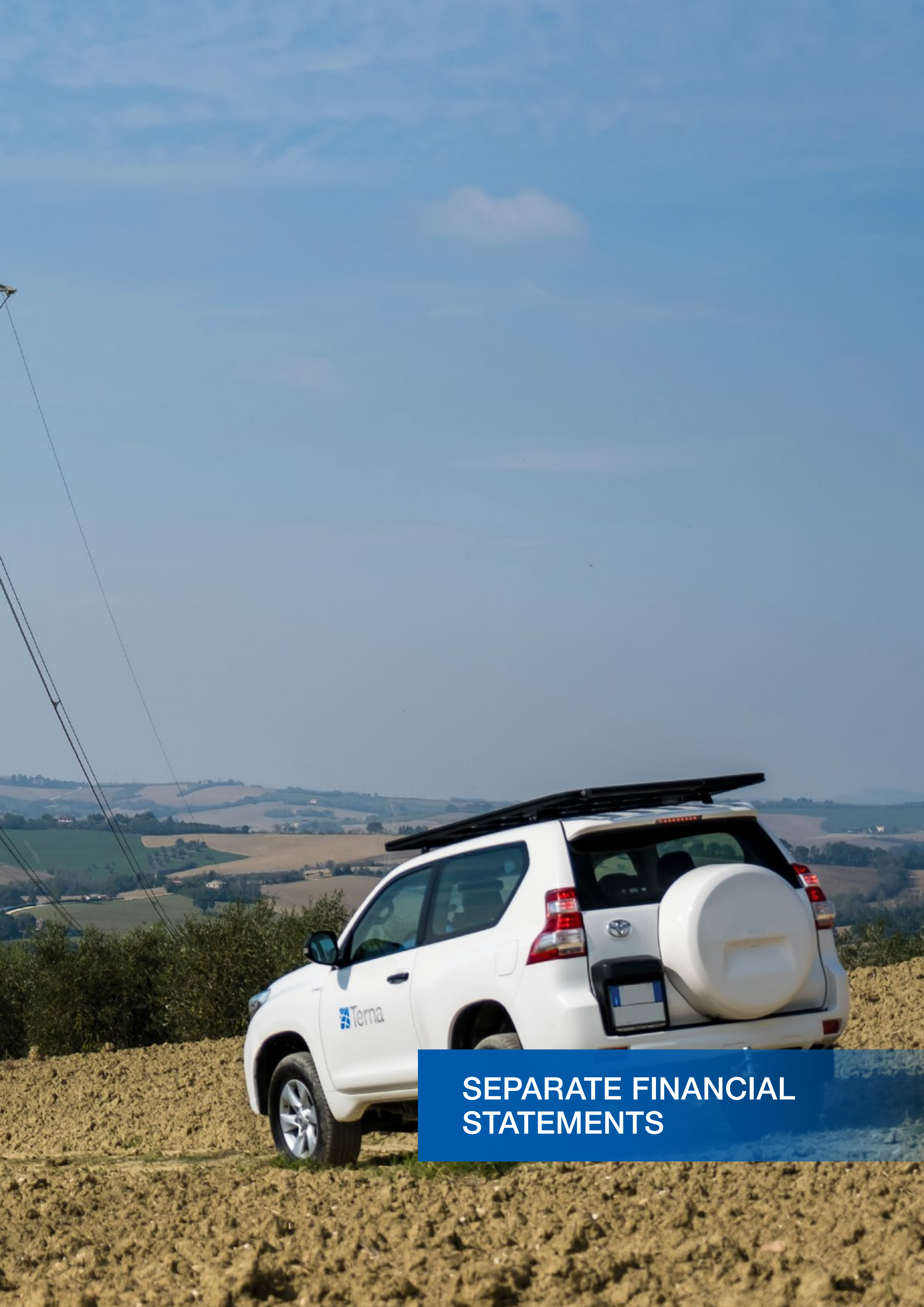
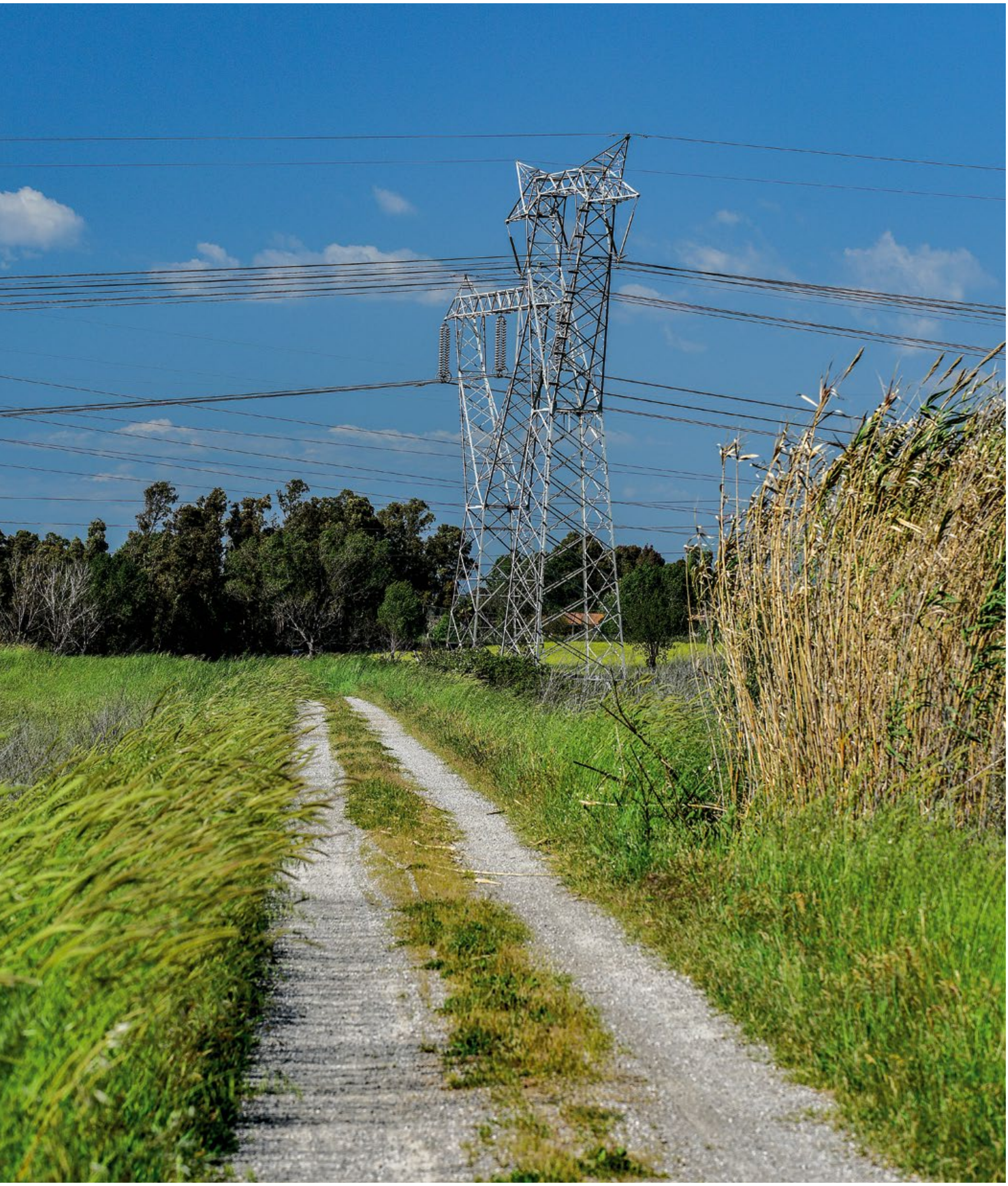


SEPARATE FINANCIAL STATEMENTS



Contents

Financial statements

Income statement of Terna S.p.A.

(€)

	NOTE	2022	2021
A - REVENUE			
1. Revenue from sales and services	1	2,459,716,731	2,146,811,627
of which: related parties		*1,701,200,000*	*1,757,378,433*
2. Other revenue and income	2	60,771,937	77,270,263
of which: related parties		*33,058,251*	*31,267,339*
Total revenue		**2,520,488,668**	**2,224,081,890**
B - OPERATING COSTS			
1. Raw and consumable materials used	3	6,369,068	5,976,243
of which: related parties		*4,317*	*2*
2. Services	4	482,977,197	411,931,685
of which: related parties		*396,569,826*	*350,578,841*
3. Personnel expenses	5	102,351,580	76,342,716
- gross personnel expenses		*116,841,972*	*88,448,387*
- capitalised personnel expenses		*(14,490,392)*	*(12,105,671)*
of which: related parties		*1,212,603*	*1,096,829*
4. Amortisation, depreciation and impairment losses	6	650,291,846	585,810,876
5. Other operating costs	7	21,946,270	23,028,603
of which: related parties		*76,572*	*68,501*
Total costs		**1,263,935,961**	**1,103,090,123**
A-B OPERATING PROFIT/(LOSS)		**1,256,552,707**	**1,120,991,767**
C - FINANCIAL INCOME/(EXPENSES)			
1. Financial income	8	38,576,427	14,360,043
of which: related parties		*14,171,302*	*436,302*
2. Financial expenses	8	(125,644,106)	(92,772,644)
of which: related parties		*7,884,814*	*(20,867)*
D - PROFIT/(LOSS) BEFORE TAX		**1,169,485,028**	**1,042,579,166**
E - INCOME TAX EXPENSE	9	**334,802,306**	**297,665,547**
F - PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**834,682,722**	**744,913,619**
G - PROFIT/(LOSS) FOR THE YEAR FROM DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE	10	**(544,018)**	**(9,665,093)**
H - PROFIT FOR THE YEAR		**834,138,704**	**735,248,526**

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

(€)

	NOTE	2022	2021
PROFIT FOR THE YEAR		**834,138,704**	**735,248,526**
Other comprehensive income for the year reclassifiable to profit or loss			
- Cash flow hedge	21	222,870,545	74,275,418
- Financial assets at fair value through other comprehensive income	21	(4,364,155)	(2,974,000)
- Cost of hedges	21	(603,150)	350,773
Other comprehensive income for the year not reclassifiable to profit or loss			
- Actuarial gains/(losses) on provisions for employee benefits	21	1,398,106	825,777
COMPREHENSIVE INCOME FOR THE YEAR		**1,053,440,050**	**807,726,494**

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

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

(€)

	NOTE	31 DECEMBER 2022	31 DECEMBER 2021
A – NON-CURRENT ASSETS			
1. Property, plant and equipment	11	14,252,842,069	13,447,430,700
of which: related parties		*121,293,597*	*160,872,604*
2. Goodwill	12	190,228,231	190,228,231
3. Intangible assets	13	478,476,472	353,625,748
4. Deferred tax assets	14	69,861,565	109,342,277
5. Non-current financial assets	15	1,636,686,066	1,415,091,938
6. Other non-current assets	16	7,923,963	6,361,704
of which: related parties		*2,800,167*	*1,415,511*
Total non-current assets		**16,636,018,366**	**15,522,080,598**
B – CURRENTS ASSETS			
1. Trade receivables	17	2,179,392,711	2,633,333,626
of which: related parties		*343,259,089*	*309,176,439*
2. Current financial assets	15	255,177,882	980,574,975
3. Cash and cash equivalents	18	2,202,562,495	1,619,814,640
of which: related parties		*172,981,760*	*137,693,625*
4. Income tax assets	19	3,277,022	3,454,116
of which: related parties		*23,050,708*	*26,421,752*
5. Other current assets	16	53,590,269	21,018,618
Total current assets		**4,694,000,379**	**5,258,195,975**
C- Discontinued operations and assets held for sale	**20**	**-**	**23,044,212**
TOTAL ASSETS		**21,330,018,745**	**20,803,320,785**

(€)

	NOTE	31 DECEMBER 2022	31 DECEMBER 2021
D – EQUITY			
1. Share capital		442,198,240	442,198,240
2. Other reserves		1,888,190,860	684,132,325
3. Retained earnings/(accumulated losses)		2,794,828,077	2,665,343,879
4. Interim dividend		(213,260,151)	(197,381,214)
5. Profit for the year		834,138,704	735,248,526
Total equity	**21**	**5,746,095,730**	**4,329,541,756**
E – NON-CURRENT LIABILITIES			
1. Long-term borrowings	22	8,372,355,904	8,813,900,637
2. Employee benefits	23	10,330,998	12,320,918
3. Provisions for risks and charges	24	97,382,471	104,626,447
4. Non-current financial liabilities	22	247,170,043	83,661,191
5. Other non-current liabilities	25	397,089,647	346,621,805
of which: related parties		*25,323,200*	*27,325,796*
Total non-current liabilities		**9,124,329,063**	**9,361,130,998**
F – CURRENT LIABILITIES			
1. Short-term borrowings	22	419,496,075	1,917,570,334
2. Current portion of long-term borrowings	22	1,895,331,276	1,634,927,207
3. Trade payables	26	3,515,917,931	3,090,931,401
of which: related parties		*722,369,117*	*627,816,091*
4. Tax expense	26	50,819,421	33,912,907
5. Current financial liabilities	22	44,851,810	45,708,530
6. Other current liabilities	26	533,177,439	389,597,652
of which: related parties		*18,776,726*	*12,566,139*
Total current liabilities		**6,459,593,952**	**7,112,648,031**
TOTAL LIABILITIES AND EQUITY		**21,330,018,745**	**20,803,320,785**

Statement of changes in equity

31 December 2021 - 31 December 2022
Share Capital and Reserves of Terna S.p.A.

(€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	EQUITY
EQUITY AT 31 DECEMBER 2021	**442.2**	**88.4**	**20.0**	**(140.4)**	**(19.5)**		**735.6**	**2,665.4**	**(197.4)**	**735.2**	**4,329.5**
PROFIT FOR THE YEAR										**834.1**	**834.1**
OTHER COMPREHENSIVE INCOME:											
- Change in fair value of cash flow hedges				222.9							222.9
- Financial assets at fair value through other comprehensive income							(4.4)				(4.4)
- Cost of hedges				(0.6)							(0.6)
- Actuarial gains/(losses) on employee benefits							1.4				1.4
Total other comprehensive income				**222.3**			**(3.0)**				**219.3**
COMPREHENSIVE INCOME				**222.3**			**(3.0)**			**834.1**	**1,053.4**
TRANSACTIONS WITH SHAREHOLDERS:											
- Appropriation of profit for 2021											
- Retained earnings								*150.1*		*(150.1)*	
- Dividends									*197.4*	*(585.1)*	*(387.7)*
- Interim dividend 2022									(213.3)		(213.3)
- Purchase of treasury shares					(10.0)						(10.0)
Total transactions with shareholders					**(10.0)**			**150.1**	**(15.9)**	**(735.2)**	**(611.0)**
Share option reserve							5.8				5.8
Equity instruments – Perpetual hybrid bonds						989.0					989.0
Coupon payable to holders of hybrid bonds								(21.1)			(21.1)
Other changes								0.5			0.5
Total other changes						**989.0**	**5.8**	**(20.6)**			**974.2**
EQUITY AT 31 DECEMBER 2022	**442.2**	**88.4**	**20.0**	**81.9**	**(29.5)**	**989.0**	**738.4**	**2,794.9**	**(213.3)**	**834.1**	**5,746.1**

31 December 2020 - 31 December 2021
Share Capital and Reserves of Terna S.p.A.

(€m)

