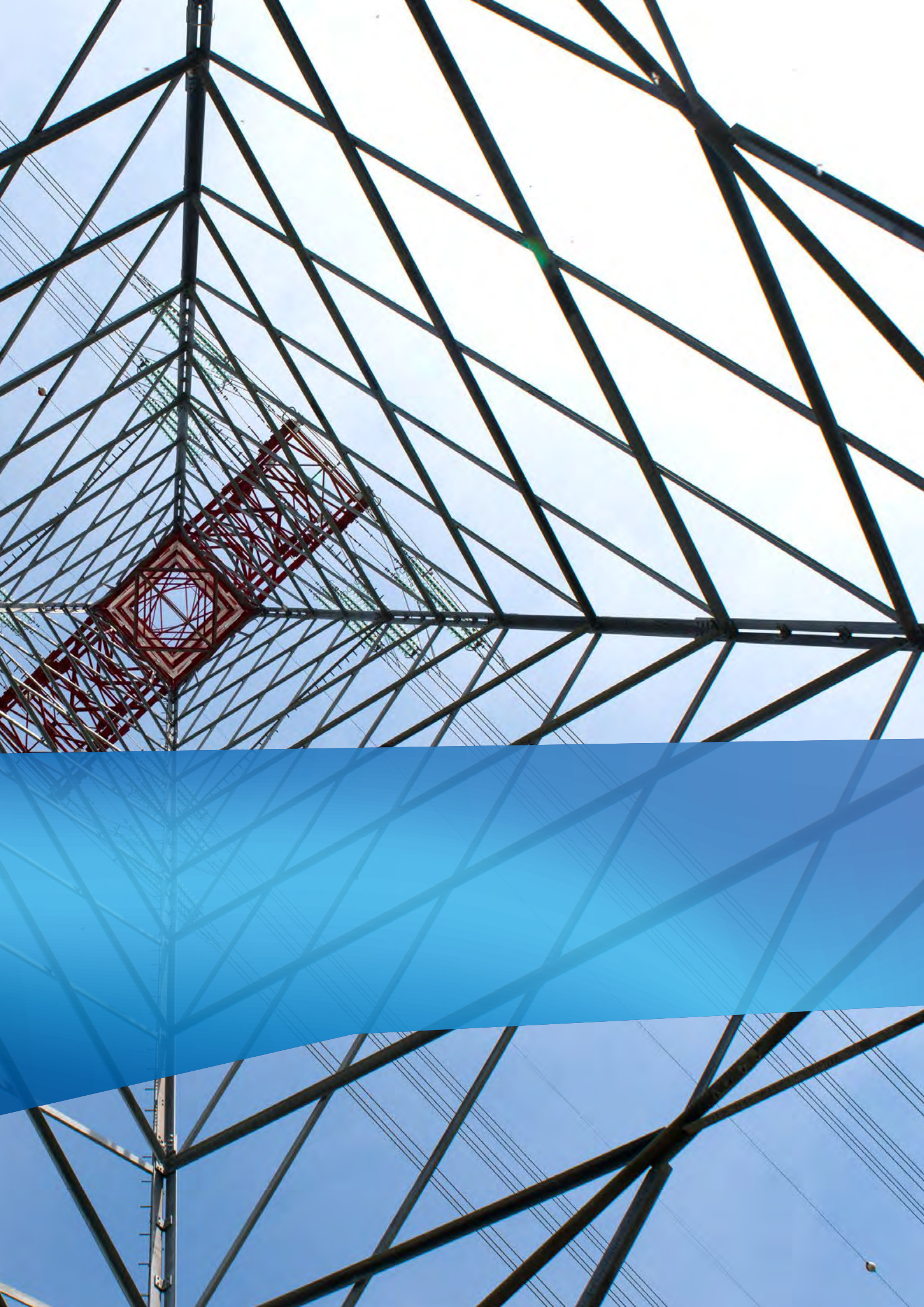


A low-angle, upward-looking photograph of a complex steel framework, likely part of a bridge or a large industrial structure. The steel beams intersect at various angles, creating a dense web of lines that fill the frame. The background is a clear, bright blue sky. In the lower half of the image, there is a large, semi-transparent blue geometric shape, possibly a triangle or a trapezoid, which serves as a background for the text.

CONSOLIDATED FINANCIAL STATEMENTS





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Consolidated financial statements

Consolidated income statement

(€m)

	NOTE	2023	2022
A - REVENUE			
1. Revenue from sales and services	1	3,122.8	2,898.1
<i>of which: related parties</i>		1,805.9	1,718.7
2. Other revenue and income	2	63.9	66.4
<i>of which: related parties</i>		0.4	0.8
Total revenue		3,186.7	2,964.5
B - OPERATING COSTS			
1. Raw and consumable materials used	3	285.4	247.8
<i>of which: related parties</i>		0.1	-
2. Services	4	312.3	276.9
<i>of which: related parties</i>		10.1	10.4
3. Personnel expenses	5	377.2	348.1
- gross personnel expenses		513.6	464.2
- capitalised personnel expenses		(136.4)	(116.1)
<i>of which: related parties</i>		4.4	3.7
4. Amortisation, depreciation and impairment losses	6	806.3	725.7
5. Other operating costs	7	43.2	32.5
<i>of which: related parties</i>		0.2	0.1
Total operating costs		1,824.4	1,631.0
A-B OPERATING PROFIT/(LOSS)		1,362.3	1,333.5
C - FINANCIAL INCOME/(EXPENSES)			
1. Financial income	8	107.4	22.7
2. Financial expenses	8	(227.7)	(121.8)
3. Share of profit/(loss) of investees accounted for using the equity method	9	2.6	(1.0)
D - PROFIT/(LOSS) BEFORE TAX		1,244.6	1,233.4
E - INCOME TAX EXPENSE	10	364.3	355.4
F - PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		880.3	878.0
G - PROFIT/(LOSS) FOR THE YEAR FROM DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE	11	2.5	(20.3)
H - PROFIT FOR THE YEAR		882.8	857.7
Profit attributable to owners of the Parent		885.4	857.0
Profit attributable to non-controlling interests		(2.6)	0.7
Earnings per share	12		
Basic earnings per share (€)		0.441	0.427
Diluted earnings per share (€)		0.441	0.427
Earnings per share from continuing operations			
Basic earnings per share (€)	12	0.439	0.438
Diluted earnings per share (€)		0.439	0.438

Consolidated statement of comprehensive income*

(€m)

	NOTE	2023	2022
PROFIT FOR THE YEAR		882.8	857.7
<i>Other comprehensive income for the year reclassifiable to profit or loss</i>			
- Cash flow hedges	24	(37.6)	223.3
- Financial assets at fair value through other comprehensive income	24	1.0	(4.4)
- Gains/(Losses) from translation of financial statements in currencies other than the euro	24	11.7	34.9
- Cost of hedges	24	0.2	(0.6)
<i>Other comprehensive income for the year not reclassifiable to profit or loss</i>			
- Actuarial gains/(losses) on provisions for employee benefits	24	(3.5)	(10.4)
Total other comprehensive income		(28.2)	242.8
COMPREHENSIVE INCOME FOR THE YEAR		854.6	1,100.5
COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Parent		857.0	1,101.1
Non-controlling interests		(2.4)	(0.6)

* Amounts are shown net of tax, where applicable.

Consolidated statement of financial position

(€m)

	NOTE	AT 31 DECEMBER 2023	AT 31 DECEMBER 2022
A - NON-CURRENT ASSETS			
1. Property, plant and equipment	13	17,596.7	16,200.9
<i>of which: related parties</i>		59.3	41.1
2. Goodwill	14	252.3	251.5
3. Intangible assets	15	614.9	524.3
4. Deferred tax assets	16	168.7	121.0
5. Investments accounted for using the equity method	17	76.7	73.8
6. Non-current financial assets	18	425.8	494.4
7. Other non-current assets	19	15.5	15.9
Total non-current assets		19,150.6	17,681.8
B - CURRENT ASSETS			
1. Inventories	20	106.4	83.0
2. Trade receivables	21	2,123.4	2,358.3
<i>of which: related parties</i>		344.4	333.2
3. Current financial assets	18	384.1	255.3
4. Cash and cash equivalents	22	1,378.2	2,155.1
<i>of which: related parties</i>		0.1	0.1
5. Income tax assets	23	4.8	6.8
6. Other current assets	19	213.4	191.9
Total current assets		4,210.3	5,050.4
C - Discontinued operations and assets held for sale	30	85.0	70.7
TOTAL ASSETS		23,445.9	22,802.9

(€m)

	NOTE	AT 31 DECEMBER 2023	AT 31 DECEMBER 2022
D - EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
1. Share capital		442.2	442.2
2. Other reserves		1,836.6	1,875.2
3. Retained earnings/(accumulated losses)		3,390.5	3,180.9
4. Interim dividend		(230.3)	(213.3)
5. Profit for the year		885.4	857.0
Total equity attributable to owners of the Parent	24	6,324.4	6,142.0
E - EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS			
	24	18.9	27.1
Total equity attributable to owners of the Parent and non-controlling interests		6,343.3	6,169.1
F - NON-CURRENT LIABILITIES			
1. Long-term borrowings	25	9,409.2	8,416.7
2. Employee benefits	26	49.8	48.4
3. Provisions for risks and charges	27	151.8	140.8
4. Non-current financial liabilities	25	164.5	247.2
5. Other non-current liabilities	28	948.3	971.4
Total non-current liabilities		10,723.6	9,824.5
G - CURRENT LIABILITIES			
1. Short-term borrowings	25	1,201.7	444.1
2. Current portion of long-term borrowings	25	1,384.6	1,909.3
3. Trade payables	29	2,864.9	3,687.7
<i>of which: related parties</i>		66.5	60.9
4. Tax liabilities	29	-	43.8
5. Current financial liabilities	25	113.8	44.9
<i>of which: related parties</i>		0.1	-
6. Other current liabilities	29	809.4	669.9
<i>of which: related parties</i>		34.3	22.7
Total current liabilities		6,374.4	6,799.7
H - Liabilities related to discontinued operations and assets held for sale	30	4.6	9.6
TOTAL LIABILITIES AND EQUITY		23,445.9	22,802.9



Consolidated statement of changes in equity

31 December 2022 - 31 December 2023

Group's share capital and reserves

(€m)

	SHARE CAPITAL	LEGAL RESERVE	SHARE PREMIUM RESERVE	CASH FLOW HEDGE RESERVE	RESERVE FOR TREASURY SHARES	RESERVE FOR EQUITY INSTRUMENTS - PERPETUAL HYBRID BONDS	OTHER RESERVES	RETAINED EARNINGS/ (ACCUMULATED LOSSES)	INTERIM DIVIDEND	PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	EQUITY ATTRIBUTABLE TO NON- CONTROLLING INTERESTS	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT AND NON- CONTROLLING INTERESTS
EQUITY AT 31 DECEMBER 2022	442.2	88.4	20.0	81.1	(29.5)	989.0	726.2	3,180.9	(213.3)	857.0	6,142.0	27.1	6,169.1
PROFIT FOR THE YEAR										885.4	885.4	(2.6)	882.8
OTHER COMPREHENSIVE INCOME:													
- Change in fair value of cash flow hedges				(37.6)							(37.6)		(37.6)
- Actuarial gains/(losses) on employee benefits							(3.5)				(3.5)		(3.5)
- Gains/(Losses) from translation of financial statements in currencies other than the euro								11.5			11.5	0.2	11.7
- Financial assets at fair value through other comprehensive income							1.0				1.0		1.0
- Cost of hedges				0.2							0.2		0.2
Total other comprehensive income				(37.4)			(2.5)	11.5			(28.4)	0.2	(28.2)
COMPREHENSIVE INCOME				(37.4)			(2.5)	11.5		885.4	857.0	(2.4)	854.6
TRANSACTIONS WITH SHAREHOLDERS:													
- Appropriation of profit for 2022:													
<i>Retained earnings</i>								225.0		(225.0)			-
<i>Dividends</i>									213.3	(632.0)	(418.7)	(5.8)	(424.5)
- Interim dividend 2023									(230.3)		(230.3)		(230.3)
- Purchase of treasury shares					(0.3)						(0.3)		(0.3)
Total transactions with shareholders					(0.3)			225.0	(17.0)	(857.0)	(649.3)	(5.8)	(655.1)
Share option reserve							0.2				0.2		0.2
Coupons payable to holders of hybrid bonds								(23.8)			(23.8)		(23.8)
Other changes							1.4	(3.1)			(1.7)		(1.7)
Total other changes							1.6	(26.9)			(25.3)		(25.3)
EQUITY AT 31 DECEMBER 2023	442.2	88.4	20.0	43.7	(29.8)	989.0	725.3	3,390.5	(230.3)	885.4	6,324.4	18.9	6,343.3

31 December 2021 - 31 December 2022

Group's share capital and reserves

(€m)

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

Consolidated statement of cash flows

(€m)

	NOTE	2023	2022
PROFIT FOR THE YEAR		882.8	857.7
ADJUSTED BY:			
Amortisation, depreciation and impairment losses /(reversals of impairment losses) on non-current property, plant and equipment and intangible assets*	6	775.7	736.1
Accruals to provisions (including provisions for employee benefits) and impairment losses		53.7	51.7
(Gains)/Losses on sale of property, plant and equipment		(18.0)	(6.9)
Financial (income)/expenses	8	118.8	101.5
Income tax expense		366.0	356.7
Other non-cash movements		5.2	(24.1)
CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN NET WORKING CAPITAL		2,184.2	2,072.7
Increase/(decrease) in provisions (including provisions for employee benefits and taxation)		(44.2)	(36.9)
(Increase)/decrease in inventories		3.1	(20.7)
(Increase)/decrease in trade receivables and other current assets		227.5	285.9
Increase/(decrease) in trade payables and other current liabilities		(664.9)	604.8
Increase/(decrease) in other non-current liabilities		(25.7)	(126.1)
(Increase)/decrease in other non-current assets		(6.4)	14.7
Interest income, dividends and other financial income received		107.2	64.2
Interest expense and other financial expenses paid		(261.9)	(154.8)
Income tax paid		(434.0)	(380.1)
CASH FLOW FROM OPERATING ACTIVITIES [A]		1,084.9	2,323.7
- of which: related parties		6.0	(26.6)
Capital expenditure in non-current property, plant and equipment after grants received	13	(2,048.8)	(1,492.3)
Revenue from sale of non-current property, plant and equipment and intangible assets and other movements		19.4	15.6
Capitalised financial expenses		48.3	24.8
Capital expenditure in non-current intangible assets after grants received	15	(216.2)	(212.4)
(Increase)/decrease in investments in associates and joint ventures	17	(2.9)	2.4
Movements in short- and medium/long-term financial investments		(118.4)	(350.5)
Consideration paid for new acquisitions net of cash		(15.8)	-
Proceeds collected from the sale of companies		-	157.0
CASH FLOW FOR INVESTING ACTIVITIES [B]		(2,334.4)	(1,855.4)
- of which: related parties		(18.2)	19.2
Movement in the reserve for treasury shares	24	(7.0)	(10.0)
Movement in the reserve for equity instruments	24	-	989.0
Dividends paid		(671.5)	(595.8)
Movements in short- and medium/long-term financial liabilities (including short-term portion)**		1,142.8	(289.0)
Increase/(decrease) in retained earnings and accumulated losses	24	-	(1.7)
CASH FLOW FROM FINANCING ACTIVITIES [C]		464.3	92.5
INCREASE/(DECREASE) IN CASH AND EQUIVALENTS [A+B+C]		(785.2)	560.8
Cash and cash equivalents at beginning of year		2,167.0	1,606.2
Cash and cash equivalents at end of year***		1,381.8	2,167.0
- of which cash and cash equivalents from acquisitions		0.3	-

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

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

*** Of which, at 31 December 2023, "Cash and cash equivalents" of €1,378.2 million and "Cash and cash equivalents attributable to assets held for sale" of €3.6 million and, at 31 December 2022, "Cash and cash equivalents" of €2,155.1 million and "Cash and cash equivalents attributable to assets held for sale" of €11.9 million.



Notes

A. Material accounting policies and measurement criteria

Introduction

Terna S.p.A.'s registered office is at Viale Egidio Galbani 70, Rome, Italy. The consolidated financial statements at and for the year ended 31 December 2022 include the Company's financial statements and those of its subsidiaries (the "Group"). The subsidiaries included within the scope of consolidation are listed below.

Publication of the consolidated financial statements was authorised by the Board of Directors on 19 March 2024. The consolidated financial statements at and for the year ended 31 December 2023 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 Chairman 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 events after 31 December 2023.

The Terna Group is the largest independent transmission system operator in Europe and one of the leading operators in the world in terms of kilometres of line managed (more than 75 thousand kilometres).

It is responsible for the transmission and management of power flows on the high-voltage (HV) and very high-voltage (VHV) grid throughout Italy, in order to guarantee a balance between demand and supply for energy (dispatching). It is also responsible for the planning, construction and maintenance of the grid. It acts as the Italian TSO (Transmission System Operator), having been granted a monopoly under a government concession, and is subject to regulation by Italy's Regulatory Authority for Energy, Networks and the Environment (ARERA) and the guidelines established by the Ministry of Enterprises and Made in Italy. It ensures the security, quality and cost-effectiveness of the national electricity system and has the task of developing the grid and integrating it with the European grid. It ensures equal access for all grid users.

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

Compliance with IAS/IFRS

The consolidated financial statements at and for the year ended 31 December 2023 have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), as endorsed by the European Commission ("EU-IFRS").

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



Basis of presentation

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

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

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

The statement of cash flows has been prepared using the indirect method.

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

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

Given that the requirements of IFRS 5 have been met, the total results for 2023 and 2022 attributable to the South American subsidiaries included in the planned sale of assets have been classified in the item “Profit/(Loss) from discontinued operations and assets held for sale” in the Group’s reclassified income statement. Likewise, the attributable assets and liabilities at 31 December 2023 and 2022 have been classified in the item “Discontinued operations and assets held for sale” and “Liabilities related to discontinued operations and assets held for sale” in the Group’s reclassified statement of financial position.

Certain amounts in the financial statements at and for the year ended 31 December 2022 have been restated to provide an improved basis of comparison, without however modifying the amount of equity at 31 December 2022 or amounts in the income statement and statement of comprehensive income for 2022.

Use of estimates

Preparation of the consolidated financial statements requires the Group to use estimates and assumptions that affect the carrying amounts of assets and liabilities and the related disclosures, in addition to contingent assets and liabilities at the reporting date. These estimates and the associated assumptions are based on previous experience and various factors that are believed to be reasonable under the circumstances. The resulting estimates form the basis for making the judgements about the carrying amounts of assets and liabilities that are not readily apparent from other objective sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed periodically and the effects of any changes are recognised in the income statement for the year, if they relate solely to that period. In the case that the revision affects both current and future years, the change is recorded in the year in which the estimate is reviewed as well as in the relevant future years.

The assets and liabilities subject to estimates and key assumptions used by the Group in applying the IFRS endorsed by the European Commission, and that could have a significant impact on the consolidated financial statements, or that could give rise to risks that would entail significant adjustments to the carrying amounts of assets and liabilities in subsequent years, are summarised below.

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. For the purpose of recognition, 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 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 Group to assess expected credit losses, and the related changes, at each reporting date.

Specifically, the Group has applied the simplified approach permitted by IFRS 9 to trade receivables in order to measure the allowance for doubtful accounts based on expected losses over the life of the receivable. The Group has thus determined the amount of expected credit losses using a provisioning matrix, based on information regarding historical credit losses for similar past due exposures, adjusted to take into account current conditions and forward-looking elements.

Provisions for risks and charges

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

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

Employee benefits

Post-employment benefits are defined on the basis of plans, even if not formalised, that are classified as either "defined benefit" plans or "defined contribution" plans depending on their nature.

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 experience, are recognised in other comprehensive income in the year in which they occur. If a plan is modified, curtailed or extinguished, the related effects are recognized in profit or loss.

Net financial expenses include the component of the return on plan assets and the interest cost to be recognised in profit or loss and are measured by multiplying the liabilities, net of any plan assets, by the discount rate applied to the liabilities; net interest on defined benefit plans is recognized in "Financial income/(expenses)".

The actuarial valuations used to quantify employee benefits (of all plans except termination benefits [*TFR – Trattamento di Fine Rapporto*]) are based on "vested benefits", applying the projected unit credit method. These valuations are based on the following economic and demographic assumptions: the discount rate (used to determine the current value of the obligation, determined considering returns on high quality bonds in line with the duration of the group of workers measured), the inflation rate, the rate at which future salary levels are expected to rise, the rate of increase for average health reimbursements, rate of increase for electricity prices and demographic factors, such as mortality and invalidity, retirement, resignation, advances and household composition. The method of calculation used for *TFR* consists of discounting to present value, at the measurement date, each estimated payment due to every employee, projected through to the estimated period in which the *TFR* will be paid.

The obligation under defined contribution plans, limited to the payment of contributions to the state or to a legally separate entity (a fund), is measured on the basis of the contributions payable. The cost of such plans is recognised in profit or loss based on the contribution paid during the period.

Macroeconomic environment

The Terna Group closely monitors the current macroeconomic environment and the recent international political events, particularly focusing on geopolitical developments, linked above all to the ongoing conflict in Ukraine and heightened tensions in the Middle East, and the relevant legislation.

In this respect, in its Public Statement of 25 October 2023, “European common enforcement priorities for 2023 financial reports”, ESMA reinforced the message conveyed in its previous publications of 2021 and 2022, highlighting the need to ensure the correct degree of transparency in financial reporting in order to adequately reflect the current and, as fairly as possible, foreseeable impact of the macroeconomic situation and of the conflicts on entities’ financial position, financial performance and cash flows.

The fall in inflation and reduced commodity price volatility, compared with the peaks seen in 2022, have brought a certain degree of stability to a macroeconomic scenario that, however, remains uncertain. In addition, economic growth has slowed and has been made more uncertain by the geopolitical situation, with future developments also dependent on the outcome of the upcoming elections in the United States. Against this backdrop, the Group continues to focus on capex delivery and implementing its Industrial Plan. 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 our 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 ongoing conflicts 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, including those resulting from the above conflicts, 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, nor of the geopolitical crises, 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 2023 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 conflicts.

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, and its capex is recognised in full in the RAB.

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 conflicts.

Climate change

Awareness of the progress of climate change and its effects has led to a growing need to provide disclosure in Report on Operations. Although there is no international accounting standard governing how the impact of climate change should be taken into account in the preparation of financial statements, the IASB has issued certain documents providing support for IFRS-adopters seeking to satisfy the demand for disclosure from interested parties. Similarly, ESMA, in its European Common Enforcement Priorities dated 25 October 2023, 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 scenarios – The market environment” and “Opportunities and risks connected with climate change” in the Report on Operations. In this context, 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, which can also be associated with the indirect impact of the need to produce more energy. In themselves, a TSO’s emissions (scopes 1 and 2 in the ‘GHG emission protocol’) are extremely modest when compared with the potential system-level reduction resulting from the integration of renewable sources and electrification.

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

IAS 1 – Presentation of Financial Statements

In the event of uncertainties, IAS 1 requires entities to analyse potential impacts in terms of the entity’s ability to continue as a going concern and, with regard to the assumptions and estimates made in preparing the Annual Report. 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 potential 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 section, "The value creation strategy" in the Annual Report –Integrate Report 2023, 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;
- the works needed to improve the reliability of electricity assets in the Maintenance and Renewal Plan for electricity assets, which involves the preventive identification and resolution of initial signs of an issue that could lead to a malfunction.

Common to all these plans is the Resilience Plan, annexed to the Security 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. The Resilience Plan involves a preventive approach to managing infrastructure, using capital light technological solutions to mitigate the risks to which the grid is exposed and solutions for repairing and monitoring the electricity system.

This also 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 above conflicts, the energy transition launched in many countries, with a potential impact on construction and maintenance projects, and a resulting impact on the continuity and quality of service and on the time needed to complete infrastructure. The Group constantly monitors developments in the supply chain and has not so far identified any critical issues.

IAS 38 – Intangible Assets

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

The Group has also developed tools for studying and planning new works designed to respond to issues relating to climate change. Through its Resilience Methodology, as set out in Annex A76 to the Grid Code, Terna has equipped itself with a tool that makes the Group a leader in the conduct of climate-change assessments in Italy and Europe. This innovative and probabilistic tool for planning work will increase the resilience of the NTG. It involves measuring the related benefit in terms of reducing expected energy not supplied, above all due to ice, snow and strong winds.

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

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

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

IAS 36 – Impairment of Assets

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

IFRS 9 – Financial Instruments

With regard to borrowings and bond issues, the Group has obtained certain bank borrowings containing ESG-linked conditions, entered into a commercial paper programme (short-term notes issued to qualified investors), enabling Terna to issue "ESG Notes", and issued a number of Green bonds, as described in greater detail in the section, "Sustainable finance". The ESG-linked bank borrowings (different from the Green Bond issues) include a bonus/penalty mechanism, applicable to the payment of accrued interest, linked to the achievement of specific environmental, social and governance (ESG) objectives. As a result of the above, the Group believes that there may be a risk, albeit not significant, connected with the achievement of such objectives. Failure to achieve the objectives 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 biodiversity. Terna also 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 updating the estimates relating to these incentives.

