2023
Annual Report

INTEGRATED REPORT

Terna
Driving Energy

Terna
Driving Energy

This document is provided in addition to the ESEF version required by European Commission Delegated Regulation 2019/815, published and filled in accordance with the law.

MISSION

Terna is investing in Italy's development

We guarantee energy security and balance electricity supply and demand 24 hours a day, ensuring that the system is reliable, efficient and accessible to all.

We invest and innovate every day in the development of an electricity grid capable of integrating the energy produced from renewable sources, improving links between the different areas of the country and strengthening cross-border interconnections, applying a sustainable approach that takes into account the needs of the communities and people we work with.

PURPOSE

We are behind the energy you use every day

We are responsible for guaranteeing the continuity of power supply, essential in making sure that electricity reaches Italian homes and businesses at all times.

We provide everyone with equal access to electricity and are working to provide clean energy for future generations.

VISION

We care about the future of energy

We are committed to building a future powered by clean energy, enabling new forms of consumption and production increasingly based on renewable sources. This will allow us to achieve the goal of delivering an energy transition that is fair and inclusive, whilst also lowering costs.

Thanks to our overall vision of the electricity system and new digital technologies, we are leading the country's drive to get to net zero by 2050, in line with European climate goals.

Letter to stakeholders

Dear shareholders and stakeholders,

The macroeconomic environment continued be highly volatile in 2023, with commodity prices remaining high in response to ongoing global tensions and a sharp rise in the price of oil. This was accompanied by high inflation and restrictive monetary policies imposed by central banks.

Despite this backdrop, **Terna saw an improvement in all its key financial performance measures**, confirming our Company's ability to achieve the targets set and the **excellent work of the over 5,900 people** who, with passion and skill, are engaged in managing the national grid. These people represent our most important asset.

The **Group has also boosted investment to both provide the country with energy security and an increasingly efficient and reliable electricity system**, and to enable the integration of renewable sources and the achievement of decarbonisation targets. Investment also focused on **digitalisation** in an effort to make the grid ever more secure and resilient.

We have observed an **acceleration in the growth of renewables**: last year, Italy saw the installation of approximately 6 GW of new photovoltaic and onshore and offshore wind capacity, compared with 1 GW in 2021 and 3 GW in 2022. There is strong interest in the market, as shown by the significant number of requests for connection to the national transmission grid which, as the system operator, we received: over 328 GW at 31 December 2023. The increased integration of renewables means that there is a growing need for a major switch to these new sources, also from the point of view of energy independence and security.

There is a need for infrastructure and quickly. To this end, Terna is playing its part in **constant collaboration with the authorities**, making the Company an example of European best practice. The last year saw a **record number of consents for investment projects** from the Ministry of the Environment and Energy Security and regional and self-governing provincial authorities: 23 grid development projects, amounting to investment of more than €3 billion, up 20% on 2022 and triple the figure for 2021.

The main contribution to this major achievement was the green light given to the **West Section** (Sicily-Sardinia) of the **Tyrrhenian Link**, amounting to over €1.8 billion, which will set a new depth record at over two thousand metres below sea level. The strategic nature of this infrastructure was confirmed by the European Investment Bank's decision to provide financing of approximately €1.9 billion, covering around 50% of the total cost of €3.7 billion that Terna expects to spend on the link that will connect Sicily with Sardinia and the Italian mainland via a double underwater cable.

Terna's projects bring major environmental, social and economic benefits: over 700 km of new infrastructure will entail the use of submarine or underground cables. The management of our business is based on **sustainable values** and on **respect for ESG principles** *(Environmental, Social, Governance)*, in keeping with the ten United Nations Global Compact principles, which our Company has applied since 2009. This ensures that we minimise any environment impacts, engage with local stakeholders and adhere to the principles of integrity, responsibility and transparency. In the current environment, we are convinced that it is of fundamental importance to not only bear in mind environmental aspects but also the social dimension, putting people at the heart of an increasingly fair and inclusive **just transition**.

Last year, the submarine cable connection between the **island of Elba** and **Piombino** and the fully underground cable between Italy and Austria entered service. The **interconnection with Austria** marks further progress in the development of an increasingly secure, efficient and interconnected European electricity network. In our **2023-2032 Development Plan**, Terna has targeted total investment of €2 billion to strengthen cross-border interconnections, which to date number 30. These will include the **invisible Elmed energy bridge**, a submarine connection between Italy and Tunisia linking Europe with North Africa, which will be the first direct current power line between the two continents. In August 2023, Terna and Steg, the Tunisian electricity and gas company, signed the Grant Agreement with the European Commission, which will provide €307 million in financing for the project.

Work also continued in 2023 on preparations for the start of work on the **East Section** (Sicily-Campania) of the **Tyrrhenian Link**, which will boost interzonal exchange capacity in Sicily with the **Paternò-Pantano-Priolo connection** and between Sicily and Calabria with the **Sorgente-Rizziconi connection**. Preparations were also made for work to begin on the **connections between Colunga and Calenzano**, linking Emilia-Romagna with Tuscany, and on the **Cerignola and Magenta electricity substations**.

Proof of the growing degree of coordination between Terna and all the various authorities involved was provided by the launch of the **new digital portal** provided for in the so-called *Sicurezza Energetica* (Energy Security) legislation. The portal, which can be accessed by the Ministry of the Environment and Energy Security, the Ministry of Culture, the regulator (ARERA), all the regional authorities and the self-governing provinces of Bolzano and Trento, will ensure efficient, coordinated planning of grid infrastructure, renewable energy plants and storage systems. Among other things, it will provide access to reports on the state of progress of the procedures for connecting to the national grid.

Innovation and digitalisation will be key to operating an increasingly complex electricity system: solutions such as IoT (Internet of Things) and Artificial Intelligence will enable us to securely manage the quantity and quality of the information carried over our grid, in addition to making it more resilient. This is why Terna is looking to Silicon Valley, the place with the greatest density of innovative businesses in the world. Last year, the Company entered into agreements with institutional partners in San Francisco to **promote and develop the Italian innovation ecosystem overseas**, supporting the development of both innovative start-ups and SMEs from our country and enabling them to access the US market.

In keeping with the Group's strategy, designed to combine investment with sustainability to drive growth and value creation, Terna aims to become a leader in the **sustainable finance market**. This strategy was confirmed in July with the successful launch of a new green bond worth €650 million and with a 10-year term to maturity.

During the period, Terna reconfirmed its **leadership in the field of sustainability** with inclusion, among others, in the **ESG STOXX and Dow Jones Sustainability indexes**. We were also recognised as a **global leader in climate action** by CDP (formerly the Carbon Disclosure Project), receiving an upgraded rating of 'A-' compared with the previous 'B'. For the fourth year running, our Company was also ranked top in Europe for the quality of our digital communication by **Webranking by Comprend**. Terna is also committed to promoting and developing Italian culture: in 2023, the **second edition of the "Driving Energy Award – Contemporary Photography"** met with great success in terms of the quantity and quality of participants.

The Group remains focused on the growth and wellbeing of our people and on the insourcing of key competencies, as well as on the development of a people strategy combining proactivity inclusion and performance. In this connection, Terna has received **"Italy's Best Employers 2024" award for the energy sector**, based on the survey conducted by the international research company, Statista. Through the research and training hub, **Terna Academy**, we have also stepped up efforts to develop our people and fully leverage their distinctive skills.

The development of excellent, specialist and cross-cutting expertise is also at the heart of the **Tyrrhenian Lab** project, which has launched the second edition of the **Master in "Digitalisation of the electricity system for the energy transition"**, promoted by Terna in collaboration with the universities of Cagliari, Palermo and Salerno.

This initiative is a further example of how our Company is determined to **fully develop the talents** of the people who work for the Group. Because **behind the energy that the public uses every day is Terna**, in its role in leading the current, complex transition process.

Igor De Biasio
Chairman

Giuseppina Di Foggia
Chief Executive Officer and General Manager

Presentation of the Annual Report 2023

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The Terna Group's Annual Report for 2023 contains the Integrated Report, which has fully espoused an approach based on "Integrated thinking". This means that the Report includes in a single document the Report on Operations, the Sustainability Report and the Consolidated Non-financial Statement[1] (the "NFS"[2]), in addition to the consolidated financial statements, the Parent Company's separate financial statements and the Green Bond Report. Publication of a single document containing all the Group's disclosures meets the need to provide all the Group's stakeholders with clear, complete and balanced reporting on the Group's business and value creation process.

The Terna Group's value creation process represents the stages involved in the Company's creation of wealth and sustainable financial benefits. It is the common thread running throughout this Report. This is the reason why the Terna Group has chosen to describe its value creation model by indicating alongside each "outcome", as shown in the model, the associated strategic action and the section in which it is possible to find the relevant KPIs. The main KPIs are referenced at the beginning of each section of the Integrated Report.

The Integrated Report is an interactive document, including a number of QR codes and hyperlinks providing additional information on certain topics and taking the reader directly to specific pages on Terna's website at www.terna.it.

In addition, the Integrated Report provides the disclosures required for the Group's Communication on Progress ("CoP")[3], the document that all members of the United Nations Global Compact are required to publish. The document is designed to inform stakeholders on the actions members have taken during the year to advance and support the values expressed in the ten Principles and on progress towards achieving the sustainable development goals ("SDGs") set in the 2030 Agenda.

In line with international best practices, Terna's Integrated Report applies the framework published by the International Integrated Reporting Council ("IIRC"). This focuses on the ability of an organisation to create value in the short, medium and long term, presenting the operating, financial and sustainability performances.

Non-financial information is prepared using the GRI ("Global Reporting Initiative") reporting standards, applying the "in accordance with" option. When possible, reference is also made to the matching SASB ("Sustainability Accounting Standards Board") criteria, the standard used by financial stakeholders located in North America.

The Annual Report contains a disclosure in line with the ESMA Priorities and the updated requirements provided for in the European Taxonomy Regulation.

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[1] The Terna Group's NFS has been prepared in compliance with the provisions of Legislative Decree 254/2016, as amended. It contains disclosures on the matters deemed material and provided for in art. 3 of the above Decree, to the extent necessary to enable readers to gain an understanding of the Group's activities, its performance, results and the related impacts. As required by Regulation 852/2020, the NFS also includes the taxonomy disclosure.

[2] The NFS, prepared using the GRI reporting standards "in accordance core" version, was subject to a limited assurance by Deloitte & Touche S.p.A., resulting in a specific "Assurance report", as required by the provisions of articles 3 and 4 of Legislative Decree 254/16. The opinion of the auditing firm and the related assurance activities did not concern the disclosure relating to the "material performance indicators envisaged in the supplement for the Electric Utility sector (EUSS)", the "other published GRI performance indicators" reported on page 319, the "Key indicator tables", published in the "Sustainability" section of the website at www.terna.it.

[3] See the UNGC site at the following link: https://www.unglobalcompact.org/what-is-gc/participants/11215.

The Integrated Report has also been prepared taking into account the Terna Group's membership of the Task Force on Climate-Related Financial Disclosures – TCFD. The document thus includes a reconciliation (page 101) to help the reader identify all the sections containing information on the recommendations.

The document also includes the **first attempt to align the Company's disclosures** on biodiversity with the "TNFD" framework (Recommendations of the Taskforce on Nature-related Financial Disclosures) and information on the progress made in implementing the circular economy roadmap.

In line with the materiality principle, where the methods applied in the IIRC framework, the GRI standards and Legislative Decree 254/2016 combine, all the information reported corresponds with a topic identified as significant in the materiality analysis conducted between November 2023 and January 2024. This has identified the topics that are significant for Terna and its stakeholders. It should also be noted that the Materiality Analysis conducted in 2023 focused on identifying and assessing the impacts connected with the material topics, in accordance with the indications in the GRI Standards 2021. In view of the indications provided for in EU Directive 2022/2464 (CSRD) – effective from the 2024 annual reporting period – the report for 2023 is based on an initial application of the Double Materiality approach.

The sustainability performances represented by a GRI KPI are, as is usual, immediately identifiable by a cross-reference to the related code in the margin of the text.

This Annual Report for 2023 was approved by Terna S.p.A.'s Board of Directors on 19 March 2024. < 2-14

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DISCLAIMER

The Annual Report contains forward-looking statements based on plans, estimates, projections and current projects that by their nature involve risks and uncertainties and that are current only as of the date on which they are made. Various factors may mean that the actual results and provisions made by the Company differ substantially from those contained in any forward-looking statement. These factors may include, by way of example but not limited to: trends in the Company's business, the Company's ability to implement planned cost efficiencies, changes in the regulatory framework, differing interpretations of laws and regulations, the ability to successfully diversify and the expected level of future investment.

INTEGRATED REPORT

Terna's role in the just transition

The electricity system is made up of several segments: production, transmission, distribution and the sale of electricity. Tasked with **transmission and dispatching**, Terna is responsible for the key transmission segment. This is a complex task, requiring an independent central coordinator capable of having an overall view of a high number of actors involved in both production and consumption.

In this scenario, Terna **is driving the complex transition** towards a new carbon-free model, aware of the fact that the task of meeting ambitious national and international targets over the coming years must be addressed by taking into account not only the environmental aspects, but also the social dimension, in order to deliver a **just transition** that is as fair and inclusive as possible. In this sense, it is of fundamental importance to involve all the players affected by the transition (including, for example, trade bodies, civil society and the authorities), through partnerships, public debate and engagement initiatives.

To be truly just, this transformation process must embrace not only **energy-related** and **digital** aspects, but also **social** considerations. This means achieving energy equality, under an approach that has the human dimension at its heart with a view to reducing inequalities and avoiding new forms of energy poverty. In managing the transmission grid and the system, new technologies and digitalisation thus play, and will continue to play, an ever more important role in enabling the energy transition. This will benefit the electricity system as a whole and further boost the security, resilience and flexibility of Italy's transmission infrastructure, supporting progressive decarbonisation and the growing integration of renewables.

The transition to a distributed production system based on green sources is, therefore, rapidly altering the electricity system, resulting in exponential growth in active resources connected to the grid. Managing requests for connection to the HV grid, coming from entities proposing renewable initiatives, enables Terna to have a systematic view of the current situation and future scenarios. As Transmission System Operator (TSO), Terna **can monitor the system's ability to meet demand for electricity** whilst satisfying **security** and **quality of service** requirements: in a word, ensuring the system's adequacy.

The initiatives included in Terna's 2023 Development Plan for the national transmission grid will make a significant contribution to achieving the targets set at European level in the **Fit for 55** package of measures, which aims to **cut greenhouse gas emissions by at least 55% by 2030** compared with 1990 levels. In Italy, **the energy produced from renewable sources will have to account for least 65% of final electricity consumption by 2030**, compared with the 55% target previously set in the National Integrated Energy and Climate Plan ("PNIEC"), **requiring a total of 70 GW of additional capacity**. These greenhouse gas emission reduction targets have recently been joined by the need to become independent of fossil fuels from Russia, as described in the **RepowerEU**[4] plan.

[4] Further information is provided in the section, "Energy", in the document.

Market operators are responding to the challenge with major investment programmes: the level of renewable plant development projects being put forward by private investors is extremely encouraging. At **31 December 2023** Terna had received applications for connection to the national transmission grid (NTG) for **over 328 GW of new renewable capacity** (onshore and offshore wind and photovoltaic), three times the new capacity provided for in the National Energy Plan to 2030, including 264 GW in southern Italy and the islands, locations renowned for being windier and sunnier. It is possible to continuously monitor these initiatives through the new digital platform called **Econnextion**[5], launched by Terna in 2023 in collaboration with the Ministry of the Environment and Energy Security. the platform provides centralised information on requests for the connection of renewable energy sources to the HV grid in Italy. A dashboard enabling electricity system stakeholders and operators to view data on the **geographical location** of requests and the status of consents processes for new **photovoltaic and onshore and offshore wind** initiatives throughout the country.

The data on applications for the connection of new renewable plants to the electricity grid reveal that we are one right track: it would be sufficient to complete 20% of the currently proposed initiatives to reach the targets set. Taking all renewable sources into account, according to Terna's data for 2023, there were new activations for approximately 5.8 GW, a figure that is approximately 2.7 GW higher than in 2022. This points to an acceleration in the development of renewables, with new activations rising from 1 GW in 2021 to approximately 3 GW in 2022. In addition, according to the latest figures from Terna at 31 December 2023, approximately 6 GW qualified for the Final Minimum Technical Solution[6] for connection to the national grid.

Differences in the geographical distribution and technology mix compared with earlier forecasts make this a very tough challenge: **from the point of view of transmission**, to achieve this fresh injection of renewable energy into the grid will require a major effort to plan, approve and carry out investment projects on a scale not seen in recent decades in Italy. Terna plans to invest over €21 billion under the 2023-2032 Development Plan to accelerate the energy transition, enable the country's decarbonisation, cut the country's dependence on overseas energy supplies and make the Italian electricity system more environmentally sustainable. Introduction of the innovative Hypergrid, which will use HVDC transmission technologies, to meet the energy transition and security goals set in the Fit for 55 package will also boost interzonal transmission capacity by approximately 16 GW under plans for five new electricity backbones.

[5] https://www.terna.it/it/sistema-elettrico/rete/econnextion
[6] https://www.terna.it/it/sistema-elettrico/rete/connessione-rete/procedura-connessione.

The draft PNIEC for 2023 confirms the decarbonisation targets for the electricity system and the related steps needed, as set out in Terna's 2022 Scenario Description Document and in the 2023 Development Plan: to integrate growing volumes of non-programmable renewable energy production to replace generation using fossil fuels, it will be necessary to develop storage capacity and grid infrastructure, to be managed using increasingly digital and smart systems.

To speed up the energy transition and achieve the decarbonisation targets set in the new PNIEC, whilst ensuring the continued adequacy and security of the electricity system, recent Energy Security legislation (Law Decree 181 of 9 December 2023) envisages the creation of a new **digital portal** to be managed and updated by Terna. The aim is to ensure efficient and coordinated planning of national transmission grid infrastructure, renewable energy plants and storage systems.

Terna has, and will increasingly have, a key role to play in enabling the electricity system's transition towards renewable sources and in centrally coordinating this major energy and digital transformation. **The electricity grid is in fact the main enabling factor** in achieving the **global goal of decarbonisation**.

What does this mean? Achieving the ambitious European and international goals will obviously require the participation of all members of society, but the energy sector must take the lead, given that it is by a long way the biggest producer of emissions at global level.

Under the European Green Deal, the net zero emissions target is to be achieved in two main ways: by increasing use of renewables and through growing electrification of consumption. In this sense, an essential role in all the various scenarios designed to arrive at carbon neutrality is played by the **key tool of energy efficiency**.

Introducing the "energy efficiency first" principle, the European Commission invited member states to take energy efficiency into account in all their policy, planning and investment decisions. In this way, in keeping with the EU's long-term strategy, final energy consumption in Europe is expected to fall by (at least) 35% by 2050 compared with 2019 levels.

The key consideration, in this sense, is represented by the fact that electricity will be the main energy carrier and the electricity grid will operate as the backbone for decarbonisation for all the other energy sectors. This reflects the carrier's intrinsic efficiency and the technological maturity of renewable energy sources (RES). In its role as national electricity system operator, at the end of 2023, Terna launched a new corporate advertising campaign, "Let's think about the future of energy", inviting the public to reflect on the energy that plays such an important role in the daily life of every Italian.

Climate targets also play a key role in the **United Nations 2030 Agenda for Sustainable Development**, not only because SDG 13 - Climate Action focuses explicitly on the climate, but above all because dealing with the climate crisis and guaranteeing, therefore, a healthier planet for the future, is key to enabling the world to achieve all the other goals contained in the Agenda. This means delivering truly prosperous, long-lasting development as part of a just transition.

Awareness of the Company's key role in the current transition coincides with Terna's wish to further strengthen its environmental strategy. Adoption of a Science Based Target (SBT) with the aim of cutting its CO_2 emissions based on measurement of the existing situation and the planning of concrete actions, validated by a third-party entity, turns a good intention into a real, tangible contribution to containing the rise in the global temperature, in line with the Paris Climate Accords of 2015. Terna has thus committed to cutting its CO_2 emissions by 46% by 2030 compared with 2019, improving on the earlier target of a reduction in greenhouse gas emissions of approximately 30%.

Overview of 2023

New Board of Directors 2023-2025

Terna S.p.A.'s new Board of Directors elected on 9 May 2023

CHAIRMAN
Igor De Biasio

CHIEF EXECUTIVE OFFICER
Giuseppina Di Foggia

DIRECTORS
Jean-Michel Aubertin
Regina Corradini D'Arienzo
Enrico Tommaso Cucchiani
Angelica Krystle Donati
Marco Giorgino
Gian Luca Gregori
Karina Audrey Litvack
Francesco Renato Mele
Qinjing Shen
Simona Signoracci
Anna Chiara Svelto

(€m)

Revenue
3,186.7
+7.5% change vs 2022

Profit attributable to owners of the Parent
885.4
+3.3% change vs 2022

Net debt
10,494.3

EBITDA
2,168.6
+5.3% change vs 2022

Capital expenditure
2,290.0
+30.4% change vs 2022

Terna's share price
€7.554 at 29 December 2023
The shares reached a yearly high of €8.100 on 12 May.

FINANCIAL CAPITAL

Loans **totalling € 1.9 billion** agreed with the **European Investment Bank to finance investment in the Tyrrhenian Link:**

- **€ 900 million** in two tranches agreed in March 2023;
- **€ 500 million**, on 7 February 2024, using up the overall facility.

These tranches are in addition to the loan agreed on 8 November 2022 (a first tranche of €500 million).

Terna's long-term rating is one notch above Italy's sovereign rating.

Bond issues under the **€ 9 billion Euro Medium Term Notes (EMTN) programme, renewed in June 2023:**

- **€ 750 million**, with a 6-year term in a single fixed rate tranche, launched in April;
- **€ 650 million**, a green bond issue with a 10-year term, in a single fixed rate tranche in euro, launched in July;
- **€ 850 million**, with a 7-year term, in a single fixed rate tranche in euro, launched on 10 January 2024. The market showed a strong appetite for the bonds, with the issue more than three times oversubscribed and attracting interest from high-quality investors from throughout the world.

An **ESG-linked Revolving Credit Facility** worth a total of **€ 1.8 billion** agreed in May to refinance the ESG Revolving Credit Facility of €1.5 billion obtained in April 2019.

INFRASTRUCTURE CAPITAL

Expansion of the NTG with addition of **307 km of circuits and 6 new substations** and the purchases of **70 km of circuits** and **2 substations** in Alto Adige (as part of the acquisition of Edyna Trasmissione) and **1 substation** in Sicily.

Consent obtained from the Ministry of the Environment and Energy Security and regional authorities for **23 national grid development projects**, amounting to over €3 billion of investment, up 20% on 2022. These include the **Tyrrhenian Link** (the submarine connection between Sardinia, Sicily and Campania), **SA.CO.I.3** (the submarine connection between Sardinia, Corsica and Tuscany) and the **Adriatic Link** (the submarine connection between the Marche and Abruzzo regions). **Launch of the public consultation** on the future interconnection between Italy and Greece, named **GR.ITA 2**.

Terna and WINDTRE launched the project that will involve building and operating a **Mobile Virtual Network Platform**: private network infrastructure that will allow Terna to improve operational efficiency, optimise communication processes and even more efficiently manage its infrastructure through the digitalisation of its assets.

ELECTRICITY SYSTEM

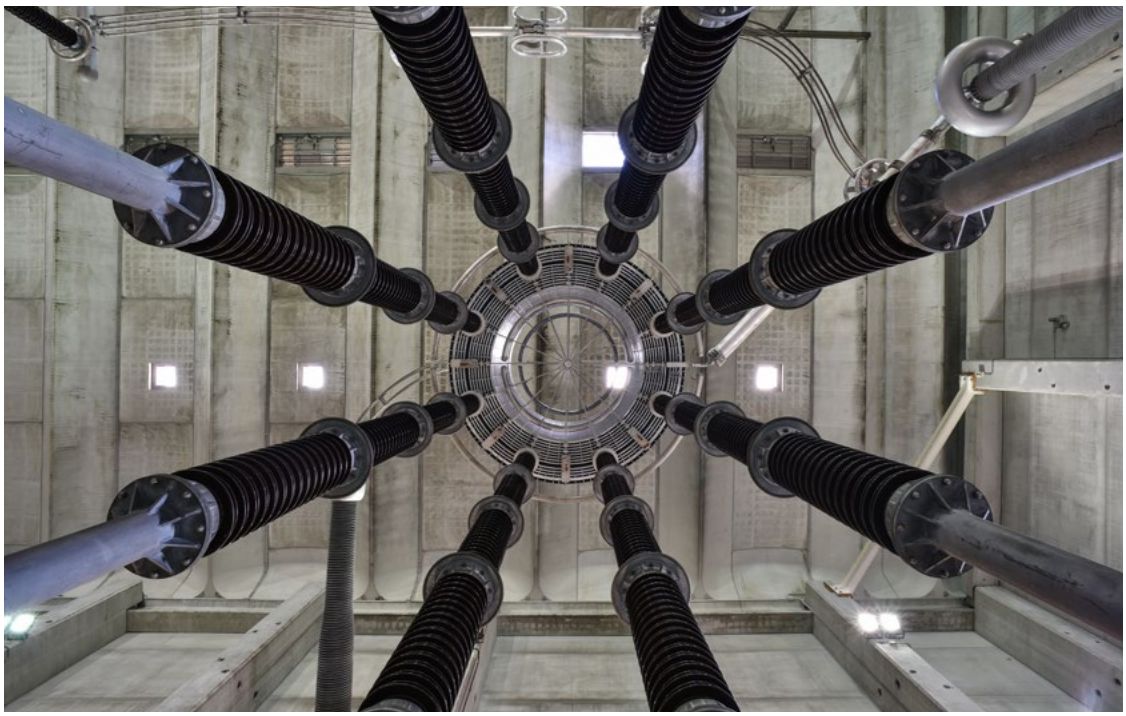
Demand
306* TWh
-2.8% change vs 2022

Demand met from RES
36.8* %
+5.8% change vs 2022

RENS quality
507* MWh
vs target 763 MWh

Cost of quality
5.3 €m
+3.4 €/mln change vs 2022

** Provisional data*



Overview of 2023

HUMAN CAPITAL

5,927 employees
(+430 versus 2022)

308 new hires under 30

A total of **698 people** joined the Group **in 2023**, whilst 268 left, raising the level of education among the workforce: **96.2%** of Terna's employees had a **university degree or high-school diploma**.

Terna's injury rate:
2.3
(2.9 in 2022)

Terna's serious injury rate:
0.06
(0.11 in 2022)

Health and safety indicators for Terna's workers have improved: with regard to injuries, both **the injury rate** (with 19 injuries, 4 fewer than in 2022) **and the serious injury rate** (with 0 serious injuries during the year) **were down in 2023**.

INTELLECTUAL CAPITAL

22 patents obtained and
39 applications filed
at 31 December 2023

69 projects in the innovation portfolio

Signature, in February 2024, **of the five-year collaboration agreement between Terna and RSE** – *Ricerca sul Sistema Energetico*, a leader in analysis and applied research in the energy sector, with the aim of developing and applying processed and technologies in the field of energy and the environment.

The **number of certified management systems** has increased from 8 at the end of 2022 to **10 at the end of 2023**. The number rose **to eleven on 1 March 2024**, with receipt of UNI PdR 125 certification of the Gender Equality Management System.

SOCIAL AND RELATIONSHIP CAPITAL

77.7%
of community initiatives in line with SDGs 4, 7, 9 and 11

480 meetings
with local authorities

In 2023, Terna earmarked **approximately €1.5 million for community initiatives**.

99% of **investment** in **electricity infrastructure** involved **engagement with the local communities** directly affected.

In June, Giuseppina Di Foggia, CEO and General Manager of Terna, assumed the role of Vice President of GO15 (GO15.org), the worldwide association of Very Large Power Grid Operators.

NATURAL CAPITAL

87% of waste recycled

SF_6 leakage rate of 0.40% as a percentage of the total installed

Alongside recycling, **over 95% of metal waste resulting from the retirement of obsolete electrical equipment is recovered**, whilst the recovery rate for **dielectric oils is 90%** and for **lead and nickel batteries 100%**. In addition to limiting the leakage of SF_6 gas, **SF_6 gas no longer capable of fulfilling its purpose is regenerated**, eliminating disposal. **In the three years between 2021 and 2023, this has avoided emissions amounting to 55,930 tonnes of CO_2 equivalent**.

Terna's inclusion in international ESG indices

Dow Jones Sustainability World Index and Dow Jones Sustainability Europe Index

Included for the fifteenth consecutive year.

STOXX® Global ESG Leaders

Included for the thirteenth consecutive year, having been assigned a "Negligible Risk" – the best possible – rating by Sustainalytics.

MIB 40 ESG

Confirmed as a member of the index, launched in 2021 and focusing on ESG best practices.

Euronext Vigeo

Included in the indices since 2012 with an "advanced" rating from Moody's Analytics (formerly Vigeo Eiris).

Standard & Poor's Gender Equality & Inclusion Index

Included in the index launched in August 2021.

Euronext Equileap Gender Equality Eurozone 100

Included in the index launched in November 2022.

Euronext ESG Eurozone Biodiversity Leaders PAB Index

Included among the approximately 70 best performers with respect to this issue.

FTSE4GOOD

Included for the nineteenth year running in this index that selects the best global companies based on sustainability criteria.

Bloomberg Gender Equality Index (GEI)

Reconfirmed for the fifth consecutive year.

Awards

In November 2023, **the Terna Group was awarded the "Best ESG Rating Award 2023"**. Based on an assessment carried out by Standard Ethics, this is reward for excellent performance in the ESG aspects rated and, in particular, as regards the Environment, for the efforts made by the Company to protect biodiversity.

At the beginning of 2024, Terna was included in the **new "LargeMidCap SDG Index" and "LargeMidCap Biodiversity Index", both launched by S&P Global for the first time in January and February**. The indexes measure companies' alignment with the United Nations Sustainable Development Goals and their ability to limit the impact of their businesses on ecosystems.

Terna **has won the 2023-2024 edition of the "Webranking Europe 500" award**: this is **the fourth year running that the Company has come first** in the most important European rankings based on the quality and transparency of the digital communication of listed companies.

Terna won the **International Edison Award** for the design for the **new electricity interconnector between Italy and France**. This is the most important award in the electricity sector given each year by Edison Electric Institute, the US electricity industry association.

Terna is the first Italian company to obtain "UNI Pdr 104 2021" certification for the management and internal control of administrative and accounting processes at the Parent Company, Terna S.p.A., and its subsidiaries.

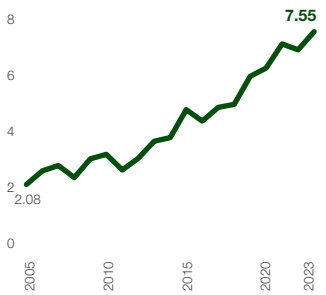
At the beginning of 2023, Terna was one of the first companies in Italy to obtain ISO 37301:2021 certification for its Compliance Management System, covering all the key compliance obligations of the main Group companies (Terna, Terna Rete Italia, Terna Energy Solutions and Terna Plus).

Group milestones

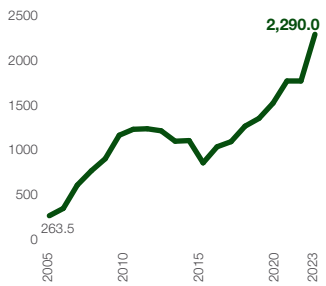
1962 2005

2006 2016

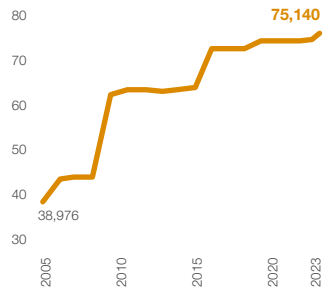
SHARE PRICE PERFORMANCE (€)



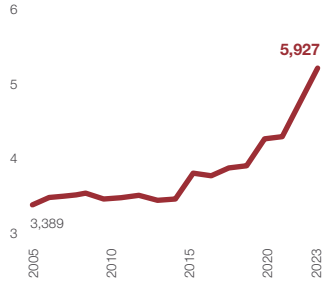
TOTAL CAPITAL EXPENDITURE (€m)



KM OF CIRCUITS MANAGED (no.)



WORKFORCE (no.)



DEVELOPMENT OF THE ITALIAN ELECTRICITY SYSTEM

From nationalisation to the reform of the Italian electricity system.

Terna's main activities are rooted in Italy's history: on 6 December 1962, Law 1943 paves the way for nationalisation of the electricity industry, handing ENEL (Ente Nazionale Energia Elettrica) responsibility for all the stages of the electricity supply chain (production, transmission and distribution), previously in private hands, in order to facilitate the country's electrification.

In the second half of the 1990s, the European Union embarks on a process of deregulation aimed at making grid management independent. In Italy, this leads to the issue of Legislative Decree 79/1999 (the so-called "Bersani Decree"), marking a starting point for reform of the Italian electricity market with the separation of ownership of the National Transmission Grid ("NTG") from management of the grid itself (transmission and dispatching) along the lines of the "Independent System Operator" ("ISO") model.

Terna is established in 1999. ENEL establishes of two distinct companies: Terna S.p.A., assigned ownership of over 90% of the NTG, and GRTN ("Gestore della Rete di Trasmissione Nazionale"), which at this time manages electricity transmission and dispatching and planning for the development of the NTG.

The Cabinet Office Decree of 11 May 2004, in application of Law 290/2003, establishes the electricity exchange and **brings back ownership and management of the transmission grid under the control of one entity**. This process is completed in 2005, with the transfer to Terna of the GRTN business unit relating to transmission and dispatching and the award of the concession to carry out these activities throughout the country by the Ministry of Productive Activities: Terna thus becomes Italy's Transmission System Operator ("TSO").

On 24 June 2004, 50% of the Company's share capital is floated on the Italian Stock Exchange and, in September 2005, Cassa Depositi e Prestiti acquires a 29.99% stake, thereby becoming the relative majority shareholder.

DEVELOPMENT OF THE NATIONAL TRANSMISSION GRID AND NEW BUSINESS OPPORTUNITIES

"Utili per il Paese" ("Working for the country"), Terna's new role.

Having taken on the dual role of TSO and SO, Terna's role evolves as it becomes a provider of strategic infrastructure for the country, as expressed in the payoff, "Working for the country".

This period sees the Company progressively expand the NTG. Following the acquisition of 18,600 km of high-voltage lines from ENEL in 2009, Terna owns 98.6% of the national grid and becomes the leading independent grid operator in Europe and the seventh largest in the world. **In 2015, Terna acquires the Ferrovie dello Stato group's high-voltage grid**, consolidating its leadership in Europe with approximately 72,600 km of grid managed.

At the same time, Terna plans and delivers major new 380kV connections to bring the transmission grid into line with the country's energy needs: the Chignolo Po-Maleo (Lombardy) and the SA.PE.I submarine connection (from Sardinia to the Italian mainland) enter service in 2011, whilst the Trino-Lacchiarella (Lombardy) and Villanova-Gissi (Abruzzo) lines and the submarine connection linking Sorgente and Rizziconi (Calabria-Sicily) enter service in 2014 and 2016, respectively.

In keeping with changes in the operating environment, the Group is restructured with the establishment of **two new operating companies** in 2012: **Terna Rete Italia S.p.A.** for Regulated Activities, and **Terna Plus S.r.l.** to drive the growth of services in the Non-regulated sector. Tamini, an Italian leader in the design, production, commercialisation and repair of power transformers for electricity transmission and distribution grids, of industrial transformers for the steel and metals industry and of special transformers for convertors used in electrochemical production and electrolysis, joins the Terna Group in 2014.

2017 2022

FROM ENABLING TO DRIVING THE ENERGY TRANSITION

With "Driving Energy", Terna's positioning evolves

The accelerating shift towards a new energy paradigm sees Terna assume an ever more central role in the electricity supply chain, opening a new chapter in its history by focusing on the **role of the National Transmission Grid in enabling the energy transition**.

Work begins on **major electricity infrastructure projects**, such as SA.CO.I.3 (connecting Sardinia, Corsica and the Italian mainland) and the Italy-Austria interconnector. Work on the Italy-Montenegro interconnector is completed. It is the first electricity bridge between Italy and the Balkans, a key link enabling Italy to reinforce its role as a European and Mediterranean electricity transmission hub. In 2022, the green light is given to the East Section (Campania to Sicily) of the undersea power line dubbed the Tyrrhenian Link. Terna is to invest a total of approximately €3.7 billion in the project.

Terna owns **99.9%** of the NTG in 2021 after purchasing portions of the grid from other operators and, with investment of €10 billion, the **updated Industrial Plan for the period 2021-2025, "Driving Energy"**, presented in 2022, strengthens its role in **driving the Italian electricity system**.

2022 also sees Terna, alongside the Ministry of the Environment and Energy Security, launch a **corporate advertising campaign called *Noi Siamo Energia*** to promote the conscious, rational and attentive use of electricity in Italy.

From 2018, Terna funds its investment in infrastructure using new financial instruments, becoming the first Italian utility to successfully place a Green Bond worth a total of €750 million, followed by a further three issues with a total value of €2 billion. Confirmation of the Company's determination to combine sustainability with growth to enable the energy transition is provided 2022, when Terna issues its **first hybrid green bond with €1 billion**.

On the corporate front, in the period in question, the subsidiary, Terna Energy Solutions, strengthens its industrial side by acquiring the Swiss company, **Brugg Kabel AG**, one of Europe's leading manufacturers of terrestrial cables, and acquires 75% of **LT S.r.l.**, creating the number one provider of Operation & Maintenance services for photovoltaic plants. Terna signs a partnership agreement with Meridiam and Boundless Energy to develop joint initiatives in the USA in the field of power grids. **Terna Forward** is established with the aim of identifying the best technology opportunities and transferring them to other Group companies.

2023 2024

AT THE HEART OF THE TRANSFORMATION

'Let's think about the future of energy'

Enable achievement of the targets in the EU's Fit for 55 package, facilitate the integration of renewable sources, develop overseas interconnectors, boost the level of security and resilience of the electricity system and invest in digitalisation of the grid. These are the key goals in the **2023 Development Plan** for the NTG, with **over €21 billion to be invested in the ten years from 2023 to 2032**.

The commitment to developing the power grid can also be seen from **the projects consented to in 2023**, amounting to investment of **over €3 billion**.

The undersea electricity connection between the **island of Elba and Piombino**, in which Terna invested €90 million, and the **Italy-Austria** interconnector, built at a cost of €80 million, enter service in 2023, facilitating the development of renewable energy and boosting the security of the European electricity network.

Terna and Steg, the Tunisian electricity and gas company, sign the Grant Agreement that will see the EU Commission providing financing of €307 million for the **Elmed** electricity interconnector between Italy and Tunisia, with the total investment expected to be approximately €850 million.

In 2023, the Ministry of the Environment and Energy Security gives the green light for the **West Section** (Sicily-Sardinia) of the **Tyrrhenian Link**, a direct current submarine cable between Sardinia, Sicily and Campania; the final design for **Sa.Co.I.3**, the submarine cable that will connect Sardinia, Corsica and Tuscany; and, in early 2024, the **Adriatic Link**, the submarine power line that will connect the Marche and Abruzzo regions.

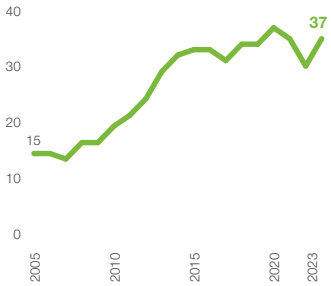
In 2023, Terna acquires a 100% stake in **Edyna Transmission S.r.l.** (renamed Rete Nord S.r.l.). The company owns two electricity substations and approximately 70 km of circuits in Alto Adige already part of the NTG. A strategic transaction that will unify Italy's electricity transmission infrastructure.

'Let's think about the future of energy' is the claim in the **new corporate advertising campaign** that aims to make the public aware of the value of energy, a basic good to be used fairly and responsibly.

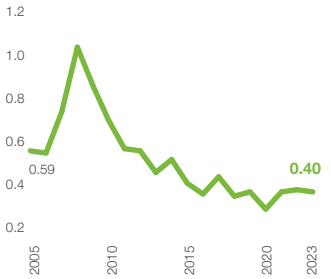
The issue of a **new green bond** worth €650 million and with a 10-year term is successfully completed: the market showed a strong appetite for the bonds, with the issue approximately four times oversubscribed.

Terna's CEO and General Manager, Giuseppina Di Foggia, assumes the role of Vice President of **GO15**, the worldwide association of Very Large Power Grid Operators.

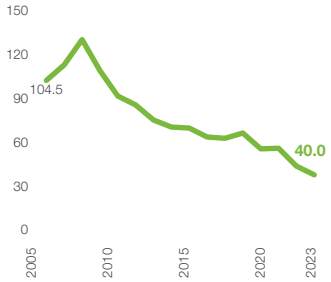
PERCENTAGE OF ELECTRICITY MET FROM RENEWABLE SOURCES (%)



SF_6 LEAKAGE AS A PERCENTAGE OF TOTAL GAS INSTALLED (%)



CARBON INTENSITY – TONNES OF CO_2 EQUIVALENT / REVENUE (€m)



FIND OUT ABOUT KEY EVENTS IN 2023

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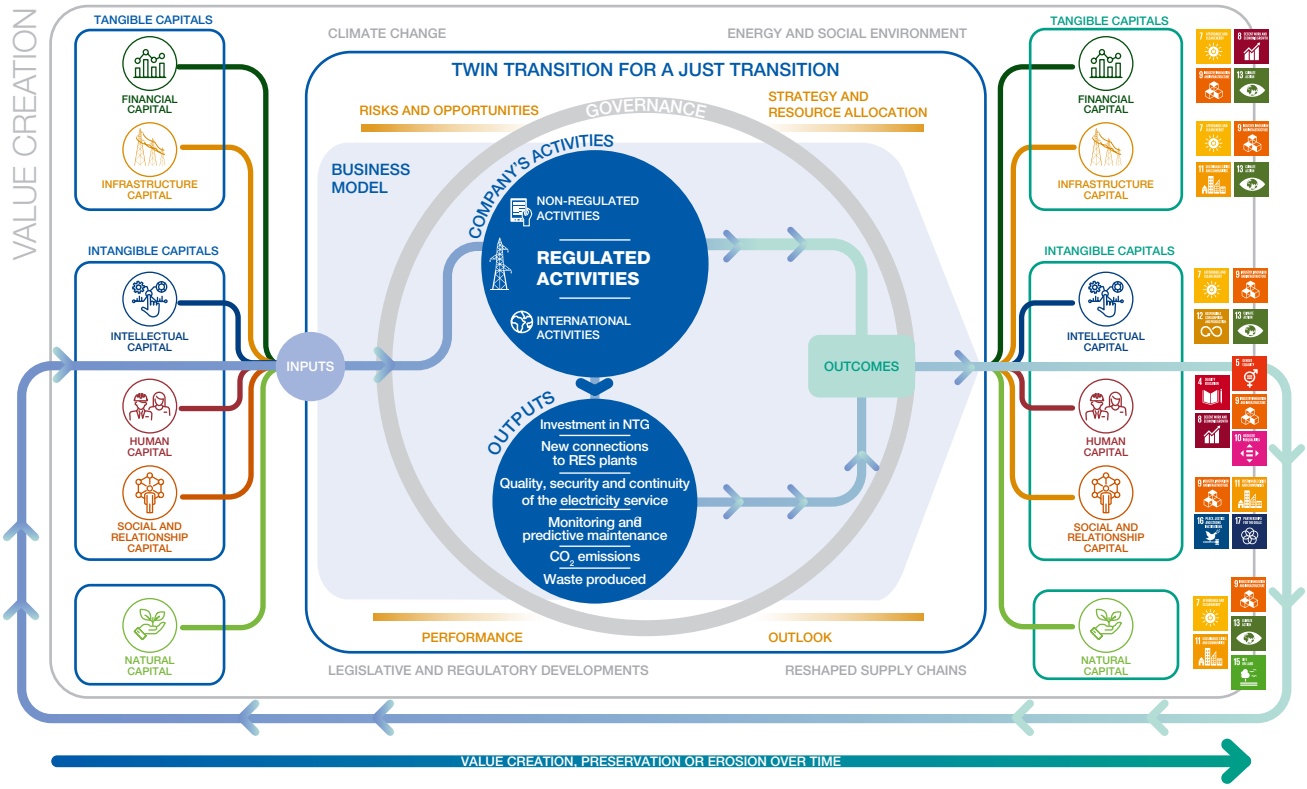
1 The value creation strategy

In this section

The ability to create value over time – the common thread running through this Report – starts from the definition of a strategy that takes into account the complexities of a continuously changing external environment and its potential impact on achievement of the Group's objectives.

This first section describes the elements of the external environment that have the greatest impact on value creation, the energy scenarios developed by Terna and the most important strategic documents, starting with an initial summary of the respective performances.

The section closes with an in-depth description of the materiality principle and guidelines, including an explanation of the principles underlying the methodology forming the basis for the materiality analysis conducted at the end of 2023.



These infographics highlight the topics dealt with in this section with the aim of **facilitating information connectivity**: in this way, the section offers an overview of the links between all the factors that influence Terna's ability to create value over time.

Reference scenarios

Macroeconomic environment

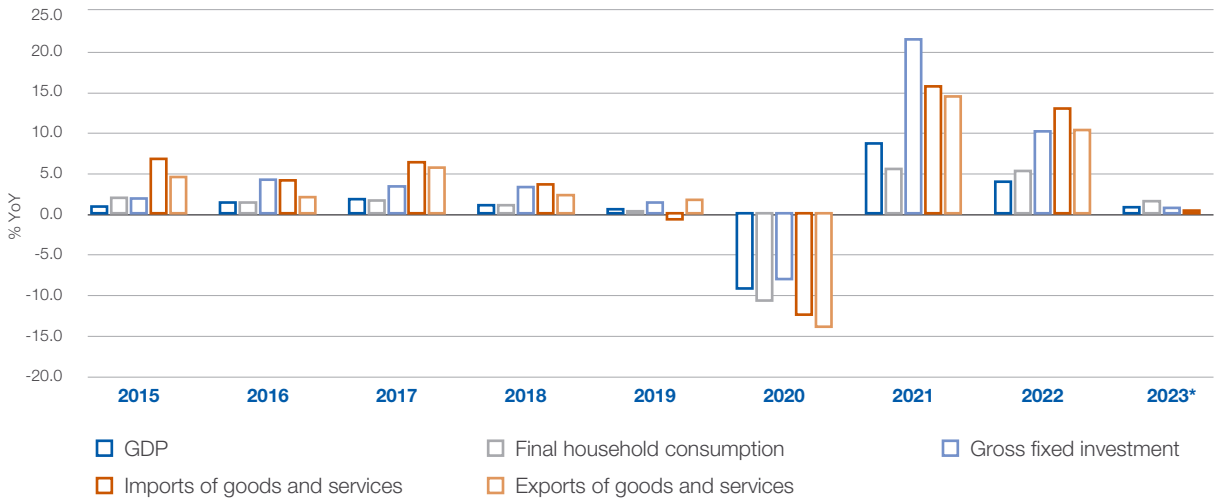
The macroeconomic environment in 2023 was marked by a partial, progressive easing of inflation, which in 2022 had risen sharply following Russia's invasion of Ukraine.

In emerging and developing economies, inflation declined from 8.7% in 2022 to 6.9% in 2023[7]. The International monetary Fund (IMF) expects general inflation to continue to fall, coming down to 5.8% in 2024[8]. The IMF also sees **inflation returning to pre-crisis levels no sooner than 2025** in most countries. The market disruption caused by the war in Ukraine and the crisis in the Middle East, together with the unprecedented degree of monetary tightening around the world to combat inflation, which had reached levels not seen for decades, was reflected in an economic slowdown. The impact on growth in each country differed, with increasing gaps appearing at global level.

Global GDP was hit by these geopolitical events, resulting in an annual growth rate that was below pre-crisis levels, when average annual growth in GDP in the period 2010-2019 was 3.8% in real terms. In 2023, GDP rose by 3%[9] compared with 2022. The IMF expects a further slowdown in annual global economic growth, with GDP expected to rise by 2.9% in 2024.

Europe was also particularly affected by this scenario. The EU is the most exposed among the advanced economies, **due to its geographical proximity to the war zones**. In addition, the region's dependence on gas and fossil fuel imports to meet its energy needs exposes the EU to procurement risks of a geopolitical and economic nature, despite the progressive replacement of Russian gas with imports from other countries, including liquified natural gas

Summary of macroeconomic indexes



Source: Terna based on ISTAT data. Chain-weighted.
Data from 2015 to 2022: ISTAT
**Provisional data for 2023: Prospects for the Italian economy in 2023-2024, December 2023*

[7] Provisional data; International Monetary Fund, World Economic Outlook, October 2023.
[8] International Monetary Fund, World Economic Outlook, October 2023.
[9] Provisional data; International Monetary Fund, World Economic Outlook, October 2023.

(LNG). This situation was **accompanied by more restrictive monetary conditions**, with the European Central Bank ending its Quantitative Easing programme launched at the beginning of 2015 and starting to progressively raise interest rates[10]. This process of Quantitative Tightening led the bank to raise the deposit facility rate to 4.0% in December 2023 (versus 2.0% in December 2022), marking a significant about-turn after a decade of interest rates close to 0%. Current financial conditions are expected to dampen demand, thus helping to reduce inflation. **European inflation stood at 5.3% in 2023[11]**; with the IMF predicting a rate of 2.7% in 2024[12] and 2.1% in 2025[13]. **GDP growth in the eurozone has fallen from 3.3% in 2022 to 0.7% in 2023[14].**

In common with Europe, **Italy was also influenced by geopolitical events**. **Inflation** eased from 8.7% in 2022 to **5.9% in 2023[15]. GDP grew 0.7% in 2023[16]**, a significantly slower rate of growth than in 2022 (3.7%). However, the easing of inflationary pressures, due to the above action taken by the European Central bank, and measures introduced by the Government to bolster private demand and combat the fall in purchasing power, should up GDP growth to 1.2% in 2024[17].

Energy price pressures

The Italian energy market, heavily influenced by events in Ukraine and more recently those in the Middle East, improved in 2023 compared with 2022. This was thanks to mostly mild weather and the diversification of natural gas imports, with the progressive replacement of Russian gas with gas imported from other countries, including LNG (27% of total natural gas imports)[18]. In 2023, natural gas consumption in Italy, amounting to approximately 627.9 TWh[19], was down 10.1% compared with 2022, representing one of the lowest levels since 2015. **The TTF gas price[20] was around €40-50 per MWh in 2023**, well below the average of €122 per MWh recorded in 2022 (with peaks of up to €330 per MWh in August 2022). Despite this, the price of gas remains higher than during the period before the outbreak of the war Ukraine (the average price in the previous three years, from 2019 to 2021, was around €20 per MWh).

After the progressive increase seen in recent years, the **price of CO_2** stabilised in 2023, compared with the levels of 2022 (in August 2022, CO_2 had reached a peak of over €100 per tonne). **The average price of CO_2 in 2023 was €83 per tonne**, compared with €80 per tonne in 2022. This figure is higher than the average recorded in 2021, when the price was €53 per tonne.

The performance of fossil fuel prices, above all the price of gas, has a major impact on the electricity market due to the system marginal price, based on all the offer prices accepted at the system marginal price (normally determined by gas-powered plants). As a result, the SNP is also higher than pre-crisis levels. **In 2023, the average SNP was €127 per MWh**, down from the €304 per MWh of 2022 but still far higher than the €30-50 per MWh pre-crisis.

The use of natural gas as an energy carrier exposes Italy to procurement risks of a geopolitical and economic nature, with the country highly vulnerable to commodity price movements linked to tensions on international markets. Energy price pressures could, moreover, last for several years given the various factors at play, leaving Italy exposed to the risk that the resulting inflation will impact consumption. There is also a related issue with energy security and independence, given that most of the gas consumed in Italy in 2023 was imported from Algeria[21].

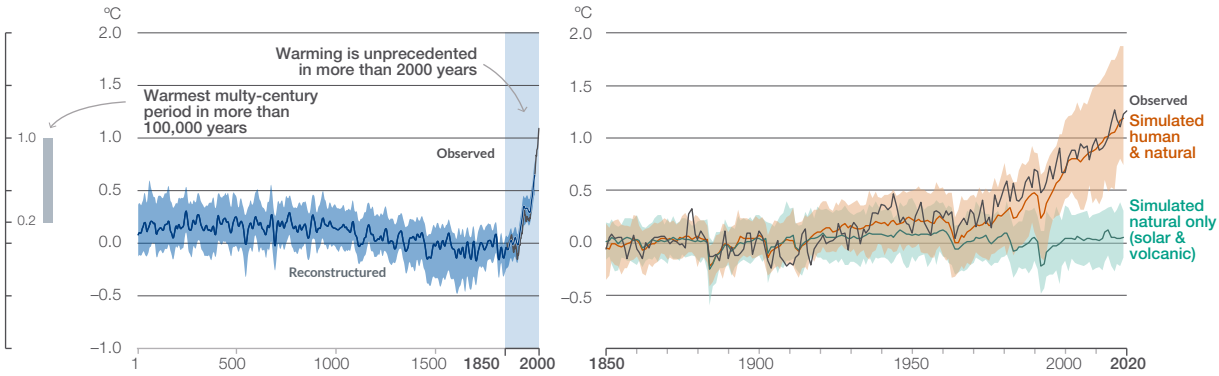
[10] ECB, Monetary policy decisions, 14 December 2023.
[11] Provisional data; International Monetary Fund, World Economic Outlook, October 2023.
[12] Provisional data; International Monetary Fund, World Economic Outlook, October 2023.
[13] Provisional data; International Monetary Fund, World Economic Outlook, October 2023.
[14] Provisional data; International Monetary Fund, World Economic Outlook, October 2023.
[15] Source: ISTAT. Provisional data, January 2024.
[16] Source: ISTAT. Provisional data, December 2023.
[17] Ministry of the Economy and Finance, Update to the Economic and Financial Planning Document, September 2023.
[18] GME, Italian Energy Exchange bulletin, January 2024.
[19] Terna based on SNAM data. Provisional data, the figure for gas consumption shown represents gas delivered to SNAM's network.
[20] "Title Transfer Facility", the wholesale natural gas market, one of the largest in Europe.
[21] Source: https://dgsaie.mise.gov.it/bilancio-gas-naturale

The market environment

Climate change and its impact on the electricity sector

Climate change represents an urgent, potentially irreversible challenge for society and the planet. Warming linked to human activity has reached the level of approximately 1°C compared with pre-industrial levels. **Each of the last four decades has been warmer than the previous one:** the average surface temperature on earth **has risen by 1.1 °C compared with the period 1850-1900**.

IPCC - global temperature changes (°c)



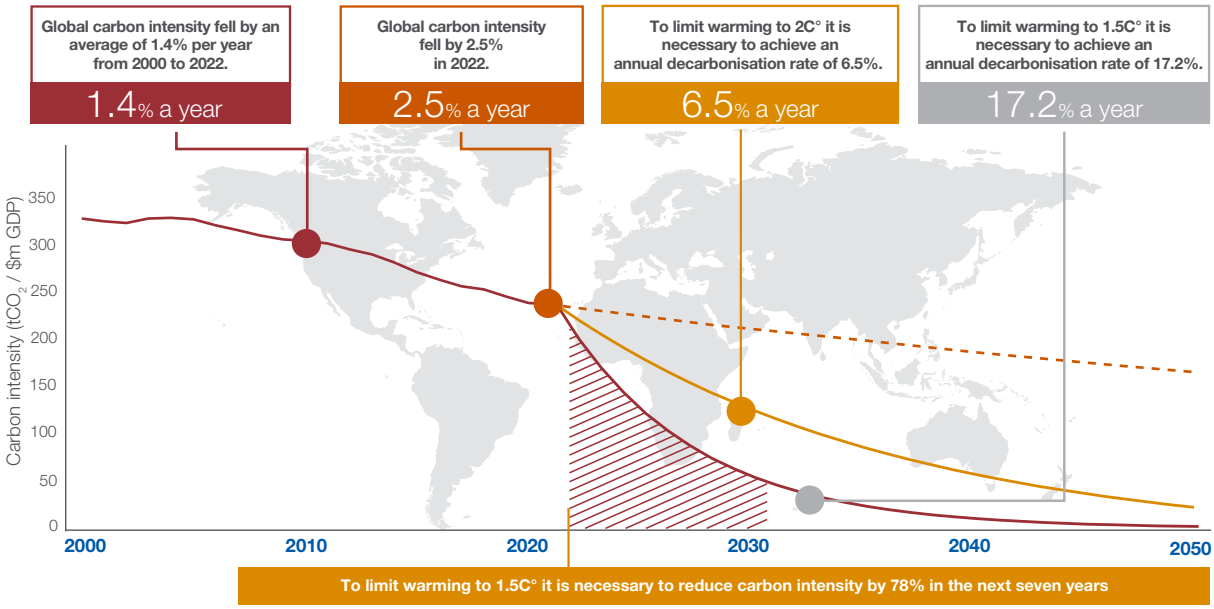
This warming has led to an increase in the frequency and intensity of extreme weather events, in terms of both temperature extremes (hot and cold) and violent and unpredictable precipitation events. The over 18,000 major natural events recorded globally by the NatCatSERVICE -Munich Re since 1980 show that such events have tripled in 40 years. The effects of climate change also have a negative impact on the energy sector.

The drought in Europe in 2023 was caused by an extremely dry spring and a very hot summer. These weather conditions had a major impact on the availability of water in various parts of the continent. However, it is not certain how the situation will evolve and there are difference between the various regions.

This target will only be achieved through an ongoing commitment to decarbonisation. Despite this, in 2022, the **global rate of decarbonisation[22] was just 2.5%[23]**, well below the required annual global rate of decarbonisation of 17.2%. This target is, however, twelve times higher than the global average of just 1.4% recorded in the last two decades and is far above anything achieved by any country until now.

[22] The reduction in carbon intensity or CO_2 emissions in the energy sector per dollar of GDP.
[23] PWC - Net Zero Economy Index 2023.

Net Zero Economy Index 2023



Source: Net Zero Economy Index 2023, PwC.

2023 was heavily affected by the impact of inflation and the high level of uncertainty surrounding the performance of the global economy, primarily due to the tensions in Ukraine and the Middle East. These events led to a slowdown in energy demand. According to the quarterly survey carried out by Enea[24], **energy demand in the Eurozone in the third quarter of 2023 was down 4%** compared with the same period of the previous year. This decrease was due to the downturn in the consumption: i) of coal, which fell 25% in the first nine months of 2023, ii) natural gas, which was down 10% in the same period, and iii) of oil. This trend was initially influenced by the extraordinarily mild weather conditions experienced at the beginning of the year and, in 2023 as a whole, by the ongoing fragility of Eurozone economies. Proof of this weakness was provided by a significant drop in industrial output, which fell by 5% or more in each of the first three quarters of the year. Energy-intensive sectors, above all those that consume gas, saw significant declines, with paper and basic chemical production in Germany falling by 25% in 2023 compared with 2021. Italian figures show a similar situation. There were also sharp declines in non-metallic minerals and steel. The reduction in energy demand also led to a fall in CO2 emissions (-8%) in the first nine months of 2023 compared with the same period of 2022.

In Italy, the period of economic stagnation led to a 3.5% fall in primary energy demand in the first nine months of 2023 compared with the same period of 2022[25]. This reduction is primarily linked to the sharp fall in natural gas consumption.

According to the IEA[26], **the energy sector is largely responsible for the greater part of emissions** produced by human activity and its decarbonization is thus key to avoiding the potential effects of climate change. Under the net-zero pathway developed by the IEA, by 2030 the global economy will have grown by 40%, but must use 7% less energy than today. **Energy efficiency and the electrification of final consumption** (given that, as an energy carrier, electricity is intrinsically efficient) will be the key drivers of decarbonisation. The real enabler of this transformation is **electricity as an energy carrier**, given the high level of intrinsic efficiency of final uses based on this carrier (resulting from thermodynamic laws and thus independent of any effective technological development): an electric vehicle is from 3 to 5 times more efficient than any technology based on the use of liquid or gaseous fuels, whilst a heat pump is 5-6 times more efficient than any fuel-based alternative.

[24] ENEA, Quarterly survey of the Italian energy system in the second and third quarters of 2023.
[25] ENEA, Quarterly survey of the Italian energy system in the second and third quarters of 2023.
[26] IEA: International Energy Agency. "Net Zero by 2050" report.

The European and Italian response

The European Green Deal was published at the end of 2019. This aims to transform the European Union into a net-zero economy by 2050 and achieve an intermediate goal of cutting greenhouse gas emissions (GHG) by at least 55% by 2030 compared with 1990 levels. A key part of the Green Deal is the European Climate Law (Regulation (EU) 2021/1119), formally adopted by the Council of the European Union on 28 June 2021 and that came into effect on 29 July 2021.

In July 2021, the European Commission also presented a package of legislative proposals named **Fit for 55** (FF55), setting out how Europe intends to achieve the EU's decarbonisation targets, cutting greenhouse gas emissions by 55% by 2030 compared with 1990 levels and achieving climate neutrality by 2050.

In addition, following Russia's invasion of Ukraine, on 18 May 2022, the European Commission launched **Repower-EU**, an emergency plan that aims to **strengthen the European Union's strategic independence by diversifying energy sources** and boosting the Union's energy independence and security. The key targets set in REPower-EU include increasing the resilience, security and sustainability of Europe's energy system through an appropriate reduction in the continent's dependence on fossil fuels and by diversifying energy sources, increasing the use of renewable energy, energy efficiency and energy storage capacity. As part of the FF55 package, the texts of two Directives has recently been adopted. These have raised the targets linked to the energy transition:

a) the Renewable Energy Directive has raised the target for renewable sources from 32% to 42.5% by 2030[27]. The Directive came into effect on 20 November 2023;

b) the EU Energy Efficiency Directive has raised the energy saving target from 9% to 11.7% by 2030[28]. The Directive came into effect on 10 October 2023.

European drivers:
CO_2 EMISSIONS TARGETS

2021*	2030	2050
Italy	Fit for 55	Net emissions
~-20%	-55%	-100%

** Actual reduction in all greenhouse gas emissions by 2021 (latest available data for Italy) versus 1990.*
Source: ISPRA, Emission trends: https://www.isprambiente.gov.it/it/attivita/cambiamenti-climatici/landamento-delle-emissioni.

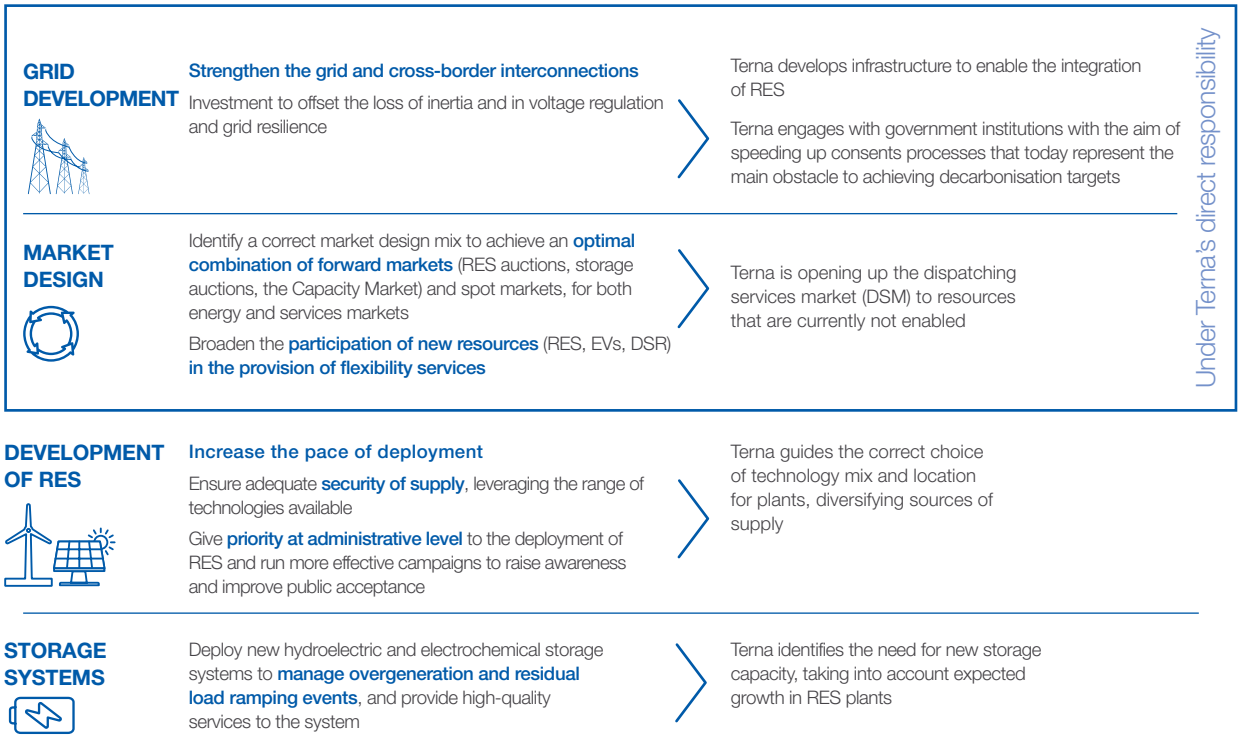
At national level, to reflect the new targets set at European level, in July 2023, the Ministry of the Environment and Energy Security sent the European Commission the draft update of its **National Integrated Energy and Climate Plan ("PNIEC")**, which provides key policy guidelines for development of the country's energy system. As provided for in the EU Regulation, the final version of the document must be published within 12 months, taking into account any comments and observations from the European Commission. The PNIEC sets out the national targets through to 2030 for energy efficiency, the use of renewable sources, cuts in CO_2 emissions, energy security, interconnections, the single energy market, competition, and the development of sustainability of mobility.

[27] Source: https://www.consilium.europa.eu/it/infographics/fit-for-55-how-the-eu-plans-to-boost-renewable-energy/.
[28] Source: https://www.consilium.europa.eu/it/infographics/fit-for-55-how-the-eu-will-become-more-energy-efficient/.

Enabling factors for the energy transition

Delivery of the infrastructure necessary to achieve the energy policy goals within the set timetable inevitably requires a significant acceleration of investment in the energy sector and, even more so, in the electricity sector. This investment must, to a large extent, be directed towards the development of new renewable energy capacity, storage systems and transmission and distribution networks, to be carried out in a coordinated manner to make the system more efficient as a whole.
The ecological transition is needed not only to combat climate change and boost environmental sustainability, but also to reduce the country's energy dependence, limit energy price pressures due to commodity costs (gas and CO2), and to drive the country's economic growth and technological research and innovation.

What is needed



Source: Terna data.

This represents an extremely challenging, long-term commitment, which will require a **coordinated approach to timing and geographical location to channel the massive investment being undertaken by operators in a way that is in keeping with the related plans**. Work is currently taking place on finalising the steps needed to guarantee the development of RES and of storage capacity. In terms of RES, the draft ministerial decree, "FER X"[29], aims to finance the addition of 60 GW of renewable wind and solar capacity in the period from 2024 to 2028. The public consultation on the mechanism for procuring new storage capacity has also recently come to a close. The new capacity will enable the system to acquire new electricity storage capacity[30]. The auctions held to procure this capacity will be carried out by Terna, as required by Legislative Decree 210/2021.

This transformation is a major opportunity to boost Italy's competitiveness: the country's lack of energy resources has historically meant that energy costs were higher than the European average and that the country is highly dependent on imported energy. In this new scenario, Italy will see a reduction in its energy dependence.

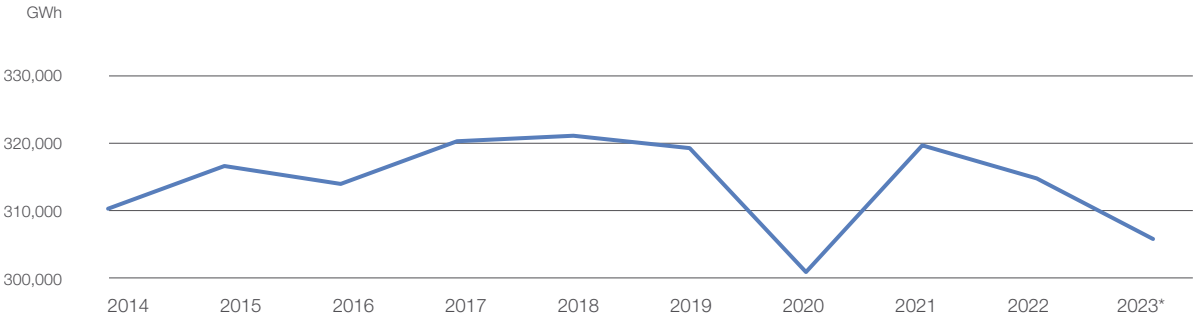
The investment planned for the coming years will determine Italy's strategic position in the global economic system of the future. **Terna is thus driving the transformation of the energy system as part of the country's ecological transition**. This commitment also takes the shape of efforts to promote ever **closer strategic cooperation with other players in the sector**, including through the membership of various European bodies (e.g., ENTSO-E) and partnerships with other European TSOs (e.g., the Equigy initiative, whose partners, in addition to Terna, include the TSOs TenneT, TransnetBW, Swissgrid and APG).

[29] Source: Ministry of the Environment and Energy Security.
[30] Source: Terna.

Electricity demand and production in Italy in 2023

Terna monitors domestic demand trends and takes appropriate actions, in full implementation of EU directives.

Demand trend over the last 10 years



** Provisional data.*

Demand for electricity in Italy

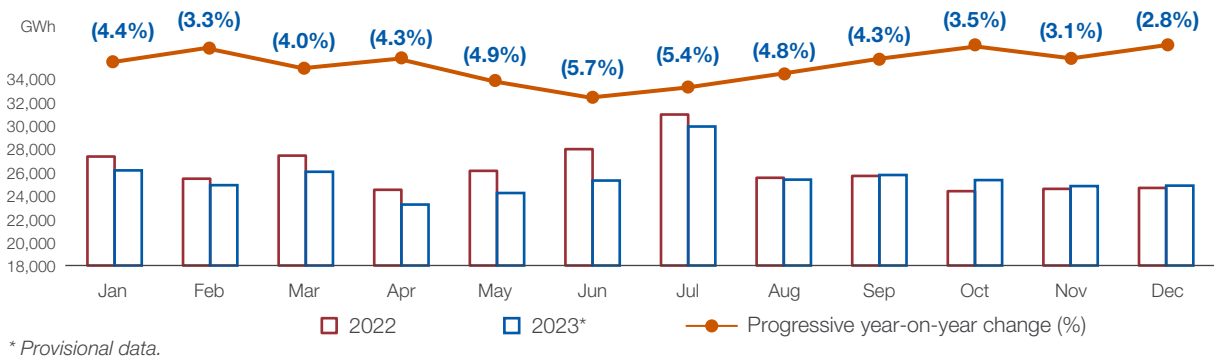
Demand for electricity in Italy amounted to 306,090 GWh in 2023 (provisional data), marking a **reduction of 2.8% compared with 2022**, which recorded a decrease of 1.0% compared with the previous year.

ELECTRICITY BALANCE IN ITALY (GWh)*	2023**	2022	CHANGE	% CHANGE
Net production	257,023	274,607	(17,584)	(6.4%)
From overseas suppliers (imports)	54,572	47,379	7,193	15.2%
Sold to overseas customers (exports)	(3,320)	(4,392)	1,072	(24.4%)
For use in pumping***	(2,185)	(2,586)	401	(15.5%)
Total demand in Italy	**306,090**	**315,008**	**(8,918)**	**(2.8%)**

* *Does not include demand for energy for ancillary services related to electricity production.*
** *Provisional data.*
*** *Electricity used for pumping water for subsequent use in the production of electricity or as a way of immediately balancing overproduction.*

This reduction in demand reflects two phases of a different nature. The period from January to September recorded a sharp decline in demand compared with the same period of the previous year, due to average temperatures (higher during winter and lower in early summer), and above all a cut in industrial consumption. In contrast, in the last quarter of the year demand was up on the same period of 2022, which saw a significant drop in electricity consumption due to tensions in the energy market (an increase in commodity prices).

Monthly demand for electricity



** Provisional data.*

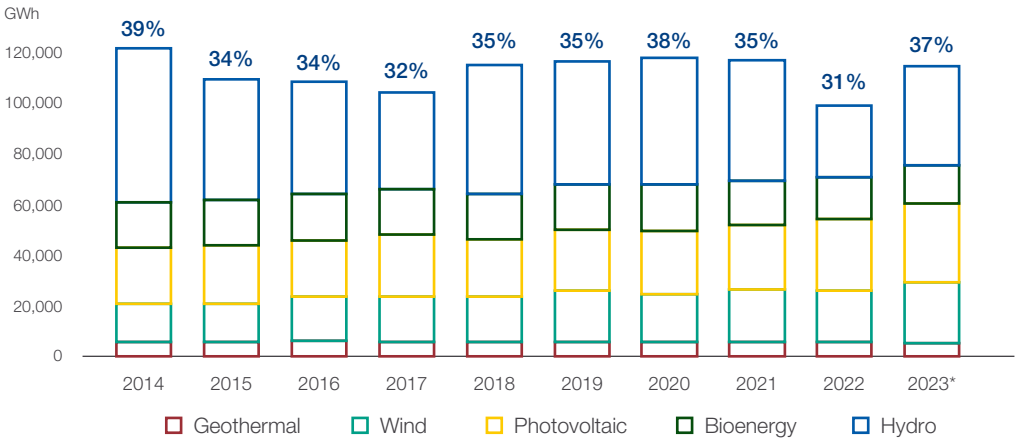
Meeting demand and energy production

In 2023 (provisional data) approximately **36.8% of total energy demand was met from renewable energy sources**. The value of production from renewable sources rose 15.4% compared with the previous year.
In terms of the performance of the various renewable sources, there was an increase in hydro production (up 36.1%) and a reduction in bioenergy production (down 6.1%).

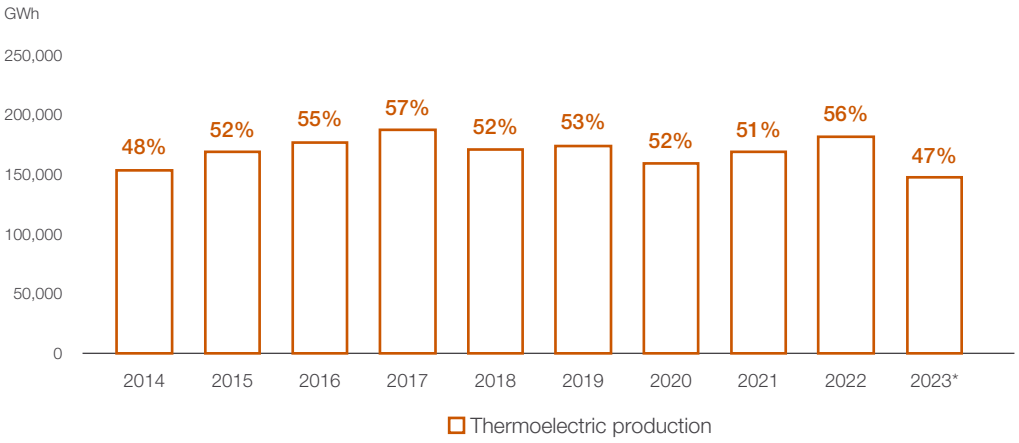
In this context, with the European drive towards decarbonisation and the strong penetration of renewables, high-voltage grids play a key role in enabling the growth in renewable generation capacity. The robustness of grid infrastructure and Terna's actions in managing the system enabled it to securely handle record levels of intermittent production, amounting to 23.4TWh from wind and 30.6TWh from photovoltaic.

Performance of production sources as a proportion of demand[31]

Renewable sources



Traditional sources



The two charts on the left compare the performance of renewable production in Italy in recent years with the performance of thermoelectric production over the same period.

** Provisional data.*

[31] The percentages shown in the two charts compared refer to the share of demand met from renewable sources and thermoelectric sources (a traditional source).

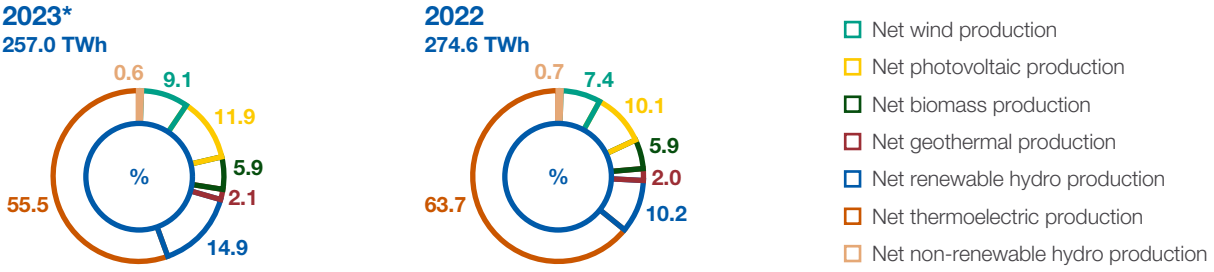
Number of hours in which the volume of demand met from renewable sources exceeded the relevant thresholds

	>30%	>40%	>50%
2021	6,011	2,661	832
2022	3,948	1,433	421
2023*	**5,731**	**2,952**	**1,179**

** Provisional data.*

2023 saw a return to the levels registered prior to 2022 in terms of the number of hours in which the volume of demand met from renewable energy sources exceeded the 30%, 40% and 50% thresholds. Compared with previous years, 2022 saw a reversal of the earlier upward trend, primarily reflecting a reduction in the share of demand met from renewable sources due above all to water shortages during the year.

Net electricity production by source



** Provisional data.*

Regulatory framework

Terna operates as a natural monopoly and within a market regulated by the **Regulatory Authority for Energy, Networks and the Environment** (**ARERA**, or the *Autorità di Regolazione per Energia reti e Ambiente*), which determines the level of regulated revenue for transmission and dispatching activities, currently representing approximately 83.8% of the Group's total revenue.

In Resolutions 653/2015/R/eel, 654/2015/R/eel and 658/2015/R/eel, ARERA set the tariff regime for electricity transmission, distribution, metering and dispatching services and regulations regarding the quality of the transmission service for the fifth regulatory period (sub-period "NPR1", 2016-2019). The regulatory framework for the second four-year period (sub-period "NPR2", 2020-2023) was revised by Resolutions 567/2019/R/eel, 568/2019/R/eel and 574/2019/R/eel.

The framework for the period 2020-2023 (NPR2) is broadly in line with the criteria applied in the previous four-year period from 2016 to 2019 (NPR1), with the principles for recognising the cost of capital (rate of remuneration) and operating costs (price cap and profit sharing) unchanged with respect to the previous regime. The most important change regards readmission of the remuneration on fixed assets in progress, under a mechanism that reflects the related expenditure in tariffs based on rates of remuneration differentiated on the basis of how long ago the expenditure was incurred and for a maximum of four years (beyond four years, the tariff will take into account interest expense incurred whilst work was in progress).

In Resolution 615/2023/R/eel, ARERA established the criteria for setting tariffs for the transmission and dispatching service for the fourth regulatory period (2024-2027). The new regime will reflect application of the new totex/output-based regulation for the period 2024-2031 and introduced in Resolutions 163/2023/R/com and 497/2023/R/com, which envisage the gradual switch to an approach based on the recognition of costs based on total expenditure incurred (operating and capital expenditure) and that focuses more on outputs and the levels of service provided.

The cost recognition principles applied in the four-year period 2020-2023 are broadly the same as those to be applied in the fourth period. The most significant difference relate to:

- the treatment of fixed assets in progress for which, unlike in the previous period, the revaluation for the purposes of calculating the related remuneration based on constant rates of remuneration, no longer differentiated on the basis of how long ago the expenditure was incurred (equal to a WACC calculated with a D/E ratio of 4), and extending the period of remuneration from 4 to 6 years for major projects (where expenditure exceeds €1 billion and construction times estimated ex ante of over four years);
- the introduction of a correction factor (the z-factor) for recognising, during the regulatory period, incremental operating expenses linked to investment relating to the energy transition or to changes in the scope of the activities carried out in providing regulated services;
- recognition, starting from new infrastructure entering service in 2024 and with effect from 2025, of depreciation from the year immediately following the entry into service, bringing forward the start by one year with respect to the current timing;
- the standard allocation of total expenditure (operating and capital expenditure) incurred from 2024 to the slow money component (increasing the regulatory asset base) and the fast money component (immediately recovered through the tariff) through the application of a standard rate – the capitalisation rate – determined ex-ante by ARERA based on historical data and projections aimed at ensuring that the investment plan is fully funded;
- the introduction of suitable correction mechanisms for effective revenue with respect to the level admitted ex-ante (tariff decoupling) with the aim of adjusting for new cost recognition components (such as, for example, slow and fast money) linked to completed expenditure;
- a reduction in the delay in updating the inflation index for revaluing recognised operating expenses (the national consumer price inflation rate for households, excluding tobacco products) and the cost of capital (ISTAT data on the change in the deflator for gross fixed investment) with a positive one-off correction to make up for earlier changes in the deflator for gross fixed investment recorded by ISTAT.

In Resolution 614/2021/R/com, ARERA set out the procedure for determining and revising the **Weighted Average Cost of Capital (WACC)** for the various regulated infrastructure services in the electricity and gas sectors in the 2022-2027 period, setting a WACC of 5.0% for the transmission service in 2022. In this Resolution, ARERA confirmed the adoption of a mechanism for revising key macroeconomic parameters at the end of the first three years (2022-2024) and also envisaged the possibility, in the same three-year period, of a further annual revision if the change observed in the key market parameters used in the calculation formula were to result in a change in WACC of at least 50 bps. In Resolution 654/2022/R/com, ARERA confirmed the levels of WACC for electricity and gas infrastructure services applied in 2022 for 2023, having taken into account the fact that the above mechanism had not been triggered. Resolution 556/2023/R/com, on the other hand, updated the WACC for 2024 – following activation of the trigger mechanism for that year – setting a level of WACC for the transmission service of 5.8%, up from the 5.0% applied in 2022 and 2023.

A number of key aspects of regulation in the fifth regulatory period are described below, with regard to allowed revenue for transmission and dispatching services.

Transmission revenue makes up the most significant portion of regulated revenue

Transmission revenue makes up the most significant portion of regulated revenue and is generated from application of the related transmission charge **(TC)**, billed by Terna to distributors connected to the National Transmission Grid. This charge remunerates transmission services and is divided into two components: a capacity component (equal to 90% of revenue, expressed in euro cents/kW/year) and an energy component (10% of revenue, expressed in euro cents/kWh). In Resolution 615/2023/R/eel, the regulator has increased the above percentage of costs attributable to the capacity component from 90% to 93% for the sixth regulatory period (2024-2027), thus reducing the weight attributed to the energy component from 10% to 7%.

The **dispatching service charge (DSC)** aims to recompense Terna for carrying out the activities relating to the dispatching service and is billed by Terna to users of the dispatching service in proportion to the quantity of energy dispatched.

Allowed costs are attributable to the main categories summarised below.