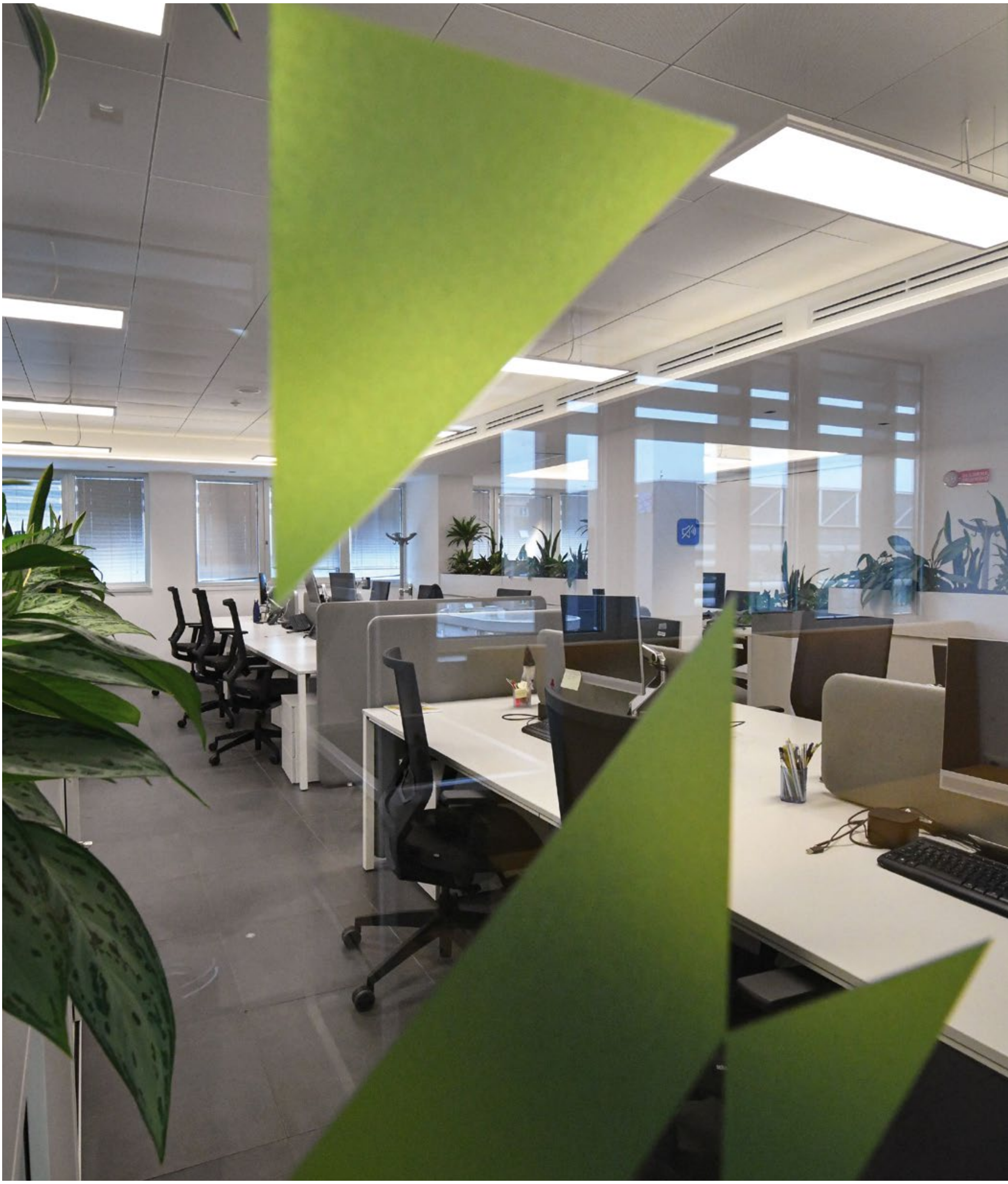
	SHARE CAPITAL	LEGAL RESERVE	SHARE PREMIUM RESERVE	CASH FLOW HEDGE RESERVE	RESERVE FOR TREASURY SHARES	OTHER RESERVES	RETAINED EARNINGS/ (ACCUMULATED LOSSES)	INTERIM DIVIDEND	PROFIT FOR THE YEAR	EQUITY
EQUITY AT 31 DECEMBER 2020	**442.2**	**88.4**	**20.0**	**(215.1)**	**(9.5)**	**733.8**	**2,518.9**	**(182.7)**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

Statement of cash flow

(€m)

	NOTE	2022	2021
PROFIT FOR THE YEAR		**834.1**	**735.2**
ADJUSTED BY:			
Amortisation, depreciation and impairment losses /(reversals of impairment losses) on non-current property, plant and equipment and intangible assets*		639.5	589.4
Accruals to provisions (including provisions for employee benefits) and impairment losses		27.8	18.7
(Gains)/Losses on sale of property, plant and equipment		(5.9)	(12.6)
Financial (income)/expense	8	88.9	79.9
Income tax expense	9	334.8	297.7
Other non-cash movements	21	5.8	4.0
CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN NET WORKING CAPITAL		**1,925.0**	**1,712.3**
Increase/(decrease) in provisions (including provisions for employee benefits and taxation)		(35.5)	(56.1)
(Increase)/decrease in trade receivables and other current assets		421.7	(1,528.9)
Increase/(decrease) in trade payables and other current liabilities		541.4	1.312.2
(Increase)/decrease in other non-current assets		76.6	(10.8)
Increase/(decrease) in other non-current liabilities		(155.0)	(59.3)
Interest income and other financial income received		62.6	51.6
Dividends collected	8	11.9	-
Interest expense and other financial expenses paid		(152.2)	(209.0)
Income tax paid		(344.8)	(285.5)
CASH FLOW FROM OPERATING ACTIVITIES [A]		**2,351.7**	**926.5**
of which: related parties		*31.4*	*(211.2)*
Purchase of non-current property, plant and equipment after grants collected	11	(1,358.1)	(1,206.1)
Proceeds from the sale of non-current property, plant and equipment and other movements		11.7	(0.1)
Purchase of non-current intangible assets	13	(210.7)	(128.3)
Intercompany (additions)/sales of property, plant and equipment		(16.5)	0.1
Capitalised financial expenses		24.8	10.8
(Increase)/decrease in investments		(0.5)	(5.4)
Movements in short- and medium/long-term financial investments		(350.5)	600.0
Proceeds from sale of companies		27.4	-
CASH FLOW FOR INVESTING ACTIVITIES [B]		**(1,872.4)**	**(729.0)**
of which: related parties		*39.6*	*(44.3)*
Movement in reserve for treasury shares	21	(10.0)	(10.0)
Movement in reserve for equity instruments	21	989.0	-
Dividends paid		(592.4)	(546.7)
Movements in short- and medium/long-term financial liabilities (including short-term portion)**		(283.1)	(472.9)
CASH FLOW FROM/(FOR) FINANCING ACTIVITIES [C]		**103.5**	**(1,029.6)**
INCREASE/(DECREASE) IN CASH AND EQUIVALENTS [A+B+C]		**582.8**	**(832.1)**
Cash and cash equivalents at beginning of year		1,619.8	2,451.9
Cash and cash equivalents at end of year		2,202.6	1,619.8

* *After grants related to assets recognised in the income statement for the year.*
** *After derivatives and impact of fair value adjustments, including cash movements in right-of-use assets.*



Notes

A. Accounting policies and measurement criteria

Introduction

Terna S.p.A., which provides electricity transmission and dispatching services, is a joint-stock company and its registered office is at Viale Egidio Galbani 70, Rome, Italy.

Publication of the separate financial statements was authorised by the Board of Directors on 22 March 2023.
The separate 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.
As of the financial statements for the year ended 31 December 2021, Terna 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 separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), as endorsed by the European Commission ("IFRS").

This document has also been prepared taking into account the provisions of Legislative Decree 38 of 28 February 2005 of the Italian Civil Code and CONSOB Resolutions 15519 ("Provisions governing financial statements in implementation of art. 9, paragraph 3 of Legislative Decree 38/2005") and 15520 ("Amendments to the implementing rules for Legislative Decree 58/1998"), as well as CONSOB Communication DEM/6064293 ("Disclosure requirements for listed issuers and issuers of financial instruments that are widely held among the public pursuant to art. 116 of the Consolidated Law on Finance").

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

Basis of presentation

The separate financial statements consist of the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes thereto.

In the statement of financial position, assets and liabilities are classified on a "current/non-current" basis, with separate reporting of assets and liabilities held for sale. Current assets, which include cash and cash equivalents, are those held for realisation, sale or consumption in the Company's normal operating cycle; current liabilities are those expected to be settled in the Company's normal operating cycle or within one year of the end of the financial year.

The income statement is classified on the basis of the nature of costs. The income statement is presented as two statements, the first of which (the income statement) presents revenue and expense items for the year; the second (the statement of comprehensive income) starts with the result for the year and then presents the revenue and expense items that are recognised in equity rather than profit or loss for the year.
The statement of cash flows has been prepared using the indirect method.

The separate financial statements are accompanied by the Integrated Report for Terna S.p.A. and the Group, which as from financial year 2008 have been prepared as a single document, exercising the option granted by Legislative Decree 32 of 2 February 2007, which amended art. 40 (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.

The separate financial statements are presented in euros, whilst amounts in the statement of changes in equity, the statement of cash flows and these notes are presented in millions of euros to the first decimal place, unless otherwise stated.
The separate financial statements have been prepared on a historical cost basis, with the exception of certain items that, in accordance with IFRS, are recognised at fair value, as indicated in the measurement criteria for individual items.
Given that the requirements of IFRS 5 have been met, gains and losses for 2022 and 2021 on the investment in the Uruguayan subsidiary involved in the planned sale of assets have been classified in the item "Profit/(Loss) for the year from discontinued operations and assets held for sale" in the reclassified income statement. The Uruguayan subsidiary was sold on 22 December 2022.

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

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

The assessment of external and systemic aspects are dealt with in an integrated manner at Group level. The Terna Group's considerations on the conflict in Ukraine, the macroeconomic environment and climate change are thus summarised below in a single note.

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 that are largely independent, the asset's recoverable amount is calculated as part of the Cash Generating Unit ("CGU") to which it belongs.
An impairment loss is recognised in the income statement when the asset's carrying amount, or the net invested capital of the CGU to which it belongs, is greater than its recoverable amount.
Impairment losses on CGUs are first taken as a reduction in the carrying amount of any allocated goodwill and then as a reduction in other assets allocated to the CGU on a pro rata basis. Except for goodwill, impairment losses may be reversed up to the recoverable amount or the original cost of the asset if there is an indication that the impairment loss no longer exists or when there is a change in the methods used to measure the recoverable amount.

Allowance for doubtful accounts

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

Provisions for risks and charges

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

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

Employee benefits

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

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 fare 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 the 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 CO2 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 CO2 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.

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. 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 Company developed a new Development Plan application and the digital platform called Terna4Green with a view to monitoring the progress made towards Italy's decarbonisation. Via these two new initiatives, Terna continues and strengthens its commitment to ever greater transparency and the spread of information and data, specific expertise and in-depth knowledge of the national electricity system.

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 previously 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.

Climate change and the subsequent adoption of policies designed to reduce CO2 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 Share Performance 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.

Investments in subsidiaries and associates

Investments in subsidiaries are investments where Terna has the power to directly or indirectly govern the financial and operating policies of the investee so as to obtain benefits from its activities. Associates are investees over which Terna exercises significant influence.

In assessing whether or not Terna has control or significant influence, being the ability to participate in the determination of these companies' financial and operating policies, without having control or joint control, potential voting rights that are exercisable or convertible are also taken into account.

Investments in subsidiaries and associates are recognised at cost, written down in the event of an impairment loss. If the circumstances that gave rise to the impairment cease to exist, the value of the investment is restored to the extent of the impairment loss recognised and the reversal is recognised in the income statement.

In the event that the loss attributable to the Company exceeds the carrying amount of the equity interest, and the Company is required to meet the legal or constructive obligations of the investee or, in any case, to cover its losses, any excess is recognised in a specific provision.

Joint arrangements

Investments in joint arrangements, in which the Company exercises joint control with other entities, are recognised initially at cost and subsequently measured using the equity method. The Company recognises its share of the assets and liabilities attributable to joint arrangements in accordance with IFRS 11.

In assessing the existence of joint control, it is ascertained whether the parties are bound by a contractual agreement and whether this agreement attributes to the parties the joint control of the agreement itself. Joint control exists when an entity has control over an arrangement on a contractual basis, and only when decisions relating to the relevant activities require the unanimous consent of all parties that jointly control the arrangement.

Translation of foreign currency items

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

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

Property, plant and equipment

Property, plant and equipment is recognised at historical cost, including costs directly attributable to preparing the asset for its intended use. In the event of legal or constructive obligations, cost also includes the present value of the estimated cost of dismantling or removing the asset. The corresponding liability is recognised in provisions for risks and charges.

Borrowing costs directly attributable to the purchase, construction or production of an asset that qualify for capitalisation pursuant to IAS 23 are capitalised as part of the cost of the asset. Costs incurred after purchase are recognised as an increase in the carrying amount of the asset to which they relate if it is probable that the future benefits of that cost will flow to the Company, and if the cost can be reliably measured. All other costs are expensed as incurred.

Each element of an item of property, plant and equipment of material value, with respect to the total value of the item to which it belongs, is recognised and depreciated separately.

Property, plant and equipment is shown net of accumulated depreciation and any impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful economic life of the asset, which is reviewed annually, with revisions applied on a prospective basis. Depreciation of an asset begins when the asset becomes available for use.

Liabilities associated with items of property, plant and equipment are taken to a specific provision as a contra account of the related asset. The amount is taken to the income statement through the depreciation of the asset.

Property, plant and equipment is written off either at the time of disposal or when no future economic benefit is expected from their use or disposal. Any profit or loss, recognised in the income statement, is determined as the difference between the net proceeds deriving from disposal and the net carrying amount of the assets eliminated.

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

Rates of depreciation

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

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

This asset class also includes right-of-use assets, recognised under IFRS 16, arising from lease arrangements where the Company is lessee and relating to the use of property, plant and equipment. A lease arrangement is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Applying this standard, the lessee recognises: (i) a right-of-use asset in its statement of financial position and a liability representing its obligation to make the payments provided for under the arrangement, for all leases with terms in excess of twelve months where the asset cannot be considered of low value (Terna has elected to apply the practical expedient provided for in the standard, recognising payments relating to arrangements that do not fall within the scope of this type of lease in the income statementhas); (ii) depreciation of the recognised assets and interest expense on the lease liability separately in the income statement.

In determining the lease term, the Group considers the non-cancellable period of the lease and the additional periods resulting from any options to extend the lease, or from the decision not to exercise the option to terminate the lease early (where there is reasonable certainty that such options will be exercised).

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

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

Intangible assets

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

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

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

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

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

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

Infrastructure rights

Infrastructure includes the property, plant and equipment and intangible assets employed in dispatching activities in Italy. These activities are carried out under concession arrangements, which fall within the scope of application of IFRIC 12, since the services provided are regulated and control exists over the residual interest. More specifically, infrastructure rights have been recognised as an intangible asset, as valued on the basis of the Intangible Asset model, given the return generated by dispatching activities thanks to the charges paid by users. These assets have a useful life of three years.

The revenue and costs relating to investment 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, corresponding with Terna S.p.A.'s regulated activities. Goodwill is not amortised after initial recognition but is adjusted to reflect impairment losses, measured as described above. Goodwill relating to investments in associates and joint ventures is included in the carrying amount of those companies. Where negative goodwill arises, it is recognised in the income statement at the time of acquisition.

Financial instruments

Financial assets

IFRS 9 – Financial Instruments, effective from 1 January 2018, is divided into the following phases: classification and measurement, derecognition, impairment and hedge accounting.
In order to classify and measure financial instruments, the Company recognises financial assets at fair value inclusive of transaction costs.
Financial assets represented by debt instruments, falling within the scope of application of the standard, may be measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss, depending on the business model adopted to manage the financial assets and the characteristics of the contractual cash flows.

In accordance with the provisions of IFRS 9, the Company correctly classifies these assets based on the results of co-called SSPI ("solely payments of principal and interest") tests. Under this test, assets may be recognised at amortised cost or fair value through other comprehensive income if they generate cash flows that are solely payments of principal and interest on the principal amount outstanding. This measurement is applied at the level of each individual instrument.

Specifically, the Company measures financial assets:

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

Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method. Receivables with due dates that reflect normal commercial terms are not discounted.
In accordance with the provisions of IFRS 9, the Company's trade receivables fall within the hold to collect business model, as these assets are held with the objective of collecting the cash flows primarily by collecting the contractual cash flows, the receivables primarily fall due within 12 months and do not include a significant financial component, and the Company does not intent to sell such receivables.

Trade receivables are recognised net of any losses recognised in a specific allowance for doubtful accounts (identified on the basis described in the paragraph, "Allowance for doubtful accounts"). The new standard, IFRS 9, has introduced application of a model based on expected credit losses. This requires the Company to assess expected credit losses, and the related changes, at each reporting date. Specifically, the Company has applied the simplified approach permitted by IFRS 9 to trade receivables, finance lease receivables and assets deriving from contracts with customers, in order to measure the allowance for doubtful accounts based on expected losses over the life of the receivable. The Company has thus determined the amount of expected credit losses using a provisioning matrix, based on information regarding historical credit losses for similar past due exposures, adjusted to take into account current conditions and forward-looking elements.

Cash and cash equivalents

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

Trade payables

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

Financial liabilities

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

Derivative financial instruments

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

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

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

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

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

When derivatives cover the risk of changes in the cash flows of the hedged instruments (cash flow hedges), the portion of changes in the fair value qualifying as effective is initially recognised in "Other comprehensive income" (accumulated in equity) and subsequently in profit or loss, as the cash flows from the hedged item affects profit or loss. The portion of the fair value of the hedging instrument that does not qualify as effective is recognised in profit or loss.

When hedging derivatives cover the risk of changes in the fair value of hedged instruments (fair value hedges), they are recognised at fair value in profit or loss. Accordingly, the hedged items are adjusted to reflect changes in the fair value associated with the hedged risk.

Changes in the fair value of derivatives that do not meet hedge accounting requirements in accordance with IFRS are recognised in profit or loss.

Fair value is measured on the basis of official quotations for instruments traded in regulated markets. The fair value of instruments not traded in regulated markets is measured by discounting projected cash flows along a yield curve prevailing in the market at the reporting date, and by translating amounts in currencies other than the euro at closing exchange rates.

Financial and non- financial contracts (which are not already measured at fair value) are also analysed to identify any embedded derivatives, which must be separated and measured at fair value.

This analysis is conducted at the time the entity becomes party to the contract or when the contract is renegotiated in a manner that produces a material change in the original associated cash flows.

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.

