Disposals and impairments	(0.1)	(2.0)	(111.0)	(0.4)	(2.8)	(8.3)	(124.6)
of which right-of-use assets	-	*(1.3)*	-	-	*(1.1)*	-	*(2.4)*
of which finance leased assets	-	-	*(1.1)*	-	-	-	*(1.1)*
Other movements	1.3	1.1	(30.6)	-	0.5	6.4	(21.3)
of which right-of-use assets	-	-	-	-	*0.6*	-	*0.6*
COST AT 31 DECEMBER 2022	**217.7**	**2,403.3**	**20,979.8**	**232.2**	**269.3**	**2,581.3**	**26,683.6**
ACCUMULATED DEPRECIATION AND IMPAIRMENT AT 31 DECEMBER 2021	**(1.5)**	**(733.8)**	**(8,891.5)**	**(173.8)**	**(161.6)**	**-**	**(9,962.2)**
Depreciation for the year	(0.7)	(63.7)	(533.1)	(8.5)	(18.2)	-	(624.2)
of which right-of-use assets	*(0.7)*	*(7.2)*	-	-	*(1.8)*	-	*(9.7)*
of which finance leased assets	-	-	*(2.5)*	-	-	-	*(2.5)*
Translation differences	-	(0.5)	-	(3.4)	(0.3)	-	(4.2)
Disposals	-	1.0	107.1	0.3	2.6	-	111.0
of which right-of-use assets	-	*0.5*	-	-	*0.7*	-	*1.2*
of which finance leased assets	-	-	*0.7*	-	-	-	*0.7*
Other movements	-	(1.8)	(1.3)	0.2	(0.2)	-	(3.1)
ACCUMULATED DEPRECIATION AND IMPAIRMENT AT 31 DECEMBER 2022	**(2.2)**	**(798.8)**	**(9,318.8)**	**(185.2)**	**(177.7)**	**-**	**(10,482.7)**
Carrying amount							
AT 31 DECEMBER 2022	**215.5**	**1,604.5**	**11,661.0**	**47.0**	**91.6**	**2,581.3**	**16,200.9**
of which right-of-use assets	*5.6*	*34.7*	-	-	*33.7*	-	*74.0*
of which finance leased assets	-	*0.6*	*19.4*	-	*2.1*	-	*22.1*
AT 31 DECEMBER 2021	**210.2**	**1,554.1**	**11,270.8**	**39.3**	**49.5**	**2,192.7**	**15,316.6**
of which right-of-use assets	*5.3*	*40.0*	-	-	*2.5*	-	*47.8*
of which finance leased assets	-	*0.6*	*21.9*	-	*1.5*	-	*24.0*
Change	**5.3**	**50.4**	**390.2**	**7.7**	**42.1**	**388.6**	**884.3**

The category, “Plant and equipment” at 31 December 2022 includes the electricity transmission grid and transformer substations in Italy.

"Property, plant and equipment" is up €884.3 million compared with 31 December 2021, reflecting ordinary movements during the year as a result of:

- investment of €1,544.8 million during the year, including €1,481.5 million in the Group's Regulated Activities and €63.3 million in Non-regulated Activities, primarily with regard to the private Italy-France and Italy-Austria interconnectors and the re-routing of power lines at the request of third parties;
- depreciation for the year of €624.2 million;
- other changes during the year, resulting in a reduction of €22.7 million, including grants related to assets (primarily in relation to projects financed by the Ministry for Economic Development and the EU and the re-routing of power lines at the request of third parties);
- disposals and impairments (down €13.6 million).

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

	(€m)
Investment	
- Power lines	867.2
- Transformer substations	503.6
- Other	174.0
Total investment in property, plant and equipment	**1.544.8**
Depreciation for the year	(624.2)
Other changes	(24.4)
Disposals and impairments	(13.6)
Translation differences	1.7
TOTAL	**884.3**

The following information regards work on the principal projects during the year in relation to Regulated Activities: the start of design work for the construction of the Tyrrhenian Link (€110.8 million), the installation of synchronous compensators and STATCOM systems (€83.7 million and €38.7 million, respectively), progress on construction of the Paternò-Pantano-Priolo power line (€32.6 million), Elba-Mainland (€31.3 million), Colunga-Calenzano (€26.4 million) and the Italy-France interconnector (€17.2 million, with entry into service of the private section in November), the construction of reactors (€21.0 million), extension of the fibre network as part of the "Fibre for the Grid" project (€16.3 million), and the construction of substations at Vizzini (€18.9 million), Cerignola (€15.9 million), Magenta (€12.3 million) and Celano (€10.3 million).

14. Goodwill – €251.5 million

Goodwill regards the Parent Company's acquisition of Terna Rete Italia S.r.l. in previous years, accounted in the financial statements at a carrying amount of €101.6 million, the acquisition of RTL, with a carrying amount of €88.6 million, the acquisition of Rete S.r.l., with a carrying amount of €26.3 million, the acquisition of TES - Transformer Electro Services by the Tamini Group, with a carrying amount of €13.6 million, and the acquisitions carried out by the parent Company in 2021 through the subsidiary, Terna Energy Solutions S.r.l., a 75% interest in LT S.r.l. (LT Group) in October, accounted for at a carrying amount of €19.9 million e through the Brugg Cables Group, a 100% interest in Laser TLC S.r.l. in November, accounted for at a carrying amount of €1.5 million.
The reduction in this item, amounting to €5.0 million compared with 31 December 2021, is due to final measurement of the business combination relating to the acquisition of the LT Group in 2021.

Impairment testing

For the purposes of impairment testing, goodwill has been allocated to three cash generating units (CGUs): the first consisting of "Transmission activities" within the Group's Regulated Activities, amounting to €216.5 million, and the second relating to the "Production and commercialisation of transformers", forming part of the Group's Non-regulated Activities, totalling €13.6 million. The third relates to the production and sale of energy from renewable sources (€19.9 million).

Disclosures regarding the impairment testing of the goodwill allocated to the Group's "Transmission" CGU are provided below. Measurement of the recoverable value of the goodwill allocated to the transmission activities was based on fair value less costs of disposal. Determination of the carrying amount of the CGU represented by the NTG was based on Terna S.p.A.'s net invested capital at 31 December 2022, appropriately adjusted for the assets and liabilities not falling within the scope of Transmission activities (e.g., Dispatching, Non-regulated and International activities). The recoverable amount was based on fair value after applying an EBITDA multiple to the operating profit of the CGU represented by the NTG. This multiple was calculated at the level of the Group, as the ratio between the enterprise value (the sum of the stock market capitalization and net debt) and the Terna Group EBITDA. The result obtained is significantly higher than the carrying amount recognised in the financial statements inclusive of goodwill.

The impairment test of the CGU represented by the production and commercialisation of transformers was based on fair value less costs of disposal, determined on the basis of the average EBITDA multiple for the sector. Measurement of the recoverable value was based on estimated fair value applying the EBITDA multiple for 2024. This multiple was approximately 11.2, the average for a sample of companies operating in the sector. The resulting fair value was then appropriately discounted to present value at the end of 2022. The resulting value is higher than the carrying amount inclusive of goodwill.

With regard to the CGU related to the production and sale of energy from renewable sources, in accordance with IFRS 3, the purchase price allocation process was initiated and concluded in 2022, establishing the purchase price of the assets and liabilities. Taking into account the assessment conducted, the correct value of goodwill was calculated. The subsidiary's business plan and the projections made by Terna's management at the time of the acquisition also foresee strong earnings growth in the coming years.

15. Intangible assets – €524.3 million

(€m)

	INFRASTRUCTURE RIGHTS	CONCESSIONS	OTHER ASSETS	ASSETS UNDER DEVELOPMENT AND PREPAYMENTS	TOTAL
Cost	525.2	135.4	587.0	73.2	1,320.8
Accumulated amortisation	(394.9)	(90.5)	(435.4)	-	(920.8)
BALANCE AT 31 DECEMBER 2021	**130.3**	**44.9**	**151.6**	**73.2**	**400.0**
Investment	-	-	1.3	210.7	212.0
Assets entering service	57.8	-	117.7	(175.5)	-
Contribution from business combinations	-	-	5.2	-	5.2
Amortisation for the year	(26.7)	(5.6)	(60.9)	-	(93.2)
Other movements	-	-	-	0.3	0.3
BALANCE AT 31 DECEMBER 2022	**161.4**	**39.3**	**214.9**	**108.7**	**524.3**
Cost	583.0	135.4	711.2	108.7	1,538.3
Accumulated amortisation	(421.6)	(96.1)	(496.3)	-	(1,014.0)
BALANCE AT 31 DECEMBER 2022	**161.4**	**39.3**	**214.9**	**108.7**	**524.3**
Change	**31.1**	**(5.6)**	**63.3**	**35.5**	**124.3**

Intangible assets amount to €524.3 million (€400.0 million at 31 December 2021); this item includes:

- the infrastructure used in provision of the dispatching service in Italy accounted for in accordance with "IFRIC 12 – Service Concession Arrangements". The carrying amount, at 31 December 2022, is €161.4 million for infrastructure in service, whilst the carrying amount of infrastructure under construction, included in the category "Assets under development and prepayments", is €46.1 million (at 31 December 2021 €130.3 million and €32.1 million, respectively);
- the concession for electricity transmission and dispatching activities in Italy (with a carrying amount of €39.3 million at 31 December 2022); this 25-year concession was recognised in 2005, initially at fair value and subsequently at cost.

Other intangible assets primarily include software applications, either produced internally or purchased as part of systems development programmes, and the contract to provide support services for fibre networks acquired with Rete S.r.l. in

2015 (measured as part of the process of allocating the goodwill acquired by the Terna Group). Investment in these assets during the year, primarily attributable to the Parent Company (€138.7 million), essentially regard internal development programmes.

The increase compared with the previous year (up €124.3 million) broadly reflects the net effect of investment (up €212.0 million, including €72.0 million in infrastructure rights), the contribution from the allocation of goodwill resulting from the Terna Group's acquisition of the LT Group (€5.2 million) and amortisation (down €93.2 million).

Investment in intangible assets during the year (€212.0 million, including €210.7 million attributable to the Parent Company's Regulated Activities), included expenditure on the development of software applications for the Remote Management System for Dispatching (€35.6 million), the Power Exchange (€9.3 million), the Metering System (€2 million) and for protection of the electricity system (€1.9 million), as well as software applications and generic licences (€136.4 million).

16. Deferred tax assets – €121.0 million

(€m)

	31 DECEMBER 2021	PROVISIONS	USES AND OTHER MOVEMENTS	EFFECTS RECOGNISED IN COMPREHENSIVE INCOME	31 DECEMBER 2022
DEFERRED TAX LIABILITIES					
Property, plant and equipment	12.4	-	(21.8)	-	(9.5)
Other	(36.5)	-	21.2	-	(15.3)
Employee benefits and financial instruments	(7.1)	-	4.2	-	(2.9)
Total deferred tax liabilities	**(31.2)**	**-**	**3.6**	**-**	**(27.7)**
DEFERRED TAX ASSETS					
Property, plant and equipment	-	33.5	23.2	-	56.7
Provisions for risks and charges	18.2	8.6	(5.5)	-	21.2
Allowance for doubtful accounts	4.5	0.1	-	-	4.6
Employee benefits	9.4	4.8	(4.6)	1.9	11.5
Cash flow hedges and financial assets	45.1	-	-	(68.9)	(23.8)
Tax relief on goodwill	17.8	-	(3.0)	-	14.8
Other	82.9	9.4	(28.6)	-	63.7
Total deferred tax assets	**177.9**	**56.4**	**15.0**	**(67.1)**	**148.6**
NET DEFERRED TAX ASSETS	**146.6**	**56.4**	**18.6**	**(67.1)**	**121.0**

The balance of this item, amounting to €121.0 million, includes the net impact of movements in the Group's deferred tax assets and liabilities.

Deferred tax assets (€148.6 million) are down by a net amount compared with the amount at 31 December 2021 (€177.9 million). These assets underwent the following movements during the year:

- net uses that impact profit or loss, totalling €67.1 million, primarily reflecting the tax effect of movements in cash flow hedges and employee benefits;
- provisions recognised by Terna S.p.A. for the non-deductible portion of book depreciation recognised by the subsidiary (€33.5 million);
- use of the accrued portion recognised in relation to tax relief on the goodwill resulting from the merger of Terna Rete Italia S.r.l. and attributable to the Parent Company (€3.0 million);
- net provisions for risks and charges (€3.1 million), primarily reflecting the impact on taxation of the release of provisions for quality of service (€0.6 million) and uses for early retirement incentives (€1.4 million);
- net provisions and other movements, totalling €19.2 million, primarily regarding the recognition of deferred tax assets revaluations of properties and on other items recognized by the overseas companies.

Deferred tax liabilities (€27.7 million) are down by a net amount of €3.6 million, essentially due to net provisions and other movements of €4.2 million, primarily following the recognition of deferred tax liabilities on other provisions made by the Brugg Cables Group.

17. Investments accounted for using the equity method – €73.8 million

This item, amounting to €73.8 million, regards the Parent Company's investments in the associate CESI S.p.A. (€45.4 million), the associate CORESO S.A. (€0.8 million), the associate CGES – CrnoGorski Elektroprenosni Sistem AD (€26.7 million), the associate Equigy B.V. (€0.4 million) and in the joint ventures, ELMED Etudes S.a.r.l. (€0.2 million), SEleNe CC S.A. (€0.1 million) and BMT Energy Transmission Development LLC (€0.2 million), a US company established on 2 November 2022, 40% owned by the subsidiary, Terna USA LLC, with the remaining shares held by third parties.

The reduction compared with the previous year, totalling €2.4 million, essentially reflects the adjustment of the Group's share of equity at 31 December 2022 in the associate CESI S.p.A. (down €2.7 million) and recognition of the share of equity in the new joint venture, BMT Energy Transmission Development LLC (up €0.2 million).

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

(€m)

	AT 31 DECEMBER 2022				
	NON-CURRENT ASSETS	CURRENT ASSETS	NON-CURRENT LIABILITIES	CURRENT LIABILITIES	EQUITY
CESI	191	25	24	(*)	102
CORESO	10	3	0	8	5
CGES	254	62	64	33	219
EQUIGY	2	1	0	1	2

(*)The pre-closing amount for 2022 does not provide a breakdown of working capital.

(€m)

	2022		
	REVENUE	PROFIT/(LOSS) BEFORE TAX	PROFIT/(LOSS) FOR THE YEAR
CESI	155	(4)	(5)
CORESO	28	1	1
CGES	120	25	21
EQUIGY	6	1	1

18. Financial assets

(€m)

	MEASUREMENT	31 DECEMBER 2022	31 DECEMBER 2021	CHANGE
Deposit in the Guarantee Fund	Amortised cost	299.1	241.4	57.7
Fair value hedges	FVTPL	-	1.6	(1.6)
Cash flow hedges	FVTOCI	75.5	-	75.5
Government securities	FVTOCI	119.6	23.1	96.5
Financial assets included in employee benefit plan assets	FVTOCI	-	21.4	(21.4)
Other non-current financial assets	FVTOCI	0.1	0.1	-
Other investments	FVTOCI	0.1	0.1	-
NON-CURRENT FINANCIAL ASSETS		**494.4**	**287.7**	**206.7**
Government securities	FVTOCI	148.8	958.5	(809.7)
Other securities	FVTPL-FVTOCI	98.0	-	98.0
Deferred assets on fair value hedges		-	4.3	(4.3)
Deferred assets on cash flow hedges		3.5	-	3.5
Currency derivatives	FVTOCI	0.2	-	0.2
Other current financial assets		4.8	17.8	(13.0)
CURRENT FINANCIAL ASSETS		**255.3**	**980.6**	**(725.3)**

"Non-current financial assets" are up €206.7 million, compared with the previous year, reflecting:

- the balance, amounting to €75.5 million, of cash flow hedges hedging bonds and bank borrowings compared with the liability recognised at 31 December 2021; this amount was measured by discounting expected cash flows using market interest rates at the measurement date;
- an increase of €96.5 million in holdings of Italian government securities;
- a decrease in the benefit plan assets attributable to the employees of the Brugg Cables Group (down €21.4 million);
- an increase in the Interconnector Guarantee Fund, set up to fund investment in interconnections by art. 32 of Law 99/09 (up €19.6 million) and deposits by operators who participate in the capacity market pursuant to Resolution 98/2011/R/eel, as amended (up €38.1 million).