The main types of allowed cost

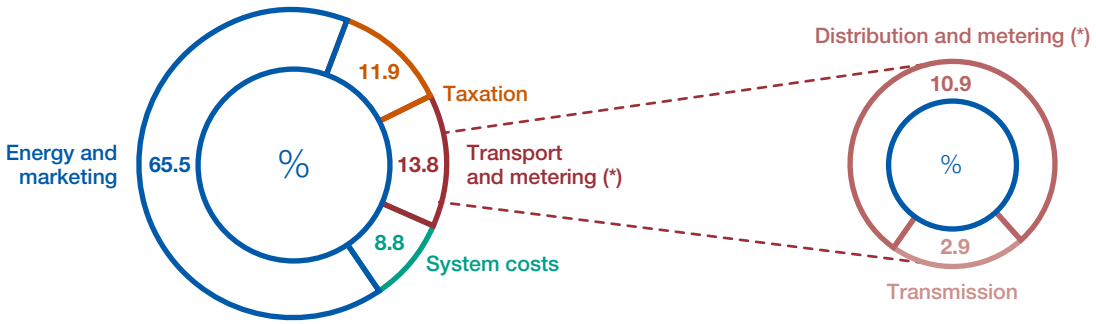
1. Return on capital (RAB)	Determined on the basis of the Regulated Asset Base (RAB) and the Weighted Average Cost of Capital (WACC). The RAB represents net invested capital for regulatory purposes. It is revalued annually on the basis of data from ISTAT (Italy's Office of National Statistics) on the change in the deflator applied to gross fixed investment and revised on the basis of the performance of investment and disposals. The WACC represents the weighted average cost of equity and debt. The methods of determining and revising the WACC are established by the regulator.
2. Depreciation	Allowed depreciation (calculated on the basis of an asset's useful life for regulatory purposes) is revalued annually based on the change in the deflator applied to gross fixed investment.
3. Opex	Allowed costs are determined by the regulator at the beginning of the regulatory sub-period, based on operating costs recognised during the relevant year, adjusted by any remaining portions of additional efficiencies achieved in previous regulatory periods (a 50% share). The resulting amount is revalued annually to take account of inflation (Italy's rate of consumer inflation for blue- and white-collar households, excluding tobacco products) and reduced by an efficiency factor designed to ensure that additional efficiencies are, over time, passed back to end users in full.
4. Output-based incentives	In addition to the above items, a portion of the remuneration of transmission and dispatching services derives from regulatory incentives linked to the achievement of specific objectives, as described below: • an incentive system for the delivery, in the five-year period 2019-2023, of projects designed to increase transmission capacity between market areas: this involves recognition of an incentive, capped at €150 million, in proportion to the ratio between capacity delivered by 2023 and the target capacity (Resolution 567/2019/R/eel). The mechanism envisages that the reward may be reduced by the regulator if the ratio between the average transmission capacity made available for the day-ahead market and winter peak transmission capacity is significantly below historical levels of this ratio, in one or more of the three years following the entry into service of the investment that made available the additional transmission capacity. In Resolution 23/2022/R/eel, the regulator awarded Terna a bonus of €143.6 million for work carried out in 2020, which resulted in an increase in transmission limits on the relevant sections of the grid with effect from January 2021. The bonus was payable by the Fund for Energy and Environmental Services (Cassa per i Servizi Energetici e Ambientali - CSEA) from the "Quality of electricity services" account (including €40 million relating to the above additional bonus for capital light projects, to be paid by the end of February 2022, €51.8 million in December 2022 and €51.8 million by December 2023). In Resolution 473/2023/R/eel, the regulator introduced a further bonus for Terna amounting to €36.5 million, recognised by CSEA in November 2023 and payable from the "Quality of electricity services" account, including €23.7 million for the deployment of additional interzonal transport capacity following work carried out in 2022 and €12.8 million for capex efficiencies in relation to this work;

- an incentive mechanism, with a three-year duration (2022-2024), aimed at rewarding the efficiency of dispatching activities and, as a result, reducing DSM costs and the cost relating to the shortfall in wind production and essential plants (Resolution 597/2021/R/eel and Resolution 132/2022/R/eel). Terna's performance is assessed by comparing effective dispatching costs in the incentive year with costs in the year in question, suitably adjusted to take into account commodity price movements and other corrective factors. For each year of the relevant period, the incentive is calculated based on the performance achieved and, on a three-year basis, the reward due to Terna amounts to 12% of the total savings made in the three years. Rewards (penalties), calculated on an annual basis, are included in the uplift payment defined in article 44 of Annex A to Resolution 111/06 and paid from 2024 according to the procedure described in Resolution 132/2022. With regard to activities carried out in 2022 in order to reduce dispatching costs, in Resolution 367/2023/R/EEL the regulator has awarded Terna a bonus of €795.6 million to be recovered through the Uplift payment, in equal quarterly tranches over three years from 2024;
- improvements in quality of service in the 2016-2023 period through an incentive mechanism based on rewards/penalties calculated on the basis of the difference between the effective annual level of energy not supplied through the NTG (the NTG RENS indicator) and the target level set by ARERA, with the annual reward capped at €30 million and the annual penalty at €12 million (Resolution 653/2015/R/eel), a mechanism extended by ARERA for the 2024-2025 period with certain changes to provide for an annual bonus of up to €20 million and a penalty of up to €8 million (Resolution 55/2024/R/eel). With regard to 2022, in Resolution 555/2023/R/eel, the regulator awarded Terna a bonus of €22.28 million, recognised by CSEA at the end of December 2023 and payable from the "Quality of electricity services" account.

Cost of transmission in end users' bills

Based on figures from ARERA, it is possible to estimate that **approximately 2.9%** of a typical domestic user's electricity bill relates to the cost of transmission in 2023.

Compared with an average total annual cost for a typical domestic user, estimated at approximately €871 in 2023, the cost incurred for the transmission service amounts to approximately €23 per household.



** Economic conditions of supply for a household with committed capacity of 3 kW and annial consumption of 2,700 kWh.*

Terna's scenarios

Energy scenarios examine the potential ways in which the current energy system may develop, providing an essential basis for identifying and planning the infrastructure investment and development needed to enable the ecological transition. Every two years, Terna and Snam, the operator of Italy's gas network, draw up a **Scenario Description Document[32] (SDD)** as part of the process of preparing grid development plans for both sectors. Collaboration between Terna and SNAM in drawing up the SDD enables the two operators to combine their specific expertise, in the knowledge that interaction between the electricity and gas scenarios is an extremely complex element at both national and EU level.

The latest SDD, published at the beginning of August 2022, formed the basis for definition of Terna's 2023 Development Plan and is aligned with the policy scenario contained in the draft of the new National Integrated Energy and Climate Plan ("PNIEC") published in July 2023. Both the documents, the SDD 2022 and the draft PNIEC for 2023, have been prepared with the aim of adopting the ambitious policy goals in the European **Fit for 55** package. The latest SDD is expected to be published in 2024.

For the time horizon of 2030, the document describes two scenarios:

- a policy scenario in line with the Fit-for-55 (FF55) goals;
- a Late Transition scenario broadly in line with the goals set in the old PNIEC of December 2019.

Three different scenarios were developed for the time horizon of 2040:

- a Late Transition scenario in keeping with the 2030 scenario;
- a Global Ambition Italy scenario (GA-IT);
- a Distributed Energy Italy scenario (DE-IT).

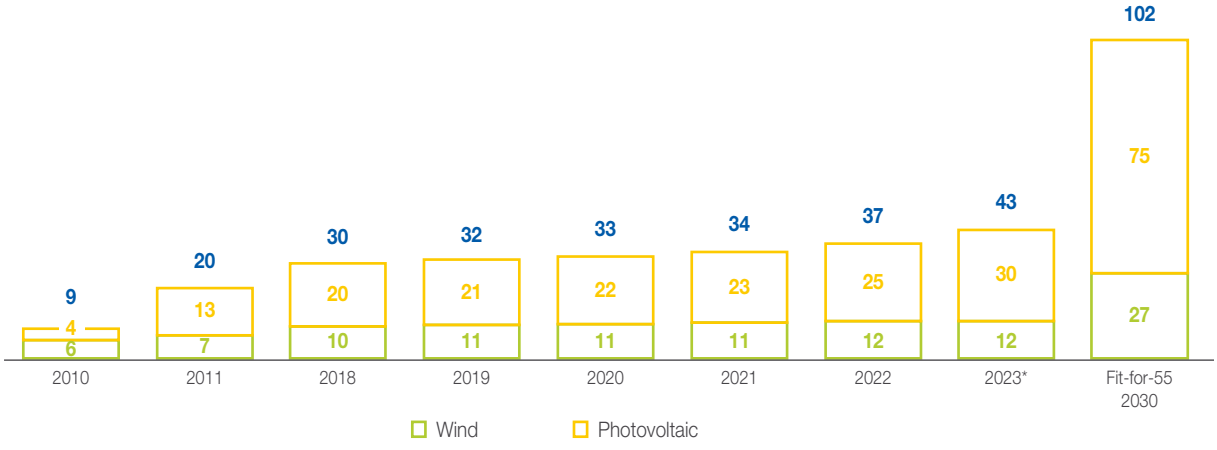
The latter (GA-IT and DE-IT) are to be considered development scenarios both aligned with the storylines in the scenarios drawn up by the ENTSOs, Global Ambition and Distributed Energy, which set out alternative paths consistent with the goal of achieving a net zero system by 2050. The new DDS scenarios are, therefore, aligned with international scenarios based on a target of net zero by that date (e.g., the "IEA NZE 2050" scenario developed by the International Energy Agency, or the "Advanced Energy Revolution scenario" published by Greenpeace).

[32] This document is available at the following link: https://www.terna.it/it/sistema-elettrico/rete/piano-sviluppo-rete/scenari.

The policy scenario (FF55) has a particular role to play, not only because it delivers on the policy goals for 2030, but above all because it assumes an efficient mix of investments in grid infrastructure, renewable sources, storage and new digital technologies compatible the main technical, economic and administrative restrictions that could otherwise compromise its feasibility in such a tight time frame. In this context, Terna has a central role to play in the energy transition, being fully involved on several fronts: first of all, in developing the power grid (the 2023 Development Plan envisages over €21 billion in investment over the next ten years); and, secondly, in managing the mechanism for procuring new storage capacity that will allow the system to acquire new electricity storage capacity. By enabling the integration of ever greater volumes of renewable energy within the electricity system, both the grid and storage facilities will play a key part not only in achieving decarbonisation targets, but also in improving security of supply. The scenario indicates the need:

- **to add 68 GW of new wind and solar capacity** by 2030 compared with 2021, corresponding to an increase of 120-126 TWh, **in line with the 74 GW provided for in the draft PNIEC for 2023**;
- to achieve at least a **65% penetration rate for RES** as a share of electricity demand by 2030, in line with the target set in the draft PNIEC for 2023;
- to create **almost 95 GWh of additional storage compared with 2021**, as well as to develop adequate transport capacity, to guarantee the full integration of the electricity produced from renewable sources within Italy's electricity system.

Development of wind and photovoltaic installed capacity 2010-2023 and targets to 2030 (GW)



** Provisional data. Source: Terna data.*

The energy transition must be based around an appropriate market design, able to provide the long-term price signals needed for development of an adequate, secure and low carbon electricity system, and to enable and facilitate the full participation of all distributed resources in the ancillary services markets.

2023 Development Plan

SASB

The 2023 Development Plan was submitted to the Ministry of the Environment and Energy Security on 27 January 2023, following its approval by Terna's Board of Directors on 25 January, in line with the requirements of Legislative Decree 93/11, as amended by Law 120/2020[33].

On 7 August 2023, the regulator, ARERA, began the consultation on Terna's 2023 Development Plan. On 2 October, the public session arranged to present and discuss the 2023 Development Plan was held at ARERA's offices in Milan. Terna responded to the observations made by the various parties involved. The consultation process came to a conclusion on 16 October 2023.

This new Plan, which follows on from the previous version, the 2021 Development Plan, approved by Ministerial Decree 435 of 22 December 2023, and the related Summary Statement, has been drawn up at a particular time in history when issues surrounding energy provision are even more the focus of attention.

In a period of rapid geopolitical upheaval, the energy system is faced with a series of unprecedented and highly ambitious challenges.

Against this backdrop, Terna must **design a grid capable of handling progressive decarbonisation and the growing integration of renewables**, whilst at the same time the efficiency and security of supply.

The Plan must guarantee the sustainable development of the National Transmission Grid (NTG), by enabling the implementation of RES, and supporting the energy transition and the phase-out of coal. It contains the investments that Terna is committed to carrying out in order to guarantee the efficiency of the grid, the security of supply and of the service and the integration of production from renewable sources, in **line with the goals set in the Fit for 55 package** and included in the 2022 Scenario Description Document (a 55% cut in CO_2 emissions by 2030 compared with 1990 levels and a share of final consumption met from renewable energy sources of at least 65%).

To achieve these challenging objectives, **in addition to the projects previously included in the 2021 Development Plan, the 2023 Development Plan envisages the launch of innovative initiatives** as part of the **Hypergrid** project, amounting to approximately **€11 billion**, to meet future targets. This marks an increase and acceleration in investment for the benefit of the country, with **total capital expenditure** over the ten-year life of the Plan from 2023 to 2032 up at an all-time high of **over €21 billion**.

Hypergrid projects, marking the principal addition to the Plan, are innovative projects that will exploit HVDC technologies to achieve energy transition and security objectives: in brief, Terna aims to carry out a major programme of modernisation of existing power lines forming the country's eastern and western backbones, extending them to include the southern regions and the islands, accompanied by new 500kV submarine connections. This will boost the lines' performance, reducing their environmental impact to a minimum and transferring a growing amount of renewable energy generated in southern Italy to areas where demand is highest in the north.

[33] Art. 36.c.12 of Legislative Decree 93/11, as amended by Law 120/2020, requires Terna to prepare a ten-year Development Plan for the national transmission grid every two years, submitting it for approval by the Ministry of the Environment and Energy Security, after consulting with the affected regional authorities and taking into account the views expressed by the regulator (ARERA).

Development goals and strategy

Given the challenges faced by the electricity system as a result of the trends identified in the projected energy scenarios and ongoing climate change, planning the development of the transmission grid must meet the following **electricity system objectives**:

INTEGRATION OF RES

new development works to enable and prepare for the integration of new renewable capacity, starting from the Hypergrid project.

INCREASE IN TRANSPORT CAPACITY

doubling of current exchange capacity between market areas (over 30 GW), reduction and resolution of future congestions affecting the national transmission grid.

DEVELOP CROSS-BORDER INTERCONNECTORS

in line with earlier plans, the aim is to continue **guarantee greater security** through the availability of mutual assistance between the interconnected systems.

IMPROVE LEVELS OF ELECTRICITY SYSTEM SECURITY, QUALITY AND RESILIENCE AND SERVICE CONTINUITY

work on upgrading the grid, including the deployment of new power supply lines

ENSURE THAT THE GRID IS ROBUST AND CUSHION LOW-FREQUENCY INTERSYSTEM OSCILLATIONS

Work on making the **electricity system increasingly stable and able** to withstand or control the formation of voltage wave following a fault or disturbance

The **key benefits expected** as a result of achieving these objectives are as follows:

INVESTMENT

over €21 bn	Investment over life of 2023 – 2032 Plan
~€30 bn	Total investment 2023 – Beyond 2032
~€11 bn	Hypergrid share 2023 – beyond 2032

ENERGY TRANSITION

+70 GW	New RES capacity by 2030
-4,100 kt/year	Reduction in CO_2 by 2030* (equal to CO_2 consumption of 4.5m motor vehicles)**

NEW GRID DEVELOPMENTS - HYPERGRID

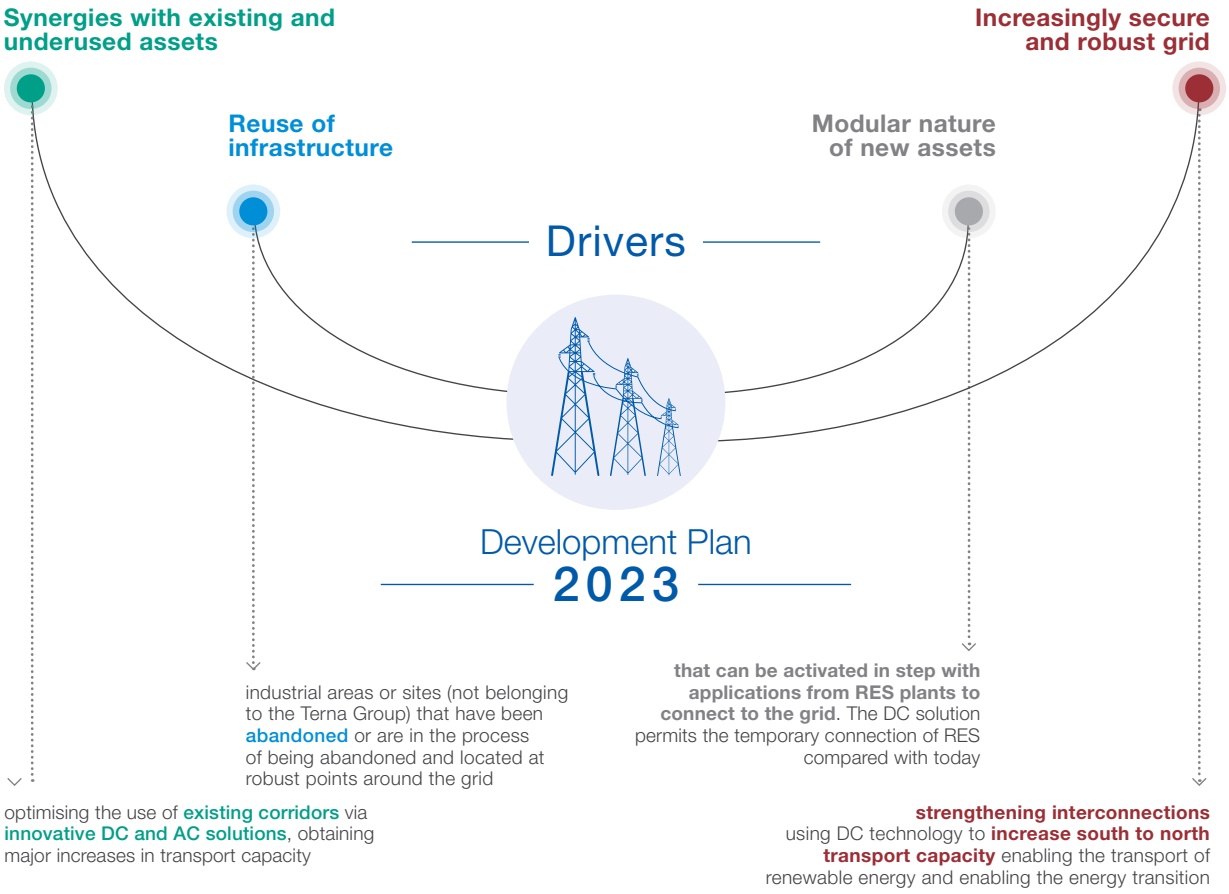
+16 GW	New exchange capacity between market areas
~2,600 km	~1,000 km overhead ~1,600 km in cable } Length of backbones
~13 GW	New AC/DC converter stations

* *Reduction in CO_2 by 2040: -12,000 kt per year.*
** *Based on average consumption of 90 g/km for a utility vehicle covering 10,000 km per year.*

New drivers for the planning of works

The 2023 Development Plan is based on an **integrated approach to planning that considers the electricity system as a whole**: the proposed works are modular and in synergy with each other, and provide diversified solutions capable of keeping pace with developments in the energy scenario. The aim is to build a grid that minimises price differentials between market areas to achieve the maximum degree of unification possible.

The development and construction of grid infrastructure capable of **increasing exchange capacity** between the different market areas results in the definition of **new drivers** with a pivotal role in the planning of new works:



2024-2028 Industrial Plan

In recent years, the energy system has become increasingly complex, posing major new challenges for supply chain operators. Development of the National Transmission Grid is clearly necessary to support the energy transition, but on its own the risk is that this may not be sufficient unless accompanied by the progressive development of digital technologies. This opens the way to the concept of a **Twin Transition: Energy and Digital**. With the new **Industrial Plan**, approved by the Board of Directors on 19 March 2024, Terna is ready to meet the challenges posed by this twin transition, with the aim of ensuring a Just Transition that is fair and inclusive for all stakeholders.

The **2024-2028 Industrial Plan** provides for **total capital expenditure of €16.5 billion**, through which Terna will accelerate its commitment to the country's ecological transition, energy independence and decarbonisation, in keeping with the challenging objectives set in the National Integrated Energy and Climate Plan ("PNIEC") and the targets in the EU's Green Deal, which aim to cut greenhouse gas emissions by at least 55% by 2030, compared with 1990 levels.

The key driver in the 2024-2028 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. Terna's capital expenditure, **99%** of which is classified as sustainable based on the **EU Taxonomy**, targets the development of renewable sources. The transmission backbones that transport energy from points of production, which are increasingly located in Italy's southern regions, to where demand is highest in the north of the country, will be boosted by resolving existing issues caused by grid congestion and further development of cross-border interconnections. Thanks to its strategic geographical location, Italy will be able to reinforce its **role as a European and Mediterranean electricity transmission hub**, becoming a leading player at international level.

The Terna Group's development initiatives will focus on two strategic areas: **Regulated Activities in Italy** and **Non-regulated Activities**.

In terms of **Regulated Activities in Italy**, which continue to represent the Group's core business, Terna plans to invest **€15.5 billion** in developing, modernising and strengthening the national transmission grid, enabling the country to fulfil the series of key steps in its energy transition pathway and helping to address the energy trilemma:

- Affordability: increasing interzonal capacity by over 30% to 20 GW, thanks among other things to construction of the Tyrrhenian Link.
- Sustainability: investment will also enable the connection of over 20 GW of RES to the HV grid, contributing to the drive to cut the emissions produced by Italy's electricity generators.
- Security: almost doubling the system's reactive capacity to provide greater stability and resilience on the Italian national grid.

As a result of the planned investment, the **value of the RAB** will exceed **€30 billion in 2028**, with a CAGR of 8% over the life of the Plan. By the end of 2024, the value of the RAB will be €22.5 billion, compared with €20.4 billion at the end of 2023.

In the 2024-2028 Industrial Plan, Terna has targeted increased **investment in development of the national transmission grid**, which is due to total **€10.8 billion**. This is primarily linked to the construction of high-voltage direct current lines with the aim of resolving grid congestion, boosting transmission capacity between the various market areas, fully integrating renewable sources and improving quality of service. This type of investment will also involve the construction of undersea cable connections. The most important project is the Tyrrhenian Link, the power line that will connect Sardinia, Sicily

and Campania and that will contribute to the development of renewable energy production and the phase-out of the most polluting coal- and oil-fired power stations. The other projects include: the Adriatic Link (the submarine connection between the Marche and Abruzzo regions), Sa.Co.I.3 (the interconnector linking Sardinia with Corsica and Tuscany), Elmed (the Italy-Tunisia interconnector), and the 380kV Chiaramonte Gulfi-Ciminna power line in Sicily.

In terms of the Ordinary plan, the primary focus of which is **renewing and improving the efficiency of assets**, covering the reorganisation of existing infrastructure and the replacement of obsolete components, Terna will invest **€2.9 billion**.

Finally, Terna plans to invest a total of **€1.7 billion** in the **Security Plan** over the life of the Plan, with the aim of boosting the system's technical and technological capabilities to increase system functionality.

Non-regulated Activities will help to generate new business opportunities thanks to the development of innovative, digital solutions in keeping with Terna's public service role in supporting the energy transition.

The markets in which the non-regulated businesses operate are undergoing rapid expansion, driven for the most part by trends linked to the energy transition: increased demand for renewable generation plants, the renewal of grids and the growth of new industrial sub-sectors such as data centres and large power consumers.

The Group's Non-regulated Activities include:

- Equipment: businesses focused on guaranteeing supplies of essential components for development of the grid, such as transformers (Tamini) and cables (Brugg).
- Energy Services: activities in markets complementary and adjacent to the core business, such as operation and development services for HV, MV and LV grids and electricity substations for third parties (Terna Energy Solutions and Terna Rete Italia), energy efficiency consulting services (Avvenia) and Operation & Maintenance services for photovoltaic plants (LT Group).
- Connectivity: connectivity offerings for telecommunications providers through the supply of dark fibre and housing services.
- Interconnectors: the installation and operation of interconnecting lines.

The Plan includes a series of initiatives designed to fully exploit the portfolio of businesses, introducing optimisation measures to strengthen financial performance and consolidate market leadership. These actions will aim to maintain the Group's competitiveness with respect to competitors in the Equipment sector and further reinforce its leadership in Energy Services. Terna expects **Non-regulated Activities to contribute** a cumulative total of approximately **€600 million to the Group's EBITDA** over the life of the Plan, in return for limited investment and risk exposure.

For Terna, **digitalisation** is a key pillar of the drive to achieve the country's energy transition goals. In line with this approach, Terna intends to spend almost **€2 billion** on digital technologies. This investment in digitalisation will account for around 13% of total planned capex, in line with the historical approach and in keeping with planned spending on digital technology by our main European competitors and with the International Energy Agency's global projections.

The digital plan aims to further consolidate the importance of digitalisation in supporting the development plan, with a series of ambitious initiatives throughout the value chain. These include:

- Grid engineering, introducing software to digitalise the planning of worksites (Building Information Modelling) and optimise the management of contracts, ensuring the on-time delivery of projects.
- Dispatching will increase the algorithmic capacity of the related systems, harnessing artificial intelligence to boost transmission capacity in line with the transition to renewable energy sources.
- Asset management will maintain the current quality standards despite the expected increase in complexity, harnessing digital technologies such as *digital twins*, the *Internet of Things* (IoT) and predictive tools.

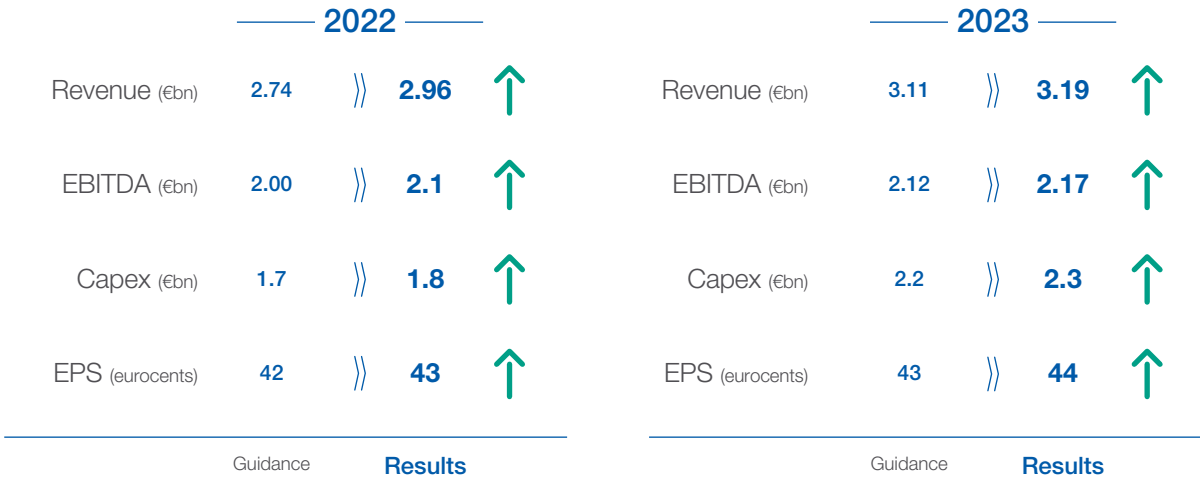
In conclusion, advanced digital solutions will be used to constantly guarantee safety, drive innovation and improve worker efficiency.

Terna's people, with their world-leading technical expertise, are a key asset in enabling the Group to achieve the challenging goals the Group has set itself. The Company's people strategy is based on three key pillars: empowerment, experience and excellence. The Group aims to be people-centric, promoting the development and wellbeing of employees by giving them greater responsibility and through mutual engagement benefitting all parties. Working life will be improved by anticipating change, investing in emerging skills and enabling more effective ways of working, in part by harnessing technology. Furthermore, rewards will be provided for merit to accelerate the organisation's growth and achieve excellent results. The central importance of the Terna Group's people is confirmed by the major acceleration in job creation: over the life of the Plan, **the number of employees is due to rise to over 7,000 by 2028**.

Maintenance of a strong capital structure through robust cash generation will also help to support an attractive dividend policy.

Finally, the Terna Group's ongoing commitment to implementing the Industrial Plan and achieving the related financial targets has enabled the Group to meet and improve on the guidance communicated to the financial markets for 2022 and 2023, offering a solid base from which to achieve the new targets set in the 2024-2028 Industrial Plan.

Guidance and results



Identification and assessment of Industrial Plan risks

To evaluate the solidity and reliability of Terna's Industrial Plan and respond to the needs of the Company's key stakeholders, the Terna Group has adopted a methodology that integrates risk assessment and quantification into the business planning process.

To conduct this activity, the Administration, Finance and Control department uses a tool that assesses the degree to which the Group's risk profile is compatible with its strategic goals. The identification and quantification of risks and opportunities (uncertainties) is applied to the Terna Group as a whole (Regulated, Non-regulated and International activities) and requires the direct involvement of all the relevant departments in the form of specific interviews under a bottom-up approach.

The process requires that, once uncertainties have been identified and quantified, they are managed using a proprietary Monte Carlo simulation model that, starting from the data collected, generates a large number of alternative scenarios based on likely developments in the variables underlying the Industrial Plan. The methodology thus enables the Company to estimate the overall volatility of the financial targets deriving from the occurrence of key risk events and opportunities and to assess the resilience of the Industrial Plan.

2024-2028 Sustainability Plan

< 2-12

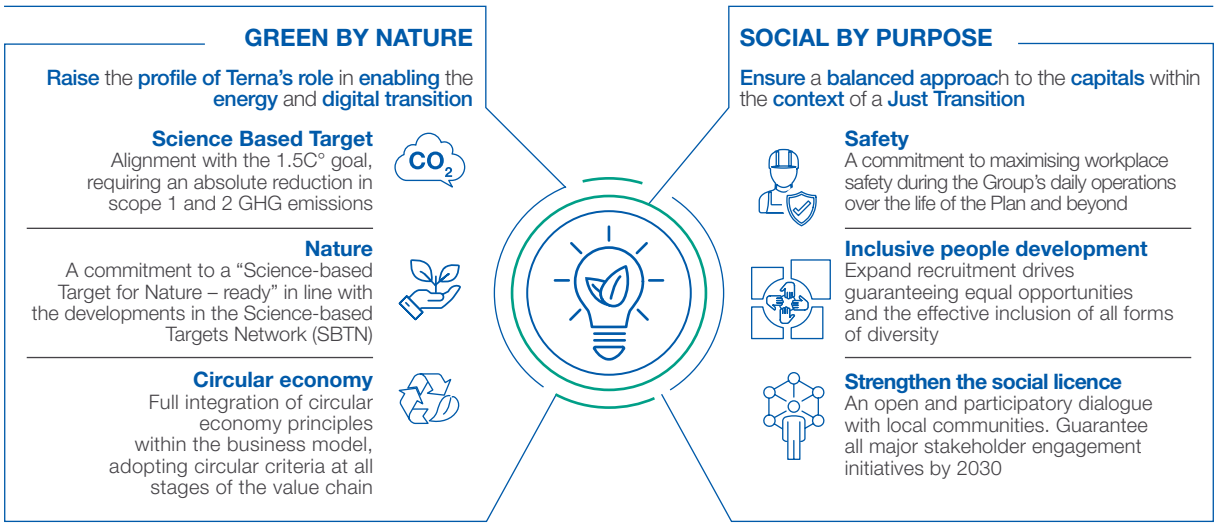
The Group's strategy for the five-year period from 2024 to 2028 is based on a unified vision of its role in serving the country and means that the new Industrial Plan is fully integrated with the Sustainability Plan.

The structure of the Sustainability Plan has been revised with the aim of enhancing the focus on all the ESG goals – with particular attention given to the circular economy and sustainable supply chain strategies – in keeping with the objectives in the Industrial Plan.

The two common threads running through both the Sustainability Plan and the Industrial Plan are linked to environmental and social considerations, shaped by the Group's material topics. These concepts express two of Terna's key characteristics: on the one hand, given its role as a TSO with a vital part to play in delivering the energy transition, thus leaving future generations with a carbon-free environment, sustainability is inherent in the very nature of Terna, making it **"Green by Nature"**; on the other, Terna's businesses are managed in such a way as to ensure the necessary controls and safeguards designed to fully protect the rights and requirements of its stakeholders, with a constant commitment to engagement with local communities. As a result, the Group is sustainable by choice and therefore **"Social by Purpose"**. The elements that make up the two threads - Green by Nature and Social by Purpose – thus indicate that, in delivering on its priority goal of achieving a combined energy and digital transition (the **Twin Transition**), the Company must also take into account the social impacts, raising the Group's ambition and delivering a **Just Transition**.

Achieving an energy and digital transition that is both fair and inclusive is thus, at the same time, the priority goal of the 2024-2028 Sustainability Plan and the Plan's contribution to the Industrial Plan, providing further impetus towards the objective of delivering long-term value and sustainable success.

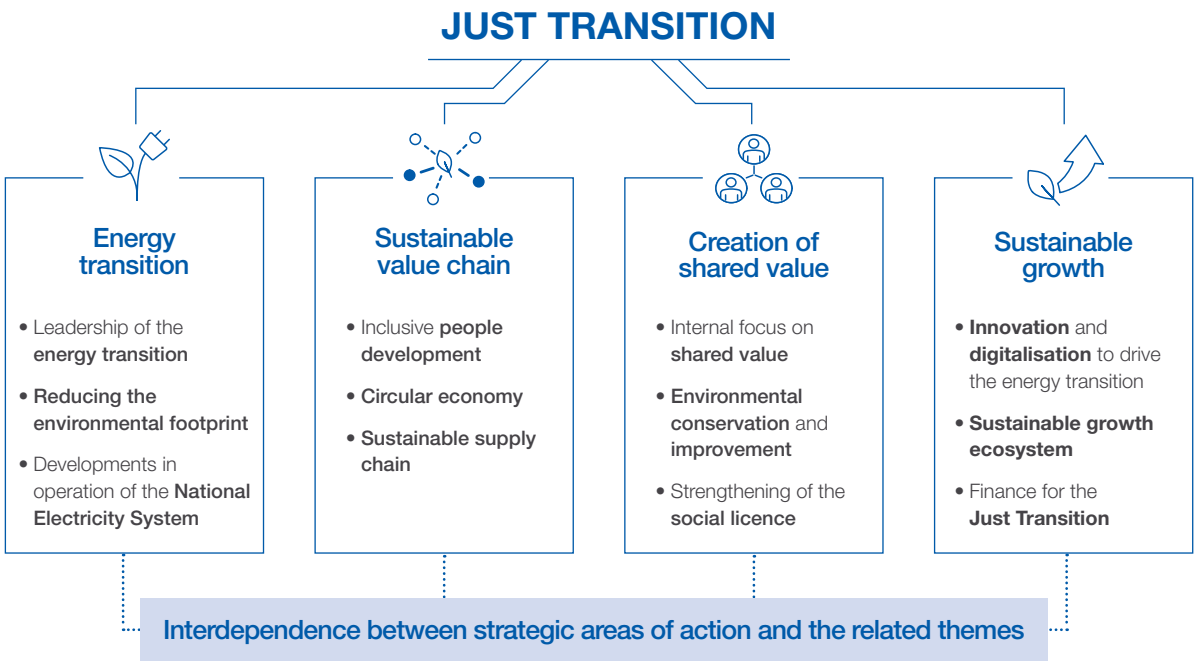
Connection with the 2024-2028 Industrial Plan: the Twin Transition for a Just Transition



The architecture of the new Sustainability Plan, which also takes into account the results of the Materiality Analysis (see page 54), the guidance provided by science and expected developments in the regulatory framework following application of the CSRD, organises the content into:

- pillars;
- strategic areas;
- themes;
- areas of action;
- key activities.

2024-2028 Sustainability Plan: Pillars and Strategic Areas



The Plan is based on four pillars, all defined with a view to delivering the priority goal of a Just Transition and whose content is firmly anchored to the Company's Purpose and the way in which Terna intends to fulfil its role in leading the country's fair and inclusive energy transition.

The pillars are as follows:

- **Energy transition**: this pillar focuses on the delivery of a transition to a new, more sustainable energy paradigm, based on the use of energy from renewable sources. In addition to a progressive reduction in the carbon footprint and in the related CO_2 emissions – needed to limit global warming – this pillar also involves concerns regarding the security of the National Electricity System and, therefore, the country's productive and social system. Natural capital is the most affected, followed by social and relationship capital.
- **Sustainable value chain**: this pillar aims to establish a new value chain, increasingly inclusive and sustainable thanks to the adoption of new approaches to people development and a circular approach in the Group's operational processes , designed to minimise waste and maximise the reuse of resources, including via an increasingly sustainable supply chain. Social and relationship capital is the most affected, followed by the human and natural capitals.
- **Creation of share value**: the aim is to strengthen the business model in terms of sustainability, achieving a balance between profit, safeguards for natural capital and the social licence, based around engagement with and support for the communities affected by Terna's presence and activities. Social and relationship capital is the most affected, followed by the natural and financial capitals.
- **Sustainable growth**: this pillar aims to guarantee sustainable long-trerm growth. This involves innovation and digitalisation focused on the energy transition, the development of an ecosystem and new businesses to support growth and a commitment to financing for a just transition. Intellectual capital is the most affected, followed by the financial and natural capitals.

To provide stakeholders with transparency, the following table shows the KPIs, targets and results for 2023 included in the previous edition of the Plan and published in the 2022 Integrated Report.

Targets and Results 2023

CAPITAL	KPI	2023	
		TARGET	RESULT
HUMAN	Zero fatal accidents (Terna staff)	0	0
	Safety indicator*	≤ 1	0.56
	Number of people trained in the "Energy Transition", "Sustainability" and "New ways of Working" (%)	75	75
	Women as a percentage of the Group's total workforce, excluding blue-collar workers (%)	23	23.3
	Staff with performance evaluation (%)	95	100
SOCIAL AND RELATIONSHIP	The previous KPI expired on 31 December 2019, before being reformulated in 2021 with the first target set for 2025.	=	=
INTELLECTUAL	Product categories ("PG") falling within the type of work requiring obligatory certifications ISO:14001 and OHSAS:18001/45001 (%)	100	100
NATURAL	Km of overhead lines removed/year	73	89
	Km of new underground and submarine lines	158	196
	SF_6 leakage as a percentage of total gas installed	0.45	0.40

(*) The safety indicator is the ratio between the weighted injury rate (weighting: 30%) and lost day weight (weighting: 70%) for the target year and the one for the previous three-year period.

SASB

Innovation strategy

In an expanding and highly complex electricity system, **innovation and digitalisation** play an increasingly important role, forming the two pillars that underpin Terna's growth path.

In line with the role in enabling the energy transition set out in the Company's strategy, for Terna, innovation has the purpose of developing new solutions to respond to the growing challenges connected with the achievement of European and national targets.

To fulfil these objectives, the Terna Group is open to new forms of development and partnership with the outside world, with a view to creating interactions with the different actors in the innovation ecosystem and investing in technology initiatives of most value to the Company and for Italy's electricity and energy system. In this broad context, Terna has embraced the **Open Innovation** model, based on the productive, continuous exchange of ideas with internal and external parties in accordance with a **concrete, open, inclusive and distributed approach that meets the innovation needs identified with the aim of developing, protecting and exploiting the Group's expertise and intellectual property**.

Based on their potential impact on the business, **four key innovation missions** have been identified with the aim of shaping the future of the Terna Group and of the electricity system within the context of the transition:

- **Managing uncertainty:** solutions that enable the Group to manage development of the electricity system and changes in the factors that affect it (climate change and economic, technological and regulatory factors), ensuring the growing integration of renewable sources, involving a degree of uncertainty by nature.
- **Copper plate grid:** technologies to boost and develop grid sustainability and efficiency and develop solutions capable of improving the performance and resilience of transmission assets.
- **Fully efficient and 0 risk maintenance:** technologies that reduce risks and improve operational performance, including through the automation and digitalisation of processes.
- **Humancentric Corporation:** solutions that take a people-centric approach to promoting safety, wellbeing and health and that help to ease the switch to new ways working.

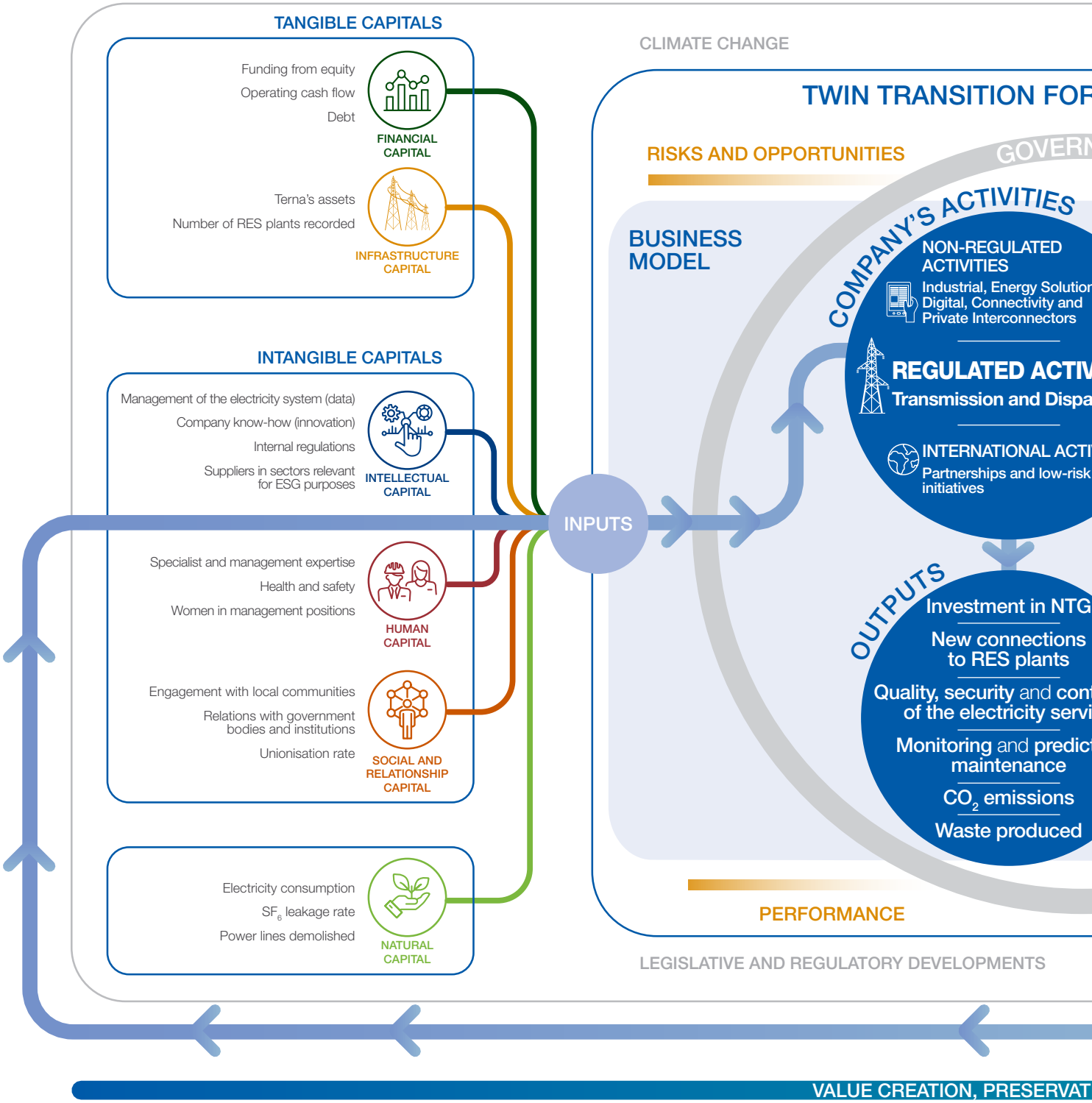
In line with Terna's role, innovation also focuses on a **fifth mission: Sustainability and the Energy Transition**.

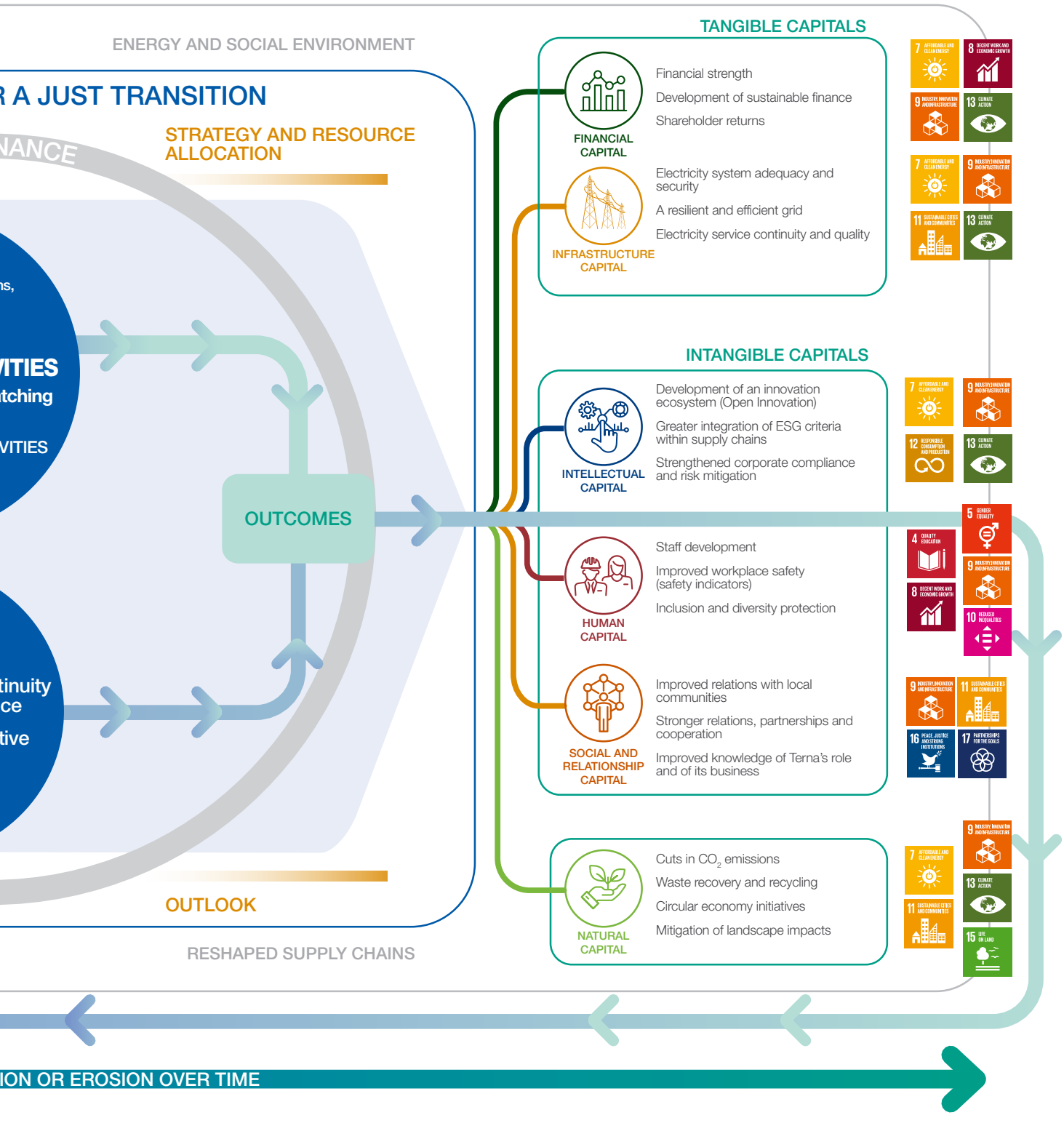
To fulfil these missions, the Ideas&Solutions scouting channels enable the Group to identify technologies that meet internal innovation needs and, at the same time, strengthen development activities during the Proof-of-Concept[34] and Demonstrator[35] stages and speed up the development of solutions.

[34] *Proof of concept*: evidence, typically deriving from an experiment or pilot project, which demonstrates that a design concept or business proposal is feasible;
[35] *Demonstrator:* a real-size model designed to become the basis for mass production, built during the last phase of a trial to demonstrate how the product performs in an operating environment.

In addition to consolidating the innovation model, at the end of 2022 the Terna Group created a further important asset to help it fulfil its ambitions, above all with regard to the "Sustainability and the Energy Transition" mission. November 2022 saw the establishment of Terna Forward S.r.l., a vehicle set up to accelerate the most disruptive initiatives capable of having a major impact on the Terna Group, in part through Corporate Venture Capital's investments.

The value creation process




ENERGY AND SOCIAL ENVIRONMENT
R A JUST TRANSITION
STRATEGY AND RESOURCE ALLOCATION
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OUTCOMES
OUTLOOK
RESHAPED SUPPLY CHAINS
TANGIBLE CAPITALS
FINANCIAL CAPITAL
Financial strength
Development of sustainable finance
Shareholder returns
INFRASTRUCTURE CAPITAL
Electricity system adequacy and security
A resilient and efficient grid
Electricity service continuity and quality
INTANGIBLE CAPITALS
INTELLECTUAL CAPITAL
Development of an innovation ecosystem (Open Innovation)
Greater integration of ESG criteria within supply chains
Strengthened corporate compliance and risk mitigation
HUMAN CAPITAL
Staff development
Improved workplace safety (safety indicators)
Inclusion and diversity protection
SOCIAL AND RELATIONSHIP CAPITAL
Improved relations with local communities
Stronger relations, partnerships and cooperation
Improved knowledge of Terna's role and of its business
NATURAL CAPITAL
Cuts in CO_2 emissions
Waste recovery and recycling
Circular economy initiatives
Mitigation of landscape impacts
ION OR EROSION OVER TIME

2-6 >

Terna's value creation

This Report describes Terna's ability to create value over time through implementation of a **sustainable business model** based on the interaction between the **capitals** available to the organisation and whose correct functioning is monitored, measured and reported on, using specific financial, operational, social and environmental indicators.

Terna's process for creating value over time[36] is shaped by a form of **governance** that targets sustainable success through the definition of a solid medium- to long-term **strategy**, based on the **2023 Development Plan** and the **2024-2028 Industrial Plan**, with the aim of delivering an energy and digital transition that takes into account the impact on society (a **just transition**). The other key elements that will contribute to fully achieving this strategic goal are the correct **allocation of resources**, which Terna manages by focusing its investment on the efficiency and resilience of the national transmission grid (NTG) and the assessment and management of the financial and ESG **risks** connected with the business and the related potential **opportunities**.

Terna's business model is divided into three separate lines of business (Regulated Activities, Non-regulated Activities and International Activities). These correspond with the core business (Electricity Transmission and Dispatching) and the two complementary deregulated areas of operation, consisting of the design, engineering, operation and maintenance of energy market solutions (Non-regulated Activities) and the development of partnerships and projects with a low risk profile (International Activities).

The **capitals** represent the key resources at Terna's disposal to create and preserve value over time through their continual combination and interaction, both within the Company and with the outside world, including in the latter the legitimate needs and expectations of stakeholders. The capitals thus play a key role in the value creation process, representing, at one and the same time, **inputs** that can be measured from one year to another (on the left side of the infographic), **outputs** representing the results in terms of the organisation's products, services, by-products and waste[37] (at the centre of the infographic) and **outcomes**, representing their ability to grow or change or to contribute to the achievement of the objectives set by the Company in its strategic plans (on the right).

This representation is the most effective response to demand for reporting that is not just aimed at financial stakeholders, who are quite legitimately focused on making a return on their investment, but at all the others, who are increasingly concerned by social and environmental issues. To further help readers of the Report, at the beginning of each section a table providing a summary of the inputs, outputs and outcomes relating to the main activities dealt with in each section, quantifying the content of the value creation process.

Benchmark SDGs

For Terna, the United Nations' Sustainable Development Goals ("SDGs"), forming the heart of the 2030 Agenda, provide a series of benchmark values, with SDGs 7 (Affordable and clean energy), 9 (Industry, innovation and infrastructure) and 13 (Climate action) fully aligned with the Company's mission and strategic objective of achieving a *just transition*. SDG 17 (*Partnership for the goals*), meanwhile, provides further impetus for accelerating delivery of this objective. The SDGs also summarise the coherency of Terna's value creation process with the aim of delivering sustainable success, the operating results of which are measured through specific indicators referred to throughout the Report.

[36] Terna has adopted the principle-based framework proposed by the International Integrated Reporting Council ("IIRC"). The guiding principles are: (1) Strategic focus and future orientation, (2) Connectivity between information, (3) Stakeholder responsiveness, (4) Materiality, (5) Conciseness, (6) Reliability and completeness, (7) Consistency and comparability. These form the basis of the framework. Their almost total coincidence with the guiding principles in the GRI standard 101 – Foundation setting out the content of quality ESG reporting further strengthens the structure of this Report.

[37] https://www.integratedreporting.org/wp-content/uploads/2021/09/IRFRAMEWORK_ITALIANO.pdf

Terna's benchmark SDGs

Ensure access to affordable, reliable, sustainable and modern energy for all.

Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.

Take urgent action to combat climate change and its impacts.

Strengthen the means of implementation and revitalise the global partnership for sustainable development.

The changed socioeconomic environment, in recent years heavily impacted at global level by the effects of a series of events such as the Covid-19 pandemic and the high inflation and energy crisis caused by the conflicts in Ukraine and the Middle East, has, on the one hand, made it even more urgent to fully deliver the energy transition – also in terms of making Italy fully energy independent and secure – and, on the other, redefined it scope by including considerations relating to social equity and inclusion.

In other words, it is necessary for the path to decarbonisation to coincide with a restart of economies based around inclusive and resilient models. This must also take into account social aspects, with priority given to the need to combat the progressive erosion of social cohesion and, more generally, respect for human rights.

Taken as a whole, the SDGs are also a clear benchmark from an operational standpoint to which Terna refers in carrying out its activities. The SDG's steer Terna towards achieving environmental objectives (e.g., efficient use of natural resources, respect for the environment, life under water, reduction of CO_2 emissions, the reduction and recycling of waste), social objectives (quality education, respect of human rights and gender equality) and good governance objectives (fighting corruption and transparent reporting).

In this sense, Terna also strives to achieve SDGs 4 (Quality education), 5 (Gender equality), 8 (Decent work and economic growth), 10 (Reduced inequalities), 11 (Sustainable cities and communities), 12 (Responsible consumption and production), 14 (Life under water), 15 (Life on land) and 16 (Peace, justice and strong institutions).

Benchmark SDGs for the management of Terna's activities

Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

Reduce inequity within and among countries.

Conserve and sustainably use the oceans, seas and marine resources for sustainable development.

Achieve gender equality and empower all women and girls.

Make cities and human settlements inclusive, safe, resilient and sustainable.

Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

Ensure sustainable consumption and production patterns.

Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

Materiality analysis

The Materiality Analysis is the tool used over the years to guide the reporting process – as one of the guiding principles adopted in the leading international reporting standards and in Legislative Decree 254/2016, which introduced the "Consolidated non-financial statement" ("NFS") – and is one of the inputs into the planning of sustainability initiatives.

In keeping with the approach adopted in previous years, in addition to analysing the **significance of topics**, the analysis conducted in 2023 also **assessed the Group's impacts**, including in terms of the dual effects referred to in the **Double Materiality** principle.

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Analysis of the significance of topics

The analysis of the significance of topics for 2023 was carried out as follows:

- in updating the **significance for Terna** aspect, in keeping with the form of engagement used in previous years, an online questionnaire was distributed to the Group's second line managers. The results were then weighted against the outcome of an assessment of internal documents and the results of the analysis of significance conducted in 2022;
- with regard to the **significance for stakeholders** aspect, the results were obtained via an online survey to be completed by the main categories of stakeholder affected by the Group's activities. In keeping with the decision to extend the range of stakeholders surveyed in 2022, the 2023 survey also broadened the stakeholder categories engaged with, in accordance with the updated Stakeholder Management Framework. The results of the survey were then combined with an assessment of internal documents representing stakeholder priorities and key sustainability trends before being weighted against the results of the analysis conducted in 2022.

In line with previous surveys, the analysis pointed to five **topics considered most of very high significance: Delivering the energy transition; Quality, security and continuity of the electricity service; Workplace health and safety and workers' rights; Grid resilience and the Environmental impact of electricity infrastructure on local areas**, topics that are peculiar to the sector in which Terna operates. Topics of high significance were again those that are unavoidable for a company's sustainability and that cut across different sectors of business such as, for example: **Innovation and digitalisation; Business integrity; Promoting the circular economy; Reducing the Group's CO_2 emissions; HR development and wellbeing and Protecting biodiversity**. The following table shows the complete list of material topics associated with the capitals and the main Sustainable Development Goals (SDGs).

< 3-2

CAPITAL	MATERIAL TOPIC	SDGs
FINANCIAL	Economic impacts on the community	
INFRASTRUCTURE	Delivering the energy transition	
	Quality, security and continuity of the electricity service	
	Grid resilience	
INTELLECTUAL	Governance model effectiveness	
	Cybersecurity and protecting privacy	
	Sustainable supply chain	
	Innovation and digitalisation	
HUMAN	Workplace health and safety and workers' rights	
	HR development and wellbeing	
	Advancement of inclusion and diversity	
SOCIAL AND RELATIONSHIP	Business integrity	
	Management of stakeholder relations	
NATURAL	Environmental impact of electricity infrastructure on local areas	
	Protecting biodiversity	
	Reducing the Group's CO_2 emissions	
	Promoting the circular economy	

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Impact assessment

In keeping with the Materiality Analysis conducted in 2022, in addition to analysing the significance of topics, the updated materiality analysis for 2023 also involved an **assessment of the impacts on stakeholders and the environment generated by the Group**, based on an **"inside-out"** perspective (also known as "impact materiality").

In line with last year, due diligence of the Terna Group's impacts was conducted using the "**Impact assessment tool**" (a tool used since the materiality analysis of 2021 and further perfected for the analysis in 2022). The identified impacts were assessed based on the **parameters indicated in GRI 3** ("likelihood"; "scope"; "scale" and "irremediable character"), also bearing in mind the relationship of each impact with any **human rights** (as regards negative impacts) and the **SDGs** (as regards positive impacts). In addition to documentary due diligence, the analysis also included a stakeholder engagement phase, in line with last year consisting of a **section involving an online survey** and the organisation of **focus groups**. In aiming to assess impacts, these meetings are also designed to investigate the best interpretation of the scales recommended by the standard setter and also involved personnel who are experts in the Group's material topics. The in-depth analysis regarded the impacts relating to a series of stakeholder categories, also focusing on the stakeholders most affected by the Just Transition (employees, local communities, suppliers and the wider community).

The outcomes of each activity were then processed and aggregated with the inputs of the Impact Assessment Tool.

The results of these three assessment tools were then aggregated to rank topics based on the significance of the related impacts. The following table shows materials topics, the most significant impacts, the stakeholder categories involved and the related objectives set by Terna.

3-3 >

MATERIAL TOPIC	IMPACT	MAIN STAKEHOLDERS	MANAGEMENT TOOLS AND OBJECTIVES (page references)
Quality, security and continuity of the electricity service	The impact in a positive sense regards guaranteed quality of service, the resulting minimisation of disruption thanks to the adequacy of the grid and the implementation of prevention and management systems. In a negative sense, it takes into account the potential for greater disruption (e.g., congestion) linked to inadequacy of the grid.	- Community - Local communities - Regulators of concessions - Electricity service operators	136; 38
Delivering the energy transition	The impact may, on the one hand, regard a reduction in greenhouse gas emissions thanks to growth in the connection of RES plants, whilst on the other below-target growth in renewable production may result in delays in the phase-out of fossil fuel plants.	- Community - Electricity service operators - Suppliers	24; 38; 10; 42
Grid resilience	Terna's actions can ensure that disruption for stakeholders is minimised through an investment plan able to guarantee adequacy of the grid, without which the increase in disruption would have a major impact on the community.	- Community - Local communities - Electricity service operators	121; 36; 136
Environmental impact of electricity infrastructure on local areas	Terna's focus on the environmental impact of its assets can help in convincing local communities to accept its presence. A lack of commitment to limiting impacts on the environment and the landscape could, on the other hand, spread discontent among local stakeholders, also causing a slowdown in the delivery of projects.	- Local communities - Community - Credit providers - Suppliers - Business partners	259; 296; 47
Workplace health and safety and workers' rights	Controls and the promotion of an HSE culture can minimise injuries and have a beneficial effect on the psychological and physical wellbeing of workers. In contrast, a lack of attention to the issue could instead lead to an increase in the injury rate and the spread of ill-feeling linked to work-related stress.	- The organisation's people - Suppliers - Business partners	241; 208; 245

In accordance with EU guidelines and in anticipation of the obligation due to come into effect for the 2024 annual reporting period, since last year, in addition to conducting an assessment focusing on the impacts on stakeholders and the environment (the "inside-out" perspective), Terna has decided to carry out an assessment that also takes account of the "**outside-in**" perspective (also known as "financial materiality"), examining the elements of sustainability capable of generating impacts in terms of risks and opportunities for the Group, framing the ESG issues connected with the Group's material topics based on a two-way approach.

The outside-in impact assessment also made use of the impact assessment tool, based on the **criteria indicated by EFRAG** ("likelihood" and "potential impact"), also taking into account their relationship with the first 10 risks identified by the Global Risk Report 2024 published by the World Economic Forum. The analysis again considered the results of the **section of the online survey focusing on the impacts** and the inputs resulting from the organisation of **focus groups**, involving expert personnel, designed to assess the impact of ESG issues on the Company from the viewpoint of credit providers and investors.

Looking individually at the outcomes of the outside-in perspective, the material topics with the greatest ability to have a positive or negative impact on the Group are: **Delivering the energy transition; Quality, security and continuity of the electricity service; Grid resilience; Management of stakeholder relations and the Environmental impact of electricity infrastructure on local areas**.

Considering the **overall results** of the two **inside-out and outside-in assessments**, the following table shows the aggregated results, ranking topics based on the significance of the related impacts **under a Double Materiality approach**. The results of the impact assessment do not differ significantly from those of the materiality analysis.

MATERIAL TOPICS
Quality, security and continuity of the electricity service
Delivering the energy transition
Grid resilience
Environmental impact of electricity infrastructure on local areas
Workplace health and safety and workers' rights

Ownership structure 62

Structure of the Group 64

Corporate governance and sustainable success 68

The remuneration system 82

Risk management 84

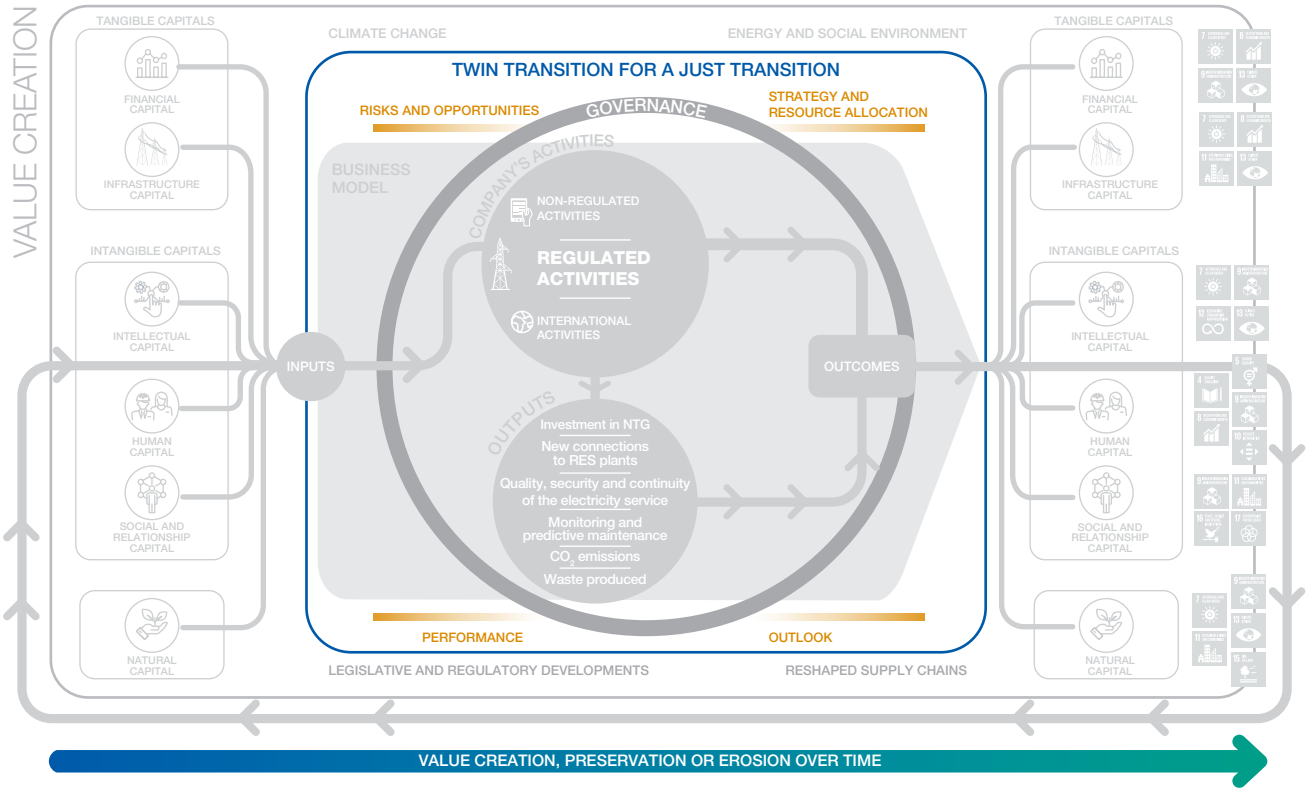
2

Corporate governance, risk management and opportunities

In this section

The way the Group's structure has developed, with an increasingly clear focus on the Group's strategic objectives, and the constantly growing proportion of shareholders who invest on the basis of an assessment of the Group's ESG performance clearly delineate the Terna Group's role: to bring about an energy and digital transition that is also fair and inclusive (a just transition) and that not only benefits Italy but also the planet.

Corporate governance has a decisive role to play in this sense, as it focuses on the creation of value over time through an ethical approach to doing business and the prudent assessment and management of risk – including ESG risks, above all those linked to climate change – and the associated new opportunities, in terms of both business and reinforcing the Group's reputational capital.



This infographic highlights the topics dealt with in this section with the aim of **facilitating information connectivity**: in this way, the section offers an overall view showing the links between all the factors that influence Terna's ability to create value over time.

2-1 >

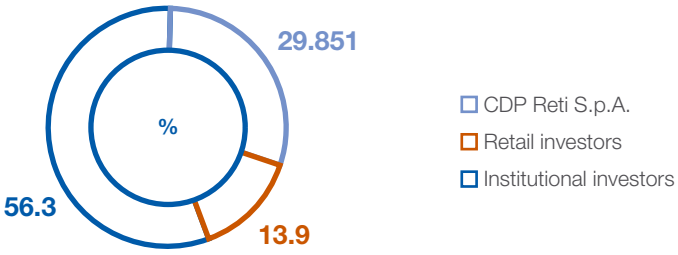
Ownership structure

At the date of preparation of this report, **Terna's share capital amounts to €442,198,240**, comprising 2,009,992,000 fully paid-up ordinary shares with a par value of €0.22 each.

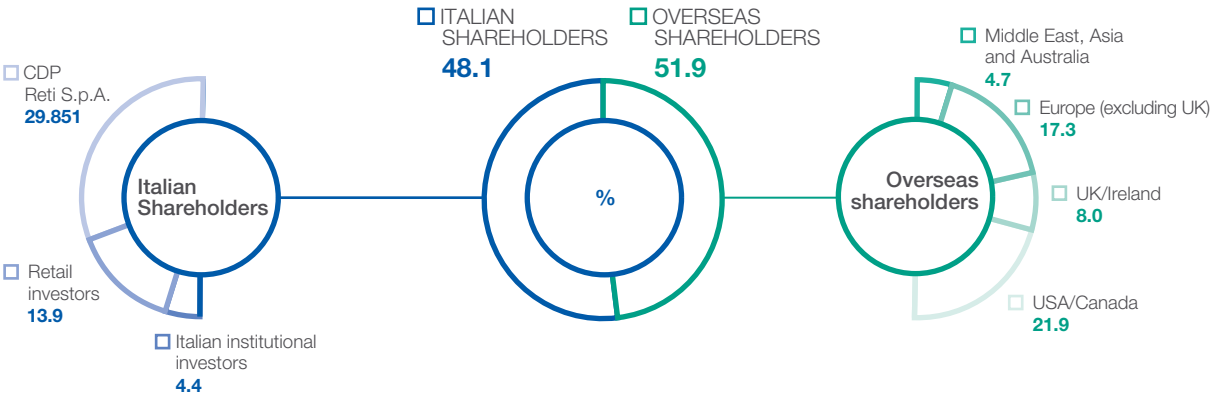
Based on periodic surveys carried out by the Company, it is estimated that 48.1% of Terna's shares are held by Italian shareholders, with the remaining 51.9% held by overseas institutional investors, primarily from Europe (not UK) and the USA.

Based on information from the shareholder register and other data collected in February 2024, Terna's shareholder structure breaks down as follows.

Shareholders by category



Shareholders by geographic area and category



The Parent Company's buyback of **917,611 own shares** (equal to 0.046% of the share capital) was completed in July at a cost of €6,999,997. The shares will be used to service the new Performance Share Plan 2023-2027.

Major shareholders[38]

CDP RETI S.p.A.[39] **29.851%**

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

BLACKROCK INC. **5.082%**

(investment management company headquartered in New York. Major shareholder from February 2024[40])

SRI investors

At the end of 2023, 178 socially responsible investors (SRIs) had invested in Terna's shares using an approach that takes into account ESG (Environmental, Social, Governance) aspects (173 in 2022 and 161 in 2021). Overall, at the end of 2023, SRIs represented 24.2% of Terna's free float (20.4% in 2022 and 18.8% in 2021) and 30.1% of the capital held by identifiable institutional investors (26.1% at the end of 2022 and 25.2% in 2021).

Terna has adopted a policy that provides for the payment of dividends twice a year.

The interim dividend for 2023 amounted to 11.46 eurocents (payable from 22 November 2023), whilst the Board of Directors will propose payment of a final dividend of 22.50 eurocents at the Annual General Meeting to be held on 10 May 2024. Further information on the dividend history is available on the website at www.terna.it.

Information on the ownership structure, restrictions on the transfer of shares, securities that grant special rights, and restrictions on voting rights, as well as on shareholder agreements, is provided in the "Report on Corporate Governance and Ownership Structures" for 2023. This is published together with the Annual Financial Report of Terna and the Terna Group and is available in the "Sistema di Corporate Governance – Governance Report" section of Terna's website.

[38] Shareholders who, based on the available information and notifications received from the CONSOB, own interests in Terna S.p.A. that are above the notifiable threshold established by CONSOB Resolution 11971/99 and Legislative Decree 58/98, as amended.
[39] On 27 November 2014, a shareholder agreement was entered into by Cassa Depositi e Prestiti S.p.A. (CDP), on the one hand, and State Grid Europe Limited (SGEL) and State Grid International Development Limited (SGID), on the other, in relation to CDP Reti S.p.A., SNAM S.p.A. and Terna S.p.A.. This was later amended and supplemented to extend the scope of the agreement to include Italgas S.p.A..
[40] CONSOB Communication of 6 February 2024.

Structure of the Group

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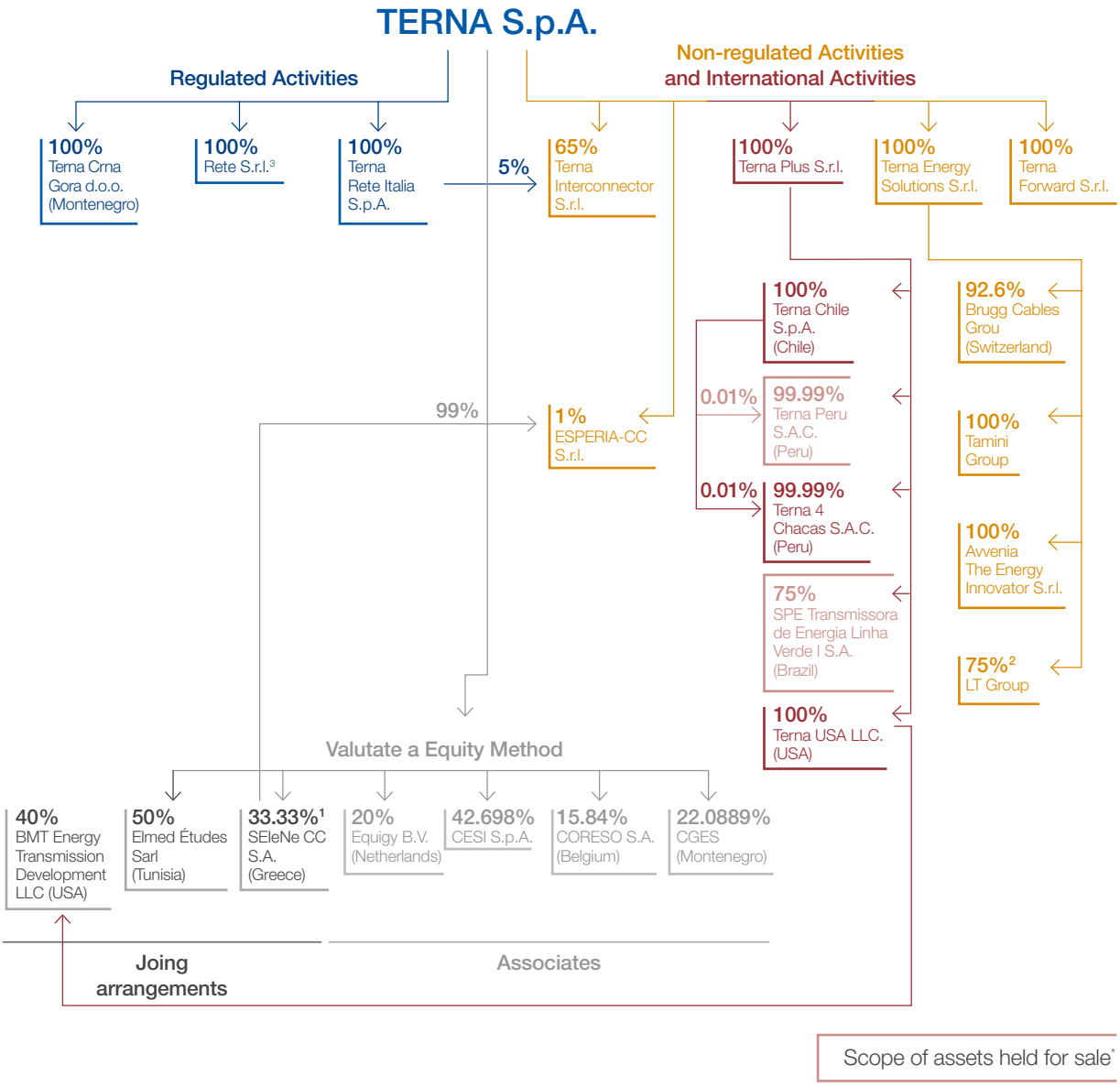
2-2 > In line with the role of enabler of the current energy and digital transition, the structure of the Group reflects a series of changes at 31 December 2023. These are described in the following notes.



** Companies involved in the planned sale of subsidiaries operating in Latin America, classified as assets held for sale.*

Compared with 31 December 2022:

[1] 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%.

[2] 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.

[3] 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.

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Parent Company

COMPANY	WORKFORCE AND REVENUE
Terna S.p.A.	Employees: **1,143** Ricavi: **€2,634.8m**

Subsidiaries with Regulated Activities

COMPANY	WORKFORCE AND REVENUE	BUSINESS
Terna Rete Italia S.p.A.	Employees: **3,633** Revenue: **€477.3m**	All regulated activities related to operation, routine and extraordinary maintenance, management and development of the NTG.
Rete S.r.l.	Employees: **-** Revenue: **€144.0m**	Acquired in 2015 from Ferrovie dello Stato Italiane (Italian State Railways) group, the company owns approximately 8% of the NTG infrastructure.
Rete Nord S.r.l.	Employees: **-** Revenue: **€0.8m**	This company, which was acquired and merged in 2023, owns two electricity substations and approximately 70 km of circuits (equivalent to approximately 36 km of power lines) in Alto Adige already forming part of the National Transmission Grid.
Terna Crna Gora d.o.o. *Incorporated under Montenegrin law*	Employees: **10** Revenue: **€15.7m**	Management of construction of the Italy-Montenegro interconnector, on the Montenegrin side.

Subsidiaries with Non-regulated Activities

COMPANY	WORKFORCE AND REVENUE	BUSINESS
Terna Energy Solutions S.r.l.	Employees: **79** Revenue: **€44.8m**	Development of new activities and business opportunities in the Italian non-regulated market.
Gruppo Tamini	Employees: **355** Revenue: **€177.4m**	Production and marketing of industrial and power transformers.
Avvenia The Energy Innovator S.r.l.	Employees: **13** Revenue: **€1.7m**	Implementation of energy efficiency projects, including via EPC (Energy Performance Contract) solutions.
Terna Interconnector S.r.l.	Employees: **-** Revenue: **€0.8m**	Development and construction of private infrastructure for interconnections with other countries.
Gruppo LT	Employees: **188** Revenue: **€107m**	Design, construction and maintenance of renewable power plants.
ESPERIA-CC S.r.l.	Employees: **-** Revenue: **€2.1m**	Services for calculating electricity transmission capacity to allocate in the energy markets. Provision of studies, analyses, data, research and services in the role of Regional Security Coordinator or Regional Coordinator Center, including the coordination of security assessments.
Gruppo Brugg Cables *Incorporated under Swiss law*	Employees: **457** Revenue: **€244.8m**	Design, development, production, installation and maintenance of terrestrial electric cables and accessories for high-voltage cables.
Terna USA LLC	Employees: **1** Revenue: **-**	Design, development and construction of major electricity transmission infrastructure projects in the United States.
Terna Forward S.r.l.	Employees: **-** Revenue: **€0.4m**	Development of new technological solutions for the Terna Group.

Subsidiaries with International Activities

COMPANY	WORKFORCE AND REVENUE	BUSINESS
Terna Plus S.r.l.	Employees: **13** Revenue: **€0.9m**	Development of new activities and business opportunities in the non-regulated international market.
Terna Chile S.p.A. *Incorporated under Chilean law*	Employees: **-** Revenue: **-**	Management of activities involved in the design, construction and maintenance of electricity infrastructure.
Terna Peru S.A.C. *Incorporated under Peruvian law*	Employees: **3** Revenue: **€1.5m**	Management of activities involved in the design, construction and maintenance of electricity infrastructure.
Terna 4 Chacas S.A.C. *Incorporated under Peruvian law*	Employees: **-** Revenue: **€0.1m**	Construction for the Parish of San Martàn Papa de Chacas in Peru, of a power line in the city of San Luis and the supply of a number of components to be used in the construction of a substation.
SPE Transmissora De Energia Linha Verde I S.A. *Incorporated under Brazilian law*	Employees: **32** Revenue: **€34.2m**	Management of activities involved in the design, construction and maintenance of electricity infrastructure.
Terna USA LLC *Incorporated under US law*	Employees: **1** Revenue: **-**	Overseeing development of the business in North America and exploitation of Terna's industrial expertise, above all in the delivery of major projects.

Associates or joint arrangements[41]

COMPANY	WORKFORCE AND REVENUE	BUSINESS
CESI S.p.A.	Employees: **826** Revenue: **€165.3m**	Pure and applied scientific research aimed at making advances in the electro-technical, energy, electronic and IT sectors.
CORESO S.A. *Incorporated under Belgian law*	Employees: **87** Revenue: **€26.4m**	Management of daily forecasting and real-time analysis of energy flows in central and western Europe, identifying possible critical issues and promptly informing the TSO concerned.
CGES[42] *Incorporated under Montenegrin law*	Employees: **316** Revenue: **€120.5m**	TSO for Montenegro's electricity market. Investment acquired as part of the Italy-Balkans interconnector project.
Elmed Études Sarl *Incorporated under Tunisian law*	Employees: **2** Revenue: **-**	Jointly controlled by Terna and the Tunisian company, STEG, the company is engaged in carrying out preparatory studies for construction of the infrastructure required to connect the Tunisian and Italian electricity systems.
SEleNe CC S.A. *Incorporated under Greek law*	Employees: **30** Revenue: **€3,036.6m**	The Company's objective is to enhance the secure supply of electricity in markets adhering to the relevant European Regional Initiative.
Equigy B.V. *Incorporated under Dutch law*	Employees: **13** Revenue: **€5.7m**	Management of a blockchain platform to foster the inclusion of new flexible resources in the system services market.
BMT Energy Transmission Development LLC *Incorporated under US law*	Employees: **N.D.**[43] Revenue: **N.D.**	Development and management of activities in the United States, in the field of electrical transmission networks.

[41] The figures refer to 2022 and the latest approved financial statements.
[42] In full, "Crnogorski Elektroprenosni Sistem Ad".
[43] Data not available as the company was established in 2022.

Corporate governance and sustainable success

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Terna plans, manages and monitors all of its activities, paying close attention to their possible economic, social and environmental impact by embedding sustainability in its approach to business. In line with the principles of the "Corporate Governance Code", which assigns the Board of Directors, among others, the task of promoting "in the most appropriate manner, dialogue with shareholders and other stakeholders relevant to the Company", Terna adopts all the best tools to create, maintain and consolidate a relationship of mutual trust with its stakeholders, which is instrumental in creating value for the Company, society and the environment. The values underpinning Terna's approach to sustainability are set out in the Code of Ethics and are given substance in its mission, which in turn is aligned with the United Nations SDGs (Sustainable Development Goals), above all Goals 7 ("Affordable and clean energy"), 9 ("Industry, innovation and infrastructure"), 13 ("Climate action") and 17 ("Partnerships for the goals"), which define responsibilities and objectives in keeping with the Terna's role in enabling the Italian energy system and the Company's energy transition.

Sustainable success in the Corporate Governance Code

Sustainable success is the objective that guides the Board of Directors' actions and takes shape in the **creation of long-term value for the benefit of shareholders, taking into account the interests of other stakeholders relevant to the Company**.

The Board **leads** the Company pursuing **sustainable success**

The Chairman also promotes induction activities also **with a view** to **achieving the Company's sustainable success**

The **remuneration policy is key** to **the pursuit** of the Company's **sustainable success**

The internal control and risk management system is made up of the set of rules, procedures and organisational structures designed to effectively and efficiently identify, measure, manage and monitor the main risks, **to contribute to the Company's sustainable success**

Corporate governance system

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< 2-12

The corporate governance system has been designed with the aim of creating value for shareholders, whilst recognising the social importance of what the Group does. Promoting collaboration and listening in order to tackle future challenges and apply a culture of responsibility are the underlying principles of the Terna's approach.

The governance system is broadly aligned with the principles contained in the Corporate Governance Code for listed companies, which Terna adhered to on 27 January 2021, with the related recommendations published by the CONSOB and, more generally, with the international best practices used by the Company as benchmarks.

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The Annual General Meeting of shareholders held on 9 May 2023 elected Terna S.p.A.'s current Board of Directors, to consist of 13 members, whose term of office will end with approval of the financial statements for the year ended 31 December 2025.

< 2-13

On 9 May 2023, the Board of Directors nominated the Chief Executive Officer, and assigned her the relevant powers, defining the content, limitations and the manner in which they may be exercised. The Board of Directors' activities are coordinated by the Chairman, with support provided by the Secretary.

From 2004, in compliance with the self-regulatory regulations currently in force, and in implementation of the provisions of CONSOB Regulation no. 17221 of 2010 "Related Party Transactions" and the related procedure adopted, the Company has established the following Board Committees:

- Nominations Committee;
- Remuneration Committee;
- Related Party Transactions Committee;
- Audit and Risk Committee.

With a view to continuously improving the corporate governance system, the Board of Directors subsequently extended the powers of the Audit and Risk Committee, by adding competences relating to the corporate governance system and sustainability.

On 9 May 2023 - following the re-election of the Board of Directors by the Annual General Meeting of the Company's shareholders held on the same date - the Board of Directors reassigned various tasks relating to the Board Committees, maintaining the topic of sustainability within the Audit and Risk Committee, in line with the term of office of the previous Board, and entrusting corporate governance matters to the Nominations Committee, which was also assigned tasks relating to strategic scenarios.