Employee benefits

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

Share-based payments

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

Provisions for risks and charges

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

Government grants

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

Revenue

The Company's revenue can be categorised as follows:

- **Revenue from sales and services**, including revenue from contracts with customers and therefore falling within the scope of IFRS 15.
  In accordance with the provisions of IFRS 15, revenue from contracts with customers is recognised when the performance obligations identified in the contract are satisfied and control over the goods or services is transferred to the customer for an amount that reflects the consideration that the Company expects to receive in exchange for the goods or services.
  The standard envisages two methods for identifying the correct time at which to recognise the revenue attributable to each performance obligation: at contract inception, the Company determines if the goods or services covered by the performance obligation will be transferred to the customer over a period of time or at a point in time:
  - Revenue from the sale of goods is recognised when control of the goods is transferred to the customer (at a point in time). The Company determines if there are other promises in the contract representing a performance obligation to which a part of the transaction consideration must be allocated. In determining the sale price, the Company takes into account the effects of a variable consideration, significant financial components, non-monetary components and amounts to be paid to the customer (if present);
  - Revenue from services is recognised with reference to the stage of completion of the activity, in accordance with the provisions of IFRS 15 (over a period of time).

  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 Company's ordinary activities.

Costs

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

Financial income and expenses

Financial expenses directly attributable to the acquisition, construction or production of an asset that qualify for capitalisation are capitalised as part of the cost of the asset. The property, plant and equipment and intangible assets involved are those that require at least one year in order to prepare them for use. The directly attributable financial expenses are expenses that would not have been incurred had the expenditure for the asset not been incurred.

Where funds are borrowed specifically, the costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings. Where loans are obtained for general purposes, the eligible amount is determined by applying a capitalisation rate to the expenditure on that asset equal to the weighted average of the financial expenses applicable to the borrowings outstanding for the year, excluding any specifically borrowed funds. The amount of capitalised financial expenses during a year will in any case not exceed the amount of financial expenses incurred during that year.
Capitalisation commences as from the date all the following conditions are first met: (a) expenditure has been incurred for the asset; (b) financial expenses have been incurred; and (c) the activities involved in preparing the asset for its intended use or sale are in progress. Capitalisation ceases when the activities involved in preparing the asset for its intended use or sale are substantially complete.
The average capitalisation rate used for 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.

Income taxes

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

Discontinued operations and assets held for sale

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

New accounting standards

International financial reporting standards effective as of 1 January 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 Company's financial statements.

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

At the date of approval of this document, the following standards, amendments or interpretations have yet to become effective and the Company 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 Company's 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 2021/2036, 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 Company will not opt for early adoption. The Company is currently assessing the potential impact of the introduction of these amendments on its 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 2022/1329, 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 Company will not opt for early adoption. The Company is currently assessing the potential impact of the introduction of these amendments on its 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 Company's financial statements.

International financial reporting standards, amendments and interpretations awaiting endorsement

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

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 Company is currently assessing the potential impact of the introduction of these amendments on its 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 income statements

Revenue

1. Revenue from sales and services - 2,459.7 million

(€m)

	2022	2021	Δ
Transmission charges billed to grid users and incentives	1,823.8	1,892.4	(68.6)
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	95.3	82.1	13.2
TOTAL	**2,459.7**	**2,146.8**	**312.9**

Transmission charges and incentives

This item, amounting to €1,823.8 million, includes revenue from the core business relating to the allowed return due to the Company for use of the National Transmission Grid.
The reduction in the item (down €68.6 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 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 €95.3 million mainly regards revenue from administrative, support and consultancy services provided to subsidiaries (€25.1 million, including €19.8 million from services rendered to Terna Rete Italia S.p.A.), from connections to the NTG (€8.7 million) and from Non-regulated Activities (€61.6 million), primarily support and housing services for fibre networks (€21.3 million) and progress on construction of the private Italy-Austria interconnector (€25.1 million).
The increase of €13.2 million compared with the previous year is primarily due to increased revenue reflecting the state of progress of work on the private Italy-Austria interconnector (up €2.6 million), from the Connectivity services provided by the Non-regulated business (up €2.2 million), from connections to the NTG (€3.3 million), from the O&M services provided under the Sacoi contract (up €2.9 million) and from subsidiaries (up €2.6 million), primarily due to administrative services following changes to the range of activities carried out, as well as other non-recurring items.

Pass-through revenue/expenses

This item regards "pass-through" revenue and expenses (the balance of which amounts to zero). These items result from purchases and sales of electricity from electricity market operators carried out each day. Measurements for each point of injection and withdrawal are taken and the differences, with respect to energy market schedules are calculated. These differences, known as imbalances, are then measured using algorithms established by the regulatory framework. The net charge resulting from calculation of the imbalances and the purchases and sales, carried out by Terna, on the DSM, is billed on a pro rata basis to each end consumer via a specific uplift payment. This item also reflects the portion of the transmission charge that Terna passes on to other grid owners.

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

(€m)

	2022	2021	CHANGE
Power Exchange-related revenue items	**11,308.4**	**6,506.8**	**4,801.6**
- Uplift	1,394.5	2,357.9	(963.4)
- 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
- Load Profiling for public lighting	1,833.5	264.6	1,568.9
- Charges for right to use transmission capacity and market coupling	1,160.0	438.6	721.4
- Interconnector/shippers	66.3	70.6	(4.3)
- Other Power Exchange-related pass-through revenue items	1,176.1	514.6	661.5
Total over-the-counter revenue items	**2,933.6**	**1,910.6**	**1,023.0**
- 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	146.6	156.0	(9.4)
- 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	**14,242.0**	**8,417.4**	**5,824.6**
Total Power Exchange-related cost items	**11,308.4**	**6,506.8**	**4,801.6**
- 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
- Load Profiling for public lighting	1,886.4	288.6	1,597.8
- Charges for right to use transmission capacity and market coupling	542.0	198.5	343.5
- Interconnectors/Shippers	874.7	200.8	673.9
- Other Power Exchange-related pass-through cost items	857.0	403.8	453.2
Total over-the-counter cost items	**2,933.6**	**1,910.6**	**1,023.0**
- 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	146.6	156.0	(9.4)
- 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	**14,242.0**	**8,417.4**	**5,824.6**

In 2022, the total uplift was approximately €1,789 million (provisional figure), 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

[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.

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]. Further details are provided in “Electricity market trends” in the section, “The Group’s business” in the Report on Operations.

2. Other revenue and income – €60.8 million

(€m)

	2022	2021	CHANGE
Payment for lease of operations	22.2	22.2	-
Sundry grants	8.9	8.5	0.4
Gains on sale of infrastructure components	5.1	4.3	0.8
Contingent assets	4.3	19.0	(14.7)
Sales to third parties	3.3	2.5	0.8
Rental income	3.0	2.8	0.2
Insurance proceeds as compensation for damages	2.9	1.2	1.7
Revenue from IRU contracts for fibre	0.9	8.6	(7.7)
Other revenues	10.2	8.2	2.0
TOTAL	**60.8**	**77.3**	**(16.5)**

The most significant components of “Other revenue and income” primarily regard the revenue received from the subsidiary, Terna Rete Italia S.p.A., as payment for the year made under the agreement for the lease of certain operations (€22.2 million), sundry grants (€8.9 million) in relation to the re-routing of lines for third parties, gains on the sale of infrastructure components (€5.1 million), the sale of IRU contracts for fibre (€0.9 million), in addition to other revenues and contingent assets totalling €14.5 million, including €7.7 million from subsidiaries for services rendered under existing intercompany contracts.
The reduction in this item of €16.5 million compared to the previous year primarily reflects 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 €7.7 million), partially offset by an increase in insurance proceeds as compensation for damage to infrastructure (up €1.7 million) and an increase in revenue from the subsidiary, Terna Rete Italia S.p.A. (up €1.3 million), primarily due to sureties.

[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.

Operating costs

3. Raw and consumable materials used - €6.4 million

This item, amounting to €6.4 million, includes the value of the various materials and supplies, including fuel for the vehicle fleet. This item is up €0.4 million compared with the previous year, broadly due to increased purchases of telecommunications equipment.

4. Services – €483.0 million

(€m)

	2022	2021	CHANGE
Intercompany services, including technical and administrative services	389.3	345.4	43.9
Maintenance and sundry services	51.2	40.8	10.4
Tender costs for plant	15.5	3.0	12.5
Lease expense	12.2	9.0	3.2
Insurance	9.6	9.8	(0.2)
IT services	4.5	3.5	1.0
Remote transmission and telecommunications	0.7	0.4	0.3
TOTAL	**483.0**	**411.9**	**71.1**

The item, “Intercompany services, including technical and administrative services” regards the accrued costs incurred under specific intercompany contracts (€389.3 million), largely regarding the subsidiary Terna Rete Italia S.p.A., which maintains and operates the infrastructure owned by the Company (€296.8 million), to investment in the development of the Company’s transmission and dispatching infrastructure (€48.5 million) and activities and services relating to plant owned by third parties (€19.5 million). This item also includes bonuses relating to the quality of the transmission service attributable to Terna Rete Italia S.p.A. (up €10.0 million).
Fees payable to members of the Board of Statutory Auditors amount to €0.2 million, whilst those payable to members of the Supervisory Board set up in compliance with Legislative Decree 231/2001 amount to €0.1 million.

After the costs recognised in application of IFRIC 12 for the development of dispatching infrastructure (up €21.4 million), the increase in “Services” amounts to €49.7 million. This primarily regards an increase in amounts payable to the subsidiary, Terna Rete Italia S.p.A. (up €34.0 million), relating to an increase in maintenance and operation services provided for the infrastructure owned by the Company following changes to the range of activities carried out, totalling €24.7 million, an increase in the performance bonus linked to the quality of the transmission service awarded to the company, amounting to €4.3 million, and an increase in amounts payable to the subsidiary, Terna Energy Solutions S.r.l. (up €2.2 million) regarding services provided in relation to Non-regulated Activities. There were also increases in provisions for right-of-way fees for power lines (up €4.2 million), in advertising costs (up €2.1 million), in the costs linked to Terna’s investments in GRIT and CORESO (up €1.5 million) and in membership fees (€1.7 million).

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

(€m)

	2022	2021	CHANGE
IT services	0.9	1.3	(0.4)
Tender costs for plant	14.6	2.3	12.3
Maintenance and sundry services	2.7	1.6	1.1
Cost of services relating to investment in dispatching infrastructure (IFRIC 12)	**18.2**	**5.2**	**13.0**
Cost of services recognised in application of IFRIC 12 – Services from Terna Rete Italia S.p.A.	43.8	35.4	8.4
Total cost of services relating to investment in dispatching infrastructure (IFRIC 12)	**62.0**	**40.6**	**21.4**

5. Personnel expenses - €102.3 million

(€m)

	2022	2021	CHANGE
Salaries, wages and other short-term benefits	96.1	78.4	17.7
Directors' remuneration	1.9	1.7	0.2
Termination benefits (TFR), energy discounts and other employee benefits	6.2	5.1	1.1
Early retirement incentives	12.6	3.3	9.3
Gross personnel expenses	***116.8***	***88.5***	***28.3***
Capitalised personnel expenses	(14.5)	(12.1)	(2.40)
TOTAL	**102.3**	**76.4**	**25.9**

Personnel expenses are up €25.9 million, primarily due to an increase in the average workforce and additional provisions for early retirement and staff incentive schemes.

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

(unit)

	AVERAGE WORKFORCE		WORKFORCE AT	
	2022	2021	31 DECEMBER 2022	31 DECEMBER 2021
Senior managers	51	45	49	46
Middle managers	319	279	326	308
Office staff	629	516	692	563
TOTAL	**999**	**840**	**1,067**	**917**

The net increase in the average workforce compared with 2021 is 159. This is essentially linked to the requirements relating to delivery of the investment programme provided for in the 2021-2025 Industrial Plan.

6. Amortisation, depreciation and impairment losses – €650.3 million

(€m)

	2022	2021	CHANGE
Amortisation of intangible assets	85.8	60.3	25.5
- of which rights on infrastructure	*26.7*	*18.2*	*8.5*
Depreciation of property, plant and equipment	557.4	527.2	30.2
Impairment losses on property, plant and equipment	7.0	0.3	6.7
Impairment losses on trade receivables	0.1	(2.0)	2.1
TOTAL	**650.3**	**585.8**	**64.5**

Amortisation, depreciation and impairment losses for the year amount to €650.3 million, an increase of €64.5 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 - €21.9 million

(€m)

	2022	2021	CHANGE
Indirect taxes and local taxes and levies	9.6	5.7	3.9
Fees paid to regulators and membership dues	9.1	7.0	2.1
Quality of service costs	1.9	5.9	(4.0)
- of which mitigation and sharing mechanisms	*1.6*	*4.9*	*(3.3)*
- of which Fund for Exceptional Events	*0.1*	*0.8*	*(0.7)*
- of which compensation mechanisms for HV users	*0.2*	*0.2*	*-*
Adjustment of provisions for litigation and disputes	(4.5)	(0.9)	(3.6)
Losses on sales/disposal of plant	0.1	0.2	(0.1)
Other	5.7	5.1	0.6
TOTAL	**21.9**	**23.0**	**(1.1)**

The most significant components of this item regard the costs incurred by the Company for membership dues and fees paid to trade bodies and associations relating to the Group's activities (€9.1 million), quality of service costs (€1.9 million), indirect taxes, local taxes and levies (€9.6 million, including €7.7 million in council tax) and other costs (€5.7 million), which include donations and other expenses.

The reduction €1.1 million is due essentially to the adjustment to provisions linked to amounts previously set aside in relation to Land Registry Circular 6/2012 and for litigation and disputes (down €3.6 million), in addition to a decrease in the costs incurred for quality of service (down €4.0 million), primarily linked to 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. These decreases were partially offset by increases in indirect taxes, local taxes and levies (up €3.9 million) and in the fees paid to regulators and membership dues (up €2.1 million).

8. Financial income/(expenses) – (€87.1) million

(€m)

	2022	2021	CHANGE
FINANCIAL EXPENSES			
Financial expenses attributable to subsidiaries	(7.9)	-	(7.9)
Interest expense on medium/long-term borrowings and related hedges	(137.3)	(102.9)	(34.4)
Discounting of termination benefits (*TFR*) and operating leases	-	(0.1)	0.1
Capitalised financial expenses	24.8	10.8	14.0
Other financial expenses	(5.3)	(0.6)	(4.7)
Total expenses	**(125.7)**	**(92.8)**	**(32.9)**
FINANCIAL INCOME			
Dividends from subsidiaries	10.4	-	10.4
Dividends from associates	1.5	-	1.5
Financial income from subsidiaries	2.3	0.4	1.9
Adjustments to bonds in issue and the related hedges	5.5	1.2	4.3
Discounting of employee benefits and operating leases	0.1	-	0.1
Interest income and other financial income	17.0	10.9	6.1
Translation differences	1.8	1.9	(0.1)
Total income	**38.6**	**14.4**	**24.2**
TOTAL	**(87.1)**	**(78.4)**	**(8.7)**

Net financial expenses for the year amount to €87.1 million, reflecting €125.7 million in financial expenses and €38.6 million in financial income. The increase in net financial expenses compared with the previous year, amounting to €8.7 million, primarily reflects the following:

- an increase in financial expenses of €34.4 million on medium/long-term debt primarily due to rising inflation;
- an increase in capitalised financial expenses (up €14.0 million) due to increased capital expenditure during the year ;
- an increase in financial expenses attributable to subsidiaries (up €7.9 million), primarily relating to the impairment loss on the investment in Terna Plus S.r.l. (€7.0 million) following an impairment test conducted at 31 December 2022 on the carrying amount of the investment;
- the collection of dividends from the subsidiaries, Terna Interconnector (€6.5 million) and Terna Gora (€3.9 million), and from the associate, CGES (€1.5 million);
- increased financial income on financial assets (up €6.1 million).

9. Income tax for the year – €334.8 million

(€m)

	2022	2021	CHANGE
Income tax for the year			
Current tax expense:			
- IRES (corporate income tax)	300.8	265.3	35.5
- IRAP (regional tax on productive activities)	65.8	57.5	8.3
Total current tax expense	**366.6**	**322.8**	**43.8**
New temporary differences:			
- deferred tax assets	(41.3)	(36.5)	(4.8)
Reversal of temporary differences:			
- deferred tax assets	11.7	14.2	(2.5)
Total deferred tax (income)/expense	**(29.6)**	**(22.3)**	**(7.3)**
Adjustments of taxes for previous years	(2.2)	(2.8)	0.6
TOTAL	**334.8**	**297.7**	**37.1**

Current income tax expense for the year of €366.6 million is up €43.8 million compared with the previous year, essentially reflecting the increase in pre-tax profit and the greater amount of tax-exempt income recognised during the previous year. Net deferred tax expense of €29.6 million is down €7.3 million, primarily due to the net effect of the reversal of temporary differences, primarily connected with the impact of taxation on depreciation and amortisation.
Adjustments to taxes for previous years, amounting to a reduction of €2.2 million, reflect the overpayment of current tax expense in previous years and have decreased by €0.6 million.

The effective tax charge for the year (€334.8 million) results in a tax rate of 28.6%, in line with 2021. For a clearer presentation of the differences between the theoretical and effective tax charges, the table below reconciles the theoretical and effective tax rates for the year.