"Current financial assets" are down €725.3 million compared with the previous year, primarily following the repayment of Italian government securities held (down €809.7 million), the change in accrued but yet to be collected interest on financial products (down €13.0 million, primarily on government securities), partly offset by further investment in other securities during the year (up €98.0 million).

19. Other assets

(€m)

	31 DECEMBER 2022	31 DECEMBER 2021	CHANGE
Loans and advances to employees	11.0	10.4	0.6
Deposits with third parties	4.8	6.9	(2.1)
Other non-current assets	0.1	0.2	(0.1)
OTHER NON-CURRENT ASSETS	**15.9**	**17.5**	**(1.6)**
Other tax credits	86.4	11.2	75.2
Prepayments to suppliers	9.2	11.0	(1.8)
Prepayments of operating expenses and accrued operating income	22.7	16.8	5.9
Amounts due from partners selected for Interconnector projects	3.1	3.6	(0.5)
Amounts due from others	70.5	40.5	30.0
OTHER CURRENT ASSETS	**191.9**	**83.1**	**108.8**

"Other non-current assets" amount to €15.9 million and are down €1.6 million compared with the previous year. This primarily reflects decreases in guarantee deposits paid under contracts with public bodies and authorities (down €2.1 million) offset by an increase in loans to employees (up €0.6 million).

"Other current assets", totalling €191.9 million, are up €108.8 million compared with 31 December 2021, primarily reflecting:

- other tax credits (up €75.2 million), mainly reflecting an increase in the Group's refundable VAT (up €75.0 million);
- amounts due from others (up €30.0 million), broadly reflecting the acquisition of receivables related to the 110% bonus during the year by the subsidiary, Avvenia (€12.8 million) and an increase in amounts receivable by the Parent Company, Terna S.p.A. (up €9.5 million);
- an increase in prepaid expenses accruing after 31 December 2022 (up €5.9 million), including €4.6 million attributable above all to maintenance on third-party fibre networks, €0.5 million in rentals and €0.8 million in the form of insurance premiums.

20. Inventories – €83.0 million

This item, amounting to €83.0 million,is up €13.1 million compared with the previous year. This primarily reflects materials to be used in contract work by the subsidiary, Brugg Cables Group (up €6.2 million), by the LT Group (up €5.6 million) and by the Tamini Group (up €1.2 million).

21. Trade receivables – €2,358.3 million

(€m)

	31 DECEMBER 2022	31 DECEMBER 2021	CHANGE
Energy-related receivables	1,622.8	2,197.0	(574.2)
Transmission charges receivables	472.8	395.8	77.0
Other trade receivables	262.7	184.6	78.1
TOTAL	**2,358.3**	**2,777.4**	**(419.1)**

Trade receivables amount to €2,358.3 million at 31 December 2022 and are accounted for less any losses and recognised in the allowance for doubtful accounts (€19.7 million for energy- related receivables and €17.4 million for other items in 2022, compared with €33.2 million for energy-related items and €16.4 million for other items in 2021, with further details provided in the section "E. Commitments and risks"). The carrying amount shown broadly approximates to fair value.

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

Energy-related/regulated receivables – €1,622.8 million

This item includes so-called "pass-through items" relating to the Parent Company's activities in accordance with Resolution 111/06 (€1,260.5 million) and receivables due from the users of dispatching services forming part of Regulated Activities (€356.3 million). It also includes the amount due from the Fund for Energy and Environmental Services (*Cassa per i Servizi Energetici e Ambientali* – CSEA) (€5.9 million), relating to quality of service and output-based regulation.

These receivables are down €574.2 million compared with the end of 2021, primarily due to:

- a decrease in the Uplift (€800.2 million), reflecting the sharp reduction in energy-related costs, above all the cost of procuring services on the DSM, as partly reflected in the reduction in receivables relating to this market (€109.2 million);

partly offset by the recognition of receivables related to output-based incentives (resolutions 699/2018 and 597/2021, commented on in the note to "Revenue from sales and services"):

- bonus recognised by Resolution 26/2023, so called intrazonal incentive[5] (€140.5 million);
- annual bonus related to the DSM incentive[6] (€194.2 million).

[5] Intrazonal incentive introduced by ARERA Resolution 699/2018 determined based on the benefits deriving from grid works during the three year period 2019-2021, designed to resolve domestic congestion, grid constraints due to voltage regulation and improve conditions for essential service provision.
[6] DSM incentive introduced by Resolution 597/2021 related to the three year incentive system (2022-2024) designed to reduce the cost of procuring services on the DSM, the shortfall in wind production and essential services.

Transmission charges receivable – €472.8 million

Transmission charges receivable, amounting to €472.8 million, represent the amount due to the Parent Company and other grid owners from electricity distributors for use of the National Transmission Grid. The receivable is up €77 million compared with 31 December 2021, linked broadly to the impact of:

- factoring transactions completed at the end of 2021 (€40 million);
- revised tariffs and recognition of the accrued amount due as a return on digital substation systems in accordance with ARERA Resolution 565/2020 (totalling €37 million).

Other trade receivables – €262.7 million

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

This item is up €78.1 million compared with the previous year, broadly due to increases in contract work at the Brugg Cables Group (up €5.0 million) and the Tamini Group (up €22.7 million). Further increases in receivables are attributable to the Parent Company (up €41.1 million) and the subsidiaries, Terna Rete Italia S.p.A. (up €20.1 million) and Terna Energy Solutions S.r.l. (up €11.5 million).

The following table shows receivables resulting from contract work in progress (€99.8 million), being carried out by the Group under multi-year contracts with third parties:

(€m)

	PRE-PAYMENTS	VALUE OF CONTRACT	BALANCE AT 31 DECEMBER 2022	PREPAY-MENTS	VALUE OF CONTRACT	BALANCE AT 31 DECEMBER 2021
Receivables resulting from contract work in progress	(305.4)	405.2	99.8	(447.3)	533.7	86.4

The Group's receivables resulting from contract work in progress are up €13.4 million, primarily in relation to the increase in contract work at the subsidiaries, Terna Rete Italia S.p.A. (up €3.2 million) and Terna Energy Solutions S.r.l. (up €2.4 million) and the Tamini Group (up €18.5 million), partially offset by a reduction in contract work at the subsidiary, Brugg Cables Group (down €10.9 million).

22. Cash and cash equivalents – €2,155.1 million

Cash amounts to €2,155.1 million at 31 December 2022, including €1,527.9 million invested short-term readily convertible deposits and €627.2 million deposited in bank current accounts and cash in hand.

23. Income tax assets – €6.8 million

Income tax assets, amounting to €6.8 million, are up €2.0 million compared with the previous year, essentially reflecting an accrued IRES refund receivable by a subsidiary recognised at 31 December 2022.

Equity and liabilities

24. Equity attributable to owners of the Parent and non-controlling interests

Equity attributable to owners of the Parent – €6,142.0 million

Share capital – €442.2 million

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

Legal reserve – €88.4 million

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

Reserve for treasury shares - (€29.5) million

In implementation of the buyback programme linked to the Performance Share Plan 2022-2026, approved by the Annual General Meeting of 29 April 2022, in the period between 27 May 2022 and 13 June 2022, the Parent Company purchased 1,280,717 own shares (equal to 0.064% of the share capital), at a cost of €10.0 million to service the Performance Share Plan 2022-2026.

These shares are in addition to the 3,095,192 own shares purchased by the Company in 2020 and 2021.

As a result, Terna S.p.A. now holds a total of 4,375,909 treasury shares (equal to 0.218% of the share capital), purchased at a cost of €29.5 million, thereby reducing other reserves by this amount.

Reserve for equity instruments – €989.0 million

On 2 February 2022, the Parent Company issued perpetual hybrid green bonds with a nominal value of €1 billion, recognised in the reserve for equity instruments at an amount of €989.0 million.

These non-convertible, perpetual, subordinated green bonds are non-callable for six years and will pay coupon interest of 2.375% until 9 February 2028, the first reset date. After this date, the bonds will pay annual interest equal to the 5-year Euro Mid-Swap rate plus a spread of 212.1 basis points. This will be increased by a further spread of 25 basis points from 9 February 2033 and by an additional 75 basis points from 9 February 2048.

Other reserves – €827.3 million

The other reserves have increased by €212.8 million compared with the previous year, primarily as a result of other comprehensive income. This reflects:

- fair value adjustments to the Parent Company's cash flow hedges for variable rate loans (up €222.7 million including the related hedging costs of €0.6 million, taking into account the related tax liability of €70.3 million);
- the decrease in actuarial gains and losses on provisions for employee benefits (down €10.4 million, taking into account the related taxation of €1.9 million);
- fair value adjustments to financial assets represented by government securities (down €4.4 million, taking into account the related taxation of €1.4 million).

Other reserves also include the increase in the reserve for share options (up €5.8 million), relating to the incentive plan for the Group's personnel involving the above share-based payments (the Performance Share Plan 2022-2026[7]).

Retained earnings and accumulated losses – €3,180.9 million

The increase in "Retained earnings and accumulated losses", amounting to €216.6 million, primarily regards the remaining portion of the Group's profit for 2021 (up €204.3 million), following the Parent Company's payment of the dividend for

[7] The LTI Plan 2022-2026 involves the grant of the right to the award of a certain number of shares in Terna S.p.A. (Performance Shares) free of charge at the end of a performance period, provided that the performance objectives to which the Plan is linked have been achieved.

2021 (totalling €585.1 million). This item includes the translation differences resulting from the conversion of financial statements in currencies other than the euro (up €36.2 million), recognition of the interest accruing on the hybrid green bonds (down €21.1 million) and the reduction of €1.7 million due to completion of the first and second transaction closing for the sale of the Latin American asset portfolio to CDPQ, in November and December 2022, respectively.

Interim dividend for 2022 and the final dividend for 2021

On 9 November 2022, the Company's Board of Directors, having obtained the Independent Auditor's opinion required by article 2433-bis of the Italian Civil Code, decided to pay an interim dividend of 10.61 euro cents per share. The dividend was payable from 23 November 2022, with an ex-dividend date for coupon 37 on 21 November 2022. The dividend was paid to the holders of each ordinary share outstanding, with the exception of the amount payable on treasury shares held at the record date of 22 November 2022 (amounting to €464,283.94 which was taken to retained earnings).
The Annual General Meeting of shareholders held on 29 April 2022 approved payment of a dividend for full-year 2021 of 29.11 euro cents per share, and the payment – before any withholdings required by law – of a final dividend of 19.29 euro cents per share, to be added to the interim dividend of 9.82 euro cents already paid on 24 November 2021. The final dividend was payable from 22 June 2022 with an ex-dividend date for coupon 36 of 20 June 2022.

Equity attributable to non-controlling interests – €27.1 million

Equity attributable to non-controlling interests, relating to the non-controlling shareholders of Terna Interconnector S.r.l., SPE Transmissora de energia Linha Verde I S.A., Brugg Cables Group, ESPERIA-CC S.r.l. and LT Group, amounts to €27.1 million, a reduction of €4.0 million compared with 31 December 2021.

This change primarily reflects the payment of a dividend approved on 27 September 2022 by the General Meeting of shareholders of the subsidiary, Terna Interconnector. The amount due to the non-controlling shareholder, Transenergia S.r.l. was €3.0 million. A further dividend was paid by the subsidiary, LT S.r.l., on 14 March 2022, with the amount due to the non-controlling shareholder, Solaris S.r.l., amounting to €0.4 million. There was also a decrease due to translation differences resulting from the translation of financial statements in currencies other than the euro (down €1.3 million). The change also reflects the share of profit for the period attributable to non-controlling shareholders recognised by Terna Interconnector S.r.l. (€2.4 million), Brugg Cables Group (€0.6 million), Linha Verde I S.A. (down €3.1 million) and the LT Group (€0.8 million).

25. Borrowings and financial liabilities

(€m)

	31 DECEMBER 2022	31 DECEMBER 2021	CHANGE
Bond issues	5,078.9	6,925.6	(1,846.7)
Bank borrowings	3,337.8	1,909.4	1,428.4
LONG-TERM BORROWINGS	**8,416.7**	**8,835.0**	**(418.3)**
Cash flow hedges	-	83.7	(83.7)
Fair value hedges	247.2	-	247.2
NON-CURRENT FINANCIAL LIABILITIES	**247.2**	**83.7**	**163.5**
SHORT-TERM BORROWINGS	**444.1**	**1,947.0**	**(1,502.9)**
Bond issues	1,658.8	999.9	658.9
Bank borrowings	250.5	640.1	(389.6)
CURRENT PORTION OF LONG-TERM BORROWINGS	**1,909.3**	**1,640.0**	**269.3**
CURRENT FINANCIAL LIABILITIES	**44.9**	**45.8**	**(0.9)**
TOTAL	**11,062.2**	**12,551.5**	**(1,489.3)**

Borrowings and financial liabilities are down €1,489.3 million compared with the previous year to €11,062.2 million. The reduction in bond issues (down €1,187.8 million) essentially reflects repayment of the bond issue, totalling €1,000.0 million. The change also reflects the adjustment of the fair value of these financial instruments.

The latest official prices at 31 December 2022 and 31 December 2021 for the bonds listed on the Luxembourg Stock Exchange are detailed below:

(€m)

	ISIN	PRICE AT 31 DECEMBER 2022	PRICE AT 31 DECEMBER 2021
bond maturity 2022:	XS1178105851	n.a.**	100.11
bond maturity 2023*:	XS0328430003	133.90	131.79
bond maturity 2023:	XS1858912915	99.13	101.88
bond maturity 2024:	XS0203712939	102.21	114.02
bond maturity 2025:	XS2033351995	91.69	100.05
bond maturity 2026:	XS1371569978	93.87	104.67
bond maturity 2026:	XS1980270810	92.27	103.30
bond maturity 2027:	XS1652866002	90.25	105.23
bond maturity 2028:	XS2536846236	100.78	n.a.**
bond maturity 2029:	XS1503131713	85.03	103.26
bond maturity 2030:	XS2357205587	80.02	98.89
bond maturity 2032:	XS2237901355	75.66	97.17
bond maturity 2023:	XS2209023402	73.78	99.66

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

Compared with the previous year, bank borrowings have increased by €1,038.8 million. This is primarily due to the drawdown of new bank facilities, with a notional amount of €1,800.0 million, after repayments of bank loans, totalling €400.0 milion, and repayments of existing EIB loans. The change also reflects the adjustment of the fair value of these financial instruments.