The current Board of Directors includes the following Board Committees, all of which conduct reviews, make recommendations and provide advice, in order to ensure effective performance of the Board's functions:

- Remuneration Committee;
- Audit, Risk and Sustainability Committee;
- Nominations, Governance and Scenarios Committee;
- Related Party Transactions Committee.

Corporate bodies

Board of Directors	**Chairman** Igor De Biasio **Chief Executive Officer** Giuseppina Di Foggia	**Directors** Marco Giorgino Karina Audrey Litvack Jean-Michel Aubertin Anna Chiara Svelto Francesco Renato Mele Qinjing Shen	 Regina Corradini D'Arienzo Angelica Krystle Donati Enrico Tommaso Cucchiani Gian Luca Gregori Simona Signoracci
Board of Statutory Auditors	**Chairman** Mario Matteo Busso	**Standing auditors** Lorenzo Pozza Antonella Tomei	**Alternates** Lucrezia Iuliano Antonello Lillo Barbara Zanardi
Independent auditors	Deloitte & Touche S.p.A.		
Manager responsible for financial reporting	Francesco Beccali		

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COMPOSITION OF THE BOARD OF DIRECTORS AT 19 MARCH 2024[44]

	UNIT	
Men	%	53.85
Women	%	46.15
Under 30	%	-
Between 30 and 50	%	23.08
Over 50	%	76.92

Aspects worthy of note include:

- the high level of attendance of Directors at Board meetings and Board Committee meetings;
- the presence of sustainability goals in the remuneration packages of the Chief Executive Officer and senior management;
- the close attention paid to ESG matters during both meetings of the Audit, Risk and Sustainability Committee and the Remuneration Committee and during specific induction sessions for the Board of Directors as a whole.

Further information on Terna's corporate governance may be found in the "Report on Corporate Governance and Ownership Structures", approved by the Board of Directors on 19 March 2024 and available in the "System of Corporate Governance – Governance Report" section of Terna's website, and in the "Remuneration Report", also available on Terna's website.

[44] Further details of Terna S.p.A.'s corporate governance is provided in the "Report on Corporate Governance and Ownership Structures" published on the website.

Aspects of the board of directors' activities

Engagement policy

The Corporate Governance Code recommends the Board of Directors to promote, in the most appropriate forms, dialogue with shareholders and other stakeholders relevant to the Company with a view to raising the level of transparency and fostering the creation of long-term value. In implementation of this recommendation, the Company's Board of Directors adopted the "Policy for engagement with the generality of shareholders and other stakeholders of Terna S.p.A."

The Policy: (i) identifies and describes the ordinary channels of direct and continuous communication and information between the Company, shareholders and other stakeholders; (ii) promotes, among the current ordinary forms of engagement, a report to the Board of Directors on the main communication and information activities with significant shareholders and Institutional Investors; (iii) introduces and regulates so-called Shareholder-Director Engagement, i.e. the dialogue that provides for direct involvement between Directors and stakeholders in the creation of such policy.

Independence criteria

< 2-12

Since 2007, the Company has had a specific internal procedure that defines the criteria for assessing the independence of its non-executive members and for ascertaining the requirements of the Articles of Association and the Corporate Governance Code then in force. In implementation of the new Corporate Governance Code, the Company has updated the "Application criteria and procedure for assessing independence, pursuant to art. 2 of the Corporate Governance Code". The document identifies the prerequisites, objectives and conditions that may compromise independence; it devotes an article to the figure of the Chair of the Board of Directors, if qualified as independent, and an article to the Board of Statutory Auditors, due to the extension of the independence criteria also to the members of the oversight body. It also describes the methods for assessing independence and the relevant procedure. An ad hoc article is devoted to the meetings of directors who qualify as independent. The heart of the procedure is the description of the criteria adopted by the Company to assess the parameter of "significance" (pursuant to Recommendation no. 7 c) and 7 d) of the Corporate Governance Code) the recurrence of which, in the presence of commercial, financial or professional relationships, as well as additional remuneration, may compromise the independence of the directors or statutory auditors involved in such situations.

Board evaluation

In keeping with the past and in compliance with the new Corporate Governance Code, Terna's Board of Directors, with the support of the Nominations, Governance and Scenarios Committee, carries out an annual self-assessment of the size, composition and actual functioning of the Board and of Board committees, with reference to the activities performed since their election, also called a Board Review. To this end, on 19 January 2024, with prior approval from the Nominations, Governance and Scenarios Committee, the Board of Directors commissioned Russel Reynolds Associates, an external independent firm, to provide consultancy services relating to self-assessment by the Board of Directors, the Board Committees and the Board of Statutory Auditors of Terna S.p.A..

Gender diversity

The Corporate Governance Code highlights the issue of gender balance, recommending in particular that companies adopt measures to promote equal treatment and opportunities within the entire corporate organisation, monitoring their concrete implementation (Art. 2, Recommendation 8).

In 2021, the Company adopted ad hoc guidelines called the "Diversity & Inclusion Policy" with the aim of formalising Terna's commitment to enhancing and protecting diversity, as well as to preventing and sanctioning any discrimination and harassment based on gender, age, sexual orientation, nationality, disability, political opinions, religious belief and any other personal characteristic. The document was presented as part of the sustainability induction on 16 June 2021. Partly as a result of the adoption of these guidelines, Terna was included in Standard & Poor's Gender Equality & Inclusion Index, the new international index that measures the performance of listed companies in relation to gender equality and inclusion issues.

On 24 January 2024, the Board of Directors also approved the Diversity, Equity and Inclusion Policy (the "Policy"), which supplements the content of the May 2021 Guidelines and further strengthens Terna's commitment to promoting the right conditions for elimination of the cultural, organisational and material obstacles that limit people's full expression and their complete development within the organisation. The principle of respect for diversity has been expanded to include the various topics that help to define it, such as gender, different generations, affective orientation, disabilities and interculturality. Thanks to this Policy, on 1 March 2024 Terna S.p.A.'s Gender Equality System also obtained UNI/PdR 125:2022 standard certification. A specific Gender Equality Steering Committee has also been set up to ensure that the Terna Group adopts and continuously implements its gender equality policy, backed up by a specific action plan that identifies scheduled targets and KPIs, including related allocation of responsibilities and ownership.

Sustainability policy

With the Sustainability Policy, Terna is committed to adopting and incorporating sustainability objectives into its strategy, in line with the topics found to be relevant in the Materiality Analysis and selected from the Sustainability Goals, supporting the management and mitigation of ESG risks. The objectives are: (i) identification of the methods used in defining the Group's sustainability strategies; (ii) increasing awareness of key topics and the expected results; (iii) dissemination of the culture of sustainability inside and outside the company. By adopting the Policy, Terna has made a formal and public commitment to adopting sustainable conduct and actions in relation to the main reference frameworks (the SDGs and Italy's National Integrated Energy and Climate Plan) and to ESG topics considered important for the Group. Furthermore, the commitments outlined in the Policy support management and mitigation of the ESG risks to which the Terna Group is exposed.

Board committees

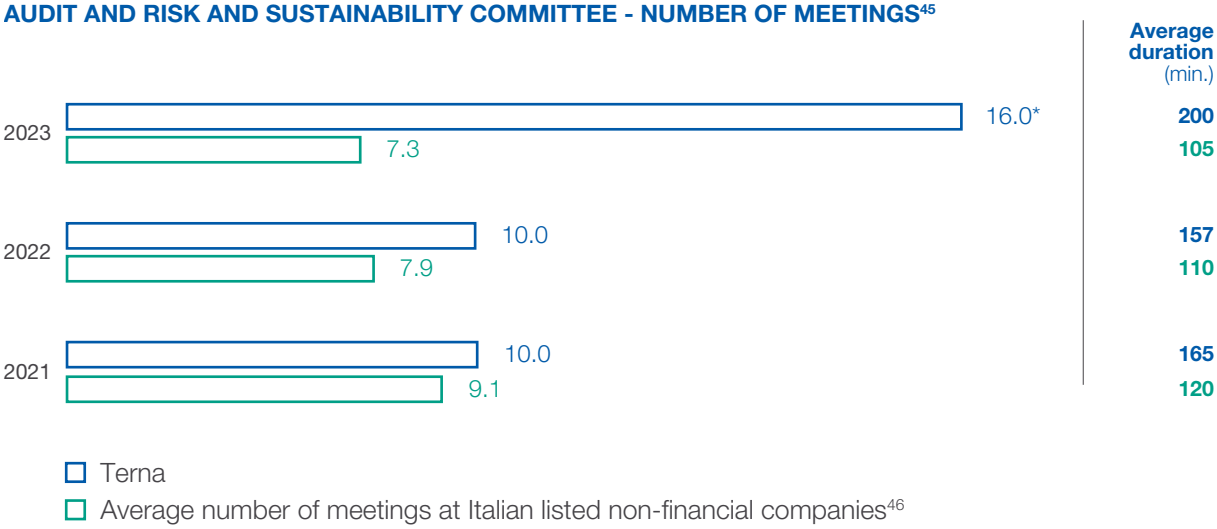
Audit and Risk and Sustainability Committee

This Committee conducts reviews, makes recommendations and provides advice, in order to support the Board of Directors: (i) in its assessments and decisions relating to the "Internal Control System" and regular monitoring of the adequacy of such system. The Committee is also responsible for studying specific aspects relating to the identification of the main business risks (for example, operational risk, financial risk, market risk, and compliance risk, in addition to accounting compliance risks), reporting periodically to the Board on the suitability of the system and the activities performed; (ii) in reviewing non-financial reports and sustainable finance initiatives, and in conducting in-depth materiality analysis.

The Committee currently comprises the following members:

- Marco Giorgino (Chairman, independent)
- Enrico Tommaso Cucchiani (independent)
- Karina Audrey Litvack (independent)
- Jean-Michel Aubertin (independent)
- Francesco Renato Mele (not independent)

AUDIT AND RISK AND SUSTAINABILITY COMMITTEE - NUMBER OF MEETINGS[45]



** In 2023, the Audit, Risk and Sustainability Committee met jointly with the Related Party Transactions Committee on three occasions, as described in greater detail in Sections X and XII of this Report.*

[45] On 9 May 2023 - following the re-election of the Board of Directors by the Annual General Meeting of the Company's shareholders held on the same date - the Board of Directors reassigned various tasks relating to the Board Committees, maintaining the topic of sustainability within the Audit and Risk Committee, in line with the term of office of the previous Board, and entrusting corporate governance matters to the Nominations Committee, which was also assigned tasks relating to strategic scenarios.

[46] The data relating to 2023 and 2022 refer to Italian listed non-financial companies, while the data relating to 2021 refer to Italian listed companies. The data relating to 2023 were taken from the *"Fin-Gov Report on Corporate Governance in Italy"* (Third Edition, October 2023) by Massimo Belcredi and Stefano Bozzi, while the data referring to 2022 and 2021 were taken respectively from the *"Fin-Gov Report on Corporate Governance in Italy"* (Second Edition, November 2022) by Massimo Belcredi and Stefano Bozzi, and Assonime's "*Report on Corporate Governance in Italy: implementation of the Italian Corporate Governance Code (2021)*".

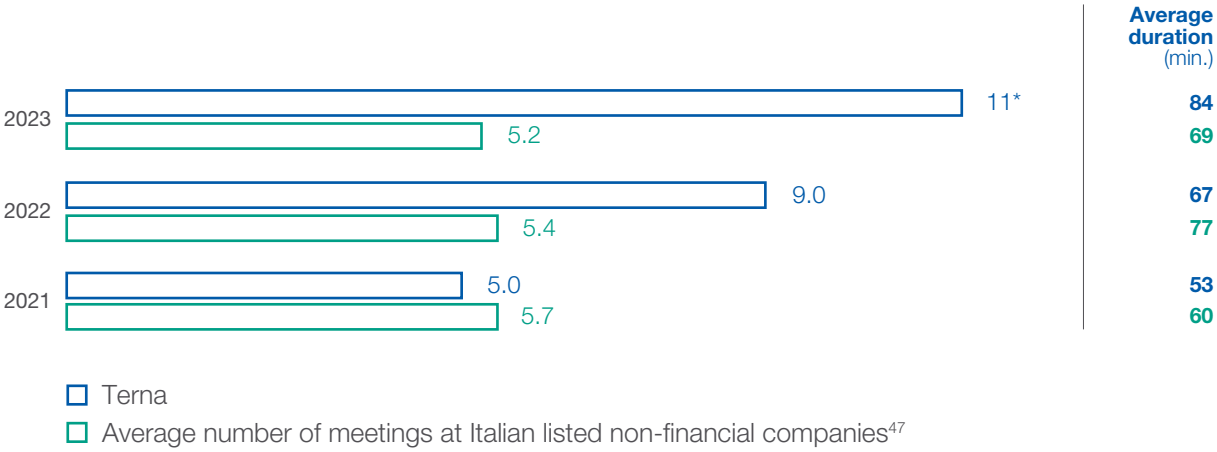
Remuneration Committee

This Committee's remit covers the remuneration policy for Directors and Key Management Personnel, recommendations and opinions on the remuneration of executive Directors and other Directors with delegated powers, setting performance objectives linked to the variable part of this remuneration that include indicators relating to ESG factors identified in agreement with the Audit, Risk and Sustainability Committee, monitoring application of the decisions taken by the Board, and assessing the effective achievement of performance objectives.

The Committee currently comprises the following members:

- Enrico Tommaso Cucchiani (Chairman, independent)
- Gian Luca Gregori (independent)
- Anna Chiara Svelto (independent)
- Angelica Krystle Donati (independent)
- Simona Signoracci (independent)

REMUNERATION COMMITTEE - NUMBER OF MEETINGS



** In 2023, the Remuneration Committee met jointly with the Related Party Transactions Committee on one occasion, as described in greater detail in Sections VIII and XII of this Report.*

[47] The data relating to 2023 and 2022 refer to Italian listed non-financial companies, while the data relating to 2021 refer to Italian listed companies. The data relating to 2023 were taken from the *"Fin-Gov Report on Corporate Governance in Italy"* (Third Edition, October 2023) by Massimo Belcredi and Stefano Bozzi, while the data referring to 2022 and 2021 were taken respectively from the *"Fin-Gov Report on Corporate Governance in Italy"* (Second Edition, November 2022) by Massimo Belcredi and Stefano Bozzi, and Assonime's "*Report on Corporate Governance in Italy: implementation of the Italian Corporate Governance Code (2021)*".

Nominations, Governance and Scenarios Committee

This Committee supports the Board of Directors by conducting reviews, making recommendations and providing advice in relation to assessments and decisions regarding the size and composition of the Board.

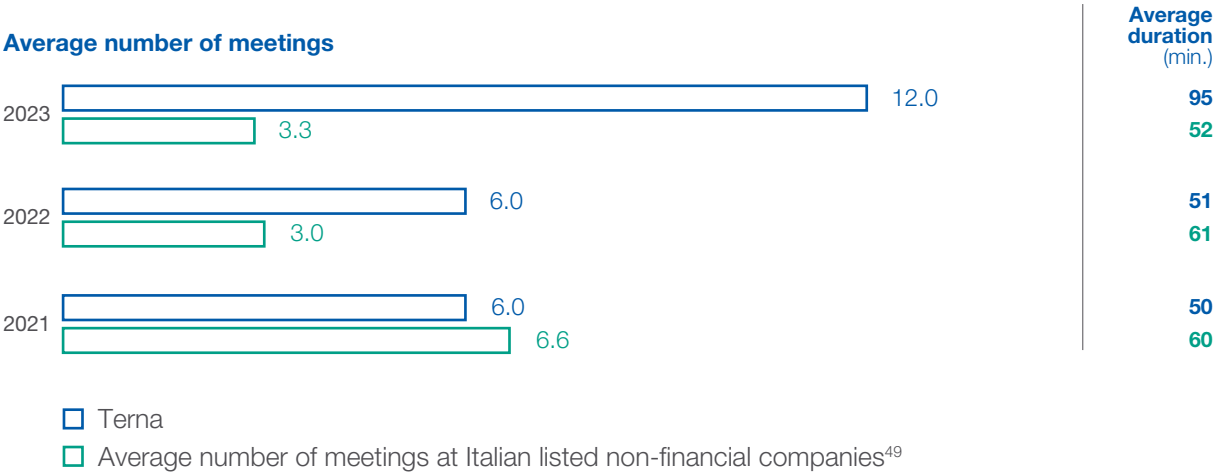
This Committee is also vested with powers relating to the corporate governance system, including: monitoring the evolution of legal provisions and national and international best practices regarding this matter, as well as the alignment of the Company and Group corporate governance system with them; expressing its opinion on the amendment and/or integration of the policy relating to the management of dialogue with the generality of shareholders; and prior examination of any justified proposals made by the Board of Directors to the General Meeting of Shareholders regarding matters relating to the corporate governance system.

The Committee also collects data, information, analysis and insights on baseline scenarios.

The Committee currently comprises the following members:

- Igor De Biasio (Chairman, independent)
- Regina Corradini D'Arienzo (not independent)
- Jean-Michel Aubertin (independent)
- Karina Audrey Litvack (independent)
- Simona Signoracci (independent)

NOMINATIONS, GOVERNANCE AND SCENARIOS COMMITTEE[48] - NUMBER OF MEETINGS



[48] On 9 May 2023 - following the re-election of the Board of Directors by the Annual General Meeting of the Company's shareholders held on the same date - the Board of Directors reassigned various tasks relating to the Board Committees, maintaining the topic of sustainability within the Audit and Risk Committee, in line with the term of office of the previous Board, and entrusting corporate governance matters to the Nominations Committee, which was also assigned tasks relating to strategic scenarios.

[49] The data relating to 2023 and 2022 refer to Italian listed non-financial companies, while the data relating to 2021 refer to Italian listed companies. The data relating to 2023 were taken from the *"Fin-Gov Report on Corporate Governance in Italy"* (Third Edition, October 2023) by Massimo Belcredi and Stefano Bozzi, while the data referring to 2022 and 2021 were taken respectively from the *"Fin-Gov Report on Corporate Governance in Italy"* (Second Edition, November 2022) by Massimo Belcredi and Stefano Bozzi, and Assonime's "*Report on Corporate Governance in Italy: implementation of the Italian Corporate Governance Code (2021)*".

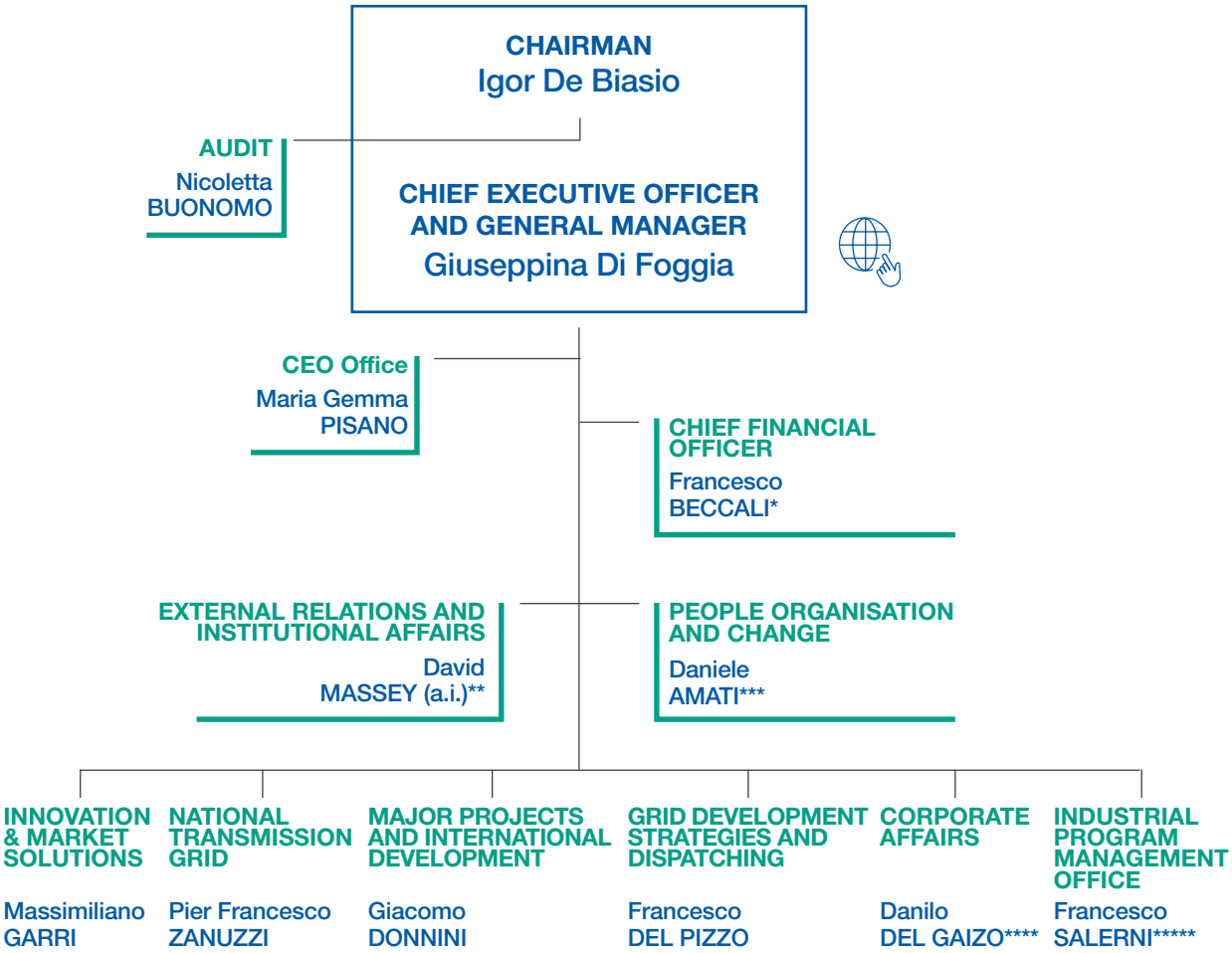
Related Party Transactions Committee

This Committee has the role of conducting reviews, making recommendations and providing advice in relation to assessment and approval of the above related party transactions, covering the approval of both transactions of greater significance and those of lesser significance, as indicated in Terna's procedure.

The Committee currently comprises the following members:

- Anna Chiara Svelto (Chairwoman, independent)
- Angelica Krystle Donati (independent)
- Marco Giorgino (independent)
- Gian Luca Gregori (independent)

The structure of Terna's management team at 19 March 2024 is as follows:



* from 1 September 2023;
** from 2 August 2023;
*** from 1 December 2023;
**** from 16 October 2023;
***** from 15 June 2023.

Sustainability governance

The identification and management of sustainability issues and projects, and the consequent definition of appropriate policies, guidelines and operating instructions, are the responsibility of the Investor Relations, Corporate Development and Sustainability department, and are included, as a second level of control, in the Group's Enterprise Risk Management (ERM) framework, which regularly reports to the Board's Audit, Risk and Sustainability Committee.

In particular, the department is responsible for strategic planning, monitoring, reporting, and relations with international sustainability rating agencies and ESG investors, as well as project development and related implementation actions that serve in the achievement of the Group's strategic goals.

The department is part of Industrial Programme Management Office and interacts across all corporate functions, starting with Management Systems - headed by the Health, Safety, Environment - Quality and Risks Corporate Affairs department - which, via the Integrated Management System, optimise the coordination of all the parties involved in monitoring quality, environmental performance and workplace safety as part of a large, unified Group sustainability project.

In line with the growing awareness of the importance of sustainability in the value creation process, the Company has adopted a **Sustainability Policy** (last updated in 2022) that renews its formal commitment to adopt sustainable behaviours and initiatives, in keeping with the United Nations SDGs, the goals of the National Integrated Energy and Climate Plan ("PNIEC") and the European Green Deal. In accordance with the values set out in the Code of Ethics, the Policy's guidelines call for accountability and transparency, promotion of stakeholder engagement, enhancement of people, inclusion, and the protection of human rights, the environment and ecosystems.

231 Organisational Model

The 231 Organisational Model (hereinafter the Model) defines **rules of conduct and of internal organisation**, within a structured and organic system of controls and monitoring activities. These are designed to prevent the commission of the various types of offence envisaged by the Decree, and to ensure that the **Company conducts its business and activities in a fair and transparent manner**, with the aim of protecting the Company's position and image and meeting its stakeholders' expectations. The Model sets out rules to prevent various types of offence from being committed, some related to corruption and some to other concerns such as the environment and human rights.

In its current form, Terna's Model breaks down into two sections: a general section and a special section, subdivided by business process. The Model was updated on 11 July 2023 and the main changes concerned the general section, following adaptation to the new provisions on whistleblowing pursuant to Decree 24/2023 regarding "*the protection of persons who report breaches of Union law*", in force since 15 July 2023 (the Whistleblowing Decree), implementing Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019.

In a nutshell, the legislation includes new provisions relating to whistleblowing channels (internal, external and public), protection of confidentiality, responsible parties, standards of protection, the prohibition of retaliation in connection with whistleblowing, and the application of a special disciplinary system, as well as a special sanctions regime set up by the National Anti-Corruption Authority (ANAC), also with regard to private as well as public entities, which now also include the holders of public service concessions.

As provided for in the Model itself, responsibility for ensuring compliance with the Model's provisions and its effectiveness, reporting any deficiencies, anomalies and breaches and, when necessary, its revision, lies with the Supervisory Board, whose members are appointed by the Board of Directors. In 2023, 7 meetings of Terna S.p.A.'s Supervisory Board were held.

Reports of breaches of the Model and/or unlawful conduct constituting the types of offence covered by Legislative Decree 231/2001, including those of a potential nature, in compliance with the confidentiality obligation provided for by the Whistleblowing Decree and the applicable company procedures, may be sent to the Supervisory Board via the specific internal reporting channels set up by the Company. During 2023, no infringements of the 231 Model were reported.

TRAINING IN THE 231 ORGANISATIONAL MODEL

	GROUP (*)			TERNA		
	2023	2022	2021	2023	2022	2021
231 Organisational Model training participants	598	1,916	309	527	1,637	309
By category (%)						
- Senior managers	17.7	23.6	2.4	15.2	19.9	2.8
- Middle managers	14.0	39.5	4.8	13.7	39.6	5.0
- Office staff	11.6	43.7	10.6	11.8	45.6	11.8
- Blue-collar workers	5.3	23.6	0	7.3	17.3	0

(*) Figures for 2023 include Terna (the electricity sector) and all its subsidiaries. The figures for 2022 refer to Terna (the electricity sector), the Tamini Group and the Brugg Group. The figures for 2021 refer to Terna (the electricity sector), the Tamini Group and Brugg Switzerland.

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Global Compliance Program

In November 2017, the Board of Directors approved the **Global Compliance Program (GCP)** and the **Anti-Corruption** Guidelines, which are applicable to all the Group's Italian and overseas companies subject to prior approval from their respective Boards of Directors, in line with international best practices that promote a "top-down" approach.

The GCP, which was updated on 14 December 2023, is a special procedure designed to harmonise overseas companies' efforts to promote compliance with the principles of ethics, integrity and legality; to prevent corporate criminal liability and provide a shared, consistent and uniform approach to possible misconduct; and to strengthen the internal control system.

This update was necessary to allow for adjustments to be made to the whistleblowing system envisaged for overseas companies by the new Group guidelines on this matter, and also to give overseas companies greater autonomy in making organisational decisions regarding the department that supports the Compliance Officer. The GCP sets out senior management's commitment, to be replicated in overseas companies, regarding the promotion and definition of a culture of ethics and compliance, via **a clear message urging absolute compliance with the Group's principles of ethics, integrity and legality**, which is embodied in the definition and dissemination of guidelines, procedures and policies aimed at regulating this commitment in order to prevent misconduct (top level commitment).

The Global Compliance Program, in line with the Model pursuant to Legislative Decree 231/2001 adopted by Terna, takes a "process" approach, and in order to meet the specific requirements of each overseas Group company, envisages the adoption of a specific **Country Annex**, as an integral part of the GCP, in order to guarantee greater structural coherence and synthesis in the description of the various corporate regulatory instruments adopted by an overseas company, in accordance with the GCP Group guidelines and in implementation of local regulations relating to corporate liability. Joint governance oversight is also provided by a Compliance Officer (who may be supported by a specific Compliance Bureau), who ensures adequate monitoring, training and information processes regarding all of these documents.

Whistleblowing

2-26>

Terna has adopted Whistleblowing Guidelines to regulating the system for receiving and managing reports of violations of internal or external regulations, in order to guarantee fairness and transparency in the conduct of its business and activities and to protect the Company's position and image, which may cause damage or be detrimental to the Company, such as fraud, generic risks or a potentially hazardous situations.

These Guidelines were adopted in 2016 and have been subsequently updated, most recently on 12 July 2023 (for companies with more than 249 employees), and on 14 December 2023. This has ensured maintenance of the system and also compliance with the regulatory provisions implemented in 2017[50] and in 2023 with Legislative Decree 24/2023[51] on whistleblowing and the most recent Guidelines issued by the National Anti-Corruption Authority (ANAC) pursuant to Article 10 of the Decree.

[50] Concerning *"Provisions for the protection of persons reporting offences or irregularities they have become aware of in the context of their public or private employment"*.
[51] *Implementing Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019, concerning the protection of persons who report breaches of Union law.*

The Whistleblowing Guidelines set out the organisational arrangements for handling such reports and establish the various roles and responsibilities at each stage of the process. The policy also covers all aspects of security, above all regarding protection of the anonymity of the whistleblower, but also that of the accused and in any event the person mentioned in the report, as well as its content and the related documentation, in full compliance with personal data protection regulations. In application of these Guidelines, tailor-made governance and design solutions were implemented by setting up dedicated IT channels for the Parent and for each of the Group companies with more than 249 employees (Terna Rete Italia S.p.A. and Tamini Trasformatori S.r.l.). For the other Italian subsidiaries and the overseas companies, in compliance with local legislation, a shared channel was set up within the portal, partly to ensure continuity of the reporting oversight envisaged by the Code of Ethics and the Global Compliance Programme. In addition to the IT channel, other channels have been set up to receive reports (regular mail, face-to-face meetings).

Terna has taken steps to guarantee appropriate training and the effectiveness of the safeguards in place to ensure fairness and transparency in the conduct of business and activities that may cause harm or detriment to to the Company, and to protect its position and image. A specific course for managers of whistleblowing reports was delivered following the entry into force of Legislative Decree 24/2023 and the consequent publication of the relevant updated Company policy, in response to the decree's requirements. The course also focused on confidentiality obligations related to the handling of reports and the requirements of the new applicable legislation. The course also concluded with a learning test.

Moreover, after enactment of the whistleblowing legislation and the consequent changes made to the Company's whistleblowing system, the following were updated: the Ethics Committee Terms of Reference, the Organisation and Management Models pursuant to Legislative Decree 231/01 adopted within the Group, and the Global Compliance Program[52]. For further information, see https://whistleblowing.terna.it/

In 2023, the Guidelines on the **Adoption of the Code of Ethics by Terna Group Companies**[53], in force since 2015 to ensure the consistency of the governance system in place at the Terna Group, was also updated. This included reference to the recommendations set out in the Confindustria Guidelines issued for the purposes of Legislative Decree 231/01, in relation to the need to provide the Parent and the subsidiaries with Codes of Ethics that have consistent principles, whilst respecting the autonomous peculiarities of each company, which may also derive from being under the jurisdiction of different legal systems. Among other things, the update was designed to make the Guidelines more resilient in terms of accommodating changes in the Terna Group's structure over time.

[52] For further information, see https://whistleblowing.terna.it/
[53] The revision of LG050 - *The adoption of the Code of Ethics at Terna Group companies* was published on 20 April 2023.

The remuneration system

In line with Terna's governance framework, the Board of Directors is responsible for setting the objectives and approving the results of the incentive schemes to which the variable remuneration of the Chief Executive Officer and General Manager is linked, and for defining the general criteria for the remuneration of Key Management Personnel.

In keeping with the recommendations in the Corporate Governance Code, relating to matters concerning remuneration, the Board of Directors is supported by a Remuneration Committee consisting of independent, non-executive Directors tasked with providing related recommendations and advice.

Remuneration policy

The Terna Group has designed its Remuneration Policy in line with stakeholders' expectations and market best practices and in accordance with the principles and criteria set out in the Corporate Governance Code. The Group also ensures the maximum alignment between shareholders and management, in terms of both value creation and the risk profile established.

The Board of Directors ensures that the Chief Executive Officer and General Manager is the beneficiary of a policy that is in line with the principles contained in the Corporate Governance Code. This means ensuring that a significant part of remuneration is linked to the achievement of specific performance objectives, including those of a non-financial nature (e.g., ESG indicators). In the pay mix, care is also taken to ensure that long-term incentives are given more weight than those of a short-term nature.

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In order to monitor the ratio between the remuneration of the Chief Executive Officer and the General Manager compared with the entire workforce, the ratio between the gross annual fixed remuneration of the Chief Executive Officer and the General Manager and the average fixed remuneration of the entire workforce of the Terna Group (pay ratio) was calculated, corresponding to a figure of 24. Application of the same ratio with the median gives a figure of 27.

The same principles underpin the policy for Key Management Personnel.

To support achievement of the Company's strategic objectives and its performance, Terna has adopted variable incentives schemes diversified on the basis of the different roles within the Company:

- an MBO (Management By Objectives) scheme for the Company's management, linking the value of individual bonuses:
  - to the degree to which quantitative targets have been met, at both Company and individual level, with a portion linked to Terna's environmental and social commitments (e.g., workplace safety indicators);
  - to a qualitative assessment of performance, based on management behaviours.
- long-term incentives (LTIs) linked to multi-year business objectives, including sustainability, for managers in the most important roles with regard to achievement of strategic results.

Currently, long-term incentive schemes include three Performance Share Plans for the General Manager, Key Management Personnel, and a selection of the Terna Group's senior and middle managers who play important roles in the achievement of the Group's strategic results:

(i) Performance Share Plan 2021-2025 - includes an ESG KPI linked to Terna's annual inclusion and positioning in the Dow Jones Sustainability Index (DJSI-World) with a weight of 20%.

(ii) Performance Share Plan 2022-2026 - includes an ESG KPI with a weight of 25% that relates to inclusion in a set of selected ESG indices (Dow Jones Sustainability Index World, Stoxx ESG Leaders, MIB 40 ESG and Bloomberg GEI), representing the Group's ability to ensure all-round sustainability performance.

(iii) Performance Share Plan 2023-2027 - includes an ESG KPI (with a weight of 15%) which, in continuity with the 2022-2026 Plan, is linked to inclusion in a basket of selected ESG indices, and a new indicator, Overgeneration, which represents 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.

The Regulations of the new Performance Share Plan 2023-2027 were approved by the Board of Directors on 14 June 2023, in implementation of the terms set by the Ordinary General Meeting of Shareholders held on 9 May 2023.

This Plan provides for the right to be freely assigned a number of Terna S.p.A. shares (Performance Share) at the end of the performance period, provided that the performance targets the plan is linked to have been achieved.

For further details, reference should be made to the Information Circular on the Performance Share Plan 2023-2027, which is posted on the Company's website (www.terna.it).

On 10 July 2023, the share buyback programme servicing the Plan was completed, involving total expenditure of approximately €7 million.

The offer is supplemented by welfare and benefit initiatives that promote robust, ongoing improvement of the work-life balance of Terna's people, with a view to providing remuneration and company welfare packages that are well above the average for Italian companies.

Full details of the Terna Group's remuneration policy are provided in the Report on the Remuneration Policy and on Remuneration Paid, approved by the Board of Directors – on the recommendation of the Remuneration Committee - on 19 March 2024, and to be published by Terna in compliance with the requirements of art. 123-*ter* of the CLF, as amended.

NFS

Risk management

As recommended in Borsa Italiana's Corporate Governance Code[54] and by national and international best practices[55], the Group has adopted a specific **Internal Audit and Risk Management System (IARMS)**. This consists of the culture, capabilities, rules, procedures and internal practices and organisational structures with the objective of defining an accountability system for identifying, measuring, managing, mitigating and controlling the main risk exposures at Group level. The aim of the System is to contribute to the Group's sustainable success, retaining a high degree of stakeholder trust in the Group's governance and controls.

The System provides a management tool designed to ensure that the way the business is run is consistent with the Company's business objectives. It puts risk management at the heart of the value chain, starting from key considerations such as the mission, vision, values and operating environment. These are embedded in the process of defining and developing strategy and performance to support decision-making processes by making explicit reference to risks and uncertainties and through informed responses. The System involves implementation of a **Risk Management System**, which is also aligned with the recommendations in the Corporate Governance Code for Listed Companies and international best practices.

To support the Board of Directors' analysis and decision-making regarding the Internal Audit and Risk Management System, risk management relies on the contribution from a specific Board Committee, consisting of independent Directors – the **Audit and Risk and Sustainability Committee** – that engages periodically with the departments within the Company most directly involved in these processes.

The Committee also has a direct relationship with the **Chief Risk Officer ("CRO")**, whose appointment is approved by the Board of Directors on the recommendation of the Chief Executive Officer, subject to a prior opinion from the Committee. The CRO is tasked with supporting senior management in the effective implementation and management of the risk management process at Group level, and ensuring effective coordination of the actors involved in control activities. The CRO reports to the Chief Executive Officer and the Committee on the outcomes of risk management activities. The CRO receives operational support from the "Enterprise Risk Management" unit, which reports directly to the CRO and has the role of coordinating all aspects of the Risk Governance framework described below.

Under the Internal Audit and Risk Management System, the Audit department has the task of verifying that the IARMS is operating smoothly Audit activities extend to all business processes (including risk management), with particular attention paid to the most important processes due to their impact on the Company's value, the degree of risk they pose in respect of achievement of the Company's objectives, or their influence on aspects of broad interest to the Company.

In operational terms, risk management takes place throughout the Company, based on a structured, systemic approach. It involves a **Risk Governance Framework ("Framework")** setting out the roles and responsibilities of the various actors involved in the Risk Management System, embedding the three levels of control provided for in the Corporate Governance Code within the Company's organisational structures. Each level has different objectives and specific associated responsibilities:

- **First level of control:** with primary responsibility for identifying, assessing and managing the risks appertaining to the specific areas of responsibility;
- **Second level of control:** assigned to organisational structures (e.g., Health & Safety, Compliance, 262 Oversight, Environmental Protection, Fraud Management, Privacy, Cybersecurity, etc.) acting as autonomous, independent units

[54] See Art. 1 – Role of the board of directors – Recommendations – *c) defines the nature and level of risk compatible with the company's strategic objectives, including all the elements that can be relevant for the company's sustainable success; d) defines the corporate governance system of the company and the structure of the group it heads, and assesses the adequacy of the company's organisational, administrative and accounting structure and of its strategically important subsidiaries, with particular reference to the internal control and risk management system.*

[55] The ERM framework issued by the US body C.O.S.O., "Committee of Sponsoring Organizations of the Treadway Commission".

that are separate from operational units. This level of control oversees changes in external regulations and in the related best practices and participate in the definition of governance policies and in the process of managing the risk categories for which it is responsible, at the same time supporting the implementation of first-level controls, including with regard to their design and the provision of awareness building and training;

- **Third level of control:** conducted by the Audit department, providing an independent assessment of the design and functionality of the internal control and risk management system (assurance). The entity that has this role has a high degree of organisational, hierarchical, and functional independence.

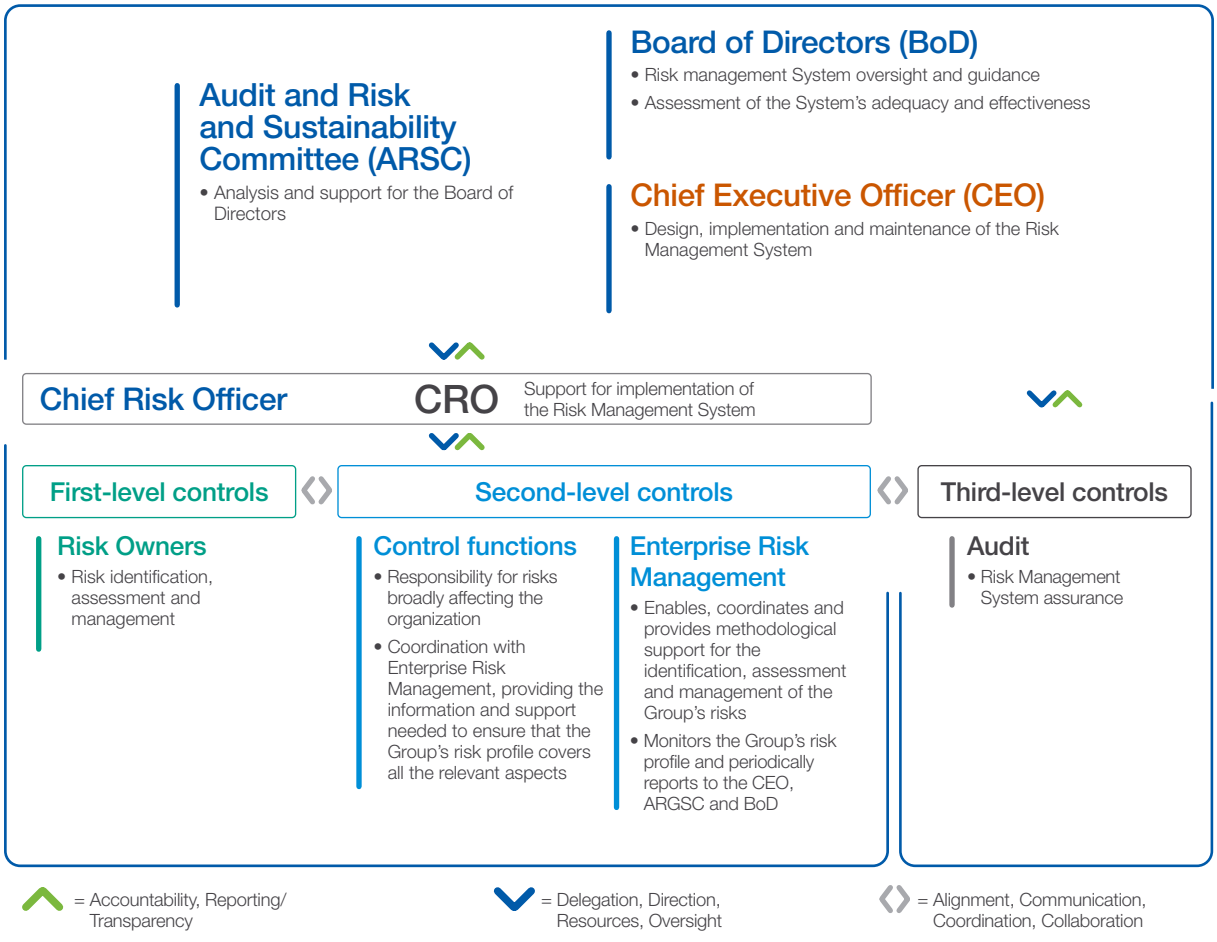
Good risk governance must ensure a holistic and coordinated view of all the actors involved, so that they may work together, identify and assess risks, identify their possible impacts and, consequently, have the right information available to make the most appropriate decisions.

The diverse elements of the Risk Management System give an idea of the complexity of the Framework and how the entities and departments involved, which each have their own specific nature, contribute to the above holistic vision, working in synergy and in accordance with a structured and organised approach.

To this end, Terna puts in place procedures and processes to coordinate the relations and activities of the entities that exercise control at various levels. In this regard, **coordination between the activities of the second-level control departments** is particularly important, in order to minimise duplication of activities and maximise the efficiency of the risk management system, while respecting their respective roles and responsibilities, and the necessary independence requirements.

The Framework is thus based on a widespread approach to risk management within the organisation, involving a range of bodies and departments across every level of the organisation, as shown below:

Risk Governance model



Business objectives and risk management

The Risk Management System has the ultimate purpose of supporting decision-making processes and developing awareness across the organisation of the level of risk assumed and its compatibility with the Company's objectives. The System also aims to spread and reinforce the risk culture at all levels of the organisation.

With regard to coordinated risk management, carried out by management in the various areas, for some time the Group's Risk Management Framework has provided for adoption of a common reference framework that sets out objectives to enable the creation and maintenance of Group value. The objectives framework was updated in 2023, in order to bring it into line with changes in the context and/or objectives of the new Business Plan, and also to clarify ESG issues, especially: human rights, governance (& organisational framework), the environment.

The framework of **corporate objectives**, divided into **Strategic** (linked to the Industrial Plan) and **Recurring** (continuous risks linked to the activities carried out under concession, the corporate mission and the codes of conduct adopted), is used annually by management as the main reference for the **identification** of risk events, including emerging ones.

On the basis of the objectives framework, each identified risk event is **assessed** in terms of the combination between Impact (divided into four types: financial, reputational, operational and HSE-Sustainability) and Probability of occurrence over the life of the Plan. The assessment also takes into account the Level of Maturity of existing risk management systems. Based on the outcomes, risk **treatment** priorities and appropriate responses are chosen through the selection of mitigation or corrective actions.

A business's risk profile is not static, but dynamic and may alter due to changes in the external environment and/or as a result of internal organisational and business decisions. Developments in the Group's risk profile are **monitored**, as is the state of progress in implementing chosen mitigation initiatives.

The above phases of the risk management process are regularly repeated (at least once a year).

Risk events are generally classified in the following categories:

External / market risk

Risk events connected with the competitive and regulatory environment, economic cycles, the economic and financial conditions and performance of the markets in which the Group operates, which could influence the Company's ability to achieve its strategic objectives

Compliance risk

Risk events connected with breaches of the law, statutory requirements, regulations and other requirements (internal and external), with a potential impact in terms of fines, financial loss and/or reputational damage

Operational risk

Risk events connected with malfunctioning processes, procedures, information systems or human resources, resulting in losses / damage to the Company

Counterparty risk

Risk events generated by counterparties (financial, commercial, industrial, government) with which the Group operates or engages, including the inability to meet the obligations assumed or the possibility that the conduct of such parties may damage Terna's reputation and/or result in losses or other damages

Legal / contractual risk

Risk events connected with inadequate legal documents / contracts or other situations that may expose the Company to litigation, financial loss and/or reputational damage

Natural / human-induced events

Risk events resulting from natural phenomena (e.g. earthquakes, floods, bad weather, fires, epidemics / pandemics, etc.) and human-induced events (e.g., theft, sabotage, terrorist attacks, etc.)

The updated risk assessment, carried out in 2024 in accordance with the above framework, saw progressive integration of risk analysis and ESG issues.

The growing attention paid by businesses and the markets, with ever greater interest in adopting sustainable finance solutions, to issues and goals relating to sustainability is leading to a closer focus on ESG aspects and the related risks. This above all applies to risks of an environmental nature (climate change) and those relating to social issues (the erosion of social cohesion), both with potential negative effects in terms of reputational capital.

The inclusion of ESG factors among the risks to be overseen, managed and monitored is a significant element of good governance, as has also been highlighted, since 2020, in the Corporate Governance Code drawn up by Borsa Italiana, which invites directors and management to adopt sustainability-oriented strategies in order to achieve sustainable success for their organisations.

At Terna, the process of integrating risk analysis and ESG issues has been implemented through various initiatives, along these **three** lines of **action**:

- **methodological review**: in addition to the above new approach for the objectives framework, the impact scales used for risk assessment have been reworked to include descriptions that are more akin to those regarding ESG issues, in order to facilitate the assessment of "inside-out" risks, with the main focus on reputational impact and the HSE & Sustainability impacts;
- **strengthened information flows**: in order to further consolidate collaboration between the Enterprise Risk Management unit and the units dealing with ESG issues, by identifying opportunities for discussion during the conduct of the respective analyses (risk assessment and materiality analysis), and sharing the outcomes, so as to ensure consistency and greater synergy between risk analysis and materiality analysis in relation to ESG issues;
- **review of reporting**, to enhance synergies between the two analyses and minimise the repetition of information.

This confirms the extent to which ESG issues are an integral part of the Group's strategy and business model, as well as the increasing attention that is being paid to them.

A first tangible outcome of this integration process is the following matrix which links the objectives framework and the material topics tree (for further details on materiality analysis, see page 54):

	DEVELOPMENT OF THE NATIONAL TRANSMISSION GRID	ENERGY SOLUTIONS/ CONNECTIVITY	INTERNATIONAL EXPANSION	INNOVATION/ DIGITALISATION	PEOPLE DEVELOPMENT & CHANGE MANAGEMENT	CONTINUITY AND QUALITY OF THE ELECTRICITY SERVICE
Delivering the energy transition	✔	✔		✔		
Quality, security and continuity of the electricity service	✔			✔		✔
Grid resilience	✔			✔		✔
Cybersecurity and protecting privacy						✔
Sustainable supply chain						
Innovation and digitalisation				✔		✔
Workplace health and safety and workers' rights						
HR development and wellbeing					✔	
Advancement of inclusion and diversity					✔	
Business integrity						
Governance model effectiveness						
Management of stakeholder relations	✔					
Environmental impact of electricity infrastructure on local areas	✔					
Protecting biodiversity	✔					
Reducing the Group's CO_2 emissions				✔		✔
Promoting the circular economy						
Economic impacts on the community	✔	✔		✔		✔

The two analyses were conducted during the same period and perfectly synchronised with the process of preparing the new 2024-2028 Industrial Plan.

The 2024 risk assessment involved Terna's middle and senior management and enabled the identification of **70 risk events** that were assessed in terms of impact, probability of occurrence over the life of the plan and the level of maturity of existing risk management systems. This enabled the Company to closely examine the systems and take further steps to mitigate the identified risks. Also with a view to integrating ESG factors, each risk in the catalogue was characterised in "inside-out"[56] and "outside-in"[57] terms, already in line with the indications provided for in EU Directive 2022/2464 (the CSRD), effective from the 2024 reporting period (for further information about double materiality, see page 54-57).

[56] For further information, reference should be made to the section on "Materiality analysis".
[57] For further information, reference should be made to the section on "Materiality analysis".

DATA, INFORMATION AND IT SYSTEMS	PHYSICAL ASSET MANAGEMENT	CUSTOMERS, SUPPLIERS AND BUSINESS PARTNERS	REGULATORY BODIES AND OTHER GOVERNMENT STAKEHOLDERS	EXTERNAL COMMUNICATION & BRAND IMAGE	FINANCIAL MANAGEMENT	ENVIRONMENT	HUMAN RIGHTS	GOVERNANCE (& ORGANISATIONAL FRAMEWORK)
	✔							
✔							✔	
		✔				✔	✔	
						✔		
		✔					✔	
							✔	
							✔	
				✔				✔
								✔
			✔	✔			✔	✔
	✔					✔	✔	
	✔					✔		
						✔		
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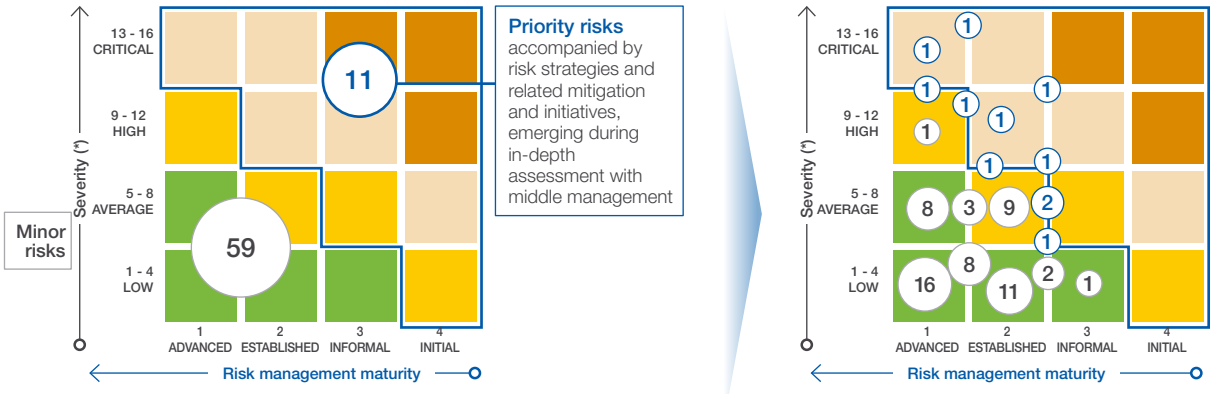

(*) Severity: resulting from (Impact) x (Probability)

Based on this assessment, the following table shows the **11 priority risks** identified, the associated objectives and their classification based on the above risk categories, as well as the main actions taken to mitigate and control such risks.

Principal risks for the Company, how they are managed and the related opportunities

For each element of the business objectives framework, the following table shows the link to the materiality topics derived from the materiality analysis and the associated priority risks, as drawn from the updated 2024 risk assessment. For each priority risk, the management actions undertaken to mitigate them are described.

OBJECTIVE	MATERIAL TOPICS	CAPITAL IMPACTED	STAKEHOLDERS IMPACTED	PRIORITY RISKS LINKED TO THE OBJECTIVE	
				RISK DESCRIPTION	RISK CATEGORY
CONTINUITY AND QUALITY OF THE ELECTRICITY SERVICE	Quality, security and continuity of the electricity service Grid resilience Cybersecurity and protecting privacy Innovation and digitalisation Economic impacts on the community Reducing the Group's CO_2 emissions	 	Credit providers Shareholders Community Local communities Electricity service operators Employees	**# 1 CYBERATTACKS** →●→	
				The risk connected with a cyberattack, using for example ransomware, that could cause: - Loss of visibility of infrastructure; - Temporary shutdown of systems; - Data loss and/or additional costs for recovery.	Natural / Human-induced events ESG
				#2 INSUFFICIENT AVAILABILITY OF PRIMARY ENERGY →●→	
				The risk connected with potential insufficient availability of primary energy (e.g., gas), primarily due to the current geopolitical scenario and the effects of climate change (water crises, drought, etc.).	External / Market risk ESG
				#3 SEPARATION OF THE EUROPEAN TRANSMISSION GRID →●	
				The risk connected with extreme weather events / incorrect setup of the structure of the grid in accordance with the n-1 security criterion , with the potential for cascading failures triggering overloads / line failures, critical events and major incidents on the interconnected European transmission grid with separation of portions of the grid and widespread blackouts.	Operational risk ESG
				#4 INCREASED SEVERITY OF WEATHER EVENTS →●	
				The risk connected with the intensification of extreme 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.	Natural / Human-induced events ESG

Key

→● Outside-in

●→ Inside-out

→●→ Outside-in & Inside-out

[58] The n-1 security criterion is a preventive assessment carried out by the grid operator, on the basis of which the electricity system is deemed to be secure, if key grid parameters (power flows, voltages and current) remain within their respective operational limits when faced with any form of individual contingency (e.g., the loss of a power line).

PRIORITY RISKS LINKED TO THE OBJECTIVE		MINOR RISKS LINKED TO THE OBJECTIVE
MANAGEMENT ACTIONS	OPPORTUNITIES	
- Internet and perimeter security systems and the segregation of IT and OT networks; - Consolidated IT monitoring processes (CERT - Computer Emergency Response Team; - Awareness campaigns; - Crash Programmes for system and grid equipment vulnerabilities; - Progressive adoption of secure communication standards.	**More rapid increase** in the level of grid security, partly through the progressive consolidation of awareness of the importance of cyber threats, resulting in the switch from response strategies to a proactive approach.	- Delays in achieving energy transition targets →◐→ - Inadequacy of the electricity system with respect to the 2025 target to phase out coal →◐→ - Deterioration in service quality due to inadequate production mix →◐→ - Difficulties in managing new consumption patterns ●→ - Uncertainty of new flexible resources ●→ - Loss of visibility and control of the network resulting in service deterioration
- Participation in the "Technical Committee for the gas system emergency and monitoring" at the Ministry of the Environment and Energy Security; - Process of assessing the adequacy of the national and European system; - "We are Energy" awareness campaign.	**Strengthened overseas interconnections and an incentive** to boost the use of renewable energy, accelerating the country's energy transition and independence.	
- Defence plans, rules and criteria (European regulations) common to all member TSOs of ENTSO-E; - Technical support for the Ministry of the Environment and Energy Security for the "Italian electricity system risk management plan".	Further **consolidation of Terna's international standing** by sharing best practices (the above innovative technologies). **Active participation** in the search for shared solutions and their subsequent adoption, boosting the resilience of the NTG.	
New investment to increase the resilience of the electricity grid and identify mitigation initiatives.	**Development of innovative technologies** – including through structured partnerships with start-ups ("Open Innovation") – with the aim of monitoring climate events and boosting the resilience of the NTG. **Patentability** of the above solutions with related non-regulated business opportunities.	

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OBJECTIVE	MATERIAL TOPICS	CAPITAL IMPACTED	STAKEHOLDERS IMPACTED	PRIORITY RISKS LINKED TO THE OBJECTIVE	
				RISK DESCRIPTION	RISK CATEGORY
CUSTOMERS, SUPPLIERS AND BUSINESS PARTNERS	Sustainable supply chain Workplace health and safety and workers' rights Promoting the circular economy		Suppliers Employees Community	**#5 SUPPLY CHAIN CRISES AND/OR CHANGES TO THE STRATEGIES OF KEY SUPPLIERS** →●	
				The risk connected with changes in the strategy of core suppliers as they shift their focus to other, more attractive sectors (e.g., renewable energy, industrial automation), geographical markets (e.g., India) and/or changes to priorities resulting in delays / additional costs in the construction of infrastructure included in the Plan, heightened by the crisis in the global supply chain following the pandemic, the conflict between Russia and Ukraine and the energy transition launched in many countries.	Counterparty risk ESG
				#6 SUPPLIERS' OPERATIONAL CAPACITY REACHES SATURATION POINT →●	
				The risk connected with the ability of suppliers to follow a demanding programme and/or their inability to rapidly adjust their supply chain to meet Terna's increased demands, resulting in delays to the construction of infrastructure included in the Plan.	Counterparty risk ESG
ENERGY SOLUTIONS/ CONNECTIVITY	Delivering the energy transition Economic impacts on the community		Community Local communities Public decision-makers and authorities Electricity system operators	**#7 INCREASE IN OBLIGATIONS RELATING TO SANCTIONS IMPOSED BY THE AUTHORITIES (E**	
				The difficult external environment, geopolitical tensions and international sanctions imposed by various authorities (UN, EU, USA, UK) on a number of countries could make relations with Italian and overseas counterparties more complicated. The further tightening of sanctions could lead to a reduction in counterparties with whom it is permitted to work and/or greater exposure to international sanctions.	Compliance risk Counterparty risk ESG
DEVELOPMENT OF THE NATIONAL TRANSMISSION GRID	Delivering the energy transition Quality, security and continuity of the electricity service Grid resilience Management of stakeholder relations Environmental impacts of electricity infrastructure on local areas Protecting biodiversity Economic impacts on the community		Community Electricity system operators Public decision-makers and authorities Local communities	**#8 TIMING OF COMPLETION OF PROJECTS, ABOVE ALL MAJOR WORKS** →●→	
				The risk connected with delays or missed deadlines during construction, above all of major works. This could have an impact from various viewpoints (e.g., financial, regulatory, reputational and relating to the system).	Operational risk ESG

Key

→● Outside-in

●→ Inside-out

→●→ Outside-in & Inside-out

PRIORITY RISKS LINKED TO THE OBJECTIVE			MINOR RISKS LINKED TO THE OBJECTIVE
	MANAGEMENT ACTIONS	OPPORTUNITIES	
	- Initiatives designed to pre-empt any such changes (the inclusion of "notices to proceed"); - Increased scouting activity based on a proactive approach and expansion of the supplier base.	**Increase in the Group's reputational capital** by helping to create new jobs (Full-Time Equivalents or "FTEs"), made possible by the inclusion of new suppliers in the relevant register.	- Lock-in of core supplies → - Bankruptcy of critical suppliers →
	- Steps to boost capacity in key supply chains; - Assessment of the risks associated with each supplier; - Bringing strategic supplies in-house (e.g., underground cables).	**Increase in the Group's reputational capital** through dialogue and support for suppliers most exposed to the risk of reaching capacity saturation point.	
E.G., UN, EU, USA, UK) →			
	- Due diligence on entities with which the Group has relationships and on the materials and/or services exchanged, with regard to contracts involving exports; - Monitoring of the geopolitical scenario; - Continuous monitoring of new legislation and focusing on sanctions.	**Development of relations with highly reliable third parties** in terms of financial performance, trade compliance and sanctions and, more generally, with a reputation for reliability.	- Constraints on the development of Non-regulated Activities, due to application of regulated sector approaches/policies → - Cancellation of or delays to contracts for Non-regulated Activities
	- Centralised management of construction processes for major works; - Monitoring of the state of completion of works; - Careful liquidity management; - Organisational model project management, with periodic reviews and progress reports; - Definition of the phases of the Project Control process and the related outputs; - Strengthening coordination between the Company departments involved in the process.	Completion of the investment projects in the Industrial Plan is in line with the aim of delivering the ecological transition for the **benefit of the system.**	- Unfavourable changes to the regulatory and political framework (e.g. EIA extension) → - Opposition to Terna's projects from local communities → - Counterparty risk relating to interconnection works (e.g. Elmed) → - Delays in implementing post-consent environmental requirements, expert advice and environmental audits of construction sites → - Difficulties in handling RES connection requests → - Setbacks/inefficiency in project implementation, due to delays in digitalising the design process and in using innovative tools - Delays in obtaining consents for projects, and the resulting impact on the investment plan → - Scaled-down operations and delays due to possible pandemics/ infections →

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OBJECTIVE	MATERIAL TOPICS	CAPITAL IMPACTED	STAKEHOLDERS IMPACTED	PRIORITY RISKS LINKED TO THE OBJECTIVE		
				RISK DESCRIPTION	RISK CATEGORY	
PEOPLE DE-VELOPMENT & CHANGE MAN-AGE-MENT	HR development and wellbeing Advancement of inclusion and diversity		Employees Shareholders	**#9 RECRUITMENT OF PEOPLE WITH TECHNICAL/HIGHLY SPECIALIST EXPERTISE** →●		
				To achieve the challenging goals set by the Plan, the Group needs highly specialist expertise, primarily in STEM subjects. Labour market trends are, moreover, worsening skill and talent shortages in the kind of candidate with the neces-sary specialist skills and expertise.	Operational risk E**S**G	
HUMAN RIGHTS	Cybersecurity and protecting privacy Sustainable supply chain Workpalce health and safety and workers' rights HR development and wellbeing Advancement of inclusion and diversity Management of stakeholder relations Environmental impacts of electricity infrastructure on local areas		Suppliers Employees Community Local communities Electricity system operators Shareholders	**#10 WORKPLACE INJURIES/INCIDENTS** ●→		
				The risk connected with serious/fatal injuries and/or incidents that may have consequences for the health of employees and/or contractors and sub-contractors, as well as impeding the Company's efforts to achieve goals relating to safeguarding people's health and having a serious impact on the Group's reputation and credibility.	Operational risk E**S**G	
INNOVATION AND DIGITALISATION	Delivering the energy transition Quality, security and continuity of the electricity service Grid resilience Innovation and digitalisation Reducing the Group's CO_2 emissions Economic impacts on the community		Community Electricity system operators Public decision-makers and authorities Community Local communities Suppliers Shareholders	**#11 COORDINATION AND GOVERNANCE OF CROSS-CUTTING PROJECTS**		
				Risk of ineffective coordination between various Company departments involved, and governance of cross-cutting projects and initiatives. Failure to coordinate could lead to reworking, which would negatively affect motivation and collaboration between Company departments.	Operational risk ES**G**	

Key

→● Outside-in

●→ Inside-out

→◐→ Outside-in & Inside-out

PRIORITY RISKS LINKED TO THE OBJECTIVE		MINOR RISKS LINKED TO THE OBJECTIVE
MANAGEMENT ACTIONS	OPPORTUNITIES	
- Expansion of employer branding and recruitment channels; - Entry into partnerships with the academic world (e.g. the Tyrrhenian Lab) to accelerate the development of technical and management expertise; - Talent management process; - Strengthened training plan.	**Increase in Terna's reputational capital** helping to retain talent, above all the young, creating a more attractive and engaging work environment for employees. **Development of partnerships with universities** to identify specific technical and management training programmes in response to the need for new skills and expertise.	
- National cultural transformation programme for H&S: "Safety Excellence"; - Process for qualifying and monitoring contractors and sub-contractors; - Worksite safety monitoring plan; - Monitoring of regulations; - Technical working groups (e.g. Terna and ANIE - National Association of Electricity Companies) on HSE and occupational safety issues across the entire supply chain.	External promotion of the processes and solutions adopted (e.g., Smart DPI) by Terna and the outcomes achieved with a resulting **increase in Terna's reputational capital** as a company that cares about workers' human rights. **Terna's increased attractiveness** to socially responsible investors (SRIs). Positive impact on financial capital of containing cost of **premiums paid to INAIL** to insure against workplace injuries and occupational diseases among workers.	- Failure of overseas suppliers to respect human rights
- Prompt project monitoring (timeframe, cost, quality) using project management methodologies; - Integrated project portfolio monitoring; - Prompt management of critical issues at interdepartmental level when needed.	Promotion of a **corporate culture geared towards collaboration and sharing** best practices, thereby increasing motivation and cohesion among employees.	- Critical issues in the process of technological innovation to support management of the electricity system - Inadequate use of data analytics and artificial intelligence tools - Loss of know-how and inefficient management of intellectual property

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OBJECTIVE	MATERIAL TOPICS	CAPITAL IMPACTED	STAKEHOLDERS IMPACTED	PRIORITY RISKS LINKED TO THE OBJECTIVE			
				RISK DESCRIPTION	RISK CATEGORY	MANAGEMENT ACTIONS	OPPORTUNITIES
EXTERNAL COMMUNICATION & BRAND IMAGE	Business integrity Management of stakeholder relations		Community Local communities Shareholders	NO PRIORITY RISKS ASSOCIATED WITH THIS OBJECTIVE			
DATA, INFORMATION & IT SYSTEMS	Cybersecurity and protecting privacy		Community Electricity service operators Suppliers Employees	NO PRIORITY RISKS ASSOCIATED WITH THIS OBJECTIVE			
REGULATORY BODIES & OTHER GOVERNMENT STAKEHOLDERS	Management of stakeholder relations Economic impacts on the community		Community Local communities Suppliers Employees	NO PRIORITY RISKS ASSOCIATED WITH THIS OBJECTIVE			
PHYSICAL ASSET MANAGEMENT	Grid resilience Environmental impacts of electricity infrastructure on local areas Protecting biodiversity		Community Local communities Employees	NO PRIORITY RISKS ASSOCIATED WITH THIS OBJECTIVE			
INTERNATIONAL EXPANSION	N/A		Shareholders Credit providers Suppliers Employees Community	NO PRIORITY RISKS ASSOCIATED WITH THIS OBJECTIVE			
FINANCIAL MANAGEMENT	N/A		Shareholders Credit providers Suppliers Business partners Employees Community	NO PRIORITY RISKS ASSOCIATED WITH THIS OBJECTIVE			
ENVIRONMENT	Sustainable supply chain Innovation and digitalisation Environmental impacts of electricity infrastructure on local areas Protecting biodiversity Reducing the Group's CO_2 emissions Promoting the circular economy		Suppliers Community Local communities	NO PRIORITY RISKS ASSOCIATED WITH THIS OBJECTIVE			
GOVERNANCE & ORGANIZATIONAL FRAMEWORK	Business integrity Governance model effectiveness Management of stakeholder relations		Shareholders Credit providers Employees Suppliers Community Local communities	NO PRIORITY RISKS ASSOCIATED WITH THIS OBJECTIVE			

Key

Outside-in

Inside-out

Outside-in & Inside-out

	MINOR RISKS LINKED TO THE OBJECTIVE
	- Media coverage that is adverse for Terna → - Deterioration of the Group's image due to employees' inappropriate use of social media channels → - Corporate giving risk
	- Compliance with applicable national and European data protection legislation →→ - Compliance with NIS Directive 2 (Network and Information Security) → - Malfunctioning of substation digital systems → - Breakdown of ICT infrastructure/services - Unavailability of applications/systems/control rooms → - Technological obsolescence of legacy carriers - Compliance with Italian and European cyber security regulations → - Computer fraud (e.g. social engineering) →→ - Loss of confidentiality and/or availability of data and services migrated to the cloud →→
	- Uncertainty of "Totex/Output-based" regulation → - Non-renewal of the concession (expiry date 2030) → - Changes in the WACC (period 2025-27 and 2028) → - Uncertainties connected with output-based incentive mechanisms → - Infringement of unbundling obligations and regulations (antitrust, AGCOM) regarding Non-regulated Activities → - Critical issues relating to selection of investments/assessment of their usefulness for the National Electricity System →→ - Implementation of auction mechanisms for the construction of storage systems - reputational repercussions in the event of critical issues relating to the definition and management of the new rules → - Failure to achieve Dispatching Services Market incentive targets →→
	- Malfunctioning/failure of grid infrastructure components (e.g. transformers, conductors) →→ - Delayed application of new secondary legislation (regulatory/technical oversight) → - Terrorist attacks → - Damage/vandalism/theft relating to plant and equipment perpetrated by third parties
	- Problems related to international expnsion initiatives, resulting in a loss of value → - Ongoing legal disputes in Brazil → - Delays/extra costs related to project decommissioning → - Outage penalties→
	- Commodity price volatility → - Adverse medium to long-term interest rate trend (> 12 months) → - Downgrade of the Group's rating → - Default/insolvency of financial counterparty → - Fluctuation of short-term interest rates (<12 months) → - Increasing Group financial commitments →
	- Failure to meet emission reduction targets (SBT targets) due to grid development delays →→ - Greenhouse gas leakage (environmental accidents →→
	- Delays in adapting centralised management models to the changing regulatory and business environment →

Integrated Management System

The **Integrated Management System** is the tool that – via certified management systems – optimises coordination of all the units responsible for overseeing business processes. It is also an important risk management tool because it ensures the effectiveness and efficiency of systems and highlights potential risks in the areas under observation.

The Integrated Management System also plays a key role in stakeholder engagement, by monitoring and measuring issues of interest to stakeholders, and keeping a constant eye on improvement, thereby helping to boost transparency and trust in stakeholders' relations with the Group.

The Integrated Management System covers all the Italian and international activities of Terna S.p.A., and its subsidiaries, Terna Plus S.r.l., Terna Rete Italia S.p.A., Terna Energy Solutions S.r.l. and Terna Crna Gora d.o.o.

In 2023, the Terna Group successfully completed the necessary procedures to maintain and renew all existing certifications/accreditations, and also extended the scope of certification of the Montenegrin company, Terna Crna Gora, to include the Quality, Environment, Safety and Energy systems for the operation and maintenance activities of the Kotor power station site. The complete list of all the certifications/accreditations of Terna Group companies is shown in the table on page 94.

In early 2023, in line with a continuous improvement approach aimed at ensuring the highest quality for the business model by monitoring corporate processes, Terna certified its Compliance Management System to meet the ISO 37301:2021 standard, in order to guarantee effective monitoring of the compliance obligations of Terna Rete Italia S.r.l., Terna Energy Solutions S.r.l. and Terna Plus S.r.l., thereby becoming the first company in Italy to meet all such compliance obligations.

Terna is the first Italian company to be certified for Administration, Finance and Audit processes

Terna is the first Italian company to obtain **UNI Pdr 104 2021 certification** related to the **management and internal control system of administrative and accounting processes** for the Parent Company, Terna S.p.A., and its subsidiaries.

UNI Pdr 104 2021 certification, which is issued by Intertek Italia and valid for five years, evaluates the internal development of financial reporting procedures, and also certifies robust oversight of administrative and tax matters and their audit processes.

Terna has also been admitted to the **cooperative compliance** regime by the tax authorities, which is aimed at increasing the degree of certainty regarding the relevant tax issues through constant, prearranged engagement with the tax authority on specific matters, with a view to jointly evaluating situations that are likely to generate tax risks. As a result of being admitted to this regime, Terna has been included in a list of companies operating in a fully transparent manner with the Italian tax authority, which is published on the tax authority's website.

This puts management of the tax variable among the indicators of the Group's excellent performance, including in the ESG sphere, as tax revenues are an important source for Italy's economic and social development.

TERNA GROUP CERTIFICATIONS AND ACCREDITATION

TYPE	SCOPE	YEAR OF 1ST ISSUE	YEAR OF RELEASE	YEAR OF EXPIRY
ISO 9001:2015	Terna Group (*) (**)	2001	2022	2025
ISO 14001:2015	Terna Group (*) (**)	2007	2022	2025
ISO 45001:2018	Terna Group (*) (**)	2019	2022	2025
UNI CEI EN ISO 50001:2018	Terna Group (*) (**)	2015	2021	2024
ISO 37001:2016	Terna Group (*)	2017	2022	2026
ISO 37301:2021	Terna Group (*)	2023	2023	2026
UNI PdR 125:2022	**Terna Group (*)**	**2024**	**2024**	**2027**
ISO 55001:2015	Terna S.p.A., Terna Rete Italia S.p.A.	2018	2021	2024
ISO 9001:2015	Tamini Group	1993	2021	2024
ISO 14001:2015	Tamini Group	2015	2021	2024
ISO 45001:2018	Tamini Group	2015	2021	2024
ISO 37001:2016	Tamini Group	2022	2022	2025
ISO 27001:2013	Terna S.p.A. only for Market Monitoring Code applications	2011	2023	2026
UNI PdR 104:2021	Terna S.p.A.	2023	2023	2028
ISO 9001:2015	Brugg Group (premises in Switzerland) Production plant and commercial office	1995	2022	2025
ISO 14001:2015	Brugg Group (premises in Switzerland) Production plant and commercial office	1998	2022	2025
ISO 45001:2018	Brugg Group Switzerland	2021	2022	2025
ISO 9001:2015	Brugg Group (premises in China) Suzhou plant and commercial office in Shanghai	2015	2023	2026
ISO 14001:2015	Brugg Group (premises in China) Suzhou plant and commercial office in Shanghai	2015	2023	2026
ISO 45001:2018	Brugg Group (premises in China) Suzhou plant and commercial office in Shanghai	2020	2023	2026
ISO/IEC 17025:2018	Terna Rete Italia S.p.A. for multi-site test laboratories in Viverone (BI), Civitavecchia (RM) and Frattamaggiore (NA)	2014	2021	2026
ISO/IEC 17025:2018	Terna Rete Italia S.p.A. for calibration laboratories in Florence, Turin and Cagliari	2017	2021	2025
Biosafety Trust Certification	Terna (Rome offices, Viale E. Galbani, 55, 68 and 70)	2021	2021	2024

(*) Applies to Terna S.p.A., Terna Plus, Terna Rete Italia and Terna Energy Solutions.
(**) Also applies to Terna Crna Gora.

Terna Rete Italia S.p.A. has also implemented a "Management System for the Prevention of Major Accidents" in accordance with the provisions of Legislative Decree 105/15 (the "Seveso Directive").

Disclosure on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

Based on the results of the materiality analysis and on Terna's mission, which is firmly focused on the goal of decarbonisation, the issue of combatting climate change runs through all the Group's main activities, given that it represents a priority objective.

The Company's management and the Board of Directors are, therefore, also involved in the principal plans relating to climate change, such as the National Transmission Grid Development Plan, the main document containing operational guidelines for full delivery of the energy transition in Italy; the Improvement Plan for Defence Systems for the Security of the National Electricity System (the "Security Plan") with the attached Resilience Plan, key to enabling the NTG to withstand extreme climate events; and the 2024-2028 Industrial Plan which, envisages **investment of €15.5 billion** in the development, modernisation and upgrade of the NTG to enable Italy to achieve key energy transition targets.

A further reference point for the governance of climate-related issues is represented by the Group's Sustainability Policy, approved by the Board of Directors, which reiterates the Group's commitment to cutting greenhouse gas emissions.

On an operational level, in addition to the functions with specific responsibility for overseeing ESG performance (see page 78, the issue of climate change involves all the functions engaged in various aspects of the preparation of energy and climate scenarios and the above plans.

It should also be remembered that the Company's Integrated Management System includes the ISO 14001 certified Environmental Management System and the ISO 50001 certified Energy Management System, which oversee the impacts linked to the Group's energy consumption and greenhouse gas emissions.

The following table shows the references within the document that respond to the recommendations, by topic area, of the Task Force on Climate-related Financial Disclosures.

TOPIC AREA	RECOMMENDATIONS	REFERENCES
Governance	a) Describe the Board of Directors' oversight of climate-related risks and opportunities. b) Describe management's role in assessing and managing climate-related risks and opportunities.	"Sustainability Governance"
Strategy	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term. b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning. c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2C or lower scenario.	"Opportunities and risks for Terna connected with climate change" "Company objectives and risk management" "2023 Development Plan" "2024-2028 Industrial Plan" "Innovation Strategy" "Security and Resilience Plan" "Focus: Grid resilience and resilience methodology" "Renewal Plan" "Reference scenarios" "Terna's scenarios"
Risk management	a) Describe the organisation's processes for identifying and assessing climate-related risks. b) Describe the organisation's processes for managing climate-related risks. c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organization's overall risk management.	"Risk management"
Metrics and targets	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks. c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	"Atmospheric emissions" "The EU taxonomy"

Finally, it should be noted that, from 2024, the TCFD has transferred its mandate to the International Sustainability Standards Board (ISSB) - the IFRS Foundation's independent sustainability reporting standard-setting body - and the Task Force's recommendations are now incorporated into the sustainability standards IFRS S1 and IFRS S2, published by the ISSB in June 2023 and effective as of the 2024 financial year reporting (2025 publication). Therefore, the included references are also an initial response to the requirements of the new standards.

NFS

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Opportunities and risks connected with climate change

Climate change brings a series of opportunities and risks for the Company that must be properly evaluated to ensure that they are effectively managed. To identify them, Terna applies the framework used by the **Task Force on Climate-related Financial Disclosures (TCFD)**, which divides climate-related risks into two main categories:

- **Transition risks**: transitioning to a lower-carbon economy may entail policy and legal risks, due to different regulatory requirements across different geographies, or to new impacts and/or uncertainties resulting from the policies adopted. The transition may also result in technology risk, due to uncertainties surrounding the role of emerging technologies, and market risk, linked to new dynamics, shifts in supply and demand and an increasingly complex market environment, which could expose businesses to reputational risks;
- **Physical risks**: these risks can be event driven (acute) or longer-term shifts (chronic) in climate patterns. Physical risks may have financial implications for businesses, such as direct damage to assets and indirect impacts from supply chain disruption.

The following is a description of the climate-related opportunities and risks identified by Terna.

Opportunities

The opportunities linked to climate change constitute a cornerstone of Terna's strategy, regarding both Regulated and Non-regulated Activities in Italy and International Activities.

Electrification of consumption and investment

In addition to the need to integrate large numbers of RES plants, another key element in the energy transition is the electrification of final consumption. Electricity as an energy carrier is an enabler of this transformation, as final consumption powered by this carrier is by its nature far more efficient than any fuelled by combustion.

The energy transition will thus be based on a series of indispensable actions. It will immediately be necessary to develop additional renewable generation capacity that will have to be connected to the electricity grid. At the same time, it will be necessary to invest in the development of the grid infrastructure needed to transport and distribute the electricity and in storage systems. Finally, we will also need to deploy mature technologies, such as electric mobility, heat pumps for heating and cooling and induction cooking. Under this scenario, Terna is engaged in driving the change. The main actions in the 2023 Development Plan include: (a) stepping up the energy exchange capacity between market areas through the development of enabling and innovative infrastructure; (b) exploitation of infrastructure synergies with previously planned national strategic projects, such as the Tyrrhenian Link and the Adriatic Link, and the use of existing infrastructure and disused sites to expand the grid, while reducing the environmental impact; (c) integration of expected renewable capacity via the planning and identification of urgent grid works to achieve the European 2030 targets; and (d) increasing grid resilience via a forward-looking approach aimed at measuring risk to the grid when extreme weather events occur.

This approach is also consistent with a form of regulation that is increasingly focused on output-based solutions that will make it possible to raise Terna's returns in step with the ability to create benefits for the system.

Macroeconomic impacts

As an enabler of the energy transition, Terna has opted to further step up major investments in the electricity system via the ambitious Transmission Grid Development Plan. In 2023, having set aside more than €21 billion (up 17% on 2021) for investment over the ten-year period 2023-2032, the Company aims to significantly accelerate this transformation. The strategic linchpins of this plan are based on the Fit-for-55 scenario, which is included in the 2022 Scenario Description Document. This scenario is in line with the latest national decarbonisation targets, and also with the draft of the new National Integrated Energy and Climate Plan ("PNIEC"), published in July 2023.

The investment is expected to have a multiplier effect in terms of both GDP growth and the creation of new jobs. The Polytechnic University of Milan has estimated that every euro spent on the construction and management of assets generates an impact on GDP of between 2 and 3 euros.

Energy dependency

The energy transition is also a major opportunity to boost Italy's competitiveness: the country's lack of energy resources has historically meant that energy costs were higher than the European average and that the country was highly dependent on imported energy. The share of net imports compared to available gross energy, which is an indicator of how much Italy depends on energy imported from other countries, rose from 73.5% in 2021 to 79.7% in 2022. As a result of the energy transition, Italy will see a sharp reduction in its energy dependence and could enjoy far more competitive energy costs thanks to the availability of sun and wind. The actions taken in the coming years will determine the country's strategic position in the global economic system of the future.

The energy transition and trends that encourage the development of new opportunities in Italy are of global significance, opening up new opportunities overseas. Within the scope of the non-regulated business, this situation will therefore also bring new potential linked above all to the identification and development of new energy solutions.

Transition risks

Political and legal

Terna is not currently subject to legal obligations regarding cuts in emissions and, there are therefore no specific risks with regard to the introduction of a carbon tax or rising carbon prices. An increase in reporting obligations would also not pose any problems for Terna, which has been providing full disclosure on its emissions for some time.

In terms of the regulation of quality of service, the Company is already subject to a series of rewards and penalties linked to continuity, which may be affected by extreme climate events. Terna's response to this risk is the **Resilience Plan**, which describes all the initiatives and measures taken to be able to respond with growing speed and effectiveness to any adverse events.

Technological

The growing use of renewable sources and the progressive electrification expected over coming years mean that **investment in the transmission grid** is of primary importance, given the role that the grid will play in helping to achieve decarbonisation targets. There are no specific risks linked to the replacement of technology.

Given the new complexities to be dealt with, the drive for constant innovation remains a priority, with continued attention to the most promising technology streams on which to focus both investment and R&D efforts. Terna identifies these technology streams in its **Innovation Plan**.

Market

After gas price increases in 2022, caused by the outbreak of war between Russia and Ukraine, 2023 saw a partial drop in wholesale prices. In detail, in 2023 the price of the TTF - Title Transfer Facility - fluctuated between €40 and €50/MWh, well below the average price of €122/MWh recorded in 2022 (with spikes up to €330/MWh in August 2022), thanks to mild temperatures and the diversification of supplies, which saw Russian gas gradually replaced by gas imported from other countries, including LNG. Nevertheless, the gas price in 2023 was higher than the average value of 20€/MWh recorded over the three-year period 2019-2021.

However, the use of natural gas as an energy carrier exposes Italy to geopolitical and economic supply risks, making the country significantly vulnerable to commodity price volatility linked to tensions in international markets. Energy price fluctuations could persist over the coming years due to several factors, leading to a risk of inflationary pressures in Italy that would impact consumption. Energy security and independence is also an issue, given that most of the gas consumed in Italy in 2023 was imported from Algeria.

The price of CO_2 remained significantly high in 2023, in line with the trend noted in 2022, averaging €83 per tonne. This figure is up on the average price recorded in 2021, which amounted to €53 per tonne.

The Single National Price ("SNP") stood at an annual average of €127/MWh in 2023, compared to €304/MWh in 2022.