(€m)

	TAXABLE INCOME	TAX	% CHANGE
Profit before tax	1,169.5		
IRES – Theoretical tax charge (rate of 24.0%)		280.7	
IRAP – theoretical tax charge (rate of 5.10% on the operating profit of €1,256.6 million)		64.1	
		344.8	
THEORETICAL TAX RATE			**29.5%**
Permanent differences in IRES			
Impairments		0.3	0.0%
Non-deductible remuneration		0.8	0.1%
Contingent assets and liabilities		0.2	0.0%
Other increases		2.5	0.2%
Accelerated depreciation		(4.9)	(0.4%)
Dividends		(1.8)	(0.2%)
Tax relief (ACE – *Aiuto alla Crescita Economica*)		(5.4)	(0.5%)
IRAP at a rate of 10%		(1.3)	(0.1%)
Permanent differences in IRAP			
Capitalised financial expenses		1.3	0.1%
Personnel expenses		0.3	0.1%
Other increases		0.2	0.0%
Effective tax rate after adjustments of taxes for previous years			**28.8%**
Income tax for previous years		(2.2)	(0.2%)
Total income tax expense for the year		***334.8***	
EFFECTIVE TAX RATE			**28.6%**

10. Profit/(Loss) for the year from discontinued operations and assets held for sale – (€0.6) million

This item regards the loss reported by the Uruguayan subsidiary, Difebal S.A., included in the sale of all the Terna Group's power line assets in Brazil, Peru and Uruguay under the agreement signed on 29 April 2022 with CDPQ[5], a global investment group. The transaction closing for the sale of Difebal S.A., which operates a power line in Uruguay, was completed on 22 December 2022.

The revenue and cost items resulting in the net result for the year from discontinued operations and assets held for sale, amounting to a loss of €0.6 million, are shown below:

(€m)

	2022	2021	CHANGE
Revenue	0.1	0.1	-
Operating costs	0.3	-	0.3
OPERATING PROFIT/(LOSS)	**(0.2)**	**0.1**	**(0.3)**
Financial income/(expenses), net	0.1	0.3	(0.2)
Reversals of impairment losses/(Impairment losses) on remeasurement of the fair value less costs to sell	1.8	(10.1)	11.9
PRE-TAX PROFIT/(LOSS)	**1.7**	**(9.7)**	**11.4**
Profit/(Loss) for the year attributable to Terna S.p.A.	**1.7**	**(9.7)**	**11.4**
Net loss on sale	(2.3)	-	(2.3)
Net profit/(loss) for the year attributable to discontinued operations and assets held for sale	**(0.6)**	**(9.7)**	**9.1**

The loss from discontinued operations and assets held for sale, totalling €0.6 million, is increase by €9.1 million on the figure for the previous year. This essentially reflects the adjustment to the value of the discontinued operations and assets held for sale recognised in application of IFRS 5, which in the previous year had resulted in an impairment loss (up €11.9 million). In addition, the sale of the subsidiaries resulted in recognition of a net loss of €2.3 million.

[5] Caisse de dépôt et placement du Québec.

C. Operating segments

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

D. Notes to the statement of financial position

Assets

11. Property, plant and equipment – €14,252.9 million

(€m)

	LAND	BUILDINGS	PLANT AND EQUIPMENT	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER ASSETS	ASSETS UNDER CONSTRUCTION AND PREPAYMENTS	TOTAL
COST AT 31 DECEMBER 2021	**132.4**	**2,106.6**	**18,628.1**	**120.8**	**195.5**	**1,836.0**	**23,019.4**
Investments	-	0.3	0.4	6.0	7.8	1,361.7	1,376.2
of which right-of-use assets	-	*0.3*	-	-	*1.0*	-	*1.3*
of which finance leased assets	-	-	*0.4*	-	-	-	*0.4*
Assets entering service	3.7	95.4	857.9	6.8	19.8	(983.6)	-
Intragroup purchases	-	-	18.7	-	-	3.2	21.9
Intercompany sales	-	-	(0.3)	-	-	-	(0.3)
of which finance leased assets	-	-	*(0.2)*	-	-	-	*(0.2)*
Disposals and impairments	-	(0.3)	(100.5)	(0.2)	(2.0)	(8.3)	(111.3)
of which right-of-use assets	-	*(0.2)*	-	-	*(0.4)*	-	*(0.6)*
of which finance leased assets	-	-	*(0.9)*	-	-	-	*(0.9)*
Other changes	1.3	(0.7)	(28.4)	-	-	8.1	(19.7)
COST AT 31 DECEMBER 2022	**137.4**	**2,201.3**	**19,375.9**	**133.4**	**221.1**	**2,217.1**	**24,286.2**
ACCUMULATED DEPRECIATION AND IMPAIRMENT AT 31 DECEMBER 2021	**(0.9)**	**(694.0)**	**(8,636.8)**	**(90.4)**	**(149.9)**	**-**	**(9,572.0)**
Depreciation for the year	(0.3)	(53.8)	(481.3)	(5.7)	(16.3)	-	(557.4)
of which right-of-use assets	*(0.3)*	*(1.4)*	-	-	*(0.6)*	-	*(2.3)*
of which finance leased assets	-	-	*(2.5)*	-	-	-	*(2.5)*
Intercompany sales	-	-	(5.1)	-	-	-	(5.1)
Disposals	-	0.1	99.0	0.2	1.9	-	101.2
of which right-of-use assets	-	*0.1*	-	-	*0.3*	-	*0.4*
of which finance leased assets	-	-	*0.7*	-	-	-	*0.7*
ACCUMULATED DEPRECIATION AND IMPAIRMENT AT 31 DECEMBER 2022	**(1.2)**	**(747.7)**	**(9,024.2)**	**(95.9)**	**(164.3)**	**-**	**(10,033.3)**
Carrying amount							
AT 31 DECEMBER 2022	**136.2**	**1,453.6**	**10,351.7**	**37.5**	**56.8**	**2,217.1**	**14,252.9**
of which right-of-use assets	*4.7*	*2.9*	-	-	*1.4*	-	*9.0*
of which finance leased assets	-	*0.6*	*18.3*	-	-	-	*18.9*
AT 31 DECEMBER 2021	**131.5**	**1,412.6**	**9,991.3**	**30.4**	**45.6**	**1,836.0**	**13,447.4**
of which right-of-use assets	*5.0*	*4.1*	-	-	*1.1*	-	*10.2*
of which finance leased assets	-	*0.6*	*20.8*	-	-	-	*21.4*
Change	**4.7**	**41.0**	**360.4**	**7.1**	**11.2**	**381.1**	**805.5**

“Property, plant and equipment” is up €805.5 million, compared 31 December 2021, broadly due to the following movements:

- investment of €1,376.2 million during the year, including €1,358.8 million in Regulated Activities;
- the purchase, on 14 July 2022, of 8 power lines and fibre cable installed on the lines from the subsidiary, Rete S.r.l., for a consideration of €16.8 million;
- amortisation and depreciation for the year (€557.4 million);
- other movements during the year in “Property, plant and equipment”, resulting in a reduction of €20.0 million. This includes 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) and disposals and impairment losses resulting in a reduction of €10.1 million.

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).

12. Goodwill – €190.2 million

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

Impairment testing

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

For impairment testing purposes, Terna S.p.A.’s Regulated Activities were considered to be a cash generating unit (CGU). Measurement of the recoverable value of the goodwill allocated to the transmission activities was based on fair value less costs of disposal. Determination of the carrying amount of the CGU represented by the NTG was based on Terna S.p.A.’s net invested capital at 31 December 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 Company, as the ratio between the enterprise value (the sum of the stock market capitalization and net debt) and the Company’s EBITDA. The result obtained is significantly higher than the carrying amount recognised in the financial statements inclusive of goodwill.

13. Intangible assets – €478.5 million

(€m)

	INFRASTRUCTURE RIGHTS	CONCESSIONS	OTHER ASSETS	ASSETS UNDER DEVELOPMENT AND PREPAYMENTS	TOTAL
Cost	525.2	135.4	406.2	73.2	1,140.0
Accumulated amortisation	(394.9)	(90.5)	(301.0)	-	(786.4)
BALANCE AT 31 DECEMBER 2021	**130.3**	**44.9**	**105.2**	**73.2**	**353.6**
Investments	-	-	-	210.7	210.7
Assets entering service	57.8	-	117.4	(175.2)	-
Amortisation for the year	(26.7)	(5.6)	(53.5)	-	(85.8)
BALANCE AT 31 DECEMBER 2022	**161.4**	**39.3**	**169.1**	**108.7**	**478.5**
Cost	583.0	135.4	523.7	108.7	1,350.8
Accumulated amortisation	(421.6)	(96.1)	(354.6)	-	(872.3)
BALANCE AT 31 DECEMBER 2022	**161.4**	**39.3**	**169.1**	**108.7**	**478.5**
Change	**31.1**	**(5.6)**	**63.9**	**35.5**	**124.9**

Intangible assets amount to €478.5 million and include:

- the infrastructure used in provision of the dispatching service in Italy accounted for in accordance with "IFRIC 12 – Service Concession Arrangements", with the carrying amount, at 31 December 2022 of infrastructure entering service during the year amounting to €161.4 million and of those under construction, included in the category "Assets under development and prepayments", amounting to €46.1 million (at 31 December 2021, the matching figures were €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. Investment in these assets during the year (€138.7 million) essentially regards internal development programmes.

The increase compared with the previous year (up €124.9 million) reflects the net effect of investment (€210.7 million, including €72.0 million in infrastructure rights) and amortisation (down €85.8 million).

Investment in intangible assets during the year (€210.7 million, entirely within the scope of 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).

14. Deferred tax assets – €69.9 million

(€m)

	31 DECEMBER 2021	PROVISIONS	USES AND OTHER MOVEMENTS	EFFECTS RECOGNISED IN COMPRE-HENSIVE INCOME	31 DECEMBER 2022
DEFERRED TAX ASSETS					
Property, plant and equipment	-	33.5	23.2	-	56.7
Provisions for risks and charges	17.0	3.1	(4.5)	-	15.6
Allowance for doubtful accounts	4.3	-	-	-	4.3
Amounts due to employees	(0.3)	4.7	(4.1)	(0.4)	(0.1)
Cash flow hedges and financial assets	44.0	-	-	(68.8)	(24.8)
Tax relief on goodwill	17.9	-	(3.0)	-	14.9
Other	6.4	-	-	-	6.4
TOTAL DEFERRED TAX ASSETS	**89.3**	**41.3**	**11.6**	**(69.2)**	**73.0**
DEFERRED TAX LIABILITIES					
Property, plant and equipment	23.2	-	(23.2)	-	-
Employee benefits and financial instruments	(3.1)	-	-	-	(3.1)
TOTAL DEFERRED TAX LIABILITIES	**20.1**	**-**	**(23.2)**	**-**	**(3.1)**
NET DEFFERRED TAX ASSETS	**109.4**	**41.3**	**(11.6)**	**(69.2)**	**69.9**

The balance of this item, amounting to €69.9 million, includes the net impact of movements in the Company's deferred tax assets and liabilities.

Deferred tax assets (€73.0 million) are down by a net €16.3 million compared with the previous year, reflecting the following movements:

- uses totalling €68.8 million, reflecting the tax effect on the comprehensive income statement, primarily of movements in cash flow hedges;
- provisions of €33.5 million due to provisions for accelerated depreciation, including the net release for accrued depreciation for the year and reclassification of the balance, amounting to €23.2 million;
- net uses of €1.4 million, relating to movements during the year in provisions for risks and charges, primarily due to the tax effect on the release of provisions for quality of service (€0.6 million);
- the release of deferred tax assets recognised in relation to tax relief on the goodwill resulting from the merger with Terna Rete Italia S.r.l. (€3.0 million).

Deferred tax liabilities of €3.1 million are down €23.2 million compared with the previous year, due to the use of previous provisions for accelerated depreciation, including the net release for depreciation for the year. This resulted in the positive balance reported in deferred tax assets, as described above.

15. Financial assets

(€m)

	MEASUREMENT	31 DECEMBER 2022	31 DECEMBER 2021	CHANGE
Investments in subsidiaries	at cost	1,097.7	1,104.2	(6.5)
Investments in associates	at cost	44.8	44.8	-
Guarantee deposits	Amortised cost	299.1	241.4	57.7
Government securities	FVTOCI	119.6	23.1	96.5
Cash flow hedges	FVTOCI	75.5	-	75.5
Fair value hedges	FVTPL	-	1.6	(1.6)
NON-CURRENT FINANCIAL ASSETS		**1,636.7**	**1,415.1**	**221.6**
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
Other current financial assets		4.8	17.8	(13.0)
CURRENT FINANCIAL ASSETS		**255.1**	**980.6**	**(725.5)**

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

The value of "Investments in subsidiaries" (€1,097.7 million) regards investments in Terna S.p.A.'s direct subsidiaries and is down €6.5 million compared with 31 December 2021. This primarily reflects the impairment loss on Terna Plus (down €7.0 million) following the impairment test conducted at 31 December 2022 on the carrying amount of the investment, offset by establishment of the new company, Terna Forward S.r.l. (up €0.5 million), a company engaged in the development of new technological solutions for use by the Terna Group.
The value of "Investments in associates" (€44.8 million) mainly regards the investments in CGES – CrnoGorski Elektroprenosni Sistem AD (€26.7 million), CESI S.p.A. (€17.5 million), CORESO S.A. (€0.2 million) and the joint operations, ELMED Etudes S.a.r.l. (€0.3 million) and Selene CC S.A. (€0.1million). The value of investments in associates at 31 December 2022 is in line with the value of the previous year.

The following table shows key information on investments in subsidiaries, associates and joint ventures owned directly by Terna S.p.A. at 31 December 2022. Amounts relate to the latest approved financial statements.

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST	CARRYING AMOUNT (€)
SUBSIDIARIES CONTROILLED DIRECTLY BY TERNA S.P.A.					
Terna Rete Italia S.p.A.	Rome	Euro	300,000	100%	21,461,425
Business	Design, construction, management, development, operation and maintenance of power lines and grid infrastructure and other grid-related infrastructure, plant and equipment used in the above electricity transmission and dispatching activities and in similar, related and connected sectors.				
Terna Crna Gora d.o.o.	Podgorica (Montenegro)	Euro	208,000,000	100%	208,000,000
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%	79,851,476
Business	Design, construction, management, development, operation and maintenance of plant, equipment and infrastructure for grids and systems, including distributed storage and pumping and/or storage systems.				
Terna Interconnector S.r.l.	Rome	Euro	10,000	65%*	19,926
Business	Responsible for construction and operation of the private section of the Italy-France interconnector and civil works on the public section.				
Rete S.r.l.	Rome	Euro	387,267,082	100%	775,559,948
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%	12,282,156
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%**	100
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%	510,000
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	CARRYING AMOUNT (€)
ASSOCIATES					
Cesi S.p.A.	Milan	Euro	8,550,000	42.698%	17,563,381
Business	Experimental research and provision of services related to electro-technology.				
Coreso S.A.	Brussels (Belgium)	Euro	1,000,000	15.84%	210,742
Business	Technical centre owned by several electricity transmission operators, responsible for coordinating joint operations of TSOs, in order to improve and upgrade the security and coordination of the electricity system in central and western Europe.				
CGES A.D.	Podgorica (Montenegro)	Euro	155,108,283	22.0889%	26,694,419
Business	Provision of transmission and dispatching services in Montenegro.				

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

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST	CARRYING AMOUNT (€)
JOINT VENTURES					
ELMED Etudes S.a.r.l.	Tunis (Tunisia)	Tunisian dinar	1,527,120	50%	274,917
Business	Conduct of preparatory studies for construction of the infrastructure required to connect the Tunisian and Italian electricity systems.				
SEleNe CC S.A.	Thessaloniki (Greece)	Euro	200,000	25%	50,000
Business	A technical centre owned by a number of transmission system operators, which acts as the regional security coordinator for the TSOs, with the aim of improving and upgrading the security and coordination of the electricity system in south-eastern Europe.				
Equigy B.V.	Arnhem (Netherlands)	Euro	50,000	20%	10,000
Business	Provision of support for electricity balancing by TSOs through the development and implementation of blockchain technology.				

This item also includes:

- guarantee deposits (€299.1 million), including the Interconnector Guarantee Fund (€143.5 million) set up to fund investment in interconnections by art. 32 of Law 99/09 and up €19.6 million compared with the previous year. Guarantee deposits also include €155.6 million received from operators participating in the capacity market in accordance with Resolution Del.98/2011/R/eel[6], as amended, registering an increase of €38.1 million compared with the previous year;
- 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; the value of the hedges was measured by discounting expected cash flows using market interest rates at the measurement date;
- the value of Italian government bonds (“BTP”), amounting to €119.6 million, maturing in May 2025 and paying interest at a rate of 1.4%, registering an increase of €96.5 million compared with 31 December 2021;

“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).

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

16. Other assets

(€m)

	31 DECEMBER 2022	31 DECEMBER 2021	CHANGE
Loans and advances to employees	3.8	3.7	0.1
Deposits with third parties	1.3	1.3	-
Non-current receivables due from subsidiaries	2.8	1.4	1.4
OTHER NON-CURRENT ASSETS	**7.9**	**6.4**	**1.5**
Other tax credits	28.7	4.9	23.8
Other current assets – Interconnector Guarantee Fund	3.1	3.6	(0.5)
Prepayments to suppliers	1.0	1.5	(0.5)
Prepayments of operating expenses and accrued operating income	9.2	8.9	0.3
Amounts due from others	11.6	2.1	9.5
OTHER CURRENT ASSETS	**53.6**	**21.0**	**32.6**

"Other non-current assets" amount to €7.9 million, an increase of €1.5 million compared with the previous year, essentially due to amounts due from subsidiaries recognised in relation to the new Performance Share Plan 2022-2026 (up €1.4 million).