Long-term borrowings

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

(€m)

	31 DECEMBER 2021							31 DECEMBER 2022		
	NOTIONAL DEBT	CARRYING AMOUNT	FAIR VALUE	REPAYMENTS AND CAPITALISATIONS	DRAWDOWNS	OTHER	CHANGE IN THE CARRYING AMOUNT	NOTIONAL DEBT	CARRYING AMOUNT	FAIR VALUE
Bond maturing 2022	1,000.0	999.9	1,001.1					-	-	-
IL bond	594.1	622.9	783.0	-	-	36.7	36.7	662.0	659.6	886.4
Bond maturing 2023	1,000.0	997.8	1,018.8	-	-	1.4	1.4	1,000.0	999.2	991.3
Bond maturing 2024	800.0	889.8	912.2	-	-	(31.6)	(31.6)	800.0	858.2	817.7
Bond maturing 2025	500.0	496.6	500.2	-	-	0.9	0.9	500.0	497.5	458.4
Private Placement 2026	80.0	79.4	83.7	-	-	0.1	0.1	80.0	79.5	75.1
Bond maturing 2026	500.0	498.5	516.5	-	-	0.4	0.4	500.0	498.9	461.3
Private Placement 2027	-	-	-	-	100.0	(0.2)	99.8	100.0	99.8	100.8
Bond maturing 2027	1,000.0	1,013.7	1,052.3	-	-	(28.8)	(28.8)	1,000.0	984.9	902.4
Bond maturing 2028	750.0	763.7	774.5	-	-	(58.1)	(58.1)	750.0	705.6	637.7
Bond maturing 2029	600.0	596.7	593.3	-	-	0.4	0.4	600.0	597.1	480.1
Bond maturing 2030	500.0	496.1	485.8	-	-	(92.3)	(92.3)	500.0	403.8	378.3
Bond maturing 2032	500.0	470.4	498.3	-	-	(116.8)	(116.8)	500.0	353.6	368.9
Total bond issues	**7,824.1**	**7,925.5**	**8,219.7**	**(1,000.0)**	**100.0**	**(287.8)**	**(1,187.8)**	**6,992.0**	**6,737.7**	**6,558.4**
Borrowings	2,512.6	2,512.6	2,512.6	(633.2)	1,800.0	(158.8)	1,008.0	3,524.3	3,520.6	,520.6
Lease liabilities	36.9	36.9	36.9	(7.3)	0.9	37.2	30.8	67.7	67.7	67.7
Total borrowings	**2,549.5**	**2,549.5**	**2,549.5**	**(640.5)**	**1,800.9**	**(121.6)**	**1,038.8**	**3,592.0**	**3,588.3**	**3,588.3**
Total debt	**10,373.6**	**10,475.0**	**10,769.2**	**(1,640.5)**	**1,900.9**	**(409.4)**	**(149.0)**	**10,584.0**	**10,326.0**	**10,146.7**

At 31 December 2022, the Terna Group's has access to additional financing of €3,150.0 million, represented by two revolving credit facilities.

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

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

(€m)

	MATURITY	31 DECEMBER 2021*	31 DECEMBER 2022*	PORTION FALLING DUE WITHIN 12 MONTHS	PORTION FALLING DUE AFTER 12 MONTHS	2024	2025	2026	2027	2028	AFTER	OTHER**	AVERAGE INTEREST RATE AT 31 DECEMBER 2022	AVERAGE INTEREST RATE AFTER HEDGES AT 31 DECEMBER 2022
	2022	999.9	-	-	-	-	-	-	-	-	-	-	0.88%	0.98%
	2023	622.9	659.6	659.6	-	-	-	-	-	-	-	-	2.73%	8.52%
	2023	997.8	999.2	1,000.0	-	-	-	-	-	-	-	(0.8)	1.00%	1.14%
	2024	889.8	858.2	-	800.0	800.0	-	-	-	-	-	58.2	4.90%	0.87%
	2025	496.6	497.6	-	500.0	-	500.0	-	-	-	-	(2.4)	0.13%	0.32%
	2026	498.5	498.8	-	500.0	-	-	500.0	-	-	-	(1.2)	1.00%	1.28%
Bonds	2026	79.4	79.5	-	80.0	-	-	80.0	-	-	-	(0.5)	1.60%	1.80%
	2027	1,013.7	984.8	-	1,000.0	-	-	-	1,000.0	-	-	(15.2)	1.38%	1.90%
	2027	-	99.8	-	100.0	-	-	-	100.0	-	-	(0.2)	3.44%	3.00%
	2028	763.7	705.6	-	750.0	-	-	-	-	750.0	-	(44.4)	1.00%	1.28%
	2029	596.7	597.2	-	600.0	-	-	-	-	-	600.0	(2.8)	0.38%	1.71%
	2030	496.1	403.8	-	500.0	-	-	-	-	-	500.0	(96.2)	0.38%	0.12%
	2032	470.4	353.6	-	500.0	-	-	-	-	-	500.0	(146.4)	0.75%	1.19%
EIB	2044	854.0	1,475.0	20.5	1,613.0	24.6	47.7	58.5	92.1	92.1	1,298.0	(158.5)	1.74%	0.97%
Terna's borrowing	2024	200.0	300.0	-	300.0	300.0	-	-	-	-	-	-	0.00%	0.49%
Total fixed rate		**8,979.5**	**8,512.7**	**1,680.1**	**7,243.0**	**1,124.6**	**547.7**	**638.5**	**1,192.1**	**842.1**	**2,898.0**	**(410.4)**		
EIB	2041	1,062.9	950.2	113.9	836.4	115.3	115.3	115.3	115.3	115.3	259.9	(0.1)	1.25%	0.76%
Terna's borrowing	2023	400.0	799.1	100.0	700.0	100.0	600.0	-	-	-	-	(0.9)	1.47%	1.56%
Total variable rate		**1,462.9**	**1,749.3**	**213.9**	**1,536.4**	**215.3**	**715.3**	**115.3**	**115.3**	**115.3**	**259.9**	**(1.0)**		
TOTAL		**10,442.4**	**10,262.0**	**1,894.0**	**8,779.4**	**1,339.9**	**1,263.0**	**753.8**	**1,307.4**	**957.4**	**3,157.9**	**(411.4)**		

* *The balance does not include prepaid fees of €3.7 million at 31 December 2022 and of €4.3 million at 31 December 2021.*
** *Includes portions measured at amortised cost and fair value adjustments at 31 December 2022.*

(€m)

	31 DECEMBER 2021	31 DECEMBER 2022	PORTION FALLING DUE WITHIN 12 MONTHS	PORTION FALLING DUE AFTER 12 MONTHS
Finance leases	0.9	1.9	1.9	-
Operating leases	36.0	65.8	14.2	51.6
TOTAL	**36.9**	**67.7**	**16.1**	**51.6**

At 31 December 2022, payments on operating leases recognised in application of IFRS 16 amount to €7.3 million.

The total value of the Terna Group's borrowings at 31 December 2022 is €10,262.0 million (€1,894.0 million falling due within 12 months and €8,779.4 million falling due after 12 months net of portions measured at amortised cost and fair value adjustments), of which €3,157.9 million maturing after five years.

Non-current financial liabilities – €247.2 million

(€m)

	31 DECEMBER 2022	31 DECEMBER 2021	CHANGE
Cash flow hedges	-	83.7	(83.7)
Fair value hedges	247.2	-	247.2
TOTAL	**247.2**	**83.7**	**163.5**

Non-current financial liabilities, amounting to €247.2 million, reflect the fair value of fair value hedges at 31 December 2022.

Fair value was measured by discounting the expected cash flows using the market yield curve at the reporting date. The increase of €163.5 million, compared with 31 December 2021 reflects the change in the market interest rate curve and the change in the notional value of the derivatives portfolio.

Short-term borrowings – €444.1 million

"Short-term borrowings", amounting to €444.1 million at 31 December 2022, have decreased €1,502.9 million compared with the previous year, essentially reflecting the repayment of short-term loans disbursed to the Parent Company.

Current financial liabilities – €44.9 million

Current financial liabilities at 31 December 2022 include the value of net interest expense accrued on financial instruments and not yet paid. This item is down €0.9 million compared with 31 december 2021.

(€m)

	31 DECEMBER 2022	31 DECEMBER 2021	CHANGE
Fair value hedges	0.8	-	0.8
DEFERRED LIABILITIES ON:			
Hedging derivatives	0.6	4.9	(4.3)
Bond issues	33.5	39.9	(6.4)
Borrowings	10	1	9.0
TOTAL	**44.9**	**45.8**	**(0.9)**

Net debt

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

(€m)

	31 DECEMBER 2022
A. Cash	627.2
B. Cash equivalents*	1,527.9
C. Other current financial assets**	251.6
D. Liquidity (A) + (B) + (C)	**2,406.7**
E. Current financial liabilities (including debt instruments, but excluding the current portion of non-current financial liabilities)	444.9
F. Current portion of non-current debt***	1,949.7
G. Current debt (E+F)	**2,394.6**
H. Net current debt (G) - (D)	**(12.1)**
I. Non-current financial liabilities (excluding the current portion and debt instruments)****	3,585.0
J. Debt instruments*****	5,003.4
K. Non-current net debt (I) + (J)	**8,588.4**
L. Net debt (K) + (H)	**8,576.3**

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

** *Corresponds with the item " Current financial assets" relating to the value of government securities (€246.8 million) and the value of the related accrued interest income (€4.8 million).*

*** *Corresponds with the item "Current portion of long-term borrowings" relating to the short-term portion of long-term borrowings (€234.4 million), the short-term portion of bond issues (€1,658.8 million) and the short-term portion of lease liabilities (€16.1 million), "Current financial liabilities" relating to the value of accrued expenses (€44.1 million) and the item, "Current financial assets" relating to the value of derivative assets (down €3.7 million).*

**** *Corresponds with the item "Long-term borrowings" relating to the value of borrowings (€3,286.1 million) and the long-term portion of lease liabilities (€51.7 million) and the item, "Non-current financial liabilities" relating to the value of derivative liabilities (€247.2 million).*

***** *Corresponds with the item "Long-term borrowings" relating to the value of bond issues (€5,078.9 million) and the item, "Non-current financial assets" relating to the value of derivative assets (down €75.5 million).*

Default risk and debt covenants

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

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

- the Company's bond issues, which consist of an €800.0 million issue in 2004 and nine issues as part of its EMTN Programme (the *"€9.000.000.000 Euro Medium Term Notes Programme"*);
- bank borrowings, consisting of revolving lines of credit and bilateral term loans ("bank debt");
- a series of loans to the Company from the European Investment Bank (EIB), amounting to a total of €2.6 billion.

The main covenants relating to bond issues and the EMTN Programme involve clauses regarding i) "negative pledges", on the basis of which the Issuer or its Relevant Subsidiaries undertake not to create or maintain mortgages, pledges or other encumbrances on their assets or revenue to guarantee specific financial debt, unless the encumbrances are extended on an equal or pro rata basis to the bond issues in question (with the exception of certain "permitted guarantees"); ii) "*pari passu*", on the basis of which the securities constitute a direct, unconditional and unsecured obligation by the Issuer, ranking equally among them and with at least the same level of seniority as other present and future unsecured and non-subordinated borrowings of the Issuer; iii) "event of default", on the basis of which if certain predetermined events occur (e.g., failure to make a repayment, the liquidation of the Issuer, the breach of contractual obligations, a cross-default, etc.) a situation of default is established and the loan is immediately called in.

The main covenants relating to bank borrowings involve clauses related to: i) negative pledges, on the basis of which the Issuer or the Relevant Subsidiaries undertake not to create or maintain guarantees on their assets to secure borrowings, with the exception of "permitted guarantees"; ii) *pari passu* on the basis of which the Borrower's payment obligations in relation to the loan agreements in question are not subordinated to any obligation related to other unsecured and non-subordinated creditors, without prejudice to privileges under the law; iii) "event of default", on the basis of which if certain predetermined events occur (e.g. failure to make a repayment, serious inaccuracies in documents and/or declarations, insolvency, business discontinuation, substantially prejudicial effects, the breach of contractual obligations, including pari passu conditions, a cross-default, etc.) a situation of default is established and the loan is immediately called in; iv) "ratings", which involve accelerated repayment should the rating fall below investment grade for the majority of rating agencies or should the Borrower cease to be rated by at least one agency.

The main covenants related to the EIB loans involve clauses related to i) negative pledges, on the basis of which the Company cannot create personal or real guarantees or, more generally, encumbrances, with the exception of encumbrances granted in relation to borrowings below given amounts and under contractually specified circumstances; ii) the provision to the Bank, at its request, of new guarantees should the ratings assigned by the rating agencies fall below the level indicated in the respective contracts agreed or should the Company cease to be rated by the rating agencies; iii) pari passu, on the basis of which the Company ensures that payment obligations rank equally with those related to all other unsecured, non-subordinated creditors, without prejudice to privileges under the law; iv) cases of contract termination/application of the call provision/withdrawal (e.g. failure to make a repayment, serious inaccuracies in documents and/or declarations, insolvency, events that have a negative impact on financial commitments made by the Company, extraordinary administration, liquidation, substantial prejudicial changes, the breach of contractual commitments, etc.); v) accelerated loan payment following the occurrence of given events (e.g. change of control over the Company, loss of the concession, extraordinary corporate events, etc.).

26. Employee benefits – €48.4 million

The Group provides its employees with benefits during their period of employment (loyalty bonuses), on termination of employment (TFR, additional months' pay and payment in lieu of notice) and after termination in the form of post-employment benefits (ASEM health cover).

Loyalty bonuses are payable to the Group's employees and senior managers once certain requirements have been met regarding length of service (on completing 25 and 35 years of service).

Termination benefits (*TFR*) are payable to all employees, whilst employees hired by 30 June 1996 receive energy discounts, senior managers recruited or appointed before 28 February 1999 receive payment in lieu of notice and employees (blue-collar workers, office staff and middle managers) employed prior to 24 July 2001 are due additional months' pay on termination.

Post-employment benefits consist of a form of supplementary health cover in addition to that provided by the Italian national health service, as provided for in the national collective contract for industrial managers (the ASEM).

The following table shows the composition of provisions for TFR and other employee benefits and movements during the year ended 31 December 2022:

(€m)

	31 DECEMBER 2021	PROVISIONS	INTEREST COST	USES AND OTHER MOVEMENTS	ACTUARIAL GAINS/(LOSSES)	31 DECEMBER 2022
Benefits during the period of employment						
Loyalty bonuses and other incentives	5.0	(0.7)	-	(0.3)	-	4.0
Total	**5.0**	**(0.7)**	**-**	**(0.3)**	**-**	**4.0**
Termination benefits						
Deferred compensation benefits (TFR)	35.6	-	0.2	(2.8)	(3.8)	29.2
Energy discounts	3.2	-	-	(0.4)	(0.4)	2.4
Additional months' pay	5.6	0.2	-	(1.4)	(0.3)	4.1
Payment in lieu of notice and other similar	0.5	-	-	0.1	-	0.6
Total	**44.9**	**0.2**	**0.2**	**(4.5)**	**(4.5)**	**36.3**
Post-employment benefits						
ASEM	10.9	0.5	0.1	(0.5)	(2.9)	8.1
Total	**10.9**	**0.5**	**0.1**	**(0.5)**	**(2.9)**	**8.1**
TOTAL	**60.8**	**-**	**0.3**	**(5.3)**	**(7.4)**	**48.4**

This item, amounting to €48.4 million at 31 December 2022, is down €12.4 million compared with the previous year. This is primarily due to actuarial losses (down €7.4 million, broadly due to the change in the discount rate used) and to net uses and other movements (down €5.3 million, above all for TFR and the additional months' pay), relating essentially to employees who have opted to take part in the generational turnover plan launched in 2019.