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

Climate change and the subsequent adoption of policies designed to reduce 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 Performance Share Plans, are linked to a series of ESG indicators with a percentage weighting that rises over time.

The 2021-2025 plan consists of an indicator linked to Terna's annual inclusion and ranking in the *Dow Jones Sustainability Index (DJSI-World)* with a weighting of 20%.

The ESG indicators for the 2022-2026 plan, with a higher 25% weighting than in the previous plan, include KPIs referring to inclusion in a basket of ESG indexes selected to represent the Group's ability to guarantee an all-round sustainability performance, including the Dow Jones Sustainability Index World, Stoxx ESG Leaders and the MIB 40 ESG. Inclusion is subject to the assessments conducted by the three rating agencies, S&P Global, Sustainalytics and Moody's ESG. An important part of these three assessments is explicitly linked to climate-related issues: specifically, to be included in the selected ESG indexes every year, and for the whole duration of the Performance Share 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, are of great importance.

Finally, the Performance Share Plan 2023-2027 is linked to ESG indicators with an overall weighting of 30%, of which 15% relates to KPIs linked to inclusion in the above ESG basket and the remaining 15% to Overgeneration, representing the reduction in the modulation of generation from Non-Programmable Renewable Sources requested by Terna, due to the security requirements of the National Electricity System.

Bearing in mind the expected development of renewable generation capacity in the coming years, absent appropriate mitigation initiatives, overgeneration will become a growing issue, cancelling out (at least in part) the benefits of the energy transition.

Subsidiaries and scope of consolidation

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

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

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

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

** 99% is held by Selene CC S.A.

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST	METHOD OF CONSOLIDATION
SUBSIDIARIES CONTROLLED THROUGH TERNA PLUS S.R.L.					
Terna Chile S.p.A.	Santiago del Chile (Chile)	Chilean peso	2,475,710,500	100%	Line-by-line
Business	Design, construction, administration, development, operation and maintenance of any type of electricity system, plant, equipment and infrastructure, including interconnectors; provision of all types of products and service, construction, electrical and civil engineering work; research, consultancy and assistance in matters relating to the core business; any other activity capable of improving the use and development of plant, resources and expertise.				
Terna Peru S.A.C.	Lima (Peru)	Sales	116,813,900	99.99%*	Line-by-line
Business	Design, construction, administration, development, operation and maintenance of any type of electricity system, plant, equipment and infrastructure, including interconnectors; provision of all types of products and service, construction, electrical and civil engineering work; research, consultancy and assistance in matters relating to the core business; any other activity capable of improving the use and development of plant, resources and expertise.				
Terna 4 Chacas S.A.C.	Lima (Peru)	Sales	13,734,560	99.99%*	Line-by-line
Business	Responsible for construction of a new 16 km power line in Peru.				
SPE Transmissora de energia Linha Verde I S.A.	Belo Horizonte (Brazil)	Real	506,999,313	75%**	Line-by-line
Business	Provision of public electricity transmission services, including construction, operation and maintenance of electricity transmission infrastructure or any other activity necessary in order to fulfil the above purpose.				
TERNA USA LLC.	New York (USA)	US dollar	1	100%	Line-by-line
Business	Acquisition, development and construction of major infrastructure projects regarding onshore and offshore electricity transmission in the United States.				

* 0.01% Terna Chile S.p.A.

** 25% Quebec Holding Eireli.



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

* 25% Solaris S.r.l..

** 10% BRUGG GROUP AG.

*** 0.26% Brugg Kabel GmbH.

**** 30% Vima Technologies S.r.l..

The following changes in the structure of the Group have taken place with respect to 31 December 2022:

Liquidations and disposals:

- On 5 October 2023, the merger of the company Omnia S.r.l. with and into the company LT S.r.l. was completed. On 29 March 2023, Terna, through its subsidiary LT S.r.l., completed the acquisition of a 100% stake in Omnia S.r.l., a company providing O&M services for photovoltaic plants. The acquisition helps to consolidate the LT Group's position as an Italian market leader in the construction and operation of photovoltaic plants.
- On 21 December 2023, the merger of Rete Nord S.r.l. (formerly Edyna Transmission S.r.l.) with Rete S.r.l. was completed. On 22 June 2023, Terna completed the acquisition of a 100% stake in Edyna Transmission S.r.l., at the same time renamed Rete Nord S.r.l., a company that owns two electricity substations and approximately 70 km of circuits (equal to approximately 36 km of power lines) in Alto Adige already forming part of the National Transmission Grid. The transaction is part of the Group's strategy of unifying Italy's electricity transmission infrastructure with the aim of further boosting grid efficiency and reliability.

Associates

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

These investments are initially recognised at cost and subsequently measured using the equity method. The profits or losses attributable to the Group are recognised in the consolidated financial statements when significant influence begins and until that influence ceases. Based on application of the equity method, if there is evidence that the investment has been impaired, the Group determines the amount of the impairment based on the difference between the recoverable amount and the carrying amount of the investment in question. In the event that the loss attributable to the Group exceeds the carrying amount of the equity interest, the latter is written off and any excess is recognised in a specific provision, if the Parent Company is required to meet the legal or constructive obligations of the investee or, in any case, to cover its losses.

The list of associates is shown below:

							(€/m)
NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL*	PROFIT FOR THE YEAR*	% INTEREST	METHOD OF CONSOLIDATION	CARRYING AMOUNT AT 31 DECEMBER 2023 (€m)
SOCIETÀ COLLEGATE							
Cesi S.p.A.	Milan	Euro	8,550,000	(1,917,255)	42.698%	Equity Method	46.1
Business	Experimental research and provision of services related to electro-technology.						
Coreso S.A.	Brussels (Belgium)	Euro	1,000,000	805,800	15.84%	Equity Method	1.0
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	20,300,000	22.0889%	Equity Method	26.7
Business	Provision of transmission and dispatching services in Montenegro.						
Equigy B.V.	Arnhem, (Netherlands)	Euro	50,000	540,518	20%	Equity Method	0.4
Business	Provision of support for electricity balancing by TSOs through the development and implementation of blockchain technology.						

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

Joint arrangements

Investments in joint arrangements, in which the Group exercises joint control with other entities, are recognised initially at cost and subsequently measured using the equity method. The profits or losses attributable to the Group are recognised in the consolidated financial statements when joint control begins and until that control ceases. The Group recognises its share of the assets and liabilities attributable to joint arrangements in accordance with IFRS 11.

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

The list of joint ventures is shown below:

(€m)

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL*	PROFIT FOR THE YEAR*	% INTEREST	METHOD OF CONSOLIDATION	CARRYING AMOUNT AT 31 DECEMBER 2023 (€m)
JOINT VENTURES							
ELMED Etudes S.a.r.l.	Tunis (Tunisia)	Tunisian dinar	2,016,120	(207,961)	50%	Equity Method	0.2
Business	Conduct of preparatory studies for the construction of the infrastructure required to connect the Tunisian and Italian electricity system.						
SEleNe CC S.A.	Thessaloniki (Greece)	Euro	200,000	20,137	33.33%	Equity Method	2.1
Business	A technical centre owned by a number of transmission system operators, which acts as the regional security coordinator for the TSOs, with the aim of improving and upgrading the security and coordination of the electricity system in south-eastern Europe.						
BMT Energy Transmission Development LLC	Wilmington (USA)	US dollar	500,000	-	40%	Equity Method	0.2
Business	Acquisition, development and construction of major infrastructure projects regarding onshore and offshore electricity transmission in the United States.						

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

Compared with 31 December 2022, on 7 February 2023, Terna completed the acquisition of shares in SEleNe CC S.A. following the withdrawal of the Romanian TSO, National Power Grid Company Transelectrica S.A., from the company's shareholder base. The Company's stake has thus increased from 25% to 33.33%.

Basis of consolidation

All the separate financial statements of the investees used to prepare the consolidated financial statements were drafted as of 31 December 2023 and have been approved by their respective Boards of Directors and, for the most part, by shareholders; they have been adjusted, where necessary, to align them with the Parent Company's accounting policies. During preparation of the consolidated financial statements, intercompany balances, transactions, revenues and costs are fully eliminated, net of the related tax effect, where material ("consolidation on a line-by-line basis").

Unrealised gains and losses on transactions with associates and joint ventures are eliminated in proportion to the Group's interest therein. In both cases, unrealised losses are eliminated, unless they represent an impairment.

Translation of foreign currency items

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

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

Property, plant and equipment

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

Penalties receivable from suppliers relating to the purchase or construction of an asset are accounted for as a direct reduction in the cost of the asset, unless the penalty is accounted for as a refund, or when the refunded costs are clearly identifiable and have been incurred due to a delay incurred by the purchaser, the compensation is payable regardless of delivery or otherwise of the asset and the agreement expressly provides for settlement of the claim to compensate for the loss of earnings resulting from the contract delays.

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

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

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

Liabilities associated with items of property, plant and equipment are taken to a specific provision as a contra account of the related asset. The amount is taken to the income statement through 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, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange

for consideration. Applying this standard, the lessee recognises: (i) a right-of-use asset in its statement of financial position and a liability representing its obligation to make the payments provided for under the arrangement, for all leases with terms in excess of twelve months where the asset cannot be considered of low value (the Group has elected to apply the practical expedient provided for in the standard, recognising payments relating to arrangements that do not fall within the scope of this type of lease in the income statement); (ii) depreciation of the recognised assets and interest expense on the lease liability separately in the income statement.

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

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

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

The Group's property, plant and equipment also includes the assets relating the private interconnectors pursuant to Law 99/2009. The legislation assigns the Group responsibility for building and operating the infrastructure on behalf of selected parties willing to finance specific interconnections in return for the benefits for them deriving from receipt of an exemption from third-party access to the transmission capacity that the related infrastructure makes available. The law also establishes that, at the end of the exemption period, generally ten years from the date of entry into service, Terna will assume ownership of the interconnections in return for payment of a fee to be set by the regulator. The existence of a binding commitment to purchase the asset means that the property, plant and equipment relating to the interconnector is recognised in the Group's accounts. the fee agreed with the selected parties for construction and operation of the interconnector is thus accounted for as revenue for the Group's effort in arranging the transaction and for granting the right to use the asset during the exemption period.

Intangible assets

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

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

Other intangible assets essentially refer to software developments and upgrades.

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

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

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

Infrastructure rights

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

The revenue and costs relating to investment in dispatching activities are recognised with reference to the contracts concerned on a stage-of-completion basis; revenue recognised during the construction phase is limited to the amount of the internal and external construction costs incurred, considering that the fair value of the construction services is equivalent to the construction cost paid to third-party contractors plus the internal cost of the technical personnel employed on such construction activities. The assets continue to be amortised and depreciated in accordance with the initial schedule.

By contrast, dispatching revenue continues to be recognised in accordance with IFRS 15 and financial expenses continue to be capitalised pursuant to IAS 23.

IFRIC 12, instead, is not applicable to the part of the Parent Company's concession arrangement relating to transmission activities, since neither the concession nor the related legislation envisages that ownership of the NTG is to be restored to the public grantor, even for a consideration.

Goodwill

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

Inventories

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

Financial instruments

Financial assets

The new standard, IFRS 9 – Financial Instruments, effective from 1 January 2018, is divided into the following phases: classification and measurement, derecognition, impairment and hedge accounting.

In order to classify and measure financial instruments, the Group recognises financial assets at fair value inclusive of transaction costs.

Financial assets represented by debt instruments, and falling within the scope of application of the standard, may be measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss, depending on the business model adopted to manage the financial assets and the characteristics of the contractual cash flows.

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

Specifically, the Group measures financial assets:

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

Infrastructure rights

These include the property, plant and equipment and intangible assets employed in Brazil under concession arrangements falling within the scope of application of IFRIC 12, since the services provided are regulated and control exists over the residual interest. More specifically, infrastructure rights have been recognised in financial assets, as valued on the basis of the Financial Asset model, given the return generated by the activities. This derives from an unconditional contractual right to receive cash or another financial asset from, or at the direction of, the grantor and the fact that the grantor cannot avoid payment.

The revenue and costs relating to investment are recognised with reference to the contracts concerned on a stage-of-completion basis; revenue recognised during the construction phase includes a profit margin on the work performed.

Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method. Receivables with due dates that reflect normal commercial terms are not discounted.

In accordance with the provisions of IFRS 9, the Group's trade receivables fall within the hold to collect business model, as these assets are held with the objective of collecting the cash flows primarily by collecting the contractual cash flows, the receivables primarily fall due within 12 months and do not include a significant financial component, and the Group does not intend to sell such receivables.

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

Cash and cash equivalents

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

Trade payables

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

Financial liabilities

Financial liabilities are recognised at the settlement date and measured at fair value, net of directly related transaction costs. Subsequently, financial liabilities are measured at amortised cost, using the original effective interest method. If the liabilities are covered by fair value hedges, they are adjusted to reflect changes in fair value with respect to the hedged risk.

Subsequent measurement of financial liabilities depends on their classification as financial liabilities at amortised cost or at fair value through profit or loss.

Derivative financial instruments

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

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

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

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

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

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

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

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

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

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

Hybrid bonds

Issues of non-convertible, perpetual hybrid bonds are classified as equity instruments. These are in fact instruments that allow Terna to defer coupon payments over time and whose early redemption is permitted on the occurrence of certain events or at the reset date. These instruments cannot be converted into shares and, in the event of the Company's liquidation, winding up or insolvency, interest payments are subordinated to all the issuer's other payment obligations.

The proceeds received from the sale of the instruments and subsequent returns of capital are accounted for as an increase or a reduction in equity, respectively, in compliance with the requirements applicable to equity instruments in IAS 32. Interest expense, at the time the payment obligation arises, is recognised as a reduction in equity.

Non-current assets held for sale

Non-current assets and current and non-current assets included in disposal groups are classified as held for sale if their carrying amount is to be recovered primarily through sale rather than through continued use. This classification only applies if the non-current assets (or disposal groups) are available for immediate sale in their present condition and the sale is highly probable. An entity that is committed to a sale plan involving loss of control of a subsidiary must classify all the assets and liabilities of that subsidiary as held for sale, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale. The assessment of whether or not the conditions have been met for classification of an asset as held for sale requires management to make a subjective judgement, using reasonable and realistic assumptions based on the available information.

Non-current assets held for sale, current and non-current assets included in disposal groups and the directly attributable liabilities are recognised in the statement of financial position separately from the entity's other assets and liabilities. Before their classification as held for sale, the assets and liabilities included in a disposal group are

measured in accordance with the applicable accounting standards. Subsequently, the non-current assets held for sale are no longer subject to depreciation or amortisation and are measured at the lower of carrying amount and fair value less costs to sell.

If the carrying amount of the non-current assets is lower than fair value less costs to sell, the entity must recognise an impairment loss. The entity must recognise a gain for any subsequent increase in fair value less costs to sell of the assets, but not in excess of the cumulative impairment loss previously recognised, including those recognized prior to the assets' classification as held for sale.

Non-current assets and disposal groups classified as held for sale constitute a discontinued operation if they: i) represent a major line of business or geographical area of operations; ii) are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or iii) relate to a subsidiary acquired exclusively with a view to resale.

Profits and losses from discontinued operations, and any gains or losses realised following the sale, are shown in a separate line item in the income statement, net of any tax, with amounts for comparative periods also shown.

When events no longer permit the entity to classify the non-current assets or disposal groups as held for sale, the assets or disposal groups must be reclassified to the respective items in the statement of financial position and recognised at the lower of: (i) their carrying amount at the date of classification as held for sale; and (ii) the recoverable amount at the date of reclassification.

On 29 April 2022, Terna S.p.A., Terna Plus S.r.l. and Terna Chile S.p.A. signed an agreement with CDPQ, a global investment group, for the sale of all the Group's power line assets, approximately 1,200 km, in Brazil, Peru and Uruguay. On 7 November 2022, the first transaction closing for the Brazilian companies, "SPE Santa Maria Transmissora de Energia S.A.", "SPE Santa Lucia Transmissora de Energia S.A." and "SPE Transmissora de Energia Linha Verde II S.A.", owners of three power lines in Brazil, totalling 670 km, was completed. The value of the assets being sold (the equity value) is more than €145 million. On 22 December 2022, the transaction closing for Difebal S.A., the owner of a power line in Uruguay, totalling 214 km, was completed. The value of the assets being sold (the equity value) is more than €27 million. Both transaction closings are in line with the agreement. The sale of the other assets in Brazil (expected in 2024) and Peru is due to take place in phases, following fulfilment of the conditions provided for in the agreement.

Following the above transaction, in accordance with IFRS 5- Non-current Assets Held for Sale and Discontinued Operations, the consolidated assets and liabilities of the companies for which the sale process has yet to complete are included in "Assets held for sale" and in "Liabilities related to assets held for sale" in the consolidated statements of financial position for 2023 and 2022. In the consolidated income statement, the consolidated profit/(loss) of the companies included in the transaction, for the years ended 31 December 2022 and 31 December 2023, is presented as "Net profit/(loss) for the year from assets held for sale".

Employee benefits

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

Share-based payments

Given that they are substantially a form of remuneration, personnel expenses include the cost of share-based incentive plans. The cost of the incentive is measured on the basis of the fair value of the equity instruments granted and the expected number of shares to be effectively awarded. The accrued amount for the period is determined on a straight-line basis over the vesting period, being the period between the grant date and the date

of the award. The fair value of the shares underlying the incentive plan is measured at the grant date, based on the expected satisfaction of the performance conditions associated with market conditions and is not subject to adjustment in future periods. When receipt of the benefit is linked to non-market conditions, the estimate relating to these conditions is reflected and the accrual's number of shares expected to be awarded is adjusted over the vesting period. If, at the end of the vesting period, the plan does not result in the award of any shares to beneficiaries due to the failure to satisfy the performance conditions, the portion of the cost linked to market conditions is not reversed through the income statement.

Provisions for risks and charges

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

Changes in the estimates are recognised in the income statement for the year in which the change occurs, except for the expected costs of dismantling, removal and restoration resulting from changes in the timing and use of the economic resources necessary to extinguish the obligation or are attributable to a material change in the discount rate. These costs are recognised as an increase or reduction in the related assets and recognised in the income statement through depreciation.

Government grants

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

Grants related to income are recognised in the income statement when the conditions for recognition are met.

Revenue

The Group's revenue can be categorised as follows:

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

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

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

- Revenue from the sale of goods is recognised when control of the goods is transferred to the customer (at a point in time). The Group determines if there are other promises in the contract representing a performance

obligation to which a part of the transaction consideration must be allocated. In determining the sale price, the Group takes into account the effects of a variable consideration, significant financial components, non-monetary components and amounts to be paid to the customer (if present);

- Revenue from services is recognised with reference to the stage of completion of the activity, in accordance with the provisions of IFRS 15 (over a period of time).

Revenue from sales and services also includes “pass-through” revenue and expenses originating from the purchase and sale of energy from and to electricity market operators. The regulatory framework requires that such expenses and revenue must always amount to zero, via a pro rata charge to each consumer for the net cost resulting from the measurement of imbalances and purchase and sale transactions, carried out by Terna on the Dispatching Services Market, through a specific fee known as an uplift payment. Terna receives compensation for this activity through specific revenue for providing the dispatching service. Given that Terna does not have the power to set the prices of DSM transactions, this revenue is presented net of the related costs.

Revenue from sales and services also includes output-based incentives, as defined by ARERA, for both transmission and dispatching activities. The incentive mechanisms fall within the scope of application of IFRS 15. If the counterparties through which Terna collects an incentive are not active in the market in the year in which achievement of the targets underlying the incentive scheme is confirmed, IFRS 15 is applied in accordance with the analogy-based approach provided for in IAS 8, as confirmed with reference to the Conceptual Framework for Financial Reporting.

If the mechanism includes a significant financial component, the amounts recognised in the financial statements are discounted to present value. Based on the specific nature of each mechanism, the Group assesses whether the performance obligation is satisfied over a period of time or at a point in time, also taking into account whether or not the right is subject to confirmation or verification by the regulator, ARERA.

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

Costs

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

Financial income and expenses

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

Where funds are borrowed specifically, the costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings. Where loans are obtained for general purposes, the eligible amount is determined by applying a capitalisation rate to the expenditure on that asset equal to the weighted average of the financial expenses applicable to the borrowings outstanding for the year, excluding any specifically borrowed funds. The amount of capitalised financial expenses during a year will in any case not exceed the amount of financial expenses incurred during that year.

Capitalisation commences as from the date all the following conditions are first met: (a) expenditure has been incurred for the asset; (b) financial expenses have been incurred; and (c) the activities involved in preparing the asset for its intended use or sale are in progress. Capitalisation ceases when the activities involved in preparing the asset for its intended use or sale are substantially complete.

The average capitalisation rate used for 2023 is approximately 2.0% (1.3% for 2022).

Financial income and expenses other than capitalised amounts are recognised on an accruals basis in respect of the interest on the net value of the related financial assets and liabilities, using the effective interest rate.

Treasury shares

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

Dividends

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

Earnings per share

Basic earnings per share is calculated by dividing the profit or loss for the year attributable to holders of the ordinary shares by the weighted average of ordinary shares outstanding during the year, excluding treasury shares.

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

Income taxes

Current income taxes are recognised as "Tax liabilities", net of advances paid, or "Tax assets" where the net balance of the items is positive. They are based on the estimated taxable income and in accordance with current legislation, taking account of applicable exemptions.

Deferred tax assets and liabilities are calculated on temporary differences between the carrying amounts of assets and liabilities recognised in the 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 statement of comprehensive income are also allocated to the statement of comprehensive income.

New accounting standards

International financial reporting standards effective as of 1 January 2023

A number of new amendments to standards already applied, none of which have had a significant impact, came into effect from 1 January 2023. The relevant standards are as follows:

IFRS 17: Insurance contracts

The new accounting standard for insurance contracts, endorsed by the European Commission with Regulation 2021/2036, has replaced 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 new standard has not had a significant impact on the Group's consolidated financial statements.

Regulation 2022/1491 also endorsed the amendment that aims to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, therefore improving the usefulness of comparative information for users of financial statements.

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

The amendment, endorsed by the European Commission with Regulation 2022/1329, 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 amendment has not had a significant impact on the Group's consolidated financial statements.

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

The amendment, endorsed by the European Commission with Regulation 2021/2036, introduces 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 changes have not had a significant impact on the Group's consolidated financial statements.

Amendment to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules

Directive 2022/2523 – based on the paper, "Tax Challenges Arising from the Digitalisation of the Economy- Global Anti-Base Erosion Model Rules (Pillar Two)" issued by the OECD on 14 December 2021 - has introduced a minimum effective corporate tax rate of 15% for Italian and multinational groups in each jurisdiction in which they operate, providing for the application of a top-up tax in cases where a country's effective tax rate, with the adjustments provided for in the application rules, is below the minimum rate of 15%. This legislation was transposed into domestic law in Legislative Decree 209 of 27 December 2023 ("Pillar II" or "global minimum tax") with effect from the 2024 tax year.

In this regard, the Terna Group (classified as a Minority-Owned Parent Entity ("MOPE"), for the purposes of the relevant legislation), in coordination with the parent, CDP, took part in a specific project in 2023, with the support of a leading advisor, with the aim of: i) mapping relevant entities for the purposes of Pillar II; ii) gathering the information necessary to determine the Transitional Country-by-Country Safe Harbor; iii) gathering the information needed to calculate Globe Income and Adjusted Covered Taxes, necessary to compute the minimum rate of 15%; iv) preparing the Gap Analysis. These activities were conducted with reference to the 2022 tax year.

On 23 May 2023, the IASB published an amendment called "Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules". The document, which was adopted by the EU on 8 November 2023, introduces a temporary exception to the requirements in IAS 12 to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes and imposes specific disclosure requirements for entities affected by the related International Tax Reform. The document provides for immediate application of the temporary exception, whilst the disclosure requirements will only be applicable in annual reporting periods starting from 1 January 2023 (or a later date).

Following the analysis carried out with respect to 2022, based on the information currently available, it is not expected that will be a significant impact on the Terna Group.

International financial reporting standards, amendments and interpretations endorsed but yet to come into effect

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 e Non-current Liabilities with Covenants

On 23 January 2020, the IASB published an amendment called “Amendments to IAS 1: Presentation of Financial Statements: Classification of Liabilities as Current or Non-current” and, on 31 October 2022, published an amendment called “Amendments to IAS 1: Presentation of Financial Statements: Non-Current Liabilities with Covenants”. These amendments aim to clarify how to classify payables and other short- or long-term liabilities. In addition, the amendments also improve the disclosures that an entity must provide when its right to defer the settlement of a liability for at least twelve months is subject to compliance with specified conditions (i.e., covenants). The amendments are effective from 1 January 2024, although early adoption is permitted. The Group is currently assessing the potential impact of the introduction of these amendments on the consolidated financial statements.