"Other current assets" of €53.6 million are up €32.6 million compared with 31 December 2021, essentially reflecting:

- the change in "Other tax credits" (up €23.8 million), primarily reflecting an increase in refundable VAT (up €24.3 million);
- an increase of €9.5 million in "Amounts due from others", broadly due to other items to be settled recognized during the year and collected in early 2023.

17. Trade receivables – €2,179.4 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	63.6	22.5	41.1
Amounts due from subsidiaries	20.2	18.0	2.2
TRADE RECEIVABLES	**2,179.4**	**2,633.3**	**(453.9)**

Trade receivables amount to €2,179.4 million and are accounted for less any losses on items deemed not to be recoverable and recognised in the allowance for doubtful accounts (€19.6 million for energy-related receivables and €10.1 million for other items in 2022, compared with €33.2 million for energy-related items and €9.9 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 (€365.3 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[7] (€140.5 million);
- annual bonus related to the DSM incentive[8] (€194.2 million).

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 combined impact of:

- factoring transactions completed at the end of the year 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 – €63.6 million

Other trade receivables, totalling €63.6 million, are up €41.1 million compared with the previous year. This primarily reflects an increase in receivables resulting from Non-regulated Activities in the final quarter of the year.

Amounts due from subsidiaries – €20.2 million

This item, totalling €20.2 million, primarily regards the amount receivable from the subsidiary, Terna Rete Italia S.p.A. (€14.6 million), mainly relating to services provided in the last part of the year under existing contracts, primarily relating to the amount due on the business unit leased to this company (€6.4 million) and administrative services (€5.4 million). It also refers to amounts due from the subsidiary, Terna Plus S.r.l., for administrative services, advice and consulting services (€1.7 million) and from the subsidiary, Terna Energy Solutions S.r.l. (€1.6 million).
This item is up on the previous year (€2.2 million), broadly due to an increase in amounts due from the subsidiary, Terna Rete Italia S.p.A., for administrative services, advice and consulting services in the last part of the year (up €2.1 million), an increase in amounts due from the subsidiary, Terna Plus S.r.l. (up €1.7 million), reflecting receivables recognised in the last quarter in relation to charges for transaction costs incurred by the Company in relation to the sale of the South American companies, offset by a reduction in amounts due from the Tamini Group, amounting to €1.3 million.

[7] 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.
[8] 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.

18. Cash and cash equivalents – €2,202.6 million
Cash amounts to €2,202.6 million at 31 December 2022, including €1,510.6 million in liquidity invested in readily convertible short-term deposits and €692.0 million in net deposits in bank current accounts (including a net debit balance of €172.9 million on intercompany treasury accounts).

19. Income tax assets – €3.2 million
Income tax assets, amounting to €3.2 million, are down €0.3 million compared with the previous year, following the use of a portion of the existing assets when settling the taxation due for 2021.

20. Discontinued operations and assets held for sale
Discontinued operations and assets held for sale amount to zero following completion of the sale of the Uruguayan subsidiary to CDPQ on 22 December 2022.

(€m)

	31 DECEMBER 2022	31 DECEMBER 2021	CHANGE
Non-current financial assets	35.4	33.0	2.4
Trade receivables	-	0.1	(0.1)
Current financial assets	0.3	-	0.3
Impairment recognised on the remeasurement at fair value less costs to sell	(8.3)	(10.1)	1.8
TOTAL ASSETS	**27.4**	**23.0**	**4.4**
Proceeds from sale of Difebal S.A.	27.4	-	27.4
TOTAL DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE	**-**	**23.0**	**(23.0)**

The reduction of €23.0 million, equal to the amount at 31 December 2021, includes items receivable from the Uruguayan subsidiary, relating essentially to a loan granted by Terna and the investment after the adjustment to the value of these assets recognised in application of IFRS 5.

Equity and liabilities

21. Equity – €5,746.1 million

Share capital – €442.2 million

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

Legal reserve – €88.4 million

The legal reserve accounts for 20% of the Company's share capital and is unchanged with respect to the previous year.

Reserve for treasury shares - (€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 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 – €840.3 million

The other reserves have increased €225.1 million, reflecting other comprehensive income. This reflects:

- fair value adjustments to the Parent Company's cash flow hedges for variable rate loans (up €222.3 million, including the related hedging costs of €0.6 million, and after taking into account the related tax liability of €70.2 million);
- fair value adjustments to financial assets represented by government securities (down €4.4 million, after taking into account the related tax asset of €1.4 million);
- the change in actuarial gains and losses on provisions for employee benefits (up €1.4 million, taking into account the related taxation of €0.4 million).

Other reserves also reflect the change 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[9]).

Retained earnings and accumulated losses – €2,794.9 million

The increase in "Retained earnings and accumulated losses", amounting to €129.5 million, primarily regards the remaining portion of profit for 2021 (up €150.1 million), following the Parent Company's payment of the dividend for 2021 (totalling €585.1 million) and recognition of the interest accruing on the hybrid green bonds (down €21.1 million).

[9] 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.

Interim dividend for 2022 and 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.

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

(€m)

	31 DECEMBER 2022	POTENTIAL USE	AVAILABLE AMOUNT
Share capital	442.2	-	-
Legal reserve:			
- equity instruments – Perpetual hybrid bonds	989.0	-	-
- other	416.1	A, B, C	416.1
Revenue reserves:			
- legal reserve	88.4	B	88.4
- actuarial gains (losses) on employee benefits, cash flow hedges and financial assets after taxation	79.7	-	-
- reserve for share-based payments (LTI Plan)	11.0	-	-
- negative reserve for treasury shares	(29.5)	-	-
- other	333.5	A, B, C	333.5
Retained earnings and accumulated losses	2,794.9	A, B, C	2,794.9
Interim dividend	(213.3)	A, B, C	-
TOTAL	**4,912.0**		

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

The available amount includes €511.2 million in untaxed revenue reserves.

22. 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	3,293.4	1,888.3	1,405.1
LONG-TERM BORROWINGS	**8,372.3**	**8,813.9**	**(441.6)**
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	**419.5**	**1,917.6**	**(1,498.1)**
Bond issues	1,658.8	999.9	658.9
Bank borrowings	236.5	635.0	(398.5)
CURRENT PORTION OF LONG-TERM BORROWINGS	**1,895.3**	**1,634.9**	**260.4**
CURRENT FINANCIAL LIABILITIES	**44.9**	**45.7**	**(0.8)**
TOTAL	**10,979.2**	**12,495.8**	**(1,516.6)**

Borrowings and financial liabilities have decreased by €1,516.6 million compared with the previous year to €10,979.2 million.
The reduction in bond issues (down €1,187.8 million) essentially reflects repayment of a 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 2027:	XS2536846236	100.78	n.a.**
Bond maturity 2028:	XS1503131713	85.03	103.26
Bond maturity 2029:	XS2357205587	80.02	98.89
Bond maturity 2030:	XS2237901355	75.66	97.17
Bond maturity 2032:	XS2209023402	73.78	99.66

* *Source: BNP Paribas and Bloomberg.*
** *Not applicable.*

Compared with the previous year, bank borrowings are up €1,006.6 million, primarily due to the drawdown of new bank facilities, amounting to €1,800.0 million, after repayments of existing bank borrowings totalling €400.0 million and repayments on existing EIB loans. The change also reflects the adjustment of the fair value of these financial instruments.

Long-term borrowings

The table below shows movements in long-term debt during the year, including also the nominal amount:

(€m)

	31 DECEMBER 2021			REPAYMENTS CAPITALISATIONS	AND DRAWDOWNS	OTHER	CHANGE IN THE CARRYING AMOUNT	31 DECEMBER 2022		
	NOTIONAL DEBT	CARRYING AMOUNT	FAIR VALUE					NOTIONAL DEBT	CARRYING AMOUNT	FAIR VALUE
Bond maturing 2022	1,000.0	999.9	1,001.1	(1,000.0)	-	0.1	(999.9)	-	-	-
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	3,520.6
Lease liabilities	10.7	10.7	10.7	(2.5)	-	1.1	(1.4)	9.3	9.3	9.3
Total borrowings	**2,523.3**	**2,523.3**	**2,523.3**	**(635.7)**	**1,800.0**	**(157.7)**	**1,006.6**	**3,533.6**	**3,529.9**	**3,529.9**
Total debt	**10,347.4**	**10,448.8**	**10,743.0**	**(1,635.7)**	**1,900.0**	**(445.5)**	**(181.2)**	**10,525.6**	**10,267.6**	**10,088.3**

At 31 December 2022, Terna 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, represented by the market value based on prices at the reporting date.

The following table shows an analysis of bond issues and other borrowings by maturity, showing the related short-term portions, which do not include accrued interest payable at maturity.

(€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	-	-	-	-	-	-	-	-	4.90%	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)	1.00%	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)	0.88%	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)	1.60%	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)	0.75%	0.12%
	2032	470.4	353.6	-	500.0	-	-	-	-	-	500.0	(146.4)	0.13%	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 €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	0.1	-	-	-
Operating leases	10.6	9.4	2.1	7.3
TOTAL	**10.6**	**9.4**	**2.1**	**7.3**

At 31 December 2022, payments on operating leases recognised in application of IFRS 16 amount to €2.4 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 at 31 December 2022, reflect the fair value of fair value hedges.

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 – €419.5 million

"Short-term borrowings", amounting to €419.5 million at 31 December 2022, have decreased €1,498.1 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 essentially the value of net interest expense accrued on financial instruments and not yet paid. This item is down €0.8 million compared with the previous year.

(€m)

	31 DECEMBER 2022	31 DECEMBER 2021	CHANGE
Fair value hedges	0.8	-	0.8
DEFERRED LIABILITIES ON:			
Hedging derivatives	0.6	4.7	(4.1)
Bond issues	33.5	39.9	(6.4)
Borrowings	10	1.1	8.9
TOTAL	44.9	45.7	(0.8)

Net debt

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

(€m)

		31 DECEMBER 2022
A.	Cash	692.0
B.	Cash equivalents*	1,510.6
C.	Other current financial assets**	251.6
D.	**Liquidity (A) + (B) + (C)**	**2,454.2**
E.	Current financial liabilities (including debt instruments, but excluding the current portion of non-current financial liabilities)	420.3
F.	Current portion of non-current debt***	1,935.9
G.	**Current debt (D+E+F)**	**2,356.2**
H.	**Net current debt (G) - (D)**	**(98.0)**
I.	Non-current financial liabilities (excluding the current portion and debt instruments)****	3,540.6
J.	Debt instruments*****	5,003.4
K.	**Non-current net debt (I) + (J)**	**8,544.0**
L.	**Net debt (H) + (K)**	**8,446.0**

* *Corresponds with the item, "Cash and can 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 (€2.1 million) and the item, "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 €3.5 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 (€7.3 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).*

Information on the provisions in outstanding loan agreements at 31 December 2022 is provided in the notes to the consolidated financial statements.

22. Employee benefits – €10.3 million

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

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

Termination benefits (*TFR*) are payable to all employees, whilst employees hired by 30 June 1996 receive energy discounts, and employees (blue-collar workers, office staff and middle managers) employed prior to 24 July 2001 are due additional months' pay on termination.

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

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	1.0	(0.2)	-	-	-	0.8
Total	**1.0**	**(0.2)**	**-**	**-**	**-**	**0.8**
Termination benefits						
Deferred compensation benefits (TFR)	3.8	-	-	-	(0.1)	3.7
Energy discounts	0.2	-	-	(0.1)	0.1	0.2
Additional months' pay	0.5	-	-	-	-	0.5
Total	**4.5**	**-**	**-**	**(0.1)**	**-**	**4.4**
Post-employment benefits						
ASEM	6.8	0.3	0.1	(0.3)	(1.8)	5.1
Total	**6.8**	**0.3**	**0.1**	**(0.3)**	**(1.8)**	**5.1**
Total	**12.3**	**0.1**	**0.1**	**(0.4)**	**(1.8)**	**10.3**

This item, amounting to €10.3 million, is down €2.0 million compared with 31 December 2021, due primarily to the change in actuarial gains and losses (down €1.8 million).

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

(€m)

	LOYALTY BONUS	ASEM	TOTAL
Net impact recognised in profit or loss			
- current service cost	(0.2)	0.3	0.1
- interest income and expense	-	0.1	0.1
TOTAL RECOGNISED IN PROFIT OR LOSS	**(0.2)**	**0.4**	**0.2**

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

(€m)

	TFR	ENERGY DISCOUNTS	ASEM	TOTAL
Actuarial gain/(losses)				
- based on past experience	0.6	0.1	1.0	1.7
- due to changes in discount rate	(0.7)	-	(2.8)	(3.5)
TOTAL IMPACT ON COMPREHENSIVE INCOME	**(0.1)**	**0.1**	**(1.8)**	**(1.8)**

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 Iboxx Eurozone Corporates AA at 31 December 2022, matching the duration of the relevant group of plan participants.

(€m)

	LOYALTY BONUSES	*TFR*	ADDITIONAL MONTHS' PAY	ENERGY DISCOUNTS	ASEM
Discount rate	3.68%	3.77%	3.57%	3.63%	3.77%
Inflation rate	2.30%	2.30%	-	-	2.70%
Duration (in years)	17.03	7.04	4.51	3.48	15.99

(€m)

	LOYALTY BONUSES	*TFR*	ADDITIONAL MONTHS' PAY	ENERGY DISCOUNTS	ASEM	TOTAL
Discount rate +0.25%	0.7	3.7	0.4	0.3	5.0	**10.1**
Discount rate -0.25%	0.7	3.8	0.4	0.3	5.4	**10.6**
Inflation rate +0.25%	0.8	3.8	n/a	n/a	n/a	**4.6**
Inflation rate -0.25%	0.7	3.7	n/a	n/a	n/a	**4.4**
Annual rate of increase in health costs +3%	n/a	n/a	n/a	n/a	5.2	**5.2**
Annual rate of increase in health costs -3%	n/a	n/a	n/a	n/a	5.3	**5.3**

(€m)

	LOYALTY BONUSES	*TFR*	ADDITIONAL MONTHS' PAY	ENERGY DISCOUNTS	ASEM	TOTAL
By the end of 2023	-	0.4	0.2	0.3	0.3	**1.2**
By the end of 2024	-	0.3	0.1	0.1	0.3	**0.8**
By the end of 2025	0.1	0.6	-	0.1	0.4	**1.2**
By the end of 2026	0.1	0.5	-	-	0.4	**1.0**
By the end of 2027	0.1	0.1	-	-	0.4	**0.6**
After 5 years	0.5	1.8	0.2	(0.3)	3.3	**5.5**
TOTAL	**0.8**	**3.7**	**0.5**	**0.2**	**5.1**	**10.3**

24. Provisions for risks and charges – €97.4 million

(€m)

	PROVISIONS FOR LITIGATION AND DISPUTES	PROVISIONS FOR SUNDRY RISKS AND CHARGES	PROVISIONS FOR EARLY RETIREMENT INCENTIVES	TOTAL
Amount at 31 December 2021	**16.8**	**65.9**	**22.0**	**104.7**
New provisions	1.9	15.5	11.8	29.2
Uses and other movements	(7.4)	(22.2)	(6.9)	(36.5)
Amount at 31 December 2022	**11.3**	**59.2**	**26.9**	**97.4**

Provisions for litigation and disputes – €11.3 million

These provisions, set aside to cover outstanding liabilities that, at the end of the year, could result from court judgements and out-of-court settlements regarding the activities of Group companies, have been assessed partly on the basis of recommendations from internal and external legal advisors. The balance at 31 December 2022, totalling €11.3 million, primarily regards disputes involving the Company in relation to the payment of damages relating to operation and maintenance, requests for compensation for easements and labour and social security disputes. This is down €5.5 million compared with the previous year as a result of lower net provisions during the year.

Provisions for sundry risks and charges – €59.2 million

These provisions amount to €59.2 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.

Compared with the previous year, the provisions are down by a net €6.7 million, reflecting:

- net uses for staff incentive plans, totalling €1.9 million;
- net uses for urban and environmental restoration schemes (€4.4 million);
- a net decrease of €1.9 million in provisions linked to regulation of the quality of the electricity service (the mitigation and sharing mechanism introduced by ARERA Resolution 653/2015/R/eel) which, after provisions for estimated penalties linked to outages during the year, reflects payments to distribution companies and releases following final determination of the penalties due to previous years.

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 Company employees who have reached pensionable age and where the Company 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.

25. Other non-current liabilities – €397.1 million

This item, amounting to €397.1 million at 31 December 2022, regards the amount payable to Terna Rete Italia S.p.A., resulting from the transfer of net liabilities included in the operations leased to this subsidiary (€25.3 million), accrued grants related to assets receivable (€69.4 million) and the Interconnector Guarantee Fund (€146.8 million) set up by the 2016 Stability Law, in order to fund investment in interconnections by art. 32 of Law 99/09. This item also includes guarantee deposits received from operators participating in the capacity market and electricity market operators guaranteeing their obligations assumed in dispatching and virtual interconnection agreements (€155.6 million).

The increase in this item compared with the previous year, amounting to €50.5 million, essentially reflects an increase in the Interconnector Guarantee Fund (up €19.5 million) and an increase in the guarantee deposits received from operators and subsequent modifications and additions (up €38.1 million), after settlement of a part of the liabilities included in the leased business unit (down 2.0 million), with particular regard to the termination benefits (*TFR*) payable to personnel participating in the generational turnover plan, and the release of portions of grants related to assets (a reduction of €5.1 million).