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

(€m)

	LOYALTY BONUSES AND OTHER INCENTIVES	*TFR*	ADDITIONAL MONTHS' PAY	ASEM	TOTAL
Net impact recognised in profit or loss					
- current service cost	(0.7)	-	0.2	0.5	-
- curtailment (revenue) and other costs	-	-	(0.8)	-	(0.8)
- interest income and expense	-	0.2	-	0.1	0.3
TOTAL RECOGNISED IN PROFIT OR LOSS	**(0.7)**	**0.2**	**(0.6)**	**0.6**	**(0.5)**

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

(€m)

	TFR	ADDITIONAL MONTHS' PAY	ENERGY DISCOUNTS	ASEM	TOTAL
Actuarial gain/losses					
- based on past experience	1.5	0.1	0.1	2.1	3.8
- due to changes in discount rate	(5.3)	(0.4)	(0.5)	(5.0)	(11.2)
TOTAL IMPACT ON COMPREHENSIVE INCOME	**(3.8)**	**(0.3)**	**(0.4)**	**(2.9)**	**(7.4)**

Finally, the following tables show the main actuarial assumptions applied, a sensitivity analysis of movements in the assumptions and the payment schedule for the plan. In line with 2021, the interest rate used to determine the present value of the obligation was calculated on the basis of the yield on the Iboxx Eurozone Corporates AA index at 31 December 2022, matching the duration of the relevant group of plan participants.

(€m)

	LOYALTY BONUSES AND OTHER INCENTIVES	TFR	ADDITIONAL MONTHS' PAY	PAYMENT IN LIEU OF NOTICE AND OTHER SIMILAR	ENERGY DISCOUNTS	ASEM
Discount rate	3.68%	3.77%	3.57%	-	3.63%	3.77%
Inflation rate	2.30%	2.30%	-	1.75%	-	2.70%
Duration (in years)	15.46-18.09	6.99-17.22	1.00-6.66	-	3.48-8.18	15.99-19.38

(€m)

	LOYALTY BONUSES AND OTHER INCENTIVES	*TFR*	ADDITIONAL MONTHS' PAY	PAYMENT IN LIEU OF NOTICE AND OTHER SIMILAR	ENERGY DISCOUNTS	ASEM	TOTAL
Discount rate +0.25%	3.4	10.5	3.9	-	2.4	10.5	**30.7**
Discount rate -0.25%	3.4	10.9	3.9	-	2.5	11.2	**31.9**
Inflation rate +0.25%	3.5	10.9	n/a	n/a	n/a	n/a	**14.4**
Inflation rate -0.25%	3.4	10.6	n/a	n/a	n/a	n/a	**14.0**
Annual rate of increase in health costs +3%	n/a	n/a	n/a	n/a	n/a	10.8	**10.8**
Annual rate of increase in health costs -3%	n/a	n/a	n/a	n/a	n/a	11.0	**11.0**

(€m)

	LOYALTY BONUSES AND OTHER INCENTIVES	*TFR*	ADDITIONAL MONTHS' PAY	PAYMENT IN LIEU OF NOTICE AND OTHER SIMILAR	ENERGY DISCOUNTS	ASEM	TOTALE
By the end of 2023	0.3	1.1	1.7	-	0.7	0.7	**4.5**
By the end of 2024	0.2	0.9	0.5	-	0.2	0.7	**2.5**
By the end of 2025	0.4	1.4	0.4	-	0.2	0.7	**3.1**
By the end of 2026	0.3	1.2	0.4	-	0.2	0.9	**3.0**
By the end of 2027	0.2	0.4	0.6	-	0.1	0.9	**2.2**
After 5 years	2.6	24.2	0.5	0.6	1.0	4.2	**33.1**
TOTAL	**4.0**	**29.2**	**4.1**	**0.6**	**2.4**	**8.1**	**48.4**

27. Provisions for risk and charges – €140.8 million

(€m)

	PROVISIONS FOR LITIGATION AND DISPUTES	PROVISIONS FOR SUNDRY RISKS AND CHARGES	PROVISIONS FOR EARLY RETIREMENT INCENTIVES	TOTAL
Amount at 31 December 2021	**17.9**	**94.3**	**22.0**	**134.2**
Provisions	3.6	36.3	11.8	51.7
Uses and other movements	(7.5)	(30.7)	(6.9)	(45.1)
Amount at 31 December 2022	**14.0**	**99.9**	**26.9**	**140.8**

Provisions for litigation and disputes – €14.0 million
These provisions, set aside to cover outstanding liabilities that, at the end of the year, could result from court judgements and out-of-court settlements regarding the activities of Group companies, have been assessed partly on the basis of recommendations from internal and external legal advisors. The balance at 31 December 2022, amounting to €14.0 million, primarily regards disputes involving the Parent Company in relation to the payment of damages relating to operation and maintenance, requests for compensation for easements and labour and social security disputes. This is down €3.9 million compared with the previous year as a result of lower net provisions during the year.

Provisions for sundry risks and charges – €99.9 million
These provisions amount to €99.9 million at 31 December 2022 and essentially regard liabilities associated with urban and environmental restoration projects, regulation of the quality of the electricity service, staff incentive plans, right-of-way fees and tax-related aspects.

These provisions are up by a net €5.6 million, compared with the previous year reflecting:

- net provisions of €4.4 million for urban and environmental restoration schemes;
- a net reduction of €2.3 million relating to staff incentive plans;
- a net reduction of €2.0 million in provisions linked to regulation of the quality of the electricity service (the mitigation and sharing mechanism introduced by ARERA Resolution 653/2015/R/eel) which, after provisions for estimated penalties linked to outages during the year, reflects payments to distribution companies and releases following final determination of the penalties due to previous years;
- net uses of €0.7 million related to tax liabilities.

Provisions for early retirement incentives – €26.9 million
Provisions for early retirement incentives reflects the estimated extraordinary expenses to be incurred in relation to the cost of the scheme for the year, linked to the early retirement of Group employees who have reached pensionable age and where the Group has an obligation. This item has increased by a net €4.9 million, reflecting payments in coming years in relation to the existing plan for generational turnover.

28. Other non-current liabilities – €971.4 million
This item, amounting to €971.4 million 31 December 2022, regards accrued grants related to assets receivable by the Parent Company (€69.4 million), in addition to payments on account received in relation to construction of the private Italy-Montenegro, Italy-France and Italy-Austria Interconnectors (totalling €449.9 million).
This item also includes the guarantee deposits received from operators participating in the capacity market in accordance with Resolution 98/2011/R/eel (€155.6 million), in addition to the Interconnector Guarantee Fund set up by Terna S.p.A. following the issue of the 2016 Stability Law (€146.7 million), in order to fund investment in interconnections by art. 32 of Law 99/09.

The increase in this item compared with the previous year, amounting to €86.6 million, essentially reflects the increase in the Interconnector Guarantee Fund (up €19.4 million) and in payments on account received from the entities financing the private Italy-Austria (up €0.2 million), Italy-France (up €39.8 million) and Italy-Montenegro (up €2.4 million) Interconnectors, after a reduction in deferred income relating to grants related to assets receivable by the Parent Company (down €5.1 million) and an increase in guarantee deposits received from operators participating in the capacity market in accordance with Resolution 98/2011/R/eel, as amended, after definition of each party's committed capacity (up €38.1 million).

29. Current liabilities

(€m)

	31 DECEMBER 2022	31 DECEMBER 2021	CHANGE
Short-term borrowings*	444.1	1,947.0	(1,502.9)
Current portion of long-term borrowings*	1,909.3	1,640.0	269.3
Trade payables	3,687.7	3,275.6	412.1
Tax liabilities	43.8	28.1	15.7
Current financial liabilities*	44.9	45.8	(0.9)
Other current liabilities	669.9	453.4	216.5
TOTAL	**6,799.7**	**7,389.9**	**(590.2)**

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

Trade payables – €3,687.7 million

(€m)

	31 DECEMBER 2022	31 DECEMBER 2021	CHANGE
Suppliers:			
- Energy-related payables	2,649.5	2,353.5	296.0
- Non-energy-related payables	982.7	883.8	98.9
Amounts due to associates	10.1	9.4	0.7
Payables resulting from contract work in progress	45.4	28.9	16.5
TOTAL	**3,687.7**	**3,275.6**	**412.1**

Suppliers

Energy-related payables

The increase of €296 million million in this item compared with the end of 2021 essentially reflects energy-related pass-through payables (€254.8 million). This is primarily due to:

- an increase in payables linked to plants that are essential for the security of the electricity system – UESS (€446.2 million) reflecting a reduction in amounts collected to cover the costs awarded to owners of the plants by ARERA[8];
- amounts payable in the form of capacity payments (€207.4 million) effective from 1 January 2022;
- an increase in payables due to imbalances (€66 million);
- increased net payables related to virtual import services (€41.8 million) resulting from the settlement of amounts due to the backers of interconnectors, applied on a transitional basis until the final procedure for settlements takes effect through the shippers to be selected by Terna[9];

partly offset by:

- a reduction in payables linked to DSM transactions and services (€507.2 million) due to reduced selections for grid constraints[10] throughout most of the year.

[8] ARERA ordered payments to the owners of essential plants in the following resolutions: 42-43-67-76-92-131-172-214-223-237-267-319-362-656-657-658-659-660-661-662-663-664-665-666-667/2022.
[9] ARERA revised the method for settling amounts payable for virtual imports in resolutions 49/2022 and 93/2022.
[10] In resolutions 597/2021 and 132/2022, ARERA has established an output-based incentive scheme to be applied to Terna with the aim of cutting dispatching costs.

Non-energy related payables

The exposure to suppliers regards invoices received and to be received for contract work, services and purchases of materials and equipment.
The balance at 31 December 2022 (€883.8 million) is up €98.9 million on the previous year, largely due to increased capital expenditure towards the end of the year (primarily by the subsidiary, Terna Rete Italia S.p.A., up €47.1 million and the Parent Company, Terna Sp.A., up €36.8 million), and an increase in payables at the Tamini Group (up €11.1 million).

Amounts due to associates

This item, amounting to €10.1 million, is up €0.7 million on the previous year, and regards amounts payable to the associate CESI S.p.A., for services provided primarily to the Parent Company (€2.6 million) and to the subsidiary Terna Rete Italia S.p.A. (€7.4 million), relating to electro technical studies and research.

Payables resulting from contract work in progress

Payables resulting from contract work in progress, amounting to €45.4 million at 31 December 2022, are up €16.5 million on the figure for 31 December 2021 (€28.9 million), essentially reflecting contract work in progress at Brugg Cables Group (up €8.9 million) and Tamini Group (up €7.8 million).

This item breaks down as follows.

(€m)

	PREPAYMENTS	VALUE OF CONTRACT	BALANCE AT 31 DECEMBER 2022	PREPAYMENTS	VALUE OF CONTRACT	BALANACE AT 31 DECEMBER 2021
Contract work in progress	(183.8)	138.4	**(45.4)**	(166.2)	137.3	**(28.9)**

The carrying amount of trade payables broadly approximates to fair value.
The commitments assumed by the Group towards suppliers amount to approximately €3,247.2 million and regard purchase commitments linked to the normal “operating cycle” projected for the period 2023-2027.

Tax liabilities – €43.8 million

At 31 December 2022, this item amounts to €43.8 million compared with €28.1 million at 31 December 2021, reflecting an increase in tax payable for the period after payments on account paid during the year (essentially due to the increase in pre-tax profit).

Other current liabilities – €669.9 million

(€m)

	31 DECEMBER 2022	31 DECEMBER 2021	CHANGE
Prepayments	152.0	91.4	60.6
Other tax liabilities	99.9	38.5	61.4
Social security payables	28.9	26.0	2.9
Amounts due to personnel	54.4	53.5	0.9
Other amounts due to third parties	334.7	244.0	90.7
TOTAL	**669.9**	**453.4**	**216.5**

Prepayments

This item (€152.0 million) regards grants related to assets collected by the Group (€147.2 million attributable to the Parent Company, €2.6 million to Rete S.r.l. and €2.2 million to Terna Rete Italia S.p.A.) to fund the construction of non-current assets in progress at 31 December 2022.
Compared with the balance at 31 December 2021 (€91.4 million) this item is up €60.6 million, essentially due to the net impact of grants deducted directly from the carrying amount of the related assets, totalling €15.9 million, and new prepayments received from third parties.

Other tax liabilities

Other tax liabilities, amounting to €99.9 million, are up €61.4 million compared with the previous year. This primarily reflects the increase in VAT payable by the Group (up €62.8 million).

Social security payables

Social security payables, essentially relating to contributions payable to INPS (the National Institute of Social Security) by the Parent Company and the subsidiary, Terna Rete Italia S.p.A., amount to €28.9 million. The figure is up €2.9 million compared with the previous year, broadly due to increased contributions payable (up €3.1 million). This item also included the amount payable to the *Fondo Previdenza Elettrici – F.P.E.* (the Electricity Industry Pension Fund), amounting to €2.3 million (€2.6 million at 31 December 2021).

Amounts due to personnel

Amounts due to personnel, amounting to €54.4 million, are up €0.9 million compared with the previous year, and essentially regard the Parent Company and the subsidiary Terna Rete Italia S.p.A.. They primarily relate to:

- incentives payable in the subsequent year (€33.3 million);
- amounts due to employees in the form of accrued and unused annual leave and bank holiday entitlements (€17.0 million);
- benefits payable to personnel leaving the Company by 31 December 2021 (€0.7 million).

Other payables due to third parties

Other payables due to third parties, amounting to €334.7 million, primarily regard guarantee deposits (€224.3 million) received from electricity market operators to guarantee their contractual obligations under dispatching and virtual interconnection contracts. This item also includes the potential liabilities attributable to Brugg Cables Group, arising from the Purchase Price Allocation (€33.0 million, covered by an insurance policy) and resulting from ongoing litigation regarding a number of contracts with Colombian counterparties, and deferred income (€29.1 million, primarily attributable to the Group's non-regulated business).
This item is up by a total of €90.7 million, essentially due to an increase in guarantee deposits collected during the year, totalling €53.9 million, an increase in coupon interest payable to the holders of hybrid instruments (up €21.1 million), an increase in dividends payable (up €7.4 million), and an increase in accrued expenses (up €9.3 million).

30. Discontinued operations and assets held for sale

The items, "Discontinued operations and assets held for sale" and "Liabilities related to discontinued operations and assets held for sale" included the assets and liabilities that make up the net assets attributable to the companies included in the agreement signed by the Terna Group and CDPQ, a global investment group, on 29 April 2022 for the sale of all the Group's power line assets in Brazil, Peru and Uruguay.
On 7 November 2022, the first transaction closing for the Brazilian companies, SPE Santa Maria Transmissora de Energia S.A., SPE Santa Lucia Transmissora de Energia S.A. and SPE Transmissora de Energia Linha Verde II S.A., owners of three power lines in Brazil, totalling 670 km, was completed. On 22 December 2022, the transaction closing for Difebal S.A., the owner of a power line in Uruguay, totalling 214 km, was completed. The sale of the other assets in Brazil and Peru is due to take place in phases, following fullfilment of the conditions provided for in the agreement.

Following the sale of the Brazilian companies, SPE Santa Lucia Transmissora de Energia S.A., SPE Santa Maria Transmissora de Energia S.A. and SPE Transmissora de Energia Linha Verde II S.A. and of the Uruguayan company, Difebal S.A., the item includes the reclassification, as required by IFRS 5, of the net assets attributable to the Brazilian company, SPE Transmissora de Energia Linha Verde I S.A., and the Peruvian company, Terna Perù S.A.C..