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

On 22 September 2022, the IASB published the amendment called “Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback”. The document requires the seller-lessee to measure the lease liability resulting from a sale and leaseback transaction in such a way that it does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective from 1 January 2024, although early adoption is permitted. The Group is currently assessing the potential impact of the introduction of these amendments on the consolidated 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 Group, assessments are currently being conducted of the possible impact of their application on the financial statements, taking into account the date on which they will take effect. In particular:

Amendment to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements

On 25 May 2023, the IASB published the amendment to IAS 7 that aims to add disclosure requirements and “sign posts” within existing disclosure requirements, requesting entities to provide qualitative and quantitative information about supplier finance arrangements. The document requires an entity to provide additional disclosures on any reverse factoring agreements to enable users of financial statements to assess how supplier finance arrangements affect an entity's liabilities and cash flows and understand the effect of supplier finance arrangements on an entity's exposure to liquidity risk. The amendments are effective from 1 January 2024, although early adoption is permitted.

Amendment to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability

The amendment, published on 15 August 2023, clarifies when a currency is exchangeable, how to estimate the exchange rate and the disclosure to provide in the notes to financial statements. The document requires an entity to apply a method on a consistent basis to determine if a currency is exchangeable and, when this is not possible, specifies how to determine the exchange rate to use and the disclosure to provide in the notes to the financial statements. The amendment is effective from 1 January 2025, although early adoption is permitted.

B. Notes to the consolidated income statement

Revenue

1. Revenue from sales and services - €3,122.8 million

(€m)

	2023	2022	CHANGE
Transmission charges billed to grid users and incentives	2,107.6	1,968.6	139.0
Dispatching and metering fees and other energy-related revenue	127.1	115.3	11.8
Incentives for dispatching activities	303.8	334.7	(30.9)
Revenue from services performed under concession	80.6	67.4	13.2
Quality of service bonuses/(penalties)	11.2	23.2	(12.0)
Other sales and services	492.5	388.9	103.6
TOTAL	3,122.8	2,898.1	224.7

Transmission charges and incentives

Transmission charges billed to grid users regard revenue generated from ownership and operation of the national transmission grid or NTG and attributable to the Parent Company (€1,955.6 million) and the subsidiaries, Rete S.r.l. (€135.5 million), Terna Crna Gora d.o.o. (€15.7 million) and Rete Nord S.r.l. (€0.8 million, relating to the period prior to the merger with and into Rete S.r.l. on 20 December 2023).

The increase in this item (up €139.0 million) is primarily linked to the increase in the RAB in the period after the volume effect (up €91.6 million) and an increase in output-based incentives related to the delivery of additional transmission capacity between market areas, amounting to €34.5 million for the amount due as a bonus in accordance with Resolution 23/2022 and €12.9 million for the bonus awarded for the efficiency of capital expenditure in 2022, pursuant to Resolution 473/2023.

Dispatching and metering fees and other energy-related revenue

This item regards fees received in return for providing dispatching and metering services (the dispatching component, amounting to €124.2 million, and the metering component, amounting to €0.6 million) and other energy-related revenue of €2.3 million.

The item is up €11.8 million compared with the previous year, broadly due to the increase in dispatching fees introduced by Resolution 738/2022.

Incentives for dispatching activities

This item represents the output-based incentives for dispatching activities, amounting to €303.8 million.

These incentives essentially consist of the mechanisms introduced by Resolutions 597/2021 and 132/2022, designed to cut DSM costs, the shortfall in wind production and essential plants (€302.6 million, representing the accrued present value of the estimated incentive for the period 2022-2024, amounting to €813.7 million before the effect of discounting). With reference to the mechanism introduced by Resolution 597/2021, revenue for 2023 corresponds with the overall accrued value of the estimated incentive for the three-year period, thus also incorporating the projection of factors that could result in a reduction in the incentive for 2024 due to a partial increase in DSM costs associated with a higher volume of market transactions in the event of critical situations for the adequacy of the system, tensions on overseas markets and /or extreme weather events for factors not mitigated by the calculation rules. This item is down €30.9 million compared with the previous year, broadly due to the recognition in 2022 of the incentive for grid development work in the three-year period 2019-2021 designed to relieve congestion within market areas and grid constraints due to voltage regulation and improve conditions for essential service provision (a reduction of €140.5 million, Resolution 26/2023). On the other hand, in 2023, recognition of the revenue from the mechanism designed to reduce the cost of procuring services on the DSM, the shortfall in wind production and essential services (pursuant to Resolutions 597/2021 and 132/2022) resulted in an increase of €108.4 million, following an update in the overall performance estimates for the three-year period 2022-2024.

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 €80.6 million.

The increase compared with the previous year, amounting to €13.2 million, regards greater investment in dispatching infrastructure during the period.

Quality of service

This item, amounting to €11.2 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 2020-2025 regulatory period, taking into account the extension of the regulatory period confirmed by Resolution 55/2024/r/eel.

The decrease of €12.0 million in this item compared with the previous year is broadly due to the impact of the above extension, considering the performance in 2023.

Other sales and services

The item, "Other sales and services", amounting to €492.5 million, mainly regards revenue from Non-regulated Activities, regarding:

- the sale of transformers by the subsidiary, Tamini (€136.0 million);
- revenue contributed by Brugg Cables, essentially relating to contracts with third parties for the supply of cables and accessories (€159.4 million);
- Energy Solutions (€142.8 million) above all HV services, totalling €30.3 million and Smart Grids, totalling €112.5 million, including the contribution from the LT Group, which specialises in O&M services for photovoltaic plants (€92.2 million) and the energy efficiency services provided by the subsidiary, Avvenia The Energy Innovator S.r.l. amounting to €1.4 million;
- Connectivity (€34.8 million) with specific regard to support and housing services for fibre networks (€29.7 million) and fibre maintenance (€4.1 million).

This item also includes revenue from connections to the NTG (€10.8 million) and relating to the private Italy-Austria Interconnector (€0.3 million), representing the accrued portion of the revenue attributable to the Group for services provided during construction.

This item is up €103.6 million compared with 2022, primarily due to the contribution from the Brugg Group (up €30.2 million), increased revenue from Energy Solutions (up €61.7 million) and an increase in revenue from the provision of Connectivity services (up €3.3 million) and revenue from connections to the NTG (up €2.1 million). There was also an increase in revenue from the Italy-France Interconnector (up €12.1 million) due to a recognition in 2022 of a contractual penalty payable to energy intensive users for the delayed completion of work, offset by recognition of a penalty receivable from suppliers for delayed completion of the same project, recognised in the item "2. Other revenue and income".

Pass-through revenue/expenses

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

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

(€m)

	2023	2022	CHANGE
Power Exchange-related revenue items	5,244.2	11,308.4	(6,064.2)
- Uplift	479.3	1,394.5	(915.2)
- Electricity sales	442.6	1,278.2	(835.6)
- Imbalances	1,673.9	3,689.1	(2,015.2)
- Congestion revenue	355.4	710.7	(355.3)
- Charges for right to use transmission capacity and market coupling	1,209.8	1,160.0	49.8
- Interconnectors/shippers	57.6	66.3	(8.7)
- Load Profiling for public lighting	348.0	1,833.5	(1,485.5)
- Other Power Exchange-related pass-through revenue items	677.6	1,176.1	(498.5)
Total over-the counter revenue items	3,591.0	2,788.8	802.2
- Transmission and dispatching service: penalties from auxiliary service providers	0.1	-	0.1
- Capacity market	1,470.4	1,204.3	266.1
- Coverage of wind farm costs	20.6	40.5	(19.9)
- Transmission revenue passed on to other NTG owners	1.1	1.8	(0.7)
- Charge to cover cost of essential plants	1,019.6	703.5	316.1
- Charge to cover cost of interruptibility service	329.3	314.3	15.0
- Charge to cover cost of LV capacity and protection service	328.6	425.4	(96.8)
- Other pass-through revenue for over-the-counter trades	421.3	99.0	322.3
TOTAL PASS-THROUGH REVENUE	8,835.2	14,097.2	(5,262.0)
Total Power Exchange-related cost items	5,244.2	11,308.4	(6,064.2)
- Electricity purchases	1,185.1	3,581.1	(2,396.0)
- Imbalances	1,624.6	3,039.6	(1,415.0)
- Congestion revenue	170.1	527.6	(357.5)
- Charges for right to use transmission capacity and market coupling	559.0	542.0	17.0
- Interconnectors/Shippers	599.7	874.7	(275.0)
- Load Profiling for public lighting	447.3	1,886.4	(1,439.1)
- Other Power Exchange-related pass-through cost items	658.4	857.0	(198.6)
Total over-the-counter cost items	3,591.0	2,788.8	802.2
- Transmission and dispatching service: penalties to auxiliary service providers	0.1	-	0.1
- Capacity market	1,470.4	1,204.3	266.1
- Shortfall in wind production	20.6	40.5	(19.9)
- Transmission costs passed on to other NTG owners	1.1	1.8	(0.7)
- Fees paid for essential units	1,019.6	703.5	316.1
- Fees paid for interruptibility service	329.3	314.3	15.0
- Fees paid for LV capacity and protection service	328.6	425.4	(96.8)
- Other pass-through costs for over-the-counter trades	421.3	99.0	322.3
TOTAL PASS-THROUGH COSTS	8,835.2	14,097.2	(5,262.0)

In 2023, the total uplift was approximately €446 million (provisional data), down 76% on the previous year (€1.844 million). The reduction was due to the sharp fall in the cost of procuring services, the fall in the consideration due for start-up and Change of Set-up Tokens¹, a reduction in the cost of the virtual interconnection service and, to a lesser extent, the reduced cost of contracts providing an alternative to essential providers², the slight rise in congestion revenue in Italian and Overseas market areas, only partly offset by lower revenue from imbalances.

¹ Start-up and Change of Set-up 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.

2. Other revenue and income – €63.9 million

(€m)

	2023	2022	CHANGE
Gains on sale of infrastructure components	14.8	6.8	8.0
Sales to third parties	10.9	12.9	(2.0)
Sundry grants	8.8	9.2	(0.4)
Private Italy-France interconnector	8.3	1.4	6.9
Private Italy-Montenegro interconnector	6.4	6.4	-
Insurance proceeds as compensation for damages	5.7	3.2	2.5
Revenue from IRU contracts for fibre	4.3	1.3	3.0
Rental income	2.2	2.2	-
Contingent assets	0.9	4.4	(3.5)
Penalties receivables from suppliers	0.3	14.3	(14.0)
Other revenues	1.3	4.3	(3.0)
TOTAL	63.9	66.4	(2.5)

“Other revenue and income” consists of gains on the sale of infrastructure components (€14.8 million), in addition to other significant items relating to sales to third parties (€10.9 million), sundry grants (€8.8 million), revenue from the private Italy-France interconnector (€8.3 million) and from the private Italy-Montenegro interconnector (€6.4 million), insurance proceeds (€5.7 million) and revenue from Connectivity services linked to IRU contracts for fibre (€4.3 million). This item, totalling €63.9 million, is down €2.5 million compared with the previous year, primarily reflecting recognition, in 2022, of a penalty receivable from suppliers in relation to delays in work on the private Italy-France interconnector 2022 (down €14.0 million), revenue for granting the right to use the infrastructure to energy-intensive companies linked to the entry into service of the private power line in November 2022 (up €6.9 million), a reduction in sales to third parties (down €2.0 million) and a decline in other revenues (down €3.0 million). These changes were partially offset by increased revenue from gains on the sale of infrastructure components (up €8.0 million, essentially scrap, transformers and motor vehicles) and increased revenue from Connectivity services linked to IRU contracts for fibre (up €3.0 million).

Operating costs**3. Raw and consumable materials used – €285.4 million**

This item includes the value of the various materials and equipment used in the ordinary operation and maintenance of the plant belonging to the Group and third parties, and the materials consumed primarily in relation to the industrial and energy solutions businesses.

The increase of €37.6 million compared with the previous year primarily reflects the cost of materials incurred by the LT Group and the Brugg Cables Group (up €34.8 million and €19.4 million, respectively), after a reduction in the cost of materials at the Tamini Group (down €18.0 million). This item also reflects increased costs (up €2.8 million) linked to construction and development of the infrastructure operated under concession, accounted for in application of IFRIC 12.

4. Services – €312.3 million

(€m)

	2023	2022	CHANGE
Maintenance and sundry services	139.0	123.7	15.3
Tender costs for plant	77.7	68.5	9.2
IT services	46.4	38.5	7.9
Lease expense	20.5	19.4	1.1
Insurance	19.6	16.8	2.8
Remote transmission and telecommunications	9.1	10.0	(0.9)
TOTAL	312.3	276.9	35.4

This item, totalling €312.3 million, is up €35.4 million compared with 2022 (€276.9 million). This primarily reflects increased activity and new initiatives carried out by the Group, above all the LT Group (up €12.9 million), the Tamini Group (up €1.9 million) and the Brugg Group (up €1.9 million), as well as the increased costs linked to the construction and development of infrastructure under concession, recognised in application of IFRIC 12 (up €8.1 million, in particular reflecting cost increases of €7.2 million for IT services and maintenance costs totalling €1.1 million) and an increase in advertising costs (up €7.0 million, essentially linked to the “noi siamo energia” advertising campaign).

Fees payable to members of the Board of Statutory Auditors amount to €0.5 million whilst those payable to members of the Supervisory Board set up in compliance with Legislative Decree 231/2001 amount to €0.7 million.

5. Personnel expenses – €377.2 million

(€m)

	2023	2022	CHANGE
Salaries, wages and other short-term benefits	461.7	427.7	34.0
Directors' remuneration	2.6	2.3	0.3
Termination benefits (<i>TFR</i>), energy discounts and other employee benefits	32.1	21.6	10.5
Early retirement benefits	17.2	12.6	4.6
Gross personnel expenses	513.6	464.2	49.4
Capitalised personnel expenses	(136.4)	(116.1)	(20.3)
TOTAL	377.2	348.1	29.1

Personnel expenses, amounting to €377.2 million in 2023, are up €29.1 million compared with the previous year (€348.1 million). This is due to an increase in the average workforce the impact of renewal of the national collective labour agreement for the electricity sector, partly offset by the higher amount of capitalised expenses.

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

(€m)

	AVERAGE WORKFORCE			WORKFORCE AT	
	2023	2022	DELTA	31 DECEMBER 2023	31 DECEMBER 2022
Senior managers	107	98	9	102	94
Middle managers	887	819	68	896	841
Office staff	3,205	2,941	264	3,349	3,090
Blue-collar workers	1,523	1,476	47	1,580	1,472
TOTAL	5,722	5,334	388	5,927	5,497

The net increase in the average workforce compared with 2022 is 388. This is essentially linked to the requirements relating to delivery of the investment programme included in the last approved Industrial Plan.

At 31 December 2023, the Terna Group's workforce breaks down as follows:

	TERNA S.P.A.	TERNA RETE ITALIA S.P.A.	TERNA ENERGY SOLUTIONS S.R.L.	TERNA PLUS S.R.L.	AVVENIA THE ENERGY INNOVATOR S.R.L.
No.	1,143	3,633	79	13	13

TAMINI GROUP	LT GROUP	BRUGG KABEL AG	TERNA USA LLC	TERNA CRNA GORA D.O.O.	SPE TRANSMISSORA DE ENERGIA LINHA VERDE I S.A.	TERNA PERU S.A.C.
355	188	457	1	10	32	3

6. Amortisation, depreciation and impairment losses – €806.3 million

(€m)

	2023	2022	CHANGE
Amortisation of intangible assets	126.4	93.2	33.2
- of which on infrastructure	34.8	26.7	8.1
Depreciation of property, plant and equipment	670.6	624.2	46.4
Impairment losses on property, plant and equipment and intangible assets	8.7	7.0	1.7
Impairment losses on trade receivables	0.6	1.3	(0.7)
TOTAL	806.3	725.7	80.6

Amortisation, depreciation and impairment losses, amounting to €806.3 million (including €17.7 million recognised in application of IFRS 16), are up €80.6 million compared with 2022. This reflects the entry into service of new infrastructure, primarily at the Parent Company (up €63.3 million), in addition to an increase in impairment losses on assets recognised during the year (up €1.7 million).

7. Other operating costs - €43.2 million

(€m)

	2023	2022	CHANGE
Indirect taxes and local taxes and levies	10.7	11.8	(1.1)
Fees paid to regulators and membership dues	9.9	9.3	0.6
Quality of service costs	5.3	1.9	3.4
of which mitigation and sharing mechanisms	2.3	1.6	0.7
of which the Fund for Exceptional Events	2.8	0.1	2.7
of which compensation mechanisms for HV users	0.2	0.2	-
Adjustment of provisions for litigation and disputes	(0.9)	(3.2)	2.3
Net contingent liabilities	1.2	1.0	0.2
Losses on sales/disposals of plant and net contingent liabilities	1.1	1.3	(0.2)
Other	15.9	10.4	5.5
TOTAL	43.2	32.5	10.7

The Group's other operating costs, amounting to €43.2 million, are primarily attributable to the Parent Company (€22.3 million), the subsidiary, Terna Rete Italia S.p.A. (€2.3 million) and the Tamini Group (€5.0 million). They include indirect taxes, local taxes and levies (€10.7 million), membership dues and fees paid to trade bodies and associations relating to the Group's activities (€9.9 million), quality of service costs (€5.3 million) and other costs (€15.9 million) including provisions for risks and charges connected with the activities of the subsidiary, Tamini (€4.4 million, primarily in the form of provisions for product warranties) and other operating costs linked to the Brugg Group, relating to the cost of scrapping waste materials, donations and other expenses.

The increase of €10.7 million in the item, primarily reflects the increase in quality of service costs (up €3.4 million), primarily linked to provisions for exceptional events related to the outages that occurred in eastern Sicily in February 2023, additional of provisions for litigation and disputes (up €2.3 million) and an increase in the fees paid to regulators and membership dues (€0.6 million).

There was also an increase in other costs (up €5.5 million), due in particular to the increased provisions at the Tamini Group for the risks relating to product warranties (up €2.7 million).

8. Financial income/(expenses) – (€120.3) million

(€m)

	2023	2022	CHANGE
FINANCIAL EXPENSES			
Interest expense on medium/long-term borrowings and related hedges	(235.5)	(138.7)	(96.8)
Adjustment of borrowings and related hedges	(2.8)	-	(2.8)
Discounting of receivables, termination benefits (<i>TFR</i>), operating leases and other liabilities	-	(3.7)	3.7
Capitalised financial expenses	48.3	24.8	23.5
Foreign exchange losses	(0.4)	-	(0.4)
Other financial expenses	(37.3)	(4.2)	(33.1)
Total expenses	(227.7)	(121.8)	(105.9)
FINANCIAL INCOME			
Interest income and other financial income	84.6	14.6	70.0
Adjustment of borrowings and related hedges	-	5.4	(5.4)
Discounting of receivables, termination benefits (<i>TFR</i>), operating leases and other liabilities	22.8	-	22.8
Foreign exchange gains	-	2.7	(2.7)
Total INCOME	107.4	22.7	84.7
TOTAL	(120.3)	(99.1)	(21.2)

Net financial expenses of €120.3 million are essentially attributable to the Parent Company (€118.8 million) and reflect €227.8 million in financial expenses and €107.4 million in financial income. The increase in net financial expenses compared with 2022, amounting to €21.2 million, primarily reflects higher interest rates and regards:

- an increase of €96.8 million in the cost of debt following the increase in market interest rates, partially offset by the impact of falling inflation in relation to the inflation-linked bonds maturing in September;
- an increase of €33.1 million in other financial expenses, broadly due to the uplift component;
- an increase of €70.0 million in financial income on cash and other financial assets as a result of improved market conditions;
- an increase of €23.5 million in capitalised expenses due to increased investment during the period and rising interest rates;
- an increase of €26.5 million in net income from discounting, essentially due to discounting of the receivable recognised in 2022, following measurement of the incentives for reducing dispatching market costs (in accordance with Resolution 597/2021- as amended by determination 132/2022 and Resolutions 699/2018 and 26/2023), taking into account the timing of collection under the above resolutions.

9. Share of profit/(loss) of investees accounted for using the equity method – (€2.6) million

The loss of €2.6 million reflects a reduction of €3.6 million euro compared with the previous year (a profit of €1.0 million), broadly due to an adjustment of the value of the investment in the associate, CESI.

10. Income tax expense – €364.3 million

Income tax expense for the year totals €364.3 million, an increase of €8.9 million on the previous year, essentially due to the increase in pre-tax profit and the lower amount of tax-exempt income recognised in the previous year. The tax rate of 29.3%, compares with the rate of 28.8% for 2022.

(€m)

	2023	2022	CHANGE
Income tax for the year			
<i>Current tax expense:</i>			
- IRES (corporate income tax)	326.3	327.7	(1.4)
- IRAP (regional tax on productive activities)	72.7	71.3	1.4
Total current expense	399.0	399.0	-
<i>New temporary differences:</i>			
- deferred tax assets	(50.8)	(56.4)	5.6
<i>Reversal of temporary differences:</i>			
- deferred tax assets	17.3	15.2	2.1
- deferred tax liabilities	(1.9)	(1.1)	(0.8)
Total deferred tax (income)/expense	(35.4)	(42.3)	6.9
Adjustments to taxes for previous years and other one-off changes	0.7	(1.3)	2.0
TOTAL	364.3	355.4	8.9

Current income tax expense of €399.0 million is in line with the previous year due to the adjustments recognised in pre-tax profit.

Net deferred tax expense of €35.4 million is down €6.9 million compared with the figure for the previous year (€42.3 million). This reflects the impact of taxation on depreciation and amortisation, movements in provisions for risks and charges and for employee benefits recognized by the Group during the year.

Adjustments to taxes for previous years, amounting to expense of €0.7 million, primarily regard subsidiaries and include contingent assets resulting from recognition of the effective amount payable when filing annual tax returns.

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

(€m)

	2023	2022
Profit before tax	1,244.6	1,233.4
THEORICAL IRES TAX CHARGE (24%)	298.7	296.0
IRAP	72.7	71.3
Permanent differences	(7.8)	(10.6)
TAX (after adjustment for previous years and one-off changes)	363.6	356.7
TAX RATE	29.2%	28.9%
Adjustments to taxes for previous years and other one-off changes	0.7	(1.3)
INCOME TAX EXPENSE FOR THE YEAR	364.3	355.4
EFFECTIVE TAX RATE	29.3%	28.8%

11. Profit/(Loss) from discontinued operations and assets held for sale – (€2.5) million

This item reflects the net result from the assets included in the agreement signed by the Terna Group and CDPQ, a global investment group, on 29 April 2022 for the sale of all the Group's power line assets in Brazil, Peru and Uruguay. The first transaction closing for the sale of the Brazilian companies, SPE Transmissora de Energia Linha Verde II S.A., SPE Santa Lucia Transmissora de Energia S.A. and SPE Santa Maria Transmissora de Energia S.A., was completed on 7 November 2022. The transaction closing for the sale of Difebal S.A., which operates a power line in Uruguay, was completed on 22 December 2022. The sale of the other assets in Brazil (expected in 2024) and Peru is due to take place in phases, following fulfilment of the conditions provided for in the agreement.

The revenue and cost items resulting in the net result for the year from assets held for sale, amounting to a profit of €2.5 million, are shown below:

(€m)

	2023	2022	CHANGE
Total revenue	35.8	49.3	(13.5)
Total operating costs	53.9	45.3	8.6
OPERATING PROFIT	(18.1)	4.0	(22.1)
Net financial income/(expenses)	1.2	(9.7)	10.9
Impairment loss recognised on remeasurement of the fair value less costs to sell	21.2	(20.0)	41.2
PROFIT/(LOSS) BEFORE TAX	4.3	(25.7)	30.0
Income tax expense for the year	1.7	5.9	(4.2)
Profit/(Loss) for the year attributable to owners of the Parent	2.5	(31.6)	34.1
Net gains on disposals	-	23.0	(23.0)
Reserve for translation differences	-	(11.7)	11.7
Profit/(Loss) for the year from discontinued operations and assets held for sale	2.5	(20.3)	22.8

Revenue

This item broadly consists of revenue from construction and development of infrastructure operated under concession, above all the discontinued operations and assets held for sale located in Brazil (€34.2 million) and Peru (€1.6 million).

Operating costs

Operating costs essentially regard the costs incurred in application of IFRIC 12 for the construction work being carried out in Brazil (€52.8 million), as well as operating costs incurred in Peru.

Net gains on disposals

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

Reserve for translation differences

The items include the differences deriving from the translation of financial statements denominated in foreign currency and is reclassified to profit or loss following the deconsolidation of companies from which it originates.

The gain from discontinued operations and assets held for sale, amounting to €2.5 million, marks an improvement of €22.8 million compared with the previous year. This essentially reflects adjustment of the fair value of the net assets held for sale in application of IFRS 5 (up €41.2 million), after the companies' operating results (a loss of €7.0 million), also taking into account the different scope and recognition, at 31 December 2022, of a net gain on the sale (down €23.0 million) and release of the reserve for translation differences (up €11.7 million).