26. Current liabilities

(€m)

	31 DECEMBER 2022	31 DECEMBER 2021	CHANGE
Short-term borrowings*	419.5	1,917.6	(1,498.1)
Current portion of long-term borrowings*	1,895.3	1,634.9	260.4
Trade payables	3,515.9	3,090.9	425.0
Tax liabilities	50.8	33.9	16.9
Current financial liabilities*	44.9	45.7	(0.8)
Other current liabilities	533.2	389.6	143.6
TOTAL	**6,459.6**	**7,112.6**	**(653.0)**

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

Trade payables – €3,515.9 million

(€m)

	31 DECEMBER 2022	31 DECEMBER 2021	CHANGE
Suppliers:			
- Energy-related payables	2,673.3	2,378.7	294.6
- Non-energy-related payables	150.7	115.3	35.4
Non-energy-related payables due to subsidiaries	688.5	594.9	93.6
Amounts due to associates	2.6	1.2	1.4
Payables resulting from contract work in progress	0.8	0.8	-
TOTAL	**3,515.9**	**3,090.9**	**425.0**

Suppliers

Energy-related/regulated payables

The increase of €294.6 million in this item compared with the end of 2021 essentially reflects energy-related pass-through payables (€253.4 million). The increase in these payables 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 in 2022[10];
- 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[11];

partly offset by:

- a reduction in payables linked to DSM transactions and services (€507.2 million) due to reduced selections for grid constraints[12] throughout most of the year.

Non-energy related payables

The exposure to suppliers regards invoices received and to be received for contract work, services and purchases of materials and equipment.

The increase compared with the previous year (up €35.4 million) is largely due to an increase in activity towards the end of the year.

Non-energy-related payables due to subsidiaries

This item, totalling €688.5 million, is up €93.6 million compared with the previous year, primarily due to the increased amount payable to Terna Rete Italia S.p.A. (up €93.7 million) as a result of the greater volume of capital expenditure carried out towards the end of the year, compared with the same period of 2021.

[10] 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.
[11] ARERA revised the method for settling amounts payable for virtual imports in resolutions 49/2022 and 93/2022.
[12] 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.

Amounts due to associates

This item, amounting to €2.6 million, is up €1.4 million compared with the previous year, reflecting a reduction in amounts payable to the associate, CESI S.p.A., for services provided to the Company, relating to electro technical studies and research.

The commitments assumed by the Company towards suppliers amount to approximately €337.7 million and regard purchase commitments linked to the normal "operating cycle" projected for the period 2023-2027.

Tax liabilities – €50.8 million

This item amounts to €50.8 million at 31 December 2022, an increase of €16.9 million compared with the balance at 31 December 2021, reflecting an increase in tax payable for the period (essentially due to the increase in pre-tax profit) after a reduction in payments on account made during the year.

Other current liabilities – €533.2 million

(€m)

	31 DECEMBER 2022	31 DECEMBER 2021	CHANGE
Prepayments	147.2	87.7	59.5
Other tax liabilities	84.5	84.6	(0.1)
Social security payables	7.7	6.6	1.1
Amounts due to personnel	14.2	14.7	(0.5)
Amounts due to subsidiaries	0.6	2.1	(1.5)
Other amounts due to third parties	279.0	193.9	85.1
TOTAL	**533.2**	**389.6**	**143.6**

Prepayments

This item (€147.2 million) regards grants related to assets collected by the Company to fund the construction of non-current assets in progress at 31 December 2022.

Compared with the balance at 31 December 2021 (€87.7 million), the balance is up €59.5 million, essentially due to the impact of grants deducted directly from the carrying amount of the related assets, totalling €16.8 million, and new prepayments from third parties.

Other tax liabilities

Other tax liabilities, amounting to €84.5 million, regard withholding tax payable on salaries paid at the end of the year, in addition to the balance of the Group's VAT at the end of the year.

This item is in line with the balance at 31 December 2021.

Social security payables

Social security payables, essentially relating to employee contributions payable to INPS (the National Institute of Social Security), amount to €7.7 million. This is broadly in line with the figure for the previous year.

Amounts due to personnel

Amounts due to personnel, amounting to €14.2 million, primarily regard:

- staff incentives and early retirement incentives payable in the subsequent year (€9.4 million);
- amounts due to employees in the form of accrued and unused annual leave and bank holiday entitlements (€3.8 million).

The decrease of €0.5 million in this item compared with the previous year primarily reflects the rise in amounts due to employees in the form of accrued and unused annual leave and bank holiday entitlements (up €0.7 million) and an increase in incentives payable to personnel (down €1.4 million).

Other amounts due to subsidiaries

Amounts due to subsidiaries, totalling €0.6 million, regard the amount payable to Terna Interconnector S.r.l., primarily in the form of compensation payable in relation to the interconnector with France (€0.6 million).
This item is down €1.5 million compared with the previous year, primarily due to recognition of the above VAT payable in the previous year, which was settled in early 2022.

Other payables due to third parties

Other payables due to third parties, amounting to €279.0 million, essentially relate to 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 deferred income (€12.9 million, primarily attributable to Non-regulated Activities), dividends payable (€18.9 million) and coupon interest payable to the holders of hybrid instruments issued during the year (€21.1 million).
The increase of €85.1 million in this item compared with 31 December 2021 essentially reflects the greater amount of guarantee deposits collected during the year (up €53.9 million), an increase in dividends payable (up €7.5 million) and the recognition of the coupon interest payable to the holders of hybrid instruments (€21.1 million).

E. Commitments and risks

Risk management

In the course of its operations, Terna is exposed to different financial risks: market risk, liquidity risk and credit risk.
This section provides information regarding Terna's exposure to all the above risks, along with a presentation of the objectives, policies and processes for managing those risks and the methods used to assess them, with further quantitative disclosures concerning the separate financial statements for 2022.

Terna's risk management policies seek to identify and analyse the risks that the Company is exposed to, establishing appropriate limits and controls and monitoring the risks and compliance with such limits. These policies and the related systems are reviewed on a regular basis, in order to take account of any changes in market conditions or in the Company's operations.
As a part of the financial risk management policies approved by the Board of Directors, Terna S.p.A. has established the responsibilities and operating procedures for financial risk management, specifically as concerns the instruments to be used and the precise operating limits to apply in managing them.
The main financial statement items exposed to the above risks are shown below.

(€m)

	31 DECEMBER 2022			31 DECEMBER 2021		
	RECEIVABLES AT AMORTISED COST	FAIR VALUE	TOTAL	RECEIVABLES AT AMORTISED COST	FAIR VALUE	TOTAL
Assets						
Derivative financial instruments	-	75.5	75.5	-	1.6	1.6
Cash on hand and government securities	2,202.6	366.5	2,569.1	1,619.8	981.5	2,601.3
Trade receivables	2,179.4	-	2,179.4	2,633.3	-	2,633.3
TOTAL	**4,382.0**	**442.0**	**4,824.0**	**4,253.1**	**983.1**	**5,236.2**

(€m)

	31 DECEMBER 2022			31 DECEMBER 2022		
	PAYABLES AT AMORTISED COST	FAIR VALUE	TOTAL	PAYABLES AT AMORTISED COST	FAIR VALUE	TOTAL
Liabilities						
Long-term debt	10,267.6	-	10,267.6	10,448.8	-	10,448.8
Derivative financial instruments	-	247.9	247.9	-	83.7	83.7
Trade payables	3,515.9	-	3,515.9	3,090.9	-	3,090.9
TOTAL	**13,783.5**	**247.9**	**14,031.4**	**13,539.7**	**83.7**	**13,623.4**

Market risk

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

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

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, Terna is exposed to the risk of fluctuations in interest rates. Its main source of interest rate risk is associated with its borrowings and the related hedges in the form of derivative instruments that generate financial expenses. Terna's borrowing strategy focuses on long-term borrowings, whose term reflects the useful life of the Company's assets. It pursues an interest rate risk hedging policy that aims to guarantee that the percentage of debt represented by fixed rate liabilities is at least 40%, as provided for in the relevant policies. Considering the low level of interest rates and the new regulatory review, all debt is now fixed rate.

At 31 December 2022, interest rate risk is hedged by cash flow hedges, which hedge the risk connected with movements in interest rates relating to long-term borrowings.
Below are the notional amounts and fair values of the derivative financial instruments entered into by Terna:

(€m)

	31 DECEMBER 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	75.5	3,241.0	(83.7)	(1,244.7)	159.2

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 €69.0 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 outstanding 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.
As a result:

- in the case of fair value hedges, changes in the fair value of the hedged item, attributable to the hedged risk, must be accounted for in profit or loss, where they are offset against changes in the fair value of the derivative;
- in the case of cash flow hedges, changes in the fair value of the derivative must be recognised in "Other comprehensive income" (recognising any ineffective portion immediately through profit or loss) and then recycled through profit or loss in the same period in which the cash flows of the hedged instrument materialise.

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

(€m)

	PROFIT OR LOSS			OCI		
	CURRENT RATES +10%	CURRENT VALUES	CURRENT RATES -10%	CURRENT RATES +10%	CURRENT VALUES	CURRENT RATES -10%
31 December 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 a partial hedge of net income; in fact, any decrease in expected revenue due to a decrease in the inflation rate would be offset by lower financial expenses 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 Company's exchange rate exposure. The instruments used by Terna are of limited complexity, highly liquid and easy to price, such as forwards and options. Such contracts have a notional amount and maturity date less than or equal to that of the underlying financial liability, or the expected cash flows, so that any change in the fair value and/or estimated cash flows deriving from a rise or fall in the euro against other currencies is fully offset by a corresponding change in the fair value and/or estimated cash flows of the underlying position.

At 31 December 2022, the component of financial instruments associated with exchange rate risk is residual in nature and attributable to the investments in Latin America.

Liquidity risk

Liquidity risk is the risk that Terna might encounter difficulty in discharging its obligations in respect of its financial liabilities and operating cycle. Liquidity risk management seeks to ensure adequate coverage of borrowing requirements by obtaining adequate lines of credit and appropriate management of any surplus liquidity.

At 31 December 2022, Terna has available short-term credit facilities of approximately €885 million (out of total facilities of approximately €995 million), revolving credit facilities of €3,150 million and facilities agreed.

Credit risk

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

The credit risk originated by open positions on transactions in derivatives is considered to be marginal since the counterparties, in compliance with the financial risk management policies adopted, are leading international banks with high ratings.

Terna provides its services essentially to counterparties considered solvent by the market, and therefore with a high credit standing, and does not have high concentrations of credit risk.

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

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

(€m)

	31 DECEMBER 2022	31 DECEMBER 2021	CHANGE
Derivative financial instruments	75.5	1.6	73.9
Cash and cash equivalents	2,202.6	1,619.8	582.8
Trade receivables	2,179.4	2,633.3	(453.9)
TOTAL	**4,457.5**	**4,254.7**	**202.8**

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 flow 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	2,030.4	2,139.2
Euro-area countries	140.4	466.8
Other countries	8.6	27.3
Total	**2,179.4**	**2,633.3**

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	682.0	1,288.0
Parties which have signed virtual import contracts and virtual import services (interconnectors and shippers)	11.8	13.8
Sundry receivables	92.3	42.2
Total	**2,179.4**	**2,633.3**

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

(€m)

	31 DECEMBER 2022		31 DECEMBER 2021	
	IMPAIRMENT	GROSS	IMPAIRMENT	GROSS
Current	(0.3)	1,974.2	(0.3)	2,576.9
0-30 days past due	-	18.2	0.1	24.9
31-120 days past due	(0.2)	51.1	(0.1)	6.1
Over 120 days past due	(29.2)	165.6	(42.8)	68.5
Total	**(29.7)**	**2,209.1**	**(43.1)**	**2,676.4**

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	(43.1)	(45.2)
Release of provisions	13.6	2.2
Impairments for the year	(0.2)	(0.1)
Balance at 31 December	**(29.7)**	**(43.1)**

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.

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

Default risk and debt covenants

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

Parent company guarantees issued on behalf of subsidiaries

The Company has issued parent company guarantees to third parties to guarantee the fulfilment of certain contractual obligations assumed by its subsidiaries, with the Company's maximum exposure at 31 December 2022 amounting to €1,271.51 million. This breaks down as follows: €459.21 for Terna Interconnector S.r.l., €658.1 million for Terna Rete Italia S.p.A., €88.3 million for Rete S.r.l., €12.3 million for Terna Perù S.r.l., €2.8 million for Terna energy solutions S.r.l , €1.1 million for Terna Plus S.r.l, €49.7 million for Linea Verde II.

Bank guarantees

Bank guarantees issued to third parties and on behalf of Group companies amount to €183.6 million at 31 December 2022 and break down as follows: €76.5 million on behalf of Terna S.p.A., €61.9 million on behalf of Terna Rete Italia S.p.A., €39.2 million on behalf of Terna Interconnector S.r.l., €0.1 million on behalf of Terna Plus S.r.l., €5.8 million on behalf of Terna Energy Solutions S.r.l and €0.1 million on behalf of Terna Chile S.r.l..

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 Company are described below.

Environmental and urban planning litigation

Part of environmental litigation deriving from the construction and operation of Terna's power plants, consists of legal actions taken against the alleged negative effects of electric and magnetic fields generated by power lines.
In general, this litigation necessarily involves the Company, which owns the infrastructure in question.
Moreover, it cannot be ruled out that the parties concerned may also initiate legal proceedings against the subsidiary Terna Rete Italia S.p.A., as the electromagnetism generated by power lines relates not only to ownership of the plant, but also to its operation and the quantity and quality of electricity it transports.
Regarding this matter, it should be noted that the issue of the Cabinet Office Decree of 8 July 2003 – which specifically set the values of the three parameters (exposure limits, safety thresholds and quality targets) provided for in Framework Law 36 of 22 February 2001, which electricity infrastructure must comply with – led to a significant reduction in any such litigation.
Other environmental and urban planning disputes, which do not relate to electromagnetic fields, are also pending with regard to Terna S.p.A.. These disputes are connected with the operation of certain Terna-owned plant, which in the event of an unfavourable outcome could also generate immediate effects for Terna Rete Italia S.p.A. (to date unforeseeable and therefore not included in "Provisions for litigation and sundry risks"), both as the entity appointed by Terna S.p.A. to build the related infrastructure and as the entity responsible for its operation. In particular, charges may arise for the subsidiary Terna Rete Italia S.p.A., connected with changes to the infrastructure involved in such disputes and its temporary unavailability. However, after examination of the disputes in question by Terna S.p.A. and external counsel appointed by the Company, it appears that the possibility of any negative outcomes is remote.

Litigation regarding the legitimacy of construction permits and plant operations

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

Litigation relating to activities carried out under concession

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

F. Business combinations

There were no business combinations in 2022.

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

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

Under the Terna Group's current organisational structure, the subsidiary, Terna Rete Italia S.p.A., which has entered into an agreement with the Company covering the lease of certain operations and a number of related intercompany agreements. In accordance with these arrangements, the subsidiary is responsible for the traditional activities involved in operation and routine and extraordinary maintenance of the owned portion of the NTG, and for management and implementation of the grid development initiatives included in the related concession arrangement for transmission and dispatching operations, as set out in Terna's Development Plan.

Terna is responsible for managing the operations of all its subsidiaries under specific service agreements which, in addition to covering administrative and financial coordination and the coordination of relations with government bodies and other institutions, give the Company the right to act on behalf of its subsidiaries, or in their name and on their behalf.

The Company's Non-regulated Activities are conducted in Italy and overseas through the subsidiaries, Terna Energy Solutions S.r.l. and Terna Plus S.r.l. under existing intercompany service agreements.

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

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

	DEPOSITS*	WITHDRAWALS
Terna Rete Italia S.p.A.	monthly average 1-month Euribor+0.30%	monthly average 1-month Euribor+0.80%
Rete S.r.l.	monthly average 1-month Euribor+0.30%	monthly average 1-month Euribor+0.80%
Terna Energy Solutions S.r.l.	monthly average 1-month Euribor+0.30%	monthly average 1-month Euribor+0.80%
Terna Plus S.r.l.	monthly average 1-month Euribor+0.30%	monthly average 1-month Euribor+0.80%
Avvenia the Energy Innovator S.r.l.	monthly average 1-month Euribor+0.30%	monthly average 1-month Euribor+0.80%

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

Existing intercompany agreements at 31 December 2022 are summarised below.