(€m)

ASSETS	31 DECEMBER 2022	31 DECEMBER 2021	CHANGE
Property, plant and equipment	1.3	2.3	(1.0)
Intangible assets	20.2	16.8	3.4
Deferred tax assets	2.9	5.7	(2.8)
Non-current financial assets	23.3	187.2	(163.9)
Other non-current assets	0.2	3.1	(2.9)
Inventories	26.9	19.3	7.6
Trade receivables	0.3	83.6	(83.3)
Current financial assets	6.0	20.6	(14.6)
Cash and cash equivalents	11.9	39.4	(27.5)
Income tax assets	0.4	2.9	(2.5)
Other current assets	14.4	11.7	2.7
Total assets	**107.8**	**392.6**	**(284.8)**
Accumulated impairment recognised on remeasurement of fair value less costs to sell	(37.1)	(17.1)	(20.0)
TOTAL ASSETS HELD FOR SALE	**70.7**	**375.5**	**(304.8)**
LIABILITIES			
Long-term borrowings	-	179.2	(179.2)
Deferred tax liabilities	1.6	32.1	(30.5)
Non-current financial liabilities	-	1.4	(1.4)
Current portion of long-term borrowings	-	40.8	(40.8)
Trade payables	7.5	2.5	5.0
Tax liabilities	0.4	0.8	(0.4)
Current financial liabilities	-	0.4	(0.4)
Other current liabilities	0.1	0.6	(0.5)
TOTAL LIABILITIES RELATED TO ASSETS HELD FOR SALE	**9.6**	**257.8**	**(248.2)**
TOTAL NET ASSETS HELD FOR SALE	**61.1**	**117.7**	**(56.6)**
Amounts included in OCI:			
Foreign currency translation reserve	0.9	(27.4)	28.3
CFH reserve	-	(1.0)	1.0
Total reserves related to assets classified as held for sale	**0.9**	**(28.4)**	**29.3**

Net assets held for sale, amounting to €61.1 million at 31 December 2022, primarily regard investment in the infrastructure operated under concession in Brazil, related to the subsidiary, SPE Transmissora de Energia Linha Verde I S.A.
The item is down €56.6 million compared with 31 December 2021. This essentially reflects the sale of the Brazilian companies, SPE Santa Lucia Transmissora de Energia S.A. (€45.4 million), SPE Santa Maria Transmissora de Energia S.A. (€13.8 million) and SPE Transmissora de Energia Linha Verde II S.A (€11.9 million) and of the Uruguayan company, Difebal S.A (€25.4 million), partly offset by the increase in the net assets of the subsidiary, SPE Transmissora de Energia Linha Verde I S.A. (€48.9 million).

Cash flow

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

(€m)

	CASH FLOW 2022	CASH FLOW 2021
Operating cash flow	(27.0)	(12.2)
Cash flow for investing activities	(3.3)	(31.4)
Cash flow from financing activities	2.8	13.9
Cash flow for the year attributable to discontinued operations and assets held for sale	**(27.5)**	**(29.8)**

Operating cash outflow attributable to the Latin American assets amounts to €27.0 million, primarily reflecting the the sale of the Brazilian companies, SPE Santa Lucia Transmissora de Energia S.A., SPE Santa Maria Transmissora de Energia S.A. and SPE Transmissora de Energia Linha Verde II S.A and of the Uruguayan company, Difebal S.A , and the adjustment to the value of the net assets held for sale recognised in application of IFRS 5.
Cash flow for investing activities, amounting to €3.3 million, primarily relates to infrastructure operated under concession in Peru.
Cash flow from financing activities (€2.8 million) essentially reflects the change in the debt of the companies being sold, after repayment of the loan attributable to the subsidiary, Linha Verde I.

E. Commitments and risks

Risk management

In the course of its operations, the Terna Group is exposed to different financial risks: market risk, liquidity risk and credit risk. This section provides information regarding the Terna Group's exposure to all the above risks, along with a presentation of the objectives, policies and processes for managing those risks and the methods used to assess them, with further quantitative disclosures concerning the separate financial statements for 2022.
The Group's risk management policies seek to identify and analyse the risks that Group companies are exposed to, establishing appropriate limits and controls and monitoring the risks and compliance with such limits. These policies and the related systems are reviewed on a regular basis, in order to take account of any changes in market conditions or in the companies' operations.
The Terna Group's exposure to the aforementioned risks is substantially represented by the exposure of the Parent Company.
As a part of the financial risk management policies approved by the Board of Directors, Terna has established the responsibilities and operating procedures for financial risk management, specifically as concerns the instruments to be used and the precise operating limits to apply in managing them.
The main financial statement items exposed to the above risks are shown below.

(€m)

	31 DECEMBER 2022			31 DECEMBER 2021		
	AMORTISED COST	FAIR VALUE	TOTAL	AMORTISED COST	FAIR VALUE	TOTAL
Assets						
Derivative financial instruments	-	75.7	75.7	-	1.6	1.6
Cash on hand and government securities	2,155.1	366.5	2,521.6	1,566.8	981.5	2,548.3
Trade receivables	2,358.3	-	2,358.3	2,777.4	-	2,777.4
TOTAL	**4,513.4**	**442.2**	**4,995.6**	**4,344.2**	**983.1**	**5,327.3**

(€m)

	31 DECEMBER 2022			31 DECEMBER 2021		
	AMORTISED COST	FAIR VALUE	TOTAL	AMORTISED COST	FAIR VALUE	TOTAL
Liabilities						
Borrowings	10,326.0	-	10,326.0	10,475.0	-	10,475.0
Derivative financial instruments	-	247.9	247.9	-	83.7	83.7
Trade payables	3,687.7	-	3,687.7	3,275.6	-	3,275.6
TOTAL	**14,013.7**	**247.9**	**14,261.6**	**13,750.6**	**83.7**	**13,834.3**

Market risk

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

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

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

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

Interest rate risk

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

In the course of its operations, the Group is exposed to the risk of fluctuations in interest rates. Its main source of interest rate risk is associated with its borrowings and the related hedges in the form of derivative instruments that generate financial expenses. The borrowing strategy focuses on long-term borrowings, whose term reflects the useful life of the Group's assets. It pursues an interest rate risk hedging policy that aims to guarantee that percentage of debt represented by fixed rate liabilities is at least 40%, as provided for in the relevant policies. At the end of 2022, 87% of the Group's is fixed rate.

At 31 December 2022, interest rate risk is hedged by fair value hedges and cash flow hedges, which hedge the risk connected with movements in interest rates relating to borrowings.

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

(€m)

	31 DECEMBER 2022		31 DECEMBER 2021		CHANGE	
	NOTIONAL	FAIR VALUE	NOTIONAL	FAIR VALUE	NOTIONAL	FAIR VALUE
Fair value hedges	1,973.5	(247.9)	1,700.0	1.6	273.5	(249.5)
Cash flow hedges	1,996.3	75.7	3,241.0	(83.7)	(1,244.7)	159.4

The notional amount of outstanding cash flow hedges at 31 December 2022, amounting to €1,996.3 million, breaks down as follows:

- €100.0 million (fair value gain of €1.9 million) maturing 2023;
- €1,496.3 million (fair value gain of €69.2 million) maturing 2024;
- €200.0 million (fair value gain of €1.8 million) maturing 2025;
- €200.0 million (fair value gain of €2.8 million) maturing 2028.

The notional amount of fair value hedges at 31 December 2022, amounting to €1,973.5 million, breaks down as follows:

- €100.0 million (fair value loss of €0.8 million) maturing 2023;
- €950.0 million (fair value loss of €90.2 million) maturing 2030;
- €343.5 million (fair value loss of €51.9 million) maturing 2039;
- €490.0 million (fair value loss of €88.1 million) maturing 2042;
- €90.0 million (fair value loss of €17.0 million) maturing 2043.

Sensitivity to interest rate risk

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

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

(€m)

	PROFIT OR LOSS			COMPREHENSIVE INCOME		
	CURRENT RATES +10%	CURRENT AMOUNTS	CURRENT RATES -10%	CURRENT RATES +10%	CURRENT AMOUNTS	CURRENT RATES -10%
31 December 2022						
Positions sensitive to interest rate variations (FVHs, bond issues, CFHs)	5.0	**3.6**	2.1	169.8	**159.1**	148.3
Hypothetical change	*1.4*	-	*(1.4)*	*10.7*	-	*(10.8)*
31 December 2021						
Positions sensitive to interest rate variations (FVHs, bond issues, CFHs)	1.4	**1.3**	1.2	169.5	**167.7**	165.9
Hypothetical change	*0.1*	-	*(0.1)*	*1.8*	-	*(1.8)*

Regulators around the world have launched a reform of IBOR (Interbank Offered Rates), which are used as the benchmark for most financial instruments sold throughout the world, with the aim of restoring confidence in the benchmark. The transition from EONIA to ESTER took place in 2022 without any significant impact. The Group is continuing to closely monitor the market and the results produced by the various working groups overseeing the transition to the new benchmark rates for the other maturities (EURIBOR). Management is aware of the associated risks and, for this reason, the Group plans to complete the transition in step with the change in the related legislation. At the same time, all the new financial contracts contain fallback provisions governing the transition period.

Inflation risk

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

Exchange rate risk

The management of exchange rate risk must aim to protect a company's earnings from the risk of currency fluctuations by keeping a close eye on market movements and constantly monitoring the existing exposures. In managing this risk, Terna from time to time selects hedging instruments with structures and durations matching the Group's exchange rate exposure. The instruments used by Terna are of limited complexity, highly liquid and easy to price, such as forwards and options. Such contracts have a notional amount and maturity date less than or equal to that of the underlying financial liability, or the expected cash flows, so that any change in the fair value and/or estimated cash flows deriving from a rise or fall in the euro against other currencies is fully offset by a corresponding change in the fair value and/or estimated cash flows of the underlying position.
At 31 December 2022, the Group's exposure to the impact of exchange rate risk on its profit or loss is residual and linked to foreign currency cash flows from the subsidiaries, Tamini and Brugg.

Liquidity risk

Liquidity risk is the risk that the Terna Group might encounter difficulty in discharging its obligations in respect of its financial liabilities and operating cycle. Liquidity risk management seeks to ensure adequate coverage of borrowing requirements by obtaining adequate credit lines and appropriate management of any surplus liquidity. At 31 December 2022, the Terna Group has available short-term credit facilities of approximately €884 million (out of total facilities of approximately €1,010 million), and revolving credit facilities of €3,150 million.

Credit risk

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

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

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

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

(€m)

	31 DECEMBER 2022	31 DECEMBER 2021	CHANGE
Derivative financial instruments	75.7	1.6	74.1
Cash and cash equivalents	2,155.1	1,566.8	588.3
Trade receivables	2,358.3	2,777.4	(419.1)
TOTAL	**4,589.1**	**4,345.8**	**243.3**

The total value of the exposure to credit rate risk at 31 December 2022 is represented by the carrying amount of trade receivables, cash and cash equivalents and cash flows hedges.

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

Geographical distribution

(€m)

	31 DECEMBER 2022	31 DECEMBER 2021
Italy	2,092.6	2,222.5
Euro-area countries	165.9	482.4
Other countries	99.8	72.5
Total	**2,358.3**	**2,777.4**

Customer type

(€m)

	31 DECEMBER 2022	31 DECEMBER 2021
Distributors	472.8	395.8
CSEA	94.3	138.4
Dispatching customers for injections	826.2	755.1
Dispatching customers for withdrawals (non distributors)	682.0	1,288.1
Parties which have signed virtual import contracts and virtual import services (interconnectors and shippers)	11.8	13.8
Sundry receivables	271.2	186.2
Total	**2,358.3**	**2,777.4**

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

(€m)

	31 DECEMBER 2022		31 DECEMBER 2021	
	IMPAIRMENT	GROSS	IMPAIRMENT	GROSS
Current	(0.6)	2,103.6	(0.6)	2,701.9
0-30 days past due	(0.6)	28.8	-	30.8
31-120 days past due	(0.4)	56.2	(0.3)	14.0
Over 120 days past due	(35.4)	206.7	(48.7)	80.3
Total	**(37.0)**	**2,395.3**	**(49.6)**	**2,827.0**

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

(€m)

	31 DECEMBER 2022	31 DECEMBER 2021
Balance at 1 January	(49.6)	(52.0)
Release of provisions	14.3	2.8
Impairments for the year	(1.7)	(0.4)
Balance	**(37.0)**	**(49.6)**

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

(€m)

	31 DECEMBER 2022	31 DECEMBER 2021
Dispatching - injections	249.7	265.1
Dispatching - withdrawals	1,665.8	1,349.2
Transmission charges due from distributors	329.3	334.3
Virtual imports	269.6	134.3
Capacity market (*)	181.4	129.5
Balance	**2,695.8**	**2,212.4**

(*) Guarantees relating to Capacity Market contracts to be executed from 2023.

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

Default risk and debt covenants

This risk is associated with the possibility that the loan agreements or bond terms and conditions to which the Parent Company is a party may contain provisions authorising counterparties to call in such loans immediately upon the occurrence of certain events, thereby generating liquidity risk. More information on the contractual provisions of outstanding borrowings at 31 December 2022 is provided in the section, "Borrowings and financial liabilities" in the notes to the Terna Group's consolidated financial statements.

Bank guarantees

Banks have issued guarantees to third parties on behalf of Group companies which, at 31 December 2022 , amount to €315.1 million. This amount breaks down as follows: €76.5 million on behalf of Terna S.p.A., €78.7 million on behalf of Tamini Trasformatori S.r.l., €61.9 million on behalf of Terna Rete Italia S.p.A., €39.2 million on behalf of Terna Interconnector S.r.l., €47.7 million on behalf of Gruppo Brugg Cables, €0.1 million on behalf of Terna Plus S.r.l., €4.7 million on behalf of Terna Perù SAC, €0.4 million on behalf of Difebal S.A., €5.8 million on behalf of Terna Energy Solutions S.r.l. and €0.1 million on behalf of Terna Chile S.p.A..

Litigation

The main commitments and risks not disclosed in the statement of financial position at and for the year ended 31 December 2022, relating to the Parent Company Terna, its subsidiary Terna Rete Italia S.p.A., are described below. There are no significant commitments or risks for the other subsidiaries at that date.

Environmental and urban planning litigation

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

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

It should be note that, there is a dispute pending in relation to the new 380kV Udine West – Redipuglia power line and the associated infrastructure, which has been in service for two years. Were the legal challenges lodged by local councils and/or private parties to result in cancellation of the consents granted for the project, this could affect operation of the infrastructure.

Litigation regarding the legitimacy of construction permits and plant operations

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

Litigation relating to activities carried out under concession

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

F. Business combinations

Acquisition of LT

The business combination resulting from the acquisition of **LT S.r.l.** (LT Group), completed in the previous year, has been accounted for within 12 months of the date of completion.

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

Value of the assets acquired and liabilities assumed

(€000)

	CARRYING AMOUNT 12 OCTOBER 2021	CARRYING AMOUNT 31 DECEMBER2021	ADJ.	FAIR VALUE
ASSETS				
Non-current assets				
Property, plant and equipment	252	265	-	265
Goodwill	546	537	-	537
Intangible assets	3,033	2,992	5,249	8,241
Deferred tax assets	48	58	-	58
Total non-current assets	**3,879**	**3,852**	**5,249**	**9,101**
Current assets				
Trade receivables	8,851	9,289	-	9,289
Inventories	2,088	7,271	-	7,271
Income tax assets	76	639	-	639
Other assets	2,024	1,276	759	2,035
Cash	980	2,177	-	2,177
Total current assets	**14,019**	**20,652**	**759**	**21,411**
TOTAL ASSETS	**17,898**	**24,504**	**6,008**	**30,512**
EQUITY AND LIABILITIES				
Non-current liabilities				
Employee benefits	456	483	-	483
Provisions for risks and charges	13	87	1,464	1,551
Total non-current liabilities	**469**	**570**	**1,464**	**2,034**
Current liabilities				
Short-term borrowings	495	2,033	-	2,033
Trade payables	8,373	14,129	-	14,129
Tax liabilities	491	853	-	853
Current financial liabilities	1,695	4	-	4
Other liabilities	1,935	1,671	759	2,430
Total current liabilities	**12,989**	**18,690**	**759**	**19,449**
TOTAL EQUITY AND LIABILITIES	**13,458**	**19,260**	**2,223**	**21,483**
NET ASSETS ACQUIRED	**4,440**	**5,244**	**3,785**	**9,029**
Net assets contributed	**4,440**	**5,244**	**-**	**5,244**
CONSIDERATION AND SHARE ATTRIBUTABLE TO NON-CONTROLLING INTERESTS AT FAIR VALUE	**27,599**	**27,571**	**-**	**27,571**
Goodwill	**23,159**	**22,327**	**(3,785)**	**18,542**

IFRS 3 requires the acquirer to allocate the cost of the business combination in its accounts by recognising all the assets, liabilities and potential liabilities meeting specific recognition criteria at their fair value at the acquisition date. Measurement of the fair value of the assets and liabilities has resulted in adjustments to potential liabilities, amounting to €1.5 million, linked to current litigation and tax risk and intangible assets arising from the Purchase Price Allocation process, amounting to €5.2 million, based on the estimated fair value at 31 December 2021, deemed similar to the value at 12 October 2021, the transaction date.