Basic and diluted earnings per share from discontinued operations and assets held for sale, amounting to a gain of €0.001 per share (the numerator of €2.5 million represents the net gain from assets held for sale, whilst the denominator of 2,005,710,736.25 shares is the weighted average number of shares outstanding during the year).

The agreements signed with CDPQ, regarding the sale of the Brazilian companies, grant the purchaser a put option for the return of SPE Transmissora de Energia Linha Verde II S.A. to Terna Plus. This may be exercised, under determinate conditions, no sooner than 31 December 2025. At the date of preparation of these financial statements, the option is not exercisable and provides protection for the counterparty, which does not have a significant economic incentive to exercise it.

Moreover, at the date of preparation of this document, a number of disputes are in progress. The related outcomes have been classified as possible and therefore no provisions have been made in the financial statements:

- ongoing arbitration between SPE Santa Lucia Transmissora de Energia S.A. and Planova Planejamento e Construções S.A. and Krasis Participações S.A., regarding responsibility for postponement of the Commercial Operation Date ("COD"), as defined in the EPC contract;
- ongoing arbitration between SPE Transmissora de Energia Linha Verde I S.A. and Consórcio Construtor Linha Verde, regarding changes to the obligations provided for in the EPC contract;

In addition, as described in the section, "*M. Events after 31 December 2023*", the following arbitrations identified as possible in the previous year, were resolved in the Group's favour:

- arbitration between SPE Transmissora de Energia Linha Verde I S.A. and Québec Engenharia S.A. and Construtora Quebec S.A., regarding cessation of the obligations provided for in the EPC contract;
- arbitration between SPE Transmissora de Energia Linha Verde II S.A. and Québec Engenharia S.A. and Construtora Quebec S.A., regarding cessation of the obligations provided for in the EPC contract.

12. Earnings per share

Basic earnings per share, which corresponds to diluted earnings per share, amounts to €0.441 (based on profit for the year attributable to owners of the Parent, totalling €885.4 million divided by the number of shares outstanding, totalling 2,005,710,736.2 shares). Earnings per share from continuing operations, which corresponds to diluted earnings per share from continuing operations, is €0.439 (the numerator of €880.3 million is net profit for the year from continuing operations, whilst the denominator of 2,005,710,736.2 shares, is the weighted average number of shares outstanding during the year).

C. Operating segments

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

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

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

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

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

The results of the Brazilian company, Linha Verde I S.A., and of the Peruvian company, Terna Peru S.A.C., have been reclassified to "Profit/(Loss) from discontinued operations and assets held for sale".



(€m)

	2023	2022	CHANGE	% CHANGE
REGULATED REVENUE	2,669.8	2,542.3	127.5	5.0%
NON-REGULATED REVENUE	516.8	421.4	95.4	22.6%
INTERNATIONAL REVENUE*	0.1	0.8	(0.7)	(87.5%)
TOTAL REVENUE	3,186.7	2,964.5	222.2	7.5%
GROSS OPERATING PROFIT (EBITDA)**	2,168.6	2,059.2	109.4	5.3%
of which regulated EBITDA ***	2,085.6	2,007.0	78.6	3.9%
of which non-regulated EBITDA	86.9	57.5	29.4	51.1%
of which International EBITDA	(3.9)	(5.3)	1.4	(26.4%)
Reconciliation of segment result with the Company's profit before tax				
GROSS OPERATING PROFIT (EBITDA)	2,168.6	2,059.2		
Amortisation, depreciation and impairment losses	806.3	725.7		
OPERATING PROFIT/(LOSS) (EBIT)	1,362.3	1,333.5		
Financial income/(expenses)	(120.3)	(99.1)		
Share of profit/(loss) of investees accounted for using the equity method	2.6	(1.0)		
Profit/(Loss) before tax	1,244.6	1,233.4		

* Directly includes the margin earned on overseas concessions.

** Gross operating profit - EBITDA is an indicator of operating performance, obtained by adding "Amortisation, depreciation and impairment losses" to "Operating profit/(loss) (EBIT)".

*** EBITDA including indirect costs.

The Group's revenue for 2023 amounts to €3,186.7 million, an increase of €222.2 million (7.5%) compared with 2022. Gross operating profit (EBITDA) of €2,168.6 million is up €109.4 million (5.3%) on the €2,059.2 million of 2022.

EBITDA from Regulated Activities amounts to €2,085.6 million, an increase of €78.6 million compared with the previous year. This primarily reflects the impact on tariff revenue and incentives (up €119.9 million) of the increase in the RAB after the volume effect and the effects of output-based incentive mechanisms.

EBITDA from Non-regulated Activities in 2023 amounts to €86.9 million, an increase of €29.4 million compared with same period of the previous year. This primarily reflects the increased contribution of the LT Group (up €9.5 million), of the Brugg Cables Group (up €6.3 million) and the Tamini Group (up €4.4 million), in addition to the greater contribution from private interconnectors (up €6.0 million), essentially due to the entry into service of the Italy-France power line in November 2022.

Negative EBITDA from International Activities, amounting to €3.9 million for 2023 essentially reflects the costs incurred by central departments to support overseas initiatives and marks an improvement of €1.4 million compared with the previous year (negative EBITDA of €5.3 million). This primarily reflects the impact on personnel expenses of a reduction in the average workforce following the reorganisation carried out within the Group.

Assets held for sale report a net profit of €2.5 million, an improvement of €22.8 million compared with a loss of €20.3 million in the previous year. This essentially reflects the reversal, in 2023, of impairment losses recognised during the previous year on assets held for sale, offset by the gain recognised in 2022 on the sale of the companies included in the first closing.

Further information is provided in the related paragraph in note 11 in the consolidated financial statements.

(€m)

	31 DECEMBER 2023	31 DECEMBER 2022
Net non-current assets*	18,964.7	17,485.3
<i>of which investments in associates and joint ventures</i>	76.7	73.8
Net working capital**	(2,174.6)	(2,732.8)
Gross invested capital***	16,790.1	14,752.5

* Net non-current assets include the value of "Property, plant and equipment", "Goodwill", "Intangible assets", "Investments accounted for using the equity method", "Other non-current assets" and "Non-current financial assets", excluding the value of cash flow hedges (€17.2 million).

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

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

D. Notes to the consolidated statement of financial position

Assets

13. PROPERTY, PLANT AND EQUIPMENT – €17,596.7 million

(€m)

	LAND	BUILDINGS	PLANT AND EQUIPMENT	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER ASSETS	ASSETS UNDER CONSTRUCTION AND PREPAYMENTS	TOTAL
COST AT 31 DECEMBER 2022	217.7	2,403.3	20,979.8	232.2	269.3	2,581.3	26,683.6
Investment	0.1	5.1	1.0	8.1	11.7	2,047.8	2,073.8
<i>of which right-of-use assets</i>		5.0	0.2		10.1		15.3
Assets entering service	9.5	191.2	1,528.0	9.4	25.8	(1,763.9)	-
Contribution from business combinations	5.6	0.8	13.5	-	-	-	19.9
Translation differences	-	2.6	-	4.9	0.4	0.1	8.0
<i>of which right-of-use assets</i>	-	(0.2)	-	-	(0.1)	-	(0.3)
Disposals and impairments	(0.1)	(3.3)	(104.4)	(3.3)	(18.2)	(8.2)	(137.5)
<i>of which right-of-use assets</i>		(1.8)	(1.5)	-	(0.6)	-	(3.9)
Other movements	(0.3)	(12.2)	(26.7)	-	-	28.2	(11.0)
COST AT 31 DECEMBER 2023	232.5	2,587.5	22,391.2	251.3	289.0	2,885.3	28,636.8
ACCUMULATED DEPRECIATION AND IMPAIRMENT AT 31 DECEMBER 2022	(2.2)	(798.8)	(9,318.8)	(185.2)	(177.7)	-	(10,482.7)
Depreciation for the year	(0.7)	(65.8)	(566.6)	(9.7)	(27.8)	-	(670.6)
<i>of which right-of-use assets</i>	(0.7)	(7.3)	-	-	(9.7)	-	(17.7)
Contribution from business combinations	-	(0.3)	(6.3)	-	-	-	(6.6)
Translation differences	-	(0.9)	-	(4.7)	(0.4)	-	(6.0)
Disposals	-	2.9	100.4	3.2	18.1	-	124.6
<i>of which right-of-use assets</i>	-	1.6	1.3	-	0.4	-	3.3
Other movements	-	(0.1)	1.2	0.1	-	-	1.2
ACCUMULATED DEPRECIATION AND IMPAIRMENT AT 31 DECEMBER 2023	(2.9)	(863.0)	(9,790.1)	(196.3)	(187.8)	-	(11,040.1)
Carrying amount							
AT 31 DECEMBER 2023	229.6	1,724.5	12,601.1	55.0	101.2	2,885.3	17,596.7
<i>of which right-of-use assets</i>	4.9	32.6	19.4	-	35.9	-	92.8
AT 31 DECEMBER 2022	215.5	1,604.5	11,661.0	47.0	91.6	2,581.3	16,200.9
<i>of which right-of-use assets</i>	5.6	35.3	19.4	-	35.8	-	96.1
Change	14.1	120.0	940.1	8.0	9.6	304.0	1,395.8

The category, "Plant and equipment," at 31 December 2023 includes the electricity transmission grid and transformer substations in Italy.

"Property, plant and equipment" is up €1,395.8 million compared with 31 December 2022, reflecting ordinary movements during the year as a result of:

- investment of €2,073.8 million during the year, including €2,017.0 million in the Group's Regulated Activities and €56.8 million in Non-regulated Activities, primarily with regard to the re-routing of power lines at the request of third parties and the private Italy-France and Italy-Austria interconnectors;
- the contribution of the NTG assets arising from the acquisition of Edyna Transmission S.r.l. (renamed Rete Nord S.r.l. and merged with the subsidiary, rete S.r.l., in December 2023), amounting to €13.3 million;

- depreciation for the year of €670.6 million;
- other changes during the year, resulting in a reduction of €7.8 million, including grants related to assets (down €9.7 million, primarily for the re-routing of power lines at the request of third parties and projects financed by the Ministry of Enterprises and Made in Italy and the EU) and translation differences;
- disposals and impairments (down €12.9 million).

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

	(€m)
Investment	
- Power lines	1,087.6
- Transformer substations	789.0
- Other	197.2
Total investment in property, plant and equipment	2,073.8
Depreciation	(670.6)
Contribution from business combinations	13.3
Other changes	(9.8)
Disposals and impairments	(12.9)
Translation differences	2.0
TOTAL	1,395.8

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 (€414.8 million), the start of preliminary work on construction of the Adriatic Link (€110.8 million), the installation of synchronous compensators and STATCOM systems (€58.0 million and €13.3 million, respectively), progress on construction of the Elba-Mainland power line (€54.8 million), Paternò-Pantano-Priolo (€30.6 million), the Olympics projects (€49.8 million), Colunga-Calenzano (€28.2 million), Sorgente-Rizziconi (€19.2 million) and the Italy-France interconnector (€13.1 million, with the regulated pole entering service in August), the construction of reactors (€15.3 million), extension of the fibre network as part of the "Fibre for the Grid" project (€16.9 million), construction of the Cerignola (€18.2 million) and Magenta (€12.1 million) substations.

14. GOODWILL – €252.3 million

Goodwill, amounting to €252.3 million at 31 December 2023, regards the Parent Company's acquisition of Terna Rete Italia S.r.l., accounted for in the financial statements at a carrying amount of €101.6 million, of RTL S.p.A. accounted for in the financial statements at a carrying amount of €88.6 million and of Rete S.r.l. amounting to €26.3 million, the acquisition of TES - Transformer Electro Services by the Tamini Group, with a carrying amount of €13.6 million and the acquisitions carried out by the parent Company through the subsidiary, Terna Energy Solutions S.r.l., a 75% interest in LT S.r.l. (LT Group), accounted for at a carrying amount of €19.3 million and through the Brugg Group, a 100% interest in Laser TLC S.r.l., accounted for at a carrying amount of €1.5 million. It also includes goodwill based on preliminary recognition of the acquisition of Omnia S.r.l. in March 2023 through the LT Group and merged with and into LT S.r.l. on 5 October 2023. This goodwill has a carrying amount of €1.3 million.

The increase of €0.8 million compared with 31 December 2022 essentially reflects the above acquisition of Omnia S.r.l..

Impairment testing

For the purposes of impairment testing, goodwill has been allocated to three cash generating units (CGUs): the first consisting of "Transmission activities" within the Group's Regulated Activities, amounting to €216.5 million, and the second relating to the "Production and commercialisation of transformers", forming part of the Group's Non-regulated Activities, totalling €13.6 million. The third relates to the design, construction, operation and maintenance of renewable energy plants, amounting to €20.7 million.

Disclosures regarding the impairment testing of the goodwill allocated to the Group's "Transmission" CGU are provided below. Measurement of the recoverable value of the goodwill allocated to the transmission activities was based on fair value less costs of disposal. Determination of the carrying amount of the CGU represented by the NTG was based on Terna S.p.A.'s net invested capital at 31 December 2023, 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.

The impairment test of the CGU represented by the production and commercialisation of transformers was based on *fair value less costs of disposal*, determined on the basis of the average EBITDA multiple for the sector. Measurement of the recoverable value was based on estimated fair value applying the EBITDA multiple for 2024. This multiple was approximately 13.3, the average for a sample of companies operating in the sector. The resulting fair value was then appropriately discounted to present value at the end of 2023. The resulting value is higher than the carrying amount inclusive of goodwill.

With regard to the CGU related to the design, construction, operation and maintenance of renewable energy plants, the impairment test was carried out using the *fair value less cost of disposal*, determined on the basis of a multiple of the average EBITDA for the sector. To determine the recoverable value, fair value was estimated applying the multiple of EBITDA for 2024, equal to approximately 11.0x, the average for a sample of companies operating in the sector. The fair value calculated in this way was then discounted at the end of 2023. The result was higher than the carrying amount inclusive of goodwill.

15. INTANGIBLE ASSETS – €614.9 million

(€m)

	INFRASTRUCTURE RIGHTS	CONCESSIONS	OTHER ASSETS	ASSETS UNDER DEVELOPMENT AND PREPAYMENTS	TOTAL
Cost	583.0	135.4	711.2	108.7	1,538.3
Accumulated amortisation	(421.6)	(96.1)	(496.3)	-	(1,014.0)
BALANCE AT 31 DECEMBER 2022	161.4	39.3	214.9	108.7	524.3
Investment	-	-	1.7	214.5	216.2
Assets entering service	82.1	-	110.9	(193.0)	-
Disposals and impairments	-	-	-	(1.3)	(1.3)
Depreciation	(34.8)	(5.6)	(86.0)	-	(126.4)
Other movements	-	-	1.2	0.9	2.1
BALANCE AT 31 DECEMBER 2023	208.7	33.7	242.7	129.8	614.9
Cost	665.1	135.4	825.0	129.8	1,755.3
Accumulated amortisation	(456.4)	(101.7)	(582.3)	-	(1,140.4)
BALANCE AT 31 DECEMBER 2023	208.7	33.7	242.7	129.8	614.9
Change	47.3	(5.6)	27.8	21.1	90.6

Intangible assets amount to €614.9 million (€524.3 million at 31 December 2022); this item includes:

- the infrastructure used in provision of the dispatching service in Italy accounted for in accordance with "IFRIC 12 – Service Concession Arrangements". The carrying amount, at 31 December 2023, is €208.7 million for infrastructure in service, whilst the carrying amount of infrastructure under construction, included in the category "Assets under development and prepayments", is €41.7 million (at 31 December 2022 €161.4 million and €46.1 million, respectively);

- the concession for electricity transmission and dispatching activities in Italy (with a carrying amount of €33.7 million at 31 December 2023); this 25-year concession was recognised in 2005, initially at fair value and subsequently at cost.

Other intangible assets primarily include software applications, either produced internally or purchased as part of systems development programmes, and the contract to provide support services for fibre networks acquired with Rete S.r.l. in 2015 (measured as part of the process of allocating the goodwill acquired by the Terna Group). Investment in these assets during the year, primarily attributable to the Parent Company (€137.0 million), essentially regard internal development programmes.

The increase compared with the previous year (up €90.6 million) broadly reflects the net effect of investment (up €216.2 million, including €77.5 million in infrastructure rights) and amortisation (down €126.4 million).

Investment in intangible assets during the year (€216.2 million, including €214.5 million attributable to the Parent Company's Regulated Activities), included expenditure on the development of software applications for the Remote Management System for Dispatching (€41.9 million), the Power Exchange (€13.5 million), the Metering System (€1.7 million) and for protection of the electricity system (€1.7 million), as well as software applications and generic licences (€133.4 million).

16. Deferred tax assets – €168.7 million

(€m)

	31 DECEMBER 2022	PROVISIONS	USES AND OTHER MOVEMENTS	EFFECTS RECOGNISED IN COMPREHENSIVE INCOME	31 DECEMBER 2023
DEFERRED TAX ASSETS					
Property, plant and equipment	56.7	32.5	-	-	89.2
Provisions for risks and charges	21.2	5.8	(5.3)	-	21.7
Allowance for doubtful accounts	4.6	-	-	-	4.6
Employee benefits	11.5	6.6	(5.2)	0.9	13.8
Cash flow hedges and financial assets	(23.8)	-	-	11.5	(12.3)
Tax relief on goodwill	14.8	-	(3.0)	-	11.8
Other	63.7	5.9	(3.7)	-	65.9
Total deferred tax assets	148.6	50.8	(17.2)	12.4	194.7
DEFERRED TAX LIABILITIES					
Property, plant and equipment	(9.5)	-	1.2	-	(8.3)
Other	(15.3)	-	0.5	-	(14.8)
Employee benefits and financial instruments	(2.9)	-	-	-	(2.9)
Total deferred tax liabilities	(27.7)	-	1.7	-	(26.0)
NET DEFERRED TAX ASSETS	121.0	50.8	(15.5)	12.4	168.7

The balance of this item, amounting to €168.7 million, includes the net impact of movements in the Group's deferred tax assets and liabilities.

Deferred tax assets (€194.7 million) are up by a net amount compared with the amount at 31 December 2022 (€148.6 million). These assets underwent the following movements during the year:

- net provisions recognised through comprehensive income, totalling €12.4 million, primarily due to the tax effect of changes in cash flow hedges and employee benefits;
- provisions recognised by Terna S.p.A. for the non-deductible portion of book depreciation (€32.5 million);

- use of the accrued portion recognised in relation to tax relief on the goodwill resulting from the merger of Terna Rete Italia S.r.l. and attributable to the Parent Company (€3.0 million);
- net provisions for risks and charges (€0.5 million), primarily reflecting the impact on taxation of the release of provisions for litigation and disputes (€0.4 million);
- net provisions and other movements, totalling €2.2 million, primarily regarding the recognition of deferred tax assets revaluations of properties and on other items recognized by the overseas companies.

Deferred tax liabilities (26,0 million) are down by a net amount of €1,7 essentially due to net provisions and other movements of €1.2 million, primarily following the recognition of deferred tax liabilities on other provisions made by the subsidiary, Rete S.r.l..

17. Investments accounted for using the equity method – €76.7 million

This item, amounting to €76.7 million, regards the Parent Company's investments in the associate CESI S.p.A. (€46.1 million), the associate CORESO S.A. (€1.0 million), the associate CGES – CrnoGorski Elektroprenosni Sistem AD (€26.7 million), the associate Equigy B.V. (€0.4 million) and in the joint ventures SEleNe CC S.A. (€2.1 million), ELMED Etudes S.a.r.l. (€0.2 million) and BMT Energy Transmission Development LLC (€0.2 million). The increase compared with the previous year, totalling €2.9 million, essentially reflects the adjustment of the Group's share of equity at 31 December 2023 in the joint venture SEleNe CC S.A., which rose from 25% to 33.33% in February (up €2.1 million) and in the associates, CESI S.p.A. (up €0.7 million) and CORESO S.A. (up €0.1 million).

Financial information pre-closing for 2023 for the Terna Group's main associates is provided below:

(€m)

	AT 31 DECEMBER 2023				EQUITY
	NON-CURRENT ASSETS	CURRENT ASSETS	NON-CURRENT LIABILITIES	CURRENT LIABILITIES	
CESI	179	13	20	(*)	99
CORESO	17	5	-	16	6
CGES	272	81	73	35	245
EQUIGY	2	-	-	-	2

(*) The pre-closing amount for 2023 does not provide a breakdown of working capital.

(€m)

	2023		
	REVENUE	PROFIT/(LOSS) BEFORE TAX	PROFIT/(LOSS) FOR THE YEAR
CESI	164	(5)	(5)
CORESO	33	2	1
CGES	108	42	36
EQUIGY	5	-	-

18. Financial assets

(€m)

	MEASUREMENT	31 DECEMBER 2023	31 DECEMBER 2022	CHANGE
Deposit in the Interconnector Guarantee Fund	Amortised cost	285.0	299.1	(14.1)
Cash flow hedges	FVTOCI	17.4	75.5	(58.1)
Government securities	FVTOCI	119.1	119.6	(0.5)
Other non-current financial assets	FVTOCI	4.2	0.1	4.1
Other investments	FVTOCI	0.1	0.1	-
NON-CURRENT FINANCIAL ASSETS		425.8	494.4	(68.6)
Government securities	FVTOCI	96.8	148.8	(52.0)
Other securities	FVPNL-FVTOCI	100.4	98.0	2.4
Time Deposits	Amortised cost	165.0	-	165.0
Deferred assets on cash flow hedges		7.3	3.5	3.8
Currency derivatives	FVTOCI	0.4	0.2	0.2
Other current financial assets		14.2	4.8	9.4
CURRENT FINANCIAL ASSETS		384.1	255.3	128.8

“Non-current financial assets” are down €68.6 million, compared with 31 December 2022, reflecting:

- a reduction of €58.1 million in cash flow hedges hedging borrowings due to market interest rate movements and the change in the derivatives held. The balance of €17.4 million was measured by discounting expected cash flows using market interest rates at the measurement date;
- an increase of €4.1 million in other non-current financial assets, primarily due to investments by Terna Forward in the Infra Tech and Energy Tech segments of CDP Venture Capital's Corporate Partner I fund;
- a reduction in guarantee deposits made by operators who participate in the capacity market pursuant to Resolution 98/2011/R/eel, as amended (down €31.7 million) offset by an increase in the Interconnector Guarantee Fund, set up to fund investment in interconnections by art. 32 of Law 99/09 (up €17.6 million).

“Current financial assets” are up €128.8 million compared with the previous year, primarily due to an increase in short-term time deposits during the period (amounting to €165.0 million), the increase in unpaid accrued interest on financial investments (amounting to €9.4 million) and recognition of unpaid accrued interest on derivatives (up €3.8 million), offset by the reduction in holdings of Italian government securities (down €52.0 million).

19. Other assets

(€m)

	31 DECEMBER 2023	31 DECEMBER 2022	CHANGE
Loans and advances to employees	10.9	11.0	(0.1)
Deposits with third parties	4.6	4.8	(0.2)
Other non-current assets	-	0.1	(0.1)
OTHER NON-CURRENT ASSETS	15.5	15.9	(0.4)
Other tax credits	110.1	86.4	23.7
Prepayments to suppliers	11.1	9.2	1.9
Prepayments of operating expenses and accrued operating income	24.0	22.7	1.3
Amounts due from partners selected for Interconnector projects	2.9	3.1	(0.2)
Amounts due from others	65.3	70.5	(5.2)
OTHER CURRENT ASSETS	213.4	191.9	21.5

“Other non-current assets” amount to €15.5 million and are down €0.4 million compared with the previous year. This primarily reflects decreases in guarantee deposits paid under contracts with public bodies and authorities (down €0.2 million).

“Other current assets”, totalling €213.4 million, are up €21.5 million compared with 31 December 2022, primarily reflecting:

- other tax credits (up €23.7 million), mainly reflecting an increase in the Group's refundable VAT (up €17.8 million);

- an increase in prepayments to suppliers (up €1.9 million), broadly due to an increase in prepayments made by the subsidiary, Terna Energy Solutions S.r.l. (up €1.3 million) following the start of work on new contracts during the year;
- a reduction in amounts due from others (€5.2 million), broadly attributable to the Parent Company, Terna S.p.A. (down €6.7 million), partially offset by a net increase in subsidies (the so-called 110% grant) due to the subsidiary, Avvenia (€1.7 million).

20. Inventories – €106.4 million

This item, amounting to €106.4 million, is up €23.4 million compared with the previous year. This primarily reflects materials to be used in contract work by the LT Group (up €21.0 million), by the Brugg Cables Group (up €1.3 million) and by Terna Rete Italia S.p.A. (up €1.1 million).