(€)

COUNTERPARTY	TYPE	ANNUAL FEE
Terna Rete Italia S.p.A.	**Service agreement:**	
	Operation & Maintenance	€296,766,176
	Upgrade and development	equal to costs incurred + allowed margin on personal expenses incurred
	Administrative, support and consultancy services	
	- from Terna S.p.A. to Terna Rete Italia S.p.A. (revenue-generating)	€19,819,654
	- from Terna Rete Italia S.p.A. to Terna S.p.A. (cost-generating)	€4,039,062
	Rental of workstations for staff	
	- from Terna S.p.A. to Terna Rete Italia S.p.A. (revenue-generating)	€559,163
	- from Terna Rete Italia S.p.A. to Terna S.p.A. (cost-generating)	€183,913
	Lease of operations	€22,190,000
Rete S.r.l.	**Service agreement:**	
	Upgrade and development	equal to costs incurred + 5.82% of personnel expenses incurred
	Admin. Support and consultancy service agreement (revenue-generating)	€1,340,001
Terna Plus S.r.l.	**Service agreement:**	
	Management fee (revenue-generating)	€164,293
	Rental of workstations for staff (revenue-generating)	€38,443
Terna Energy Solutions S.r.l.	**Service agreement:**	
	Terna's Non-regulated Activities (cost-generating)	€10,340,764
	Management fee (revenue-generating)	€979,612
	Rental of workstations for staff (revenue-generating)	€171,244
Tamini Group	**Service agreement**	
	Administrative service (revenue-generating	€274,653
	Technical services	equal to costs incurred + 5.82% of personnel expenses incurred
	Services provided by staff on secondment and on assignment (revenue-generating)	€278,522
Brugg Kabel AG	**Administrative Service agreement (revenue-generating)**	€96,666
	Services provided by staff on secondment and on assignment (revenue-generating)	€770,824
Terna Interconnector S.r.l.	**Administrative Service agreement (revenue-generating)**	€550,454
	Management and coordination of civil works for Italy-France Interconnector (cost-generating)	equal to costs incurred + 5.82% of personnel expenses incurred
Esperia CC S.r.l.	**Administrative Service agreement (revenue-generating)**	€127,390
	Services provided by staff on secondment and on assignment (revenue-generating)	€88,888
Terna Crna Gora d.o.o.	**Service agreement:**	
	Technical services	equal to costs incurred + 5.82%
	Administrative services	€49, 872
Avvenia The Energy Innovator S.r.l.	**Administrative service agreement (revenue-generating)**	€32,189
	Services provided by staff on secondment and on assignment (revenue-generating)	€54,526

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

The nature of sales and purchases from related parties[13] by the Company is shown below, followed by details of the revenue and costs resulting from such transactions during the year, and the related receivables and payables outstanding at 31 December 2022.

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

[13] The nature of the items related to centralised treasury management and the tax consolidation arrangement already described above are excluded from the table.

RELATED PARTY	REVENUE-GENERATING TRANSACTIONS	COST-GENERATING TRANSACTIONS
Other related parties		
GSE Group	Metering charge, dispatching charge	Rental of spaces and workstations
Enel Group	Transmission charge and aggregation of meter readings, dispatching charge, leases and rentals, power line maintenance, movement / re-routing of power lines, housing of fibre cable and maintenance of communications carried over proprietary power lines	Recovery of energy discount, building services, MV power to new substations, specialist services for connection to Terna's control and protection systems
Ferrovie Group	Dispatching charge, movement of power lines	Right-of-way fees
Open Fiber S.p.A.	IRU agreements for fibre	Provision of services for the rental of fibre
ENI Group	Dispatching charge	Contributions for NTG connections, sundry services
ANAS S.p.A.	Movement /re-routing of power lines	Right-of-way fees
Other related parties of the MEF		Sundry services
Fondenel and Fopen		Pension contributions payable by the Terna Group

Revenue and costs

(€m)

	REVENUE COMPONENTS			COST COMPONENTS
	TRANSMISSION CHARGE AND OTHER REVENUE FROM REGULATED ACTIVITIES	NON-ENERGY-RELATED ITEMS	DIVIDENDS	NON-ENERGY-RELATED ITEMS
Subsidiaries:				
Terna Rete Italia S.p.A.	-	48.8	-	379.8
SPE Transmissora de energia Linha Verde I S.A. (Brazil)	-	0.1	-	-
SPE Transmissora de energia Linha Verde II S.A. (Brazil)	-	0.3	-	-
Terna Perù S.A.C.	-	0.1	-	-
Terna Crna Gora d.o.o.	-	0.1	3.9	-
Terna Plus S.r.l.	-	0.9	-	7.0
Gruppo Tamini	-	0.4	-	-
Terna Energy Solutions S.r.l.	-	2.9	-	10.3
Rete S.r.l.	-	2.6	-	-
Terna Interconnector S.r.l.	-	0.7	6.5	-
Esperia CC S.r.l.	-	0.2	-	-
Avvenia The Energy Innovator S.r.l.	-	0.1	-	-
Brugg Kabel AG	-	1.3	-	-
Total subsidiaries	**-**	**58.5**	**10.4**	**397.1**
De facto parent:				
Cassa Depositi e Prestiti S.p.A.	-	-	-	1.0
Total de facto parent	**-**	**-**	**-**	**1.0**
Associates:				
Cesi S.p.A.	-	0.1	-	0.6
CGES	-	-	1.5	-
CORESO S.A.	-	-	-	4.2
Total associates	**-**	**0.1**	**1.5**	**4.8**
Other related parties:				
Gruppo GSE	11.5	-	-	-
Open Fiber S.p.A.	-	1.4	-	-
Gruppo Enel	1,679.6	1.0	-	0.1
Gruppo Eni	7.6	0.1	-	0.2
Gruppo Ferrovie	2.5	1.0	-	-
ANAS S.p.A.	-	-	-	0.5
Other related parties of MEF	-	0.1	-	0.8
Total other related parties	**1,701.2**	**3.6**	**-**	**1.6**
Pension funds:				
Fondenel	-	-	-	0.6
Fopen	-	-	-	0.6
Total pension funds	**-**	**-**	**-**	**1.2**
TOTAL	**1,701.2**	**62.2**	**11.9**	**405.7**

Assets and liabilities

(€m)

	PROPERTY, PLANT AND EQUIPMENT	RECEIVABLES AND OTHER ASSETS	PAYABLES AND OTHER LIABILITIES		
	CAPITALISED COSTS	OTHER	OTHER	BALANCE ON INTER-COMPANY TREASURY ACCOUNT AND CASH	GUARANTEES*
Subsidiaries:					
Terna Rete Italia S.p.A.*	91.9	26.3	711.4	(34.5)	-
Terna Gora	-	-	2.4	-	-
Terna Plus S.r.l.*	-	(0.9)	-	(7.6)	-
Tamini Group*	24.1	0.9	-	-	-
Terna Energy Solutions S.r.l.*	-	1.7	2.2	142.6	-
Rete S.r.l.*	-	17.0	21.4	66.9	-
Terna Interconnector S.r.l.	0.7	0.2	0.6	-	-
Avvenia The Energy Innovator S.r.l.*	-	(0.1)	0.1	5.5	-
Total subsidiaries	**116.7**	**45.1**	**738.1**	**172.9**	**-**
De facto parent:					
Cassa Depositi e Prestiti S.p.A.	-	-	0.9	-	-
Total de facto parent	**-**	**-**	**0.9**	**-**	**-**
Associates:					
Cesi S.p.A.	3.4	0.1	2.6	-	0.4
CORESO S.A.	-	-	-	-	-
Total associates	**3.4**	**0.1**	**2.6**	**-**	**0.4**
Other related parties:					
GSE Group	0.1	1.5	0.1	-	-
Open Fiber S.p.A.	-	0.5	-	-	-
Enel Group	0.2	314.2	15.0	-	754.7
Eni Group	-	1.3	1.0	-	111.7
Ferrovie Group	-	2.3	1.5	-	24.3
ANAS S.p.A.	0.3	2.5	3.8	-	-
Other related parties of the MEF	0.6	1.6	3.0	0.1	0.8
Total other related parties	**1.2**	**323.9**	**24.4**	**0.1**	**891.5**
Pension funds:					
Fopen	-	-	0.5	-	-
Total pension funds	**-**	**-**	**0.5**	**-**	**-**
TOTAL	**121.3**	**369.1**	**766.5**	**173.0**	**891.9**

* *The balances for the item, "Other", include receivables and payables relating to the tax consolidation arrangement for IRES.*
** *Guarantees regard surety bonds received from contractors, with the exception of the amount relating to Cassa Depositi e Prestiti S.p.A. regarding a Revolving Credit Facility.*

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

Statement of financial position

(€m)

	31 DECEMBER 2022			31 DECEMBER 2021		
	TOTAL	RELATED PARTIES	% SHARE	TOTAL	RELATED PARTIES	% SHARE
Property, plant and equipment	14,253	121.3	0.9%	13,447	160.9	1.2%
Non-current financial assets	1,415.1	-	-	1,415.1	-	-
Other non-current assets	7.9	2.8	35.4%	6.4	1.4	21.9%
Trade receivables	2,179.4	343.2	15.7%	2,633.3	309.2	11.7%
Cash and cash equivalents	2,202.6	173.0	7.9%	1,619.8	137.7	8.5%
Tax assets*	3.2	23.1	721.9%	3.5	26.4	754.3%
Other current assets	53.6	-	-	21.0	-	-
Other non-current liabilities	397.1	25.3	6.4%	346.6	27.3	7.9%
Trade payables	3,515.9	722.4	20.5%	3,090.9	627.8	20.3%
Tax liabilities*	50.8	-	-	33.9	-	-
Other current liabilities	533.2	18.8	3.5%	389.6	12.6	3.2%

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

Income statement

(€m)

	31 DECEMBER 2022			31 DECEMBER 2021		
	TOTAL	RELATED PARTIES	% SHARE	TOTAL	RELATED PARTIES	% SHARE
Revenue from sales and services	2,459.7	1,701.2	69.2%	2,146.8	1,757.4	81.9%
Other revenue and income	60.8	33.1	54.4%	77.3	31.3	40.5%
Raw and consumable materials used	6.4	-	-	6.0	-	-
Services	483.0	396.6	82.1%	411.9	350.6	85.1%
Personnel expenses	102.3	1.2	1.2%	76.4	1.1	1.4%
Other operating costs	21.9	0.1	0.5%	23.0	0.1	0.4%
Financial income	38.6	14.2	36.8%	(78.4)	0.4	(0.5%)
Financial expenses	(125.7)	7.9	(6.3%)	-	-	-

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	2.351.7	31.4	1.3%	926.5	(211.2)	(22.8%)
Cash flow from investing activities	(1,872.4)	39.6	(2.1%)	(729.0)	(44.3)	6.1%
Cash flow from financing activities	103.5	-	-	(1,029.6)	-	-

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

No significant non-recurring, atypical or unusual events or transactions, involving either third or related parties, took place in 2022.

I. Notes to the statement of cash flows

Cash flow from **continuing operations** amounts to €2,351.7 million, with approximately €1,925.0 million in operating cash flow and an inflow of approximately €426.7 million generated by changes in net working capital.

The cash outflow for **investing activities** totals €1,927.2 million and regards €1,358.1 million relating to investment in property, plant and equipment (excluding right-of-use assets recognised in application of IFRS 16), €210.7 million invested in intangible assets and €350.5 million reflecting the change in investments in securities, after €27.4 million in proceeds from the aforementioned sale of the Uruguayan subsidiary and capitalised financial expenses of €24.8 million.
The change in **equity** amounts to an increase of €386.6 million, due primarily to recognition of the reserve for the hybrid green bond, totalling €989.0 million. This was partly offset by payment of the final dividend for 2021 and the interim dividend for 2022 to the Company's shareholders (€592.4 million). More details are provided in note "21. Equity".
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 €1,485.8 million, covered entirely by cash flow from continuing operations of €2,351.7 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)	10,448.8	264.3	(445.5)	10,267.6
- Short-term borrowings	1,917.6	(547.4)	(950.7)	419.5
Net change deriving from financing activities	**12,366.4**	**(283.1)**	**(1,396.2)**	**10,687.1**

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

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

In line with the above, the following table shows government grants collected/disbursed by Terna S.p.A. 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)

	BENEFICIARY					
GRANTOR	NAME	TAX CODE	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
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
Total					**693,049**	

M. Proposal for appropriation of profit for the year

Terna S.p.A.'s Board of Directors proposes to pay a total dividend of €631,941,484.80 for 2022, equal to €0.3144 per share, of which €0.1061 per share was declared in the form of an interim dividend on 9 November 2022.

The Board of Directors thus proposes to appropriate Terna S.p.A.'s profit for 2022, amounting to €834,138,704.35, as follows:

- €213,260,151.2 to cover payment of the interim dividend payable from 23 November 2022 to the holders of each of the ordinary shares outstanding after adjusting for the treasury shares held at the record date of 22 November 2022 (with the relevant amount of €464,283.94 taken to retained earnings);
- €418,681,333.6 maximum to pay a final dividend of €0.2083 to the holders of each of the 2,009,992,000 ordinary shares representing the share capital at the date of this Board of Directors' meeting. The final dividend will be payable on 21 June 2023, with an ex-dividend date for coupon 38 of 19 June 2023 (a record date, as defined by art. 83-terdecies of Legislative Decree 58 of 24 February 1998, the Consolidated Law on Finance, of 20 June 2023). The treasury shares held as of the above record date will not participate in the distribution. The final dividend for 2022 attributable to the treasury shares held by the Company at the record date will be taken to retained earnings;
- €202,197,219.55 to be taken to retained earnings.

N. 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 run 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 operational 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 nel 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**. 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 launch 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 CO_2 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 26,000m^2 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 9,000m^2 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 tress 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 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 500kVundersea 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 CO_2 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 by Terna S.p.A.'s independent auditors in 2022.

(€)

	ENTITY PROVIDING SERVICE	FEES DUE FOR THE YEAR
Audit of the accounts and financial statements	Deloitte & Touche S.p.A.	222,933
Attestation services and other services[14]	Deloitte & Touche S.p.A.	116,263
Total		**339,136**

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

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Cap. Soc. 442.198.240 Euro interamente versato

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

"Terna SpA"

1. The undersigned, Stefano Antonio Donnarumma, as Chief Executive Officer, and Agostino Scornajenchi, as Manager responsible for Terna SpA's financial reporting, having also taken account of the provisions of art.154-*bis*, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998, attest to:
   - the adequacy with regard to the nature of the Company, and
   - the effective application of the administrative and accounting procedures adopted in preparation of the separate financial statements during the year ended 31 December 2022.
2. The administrative and accounting procedures adopted in preparation of the separate 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 separate 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.

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

Rome, 22 March 2023

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

CERTIFICAZIONI, ACCREDITAMENTI E ATTESTAZIONI SOA

Report of the Board of Statutory Auditors

to the Annual General Meeting of Terna S.p.A.'s shareholders

BOARD OF STATUTORY AUDITORS' REPORT

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

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

Dear Shareholders,

this report, prepared under the terms of art. 153 of Legislative Decree 58/1998 (CLF) and art. 2429 of the Italian Civil Code, details the activities of the Board of Statutory Auditors of Terna S.p.A. ("Terna" or also the "Company") during the year ended 31 December 2022. The report has been prepared in compliance with the applicable legislation, taking into account the "Standards of Conduct for the Boards of Statutory Auditors of Listed Companies" recommended by the Italian Association of Chartered Accountants ("Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili"), the requirements of CONSOB (the "Commissione Nazionale per le Società e la Borsa", Italy's Securities and Exchange Commission) regarding corporate controls and the guidelines contained in the *Corporate Governance* Code published by Borsa Italiana.

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

The current Board of Statutory Auditors was elected by the Annual General Meeting of Terna Shareholders held on 18 May 2020 and will remain in office until approval of the financial statements for the year ended 31 December 2022. During 2022, the Board of Statutory Auditors performed its responsibilities holding 18 meetings. During the same financial year, the Chairperson of the Board of Statutory Auditors or its members attended 12 meetings of the Board of Directors, 10 meetings of the Audit, Risk, Corporate Governance and Sustainability Committee (hereinafter the "Audit and Risk Committee"), 6 meetings of the Appointments Committee, 9 meetings of the Remuneration Committee and 6 meetings of the Related-Party-Transactions Committee, in addition to the Annual General Meeting of Shareholders held on 29 April 2022.

During the year, the Board of Statutory Auditors, together with the Audit and Risk Committee, met the Supervisory Board ("Organismo di Vigilanza") in order to exchange information.

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

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

1. OVERSIGHT ACTIVITIES

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

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

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

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

Furthermore, transactions involving a potential conflict of interest were managed and approved in compliance with the law, the relevant regulations, the Articles of Association and the Guidelines LG006 "*Approval of Significant Transactions and Management of Situations of Interest*".

During the year, the Board has monitored the correct application of the *Corporate Governance* Code and, specifically, confirms implementation of the recommendations announced by the Chairwoman of the Corporate Governance Committee for 2022.