The expected consideration is higher than the value of the net assets at the acquisition date, resulting in goodwill of approximately €18.5 million.

G. Related party transactions

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

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

Related party transactions in 2022 broadly regard the provision of services in the course of ordinary activities and conducted on an arm's length basis.

The nature of sales to and purchases from related parties by the Terna Group is shown below, followed by details of the revenue and costs resulting from such transactions during the year and the related assets and liabilities outstanding at 31 December 2022.

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

Revenue and costs

(€m)

	REVENUE COMPONENTS		
	TRANSMISSION CHARGE AND OTHER REVENUE FROM REGULATED ACTIVITIES	NON-ENERGY-RELATED ITEMS	COST COMPONENTS
De facto parent:			
Cassa Depositi e Prestiti S.p.A.	-	0.1	1.1
Total de facto parent	**-**	**0.1**	**1.1**
Associates:			
Cesi S.p.A.	-	0.1	1.3
CORESO S.A.	-	-	4.2
Total associates	**-**	**0.1**	**5.5**
Other related parties:			
GSE Group	11.5	1.1	-
Enel Group	1,679.6	8.4	1.5
ENI Group	7.6	1.0	0.5
Ferrovie Group	2.5	1.3	0.4
Anas S.p.A.	-	-	0.6
Poste Italiane Group	-	-	0.1
Other related parties of MEF	-	0.2	0.9
Total other related parties	**1,701.2**	**18.1**	**4.0**
Pension funds:			
Fondenel	-	-	0.8
Fopen	-	-	2.8
Total pension funds	**-**	**-**	**3.6**
TOTAL	**1,701.2**	**18.3**	**14.2**

Assets and liabilities

(€m)

	PROPERTY, PLANT AND EQUIPMENT	RECEIVABLES AND OTHER ASSETS	PAYABLES AND OTHER LIABILITIES		
	CAPITALISED COSTS	OTHER	OTHER	CASH	GUARANTEES*
De facto parent:					
Cassa Depositi e Prestiti S.p.A.	4.5	-	2.8	-	5.4
Total de facto parent	**4.5**	**-**	**2.8**	**-**	**5.4**
Associates:					
Cesi S.p.A.	13.1	-	10.1	-	4.5
Total associates	**13.1**	**-**	**10.1**	**-**	**4.5**
Other related parties:					
GSE Group	0.3	1.5	0.3	-	-
Enel Group	19.7	316.3	35.9	-	2.8
ENI Group	-	2.0	0.8	-	-
Ferrovie Group	0.4	4.6	10.4	-	0.3
Anas S.p.A.	1.0	2.5	4.5	-	-
Snam Rete Gas S.p.A.	0.1	-	(0.1)	-	-
Fincantieri Group	0.2	0.1	3.3	-	0.1
Ansaldo Energia S.p.A.	1.2	4.0	10.7	-	24.3
Open Fiber S.p.A.	-	0.6	-	-	-
Other related parties of MEF	0.6	1.6	2.4	0.1	0.7
Total other related parties	**23.5**	**333.2**	**68.3**	**0.1**	**28.2**
Pension funds:					
Fopen	-	-	2.4	-	-
Total pension funds	**-**	**-**	**2.4**		**-**
TOTAL	**41.1**	**333.2**	**83.6**	**0.1**	**38.1**

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

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

Statement of financial position

(€m)

	31 DECEMBER 2022			31 DECEMBER 2021		
	TOTAL	RELATED PARTIES	% SHARE	TOTAL	RELATED PARTIES	% SHARE
Property, plant and equipment	16,200.9	41.1	0.3%	15,316.6	60.3	0.4%
Trade receivables	2,358.3	333.2	14.1%	2,777.4	302.3	10.9%
Cash and cash equivalents	2,155.1	0.1	-	1,566.8	0.1	-
Trade payables	3,687.7	60.9	1.7%	3,275.6	59.9	1.8%
Other current liabilities	669.9	22.7	3.4%	453.4	19.4	4.3%

Income statement

(€m)

	2022			2021		
	TOTAL	RELATED PARTIES	% SHARE	TOTAL	RELATED PARTIES	% SHARE
Revenue from sales and services	2,898.1	1,718.7	59.3%	2,534.5	1,766.9	69.7%
Other revenue and income	66.4	0.8	1.2%	71.8	1.6	2.2%
Raw and consumable materials used	247.8	-	-	206.4	0.1	-
Services	276.9	10.4	3.8%	218.3	11.0	5.0%
Personnel expenses	348.1	3.7	1.1%	295.3	3.5	1.2%
Other operating costs	32.5	0.1	0.3%	31.5	0.1	0.3%
Financial expenses	(121.8)	-	-	(95.8)	-	-

The impact of related party cash flows is shown below:

Statement of cash flows

(€m)

	2022			2021		
	TOTAL	RELATED PARTIES	% SHARE	TOTAL	RELATED PARTIES	% SHARE
Cash flow from operating activities	2,323.7	(26.6)	(1.1%)	832.3	(89.6)	(10.8%)
Cash flow from investing activities	(1,855.4)	19.2	(1.0%)	(863.3)	(5.9)	0.7%
Cash flow from financing activities	92.5	-	-	(1,051.8)	-	-

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

With the exception of the instances described above, no significant non-recurring, atypical or unusual events or transactions, involving either third or related parties, took place in 2022.

I. Notes to the statement of cash flows

Cash flow from **continuing operations** amounts to €2,323.7 million, with approximately €2,072.7 million in operating cash flow and an outflow of approximately €251.0 million generated by changes in net working capital.

The cash outflow for i**nvesting activities** totals €1,855.4 million and regards €1,492.3 million relating to investment in property, plant and equipment (excluding right-of-use assets recognised in application of IFRS 16), €212.4 million invested in intangible assets and €350.5 million reflecting the change in investments in securities, after €157.0 million in proceeds from the aforementioned sale of the Latin American assets and capitalised financial expenses of €24.8 million.

The net change in equity amounts to an increase of €381.5 million, due primarily to recognition of the reserve for the hybrid green bond, totalling €989.0 million. This was partly offset by the payment of dividends (totalling €595.8 million), primarily relating to payment of the final dividend for 2021 and the interim dividend for 2022 to the Parent Company's shareholders. More details are provided in note "24. Equity attributable to owners of the Parent and non-controlling interests".

As a result, net cash used in investing activities and to provide a return on equity during the year led to a total outflow of €1,473.9 million, covered entirely by cash flow from continuing operations of €1,855.4 million. The repayment of bonds early in the year (replaced by the €1 billion hybrid green bonds issued on 2 February 2022, accounted for in equity), has resulted in a reduction in net debt.

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

(€m)

	31 DECEMBER 2021	CASH FLOW FROM FINANCING ACTIVITIES	CHANGE IN FV AND OTHER	31 DECEMBER 2022
- Long-term borrowings (including current portion)	10,695.0	263.2	(632.2)	10,326.0
- Short-term borrowings	1,947.0	(552.2)	(950.7)	444.1
Net change deriving from financing activities	**12,642.0**	**(289.0)**	**(1,582.9)**	**10,770.1**

L. Government grants

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

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

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

In line with the above, the following table shows government grants collected/disbursed by the Group in 2022:

Grants received (paragraph 125-bis)

	GRANTOR				
BENEFICIARY ENTITY	NAME	VAT NUMBER	TYPE OF TRANSACTION	AMOUNT (€)	NOTE
TERNA SPA	Ministry for Economic Development	80230390587	State aid *	15,574,648.46	Grants collected on the basis of a report on the state of work in progress on projects carried out by Terna S.p.A. financed by government grants, with funding provided under the National Operational Programme (NOP) for Enterprises and Competitiveness 2014 - 2020 FESR - ASSE IV – Investment priority 4d - Action 4.3.1
TOTAL				**15,574,648.46**	

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

Grants disbursed (paragraph 126)

GRANTOR	BENEFICIARY NAME	BENEFICIARY TAX CODE	BENEFICIARY VAT NUMBER	TYPE OF TRANSACTION	AMOUNT (€)	NOTE
TERNA SPA	Chiaramonte Gulfi	00068940881		GIVING	10,000	Cultural and theatrical activities 2021-2022 season
TERNA SPA	Coldiretti	97467440588	10569111007	GIVING	25,000	Amica Campaign
TERNA SPA	Maggio Fiorentino	00427750484	00427750484	GIVING	20,000	Symphonic Season
TERNA SPA	Madonna di Pompei Parish	97521820015	97521820015	GIVING	10,000	Pompei Hackathon Project
TERNA SPA	Save The Children	97227450158	07354071008	GIVING	30,000	Ukraine Emergency
TERNA SPA	Caritas Italiana	80102590587	80102590587	GIVING	30,000	Ukraine Emergency
TERNA SPA	Confindustria Energia	97441040587		GIVING	20,000	Study on energy infrastructure
TERNA SPA	Komen	06073831007	06073831007	GIVING	60,000	Prevention day across the whole of Italy
TERNA SPA	Europacolon Italia Onlus	97988510588		GIVING	40,000	Vinci Campaign 2022
TERNA SPA	Chigiana Music Academy Foundation	00068580521		GIVING	10,000	Summer Academy 2022
TERNA SPA	Save The Children	97227450158	07354071008	GIVING	24,417	Ukraine Emergency Donations
TERNA SPA	Caritas Italiana	80102590587	80102590587	GIVING	24,417	Ukraine Emergency Donations
TERNA SPA	Venezia World Sustainability Capital Foundation	94102820274		GIVING	34,000	Joining the foundation as co-founding member
TERNA SPA	Vespasiano Foundation	90053860574	01042190577	GIVING	10,000	Reate Festival
TERNA SPA	Sant' Erasmo Nautilus Association	05571220820		GIVING	40,000	Il Mare Di Tutti
TERNA SPA	Confindustria	80017770589		GIVING	19,215	Study on the proposal of reform for the Italian electricity market
TERNA SPA	Intercultura Onlus	91016300526		GIVING	45,000	Funding for 5 scholarships as part of the EmpowHer project
TERNA SPA	Santa Cecilia National Academy	05662271005	05662271005	GIVING	160,000	Second tranche
TERNA SPA	ASD Grifone		13928301004	GIVING	15,000	Sporting association support
LT SRL	TRIIRON Amateur Sporting Association		02789661200	GIVING	10,000	Sporting association support
TERNA SPA	Marcigliana Protection and sustainability project	97727100584	97727100584	GIVING	36,000	FUKYO O.d.V. Association donation
TERNA SPA	XXXVI international peace meeting	80191770587	02132561008	GIVING	30,000	Sant'Egidio community donation
TAMINI TRASFORMATORI SRL	FONDIMPRESA	97278470584		GIVING	16,309	English training plan no. 294897
Total					**719,358**	

M. Events after 31 December 2022

Green light for two new underground cables in Salerno

On **4 January 2023,** the Italian Ministry for the Environment and Energy Security gave its **consent** for Terna's project for the **construction of two new 220kV underground power cables that will connect the "Salerno Port" primary cabin to the "Salerno North" primary cabin**. For the project, which has also received the green light from Campania Region Authority, the Italian electricity grid operator has plans to invest around €24 million. Terna will build two completely underground cables stretching over 5 km each. The routes for the new power lines will initially tun alongside existing roads. They will then diverge before reuniting up to the entrance of the Porta Ovest tunnel, forming part of the Salerno Port Authority's plan, which the cables will follow up to the Salerno Port primary cabin. The Company will use underground cables with XLPE insulation, a highly efficient and sustainable technology. The project is essential in upgrading energy infrastructure to keep pace with the development of the city of Salerno, whilat also promoting decarbonisation of the port area.

Terna acquires asset in Alto Adige region for approximately €14 million

On **5 January 2023**, Terna agreed to acquire a 100% stake in Edyna Transmission Srl, an Alperia Group company operating in the transmission sector. The acquired company, which owns 34 km of high-voltage power lines and 2 electricity substations in Alto Adige, already part of Italy's electricity grid, was acquired for a total consideration of approximately €14 million. The agreement is subject to the fulfilment of certain conditions precedent. The transaction is part of the Terna Group's strategy to unify Italy's national electricity transmission infrastructure, consolidating parts of the high-voltage grid owned by local utilities, with the goal of further improving grid efficiency and reliability.

Green light for new Livigno-Premadio underground connection in the province of Sondrio

On **5 January 2023**, the Italian Ministry for the Environment and Energy Security gave its **consent** for the **Livigno–Premadio electricity connection** that Terna plans to install in the province of Sondrio. Terna will invest €65 million in the project, which is one of the key projects planned by Terna in order to boost the reliability of energy supplies in the locations due to host the Milan–Cortina Olympic and Paralympic Games in 2026. The new infrastructure foresees the construction of a power line, formed of two underground cables, between the primary cabin in Livigno owned by the local distributor and the Terna substation located in Premadio, in the municipality of Valdidentro. The lines will almost entirely follow the same route, around a total of 20 km in length, partly following state highway 301 at over 1,500 metres above sea level. The plan will ensure greater meshing of the electricity grid in the area, also increasing the resilience of the energy transmission system in areas that have been heavily affected by extreme weather events in recent years. Preparations for work to begin, planned for 2023, will soon be made with the aim of completing and commissioning the connection by the second half of 2025, just in time for the start of the event.

€105 million investment in new undersea electricity connection between Sicily and Calabria

On **10 January 2023**, the Italian Ministry for the Environment and Energy Security **launched the consents process for the 'Bolano-Annunziata'**, Terna's new electricity infrastructure that will connect Sicily with Calabria. To complete the project, which is strategic for the entire Italian electricity system, the Company will invest €105 million. The 380 kV AC infrastructure, part of Terna's ten-year Development Plan for the Italian transmission electricity grid, will make it possible to increase the total electricity exchange capacity between the island and the mainland up to 2000 MW, favouring the development of renewable sources planned in Southern Italy. It will also help improve the grid's meshing and operational flexibility, making the electricity systems of Southern Italy and Sicily even more secure. The project will have several phases. The main phase will consist of laying around 7.5 km of undersea power cables to connect the Bolano (province of Reggio Calabria) and Annunziata (province of Messina) electricity substations. This power line will also have a fibre connection for data transmission. Additionally, Terna will create two underground power lines. The first, about 3 km long, will start at the Sicilian landing site and end at the Annunziata substation. The second, about 500 meters long, will make its way from the Calabrian landing site to the Bolano substation. Terna will adapt the latter by creating a new 380 kV section installed inside a newly constructed building. The entire adaptation will take place in areas near the current plant and will involve the municipalities of Reggio Calabria and Villa San Giovanni.