Although high energy prices do not fall within the scope of the risks to which Terna is effectively exposed, this situation, if prolonged, could result in serious damage to the Italian economy. The main solution to rising prices and energy dependence, with significant benefits for the country's economy, is to accelerate the energy transition. To achieve the policy objectives set for 2030, as described in the EU's Fit For 55 package, it will be necessary to install approximately 68 GW of new non-programmable renewable energy capacity, compared to the figures recorded in 2021.

These new non-programmable renewable energy plants will be able to produce around 120-126 TWh of electricity, which will replace an equivalent quantity of energy produced by gas-fuelled thermoelectric plants. To ensure that these plants are built, it is essential to speed up consents processes and devise auction mechanisms with ambitious quotas, that will effectively enable achievement of the European targets. Terna will play its part as operator of the transmission grid, in order to integrate renewable resources into the grid and to promote a proper location and technology mix. In this landscape, it is vital to implement an appropriate market plan, which in addition to spot price signals can also provide the long-term price signals that enable investment in storage and renewables. Forward contracts are also essential to keep existing generation capacity up and running, preventing it from being taken out of service and thereby ensuring the system's medium- to long-term adequacy.

Reputational

The growing complexity of the electricity system and the increased frequency and seriousness of adverse climatic events requires constant monitoring of the system's adequacy and resilience. The occurrence of malfunctions, po-tentially of a widespread nature, could increase Terna's reputational exposure to public authorities and stakehold-ers in general.

Physical risks

< 201-2

Climate change and rising temperatures can impact quality of service and grid infrastructure. Increasing the **resilience of the Italian electricity system** is one of the major challenges posed by the energy transition. The increasingly serious and devastating impacts on electricity infrastructure provoked by extreme weather events, above all heavy snowfall and strong winds, make it necessary to draw up a specific plan to boost the resilience of the electricity system and the high-voltage grid.

Terna has developed, with the support of RSE (Ricerca sul Sistema Energetico), a probabilistic, predictive Resilience Methodology capable of assessing the most effective and efficient projects for boosting the resilience of the national transmission grid. The new approach to evaluating the benefit of increased resilience is based on calculating the expected likelihood of faults caused by a range of weather events over a certain period of time to take into account the effects of climate change, and on an assessment of their impact on the electricity system in terms of power cuts, including the potential for cascading failures on the grid. The new methodology was applied in drawing up the plan to boost the resilience of the national transmission grid (the **2023 Resilience Plan**).

Macroeconomic scenario: the Terna Group's risk analysis and prevention activities

The Terna Group constantly monitors the possible risks linked to the continuing crisis involving Russia and Ukraine, which has been exacerbated by the recent Israeli-Palestinian conflict, in light of the constantly changing geopolitical scenarios and the related legislation regarding the international sanctions that have been in place since the outbreak of war between the two countries.

To this end, the new sanctions regime is constantly monitored, and due diligence and ordinary controls have been strengthened. The main potential areas of concern to be monitored continuously by the taskforces are: **cybersecurity, economic and financial, the electricity system** and the impact on **procurement**.

The ongoing conflict between Russia and Ukraine and the onset of the crisis in the Middle East, have led to an increase in **cyberattacks** on Italian government and corporate websites. These shows of force have not led to major upheaval or data breaches, with disruption being short-term in nature.

Thanks to the continuous sharing of information with government bodies and priority access to information from Cyber Threat Intelligence providers, a **series of rules and digital signatures** have been implemented as part of Terna's cyber protection systems with the aim of preventing any malicious acts. Checks confirmed that Terna **does not use any cybersecurity products or services for its IT infrastructure that are linked to the Russian Federation. Analysis was also carried out to determine the presence of Israeli (or related) technologies on Terna's digital infrastructure, especially in the field of cyber security, in order to monitor risk exposure** and proactively deploy any necessary measures to reduce the impacts on Terna.

On the **economic and financial** front, the rises in inflation and commodity prices, although down from the peaks registered in 2022, primarily caused by the accelerated post-pandemic recovery and the ongoing war between Russia and Ukraine, seem to be under control. This is partly due to the tight monetary policy imposed by the European Central Bank, which will also have an impact on Terna's cost of debt in the coming years. The effect will not, however, be immediate in view of the average duration of existing debt and the current high proportion of fixed rate borrowing (87%).

Based on Terna's current regulation, which envisages indexing of the operating costs recognised in the tariff and RAB (the latter is revalued in accordance with the investment deflator trend), no negative economic impact is expected from the increase in the price index, although the above recognition is reflected in the financial statements with a time lag of around one year.

Major movements in the macroeconomic parameters to which the Group is exposed (interest rates, inflation, the yield on Italian government bonds and European cost of debt indices) could lead to a 0.8% rise in the allowed cost of capital in 2024 that would offset the impact of movements in the variables themselves. In this regard, it should be borne in mind that the regulator provided a revision mechanism for the WACC if, following the update of certain parameters, the WACC rises or falls by more than 50bps. In addition, there will be an overall review of the parameters used to calculate the WACC in 2025, in accordance with the resolution published by ARERA at the end of 2021. In this case, the review process does not provide for thresholds for adjustments to the cost of capital.

Finally, it should be noted that the Terna Group currently has access to funding represented by liquidity and committed lines of credit (thus immediately available). This, together with the ability to generate cash, will enable the Group to meet its funding requirements for the next 18/24 months and respond to any further capital market tensions.

There has so far been little evidence of any impact on the adequacy of the **electricity system**. In 2023, the scenario improved compared to 2022, thanks to mild temperatures and diversification of natural gas imports, with Russian gas gradually being replaced by gas imported from other countries, including liquefied natural gas (LNG). However, commodity prices, especially with regard to gas, are still higher than before the outbreak of the war in Ukraine. Energy security and independence is also an issue, given that most of the gas consumed in Italy in 2023 was mainly imported from North Africa and Azerbaijan. In this landscape, electrification of consumption and decarbonisation of the electricity system will play a key role.

In terms of **procurement**, all qualified suppliers are subject to due diligence with regard to international sanctions, and Terna no longer uses any Russian qualified suppliers.

Steps have been taken to recover and reposition supplies of power lines, substation equipment and power systems via:

i) the conclusion of additional contracts after new calls for tenders, including indexation mechanisms (using tools such as online tenders that can be carried out quickly, such as for the supply of pylons) and

ii) the negotiation of claims on non-indexed supply contracts. Steps have been taken to manage the most significant effects of price movements on supplies of metals (steel, aluminium, nickel and semiconductors).

As regards major projects (e.g., the Tyrrhenian Link and SACOI 3), where substation supply contracts are about to be fulfilled or negotiated as part of the tender process, etc., Terna may see an impact of the uncertainty surrounding increases in commodity prices and project construction timeframes. In any event, it should be borne in mind that from 2022 legislation has introduced the obligation to adopt price adjustment mechanisms in contracts. As a result, the Company constantly monitors the main indices used. In any case, the increase in commodity prices is appropriately mitigated by the current regulatory framework, and therefore does not constitute a significant risk for Terna.

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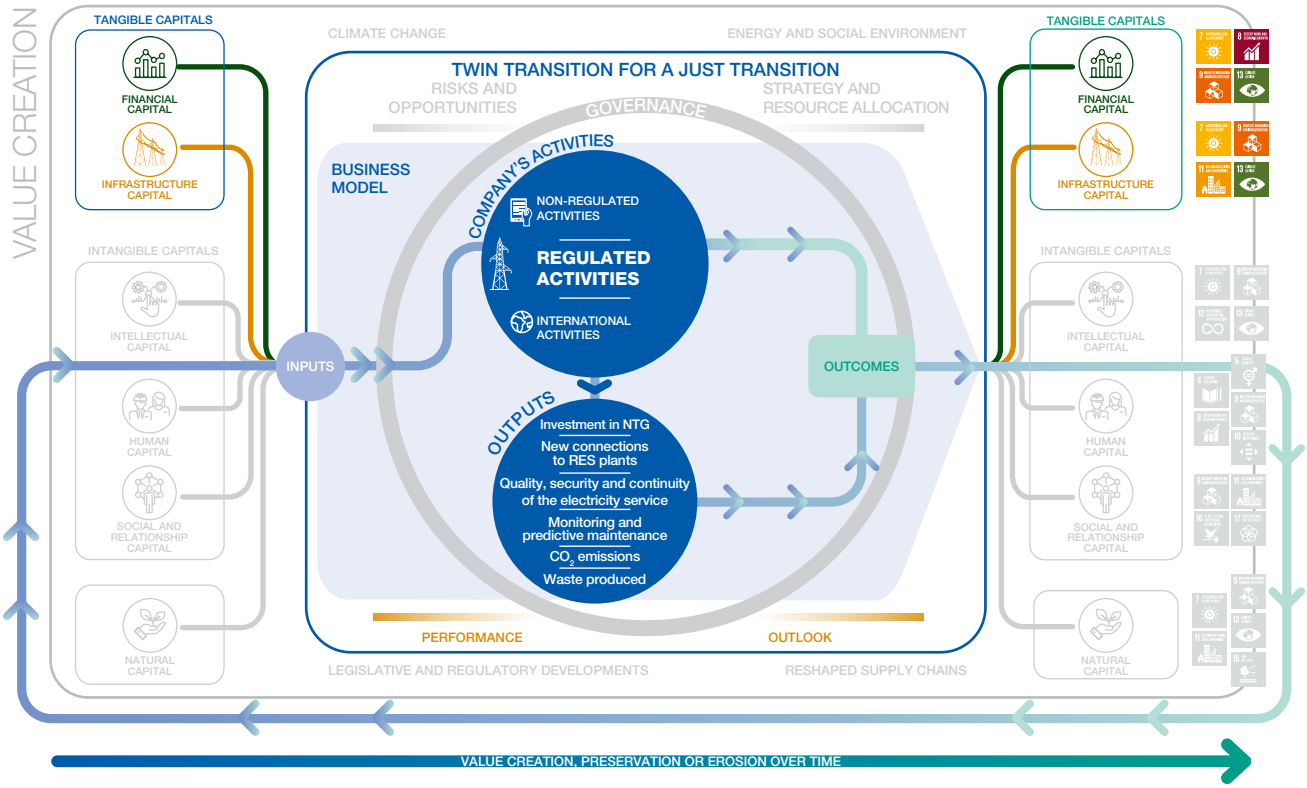
3 The Group's business

In this section

This chapter focuses on the Group's tangible capitals and their contribution to the creation of value over time through solid management of the Group's finances and investment provided for in the Development Plan, in order to achieve the goal of transitioning towards an energy paradigm based on the progressive integration of renewable sources into the country's electricity system.

Operating activities are shown in keeping with three segments identified in the Group's business model: Regulated Activities, Non-regulated Activities and International Activities. The new 2024-2028 Industrial Plan and the new edition of the Sustainability Plan, fully integrated in the former, are highlighted. Information on the operating and financial performance of each operating segment is provided.



These infographics highlight the topics dealt with in this section with the aim of **facilitating information connectivity**: in this way, the section offers an overall view showing the links between all the factors that influence Terna's ability to create value over time and how they are dependent on each other.

INPUTS

at 31 December 2022

74,910 km of circuits

Ownership of almost the entire NTG

over 3,100 requests for the connection of RES plants with capacity of approx. 163,859 MW

at 31 December 2023

ASA indicator 99.99952%

NTG RENS indicator 507 MWh

Net DSM charge of approx. €853 million (vs €2,291 million in 2022)

OUTCOMES

75,140 Km of circuits (up 230 km)

Consents received from the Ministry of the Environment and Energy Security for 23 NTG development projects, up 20% vs 2022

43,000 substation inspections at a range of voltage levels

1,000 inspections and maintenance works

59 connection contracts for RES plants amounting to capacity of approx. 2,300 MW

OUTPUTS

INPUTS

at 31 December 2022

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

Cash flow from operating activities €2,528.0 million

Debt €8,576.3 million

at 31 December 2023

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

Cash flow from operating activities €1,099.9 million

Debt €10,494.3 million

Dividend per share 33.96 eurocents

EPS 44 eurocents

OUTCOMES

Capex €2,290 million (up 30.4% vs 2022)

EBITDA €2,168.6 million (up 5.3% vs 2022)

Quality of service €5.9 million (down €15.4 million vs 2022)

OUTPUTS

2-6 >

Operating activities

The Terna Group's business model is divided into three areas of business. The main area is Regulated Activities, which coincides with the obligations deriving from the government concession, together with Non-regulated Activities and International Activities.

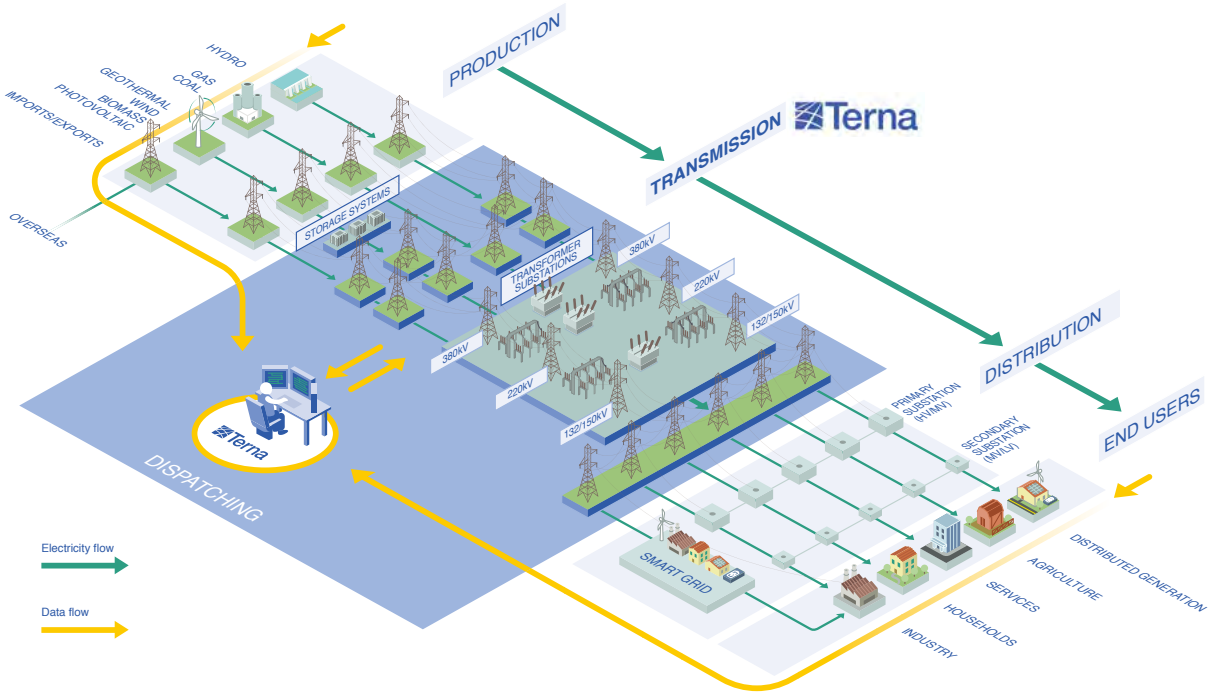
NFS

Regulated activities

Electricity transmission: Terna's role for the country

The Italian electricity supply chain consists of four segments: production, transmission, distribution and the sale of electricity. With its transmission and dispatching activities, Terna occupies the key transmission segment.

The national electricity system supply chain



As a **Transmission System Operator (TSO)**, Terna not only has to design a grid capable of dealing with the progressive decarbonisation and the ever-growing integration of renewable sources (transmission operator), but also ensure that, moment by moment, consumer demand for energy is constantly balanced with production, through **dispatching** (system operator). Terna has the key and delicate role of guaranteeing this balance through a high-technology system, using a specific market (the dispatching services market or "MSD"), in which it makes daily purchases of the "services" necessary to constantly ensure the continuity and security of electricity supply.

In addition to strengthening the domestic grid, Terna is required to develop **interconnection** capacity with other **countries' electricity systems**. Indeed, Italy is electrically interconnected with France, Switzerland, Austria, Slovenia, Montenegro and Greece via 30 interconnectors.

National Transmission Grid

Terna **operates** Italy's high and very-high-voltage national transmission grid ("NTG"), one of the most modern and technologically advanced in Europe. Planning for development of the NTG, the performance of construction services and the maintenance of electricity infrastructure are the three areas of responsibility included in the regulated electricity transmission business.

The Group adopts a **sustainable approach** throughout every stage of the process. This takes the form of transparency in managing the Group's social and relationship capital through engagement with the stakeholders directly affected by the Group's development initiatives, with a view to building awareness of the importance of delivering the planned new electricity infrastructure.

EU4 >

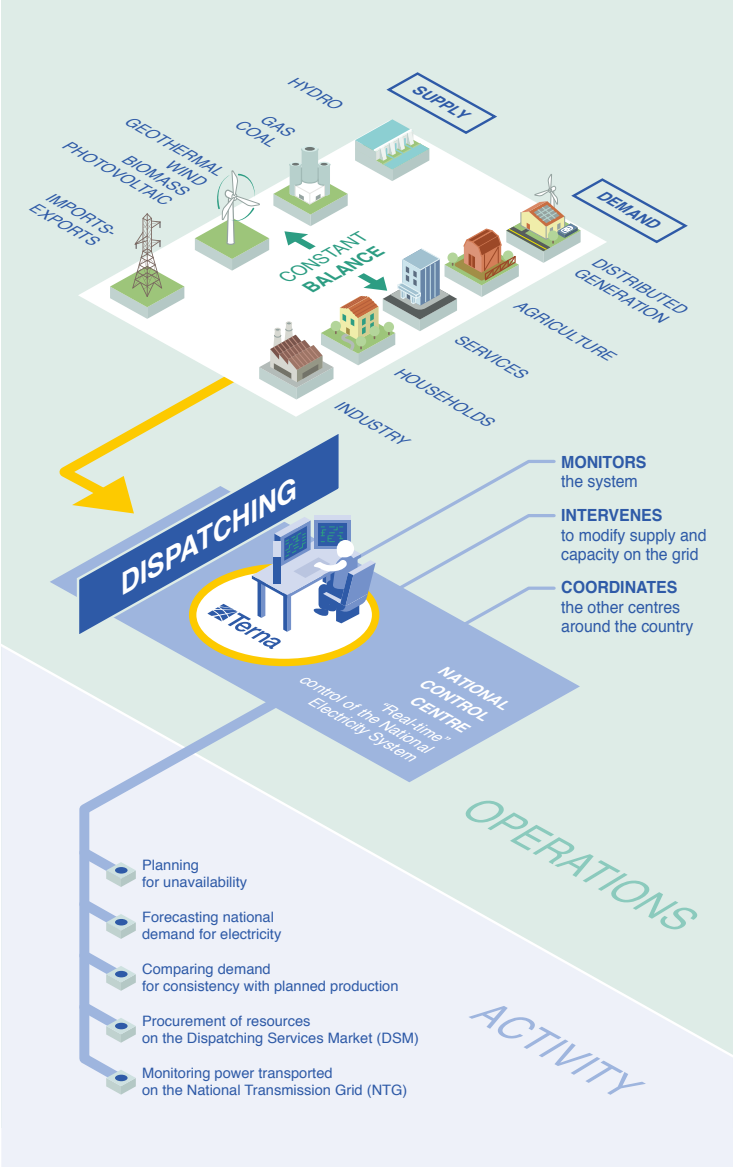
Terna's infrastructure*

910 electricity substations	75,140 km of circuits	68,321 km of lines 94% overhead	no. 4 control centres
782 transformers	5 storage sites	7,206 bays	235,170 line spans

** Figures updated to 31 December 2023, except for the figure for line spans, which is updated to early 2024.*

Dispatching of electricity

Except in specific and limited circumstances, electricity cannot be stored. Therefore, it is necessary to produce - moment by moment - the amount of energy required by all consumers (households and companies) and to manage its transmission so that supply and demand are always balanced, thus guaranteeing the continuity and security of the electricity supply. Terna manages these energy flows through the grid via dispatching activities.



Dispatching includes planning for the unavailability of the grid and of production plants over different timescales, forecasting national demand for electricity, comparing demand for consistency with planned production in the free energy market (the Power Exchange and over-the-counter contracts), the acquisition of resources for dispatching and monitoring power transfers for all the power lines that make up the grid.

This area of operation also includes management of the **Dispatching Services Market (DSM)**, through which the resources for dispatching services are procured.

"Real-time" control of the National Electricity System is ensured by the **National Control Centre**, the nerve centre for Italy's National Electricity System, which coordinates the other centres around the country, monitors the system and dispatches electricity.
The Centre intervenes, by issuing instructions to producers and Remote Centres, in order to modify supply and capacity on the grid. To avoid the risk of prolonged power outages, it may also intervene in an emergency to reduce demand.

Connecting new plants

Terna has an obligation to connect all potential users requesting connection to the grid, identifying connection solutions in terms of criteria that guarantee the continuity and secure operation of the grid to which an applicant's new plant will be connected. Terna is responsible for high and very high voltage connections to the NTG of plants with a capacity of 10 MW or more.

Terna is handling around 7,000 applications for connection to the grid in relation to future or existing initiatives. More than 4,600 applications for connection using the general minimum technical solution, relating to the connection of plants using renewable energy sources (RES) to the NTG and representing total capacity of 272 GW, are currently in progress.

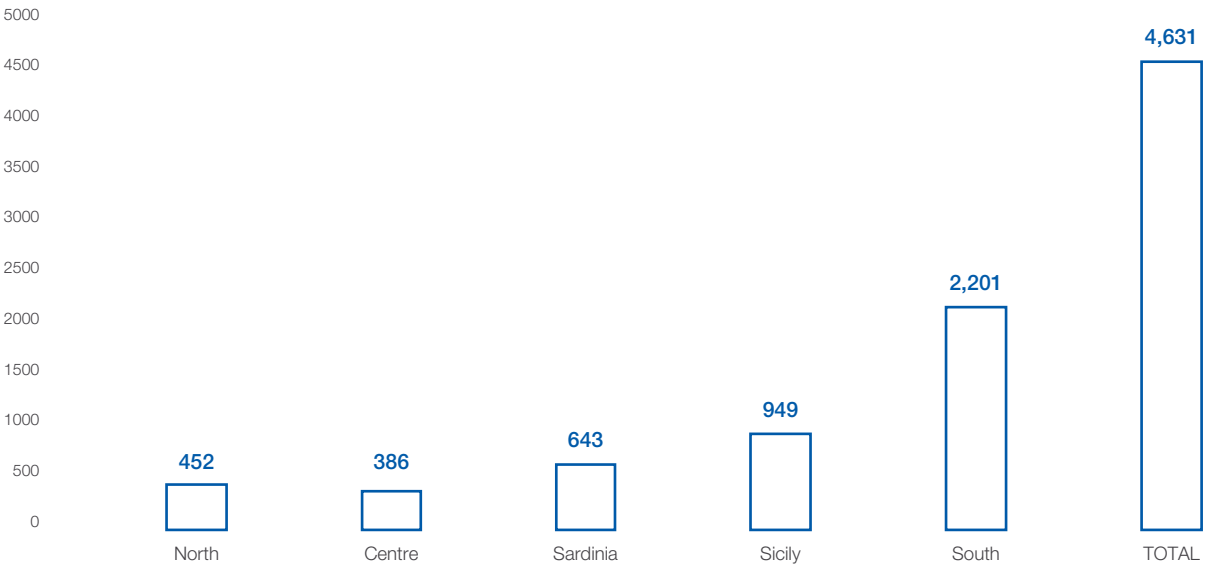
New projects at the development stage primarily regard wind and solar power plants.

Information on renewable plant connection requests is provided in the **Econnextion** dashboard.

The data shows that:

- 82% of the applications received are from southern Italy and the islands (representing capacity equivalent to over 83% of the total);
- a sharp increase was registered in applications for the connection of new distribution plants and for upgrades to existing plants by local distributors, with the aim of harnessing production from renewable sources;
- **59 connection contracts** were signed in 2023 (representing **total capacity of approximately 2,300 MW**), relating to the construction of new RES plants.

Number of applications[59]

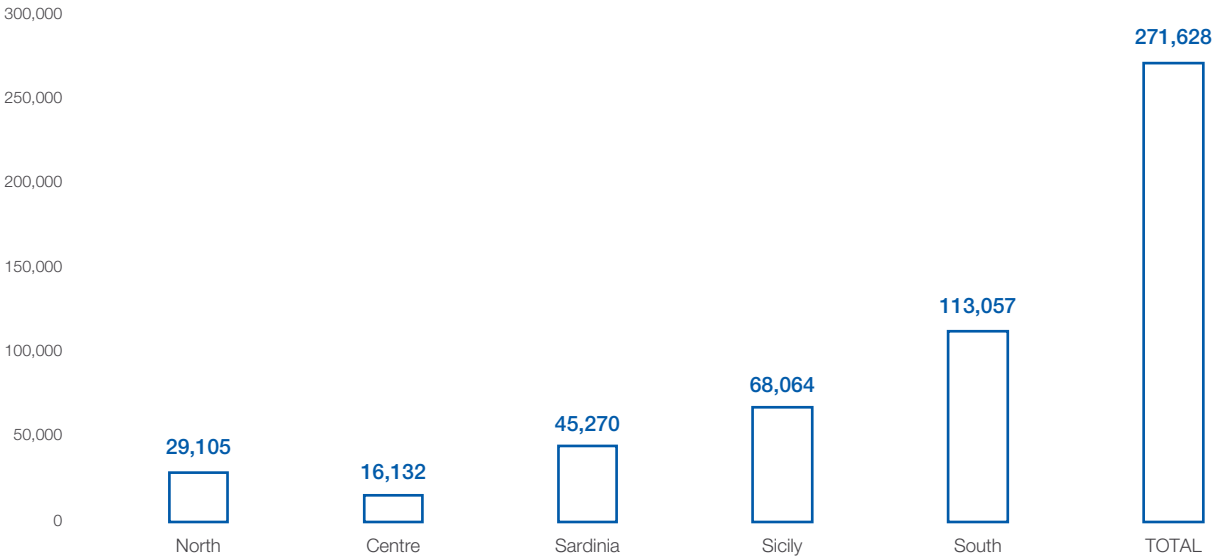


Data as at 31 December 2023.

[59] The different areas of the country include the following regions:
North: Val d'Aosta, Piedmont, Liguria, Lombardy, Veneto, Trentino-Alto Adige, Friuli-Venezia Giulia, Emilia-Romagna, Tuscany.
Centre: Marche, Umbria, Lazio, Abruzzo, Molise.
South: Campania, Puglia, Basilicata.

Capacity

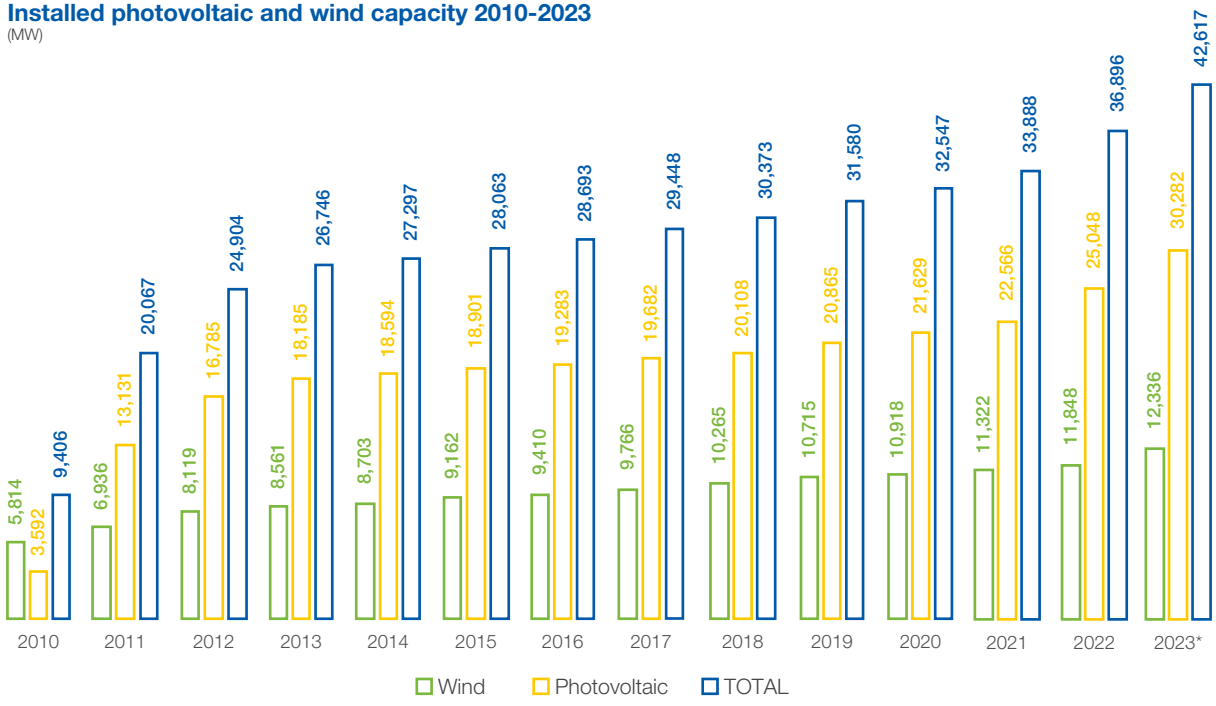
(MW)



Data as at 31 December 2023.

Installed photovoltaic and wind capacity 2010-2023

(MW)



(*) The data for 2023 are provisional.

SASB

Development Plan

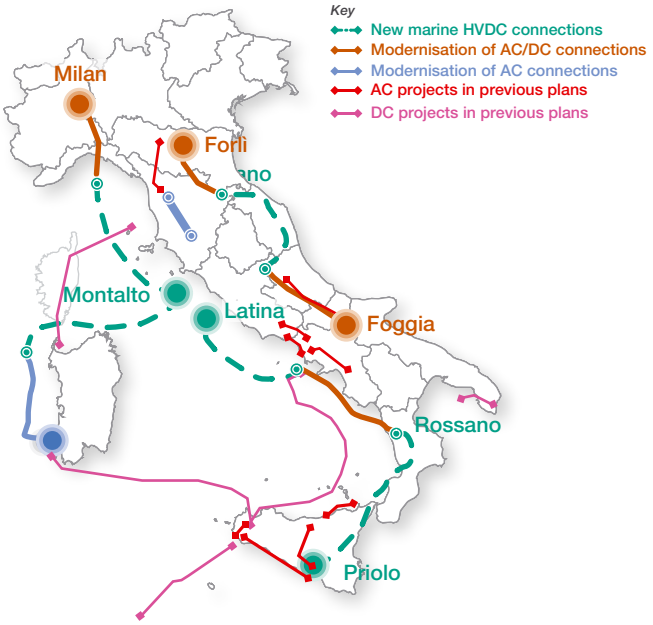
The identified needs relating to grid development are included in the 2023 Development Plan, which represents a structured and organic response to the challenges brought about by the energy transition and the current international geopolitical tensions, as described in the section, “Strategy”.

Principal projects for the National transmission grid

The 2023 Development Plan envisages capital expenditure of over €21 billion in the next ten years.

Grid Architecture over the 2023-2032 Plan time frame

Grid Architecture post-2032



INTERCONNECTORS AND LINES	STATUS	PURPOSE
HVDC Milan-Montalto	●	
Central Link	●	
HVDC Fiumesanto – Montalto (Sapei 2) and Sardinian Link	●	
HVDC Priolo-Rossano-Montecorvino-Latina e HVDC Ionian	●	
HVDC Foggia-Villanova-Fano-Forlì	●	
Italy-France Interconnector	●	
Italy-Austria interconnector	●	
Italy-Switzerland Interconnector	○	
Italy-Slovenia interconnector	○	
Sardinia-Corsica-Italy interconnector[60]	○	
HVDC Centre South - Centre North	○	
HVDC Italy-Tunisia	○	
HVDC Mainland-Sicily-Sardinia (West Link/East Link)[61]	○ ○	
Restructuring metropolitan areas[62]	● ○ ○	
Chiaramonte-Gulfi-Ciminna 380kV power line	○	
Upgrade in the Mid Piave Valley	○	
Colunga- Calenzano 380kV power line ✓	○	
Gissi-Foggia (Foggia-Villanova 380kV power line)	○	
Cassano- Chiari (Milan-Brescia 380kV power line)	○	
Upgrade North- Calabria	○	
Paternò-Pantano-Priolo 380kV power line	○	
Elba-Mainland 132kV power line ✓	●	
SUBSTATIONS		
Pantano substation	○	
Agnosine substation	○	
Vizzini substation	○	
Torremaggiore substation	●	
Cerignola substation	○	
Ariano Irpino substation	●	

Legenda Resiliece and Status

✓ Resilience plan ● Completed ○ Under construction ○ Awaiting consents ○ Study ◎ Consultation ● Under design ● Planned

Legenda Driver

De-carbonisation | Market efficiency | Security of supply | Systemic sustainability

[60] The Ministry of the Environment and Energy Security gave its consent for the final design in September 2023.
[61] The Ministry of the Environment and Energy Security, with Interministerial Decree 239/EL-526/389/2023 of 5 September 2023, consented to the final design for the Tyrrhenian Link West.
[62] The overall project refers to the 404-P, 10-P,317-P works in the 2023 Development Plan.

SASB

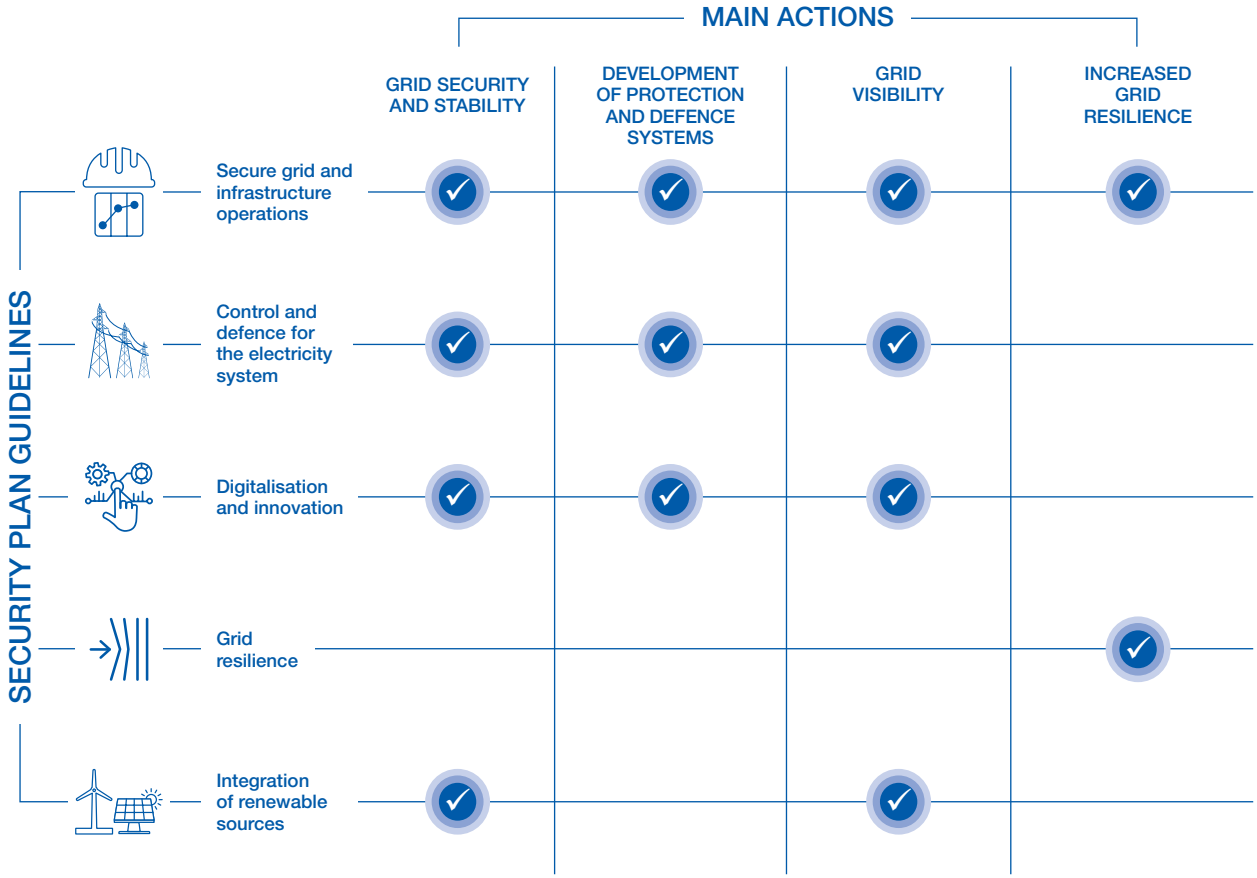
Security and Resilience Plan

The National Electricity System Security Protection Plan, also known as the Security Plan, is a four-year programme of interventions to protect the security of the electricity system. Prepared by Terna pursuant to Law 290 of 27 October 2003, the Plan is submitted to the Ministry of the Environment and Energy Security for approval by 31 May of each year.

The **2023 Security Plan** is the 20th edition and updates the initiatives to protect the security of the electricity system envisaged for the four-year period 2023-2026, with capital expenditure of over €1.1 billion.

The Plan is framed by geopolitical and climate-related events that call for an even greater focus on the importance of the security of the electricity system, a key element in driving the energy transition process.

To deal with the new energy transition challenges, Terna's 2023 Security Plan continues to be based on 5 Guidelines and 4 Actions designed to guarantee high levels of security for the electricity system:



The Security Plan also includes initiatives designed to upgrade management, control and defence systems for the grid, innovating operating logistics, installing system control devices and implementing solutions for the physical and cyber security of the grid infrastructure.

Attached to the Security Plan is the **Resilience Plan**, a cross-cutting plan that establishes all the initiatives required to prevent and/or reduce damage to the electricity grid caused by increasingly severe and frequent weather events. The plan includes infrastructure protection, renewal and monitoring work, assessed using **Resilience Methodology** for ice, snow and wind.

The 2023 edition of the Resilience Plan also presents the progress of work on developing and refining Resilience Methodology for modelling weather and climate-related events linked to hydrogeological instability.

PROJECTS	STATUS	DRIVER			
Fiber for the Grid	Under construction	Market efficiency		Security of supply	Systemic sustainability
Work on withstanding ice, snow, wind and other weather events ✓	Under construction		De-carbonisation	Security of supply	Systemic sustainability
Control devices	Under construction	Market efficiency	De-carbonisation	Security of supply	Systemic sustainability
Cyber Security	Under construction			Security of supply	Systemic sustainability
Dispatching, control and protection of the NTG	Under construction	Market efficiency	De-carbonisation	Security of supply	Systemic sustainability

Legenda Resiliece and Status

✓ Resilience plan | Completed | Under construction | Awaiting consents | Study | Consultation | Under design | Planned

Legenda Driver

De-carbonisation | Market efficiency | Security of supply | Systemic sustainability

FOCUS

Grid resilience and Resilience Methodology

There is no doubt that increasingly severe and frequent weather events are closely related to climate change.

In this regard, if no action is taken to prevent and mitigate the effects of climate change, NTG infrastructure will continue to be increasingly exposed to greater risks of damage and outages. Therefore, increasing the NTG's resilience is a key element of the response to the climate crisis.

Terna's Resilience Methodology is the outcome of two years of joint work with RSE, approved by ARERA in Resolution 9/2022, as set out in Annex A76 of the Grid Code. It is a new approach that allows the grid's level of resilience to be measured. Based on the projected critical issues identified and the possible risk of energy not being supplied to the NTG following severe weather events, it then identifies initiatives that would increase the resilience of the transmission grid, guaranteeing efficient and effective infrastructure.

Since 2022, the approach was applied in the plan to increase the NTG's resilience, analysing the benefits of infrastructure work with regard to the threats posed by strong winds, ice and snow. The plan was presented to grid operators through a public webinar on 1st December 2022.

Again applying the Resilience Methodology, Terna has selected a list of projects to be included in calls for proposals for the award of a non-repayable grant of €150 million under the NRRP, aimed at increasing the resilience of over 1,500 km of the NTG. With the Energy Incentive Directorate's management decree 413 of 16 December 2022, the Ministry of the Environment and Energy Security approved the list of Terna's projects qualifying for subsidies and financing under the NRRP.

Additional aspects and areas of resilience that were covered during 2023 regard analysis and studies regarding a further extension of the Resilience Methodology and the modelling of significant events for the NTG (for example, hydrogeological risks). There will also be a presentation to grid operators, on 12 January 2023, on the effectiveness of installing anti-rotation devices[63], as a capital-light solution for increasing the NTG's resilience. In 2023, the 2023 Resilience Plan, annexed to the 2023 Security Plan, was again prepared by 31 May.

[63] Devices installed on overhead power lines to increase the conductors core strength and prevent wet snow sleeves.

NFS

Infrastructure maintenance

Maintenance of electricity grid infrastructure is essential in order to guarantee quality of service, as well as the security of the assets managed (power lines and substations) and their performance during their lifecycle. These operations are carried out using a condition-based approach; a series of projects are in progress to drive operating activities towards a predictive, risk-based maintenance model. **The IT and digital tools used today to support maintenance activities are subject to continuous innovation**, and primarily include:

- the **MBI (Monitoring and Business Intelligence)** decision-support system, which suggests maintenance activities to be carried out and indicates whether or not they can be postponed;
- the **WFM (Work Force Management)** software, which manages the workforce by planning and scheduling MBI maintenance activities.

At the same time, during a period of great change and digital transformation, since the beginning of the year, Terna is working on a new platform, **Enterprise Asset Management**, which will allow it to optimise the organisation's asset management throughout the assets' entire life cycle. The platform will allow the Company to optimise:

- management of the asset registry;
- management of the catalogues of activities, malfunctions, policies (including diagnostic and calculation models for eligibility indicators[64]) and the list of work methods in line with Asset Management processes (AM);
- the planning and technical-financial accounting for the Asset Management Plan and AM programmes.

In addition, Terna has participated for many years in international benchmarking activities aimed at sharing O&M and renewal best practices, consistently ranking among the best TSOs in terms of asset management process efficiency and optimal service provision quality.

Monitoring the grid

Grid monitoring initiatives are designed to assess the condition of a specific high-voltage power line or substation component during its life cycle, by measuring, observing or testing its functionality.

The monitoring of overhead lines and cables includes:

- ground inspections;
- helicopter inspections (on sight, with IR[65] and Lidar[66] equipment);
- on sight checks of underground cables.

Similarly, for substations:

- regular inspections;
- technical checks on entire functional units and Command & Control Protection Systems;
- thermovision technical checks on batteries for ancillary services[67].

Routine maintenance

Repairs are carried out when signs of deterioration are identified as a result of the on-site monitoring process or through the analysis of on-line sensor data. These indications and any problems identified are processed by the asset engineering models included in MBI (Monitoring and Business Intelligence) and developed by the Asset Management department in agreement with other departments within the Company. The outcome of the engineering models is used to draw up the maintenance plan designed to ensure that assets continue to be fit for purpose over time.

[64] Parameters through which asset work timeframes are established.
[95] Infrared light.
[66] Lidar is a remote sensing technology that allows the user to determine the distance between trees and overhead lines.
[67] Ancillary services are the group of electrical components that distribute electricity to electrical equipment at substations (relay, motors, electronic components) in the primary system and the Command & Control Protection System (SPCC). Ancillary services include batteries.

Renewal Plan

The Renewal Plan is based on an analytical method that, starting from consistent, objective technical criteria, identifies and evaluates **extraordinary maintenance works** ("renewal"), assessing the state of repair and technical status of line components and substation equipment, compared with the effective operating conditions they have to deal with and prioritising components and infrastructure of greater importance for operation of the electricity grid.

Condition-based renewal of infrastructure aims to:

- carry out condition-based and component-based work only on individual items of infrastructure that effectively require it;
- maximise infrastructure use at the lowest cost, and thus keep each individual component operating efficiently for as long as possible;
- implement a plan of long-term prioritised works, as established through technical analysis.

To constantly improve and increase the efficiency of the asset management process, the Renewal Plan is divided into the following categories of benefit, which include the renewal objectives:

- **Sustainability:**
  - **Environmental quality:** introduction of more eco-friendly assets that are environmentally sustainable. These include, for example, investment in vegetable-oil transformers, fluid-oil cables and certain types of cable terminals, technical adjustments to lines/underground cables and the replacement of current and voltage transformers;
  - **Service quality:** solutions to improve the reliability of assets, based on asset management analysis (designed to assess the asset's technical conditions). By improving their reliability, the works reduce the Health Index score and the risk of outages. These include, for example, investment in the renewal of lines, the RIGEL (Reduction of Power Line Failures) programme and substation renewal (equipment and machinery).
- **Innovation and digitalisation:**
  - **Quality of the O&M process:** the introduction of new solutions and technologies to increase the effectiveness of the operating and maintenance process. These include, for example, investment in the new digital control system for substations, online diagnostics for substation equipment, cable monitoring and functional separations.
- **Resilience:**

  Strengthening the grid's ability to withstand the effects of the snow risk, the exposure of lines to hydrogeological risk and substation exposure to seismic risk. These include, for example, investment in:
  - ice/snow line resilience: strengthening power lines, increasing the cutting of vegetation, etc.;
  - ice/snow substation resilience: substation work, the digitalisation of substations, etc;
  - hydrogeological risk resilience for power lines: the instalment of hydrogeological monitoring devices, etc;
  - substation resilience to exposure to seismic risk: the instalment of seismic dampers.

Asset digitalisation programmes

In order to improve and digitalise the Asset Management process (power lines and substations), the following digitalisation programmes were implemented:

- **DigiS (substation digitalisation):** Terna's substation digitalisation plan aims to upgrade the functions provided by the Substation Automation Systems (SAS or SPCC), facilitating Terna's process of transitioning towards an increasingly efficient, innovative and smart digital asset management approach. These activities are designed to optimise the performance of the Substation Automation Systems for the safety and reliability of the grid, and provide a monitoring system that is increasingly focused on the state of function/disrepair of the systems, equipment and substation machinery.
- **DigiC (cable digitalisation):** in 2018, Terna launched the DigiC plan, which provides for the installation of monitoring systems on existing connections already in service. In addition, the plan requires for all new cable connections to be planned and installed with an integrated monitoring system. The data collected, regarding the cable's technical condition, will be used to implement a predictive, preventive maintenance system, designed to establish the time remaining before a fault occurs and subsequently take preventive action.
- **DigiL (power line digitalisation):** the DigiL plan aims to create an integrated system to measure, collect and process data in real time, with regard to the operating parameters of overhead power lines. The spans involved in these initiatives are appropriately identified between the critical high-voltage lines, in order to optimise their operation.
- **Private mobile network:** the initiative promoted by Terna in collaboration with WindTre aims to create a **monitoring platform** for the national grid, a private network infrastructure with radiofrequency, which will allow Terna to improve the operating efficiency and increase the effectiveness of its infrastructure management through asset digitalisation. In particular, Terna will benefit from increased data from the sensors spready across its power lines, developing an increasingly digital, efficient and proactive management model. WindTre will develop mobile access solutions tailored to Terna's specific needs with 4G and 5G networks, and will provide the most advanced mobile technology to remotely and promptly manage a growing number of assets, collecting and processing data to support grid management and maintenance.

Maintenance operations

INFRASTRUCTURE MONITORING AND CONTROL

~43,000
substation checks for various voltage levels

~3.1
average number of inspections per year per overhead line

~221,000 km
ground and helicopter inspections of overhead lines

~107,400 km
inspections of underground cable lines

~177,000 km
helicopter inspections of overhead lines

~44
average number of inspections per year per underground cable

ROUTINE MAINTENANCE

~20,000 km
of power lines on which vegetation was cut back to ensure their correct and safe operation

~1,000
monitoring checks and maintenance work carried out using live-line working

EXTRAORDINARY MAINTENANCE

Lines

~1,600 km
of conductors replaced

~2,000 km
of ground wires replaced

168
pylons replaced

Substations

20
static machines replaced

154
circuit breakers replaced

248
disconnectors replaced

423
current transformers replaced

834
voltage transformers replaced

NFS

203-1 >

SASB

The Group's capital expenditure

The Terna Group's **total capital expenditure** in 2023 amounts to **€2,290.0 million**, a significant increase compared with €1,756.8 million in the previous year **(up 30.4%)**.

(€m)

	2023	2022	CHANGE	% CHANGE
Development Plan[1]	1,217.0	670.7	546.3	81.5%
Security Plan[1]	275.7	276.6	(0.9)	(0.3%)
Projects to renew electricity assets	489.5	475.4	14.1	3.0%
Other capital expenditure[1]	201.9	245.3	(43.4)	(17.7%)
Total regulated assets	**2,184.1**	**1,668.0**	**516.1**	**30.9%**
Non-regulated assets[2]	**57.6**	**64.0**	**(6.4)**	**(10.0%)**
Capitalised financial expenses	**48.3**	**24.8**	**23.5**	**94.8%**
Total capital expenditure	**2,290.0**	**1,756.8**	**533.2**	**30.4%**

[1] The figures for 2022 have been restated following changes to the purposes of investments, without modifying the overall value of investment in regulated assets.
[2] Investment in non-regulated assets primarily regards the re-routing of power lines for third parties and private interconnectors.

Main regulated works carried out during the year

> DEVELOPMENT PLAN – €1,217.0 million

Tyrrhenian Link *(€408.7 million)*

East section: the detailed design for the ground route in Sicily and the detailed marine survey have been completed. Production of the detailed design in Campania and qualification testing of the cable are in progress, and work in Sicily began in December 2023. Following completion of the geognostic surveys and the removal of the pre-existing structures, preparation began for the construction site for the Eboli and Termini Imerese substations (in November and October 2023, respectively).

West section: following the consent received in September 2023, detailed design of the connections, the qualification testing, the detailed marine survey and the sea trials began. Planning is under way for the converter stations and assessments are being conducted on the archaeological findings identified at these locations.

Adriatic Link *(€110.2 million)*

The decree giving consent was published in January 2024, following receipt of the Regional Agreement. The contracts for supply and production of the HVDC cable connections were then signed and, in February 2024, the contract for supply, planning and construction of the converter stations was also signed.

Elba-Mainland connection *(€54.2 million)*

The 132kV Colmata-Portoferraio power line: the line entered service in July, in addition to the **Portoferraio Reactor**.

Olympic Projects *(€48.4 million)*

During 2023, work began at the **Livigno primary substation, Laion- Corvara primary substations, and the Brunico primary substation- Vandoies substation and Moena substation- Campitello primary substation connections**. Excavation and laying of cables are also under way.

Paternò-Pantano-Priolo *(€28.3 million)*

380kV Paternò-Pantano power line: the line entered service in December, together with the 380kV and 220kV section and the related transformer for the Pantano substation. Work is still ongoing at the 150kV section and the remaining transformers.

380kV Pantano-Priolo power line: validity of the EIA was extended in October, and onsite work restarted in November with the construction of 56 foundations and assembly of 50 pylons out of a total 115 and the stringing of approximately 19 km out of a total 45 km.

Colunga-Calenzano power line *(€26.7 million)*	**380kV Colunga-Calenzano power line:** work has begun at the Emilia-Romagna end and construction of the new 380kV overhead line and the cable connections has begun; at the Tuscan end, confirmation of compliance with requirements imposed during the consents process is awaited from the relevant agencies before work can begin. Work is also under way at the Futa substation (FI).
Sorgente-Rizzicon connection *(€18.6 million)*	**Re-routing of the 380kV Bolano-Annunziata line:** construction is in progress, with approximately 2 km of civil works completed out of a total of 3.4 km for the line and procurement of the main equipment for the Annunziata substation is underway.
Cerignola substation *(€17.7 million)*	The 380kV section entered service in December, together with a 150kV section and the related transformer. Construction of the second 150kV section and installation of the remaining transformers is in progress.
Magenta substation (€11.7 million)	The new 380kV section and one of three planned transformers entered service in October.
Italy-France interconnection *(€9.6 million)*	The regulated pole entered service in August.

> SECURITY PLAN[68] – €275.7 million

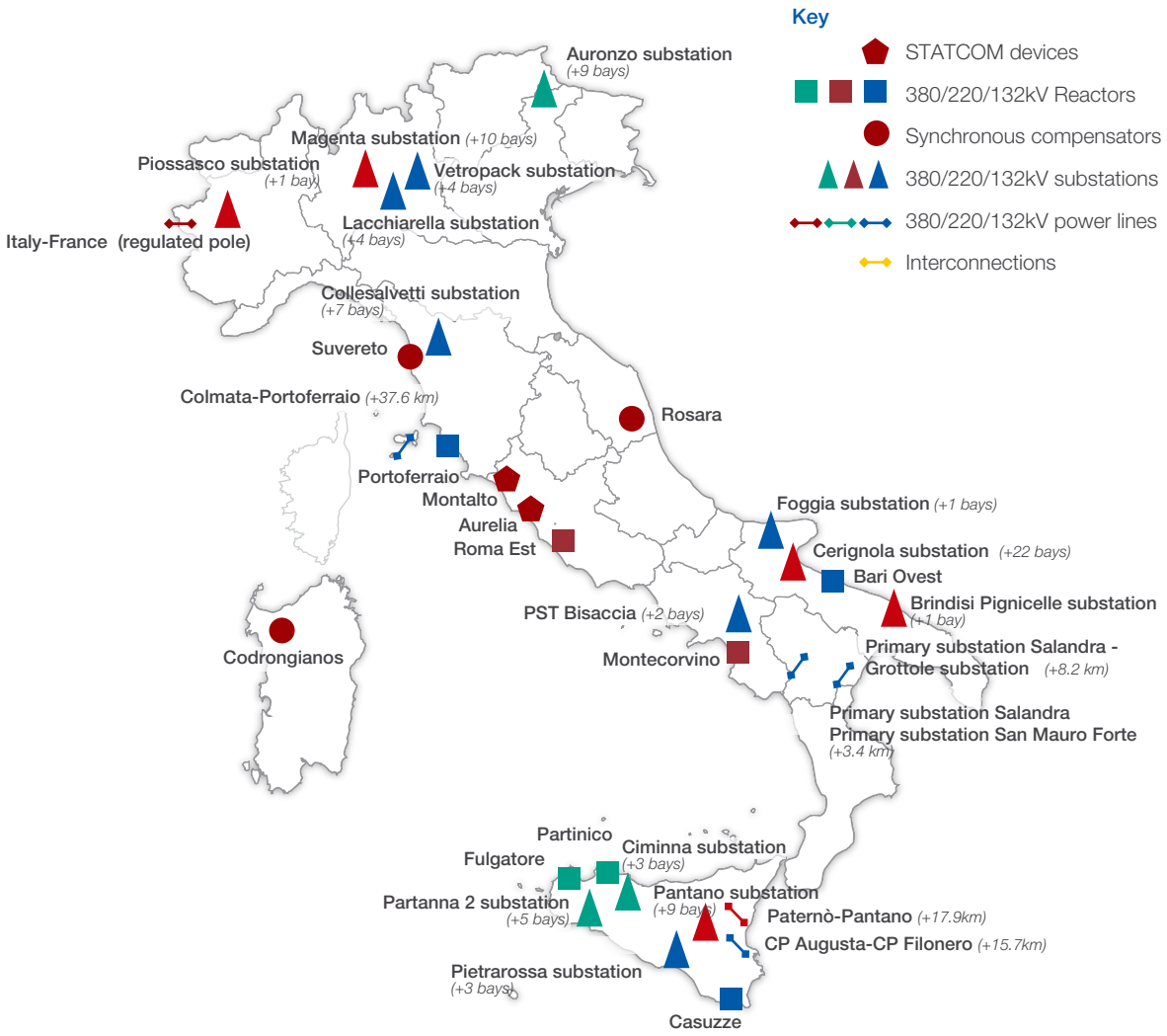
Synchronous compensators (€56.4 million)	**Codrongianos compensators:** these assets entered service in May. **Rosara compensators:** these assets entered service in December. **Suvereto compensators:** these assets entered service in December.
Fiber for the Grid *(€16.7 million)*	This project aims to boost the availability of data on the grid in order to make it easier to monitor and manage the security of the electricity system, by increasing and expanding the fibre optic network. In 2023, 20 substations were connected via proprietary fibre, adding to a total of 555 substations covered.
Reactors *(€15.2 million)*	**Montecorvino, Partinico, Casuzze, West Bari, Fulgatore and East Rome:** the equipment entered service in the first half of 2023, except for East-Rome, which entered service in the second half of 2023.
STATCOM *(€12.8 million)*	**Montalto:** entered service in August. **Aurelia:** entered service in October.

> PROJECTS TO RENEW ELECTRICITY ASSETS – €489.5 million

Renewal of electricity assets	Fulfilment of the commitment to carry out works to renew electricity assets to improve the reliability and resilience of the NTG has continued. In 2023, following the renewal of overhead lines and substation equipment, approximately 1,816 km of circuits and 20 items of equipment were replaced (14 Transformers-TR/Autotransformers-ATR, 6 reactor units, including 2 used as replacement stock).

[68] Synchronous compensators, STATCOM devices and reactors and grid components that carry out reactive compensation.

Main projects carried out in 2023*



** The figures shown also include the works completed to replace eventual disposals/demolition. The length of the lines is shown in km of circuits.*

Research and development

In 2023 the Terna Group invested approximately €9.8 million in research and development and incurred costs of approximately €9.6 million.

Consents processes

During 2023 the Ministry of the Environment and Energy Security and regional authorities authorised a total of 23 new Terna projects relating to the development of the electricity grid, representing total capital expenditure of over €3 billion, **up 20% compared with 2022**.

CONSULTATIONS

- 380kV Montecorvino (SA) - Benevento power line;
- New Italy-Greece link (GRITA2) (LE);
- 380kV Caracoli (PA) - Ciminna (PA) power line;
- Restructuring of the Ferrara grid (FE);
- 150kV Foggia-Orsara (FG) - Accadia (FG) power line;
- 132kV Murazzi ES connection (TO);
- 132kV cable in Trieste area (TS);
- 132kV Dobbiaco - Sesto cable connection (BZ);
- 132kV Giustino – Monclassico cable connection (TN);
- 132kV Grigno PS[69] (TN) – Arsiè ES[70] (BL) cable connection;
- 132kV Asiago - Conco cable connection + New Conco ES (VI);
- 132kV Villaverla-Schio Industrial Zone cable (Malo phase 2) (VI);
- 132kV Alghero south (SS) connection;
- 132kV Avigliana (TO) connection;
- 150kV Altamura North (BA) primary substation connection;
- Re-routing of the 150kV Avigliano substation (Trasversale Lucana) (PZ);
- New Termoli- Stellantis substation connection (CB);
- 150kV Ferrandina substation connection (MT);
- Modernisation of the NTG in the Flegrea (NA) area;
- Work on the 220/150kV NTG for the connection of the Serre (SA) RFI substation;
- Work on the 150kV NTG for the connection of the Bruca (TP) RFI substation;
- New 150kV substation in the Salerno Industrial area (SA) and connections;
- Work on the 150kV NTG for the connection of the Partinico RFI substation (PA);
- Work on the 150kV NTG for the connection of the Alcamo RFI substation (TP);
- 150kV connection for the Villarosa RFI (EN);
- Work on the 150kV NTG for the connection of the Marianopoli RFI substation (CL);
- 380KV Palazzolo Acreide substation (SR) and connections to the NTG;
- 380kV Larderello substation (PI).

PROCESSES INITIATED IN 2023

- Porta Romana primary connection (MI);
- Comasina primary substation connection (MI);
- Microsoft Settimo Milanese (MI);
- Partinico (PA) substation and the related connections to the 150kV Castellammare (TP)-Alcamo (TP) line for electrification of the Palermo–Trapani railway line;
- Alcamo (TP) substation and the related connections to the 150kV Partinico 2 (PA)-Partinico (PA) primary substation line for electrification of the Palermo–Trapani railway line;
- Melilli (SR) - Erg Nuce;
- Undergrounding of the 220kV Patria-S. Antimo (NA) line;
- T.085/T.086 undergrounding for the Gorla (MI) primary substation;
- 150kV connections for the Pantano (SE) substation and related works and demolitions (CT);
- Rome West-Primavalle-La Storta-Flaminia (RM);
- New 132kV Acquara-Porto Potenza Picena (MC) power line.
- Volpago (TV) electricity substation;
- Guarcino (FR) primary substation;
- Carsoli (AQ) electricity substation;
- Collarmele (AQ) electricity substation;
- Caracciolo (MI) primary substation connection;
- Violino (BS) primary substation (BS);
- Milan South receiver (refurbishment and undergrounding) (MI);
- Replacement of fluid oil for the Misterbianco-Villa Bellini (CT) cable;
- Falciano (NA) electricity substation connection[71];
- Re-routing of the Chiaramonte Gulfi (RG)-Ciminna (PA) line;
- Borgone Susa PS connection (TO);
- NTG works for 150kV connection for RFI's[72] Marianopoli electricity substation (CL);
- 150kV RFI Villarosa link (EN);
- 150kV Bernalda ES connection and mixed overhead/cable connections (MT);
- 150kV Ostuni mare primary substation connection (BR);
- 150 kV Matera La Martella substation connection (MT);
- Rationalisation at San Giovanni Teatino (CH);
- 380kV connection to the Manfredonia ES (FG);
- 380kV re-routing between Monfalcone and Redipuglia (GO);
- 132 kV Valchiaravagna Bivio Corvi RFI connection (GE);
- Rationalisation of the 150kV grid at Messina (ME);
- 132 kV San Giobbe primary substation (VE) – Mestre Barche primary substation (VE) connection;
- 150kV overhead cables for the connection to Crispiano primary substation (TA);
- Re-routing of the 150kV underground cable connection Villa Borghese – Ostiense primary substations (RM);
- 380kV overhead cable connections to the 380kV S. Maria Capua Vetere substation (CE);
- Undergrounding of the 132kV Baggio – Cesano Boscone (MI) overhead cable;
- Villa Potenza (MC) primary substation;
- Undergrounding of the 132kV Gorla (VA) primary substation overhead cable.

[69] Primary substation.
[70] Substation.
[71] Substation
[72] Italian railway network.

COMPLETED PROCESSES

- Moena–Campitello link (TN);
- Vandoies-Brunico (BZ);
- 150kV Ciampino-Roma South power line (RM);
- Tyrrhenian West link (PA and CA);
- SA.CO.I.3 (LI and SS);
- 380kV Adriatic Link cable connection (PE and PU);
- 150kV Paternò - Belpasso power line (CT);
- 150kV underground cable connection from Orte ES to Flaminia ES – resolution of the Morlupo rigid T-rail (RM);
- Ponte PS connection (BG);
- Replacement of fluid oil for the Zaule - Broletto connection (TS);
- New 150kV supply line for the Acquedotto Cassano PS and restructuring of the 60kV grid (AV);
- New 150kV Maddaloni ES (CE);
- 132kV cable for La Pianta primary substation - La Spezia substation connection (SP);
- 132kV Terramala substation (CA);
- 132kV Turbigo – Castano Primo cable connection (MI);
- 132kV Rodano substation (MI);
- New 132kV substation connection to 132kV "Villanova - Penne" (Barberini) (PE);
- Re-routing of the 380kV Paternò-Priolo power line, between pylons 76 and 82, and related work (SR);
- 150kV cable connection to the San Giorgio primary substation (CT);
- Michelin primary substation (TO);
- Mixed 132kV overhead/cable connections to Fidenza North primary substation (PR);
- 150kV Pian di Tortora-Viterbo cable connection (VT);
- 150kV Scrocio di Tavazzano overhead connection (LO);
- 220kV Settimo Milanese substation and cable connections (MI)[73]
- 150kV Messina Nord-Messina Riviera cable connection (ME);
- 220kV underground cable connection to Porta Romana primary substation (MI);
- Power line: re-routing of underground cable connection to 150kV power line " Flaminia primary substation – Nomentana primary substation" (RM);
- 150kV Ragusa North-Ragusa 2 cable connection (E-DIS) (RG).

WORK INITIATED

- Work on laying the 132kV submarine cable between the island of Elba and Piombino (LI);
- La Casella (PC) substation – connection to Enel BESS;
- Rationalisation of the 380-132kV grid in Brescia (BS);
- Caselle (TO) primary substation connection;
- Restructuring Trento grid – Naturno connections (BZ);
- Removal of Glorenza-Castelbello (BZ) limitation (activity relating to Italy-Austria Interconnector);
- 66kV Livigno-Premadio (SO) link – Milan/Cortina Olympics 2026 cluster;
- 132kV Laion-Corvara (BZ) link – Milan/Cortina Olympics 2026 cluster;
- 132kV Moena-Campitello (TN) link – Milan/Cortina Olympics 2026 cluster;
- 132kV Brunico-Vandoies (BZ) link –Milano/Cortina Olympics 2026 cluster;
- Cirè substation (TN);
- 380kV Colunga (BO)-Calenzano (FI) power line – lot 1;
- 380kV Colunga (BO)-Calenzano (FI) power line – lot 2;
- 380kV Cassano-Chiari (BS) power line;
- Enlargement of 380/150kV Melfi (PZ) electricity substation;
- Catania Industrial Zone electricity substation – STMicroelettronics connection (CT);
- Resurfacing of roads involved in laying of underground cable for the "San Giuseppe – Portoferraio" link (LI);
- Replacement of fluid oil cable with XLPE cable for the "Naples Centre PS – Doganella PS" connection (NA);
- 132kV underground cable connection to University (FI) primary substation;
- Replacement of fluid oil cable with XLPE cable for the Castelluccia-Somma Vesuviana connection (NA);
- 150kV Marrucina – S.Filomena – Montesilvano cable connection (PE);
- Ponte primary substation (BG);
- Bari Thermic substation – Infrastructure renewal (BA);
- Quattroventi primary substation – Mulini primary substation link (PA).

[73] Requesting connection to the grid: Italy Investment Company; Equinox.

FOCUS

Major Projects

HVDC connection

1 Sardinia - Corsica - Italian mainland (SA.CO.I.3)

The new tri-terminal high-voltage direct current (HVDC) connection consists of **renovation** and **modernisation** of the existing electricity connection between Sardinia, Corsica and the Italian mainland. It will enable the use of total transport capacity of up to **400 MW**.
The connection between Tuscany, Corsica and Sardinia will have a length of approximately **380 km** per pole (including approximately 140 km of marine and terrestrial cables and approximately 240 km of overhead lines).

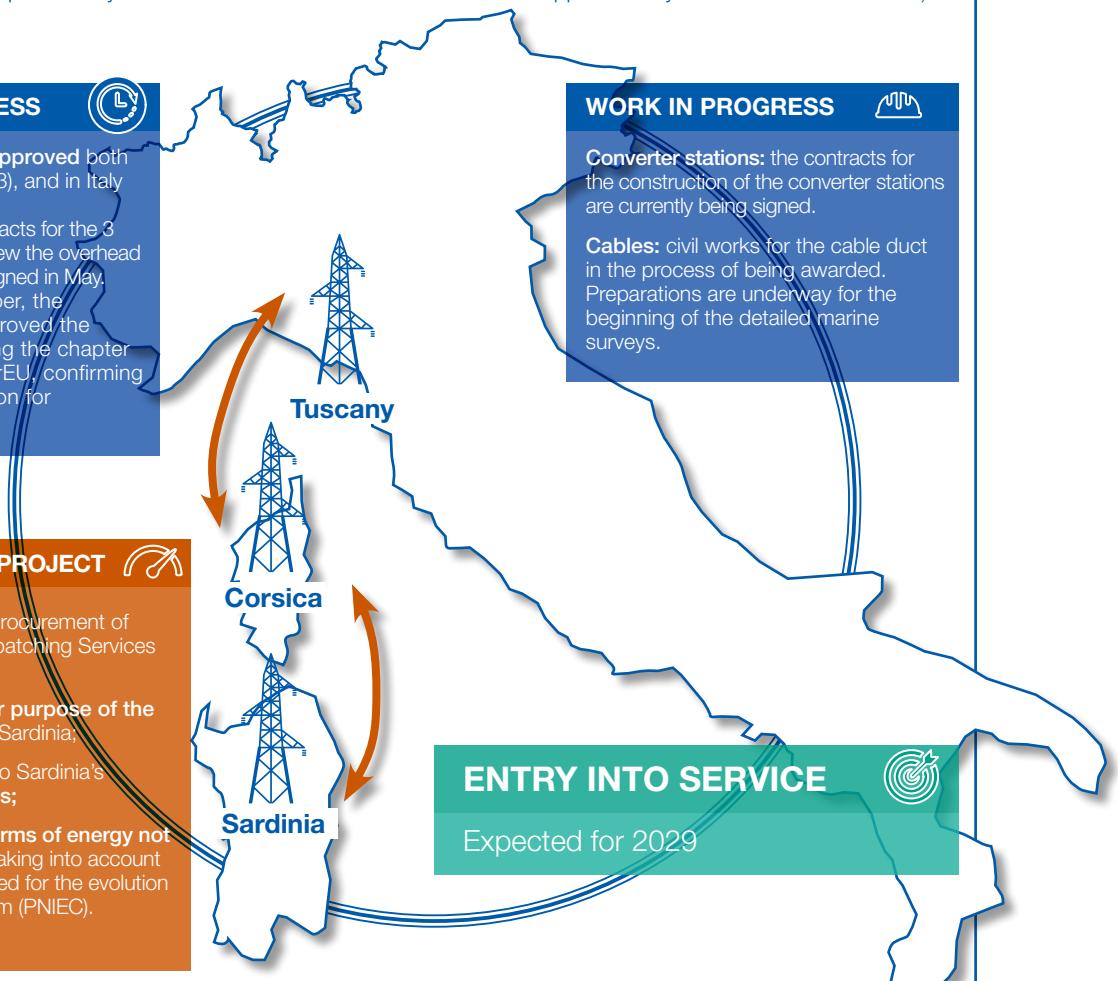
STATE OF PROGRESS

The project has been **approved** both in Corsica (August 2023), and in Italy (September 2023).
Procurement: the contracts for the 3 lots of the project to renew the overhead cable in Corsica were signed in May.
NRRP: : on 8 December, the European Council approved the revised NRRP, including the chapter dedicated to REPowerEU, confirming the grant of €200 million for SA.CO.I.3

WORK IN PROGRESS

Converter stations: the contracts for the construction of the converter stations are currently being signed.

Cables: civil works for the cable duct in the process of being awarded. Preparations are underway for the beginning of the detailed marine surveys.

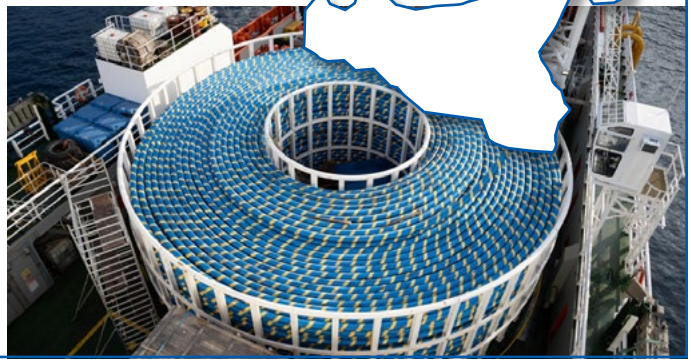


BENEFITS OF THE PROJECT

- **Reduced costs** for procurement of resources for the Dispatching Services Market (DSM);
- **Increased fitness for purpose of the electricity** system in Sardinia;
- Greater contribution to Sardinia's **reserve requirements;**
- Greater **benefits in terms of energy not supplied**, especially taking into account the scenarios envisaged for the evolution of the electricity system (PNIEC).

ENTRY INTO SERVICE

Expected for 2029



>> continued **MAJOR PROJECTS FOCUS**

2

HVDC connection

Mainland–Sicilia–Sardinia (Tyrrhenian Link)

The new submarine interconnection is a state-of-the-art project that will connect **Campania - Sicily - Sardinia** via two submarine, **1,000 MW**, direct current power lines. The project has been subdivided into an East Link (Campania – Sicily) and a West Link (Sicily– Sardinia). The connection has a **submarine section** that is approximately **1,000 km** long, including in very deep waters, which means it is one of the new global benchmarks for this type of highly complex infrastructure.

STATE OF PROGRESS

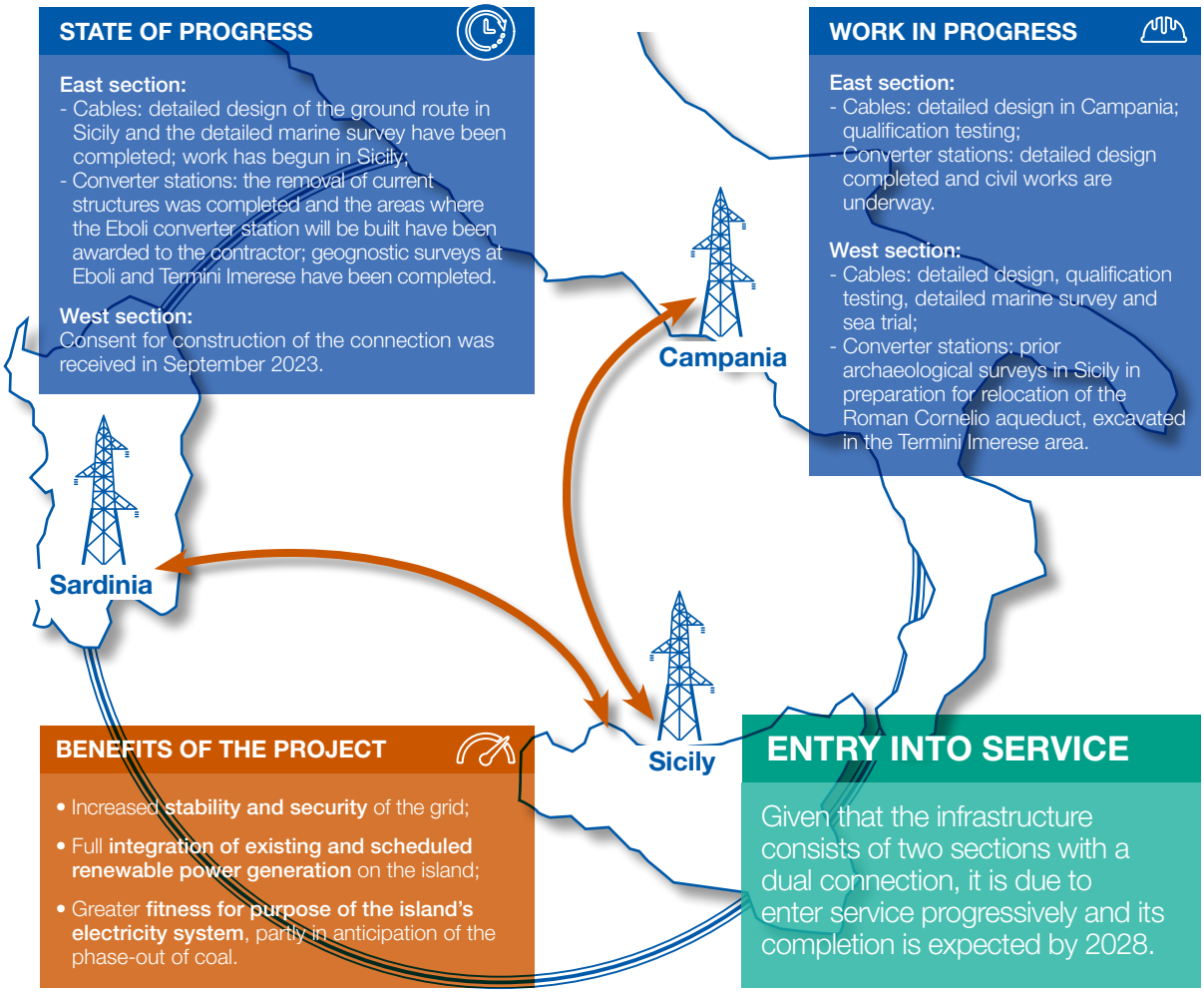
East section:
- Cables: detailed design of the ground route in Sicily and the detailed marine survey have been completed; work has begun in Sicily;
- Converter stations: the removal of current structures was completed and the areas where the Eboli converter station will be built have been awarded to the contractor; geognostic surveys at Eboli and Termini Imerese have been completed.

West section:
Consent for construction of the connection was received in September 2023.

WORK IN PROGRESS

East section:
- Cables: detailed design in Campania; qualification testing;
- Converter stations: detailed design completed and civil works are underway.

West section:
- Cables: detailed design, qualification testing, detailed marine survey and sea trial;
- Converter stations: prior archaeological surveys in Sicily in preparation for relocation of the Roman Cornelio aqueduct, excavated in the Termini Imerese area.

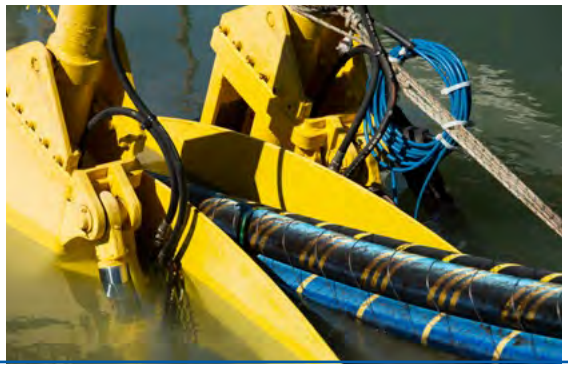


BENEFITS OF THE PROJECT

- Increased **stability and security** of the grid;
- Full **integration of existing and scheduled renewable power generation** on the island;
- Greater **fitness for purpose of the island's electricity system**, partly in anticipation of the phase-out of coal.

ENTRY INTO SERVICE

Given that the infrastructure consists of two sections with a dual connection, it is due to enter service progressively and its completion is expected by 2028.



>> continued **MAJOR PROJECTS FOCUS**

3

HVDC connection

South Central – North Central (Adriatic Link)

The **Adriatic Link** is the new **1,000 MW** marine connection that will connect the regions of **Marche** and **Abruzzo**. The project will strengthen energy exchange in central Italy, responding to the need for security and flexibility of the national electricity system and the goal of increasing renewable energy use. The project is part of the NTG Development Plan and is included in the works provided for in the PNIEC (National Energy and Climate Plan), which aims to decarbonise the energy system by 2030.

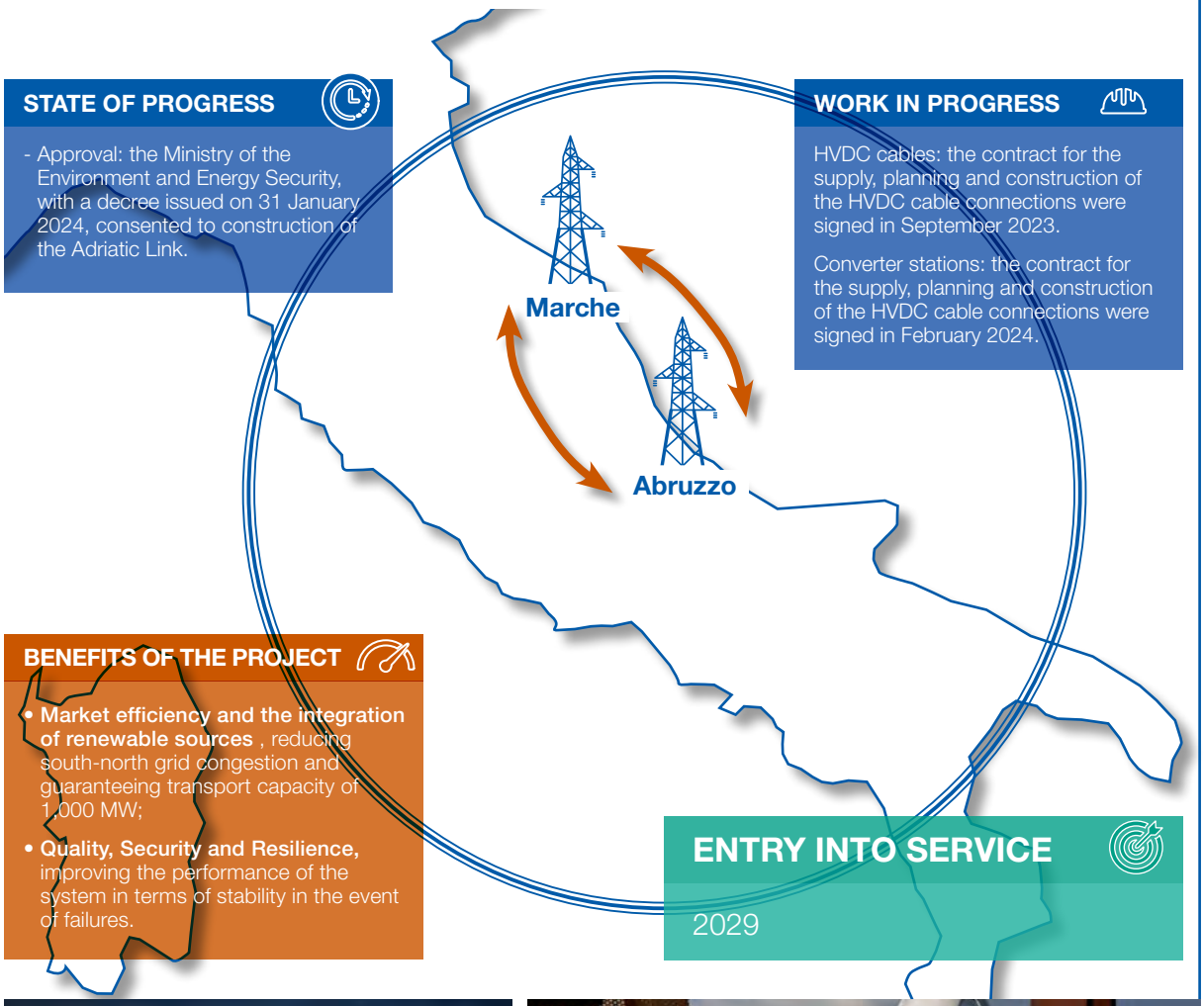
STATE OF PROGRESS

- Approval: the Ministry of the Environment and Energy Security, with a decree issued on 31 January 2024, consented to construction of the Adriatic Link.

WORK IN PROGRESS

HVDC cables: the contract for the supply, planning and construction of the HVDC cable connections were signed in September 2023.

Converter stations: the contract for the supply, planning and construction of the HVDC cable connections were signed in February 2024.

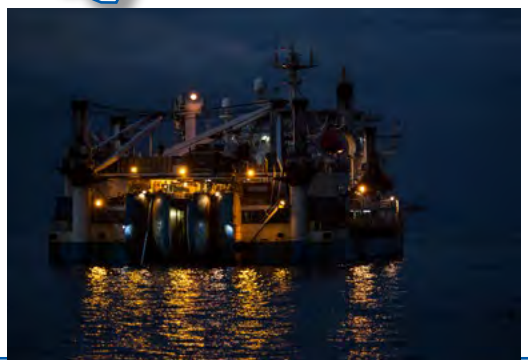


BENEFITS OF THE PROJECT

- **Market efficiency and the integration of renewable sources** , reducing south-north grid congestion and guaranteeing transport capacity of 1,000 MW;
- **Quality, Security and Resilience,** improving the performance of the system in terms of stability in the event of failures.

ENTRY INTO SERVICE

2029



>> continued **MAJOR PROJECTS FOCUS**

4

HVDC connection

Italy – Tunisia (ELMED PROJECT)

The new 500kV direct current connection (HVDC) **will connect Sicily with the Capo Bon peninsula in Tunisia**, enabling the exchange of up to 600 MW of power. The project will be approximately 224km long (of which 200km in marine cable).

STATE OF PROGRESS

The Consortium Agreement for the governance of the project was signed with STEG, the Tunisian grid operator, in August 2023.
The Grant Agreement (Connecting Europe Facility), amounting to €307 million, was signed with STEG and CINEA, partially covering the costs of the project.
The prequalification for the tender process, regarding both cables and converter stations, was completed.
Consent: the final Services Conference came to an end with a positive outcome.