Due to their significance, the Board of Statutory Auditors notes the following key events during the year, referring readers to the Report on Operations for more detailed information:

- **Entry into service of new lines**: during the course of 2022, Terna continued developing the national grid via all the main investment projects supporting the energy transition and, during that year, 192 km of lines and 5 new stations part of the National Transmission Grid (NTG) have become operational;
- Launch of the **authorization process** by the Italian Ministry of the Environment and Energy Security for **Terna's new electricity connection between Italy and Tunisia** for the creation of a 600 MW direct current undersea energy bridge that will form the link between Europe and Africa;
- **Tyrrhenian Link:** the authorisation procedure for the **East Branch,** that will connect Campania and Sicily, was concluded and the authorisation procedure for the West Branch, which will connect Sicily and Sardinia and that should be concluded by the end of 2023, was initiated;
- **Adriatic Link:** the start of the authorisation procedure for the new undersea power line which will connect Abruzzo and Marche, was initiated in late 2022;
- **2021-2025 Business Plan**: on 24 March 2022, the Board of Directors approved the update of the 2021-2025 business Plan;
- **Hybrid Green Bond**: on 2 February 2022, Terna launched a new "green non-convertible hybrid subordinate perpetual bond" destined to institutional investors and worth €1 billion;
- ***ESG linked Term Loan***: on 28 February 2022, Terna signed a bilateral ESG-Linked Term Loan for a total of € 300 million with Intesa Sanpaolo - IMI Corporate & Investment Banking Division as the Original Lender and Sustainability Coordinator having a term of 2 years and an interest rate linked to Terna's performance in relation to specific environmental, social and governance (ESG) indicators;
- ***ESG-linked Credit Facility Agreement***: on 3 August, 22 September and 11 October 2022, Terna respectively signed four ESG-linked Credit Facility Agreements for a total €600 million and having a term of three years. The interest rate of the ESG-linked Credit Facility Agreements is linked to Terna's performance in relation to specific environmental, social and governance (ESG) indicators;
- **Issue of bond**: on 15 September 2022, Terna launched a bond issue in Euro, at a fixed rate, in the form of a private placement for a total of €100 million as part of its Euro Medium Term Notes (EMTN) Programme, with a duration of five years and an annual coupon equal to 3.44%;

- **European Bank Financing**: the European Investment Bank (EIB) made available a total amount of €1.90 billion to the Tyrrhenian Link. On 8 November 2022, the first *tranche* was signed equal to €500 million and having a duration of approximately 22 years, destined to support the construction and commissioning of the so-called "East Branch" of the "Tyrrhenian Link";
- **Ordinary interim dividend for 2022**: on 9 November 2022, the Company's Board of Directors, having obtained the Independent Auditors' opinion required by art. 2433-*bis* of the Italian Civil Code, decided to pay an ordinary interim dividend for 2022 of of 10.61 euro cents per share, up 8% with respect to the previous year and payable from 23 November 2022;
- **Latam**: on 7 November and 22 December 2022, the first two *closings* concerning the sale of Terna's electricity transmission activities in South America to CDPQ were finalized, concerning the first three projects in Brazil ("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 covering 670km in total) and the project in Uruguay ("Difebal S.A.") worth over €172 million, in execution of the preliminary agreement signed on 29 April 2022 for the transfer of the entire power line portfolio in Brazil, Peru and Uruguay for a total value of over €265 million;

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

- on 23 January 2023 a non-executive and independent Director resigned from the office with effect as of the same date, following his appointment by Parliament in joint session to the Superior Council of the Judiciary. No replacement was made as the renewal deadline of the board was almost due;

- on 15 March 2023 the 2023 Development Plan of the national transmission grid involving over €21 billion in investments over the next 10 years was presented;

- on 30 March 2023 Terna signed the contracts for the second and third *tranches* of the €1.9 billion investments for the Tyrrhenian Link with the European Investment Bank (EIB). The financings stipulated on 30 March 2023 represent a further two tranches totalling € 900 million for the construction and commissioning of the "East and West Branches" of the Tyrrhenian Link;

- on 22 March 2023 the Board of Directors approved the "2022 Annual Financial Report", which includes the "2022 Integrated Report" – combining the Report on Operations, the Sustainability Report and the Consolidated Non-Financial Statement –, the Consolidated Financial Statements for the year ended 31 December 2022, the Annual Financial Statements of the Parent Company for the year ended 31 December 2022 and the 2022 Green Bond Report, into a single document.

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

In relation to the New Corporate Governance Code, please also note that:

- on 26 January 2022 the Company updated the procedure indicating the "*Application Criteria and Procedure for assessing the independence (under the terms of art. 2 of the Corporate Governance Code)*", whose main part describes the criteria adopted by the Company to assess the "significance" perimeter (pursuant to Recommendation no. 7, lett. c) and d) of the Code) of commercial, financial and professional relations as well as of the additional remuneration compromising the independence of directors and statutory auditors receiving them;
- on 28 July 2022 the Board of Directors revised and updated the "*Guidelines on the functioning of the Board of Directors*";
- on 1 March 2023 the Board of Directors adopted the "*Diversity Policy for Administrative and Auditing Bodies of TERNA S.p.A.*". On the same date, the Board of Directors also approved the "*Guidelines from the Board of Directors of TERNA S.p.A. to shareholders on the size and composition of the new board of directors*" and updated the "*Guidance concerning the maximum number of offices that may be held by directors of TERNA S.p.A. (under the terms of Art. 3, Rec. 15 of the Corporate Governance Code for listed companies)*";
- the Company revised the procedures regarding market abuse (LG005, LG008, IO412CA and LG010) with the objective of adapting the content to its internal organisational structure and to the modification of the rules concerning the sanctions system for market abuse offences. The solidity and correct functioning of the procedures was also confirmed;
- on 17 March 2023, the Board of Statutory Auditors adopted the document "*Guidelines of the Board of Statutory Auditors of TERNA S.p.A. on the composition and remuneration of the new Board of Statutory Auditors to be appointed by the Shareholders' Meeting*".

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

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

During the year, the Company took steps to implement or comply with the requirements established by Law, the Supervisory Authorities and the *Corporate Governance* Code.
It should be noted that, starting from 2022, a report was drafted and approved for *service* subsidiaries, describing the administrative and accounting structure of the company, the methods and instruments adopted to ensure its concrete operation, also in relation to the prompt detection of a business crisis and loss of the going concern assumption under the terms of Italian Legislative Decree no. 14 of 12 January 2019.

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

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

1.3 Oversight of the internal control and risk management system

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

- examining the report of the Audit and Risk Committee on its activities and on the adequacy of the internal control and risk management system;

- examining the Annual Report produced by the Head of Internal Audit on the internal control system;
- examining the reports produced by the Supervisory Board pursuant to Legislative Decree 231/2001;
- holding periodic meetings, including attendance at Audit and Risk Committee meetings with the Internal Audit and Legal and Compliance departments to assess the procedures for planning work, based on the identification and assessment of the main risks present in organizational processes and units;
- holding meetings with the risk management department in order to analyse the Group's strategic risks;
- holding meetings with senior management regarding the organisational and operational impacts of Terna's activities;
- examining the periodic reports prepared by the Audit department in coordination with the Company's Audit and Risk Committee;
- holding meetings with the Manager responsible for financial reporting;
- acquiring information from the oversight bodies of the Italian-registered subsidiaries, pursuant to the first and second paragraphs of art. 151 of the CLF, on material events involving Group companies and on the internal control system, through the completion of specific questionnaires;
- holding meetings with the Company's Supervisory Body;
- discussing the results of the work carried out by the Independent Auditors;
- participating regularly in meetings of the Company's Audit and Risk Committee, the Appointments Committee, the Remuneration Committee and the Related-Party-Transactions Committee.

The Company's Internal Audit function operates on the basis of a multi-year plan, reviewed annually, which defines activities and processes to be audited with a risk-based approach. The plan was approved by the Board of Directors on 1 March 2023, after consulting the Control and Risk Committee and the Board of Statutory Auditors.

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

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

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

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

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

The Board of Statutory Auditors verified the adequacy of Terna's organisational, administrative and accounting systems and those of its strategic subsidiaries.

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

The Board of Statutory Auditors also examined the attestations released by the Chief Executive Officer and the Manager responsible for financial reporting in accordance with the requirements of art. 154-bis, paragraphs 3 and 4 of the CLF, presented on 22 March 2023.

On 22 March 2023, the Board of Directors approved the Impairment Testing procedure drawn up in accordance with the requirements of IAS 36, with the aim of providing guidelines for the conduct of tests on the recoverability of the Terna Group's assets, and for application of the outcome of the tests to the relevant items in the financial statements for 2022.

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

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

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

The Board of Statutory Auditors has therefore monitored the observation of the procedure rules on the financial reporting process concerning financial statements and consolidated financial statements.

1.5 Oversight of related-party transactions

Intra-group or related-party transactions are shown in the notes to the financial statements for 2022 ("Nota Illustrativa della Relazione Finanziaria Annuale 2022"), under "Related-party transactions", showing transactions with the parent, subsidiaries and associates.

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

2. INTERNAL CONTROL AND AUDIT COMMITTEE

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

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

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

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

The financial statements for the year ended 31 December 2022, accompanied by the Directors' report on operations and the attestation signed by the Chief Executive Officer and the Manager responsible for financial reporting, approved by the Board of Directors at the meeting held on 22 March 2023, were at the same time made available to the Board of Statutory Auditors in view of the Annual General Meeting of shareholders called for 9 May 2023. On 22 March 2023, Terna's Board of Directors approved the consolidated financial statements, as prepared by the Manager responsible for financial reporting and, pursuant to art. 154-*bis* of the CLF, accompanied by the attestation signed by the Chief Executive Officer and the Manager responsible for financial reporting.

On 17 April 2023, the Independent Auditors issued their audit reports, pursuant to art. 14 of Legislative Decree 39/2010 as amended by Legislative Decree 139/2016 and art. 10 of Regulation (EU) 537/2014, on the separate financial statements and the Terna Group's consolidated financial statements for the year ended 31 December 2022, prepared in compliance with the International Financial Reporting Standards – IFRS adopted by the European Union.

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

- issued an opinion stating that Terna's separate financial statements and the Terna Group's consolidated financial statements provide a true and fair view of the financial and equity situation of the Company and Group at 31 December 2022, and of the economic result and cash flows for the financial year ended on that date, in conformity with the International Financial Reporting Standards adopted by the European Union, as well as with provisions issued in implementation of art. 9 of Legislative Decree 38/2005;

- issued an opinion on the consistency of the Report on Operations accompanying the separate and consolidated financial statements for the year ended 31 December 2022 and certain specific information in the "Report on Corporate Governance and Ownership Structures" indicated in art. 123-*bis*, paragraph 4 of the CLF, responsibility for which lies with the Directors of Terna, with the annual financial statements and preparation in compliance with the law;
- declared that, with regard to potential material errors in the Report on Operations, based on the information obtained and their understanding of the Company and associated context acquired during audit activities, they had nothing to report;
- declared that the annual financial statements were prepared in XHTML format in compliance with the provisions of Delegated Regulation (EU) 2019/815 and the consolidated financial statements was compiled in all material ways in compliance with the provisions of the delegated regulation;
- confirmed the Directors' approval of the Non-financial Statement and expressed the following conclusions: *"On the basis of the work carried out, no matters have come to our attention that would cause us to conclude that the Terna Group's NFS for the year ended 31 December 2022 has not been prepared, in all material aspects, in compliance with the requirements of arts 3 and 4 of the Decree and GRI Standards."*

On 17 April 2023, the Independent Auditors also presented the Board of Statutory Auditors with the additional report required by art. 11 of Regulation (EU) 537/2014, in which the auditors do not identify any significant issues regarding the system of internal controls in relation to the financial reporting process, to be brought to the attention of persons responsible for the governance activities. The Board of Statutory Auditors will inform the Company's Board of Directors of the outcome of the statutory audit, providing the Directors with the additional report required by art. 11 of Regulation (EU) 537/2014, accompanied by any observations, pursuant to art. 19 of Legislative Decree 39/2010, as extended by Legislative Decree 135/2016 and Regulation (EU) 537/2014.

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

The Independent Auditors received attestation and other engagements during 2022, as described in the Annual Financial Report for 2022, prepared in accordance with art. 149-*duodecies* of the Regulations for Issuers.

The fees for these engagements amount to € 116,263 and break down as follows:

- audit of unbundling for ARERA € 8,848
- opinion on payment of interim dividends € 17,647
- EMTN comfort letters and other issues € 38,470
- attestation of Non-Financial Statement € 17,298
- Green Bond Report € 34,000

3. OTHER ASSETS

3.1 Method for effective implementation of corporate governance rules

In carrying out its duties, as required by art. 2403 of the Italian Civil Code and art. 149 of the CLF, the Board of Statutory Auditors monitored effective implementation of the corporate governance rules provided for in the corporate governance codes Terna has stated that it has adopted. The Company adheres to the Corporate Governance Code drawn up by Borsa Italiana and has prepared, pursuant to art. 123-*bis* of the TUF, the annual "Report on Corporate Governance and Ownership Structures".

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

The Board of Directors approved the "Report on Corporate Governance and Ownership Structures" on 22 March 2023.

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

The Board of Directors, with the assistance of an external consulting firm, has conducted a board review, whose findings were discussed at the meeting held on 14 December 2022 and described in Terna's Report on Corporate Governance.

At the end of its office, the Board of Statutory Auditors drafted the opinion on the "*Guidelines of the Board of Statutory Auditors of TERNA S.p.A. on the composition and remuneration of the new Board of Statutory Auditors to be appointed by the Shareholders' Meeting*".

3.2 *Remuneration policies*

The Board of Statutory Auditors has verified the processes followed by the Company in drawing up the Company's remuneration policies, with particular regard to the criteria used in determining the remuneration of the Chief Executive Officer and of the Key Management Personnel, providing, where required by law, the related opinions. Following the proposal of the Remuneration Committee, the Board of Directors' meeting of 22 March 2023 approved the "*Report on the Remuneration Policy and Remuneration Paid*", prepared pursuant to art. 123-*ter* of the TUF and in compliance with art. 5 of the Code of Corporate Governance.

3.3 *Omissions or shortcomings, opinions provided and initiatives undertaken*

The Board of Statutory Auditors did not receive any complaints pursuant to art. 2408 of the Italian Civil Code, and did not receive any petitions from third parties during 2022.

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

3.4 *Non-Financial Statement*

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

The NFS was approved at the Board of Directors' meeting of 22 March 2023, as a document included in the report on operations for the year ended 31 December 2022.

The Independent Auditors issued their report on the NFS pursuant to art. 3, paragraph 10 of Legislative Decree 254/2016 on 17 April 2023. The report states that no matters have been brought to the attention of the Independent Auditors that would cause them to conclude that the Terna Group's NFS for the year ended 31 December 2022 has not been prepared, in all material aspects, in compliance with the requirements of arts 3 and 4 of 254/2016 and the *Global Reporting Initiative Sustainability Reporting Standards*.

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

3.5 Review of the Board of Statutory Auditors

In accordance with Standard Q.1.1 in the Standards of Conduct for the Boards of Statutory Auditors of Listed Companies, the Board of Statutory Auditors has, with the assistance of an external consulting firm, conducted a review about its composition, size and performance, with the outcome of the Review presented to the Board of Directors at the meeting held on 14 December 2022. With regard to the requirements and competencies of individual members and of the Board as a whole, the Review confirmed that:

- in addition to satisfying the related integrity and professional requirements, and there being no evidence of the grounds for disqualification provided for in the relevant legislation, all the Standing Auditors meet the independence requirements provided for in the *Corporate Governance* Code;
- the Board of Statutory Auditors guarantees the gender and age diversity of its members;
- each Standing Auditor possesses good knowledge and experience in several areas of expertise;
- the Board of Statutory Auditors possesses an adequate level of expertise overall.

4. CONCLUSIONS

Based on the above, and considering the content of the reports issued by the Independent Auditors, and the attestations released jointly by the Chief Executive Officer and the Manager responsible for financial reporting, the Board of Statutory Auditors, within the scope of its responsibilities, expresses a favourable opinion on the proposal of the approval of Terna's financial statements for the year ended 31 December 2022 and on the proposal of the allocation of net profit for the year of € 834,138,704.35 as formulated by the Board of Directors.

Rome, 17 April 2023

The Board of Statutory Auditors

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

Text translated by the Company from the original italian version signed by the members of the Board of Statutory Auditors

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

To the Shareholders of
Terna S.p.A.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Terna S.p.A. (the "Company"), which comprise the statement of financial position as at 31 December 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 financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

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

Description of the key audit matter	As of 31 December 2022, the Company accounts in "Property, Plant, and Equipment" and "Intangible Assets", respectively equal to Euro 14.253 million and Euro 479 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 1.587 million. The Company operates as a natural monopoly and within a market regulated by the Italian Regulatory Authority for Energy, Networks and Environment (Autorità di Regolazione per Energia Reti e Ambiente, "ARERA"), which defines, among the others, the rules for the remuneration of the transmission and dispatching services. In particular, the regulated revenues for these services are determined annually by ARERA and provide for recognition of a predefined return on the regulatory net invested capital recognized (RAB – Regulated Asset Base), of the relative depreciation and of some operating expenses. The RAB value is determined by ARERA mainly through the revalued historical cost method. We believe that investments for the operation and development of the electricity transmission grid represent a key audit matter for the Company's financial statements as of 31 December 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 Company's total assets, ii) the relevance of the investments made during the year, iii) their impact in determining the fees for the transmission and dispatching services. Notes "11. Property, Plant, and Equipment " and "13 Intangible Assets" of the financial statements include the disclosure on the investments for the operation and development of the electricity transmission grid.
Audit procedures performed	With reference to investments for the operation and development of the electricity transmission grid, our audit procedures included, among the others, the following: • understand the processes for recognition of such investments in the financial statements; • understand the relevant controls implemented by the Company in relation to these processes and assessment of their operating effectiveness;

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

- with reference to investments 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 financial statements and its compliance with the accounting standards.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, 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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

In our opinion, the financial statements as at 31 December 2022 have been prepared in XHTML format in accordance with the provisions of the Delegated Regulation.

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

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

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the financial statements of Terna S.p.A. as at 31 December 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 information contained in the report on corporate governance and ownership structure are consistent with the financial statements of Terna S.p.A. as at 31 December 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.

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.