Green light for rationalisation of the electricity grid between Dolo (VE) and Camin (PD)

On **11 January 2023**, the Italian Ministry for the Environment and Energy Security gave its **consent** for **Terna's plan to rationalise the electricity grid between Dolo (Venice) and Camin (Padua)**, designed to improve reliability, quality of service and the efficiency of the area's power grid. Terna plans to invest €130 million in construction of a new 380 kV underground cable power line approximately 16.5 km long and the demolition of 32 km of existing overhead power lines. The new connection will make it possible to dismantle 123 pylons and free up approximately 95 hectares of land from electricity infrastructure. The municipalities involved in the project are Dolo, Camponogara, Stra, Fossò and Vigonovo in the Venice province and the municipalities of Padua and Saonara (the latter only involved in removal operations) in the Padua province. The new underground cable connection will facilitate the safe management of energy exchanges between the areas of Venice and Padua and will increase the resilience of the North-Eastern grid, which is increasingly exposed to the effects of extreme weather events, in particular intense snowfall and gusts of wind. At the same time, the work will make it possible to reduce grid losses, resulting in improved efficiency of the energy transmission service. The project, which is part of a wider rationalisation of the high-voltage grid in the Venice and Padua areas, is one of the regional electricity grid development works provided for in the Memorandum of Understanding signed by Terna and the Veneto Region in 2019 and the result of many meetings and inspections with the Region and the municipalities involved, aimed at identifying shared solutions and defining the route.

Consents obtained for new projects amounting to investment of over €2.5 billion in 2022

On **12 January 2023**, Terna achieved a **new all-time record: 2022 saw the Italian Ministry for the Environment and Energy Security and regional councils grant consent for 29 projects, representing total investment of over €2.5 billion in development of the national transmission grid**. After exceeding the €1 billion in approved investments in 2021 for the first time in history, in 2022, the Company achieved a new record, more than doubling the figure for the previous year and increasing the 2020 number tenfold (€266 million). Getting the green light for the eastern section of the Tyrrhenian Link was the biggest factor in achieving this result. This stretch of undersea power line, worth more than €1.9 billion, will connect Campania and Sicily. With 7 approved projects out of 29 decrees issued (24 from the Italian Ministry of the Environment and Energy Security and 5 from regional councils), the Lombardy Region has the highest number of new projects, totalling about €130 million. Next is Campania, with 5 projects, and then Sicily and the Self-governing Province of Bolzano, with 4. Additionally, 8 new electricity substations were approved, including 2 converter substations for the Tyrrhenian Link. After the record-breaking undersea cable, which will be fully operation in 2028, the most financially significant project approved in 2022 was the Dolo-Camin power line, which will run between the provinces of Venice and Padua. The power line (16.5 km of 380kV underground cable) will make it possible to demolish nearly 32 km of overhead power lines running through 7 municipalities. These are followed by, in order of investment value, the projects planned the southern quadrant of the Metropolitan City of Rome at a cost of over €70 million, 3 new underground cable lines, amounting to over 30 km, and a new electricity substation, and the €65 million Livigno-Premadio connection, essential for improving the reliability of the power supply and the resilience of the Lombardy grid in anticipation of the Milan-Cortina Olympic and Paralympic Games in 2026.

Green light for new cable connection between Rome East and Enea Frascati

On **20 January 2023**, the Italian Ministry for the Environment and Energy Security gave its **consent** for the **new connection between Terna Rome East and ENEA Frascati**, in which the Company is to invest more than €70 million. The project involves the construction of a series of works in the eastern quadrant of the Metropolitan City of Rome aimed at fulfilling the connection request submitted by ENEA. ENEA, the Italian National Agency for New Technologies, Energy and Sustainable Economic Development, submitted a connection modification request to the national transmission grid to supply a consumption plant at the Research Centre in Frascati (RM) used to power the Divertor Tokamak Test facility, an experimental machine aimed at the production of renewable, safe and unlimited energy. Specifically, the authorised works will enable the construction of three new 150 kV underground power lines extending for a total of 40 km. For the three power lines, Terna will use cables with XLPE insulation, a highly reliable, efficient and sustainable technology. The planned power lines will almost entirely follow the route of the existing infrastructure. To guarantee the capacity and continuity of supply required by ENEA, Terna will also build a new 150kV switching substation in the municipality of Frascati, and will update the existing "Rome East" substation in the Municipality of Gallicano in Lazio. Once the works are complete, the existing "ENEA Frascati RM - ENEA Frascati UT" 150kV overhead power line, which extends for around 300 metres, will be demolished.

Launch of consents process for new cable power line for Messina

On **25 January 2023, with publication of the parcels of land regarding the area that will potentially host the infrastructure, Terna announced the launch of the consents process for the new 150kV power line that will connect the Messina North and Messina Riviera primary substations**. The project, in which the Company will invest approximately €20 million, involves construction of a completely underground cable connection extending for over 10 km. The route will follow existing road infrastructure for almost its entire length. Terna will use latest-generation cables with XLPE insulation, a particularly reliable and sustainable technology. The works will enable increased meshing of the 150 kV line between the substations of Sorgente and Villafranca, which features four primary cabins for a total load of approximately 60 MW at peak times, when there is a significant tourist population on the coast. Once authorisation is secured, Terna will begin the design, planning and construction of the power line, which will be operational approximately 24 months later.

Terna, Reware and Legambiente Sicily: computer lab and language lab opened at the San Giovanni Apostolo Association's centre in a former public housing complex in Palermo

Thanks to the donation of 40 computers by Terna as part of the **Terna-Reuse: Circular computers in the community project**, run in collaboration with the Reware Cooperative and Legambiente Sicily, on **30 January 2023**, two laboratories, a computer and a language lab, were opened at the **San Giovanni Apostolo Association's centre in the former public housing complex in Palermo**. The ceremony was attended by local administrators, Maria Antonietta Sidoni, Terna's Sicily Transmission District Manager, along with representatives of the Reware cooperative, Giuseppe Alfieri and Vanessa Rosano of Legambiente Sicilia, Libera Association, the local branch of the Carabinieri and a number of schools and associations that will benefit from the donation. To be precise, the two labs are located respectively in a meeting centre managed by the San Giovanni Apostolo Association, which has worked to integrate various elements of the social fabric and to counter marginalisation through education for 20 years, and in the "Giuliana Saladino" State Comprehensive School.

Over €100 million in investment in the Brianza power grid

On **31 January 2023**, the Italian Ministry for the Environment and Energy Security **launched the consents process for the rationalisation of the HV electricity grid serving the western part of Brianza**. Terna plans to invest over €100 million in this project. The restructuring work, which will involve the municipalities of Seveso, Barlassina, Cesano Maderno, Cogliate and Ceriano Laghetto in the province of Monza-Brianza (Lombardy), will enable an increase in efficiency of the electricity transmission service in the area and, with improved meshing of the local grid, will guarantee greater continuity and security of operation. The Company will create approximately 13 km of new power lines in underground cable, enabling the demolition of 7.3 km of overhead power lines located predominantly in densely populated areas in the municipalities of Seveso and Cesano Maderno. Plans for the new infrastructure will enable the removal of 18 pylons and will free up approximately 30 hectares of land. In addition, Terna will create two new substations in the municipalities of Barlassina and Cesano Maderno: these systems will be integrated into the landscape, protecting the local area and adopting environmental mitigation measures, including green engineering works.

Terna's place in Bloomberg's Gender Equality Index (GEI) confirmed

On **31 January 2023, Terna** confirmed its ranking as one of the world's most inclusive companies. This is because the Company has been **included in Bloomberg's Gender Equality Index (GEI) for the fifth successive year**. The GEI is an international index of companies' performances regarding gender equality issues and the quality and transparency of their public reporting. Terna is one of only 484 global businesses operating in 45 countries and 11 different sectors, selected from over 11,700 companies, to be included in the final index. This year, Terna saw its GEI score for 2022, that Bloomberg uses to evaluate companies' Gender Equality policies, improve compared with 2021, with a result above the overall average for the companies included in the index and the average for the companies in the utilities sector. The better score is mainly due to the Italian national electricity grid operator's performance in the "Inclusive Culture", "Pro-women brand" and "Female leadership & talent pipeline" areas. Additionally, Terna yet again achieved a perfect score in "Disclosure", a decisive aspect for the total assessment, confirming the Company's commitment to transparency and quality of reporting, distinctive features of the ESG policies pursued by the Company and presented in its Integrated Report.

Consents process begins for Adriatic Link, the new submarine cable between Abruzzo and Marche

On **1 February 2023**, the Italian Ministry for the Environment and Energy Security **launched the consents process for construction of the Adriatic Link**, the new direct current undersea power line that will connect Abruzzo and Marche, in which Terna will invest over €1 billion, involving approximately 120 firms in the project, including contractors and the downstream supply chain. will enable an increase in exchange capacity of approximately 1000 MW between the Centre-South and Centre-North zones of the country, boosting the security, efficiency and resilience of the entire national transmission grid. The Adriatic Link, a project included in Terna's 2018 Development Plan, is highly advanced in both technological and environmental terms. The "invisible" power line, running for a total of approximately 250 km, will be made up of two submarine cables with a length of approximately 210 km and two underground cables of approximately 40 km. The two electrical converter stations will be created near the existing substations of Cepagatti (province of Pescara), for Abruzzo, and Fano (province of Pesaro-Urbino) for the Marche region, and will have a minimal impact on the local environments.

Consents process begins for a new cable power line in the province of Viterbo

On **6 February 2023**, following the Italian Ministry for the Environment and Energy Security's launch of the consents process for a new cable power line in the province of Viterbo, **Terna published the notice containing the parcels of land regarding the area that will potentially host the infrastructure**. The project, in which the Company will invest €23 million, involves creation of a 150kV underground cable running for 9 km, connecting the primary cabins of Viterbo and Pian di Tortora, both in the Municipality of Viterbo. The work will enable improved meshing of the local grid and an increase in efficiency and reliability of the electricity transmission service, guaranteeing greater continuity and security of operation. The connection, which will run primarily along existing roads, will be created using latest-generation cables with XLPE insulation. This is particularly reliable and sustainable technology that guarantees greater transport capacity for the integration of renewable generation plants in the areas. Once authorisation is received from MASE, the new connection will go live within 24 months.

Terna completes acquisition of shares in SEleNe CC S.A.

On **7 February 2023**, the acquisition of shares in SEleNe CC S.A. was completed, with the aim of enabling **Transelettrica to sell its stake**. As a result, the company's shareholders (all of whom hold an equal number of shares: 66,666) are now: IPTO S.A. (the Greek TSO), ESO-EAD (the Bulgarian TSO) and Terna S.p.A.

Terna is the world's leading electricity company in S&P's Sustainability Yearbook 2023

On **9 February 2023, Terna was included among the 'Top 1%' companies in the Sustainability Yearbook 2023**, the leading publication produced by S&P Global, the international rating agency that assesses the ESG performance of over 7,800 companies worldwide. Thanks to an excellent score of 91 (out of 100) awarded by S&P Global in its 'Corporate Sustainability Assessment 2022', Terna recorded the best score among the 250 electric utilities assessed who, on average, obtained a score of 50. For the eighth time in 14 years of inclusion in the Dow Jones Sustainability index, the Company has achieved the highest possible ranking in the Sustainability Yearbook.

Green light for underground cable linking Moena with Campitello (Trento)

On **9 February 2023**, the Self-governing Province of Trento gave its **consent** for **the 132kV connection between Moena and Campitello**, which will cross the municipalities of Moena, Soraga, San Giovanni, Mazzin and Campitello in Val di Fassa. The Company will invest €48 million in the project, one of the main initiatives planned by Terna to increase energy reliability at the Milan-Cortina Olympic and Paralympic Games in 2026. The project involves the construction of 19 km of new underground power lines that will connect the Primary Cabins of Moena and Campitello, owned by the local distributor, with the new Terna Electrical Substation in the Municipality of Moena. The latter will be built using compact gas-insulated technology architecturally in-keeping with the surrounding landscape to maintain the beauty that Val di Fassa is known for. The plan will ensure greater meshing of the local grid and will increase the resilience of the energy transmission system in areas that have been heavily affected by extreme weather events in recent years. All the design solutions are the result of a profitable process of dialogue undertaken by Terna, together with the Self-governing Province of Trento, with all the municipalities involved. All the preliminary activities to begin the works will be launched in early 2023 with the aim to complete and commission the connection by the second half of 2025.

Agreement with Greenpeace Italia, Legambiente and WWF for increasingly sustainable electricity infrastructure

On **14 February 2023, Terna signed a new Memorandum of Understanding with environmental associations for the development and construction of increasingly sustainable electricity infrastructure, integrated into the local areas and respectful of the environment and biodiversity**. Today in Rome, the Chairwoman of Terna, Valentina Bosetti, the President of Greenpeace Italia, Ivan Novelli, the President of Legambiente, Stefano Ciafani, and the President of WWF Italia, Luciano di Tizio, renewed and further extended the existing collaboration established in recent years between them for the next 3 years. The collaboration between Terna, Greenpeace Italia, Legambiente and WWF Italia aims at an increasingly ambitious improvement of the environmental sustainability of the ten-year Development Plan for the Italian transmission grid and of Terna's industrial plan, with a view to the decarbonisation of the electricity system, also through concrete and constant dialogue and institutional discussion on subjects and measures of mutual interest. The agreements between the company led by the CEO Stefano Donnarumma and the environmental associations will make it possible to start a conversation on future energy scenarios and on the technological innovations of the electricity grids to support renewable energy sources, on the basis of the objectives set by European legislative packages and national directives contained in the PNIEC and in the NRRP. Furthermore, they will serve to focus attention on the integration, in local planning, of the other resources necessary for the energy transition, i.e. storage systems and sustainable energy sources, in particular offshore wind farms.

Launch of the Driving Energy Award 2023 – Contemporary Photography

After the success of the first edition, on **15 February 2023, Terna launched the Driving Energy Award 2023 – Contemporary Photography**, the free competition open to all photographers in Italy, aimed at promoting the country's cultural development and nurturing new talent in the sector. This year's theme is "In praise of balance". From 15 February and until 30 June, photographers are invited to interpret one of the key concepts of our culture which, thanks to the wealth of meanings and connotations, can provide various points for artistic and creative reflection. Balance is also a fundamental cornerstone of Terna's mission which guarantees a balance between energy produced and energy consumed, round the clock and every day of the year, through its dispatching activity, enabling the electricity system to function better to enable the energy transition and transmission of all the energy the country needs.

Memorandum of Understanding signed for re-routing of the Villavalle–Spoleto power line in the province of Perugia

On **16 February 2023, the Mayor of Spoleto (PG), Andrea Sisti, signed a memorandum of understanding with Terna for the joint development of a new route for the 132kV Villavalle-Spoleto power line**. Signature of the memorandum of understanding confirms the good result of the consultation carried out by the Municipality of Spoleto and Terna, which has always been keen to listen to the needs of local communities, to minimise the impact of the project authorised in 2019 by the Ministry of Economic Development with the Ministry of the Environment (today Ministry of the Environment and Energy Security). The project involves the delocalisation of a 6 km section of the current power line that crosses Spoleto, thanks to the construction of a new line, in part overhead and in part in underground cable, and of a switching station, near the Colacem plant, connected to the 132kV "Giuncano – Foligno" and "Cementir – Spoleto" power lines. The work, as well as making the local power supply more reliable, will bring important environmental benefits thanks to the demolition in the town centre of Spoleto of approximately 4 km of obsolete lines, for a total of 19 pylons, thus returning approximately 10 hectares of land to the community.

Launch of new cable power line in Naples

On **20 February 2023**, following the Italian Ministry for the Environment and Energy Security's launch of the consents process for a new cable power line for Naples, **Terna published the notice containing the parcels of land regarding the area that will potentially host the infrastructure**. The project, in which the Company will invest around €12 million, involves the creation of a 220kV underground power line running for approximately 5 km, connecting the primary cabins of Doganella and Poggioreale, both in the Municipality of Naples. The project, which will increase the meshing of the electricity grid in the region and provide greater security for the transmission system, will improve power flow distribution in the eastern part of the city. The power line will travel through the fourth and sixth municipalities of Naples and will cross the industrial area in Poggioreale, mainly following the route of the existing infrastructure. The connection will be developed using latest-generation cables with XLPE insulation, a particularly reliable and sustainable technology. Once the consent has been granted, the power line is scheduled to enter service within the next 36 months.