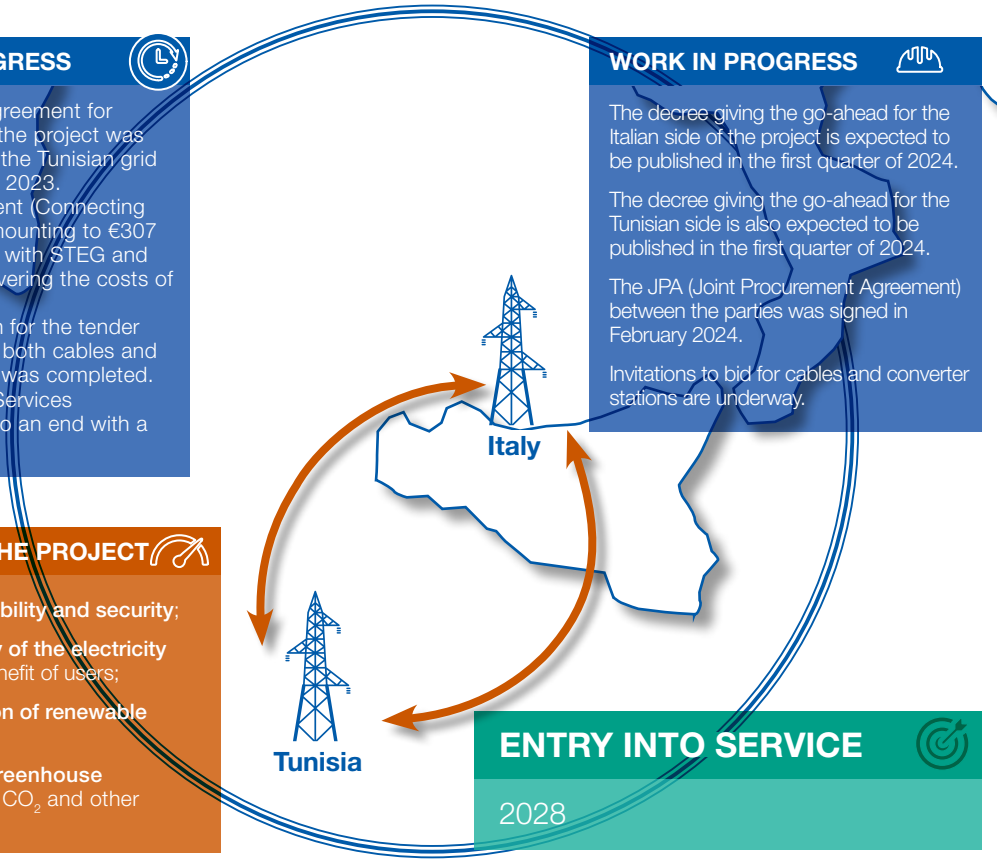
WORK IN PROGRESS

The decree giving the go-ahead for the Italian side of the project is expected to be published in the first quarter of 2024.

The decree giving the go-ahead for the Tunisian side is also expected to be published in the first quarter of 2024.

The JPA (Joint Procurement Agreement) between the parties was signed in February 2024.

Invitations to bid for cables and converter stations are underway.

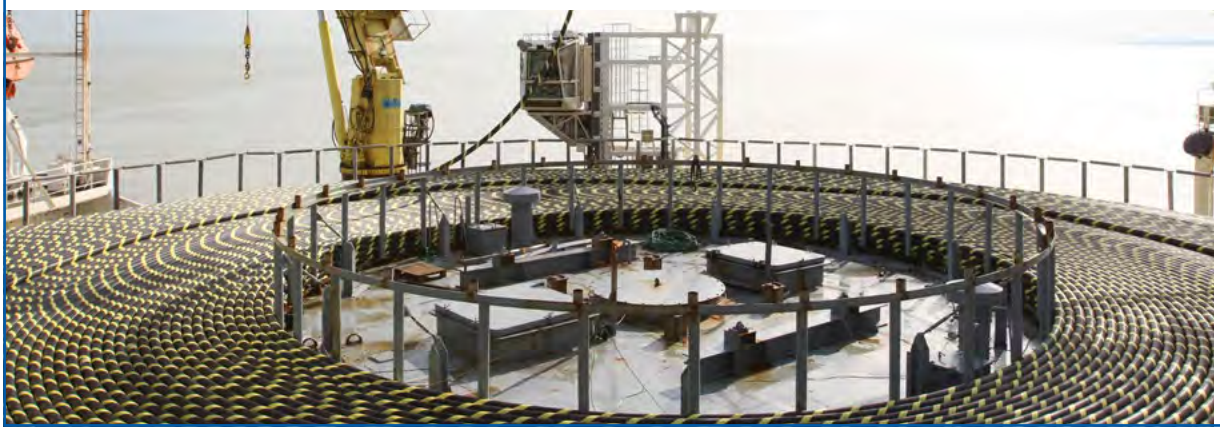


BENEFITS OF THE PROJECT

- Increased grid **stability and security**;
- Greater **efficiency of the electricity market** for the benefit of users;
- Greater **integration of renewable sources**;
- **Reductions in greenhouse gas emissions -** CO_2 and other pollutants.

ENTRY INTO SERVICE

2028



EU28 >
EU29 >
SASB

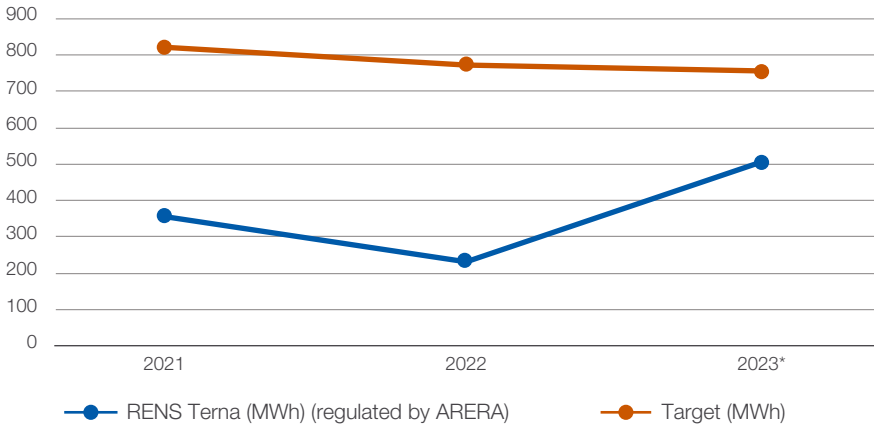
Continuity and quality of service

Each segment of the electricity system - generation, transmission and distribution - plays a role in ensuring the availability of electricity in Italy, guaranteeing adequate quality standards and keeping the number of outages below pre-set thresholds.

Terna monitors service continuity through various indicators defined by ARERA (Resolution 567/19) and in Terna's Grid Code.

These continuity indicators are significant for the system, as they monitor the frequency and impact of events that have occurred on the electricity grid as a result of faults or due to external factors, such as weather events. In all cases, the period of observation is three years, a period in which there have been no significant changes, testifying to the high quality of service achieved.

NTG RENS indicator[74]



** Provisional data.*

The **NTG RENS** indicator, for the period from January to December 2023, based on preliminary data, amounts to 507 MWh (compared with an annual target of approximately 763 MWh set by ARERA).

As regards the **ASA** indicator, availability was 99.99952% (provisional figure) in 2023, compared with 99.99990% in the previous year. The operating performance shows that ASA has remained stable at a high level over the years (the higher the indicator, the better the performance). This indicator shows that the energy not supplied following a fault on the owned grid represents a minimal part of the total quantity of energy supplied to users of the grid.

Existing regulations (set out in Resolution 567/2019/R/eel) envisage a series of mechanisms designed to regulate and encourage improvements in the quality of service provided by Terna. The overall economic effects of these mechanisms are accounted for at year end (including RENS).

Continuity indicators used

RENS*

What it measures
Energy not supplied following events affecting the relevant grid **

How it is calculated
The sum of the energy not supplied to users connected to the NTG (following events affecting the relevant grid, as defined in the ARERA regulations governing quality of service).

** Regulated Energy Not Supplied.*
*** The "relevant grid" refers to all of the high-voltage and very high-voltage network.*

ASA***

What it measures
Availability of the service provided by the NTG.

How it is calculated
Based on the ratio of the sum of energy not supplied to users connected to the NTG (ENS) and energy fed into the grid.

*****Average Service Availability*

[74] The targets for 2016–2023 have been set as an average of the 2012–2015 RENS indicator, referred to in ARERA Resolution 567/2019/R/eel, with a 3.5% improvement in performance required for each year compared with the previous one. Since 2016, Terna's bonus/penalty mechanism also includes the performance of the grid operated by Terna Rete Italia S.r.l. (merged with Terna S.p.A. on 31 March 2017).

With regard to costs, which are determined periodically on the basis of occurring events, Terna registered a balance of €5.3 million in 2023, compared to €1.9 million in 2022. The overall economic effects of the bonus/penalty mechanisms related to quality of service for 2023, compared with 2022, are shown below.

(€m)

QUALITY OF SERVICE	2023	2022	CHANGE
RENS bonuses/(penalties)	11.2	23.2	(12.0)
Revenue	**11.2**	**23.2**	**(12.0)**
Mitigation and sharing mechanisms	2.8	3.5	(0.7)
Contributions to the Fund for Exceptional Events	2.8	0.4	2.4
Compensation mechanisms for HV users	0.4	0.3	0.1
Contingent assets	(0.7)	(2.3)	1.6
Costs	**5.3**	**1.9**	**3.4**
TOTAL	**5.9**	**21.3**	**(15.4)**

Key dispatching events in 2023

Once again, during 2023, Terna provided fully secure dispatching services for the electricity system despite the particularly challenging operating conditions. The grid experienced record levels of production from renewable sources and was subject to changes in the consumption patterns, with highly volatile weather conditions. Nevertheless, Terna guaranteed a secure operation thanks to grid development works and by optimising operating processes to support planning and real time management. Terna is still committed to maximising the withdrawal of renewable energy. Despite the new challenges of the electricity system, Terna **ensured the continuity and security of the country's electricity service at all times**.

Dispatched renewable sources (Peak production)

In 2023, electricity system management was characterised by a great level of production from unplanned renewable sources a reduced electricity load compared with the historical average, despite reaching high peaks in the hottest summer days.

In particular, the national hourly wind production reached 8,789 MWh (provisional figure due to be recalculated) on 11 November at 11:00. In this instance, wind production covered approximately 24% of Italian electricity demand.

Photovoltaic production continued to beat historic records in 2023, reaching 16,785 MWh (provisional figure subject to revision) of production at 13:00 on 17 June. In this instance, photovoltaic production covered approximately 50% of Italian electricity demand.

After extending the scope and taking into account Italian electricity demand met by renewable sources – thereby including hydroelectric, photovoltaic, geothermal and biomass energy – in the first nine months, a maximum time of 93.5% (provisional figure subject to revision) was recorded, at 14:00 on Sunday, 6 August. On this day, various factors occurred, such as a drop in temperatures, the beginning of summer holidays, high levels of solar production and a medium-to-high level of wind production: in that moment, national demand was 28.7 GW. This maximum renewable penetration occurred a few weeks after the achievement of maximum load conditions, with a peak of 58.5GW at 17:00 on 19 July.

Starting from the second quarter of the year, above all in May, there was also an increase in hydroelectric energy production, which was extremely low in previous months due to prolonged periods of drought. This contributed to maintaining a high level of renewable energy penetration of total Italian generation.

Terna remains committed to maximising the withdrawal of renewable energy, resolving congestions through the capital light initiatives, both between market zones to increase transmission limits and within these zones; these initiatives include the removal of elements limiting access to high-voltage bays at substations belonging to the grid (attributable to Terna or third parties) and extending the scope of the Dynamic Thermal Rating (DTR). A particularly significant aspect was also the in-depth review of the dynamic monitoring standards for transmission limits and the upgrade of the Defence System. In addition, the continuous commitment also involves optimising the use of assets in real time to ensure the secure maximum possible withdrawal of wind energy.

Black start simulations

Black start simulations are needed to check that the electricity system is working properly and to improve its efficiency by ensuring a rapid reboot of the system in the event of a blackout. In 2023 **3 live tests** were successfully **conducted**.

At the end of March, a test on a new reset unit in Trentino-Alto Adige was conducted. This test involved a portion of the 220kV and 132kV grid in Val D'Ultimo located in the province of Trento and, starting with the Santa Valburga hydroelectric production plant, the primary substations and loads of all the municipalities in the valley were repowered.

In September 2023, an overseas repowering test was successfully conducted in Lombardy. The test, a first of its kind, starting from the Lavorgo (Switzerland) substation, involved Terna's 380kV substations in Musignano, Mercallo and Turbigo, concluding with the parallel of the Turbigo thermoelectric plant.

Finally, a test for a new repowering line[75] was conducted in the Calabria region in November: starting from the Laino substation (Basilicata), going through the substations of Rossano, Scandale, Belcastro and Magisano, it was conducted parallel to the transmission grid of the thermoelectric plant at Simeri Crichi.

Fast Reserve

The progressive reduction of an electricity system's inertia usually results in an increase in frequency variations. These must be contained with extremely rapid response timeframes, not always compatible with the current contribution of the traditional power generator's primary regulation, above all during the phase-out of coal-powered plants that are characterised by particularly fast response times when resolving frequency issues.

The Fast Reserve or Ultra Rapid Reserve project is part of the pilot projects in accordance with Determination 300, with which Terna aims to experiment the provision methods of a new service designed to improve the dynamic instant response during frequency transitions. Aiming to contribute to increasing the system's security, the project was launched in the last quarter of 2019, by consulting the technical documentation, required to obtain procurement through auctions for fixed-term five-year contracts. With this procedure, the whole identified volume of 230 MW was procured.

The assets taking part in the project are able to provide voltage solutions with activation times no longer than 1 second, which can be triggered by appropriate automatic local logistics and through remote controlling by operators at the National Control Centre.

Automatic Frequency Restoration Reserve Platform (aFRR)

To nationally implement the EU Regulation 2017/2195 (Balancing Regulation), Terna established a connection with the Automatic Frequency Restoration Reserve Platform (aFRR) on 19 July 2023. The platform allows for the inter-TSO energy exchange to balance the reserves for the recovery of frequency, and is the outcome of the implementing project PICASSO, which includes 30 European TSOs, including 26 members and 4 observers. On a national basis, in recent years the implementing project required the active and coordinated engagement of other 40 Terna employees.

Terna's participation in the aFRR platform allows it to minimise the activation of secondary active voltage reserves. This helps avoid counter-activations within the same uncongested area and provides access to greater liquidity levels of the frequency recovery service in real time, increasing the safety of the interconnected continental grid.

As of today, in addition to Terna, the Austrian TSO (APG), the Czech TSO (CEPS) and the four German TSOs (TransnetBW, which hosts the platform, Amprion, 50Hertz, Tennet) are members of the platform.

[75] Being the set of generating groups and grid elements that identify the "electric process" used to switch back on a portion of the grid.

Reactive power compensation methods to manage voltage levels

As part of the Plan to Improve the Defence System for the Security of the National Electricity System (Security Plan), in order to contain high-voltage levels, Terna has drawn up an important plan to install devices regulating reactive power levels.

This plan, launched in previous years, lead to the installation of 6 rectors in 2023, primarily located in the centre and south of Italy and in the islands.

In addition, the installation of 5 STATCOM devices was completed. The STATCOMs are electronic devices that regulate voltage levels and monitor stability, also in cases where there is a significant penetration by inverter-based generators, such as renewable sources and HVDC connections.

ENTSO-E (European Network of Transmission System Operators for Energy)

During the plenary session of 28 November 2023, ENTSO-E's Regional Group Continental Europe (RG CE) approved the permanent synchronisation of the Ukrainian electricity system with the European continental network.

Previously, the Ukrainian and Moldovan electricity networks were connected to the European continental grid through an emergency synchronisation, implemented starting from 16 March 2022, after a significant effort was made by European TSOs, following the war in Ukraine.

Thanks to the work carried out by ENTSO-E, with the active engagement of Terna's colleagues, the Regional Group Continental Europe conducted and approved an assessment on the technical requirements to be met to ensure that the grid is operating in accordance with ENTSO-E standards. Compliance with these technical standards is a required condition for permanent synchronisation. Work on the integration of the electricity systems already began in 2017.

During the same plenary session, the Regional Group Continental Europe approved the Ukrainian TSO's (Ukrenergo) request to join the Synchronous Area Framework Agreement (SAFA), valid from 1 January 2024. The SAFA is the agreement between the ENTSO-E TSOs to implement the provisions for the coordinated operation of the European grid, provided for by the "System Operation Guidelines" EU Regulation and the European codes, in order to ensure operational safety.

All the above decisions were taken in preparation for the ENTSO-E Assembly's recognition of Ukrenergo as a full member, approved on 14 December 2023.

Overseas exchange

2023 ended with record figures in terms of volumes exchanged with other countries paired in the Market Coupling.

In particular, the 2023 overseas exchange figure amounted to a total 51.2TWh of electricity imported, up 19.2% compared with 2022. This net increase reflects a sharp drop in export volumes (down 24.4%) and an increase in imports (up 15.2%) compared with 2022. Interconnections played a key role in this increase, being an efficient and secure tool for the electricity system. During 2023, pole 1 of the FIL HDVC connection between Italy and France entered service, in addition to the 220kV Glorenza-Nauders interconnection between Italy and Austria.

Weather events and climate change

Again in 2023 we saw an upward trend of extreme weather events[76] across Italy (up 22% compared with 2022, according to Legambiente data[77]). These events included the floods that affected Emilia-Romagna and Tuscany in May and November, the snow falls on Mount Etna in February, the high temperatures and forest fires in summer affecting the centre and south of the country, in contrast with the storms and strong winds that hit the north of Italy between July and August.

Despite these critical issues, the NTG demonstrated its resilience and efficiency in dealing with the emergency, also thanks to great efforts made by Terna's employees in preventing, mitigating and promptly restoring the electricity service. This commitment helped minimise the impact on the supply of electricity for businesses and households, at the same time ensuring the security and adequacy of the National Electricity System during particularly challenging times.

[76] An extreme weather event is a particularly violent and intense weather phenomenon (exceeding a threshold, typically identified on the basis of historic records), capable of causing serious damage to the environment where it takes place, to infrastructure or the population. These include, for example, prolonged heat waves, droughts, extreme hail storms, temperature anomalies, tornadoes, floods.

[77] City Climate Observatory Legambiente – 2023 Financial Statements https://www.legambiente.it/comunicati-stampa/2023-anno-da-bollino-rosso-per-il-clima/. Data also reported at: https://www.rainews.it/articoli/2023/12/clima-nel-2023-378-eventi-estremi-in-italia-il-22-in-piu-31-morti-e-danni-miliardari-report-legambiente-b3893b1a-09be-4b8b-a10c-0348af4f3dd9.html; https://www.infodata.ilsole24ore.com/2024/01/10/eventi-climatici-estremi-lanno-da-bolino-rosso-dellitalia/

Electricity market and cost trends

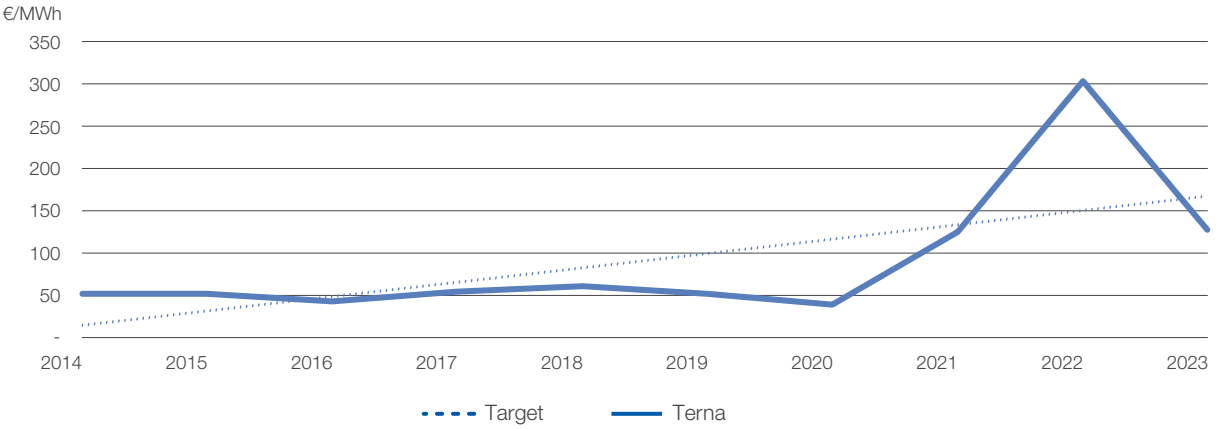
Electricity prices

The average hourly price on the Italian Power Exchange (IPEX /SNP[78] – Single National Price) for 2023 is €127 per MWh, significantly down (58%) compared with 2022. This reduction reflects the drop in commodity prices, especially gas prices.

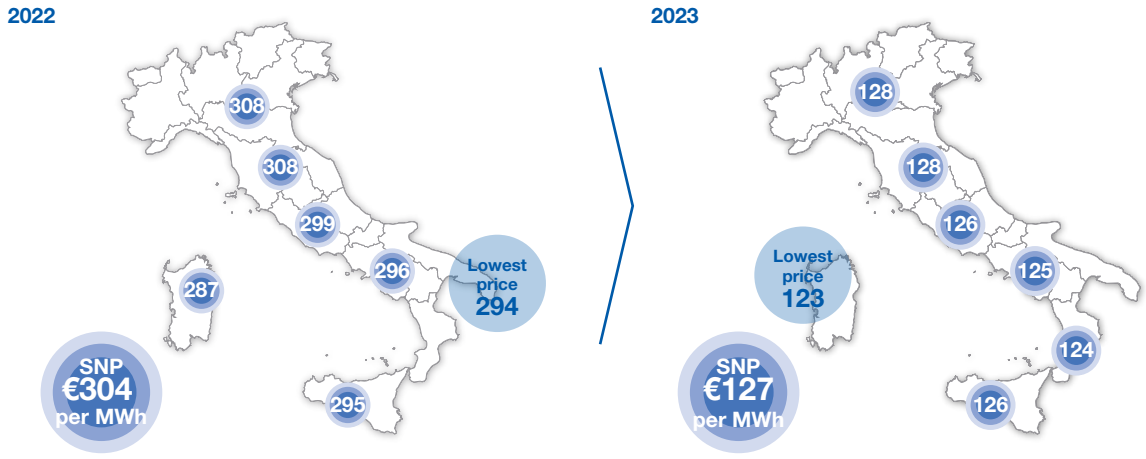
The Day Ahead Market, which sets the SNP, is based on supply and demand, although Italy must, by necessity, also take account of its particular geography, with the physical nature of the electricity grid, the widespread nature of its infrastructure and the location of consumption, and the resulting grid congestion. This means that there are a number of "bottlenecks" on the transmission grid, which have made it necessary to identify "market zones" and set transmission limits. Eliminating these bottlenecks is one of Terna's tasks, above all through development of the grid.

The following chart shows the performance of the SNP from 2014 to 2023, highlighting **a declining trend until 2020. This trend has radically reversed due to sharp increases in 2021 and 2022**, driven by soaring commodity prices, especially the price of gas, **to then drop back down to levels seen in 2021**, due to a reduction in the same prices.

Performance of the single national price (SNP) from 2014



Over the years, prices in the principal zones that make up the Italian electricity market and the Single National Price (SNP) have fallen into line.



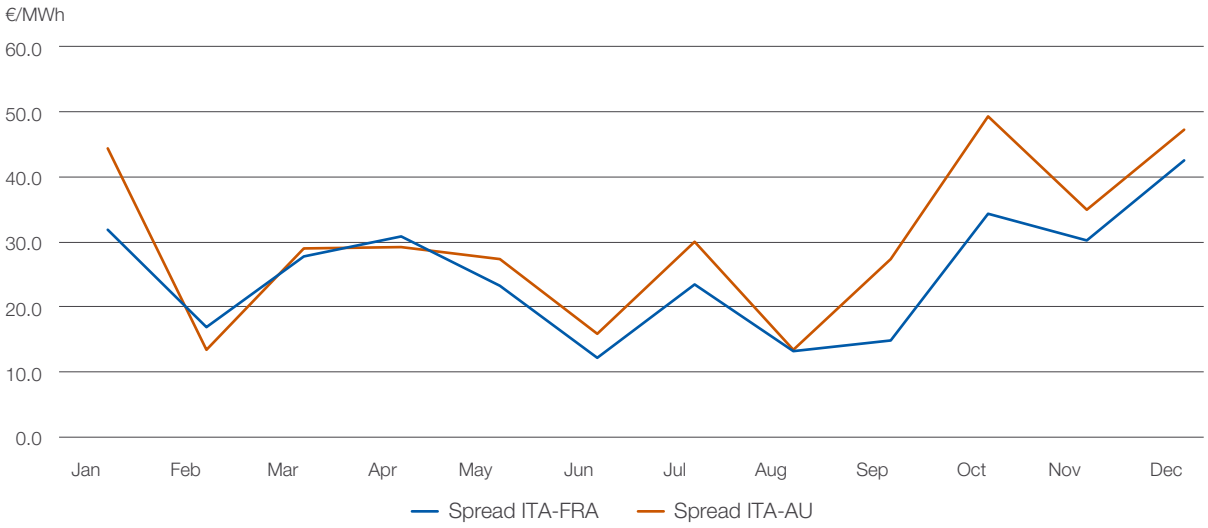
[78] IPEX: Italian Power Exchange; SNP: Single National Price.

Cross-border exchanges

Trade with other countries across the northern border in 2023, approximately 48 TWh, an increase from the figure of 40 TWh recorded in 2022.

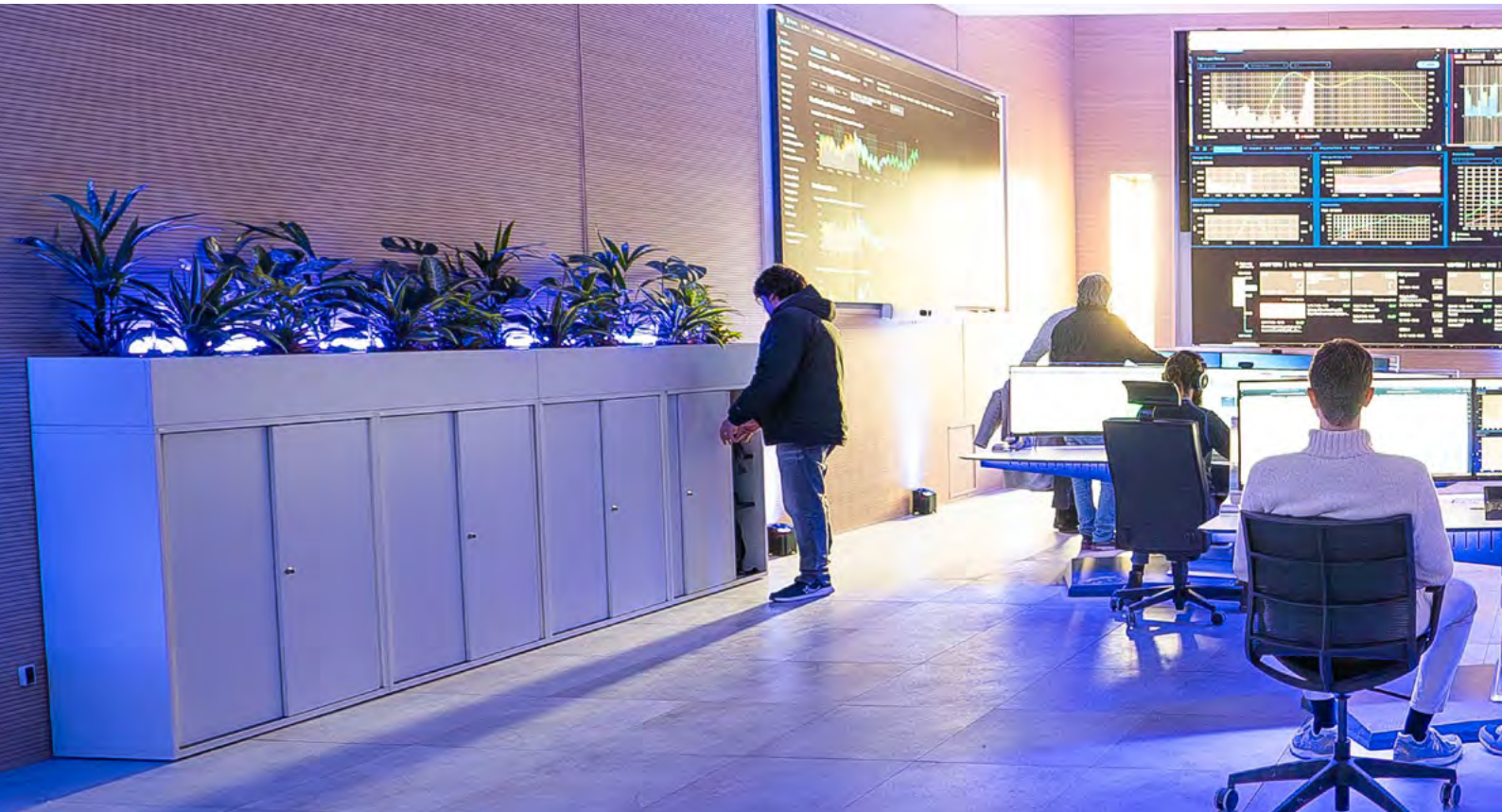
Prices on the French (PNX) and Austrian (EEX) exchanges in 2023 fell compared with the previous year, in line with the increase in commodity prices (especially the price of gas).

Monthly spread for energy prices compared with France (PNX) and Austria (EEX)



Prices in France and Austria also fell substantially in 2023. In particular:

- The French Powernext average annual price was €98 per MWh (down €178 per MWh or 64% compared with the previous year);
- The Austrian price (EEX) registered the same trend as the French price. The average annual price was €103 per MWh (down €158 per MWh or 61% compared with the previous year).



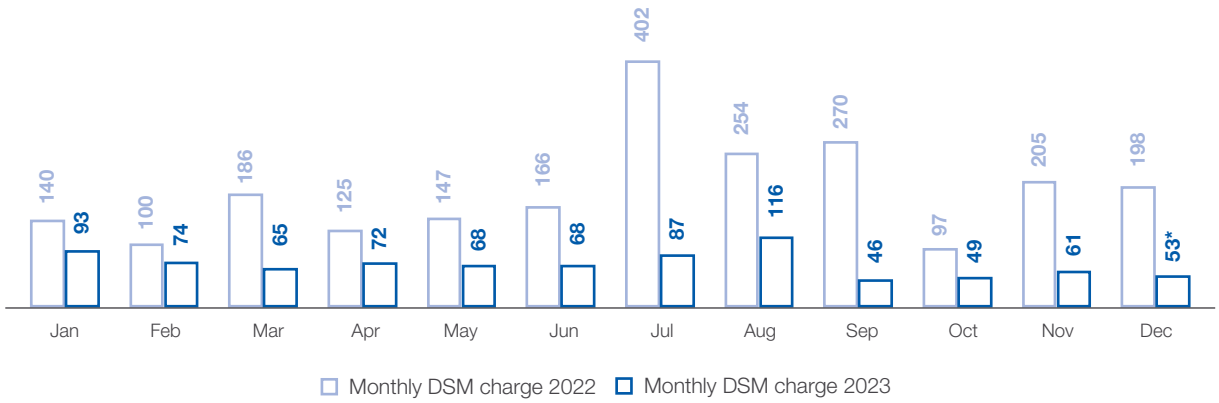
Dispatching Services Market (DSM)

Terna procures dispatching resources on the Dispatching Service Market (DSM) to manage and control the system (freeing up intra-zonal congestion, creation of power reserves, real-time balancing) in order to ensure the security and adequacy of the electricity system.

The net charge for using the DSM was €853 million in 2023 (provisional data), down 63% compared with the same period of the previous year (approximately €2,291 million).

The reduction primarily reflects the fall in the costs of procuring services in all months of 2023 due to a reduction in selections on the Dispatching Service Market. The reduction can also be attributed to the efficiency initiatives and investment provided by Terna to reduce the cost of procuring services on the DSM.

Monthly DSM costs (€m)



** Provisional data.*

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

Uplift payments are the tool used by the system to recover the net costs deriving from energy-related items from the end user, including the supply of services and energy to cover system imbalances in the DSM, imbalance costs[79], congestion revenue[80] and the related coverage (CCT, CCC, CCP and DCT[81]) and the cost of the virtual interconnection[82] (the Interconnector).

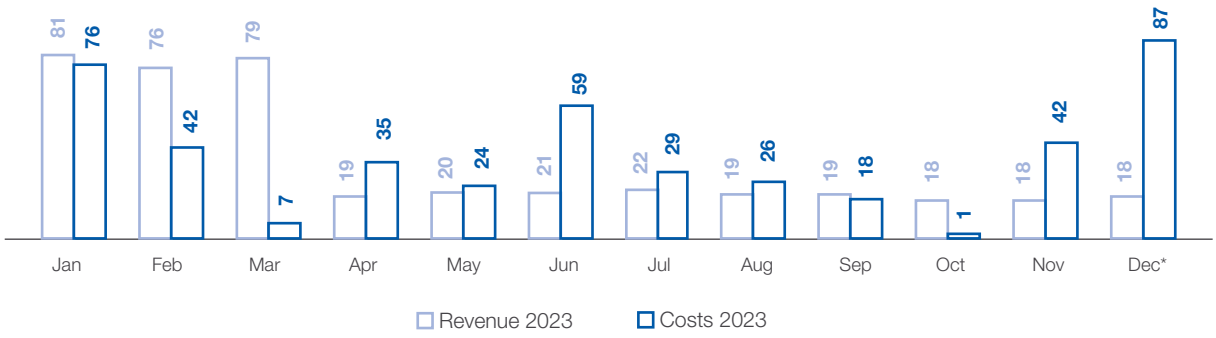
ARERA Resolution 111/06 (TITLE 4) regulates charges for dispatching services and the connected guarantees. Dispatching charges include the cost of procuring resources on the Dispatching Services Market (known as the Uplift), pursuant to article 44, as amended.

The charge is invoiced pro-rata to dispatching users based on energy withdrawn, to cover the expected accrued monthly cost and any prior differences.

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 significant decrease in the cost of procuring services, the fall in the consideration due for Goodwill and Change of Structure Tokens[83], the reduced cost of virtual interconnection services and, to a lesser extent, the reduced cost of contracts providing an alternative to essential providers[84], the slight rise in congestion revenue in Italian and Overseas market areas only partly offset by a reduction in imbalance revenue.

Performance of revenue and UPLIFT costs (€m)



** Provisional data.*

[79] The imbalance charge paid/received, under Resolution 111/06, from all users based on the lower/higher volume of energy injected/withdrawn compared with the related plan.
[80] Congestion revenue is generated when there are differences in the balanced prices in the energy markets in the various market areas.
[81] CCCT - Fees for Assignment of Rights of Use of Transmission Capacity.
CCC - Contract Covering the Risk of Volatility of the Fee for Assignment of Rights of Use of Transmission Capacity (between zones).
CCP - Contract Covering the Risk of Volatility of the Fee for Assignment of Rights of Use of Transmission Capacity (between industrial centres).
DCT - Contract Covering the Fee for Assignment of Rights of Use of Transmission Capacity on Foreign Interconnections.
[82] Virtual interconnection is a net cost: Terna plans, builds and operates new overseas interconnection infrastructure, the cost of which is partly covered by revenue from auctions in which third party finance providers take part and who will then have access to the available transport capacity.
[83] Goodwill and Change of Structure Tokens are payments made to production plants who have the right to receive them when Terna requests them to fire up the plant or change their structure.
[84] 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.

Relations with electricity service operators

In providing the public electricity transmission and dispatching services operated by the Company under concession, Terna maintains business relations with various categories of operator, including:

- dispatching users (producers, wholesalers or end customers) with regard to the provision of dispatching services;
- distribution companies and other private grid operators in relation to transmission and aggregate metering, required with regard to regulate the dispatching service.

As part of dispatching activities, as the sole counterparty, Terna procures the resources needed to meet requirements and to guarantee a reserve margin on the DSM. **In 2023, transactions on the DSM amounted to approximately €750 million**.

Since 2017, Terna is also responsible for the settlement of amounts due to and from balancing service providers (BSPs) that provide services on the Dispatching Services Market (DSM), as part of pilot projects launched by Terna in accordance with ARERA resolution 300/2017, including the Mixed Enabled Virtual Units (UVAM) project. In particular, as part of the latter project, Terna procured forward balancing resources totalling 358 MW from 13 BSPs.

In addition, for dispatching services purposes, Terna checks the consistency between the final programmes of operators (producers and consumers) with the amounts that have actually been withdrawn from/input into the grid. Any deviations represent so-called "imbalances", the value of which entails invoicing the related energy imbalance prices to the individual parties responsible for the imbalance costs. This is done in order to cover the costs generated for the system as a result of their conduct.

Further categories of operator with whom Terna trades include applicants who have requested connection of their plants to the NTG (producers and consumers) and interruptible users, namely customers who are willing to have their electricity supply suspended. Terna signs contracts with these operators regarding the interruptibility service, which is required for the secure operation of the electricity system, and especially with the aim of mitigating the risk of widespread power outages.

Participants in the interruptibility service numbered 146 in 2023, accounting for 4,716 MW of power. The related annual cost amounts to approximately €266.8 million (of which €22.5 million for secondments).

Since 2022, Terna is responsible for the settlement of amounts due to and from capacity market operators. This mechanism allows Terna to procure capacity, through long-term contracts awarded through competitive auctions, in order to guarantee the adequacy of the system.

The operators participating to the auction have the obligation to offer capacity on energy and service markets at a price not greater than a strike price set by ARERA and the right to receive a fixed annual bonus from Terna.

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Electricity sector operators in relations with Terna

ENTITIES	2023	2022	2021
Interruptible users	146	152	175
Distributors directly connected with the NTG [1]	54	53	55
Supply-side dispatching service users (producers and traders)	141	133	135
Demand-side dispatching service users (traders and end users, including the Single Buyer)	259	226	188

[1] In addition to licensed distribution companies, the figure includes operators of closed distribution systems for internal user networks directly connected to the NTG and, from 2019, the Autonomous State Corporation for Public Utilities in the Republic of San Marino..

Operating results of Regulated Activities

The following table shows a breakdown of the results from the Terna Group's Regulated Activities in 2023 and 2022[85].

(€m)

	2023	2022	CHANGE
Total regulated revenue	**2,669.8**	**2,542.3**	**127.5**
Tariff revenue and incentives	2,538.5	2,418.6	119.9
- Transmission revenue	*2,107.6*	*1,968.6*	*139.0*
- Dispatching. metering and other revenue	*430.9*	*450.0*	*(19.1)*
Other regulated revenue	50.7	56.3	(5.6)
Revenue from construction services performed under concession in Italy	80.6	67.4	13.2
Total cost of Regulated Activities	**584.2**	**535.3**	**48.9**
Personnel expenses	285.2	266.2	19.0
External resources	187.2	176.8	10.4
Other costs	31.2	24.9	6.3
Cost construction services performed under concession in Italy	80.6	67.4	13.2
EBITDA from Regulated Activities	**2,085.6**	**2,007.0**	**78.6**

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.

After excluding revenue from construction services performed under concession (up €13.2 million), revenue from **Regulated Activities** is up €114.3 million, primarily reflecting:

- the impact on transmission revenue (up €139.0 million) of the increase in the RAB after the volume effect (up €91.6) 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;
- the reduction in dispatching revenue (down €19.1 million) is due to reduced revenue from output-based incentive mechanisms (down €30.9 million), partly offset by an increase cost recovery through tariffs (€11.8 million). With regard to incentive mechanisms, the incentive related to the grid development works carried out in the three-year period 2019-2021 to resolve congestion within zones, grid encumbrances for voltage regulation and improve conditions for essential service provision was paid out in 2022 (down €140.5 million, introduced by Resolution 26/2023). On the other hand, in 2023, recognition of the revenue from the mechanism designed to reduce the cost of procuring services, the shortfall in wind production and essential services (pursuant to Resolutions 597/2021 and 132/022) resulted in an increase of €108.4 million, following an update in the overall performance estimates for the three-year period 2022-2024;
- reduced revenue in the form of the bonus receivable under the RENS incentive mechanism (down €12.0 million), due to the impact of the extension to 2025 of the regulatory period for the mechanism, considering the performance in 2023;
- an increase in gains on the sale of assets (up €7.7 million, essentially scrap, transformers and motor vehicles).

[85] The Terna Group's operating segments are consistent with the internal control system adopted by the Parent Company, in line with the latest approved Industrial Plan.

After excluding the cost of construction services performed under concession (up €13.2 million), the **cost of Regulated Activities** is up €35.7 million, primarily reflecting:

- the impact on personnel expenses (up €19.0 million) due to an increase in the average workforce and the impact of renewal of the national collective labour agreement for the electricity sector, partly offset by an increase in capitalised expenses;
- an increase in costs for external resources (up €10.4 million), due to increased activity and new initiatives carried out by the Group;
- an increase in the costs incurred for quality of service (up €3.4 million), primarily linked to provisions for exceptional events related to the outages that occurred in Sicily in February 2023;
- an increase in costs following the adjustment of provisions for litigation and disputes (up €2.4 million), due to the positive settlement of a number of disputes in the comparative period.

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Non-regulated activities

Energy market solutions

Non-regulated Activities are designed to support the ecological transition, in keeping with the core business. Terna uses its know-how in the design, engineering, operation and maintenance of complex solutions, including the integration of telecommunications networks, and proprietary systems and RES expertise in the production of cables and transformers. The aim is to serve commercial and industrial customers with the Group's expertise and experience across a wide range of solutions.

The main areas of business in this segment are:

- **Industrial**
- **Connectivity**
- **Energy solutions**
- **Private interconnectors pursuant to Law 99/2009**

Industrial

Via two leading companies in their fields, Terna is able to oversee expertise and supplies in two key areas for grid development:

- **Transformers – Tamini Group:** a world leader in the production of industrial transformers and in after-sales service;
- **Terrestrial cables - Brugg Cables Group:** a centre of excellence for research, development and testing in the field of terrestrial cables, the Brugg Group is based in Switzerland and has several overseas subsidiaries.

Transformers –Tamini Group

Tamini operates in the electromechanical sector and is a leader in the design, production, commercialisation and repair of power transformers for electricity transmission and distribution grids, of industrial transformers for the steel and metals industry and of special transformers for convertors used in electrochemical production.

With over a hundred years of experience, Tamini has a well-established name in Italy and overseas, thanks to its technological and engineering capabilities, combined with the degree of customisation and production flexibility it can offer.

Order book

Tamini received orders for transformers worth approximately €297 million in 2023, marking a sharp increase of 46% compared with the previous year

Orders in the Power sector amounted to approximately €230 million, up 65% compared with the previous year. This is thanks to investment made by numerous players, above all in Europe, related to the energy transition. Orders in the Industrial sector amounted to approximately €67 million, up 5% from 2022.

Orders for Services in 2023 amounted to approximately €17 million, an increase of 10% compared with 2022.

The value of factory backlogs, is significantly up compared with the end of 2022 at approximately €305 million (up 75%).

Results

Revenue fell slightly in 2023, down 1.7% compared with 2022, due to the reduced value of transformer production.

The company's EBITDA amounts to €11.3 million, a significant increase compared with 2022 (approximately 59%) reflecting improved margins.

Several very important items of equipment were also tested, including four 400 MVA autotransformers and six 250 MVA400 autotransformers in Italy, one 500 MVA transformers in Ireland, five 400 MVA transformers for a TSO in Finland and 1 390MVA Phase Shifting Transformer for a TSO in Belgium.

Vegetable oil transformers

Since 2017, the Tamini Group is specialised in planning and producing high-voltage green transformers, offering major advantages, such as:

- a significant increase in capacity at equal loads;
- extended life expectancy;
- reduced flammability;
- eco-compatibility.

Tamini continued to be committed to the production of vegetable oil transformers for the Power sector in 2023. A 400 MVA/400kV autotransformer and two 250 MVA/400kV autotransformers were tested at the Legnano plant in 2023, in addition to testing of a further 30 MVA transformer.

Terrestrial cables – Brugg Cables Group

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

Order book

Orders acquired in 2023 amount to approximately CHF283 million (up 26% on 2022). The High Voltage System segment made a major contribution (CHF195 million). The Low Medium Voltage segment also made a significant contribution (CHF50 million), as did the High Voltage Accessories segment (CHF38 million).

Compared with 2022, production of high voltage cables is up 20% whilst the volume of low and medium voltage cables produced is down by 3%.

Results

Revenue for 2023, amounting to approximately CHF236 million, is up 13% on 2022. Margins also improved compared with the previous year, primarily thanks to cost efficiencies, the careful selection of orders and revised pricing strategies, despite the strengthening of the Swiss Franc against foreign currencies (especially the euro and the US dollar).

Operating activities

In the High Voltage Accessories segment, there was a significant increase in orders, both in terms of volume and margins, resulting in a significant improvement in performance compared with 2022.

The high and very high voltage systems segment saw strong growth in orders. There is a clear trend towards higher margins for orders obtained and positive growth in the European market (above all in Germany).

The low and medium voltage segment, has recorded an improvement in margins, thanks to the renegotiation of certain contracts (above all framework agreements) following the continuous monitoring of procurement and production costs, with prices simultaneously aligned.

In order to improve the efficiency of operations in the Middle East, the subsidiary, Brugg Cables Middle East DMCC, and the tax-branch, Brugg Cables Kuwait, were liquidated on 19 December 2023 and 26 December 2023, respectively. The subsidiary, Brugg Cables Middle East Contracting, and the branch, Brugg Cable Abu Dhabi, remain in operation.

Connectivity

The Group's nationwide infrastructure is made available to meet the increasingly urgent need for fast and reliable digital connections, supporting partners in developing smart connectivity solutions via optical fibre use rights, pylon rental, housing and facilities (installation of telecommunications equipment within Terna's already operational facilities).

Fiber

Via optical fiber use rights, Terna enables customers to acquire new infrastructure, which performs better than underground cable standards, in terms of reliability (far fewer faults per year per km) and quality (low attenuation), with significant savings in terms of length compared to terrestrial connections (>20% over a long distance). Since 2017, indefeasible right of use (IRU) has been granted for a total of approximately 36,500 km of fibre, for which Terna provides maintenance and housing servicing for regeneration. The main contracts, which continued also in 2023, are with Open Fiber, Irideos, Fastweb, Eolo, WIND and E-Distribuzione. Under these contracts, a total of 3,661 km of fibre pairs were delivered in 2023.

With regard to the above deliveries, under the framework agreement signed in February 2023 regarding the granting of indefeasible right of use (IRU) for the construction of infrastructure to connect the primary substations to the operating centre, 150 routes were delivered to E-Distribuzione during the year, making a total of 2,461 km of fibre pairs[86]. The framework agreement envisages delivery of approximately 42,000 km of fibre between 2023 and 2027 to connect 1,923 E-distribuzione plants via 153 rings.

Energy solutions

Terna provides engineering, procurement and construction (EPC), operation and maintenance (O&M) and digital services. These services include the following.

Smart grid

The offer of turnkey solutions to islands and companies that want to evaluate, design and integrate renewable energy systems (photovoltaic or wind power), storage systems (batteries) and cogeneration/trigeneration solutions into their production cycle. Complex systems are developed for generation, storage, active demand behind the meter, utility scale and advanced monitoring of plants, able to optimise their operation.

Renewables - LT Group

The LT Group provides O&M services for photovoltaic plants, designs and implements revamping and repowering projects for existing plants and builds new photovoltaic plants for third parties. Turnover in 2023, amounting to approximately €106 million, is in line with plans made for the year and, compared with 2022, is up approximately €64 million, primarily due to EPC, revamping and repowering activities, which have grown by approximately 300%.

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, 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.

[86] The 2023 Plan, which originally envisaged 3,215 km, was revised in September.

Other projects

In 2023 the construction of an electrochemical storage plant in Assemini (Metropolitan City of Cagliari), and the construction and commissioning of two STATCOM systems for two different steel production plants in Lombardy and Veneto was completed. The civil works for a storage plant being built on the island of Pantelleria were also completed and the electromechanical assembly is under way, as part of the Smart Island projects.

With regard to revamping/repowering contracts for photovoltaic plants, the Alfonsine II (Ravenna) plants were completed as was construction of roof-top photovoltaic systems[87] for a major industrial plant in Emilia. Module revamping and inverter repowering activities continued at the other plants involved. In addition, the module revamping and inverter repowering activities continued at eight plants belonging to third parties, located in Puglia, Emilia-Romagna and Lazio.

High voltage

In 2023 installation of a new transformer bay[88] and the related control system for an industrial operator in Veneto was completed, as was installation of a new bay and the revamping of an LV section for an industrial operator in the Romagna region. Design work in preparation for the consents process (PTP[89]) was completed in relation to the construction of infrastructure connecting to the NTG for an industrial customer in Tuscany.

In addition, the construction and supply of an HV cable duct was completed and a revamping agreement was signed for a high-to-medium-voltage substation at a different industrial site. Planning for the project is under way and the procurement of the HV components and the transformer also began.

The activities related to the framework agreement with RFI, relating to the “Design, supply, installation, certification and commissioning of metering equipment”, are in progress. During 2023, 82 application contracts were signed and 15 installations were carried out, making a total of 60 pieces of equipment installed.

Work on the detailed design for construction of an electricity substation in Puglia was completed, with work on the design and construction of another electricity substation in Sardinia under way (both to be used to connect utility-scale photovoltaic plants). Design work is also underway in preparation for construction of a similar electricity substation in the Lazio region.

Work on a “provisional” electricity substation in Sicily to enable the connection of a further utility-scale photovoltaic plant under construction is also in progress.

Preparations are under way for a turnkey construction project for an NTG connection (substation and HV cable[90]) for a major client operating in the data centre sector in the province of Milan.

[87] Photovoltaic.
[88] Transformer.
[89] Project Technical Plan.
[90] High-voltage.

Private interconnectors pursuant to Law 99/2009

In order to develop a single electricity market by expanding cross-border interconnection capacity, EU legislation has set out guidelines for the creation of interconnections with other countries by entities other than grid operators.

The European guidelines have been introduced into Italian legislation by **Law 99/2009**, which assigned Terna responsibility for selecting undertakings (the "selected undertakings"), on the basis of public tenders, willing to finance specific interconnectors in exchange for the benefits resulting from a decree granting a third-party access exemption with regard to the transmission capacity provided by the new infrastructure.

The law states that these private backers, in exchange for a commitment to finance such projects, are required to commission Terna to build and operate the interconnectors.

As of today, three overseas interconnections entered service within this framework: The cross-border interconnectors with Montenegro (completed in December 2019), France (completed in November 2022), Austria (completed in December 2023).

Terna is responsible for managing routine and special maintenance activities and operating the interconnector in return for an annual fee. The infrastructure was completed on 28 December 2019 and is owned by Monita Interconnector S.r.l., which was sold to the private backers on 17 December 2019.	Italy–Montenegro interconnector project
The Terna Group is responsible for managing routine and special maintenance activities and operating the interconnector. The infrastructure was completed on 7 November 2022 and is owned by Piemonte Savoia S.r.l., which was sold to the private backers on 4 July 2017, pursuant to Law 99/2009.	Italy–France interconnector project
The Terna Group is responsible for managing routine and special maintenance activities and operating the interconnector, which entered service on 15 December 2023 and is owned by Resia Interconnector S.r.l., sold by the Terna Group to private investors on 15 September 2021, in accordance with Law 99/2009.	Italy–Austria interconnector project
The project involves the development of new transmission lines between Italy and Switzerland, with the aim of increasing interconnection capacity between Italy and Switzerland.	Italy–Switzerland interconnector project
The creation of a direct current line is planned, partly in undersea cable, between the substations of Salgareda (IT) and Divaça/Beričevo (SL), together with work on upgrading the domestic grids in Italy and in Slovenia. The project is currently awaiting the necessary consents on the Italian side. The expected increase in cross-border capacity of approximately 1 GW will raise the interconnection capacity to more than double the current level.	Italy–Slovenia interconnector project

Operating results of Non-regulated Activities

The following table shows a breakdown of the results from the Terna Group's results from its Non-regulated Activities for 2023 and 2022[91].

(€m)

	2023	2022	CHANGE
Revenue from Non-regulated activities	**516.8**	**421.4**	**95.4**
Industrial	306.7	286.7	20.0
- Brugg Cables Group	*167.6*	*137.4*	*30.2*
- Tamini Group	*139.1*	*149.3*	*(10.2)*
Connectivity	40.2	34.6	5.6
Energy Solutions	147.2	85.8	61.4
- High voltage	*33.9*	*34.2*	*(0.3)*
- Smart Grids	*113.3*	*51.6*	*61.7*
Private interconnectors	19.1	11.5	7.6
Other	3.6	2.8	0.8
Cost of Non-regulated Activities	**429.9**	**363.9**	**66.0**
Operating costs	131.1	74.4	56.7
Brugg Cables Group	167.0	143.1	23.9
Tamini Group	131.8	146.4	(14.6)
EBITDA from Non-regulated activities	**86.9**	**57.5**	**29.4**

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.

[91] The Terna Group's operating segments are consistent with the internal control system adopted by the Parent Company, in line with latest approved Industrial Plan.

International Activities

< 2-6

Growing demand for electricity and the need to integrate renewable sources are behind an increase in investment in the electricity transmission sector in overseas markets, in which the Terna Group can leverage the expertise developed in Italy in the role as a TSO.

The Terna Group's scouting of overseas opportunities focuses on countries with a stable political situation, a regulatory system that allows external operators to access the market and with performances on a par with the Italian market. International initiatives of interest to the Terna Group regard the development and management of regulated or unregulated transmission grids acquired through the award of concessions or through partnerships with local operators.

South America – sale of Latin American assets

As part of overseas initiatives, the plan to extract value from activities in South America proceeded. Launched in the last part of 2021, the plan involves the **sale of up to 100% of the Group's Latin American assets**.

Transaction closing, due to take part in stages, for the most part took place in November and December 2022, with the sale to CDPQ of SPE Santa Maria Transmissora de Energia S.A., SPE Santa Lucia Transmissora de Energia S.A., SPE Transmissora de Energia Linha Verde II S.A. and Difebal S.A.

In 2023, engineering work for the **SPE Transmissora de Energia Linha Verde I S.A.** project was completed. This project involves construction of a 150-km long 500kV power line dubbed the "Governador Valadares-Mutum" in the State of Minas Gerais, entry into service on January 2024, which is scheduled to be sold in 2024.

In **Peru**, the operation and maintenance of the 132-km 138kV power line between Aguaytìa and Pucallpa also continued in 2023, following the line's entry into commercial service on 16 May 2021.

North America

Development of the North American business continued in 2023, through **Terna USA LLC e BMT Energy Transmission Development LLC**, with a view to taking advantage of business opportunities relating to the acquisition, development and construction of large onshore and offshore electricity transmission infrastructure projects in the United States.

Operating results of International Activities

The following table shows a breakdown of the results from the Terna Group's International Activities in 2023 and 2022[92].

EBITDA from International Activities for 2023 and 2022 does not include the results generated by the Latin American initiatives involved in the above sale process. As required by IFRS 5, these initiatives are classified under "Profit/(Loss) from discontinued operations and assets held for sale" in the reclassified income statement in the paragraph entitled "The Terna Group's financial review for the first half of 2023".

(€m)

	2023	2022	CHANGE
Revenue from International Activities	0.1	0.8	(0.7)
Cost of International Activities	4.0	6.1	(2.1)
EBITDA from International Activities	**(3.9)**	**(5.3)**	**1.4**

Negative EBITDA from International Activities, amounting to €3.9 million essentially reflects the costs incurred by central departments to support overseas initiatives. The figure has improved by €1.4 million compared with the previous year (negative EBITDA of €5.3 million), primarily due to the impact of the reduced average workforce on personnel expenses, following a reorganisation of the Group's workforce.

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 and an increase in operating losses in view of the difference in scope.

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

[92] The Terna Group's operating segments are consistent with the internal control system adopted by the Parent Company, in line with the latest approved Industrial Plan.

Financial resources and sustainable finance

The Company's financial management is based on an approach that aims to maximise efficiency, achieve and maintain a solid financial structure and embed the concept of sustainability in its financial strategy, whilst adopting a highly prudent stance towards mitigation of the potential risks.

The key aspects of the resulting financial strategy are:

- **diversification** of the sources of financing, raising funds on both the capital markets and in the form of borrowings from major banks and supranational financial institutions;
- a **balance** between short and medium-term instruments, in keeping with the composition of assets;
- the **proactive management** of debt in order to take advantage of the opportunities offered by the capital markets;
- a commitment to maintaining **high credit ratings**, based on a strong financial position;
- **active management of the financial risks** to which the Company is exposed, as set out in more detail in the section, "Risk management".

Sustainable finance

Fully in line with Terna's strategy, which aims to combine investment and sustainability to drive growth and value creation, it is Terna's ambition to play a leading role in the sustainable finance market. This strategy was also followed in 2023.

At 31 December 2023, the **senior green bonds issued by Terna** under its €9,000,000,000 Euro Medium Term Notes (EMTN) programme, and yet to reach maturity, amount to **€2.25 billion, in addition to the first perpetual, subordinated green bonds** issued on a standalone basis in February 2022, **amounting to €1 billion**.

On **17 July 2023**, Terna successfully launched a **green**, single-tranche, euro-denominated, fixed rate **bond** with a total nominal value of €650 million under its €9,000,000,000 Euro Medium Term Notes (EMTN) programme. The green bonds were issued at a price of 99.107%, with a spread of 90 basis points above the midswap rate, and pay annual coupon interest of 3.875%. The bonds have a term of 10 years and will mature on 24 July 2033. In common with earlier green senior issues, the new bonds are listed on Borsa Italia's ExtraMOT PRO market, created to offer investors the opportunity to identify instruments where the proceeds are used to fund projects providing specific environmental and social benefits.

Terna's leadership in sustainable finance is widely recognised in the market which, since 2018, has shown a strong appetite for the green bonds issued. Terna successfully launched its first green bond amounting to €750 million in July 2018, launching a further two green issues totalling €750 million in 2019 (the first worth €250 million after reopening the issue announced in July 2018), a green bond issue with a total nominal value of €500 million in 2020 and, in June 2021, a new green bond issue worth €600 million.

These green issues are used to finance or refinance **Eligible Green Projects**. These are projects producing environmental benefits that meet certain criteria listed in the **Green Bond Framework** published by Terna in

compliance with the "Green Bond Principles" drawn up by the ICMA (International Capital Market Association) and the EU Taxonomy. Following the update of the Green Bond Framework in October, Moody's Investors Service reaffirmed its assignment of an **"SQS1 Sustainability Quality Score (Excellent)" in its Second Party Opinion**. This is the highest score possible.

Specifically, the net proceeds from the issues are used to finance:

- projects that aim to increase renewable energy production – for example, infrastructure enabling renewable energy plants to be connected to the national grid or that allow for a larger volume of renewable energy to be injected into the grid;
- projects designed to cut carbon emissions by reducing grid losses – for example, infrastructure designed to boost the efficiency of the electricity transmission grid;
- projects designed to ensure the quality, security and resilience of grid infrastructure;
- projects that aim to reduce land use and protect biodiversity.

As at 31 December 2023, Terna has also agreed a number of **ESG-linked Credit Facilities** amounting to €900 million, **two ESG-linked Revolving Credit Facilities** linked to sustainability indicators, amounting to a total of approximately €3.5 billion, and a **€1 billion Euro Commercial Paper (ECP) programme**. On 12 May 2023, the ESG Revolving Credit Facility agreed in April 2019 was refinanced, extending it by a further 5 years and increasing the total amount to the current €1.8 billion. The ESG indicators linked to a bonus/penalty mechanism applied to contract terms regarding the commitment fee and the spread were also amended. The three-year Euro Commercial Paper programme (short-term notes issued to qualified investors) enables Terna to issue ESG Notes provided that the Company obtains and retains a Top 10% Global ESG Score in the S&P Sustainability Yearbook for the Electric Utilities sector. On 2 May 2023, Terna published an initial Supplement to the programme's Information Memorandum dated 16 July 2021.

The **share buyback programme to service the Performance Share Plan 2023-2027** was completed on 10 July 2023 at a total cost of approximately €7 million and with the acquisition of 917,611 of the Company's ordinary shares (representing approximately 0.046% of the share capital). In keeping with Terna's commitment to sustainability and social and environmental responsibility, the programme includes a mechanism linked to the Company's achievement of specific ESG objectives.

In addition to its inclusion in the main ESG indices, from January 2021, Terna is the first Italian electric utility to join the **Nasdaq Sustainable Bond Network**, the sustainable finance platform operated by Nasdaq that brings together investors, issuers, investment banks and specialist organisations.

Terna continues to be a member of the **CFO Coalition for the SDGs**, which is building on the work of the CFO Taskforce for the SDGs, the initiative launched by the **UN Global Compact** at the end of 2019 to develop sustainable finance and of which Terna was one of the founding members. The Coalition aims to continue to promote sustainability, scale up its global community and follow the example set by the CFOs that founded the Taskforce.

Further confirmation of the commitment to playing an active role in developing sustainable finance, Terna is taking part in the **Corporate Forum for Sustainable Finance**, a network of major European businesses committed to the development of sustainable finance as a means to promote a more sustainable and responsible society.

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

Further financial resources

With regard to **bank debt**, as regards the **Tyrrhenian Link** project, Terna has obtained financing for the project from the **European Investment Bank (EIB)**, amounting to €1.9 billion. In addition to the first tranche agreed on 8 November 2022 (amounting to €500 million and disbursed in December 2022), on 30 March 2023, two further tranches amounting to a total of €900 million were agreed. These loans, to be used to finance the construction and commissioning on the East and West sections of the Tyrrhenian Link, were disbursed in June and October 2023, respectively. The contract for the last tranche of the loan, amounting to €500 million, was agreed on 7 February 2024 on the margins of the second edition of the EIB Forum in Luxembourg.

The above four loans have terms of approximately 22 years from the date of disbursement, have durations that are longer and more competitive costs than those available in the market and form part of the policy for optimising Terna's financial structure.

This new transaction brings the total value of loans granted to Terna by the EIB to approximately €3.8 billion.

On 14 April 2023, a single tranche, euro-denominated fixed rate **bond issue** amounting to a total of €750 million was successfully launched, as part of Terna's Euro Medium Term Notes (EMTN) programme. The bonds, issued at a price of 99.281%, with a spread of 70 basis points above the midswap rate, have a term of 6 years and will mature on 21 April 2029. The bonds pay annual coupon interest of 3.625%.

On 8 June 2023, Terna S.p.A. **renewed its Euro Medium Term Notes (EMTN) programme totalling €9,000,000,000**, being the maximum amount that may be subscribed. IMI – Intesa Sanpaolo and UniCredit acted as Joint Arrangers of the programme, which has been assigned a "BBB+/A-2" rating by S&P and a "(P)Baa2 /(P)P-2" rating by Moody's.

In addition, on **10 January 2024**, Terna launched a **new** single tranche **bond issue**, again as part of the Euro Medium Term Notes (EMTN) programme. The issue has a nominal value of €850 million, a term of 7 years and matures on 17 January 2031. The bonds, which proved highly attractive to investors, were issued at a price of 99.385%, with a spread of 100 basis points above the midswap rate. The bonds pay annual coupon interest of 3.50%.

Furthermore, with regard to the **Italy-Tunisia interconnection project (ELMED PROJECT)**, in December 2022, the European Commission informed Terna that it had been awarded a non-repayable grant from the CEF Connecting Europe Facility, amounting to a total of €307 million for the project. 50% of the grant has been allocated to Terna and 50% to STEG (the Tunisian grid operator). Following signature of the Grant Agreement between Terna and CINEA (the EU agency), in August 2023 the European Commission paid Terna an advance equal to 25% of the approved amount, totalling approximately €77 million (of which 50% allocated to Terna.

Debt is described in detail in the section, "The Terna Group's financial review for 2023".

Terna adopts a dynamic approach to managing the various forms of **financial risk**, including **market risk** (interest rate, exchange rate and inflation risk), **liquidity risk** and **credit risk**. This approach includes constant monitoring of the financial markets, in order to carry out planned hedging operations under favourable market conditions, but also to take advantage of opportunities to improve existing hedges, when changes in market conditions make previous hedges unsuitable or excessively costly.
Further details are provided in the notes to the consolidated financial statements and to the Parent Company's separate financial statements.

Ratings

	SHORT-TERM	MEDIUM/LONG-TERM	OUTLOOK
Terna S.p.A.			
Standard & Poor's	A-2	BBB+	Stable
Moody's	Prime-2	Baa2	Stable
Italian state			
Standard & Poor's	A-2	BBB	Stable
Moody's	Prime-3	Baa3	Stable

The rating agencies (Standard & Poor's and Moody's) reaffirmed the Company's ratings in 2023.

Terna's long-term ratings are one notch above Italy's sovereign rating. In November 2023, Moody's upgraded Terna's outlook from negative to stable, following a review of Italy's sovereign rating by the same rating agency.

The Terna Group's financial review for 2023

Introduction

The Annual Report for 2023 has been prepared in accordance with the requirements of art. 154-*ter* of Legislative Decree 58/98 introduced by Legislative Decree 195 of 6 November 2007 (the "Transparency Decree"), as amended by Legislative Decree 27 of 27 January 2010.

As required by Legislative Decree 38 of 28 February 2005 and EEC Regulation 1606/2002, the financial statements of the parent company Terna S.p.A. and the consolidated financial statements of the Terna Group for the year ended 31 December 2023 were prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and endorsed by the European Commission (hereinafter "IFRS").

In compliance with the provisions of art. 2364 of the Italian Civil Code and art. 9.2 of the Company's Articles of Association, the Board of Directors has decided to call an Annual General Meeting of shareholders within 180 days of the end of the annual reporting period, given that Terna S.p.A. is a company required to prepare consolidated financial statements.

Basis of presentation

The measurement and recognition criteria applied in this Annual Report are consistent with those adopted in the consolidated financial statements for the year ended 31 December 2022.

In order to present the performance of the Terna Group and Terna S.p.A. and to analyse the financial positions, separate reclassified statements have been prepared. These differ from the statements required by the EU-IFRS adopted and described in the consolidated and separate financial statements for the year ended 31 December 2023.

These reclassified statements contain alternative performance indicators, which differ from those resulting directly from the separate and consolidated financial statements. Management considers these indicators to be useful in assessing the performances of the Group and of Terna S.p.A. and representative of the business's operating results and financial position.

In line with the guidance provided by ESMA/2015/1415, the criteria used in constructing these indicators are described in specific notes, reconciling them with the amounts presented in the consolidated and separate financial statements. The notes are contained in an annex to this report on operations.

Given that the requirements of IFRS 5 have been met, the overall 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 31 December 2022 have been reclassified to the item "Discontinued operations and net assets held for sale" in the Group's reclassified statement of financial position.

Scope of consolidation

The following changes in the structure of the Group have taken place with respect to 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%;

- 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.

The Group's reclassified income statement

The Terna Group's operating results for the year 2023, compared with those for the previous year, are summarised in the following reclassified income statement, obtained by reclassifying amounts in the statutory consolidated income statement.

(€m)

	2023	2022	CHANGE	% CHANGE
TOTAL REVENUE	**3,186.7**	**2,964.5**	**222.2**	**7.5%**
- Regulated revenue	2,669.8	2,542.3	127.5	5.0%
of which Revenue from construction services performed under concession	*80.6*	*67.4*	*13.2*	*19.6%*
- Non-Regulated revenue	516.8	421.4	95.4	22.6%
- International revenue	0.1	0.8	(0.7)	(87.5%)
TOTAL OPERATING COSTS	**1,018.1**	**905.3**	**112.8**	**12.5%**
- Personnel expenses	368.0	341.5	26.5	7.8%
- Cost of services, leases and rentals	249.8	222.6	27.2	12.2%
- Materials	276.1	241.3	34.8	14.4%
- Other costs	38.3	30.6	7.7	25.2%
- Quality of service	5.3	1.9	3.4	178.9%
- Cost of construction services performed under concession	80.6	67.4	13.2	19.6%
GROSS OPERATING PROFIT (EBITDA)	**2,168.6**	**2,059.2**	**109.4**	**5.3%**
- Amortisation, depreciation and impairment losses	806.3	725.7	80.6	11.1%
OPERATING PROFIT (EBIT)	**1,362.3**	**1,333.5**	**28.8**	**2.2%**
- Net financial income/(expenses)	(117.7)	(100.1)	(17.6)	17.6%
PROFIT/(LOSS) BEFORE TAX	**1,244.6**	**1,233.4**	**11.2**	**0.9%**
- Income tax expense for the year	364.3	355.4	8.9	2.5%
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**880.3**	**878.0**	**2.3**	**0.3%**
- Profit/(Loss) for the year from discontinued operations and assets held for sale	2.5	(20.3)	22.8	112.3%
PROFIT FOR THE YEAR	**882.8**	**857.7**	**25.1**	**2.9%**
- Profit/(Loss) attributable to non-controlling interests	(2.6)	0.7	(3.3)	-
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	**885.4**	**857.0**	**28.4**	**3.3%**

(€m)

EBITDA BY OPERATING SEGMENT	2023	2022	CHANGE
Regulated Activities	2,085.6	2,007.0	78.6
Non-regulated Activities	86.9	57.5	29.4
International Activities	(3.9)	(5.3)	1.4
EBITDA	**2,168.6**	**2,059.2**	**109.4**

Gross operating profit (EBITDA) for the year amounts to **€2,168.6 million**, up €109.4 million compared with the €2,059.2 million of 2022. This reflects the improved result from Regulated Activities.

Revenue

(€m)

REGULATED ACTIVITIES	2023	2022	CHANGE
Tariff revenue and incentives	2,538.5	2,418.6	119.9
Other regulated revenue	50.7	56.3	(5.6)
Revenue from construction services performed under concession in Italy	80.6	67.4	13.2
TOTAL	**2,669.8**	**2,542.3**	**127.5**

After excluding revenue from construction services performed under concession (up €13.2 million), revenue from **Regulated Activities** is up €114.3 million. This primarily reflects the increase in the regulated asset base during the period, after the volume effect and the effect of output-based incentive mechanisms.

(€m)

NON-REGULATED ACTIVITIES	2023	2022	CHANGE
Industrial (Brugg Cables Group and Tamini Group)	306.7	286.7	20.0
Services for third parties (Connectivity, Energy Solutions, other)	191.0	123.2	67.8
Private interconnectors	19.1	11.5	7.6
TOTAL	**516.8**	**421.4**	**95.4**

The increase in revenue from **Non-regulated Activities**, amounting to €95.4 million, primarily reflects increased revenue from Energy Solutions (up €61.4 million), which benefitted from greater contributions from the LT Group (up €62.4 million), and an increased contribution from the Brugg Cables Group (up €30.2 million).

Revenue from **International Activities** is classified in the "Profit/(Loss) for the year from discontinued operations and assets held for sale", in application of IFRS 5.

Costs

After excluding the cost of construction services performed under concession (up €13.2 million), **operating costs** are up €99.6 million compared with the previous year. This broadly reflects an increase in the cost of procuring raw materials and services incurred by the Brugg Cables Group and the LT Group (up €21.2 million and €47.8 million, respectively) and an increase in the cost of Regulated Activities (up €10.4 million due to increased activity and new initiatives carried out by the Group). Personnel expenses are also up (€26,5 million), primarily due to the larger workforce after an increase in capitalised expenses.

Amortisation, depreciation and impairment losses for the year amount to €806.3 million, an increase of €80.6 million compared with 2022, primarily due to the entry into service of new infrastructure.

Operating profit (**EBIT**), after amortisation, depreciation and impairment losses, amounts to **€1,362.3 million**, compared with €1,333.5 million for 2022 (up 2.2%).

Net financial expenses for the year, totalling €117.7 million, are primarily attributable to the Parent Company (€116.1 million) and have risen €17.6 million compared with the €100.1 million of 2022. This is primarily due to the rise in interest rates payable on borrowings, partially offset by greater income from the investment of cash and from other financial assets, the impact of falling inflation in relation to the inflation-linked bonds (maturing in September) and an increase in capitalised expenses.

After net financial expenses, **profit before tax** amounts to **€1,244.6 million**, an increase of €11.2 million compared with the previous year (up 0.9%).

Income tax expense for the year totals €364.3 million, an increase of €8.9 million (2.5%), essentially due to the increase in pre-tax profit and the greater amount of contingent assets recognised in the previous year. The resulting tax rate of 29.3% compares with a rate of 28.8% for 2022.

The **profit for the year from continuing operations** amounts to **€880.3 million**, an increase of €2.3 million compared with the €878.0 million of 2022.

The **profit for the year from discontinued operations and assets held for sale**, totalling €2.5 million, marks an improvement of €22.8 million compared with 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 and an increase in operating losses in view of the difference in scope.

Profit for the year amounts to **€882.8 million**, compared with €857.7 million for 2022 (up 2.9%).

Profit for the year attributable to owners of the Parent (after excluding the share attributable to non-controlling interests) amounts to **€885.4 million**, up €28.4 million (3.3%) compared with the €857.0 million of 2022.

Cash flow

Operating cash flow and the change in net debt covered the cash needs linked to capital expenditure and to the payment of dividends to shareholders.

(€m)

	CASH FLOW 2023	CASH FLOW 2022
- Profit for the year	882.8	857.7
- Amortisation, depreciation and impairment losses	806.3	725.7
- Net change in provisions	(35.3)	19.8
- Net losses/(gains) on sale of assets	(18.0)	(6.9)
Operating cash flow	**1,635.8**	**1,596.3**
- Change in net working capital	(558.8)	1,024.8
- Other changes in property. plant and equipment and intangible assets	15.1	35.7
- Change in investments	(2.9)	2.4
- Change in financial assets	10.7	(131.2)
Cash flow from operating activities	**1,099.9**	**2,528.0**
- Total capex	(2,290.0)	(1,756.8)
Free cash flow	**(1,190.1)**	**771.2**
Net assets held for sale	**(19.3)**	**56.6**
- Dividends paid to the Parent Company's shareholders	(649.0)	(601.0)
- Reserve for equity instruments, cash flow hedge reserve after taxation and other movements in equity attributable to owners of the Parent	(54.0)	1,204.1
- Other movements in equity attributable to non-controlling interests	(5.6)	(4.7)
Change in net debt	**(1,918.0)**	**1,426.2**

The Group's reclassified statement of financial position

The Terna Group's financial position at 31 December 2023 and 31 December 2022 is summarised below in the reclassified statement of financial position, obtained by reclassifying amounts in the statutory consolidated statement of financial position.

(€m)

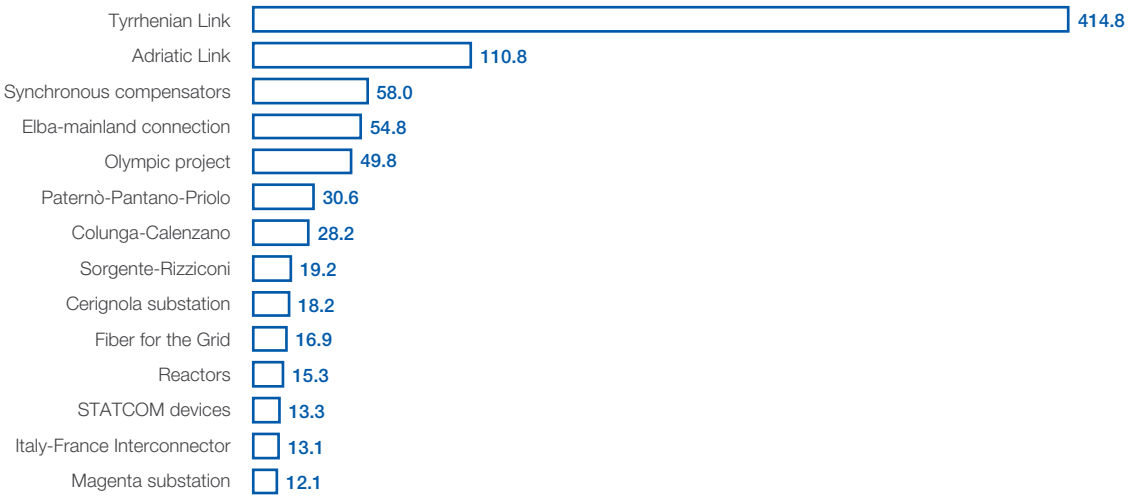
	AT 31 DECEMBER 2023	AT 31 DECEMBER 2022	CHANGE
Total net non-current assets	**18,964.7**	**17,485.3**	**1,479.4**
- Intangible assets and goodwill	867.2	775.8	91.4
- Property, plant and equipment	17,596.7	16,200.9	1,395.8
- Financial assets	500.8	508.6	(7.8)
Total net working capital	**(2,174.6)**	**(2,732.8)**	**558.2**
- Net energy-related pass-through payables	(912.0)	(1,332.6)	420.6
- Net receivables resulting from Regulated Activities	1,107.6	778.7	328.9
- Net trade payables	(937.1)	(775.5)	(161.6)
- Net tax assets	25.7	(50.5)	76.2
- Other net liabilities	(1,458.8)	(1,352.9)	(105.9)
Gross invested capital	**16,790.1**	**14,752.5**	**2,037.6**
Sundry provisions	(32.9)	(68.2)	35.3
Net invested capital	**16,757.2**	**14,684.3**	**2,072.9**
Net assets held for sale	**80.4**	**61.1**	**19.3**
TOTAL NET INVESTED CAPITAL	**16,837.6**	**14,745.4**	**2,092.2**
Equity attributable to owners of the Parent	**6,324.4**	**6,142.0**	**182.4**
Equity attributable to non-controlling interests	**18.9**	**27.1**	**(8.2)**
Net debt	**10,494.3**	**8,576.3**	**1,918.0**
TOTAL	**16,837.6**	**14,745.4**	**2,092.2**

The €1,479.4 million increase in **net non-current assets** compared with 31 December 2022 primarily reflects a combination of the following:

- total capital expenditure of €2,290.0 million, as described in detail in the section on "Regulated Activities";
- the contribution of NTG assets from the acquisition of Edyna Transmission S.r.l. (renamed Rete Nord S.r.l.), totalling €13.3 million;
- amortisation and depreciation for the period, totalling €797.0 million;
- other movements during the year in "Property, plant and equipment" and "Intangible assets", which fell €19.9 million reflecting 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 for Economic Development and the EU) and disposals and impairment losses resulting in a reduction of €14.2 million;
- a reduction of €7.8 million in financial assets, broadly due to a decrease in guarantee deposits received from operators participating in the capacity market in accordance with Resolution 98/2011/R/eel, as amended (down €31.7 million), after 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), an increase in the investments made by the subsidiary, Terna Forward S.r.l. (up €4.1 million) in the Infra Tech and Energy Tech segments of CDP Venture Capital's Corporate Partner I fund and the increase in the stake held in the joint venture, SEleNe CC S.A., which rose from 25% to 33.33% in February (up €2.1 million).

The Terna Group's **total capital expenditure** during 2023, amounting to **€2,290.0 million**, is up **30.4%** compared with the €1,756.8 million of 2022.

Main investments in the NTG* (€m)



** Amounts include financial expenses.*

Net working capital (net current liabilities) of €-2,174.6 million resulted in a cash outflow of €558.2 million compared with 31 December 2022. This reflects the combined effect of:

Cash outflows

- a reduction in **net energy-related pass-through payables** of €420.6 million, primarily reflecting a decrease in net payables relating to essential plants for the security of the electricity system - *UESS* (€496.7 million), reflecting payments made in 2023, which also take into account the maximisation programme introduced by Resolution 430/2022[93], partially offset by a reduction in net receivables linked to the Uplift component and the related items it is intended to cover (totalling €95.2 million), mainly due to a reduction in the costs relating to the Dispatching Services Market. This decline reflects a decrease in price differentials on the DSM and a reduction in the quantities procured by Terna on the services market, linked above all to efficiency improvements and investment by Terna to cut DSM costs;
- an increase in **net receivables resulting from Regulated Activities** of €328.9 million, primarily reflecting:
  - recognition of the incentives introduced by Resolutions 597/2021 and 132/2022 and of the financial component of discounting (an increase of €329.1 million);
  - the higher value of transmission charges receivable due to an increase in the tariff and recognition of the accrued amount due as a return on digital substation systems in accordance with ARERA Resolution 565/2020 (totalling €29.4 million);
  - partial collection of the interzonal incentive recognised in Resolution 26/2023 as provided for in the measure (€38.9 million);
- an increase in **net tax assets** of €76.2 million, broadly due to an increase of €29.2 million in net VAT refundable and an increase in tax credits (up €41.8 million), following the settlement of taxes relating to the previous year and payments on account made in June after the recognition of income tax for the period.

[93] 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.

Cash inflows

- an increase of €161.6 million in **net trade payables**, largely due to the increase in capital expenditure towards the end of the year;
- an increase of €105.9 million in **other net liabilities**, primarily due to an increase in grants related to assets received from third parties (up €114.5 million).

Gross invested capital thus amounts to €16,790.1 million, an increase of €2,037.6 million compared with 31 December 2022.

Sundry provisions are down €35.3 million, primarily due to:

- net provisions for net deferred tax assets of €47.7 million, primarily due to the effect on taxation of movements in derivative financial instruments held by the Group, amortisation and depreciation and movements in provisions for risks and charges;
- net provisions for early retirement incentives (down €6.7 million), for right-of-way fees (down €5.1 million) and for urban and environmental redevelopment schemes (down €3.8 million), after uses of provisions for staff incentives and other personnel expenses (up €7.6 million).

Net assets held for sale, totalling €80.4 million at 31 December 2023, are up €19.3 million compared with 31 December 2022. This primarily reflects an increase in the net assets of the subsidiary, SPE Transmissora de Energia Linha Verde I S.A..

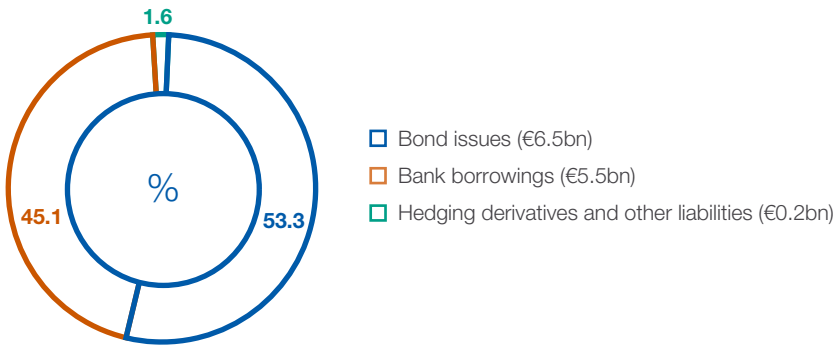
Total net invested capital, including assets held for sale, amounts to €16,837,6 million, marking an increase of €2,092.9 million compared with 31 December 2022. This is financed by equity attributable to owners of the Parent, totalling €6,324.4 million (compared with €6,142.0 million at 31 December 2022), equity attributable to non-controlling interests of €18.9 million (€27.1 million at 31 December 2022) and net debt of €10,494.3 million (up €1,918.0 million compared with the €8,576.3 million of 31 December 2022).

Net debt

The Group's financial policy and gross debt

The Terna Group's financial management is based on an approach that aims to maximise efficiency and achieve and maintain a solid financial structure, whilst adopting a highly prudent stance towards mitigation of the potential financial risks. The key aspects of the Group's financial policy are diversification of the sources of funding, a balance between short- and medium/long-term forms of debt and the proactive management of debt.

Gross debt at 31 December 2023 amounts to approximately **€12 billion**, consisting of approximately €6.5 billion in the form of bond issues and approximately €5.5 billion in bank borrowings. The average term to maturity of medium/long-term debt, 87% of which is fixed rate, is approximately 6 years.



Bonds have been issued in the form of both public and private placements under the €9 billion Euro Medium Term Notes (EMTN) Programme, in addition to a stand-alone issue of €800 million dating back to 2004. Focused specifically on qualified investors and listed on the Luxembourg Stock Exchange, Terna's bonds have a very diverse investor base, in terms of both sector and geographical profile.