21. Trade receivables – €2,123.4 million

(€m)

	31 DECEMBER 2023	31 DECEMBER 2022	CHANGE
Energy-related receivables	1,268.5	1,622.8	(354.3)
Transmission charges receivables	576.2	472.8	103.4
Other trade receivables	278.7	262.7	16.0
TOTAL	2,123.4	2,358.3	(234.9)

Trade receivables amount to €2,123.4 million at 31 December 2023 and are accounted for less any losses and recognised in the allowance for doubtful accounts (€13.3 million for energy-related receivables and €20.9 million for other items in 2023, compared with €19.7 million for energy-related items and €17.4 million for other items in 2022, 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 – €1,268.5 million

This item includes so-called “pass-through items” relating to the Parent Company’s activities in accordance with Resolution 111/06 (€602.6 million) and receivables due from the users of dispatching services forming part of Regulated Activities (€654.8 million). It also includes the amount due from the Fund for Energy and Environmental Services (Cassa per i Servizi Energetici e Ambientali - CSEA (€11.2 million), relating to quality of service.

These receivables are down €354.2 million compared with the end of 2022, primarily due to:

- a reduction in uplift payments for the procurement of resources on the dispatching services market (€229.7 million) and in items covering the DSM (€113.2 million) and imbalances (€369.2 million), reflecting the fall in energy prices and in the volumes traded, partly following the efficiencies achieved and investment by Terna in reducing DSM costs;
- partial collection of the intrazonal incentive awarded by Resolution 26/2023, as provided for in the Resolution (€38.9 million); partly offset by:
 - recognition of the annual bonus for 2023 deriving from the three-year incentive scheme (2022-2024) introduced by Resolutions 597/2021 and 132/2022 and the financial component resulting from discounting (totalling €329.1³ million);
 - the increase in receivables related to essential plants for the safety of the electricity system – UESS (€79.6 million), reflecting the increase in the charge to cover the costs of the maximisation programme introduced by Resolution 430/2022⁴.

³ The amount of €329.1 million includes the portion relating to financial income from discounting, amounting to €26.5 million, in view of the timing of collection provided for in Resolution 132/2022 (which has amended Resolution 597/2021), on the basis of which disbursement of rewards/penalties for the three-year period 2022-2024 will take place as follows:

- the reward /penalty for 2022 over three years from 1 January 2024;
- the reward /penalty for 2023 over three years from 1 January 2025;
- the reward /penalty for 2024 over three years from 1 January 2026.

⁴ Law Decree 14/2022 (art. 5-bis) introduced certain preventive measures designed to reduce natural gas consumption in the thermoelectric sector, under which Terna adopted a plan to maximise the use of coal- and oil-fired electricity generating plants with a nominal thermal capacity in excess of 300 MW under normal operating conditions.

Transmission charges receivable – €576.2 million

Transmission charges receivable, amounting to €576.2 million, represent the amount due to the Parent Company and other grid owners from electricity distributors for use of the National Transmission Grid. This receivable is up €103.4 million compared with 31 December 2022, reflecting the revised tariff (Resolution 719/2022), recognition of the accrued return on digital substation systems in accordance with ARERA Resolution 565/2020, and recognition of the amount due to cover the added costs incurred in 2023 that were not covered by the specific tariff component relating to the Inter-TSO Compensation (ITC) scheme⁵, recognised from 2020 through the transmission charge.

Other trade receivables – €278.7 million

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

This item is up by a net €16.0 million compared with the previous year, broadly due to increases in contract work at the Brugg Cables Group (up €10.8 million), Terna Energy Solutions S.r.l. (up €12.3 million), the LT Group (up €7.4 million) and Terna Interconnector S.r.l. (up €8.4 million), offset by a reduction in the Parent Company's receivables (down €15.1 million) and those of the subsidiary, Terna Rete Italia S.p.A. (down €6.5 million)

The following table shows receivables resulting from contract work in progress (€118.1 million), being carried out by the Group under multi-year contracts with third parties:

(€m)

	PRE- PAYMENTS	VALUE OF CONTRACT	BALANCE AT 31 DECEMBER 2023	PREPAYMENTS	VALUE OF CONTRACT	BALANCE AT 31 DECEMBER 2022
Receivables resulting from contract work in progress	(393.0)	511.1	118.1	(305.4)	405.2	99.8

The Group's receivables resulting from contract work in progress are up by a net €18.3 million, primarily in relation to the increase in contract work at subsidiaries. This regards the Brugg Cables Group (up €25.1 million) and Terna Energy Solutions S.r.l. (up €2.6 million), partially offset by a reduction in contract work at Terna Rete Italia S.p.A. (down €4.2 million) and the Tamini Group (down €4.1 million).

22. Cash and cash equivalents – €1,378.2 million

Cash amounts to €1,378.2 million at 31 December 2023, including €1,194.5 million invested short-term readily convertible deposits and €183.7 million deposited in bank current accounts and cash in hand.

23. Income tax assets – €4.8 million

Income tax assets, amounting to €4.8 million, are down €2.0 million compared with the previous year, essentially following the settlement of taxes relating to the previous year and an increase in payments on account after the recognition of income tax for the year. This compares with net tax liabilities at 31 December 2022 (€43.8 million), recognised in "Tax liabilities".

⁵ Inter-TSO Compensation: a payment to TSOs for use of their national transmission grids (infrastructure and losses) to transport energy, including those relating to cross-border flows. The related charges are allocated to "Energy-related non pass-through payables".

Equity and liabilities

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

Equity attributable to owners of the Parent – €6,324.4 million

Share capital – €442.2 million

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

Legal reserve – €88.4 million

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

Reserve for treasury shares – (€29.8) million

In implementation of the buyback programme linked to the new Performance Share Plan 2023-2027, approved by the Annual General Meeting of shareholder on 9 May 2023, in the period between 22 June 2023 and 6 July 2023, the Parent Company purchased 917,611 own shares (equal to 0.046% of the share capital), at a total cost of approximately €7 million. These are in addition to those purchased in previous years to service the Performance Share Plan 2020-2023, the Performance Share Plan 2021-2025 and the Performance Share Plan 2022-2026.

In addition, in the period between 9 May 2023 and 1 June 2023, the Parent Company allotted 1,079,860 treasury shares to the beneficiaries of the Performance Share Plan 2020-2023, amounting to a total of approximately €6.7 million.

As a result, at 31 December 2023, Terna S.p.A. now holds a total of 4,213,660 treasury shares (equal to 0.210% of the share capital), purchased at a cost of €29.8 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. This reserve is unchanged with respect to 31 December 2022.

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.

Share premium reserve, Cash flow hedge reserve and Other reserves – €789.0 million

The "Share premium reserve", "Cash flow hedge reserve" and "Other reserves" at 31 December 2023 amount to €789.0 million, having fallen €38.3 million compared with 31 December 2022, broadly as a result of other comprehensive income. This reflects:

- fair value adjustments to the Parent Company's cash flow hedges (down €37.4 million, including the related hedging costs of €0.2 million, after the related taxation);
- the change in actuarial gains and losses on provisions for employee benefits (down €3.5 million, after the related taxation);
- fair value adjustments to the value of financial assets represented by securities (up €1.0 million, after the related taxation).

Retained earnings and accumulated losses – €3,390.5 million

The increase in "Retained earnings and accumulated losses", amounting to €209.6 million, primarily regards the remaining portion of the Group's profit for 2022 (up €225.0 million), following the Parent Company's payment of the dividend for 2022 (totalling €632.0 million). This item includes the translation differences resulting from the conversion of financial statements in currencies other than the euro (up €11.5 million), the change in the interest accruing on the hybrid green bonds (down €23.8 million).

Interim dividend for 2023 and final dividend for 2022

On 8 November 2023, 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 11.46 eurocents per share. The dividend was payable from 22 November 2023, with an ex-dividend date for coupon 39 on 20 November 2023. 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 21 November 2023.

The Annual General Meeting of shareholders held on 9 May 2023 approved payment of a dividend for full-year 2022 of 31.44 eurocents per share, and the payment – before any withholdings required by law – of a final dividend of 20.83 eurocents per share (payable from 21 June 2023, with an ex-dividend date for coupon 38 of 19 June 2023), of which 10.61 eurocents paid in the form of an interim dividend payable from 23 November 2022.

Equity attributable to non-controlling interests – €18.9 million

Equity attributable to non-controlling interests, relating to the non-controlling shareholders of Terna Interconnector S.r.l., SPE Transmissora de energia Linha Verde I S.A., Brugg Cables, ESPERIA-CC S.r.l. and LT Group, amounts to €18.9 million, a reduction of €8.2 million compared with 31 December 2022.

This change primarily reflects the payment of a dividend approved on 13 April 2023 by the General Meeting of shareholders of the subsidiary, Terna Interconnector. The amount due to the non-controlling shareholder, Transenergia S.r.l. was €5.4 million. A further dividend was paid by the subsidiary, LT S.r.l., on 21 March 2023, with the amount due to the non-controlling shareholder, Solaris S.r.l., amounting to €0.4 million. The change also reflects the share of profit for the period attributable to non-controlling shareholders recognised by Terna Interconnector S.r.l. (down €0.3 million), the Brugg Cables Group (down €0.1 million), Linha Verde I S.A. (down €4.7 million) and the LT Group (€2.5 million).

25. Borrowings and financial liabilities

(€m)

	31 DECEMBER 2023	31 DECEMBER 2022	CHANGE
Bond issues	5,664.2	5,078.9	585.3
Bank borrowings	3,745.0	3,337.8	407.2
LONG-TERM BORROWINGS	9,409.2	8,416.7	992.5
Fair value hedges	164.5	247.2	(82.7)
NON-CURRENT FINANCIAL LIABILITIES	164.5	247.2	(82.7)
SHORT-TERM BORROWINGS	1,201.7	444.1	757.6
Bond issues	826.4	1,658.8	(832.4)
Bank borrowings	558.2	250.5	307.7
CURRENT PORTION OF LONG-TERM BORROWINGS	1,384.6	1,909.3	(524.7)
CURRENT FINANCIAL LIABILITIES	113.8	44.9	68.9
TOTAL	12,273.8	11,062.2	1,211.6

Borrowings and financial liabilities have increased by €1,211.6 million compared with the previous year to €12,273.8 million. The change primarily reflects:

- an increase in bank borrowings, amounting to €714.9 million, following the drawdown of new EIB loans, totalling €900 million, after repayments of bank loans amounting to €100.0 million and repayments falling due on existing EIB loans. The change also reflects fair value adjustments of these financial instruments;
- an increase in short-term borrowings (€757.6 million) due to the use of short-term facilities and the issue of commercial paper by the Parent Company;
- a reduction in bond issues (down €247.1 million), essentially due to the repayment of two bonds (totalling €1,000 million in July 2023 and €670.8 million in September 2023), partially offset by the launch of the same number of issues amounting to €1,400 million, carried out by Terna S.p.A. in April and July 2023. The change also reflects fair value adjustments of these financial instruments.



The latest official prices at 31 December 2023 and 31 December 2022 for the bonds listed on the Luxembourg Stock Exchange are detailed below:

(€m)

	ISIN	PRICE AT 31 DECEMBER 2023	PRICE AT 31 DECEMBER 2022
Bond maturity 2023*:	XS0328430003	n.a.**	133.90
Bond maturity 2023:	XS1858912915	n.a.**	99.13
Bond maturity 2024:	XS0203712939	100.92	102.21
Bond maturity 2025:	XS2033351995	94.95	91.69
Bond maturity 2026:	XS1371569978	95.96	93.87
Bond maturity 2026:	XS1980270810	95.51	92.27
Bond maturity 2027:	XS1652866002	94.40	90.25
Bond maturity 2027:	XS2536846236	100.33	100.78
Bond maturity 2028:	XS1503131713	91.46	85.03
Bond maturity 2029:	XS2357205587	86.53	80.02
Bond maturity 2029:	XS2607193435	102.26	n.a.**
Bond maturity 2030:	XS2237901355	82.94	75.66
Bond maturity 2032:	XS2209023402	81.82	73.78
Bond maturity 2033:	XS2655852726	103.26	n.a.**

* Source: BofA, Morgan Stanley and Bloomberg.

** Not applicable.

Long-term borrowings

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

(€m)

	31 DECEMBER 2022							31 DECEMBER 2023		
	NOTIONAL DEBT	CARRYING AMOUNT	FAIR VALUE	REPAYMENTS AND DRAWDOWNS CAPITALISATIONS	OTHER	CHANGE IN THE CARRYING AMOUNT NOTIONAL DEBT		NOTIONAL DEBT	CARRYING AMOUNT	FAIR VALUE
IL bond	662.0	659.6	886.4	(670.8)	-	11.2	(659.6)	-	-	-
Bond maturing 2023	1,000.0	999.2	991.3	(1,000.0)	-	0.8	(999.2)	-	-	-
Bond maturing 2024	800.0	858.2	817.7	-	-	(31.8)	(31.8)	800.0	826.4	807.4
Bond maturing 2025	500.0	497.5	458.4	-	-	1.0	1.0	500.0	498.5	474.7
Private Placement 2026	80.0	79.5	75.1	-	-	0.2	0.2	80.0	79.7	76.8
Bond maturing 2026	500.0	498.9	461.3	-	-	0.3	0.3	500.0	499.2	477.6
Private Placement 2027	100.0	99.8	100.8	-	-	-	-	100.0	99.8	100.3
Bond maturing 2027	1,000.0	984.9	902.4	-	-	3.1	3.1	1,000.0	988.0	944.0
Bond maturing 2028	750.0	705.6	637.7	-	-	7.3	7.3	750.0	712.9	685.9
Bond maturing 750_2029	-	-	-	-	750.0	(7.3)	742.7	750.0	742.7	766.9
Bond maturing 2029	600.0	597.1	480.1	-	-	0.5	0.5	600.0	597.6	519.2
Bond maturing 2030	500.0	403.8	378.3	-	-	33.2	33.2	500.0	437.0	414.7
Bond maturing 2032	500.0	353.6	368.9	-	-	12.7	12.7	500.0	366.3	409.1
Bond maturing 2033	-	-	-	-	650.0	(7.5)	642.5	650.0	642.5	671.2
Total bond issues	6,992.0	6,737.7	6,558.4	(1,670.8)	1,400.0	23.7	(247.1)	6,730.0	6,490.6	6,347.8
Borrowings	3,524.3	3,520.6	3,520.6	(234.4)	900.0	51.4	717.0	3,799.4	4,237.6	4,237.6
Lease liabilities	67.7	67.7	67.7	(14.8)	-	12.7	(2.1)	65.6	65.6	65.6
Total borrowings	3,592.0	3,588.3	3,588.3	(249.2)	900.0	64.1	714.9	3,865.0	4,303.2	4,303.2
Total debt	10,584.0	10,326.0	10,146.7	(1,920.0)	2,300.0	87.8	467.8	10,595.0	10,793.8	10,651.0

At 31 December 2023, the Terna Group's has access to additional financing of €3,455.0 million, represented by two revolving credit facilities.

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

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

(€m)

	MATURITY	31 DECEMBER 2022*	31 DECEMBER 2023*	PORTION FALLING DUE WITHIN 12 MONTHS	PORTION FALLING DUE AFTER 12 MONTHS	2025	2026	2027	2028	2029	AFTER	OTHER**	AVERAGE INTEREST RATE AT 31 DECEMBER 2023	AVERAGE INTEREST RATE AFTER HEDGES AT 31 DECEMBER 2023
Bonds	2023	659.6	-	-	-	-	-	-	-	-	-	-	2.73%	5.08%
	2023	999.2	-	-	-	-	-	-	-	-	-	-	1.00%	1.15%
	2024	858.2	826.4	800.0	-	-	-	-	-	-	-	26.4	4.90%	0.87%
	2025	497.6	498.5	-	500.0	500.0	-	-	-	-	-	(1.5)	0.13%	0.32%
	2026	498.8	499.2	-	500.0	-	500.0	-	-	-	-	(0.8)	1.00%	1.28%
	2026	79.5	79.7	-	80.0	-	80.0	-	-	-	-	(0.3)	1.60%	1.80%
	2027	984.8	988.0	-	1,000.0	-	-	1,000.0	-	-	-	(12.0)	1.38%	1.91%
	2027	99.8	99.8	-	100.0	-	-	100.0	-	-	-	(0.2)	3.44%	2.77%
	2028	705.6	712.9	-	750.0	-	-	-	750.0	-	-	(37.1)	1.00%	1.29%
	2029	597.2	597.6	-	600.0	-	-	-	-	600.0	-	(2.4)	0.38%	1.71%
	2029	-	742.7	-	750.0	-	-	-	-	750.0	-	(7.3)	3.63%	3.76%
	2030	403.8	437.0	-	500.0	-	-	-	-	-	500.0	(63.0)	0.38%	3.30%
	2032	353.6	366.3	-	500.0	-	-	-	-	-	500.0	(133.7)	0.75%	3.11%
	2033	-	642.5	-	650.0	-	-	-	-	-	650.0	(7.5)	3.88%	3.91%
EIB	2045	1,475.0	2,407.2	24.6	2,488.5	47.7	58.5	117.1	142.2	142.2	1,980.8	(105.9)	2.43%	1.75%
Terna's borrowing	2024	300.0	300.0	300.0	-	-	-	-	-	-	-	-	-	(1.22%)
Total fixed rate		8,512.7	9,197.8	1,124.6	8,418.5	547.7	638.5	1,217.1	892.2	1,492.2	3,630.8	(345.3)		
EIB	2041	950.2	836.3	115.3	721.0	115.3	115.3	115.3	115.3	96.0	163.8	-	3.7%***	1.57%
Terna's borrowing	2025	799.1	699.4	100.0	600.0	600.0	-	-	-	-	-	(0.6)	3.82%***	3.77%
Total variable rate		1,749.3	1,535.7	215.3	1,321.0	715.3	115.3	115.3	115.3	96.0	163.8	(0.6)		
TOTAL		10,262.0	10,733.5	1,339.9	9,739.5	1,263.0	753.8	1,332.4	1,007.5	1,588.2	3,794.6	(345.9)		

* The balance does not include prepaid fees of €5.3 million at 31 December 2023 and of €3.7 million at 31 December 2022.

** Includes portions measured at amortised cost and fair value adjustments at 31 December 2023.

*** This is the average of the rates fixed in the sub-periods.

(€m)

	31 DECEMBER 2022	31 DECEMBER 2023	PORTION FALLING DUE WITHIN 12 MONTHS	PORTION FALLING DUE AFTER 12 MONTHS
Finance leases	1.9	1.0	1.0	-
Operating leases	65.8	64.6	17.3	47.3
TOTAL	67.7	65.6	18.3	47.3

At 31 December 2023, payments on operating leases recognised in application of IFRS 16 amount to €14.8 million.

The total value of the Terna Group's borrowings at 31 December 2023 is €10,733.5 million (€1,339.9 million falling due within 12 months and €9,739.5 million falling due after 12 months net of portions measured at amortised cost and fair value adjustments), of which €3,794.6 million maturing after five years.

Non-current financial liabilities – €164.5 million

(€m)

	31 DECEMBER 2023	31 DECEMBER 2022	CHANGE
Fair value hedges	164.5	247.2	(82.7)
TOTAL	164.5	247.2	(82.7)

Non-current financial liabilities, amounting to €164.5 million at 31 December 2023, 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 decreases of €82.7 million, compared with 31 December 2022 reflects the change in market interest rates.

Short-term borrowings – €1,201.7 million

“Short-term borrowings”, amounting to €1,201.7 million at 31 December 2023, have increased €757.6 million compared with the previous year, essentially due to the use of short-term credit facilities and the issue of commercial paper by the Parent Company.

Current financial liabilities – €113.8 million

(€m)

	31 DECEMBER 2023	31 DECEMBER 2022	CHANGE
Foreign exchange cash flow hedges	0.1	-	0.1
Fair value hedges	-	0.8	(0.8)
Other current financial liabilities	38.5	-	38.5
DEFERRED LIABILITIES ON:			
Hedging derivatives	1.3	0.6	0.7
Bond issues	53.5	33.5	20.0
Borrowings	20.4	10.0	10.4
TOTAL	113.8	44.9	68.9

Current financial liabilities amount to €113.8 million at 31 December 2023, an increase of €68.9 million compared with 31 December 2022. This essentially reflects the value of net unpaid financial expenses accruing on financial instruments (up €30.4 million, primarily relating to bond issues and borrowings) and recognition of the advance disbursed by the European Commission in relation to the Italy–Tunisia interconnector project (up €38.5 million), attributable to the Tunisian operator, STEG.

Net debt

Pursuant to the CONSOB Communication of 28 July 2006 and in compliance with Recommendation ESMA n. 32-382-1138 of 2021, the Group's net debt is as follows:

(€m)

	31 DECEMBER 2023
A. Cash	183.7
B. Cash equivalents*	1,194.5
C. Other current financial assets**	376.4
D. Liquidity (A) + (B) + (C)	1,754.6
E. Current financial liabilities (including debt instruments, but excluding the current portion of non-current financial liabilities)	1,201.7
F. Current portion of non-current debt***	1,490.7
G. Current debt (E+F)	2,692.4
H. Net current debt (G) - (D)	937.8
I. Non-current financial liabilities (excluding the current portion and debt instruments)****	3,833.4
J. Debt instruments*****	5,723.1
K. Non-current net debt (I) + (J)	9,556.5
L. Net debt (H) + (K)	10,494.3

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

** Corresponds with the item, “Current financial assets” relating to the value of government securities (€197.2 million), readily convertible time deposits (€165.0 million) and accrued interest income (€14.3 million).

*** Corresponds with the item, “Current portion of long-term borrowings” relating to the short-term portion of long-term borrowings (€539.9 million), the short-term portion of bond issues (€826.4 million) and the short-term portion of lease liabilities (€18.3 million), “Current financial liabilities” and “Current financial assets” relating to the value of derivative assets and accrued financial income on derivatives (down €7.7 million).

**** Corresponds with the item, “Long-term borrowings” relating to the value of borrowings (€3,697.7 million) and the long-term portion of lease liabilities (€47.3 million) and the item, “Non-current financial liabilities” relating to the value of derivative liabilities (€105.6 million) and “Non-current financial assets” relating to derivative assets (down €17.2 million).

***** Corresponds with the item, “Long-term borrowings” relating to the value of bond issues (€5,664.2 million) and the item, “Non-current financial liabilities” relating to the value of derivative liabilities on bonds (€58.9 million).

Default risk and debt covenants

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

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

- the Company's bond issues, which consist of an €800.0 million issued in 2004, perpetual hybrid green bonds of €1,000,000,000 and eleven issues as part of its EMTN Programme ("*€9,000,000,000 Euro Medium Term Notes Programme*");
- bank borrowings, consisting of revolving lines of credit and bilateral term loans ("bank debt");
- a series of loans to the Company from the European Investment Bank (EIB), amounting to a total of approximately €3.3 billion.

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

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

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

26. Employee benefits – €49.8 million

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

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

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

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

The following table shows the composition of provisions for *TFR* and other employee benefits and movements during the year ended 31 December 2023:

(€m)

	31 DECEMBER 2022	PROVISIONS	INTEREST COST	USES AND OTHER MOVEMENTS	ACTUARIAL GAINS/(LOSSES)	31 DECEMBER 2023
Benefits during the period of employment						
Loyalty bonuses and other incentives	4.0	0.7	0.1	(0.4)	-	4.4
Total	4.0	0.7	0.1	(0.4)	-	4.4
Termination benefits						
Deferred compensation benefits (<i>TFR</i>)	29.2	0.4	1.0	(2.4)	0.2	28.4
Energy discounts	2.4	-	0.1	(0.2)	(0.1)	2.2
Additional months' pay	4.1	0.6	0.1	(0.4)	0.2	4.6
Other similar benefits	0.6	-	-	0.1	-	0.7
Total	36.3	1.0	1.2	(2.9)	0.3	35.9
Post-employment benefits						
ASEM health plan	8.1	0.3	0.3	(0.6)	1.4	9.5
Total	8.1	0.3	0.3	(0.6)	1.4	9.5
TOTAL	48.4	2.0	1.6	(3.9)	1.7	49.8

This item, amounting to €49.8 million at 31 December 2023, is up €1.4 million compared with the previous year. This is primarily due to actuarial losses (up €1.7 million, broadly due to the change in the discount rate used).

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

(€m)

	LOYALTY BONUSES AND OTHER INCENTIVES	<i>TFR</i>	ADDITIONAL MONTHS' PAY	ENERGY DISCOUNTS	ASEM	TOTAL
Net impact recognised in profit or loss						
- current service cost	0.7	0.4	0.1	-	0.3	1.5
- curtailment (revenue) and other costs	-	-	0.5	-	-	0.5
- interest income and expense	0.1	1.0	0.1	0.1	0.3	1.6
TOTAL RECOGNISED IN PROFIT OR LOSS	0.8	1.4	0.7	0.1	0.6	3.6

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

(€m)

	TFR	ADDITIONAL MONTHS' PAY	ENERGY DISCOUNTS	ASEM HEALTH COVER	TOTAL
Actuarial gain/losses					
- based on past experience	(0.3)	0.1	(0.2)	0.6	0.2
- due to changes in discount rate	0.5	0.1	0.1	0.8	1.5
TOTAL IMPACT ON COMPREHENSIVE INCOME	0.2	0.2	(0.1)	1.4	1.7

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 2022, the interest rate used to determine the present value of the obligation was calculated on the basis of the yield on the Iboxx Eurozone Corporates AA index at 31 December 2023, matching the duration of the relevant group of plan participants.