Laying of submarine cable between Elba and the Mainland begins

On **23 February 2023**, Terna **began laying submarine cable for the 132kV connection between the island of Elba and Piombino (LI)**. The 34 km of submarine cable, transported by the biggest cable-laying ship in the world, the Leonardo Da Vinci operated by the Prysmian Group, will be placed at a maximum depth of around 70 metres below sea level, starting from the island landing site at Portoferraio and continuing towards the continental coast of Piombino. The works will take approximately 10 days. The undersea cable of the new connection will be protected from possible damage caused by human activity for the entire length of the route thanks to the use of specially designed latest-generation machinery. In designing and implementing the project, Terna has been guided by the highest sustainability standards, taking steps to protect the marine habitat. The new power line between the Island of Elba and Tuscany, in which the Company has invested around €90 million, will represent strategic infrastructure that will double the number of connections between the national electricity system and the grid on the island of Elba. The new power line will contribute to improving the quality of the local infrastructure, guaranteeing important benefits in terms of safety, reliability and sustainability on the entire island, which tends to have high electricity consumption over the summer period.

First online digital platform for requesting the connection of renewable energy plants to the grid goes live

In collaboration with the Ministry of the Environment and Energy Security, on **27 February 2023**, Terna inaugurated its digital platform that, for the first time, centralises all information on high-voltage connection requests from renewable plants in Italy. Designed by the Company and the only system of its kind in the world, **Econnextion will enable stakeholders and electricity sector operators to view information on the geographic location and authorisation status of new, onshore and offshore photovoltaic and wind initiatives across Italy**. The data available the dashboard (https://www.terna.it/en/electric-system/grid/econnextion), which are updated every three months, are divided by source and shown in terms of output, and can be viewed by users as a graph or as a table. Specifically, the "Connection Requests" section enables users to filter requests by source (solar, onshore wind, offshore wind) in an aggregated format (number, output and percentage distribution). Using the interactive map, it is possible to view details at a regional, provincial or municipal level, and, thanks to the search filters, to select all active requests in a certain municipality and their authorisation status, for example, and compare renewable energy plant initiatives in various provinces or regions based on the so-called "General Minimum Technical Solution" (GMTS) produced by Terna. The "Fit for 55 Target" section shows the most significant data on photovoltaic and wind power initiatives (onshore and offshore) broken down by market area, with reference to the target set by the "Fit for 55" package for 2030, which envisages a reduction in greenhouse gas emissions of at least 55% by 2030 compared with 1990 levels.

Terna strengthens commitment to decarbonisation. The aim is to cut CO_2 emissions by 46% by 2030

On **2 March 2023**, Terna announced that it was **strengthening its commitment to combatting climate change by setting new targets for cuts in greenhouse gas emissions from its direct and indirect activities**. The Company has adopted a new Science-Based Target (SBT) through which it undertakes to cut by 2030 its CO2 emissions by 46%, compared with 2019, improving the previous target that called for a reduction in climate-altering emissions by approximately 30%. In line with its sustainability strategy and the Paris Agreement, Terna had adopted its first Science-Based Target in 2021 when it committed to a cut in emissions from its direct activities ("Scope 1") and indirect activities ("Scope 2") in line with the "well below 2°C" scenario, i.e. complying with the guidelines recommended by scientists to keep the global temperature increase well below the limit of 2 degrees centigrade. The new decarbonisation commitment adopted by the national transmission grid operator and approved by SBTi (Science-Based Targets initiative) provides for targets in line with the "1.5°C" scenario, the most ambitious temperature target established by the Paris Agreement, which recommends a limit on the increase in global warming below 1.5 degrees. The Science-Based Target signed by Terna also introduces a target to reduce "Scope 3" indirect emissions, such as those relating to employee mobility or the supply chain. The new target also extends the scope of application to the subsidiaries Brugg and Tamini.

Terna: the first and only Italian company to receive compliance management system certification

On **6 March 2023, Terna became the only company in Italy to have achieved ISO 37301:2021 (International Standards Organization), certification granted by Accredia**, Italy's sole national accreditation body, extended to all relevant compliance obligations of the main Group companies (Terna Rete Italia, Terna Energy Solutions and Terna Plus). The certification, issued by IMQ, Istituto Italiano del Marchio di Qualità, following an assessment, recognises the national electricity grid operator's ability to guarantee not only processes compliant with national and European regulations, but an important opportunity to grow the compliance culture within the Group. ISO 37301:2021 is a recent international standard which specifies requirements and provides guidelines to develop, maintain and improve compliance management systems. Adoption of this model also contributes to the achievement of three important sustainable development goals: decent work and economic growth, peace, justice and strong institutions and sustainable cities and communities.

8 March: Terna to provide eight STEM scholarships to refugee women

To mark International Women's Rights Day, **Terna made eight STEM scholarships available for refugee women on 7 March 2023**. The initiative, carried out in collaboration with Sistech, a European non-profit association that promotes the access of refugee women to the digital & tech world of work, aims to promote inclusion and diversity through innovation, requalification and improvement of their skills. In particular, Terna has chosen to finance a number of quarterly scholarships whose courses focus on data science, web or software development, digital project management, cyber security and digital marketing. The project chosen by the national electricity grid operator is called Boost and also includes a series of services to help refugee women access the jobs market through language courses and psychosocial support, in addition to logistics. In continuity with previous years, the Group has identified a specific theme for 8 March: "Education and Training", through which to draw attention to the importance of gender equality and overcoming gender stereotypes, as evidenced by the Data Girls and SheTech programmes, promoted by Terna regarding the training of women in STEM subjects.

Terna meets the public in Vico Equense (NA) to discuss restructuring of the grid serving the Sorrentino peninsula

On **10 March 2023, a well-attended 'Terna Incontra' meeting with the public in Vico Equense (NA) came to a successful conclusion. The meetings was held to discuss work on the 150kV "Sorrento - Vico Equense - Agerola - Lettere" electricity connection** within the local area. The Mayor of Vico Equense, Giuseppe Aiello, and local councillor Rossella Staiano spoke at the meeting held at the Oratorio San Raffaele. During the meeting, Terna technicians gave citizens all the information about the work that will involve the municipality, also noting comments about the project from local people. The project, in which Terna will invest around €40 million, is part of a larger restructuring plan for the Sorrento peninsula and will make it possible to improve the reliability of the electricity system and provide voltage in excess of 60kV, which is no longer adequate to ensure the security, resilience and quality of the electricity transmission service in the area. Once complete, it will also make it possible to demolish around 60 km of old power lines and more than 160 pylons on the Sorrento peninsula, following their replacement with 23 km of new overhead power lines and 12 km of underground cable.

New Suvereto (LI) office opens

On **10 March 2023**, the **Terna's new Suvereto (LI) office opened**. The event was attended by the Company's senior management and local dignitaries. The new eco sustainable building, completed in just 18 months, will host approximately 50 employees and will play a central role in preparations for the construction of Sa.Co.I 3, the submarine connection that will link Tuscany, Sardinia and Corsica, and its converter substation. The project, in which Terna has invested €10 million, is a concrete example of urban redevelopment through the recovery of an abandoned building of around 26,000m2 and the relocation and construction of new high energy efficiency class A4 buildings, in place of the current outdated offices. The external shell consists of distinctive elements of sustainable building, such as ventilated walls covered in terracotta, thermo-regulated spaces and renewable energy systems. The environmental regeneration work carried out, including about 9,000m2 of green area made up of native plants, contributes to the structure's perfect integration into the surrounding landscape. In addition to offices, the new headquarters will also house services, warehouses, workshops, storage for materials, waste collection and parking lots. The project represents an example of construction designed and built through the redevelopment of heritage assets in terms of environmental sustainability, in full compliance with the Group's energy development goals.

Planting of approximately 130 new trees in Roma gets underway

On **13 March 2023**, Terna **began the planting of over 130 trees**, including oleander, pear and oak trees, in Viale Buozzi in Rome and later in the Villa Borghese park and in via Gramsci. The new trees have replaced those felled last July during work on the underground cable that makes up the 150kV "Nomentana - Villa Borghese" line, as previously agreed with the local authority. Planting will be completed by the end of March. Work on construction of the underground cable between Via Nomentana and Villa Borghese are included in the Memorandum of Understanding for the modernisation of the Rome electricity grid signed, in March last year, by Terna, the Municipality of Rome and Lazio Regional Authority. The agreement provides for the construction of four completely underground cable connections, making a total of approximately 25 km from the "Laurentina" primary substation to the "Flaminia" primary substation. The total investment amounts to over €60 million.

2023 Development Plan for the national transmission grid presented

The **2023 Development Plan** for the national transmission grid was presented on **15 March 2023**: investment of over €21 billion in the next 10 years, 17% up on the previous Plan, with the aim of accelerating the energy transition, enable the country's decarbonisation, reduce Italy's dependence on overseas sources of energy and make the Italian electricity system more environmentally sustainable. Taking into account total investment in strategic infrastructure over the entire life of the assets, which goes beyond the ten-year period, the figure rises to more than €30 billion. The new Plan drawn up by the Company chaired by Valentina Bosetti and led by Stefano Donnarumma was presented today during a press conference attended by Gilberto Pichetto Fratin, Minister of the Environment and Energy Security, and Stefano Besseghini, President of ARERA, the Italian Regulatory Authority for Energy, Networks and the Environment. The main new feature introduced by the 2023 Development Plan is the Hypergrid network, which will leverage the technologies of the HVDC (High Voltage Direct Current) transmission system to achieve the energy transition and security targets. In addition to the development projects that have already been announced, Terna has planned five new electricity backbones designed to integrate renewable energy capacity, backed by investment totalling €11 billion. The project involves a major modernisation of the existing power lines on the Tyrrhenian and Adriatic backbones on the mainland and towards the islands, and - a first for the Company - the construction of new 500kV undersea connections. With the Hypergrid it will be possible to double the exchange capacity between market areas from the current 16 GW to over 30 GW. Development of the direct current backbones will also minimise land use and the impact on the landscape. The projects planned by Terna will make a significant contribution to achieving the targets set at European level in the "Fit-for-55" package of measures, which aims to achieve a 55% reduction in CO2 emissions by 2030 compared to 1990 levels. In Italy, renewable energy will need to cover at least 65% of final consumption in the electricity sector by 2030, compared to the 55% initially set out in the National Integrated Energy and Climate Plan (PNIEC), making a total of 70 GW of additional capacity.

Disclosure

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

The following table, prepared pursuant to art. 149-*duodecies* of the CONSOB Regulations for Issuers, shows the fees paid for audit and other services provided to the Terna Group by the Parent Company's independent auditors and the network of the Parent Company's independent auditors in 2022.

(€)

	ENTITY PROVIDING SERVICE	FEES DUE FOR THE YEAR
Audit of the accounts and financial statements	Parent Company's auditor	480,864
Attestation and other services[11]	Parent Company's auditor	123,422
Audit of the accounts and financial statements	Network of the Parent Company's auditor	189,586
Total		**793,872**

[11] Attestation and other services include the services linked to the audit of the regulatory accounts, the opinion on the distribution of interim dividends, the limited review of the Non-financial Statement, the limited assurance for the Green Bond Report and Comfort Letters for bonds.

Attestation

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

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Cap. Soc. 442.198.240 Euro interamente versato

"Terna Group"

1. The undersigned, Stefano Antonio Donnarumma, as Chief Executive Officer, and Agostino Scornajenchi, as Manager responsible for Terna SpA's financial reporting, having also taken account of the provisions of art.154-bis, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998, attest to:
   - the adequacy with regard to the nature of the Company, and
   - the effective application of the administrative and accounting procedures adopted in preparation of the consolidated financial statements during the year ended 31 December 2022.
2. The administrative and accounting procedures adopted in preparation of the consolidated financial statements for the year ended 31 December 2022 were drawn up, and their adequacy assessed, on the basis of the regulations and methods adopted by Terna SpA in accordance with the Internal Control–Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission. This Commission has established a body of general principles providing a standard for internal control and risk management systems that is generally accepted at international level.
3. We also attest that:

   3.1 the consolidated financial statements for the year ended 31 December 2022:

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

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

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

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

Rome, 22 March 2023

Chief Executive Officer
Stefano Antonio Donnarumma

(original signed)

Manager responsible for financial reporting
Agostino Scornajenchi

(original signed)

Independent Auditor's Report

pursuant to articles 14 of Legislative Decree 39 of 27 January 2010 and aticle 10 of Regulation (EU) 537/2014 - Consolidated financial statements for the year ended 31 December 2022

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

To the Shareholders of
Terna S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Terna group (the "Group"), which comprise the statement of financial position as at 31 December 2022, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

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

Key Audit Matters

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

Investments for the operation and development of the electricity transmission grid, relevant for the purposes of determining the transmission and dispatching activities charges

Description of the key audit matter	As of 31 December 2022, the Group accounts in "Property, Plant, and Equipment" and "Intangible Assets", respectively equal to Euro 16.201 million and Euro 524 million, the amounts mainly related to investments made for operation and development of the Italian national transmission grid (NTG) for high and extra-high voltage power. Investments made in the financial year relating to these items totalled Euro 1.757 million. The Group operates as a natural monopoly and within a market regulated by the Italian Regulatory Authority for Energy, Networks and Environment (Autorità di Regolazione per Energia Reti e Ambiente, "ARERA"), which defines, among the others, the rules for the remuneration of the transmission and dispatching services. In particular, the regulated revenues for these services are determined annually by ARERA and provide for recognition of a predefined return on the regulatory net invested capital recognized (RAB – Regulated Asset Base), of the relative depreciation and of some operating expenses. The RAB value is determined by ARERA mainly through the revalued historical cost method. We believe that investments for the operation and development of the electricity transmission grid represent a key audit matter for the Group's consolidated financial statements as of 31 December 2022 due to: i) the relevance of the tangible and intangible assets related to operation and development of the electricity transmission grid compared to the Group's total assets, ii) the relevance of the investments made during the year, iii) their impact in determining the fees for the transmission and dispatching services. Notes "13. Property, Plant, and Equipment " and "15. Intangible Assets" of the consolidated financial statements include the disclosure on the investments for the operation and development of the electricity transmission grid.
Audit procedures performed	With reference to investments for the operation and development of the electricity transmission grid, our audit procedures included, among the others, the following: • understand the processes for recognition of such investments in the financial statements; • understand the relevant controls implemented by the Group in relation to these processes and assessment of their operating effectiveness;

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

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

- test the accurate start of depreciation when the asset is available for use for a sample of assets recorded within tangible and intangible assets entered into depreciation during the year, also through the analysis of their ageing;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

The Directors of Terna S.p.A. are responsible for the application of the provisions of the European Commission Delegated Regulation (EU) 2019/815 with regard to the regulatory technical standards on the specification of the single electronic reporting format (ESEF – European Single Electronic Format) (hereinafter referred to as the "Delegated Regulation") to the consolidated financial statements as at 31 December 2022, to be included in the annual financial report.

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

In our opinion, the consolidated financial statements as at 31 December 2022, have been prepared in XHTML format and have been marked up, in all material respects, in accordance with the provisions of the Delegated Regulation.

Due to certain technical limitations, some information contained in theillustrative notes to the consolidated financial statements, when extracted from XHTML format in an XBRL instance, may not be reproduced in the same way as the corresponding information displayed in the consolidated financial statements in XHTML format.

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

The Directors of Terna S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Terna Group as at 31 December 2022, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Terna Group as at 31 December 2022 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Terna Group as at 31 December 2022 and are prepared in accordance with the law.

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

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

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

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

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

DELOITTE & TOUCHE S.p.A.

Signed by
Domenico Falcone
Partner

Rome, Italy
April 17, 2023

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