The main provider of Terna's bank loans is the European Investment Bank (EIB). Total borrowings from the EIB at 31 December 2023 amount to approximately €3.3 billion. Thanks to its strong credit ratings, Terna is able to obtain financing from banks on extremely good terms, as shown by the two bond issues launched in 2023, amounting to a total of €1.4 billion, and the amount raised in the form of bank borrowings. In this regard, a total of €900 million in loans from the EIB was disbursed in 2023 (including €450 million in June and €450 million in October 2023). Terna also has access to two committed revolving credit facilities, amounting to approximately €3.5 billion.

Net debt

The Group's net debt at 31 December 2023 amounts to €10,494.3 million, marking an increase of €1,918.0 million compared with 31 December 2022.

(€m)

	AT 31 DECEMBER 2023	AT 31 DECEMBER 2022	CHANGE
NET DEBT (BY TERM TO MATURITY)			
Total medium/long-term debt	**9,556.5**	**8,588.4**	**968.1**
- Bond issues	5,664.2	5,078.9	585.3
- Borrowings	3,745.0	3,337.8	407.2
- Derivative financial instruments	147.3	171.7	(24.4)
Total short-term debt/ (funds)	**937.8**	**(12.1)**	**949.9**
- Bond issues (current portions)	826.4	1,658.8	(832.4)
- Short-term borrowings	1,201.7	444.1	757.6
- Borrowings (current portions)	558.2	250.5	307.7
- Other financial liabilities net	106.4	40.6	65.8
- Derivative financial instruments	(0.3)	0.6	(0.9)
- Financial assets	(376.4)	(251.6)	(124.8)
- Cash and cash equivalents	(1,378.2)	(2,155.1)	776.9
Total net debt	**10,494.3**	**8,576.3**	**1,918.0**
NET DEBT (BY TYPE OF INSTRUMENT)			
- Bond issues	6,490.6	6,737.7	(247.1)
- Borrowings	4,303.2	3,588.3	714.9
- Short-term borrowings	1,201.7	444.1	757.6
- Derivative financial instruments	147.0	172.3	(25.3)
- Other financial liabilities, net	106.4	40.6	65.8
GROSS DEBT	**12,248.9**	**10,983.0**	**1,265.9**
- Financial assets	(376.4)	(251.6)	(124.8)
- Cash and cash equivalents	(1,378.2)	(2,155.1)	776.9
Total net debt	**10,494.3**	**8,576.3**	**1,918.0**
Net debt attributable to net assets held for sale	**(10.8)**	**(17.9)**	**7.1**

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

- a reduction in bond issues of €247.1 million, primarily following the repayment of two bonds (€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;

- an increase in borrowings of €714.9 million, primarily as a result of the drawdown of new loans totalling €900 million, after repayments of bank loans amounting to €100.0 million and repayments falling due on existing EIB loans;
- an increase in short-term borrowings (up €757.6 million), essentially due to the use of short-term credit facilities and the issue of Commercial Paper by the Parent Company;
- a reduction in the fair value of derivative financial instruments (down €25.3 million), primarily due to changes in the derivatives held and movements in market interest rates;
- an increase in other net financial liabilities (up €65.8 million), essentially due to the recognition of accrued interest on financial products and the advance payment received from the European Commission in relation to the Italy-Tunisia Interconnector project (up €38.5 million) attributable to the Tunisian operator STEG;
- an increase in financial assets of €124.8 million, primarily due to further deposits during the period (up €165.0 million) and a change in interest accruing on investments (up €9.4 million), partially offset by movements in the Italian government securities held (a reduction of €52.0 million);
- a decrease in cash and cash equivalents of €776.9 million. Cash amounts to €1,378.2 million at 31 December 2023, including €1,194.5 million invested in short-term, readily convertible deposits and €183.7 million held in bank current accounts and in the form of cash in hand.

Negative net debt attributable to assets held for sale, amounting to €10.8 million at 31 December 2023, essentially relates to SPE Transmissora de Energia Linha Verde I S.A. and regards the short-term portion of investment in infrastructure operated under concession in Brazil, recognised in application of IFRIC 12, totalling approximately €7.3 million and cash and cash equivalents of approximately €3.6 million. The reduction of €7.1 million compared with 31 December 2022 is primarily due to a reduction in cash and cash equivalents.

Reconciliation of the Group's profit for the period and equity with the corresponding amounts for the Parent Company

The reconciliation of consolidated equity and consolidated profit for 2023 and the corresponding amounts for the Parent Company is shown below.

(€m)

	PROFIT AT FY 2023	EQUITY AT 31 DECEMBER 2023
Financial statements of Terna S.p.A.	**834.8**	**5,871.0**
Difference between equity in the financial statements, including profit/(loss) for the year, and the carrying amounts of investments in consolidated companies	54.3	1,860.5
Consolidation adjustments:		
- Intragroup dividends:	(20.9)	(235.2)
- Elimination of unrealised intragroup profits net of the related taxation and other minor adjustments	12.0	(1,199.3)
- Foreign currency translation reserve	-	14.7
- Measurement of companies using the equity method	2.6	31.6
Total consolidated financial statements	**882.8**	**6,343.3**
Non-controlling interests	(2.6)	18.9
Terna Group's consolidated financial statements	**885.4**	**6,324.4**

Terna S.p.A.

A review of the operating performance and financial position of the Parent Company, Terna S.p.A., is provided below.

As previously noted, given that the requirements of IFRS 5 have been met, gains and losses for 2023 and 2022 on the investment in the Uruguayan subsidiary involved in the planned sale of assets have been classified in the item "Profit/(Loss) from discontinued operations and assets held for sale" in the reclassified income statement.

Terna S.p.A.'s reclassified income statement

Terna S.p.A.'s operating results for the years 2023 and 2022 are summarised in the following reclassified income statement, obtained by reclassifying amounts in the statutory income statement.

(€m)

	2023	2022	CHANGE	% CHANGE
TOTAL REVENUE	**2,634.8**	**2,520.5**	**114.3**	**4.5%**
- Tariff revenue and incentives	2,386.5	2,273.8	112.7	5.0%
of which transmission revenue	*1,955.6*	*1,823.8*	*131.8*	*7.2%*
of which dispatching. metering and other revenue	*430.9*	*450.0*	*(19.1)*	*(4.2%)*
- Other operating income	167.7	179.3	(11.6)	(6.5%)
- Revenue from construction services performed under concession*	80.6	67.4	13.2	19.6%
TOTAL OPERATING COSTS	**654.6**	**613.6**	**41.0**	**6.7%**
- Personnel expenses	118.6	101.6	17.0	16.7%
- Cost of services, leases and rentals	422.7	421.0	1.7	0.4%
- Materials	2.6	1.7	0.9	52.9%
- Other costs	24.8	20.0	4.8	24.0%
- Quality of service	5.3	1.9	3.4	178.9%
- Cost of construction services performed under concession*	80.6	67.4	13.2	19.6%
GROSS OPERATING PROFIT (EBITDA)	**1,980.2**	**1,906.9**	**73.3**	**3.8%**
- Amortisation, depreciation and impairment losses	719.3	650.3	69.0	10.6%
OPERATING PROFIT/(LOSS) (EBIT)	**1,260.9**	**1,256.6**	**4.3**	**0.3%**
- Net financial income/(expenses)	(90.8)	(87.1)	(3.7)	4.2%
PROFIT/(LOSS) BEFORE TAX	**1,170.1**	**1,169.5**	**0.6**	**0.1%**
- Income tax expense for the year	335.4	334.8	0.6	0.2%
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**834.7**	**834.7**	**-**	**-**
- Profit/(Loss) for the year from discontinued operations and assets held for sale	0.1	(0.6)	0.7	116.7%
PROFIT FOR THE YEAR	**834.8**	**834.1**	**0.7**	**0.1%**

** Recognised in application of interpretation "IFRIC 12 – Service Concession Arrangements".*

Gross operating profit (EBITDA) for the year is **€1,980.2 million**, an increase of €73.3 million compared with the €1,906.9 million of 2022. This primarily reflects the impact on tariff revenue and incentives (up €112.7 million) of the increase in the RAB during the year after the volume effect and the impact of output-based incentive mechanisms.

After excluding revenue from construction services performed under concession (up €13.2 million), **revenue** of **€2,634.8 million** is up €101.1 million compared with the previous year. This primarily reflects:

- the impact on transmission charges (up €131.8 million) of the increase in the RAB after the volume effect (up €84.6 million) and an increase in out-put based incentives relating to the delivery of additional interzonal transmission capacity, amounting to €34.5 million, representing the accrued bonus provided for in Resolution 23/2022 and €12.9 million following recognition of the bonus relating to capex efficiencies achieved in 2022, as provided for in Resolution 473/2023;
- a reduction in dispatching revenue (down €19.1 million) due to lower revenue in the form of out-based incentives (down €30.9 million) after an increase in allowed costs (€11.8 million). With regard to the incentive mechanisms for 2022, revenue included the recognition of the incentive relating to the performance of grid development projects in the three-year period from 2019 to 2021 designed to relieve congestion within market areas and grid constraints due to voltage regulation and improve conditions for essential service provision (a reduction of €140.5 million, Resolution 26/2023), whilst in 2023 recognition of accrued revenue under the mechanism designed to cut DSM costs and ease the shortfall in wind production and essential plants (Resolutions 597/2021 and 132/2022) has resulted in an increase of €108.4 million, reflecting updated overall estimates of the performance in the three-year period 2022-2024;
- reduced revenue in the form of the bonus receivable under the RENS incentive mechanism (down €12.0 million), due to the effect of extension of the period of regulation of the mechanism through to 2025, based on the performance in 2023;
- higher gains on the sale of assets (€10.6 million, essentially scrap, transformers and motor vehicles).

There was also a reduction in revenue from work on the private Italy-Austria Interconnector (down €14.1 million), partially offset by increased revenue from connections to the NTG (up €2.1 million) and in the form of compensation for damage (up €2.0 million).

After excluding the cost of construction services performed under concession (up €13.2 million), **operating costs** for the year, amounting to **€654.6 million**, are up €27.8 million compared with the previous year. This essentially reflects the following:

- increased personnel expenses (up €17.0 million), primarily due to an increase in the average workforce and the impact of renewal of the national collective labour agreement for the electricity sector, after an increase in capitalised expenses;
- an adjustment of provisions for litigation and disputes (up €3.6 million), due to the positive settlement of a number of disputes in the comparative period;
- an increase in the costs incurred for quality of service (up €3.4 million), primarily linked to provisions for exceptional events related to the outages that occurred in Sicily in February 2023;
- an increase in advertising costs (up €7.1 million, essentially linked to the "noi siamo energia" advertising campaign) and the costs incurred for training (€0.9 million) and consulting services (€0.6 million);
- a decrease in amounts payable to the subsidiary, Terna Rete Italia S.p.A., due to a reduction in operations and services provided for third-party infrastructure on behalf of the Company (down €8.4 million, essentially regarding a reduction in work carried out on the private Italy-Austria Interconnector).

Amortisation, depreciation and impairment losses for the year amount to **€719.3 million**, an increase of €69.0 million compared with 2022, primarily due to the entry into service of new infrastructure.

EBIT (operating profit) of **€1,260.9 million** is up €4.3 million (0.3%) compared with 2022.

Net financial expenses for the year total €90.8 million, an increase of €3.7 million compared with the €87.1 million of 2022. This is primarily due to the rise in interest rates payable on borrowings, partially offset by greater income from the investment of cash and on intercompany current accounts with subsidiaries, an increase in capitalised expenses, the change in the impairment loss on the investment in the subsidiary, Terna Plus S.r.l., the impact of falling inflation in relation to the inflation-linked bonds (maturing in September) and an increase in dividends paid by the subsidiaries, Terna Interconnector S.r.l. and Terna Crna Gora d.o.o..

Income tax expense for the year amounts to €335.4 million, broadly in line with the previous year. The tax rate is therefore 28.7%, compared with the 28.6% of 2022.

The **profit for the year from continuing operations** amounts to **€834.7 million**, in line with the figure for 2022.

The **profit for the year from discontinued operations and assets held for sale**, totalling €0.1 million, is an improvement of €0.7 million on the loss for the previous year. This essentially reflects recognition in the previous year of a net loss on the sale of the subsidiary (up €2.4 million) and the operating result from the overseas initiative (down €1.7 million).

Profit for the year amounts to **€834.8 million**, an increase of €0.7 million compared with the €834.1 million of 2022.

Cash flow

Operating cash flow and the change in net debt covered the cash needs linked to capital expenditure and to the payment of dividends to shareholders.

(€m)

	CASH FLOW 2023	CASH FLOW 2022
- Profit for the year	834.8	834.1
- Amortisation, depreciation and impairment losses	719.3	650.3
- Net change in provisions	(31.1)	30.2
- Net losses/(gains) on sale of assets	(15.7)	(5.9)
Operating cash flow	**1,507.3**	**1,508.7**
- Change in net working capital	(549.2)	1,056.1
- Change in investments	(23.3)	6.5
- Other movements in property, plant and equipment and intangible assets	21.7	12.2
- Change in financial assets	14.3	(154.3)
Cash flow from operating activities	**970.8**	**2,429.2**
- Total capex	(2,179.6)	(1,586.9)
Free cash flow	**(1,208.8)**	**842.3**
Net assets held for sale	**-**	**23.0**
- Dividends paid to shareholders	(649.0)	(601.0)
- Reserve for equity instruments, cash flow hedge reserve after taxation and other movements in equity attributable to owners of the Parent	(60.9)	1.183.5
Change in net debt	**(1,918.7)**	**1,447.8**

Terna S.p.A.'s reclassified statement of financial position

Terna S.p.A.'s financial position at 31 December 2023 and 2022 is summarised in the following statement, obtained by reclassifying amounts in the statutory statement of financial position.

(€m)

	AT 31 DECEMBER 2023	AT 31 DECEMBER 2022	CHANGE
Total net non-current assets	**17,951.3**	**16,487.9**	**1,463.4**
- Intangible assets and goodwill	763.5	668.7	94.8
- Property, plant and equipment	15,612.5	14,252.9	1,359.6
- Financial assets	1,575.3	1,566.3	9.0
Total net current liabilities	**(1,708.9)**	**(2,258.0)**	**549.1**
- Net energy-related pass-through payables	(938.4)	(1,356.4)	418.0
- Net receivables resulting from regulated activities	1,107.6	778.7	328.9
- Net trade payables	(910.1)	(758.8)	(151.3)
- Net tax liabilities	(33.5)	(103.3)	69.8
- Other liabilities net	(934.5)	(818.2)	(116.3)
Gross invested capital	**16,242.4**	**14,229.9**	**2,012.5**
Sundry provisions	(6.7)	(37.8)	31.1
NET INVESTED CAPITAL	**16,235.7**	**14,192.1**	**2,043.6**
Equity	**5,871.0**	**5,746.1**	**124.9**
Net debt	**10,364.7**	**8,446.0**	**1,918.7**
TOTAL	**16,235.7**	**14,192.1**	**2,043.6**

The principal changes with respect to 31 December 2022 are described below.

Total net invested capital amounts to €16,235.7 million at 31 December 2023, marking an increase of €2,043.6 million due to the increases in **net non-current assets** (up €1,463.4 million) and in cash from changes in **net working capital** (up €549.1 million) and a reduction in sundry provisions (up €31.1 million). This change is financed by equity of €5,871.0 million (up €124.9 million compared with the €5,746.1 million of 31 December 2022) and net debt of €10,364.7 million (up €1,918.7 million compared with the €8,446.0 million of 31 December 2022).

Net non-current assets are up €1,463.4 million, primarily due to the following:

- the Company's capital expenditure (€2,179.6 million, including €2,154.9 million relating to Regulated Activities) and the purchase, on 24 July 2023, of the 132kV "Fidenza RT - Parma" power line from the subsidiary, Rete S.r.l., for a consideration of €7.1 million;
- an increase of €9.0 million in financial assets, mainly due to 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), an increase in the investment in Rete S.r.l. (up €14.6 million), following the merger of the subsidiary, Rete Nord S.r.l. (previously acquired by Terna S.p.A. on 22 June 2023), with and into Rete S.r.l. in December 2023, an increase in the investment in the subsidiary, Terna Forward S.r.l., following a capital contribution (up €9.3 million) and the increase in the stake held in the joint venture, SEleNe CC S.A., which rose from 25% to 33.33% in February (up €2.0 million), after a decrease in guarantee deposits received from operators participating in the capacity market in accordance with Resolution 98/2011/R/eel, as amended (down €31.7 million) and an impairment loss on the investment in the subsidiary, Terna Plus (down €2.6 million);
- amortisation and depreciation for the year (€710.5 million);
- other movements during the year in "Property, plant and equipment" and "Intangible assets", which fell €21.8 million reflecting grants related to assets (down €9.4 million, primarily for the re-routing of power lines at the request of third parties and projects financed by the Ministry for Economic Development and the EU) and disposals and impairment losses resulting in a reduction of €12.0 million.

The change in **net working capital**, a decrease of €549.1 million, is primarily due to an increase in net trade payables, essentially relating to energy-related items and net tax liabilities, after grants related to assets received from third parties.

Sundry provisions are down €31.1 million, primarily due to:

- net provisions for net deferred tax assets of €43.1 million, primarily due to the effect on taxation of movements in derivative financial instruments, amortisation and depreciation and movements in provisions for risks and charges;
- net provisions for early retirement incentives (down €6.7 million), for right-of-way fees (down €4.8 million) and for urban and environmental redevelopment schemes (down €3.8 million), after uses of provisions for staff incentives and other personnel expenses (up €2.5 million).

Net debt of €10,364.7 million is up €1,918.7 million.

(€m)

	AT 31 DECEMBER 2023	AT 31 DECEMBER 2022	CHANGE
Net debt (by type of instrument)			
- Bond issues	6.490,6	6.737,7	(247,1)
- Borrowings	4.247,6	3.529,9	717,7
- Short-term borrowings	1.190,4	419,5	770,9
- Other financial liabilities net	106,4	40,6	65,8
- Derivative financial instruments	147,3	172,5	(25,2)
Gross debt	**12.182,3**	**10.900,2**	**1.282,1**
- Financial assets	(361,3)	(251,6)	(109,7)
- Cash and cash equivalents (including the net balance on intercompany current accounts)	(1.456,3)	(2.202,6)	746,3
Total net debt	**10.364,7**	**8.446,0**	**1.918,7**

The change in the Company's net debt is broadly in line with the change in the Group's net debt.

As already noted with regard to the Group's debt, the increase of €1,282.1 million in gross debt compared with 31 December 2022 is primarily due to two bond issues amounting to €1.4 billion, the drawdown of EIB loans, the issue of commercial paper and the adjustment to the fair value of financial instruments. These movements were partially offset by the repayment of two bond issues amounting to €1,670.8 and repayments falling due on existing EIB loans and on other bank loans. Cash and cash equivalents of €1,456.3 million is up €746.3 million and consists of €1,170.0 million invested in short-term, readily convertible deposits, €129.3 million held in bank current accounts and in the form of cash in hand and €157.0 million corresponding with the net amount receivable on intercompany current accounts held by the Company on behalf of its subsidiaries.

Financial assets are up €109.7 million, essentially due to further deposits during the period (up €150 million) and a change in interest accruing on investments (up €9.4 million), partially offset by movements in the Italian government securities held (a reduction of €52.0 million).

Proposed distribution of profit for the year

Terna S.p.A.'s Board of Directors proposes to pay a total dividend of €682,593,283.20 for 2023, equal to €0.3396 per share, of which €0.1146 per share was declared in the form of an interim dividend on 8 November 2023.

The Board of Directors thus proposes to appropriate Terna S.p.A.'s profit for 2023, amounting to €834,796,667.58, as follows:

- €230,345,083.20 to cover payment of the interim dividend payable from 22 November 2023 to the holders of each of the ordinary shares outstanding after adjusting for the treasury shares held at the record date of 21 November 2023 (with the relevant amount of €482,885.44 taken to retained earnings);
- €452,248,200.00 to pay a final dividend of €0.2250 to the holders of each of the 2,009,992,000 ordinary shares representing the share capital at the date of this Board of Directors' meeting. The final dividend will be payable on 26 June 2024, with an ex-dividend date for coupon 40 of 24 June 2024 (a record date, as defined by art. 83-terdecies of Legislative Decree 58 of 24 February 1998, the Consolidated Law on Finance, of 25 June 2024). The treasury shares held as of the above record date will not participate in the distribution. The final dividend for 2023 attributable to the treasury shares held by the Company at the record date will be taken to retained earnings;
- €152,203,384.38 to be taken to retained earnings.

NFS

EU Taxonomy

Regulation 852/2020

Introduction

The climate and energy targets that the European Union has set for 2030 and 2050, with the aim of implementing the European Green Deal, also require the involvement of the private sector, with the aim of directing investment towards sustainable projects and activities. With this in mind, European institutions have introduced a taxonomy of economic activities that can be considered as "sustainable", namely they are potentially able to help achieve environmental objectives pre-set by the European Union. In this context, the classification system introduced by EU Regulation 2020/852 (also "EU Taxonomy Regulation" or "Taxonomy" or "Regulation") aims to provide investors, businesses and public organisations with reliable shared criteria and methods to identify sustainable economic activities. Moreover, the Regulation enables measurement of the extent to which individual company activities adhere to and contribute to the pre-set objectives, thereby ensuring greater transparency for all stakeholders.

According to the Regulation, an economic activity can be defined as "environmentally sustainable" if it:

- **meets the technical screening criteria defined, on a scientific basis, for each activity**. Compliance with the technical screening criteria ensures that an activity:
  - **contributes substantially to the achievement of at least one of the six environmental objectives set out** in Article 9 of the Regulation: climate change mitigation; climate change adaptation; the sustainable use and protection of water and marine resources; the transition to a circular economy; pollution prevention and control; the protection and restoration of biodiversity and ecosystems;
  - **Does No Significant Harm (DNSH)** to any of the other five environmental objectives;
- **respects minimum safeguards**, recognising the importance of human rights and international rights and standards in the management of its organisation and along the supply chain.

From January 2022, the disclosure of information pursuant to the Taxonomy in the consolidated Non-financial Statement ("NFS") is mandatory for companies that are already subject to the obligations laid down by Directive 2014/95/EU on non-financial reporting. For 2021, the first year of application of the Regulations, companies were required to disclose the share - in terms of revenue, capital expenditure (CapEx) and operating expenditure (OpEx) - of "taxonomy eligible" (also defined as "eligible") and "non-eligible" activities relating to climate change objectives, namely those activities included in Annexes 1 and 2 of Delegated Regulation 2139/2021[94] (or "Climate Delegated Act"), without having to comply with the technical screening criteria and the minimum safeguards or having to publish data on alignment. From 2022, the Regulation has been applied in full, requiring disclosure of the share of turnover, CapEx and OpEx represented by environmentally sustainable activities. From last year, companies must conduct an alignment assessment. For each eligible activity, it is therefore necessary to assess compliance with the technical screening criteria and the minimum safeguards, pursuant to article 18 of the Regulation.

For 2023, the alignment assessment is to be conducted solely for activities eligible in relation to the two climate change objectives. With regard to the activities introduced by the Environmental Delegated Act (Delegated Regulation (EU) 2023/2486), as regards the remaining four environmental objectives, and Delegated Regulation (EU) 2023/2485, which supplements the two climate change objectives, as this is the first year of application, the Regulation only requires calculation of the share of eligible and non-eligible activities, without requiring an alignment assessment.

[94] Annex 1 lists activities related to the climate change mitigation objective, while Annex 2 lists activities related to the climate change adaptation objective.

Assessment of compliance with the Regulation

With regard to 2023, in line with the previous year, the Group's activities have been mapped - taking into account the Regulated Activities, Non-regulated Activities and International Activities segments (which are described in the section on "The Group's business") - in order to identify those activities that are taxonomy-eligible, namely potentially able to contribute to climate change mitigation (CCM) and adaptation objectives (CCA).

Following these analyses, the Group's activities were associated with the following economic activities:

- **4.9 Electricity transmission and distribution:** including activities in the **Regulated Activities** segment, primarily regarding the development, operation and maintenance of the National Transmission Grid, which is part of the European interconnected system, as well as dispatching and metering activities. Point 4.9 also includes **Non-regulated Activities**, related to work on systems dependent on the European interconnected system and the installation of transmission and distribution transformers that comply with the requirements laid down by EU Regulation 2014/548 and the EN 50588-1 standard, and International Activities, related to transmission and distribution activities carried out by the Group's overseas subsidiaries in Brazil and Peru. **International Activities** have been reclassified in accordance with IFRS 5 as discontinued operations and net assets held for sale[95].
- **7.6 Installation, maintenance and repair of renewable energy technologies:** including maintenance, plant monitoring and other services for third parties operating in renewable energy production. In particular, Group activities relating to the construction and maintenance of photovoltaic solar energy plants and ancillary technical equipment belonging to third parties are included.
- **9.3 Professional services related to the energy performance of buildings:** including activities related to consultancy services, feasibility studies, energy performance contracts, energy efficiency certificates (EECs or white certificates) and services performed by the Group as an energy service provider (ESCO, Energy Service Company).

For the purpose of assessing alignment, analyses were then carried out for each identified eligible activity in order to verify compliance with the substantial contribution criteria and the established Do No Significant Harm criteria.

As required by the Regulation, the Group has calculated the percentage of turnover, CapEx and OpEx relating to its Taxonomy-aligned and eligible but not aligned activities, as shown in the tables annexed to the disclosure[96]. If the economic activity makes a substantial contribution to several environmental objectives, the most important environmental objective for the purposes of calculation of the KPI is shown in bond in the tables, avoiding any double counting. In addition, to ensure alignment with the requirements in the amendments made to the Environmental Delegated Act, for 2023, complementary tables have been introduced to show the percentage eligibility and alignment for each environmental objective, taking separately into account, as done for CapEx, the share of the KPI that contributes to more than one environmental objective.

As gas and nuclear industry activities covered by the Complementary Delegated Act (Delegated Regulation 2022/1214) are not eligible, the related tables have not been published.

[95] In line with FAQ no. 17 published on 19 December 2022 regarding the interpretation of Article 8 of the EU Taxonomy Regulation, for companies classified as "discontinued operations" only the CapEx KPI is reported, while for companies classified as "held for sale" both revenue and CapEx are reported.

[96] These are based on the "Templates for the key performance indicators (KPIs) of non-financial undertakings" in Delegated Regulation (EU) 2021/2178.

Activity 4.9 – Climate change mitigation – Electricity transmission and distribution

Substantial contribution

The Group's main activities (especially those carried out by Terna S.p.A., Terna Rete Italia S.p.A., Rete S.r.l., Terna Crna Gora d.o.o. and Terna Interconnector S.r.l.) the design, construction, management, development, operation and maintenance of the high- and ultra-high-voltage national transmission grid (NTG). The NTG meets the criteria for substantial contribution for activity 4.9, as it is part of the European interconnected system (interconnected control areas within member states, Norway, Switzerland and the UK) and its subordinate systems. These activities also relate to the Tamini Group and the Brugg Cables Group as they relate to Operation & Maintenance activities carried out to ensure the functionality of the transmission grid, and a part of the non-regulated activities carried out by Terna S.p.A., Terna Rete Italia S.p.A. and Terna Energy Solutions S.r.l..

Activity 4.9 also includes the installation of transmission and distribution transformers (4.9 – criterion 2.c) carried out by the Tamini Group. In this case, the match between the requirements for the transformers installed by the Tamini Group with the specifications in the technical screening criteria[97] was assessed, thereby excluding installation activities outside the EU from the scope.

The Turnover and CapEx KPIs relating to activity 4.9 include the construction and operation of electricity infrastructure by the South American subsidiaries. These activities are considered eligible, but not aligned, as it was not possible to assess compliance with the technical screening criteria.

DNSH[98]

The Terna Group has carried out an assessment of climate risks that may have an impact on transmission assets, described in the Climate Change Disclosure, which aims to identify and assess climate risks connected with Terna's plants and activities. Climate assessments underpinning Terna's Resilience Plan, a cross-cutting plan that contains all the initiatives designed to boost the electricity grid's resilience to the severe weather events that are occurring with increasing intensity and frequency.

In 2023, with regard to the objective of transitioning to a circular economy, the Terna Group completed preparatory activities for the drawing up of a Circular Economy Strategy and a Roadmap of Actions to 2030 relating to the procurement of materials and their proper use, sustainable use of resources including secondary raw materials, and waste management. See the relevant part of the section, "Natural capital".

With reference to the objective of preventing and reducing pollution, the Terna Group follows the IFC's General Environmental, Health and Safety Guidelines, and the applicable rules and regulations, in order to limit the impact of electromagnetic radiation on human health. Moreover, periodic internal checks of environmental data revealed no traces of polychlorinated biphenyls (PCBs) in transformers used or installed by Group companies in 2023.

Finally, when necessary, the Group conducted environmental impact assessments (EIAs) on individual projects related to transmission and dispatching activities. When an EIA was carried out, the necessary mitigation and compensation measures to protect the environment were implemented. In addition, a Strategic Environmental Assessment (SEA) procedure was prepared to corroborate the Group's planning decisions.

[97] Transmission and distribution transformers meet the requirements of phase 2 (1 July 2021) in annex I to EU Regulation 548/2014 of the Commission and the level AA0 requirements for no-load losses as defined in Standard EN 50588-1.

[98] With reference to the Do No Significant Harm principle, it should be noted that the Commission's Delegated Regulation (EU) 2021/2139 of 4 June 2021 defines the "Sustainable use and protection of water and marine resources" objective as not relevant for electricity transmission and distribution activities.

For sites/operations located in or near biodiversity-sensitive areas (including the Natura 2000 network of protected areas, UNESCO World Heritage sites and major biodiversity areas, as well as other protected areas), an appropriate environmental risk assessment was conducted, if applicable. When possible, the Group carried out an assessment to implement mitigation, compensation and rehabilitation measures in order to restore the sites affected by works to their original state.

Activity 4.9 Climate change adaptation – Electricity transmission and distribution

Given that activity 4.9, with regard to the initiatives included in the Resilience Plan, is eligible with regard to the climate change adaptation objective with reference to CapEx alone, the Group has also conducted an alignment assessment in relation to this latter objective, enabling it to include the results in terms of KPIs in the following table. In this regard, in addition to the climate change mitigation objective, 8% of CapEx is also eligible for the adaptation objective. This percentage, referring solely to activity 4.9 CCA, is shown in the complementary CapEx table introduced by the Environmental Delegated Act with effect from this annual reporting period.

Substantial contribution

The Terna Group has conducted an assessment of the climate risks that may have an impact on transmission assets, described in the Climate Change disclosure. The substantial contribution criterion also requires the implementation of adaptation solutions in response to the physical climate risks identified, In its Resilience Plan, the Group identifies and confirms the planning of work on its infrastructure as a preventive solution designed to improve the resilience of the NTG and its ability to withstand severe weather events such as ice, snow and strong winds, with the aim of increasing the grid's meshing and reducing the risk of outages affecting the systems connected to the grid as a result of severe weather events. In addition to physical solutions, the Plan also envisages non-physical solutions such as monitoring of the electricity system and the restoration of operations, operating tools designed to mitigate potential damage to the grid caused by severe weather events and, at the same time, reduce the duration of outages.

The Regulation establishes certain criteria regarding the adaptation solutions implemented (e.g., that they do not have a negative impact on adaptation efforts or on the resilience of other people or other economic activities to physical climate risks, and that they must be consistent with national adaptation plans and strategies). The adaptation solutions implemented by the Terna Group comply with the criteria provided for in the Regulation as regards maintenance work carried out in response to physical climate risks.

DNSH

Information on compliance with the DNSH criteria is provided in the assessment carried out in the DNSH paragraph for activity 4.9 of the CCM. The only criterion that differs with regard to DNSH for the climate change mitigation objective requires that the infrastructure is not *"dedicated to creating a direct connection or expanding an existing direct connection to a power production plant that is more greenhouse gas intensive than 270 gCO_2e/kWh"*. Given the interpretative ambiguity regarding the criterion and the scope of assessment to which it refers, for this first year of assessment the Group has preferred to adopt a prudent approach, considering that the technical screening criteria have not been met given that the grid's average emission is above the threshold indicated in the Regulation. At the same time, it should be noted that the figure for the grid's emission intensity is beyond the Group's control.

Activity 7.6 Climate change mitigation - Installation, maintenance and repair of renewable energy technologies

Substantial contribution

The activities of Terna S.p.A., Terna Rete Italia S.p.A., Terna Energy Solutions S.r.l. and the LT Group contribute substantially to mitigating climate change, with particular reference to point (a) "installation, maintenance and repair of photovoltaic solar systems and ancillary technical equipment", as they involve revamping and repowering of third-party photovoltaic solar systems.

DNSH

Regarding activity 7.6, the regulations only envisage DNSH criteria for the climate change adaptation objective, which requires an assessment of the physical climatic risks arising from the activities. Terna's climate risk assessment of transmission assets, described in the Climate Change Disclosure, does not include activity 7.6. Moreover, all installation, maintenance and repair work relates to third party assets.

Therefore, in this case, as it has not identified any specific climatic risks related to activity 7.6, and adopting a conservative approach, the Group considers that these activities, although eligible, are not aligned with the Regulation's DNSH criterion, for the time being.

Activity 9.3 Climate change mitigation - Professional services related to the energy performance of buildings

Substantial contribution

Through its subsidiary Avvenia S.r.l., the Group provides many of the services included in the substantial contribution criterion for activity 9.3. In particular, Avvenia operates as an energy service company (ESCO), including consultancy services, feasibility studies and trading of Energy Efficiency Certificates (EECs or white certificates).

DNSH

Also with regard to activity 9.3, the regulations only envisage DNSH criteria for the climate change adaptation objective, which requires an assessment of the physical climatic risks arising from the activities. Terna's climate risk assessment of transmission assets, described in the Climate Change Disclosure, does not include activity 9.3. Furthermore, all consultancy projects, feasibility studies and trading of white certificates relate to third-party assets. Therefore, in this case, as it has not identified any specific climatic risks related to activity 9.3, and adopting a conservative approach, the Group considers that these activities, although eligible, are not aligned with the Regulation's DNSH criterion, for the time being.

Minimum safeguards

For the purposes of verifying the alignment of Terna's activities, an analysis was conducted on the adequacy of the measures in place at Group level with respect to the principles referred to in Article 18 of the Regulation, namely the OECD Guidelines for Multinational Enterprises, the United Nations Guiding Principles on Business and Human Rights, including the principles and rights established by the eight fundamental conventions identified in the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work and the International Charter of Human Rights. For the purposes of the analysis, the Group also took into account the guidance provided by the Platform on Sustainable Finance (PSF) in its Final Report on Minimum Safeguards published in October 2022 and the European Commission's Recommendation of June 2023 on "indicators of negative impacts on sustainability".

In view of the cultural, social and economic diversity of the various countries in which Terna operates, the Parent Company requires individual subsidiaries to adopt and supplement their own Code of Ethics, in addition to their own policy documents, with conduct criteria specific to their activities and operating context. This enables the criteria of conduct for all Group companies to be consistent with the highest standards of environmental protection, safety, human rights and workers' rights.
Oversight of the issues underlying the minimum safeguards is ensured by the presence of prescriptive instruments, such as Group policies, guidelines, and organisational/operational tools, including dedicated structures, procedures, and management and control systems. The Terna Group has sufficient safeguards and controls in place to ensure compliance with Article 18 of the Regulation, thanks to the presence of:

- a Code of Ethics, whose principles must be respected in all Group procedures;
- guidelines on respecting human rights in the Terna Group;
- a due diligence procedure on respecting human rights, followed by any necessary corrective actions;
- regulations on the qualification of companies, which entails compliance with the principles of the Code of Ethics;
- effective, public communication on human rights issues;
- a whistleblowing procedure;
- complaint mechanisms accessible to stakeholders via the Group's website;
- anticorruption guidelines.

For more information on minimum safeguards, reference should be made to the sections on "Corporate governance, risk management and opportunities" and "Intangible capital", in which, among other aspects, the protection of legality, integrity and anticorruption, the Integrated Management System, and measures to ensure respect for human rights, are explained in detail.

In addition, the Terna Group goes to great lengths to raise awareness at all levels, with the aim of overcoming unconscious bias and promoting welfare policies and initiatives aimed at achieving a work-life balance, protecting parenthood, sharing family and caregiving responsibilities and removing potential obstacles to equal pay. As part of these activities, the Group publishes an annual report on diversity and inclusion.

The Group has also decided to obtain and retain UNI/PdR 125:2022 Gender Equality Certification, setting up the "Gender Equality Steering Committee" tasked with ensuring that the Terna Group adopts and continues to apply a gender equality policy and defines a "Strategic Gender Equality Plan". These tools strengthen Terna's commitment to guaranteeing fairness in all its operations. In addition, to reduce the gender gap, Terna applies fair selection criteria based on merit and suitability for the role and development programmes and remuneration policies based on fairness and performance, periodically measuring the results. The application of these equal opportunity principles within the Terna Group is also reflected in the remuneration policies adopted, with specific regard to the gender pay gap.

On completion of the alignment assessment, the Group determined the shares of activities that are eligible and aligned with the Taxonomy for each indicator, as follows. In order to avoid double counting in the KPI numerator when allocating revenue, capital expenditure and operating expenditure to the three economic activities, the KPIs were determined on the basis of the data reported in the Group's consolidated financial statements.

As required by the Regulation, the table below shows the Terna Group's three KPIs for 2023, referring to taxonomy eligible and taxonomy non-eligible activities.

To summarise the results of the above assessments, the figures for eligibility and alignment are shown below for the current and previous years, for the three KPIs required by the Regulation with reference to the climate change mitigation objective alone.

KPI	2022		2023	
	SHARE OF ELIGIBLE ACTIVITIES	*Share of aligned activities*	SHARE OF ELIGIBLE ACTIVITIES	*Share of aligned activities*
Turnover	89%	*87%*	89%	*85%*
CapEx	99%	*99%*	99%	*99%*
OpEx	94%	*94%*	95%	*95%*

Share of turnover derived from products or services associated with economic activities aligned with the Taxonomy - 2023 disclosure (figures in €m)[99]

2023 FINANCIAL YEAR	YEAR			SUBSTANTIAL CONTRIBUTION CRITERIA						DO NO SIGNIFICANT HARM CRITERIA								
ECONOMIC ACTIVITIES	CODE	TURNOVER	SHARE OF TURNOVER FOR 2023	CLIMATE CHANGE MITIGATION	CLIMATE CHANGE ADAPTATION	WATER AND MARINE RESOURCES	CIRCULAR ECONOMY	POLLUTION	BIODIVERSITY AND ECOSYSTEMS	CLIMATE CHANGE MITIGATION	CLIMATE CHANGE ADAPTATION	WATER AND MARINE RESOURCES	CIRCULAR ECONOMY	POLLUTION	BIODIVERSITY AND ECOSYSTEMS	MINIMUM SAFEGUARDS	SHARE OF TURNOVER TAXONOMY-ALIGNED (A.1.) OR ELIGIBLE (A.2.) IN 2022	CATEGORY OF ENABLING ACTIVITY	CATEGORY OF TRANSITION-RELATED ACTIVITY
		€M	%	YES/NO N/EL	YES/NO N/EL	YES/NO N/EL	YES/NO N/EL	YES/NO N/EL	YES/NO N/EL	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	%	A	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1 Environmentally sustainable activities (Taxonomy-aligned)																			
Electricity transmission and distribution	CCM 4.9	2,722	85%	Yes	N/EL	N/EL	N/EL	N/EL	N/EL	Yes	Yes	Yes	Yes	Yes	Yes	Yes	87%	A	
Turnover from environmentally sustainable activities (Taxonomy-aligned) (A.1)		2,722	85%	85%	0%	0%	0%	0%	0%	Yes	Yes	Yes	Yes	Yes	Yes	Yes	87%		
of which enabling		2,722	85%	85%	0%	0%	0%	0%	0%	Yes	Yes	Yes	Yes	Yes	Yes	Yes		A	
of which transition-related		0	0%																T
A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned)																			
Electricity transmission and distribution	CCM 4.9	36	1%														1%		
Installation, maintenance and repair of renewable energy technologies	CCM 7.6	108	3%														1%		
Professional services related to the energy performance of buildings	CCM 9.3	1	0%														0%		
Turnover from Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned) (A.2)		145	4%	4%	0%	0%	0%	0%	0%								2%		
A. Turnover from Taxonomy-eligible activities (A.1+A.2)		2,867	89%	89%	0%	0%	0%	0%	0%								89%		
B. NON-TAXONOMY ELIGIBLE ACTIVITIES																			
Turnover from non-Taxonomy eligible activities		355	11%																
Total (A+B)		3,222	100%																

Percentage of eligibility and alignment for each environmental objective (turnover KPI)

	SHARE OF TURNOVER / TOTAL TURNOVER	
	TAXONOMY-ALIGNED BY OBJECTIVE	TAXONOMY-ELIGIBLE BY OBJECTIVE
CCM	85%	89%
CCA	0%	0%
WTR	0%	0%
CE	0%	0%
PPC	0%	0%
BIO	0%	0%

[99] The way in which information is presented may be revised subsequent to regulatory clarifications.

Share of CapEx derived from products or services associated with economic activities aligned with the Taxonomy - 2023 disclosure (figures in €m)[100]

2023 FINANCIAL YEAR		YEAR		SUBSTANTIAL CONTRIBUTION CRITERIA						DO NO SIGNIFICANT HARM CRITERIA								
ECONOMIC ACTIVITIES	CODE	TURNOVER	SHARE OF TURNOVER FOR 2023	CLIMATE CHANGE MITIGATION	CLIMATE CHANGE ADAPTATION	WATER AND MARINE RESOURCES	CIRCULAR ECONOMY	POLLUTION	BIODIVERSITY AND ECOSYSTEMS	CLIMATE CHANGE MITIGATION	CLIMATE CHANGE ADAPTATION	WATER AND MARINE RESOURCES	CIRCULAR ECONOMY	POLLUTION	BIODIVERSITY AND ECOSYSTEMS	MINIMUM SAFEGUARDS	SHARE OF TURNOVER TAXONOMY-ALIGNED (A.1.) OR ELIGIBLE (A.2.) IN 2022	CATEGORY OF ENABLING ACTIVITY	CATEGORY OF TRANSITION-RELATED ACTIVITY
		€M	%	YES/NO N/EL	YES/NO N/EL	YES/NO N/EL	YES/NO N/EL	YES/NO N/EL	YES/NO N/EL	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	%	A	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1 Environmentally sustainable activities (Taxonomy-aligned)																			
Electricity transmission and distribution	CCM 4.9 / CCA 4.9	2,273	99%	Yes	Yes	N/EL	N/EL	N/EL	N/EL	No	Yes	Yes	Yes	Yes	Yes	Yes	99%	A	
CapEx for environmentally sustainable activities (Taxonomy-aligned) (A.1)		2,273	99%	99%	0%	0%	0%	0%	0%	No	Yes	Yes	Yes	Yes	Yes	Yes	99%		
of which enabling		2,273	99%	99%	0%	0%	0%	0%	0%	No	Yes	Yes	Yes	Yes	Yes	Yes		A	
of which transition-related		0	0%																T
A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned)																			
Electricity transmission and distribution	CCM 4.9 / CCA 4.9	0	0%														0%		
Installation, maintenance and repair of renewable energy technologies	CCM 7.6	2	0%														0%		
CapEx for Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned) (A.2)		2	0%	0%	0%	0%	0%	0%	0%								0%		
A. CapEx for Taxonomy-eligible activities (A.1+A.2)		2,275	99%	99%	0%	0%	0%	0%	0%								99%		
B. NON-TAXONOMY ELIGIBLE ACTIVITIES																			
CapEx for non-Taxonomy eligible activities		15	1%																
Total (A+B)		2,290	100%																

Percentage of eligibility and alignment for each environmental objective (CapEx KPI)

	SHARE OF CAPEX/TOTAL CAPEX	
	TAXONOMY-ALIGNED BY OBJECTIVE	TAXONOMY-ELIGIBLE BY OBJECTIVE
CCM	99%	99%
CCA	0%	8%
WTR	0%	0%
CE	0%	0%
PPC	0%	0%
BIO	0%	0%

[100] The way in which information is presented may be revised subsequent to regulatory clarifications.

Share of OpEx derived from products or services associated with economic activities aligned with the Taxonomy - 2023 disclosure (figures in €m)[101]

2023 FINANCIAL YEAR	YEAR			SUBSTANTIAL CONTRIBUTION CRITERIA						DO NO SIGNIFICANT HARM CRITERIA								
ECONOMIC ACTIVITIES	CODE	TURNOVER	SHARE OF TURNOVER FOR 2023	CLIMATE CHANGE MITIGATION	CLIMATE CHANGE ADAPTATION	WATER AND MARINE RESOURCES	CIRCULAR ECONOMY	POLLUTION	BIODIVERSITY AND ECOSYSTEMS	CLIMATE CHANGE MITIGATION	CLIMATE CHANGE ADAPTATION	WATER AND MARINE RESOURCES	CIRCULAR ECONOMY	POLLUTION	BIODIVERSITY AND ECOSYSTEMS	MINIMUM SAFEGUARDS	SHARE OF TURNOVER TAXONOMY-ALIGNED (A.1.) OR ELIGIBLE (A.2.) IN 2022	CATEGORY OF ENABLING ACTIVITY	CATEGORY OF TRANSITION-RELATED ACTIVITY
		€M	%	YES/NO N/EL	YES/NO N/EL	YES/NO N/EL	YES/NO N/EL	YES/NO N/EL	YES/NO N/EL	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	%	A	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1 Environmentally sustainable activities (Taxonomy-aligned)																			
Electricity transmission and distribution	CCM 4.9 / CCA 4.9	151	95%	Yes	Yes	N/EL	N/EL	N/EL	N/EL	No	Yes	Yes	Yes	Yes	Yes	Yes	94%	A	
OpEx for environmentally sustainable activities (Taxonomy-aligned) (A.1)		151	95%	95%	0%	0%	0%	0%	0%	No	Yes	Yes	Yes	Yes	Yes	Yes	94%		
of which enabling		151	95%	95%	0%	0%	0%	0%	0%	No	Yes	Yes	Yes	Yes	Yes	Yes		A	
of which transition-related		0	95%																
A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned)																			
OpEx for Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned) (A.2)		0	0%	100%	0%	0%	0%	0%	0%								0%		
A. OpEx for Taxonomy-eligible activities (A.1+A.2)		151	95%	100%	0%	0%	0%	0%	0%								94%		
B. NON-TAXONOMY ELIGIBLE ACTIVITIES																			
OpEx for non-Taxonomy eligible activities		8	5%																
Total (A+B)		159	100%																

Percentage of eligibility and alignment for each environmental objective (OpEx KPI)

	SHARE OF OPEX/TOTAL OPEX	
	TAXONOMY-ALIGNED BY OBJECTIVE	TAXONOMY-ELIGIBLE BY OBJECTIVE
CCM	95%	95%
CCA	0%	0%
WTR	0%	0%
CE	0%	0%
PPC	0%	0%
BIO	0%	0%

[101] The way in which information is presented may be revised subsequent to regulatory clarifications.

Accounting standards and contextual information

The accounting policy, namely the method for calculating the shares of revenue, CapEx and OpEx associated with the eligible and aligned activities identified by the Group, is based on the provisions of Annex 1 of Delegated Regulation 2178/2021.

For the purposes of allocating revenue, CapEx and OpEx to eligible and aligned activities, Terna has defined a clear and traceable methodology to meet quantitative and qualitative information needs. Specifically, the Group has reconstructed the indicators using data from the general, industrial and regulatory accounts.

Details of the methodology used to calculate the individual indicators are as follows:

- To calculate the share of **revenue**, the numerator is taken to be the consolidated net revenue generated by the sale of products or services, including intangibles, associated with taxonomy eligible and aligned economic activities, and the denominator is taken to be total net revenue (based on the criteria set out in point 1.1.1 of Annex 1 to Delegated Regulation 2178/2021). Net revenue has been identified by using data from the consolidated financial statements prepared in accordance with international accounting standards and with reference to the provisions of IAS 1, paragraph 82(a). None of the figures in the reported amounts relate to economic activities included in the taxonomy carried out for the Group's internal consumption.
- To calculate the share of **CapEx**, the numerator is taken to be capital expenditure recognised as assets in the consolidated balance sheet and associated with eligible and aligned activities, as defined according to the criteria set out in point 1.1.2.2 of Annex 1 of Delegated Regulation 2178/2021. The denominator is taken to be total capital expenditure, quantified in accordance with the criteria set out in point 1.1.2.1 of Annex 1 of Delegated Regulation 2178/2021. Specifically, the denominator comprises additions to tangible and intangible assets for the period before depreciation and amortisation, impairment losses and any revaluations, including those arising restatements and impairments, and excluding changes in fair value.
- To calculate the share of **OpEx**, the numerator is taken to be the operating expenditure associated with eligible and aligned activities and defined according to the criteria set out in point 1.1.3.2 of Annex 1 of Delegated Regulation 2178/2021, and the denominator is taken to be total operating expenditure, quantified in accordance with the criteria set out in point 1.1.3.1 of Annex 1 of Delegated Regulation 2178/2021 The latter includes the following costs: direct non-capitalised costs relating to research and development; building renovation measures; short-term rentals; and maintenance and repair, as well as any other direct expenditure relating to the day-to-day maintenance of property, plant and equipment, carried out either by the company or by third parties to whom these tasks are outsourced, as needed to ensure the continuous and efficient operation of these assets.

Finally, it should be noted that, as stated in the Green Bond Report, the Group has issued environmentally sustainable bonds over the years that finance taxonomy-aligned activities. The contribution of green bond issues in 2023 amounts to 16% of aligned CapEx.

Share price performance

Terna and the financial markets

Terna S.p.A. has been listed on Borsa Italiana's screen-based trading system (*Mercato Telematico Azionario*) since 23 June 2004. **From the date of floatation to the end of 2023, the share price has risen 344%** (a **capital gain**), providing a Total Shareholder Return (TSR[102]) of 1,135%, ahead of both the Italian market (the FTSE MIB, up 120%) and the relevant European sector index (DJ Stoxx Utilities), which is up 346%.

Europe's leading stock markets ended 2023 in positive territory, driven by falling inflation and the resulting slowdown in monetary tightening by central banks. Milan, the best of the European indexes, gained 28.0%, Paris and Frankfurt both role 16.5%, Madrid advanced 22.8% and London closed the year up 3.8%.

Terna's shares closed 2023 at a price of €7.554, marking an increase of 9.5% over the year and ahead of the relevant European sector index (DJ Stoxx Utilities), which rose 9.1%. The daily average volume traded during the year amounted to approximately 3.6 million. The share price reached a yearly high of €8.100 per share on 12 May. It should also be noted that the ex-dividend date for the interim dividend for 2023, amounting to 11.46 eurocents per share, was 20 November.

Key indicators per share

	2023	2022	2021	2020	2019	2018
Number of shares (in millions)*	2,010	2,010	2,010	2,010	2,010	2,010
Price at year end (€ per share)	7.55	6.90	7.11	6.25	5.95	4.95
Market capitalisation** (€m)	15,108	14,541	12,898	12,142	11,273	9,507
Average price for year (€ per share)	7.52	7.23	6.42	6.04	5.61	4.73
Earnings per share (€)	0.441	0.427	0.393	0.391	0.377	0.352
Dividend per share (€)	0.3396	0.314	0.291	0.270	0.250	0.233
Payout ratio***	77.09%	73.74%	74.12%	68.98%	66.22%	66.34%
Dividend yield****	4.5%	4.6%	4.1%	4.3%	4.2%	4.7%
Total shareholder return	14.1%	1.03%	18.8%	9.4%	25.1%	7.3%

* *The total number of shares representing the share capital. The number of shares in circulation amount to 2,006 million, following the buyback of own shares to service the Performance Share Plan 2023-2027.*
** *Based on the average price for the year.*
*** *The ratio of the total dividend to profit attributable to owners of the Parent.*
**** *Dividend per share for the year as a percentage of the share price at year end.*

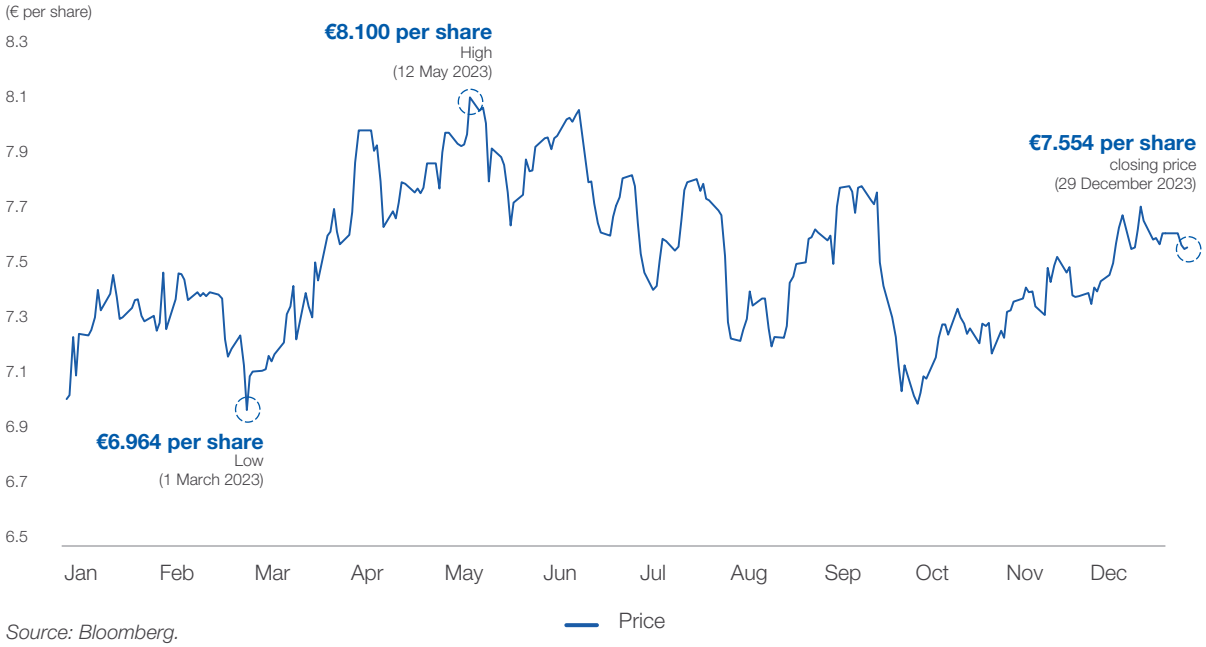
[102] Total Shareholder Return (TSR): total return on an equity investment, calculated as the sum of:
I. capital gain: the change in the share price (difference between the price at the end and at the beginning of the relevant period) as a percentage of the price at the beginning of the period;
II. reinvested dividends: the ratio between dividends per share paid out during the period and the share price at the beginning of the period. Dividends are assumed to have been reinvested in the shares.

Weighting of Terna's shares

	2023	2022
> on the FTSE MIB index	2.3%	2.6%

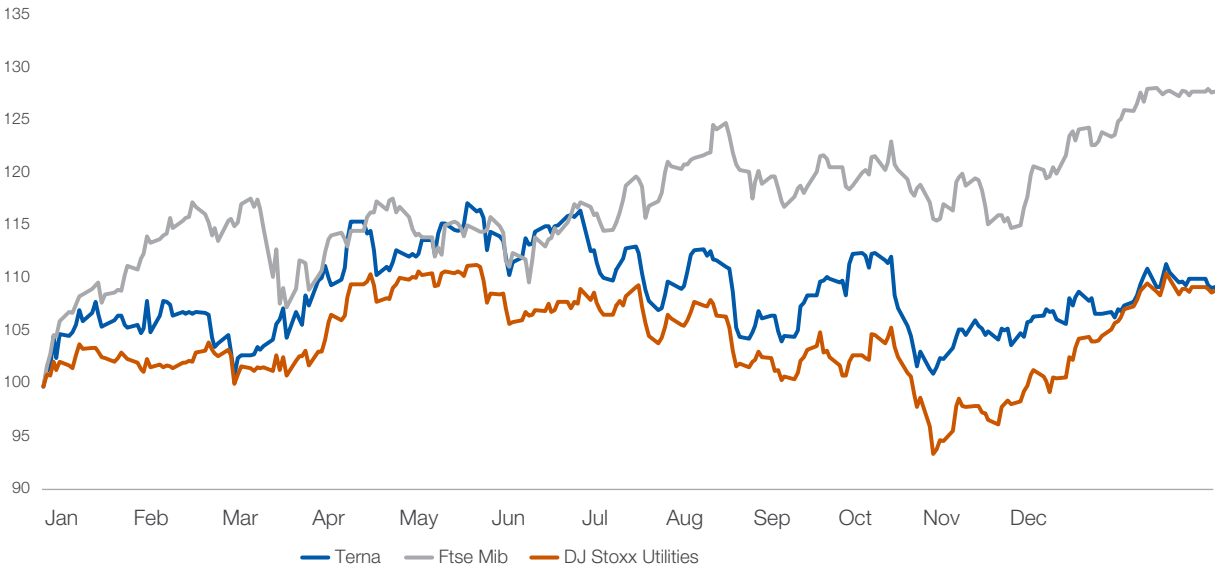
Source: Bloomberg

Performance of Terna's shares *(Price from 1 January to 29 December 2023)*



Source: Bloomberg.

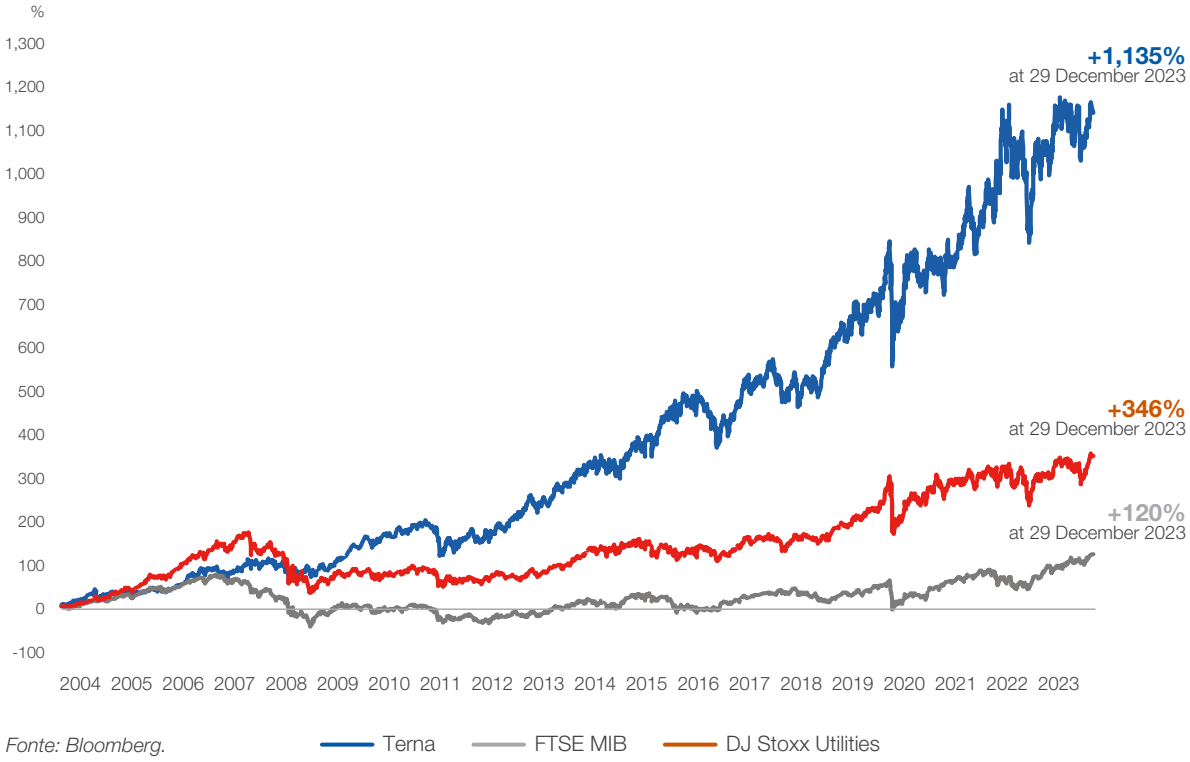
Terna's shares, the FTSE Mib and DJ Stoxx Utilities *(Price from 1 January to 29 December 2023)*



Source: Bloomberg.

Total shareholder return on Terna's shares and the FTSE Mib and DJ Stoxx Utilities

(from the flotation to the end of 29 December 2023)



Fonte: Bloomberg.

Main ratings and international ESG indices

Terna's commitment to measuring and improving its sustainability performance is reflected positively in its ESG (Environmental, Social and Governance) ratings and, as a result, in its presence in international stock exchange ESG indices.

ESG ratings

AGENCY	DESCRIPTION
S&P GLOBAL	Its **Corporate Sustainability Assessment** ("CSA") is a periodic evaluation of companies' sustainability practices. The highest ranked companies are included in the Dow Jones Sustainability Index (DJSI).
SUSTAINALYTICS	It periodically publishes an **ESG Risk Rating Report** on the Company. In 2023, Terna's "Negligible Risk" rating (the best possible) was reaffirmed.
MOODY'S ANALYTICS	It periodically measures the **ESG performances** of companies. Its final opinion is based on four different levels of performance (Advanced; Robust; Weak; Limited). In September 2023, Terna's "Advanced" rating was reaffirmed with a score of 74/100.
BLOOMBERG	Its **Gender Reporting Framework** is an international standardized reporting and disclosure method for workplace gender data. The highest ranked companies, such as Terna, are included in the Gender Equality Index (GEI).
MSCI	It periodically publishes an **ESG Ratings Report** in which is analyses and assesses companies on a scale from "AAA" (the highest rating) to "CCC". Terna has been assigned a rating of "AA".
CDP (CARBON DISCLOSURE PROJECT)	Its periodically produced **Climate Change** questionnaire focuses on issues linked to climate change. The questionnaire results in a rating expressed in letters on a scale from D to A. In 2023, Terna received a score of "A-".
ISS ESG	It assesses the sustainability performances of companies based on approximately a hundred criteria. The highest ranked companies, such as Terna, are awarded **Prime** status.
FTSE RUSSELL	Its ESG ratings reflect the company's exposure to – and management of – **ESG issues** and constitute the main input for inclusion in the FTSE4Good indices.
STANDARD ETHICS	Standard Ethics issues an opinion on companies' **degree of compliance** with regard to sustainability and corporate governance based on documents and guidelines published by international bodies. In December 2023, Terna's "EE" rating was reaffirmed on a scale from "EEE" (the best) to "F" (the worst). This places Terna in the highest "Sustainable" band. The Company's outlook was also upgraded from "stable" to "positive".
GRESB	GRESB ("Global Real Estate Sustainability Benchmark") conducts assessments of the **level of disclosure**. In 2023, Terna's assignment of the highest possible rating of "A" was reaffirmed.

ESG indices

INDEX	DESCRIPTION
DOW JONES SUSTAINABILITY	The DJSI indices select blue chip companies with the best sustainability performances. Has been included in the DJSI World and DJSI Europe indices since 2009.
FTSE4GOOD	The FTSE4Good indices are based on assessments carried out by FTSE Russel. Terna has been included in the index since 2005.
MSCI	Terna is a member of over a hundred of MSCI's general and sectoral ESG indices and has been included in the "Global Sustainability" index since 2007.
STOXX® GLOBAL ESG LEADERS	Launched in 2011, these indices are based on assessments made by the Sustainalytics rating agency and select the best shares based on ESG performance. Admission to the Global ESG Leaders Index, requires inclusion in at least one of the three specialist indices (Global Environmental Leaders, Global Social Leaders and Global Governance Leaders). Terna has been a member of all three indices since 2011.
BLOOMBERG GENDER EQUALITY	This index measures companies' performance regarding gender equality issues. Terna has been included since 2019.
EURONEXT VIGEO EIRIS	Based on ratings by Moody's Analytics (formerly Vigeo Eiris), these indices are based on a population of companies listed on international markets. Terna has been a member of the World 120, Eurozone 120 and Europe 120 indices since 2012.
ECPI	ECPI has created sustainability indices and carries out research so as to provide additional non-financial information. Terna is, among others, one of the ECPI ESG Best in Class. Terna has been included since 2007.
SOLACTIVE EUROPE CORPORATE SOCIAL RESPONSIBILITY	This index has replaced the previous Ethibel Sustainability Index. It includes a basket of European shares selected by the Ethibel Forum. Terna has been included since 2009 (taking into account earlier membership of the Ethibel Sustainability Index).
MIB ESG	Launched in 2021, this is Italy's first blue-chip index focusing on ESG best practices. The index is based on the outcome of the periodic assessment conducted by the agency, Moody's Analytics.
S&P Global 1200 ESG	This index rewards the best sustainability performances by global blue chip companies – present in the underlying S&P Global 1200 index – based on data gathered by S&P Global CSA.
S&P GENDER EQUALITY & INCLUSION INDEX	Launched in 2021, this index measures the performances of listed companies with respect to gender equality and inclusion. The index includes companies that have received the highest S&P Global Gender Diversity Scores, calculated on the basis of the results obtained in the S&P Global CSA (Corporate Sustainability Assessment).
EURONEXT EQUILEAP GENDER EQUALITY EUROZONE 100 INDEX	Launched in 2022, it includes 100 Eurozone companies that have shown that they are playing a major role in promoting gender equality.
EURONEXT ESG EUROZONE BIODIVERSITY LEADERS PAB INDEX	The biodiversity index, launched in 2022, selects companies with the best Moody's Analytics ratings, the best performers with respect to an assessment of their "Corporate Biodiversity Footprint" conducted by Iceberg Data Lab.
S&P LARGEMIDCAP SDG INDEX	This index, launched in January 2024, selects the best companies in the S&P Global LargeMidCap index based on their alignment with the United Nations' 17 sustainable development goals.

Outlook

The Global economy is expected to record moderate growth in 2024, with ongoing trade tensions between the world's major economies and the risk of new protectionist measures. Geopolitical tensions may well persist or even worsen, with regional conflicts, rivalry between states and global security challenges all potentially having a negative effect on political and economic stability.

In this scenario, the Terna Group will continue to focus on delivering on the 2024-2028 Industrial Plan, recently presented to the financial community (19 March 2024), which targets total investment of €16.5 billion and confirms and strengthens Terna's contribution to resolving Italy's energy trilemma: Affordability (minimising the cost of the electricity system), Security (ensuring the resilience performance of the electricity system) and Sustainability (integrating renewable sources and supporting the development of new forms of flexibility).

The sharp acceleration in expenditure on **Regulated Activities** will continue with the goal of achieving the targets set in the EU's Fit for 55 package. This will involve facilitating the integration of renewable sources, developing cross-border interconnections, boosting the level of security and resilience of the electricity system and investing in digitalisation of the grid.

In terms of the most important investment projects, work is progressing on the Tyrrhenian Link, with construction of the civil works for the converter stations on the "West Section" due to start, whilst the installation of terrestrial cables for the "East Section", where work began at the end of 2023, will also begin. As regards Sa.Co.I.3, the new three-terminal cnnection that will replace the existing link between Sardinia, Corsica and the Italian mainland, the related EPC contracts and the partnership with EDF are close to being finalised. Following the award of key contracts, work on the detailed design for the Adriatic Link, the new submarine connection that will link the Abruzzo and Marche regions, will also begin.

The principal National Transmission Grid assets due to enter service by the end of the year include the Monte Malo (VI) and Ponte Caffaro (BS) substations.

Work on the new electricity grid for the "Milan-Cortina 2026" Olympic and Paralympic Games will continue in 2024, with the aim of increasing the reliability of energy supply in the locations hosting the event, with infrastructure having a reduced impact on the landscape.

Finally, the Group will continue to make progress towards meeting the requirements resulting from output-based regulatory mechanisms introduced by ARERA, above all with regard to reducing dispatching costs (Dispatching Service Market incentives). The Group will also continue to be engaged during the year in the consultation process with ARERA regarding its update of the regulations underlying the WACC, valid for the period 2025-2027, and finalisation of the criteria for applying the Totex/Output-based approach to the transmission service.

With regard to **Non-regulated Activities**, the Terna Group will continue to consolidate its role as a provider of both Connectivity and Energy Solutions, developing high value-added services for corporate customers and exploiting market opportunities for traditional and renewable customers, using the LT Group's know-how and investing in the development of technical and digital skills.

In the Equipment segment, the aim is to build on the Tamini Group's performance and, with regard to the Brugg Cables Group, take full advantage of its distinctive expertise in terrestrial cables and of synergies with the Terna Group's other businesses.

In terms of **overseas activities**, the process of selling the assets in Peru and Linha Verde I in Brazil will continue, with the sales due to complete by the end of the year. The strategic assessment of further opportunities in overseas markets, involving the careful selection of projects with a view to ensuring a low risk profile and avoiding the need to tie up large amounts of capital, will also continue.

During the year, the Group will intensify its focus on improving operational efficiency and management of the transmission grid through the adoption of innovative technologies and the digitalisation of grid assets, in part thanks to the implementation of IoT technologies. This will include, by way of example, implementation of the latest mobile network technologies, the upgrade of monitoring systems and the development of advanced predictive algorithms designed to optimise infrastructure maintenance and boost grid resilience.

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

Partly thanks to the above initiatives, including those designed to further increase the efficiency of the electricity system, Terna expects revenue for 2024 to be €3.55 billion, EBITDA to be €2.42 billion and EPS to be €0.49.

With specific reference to the Investment Plan, the Group has targeted capex of approximately €2.6 billion in 2024. The above objectives will be pursued whilst maintaining a commitment to maximising the cash generation necessary to ensure a sound, balanced financial structure.

4

Intangible capitals

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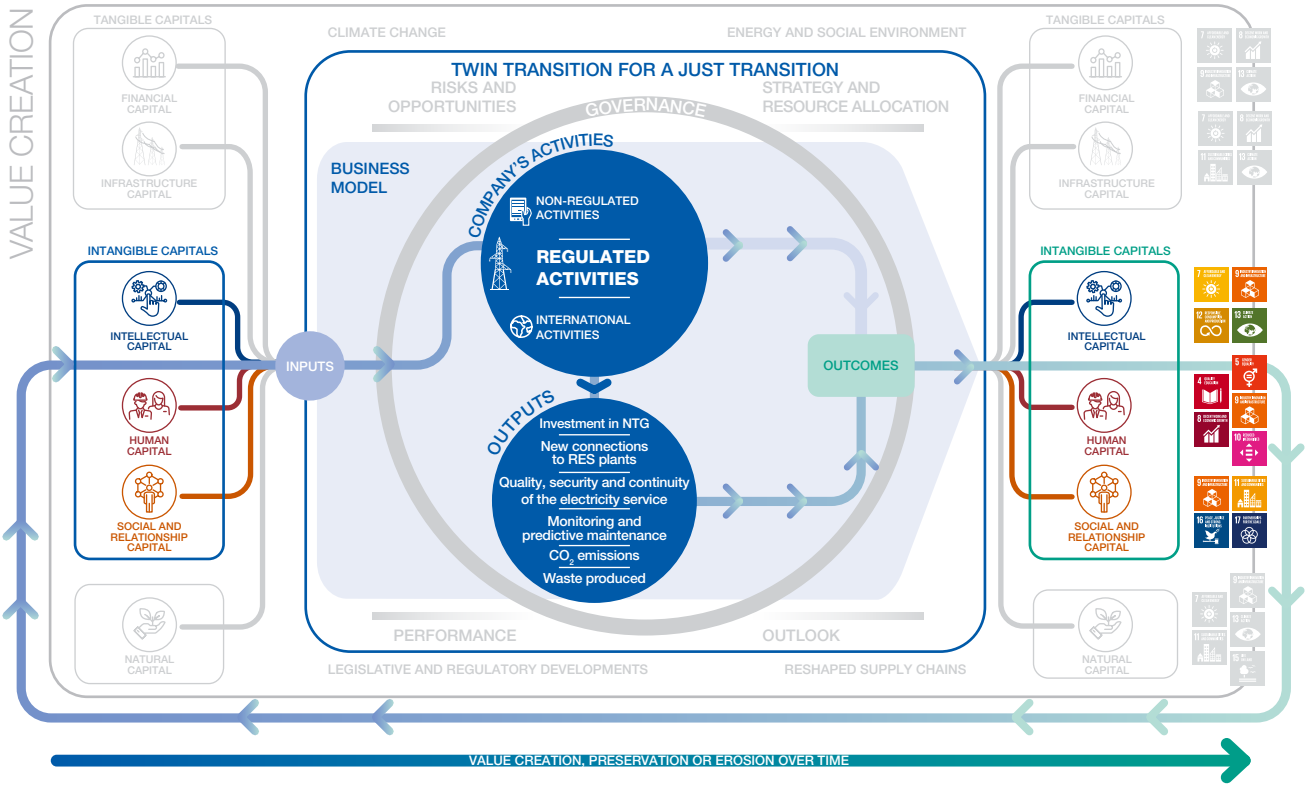
In this section

The contribution of sustainability to value creation over time increases the resilience of the business model through responsible and measurable planning and management of intangible capital. Indeed, the goal of achieving an energy and digital transition marked by equity and inclusion requires constant availability of appropriate intangible capital, such as intellectual capital that can innovate, human capital that is always up-to-date in terms of skills and motivation, and adequate social and relationship capital to best manage relations with stakeholders.

The common denominator is our Code of Ethics, which sets out the value benchmarks for the everyday actions of all Terna's people, and is the touchstone for all the Company's documents, starting with our policies and guidelines.



These infographics highlight the topics dealt with in this section with the aim of **facilitating information connectivity**: in this way, the section offers an overall view showing the links between all the factors that influence Terna's ability to create value over time and how they are dependent on each other.

INPUTS

At 31 December 2022

16 patents filed at 31 December 2022

At 31 December 2023

22 patents (6 more than in 2022)

OUTCOMES

Consolidation of an **innovation ecosystem**

OUTPUTS

INPUTS

At 31 December 2022

79% suppliers with **UNI ISO 45001** certification

88% of suppliers with **UNI ISO 14001** certification

Al 31/12/2023

80% suppliers with **UNI ISO 45001** certification

90% of suppliers with **UNI ISO 14001** certification

OUTCOMES

Greater integration of **ESG criteria** into the **supply chain**

OUTPUTS

INPUTS

At 31 December 2022

174,708 hours of training

54,900 hours Health & Safety training

23.7% of leadership positions occupied by women

At 31 December 2023

235,352 hours of training (60,644 hours more than in 2022)

76,605 hours Health & Safety training (21,705 hours more than in 2022)

26.7% of leadership positions occupied by women (12.7% more than in 2022)

OUTCOMES

Ongoing skills assessment, development and **updating**

"Excellence in Safety" programme

More women in the workplace

OUTPUTS

INPUTS

At 31 December 2022

96% of investment in grid development involves local community engagement initiatives

At 31 December 2023

99% of investment in grid development involves local community engagement initiatives

OUTCOMES

Increase in local community **engagement initiatives**

OUTPUTS

Intellectual capital

Of all the forms of intangible capital, **intellectual capital** has the greatest overall impact. Its quality and robustness, and as a result its ability to create value, is in fact influenced by both **human capital**, in its widest sense including the strength of an organisation's values and those of its individual people in terms of skills, sense of loyalty and creativity, and **social and relationship capital**, which is the driving force behind the consolidation of the Group's reputation among all stakeholders.

The main contribution of intellectual capital to Terna's business, as dealt with at the beginning of this chapter, relates to and is measured by the rapid consolidation of our **role as a System Operator (SO)**, namely **driving the just energy transition**. This role is carried out alongside and amplifies the traditional role of TSO, which depends on a growing ability to analyse and properly manage big data - whose integrity and confidentiality are protected by robust and constantly updated **Cyber Security** processes - relating to the performance of renewable sources to guarantee a constant supply of new flexible resources, essential to ensuring that the electricity system is **fit for purpose**, and, more generally, for the resilience of Italy's economic and social fabric.

In this regard, **Innovation** plays a vital role as an enabling factor across all of Terna's operations, serving to constantly update intellectual capital to ensure that it is always fit for the purpose of tackling the challenges and uncertainties of an increasingly complex external context (see page 202).

A description of the contributions and impact of this intangible capital on the process of creating value is included in reporting the performances that coincide with the concrete application of the values that underpin the **Code of Ethics**[103] and, as such, are the cornerstone of intellectual capital. In effect, this relates to compliance with the law, an essential element in ensuring **ethical conduct of the business** and further consolidation of sustainability governance as set out in a number of internal policies, as well as fiscal transparency, respect for human rights and supply chain sustainability. The constant monitoring of all these areas is a key aspect of risk management (see page 78).

[103] The Code of Ethics, approved by Terna's Board of Directors on 21 December 2006, defines the principles and rules of conduct voluntarily adopted to ensure that the Company operates with integrity. By setting out guiding principles forming the basis for internal policies and guidelines, it effectively represents the Group's "constitutional charter". It is available on Terna's website.

Management of the electricity system

Electricity data is without doubt Terna's most important native content asset, one of the cornerstones of our intellectual capital.

This is the data that the TSO gathers and processes for the purposes of **managing the electricity system** (the information used by Dispatching, the nerve centre of the System Operator) and as the basis for **statistics, scenarios and analysis**, but also **processes, maintenance activities and the strategic development of assets**, indispensable within the context of the energy transition.

System data and the intelligent network

Data on demand – meaning demand for electricity that the system is required to meet or the primary sources with which this demand is met (traditional such as thermal, and renewable such as hydro, wind and solar) – is just one example of the **most significant data linked to management** of the system: originally of a provisional nature, as they are processed in real time on the basis of measurements and estimates, this data is then finalised in the **Annual Report on Operational Data** and confirmed in the document on **statistical data on electricity in Italy**, partly thanks to the contributions from producers.

Terna's dispatching activities give the Company a privileged overview of the evolution of the Italian electricity system. As well as being responsible for energy, the role of grid operator and manager of the national electricity transmission infrastructure is also to raise awareness via data of such a vital issue as the energy transition that affects all.

Since 2000, Terna has used state-of-the-art tools to gather data from approximately 4,500 operators, including producers and distributors, which has then been made available to all stakeholders via a series of **innovative digital platforms, interactive dashboards and dedicated apps**. These also provide a very valuable analysis and consultation tool for market operators and analysts, as well as for a wider public. These data facilitate an understanding of how the energy scenario is changing, as renewables, which now power more than one million production plants, are becoming increasingly widespread, and how the electricity consumption market in Italy has changed in line with industrial and economic developments over the last twenty years, and also give an idea of how much progress has been made towards meeting international decarbonisation targets.

Historically, electricity consumption in Italy has been one of the key indicators of economic performance because it is correlated with GDP. Terna uses the **Monthly Industrial Electricity Consumption Index (IMCEI)** to monitor the consumption of approximately 1,000 industrial operators who are directly connected to the national electricity transmission grid (the so-called "energy-intensive users"). These include the large industries related to cement, lime and gypsum, iron and steel, chemicals, mechanical engineering, transport, food, paper, ceramics and glass, and non-ferrous metals, which are the ones that require the most energy. Analysis of the IMCEI enables prompt assessment of current business sentiment, ahead of the publication of national economic statistics.

This data forms the basis for strategic documents and assessments, such as those relating to **future energy scenarios**. They are processed with the aim of evaluating the benefits of transmission grid development projects, as well as for the purpose of contributing to achievement of national policy goals. The Scenario Description Document, which is also drawn up on the basis of demand forecast data, provides preliminary content for the preparation of development plans regarding national transmission and transportation networks in the electricity and gas sectors. In the **Adequacy Report for Italy**, based on the same sources, Terna provides an assessment of the generation, storage and energy transportation resources needed to ensure the adequacy of the electricity system - namely that it always has enough resources to meet energy demand - taking into account medium- to long-term scenarios. In this way, it is possible to establish the available capacity that will be sufficient to meet the country's decarbonisation targets within the set deadlines and, as a result, size the quantities of energy to be procured via capacity market auctions.

Another key area is the data on grid infrastructure gathered and used in combination with Terna's expertise and experience to produce analyses for use in planning, development and maintenance of the national transmission grid (NTG). The most common high-voltage lines, the electricity cables that connect them and substations have over the years become a key network for collecting data necessary for the TSO's activities and increasingly useful to other members of our ecosystem, such as research centres or government institutions. This represents nothing less than an **intelligence network**, consisting of physical and virtual assets, engineering technologies and digital software, advanced sensors, processors and models. The quantity of data processed in this way helps to produce the reports that play a key role in the development and preventive and predictive maintenance of the grid, such as the **Resilience Plan**, which enables assessment of the interventions needed to ensure that the electricity system is able to withstand the **extreme weather events that have become increasingly frequent, and therefore potentially critical**, in recent years due to climate change.

Information and cybersecurity

Cyber threats are one of the main elements of a company's focus and business strategy, given the effects they may have in terms of achievement of business objectives, damage to systems, loss of due data security requirements, and exposure to substantial penalties under mandatory regulations.

Energy infrastructure, and especially electricity transmission networks, play a key role as they are one of the tools that facilitate achievement of ambitious national and European decarbonisation targets. Twenty years ago, Italy had approximately 800 electricity generation points, compared with more than 1.6 million today. This complex situation calls for technologies, skills and innovation.

In order to manage the development and digitalisation of the electricity system, whilst safeguarding electricity data assets and preventing any cyber threats, Terna has progressively consolidated its governance framework and set up a dedicated **Cybersecurity and Security Platforms** organisational structure. The Company has also strengthened monitoring and management of security events by creating a dedicated **Cyber Defence Centre**, and by establishing a **Cybersecurity Platforms** unit to manage cyber infrastructure.

On the regulatory front, greater attention has been focused on this issue at national and European level in recent years, including for example:

- the European Directive on "Network and Information Security" (NIS), which, for the first time at EU level, deals with cybersecurity and its implementing legislation in a comprehensive and cross-cutting manner, and is currently evolving via the NIS2 Directive;
- the National Cybersecurity Perimeter (Law Decree 105/2019), aimed at ensuring a high level of security for the networks, information systems and IT services of public authorities, as well as of essential national, public and private services entities and operators, by establishing a well-defined perimeter and providing preventive measures and controls to guarantee the necessary security standards and minimise risks;
- Regulation (EU) 2016/679 of the European Parliament and of the Council (General Data Protection Regulation - GDPR).

In this regard, Terna has set up an internal control system based on:

- an Information Security Framework, which provides for an information security policy and specific implementation rules relating to, for example: acceptable use of information resources, logical access control, network security, ICT asset security, security assessment and security incident management;
- a cybersecurity governance model, consisting of a system of rules based on national and international industry standards (including: NIST, National Framework for Cybersecurity and Data Protection, ISO 27001).

The model supports the main ICT processes, ensuring principles of segregation of tasks, and associating governance responsibilities with operational and cybersecurity event management responsibilities.

As part of cybersecurity monitoring and incident handling processes, Terna's Cyber Defence Centre monitors the cybersecurity status of the Group's ICT platforms in real time, with regard to information technology (IT), cyber threats relating to the cloud and operational technology (OT), and for cyber threat landscape, early warning, cyber hunting and incident detection purposes.

The incident handling process is structured in accordance with **ISO/IEC 27035-1:2016 Information technology - Security techniques - Information security incident management**. Incidents are classified in terms of a specific taxonomy, which supports notification of the relevant external bodies, in accordance with the deadlines set by the main industry regulations.

As part of activities to verify the cybersecurity posture, compliance assessments are carried out in the regulatory sphere to determine the gaps that need to be filled to meet the requirements of national and international mandatory regulations and consequently to implement improvement actions, as well as in the supply chain sphere in order to assess the security posture of third parties connected to the Terna ecosystem.