(€m)

	LOYALTY BONUSES AND OTHER INCENTIVES	TFR	ADDITIONAL MONTHS' PAY	ENERGY DISCOUNTS	ASEM HEALTH COVER
Discount rate	3.17%	3.08%	2.95%	3.08%	3.17%
Inflation rate	2.00%	2.00%	-	-	2.70%
Duration (in years)	17-19	6-20	4-7	5-9	14-16

(€m)

	LOYALTY BONUSES AND OTHER INCENTIVES	TFR	ADDITIONAL MONTHS' PAY	ENERGY DISCOUNTS	ASEM HEALTH COVER	TOTAL
Discount rate + 0.25%	3.8	9.9	4.4	2.2	12.1	32.4
Discount rate - 0.25%	3.8	10.2	4.4	2.3	13.0	33.7
Inflation rate + 0.25%	3.9	10.2	-	-	-	14.1
Inflation rate - 0.25%	3.8	10.0	-	-	-	13.8
Annual rate of increase in health costs +3%	-	-	-	-	12.7	12.7
Annual rate of increase in health costs -3%	-	-	-	-	12.3	12.3

(€m)

	LOYALTY BONUSES AND OTHER INCENTIVES	TFR	ADDITIONAL MONTHS' PAY	OTHER SIMILAR BENEFITS	ENERGY DISCOUNTS	ASEM HEALTH COVER	TOTAL
By the end of 2024	0.3	1.3	1.8	-	0.3	0.9	4.6
By the end of 2025	0.2	1.4	0.4	-	0.2	1.0	3.2
By the end of 2026	0.4	1.2	0.6	-	0.2	1.0	3.4
By the end of 2027	0.3	0.4	0.5	-	-	1.2	2.4
By the end of 2028	0.2	1.0	0.5	-	0.2	1.3	3.2
After 5 years	3.0	23.1	0.8	0.7	1.3	4.1	33.0
TOTAL	4.4	28.4	4.6	0.7	2.2	9.5	49.8

27. Provisions for risk and charges – €151.8 million

(€m)

	PROVISIONS FOR LITIGATION AND DISPUTES	PROVISIONS FOR SUNDRY RISKS AND CHARGES	PROVISIONS FOR EARLY RETIREMENT INCENTIVES	TOTAL
Amount at 31 December 2022	14.0	99.9	26.9	140.8
Provisions	1.7	40.7	14.5	56.9
Uses and other movements	(2.8)	(35.3)	(7.8)	(45.9)
Amount at 31 December 2023	12.9	105.3	33.6	151.8

Provisions for litigation and disputes – €12.9 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 2023, amounting to €12.9 million, primarily regards disputes involving the Parent Company in relation to the payment of damages relating to operation and maintenance, requests for compensation for easements and labour and social security disputes. This is down by a net €1.1 million compared with the previous year as a result of lower net provisions during the year.

Provisions for sundry risks and charges – €105.3 million

These provisions amount to €105.3 million at 31 December 2023 and essentially regard liabilities associated with urban and environmental restoration projects, regulation of the quality of the electricity service, staff incentive plans, right-of-way fees and tax-related aspects.

These provisions are up by a net €5.4 million, compared with the previous year reflecting:

- net provisions of €3.8 million for urban and environmental restoration schemes;
- net provisions for right-of-way fees (up €5.1 million);
- a net decrease of €7.6 million in provisions for staff incentives and other personnel expenses;
- a net reduction of €0.8 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 – €33.6 million

Provisions for early retirement incentives reflects the estimated extraordinary expenses to be incurred in relation to the cost of the scheme for the year, linked to the early retirement of Group employees who have reached pensionable age and where the Group has an obligation. This item has increased by a net €6.7 million, reflecting payments in coming years in relation to the existing plan for generational turnover.

28. Other non-current liabilities – €948.3 million

This item, amounting to €948.3 million 31 December 2023, regards accrued grants related to assets receivable by the Parent Company (€64.3 million), in addition to payments on account received in relation to construction of the private Italy-Montenegro, Italy-France and Italy-Austria Interconnectors (totalling €464.3 million).

This item also includes the guarantee deposits received from operators participating in the capacity market in accordance with Resolution 98/2011/R/eel (€120.7 million), in addition to the Interconnector Guarantee Fund set up by Terna S.p.A. following the issue of the 2016 Stability Law (€163.9 million), in order to fund investment in interconnections by art. 32 of Law 99/09.

The decrease in this item compared with the previous year, amounting to €23.1 million, essentially reflects a reduction in guarantee deposits received from operators participating in the capacity market in accordance with Resolution 98/2011/R/eel, as amended (down €34.9 million) and a reduction in deferred income relating to grants related to assets receivable by the Parent Company (down €5.2 million), partially offset by an increase in the Interconnector Guarantee Fund (up €17.2 million).

29. CURRENT LIABILITIES

(€m)

	31 DECEMBER 2023	31 DECEMBER 2022	CHANGE
Short-term borrowings*	1,201.7	444.1	757.6
Current portion of long-term borrowings*	1,384.6	1,909.3	(524.7)
Trade payables	2,864.9	3,687.7	(822.8)
Tax liabilities	-	43.8	(43.8)
Current financial liabilities*	113.8	44.9	68.9
Other current liabilities	809.4	669.9	139.5
TOTAL	6,374.4	6,799.7	(425.3)

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

Trade payables – €2,684.9 million

(€m)

	31 DECEMBER 2023	31 DECEMBER 2022	CHANGE
Suppliers:			
- Energy-related payables	1,649.1	2,649.5	(1,000.4)
- Non-energy-related payables	1,134.9	982.7	152.2
Amounts due to associates	6.7	10.1	(3.4)
Payables resulting from contract work in progress	74.2	45.4	28.8
TOTAL	2,864.9	3,687.7	(822.8)

Suppliers**Energy-related payables**

The decrease of €1,000.4 million in this item compared with the end of 2022 essentially reflects energy-related pass-through payables (down €1,078.6 million). This is primarily due to:

- a reduction of €712.1 in Power Exchange payables, associated with the uplift mechanism. The reduction is due to the sharp fall in dispatching costs (above all DSM costs and the cost of imbalances) reflecting the fall in energy prices and in the volumes traded, partly following the efficiencies achieved and investment by Terna in reducing DSM costs;
- a decrease in net payables relating to essential plants for the security of the electricity system - UESS (€417.1 million), reflecting higher payments made in 2023, which also take into account the maximisation programme introduced by Resolution 430/2022;

partially offset by an increase in payables (€45.9 million) linked to the Inter-TSO Compensation (ITC) scheme⁶.

Non-energy related payables

The exposure to suppliers regards invoices received and to be received for contract work, services and purchases. The balance at 31 December 2023 (€1,134.9 million) is up €152.2 million on the previous year, largely due to increased capital expenditure towards the end of the year (primarily by the subsidiary, Terna Rete Italia S.p.A., up €127.2 million), and an increase in payables at the LT Group (up €23.1 million) and the Tamini Group (up €7.9 million), partially offset by a decrease in payables at the Parent Company (down €12.4 million).

⁶ Inter-TSO Compensation: a payment to TSOs for use of their national transmission grids (infrastructure and losses) to transport energy, including those relating to cross-border flows. The related costs are covered from 2020 by a specific component of the transmission charge. The related receivables are described in the note on "Trade receivables" in these notes.

Amounts due to associates

This item, amounting to €6.7 million, is down €3.4 million on the previous year, and regards amounts payable to the associate CESI S.p.A., for services provided primarily to the Parent Company (€1.4 million) and to the subsidiary Terna Rete Italia S.p.A. (€4.8 million), relating to electro technical studies and research.

Payables resulting from contract work in progress

Payables resulting from contract work in progress, amounting to €74.2 million at 31 December 2023, are up €28.8 million on the figure for 31 December 2022 (€45.4 million), essentially reflecting contract work in progress at the Brugg Cables Group (up €12.9 million), contract work in progress at Terna Energy Solutions S.r.l. (up €8.7 million) and the Tamini Group (up €7.9 million).

This item breaks down as follows.

(€m)

	PREPAYMENTS	VALUE OF CONTRACT	BALANCE AT 31 DECEMBER 2023	PREPAYMENTS	VALUE OF CONTRACT	BALANCE AT 31 DECEMBER 2022
Contract work in progress	131.1	(56.9)	74.2	183.8	(138.4)	45.4

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

The commitments assumed by the Group towards suppliers amount to approximately €6,027.2 million and regard purchase commitments linked to the normal “operating cycle” projected for the period 2024-2028.

Tax liabilities

At 31 December 2023, this item has a zero balance due to the recognition in “Income tax assets” of increased payments on account and the settlement of taxes relating to the previous year, after the recognition of income tax for the period. This compares with net tax liabilities at 31 December 2022 (€43.8 million).

Other current liabilities – €809.4 million

(€m)

	31 DECEMBER 2023	31 DECEMBER 2022	CHANGE
Prepayments	266.5	152.0	114.5
Other tax liabilities	89.2	99.9	(10.7)
Social security payables	31.6	28.9	2.7
Amounts due to personnel	62.7	54.4	8.3
Other amounts due to third parties	359.4	334.7	24.7
TOTAL	809.4	669.9	139.5

Prepayments

This item amounts to €266.5 million at 31 December 2023 and regards grants related to assets collected by the Group (of which €112.0 million attributable to the Parent Company) to fund the construction of non-current assets in progress at 31 December 2023.

Compared with the balance at 31 December 2022 (€152.0 million) this item is up €114.5 million, essentially due to new prepayments received from third parties after grants deducted directly from the carrying amount of the related assets, totalling €9.7 million.

Other tax liabilities

Other tax liabilities, amounting to €89.2 million, are down €10.7 million compared with the previous year. This primarily reflects the decrease in VAT payable by the Group (down €11.4 million).

Social security payables

Social security payables, essentially relating to contributions payable to INPS (the National Institute of Social Security) by the Parent Company and the subsidiary, Terna Rete Italia S.p.A., amount to €31.6 million. The figure is up €2.7 million compared with the previous year, due to an increase in contributions payable. This item also included the amount payable to the *Fondo Previdenza Elettrici – F.P.E.* (the Electricity Industry Pension Fund), amounting to €2.3 million (€2.3 million at 31 December 2022).

Amounts due to personnel

Amounts due to personnel, amounting to €62.7 million, are up €8.3 million compared with the previous year, and essentially regard the Parent Company and the subsidiary Terna Rete Italia S.p.A.. They primarily relate to:

- incentives payable in the subsequent year (€40.3 million);
- amounts due to employees in the form of accrued and unused annual leave and bank holiday entitlements (€17.9 million);
- benefits payable to personnel leaving the Company by 31 December 2023 (€0.8 million).

Other payables due to third parties

Other payables due to third parties, amounting to €359.4 million, primarily regard guarantee deposits (€258.5 million) received from electricity market operators to guarantee their contractual obligations under dispatching and virtual interconnection contracts. This item also includes the potential liabilities attributable to the Brugg Cables Group, arising from the Purchase Price Allocation (€33.0 million, covered by an insurance policy) and resulting from ongoing litigation regarding a number of contracts with Colombian counterparties, and deferred income (€35.1 million, primarily attributable to the Group's non-regulated business).

This item is up by a total of €24.7 million, essentially due to an increase in guarantee deposits collected during the year, totalling €34.2 million, an increase in accrued expenses (up €6.0 million), offset by a reduction in dividends payable (down €18.2 million).

30. Discontinued operations and assets held for sale

The items, "Discontinued operations and assets held for sale" and "Liabilities related to discontinued operations and assets held for sale" included the assets and liabilities that make up the net assets attributable to the companies included in the agreement signed by the Terna Group and CDPQ, a global investment group, on 29 April 2022 for the sale of all the Group's power line assets in Brazil, Peru and Uruguay.

On 7 November 2022, the first transaction closing for the Brazilian companies, "SPE Santa Maria Transmissora de Energia S.A.", "SPE Santa Lucia Transmissora de Energia S.A." and "SPE Transmissora de Energia Linha Verde II S.A.", owners of three power lines in Brazil, totalling 670 km, was completed. On 22 December 2022, the transaction closing for Difebal S.A., the owner of a power line in Uruguay, totalling 214 km, was completed. The sale of the other assets in Brazil and Peru is due to take place in phases, following fulfilment of the conditions provided for in the agreement.

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

(€m)

ASSETS	31 DECEMBER 2023	31 DECEMBER 2022	CHANGE
Property, plant and equipment	1.4	1.3	0.1
Intangible assets	20.3	20.2	0.1
Deferred tax assets	2.4	2.9	(0.5)
Non-current financial assets	59.0	23.3	35.7
Other non-current assets	0.3	0.2	0.1
Inventories	0.4	26.9	(26.5)
Trade receivables	0.1	0.3	(0.2)
Current financial assets	7.3	6.0	1.3
Cash and cash equivalents	3.6	11.9	(8.3)
Income tax assets	0.6	0.4	0.2
Other current assets	5.5	14.4	(8.9)
Total assets	100.9	107.8	(6.9)
Accumulated impairment recognised on remeasurement of fair value less costs to sell	(15.9)	(37.1)	21.2
TOTAL ASSETS HELD FOR SALE	85.0	70.7	14.3
LIABILITIES			
Deferred tax liabilities	4.1	1.6	2.5
Trade payables	0.3	7.5	(7.2)
Tax liabilities	0.1	0.4	(0.3)
Other current liabilities	0.1	0.1	-
TOTAL LIABILITIES RELATED TO ASSETS HELD FOR SALE	4.6	9.6	(5.0)
TOTAL NET ASSETS HELD FOR SALE	80.4	61.1	19.3
<i>Amounts included in OCI:</i>			
Foreign currency translation reserve	3.6	0.9	2.7
Total reserves related to assets classified as held for sale	3.6	0.9	2.7

Net assets held for sale, amounting to €80.4 million at 31 December 2023, primarily regard investment in the infrastructure operated under concession in Brazil, related to the subsidiary, SPE Transmissora de Energia Linha Verde I S.A.

The item is up €19.3 million compared with 31 December 2022, essentially due an increase in the net assets of the subsidiary, SPE Transmissora de Energia Linha Verde I S.A..

Cash flow

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

(€m)

	CASH FLOW 2023	CASH FLOW 2022
Operating cash flow	(8.1)	(27.0)
Cash flow for investing activities	(0.2)	(3.3)
Cash flow from financing activities	-	2.8
Cash flow for the year attributable to discontinued operations and assets held for sale	(8.3)	(27.5)

The operating cash outflow attributable to the Latin American assets amounts to €8.1 million and is primarily linked to the reduction in net trade payables and income tax paid, covered in full by the change in cash, amounting to €8.3 million.

E. Commitments and risks

Risk management

In the course of its operations, the Terna Group is exposed to different financial risks: market risk, liquidity risk and credit risk.

This section provides information regarding the Terna Group's exposure to all the above risks, along with a presentation of the objectives, policies and processes for managing those risks and the methods used to assess them, with further quantitative disclosures concerning the separate financial statements for 2023.

The Group's risk management policies seek to identify and analyse the risks that Group companies are exposed to, establishing appropriate limits and controls and monitoring the risks and compliance with such limits. These policies and the related systems are reviewed on a regular basis, in order to take account of any changes in market conditions or in the companies' operations.

The Terna Group's exposure to the aforementioned risks is substantially represented by the exposure of the Parent Company.

As a part of the financial risk management policies approved by the Board of Directors, Terna has established the responsibilities and operating procedures for financial risk management, specifically as concerns the instruments to be used and the precise operating limits to apply in managing them.

Certain amounts at 31 December 2022 have been restated for comparative purposes.

The following table shows financial statement items exposed to the above risks.

(€m)

	31 DECEMBER 2023			31 DECEMBER 2022		
	RECEIVABLES AT AMORTISED COST	FAIR VALUE	TOTAL	RECEIVABLES AT AMORTISED COST	FAIR VALUE	TOTAL
Assets						
Derivative financial instruments	-	17.8	17.8	-	75.7	75.7
Cash on hand, securities and deposits	1,543.2	316.3	1,859.5	2,155.1	366.4	2,521.5
Trade receivables	2,123.4	-	2,123.4	2,358.3	-	2,358.3
TOTAL	3,666.6	334.1	4,000.7	4,513.4	442.1	4,995.5

(€m)

	31 DECEMBER 2023			31 DECEMBER 2022		
	RECEIVABLES AT AMORTISED COST	FAIR VALUE	TOTAL	RECEIVABLES AT AMORTISED COST	FAIR VALUE	TOTAL
Liabilities						
Debt	11,995.5	-	11,995.5	10,770.1	-	10,770.1
Derivative financial instruments	-	164.6	164.6	-	248.0	248.0
Trade payables	2,864.9	-	2,864.9	3,687.7	-	3,687.7
TOTAL	14,860.4	164.6	15,025.0	14,457.8	248.0	14,705.8

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of changes in financial market conditions. Market risk includes 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 part of the Parent Company's activities.

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

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

Interest rate risk

Interest rate risk is represented by the uncertainty associated with interest rate fluctuations. This is the risk that a change in market interest rates may produce effects on the fair value or future cash flows of financial instruments. In the course of its operations, the Group is exposed to the risk of fluctuations in interest rates. Its main source of interest rate risk is associated with its borrowings and the related hedges in the form of derivative instruments that generate financial expenses. The borrowing strategy generally focuses on long-term borrowings, whose term reflects the useful life of the Group's assets. It pursues an interest rate risk hedging policy that aims to guarantee that percentage of debt represented by fixed rate liabilities is at least 40%, as provided for in the relevant policies. At the end of 2023, 87% of the Group's is fixed rate.

At 31 December 2023, interest rate risk is hedged by cash flow hedges which hedge the risk connected with the fair value of borrowings and movements in interest rates relating to borrowings.

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

(€m)

	31 DECEMBER 2023		31 DECEMBER 2022		CHANGE	
	NOTIONAL	FAIR VALUE	NOTIONAL	FAIR VALUE	NOTIONAL	FAIR VALUE
Fair value hedges	1,853.0	(164.5)	1,973.5	(248.0)	(120.5)	83.5
Cash flow hedges	2,362.8	17.2	1,996.3	75.5	366.4	(58.3)

The notional amount of outstanding cash flow hedges at 31 December 2023, amounting to €2,362.8 million, breaks down as follows:

- €1,309.8 million (fair value gain of €27.4 million) maturing 2024;
- €260.0 million (fair value gain of €0.3 million) maturing 2025;
- €353.0 million (fair value loss of €0.3 million) maturing 2027;
- €500.0 million (fair value loss of €10.2 million) maturing 2029.

The notional amount of fair value hedges at 31 December 2023, amounting to €1,853.0 million, breaks down as follows:

- €950.0 million (fair value loss of €58.9 million) maturing 2030;
- €323.0 million (fair value loss of €33.8 million) maturing 2039;
- €490.0 million (fair value loss of €60.1 million) maturing 2042;
- €90.0 million (fair value loss of €11.7 million) maturing 2043.

Sensitivity to interest rate risk

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

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

	PROFIT OR LOSS			COMPREHENSIVE INCOME		
	CURRENT RATES +10%	CURRENT AMOUNTS	CURRENT RATES -10%	TASSI CORRENTI +10%	CURRENT AMOUNTS	CURRENT RATES -10%
31 December 2023						
Positions sensitive to interest rate variations (FVHs, bond issues, CFHs)	(0.7)	(2.8)	(4.9)	(48.5)	(58.3)	(68.2)
<i>Hypothetical change</i>	2.1	-	(2.1)	9.8	-	(9.9)
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
<i>Hypothetical change</i>	1.4	-	(1.4)	10.7	-	(10.8)

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

Regarding 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, which matured in September 2023, the Company has put in place an effective hedge of net income; in fact, any decrease in expected revenue due to a decrease in the inflation rate would be offset by lower financial expenses and vice versa.

Exchange rate risk

The management of exchange rate risk must aim to protect a company's earnings from the risk of currency fluctuations by keeping a close eye on market movements and constantly monitoring the existing exposures. In managing this risk, Terna from time to time selects hedging instruments with structures and durations matching the Group's exchange rate exposure. The instruments used by Terna are of limited complexity, highly liquid and easy to price, such as forwards and options. Such contracts have a notional amount and maturity date less than or equal to that of the underlying financial

liability, or the expected cash flows, so that any change in the fair value and/or estimated cash flows deriving from a rise or fall in the euro against other currencies is fully offset by a corresponding change in the fair value and/or estimated cash flows of the underlying position.

At 31 December 2023, the Group's exposure to the impact of exchange rate risk on its profit or loss is residual and linked to foreign currency cash flows from the subsidiaries, Tamini and Brugg.

Liquidity risk

Liquidity risk is the risk that the Terna Group might encounter difficulty in discharging its obligations in respect of its financial liabilities and operating cycle. Liquidity risk management seeks to ensure adequate coverage of borrowing requirements by obtaining adequate credit lines and appropriate management of any surplus liquidity. At 31 December 2023, the Terna Group has available short-term credit facilities of approximately €703 million (out of total facilities of approximately €1,040 million), and revolving credit facilities of €3,455 million. Finally, the Parent Company has launched a Euro Commercial Paper Programme (ECP), amounting to up to €1,000 million, including €130 million still available at 31 December 2023.

Credit risk

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

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

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

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

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

(€m)

	31 DECEMBER 2023	31 DECEMBER 2022	CHANGE
Derivative financial instruments	17.8	75.7	(57.9)
Cash on hand, securities and deposits	1,859.5	2,521.5	(662.0)
Trade receivables	2,123.4	2,358.3	(234.9)
TOTAL	4,000.7	4,955.5	(954.8)

The total value of the exposure to credit rate risk at 31 December 2023 is represented by the carrying amount of trade receivables, cash flows hedges, cash and cash equivalents, securities and deposits.

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

GEOGRAPHICAL DISTRIBUTION

(€m)

	31 DECEMBER 2023	31 DECEMBER 2022
Italy	1,768.7	2,092.6
Euro-area countries	267.9	165.9
Other countries	86.8	99.8
Total	2,123.4	2,358.3

CUSTOMER TYPE

(€m)

	31 DECEMBER 2023	31 DECEMBER 2022
Distributors	576.2	472.8
CSEA	72.2	94.3
Dispatching customers for injections	314.5	826.2
Dispatching customers for withdrawals (non distributors)	868.0	682.0
Parties which have signed virtual import contracts and virtual import services (interconnectors and shippers)	11.7	11.8
Sundry receivables	280.8	271.2
Total	2,123.4	2,358.3

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

(€m)

	31 DECEMBER 2023		31 DECEMBER 2022	
	IMPAIRMENT	GROSS	IMPAIRMENT	GROSS
Current	(0.7)	1,871.4	(0.6)	2,103.6
0-30 days past due	(0.5)	31.0	(0.6)	28.8
31-120 days past due	(0.5)	18.8	(0.4)	56.2
Over 120 days past due	(32.5)	236.4	(35.4)	206.7
Total	(34.2)	2,157.6	(37.0)	2,395.3

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

(€m)

	31 DECEMBER 2023	31 DECEMBER 2022
Balance at 1 st January	(37.0)	(49.6)
Release of provisions	6.4	14.3
Impairments for the year	(3.6)	(1.7)
Balance	(34.2)	(37.0)

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

(€m)

	31 DECEMBER 2023	31 DECEMBER 2022
Dispatching - injections	240.4	249.7
Dispatching - withdrawals	1,893.0	1,665.8
Transmission charges due from distributors	351.0	329.3
Virtual imports	273.4	269.6
Capacity market (*)	175.3	181.4
Balance	2,933.1	2,695.8

(*) Guarantees relating to Capacity Market contracts to be executed from 2024.

In addition, Non-regulated Activities are exposed to “counterparty risk”, in particular in relation to the entities with which sales contracts are entered into, in consideration of the credibility and solvency of the parties in question and the impact

that their possible insolvency could have on the financial strength of the business. Counterparty risk is mitigated by implementing special procedures to assess counterparties, measuring operating, financial and reputational aspects of the counterparties in question.

Default risk and debt covenants

This risk is associated with the possibility that the loan agreements or bond terms and conditions to which the Parent Company is a party may contain provisions authorising counterparties to call in such loans immediately upon the occurrence of certain events, thereby generating liquidity risk. More information on the contractual provisions of outstanding borrowings at 31 December 2023 is provided in the section, "Borrowings and financial liabilities" in the notes to the Terna Group's consolidated financial statements.

Bank guarantees

Banks have issued guarantees to third parties on behalf of Group companies which, at 31 December 2023, amount to €315.5 million. This amount breaks down as follows: €71.9 million on behalf of Terna S.p.A., €101.6 million on behalf of Tamini Trasformatori S.r.l., €53.3 million on behalf of Terna Rete Italia S.p.A., €19.9 million on behalf of Terna Interconnector S.r.l., €51.6 million on behalf of Gruppo Brugg, €0.1 million on behalf of Terna Plus S.r.l., €4.5 million on behalf of Terna Perù SAC, €12.0 million on behalf of Terna Energy Solutions S.r.l. and €0.1 million on behalf of Terna Chile S.p.A..