Compliance assessments are also carried out in the OT sphere, whereby the security posture of digital electricity substations is assessed by evaluating the compliance of a group of operating digital electricity substations with specific security requirements identified by Cybersecurity and Security Platforms.

Vulnerability assessments, penetration tests and red team attacks are implemented to assess the level of cybersecurity of IT systems, OT systems and systems exposed on the internet. Penetration tests and vulnerability assessments are carried out independently and also with the support of external suppliers. The analytical tests in these specific areas, as well as the executive and technical system reports, produce an accurate list of vulnerabilities, including details of the risks identified and the requests for monitoring of the recovery plans.

Finally, a cybersecurity "digital antibodies" awareness programme was set up to promote the spread of good practices among Company staff and raise necessary cyber awareness. Specific smishing and phishing campaigns are also conducted to mitigate potential risks from social engineering type attacks.

NFS

SASB

Innovation

Innovation focuses on initiatives that can generate a positive impact on the Company's business.

Key **results achieved in 2023** include:

- **69 projects** in progress
- **22 patents** granted
- **39 IP** applications filed
- **40 tech scouting**[104] **and landscaping** initiatives
- **300 ideas presented** at the three editions of Terna Ideas

Innovation model and process

Innovation serves the entire Company in the development of new solutions that can positively impact our business, with a view to constantly improving the service we provide. This fully integrated model gives a voice to Terna's people, who may then actively participate in the evolution of the Group.

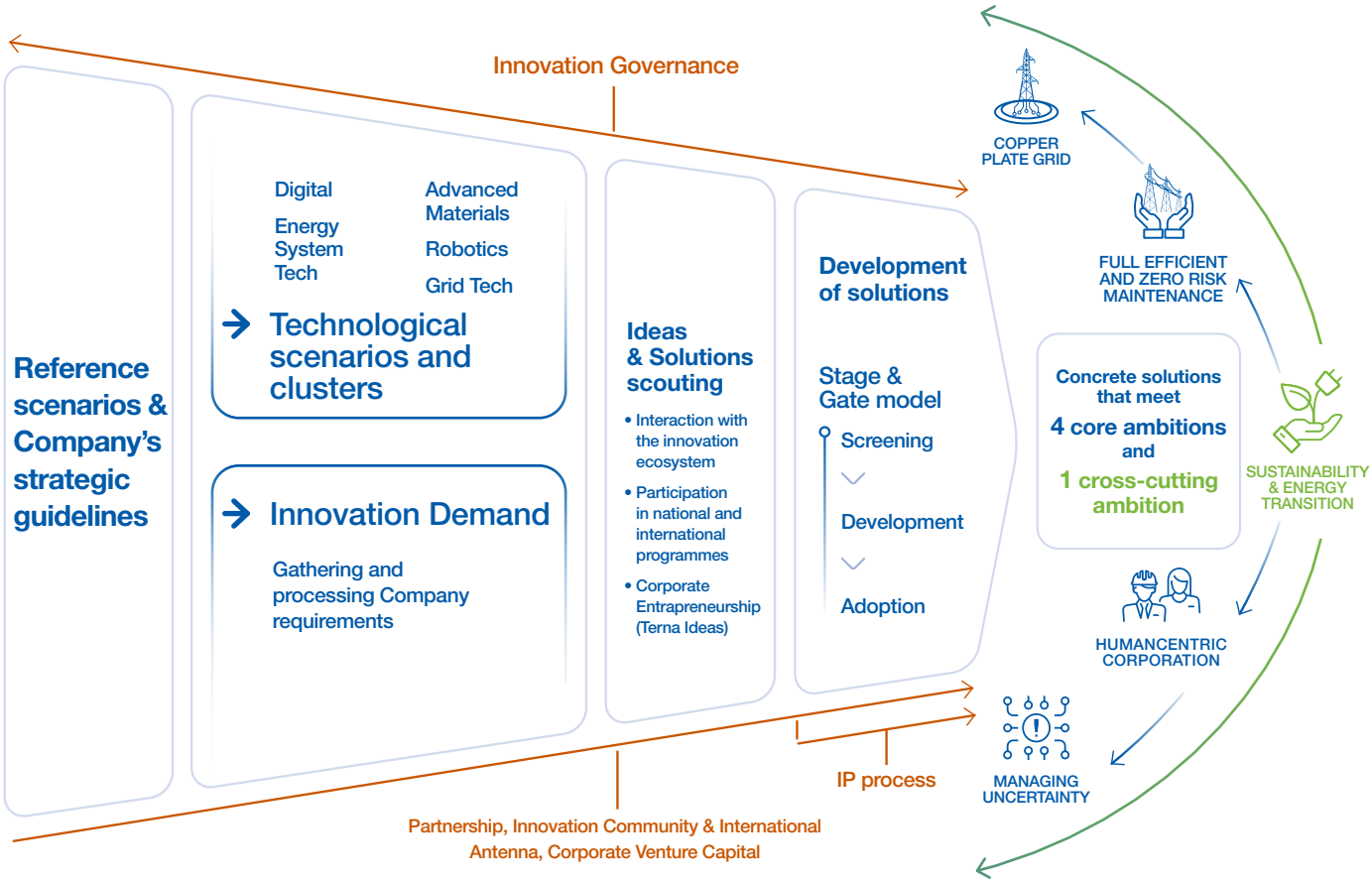
The Terna Group's **innovation process**, divided into sub-processes designed to come up with concrete solutions to innovation needs in line with the Company's strategic guidelines, is illustrated below. The solutions adopted respond to ambitions to map out the future of the Terna Group and the electricity system in the context of energy transition, to be achieved through innovation.

The Terna Group has identified a series of activities that serve as tools for enabling the above phases of the innovation process. These include:

- ***Innovation Management:*** an iterative, cross-cutting tool that defines the design and development of processes and tools, which is implemented through planning, monitoring and reporting activities;
- ***Innovation Ecosystem:*** partnerships with players of excellence (major corporations, national and international research bodies and institutes, universities), internal synergies within the Innovation Community including the active engagement of Terna people and key local players, and finally innovation programmes and initiatives in international ecosystems (International Antenna[105]).
- ***Corporate Venture Capital:*** this initiative regards equity investment in companies with high innovation and growth potential, which can be made directly (the acquisition of equity interests in innovative start-ups and SMEs), and indirectly (participation in venture capital funds).
- ***IP Process:*** all Company departments are supported from the design phase and during all phases of the intellectual property protection process, including assessment of the most appropriate protection measures in a preliminary stage, and preparation of all the necessary checks, until a patent has been filed at the competent office.

[104] Tech scouting: Identification of the most suitable technological solution (taking into account the degree of technological maturity, the technical requirements of the idea and its technological constraints), and seeking out the most suitable providers to meet the technological requirements of the idea.

[105] International Antenna: Physical outpost of a Terna facility in Silicon Valley that monitors California's technology and start-up ecosystem, with the goal of seizing the best development opportunities and launching partnerships with the most innovative companies.


Innovation Governance
Reference scenarios & Company's strategic guidelines
Digital
Energy System Tech
Advanced Materials
Robotics
Grid Tech
Technological scenarios and clusters
Innovation Demand
Gathering and processing Company requirements
Ideas & Solutions scouting
• Interaction with the innovation ecosystem
• Participation in national and international programmes
• Corporate Entrapreneurship (Terna Ideas)
Development of solutions
Stage & Gate model
Screening
Development
Adoption
IP process
Partnership, Innovation Community & International Antenna, Corporate Venture Capital
COPPER PLATE GRID
FULL EFFICIENT AND ZERO RISK MAINTENANCE
Concrete solutions that meet
4 core ambitions
and
1 cross-cutting ambition
SUSTAINABILITY & ENERGY TRANSITION
HUMANCENTRIC CORPORATION
MANAGING UNCERTAINTY

Corporate Venture Capital

Via **Terna Forward**, which was established on 11 November 2022, the Group undertakes corporate venture capital investments. Terna Forward is a limited partner of the Energy Tech and Infra Tech sub-funds managed by CDP Venture Capital SGR's **Corporate Partners I Fund**, in which €5 million was invested in 2023, out of a total planned investment of €30 million. The Energy Tech sub-fund focuses on topics related to energy transition, such as energy efficiency, electric mobility, and management and control of grid infrastructure, as well as exploration of technologies for integrating energy systems. The InfraTech sub-fund specialises in finding technological solutions applicable to infrastructure, such as infrastructure monitoring and maintenance using drones, IoT sensors and satellite imagery, new construction materials, AI solutions and software and robotics for the energy sector.
To support its investment activities and oversee the venture and corporate venture capital ecosystem, Terna Forward has joined the industry's leading associations: AIFI[106] and the Italian Tech Alliance[107].

Key projects

In the innovation process, the Stage & Gate model, consisting of verification and validation of sub-processes, is applied until a solution is adopted.
This model facilitates construction of an overview of innovation by accelerating high value-added projects. The results produced by the model then help to define planning, economic and strategic, and reporting activities.

Projects in progress in 2023 include:

Health Pod Lifestyle

HUMANCENTRIC CORPORATION

Terna is committed on a daily basis to protecting the health of our employees and promoting a healthy and active lifestyle, thanks to the various initiatives undertaken within the WHP-Workplace Health Promotion Programme.
These include the Health Pod Lifestyle campaign, which envisages the installation of Capsula at our sites nationwide. Capsula is a cabin equipped with specific non-invasive sensors that people can enter to find out the state of their health by independently and anonymously measuring various biological parameters relating to general personal health (e.g. stress, ageing, physical fitness and blood pressure).

Automatic failure detection

FULL EFFICIENT AND ZERO RISK MAINTENANCE

This project aims to identify any anomalies in the visible field present on HV power lines, by processing data collected by special instruments installed on Terna helicopters. Detection will be achieved through the development of an artificial intelligence algorithm, which will enable identification of component failures/breakdowns via automatic image recognition.
To date, as part of an innovation partnership, flights have been made to train the algorithm on the first anomaly detection models, and tests are in progress to check the expected results.

[106] AIFI - Italian Association of Private Equity, Venture Capital and Private Debt, was established in May 1986 and is internationally recognised for its corporate representation and promotion activities. The association carries out important research activities, mainly thanks to its proprietary database, and also drafts documentation, promotes exit channels, and undertakes operational comparisons, etc. It has a dedicated corporate venturing committee.

[107] Italian Tech Alliance - This industry association brings together and represents the needs of investors, start-ups, companies and innovation professionals, including via training activities (a VC academy) and legislative monitoring. The membership base consists of investors (venture capital funds, corporate venture capital, family offices and business angels); entrepreneurs (start-ups and innovative SMEs that have raised at least €500,000 in equity, or had a turnover of at least €500,000 in the year prior to joining); and supporters (law firms, headhunting, consultancy, subsidised finance and fundraising companies).

Geographic Information System for mapping degraded areas

ring the year, a geo-localised database was created and populated to identify abandoned and degraded areas (disused railways, factories and quarries, etc.) which could be used to develop activities (e.g., construction of new grid assets) and/or be redeveloped, thereby maximising the sustainability of works and simplifying the consent phase.

The project is aimed at developing and testing a cooperative GIS (Geographic Information System) tool (smartphone app and web map) that can be used by all Terna personnel in an area to extensively map degraded areas, whilst encouraging active participation in the development process.

Smart hooks

The initiative derived from the need to raise awareness among operating personnel who work in high locations about the potential risk of falling. The technological solution involves the development of a device that equips traditional anchorage connectors with special sensors that can warn operating personnel about any actions that do not comply with current operating procedures.

Given the absence of off-the-shelf solutions available on the market to meet the requirements, three different suppliers were hired to develop new solutions. The executive designs of the prototypes were finalised in 2023, and will be built and tested in 2024.

Anti-icing and VALE systems

The anti-icing systems project is aimed at reducing the risk of the formation of ice coatings on ground wires, which, in serious cases, may cause structural failure resulting in electricity grid disruptions. The project involves testing innovative hydrophobic and icephobic coatings, to be applied to the outer layer of ground wires in order to prevent the formation of ice coatings.

To date, approximately 3,000 metres of treated ground wire have been installed. These are distributed across the areas affected by ice. Performance will be monitored by smart cameras (VALE - video analysis of power lines devices) which enable identification of the environmental conditions that signal incipient ice coating formation, and check that it is actually present via an image recognition algorithm.

ORION project

The aim of this project, which won the 2022 Terna Ideas competition, is to develop an artificial intelligence algorithm (developed entirely in-house) that can process medium-resolution optical satellite images and obtain an output that is similar to ones normally produced by higher resolution optical satellite images, thereby enabling a significant reduction in costs.

The ultimate goal of the image analysis is to identify, and in some cases prevent, potential building irregularities related to the failure of buildings and structures in general to respect buffer zones (e.g., unauthorised buildings standing too close to power lines). The system will be supplemented by the visual inspections that are regularly carried out by Terna personnel during periodic monitoring of power lines.

Sea drone projects

COPPER PLATE GRID

Sea drone projects enable seabed surveys to be carried out with limited, or no, use of vessels down to a potential depth of 2,000 metres, which reduces implementation timeframes and costs and makes development initiatives more sustainable. The project process includes two initiatives: identification and testing of mature technological solutions involving USVs (unmanned surface vessels) to be used in carrying out preliminary near shore surveys; and identification and testing of an AUV (autonomous underwater vehicle) to survey the bathy-morphology of the seabed, near the coast and also at greater distances and depths (see also page 306).

ESI programme

MANAGING UNCERTAINTY

This programme is aimed at evaluating transparent and participatory integration into the electricity grid of high value resources, namely resources and solutions that are developing fast, through the launch of individual initiatives called ESI projects. The backdrop to the programme is the **progressive electrification of consumption**, which is becoming increasingly necessary to achieve national and international decarbonisation targets.

The first ESI projects, dedicated to distributed energy resources (electric vehicles, thermal comfort systems and distributed storage), involve experimental initiatives, carried out initially at the level of individual resources, to assess the potential and limitations of individual technologies in terms of performance, control systems and communication protocols, and, subsequently, at the level of aggregated resources, to assess the performance and reliability of aggregation of such distributed resources. The main findings of each project are set out in anonymised public reports that are shared with the whole system.

Agreements have been entered into with the Italian Consul General in San Francisco and INNOVIT (Italian Innovation and Culture Hub) to promote and develop the Italian innovation ecosystem overseas, backing the development of innovative start-ups and SMEs from Italy and enabling them to access the US market.

Ethical business conduct

At Terna, business conduct constantly refers to the values set out in the **Code of Ethics**[108], which gives rise to a structured set of policies, guidelines and operating instructions aimed at guiding the creation of value over time.

FOCUS

Terna's CEO signs the Global Compact Network Italy's "Business for People and Society" Manifesto

At the halfway point of the UN 2030 Agenda's timeframe to achieve the 17 Sustainable Development Goals (the SDGs), all of us, starting with businesses, need to accelerate and step up our commitment to promoting the social dimension of sustainability in order to leave no one behind.

With this in mind, in 2023 the Global Compact Network Italy (GCNI) Foundation set up a working group in which a number of member companies, including Terna, took part on a voluntary basis in the preparation of a ten-point manifesto entitled **"Business for People and Society"**. The 10 points are:

1. Integrate the social dimension into business strategies and enhance the creation of social value by enterprises
2. Respect Human Rights and Labour Rights
3. Develop a culture of inclusion, respect for diversity and equity
4. Commit to the welfare of workers
5. Invest in internal and external training and awareness raising
6. Identify corporate finance actions and synergies that benefit the Social dimension
7. Promote practices that strengthen equity and reduce inequality
8. Support collective actions for the welfare of communities
9. Transparently measure and report on social impacts
10. Communicate and be an Ambassador

The aim of the manifesto, which can be signed by CEOs and/or presidents of Italian companies (whether they are members of Global Compact Network Italy or not), is to raise companies' level of ambition by encouraging the adoption of a greater commitment to the social dimension of sustainability. By strongly committing to this dimension, businesses can create value in various areas, including the quality of work, the wellbeing of employees, and the sustainable growth of the local communities in which they operate, via active policies aimed at different generations, a commitment to reduce social and gender inequalities, and the promotion of decent work and human rights protection good practices that also involve their supply chains.

Terna's CEO, Giuseppina Di Foggia, signed the manifesto, the principles of which have been endorsed by some 80 companies.

[108] Terna's Code of Ethics makes specific reference to the Ten Universal Principles on human rights, labour, the environment and anti-corruption, which are promoted by the Global Compact (UNGC), an United Nations initiative launched in 1999, based on an idea of the then Secretary General Kofi Annan. The Global Compact is now a global partnership involving more than 20,000 companies, including Terna (since 2009), from 162 countries around the world. As a member of the Global Compact, Terna is an active part of a voluntary initiative committed to promoting the values of long-term sustainability via responsible actions, practices, and social and civic behaviours that also take future generations into account. Terna is also a founding member of the Global Compact Network Italy Foundation, the national offshoot of UNGC.

Terna's ethical conduct of business includes responsible management of suppliers, who are required to conduct themselves in a lawful and ethical manner, while protecting human and labour rights, health and safety, information security and the environment.

These behaviours have been formalised in the Sup**plier Code of Conduct**[109] in which each principle is linked to the requirements contained in the qualification process and in Terna's tender and contract documentation. (see page 218).

NFS

2-23 >

SASB

Respect for human rights

The Terna Group operates mainly in Italy, where the regulatory framework and the level of civil development largely guarantee respect for human rights, freedom of association and collective bargaining. However, Terna pays constant attention to respect for human rights, especially with regard to the Company's overseas subsidiaries, and is committed to adopting minimum protection standards where such standards are not guaranteed by local laws.

The Company shares the principles of protection of human rights as expressed in the **UN Universal Declaration of Human Rights** and the International Labour Organisation's **Declaration on Fundamental Principles and Rights at Work**, which was reaffirmed in 1999 in the Ten Principles of the UN Global Compact. Consequently, Terna is committed to preventing the risk of negative impacts on these rights as a result of its activities - directly or through business relationships with third parties - in line with the **UN Guiding Principles for Business and Human Rights** endorsed by the UN Human Rights Council in June 2011[110] and reaffirmed by the **"Guidelines for Multinational Enterprises" issued by the OECD**.

The Group's approach to the cause of human rights has been gradually updated over time, following the evolution of international reference standards. This was strengthened by the updates of the Terna Group's Respect for Human Rights (2021) policy and the "Diversity, Equality & Inclusion" (DE&I) policy (2024).

The Group's commitment to support the respect of human rights in its sphere of influence is manifested through compliance with legal regulations in all the countries where it conducts business activities, and also via the definition and application of its own rules of conduct, which are vital in countries where the legal system does not provide for compliant human rights protections. These rules also incorporate subsequent international guidelines and documentary references.

The Group's focus on the issue of human rights is also reinforced by the definition and periodic implementation of a due diligence process, based on identification of the potential impacts of Terna's activities on human rights, as well as subsequent assessment of the fitness for purpose of the mitigation measures adopted. This activity is aimed at assessing possible interactions between Terna's activities and human rights relating to its stakeholders and has led to the creation of a map of the activities most exposed to the risk of negative impacts.

One of the fundamental human rights that Terna guarantees is the protection of workers' health and safety, which is achieved via the adoption of high standards for the assessment, prevention and management of such risks.

[109] The document is available for download at: http://download.terna.it/terna/0000/0930/50.PDF

[110] In 2011, the UN Human Rights Council endorsed the "Guiding Principles on Business and Human Rights", drawn up by Prof John Ruggie on the basis of three pillars ("Protect, Respect, Remedy") that constitute its framework. The first pillar urges states to adopt specific human rights protection legislation in their national legal systems and to strengthen it where it already exists. The second pillar enshrines the responsibility of business enterprises to respect internationally guaranteed human rights regardless of the state of development of local legislation in this area, and identifies the due diligence process as the most appropriate operational tool for risk mapping and prevention. The third pillar regards the need to guarantee victims access to an effective remedy. This is achieved, on the one hand, through states' responsibility to remove any regulatory and non-regulatory obstacles preventing access to the remedy, and, on the business enterprise side, through activation of complaint mechanisms that enable any alleged infringement matter to be raised. Business enterprises should also commit to cease and desist any negative impact they may have caused.

At Terna, prevention of risks to health and physical integrity is applied in the workplace for employees, and also for the employees of contractors and subcontractors involved in the Group's operations. In recent years, as testimony to the high level of attention paid to this issue, in the variable remuneration objectives of executives and middle managers Terna has included an indicator relating to the **workplace safety index**, which consists of the frequency and seriousness rates of any employee injuries (see also pages 244-245); the Chief Executive Officer also advocates that injuries affecting contractors' employees should be taken into account.

Finally, in-house awareness-raising training courses on the topic of human rights were also provided.

Human rights training

	GROUP (*)			TERNA		
	2023	2022	2021	2023	2022	2021
Number of participants	1,832	1,035	1,634	1,830	1,031	1,634
Training hours on human rights	2,516	496	1,584	2,514	466	1,584
Human rights course participants (%) (1)	31.9	20.1	34.5	39.0	24.0	39.8

(*) The figures for 2023 include Terna (electricity sector) and all its subsidiaries. The figures for 2022 refer to Terna (electricity sector), the Tamini Group and the Brugg Group. The figures for 2021 refer to Terna, the Tamini Group and Brugg Switzerland.
(1) Percentages of employees who have taken at least one human rights training course during the year.

Protecting legality and integrity

NFS

The general principles of legality and honesty set out in Terna's Code of Ethics guide the conduct of all of the Company's operating activities. They are also set out in the Human Rights Policy, as precise commitments the Company has undertaken, including with regard to its engagement with all stakeholders. First and foremost, legality entails complete and unconditional compliance with current regulations, which natural extends to an equally rigorous approach to taxation, seen as a contribution to public spending - namely the economic and social development - of the countries in which the Company operates.

< 2-23
< 2-24

SASB

Compliance with legislation

Compliance with the law is the necessary starting point for any voluntary improvement initiative. A summary of administrative or judicial sanctions and any significant court judgements regarding Terna is provided below. Also taking into account the indicators contained in the GRI Standards, Terna's compliance performance is illustrated below:

- No significant procedures of an administrative or judicial nature, resulting in final judgements or in fines or court injunctions (e.g., prohibitions), were registered in 2023 or in the previous two years, nor did any of its employees receive criminal convictions (full compliance with regard to both environmental and socio-economic matters). < 2-27
- In particular, the accounting records for 2023 do not show any pecuniary sanction of an administrative nature, with a fine or penalty in excess of €10,000 relating to environmental matters[111]. < 2-27
- There were no legal proceedings pending against Terna in relation to corruption, antitrust or monopoly practices, nor were any court judgements handed down against Terna regarding these matters in 2023 or in the previous two-year period. < 205-3 < 206-1

[111] With reference to the previous two years, the accounting records do not show any pecuniary sanction of an administrative nature, with a fine or penalty in excess of €10,000 relating to environmental matters.

EU25 >

- In 2023, there was 1 pending criminal proceeding for injuries caused to third parties by Terna's assets There were 4 accidents in 2023 (3 in 2022 and 1 in 2021).
- No accidents affecting contractors' employees whilst carrying out work commissioned by Terna were registered, where such accidents gave rise to final court judgements ordering Terna to pay damages or resulted in criminal convictions for Terna's employees.
- There is no record of charges brought, in 2023 or in the previous two-year period, in relation to harassment or occupational injuries affecting employees or former employees, in which Terna's liability was definitively established.

Privacy (Data protection)

Terna S.p.A., Terna Rete Italia S.p.A., Terna Energy Solutions S.r.l. and Terna Plus S.r.l. refer to the same Privacy Management Model, which is set out in specific guidelines[112]. The Model provides a specific framework for the division of responsibilities and the adoption of appropriate behaviour and tools to safeguard personal data, and, when the legal requirements are met, the appointment of a Data Protection Officer (DPO) for each of these companies, as well as for the subsidiary, Tamini Trasformatori S.r.l., which has the same DPO as the Parent Company.

Tamini Trasformatori S.r.l. and Avvenia The Energy Innovator S.r.l. have adopted their own simplified Privacy Management Model, inspired by the one adopted by the Parent Company.

In addition to the regular process of keeping pace with existing legislation, the main activities during the year included the revision of certain key policies and the preparation of new Operating Instructions and Privacy Notices, with the aim of enhancing privacy compliance.

On the regulatory compliance front, internal and external audits were carried out, the latter regarding suppliers appointed as data controllers, pursuant to art. 28 of the GDPR.

Specifically, the internal audits regarded: (i) verification of the correct display of information on video-surveillance systems, privacy aspects related to moving on from the state of emergency, and processing activities connected with reporting workplace accidents, at the area offices of Terna Rete Italia S.p.A., the North-Central Transmission Department (DTCNR), the North-West Transmission Department (DTNOV) and the North-West Control and Remote Control Centre (CCTNO), the Northern Transmission Department (DTNOR), and the Sicily Transmission District (DTSIC); (ii) personal data processing related to the use of cookies, with a focus on the use of Google Analytics; (iii) collection of consents and authorisations for the transfer of image rights by means of written authorisations.

With regard to external audits, five suppliers who carry out particularly sensitive personal data processing activities on behalf of Terna/Terna Group were selected for audits.

During the year, the appointed Data Protection Officer also gave advice on carrying out data protection impact assessments of specific projects, pursuant to art. 35 of the GDPR, in order to mitigate potential risks to data subjects' rights and freedoms.

In 2023, the Parent Company also carried out specific consultancy activities regarding data protection on behalf of the subsidiaries, Tamini Trasformatori S.r.l. and Avvenia The Energy Innovator S.r.l., to support the continuous improvement of corporate compliance.

With regard to data protection training, with the support of the Terna Academy, GDPR training courses were delivered in the form of training videos, which could be accessed via the Academy's portal.

[112] In 2023, LG039 - "Terna's privacy regulations" was brought into line with organisational updates.

Other courses provided in 2023 include: (i) a specific in-person and remote training course for whistleblowing report managers, with a specific focus on the data protection obligations required by the new applicable legislation; (ii) an in-person refresher course for all the Privacy Focal Points held at the Campus corporate training centre; and (iii) a remote training course for the managers of the accounts payable teams and the services teams of the local departments and districts, with a focus on the data controller appointment process. Specific remote courses were also provided to the subsidiaries Tamini Trasformatori S.r.l. and Avvenia The Energy Innovator S.r.l.

< 418-1

As in previous years, **no complaints have been received regarding data protection violations**, or improper use or unauthorised processing of personal data entrusted to Terna S.p.A., Terna Rete Italia S.p.A., Terna Energy Solutions S.r.l., Terna Plus S.r.l., Tamini Trasformatori S.r.l. and Avvenia The Energy Innovator S.r.l. In particular, no reports have been received via dedicated mailboxes (privacy@terna.it, privacy@tamini.it and privacy@avvenia.com), nor through other reporting or communication channels (e.g. dpo@terna.it or dpo@tamini.it).

In 2023, a total of 25 security events affected Terna S.p.A., Terna Rete Italia S.p.A., Terna Energy Solutions S.r.l. and Terna Plus S.r.l. Only two of these events were classifiable as data breach incidents pursuant to art. 33 of the GDPR and were thus notified to the Data Protection Authority. With regard to the other events, the security measures applied were robust enough to prevent the risk to data subjects' rights and freedoms.

The Data Protection Authority filed the two notified cases, after ensuring that all the necessary remedial and preventive security measures had been taken to counter any future data breach.

In order to safeguard compliance with the Company's founding principles of legality and integrity and, more generally, its reputational soundness, Terna activates specific checks that are carried out, respectively, before any third-party relationship with Terna (trustworthiness check), and on existing processes that could potentially expose the Group to the risk of fraud (fraud management), as described below.

Trustworthiness monitoring of Terna's counterparties

As a further guarantee of reducing reputational risk and also maintaining high ethical standards among third parties, Terna carries out through **due diligence on counterparties** that enter into relations with Group companies, including during extraordinary transactions, paying particular attention to anticorruption and anti-money laundering "red flags" as well as to transactions in countries/with counterparties potentially at risk of restrictive measures issued by EU and international authorities, which entail restrictions on the free movement of goods (sanctions), or with countries with preferential tax treatment (tax havens). **2,918 counterparty checks were carried out in 2023**.

In 2023, geopolitical tensions worsened, partly due to the outbreak of new conflicts, while internally the focus on the international sanctions control and monitoring system was stepped up even further, with particular reference to the Group areas most involved with international contractors.

2-23 >

Fraud Management

The Fraud Management unit guarantees protection of the Company's reputation and image, as well as tangible and intangible resources, through **continuous monitoring of the prevention and management of fraud events** that might negatively affect the Organisation, exposing it to risks of a financial and reputational nature, and at the same time jeopardising the pursuit of business objectives.

The fraud management process is inspired by industry models and best practices, as defined by the Association of Certified Fraud Examiners (ACFE), the Institute of Internal Auditors (IIA) and the American Institute of Certified Public Accountants (AICPA), which envisage the organisation of an effective **Fraud Risk Management** system in the successive phases of **Assessment, Prevention, Detection and Investigation**. In 2023, the fraud management unit carried out:

- a fraud risk assessment activity that included Terna's staff processes, certain core processes not included in the previous assessment, and the commercial processes of Terna Plus and Terna Energy Solutions, and the holding company of the Tamini Group. The assessment involved **73 second-level organisational corporate units, and 209 third-level organisational units**. A total of 79 potentially fraudulent schemes, 355 risk occurrences and 157 risk-mitigating control measures were analysed, which enabled the Terna Group's internal anti-fraud monitoring system to be assessed as "Adequate" for maintaining residual risk at a "Low" level. In particular, regarding the risk of Corruption, which is the most widespread risk, the **internal anti-fraud monitoring system** envisages preventive and systematic intervention measures, including the establishment of collegial bodies (Committees) for all the decision-making phases of the most sensitive processes. In general, the representatives of the units involved were found to be highly committed and aware of ethical and integrity issues;
- a new fraud risk assessment model with a methodological approach and assessment drivers that are more closely aligned with existing international best practices. Application of the new methodology has confirmed the Group's low residual risk;
- an activity to update the Regulation on Wholesale Energy Market Integrity and Transparency (REMIT) risk assessment, which involved supporting process owners in assessing the risk of publishing inside information under REMIT, prior to its official publication, and aligning the mapping with the new version of the "Compliance under REMIT" document and the organisational changes that have taken place. The assessment of "Low" risk was confirmed and the process was found to be well monitored, while promotion of the Regulation and the raising of awareness among the new owners of the related issues were deemed satisfactory;
- checks on sensitive processes, with the aim of testing existing control measures/good practices and identifying others to strengthen the anti-fraud control system. The checks focused specifically on such issues as compliance with the principles of segregation of roles, traceability of actions carried out and the plurality of the persons involved. No major shortcomings were found;
- a process of continuous monitoring of sensitive events that may also indirectly give rise to critical issues for Terna and/or identify new fraudulent schemes that could potentially be implemented to the detriment of the Terna Group. This activity revealed no elements with a negative financial or reputational impact on the Terna Group;
- detection activities to identify warning signals and potential indications of fraudulent behaviour (red flags), through analysis, correlation of data and information and the use of predictive models for monitoring Terna's suppliers and subcontractors to prevent the risk of organised crime being involved in contract bids. This activity did not reveal any significant vulnerabilities or critical issues;
- investigation activities, which did not reveal any significant vulnerabilities or critical issues for the internal anti-fraud control system.

Taxation

In line with the principles of **transparency and legality** set forth in the Code of Ethics, the Terna Group's approach to taxation is governed by **full compliance with tax legislation** in the countries where the various Group companies operate. < 207-1

This approach meets our obligation to make an economic contribution to the territories in which we operate. In these countries, overall tax revenue represents an essential contribution to public expenditure and, thus, to economic development and the social welfare of citizens.

In particular, the principles of the Code of Ethics are inspired by the Group's **Tax Strategy**, which was adopted by the Board of Directors of Terna S.p.A. on 14 December 2022 to define the objectives, the tone at the top and the Company's propensity for risk in relation to the tax variable, and to promote behaviour based on cooperation and transparency in dealings with the tax authorities and third parties. This enables minimisation of any substantial impact in terms of risk, whether fiscal or reputational, as well as implementation of a sustainable business model aimed at creating, protecting and distributing value to all stakeholders in the medium-long term. < 207-2

In line with this approach, the Group's tax governance and conduct are inspired by principles of correct and timely determination and settlement of legally due taxes, implementation of related obligations and reduction of tax risk.

The Group's Tax Unit, with support from external consultants, is responsible for assessments and keeping up with regulatory changes. Any controversial aspects are addressed and discussed with associations to which the Group belongs (e.g. ASSONIME) and, in some instances, brought directly to the attention of tax authorities, via requests for rulings.

Moreover, on 14 December 2023, the tax authorities admitted Terna S.p.A. to the **Cooperative Compliance Regime** pursuant to Legislative Decree 128/2015. By establishing constant, prearranged discussions with the tax authorities, this regime lays the foundations for a productive and trusting relationship with the tax office, in keeping with corporate social responsibility policies, and, more generally, with ESG issues.

In Italy, the conduct of the Group's Regulated Activities under a government concession requires compliance with the criteria of transparency and legality, also from the standpoint of tax policies.

Overseas, the Group's Non-regulated Activities are primarily focused on the construction and/or management of power lines. Our activities are not, therefore, in any way influenced by tax planning concerns, but rather by the real prospect of achieving economic development, with a view to diversifying and exploiting business opportunities in our sector of operation. This is borne out by the fact that the Group also operates in countries where the corporate tax rate is higher than in Italy (Latin America). Moreover, such activities are generally carried out on the basis of concessions, with the revenues determined by local regulatory authorities. Thus, there is an underlying assumption that Group companies are wholly committed to respecting local tax regulations.

The main processes governing taxation and the related obligations are constantly monitored on the basis of procedure 262.

In 2022, the Group further bolstered its own tax risk internal control system by adopting a **Tax Control Framework**, an organisational model aimed at managing tax risk that is included in the corporate governance and internal control system, in accordance with best practices and in line with the requirements of the relevant tax regulations. Adoption of this organisational model was an essential requirement for Terna S.p.A.'s access to the Cooperative Compliance regime governed by Legislative Decree 128 of 5 August 2015 and subsequent provisions; Terna S.p.A. was admitted to this regime on 14 December 2023.

This regime is aimed at increasing the degree of certainty regarding relevant tax issues through constant, prearranged discussions with the tax authorities on specific matters, with a view to jointly evaluating situations that are likely to generate tax risks.

As in previous years, the Group's **Transfer Pricing policy** was also defined in 2023. This aimed to ensure correct determination of the arm's-length price of intercompany transactions carried out on a transnational basis, with the drafting of the specific documentation (the Master File and the Local File) called for by Italian legislation. The adoption of a Transfer Pricing policy was specifically noted in the tax returns for 2023 submitted by the Group companies that engage in overseas transactions.

In the case of especially significant tax issues or when there is a high level of uncertainty, the Company relies on options provided for by tax provisions, such as requests for rulings or advance tax agreements with the tax authorities. < 207-3

Lastly, it should be noted that Terna S.p.A. was admitted to the cooperative compliance regime on 14 December 2023. As already mentioned, the cooperative compliance regime is aimed at increasing the degree of certainty regarding relevant tax issues through constant, prearranged discussions with the tax authorities on specific matters, with a view to jointly evaluating situations that are likely to generate tax risks. < 207-4

The following table shows key data on taxation relating to Terna and its subsidiaries.

(€m)

COMPANY	PRE-TAX PROFIT/ LOSS	PROPERTY, PLANT AND EQUIPMENT	INCOME TAX EXPENSE FOR THE YEAR	INCOME TAX PAID DURING THE YEAR	REVENUE FROM INTRAGROUP TRANSACTIONS
TERNA S.P.A.	1,170.1	15,612.4	335.4	411.0	65.0
TERNA RETE ITALIA S.P.A.	10.4	52.5	3.6	14.6	432.3
RETE S.R.L.	72.2	1,124.1	19.3	13.4	135.7
TERNA CRNA GORA D.O.O.	8.3	191.7	1.1	0.0	15.7
TERNA ENERGY SOLUTIONS S.R.L.	(3.7)	6.6	(0.7)	0.1	12.9
TAMINI GROUP	5.1	35.6	2.1	0.2	37.3
AVVENIA THE ENERGY INNOVATOR S.R.L.	0.6	0.5	0.1	0.0	2.9
TERNA INTERCONNECTOR S.R.L.	(1.4)	0.0	(0.2)	0.0	0.2
RESIA INTERCONNECTOR S.R.L.	0.0	0.0	0.0	0.0	0.0
ELITE	0.0	0.0	0.0	0.0	0.0
RETE VERDE 17 S.R.L.	0.0	0.0	0.0	0.0	0.0
RETE VERDE 18 S.R.L.	0.0	0.0	0.0	0.0	0.0
RETE VERDE 19 S.R.L.	0.0	0.0	0.0	0.0	0.0
RETE VERDE 20 S.R.L.	0.0	0.0	0.0	0.0	0.0
PI.SA 2 S.R.L.	0.0	0.0	0.0	0.0	0.0
TERNA PLUS S.R.L.	(2.9)	0.5	(0.9)	0.0	1.1
TERNA CHILE S.P.A.	(0.2)	0.0	0.0	0.0	0.0
MONITA INTERCONNECTOR	0.0	0.0	0.0	0.0	0.0
SPE SANTA MARIA TRANSMISSORA DE ENERGIA S.A.	0.0	0.0	0.0	0.0	0.0
SPE SANTA LUCIA TRANSMISSORA DE ENERGIA S.A.	0.0	0.0	0.0	0.0	0.0
SPE TRANSMISSORA DE ENERGIA LINHA VERDE I S.A.	(17.4)	0.0	1.5	0.0	0.0
SPE TRANSMISSORA DE ENERGIA LINHA VERDE II S.A.	0.0	0.0	0.0	0.0	0.0
TERNA PERÙ S.A.C	0.1	0.0	0.3	0.0	0.0
DIFEBAL S.A.	0.0	0.0	0.0	0.0	0.0
TERNA 4 CHACAS S.A.C.	0.0	0.0	0.0	0.0	0.0
BRUGG GROUP	0.6	40.7	0.3	0.0	1.4
ESPERIA-CC S.R.L.	0.1	0.0	0.0	0.0	0.0
LT GROUP	15.1	2.7	4.7	1.8	14.1
TERNA U.S.A. LLC	(1.1)	0.0	(0.3)	0.0	0.0
TERNA FORWARD S.R.L.	(0.6)	0.0	0.0	0.0	0.0

The difference between income tax due on companies' net profit or loss and tax payable reflects payments on account made by the Terna Group during the year. Reconciliation of the statutory and effective tax rates, presented in the notes to the consolidated financial statements, is primarily linked to the combined effect on taxation of income and expenses that do not affect determination of the tax base, as provided for in the related legislation.

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Preventing corruption

2-24 > 205-1 >

The Group's commitment to fighting corruption is inspired by the Code of Ethics and the tenth principle[113] of the Global Compact and is also aimed at guaranteeing full respect for human rights and risk prevention. In January 2017, as a result of the robust processes and tools adopted by the Company, Terna obtained **ISO 37001 certification for its Anti-corruption Management System**, which covers the Parent Company as well as Terna Rete Italia, Terna Plus and Terna Energy Solutions for all the Italian operations. As part of this system, 52% of business processes were subject to Risk Assessment involving implementation of 15 Risk Assessment forms in 2023; the cumulative figure for 2018-2023 is 90%.

It should be noted that in November 2022 the Tamini Group also obtained certification of its Anti-corruption management system in accordance with the ISO 37001:2016 standard, thereby strengthening the Terna Group's oversight of ethical issues.

The voluntary initiative started in 2015 also comes within the scope of certification. **Transparent and Open Construction Sites** is a web space that can be accessed from any device. The space contains information on the contracts, contractors and subcontractors involved in the construction of Italy's major electricity infrastructure projects, as well as the state of progress of the major infrastructure works, the number of companies that took part in the tender, and the company name of the contractors who won the contract. In 2023, a total of 134 construction sites, 107 projects, 912 contracts and 407 suppliers (217 contractors and 190 subcontractors) were managed.

Terna's anti-corruption Management System is based on a set of tools, some of which derive from compliance obligations and others that are voluntarily applied. In particular, the 231 Organisational Model, the Global Compliance Program and the Whistleblowing procedure, which are used to directly support risk management corporate governance, are dealt with in a special section on pages 78-81.

Terna also pays great attention to **raising awareness of and disseminating rules of conduct within the Company** via an online course entitled "The Terna Group and Legislative Decree 231", which has been provided to the entire workforce, with a view to training and informing staff about the issue, including the Code of Ethics, areas of risk and potential crimes associated with the Company's activities, and procedures established in order to prevent unlawful behaviour. This course has also been provided, on a monthly basis, to all new hires.

205-2 >

Training on anticorruption

		TERNA		
	UNIT OF MEASUREMENT	2023 (*)	2022 (**)	2021
Participants in the Anti-corruption course	**n.**	**746**	**1,637**	**337**
%	%	15.9	37.4	8.2
Senior managers	%	19.5	19.9	12.5
Middle managers	%	19.8	39.6	7.4
Office staff	%	17.8	45.5	12.0
Blue-collar workers	%	7.6	17.2	0.0

(*) With regard to the Terna Group, the number of participants in the anti-corruption course was 812 (14.1%). This is the percentage breakdown by category: 18.7% Senior managers, 19.8% Middle managers, 16.6% Office staff and 5.2% Blue-collar workers.
(**) For the 2022 data, the topic of Anticorruption was included within the 231 Organisational Model.

[113] *Businesses should work against corruption in all its forms, including extortion and bribery.*

Clarifications regarding the Code of Ethics and the reporting of violations

< 2-26

Regarding compliance with the Code of Ethics, in addition to the Whistleblowing portal, Terna staff who seek clarifications or wish to report an issue may also contact the Ethics Committee or the Audit Department.

The Ethics Committee was established to provide internal and external stakeholders with a specific communication channel for matters dealt with in the Code of Ethics. The members of this Committee, who are appointed by the Chief Executive Officer, are tasked with replying to requests for clarification regarding the Code of Ethics, receiving and examining reports of any violations and, finally, deciding whether or not to instigate an investigation following a report, and providing an appropriate answer. The Audit department, which is Terna's internal audit unit, is responsible for investigating any reports of violations of the Code of Ethics. The reports gathered by the Ethics Committee and the Audit department are shown below.

None of the disclosures received and examined in 2023 regarded episodes of discrimination or harassment. The reports received in 2023 are shown below.

< 406-1

Disclosures received

	TERNA		
	2023	2022	2021
Total disclosures received [1]	7	9	4
Areas of operation for which disclosures were received [2]			
- Treatment of employees	3	2	1
- Supplier management	1	-	-
- Environment and Safety	3	3	1
- Corruption	0	-	-
- Corporate loyalty	0	1	-
- Terna's Compliance /Other	0	3	2
Outcome of disclosures			
- Unsubstantiated [3]	4	4	-
- Action taken [4]	2	5	3
- Under investigation	1	-	1

[1] In 2023, seven disclosures were received, two by ordinary mail, one at the whistleblowing e-mail address and four via the whistleblowing portal. Of the disclosures received by the Audit department in 2022, four were sent to the whistleblowing e-mail address and five via the whistleblowing portal. In 2021, two disclosures were sent to the Audit department by e-mail and two via the whistleblowing portal. Three of the four were substantiated and action was taken in one case.

[2] Each disclosure or infringement may relate to any number of areas of operation.

[3] "Unsubstantiated" means disclosures that were only monitored as no action was taken and/or they were filed, as well as disclosures mistakenly received as they did not pertain to the Group.

[4] Action may take the form of a sanction and/or another form – such as, for example, the revision of procedures, internal controls, etc. – with the aim of avoiding a repetition of the event giving rise to the disclosure. In this regard, four disclosures resulted in investigations and information gathering on existing procedures; in one case, information was sought and assessed with a view to revising a company protocol.

It should also be noted that Terna continued to engage in multilateral activities in 2023 to ensure that the Company's compliance with international best practices is monitored. The Company continues to play an active role in the **Business Integrity Forum (BIF)**, the Transparency International Italy initiative that brings together major Italian companies to discuss issues of integrity and transparency, disseminate anticorruption tools and practices, and promote a culture of legality, as well on the **BIAC Anticorruption Committee**, an international business organisation representing the business world, trade unions and NGOs at the OECD, which connects companies with the OECD and its governments.

Finally, taking into account the new whistleblowing regulations, pursuant to Legislative Decree 24/2023, Terna has taken part in various round tables and working groups organised by Confindustria, and at specialised conferences relating to this matter, in order to play an active role in correctly interpreting the Decree, and effectively applying it to the Group's companies.

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Supply chain sustainability

The inclusion of appropriate oversight of ESG factors across the supply chain helps to make Terna's business model more sustainable and resilient, and also increases the sustainability of our supply chains.

A sustainable supply chain can better take into account and manage its social and environmental impacts, and, at systemic level, encourages the promotion of circular production and consumption models that also encompass the human rights of the people involved in them. Achieving this goal requires accompaniment.

2-6 >

In this regard, Terna's qualification process is the main **capacity building** programme for its suppliers, as it facilitates the development of HSE management best practices, which are increasingly demanded and appreciated by the market, such as the adoption of certified social and environmental management systems. Sectors gradually adopt these certifications within set timeframes, so that operators may grow sustainably and reach technical and organisational maturity, as described below.

Qualification of suppliers and due diligence activities

The most relevant product groups for the core business are subject to a qualification procedure, pursuant to the current Public Procurement Code. Only business operators who have met the regulatory compliance requirements, are in possession of the necessary high-quality technical and organisational expertise, are financially sound, and enjoy a solid reputation are included in Terna's approved list of suppliers. The entire process is managed via the Supplier Qualification Portal, thus ensuring an efficient, traceable and transparent process.

In the sectors at greatest risk in terms of sustainability (primarily works and certain services), an adequate level of environmental management and the ability to protect workers' health and safety are also required, both represented by corporate procedures focused on key elements of the international UNI EN ISO14001 and BS OHSAS 18001 (UNI EN 45001) standards.

In 2023, this obligation was extended to include an additional works category (electrical and electromechanical substation assembly), and 4 supply categories (HV/MV transformers, HV/HV transformers and autotransformers, optical fibre ground wires, and electrical protection devices for production and transmission equipment). UNI EN ISO 14001 and UNI ISO 45001 certification is currently obligatory for 22 product groups, including 9 works product groups, 3 global service groups, and 10 supply categories. **Among qualified suppliers, 80% possess UNI ISO 45001 certification, and 90% possess UNI EN ISO 14001 certification**.

During the three-year qualification period, Terna ensures that suppliers meet the qualification requirements, including the various ESG aspects, via document audits and on-site checks. **Approximately 82% of the on-site checks carried out in 2023 regarded suppliers belonging to categories that are relevant for ESG purposes**. In connection with the various ESG aspects, **526 Terna sites were monitored** in 2023, with assessment carried out using vendor rating forms.

As far as overseas suppliers are concerned, **Terna assesses the country risk**, namely the possibility of incurring damage if incidents or events occur that may be linked to the economic, social and political environment of the country in which the supplier normally operates. This risk is, for the time being, very limited, given the prevalence of domestic and EU suppliers. However, it could become more significant in view of the possible expansion of procurement markets overseas. Objective elements are used in the analysis and assessment of the most relevant risk factors, which relate to economic and political governance issues in the various countries, and with respect to internationally agreed human rights protocols, including the ratification of UN and ILO conventions, together with the assessments made by the main international Non-Governmental Organisations and the leading rating agencies actively concerned with these issues. < 407-1 < 2-23

As these assessments are regularly updated, they enable the Company to constantly monitor developments in the related environment. In addition to these assessments, restrictive measures are also issued by Italian, EU and non-EU authorities, entailing limitations on the free movement of goods (trade embargoes) or rules of conduct in the case of transactions with countries that have preferential tax treatment (tax havens).

ACTIVE QUALIFICATIONS	2023	2022	2021
Number of active qualifications	634	613	556
- of which new qualifications during the year	*61*	*88*	*84*
Number of qualifications requiring an Environmental and Safety management system	285	304	17

QUALIFIED CATEGORIES	2023	2022	2021
Number of qualified categories	53	53	51
- of which newly qualified during the year	*0*	*3*	*5*
Number of qualifications requiring an Environmental and Safety management system	26	23	17

The monitoring of qualified companies includes a series of joint initiatives with other corporate departments, aimed at sharing and verifying the performance and, more broadly, the reliability of qualified business operators. The most critical cases are brought to the attention of the **Supplier Qualification Committee** in order to assess the possible adoption of measures with a view to issuing sanctions and precautionary measures. The Supplier Qualification Committee, comprising most of the first line managers, provides a real opportunity for collegial assessment and decision-making on critical issues relating to qualified economic operators.

Reports may come either from the departments that systematically monitor the reliability of third parties (Counterparty Due Diligence), or from the departments that manage contracts or Procurement and Contracts. For a group of more critical product categories, a reporting system using systematic performance assessment feedback forms (**Vendor Rating** forms) is implemented. Monitoring also takes place during pre-arranged visits, regarding both new qualifications and renewals during the eligibility period, which are also organised as a result of critical events (normally regarding safety, or serious performance shortcomings). Qualification visits are generally aimed at checking compliance with the technical requirements of qualification procedures, as well as compliance with environmental and safety standards and good practices.

In 2023, the Supplier Qualification Committee suspended 10 economic operators (13 actions taken) related to the following cases: sanctions relating to safety incidents (serious accidents), serious performance and reputational reliability shortcomings, and failure to comply with qualification rules. If suspension is due to serious events, readmission to the approved list of suppliers is subject to verification that the critical issue has been resolved, or that remedial measures have been adopted. < 308-2 < 414-2

In response to reported critical events, the Supplier Qualification Committee also approved four inspections to be carried out by different first- and second-level departments of the Terna Group (usually Health & Safety and RIT Site Monitoring).

AUDITS AND MONITORING	2023	2022	2021
Qualification document checks	526	1,287	218
On-site qualification checks	17	13	10
- including categories relevant for ESG purposes	*14*	*13*	*7*

MEASURES TAKEN	2023	2022	2021
Number of suppliers revoked off the list	1	0	0
Number of suppliers suspended	10	7	4
Number of suppliers warned	4	1	4

Suppliers active in 2023

2-6 >

In 2023, total expenditure on the procurement of services, supplies and works amounted to approximately **€3,217**[114] **million**, spread across **2,349 suppliers** contracted during the year. In this regard, it should be pointed out that, as well as ensuring quality and continuity of service in the general interest, the total annual expenditure on procurement helps **to generate downstream supply chain activity, thereby creating significant economic value and social benefits**.

Access to tender procedures is guaranteed for all eligible companies in accordance with the **principle of equal opportunity** and is governed by the **Procurement Regulations**. These Regulations, which have set guidelines for Terna's procurement activities, were drawn up on the basis of the Procurement Code, which in turn implements the relevant EU legislation.

CONTRACTED SUPPLIERS	UNIT	2023	2022	2021
Number of contracted suppliers	no.	2,349	2,354	2,265
Contract award procedures adopted (% of amounts awarded)				
EU calls for tender	%	89	77	91
Non-EU calls for tender	%	5	10	4
Previously qualified suppliers [(1)]	%	4	10	4
One-off contracts [(2)]	%	2	2	1

[(1)] Directly assigned professional appointments and/or consulting services.
[(2)] The "One-off contracts" category includes: sponsorship and donations, fees paid to public entities, trade bodies and contracts awarded to previously qualified suppliers by Terna Plus S.r.l..

[114] The figure refers to the amount ordered during the year. This means the sum of the amounts allocated for all contracts (works, supplies and services) signed vduring the year, net of options (amounting to €254 million). An option is a provision added to supply contracts, clearly, precisely and unequivocally granting the contracting entity the right to increase the value of the contract in return for an increase in the contracted quantity or volume, subject to the same terms and conditions. Once introduced into the contract, such an option, though not constituting the assumption of an obligation on the part of the contracting entity, is included in the calculation of the overall amount.

< 204-1

PROCUREMENT BY CATEGORY (%)	2023 (*)	2022	2021 (**)
By origin			
- Italy	57	98	79
- Overseas	43	2	21
Category			
- Goods	37	41	86
- Works	53	34	9
- Services	11	25	5

(*) *In 2023, the breakdown of purchases by origin differs from the norm due to the issuing of contracts with an EU supplier regarding substation civil works for the Tyrrhenian Link project (€1.4bn). Excluding this procurement, 99% of suppliers are domestic and 1% from overseas.*
(**) *In 2021, the breakdown of purchases by category and origin differs from previous years due to the supply of marine cables for the Tyrrhenian project (€2.4bn).*

Excluding such cases such as those registered in 2021 and 2023 (a single high-value procurement from an overseas supplier), the marked prevalence of national suppliers is determined by the specific nature of Terna's business, especially by the need to carry out maintenance operations very swiftly to ensure the utmost safety of the system and greater competitiveness in terms of transport costs for heavy and bulky supplies, which also helps to reduce the related environmental impacts.

Equally relevant is the social aspect, especially the data regarding the employees of contractors and subcontractors, which reflects Terna's ability to also maintain employment across the supply chain (see page 246).

If disputes arise with suppliers, Terna seeks to settle them.

DISPUTES WITH SUPPLIERS	2023	2022	2021
Pending	36	37	35
In progress	5	3	6
Settled	5	1	1

Monitoring ESG factors in the supply chain

Terna requires suppliers to conduct themselves in a lawful and ethical manner, protecting human and labour rights, health and safety, information security and the environment.

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These behaviours have been formalised in the **Supplier Code of Conduct**[115] in which each principle is linked to the requirements contained in the qualification process (see page 218) and in Terna's tender and contract documentation. Procurement, which regards activities carried out in relation to Terna's core business - so-called **key supplies** - and which mainly includes supplies of materials and electrical equipment, contracts for the provision of works and services in the electricity transmission, telecommunications and IT sectors, is governed by the new Procurement Code. This has introduced aspects relating to sustainability in tenders drawn up in accordance with the most economically advantageous tender criterion.

All suppliers are required to contractually commit themselves to comply with the provisions of Terna's **Code of Ethics** and **231 Model**; any non-compliance encountered will result in penalties. Terna's tender procedures include several other requirements relating to social (human rights, working conditions) and environmental matters which, for some categories relevant for ESG purposes, must be met from the qualification phase on.

Terna has also implemented Legislative Decree 81/08 (the Consolidated Law on the protection of health and safety in the workplace) and drawn up its own Guidelines[116] governing its application. The legislation is applied to the activities carried out by Terna Group companies in their capacity as clients in the various phases of planning, design, awarding and execution of public and private procurement contracts. The Terna Group's compliance with this legal obligation

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enables **prevention and mitigation of any negative impacts on occupational health and safety** relating to the performance of activities contractually undertaken by contractors (see page 246).

The following table shows the suppliers active during year, broken down by type of environmental and social requirements, according to their characteristics. The table illustrates the coverage guaranteed by the various initiatives, in terms of percentage of procurement, for significant groups of suppliers active in 2023.

Suppliers active in 2023 and application of environmental and social requirements

	SUPPLIERS ACTIVE IN 2023				AMOUNT PROCURED FROM SUPPLIERS SUBJECT TO SPECIFIC REQUIREMENTS (% OF RESPECTIVE TOTAL AMOUNT PROCURED)			
	NUMBER	% OF TOTAL	AMOUNT PROCURED (€M)	% OF TOTAL	BASIC REQUIREMENTS (*)	ADDITIONAL SOCIAL AND ENVIRONMENTAL REQUIREMENTS (**)	SOCIAL (***) AND ENVIRONMENTAL (****) QUALIFICATION REQUIREMENTS	COUNTRY RISK ASSESSMENT (*****)
Total active suppliers	2,349	100.0	3,217.0	100.0	100	96.5	10.2	100
Critical suppliers	1,865	79.4	3,104.0	96.5	100	100	10.6	100
Suppliers in categories relevant for ESG purposes	88	3.7	2,526.9	78.5	100	100	12.4	100

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(*) Compliance with the principles and behaviours provided for in Terna's Code of Ethics and 231 Model.
(**) Integrity pact (text verified by Transparency Italy), anti-mafia certification, which checks: the application of collective labour agreements, the payment of tax and social security contributions, the absence of environmental offences, the absence of serious breaches of labour safety regulations, regularity of employment of legally protected categories, certificate of medical fitness for specific roles issued by the relevant doctor (for works contracts), and the absence of any impediment to undertaking public contracts.
(***) OHSAS 18001 (UNI EN 45001) certified occupational safety management system or similar (required only from the suppliers of specific product categories at the time of qualification).
(****) ISO 14001 certified environmental management system or similar (required only from the suppliers of specific product categories at the time of qualification).
(*****) Assessment of the risks of corruption and respect for human rights in connection with a supplier's premises.

[115] The document is available for download at: http://download.terna.it/terna/0000/0930/50.PDF
[116] LG020 "Safety management relating to procurement".

Coverage is 100% for the majority of the social and environmental requirements. Regarding the most stringent social and environmental qualification requirements, the coverage is higher for suppliers included in categories that are relevant for ESG purposes. Such suppliers are periodically identified on the basis of the product categories whose relevance to the business is assessed (the amount supplied, problems for the core business), as well as social aspects (health and safety and working conditions) and environmental aspects (significant environmental impacts in the production chain, relating to use by Terna, at the end of the asset's useful life).

Inclusion in this category leads to particular attention being paid during the qualification phase and in the development of technical specifications, as well as a commitment to adopt special precautions regarding categories not subject to qualification. Finally, additional health and safety measures have been introduced for works contracts (see the section "Protecting workers at contractors' construction sites" on page 246).

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NEWLY CONTRACTED SUPPLIERS (%)	2023	2022	2021
% of new suppliers - checked for basic requirements [1]	100	100	100
% of new suppliers - checked for additional social and environmental requirements [2]	72.4	76.3	75.6

[1] Compliance with the principles and behaviours provided for in Terna's Code of Ethics and 231 Model.
[2] Integrity pact (text verified by Transparency Italy), anti-mafia certification, which checks: the application of the collective labour agreements, the payment of tax and social security contributions, the absence of environmental offences, the absence of serious breaches of labour safety regulations, regularity of employment of legally protected categories, and the absence of any impediment to undertaking public contracts.

Energy transition pillar - KPIs and targets in the 2024-2028 Sustainability Plan

CORE ACTIVITIES	KPI	2024	2025	2026	2027	2028
Implementation of a medium-term plan designed to **aid core suppliers in undertaking** an environmental performance improvement process (**capacity building**), partly for qualification purposes.	Planning and start of initiatives with incentive schemes	Planning	Start			
	Suppliers participating in the capacity building programme (no.)		20	50	70	90

Human Capital

The quality of human capital[117] is pivotal to the Company's growth and thus to creating value over time. With their educational backgrounds, skills developed and reinforced over time, managerial capabilities, motivation, loyalty and sense of belonging, our people are a crucial element in all the Company's activities and, at the same time, human beings who are to be appreciated and whose rights are to be respected.

The Group, in its daily operations, is committed to taking appropriate steps to protect human rights, in line with the **Respecting Human Rights in the Terna Group** guidelines and in the **Diversity, Equity & Inclusion policy** (see page 208), and implementing the contents of the "Declaration on Fundamental Principles and Rights at Work" issued in 1998 by the International Labour Organisation (ILO). The Company regularly assesses the impact of the Group's activities on human rights, above all regarding Health and safety, Work conditions and compensation, Discrimination, Privacy, Professional training and Freedom of association and collective bargaining, all described in this Report.

In line with those values enshrined in the Code of Ethics, Terna's commitment to its employees centres on **attention to safety and accident prevention** (see page 242), **research and development**, whereby specific competencies needed to successfully reach the objectives set forth in the Industrial Plan are updated (see page 234), and **training**. These focused activities are coupled with management and development systems designed to **improve performance and enhance growth opportunities** (see page 237).

Dialogue between Terna and its employees takes place via a consolidated system of **industrial relations based on the engagement of trade unions** (see page 240) as well as regular **opportunities for employees to communicate directly** by means of both online opinion surveys, focus groups and internal engagement.

The attention paid by the Company to its people is concretely reflected in Terna's **welfare policy**, aimed at providing staff with a better work-life balance and, more generally, greater **personal wellbeing** (see page 248).

In 2023, Terna continued in its efforts to attract, develop and enhance its human capital, focusing on employee growth, the insourcing of strategic expertise, strengthening of structures and optimal working conditions for all employees, to support their performance and improve the balance between work and private life. The initiatives and projects implemented were accompanied and supported by regular engagement initiatives: in 2023, two eNPS® Surveys were completed. The survey, which is a tool enabling all employees to express their level of engagement, is also used by Tamini and Brugg Cables, which recorded average participation rates of 80%, up from 2022.

[117] When the data presented in this chapter refers to the Group, it refers to 100% of employees, unless otherwise stated. When instead the data refers to "Terna", it refers to 82% of all the Group's employees. With regard to revenue, the percentages are 87% with reference to Terna and 100% to the Group.

Employee overview

NFS

At the end of 2023, the Group's **consolidated total number of employees was 5,927** (up 430 compared with 2022[118]). In addition to Terna's employees (4,868), this figure includes 457 Brugg Group personnel (of which 297 employed by Brugg Switzerland and 160 people working for the subsidiaries in China, India, United Arab Emirates, Germany and Italy), 355 Tamini Group staff (of which 351 in Italy, 2 in the United States and 2 in India), 46 people employed under local contracts by overseas subsidiaries (32 in Brazil, 3 in Peru, 1 in the United States and 10 in Montenegro), 13 people employed by Avvenia and 188 people employed by the LT Group.

The Group's workforce

	2023	2022	2021	2023 VS 2022	% 2023 VS 2022
Senior managers	102	94	92	8	8.51
Middle managers	896	841	765	55	6.54
Office staff	3,349	3,090	2,815	259	8.38
Blue-collar workers	1,580	1,472	1,464	108	7.34
Total	**5,927**	**5,497**	**5,136**	**430**	**7.82**

The Group's workforce(*) - By geographical area

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	2023	2022	2021
Italy	5,455	5,040	4,649
Europe	320	325	310
Rest of the world	152	132	177
Total	**5,927**	**5,497**	**5,136**

(*) *Below is the breakdown **by gender**: Italy: 4,503 men and 952 women. Europe: 273 men and 47 women. Rest of the world: 137 men and 15 women. The breakdown **by classification**, however, is as follows: Italy: Senior managers: 96, Middle managers: 873, Office staff 3,102, Blue collar workers: 1,384. Europe: Senior managers: 4, Middle managers: 17, Office staff: 152; Blue collar workers: 147. Rest of the world: Senior managers: 2, Middle managers: 6, Office staff: 95, Blue collar workers: 49. Finally, the breakdown **by age** group is as follows: Italy: age under 30: 1,032, age between 30 and 50 years: 3,024, age over 50: 1,399. Europe: under 30: 47, between 30 and 50: 152, over 50: 121. Rest of the world: under 30: 15, between 30 and 50: 117, over at age 50: 20.*

The tables below show the composition of the workforce referred to the reporting scope described in the paragraph "Scope of reporting and indicators" on page 312. The term 'Terna' means the electricity sector companies, being Terna, Terna Rete Italia, Terna Plus and Terna Energy Solutions. On the other hand, in addition to the electricity companies, the 'Group' also includes all the subsidiaries in Italy and overseas. With regard to the term 'Group', it should be noted that, in the three-year period 2021-2023, the scope of consolidation was progressively broadened, eventually covering 100% of the Group's employees. For 2022, the Group's figures include Terna (electricity sector), the Tamini Group and the Brugg Group, covering 97% of all employees. The figures for 2021 include Terna (electricity sector), the Tamini Group and Brugg Switzerland, covering 95% of all employees.

[118] The increase in the total workforce is primarily attributable to Terna (up 344).

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Composition of the workforce

	GROUP (*)			TERNA		
	2023	2022	2021	2023	2022	2021
Total	**5,927**	**5,324**	**4,861**	**4,868**	**4,524**	**4,224**
- men	4,913	4,468	4,129	3,990	3,757	3,567
- women	1,014	856	732	878	767	657
By category						
Senior managers	102	91	86	89	78	74
Middle managers	896	827	745	827	781	706
Office staff	3,349	2,980	2,663	2,858	2,645	2,400
Blue-collar workers	1,580	1,426	1,367	1,094	1,020	1,044
By type of contract						
- permanent [1]	5,860	5,305	4,844	4,864	4,520	4,223
- men	4,860	4,456	4,117	3,988	3,755	3,566
- women	1,000	849	727	876	765	657
- fixed-term	67	19	17	4	4	1
- men	53	12	12	2	2	1
- women	14	7	5	2	2	0
By type of employment						
- full-time	5,864	5,271	4,812	4,854	4,512	4,210
- men	4,893	4,453	4,116	3,986	3,754	3,563
- women	971	818	696	868	758	647
- part-time	63	53	49	14	12	14
- men	20	15	13	4	3	4
- women	43	38	36	10	9	10
By age						
- below the age of 30	1,094	1,229	1,168	974	1,156	1,116
- between the ages of 30 and 50	3,293	2,618	2,255	2,702	2,182	1,925
- over the age of 50	1,540	1,477	1,438	1,192	1,186	1,183
Average age (years)						
Average age	40.9	41.2	41.4	40.3	40.6	40.7
Composition of the workforce - %						
By gender						
- men	82.9	83.9	84.9	82.0	83.0	84.4
- women	17.1	16.1	15.1	18.0	17.0	15.6
By category						
Senior managers (excluding blue-collar workers)	2.4	2.3	2.5	2.4	2.2	2.3
Middle managers	15.1	15.5	15.3	17.0	17.3	16.7
Office staff	56.5	55.9	54.8	58.7	58.5	56.8
Blue-collar workers	26.7	26.8	28.1	22.5	22.6	24.7
By age						
- below the age of 30	18.5	23.1	24.0	20.0	25.6	26.4
- between the ages of 30 and 50	55.6	49.2	46.4	55.5	48.2	45.6
- over the age of 50	25.9	27.7	29.6	24.5	26.2	28.0

(*) The figures for 2023 refer to Terna (electricity sector) and all its subsidiaries (100% of the Group's employees). The figures for 2022 refer to Terna (electricity sector), the Tamini Group and the Brugg Group (97% of all Group employees). The figures for 2021 refer to Terna (electricity sector), the Tamini Group and Brugg Switzerland (95% of all Group employees).

[1] Permanent contracts also include apprenticeships.

Workforce trends

NFS

At the end of 2023, Terna's workforce[119] was made up of a total 4,868 people (5,927 for the Group) an increase of 344 (430 for the Group). In particular, **484 people joined Terna** (698 for the Group) **including 247 under the age of 30** (308 for the Group); on the other hand, 140 people left Terna (268 left the Group).

The generational turnover underway has also produced a steady increase in the level of education among the Group's workforce. In 2023, 97.9% of Terna's employees had a university degree or high-school diploma (96.2% for the Group). The average length of service is 12.8 years (12.3 years for the Group).

The **turnover rate for incoming staff** is **10.7%** (12.7% for the Group as a whole) and continues to reflect the generational turnover policy and the objectives in the Industrial Plan.

The **turnover rate for outgoing staff** is **3.1%** (4.9% for the Group as a whole). This figure is primarily linked to the current generational turnover (53 retirements in Terna) and the number of voluntary resignations (69 at Terna, representing a rate of 1.5%; 1.8% in 2022).

At 31 December 2023, there were 47 active agency contracts within Terna (29 in 2022 and 37 in 2021) and 78 in terms of the Group. There were also 5 people on freelance contracts, with 6 within the Group. Interns, on the other hand, numbered 13 (9 in 2022 and 14 in 2021) at Terna and the Group as a whole.

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Workforce trends

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	GROUP (*)			TERNA		
	2023	2022	2021	2023	2022	2021
Total employees	**5,927**	**5,324**	**4,861**	**4,868**	**4,524**	**4,224**
Employees recruited during the year	**698**	**546**	**492**	**484**	**460**	**416**
- men	525	402	368	350	329	305
- women	173	144	124	134	131	111
- below the age of 30	308	244	223	247	216	204
- between the ages of 30 and 50	338	271	235	218	225	193
- over the age of 50	52	31	34	19	19	19
Rate of recruitment in % [1]						
Total	**12.7**	**10.9**	**10.8**	**10.7**	**10.9**	**10.6**
- men	9.6	8.0	8.1	7.7	7.8	7.8
- women	3.1	2.9	2.7	3.0	3.1	2.8
- below the age of 30	5.6	4.9	4.9	5.5	5.1	5.2
- between the ages of 30 and 50	6.1	5.4	5.2	4.8	5.3	4.9
- over the age of 50	0.9	0.6	0.7	0.4	0.5	0.5
Employees leaving during the year	**268**	**219**	**182**	**140**	**160**	**127**
- men	224	192	157	117	139	113
- women	44	27	25	23	21	14
- below the age of 30	43	44	43	18	31	29
- between the ages of 30 and 50	113	77	46	47	49	25
- over the age of 50	112	98	93	75	80	73
Turnover rate in % [2]						
Total	**4.9**	**4.4**	**4.0**	**3.1**	**3.8**	**3.2**
- men	*4.1*	*3.8*	*3.4*	*2.6*	*3.3*	*2.9*
- women	0.8	0.5	0.5	0.5	0.5	0.4
- below the age of 30	0.8	0.9	0.9	0.4	0.7	0.7
- between the ages of 30 and 50	2.1	1.5	1.0	1.0	1.2	0.6
- over the age of 50	2.0	2.0	2.0	1.7	1.9	1.9

(*) The figures for 2023 refer to Terna (electricity sector) and all its subsidiaries (100% of all Group employees). The figures for 2022 refer to Terna (electricity sector), the Tamini Group and the Brugg Group (97% of all Group employees). The figures for 2021 refer to Terna (electricity sector), the Tamini Group and Brugg Switzerland (95% of all Group employees).

[1] The rate of recruitment shows the ratio of employees joining to the number of employees at 31 December of the previous year.

[2] The turnover rate shows the ratio of employees leaving to the number of employees at 31 December of the previous year.

[119] The term "Terna" means the companies falling with the scope of the electricity sector, being Terna, Terna Rete Italia, Terna Plus and Terna Energy Solutions.

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Group workforce trends – By geographical area

	UNIT	2023	2022	2021
Employees recruited during the year by geographical area	**no.**			
Italy	no.	613	488	434
Europe	no.	57	48	58
Rest of the world	no.	28	10	0
Total	**.**	**698**	**546**	**492**
Employees leaving during the year by geographical area	**no.**			
Italy	no.	198	179	149
Europe	no.	62	39	33
Rest of the world	no.	8	1	0
Total	**no.**	**268**	**219**	**182**

Internal company climate

		TERNA		
	UNIT	2023	2022	2021
Total voluntary resignations	**no.**	**69**	**76**	**52**
Turnover rate for voluntary resignations [1]	%	1.5	1.8	1.3
Absences per capita [2]	no.	49	69	31
Absenteeism rate [3]	-	6,264.3	8,626.1	3,718.6
Vacant positions covered by internal applicants [4]	%	87	95	85

[1] Ratio of the number of total voluntary resignations to the workforce at 31 December 2022.
[2] Meaning non-contractual absences (illness, injury, leave, strikes, unpaid absence) recorded during the year .
*[3] The number of days of absence due to illness, strikes, injuries and leave out of the number of days worked in the same period, multiplied by 200,000. To aid comparison with other sources, this indicator has been calculated as a percentage of the days worked. Based on this method of calculation, the absenteeism rate is as follows: **3.1 in 2023, 4.3 in 2022 and 1.9 in 2021**. The reasons for absence considered do not include maternity, wedding leave, study leave, trade union leave, other cases of paid leave and suspensions. The absenteeism rate for 2023 is in line with the rates reported before the Covid-19 pandemic.*
[4] The percentage represents the vacant managerial roles covered by internal applicants during the reporting period.

Managing generational turnover

Terna allocates a host of initiatives to generational turnover which, since 2015, have been bolstered considerably due to the combination of a voluntary early retirement scheme for staff approaching retirement age and stepped-up recruitment.

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In the period between **2016 and 2023, incoming staff totalled 2,531, including 1,592 under the age of 30, compared with 1,106 outgoing staff.**

Below is an overview of personnel who could potentially qualify for retirement in the next 5 to 10 years (estimated on the basis of available data regarding ages and pension contributions):

A. at 31 December 2023, **9.2**% of the workforce **in the next 5 years**, of which:

- Senior managers **0.0%**
- Middle managers **2.7%**
- Office staff **4.7%**
- Blue-collar workers **1.7%**

B. at 31 December 2023, **18.6**% of the workforce **in the next 10 years**, of which:

- Senior managers **0.4%**
- Middle managers **5.0%**
- Office staff **9.8%**
- Blue-collar workers **3.4%**

Impact of generational turnover in the decade from 2014 to 2023 (*)

		TERNA	
	UNIT	2023	2014
Average age	yrs	40.3	46.6
Average length of service	yrs	12.8	21.2
Percentage by composition of age: >50	%	24.5	45.3

(*) The period considered starts from 2014. The first generational turnover plan, involving the recruitment of 300 young people, took place in 2015 (see the 2015 Sustainability Report, page 126).

Average years of employment of employees leaving (*)

		GROUP (**)			TERNA		
	UNIT	2023	2022	2021	2023	2022	2021
Total leaving	**yrs**	**17.4**	**18.7**	**20.5**	**19.5**	**20.6**	**21.9**
Men	yrs	19.6	20.5	22.4	22.4	22.8	24.2
Women	yrs	6.5	9.3	9.6	6.5	9.6	9.7
below the age of 30	yrs	2.2	2.3	2.3	2.1	2.5	2.5
between the ages of 30 and 50	yrs	4.6	5.3	6.0	4.7	5.6	5.9
over the age of 50	yrs	28.6	34.0	32.5	33.5	37.8	36.5

(*) With regard to the employees joining Terna following acquisition of business units, the duration of employment takes into account previous employments.
(**) The figures for 2023 refer to Terna (electricity sector) and all its subsidiaries (100% of all Group employees). The figures for 2022 refer to Terna (electricity sector), the Tamini Group and the Brugg Group (97% of all Group employees). The figures for 2021 refer to Terna (electricity sector), the Tamini Group and Brugg Switzerland (95% of all Group employees).

Diversity, inclusion and equal opportunities

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In line with the core values in its **Code of Ethics**, Terna is committed to promoting and protecting diversity, preventing and punishing any form of discrimination and harassment using staff selection, development and compensation systems that reward merit. All forms of discrimination, starting with the selection and recruitment process, are explicitly prohibited by the Group's Code of Ethics and the Group's **Diversity & Inclusion and Respecting Human Rights policies**.

The protection of these matters – recently certified according to the UNI/PdR 125:2022 standard – is assigned to the "People Organization & Change" department, which includes a unit dedicated to inclusion within the Company.

Almost all of Terna's employees are Italian citizens, with only 60 having foreign citizenship[120]. In addition, the vast majority of employees are men, due to a traditional shortage of female labour for more technical and operational roles. Nonetheless, the presence of women is increasing, partly reflecting general labour market trends, which show that female participation is on the rise.

The percentage of women in Terna's total workforce in Italy was 9.0% at the end of 2005 (the year in which Terna became an independent company). This figure has grown steadily since then, registering 18% at the end of 2023. In 2023, 36.8% of hires, not taking into account blue-collar workers, were women (30.3% in 2022; 30.2% in 2021). In terms of the Group as a whole, the figure was 35.5%. In particular, the percentage of entry level positions covered by women in 2023 was 19.42%.

[120] Terna's employees' nationalities are : 4,808 Italian (of which 908 managers); 1 Ecuadorian, 10 Romanian, 3 Spanish (of which 2 managers), 2 Ukrainian, 4 Egyptian, 2 Indian, 6 Moroccan, 2 Moldavian, 3 Albanian, 1 Belgian (manager), 1 Burkinabé, 1 Mauritian, 1 Ivorian, 1 Russian, 2 Senegalese, 1 Tunisian, 1 Montenegrin, 3 American (of which 1 manager), 1 Lebanese, 2 Byelorussian, 1 French, 2 German (of which 1 manager), 1 Ghanaian, 1 Greek (manager), 2 Korean (of which 1 manager), 3 Swiss, 1 Kazakhstan, 1 South African.

"Sustainable value chain" pillar - KPI and targets in the 2024-2028 Sustainability Plan

KEY AREAS	KPI	2024	2025	2026	2027	2028
TernAbility Project *Disability inclusion*	Senior managers trained in inclusive language (%).	90	90	90	90	90
	Percentage of Talent Acquisition team trained in the inclusive recruitment process for disabled people.	–	30	60	90	90

The main indicators chosen by Terna to monitor the equal treatment of men and women show that the management and development systems adopted do not disadvantage women.

Remuneration data also show moderate pay gaps for office staff and middle managers, with wider gaps for senior managers, although the number of people considered is smaller and pay gaps are consequently more influenced by the nature of the related roles and the fact that there are few incoming and outgoing staff. Generally, Terna is committed to reducing the pay gap and fighting any form of discrimination that impacts on equal opportunities.

"Sustainable value chain" pillar – KPI and targets in the 2024-2028 Sustainability Plan

KEY AREAS	KPI	2024	2025	2026	2027	2028
Continuation of Gender Equality programme at Company level	Women as a percentage of the Group's total workforce	18.7	20	21	21	22
	Women as a percentage of the total workforce not considering blue-collar workers	24	25	26	26	27

FOCUS

Terna receives the UNI/PdR 125:2022 Gender Equality Certificate

On 1 March 2024, IMQ – The Italian Institute for Quality Label – awarded Terna the certificate confirming the compliance of its Gender Equality Management System with the UNI/PdR 125:2022 standard.

This certificate is included in the labour policies in the National Recovery and Resilience Plan (NRRP) with a view to promoting gender equality, cutting the pay gap and eliminating gender-related discrimination. The NRRP provides €10 million for certified companies, which will be able to benefit from an **Equality Bonus**. This is a 1% tax relief on contributions up to a maximum of €50,000 a year, in addition to improving eligibility in public tenders and for EU funding and state aid.

Equal opportunities for men and women (%)

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	GROUP (*)			TERNA		
	2023	2022	2021	2023	2022	2021
Women out of total employees						
- women out of total	17.1	16.1	15.1	18.0	17.0	15.6
- women out of total, without taking into account blue-collar workers	23.3	22.0	21.0	23.3	21.9	20.7
- female senior managers out of total senior managers [1]	19.6	17.6	15.1	22.5	19.2	16.2
- female senior and middle managers out of total senior and middle managers	20.8	20.4	20.1	21.9	21.3	20.9
- Female middle managers out of total middle managers	21.0	20.7	20.7	21.9	21.5	21.4
Employment growth %						
- annual change in women	18.5	16.9	15.8	14.5	16.7	17.5
- annual change in men	10.0	8.2	5.4	6.2	5.3	5.7
Staff leaving [2]						
- women leaving	5.1	3.7	4.0	3.0	3.2	2.5
- men leaving	5.0	4.4	4.0	3.1	3.9	3.3
Staff joining [3]						
- women joining	20.1	19.4	19.6	17.5	19.9	19.9
- men joining	11.7	9.6	9.4	9.3	12.9	9.0
Management positions						
- female managers out of total women (excluding blue-collar workers)	2.0	1.9	1.8	2.3	2.0	1.8
- male managers out of total men (excluding blue-collar workers)	2.5	2.5	2.6	2.4	2.3	2.5
Promotions [4]						
- promotion to middle manager as % of category of origin - women	1.5	3.0	3.7	1.7	3.0	4.0
- promotion to middle manager as % of category of origin - men	2.2	3.4	3.1	2.3	3.4	3.5
Pay gap between men and women as a % [5]						
- senior managers	101.9	81.9	86.3	99.0	80.7	85.1
- middle managers	93.1	93.3	95.0	94.7	94.7	95.7
- office staff	96.6	98.2	96.7	100.5	100.5	99.5
Pay gap between men and women as a % [6]						
- senior managers	93.0	80.6	79.8	87.4	78.0	77.9
- middle managers	92.7	93.7	95.6	94.5	95.1	96.3
- office staff	91.2	93.7	92.2	94.7	95.5	94.7
Other indicators – Equal opportunities						
Women as a percentage of total managers in revenue generating departments	7.4	9.3	12.1	4.8	6.0	11.1
Women out of total STEM positions	22.9	18.0	17.4	23.8	18.2	17.6

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(*) The figures for 2023 refer to Terna (electricity sector) and all its subsidiaries (100% of all Group employees). The figures for 2022 refer to Terna (electricity sector), the Tamini Group and the Brugg Group (97% of all Group employees). The figures for 2021 refer to Terna (electricity sector), the Tamini Group and Brugg Switzerland (95% of all Group employees).

[1] Taking into account only positions two levels from Terna's CEO, women cover 26.7% of the positions.

[2] The figure is the ratio of employees leaving during the year by gender to the total number of employees by gender at 31 December of the previous year.

[3] The figure is the ratio of employees recruited during the year by gender to the total number of employees by gender at 31 December of the previous year.

[4] This figure is based on the ratio of promotions to middle manager during the reporting period to employees classed as office staff in the previous year, calculated by category (men/women). The promotions from blue-collar worker to office staff and middle manager to senior manager are not taken into account, given their limited significance on an annual basis.

[5] This figure is based on the annual basic pay of women in the different categories as a percentage of the annual basic pay of men in the same category. This figure has not been calculated for blue-collar workers as there are no women in this category, with the exception of one woman who joined Terna in the second half of 2023 and four women who joined the Brugg Group. With regard to the Brugg Group, the pay gap between women and men was 99.2%.

[6] This figure is based on the total annual remuneration of women in the different categories as a percentage of the total annual remuneration of men in the same categories. In addition to basic pay, total pay also includes productivity bonuses, various forms of incentive and the value of benefits received during the reporting period. With regard to the Brugg Group, the pay gap between women and men was 94.7%.

Almost all employees are Italian citizens, but the Company has always encouraged inclusion within its business, eliminating any form of discrimination. 60 employees have foreign citizenship, including 7 managers. Terna has always monitored the diversity of its managers, specifically focusing on the appointment of women to senior positions.

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Diversity in the company's management

	TERNA		
	2023	2022	2021
Managers with Italian citizenship (%) [1]	**99.13**	**99.30**	**99.62**
Top managers [2]	12	11	8
- of which women	*2*	*3*	*1*
Senior managers [3]	74	65	63
- of which women	*21*	*15*	*9*
Women as a percentage of total positions at one or two levels from CEO (%)	26.7	23.7	14.1
Top managers with Italian citizenship	11	11	8
Top managers with Italian citizenship (%)	91.7	100	100

[1] "Managers" refers to top, senior and middle managers.
[2] "Top managers" include top executives of Terna S.p.A. reporting directly to the CEO (including the CEOs of the subsidiaries, Tamini and Brugg), people reporting to the Chairman and the CEOs of Terna Rete Italia, Terna Energy Solutions and Terna Plus.
[3] "Senior managers" include managers two levels below Terna's CEO, excluding Top managers.

In addition, all the Company's initiatives are designed to increase female employment, also following participation in **D Value**, an association established by a number of women executives at various Italian businesses.

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An additional form of inclusion promoted by Terna regards employees from legally protected categories. At 31 December 2023 Terna employed 181 people (3.7% of its employees) from legally protected categories (158 in 2022 and 151 in 2021), in line with the regulations applicable to the Company.

Parental leave and childcare

Italian law regulates maternity leave and parental leave and provides general coverage. In comparison, Terna offers more favourable conditions, in application of the National Labour Contract for the industry and company agreements.