Litigation

The main commitments and risks not disclosed in the statement of financial position at and for the year ended 31 December 2023, relating to the Parent Company, Terna S.p.A. ("Terna" or the "Parent Company" or the "Company") and its subsidiary Terna Rete Italia S.p.A., are described below. There are no significant commitments or risks for the other subsidiaries at that date.

Litigation regarding the legitimacy of construction permits and plant operations

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

Litigation relating to activities carried out under concession

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

F. Business combinations

Acquisition of Omnia S.r.l.

On 29 March 2023, LT S.r.l. (a wholly owned subsidiary of Terna Energy Solutions S.r.l., in turn a subsidiary of Terna S.p.A.) acquired a 100% stake in Omnia S.r.l., a company providing Operation & Maintenance services for photovoltaic plants. The acquisition aims to consolidate LT S.r.l.'s position as an Italian market leader in the construction and operation of photovoltaic plants.

The accounting effects of the business combination, provisionally accounted for in compliance with IFRS 3 – Business Combinations, are shown in the following table, which summarises the consideration paid in order to acquire Omnia S.r.l. and the value of the assets acquired and liabilities assumed, as recognised at the acquisition date:

Value of the assets acquired and liabilities assumed at 29 March 2023

	(€000)
	FAIR VALUE
ASSETS	
Non-current assets	
Property, plant and equipment	4
Total non-current assets	4
Current assets	
Trade receivables	179
Current financial assets	2
Income tax assets	25
Other assets	41
Cash	17
Total current assets	264
TOTAL ASSETS	268
EQUITY AND LIABILITIES	
Non-current liabilities	
Trade payables	46
Tax liabilities	27
Other liabilities	31
Total current liabilities	104
TOTAL EQUITY AND LIABILITIES	104
NET ASSETS ACQUIRED	164
Net assets contributed	164
CONSIDERATION	1,521
GOODWILL	1,357

IFRS 3 requires the acquirer to allocate the cost of the business combination in its accounts by recognising all the assets, liabilities and potential liabilities meeting specific recognition criteria at their fair value at the acquisition date. In this case, the cost of the acquisition of all the company's share capital is €1.5 million.

The expected consideration is higher than the value of the net assets at the acquisition date, resulting in goodwill of approximately €1.3 million.

On 11 October 2023, the merger deed relating to the merger of Omnia S.r.l. with and into LT S.r.l. was executed. This was done in accordance with the merger plan approved on 12 May 2023 by the respective boards of directors and on 31 July 2023 by the companies' shareholders.

In accordance with the provisions of the merger deed, transactions carried out by the acquired company, Omnia S.r.l., are accounted for in the financial statements of the acquirer, LT S.r.l., with the merger effective for accounting and tax purposes from 1 January 2023.

Acquisition of Rete Nord S.r.l.

On 22 June 2023, Terna S.p.A. acquired a 100% stake in Rete Nord S.r.l. (formerly "Edyna Transmission S.r.l."), a company that owns the following NTG assets:

- a portion of a 220kV power line in Trentino-Alto Adige, extending for approximately 70 km;
- the 220kV Resia substation (UD);
- the 220kV Naturno substation (BZ).

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

Value of the assets acquired and liabilities assumed at 22 June 2023

(€000)

	FAIR VALUE
ASSETS	
Non-current assets	
Property, plant and equipment	13,249
Intangible assets	801
Deferred tax assets	180
Total non-current assets	14,230
Current assets	
Trade receivables	395
Other assets	17
Cash	293
Total current assets	705
TOTAL ASSETS	14,935
EQUITY AND LIABILITIES	
Non-current liabilities	
Deferred tax liabilities	198
Total non-current liabilities	198
Current liabilities	
Trade payables	129
Tax liabilities	5
Other liabilities	8
Total current liabilities	142
TOTAL EQUITY AND LIABILITIES	340
NET ASSETS ACQUIRED	14,595
Net assets contributed	14,595
CONSIDERATION	14,609
GOODWILL	14

IFRS 3 requires the acquirer to allocate the cost of the business combination in its accounts by recognising all the assets, liabilities and potential liabilities meeting specific recognition criteria at their fair value at the acquisition date. In this case, the cost of the acquisition of all the company's share capital is €14.6 million.

The expected consideration is broadly in line with the value of the net assets at the acquisition date.

On 20 December 2023, the merger deed for the merger of Rete Nord S.r.l. with and into Rete S.r.l. (a wholly owned subsidiary of Terna S.p.A.) was executed with the aim of improving Group companies' operations, increasing synergies through a reorganisation designed to simplify the chain of control, thereby boosting operational efficiency and cutting administrative costs.

The merger deed was effective for legal purposes from 20 December 2023 (the date it was filed with the Companies' Register), in accordance with the merger plan approved on 12 October 2023 by the respective boards of directors and on 26 October 2023 by the companies' shareholders.

In accordance with the provisions of the merger deed, transactions carried out by the acquired company, Rete Nord S.r.l., are accounted for in the financial statements of the acquirer, Rete S.r.l., with the merger effective for accounting and tax purposes from 20 December 2023.

G. Related party transactions

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



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

Related party transactions in 2023 broadly regard the provision of services in the course of ordinary activities and conducted on an arm's length basis.

The nature of sales to and purchases from related parties by the Terna Group is shown below, followed by details of the revenue and costs resulting from such transactions during the year and the related assets and liabilities outstanding at 31 December 2023.

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



REVENUE AND COSTS

(€m)

	REVENUE COMPONENTS		COST COMPONENTS
	TRANSMISSION CHARGE AND OTHER REVENUE FROM REGULATED ACTIVITIES	NON-ENERGY- RELATED ITEMS	
De facto parent			
Cassa Depositi e Prestiti S.p.A.	-	0.1	1.4
Total de facto parent	-	0.1	1.4
Associates:			
Cesi S.p.A.	-	0.1	1.3
CORESIO S.A.	-	-	4.9
Total associates	-	0.1	6.2
Other related parties:			
GSE Group	8.5	0.9	0.1
Enel Group	1,768.3	7.3	0.4
ENI Group	8.0	2.0	0.6
Ferrovie Group	2.8	0.8	0.4
Anas S.p.A.	-	0.3	0.6
Webuild S.p.A.	-	0.4	-
Ansaldo Energia S.p.A.	-	4.8	-
Poste Italiane Group	-	-	0.1
Open Fiber S.p.A.	-	1.8	-
Other related parties of MEF	-	0.2	0.6
Total other related parties	1,787.6	18.5	2.8
Pension funds:			
Fondenel	-	-	0.9
Fopen	-	-	3.4
Total pension funds	-	-	4.3
TOTAL	1,787.6	18.7	14.7

ASSETS AND LIABILITIES

(€m)

	PROPERTY, PLANT AND EQUIPMENT	RECEIVABLES AND OTHER ASSETS	PAYABLES AND OTHER LIABILITIES		CASH	GUARANTEES*
	CAPITALISED COSTS	OTHER	OTHER	FINANCIAL		
De facto parent						
Cassa Depositi e Prestiti S.p.A.	5.3	-	6.7	-	-	(273.9)
Total de facto parent	5.3	-	6.7	-	-	(273.9)
Associates:						
Cesi S.p.A.	10.7	0.1	6.4	-	-	4.8
CORESIO SA	-	-	0.3	-	-	-
Total associates	10.7	0.1	6.7	-	-	4.8
Other related parties:						
GSE Group	0.2	0.7	0.3	-	-	-
Enel Group	37.7	339.2	55.0	-	-	1,024.9
ENI Group	-	1.6	1.2	-	-	111.1
Ferrovie Group	0.3	1.8	11.3	0.1	-	24.6
ANAS S.p.A.	0.2	0.2	2.7	-	-	-
Snam Rete Gas S.p.A.	-	-	0.1	-	-	-
Webuild SpA	0.1	-	12.7	-	-	5.4
Ansaldo Energia S.p.A.	1.3	0.2	1.1	-	-	22.6
Open Fiber S.p.A.	-	0.4	-	-	-	-
Poste Italiane Group	-	-	0.1	0.1	-	-
Other related parties of MEF	3.5	0.2	0.1	-	0.1	1.1
Total other related parties	43.3	344.3	84.6	0.2	0.1	1,189.7
Pension funds:						
Fopen	-	-	2.8	-	-	-
Total pension funds	-	-	2.8	-	-	-
TOTAL	59.3	344.4	100.8	0.2	0.1	920.6

* 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 2023			31 DECEMBER 2022		
	TOTAL	RELATED PARTIES	% SHARE	TOTAL	RELATED PARTIES	% SHARE
Property, plant and equipment	17,596.7	59.3	0.3%	16,200.9	41.1	0.3%
Trade receivables	2,123.4	344.4	16.2%	2,358.3	333.2	14.1%
Cash and cash equivalents	1,378.2	0.2	-	2,155.1	0.1	-
Trade payables	2,864.9	66.5	2.3%	3,687.7	60.9	1.7%
Other current liabilities	809.4	34.3	4.2%	669.9	22.7	3.4%

INCOME STATEMENT

(€m)

	2023			2022		
	TOTAL	RELATED PARTIES	% SHARE	TOTAL	RELATED PARTIES	% SHARE
Revenue from sales and services	3,122.8	1,805.9	57.8%	2,898.1	1,718.7	59.3%
Other revenue and income	63.9	0.4	0.6%	66.4	0.8	1.2%
Raw and consumable materials used	285.4	0.1	-	247.8	-	-
Services	312.3	10.1	3.2%	276.9	10.4	3.8%
Personnel expenses	377.2	4.4	1.2%	348.1	3.7	1.1%
Other operating costs	43.2	0.2	0.5%	32.5	0.1	0.3%
Financial expenses	(227.7)	-	-	(121.8)	-	-

The impact of related party cash flows is shown below:

STATEMENT OF CASH FLOWS

(€m)

	2023			2022		
	TOTAL	RELATED PARTIES	% SHARE	TOTAL	RELATED PARTIES	% SHARE
Cash flow from operating activities	1,084.9	6.0	0.6%	2,323.7	(26.6)	(1.1%)
Cash flow from investing activities	(2,334.4)	(18.2)	0.8%	(1,855.4)	19.2	(1.0%)
Cash flow from financing activities	464.3	-	-	92.5	-	-

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

With the exception of the instances described above, no significant non-recurring, atypical or unusual events or transactions, involving either third or related parties, took place in 2023.

I. Notes to the statement of cash flows

Cash flow from **continuing operations** amounts to €1,084.9 million, with approximately €2,184.2 million in operating cash flow and an outflow of approximately €1,099.3 million generated by changes in net working capital.

The cash outflow for **investing activities** totals €2,334.4 million and regards €2,048.8 million relating to investment in property, plant and equipment (excluding right-of-use assets recognised in application of IFRS 16), €216.2 million invested in intangible assets, €118.4 million essentially relating to the change in investments in securities, and €15.8 million regarding the consideration paid for the new acquisitions described above, after capitalised financial expenses of €48.3 million.

The net change in **equity** has resulted in a decrease of €678.5 million, due primarily to payment of the final dividend for 2022 and of the interim dividend for 2023 to the Parent Company's shareholders and of dividends paid to non-controlling shareholders (a reduction of €671.5 million). The reduction also reflects the purchase of own shares to service the new Performance Share Plan 2023-2027 (down €7.0 million). More details are provided in note 24. "Equity attributable to owners of the Parent and non-controlling interests".

As a result, net cash used in investing activities and to provide a return on equity during the year led to a total outflow of €3,012.9 million, covered in part by cash flow from continuing operations of €1,084.9 million and in part by an increase 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 2022	CASH FLOW FROM FINANCING ACTIVITIES	CHANGE IN FV AND OTHER	31 DECEMBER 2023
- Long-term borrowings (including current portion)	10,326.0	380.0	87.8	10,793.8
- Short-term borrowings	444.1	762.8	(5.2)	1,201.7
Net change deriving from financing activities	10,770.1	1,142.8	82.6	11,995.5

L. Government grants

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

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

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

In line with the above, the following table shows government grants collected/disbursed by the Group in 2023:

Grants received (paragraph 125-bis)

BENEFICIARY ENTITY	GRANTOR				
	NAME	VAT NUMBER	TYPE OF TRANSACTION	AMOUNT (€)	NOTE
TERNA SPA	Ministry of Enterprises and Made in Italy	80230390587	State aid*	6,617,869	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				6,617,869	

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

Grants disbursed (paragraph 126)

GRANTOR	BENEFICIARY			TYPE OF TRANSACTION	AMOUNT (€)	NOTE
	NAME	TAX CODE	VAT NUMBER			
TERNA SPA	Fondazione Venezia Capitale Mondiale della Sostenibilità		94102820274	GIVING	33,000	Joining the foundation as co-founding member
TERNA SPA	Fondazione Accademia Naz. Santa Cecilia		05662271005	GIVING	160,000	Renewed participation as a founding partner
TERNA SPA	SUSAN G.KOMEN ITALIA ONLUS		06073831007	GIVING	15,000	Prevention day across the whole of Italy
TERNA SPA	Fond.Pol.Univ.A.GEMELLI IRCCS		13109681000	GIVING	65,000	Support for the purchase of equipment or for functional neurosurgery
TERNA SPA	Fondazione Accademica Musicale Chigiana		92035840526	GIVING	20,000	Summer Academy 2023
TERNA SPA	Sistech - Association loi 1901		FR83538232600022	GIVING	60,000	Funding for Programma Boost scholarships
TERNA SPA	ASSOCIAZIONE ITALIANA CONTRO LE LEUCEMIE		10823601009	GIVING	60,000	Support for a non-profit, public interest organisation
TERNA SPA	SOCIETA' BOTANICA ITALIANA ONLUS		00464940485	GIVING	56,314	Tiny Forest project
TAMINI TRASFORMATORI SRL	FONDIMPRESA	97278470584		GIVING	35,140	Training plan no. 310041-safety refresher 2021/2022
Totale					504,454	

M. Events after 31 December 2023

Green light for the new underground cable connection in the Municipalities of Turbigo, Robecchetto con Induno and Castano Primo (MI)

On **4 January 2024**, the Italian Ministry of the Environment and Energy Security issued the decree **approving Terna's new electricity connection in the municipalities of Turbigo, Robecchetto con Induno and Castano Primo in the metropolitan city of Milan**. The project, which will see the company invest €8 million, involves the construction of a 4.5 km-long underground cable power line to connect Terna's "Turbigo" Electrical Substation to the "Castano Primo" Primary Substation owned by the local distributor. The new line will reduce the risk of outages across the local grid and help to prevent damage to infrastructure caused by the intensification of weather events in recent decades, such as the strong winds typical of the area.

Work begins to upgrade the power grid between Colunga and Ferrara

On **09 January 2024** Terna launched the project to upgrade the power grid between Colunga and Ferrara in Emilia-Romagna. The company will invest approximately €16 million in the modernisation of the grid between Colunga and Ferrara, ensuring greater efficiency and quality of service for local businesses and citizens. The plan, which involves the municipalities of Castenaso, Budrio, Minerbio, Baricella, Malalbergo, Poggio Renatico, and Ferrara, will upgrade the following 132kV links: Colunga-Altedo", "Altedo Ferrara South" and "Ferrara South-der. Aranova Energy Centre", with the construction of approximately 20 km of power lines and the demolition of more than 60 km of lines in the provinces of Bologna and Ferrara.

Successful issue of a bond worth €850 million with a 7-year tenor

On **10 January 2024**, Terna S.p.A. ("Terna" or the "Company") successfully launched a fixed rate, single tranche bond issue amounting to €850 million. The issue, which saw extremely high demand, was almost 3 times oversubscribed and is characterized by high quality and broad geographical diversification of investors. The bond was launched as part of the €9,000,000,000 Euro Medium Term Notes (EMTN) Programme, which has been rated "BBB+" by Standard and Poor's and "(P)Baa2" by Moody's. The bond has a nominal amount of €850 million, a duration of 7 years and maturity on 17 January 2031. It will pay a coupon of 3.50% and was issued at a price of 99,385%, with a spread of 100 basis points

over the midswap. The settlement date for the issue was 17 January 2024. The proceeds from the issue will be used by the Company to meet ordinary financial requirements and to fund the Group's Industrial Plan. At the time of the issue, an application will be made for the bond to be listed on the Luxembourg Stock Exchange. The bond issue was placed by a syndicate of banks formed by Banca Akros, BNP Paribas, CaixaBank, Citi, Crédit Agricole Corporate and Investment Bank, IMI – Intesa Sanpaolo, Morgan Stanley, SMBC, Unicredit Bank AG, acting as joint-bookrunners.

Terna trials the use of a submarine drone for marine geophysical surveys

On **11 January 2024**, Terna announced the launch, in collaboration with Terradepth, a US startup and leading provider of marine survey services and ocean data solutions, **of the trial for the “Odisseo” project**. The goal of the project is to apply Autonomous Underwater Vehicles (AUV) to marine geophysical surveys during the planning of important infrastructure, ensuring respect for the environment. The first test was conducted off the coast near the port of Casamicciola Terme, on the island of Ischia (Naples, Italy). During the geophysical survey of the seabed, Terna's technicians were able to test the performance of the “Gavia” drone, the AUV from Terradepth equipped with advanced sensors, including Echo Sounder (MBES), Side Scan Sonar and HD Camera.

Green light for the new “Messina North PS – Messina Riviera PS” underground connection

On **15 January 2024**, the Sicilian Regional Authorities issued the decree consenting to Terna's new **150kV power line in the municipality of Messina**. The project, which will see the Company invest approximately €26 million, involves the installation of an underground cable stretching approximately 10 km, connecting the “Messina North” and “Messina Riviera” primary substations. The Messina area experiences strong winds, which, combined with the topography and vegetation of the surrounding area, represent a potential risk of system outages. The new power line will increase local grid meshing and diversify transmission technology, reducing this risk of severe weather events.

Terna meets the citizens of Ferrara to present the project to restructure the local grid

On **24 January 2024**, Terna held an information event with the citizens of Ferrara to present the future **restructuring of the city's grid**. The event was held between 5pm and 8pm at the Giorgio Bassani Library, Via Giovanni Grosoli 42, in Ferrara, and it was an opportunity to provide citizens with information on the project's features, reasons, benefits and dynamics. As a whole, the restructuring of the city of Ferrara's electricity grid involves the undergrounding of two 132kV overhead lines running from the Focomorto power station over a total length of more than 9 km, the construction of a new 132kV underground connection in the south of the city over a length of 3 km, and the expansion of the existing 380kV Ferrara Nord power station with the related new overhead connections. The works, which are aimed at increasing the security and resilience of the electricity system, will guarantee greater transport capacity to the urban area and will fully optimise the use of renewable energy produced in the area. In addition, the new infrastructure will enable the removal of approximately 20 km of overhead power lines and 70 pylons, freeing up approximately 40 hectares from the existing electricity infrastructure. The project complements the works to restructure the electricity grid in the area between Colunga and Ferrara that began in early January. The planned modernisation of the electricity grid in the Po Valley in the Emilia-Romagna region will improve the efficiency and quality of the service, benefiting local businesses and the public.

Terna presents the outcome of the public consultation on the new “GR. ITA 2” connection between Italy and Greece to the public

On **31 January 2024**, Terna presented the outcome of the public consultation to authorities and citizens of the seven municipalities, in the province of Lecce, affected by the planned **“GR.ITA 2” connection**. During the online meeting, held on Teams from 5.00 p.m., the solutions selected for the route were presented. These decisions are the result of dialogue with local communities during the public consultation on the new infrastructure that will cross the southern Italian municipalities, in the province of Lecce, of Galatina, Soleto, Sternatia, Martignano, Calimera, Carpignano Salentino and Melendugno. At the end of this phase, Terna will launch detailed planning ready for the

consents process. The meeting is part of the shared planning process launched by the company in 2022 with the support of the Puglia Regional Authority and the municipal councils. During the public consultation phase, prior to submission of the project to obtain consent, concluded on 12 December 2023, five meetings were held to illustrate the details of the proposed project to local stakeholders, examining alternatives established on the basis of comments received during voluntary consultation and by listening to the feedback, opinions and requests of citizens.

The Ministry of the Environment and Energy Security gives its consent for the Adriatic Link, the new submarine power line connecting Marche and Abruzzo

On **6 February 2024**, the Ministry of the Environment and Energy Security, **through a decree of 31 January 2024, gave the green light for the construction of the Adriatic Link, Terna's submarine power line that will connect the Marche and Abruzzo regions**. This development project, included among the interventions outlined in the PNIEC (National Integrated Plan for Energy and Climate) and recognised as strategic for the country by the Regulatory Authority, will strengthen energy exchange in central Italy, addressing the security and flexibility needs of the national electrical system and meeting the targets set for growth in renewables. The advanced technological and environmental electric connection will consist of two submarine cables approximately 210 km long, laid at a maximum depth of 100 meters, and two underground cables of 40 km. Converter stations will be built near the existing substations in Cepagatti (Pescara), Abruzzo, and Fano (Pesaro-Urbino), Marche. The infrastructure will provide an increase of approximately 1,000 MW in exchange capacity between Italy's Centre-South and Centre-North zones, enabling the integration and transfer of energy produced by wind and photovoltaic plants in the South to consumption centres in the North.

Terna among the world leaders in fighting climate change

On **6 February 2024**, Terna was recognised as a leading international company in the fight against climate change by CDP's Climate Change survey (former Carbon Disclosure Project). CDP is a global non-profit organisation specialising in environmental reporting and assessment of climate performance and strategies adopted by companies. The group led by Giuseppina Di Foggia achieved an "A-" rating (on a scale from "D-" to "A"), improving on last year's "B" rating. The score assigned to Terna places the company in the "Leadership" category, above the average for the sector ("B"), the European average ("B") and the global average ("C"). This recognition from CDP confirms Terna's growing commitment to environmental sustainability, reaffirmed with the adoption of a new Science Based Target, under which Terna has committed to cut its CO₂ emissions by 46% before 2030, compared to 2019 levels, raising the bar from the previous target of reducing greenhouse-gas emissions by approximately 30%. CDP's assessment of supplier engagement recognises Terna's efforts with regard the quality of Scope 3 emissions reporting, in relation to the value chain, and rewards the Group's commitment to reducing these emissions, as certified by the Science-based Target Initiative in 2023. The rating is also in line with the Company's efforts to promote the circular economy, given substance by the recent launch of Terna's Roadmap, which aims to make the Company a leader in this field.

Settlement agreement with Quebec

On **7 February 2024**, all disputes related to the outstanding arbitrations (listed in the notes in note 11. "Profit/loss from discontinued operations and assets held for sale") **between the companies Linha Verde I and Linha Verde II and the Quebec Group** were resolved, including any other existing or potential disputes regarding their relations. In addition, at the same time of the agreement, the company Terna Plus S.r.l. completed the purchase of a minority stake in the Brazilian company SPE Transmissora de energia Linha Verde I S.A., now an integral subsidiary of Terna Plus S.r.l..

Terna: EIB provides the last tranche of the €1.9 billion loan for the Tyrrhennian Link

On **8 February 2024**, on the sidelines of the second edition of the EIB Forum in Luxembourg, which brings together Heads of State, EU Commissioners, business leaders, academics and civil society representatives, **the European Investment Bank (EIB) and Terna signed the contract for the final tranche of the €1.9 billion loan for the Tyrrhennian Link, the submarine electricity cable connecting the Italian mainland with Sicily and Sardinia**. At the EIB Forum, a meeting took place between EIB Vice-President Gelsomina Vigliotti and CEO and General Manager of Terna, Giuseppina Di Foggia, to

discuss future collaboration in support of the energy transition and **REPowerEU** objectives. This final tranche of €500 million, in addition to the previous contracts signed on 8 November 2022 (first tranche of €500 million) and 30 March 2023 (second and third tranches, totalling €900 million), will support the construction and commissioning of the East and West sections of the Tyrrhenian Link. By connecting Sicily and Sardinia with the Italian mainland via a 970 km, 1,000 MW double submarine cable, the Tyrrhenian Link will foster the development of renewable sources, grid reliability and promote energy security in Italy. Terna plans to invest around €3.7 billion in total for this infrastructure, which is key for Italy's energy security. Around 50% of the project cost will be financed by the EIB, demonstrating the strategic nature of the project. The Tyrrhenian Link will be fully operational in 2028. Some 250 companies will be involved in its implementation, which will have a significant impact in the regions concerned. With a tenor of around 22 years from each drawdown, the loans have a longer maturity and more competitive costs than those generally available on the market, aligning them with Terna's policy to optimise its financial structure. This transaction brings the total of EIB loans granted to Terna to around €3.8 billion.

Terna and RSE join forces to develop projects and technologies in the energy and environmental sectors

On **14 February 2024, Terna and RSE, a leader in analysis and applied research in the energy sector, have signed a five-year partnership agreement** aimed at the development and application of processes and technologies in the field of energy and the environment, promoting study initiatives and development and innovation activity. The agreement was signed on 14 February in Rome by Giuseppina Di Foggia, CEO and General Manager of Terna, and Franco Cotana, CEO of RSE. Thanks to this partnership, Terna and RSE will be able to cooperate, through planning, programming and coordination activity, establishing a scenario that fosters the development of research and technology and the propagation of projects for innovation, energy security and grid resilience. This is of fundamental importance to Terna, being an enabler of the energy transition, and for RSE, in its role of promoting innovation, efficiency and circularity throughout the energy supply and sustainability chain. Specifically, the partnership involves a framework agreement aimed at launching mutual collaboration in areas including optimised grid planning and design, methodologies for smart-asset management, monitoring, control and resilience of the electricity system, development of new technology for grid flexibility, scenarios for the evolution of demand and generation from renewables, big-data management and data science, use of IoT (Internet of things) technology, cyber security, artificial intelligence and other technology enabling the Italian energy transition. The progress of projects will be monitored by a Management Committee made up of Terna and RSE representatives.

Consent for two new underground cable connections in Milan

On **16 February 2024, the Ministry of the Environment and Energy Security issued the decree approving Terna's project for the construction of two new power line connections in Milan.** The Company will invest approximately €17 million in the project, which is part of the works planned to increase reliability of power supplies for the Milan - Cortina 2026 Winter Olympics and Paralympics. The project involves two underground cable connections (Porta Romana PS – Milan South Receiver SS and Porta Romana PS – Mugello PS) running for a total of 6.5 km and providing input-output connection of the local distributor's new "Porta Romana" primary substation. These works will upgrade the local grid, which experiences high loads—particularly in the summer—enabling it to cope with the growing electricity demand of the Porta Romana district set to host the Olympic Village, and the corresponding train station.

Terna: infrastructure projects consented to in 2023 amount to investment of over €3 billion

As at **19 February 2024, the Italian Ministry of Environment and Energy Security and the regional councils approved 23 development projects for Italy's national transmission grid, with total investment of more than €3 billion.** This marks a **new record for the Group**, confirming Terna's central role in Italy's energy transition and the ongoing collaboration between the company and Italian institutions. **The figure is up 20% on 2022**, when authorised projects reached a total value of more than €2.5 billion, and has tripled since 2021. The main contribution to this achievement comes from the western branch of the Tyrrhenian Link, the section of the submarine power line that will connect Sicily and Sardinia, valued at over €1.8 billion. The eastern branch of the project, set to connect Sicily and Campania, was authorised in 2022. The 1,000 MW Direct Current submarine connection will run for 970 km, and is a strategic project for the Italian electricity system, crucial for achieving the energy transition goals set in the Integrated National Energy and Climate Plan (PNIEC). Another significant Terna project authorised last year is Sa.Co.I. 3, the 200kV submarine cable that will connect Sardinia, Corsica and Tuscany, with a total capacity of up to 400 MW. The project will help to strengthen the country's role as energy hub in Europe and Mediterranean region. In addition, there are two projects of around €50 million each, included in Terna's plans to increase the security and efficiency of the high

and extra-high-voltage grid in the areas that will host the 2026 Milan - Cortina Olympic Games and Paralympic Games. These are the 19km “Moena-Campitello” underground cable power line in Val di Fassa (Trento) and the 22km underground connection between Vandoies and Brunico (Bolzano). Both projects will increase grid meshing and resilience of the electricity transmission system in areas frequently affected by extreme weather events in recent years. Terna has already begun work on the two infrastructure projects, with the aim of completing them by the end of 2025. Furthermore, by investment value, the two following projects in Lazio were also included: the underground cable power line of over 17km between the Rome South electrical substation and the Ciampino primary substation. This €30 million project is part of a wider plan to restructure the power grid in the southern area of the Italian capital. The second is the “Pian di Tortora-Viterbo”, an underground cable connection in the province of Viterbo which will increase grid meshing in the area and boost the efficiency and reliability of the transmission service.

Green light for the new underground cable connection in Ragusa

On **22 February 2024**, Sicily's Department of Energy and Public Utilities approved Terna's new **“Ragusa SS -Ragusa North PS” underground cable power line**. The project, in which the company led by Giuseppina di Foggia will invest approximately €26 million, involves the construction of a 14 km-long electricity line connecting Terna's substation at Ragusa to the Ragusa North primary substation, which is owned by the local distributor. The development project will increase the available power to meet the needs of businesses and citizens and the grid meshing to improve service quality, especially during the summer, when demand in the area is significantly higher. The new connection will be completely underground and developed using latest-generation cables with XLPE (cross-linked polyethylene) insulation, a reliable, resilient, and sustainable solution. The final project design process and the preliminary activities necessary to start construction will begin in the coming weeks.

Results of the Directors' and Statutory Auditors' assessment of independence

On **6 March 2024**, Terna's meeting of the Board of Directors, chaired by Igor De Biasio, proceeded to assess its members' compliance with the independence requirements in the Articles of Association, in art. 147-ter, paragraph 4 and art. 148, paragraph 3 of the Consolidated Law on Finance (“CLF”), and the independence requirements in the Corporate Governance Code (art. 2, Recommendation 7) provided in the document, “Criteria and procedure for assessing independence”. In view of the governance recommendations, the Chairman, Igor De Biasio, was assessed as independent pursuant to both art. 147-ter, paragraph 4 and art. 148, paragraph 3 of the Consolidated Law on Finance (“CLF”) and to art. 2, Recommendation 7 of the Corporate Governance Code. The non-executive Directors Angelica Krystle Donati, Enrico Tommaso Cucchiani, Gian Luca Gregori, Simona Signoracci, Marco Giorgino, Karina Audrey Litvack, Jean-Michel Aubertin and Anna Chiara Svelto were assessed as independent pursuant to both art. 147-ter, paragraph 4 and art. 148, paragraph 3 of the CLF and to art. 2, Recommendation 7 of the Corporate Governance Code. The Directors Regina Corradini D'Arienzo, Francesco Renato Mele and Qinqing Shen were assessed as not independent pursuant to both art. 147-ter, paragraph 4 and art. 148, paragraph 3 of the CLF and to art. 2, Recommendation 7 of the Corporate Governance Code. The Board of Directors also verified that all its members fulfil the requirements in the provisions of art. 15.5 of the Articles of Association concerning independence and incompatibility, adopted pursuant to the Unbundling Regulations. As recommended by the Corporate Governance Code, and in accordance with the role assigned to it by law, the Board of Statutory Auditors verified the correct application of the established assessment criteria and procedures adopted by the Board of Directors in assessing the independence of its non-executive members. The Board of Statutory Auditors also reported during today's meeting that all the Statutory Auditors meet the relevant independence requirement, pursuant to art. 2, Recommendation 9 of the Corporate Governance Code, verified during the meeting held on 7 February 2024 in application of the Board of Statutory Auditors' Terms of Reference.

Terna launches the “Driving Energy Award 2024 – Contemporary Photography”

On **7 March 2024**, Terna launched the **“Driving Energy Award 2024 – Contemporary Photography”**. This free competition — open to all professional and amateur photographers in Italy — aims at promoting and developing culture in Italy and scouting new talents in the field. The theme for this year's award is ‘*The invisible way*’. From today until 30 June, photographers are invited to interpret different forms of energy that although invisible, produce visible effects. This is a way to celebrate talent and the unique nature of an art capable of capturing realities that do not exist for many people, or at least not yet. This edition will have the same structure as the previous year's, which achieved ambitious goals in terms of opening, inclusion and engagement across Italy, making the Award a resounding success in the world of photography. This year will again see five different categories: the **Senior Award**, with a prize of €15,000, open to participants of the age

of 31 or older, the **Youth Award**, with a prize of €5,000, for photographers below the age of 30, the Amateur Award, with a prize of €5,000, open to all those who are not pursuing a professional career in photography, the **Academy Mention**, with a prize of €2,000, open to students enrolled in a higher education institute studying in a field relevant to the Award, and **Terna's most voted work**, with a prize of €2,000, open to all categories and awarded by Terna employees, who will vote on an exclusive preview of the finalist works through the TernaCult internal cultural platform.

Terna Forward and DXT Commodities close a €2.8 billion round of investment in WESII

On 8 March 2024, Terna Forward, the Terna Group company dedicated to tech innovation and Corporate Venture Capital initiatives, and DXT Commodities S.A. (DXT), a Duferco Group company, have announced the completion of a 2.8 million-euro round of investment, through a joint capital increase, in Wesii, an leading Italian company in inspection and remote-sensing services for the renewable energy sector. Traditional approaches for inspection of solar and wind systems or power lines involve land-based techniques that can be time-consuming and costly. Since its founding, Wesii has focused on the use of drones and aircraft equipped with high-definition and infrared thermal cameras for the thermographic analysis of renewable plants and electric infrastructure. This provides a high level of accuracy and enables identification and geolocation of any faults. The data gathered by the startup are catalogued, standardised and analysed using AI algorithms and a proprietary platform in order to further improve predictive maintenance and asset monitoring. The investment in Wesii is the first direct investment in an innovative small medium enterprise by Terna Forward, a company of the Terna Group led by Giuseppina Di Foggia. Terna Forward uses an open-innovation approach to identify and support the most promising enterprises and those with the highest-impact technology for acceleration of the energy transition, including through Corporate Venture Capital investments.

Consents process for the two new underground cable connections in the province of Sassari begins

On 12 March 2024, following the launch, by the Ministry of the Environment and Energy Security, of the consents process for the two new underground cable connections in the province of Sassari, **Terna published the notice identifying the parcels of land that may be affected by the project in the municipalities of Alghero and Putifigari**. The project, in which the company will invest around €45 million, involves connecting the new "Alghero South" Primary Substation, which belongs to the local distributor, to the existing 150kV "Padria-Alghero" line. This will be achieved by constructing two underground cables with an overall length of approximately 20 km. The new infrastructure will allow the demolition of around 4 km of existing overhead power lines, for a total of 8 pylons that currently cross the municipalities involved. The work will enable to increase the resilience of the electricity system in the face of extreme weather events and boosting the reliability of the local grid thanks to the construction of new supply routes, while simultaneously reducing the environmental impact of the infrastructure on the community.

Terna receives gender equality certification

On 14 March 2024, Terna announced that it has received certification from the certifying body IMQ – Istituto Italiano Marchio di Qualità – confirming the compliance of its Gender Equality Management System with the standard UNI/PdR 125:2022. The audit performed by the certifying body took place in person and remotely and looked at a sample of seven organisational structures of the four Group companies – Terna S.p.A., Terna Rete Italia S.p.A., Terna Energy Solutions S.r.l., and Terna Plus S.r.l. – with the audit lasting a total of around 90 hours. The IMQ auditors certified that this achievement was the result of implementing renewed and improved principles and criteria within the Group, bringing them further into line with the new Gender Equality Management System. The GEMS was implemented in early 2023 through close collaboration between various areas of the Group. This certification marks the fourteenth integrated management system implemented and managed by Terna.

Start of consents process for reorganisation of the electricity grid between Caserta and Naples

On 16 March 2024, the Ministry of the Environment and Energy Security began the consents process for Terna's plan to reorganise the power grid in the towns of Maddaloni, in the province of Caserta, and Acerra, in the province of Naples. The Company, led by Giuseppina Di Foggia, will invest more than €38 million in the project, which will make it possible to reduce the impact of electrical infrastructure on the land. It will also increase the local grid's resilience and security, as well as quality of service for businesses and households. The project falls under a broader local grid development plan that involves

building a new 220kV section inside the existing Santa Sofia Electrical Substation. With five new underground cable connections installed in the branch which includes the Santa Sofia substation and the lines south of the Maddaloni railway station, it will be possible to take down more than 9 km of overhead power lines and a total of 36 pylons, freeing up approximately 37 hectares of land. The project took shape after a round of intense and productive discussions with local institutions and falls under the 2019 National Transmission Grid Defence Plan, which aims to resolve existing electrical infrastructure interference and make the electricity transmission service more reliable. The public and, specifically, landowners in the areas affected by the new project, will be able to read the plan documents at the offices of the Ministry of the Environment and Energy Security, Campania Regional Authority and at the Municipalities of Maddaloni (CE) and Acerra (NA). They can also submit their written comments to the Ministry and to Terna, for the Company's information, within the deadline established by law.

2024-2028 Industrial Plan approved

The **results for the year ended 31 December 2023 and the new 2024-2028 Industrial Plan were approved on 19 March 2024**, with improvements across all financial performance indicators.

The meeting of the Board of Directors of Terna S.p.A. ("Terna"), chaired by Igor De Biasio, examined and approved the Group's 2024-2028 Industrial Plan and the results for the year ended 31 December 2023, presented by the Chief Executive Officer and General Manager, Giuseppina Di Foggia. Terna's new Industrial Plan aims to consolidate the Company's strategic role in enabling the Italian electricity system and, more generally, strengthen its commitment to driving the country's energy transition. To achieve the decarbonisation goals set in the European Green Deal and the National Integrated Energy and Climate Plan ("PNIEC"), which aim to cut greenhouse gas emissions by at least 55% by 2030, compared with 1990 levels, Terna plans to significantly increase **investment** over the life of the Plan to **€16.5 billion**. €2.6 billion of this will be invested in 2024. This is **the highest level ever in the Group's history** and is 65% up on the last Plan. The key driver in the Industrial Plan is sustainable investment, a concept embedded in the Company's value creation process and in the benefits for the system and the environment. In fact 99% of Terna's capex is classified as sustainable based on **EU Taxonomy criteria**.

Moody's reaffirms Terna Baa2 rating with a stable outlook

On **19 March 2024, Moody's Investor Service (Moody's) reaffirmed the long-term Baa2 rating assigned to Terna S.p.A. (Terna) with a stable outlook**, one notch above Italy's sovereign rating. The assessment by the rating Agency came after the presentation of the 2024-2028 Industrial Plan, with the highest level of investments in Terna's history, aimed at strengthening the Company's central role as enabler of the energy transition and of an increasingly complex, sustainable and innovative electricity system.

On **6 February 2024**, following the update of the "Government-Related Issuers" (GRI) methodology, through which the rating agency has extended its scope of application to certain entities indirectly owned by governments, **Moody's once again confirmed Terna's long-term rating of 'Baa2', a notch above Italy's sovereign rating, with a stable outlook**. The rating agency also confirmed Terna's 'P-2' short-term rating and the 'Ba1' rating of Terna's subordinated debt.

S&P reaffirms Terna's BBB+ rating with a stable outlook

On **19 March 2024, S&P Global Rating (S&P) reaffirmed the Company's BBB+ long-term rating with a stable outlook**, one notch above Italy's sovereign rating. The assessment by the rating Agency came after the presentation of the 2024-2028 Industrial Plan, with the highest level of investments in Terna's history, aimed at strengthening the Company's central role as enabler of the energy transition and of an increasingly complex, sustainable and innovative electricity system.

Launch of the "We are committed to the future of energy" corporate advertising campaign

On **21 March 2024, the new corporate advertising campaign produced by Terna, Italy's national grid operator, was launched in the press and digital media**. Among the new features this year is the mention of the Industrial Plan, putting corporate communication on a firm basis. "We are committed to the future of energy" is the claim in the campaign, which will appear in the media until 14 April, accompanying the launch of the new 2024-2028 Industrial Plan presented to investors on 19 March. "Faster. More digitalised. More sustainable. Fairer. This is the energy transition we want. It is an essential challenge for the future of us all: it requires Terna to have a wider vision and commit to elevating our mission of transmitting energy to the country to new levels of excellence. That is why our 2024-2028 Industrial Plan sets considerable new records and includes

significant new developments. This is the energy of the future. Today.”. These are the words with which the Group, led by Giuseppina Di Foggia, substantiates its commitment towards a future that will face everyone with a series of unavoidable deadlines as we make take effective, definitive action to achieve the energy transition goals.

Consents process for new “Gissi - Larino – Foggia” power line restarts

On **27 March 2024**, the **Ministry of the Environment and Energy Security restarted the consents process for Terna's new 380kV “Gissi- Larino- Foggia” overhead power line, after it was halted whilst awaiting confirmation of the project's environmental compatibility.** The project, in which the Company led by Giuseppina Di Foggia will invest over €270 million, will involve construction of a second backbone with an overall length of 134 km between the electricity substations of Villanova (PE) and Foggia, connecting with the input/output modules of the intermediate substations of Gissi (CH) and Larino (CB). The new power line will make the management and maintenance of the Adriatic Backbone more reliable and cost-effective with returns in terms of both efficiency and savings for families and businesses. In particular, the work will reduce grid losses for the transport of energy, minimise the risk of being unable to handle peak loads, and resolve congestion between the south and north and at local level that limit the production of renewable energy. Once operational, the line should help save approximately 50 Gwh per year and reduce CO₂ emissions by around 21 kt CO₂ per year, a testament to the Company's constant commitment to guaranteeing sustainability for future generations.

Consents process begins for rationalisation of power grid in the province of Messina

On **28 March 2024**, following the start, by the **Regional Authority's Energy and Public Utilities Department, of the consents process for the project involving rationalisation of the 150kV power grid in the province of Messina, Terna has published notice of the parcels of land potentially affected by the new infrastructure.** The project, in which the Company is to invest approximately €18 million, will reduce the impact of electricity infrastructure on the local area and improve the reliability, security and efficiency of the local electricity service. The project involves a comprehensive restructuring and modernisation of the 150kV grid in the Valle del Mela (ME) area. The work will include extraordinary maintenance of existing power lines and the installation of 13 km of new connections and short-distance links, with over one third of these in underground cable, in the municipalities of Rometta, Saponara, Villafranca Tirrena and Messina. The project, associated with creation of the 380 kV “Sorgente-Rizziconi” power line, follows the commitments made in the Memorandum of Understanding entered into with the Sicilian regional authority and the municipal authorities affected.

Consent received for modernisation of the “Sant’Antimo - Fratta” power line linking the provinces of Naples and Caserta

On **29 March 2024**, the Ministry of the Environment and Energy Security **gave its consent for Terna's final design for renewal of the 220kV power line between the Sant’Antimo primary substation and the Fratta electricity substation in the Metropolitan City of Naples.** The project, in which the Company will invest approximately €18 million, meets the need to modernise the existing power line dating back to the 1940s. The project will increase the quality of the local electricity service, at the same time minimising the visual impact of the infrastructure and its effect on the landscape. The work will involve laying approximately 8 km of underground cable in the municipalities of Sant’Antimo, Grumo Nevano, Frattamaggiore and Frattaminore in the province of Naples, and in the municipality of Sant’Arpino in the province of Caserta.

Perpetual hybrid green bond worth €850 million successfully issued

On **4 April 2024**, **Terna S.p.A. successfully launched an issue of euro-denominated, perpetual, subordinated, hybrid, non-convertible, fixed-rate green bonds to institutional investors, amounting to a total of €850 million.** The issue received a very favourable response from the market, with applications topping €3 billion and the issue approximately 4 times oversubscribed. The issue attracted a high quality of geographically diversified investor. The bonds, issued in a single tranche, are non-convertible, subordinated, green, hybrid and perpetual and are non-callable for 6 years. The issue price was 99.745%, with a spread of 214.2 basis points with respect to the Mid Swap rate. The issue will pay fixed annual coupon interest of 4.750%, payable until the first reset date (excluded) of 11 April 2030, and will have an effective interest rate of 4.800%. From this date, unless the bond has been redeemed early, the hybrid bond will pay interest at the 5-year Euro Mid Swap rate, increased by an initial spread of 214.2 basis points, rising by a further 25 basis points from 11 April 2035 and by another 75 basis points from 11 April 2050.

Disclosure

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

The following table, prepared pursuant to art. 149-*duodecies* of the CONSOB Regulations for Issuers, shows the fees paid for audit and other services provided to the Terna Group by the Parent Company's independent auditors and the network of the Parent Company's independent auditors in 2023.

(€)		
	ENTITY PROVIDING SERVICE	FEES DUE FOR THE YEAR
Audit of the accounts and financial statements	Parent Company's auditor	523,852
Attestation and other services ⁷	Parent Company's auditor	131,857
Audit of the accounts and financial statements	Network of the Parent Company's auditor	213,695
Total		869,404

⁷ Attestation and other services include the services linked to the audit of the regulatory accounts, the opinion on the distribution of interim dividends, the limited review of the Non-financial Statement, the limited assurance for the Green Bond Report and Comfort Letters for bonds.

Attestation

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

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

"Terna Group"

1. The undersigned, Giuseppina Di Foggia, as Chief Executive Officer, and Francesco Beccali, as Manager responsible for Terna SpA's financial reporting, having also taken account of the provisions of art.154-bis, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998, attest to:

- the adequacy with regard to the nature of the Company, and
- the effective application of the administrative and accounting procedures adopted in preparation of the consolidated financial statements during the year ended 31 December 2023.

2. The administrative and accounting procedures adopted in preparation of the consolidated financial statements for the year ended 31 December 2023 were drawn up, and their adequacy assessed, on the basis of the regulations and methods adopted by Terna SpA in accordance with the Internal Control-Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission. This Commission has established a body of general principles providing a standard for internal control and risk management systems that is generally accepted at international level.

3. We also attest that:

3.1 the consolidated financial statements for the year ended 31 December 2023:

- a. have been prepared in compliance with the International Financial Reporting Standards endorsed by the European Union through EC Regulation 1606/2002, issued by the European Parliament and by the Council on 19 July 2002 and the statutory requirements implementing the provisions of art. 9 of Legislative Decree 38/2005;
- b. are consistent with the underlying accounting books and records;
- c. provide a true and fair view of the financial position and results of operations of the issuer and the companies included in the scope of consolidation.

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

Rome, 19 March 2024

Chief Executive Officer

Manager responsible for financial reporting

(original signed)

(original signed)

Independent Auditor's Report

pursuant to articles 14 of Legislative Decree 39 of 27
January 2010 and article 10 of Regulation (EU) 537/2014 -
Consolidated financial statements for the year ended
31 December 2023

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

To the Shareholders of
Terna S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Terna group (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

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

Key Audit Matters

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

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Udine Verona

Sede Legale: Via Tortona, 25 - 20144 Milano | Capitale Sociale: Euro 10.328.220,00 i.v.

Codice Fiscale/Registro delle Imprese di Milano Monza Brianza Lodi n. 03049560166 - R.E.A. n. MI-1720239 | Partita IVA: IT09049560166

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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 2023, the Group accounts in "Property, plant, and equipment" and "Intangible assets", respectively equal to Euro 17.597 million and Euro 615 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 2.290 million.

The Group operates as a natural monopoly and within a market regulated by the Italian Regulatory Authority for Energy, Networks and Environment (Autorità di Regolazione per Energia Reti e Ambiente, "ARERA"), which defines, among the others, the rules for the remuneration of the transmission and dispatching services. In particular, the regulated revenues for these services are determined annually by ARERA and provide for recognition of a predefined return on the regulatory net invested capital recognized (RAB – Regulated Asset Base), of the relative depreciation and of some operating expenses. The RAB value is determined by ARERA mainly through the revalued historical cost method.

We believe that investments for the operation and development of the electricity transmission grid represent a key audit matter for the Group's consolidated financial statements as of 31 December 2023 due to: i) the relevance of the tangible and intangible assets related to operation and development of the electricity transmission grid compared to the Group's total assets, ii) the relevance of the investments made during the year, iii) their impact in determining the fees for the transmission and dispatching services.

Notes "13. Property, plant, and equipment" and "15. Intangible assets" of the consolidated financial statements include the disclosure on the investments for the operation and development of the electricity transmission grid.

Audit procedures performed

With reference to investments for the operation and development of the electricity transmission grid, our audit procedures included, among the others, the following:

- understand the processes for recognition of such investments in the financial statements;
- understand the relevant controls implemented by the Group in relation to these processes and assessment of their operating effectiveness;

- comparative analysis of the items “Property, plant, and equipment” and “Intangible assets”, as well as critical analysis of the composition of investments made during the year related to these items, including the analysis of any unusual item;
- with reference to investments occurred during the year, selection of a sample of transactions and test of the compliance with the capitalization criteria provided by accounting standards;
- test the accurate start of depreciation when the asset is available for use for a sample of assets recorded within tangible and intangible assets entered into depreciation during the year, also through the analysis of their ageing;
- test the correct application of the depreciation rate with respect to the asset category and recalculation of the amortisation and depreciation for the year.

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

The Directors of Terna S.p.A. are responsible for the application of the provisions of the European Commission Delegated Regulation (EU) 2019/815 with regard to the regulatory technical standards on the specification of the single electronic reporting format (ESEF – European Single Electronic Format) (hereinafter referred to as the "Delegated Regulation") to the consolidated financial statements as at 31 December 2023, to be included in the annual financial report.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 7008 in order to express an opinion on the compliance of the consolidated financial statements with the provisions of the Delegated Regulation.

In our opinion, the consolidated financial statements as at 31 December 2023, have been prepared in XHTML format and have been marked up, in all material respects, in accordance with the provisions of the Delegated Regulation.

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

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

The Directors of Terna S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Terna Group as at 31 December 2023, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Terna Group as at 31 December 2023 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Terna Group as at 31 December 2023 and are prepared in accordance with the law.

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

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

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

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

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

DELOITTE & TOUCHE S.p.A.

Signed by
Domenico Falcone
Partner

Rome, Italy
April 17, 2024

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.