The most important measures include:

- five months paid maternity leave, provided to the mother before and after birth. Terna guarantees full pay compared with the 80% provided for by law;
- an additional six months of parental leave may be taken on 30% pay. Terna has raised this amount to 45% and 40%, respectively, in the first and then in the second and third months of the period. Paternity leave may also be taken, up to a maximum of eleven months of total leave taken by both parents. If not used in the first six years of a child's life, the leave may be taken later up to when the child turns twelve, but in the form of unpaid leave;
- parental leave for both parents in the event of illness of children under the age of 3, until the end of the illness and parental leave in the event of illness of children between the ages of 3 and 12 for both parents, alternating, for a maximum of 5 days a year. In both cases, leave is unpaid;
- two hours a day of paid leave for breast feeding for the first year of the baby's life, available to the father in the event that the mother does not make use of it;
- three days per month, also in the form of hours, of paid leave to look after children or other family members with serious disabilities;
- special leave for two years in the event of a child or other close relation having a serious disability;
- more flexible working hours for parents with children attending junior high school.

Under a specific union agreement signed in 2017, Terna has also introduced additional measures to improve work-life balance and further support parenthood. This agreement grants half a day's leave to accompany one's children on their first day of primary school and an additional five days of paid leave, including that set by regulatory provisions.
The table below shows the number of employees who have taken at least 29 days' parental leave, and information on the rate of return to work and retention rate.

Parental leave

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	GROUP (*)			TERNA		
	2023	2022	2021	2023	2022	2021
Employees who have taken parental leave (> 29 days)	**35**	**23**	**30**	**34**	**22**	**29**
- men	6	4	2	6	4	2
- women	29	19	28	28	18	27
Employees returning to work after taking parental leave (> 29 days)	**34**	**21**	**29**	**33**	**21**	**29**
- men	6	4	2	6	4	2
- women	28	17	27	27	17	27
Employees working for Terna 12 months after having taken parental leave (> 29days)	**21**	**27**	**31**	**20**	**27**	**30**
- men	4	2	5	4	2	5
- women	17	25	26	16	25	25
Rate of return to work [1]	**97.1**	**91.3**	**96.7**	**97.1**	**95.5**	**100**
- men	100	100	100	100	100	100
- women	96.6	89.5	96.4	96.4	94.4	100
Retention rate [2]	**n.d.**	**90**	**100**	**90.9**	**93.1**	**100**
- men	n.d.	100	100	100	100	100
- women	n.d.	89.3	100	88.9	92.6	100
Female employees who have taken compulsory maternity leave	**53**	**43**	**23**	**50**	**42**	**22**
Male employees who have taken compulsory maternity leave [3]	**186**	**-**	**-**	**171**	**-**	**-**

(*) The figures for 2023 refer to Terna (electricity sector) and all its subsidiaries (100% of all Group employees). The figures for 2022 refer to Terna (electricity sector), the Tamini Group and the Brugg Group (97% of all Group employees). The figures for 2021 refer to Terna (electricity sector), the Tamini Group and Brugg Switzerland (95% of all Group employees).

(1) Rate of return to work is the percentage ratio of employees, by gender, returning to work after taking parental leave during the reporting period to the number of employees who have taken parental leave during the year

(2) Retention rate is the percentage ratio of employees, by gender, still working for Terna after having taken parental leave to the number of employees who took parental leave during the previous year. It should be noted that, for 2023, the figure could not be calculated due to a change in the scope of consolidation.

(3) The provisions are applicable to birth, adoption or custody events taking place from 13 August 2022, the date of entry into force of Legislative Decree 105 of 30 June 2022, and also for events occurring after 13 August 2022, provided that the father is able to use mandatory parental leave periods or outstanding leave not yet taken as mandatory parental leave, in accordance with Law 92/2012.

FOCUS

Terna's DE&I report receives an award

Terna, together with Poste Italiane and Wind Tre, won the Diversity & Inclusion category of the **2023 Sustainability Report Award** for its Integrated NFS for 2023.

This award, reaching its fifth edition in 2023, is an initiative promoted by the Department of Economic and Corporate Sciences at the University of Pavia, which aims to recognise the commitment of Italian companies and reward them on the basis of their non-financial statements and, more specifically, their sustainability reporting.

The reports assessed by the jury were divided into three company categories (Voluntary basis – Large companies and Very large companies), for each of which three top companies were selected. The Award also entails a specific section on Diversity & Inclusion, in collaboration with Confindustria's STEAMiamoci initiative.

Terna was rewarded in the latter category, together with the other two top companies, for the quality and thoroughness of the report on its initiatives supporting diversity and inclusion within the Company and on gender equality in senior positions.

NFS

Recruitment, selection and development

In 2023, the Group's acquisition of talent was centred on the search for university graduates and individuals with diplomas from vocational institutes, with particular focus on STEM[121] subjects. The lack of applicants with such competencies, above all engineers and technicians, complicated attempts to attract and recruit the right people in a highly competitive labour market.

To ensure the recruitment of new personnel in accordance with the Industrial Plan, **Employer Branding** actions have been stepped up by collaborating and engaging with major universities and other educational bodies, in order to increase awareness of the job opportunities offered by the Company and bring forward contact with target applicants. These initiatives have been promoted through various channels, digital and traditional (such as University Placement offices), in addition to the terna.it website, on which the section "Work with us" has been revised and improved by further highlighting vacant positions.

The commitment to universities and business schools continued through agreements and partnerships as part of the pre- and post-graduate training programmes and the provision of internships, work experience and thesis programmes.

As part of collaboration between the academic and business worlds, the second edition of the Level II Master in **Digitalisation of the Electricity System for the energy transition** was completed in 2023, promoted in collaboration with the universities of Palermo, Salerno and Cagliari. The second edition had an increased number of attendees: 19 per University, making a total of 57 students (further information is provided on page 265).

Lastly, with regard to schools, 2023 saw the seventh consecutive edition of the **Work-School project**, involving 14 technical institutes. As part of the process, various focus meetings were organised with fifth-grade classes, in addition to speed date meetings with approximately 104 students from those classes.

[121] Acronym for Science, Technology, Engineering and Mathematics; the term is used to indicate scientific and technological fields and the related courses of study.

Percentage composition of the workforce by educational qualification(*)

	GROUP (**)			TERNA		
	2023	2022	2021	2023	2022	2021
University degree	40.9	38.9	36.0	45.1	43.2	39.8
High-school diploma	46.6	47.2	46.7	45.9	46.7	48.4
Professional qualification	8.7	9.1	9.9	6.8	7.7	8.6
Elementary/High-school	3.8	4.8	7.4	2.1	3.0	3.8

(*) Degrees of overseas Companies have been equated to Italian degrees.
(**) The figures for 2023 refer to Terna (electricity sector) and all its subsidiaries (100% of all Group employees). The figures for 2022 refer to Terna (electricity sector), the Tamini Group and the Brugg Group (97% of all Group employees). The figures for 2021 refer to Terna (electricity sector), the Tamini Group and Brugg Switzerland (95% of all Group employees).

The **development of competencies and talent**, above all for Terna's core processes, plays a key role consistent with the People Strategy and the cultural transformation launched by NexTerna. < 404-2

In line with previous years, the technical **skill mapping** process has been updated. This allowed for a complete mapping of the technical and professional know-how, with a particular emphasis on distinctive and core skills needed to implement the Industrial Plan. As usual, the outcomes of the process will be used to guide the training programme and the management of knowledge sharing involving technical skills.

2023 saw continued utilisation of the performance assessment system, **People for Performance (P4P)**, a programme divided into five phases (Goal Setting, Mid-Year, Assessment, Calibration, Feedback). The programme is designed to reinforce the link between the organisation's strategic objectives and those of individuals and teams, dialogue between heads and collaborators, promoting an assessment and feedback culture.

In line with the new **Talent Management** process, which aims to identify and guarantee talents an opportunity to grow, fuelling the succession pipeline, the two pilot projects aimed at newly hired young graduates and senior specialists were continued in 2023. The project will be eventually extended to involve more people .

In 2023, **Terna and Stanford** renewed their **agreement** as part of the **Bits&Watts programme**. Collaboration with such a prestigious university had already brought significant benefits for the Company in previous years, not only in terms of research, but also in terms of the development of various employees who had the opportunity to attend the university campus as a 'Visiting Scholar'.

From this year, in order to capitalise on the projects in the **Bits&Watts programme** and, therefore, the know-how and value created and developed during the partnership, a series of **Talent Development** initiatives will be launched, in line with the Company's People Strategy. These initiatives will boost the growth and development opportunities of the Visiting Scholar, and the employees involved in the selection process.

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Periodic performance evaluation - percentage

	TERNA		
	2023	2022 (*)	2021 (*)
Percentage of employees subject to performance appraisals [1]	**100**	**99.7**	**99.8**
- of whom women	100	99.7	99.7
- of whom men	100	99.7	99.9
By category			
Senior managers	100	100	100
Middle managers	100	98.7	99.1
Office staff	100	99.9	100
Blue-collar workers	100	100	100

(*) The figures for 2022 and 2021 have been recalculated based on the scope described in note 1.

(1) The figure is the ratio of the number of employees subject to performance appraisals and the number of employees at 31 December, including those who departed during the year but were subject to appraisals and excluding secondments, recruitments made after 1 April and long-term absentees (e.g. secondments for public duties, absentees for illnesses lasting over a month, etc.).The figures shown in the table have been calculated taking into account People for Performance – P4P, Terna's system for employee performance appraisals, and the short-term incentive systems (MBO, Project Bonus and commercial incentives).

Training

Developing and updating people's skills ("employability") is also done through training which, at Terna, is considered a human right to guarantee throughout every employee's working life. The aim is to ensure the constant availability of adequate human capital, in line with the Group's mission and strategic objectives.

In line with the previous year, to tackle the new challenges brought by the energy scenario, in 2023 the **Terna Academy**[122] innovated, upgraded and updated competencies for Terna's employees, including those on part-time contracts, and all external stakeholders (suppliers, partners and schools).

In addition, training was again provided to new hires in order to facilitate their insertion, including a replanning and integration of new specific training modules, which increased the offering aimed at boosting their professional, technical and operational skills, transmit highly specialised knowhow and ensure compliance with guidelines pertaining to health and safety, privacy and the 231 Organisational Model.

Finally, to upgrade skills and provide useful tools to continue growing and improving soft skills, a new training programme was launched, subdivided into three topic areas: strategic skills, leadership skills and digital skills. < 404-2

In 2023:

- **235,352 hours of training were provided in Terna** (253,786 for the Terna Group), of which 49% led by in-house trainers (46% for the Group);
- **100% of employees attended at least one training course** (100% also for the Group);
- **50 hours of training were provided per capita**, up 40 hours from 2022 and 35 hours from 2021, largely due to the limitations imposed by the pandemic;
- In 2023, the average per capita cost of training at Terna was €403 (€394 in 2022 and €285 in 2021) and the average per capita cost of training within the Group was €379.

Average hours of training

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	GROUP (*)			TERNA		
	2023	**2022**	**2021**	**2023**	**2022**	**2021**
Percentage of employees [1]	100	99	99	100	100	100
Average hours of training						
- per employee [2]	44	36	31	50	40	35
By category [3]						
- senior managers	24	32	12	27	36	13
- middle managers	48	35	25	52	37	26
- office staff	38	33	28	42	36	30
- blue-collar workers	57	42	43	71	52	54
By gender [4]						
- men	46	37	33	52	42	37
- women	37	27	18	41	30	19
Total hours provided	**253,786**	**184,016**	**148,698**	**235,352**	**174,708**	**145,528**
- of which hours of in-house training	*117,343*	*86,912*	*83,144*	*115,588*	*84,833*	*89,900*

(*) The figures for 2023 refer to Terna (electricity sector) and all its subsidiaries (100% of all Group employees). The figures for 2022 refer to Terna (electricity sector), the Tamini Group and the Brugg Group (97% of all Group employees). The figures for 2021 refer to Terna (electricity sector), the Tamini Group and Brugg Switzerland (95% of all Group employees).

[1] Percentage of employees who have followed at least one training course on during the year .

[2] Ratio of total hours of training to the average number of employees.

[3] Ratio of total hours of training by category to the average number of employees by category.

[4] For 2023 and 2022, the average hours of training have been calculated as the ratio of total hours of training by gender to the average number of employees by gender. For 2021, the amounts have been calculated as the ratio of total hours of training by gender to the total number of employees by gender at 31 December.

[122] See the specific Focus on page 212 of the 2022 Integrated Report.

Main training and skills development initiatives

New projects

First-time initiatives carried out in 2023 included:

1. For all employees:

- With regard to the **Energy Transition**, every employee had access to two e-learning courses on topics regarding **changes in energy consumption and production**; in addition to two Academy Clips regarding the new role of electricity infrastructure in the energy transition and the role of gas and the gas-electricity nexus with the related impact on infrastructure. As part of the **Academy talk** cycle, the first meeting was dedicated to **The Just Transition: Italy's challenges within the global context**, in which the chairman of ARERA also took part.
- In May, a training programme was launched to pass on knowledge and principles forming the basis of the Company's **Risk Management**. Three training programmes were provided: an online course for all employees, and two mixed courses, respectively aimed at departments responsible for control that protect crucial risk areas for the organisation and management with the aim of developing familiarity with risk and the related process for addressing uncertainties.

2. For topic areas:

- In terms of **Health, Safety, Environment (HSE)**, training was provided to update tutors in the procedure **for recovery at height** and cascade training was conducted for all operational staff and multiskilled workers.
- With regard to **Technical – specialist** matters, the first series of e-learning courses was launched, with the aim of raising employee awareness of business topics and targeted at newly recruited administrative staff: electricity power lines, electricity power stations, dispatching and operation.
- As part of the **New Ways of Working and Acceleration** initiative, the **Level UP!** training programme was launched, created by Terna Academy to upgrade skills and provide useful tools to continue to grow and improve, also in response to training needs highlighted by the various company departments. The programme is divided into three topic areas: Strategic skills, Leadership skills and Digital skills.
- Lastly, training programmes to promote the culture of **Lean Thinking** were launched, through dedicated webinars and courses, in addition to the implementation of training programmes designed to obtain the Six Sigma Black Belt and Green Belt certificate.

3. By category:

- **Portfolio & Peers Analysis**, an initiative targeting senior managers, and designed with the aim of examining and understanding Terna's position and discussing the strategic opportunities highlighted in the debate with peers and analysing the national and international macroeconomic environments.
- To accompany the **Terna Ideas intrapreneurship** programme, two training courses have been developed and provided:
  - **Innovation Mentoring programme**, designed to provide training in key professional roles for the Company, capable of mentoring future teams as they develop their project ideas, offering experience and business acumen.
  - **Coaching the coach**, to train experts in innovative processes, able to coach the teams and enable them to develop their ideas during the incubation stage.
- With **Train The Trainer Advanced**, in-house teachers of the Faculty had the opportunity to expand their training knowledge through workshops and experiential labs. The topics

proposed ranged from wellbeing to digitalization in relation to training, from detailed planning to the monitoring of trainer performance. The course alternates traditional content, such as the upgrade of trainer skills, and more innovative content, such as managing virtual classes with the support of digital instruments, in line with New Ways of Learning.

- Finally, in order to acquire basic skills required for everyone's working life and upgrade people's professional and personal skills, **new training courses dedicated to new recruits** have been revised and launched.

Consolidated projects

Initiatives launched in past years that continued in 2023 included:

- The initiatives dedicated to **Live Line Working**, the **Line and Substation Multiskills** programmes and the **Conventional Work Methods** project, launched at the end of 2021 to promote and increase knowledge development and abilities related to line and substations conventional work methods.
- With regard to the GDPR ("General Data Protection Regulation"), four **GDPR in capsules** online courses were implemented, dedicated to all employees, including new hires, in order to provide basic training on the topic.
- In terms of Legislative Decree 231, an online course was provided for all new hires (in February the same course was provided to all employees); an initiative dedicate to 231 representatives was also launched. **HSE activities** ("Health, Safety & Environment"), as in previous years, included courses to ensure compliance with Consolidated Law 81/08. The courses were conducted online, in virtual classrooms (via Teams) and in classes. In 2023, **over 500 employees** took part.
- As in previous years, **training** was provided for **emergency workers** (first-aiders and firefighters), initiatives dedicated to Category III individual protection Devices and training on Provisions for the Prevention of Electrical Risk (recurrent training) also continued.

Dialogue between the Company and employees: industrial relations

Staff engagement is also achieved via structured dialogue with labour union representatives, in keeping with the principles of freedom of association and collective bargaining, deemed one of the key human rights issues by the Group.

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The data reported in this section[123] includes the Group Companies that apply the current National Collective Labour Agreement for electricity workers[124] dated 18 July 2022.

In 2023, the unionisation rate of Terna's workforce was 43.9%, with membership concentrated among the largest trade unions.

Relations between Terna and the trade unions are governed, within the Company, by the **Industrial Relations System Protocol**, which governs:

- bargaining, dialogue, consultation and preventive and/or periodic information;
- forms and levels of union dialogue and establishes central/local relations through which such dialogue can take place.

The document provides for the following bilateral bodies, which contribute to an inclusive and efficient industrial relations system designed to achieve the Company's targets and develop our employees and their skills:

- The Consultation Committee for Group Strategic Guidelines;
- Health, Safety and Environment bilateral body;
- Training and Employment bilateral body;
- Bilateral Welfare body;
- Equal opportunity, Diversity and Inclusion body.

With regard to the relations between the trade unions and the Group's employees, in accordance with the regulations in force, they are facilitated by providing dedicated spaces and notice boards at all offices. In addition, a virtual notice board is provided on the Company's intranet for the trade unions (who have signed the Industrial Relations Protocol), where reports and other union and work-related information can be published.

In the **three-year period 2021-2023** negotiations with trade unions led to the **signature of 34 agreements**.

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The involvement of trade union organisations in the event of organisational changes, a central pillar of industrial relations, is governed by art. 47 of Law 428/90, based on which, in the event that the Company is sold, employees and their representatives will receive **twenty-five days**' notice. In addition, Terna also refers to art. 9 of the Collective Bargaining Agreement, which includes the preventive involvement of the unions on main organisational changes in order to share the objectives and manage implementation.

[123] The data reported in this section do not include the Tamini Group, Avvenia or the LT Group.
[124] All Terna's employees are covered by the national collective labour agreement for the electricity sector. Tamini Group and LT Group employees are covered by the national collective labour agreement for the engineering sector; Avvenia's employees by the national collective labour agreement for trading companies.

Regulation of industrial action in the electricity service sector

In the event of industrial action, the essential services needed to ensure continuity of service are regulated by the National Labour Union Agreement signed in February 2013. As far as Terna is concerned, some shift workers who work in dispatching (real-time monitoring of the national electricity system; the remote operation of transmission plants; checks on production plans and the procurement of production resources; the monitoring coordination and operation of IT system; ancillary services and infrastructures used in dispatching) and staff from the Security Operations Centre are prohibited from taking part in industrial action.

Whilst entitled to suspend their normal duties during a strike, staff on call are obliged to ensure that they are contactable, even during the hours scheduled for the strike.

Workplace Health and Safety

< 403-4

The involvement of employees in matters relating to health, safety and the environment is currently regulated by law and collective bargaining, which provide for the election by all employees of **Staff Representatives for Safety and the Environment**. Specifically, as required by existing legislation[125] meetings regarding safety are held by employers at least once a year and whenever there are significant changes in exposure to risks. In addition to the employer or a representative thereof, participants include the Prevention and Protection Service Manager, a competent physician and Representatives for Safety and the Environment.

The National Collective Labour Contract also provides for the establishment of a bilateral body (**Commission**) – at electricity sector level – on **Health, safety and the environment** tasked with making proposals relating to the monitoring and coordination of training on environmental and safety issues which Terna and the secretariats of national trade unions (FILCTEM, FLAEI and UILTEC) set up in 2018. The Committee usually meets every six months with its members comprising three representatives from the three national trade unions.

< 403-1

Terna has committed to protecting health and safety in workplaces through the certification of its **Occupational Health and Safety Management System**, in accordance with UNI EN ISO 45001:2018, which covers 100% of the Company's activities and is incorporated within the Group's other certified management systems (see page 98).

This system is based on an accurate risk assessment, with a particular focus on activities entailing electrical risk (Provisions for the Prevention of Electrical Risk) and falls from a height; and a consolidated monitoring system for the main KPIs (injury indicators, training) providing the Company with assurance that it is always in compliance with applicable legislation and regulatory requirements (Legislative Decree 81/2008 and Legislative Decree 231/2001), with a view to constant improvement.

< 2-1

Since 2021, Terna has in place a **Management System for the prevention of the spread of infections in workplaces**, which has received **Biosafety Trust Certification** from the certification body, RINA, for its Galbani Hub headquarters (Viale E. Galbani 55 and 68/70). During 2023, the Company was subject to a new assessment to guarantee retention of the certification. This concluded with a positive outcome.

Since 2017, Terna has implemented a **Management system for the prevention of major incidents**, in order to guarantee, in accordance with the Seveso regulation (Legislative Decree 105/2015), the monitoring of environmental and health and safety protections for people inside and outside the sites at Flumeri (AV), Scampitella (AV) and Ginestra (BN), which house the Unconventional Storage Systems.

[125] Art. 35 of Legislative Decree 81/08.

Employee protection and promoting the culture of safety at Terna and in the supply chain

Italian occupational health and safety legislation is among the most stringent of any such laws in Europe and requires companies to carry out an analytical assessment of risks to employees' health and safety. Terna extends this requirement to include analysing the risks deriving from interference caused by works being carried out by contractors and subcontractors, covering all the activities involved in work at a construction site.

Terna's approach to occupational safety hinges on a system of tools that are applied to all corporate processes. This system calls for **clear safety policy guidelines**, starting with the Code of Ethics, and an **organisational structure responsible for safety** with operating units throughout Italy for each of which a **health and safety officer and competent physician** have been designated. This organisation is assisted by a central unit that sets policies and guidelines, carries out inspections at workplaces and construction sites and also constantly analyses and monitors risks arising from the Company's activities.

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One of the most important activities an employer is required to carry out by law is **health surveillance**, the objective of which is prevention as well as verification over time, carried out in collaboration with the worker and the physician, of the adequate relationship between workers' health conditions and the specific duties assigned to them.

The correct and full application of procedures is subject to inspections by Employers, internal compliance checks for all Terna Group companies and the external audits required for certification. As regards activities carried out by contractors, Terna conducts inspections of its own construction sites to verify the correct application of accident prevention regulations by the responsible health and safety officers and contractors.

Audits and inspections

	GROUP (*)			TERNA		
	2023	2022	2021	2023	2022	2021
Regular health checks	3,882	4,354	4,473	3,148	3,897	3,948
Examinations by competent physicians	297	308	315	288	304	314
Inspections and audits [1]	268	243	138	173	235	120

(*) The figures for 2023 refer to Terna (electricity sector) and all its subsidiaries (100% of all Group workforce). The figures for 2022 refer to Terna (electricity sector), the Tamini Group and the Brugg Group (97% of all Group workforce). The figures for 2021 refer to Terna (electricity sector), the Tamini Group and Brugg Switzerland (95% of all Group workforce).

[1] Audits conducted by Prevention and Protection Service Managers and the Employers.

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Should an employee of Terna or a contractor be injured or suffer a **near miss**, the local Environmental and Safety Protection unit, in collaboration with the worker or department involved, completes an injury/near miss form detailing the causes and dynamics of the event as well as any measures to be taken to reduce the possibility of a repeat occurrence. In the case of a serious or fatal injury[126], or when a more in-depth investigation is called for, an internal commission comprised of Terna safety experts and specialists is set up and entrusted with drafting a detailed report containing the measures to be adopted throughout the Company.

The Company has created a cultural transformation programme called Safety Excellence, which puts people, their conduct and the impact they have at its heart. The programme is based on practicing safety routines and above all the voluntary reporting by workers of any near misses or suggestions regarding safety. Reports are considered a question of prevention and continuous improvement and not a form of complaint.

In this regard, to maximise the number of voluntary reports, an HS app, available in both web and mobile versions, has been made available to operational personnel. This enables them to report any concerns easily and intuitively regarding safety routines. Assessment and resolution of individual reports is handled by the manager in charge who may request the assistance of the local Environmental and Safety Protection unit and of the worker who made the report.

[126] The procedure described is also applied to fatal injuries involving contractors' employees.

The protection of workers' health and safety is subject to **research** conducted by a standing committee that involves various company departments. The aim is to identify and experiment with new personal protective equipment (Smart PPE) able to aid workers as they carry out their activities by encouraging good practices and responsible behaviour both individually and collectively.

All staff have access to key information regarding health and safety and innovations through various channels, including the Companies intranet ("HSE-Health, Safety and Environment" Section of the Document System), informative meetings and specific **training** centring on the topics of health and safety. In 2023, 76,605 hours of training were provided, of which 47% was aimed at blue-collar workers (additional data on training may be found on page 237). < 403-5

Included in the **Terna for Health & Safety** initiatives, designed to promote and develop prevention and workplace safety issues, is the **Excellence in Safety programme**, which focuses on employees, their behaviour and the impact they generate. < 403-6

The programme consists of training classes, group coaching and on-site partnerships, aiming to facilitate the transition from a "reactive" security culture to a more "proactive and interdependent" approach, characterised by overcoming compliance and focused on attention towards ourselves, others and the working environment. To begin and guide the cultural change, the **Safety Ambassador** figure was introduced. These roles are designed to be agents and accelerators of change, specifically educating and engaging with other colleagues, observing and giving feedback on safety routines and spreading positive messages regarding safety.

With regard to the **Supply Chain Safety Culture**, the work of the TERNA – ANIE (National Federation of Electro-technical and Electronic Businesses) technical safety working group continued, as Terna organised technical workshops with the participating companies, Safety Coordinators and worksite assistants in order to enhance the safety culture and begin a new phase of cooperation, based on a shared wealth of knowledge and technical skills, good working practices, and above all new cultural and behavioural models to make people accountable and responsible for themselves and others.

Finally, the **occupational safety indicator**, comprising the injury rate and the lost day rate and including injuries involving contractors' personnel, contributes to defining the variable remuneration of personnel in the departments concerned.

Occupational injuries

As in previous years, there were no fatal workplace accidents among the Group's employees in 2023.

In Terna, there were no serious injuries resulting in an initial prognosis of more than 40 days. On the other hand, in terms of the Group, 1 was recorded. The total number of injuries at Terna amounts to 19, including 1 with a prognosis of less than 3 days. The figure was 41 for the Group.

For every injury, an injury card is prepared describing what happened, the potential causes and subsequent improvement actions to take. In the event of fatal injuries for both Group employees and contractors' workers, or for injuries with particular dynamics that require specific in-depth assessments, an internal commission is nominated to analyse individual events and prepare the respective technical reports, containing a description of the how the injury occurred and its potential causes. Following the investigation, a plan of improvement actions to mitigate the risk of the injury taking place again is prepared.

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Occupational injuries – Employees

	GROUP (*)			TERNA		
	2023	2022	2021	2023	2022	2021
Number of injuries	41	53	38	19	23	20
- men	41	52	36	19	22	18
- women	0	1	2	0	1	2
- of which serious, where the initial prognosis is more than 40 days	1	2	0	0	0	0
- of which fatal	0	0	0	0	0	0
Number of hours worked	**10,264,075**	**9,285,513**	**8,777,239**	**8,283,666**	**7,805,938**	**7,551,183**
TYPE OF OCCUPATIONAL INJURY						
Falling from height	0	1	0	0	0	0
Traffic accident injury	3	4	5	3	4	5
Electrocution	0	2	0	0	1	0
Impact, crushing, cut	23	23	15	8	7	5
Falling on level ground, slipping	9	13	14	7	9	8
Manual handling of loads	0	5	1	0	0	1
Projection of solid fragments and/or other liquid substances	1	0	1	0	0	0
Other	5	5	2	1	2	1

(*) The figures for 2023 refer to Terna (electricity sector) and all its subsidiaries (100% of all Group employees). The figures for 2022 refer to Terna (electricity sector), the Tamini Group and the Brugg Group (97% of all Group employees). The figures for 2021 refer to Terna (electricity sector), the Tamini Group and Brugg Switzerland (95% of all Group employees).

Rates of occupational injuries (GRI-ILO definitions) and other rates – Employees

	GRUPPO (*)			TERNA		
	2023	2022	2021	2023	2022	2021
Injury rate [1]	0.80	1.14	0.87	0.46	0.59	0.53
- men	0.94	1.31	0.95	0.55	0.66	0.55
- women	0.00	0.15	0.34	0.00	0.17	0.39
Serious injury rate where the initial prognosis is more than 40 days [2]	0.02	0.04	0.00	0.00	0.00	0.00
Lost Day Rate [3]	25.91	39.65	25.90	12.75	22.11	16.85
- men	30.61	46.20	28.48	15.20	25.90	18.39
- women	0.00	0.60	6.16	0.00	0.68	7.03
Fatality rate [4]	0	0	0	0	0	0
Occupational Diseases Rate [5]	0.02	0	0	0.02	0	0
Absentee Rate [6]	6,478.6	9,077.7	4,447.1	6,264.3	8,626.1	3,718.6

(*) The figures for 2023 refer to Terna (electricity sector) and all its subsidiaries (100% of all Group employees). The figures for 2022 refer to Terna (electricity sector), the Tamini Group and the Brugg Group (97% of all Group employees). The figures for 2021 refer to Terna (electricity sector), the Tamini Group and Brugg Switzerland (95% of all Group employees).

*[1] **Injury Rate**. The number of injuries registered and reported to the competent social security office, divided by the number of hours worked during the year, multiplied by 200,000 (corresponding to 50 working weeks x 40 hours x 100 employees).*

*[2] **Serious injury rate**. The number of injuries where the initial prognosis is more than 40 days registered and reported to the competent social security office, divided by the number of hours worked during the year, multiplied by 200,000 (corresponding to 50 working weeks x 40 hours x 100 employees.*

*[3] **Lost Day Rate**. The ratio of days lost due to injury to the number of hours worked during the year, multiplied by 200,000. The days lost are calendar days and are counted from the day on which the injury occurs.*

*[4] **Fatality rate**. The number of fatalities registered and reported to the competent social security office, divided by the number of hours worked during the year, multiplied by 200,000 (corresponding to 50 working weeks x 40 hours x 100 employees).*

*[5] **Occupational Diseases Rate**. The total number of cases of occupational disease divided by the number of hours worked during the year, multiplied by 200,000. In 2022, there were no cases of occupational disease reported by Terna.*

*[6] **Absentee Rate**. The number of days of absence due to illness, strikes, injuries and leave out of the number of days worked in the same period, multiplied by 200,000.*

Occupational injury indicators – UNI 7249:2007 standard (*) employees

	GROUP (**)			TERNA		
	2023	2022	2021	2023	2022	2021
Injury rate	4.0	5.7	4.3	2.3	2.9	3.8
Fatality rate	0	0	0	0	0	0
Serious injury rate where the initial prognosis is more than 40 days	0.1	0.2	0.0	0.0	0.0	0.0
Lost Day Rate	0.13	0.20	0.13	0.06	0.11	0.08

(*) To aid comparison with other sources in this table, certain injury rates are also calculated in accordance with the UNI 7249:2007 Standard. This indicator has been calculated using a multiplication factor of 1,000,000 rather than 200,000 (thereby obtaining a rate that is 5 times the corresponding ILO rate).

(**) The figures for 2023 refer to Terna (electricity sector) and all its subsidiaries (100% of all Group employees). The figures for 2022 refer to Terna (electricity sector), the Tamini Group and the Brugg Group (97% of all Group employees). The figures for 2021 refer to Terna (electricity sector), the Tamini Group and Brugg Switzerland (95% of all Group employees).

"Sustainable value chain" pillar - KPI and targets in the 2024-2028 Sustainability Plan

KEY AREAS	KPI	2024	2025	2026	2027	2028
Excellence in safety project	Safety indicator (*) 2023: 0.56	≤ 1	≤ 1	≤ 1	≤ 1	≤ 1
	Number of fatal injuries (Terna employees)	0	0	0	0	0

(*) The safety indicator is the ratio of the weighted injury rate (weight: 30%) to the Lost Day Rate (weight: 70%) regarding the target year and the previous three-year period.

2-6 >

Protecting workers at contractors' construction sites

Given the substantial use of external labour at Terna's construction sites, works contracts are subject to stricter rules, not only in terms of qualification, but also regarding management, with particular reference to occupational safety, the
2-8 > requirements of which are excluded from any lowest price concerns during the award process.

Contractors' and sub-contractors' employees (*) (**)

		TERNA		
		2023	2022	2021
EU18 >	Number of days worked	873,059	890,381	879,989
EU17 >	*Full Time Equivalent*	3,968	4,047	4,000

(*) The figures take into account the duration of contracts and the variable nature of the related workforce and pertain to the different types of contract awarded by Terna, ranging from major works to those for cutting back vegetation located under power lines. The number of working days and FTEs are estimated on the basis of average daily attendances at the largest sites and the value of the works contracted out at smaller sites. Further information about the types of contract used by contractors is not available.

(**) This table does not include data regarding employees at contractors and sub-contractors of the Group's subsidiaries, as the hours worked by the employees of contractors and/or subcontractors are not currently available.

During the qualification process, Terna requires evidence of documented procedures to protect workers' health and safety. For companies from sectors deemed most significant from an environmental and safety point of view, an in-depth analysis of management practices is required.

Terna requires additional qualification from contractors, specifically regarding:

- their personnel's knowledge of Italian;
- adequate specific training for all construction site workers on the use of personal protective gear, on the risks set out in the Safety and Coordination Plans and in the Operational Safety Plans;
- attendance at training courses for certain specific roles (e.g. workers involved in the assembly and maintenance of overhead power lines, PES (expert person) and PAV (warned person) in compliance with the CEI 11-27 Standard, workers assigned to cutting back vegetation, site managers, foremen and safety officers;
- appointment of a Prevention and Protection Service Manager, a construction site safety representative, a crisis manager and deputy and an appointed physician;
- a requirement that the contracts entered into with contractors include the need to keep records of injuries occurring during the year.

From 2019, all works and supply contracts involving work onsite contain a requirement to provide the information needed to, on the one hand, closely monitor and assess injuries to contractors' personnel and, on the other, acquire the data necessary to compute contractors' injury rates. Terna has drawn up a **preventative safety and environmental protection monitoring system for construction sites, broken down into two levels**:

- First level: the contracting entity is entrusted with monitoring; in 2023 **296 checks were carried out** for safety issues and 297 for those related to environmental protection;
- Second level: Terna, above all the Health & Safety Department is responsible for spot checks designed to monitor the entire management and control process at construction sites.

Regarding the security checks provided for in the second level, **20 construction sites were monitored** in 2023 in connection with the following aspects: (1) Organisation of sites and traffic; (2) Site documentation; (3) PPE, equipment and machinery; (4) Phases of the project and operational risk; (5) Checks on the work of safety coordinators.

Regarding the environmental checks provided for in the second level, **12 construction sites were monitored** in 2023 in connection with the following aspects: (1) Waste; (2) Excavated soil and rocks; (3) Hazardous substances and accidental spills; (4) Rainwater, industrial water, civil waste and supplies; (5) Dust and sediment and polluting emissions; (6) Noise.

In total, between first and second level, **316 safety-related site checks** and **309 environmental protection site checks were conducted**.

None of the checks produced evidence of any critical issues. Finally,Terna participates in technical round tables together with companies that are members of ANIE (National Federation of Electro-technical and Electronic Businesses) and leading Italian operators of networks and infrastructure (Intercompany security working group). The aim is to share experiences and regulatory interpretations in order to ensure ongoing improvements with regard to health and safety at the workplace.

Occupational injuries suffered by employees of contractors and sub-contractors GRI-ILO definitions (*) (**)

	TERNA		
	2023	2022	2021
Injury rate [1]	1.24	1.03	0.87
Fatality rate	0.03	0	0
Serious injury rate where the initial prognosis is more than 40 days	0.00	0.03	0.09
Number of injuries	41	35	29
- of which serious, where the initial prognosis is more than 40 days	0	1	3
- of which fatal	1	0	0
Number of hours worked [2]	**6,635,246**	**6,766,899**	**6,687,917**
TYPE OF OCCUPATIONAL INJURIES			
Falling from height	3	1	0
Traffic accident injury	0	0	1
Electrocution	1	3	0
Impact, crushing cuts	23	24	15
Falling on level ground, slipping	10	6	10
Burns	1	0	0
Manual handling of loads	0	0	3
Projection of solid fragments and/or liquid substances	0	0	0
Other	3	1	0

(*) As required by GRI protocols, the definitions adopted are those provided for by the International Labour Organisation (ILO). To aid comparison with other sources, the following notes show the figures for the same indicators calculated using alternative formulae.

(**) With regard to injuries related to employees of contractors and sub-contractors of the Group's subsidiaries, during 2023, 3 injuries were recorded at the Brugg Group (1 traffic accident, 1 from impact, crushing and cuts, and 1 for other causes) of which one fatal; at Linha Verde (Brasil) 4 injuries were recorded (3 traffic accidents and 1 from impact, crushing and cuts) of which one fatal.

*(1) **Injury Rate**. The number of injuries registered and reported to the competent social security office, divided by the number of hours worked during the year, multiplied by 200,000 (corresponding to 50 working weeks x 40 hours x 100 employees). To aid comparison with other sources, the injury rate is also calculated in accordance with the UNI 7249:2007 Standard. This indicator has been calculated using a multiplication factor of 1,000,000 rather than 200,000 (thereby obtaining a rate that is 5 times the corresponding ILO rate). Based on this method of calculation, the **injury rate 6.2 in 2023** (5.2 in 2022 and 4.3 in 2021).*

(2) The number of hours worked is estimated on the basis of average daily presences at the largest worksites and the number for contractors' workers at smaller worksites.

Company welfare

401-2 > Terna's awareness of **employees' importance** is reflected in both a constant focus on updating their skills, needed to ensure achievement of the Group's strategic objectives, and on their wellbeing, meaning their work-life balance, access to dedicated additional services and respect.

Company welfare comprises a host of initiatives, opportunities and services that the Company offers its employees, including part-time work and apprenticeships , promoting inclusion and enhancing the uniqueness of employees by creating an increasingly inclusive work environment, encouraging collaboration and creativity and allowing employees to develop their potential and humanity.

During 2023, the various welfare initiatives were based on continuous active and direct listening of employees, with plans to improve their work-life balance and increase knowledge on the offers available. The welfare instruments previously launched were also confirmed and others were launched in the areas described below.

403-6 > • **Health:** includes useful information on the supplementary pension scheme (Fopen; Fondenel for managers) healthcare plans (Fisde) and prevention campaigns promoted by the Company for its employees;

201-3 > **Pension plans (*)**

	TERNA		
	2023	2022	2021
Employees covered by Pension Plans (Fopen-Fondenel)	3,953	3,705	3,698
Employees covered by Pension Plans (other pension schemes)	20	19	19
Employees covered by Pension Plans (%)	82	82	88

(*) Employees who pay, in addition to post-employment benefit contributions, the 1.35% additional contribution, benefit from the 1.35% share of taxable post-employment benefits paid by the employer, in addition to a monthly contribution of €20.

FOCUS

Komen: prevention campaign and promoting health

In 2023, Terna renewed its partnership with the **Susan G. Komen Italy Association**, a non-profitable organisation active in the fight against breast cancer in Italy, which protects women's' health with awareness, information and training initiatives, including the **National Itinerant Women's Health Promotion Program**.

In March, in collaboration with the **HSEQ – Health, Safety, Environment and Quality**, the Komen association promoted the first annual edition of its **Caravan of Prevention**, offering 145 of Terna's employees the opportunity to benefit from free multi-screening visits through its three mobile units with specialist medical personnel.

During the year, the "Caravan of Prevention" continued its journey across Italy, with the first stop in Cagliari, providing diagnostic tests and free screenings, facilitating continuous prevention and promoting health.

- **Loans and insurance**: this comprises useful information on currently available forms of financial aid and insurance;
- **Family**: collects all the information on the favourable conditions, compared with those set out in the National Collective Labour Agreement, adopted by the Company, the crèche set up at our offices in Rome and leave for the first day of elementary school;
- **Life & Work**: describes the initiatives that make it easier for employees to balance their working and private lives, such as flexible hours, structured remote working and mobility services;
- **Performance-linked bonus**: comprises useful information to manage and convert the bonus into goods and welfare services;
- **Sport & Culture**: includes information on the Recreational, Cultural and Sports Association, ARCA, and information on corporate wellness;
- **Partnerships**: regards the various agreements providing discounts and favourable conditions for Terna's employees.

In terms of improving the offer and increasing knowledge, in addition to those already in place, 2023 saw the launch of new initiatives. The following initiatives were carried out:

- **Partnerships**: during 2023, a new care-giving agreement was signed, which allows all employees to use reduced-price services such as baby-sitting and elderly care assistance provided by certified professionals;
- **Increased goods and services offered when converting the Performance Bonus** (vouchers, fuel vouchers, early use in collaboration with Arca). Supporting employees through direct channels and monitoring the various phases of the Performance Bonus;
- **Regional roadshow**: confirmation of the cycle of eight physical meetings, to discuss the current offering and outline new projects, focusing on the 2023 Performance Bonus;
- **Continuous monitoring and update of Intranet content**, above all the portal dedicated to the agreements to improve, renew and expand the offering package;
- Promoting the use of the **Gympass**, a digital and physical wellness platform, available to all employees to improve their physical wellbeing;
- Support in organising sporting events such as amateur tournaments throughout Italy, in collaboration with Arca.

Social and relationship capital

The quality of Terna's relationship capital is determined by the ability to listen to groups who, for various reasons, have relations with the Company ("stakeholders"[127]), taking their interests into account and analysing their compatibility with the specific interests of the Company and the obligations established by the concession, so as to be able to adopt a coherent and transparent course of conduct. This is in line with the principles set out in the Corporate Governance Code[128], which assigns the Board of Directors, among others, responsibility for fostering *"dialogue with shareholders and the Company's other key stakeholders in the forms considered most appropriate"*.

To facilitate the creation and consolidation of such relationships, Terna has drawn up a stakeholder map – which was revised at the end of 2023 – and built **specific engagement programmes** to identify the most effective actions to be undertaken to optimise current engagement methods and listen to the most influential stakeholders on a periodic basis, thus avoiding the risk of failing to promptly identify any problems that might have reputational as well as economic and financial repercussions.

The tools developed by the Company to manage its relationship capital include two specific sets of guidelines. The first – which was revised at the end of 2023 – defines the **stakeholder management Model**, while the second focuses on **the engagement of local stakeholders in Terna's grid planning activities**.

[127] Stakeholders are persons and/or organisations that can influence or be influenced by the Company's activities.

[128] The Corporate Governance Code was approved by Borsa Italiana's Corporate Governance Committee on 31 January 2020. Companies adopting the Code must apply it from the first financial year beginning after 31 December 2020, announcing this to the market in the "Report on Corporate Governance and Ownership Structures". The Code is available at the following link: https://www.borsaitaliana.it/comitato-corporate-governance/codice/2020.pdf.

Stakeholder map

For more information on "Stakeholder map" scan this QR code

OPERATING AND BUSINESS SPHERE

THE ORGANISATION'S PEOPLE

Activities

Engagement initiatives (online surveys, focus groups and internal communication), and awareness raising (e.g., "Safety Excellence" programme).

Results

Average participation in engagement initiatives in excess of 80%.
Renewal of the national collective labour agreement, with 0 hours of strikes.

BUSINESS PARTNERS

Activities

Agreements and partnerships with major corporates, other entities, national and international research centres and universities.

Results

22 patents obtained, 30 patent applications filed, 69 projects in progress.

ELECTRICITY SYSTEM OPERATORS

Activities

Constant dialogue with electricity system operators.

Results

Constructive relations with the operators in question.

CUSTOMERS

Activities

Relations with commercial and industrial customers in key sectors (e.g., manufacturing, connectivity, energy solutions).

Results

Increase in turnover from Non-regulated Activities.

REGULATORS OF CONCESS

Activities

Ongoing dialogue with ARERA's offices and its Board and with the Ministry of the Environment and Energy Security.

Results

Consents received for 23 projects involved in development of the NTG.
No pending investigations by ARERA.

SUPPLIERS

Activities

The number of active suppliers is 2,349.

Results

Total expenditure amounted to approximately €3,217 million across active suppliers.
3,968 full-time equivalent employees at contractors and sub-contractors.

FINANCIAL SPHERE

SHAREHOLDERS

Activities

The "Investors" section of the website was constantly updated and various communication channels and e-mails are available.

Results

At the Annual General Meeting held on 9 May 2023, 2,085 shareholders were duly represented, solely through the Appointed Representative*, accounting for 1,430,121,956 ordinary shares, or 71.15% of the share capital.

CREDIT PROVIDERS

Activities

Meetings with rating agencies during management meetings.

Results

The agencies Standard & Poor's and Moody's reaffirmed the Company's ratings. In November 2023, Moody's upgraded its outlook for Terna from negative to stable.

PUBLIC AND SOCIAL SPHERE

LOCAL COMMUNITIES

Activities

Involvement and engagement with local communities through local authorities and through direct contact with the general public.

Results

480 meetings with local authorities.

PUBLIC DECISION-MAKERS AND AUTHORITIES

Activities

Ongoing dialogue with the authorities to take advantage of Terna's expertise and active participation in the relevant leading national and international organisations.

Results

An active role in major international projects.

THE COMMUNITY

Activities

Support for social initiatives in line with SDGs 4,7,9 and 11.

Results

€504,962 in donations and €1,019,500 in sponsorship.

MEDIA AND OPINION MAKERS

Activities

Definition and adoption of various channels for dialogue and communication, diversified by type of audience, language and purpose.

Results

Engagement statistics constantly on the rise.

** It should be noted that, as a result of the regulatory provisions issued in relation to this emergency and in particular Law Decree 18 of 17 March 2020 (the so-called Cura Italia Decree), the Company has decided to take up the option provided for in art. 106, paragraph 4, of the aforementioned Cura Italia Decree, providing that participation in the Annual General Meeting by those entitled to participate may take place exclusively through the representative appointed by the Company pursuant to art. 135-undecies of Legislative Decree 58 of 24 February 1998 (the "Consolidated Law on Finance" or "TUF").*

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Stakeholder dialogue and communication channels

As a first step towards boosting dialogue with all stakeholders, but also to provide information on the electricity system and to develop an energy culture, Terna has put in place a number of **dialogue and communication channels**. These are diversified by type of audience, language and purpose (e.g., requests for information, suggestions, observations and complaints).

2-3 >

The easiest way to contact Terna is by using one of the various e-mail addresses provided on the website at www.terna.it. E-mails from employees are sent via the intranet[129]. A list of **Contacts** is provided in the menu on the homepage of the website, which provides guidance to anyone wanting to communicate with the Company. This page also lists the certified e-mail addresses to use for communications that must meet this requirement.

For current and potential electricity operators and suppliers, Terna has several **separate portals** that may be accessed from the homepage of the Company's website.

Portals for electricity service operators

The transition to an electricity system with growing numbers of production points and prosumers has highlighted the need for a **user-centred approach** that is oriented towards the accessibility and operability of the business and external users. In this context, Terna has launched a **programme to develop the portals** aimed at our stakeholders, with a view to **reorganising access points, digitalising processes and radically simplifying the user experience**.

MyTerna portal

This web portal dedicated to commercial relations enables direct interaction with Terna via a single, integrated platform thanks to a **Customer Relationship Management (CRM)** system.

Among other things, the CRM system allows users to: request connections to the NTG: manage contracts; manage and update their data; register for electricity system auctions; and view information.

Since 2023, MyTerna can be accessed online via a **new interface that is more dynamic and user-friendly**. The **Connections section of the portal has also been revamped** with an intuitive layout and an enhanced user experience, aimed at optimising connection application procedures.

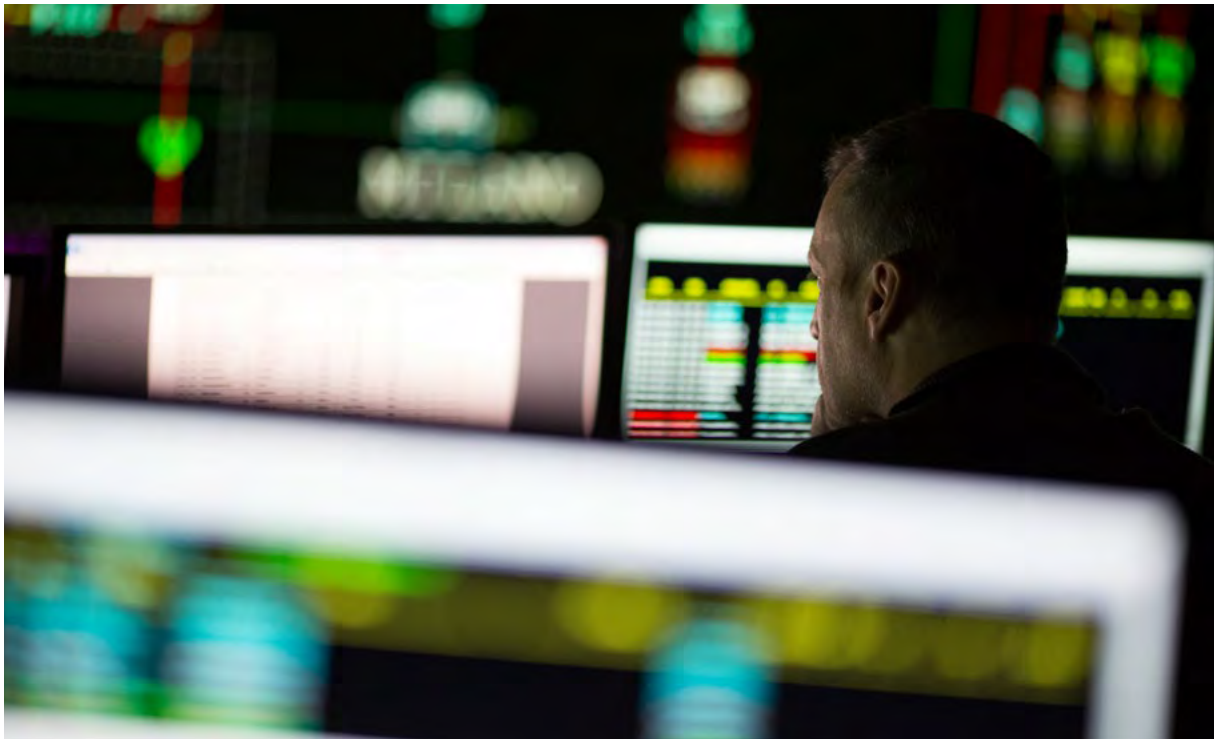
GAUDI portal

The GAUDI portal, which may be accessed by producers, distributors, dispatching users, ARERA and Italy's Energy Services Company (GSE), was created by Terna[130] to manage the Consolidated Power Generation Plant Register and the relative production units at national level, and to streamline communications between the various actors in the power generation sector.

The GAUDI portal is also becoming more integrated and accessible. With this in mind and in order to get a broader view of how it's used, **in the spring of 2023** Terna organised a series of **"design thinking" workshops** as an innovative means for engaging the people who first access the portal directly and get to grips with the procedures involved, namely: producers, distributors, dispatching users and institutions. **Over 250 electricity system operators took part in this shared journey**.

Via a unique CENSIMP code[131], the platform records all the generation plants and the individual units that comprise them, of any size (from the databases of non-significant UPN6 and significant RUP production units) or source (conventional, renewable, cogeneration and storage systems), covering a total of **over 1,613,201 units** at 31 December 2023.

[129] For example: azionisti.retail@terna.it; investor.relations@terna.it; sostenibilita@terna.it; ufficio.stampa@terna.it; etc.
[130] In compliance with Resolution ARG/elt 124/10.
[131] Already established in a special database by Resolution ARG/elt 205/08.



Data recorded on the GAUDI platform at 31 december 2023

SOURCE	NO. OF PLANTS	INSTALLED POWER	POWER INPUT
Solar	1,594,974	30,281.58 MW	=
Hydroelectric (including pure pumping)	4,862	26,081.70 MW	=
Wind	6,067	12,335.84 MW	=
Thermoelectric	7,187	=	58,780 MW
Other	111	1,088.59 MW	

Via a dedicated control panel, the portal enables the status of each plant to be monitored – from authorisation to connection, and the market qualification process – as well as all the changes to the plant and to commercial aspects that occur during a plant's operation, with a view to ensuring full interoperability with distributors and the GSE.

NTG owners' portal

This portal contains all documents of interest to owners of portions of the National Transmission Grid with whom Terna, as transmission system operator, has relations.

Settlement portal

This portal has a public area, in which general information used to set fees is shown, and private sections that may be accessed with the credentials used for the MyTerna portal, which contain information on the guarantees for supply-side and demand-side dispatching contracts.

Distributors' portal

On this portal, Terna publishes and updates the list of distributors, including their identification codes and records of any changes made to these companies. Since 1 January 2019, Terna has published records relating to internal user networks, and from 1 January 2022, also records relating to other closed distribution systems.

Suppliers' portals

Procurement portal

The initial encounter between Terna and suppliers (potential or otherwise) takes place on the **Procurement** portal, where suppliers may find information about business opportunities and the related calls for tenders and participate in online tenders.

In 2023, approximately **1,116** requests for online assistance with the Procurement portal were received from suppliers, all of which were dealt with within the deadlines set out in the Company's procedures. For more information on the supply chain, reference should be made to the relevant section on page 218.

Moreover, with a view to expanding the supplier portfolio, **procurement marketing** is constantly carried out through market scouting, benchmarking, and monitoring of suppliers' performance, which involves regular meetings with Italian and overseas suppliers.

Supplier qualification portal

This portal is dedicated to all business operators who wish to complete the qualification procedure in order to be included in the list of approved suppliers.

In 2023, approximately **1,400** requests for assistance were received via the Supplier Qualification mailbox, which were dealt with within the deadlines set out in the Company's procedures. More information on the qualification procedure may be found in the Suppliers section of the website www.terna.it, which is also explained in this report on pages 218-219.

Other portals

Four other portals may be accessed from the homepage of www.terna.it: **Transparent and open construction sites** (see page 216); **Whistleblowing** (see pages 80-81); **G-STAT Accreditation** (with access restricted to people working on electricity sector statistics); and Terna Developer which provides external developers with a set of tools, definitions and protocols (i.e. "Application Programming Interfaces" – API) to facilitate interaction with System Operator data and services.

The website homepage also provides access to Terna's **social channels**, which, each in its own characteristic and specific way, increasingly offer an opportunity for integrated interaction with stakeholders, ranging from authorities to local communities, from analysts to investors, from Terna professionals to the world of universities and research, and from start-ups to jobseekers. In 2023, the community that follows Terna on its main profiles (Facebook, X, LinkedIn, Instagram) grew by 23%. Content views (up 1%) and, above all, user engagement (up 42%) via published posts also increased compared to 2022. Of note is the 59% growth in engagement on Instagram, together with a growing focus on the female audience.

2023 also saw expansion of Terna's new profile on TikTok, which is a key channel for attracting and engaging the younger generation, such as students and graduates passionate about STEM (Science, Technologies, Engineering and Mathematics) subjects, including educational and information content linked to the Tyrrhenian Lab's master's degree programme and the future of the electricity system. Terna achieved notable results in its first year on the TikTok platform, reaching a large community of people in the 18-34 age bracket, with 168 million video views, and building a loyal regular audience of more than 53 thousand people who actively follow the content on offer.

In 2023, Terna also strengthened its presence on the main audio platforms, such as Spotify and Spreaker, with its podcasts *"Nora, the future of energy is our job"*, the nine-part podcast that tells energy enthusiasts about the Tyrrhenian Lab project (for further information see page 265), and "*Sala dati*", about what goes on "behind the scenes" of electricity consumption.

The **Terna app**, with 46,354 active users in 2023 (up 34% on 2022) is an additional tool for sharing with stakeholders, who can use the app to consult electricity data in real time and keep up-to-date on Terna's main news events. From demand to power generation sources, to energy exchanges with other countries, Terna has made all the data on the operation of the National Electricity System available to users, as well as an up-to-date overview of CO_2 savings linked to the development of renewable production sources. The app also includes **Ecologio**, a new feature that identifies the daily peak periods when it is preferable to consume less energy, and a section on the 2023 Development Plan, which provides information on the planning objectives and criteria for the national electricity transmission grid.

Terna seeks to progressively consolidate relations with its internal and external stakeholders including via a revised **communication strategy**, aimed at improving the Group's corporate identity and strengthening its corporate reputation. In this context, digital communication stands out as a special tool for accessing and sharing the Company's purpose.

The Company's role and mission, together with the objective of providing stakeholders with an accurate picture of the evolution of the electricity system, underpin Terna's latest data-sharing projects: Ecologio, mentioned above, and **Econnextion**, the digital dashboard Terna uses to share information on the regional and local distribution of connection applications for renewable plants, broken down by energy source. In addition, new digital platforms for consulting statistical data, such as the Monthly Industrial Electricity Consumption Index (IMCEI), were launched.

2023 also saw consolidation of the **Terna4Green** digital platform, which enables monitoring of Italy's progress towards decarbonisation, as it shows the ratio between tonnes of CO_2 not emitted into the atmosphere and the production of electricity from renewable sources. The platform's traffic figures are up on 2022, in terms of number of users (4,629, up 31%), visits (7,102, up 33.4%) and views (14,947, up 23%).

Networking

Terna's relationships with stakeholders, especially those with industry operators, are also nurtured and strengthened via our active participation in the work of the main national and international industry organisations we are associated with, in which we often play a leading role. Our aim is to make concrete contributions to working groups on key electricity issues, share best practices and, more generally, seize further opportunities to increase our relationship and intellectual capital.

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Active participation in international associations

ENTSO-E (European Network of Transmission System Operators for Energy) ENTSO-E (European Network of Transmission System Operators for Energy) is a European association of 40 active member transmission system operators from 36 countries. In January 2024, the Ukrainian TSO, Ukrenergo, joined ENTSO-E as an active observer member, while on 22 November 2023, a new observer membership agreement was entered into with the Moldovan TSO, Moldelectrica. ENTSO-E's mission is to ensure the secure operation of the interconnected European electricity system, as well as the smooth running, development and integration of electricity markets, whilst enabling the integration of electricity generated from renewable energy sources and emerging technologies, in implementation of the relative EU legislation (Third Energy Package, CEP- Clean Energy Package and Fit for 55).

ENTSO-E's main objectives are: to draw up European network codes; to prepare the Development Plan for the European electricity grid (the Ten-year Network Development Plan, or TYNDP) and the related benchmark scenarios; to prepare short- and medium-term adequacy studies; and to draw up the Research, Development and Innovation Plan at European level.

The association's activities are carried out in line with European climate policies, as set out in the European Green Deal, the European Commission's roadmap aimed at making the EU the first carbon neutral continent by 2050, which was further developed in the Fit for 55 climate package and, most recently, in the EU Grid Action Plan presented by Energy Commissioner Kadri Simson at the end of November 2023. Terna is a member of the board of the association.

RGI (Renewables Grid Initiative) An association consisting of 13 European TSOs and 13 environmental NGOs which aims to promote the integration of renewable energy sources through the development of electricity grids. RGI is committed to promoting strategic planning and participating in the construction of new power lines, via a meeting platform involving environmental NGOs and European TSOs.

CIGRE (Conseil International des Grands Réseaux Electriques) An international non-profit association that conducts research regarding high-voltage grids. It has over 90 member countries, represented by 60 national committees, and Terna is currently the Chair and Vice Chair of the Italian Committee.

GO15 (Grid Operator 15) An international association bringing together the 17 leading grid operators worldwide in order to share best practices in the management of electricity transmission grids. In 2023, Terna's CEO and General Manager, Giuseppina Di Foggia, was Vice Chair of the association. Terna was also on the Steering Board and the Governing Board of the association.

Med-TSO (Mediterranean Transmission System Operators) This association brings together the TSOs from 20 Mediterranean countries, with the aim of promoting the standardisation of development plans and the coordinated management of grids. The association also works to facilitate the creation of a legislative and regulatory framework designed to drive the development of interconnection projects and promote the exchange of electricity between electricity systems in the Mediterranean area. Terna hosts the association's registered office and operational headquarters in Rome and appoints its Secretary General.

RES4Africa Foundation (Renewable Energy Solutions for Africa) This non-profit foundation was established on 7 June 2019, following the transformation of the association with the same name. The association aims to promote the use of renewable energy and the dissemination of energy efficiency measures, as well as supporting the creation of a favourable environment for renewable energy investment in countries in the southern and eastern Mediterranean area and in sub-Saharan Africa. The association has its headquarters in Rome.

WEC Italia (World Energy Council – Italian committee) The Italian national committee of the WEC, an international organisation that brings together operators from over 90 countries, with the aim of promoting a sustainable energy system worldwide. Terna is a member of the Managing Board.

Terna's active participation in associations and joint working groups fostered the implementation of international initiatives, which are summarised below.

Main international initiatives during the year

The main initiatives carried out by Terna in 2023 include the following:

- The signing of a €300 million financing agreement relating to the construction of an **interconnector between Italy and Tunisia**, within the framework of the Connecting Europe Facility (CEF), the European Union's fund for the development of projects to upgrade EU energy infrastructure. The project, which was evaluated in ENTSO-E's Ten-Year Network Development Plan and included in the list of Projects of Common Interest (PCI), is the first concrete interconnection initiative between countries in the Middle East and North Africa (MENA) and southern Europe and is a prime example that will spearhead the integration of the Euro-Mediterranean region.
- Continuation of the joint venture with the TSOs, TenneT (Netherlands/Germany), Swissgrid (Switzerland), APG (Austria) and Transnet BW (Germany), which was set up to manage **Equigy**, a new platform based on blockchain technology that aims to facilitate the participation of distributed demand in the electricity grid balancing process. The main roles in this **Energy of Things** are to be played by domestic or industrial electrical devices such as, for example, home air conditioning systems, photovoltaic plants with batteries and e-cars, which will be interconnected with each other and capable of regulating the energy exchanged with the grid through an innovative digital platform. This will provide services to support the grid operated by Terna and thus the ecological transition.
- Participation in **TERRE** (the "Trans European Replacement Reserves Exchange"). The platform facilitates the integration of the balancing markets of EU countries, guaranteeing the cost-efficient exchange of reserves for the benefit of the electricity system's security. Italy is connected to "Region 1", which also includes France, Switzerland, Spain and Portugal. As well as Italy, the Czech Republic, Poland, Switzerland, France, Spain and Portugal are also taking part in the project.
- The continuation of joint actions between TSOs to encourage and guide European industry in meeting the challenges posed by the energy transition, with particular reference to analysis of the supply chain's **strategic dependencies in terms of TSOs' energy transition requirements**. In 2023, this led to the definition of a list of CSR (Corporate Social Responsibility) criteria deemed to be priorities by the TSOs, and the carrying out of a study on supply chain resilience.

With a view to building and better managing **relations with European institutions**, since 1 July 2018 Terna has had a Brussels office located in the European Quarter.

The aim is to establish ongoing dialogue with the European Parliament, the Commission and the Permanent Representation in order to take advantage of Terna's experience and expertise.

The main projects that Terna followed during the year include those identified as forming part of the European Green Deal, especially the Fit for 55 package, and those relating to European programmes providing financing under the next financial framework 2021-2027.

Priority projects of most interest include the Projects of Common Interest list, amendment of the Renewable Energy and Energy Efficiency Directives, the Gas and Hydrogen Package, Sustainable Finance, the Electricity Market Design Regulation, the F-Gas Regulation, the Net-Zero Industry Act, the Grids Action Plan, emergency measures, sectoral integration, and revision of the Guidelines for State Aid regarding the Environment and Energy. Programmes of interest include: *Connecting Europe Facility, Next Generation EU, the Innovation Fund, Horizon Europe and Digital Europe, and the European Regional Development Fund and the Cohesion Fund*.

In 2023, intense discussions and collaboration with the main national and international organisations that focus on sustainability issues also continued. The organisations that Terna is associated with are listed below.

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Participation in associations that deal with sustainability issues

Anima per il sociale nei valori dell'impresa

A non-profit association that brings together managers and companies who share the desire to spread an entrepreneurial culture in their local areas, combining profit with the creation of wellbeing for the community. Terna has been a member of the association since 2010.

Ecosystems Foundation

Focused on improving the environmental and social quality of the economy and local areas, this organisation specialises in strategies, programmes, actions and tools for sustainable development, and is a key player in GPP (green public procurement) and green procurement. Terna has been a member of the organisation since 2021.

Sustainable Development Foundation

An organisation whose primary activity is investigating sustainable development issues – from a cultural and technical point of view – via research, seminars and meetings. Terna has been a member of the organisation since 2011.

GEO – The Green Economy Observatory

The Observatory set up by IEFE – Bocconi University which, via research and study, aims to explore key topics for debate in relation to the green economy through dialogue, discussion and collaboration with institutions and businesses.

Global Compact

Terna's membership of the Global Compact involves a presence at both international and local level. Terna has had a place on the Italian network's Steering Committee since 2011 and is a founding member of the Global Compact Network Italy, which was established in 2013.

Kyoto Club

A non-profit organisation made up of companies, bodies, associations and local government authorities that are committed to achieving the targets for reducing greenhouse gas emissions set by the Kyoto Protocol and to promoting awareness-raising, information and training initiatives in the fields of energy efficiency, use of renewables, and sustainable mobility.

Parks – Liberi e Uguali

A non-profit association established in April 2010 with the aim of helping member companies to understand and realise the full business potential of developing diversity-friendly strategies and best practices. Terna has been a member of the organisation since 2022.

Sustainability Makers

A rebranding of the CSR Manager Network, this is a key association for professionals who deal with sustainability and corporate social responsibility issues, including company managers, consultants and researchers.

Transparency International Italy

The Italian branch of the international organisation whose aim is to combat corruption (also see page 216), which promotes the **Business Integrity Forum (BIF)**, an initiative for large Italian companies aimed at increasing the transparency, integrity, and accountability of Italy's business sector via their collaboration.

Valore D

This is the first business association in Italy to commit to gender balance and an inclusive culture in organisations. Terna has been a member of the organisation since 2021.

Engagement with local communities

NFS

In line with the guidelines in the new 2024-2028 Industrial Plan, and with the resulting need to invest in the electricity infrastructure included in its Development Plan, the Company makes a major effort to engage with the local communities whose areas are directly impacted.

It is essential to ensure that these stakeholders are correctly informed about the reasons for identifying the work to be carried out and the systemic benefits that local communities will gain as a result.

The criterion that guides Terna's consultation decisions is the amount of investment envisaged for the construction of each individual work in the Plan, and the complexity of the project and the local area concerned: more than 90% of investment in electricity infrastructure relates to engagement with local communities. Minor projects, although important in numerical terms, represent approximately 1% of the total value of investment. Currently, **99% of investment in electricity infrastructure relates to engagement with local communities**.

Terna shares electricity grid development needs with local authorities and communities and dialogues with citizens in order to identify the best designs and locations for new works. This real **participatory planning** together with local communities takes into account the specific needs of the various stakeholders.

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FOCUS

A participatory planning for the Tyrrhenian Link

The Tyrrhenian Link, an undersea cable to connect Sardinia, Sicily and Campania, which is the main project envisaged in the 2023 Development Plan, will contribute substantially to the development of renewable energy sources and the *phase-out* of the most polluting coal- and oil-fired power plants.

East section

Given the significance and strategic nature of the project, it is vital to ensure that its development is aligned with the expected evolution of the major islands' energy systems. Consequently, **strategies** and **innovative consent procedures** have been investigated and implemented in order to expedite the planning process for the East section – which will connect Campania and Sicily (490 km) with the points where the cable reaches land at Fiumetorto in the municipality of Termini Imerese (PA) and at Torre Tuscia Magazzeno in Battipaglia (SA), and two converter substations in the municipalities of Eboli (SA) and Termini Imerese (PA) – whilst seizing the opportunities offered by the latest regulatory developments, such as, for example, the use of public consultation rather than public debate.

In particular, a **methodology involving preliminary analysis of local areas and stakeholders** has enabled Terna to minimise the reasons for potential opposition from local communities, by facilitating their engagement and consequent acceptance of a project, and finalising the consent process much sooner than it normally takes for transmission works on a similar scale. The methodological approach used by Terna can be summarised in the following points:

- **Local pre-screening:** Preliminary territorial analysis was carried out, with a specific focus on the areas where the planned electricity substations were to be located, in order to identify possible elements of disagreement with the local community concerned;
- **Preliminary stakeholder mapping:** A mapping of the local stakeholders was carried out, in accordance with the criteria of influence (persons able to influence negatively or positively the process), and representation (persons responsible for representing other people in various ways). This mapping enabled complete transfer of the content of the project, as well as anticipation and management of any requests from the people concerned, thereby substantially reducing the occurrence of unforeseen subsequent objections during the process of engaging the local community;
- **Defining the strategic objectives of engagement:** Strategic engagement objectives were defined for each stakeholder, in order to identify the most appropriate forms of engagement. This enabled early identification of the demands and needs of individual stakeholders.
- **Multilevel, diverse engagement:** Various levels of dialogue were adopted (e.g. regional and municipal, relations with the local press, etc.), and different forms of engagement were used (e.g. regional technical round tables, digital "Terna incontra" meetings, special e-mail boxes for stakeholders' comments, etc.). This approach allowed for participatory planning, which gave rise to comments that helped with the identification and adoption of better location solutions for the proposed infrastructure works.

Stakeholder engagement activities

ENGAGEMENT PROCESS	NUMBER	CATEGORY
Type of stakeholders involved	2	- 4 environmental organisations : Legambiente, WWF, LIPU, Italia Nostra - 4 industry associations: Confagricoltura, Coldiretti, ANCE, CNA
Engagement activities	15	- 6 online "Terna incontra" meetings with citizens - 6 online meetings with the local authorities involved - 3 additional meetings with the above-mentioned stakeholders
Comments and requests for clarification	62	- 10 comments via special email boxes (7 from Campania, and 3 from Sicily) - 52 live comments (11 on Termini Imerese, and 41 on Battipaglia and Eboli) and 10 via special email boxes (7 from Campania, and 3 from Sicily).

Outcomes of the multilevel, diverse engagement activities

With regard to Sicily, two requests were received during the Terna Incontra meetings to change the location of the new converter substations, including a proposal for an alternative site within Enel's Ettore Maiorana power plant complex, or within the former FIAT area with a view to optimising the existing building. Terna launched a technical and environmental analysis of these possible alternatives, after which the ones initially proposed in the original feasibility study were confirmed and agreed upon, for the reasons provided in the consultation.

With reference to Campania, the comments received pointed out that the areas first identified to host the electricity infrastructure were used for high quality agricultural production purposes (the Sele Plain) and proposed alternative location solutions that Terna accepted. Following the positive outcome of the technical feasibility studies regarding the two new locations proposed for the converter substation, Terna developed two new projects; one within the site of the former fruit and vegetable market in San Nicola Varco (SA), a facility owned by the region that was decommissioned some time ago, and the other in the Production Plant Plan (PIP) area in Eboli. The project solutions adopted have been largely accepted by local stakeholders, especially the preferred solution presented in the consent, which also has a positive environmental impact by reclaiming and rehabilitating a degraded and long-disused area (the former fruit and vegetable market in San Nicola Varco).

West section

Taking into account the strategic elements of the project as described above, and in continuity with the measures undertaken for the East section – including for the second section, which will connect Sardinia and Sicily (485 km), reaching land at Terra Mala in the municipality of Quartu S. Elena (CA) and at Fiumetorto in the municipality of Termini Imerese (PA), and include two converter substations in the municipalities of Selargius (CA) and Termini Imerese (PA) – the same strategies and innovative consent procedures were implemented in order to speed up progress on the West section as much as possible.

Here too, a multilevel, diversified engagement approach gave rise to a request to evaluate alternative location proposals, whose technical feasibility Terna has verified, especially regarding the location of the converter station. In this case, verification revealed the unsuitability of these new project solutions due to environmental constraints, and therefore the local stakeholders accepted the location proposed by Terna. The key elements of the stakeholder engagement activities regarding the West section are shown below:

Stakeholder engagement activities

ENGAGEMENT PROCESS	NUMBER	CATEGORY
Type of stakeholders involved	2	- 4 environmental organisations : Legambiente, WWF, LIPU, Italia Nostra - 2 industry associations (agricultural land protection): Confagricoltura, Coldiretti
Engagement activities	16	- 6 online Terna Incontra meetings with citizens; - 3 online meetings with the local authorities involved; - 3 additional meetings with the above-mentioned stakeholders.
Comments and requests for clarification	16	- 16 comments at Terna Incontra meetings.

Consultation activities, namely engagement with and listening to local communities, regard all the local authorities involved in the construction of the new electricity infrastructure, and initiatives aimed directly at citizens.

In 2023, Terna held a total of 480 meetings with local authorities, involving around 278 bodies, including authorising bodies, local authorities, civil engineering entities, ministries, regional authorities and other economic operators.

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Meetings with local authorities – 2023

AREA	MEETINGS	BODIES INVOLVED
North-west	77	71
North-east	153	69
Centre-South Adriatic	149	59
Centre-South Tyrrhenian	101	79
Total	**480**	**278**

Consultation activities

The Grid Development Plan, which is prepared every two years and integrated with the Strategic Environmental Assessment (SEA), provides for an initial public consultation phase via online publication on the websites of the Ministry for the Environment and Energy Security and Terna of documents such as the Preliminary Environmental and Monitoring Report. During this phase, citizens can send in their comments within 60 to 90 days of publication.

In order to promote full awareness of planned investments in new electricity infrastructure, Terna organises institutional meetings at which local authorities can express their opinions. For example, the Development Plan can be shared with the region and the municipalities directly concerned. Since 2018, this listening approach has also included the participatory Terna Incontra meetings.

After approval of the Plan, dialogue activities begin, the duration of which depends on the complexity of the project and the local area concerned.

During this phase, direct dialogue with the local community takes place via meetings – which are more numerous when the project is complex or concerns and involves more than one municipality – aimed at explaining the importance of the works envisaged in the Plan and collaborating with the authorities, citizens and, more generally, all the stakeholders directly concerned, in order to identify shared solutions, broaden consensus and encourage acceptance of the project. If possible, Terna integrates all the recommendations and requests emerging from the meetings into the project.

At the end of the consultation phase, the shared project is developed into the final design that will be submitted to the competent authorities for the start of the consent process. At the same, any citizen who wishes to do may peruse the project filed at the municipality. If the authorities request any changes to the project during the consent phase, Terna plans further meetings with the local community to explain the changes and to assess the best way to implement them with the local authorities.

For several years, together with dialogue with local authorities, Terna has organised **Terna Incontra** meetings. This additional form of interaction enables citizens and the various associations to collaborate in defining proposals for the location of new electricity infrastructure, and to contribute specific local environmental and cultural knowledge of the area.

Paying attention to the environment and local communities is thus part and parcel of the electricity grid planning process, which makes integration of the infrastructure into the local area more sustainable.

Terna Incontra meetings can be organised at any time, from the design and definition phase of the project through the consent and construction site start-up phases. In the consultation and participatory planning phase Terna listens to opinions and shares its decision-making on locations, whilst in the authorisation phase it explains the project and the consent process to citizens, and in the implementation phase it accompanies the start-up of construction sites with updates on the state of progress of activities.

Organisation of the Terna Incontra meetings depends on the cooperation of the local authorities in supporting the engagement of local people and in providing an adequate public space (e.g. council chamber) for the meeting.

Unlike institutional meetings, which are often set up at short notice, Terna Incontra meetings are planned more thoroughly as an average of around two weeks' organisation is needed, during which materials are prepared and appropriate local communication is carried out to encourage the participation of citizens, who are administered a short questionnaire to gather their opinions on the effectiveness and content of the meeting.

Terna Incontra meetings adopt all the environmental and social criteria provided for by CAM (Minimum Environmental Criteria), including, for example, reduced consumption of natural resources, energy saving, waste sorting and selection of sustainable suppliers.

In 2023, the mixed meeting format was consolidated, with some meetings held in person and others online, in order to ensure the broadest possible participation. This meeting format combines traditional paper communication (leaflets and pamphlets) with digital content on the website (web pages providing digital information for online meetings) and social media (the publication of social media kits among local stakeholders and sponsored campaigns). A total of **16 Terna Incontra meetings were held in 2023, of which 13 were in person, 2 online and 1 in mixed meeting format**.

EU22 >

Landowners affected by NTG development

The construction of new power lines involves the use of between approximately 30 and 400 square metres of land – usually agricultural – for each overhead line pylon, or for each joint pit in the case of underground cables[132].

Although legally authorised to use an expropriation procedure to obtain the use of land, Terna prefers solutions based on mutual consent, involving payment of one-off compensation for easement on private property[133].

Attempts to reach a consensual solution do not always succeed, making enforcement measures necessary. In the case of construction of an electricity substation, which occupies a much larger area, Terna usually buys the necessary land, either via an expropriation procedure or by mutual consent.

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Power line easements

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LANDOWNERS AFFECTED BY THE CONSTRUCTION OF NEW POWER LINES (NO.)	2023	2022 (*)	2021(**)
Total easements (1)	1,400	1,771	1,579
- of which consensual	885	1.153	1.011
- of which enforced (2)	91	388	122
- of which for urgent occupation (3)	424	230	446

(*) The figure for 2022 has been updated from that published in the previous Integrated Report.

(**) The number of easements rose in 2021, primarily due to the renovation of lines: 120 kV Cappuccini – Pietrafitta, 120 kV Preci – Cappuccini, 132 kV Candia – Camerata Picena, 132 kV Camerata Picena – San Lazzaro. The rise in the number of enforced easement orders in 2021 is primarily due to re-routing of the "SE Villavalle – SE Pietrafitta" power line, authorised by Interministerial Decree 239/EL-314/293/2019 of 12 September 2019.

(1) This figure shows the number of registered landowners affected by the construction of new power lines, and therefore involved in the application of easements during the relevant year. ***"Registered landowner" means the registered owner or group of owners of a parcel of land in a given municipality; the number of registered landowners thus coincides with the number of easements.***

(2) This figure shows the number of cases in which it was impossible to find a consensual solution with the landowners affected by the construction of a new power line, and therefore enforcement proceedings were applied via the issuing of a final easement order during the relevant year.

(3) This figure shows the number of cases in which it was impossible to find a consensual solution with the registered landowners affected by the construction of a new power line. Therefore, an urgent expropriation procedure was launched pursuant to art. 22 bis, "Predetermined urgent expropriation", of Presidential Decree 327 of 2001, "Consolidated laws and regulations regarding expropriation in the public interest". However, in such cases registered landowners may reach a consensual agreement before the final easement order pursuant to art. 23 of Presidential Decree 327/01 is issued.

The performance of easements is influenced by the type of work that Terna is required to carry out. Easements due to maintenance activity tend to be more equally distributed over the years, whilst major works require a far higher number of easements in the initial stages of the project, before a gradual reduction as the infrastructure is built.

Community initiatives

Terna's contribution to Italy's civic growth goes beyond its role as a provider of strategic infrastructure for the country, as expressed through the Company's support for social, cultural and environmental initiatives.

Terna's corporate giving activities primarily consist of financial support for projects with social goals and – preferably – the Company's own organisation of initiatives to benefit the community. In addition, assets no longer of use in operations are donated free of charge, and Terna's employees provide support by spending their working hours on various initiatives, especially paid hours for voluntary work or hours spent on social projects organised directly by Terna.

[132] Due to the physical length of the cables, it is necessary to deploy joints along the length of the cable duct between segments of cable at the points where specific joint pits have been created.

[133] The enforced easement/expropriation procedure takes place pursuant to Law 1775 of 1933 and Presidential Decree 327/2001 - "Consolidated expropriation regulations", subsequent to the issue of a specific authorisation to Terna S.p.A. by the authorising bodies.

FOCUS

The second edition of the Tyrrhenian Lab gets off the ground: excellence training to create jobs in southern Italy

In the wake of the first year's success, on 13 November 2023 Terna launched the second edition of the master's degree course on "Digitalising the Electricity System for Energy Transition", which is the flagship project of the **Tyrrhenian Lab**, an advanced training centre set up in partnership with the universities of Cagliari, Palermo and Salerno.

The T-Lab combines highly specialised training objectives with employment benefits in the areas where the **Tyrrhenian Link** undersea cable will reach land. The project envisages a five-year investment of approximately €100 million to provide recent STEM graduates from all over Italy with the opportunity to take a 12-month, second-level master's degree course, featuring a strong mix of classroom learning and field experience with Terna technicians, so that they may acquire the necessary skills to work at the Company and help to bring about Italy's digital transformation and energy transition

Once they have enrolled in the master's course, the selected students will receive a **letter of commitment from Terna to hire them on a permanent contract** at the relevant local office, and a **€19,000 grant**, to be fully covered – together with the cost of attending the master's course – by Terna.

The Tyrrhenian Lab further strengthens Terna's commitment to the local communities directly affected by the investments envisaged in the Company's Development Plan. This concrete initiative, aimed at young people, focuses on the skills they have acquired during their university studies and gives them the opportunity to develop them, with a view to a guaranteeing them employment in their hometowns.

The first edition of the master's degree course enabled 45 male and female students to embark on this unique academic pathway, which is aimed at specialised vocational training and, consequently, employment. On completion of the master's degree course, the students joined the Terna team, thereby seizing the opportunity to work in a highly specialised field and use their skills to serve the energy transition. Given these results, for the second edition Terna increased the number of scholarships granted to 57, namely 19 for each area office.

A total of around 300 master's graduates in technical and scientific subjects applied in 2023, almost double the number in the previous year.

Of the 57 graduates selected, 21 are women, leading to a substantial increase from 33% to 40% in the share of women compared to the first edition. The average age of the participants also fell slightly from 29 to 28.

As in the first edition, most of the master's degrees were in energy systems engineering (23%) and electrical engineering (14%), although an interesting increase in the numbers of graduates from other academic disciplines was also noted, especially computer engineering, which rose from 2% to 8%.

For the second year in a row, the master's degree course attracted not only recent graduates, who accounted for around half of the applicants, but also working professionals and people with a post-graduate qualification.

All external requests are managed in line with the Group's Corporate giving Policy and assessed by a special committee comprising the heads of Corporate Affairs (in the role of Chair); External Relations and Institutional Affairs; and the People Organisation and Change and Industrial Program Management Office. Committee meetings are also attended by the head of Legal Affairs, who acts as the committee's secretary.

In any event, in line with Terna's Code of Ethics, donations are never made to political parties or their representatives. < 415-1

FOCUS

With "Passaggi a Nord-Est" Terna helps to provide new information about life in pre-Roman and Roman times in the Venetian Lagoon area

The works to lay the 132 kV "Sacca Serenella primary substation – Cavallino primary substation" and "Fusina 2-Sacca Fisola" cable under the Venice Lagoon, which Terna carried out in 2017 and 2018 and put into service in 2019, also provided an opportunity to conduct new studies on the lagoon bed.

Indeed, this underwater archaeological site, managed by the Ministry of Culture in synergy with Terna, has enable a large group of scholars to identify new archaeological sites that have provided a wealth of new information on pre-Roman and Roman people.

The outcomes of this research have been catalogued and described in "Passaggi a Nord Est", which was published by SAP Società Archeologica Srl and financed by Terna. The book retraces the history of the human footprint that has transformed the lagoon area. The book includes contributions from scholars specialised in lagoon and underwater archaeology, geomorphology, ceramic production, archaeozoology and the dating of wooden remains from submerged environments, which provide an in-depth look at the methods, problems and medium- and long-term perspectives relating to scientific research in the lagoon area.

203-1 >

Terna has adopted the **B4SI (Business for Societal Impact)**[134] model for defining, classifying and accounting for companies' charitable initiatives. The model is geared towards accounting for what companies do via "community initiatives" that generate actual external benefits. Such initiatives may include cash contributions (donations, portions of sponsorships that generate an actual benefit and membership of associations that promote sustainability), in-kind contributions (the donation of assets at the end of their useful lives) or be in the form of working hours and operating expenses. In some cases, the valuation of contributions thus requires the use of non-accounting criteria and is therefore influenced by interpretative factors. However, it has the advantage of consistently linking the costs and benefits of social initiatives, thus enabling strategic planning and effective management of the related activities. Indeed, an important part of the model regards the measurement of benefits, with the aim of assessing the effective impact on end beneficiaries. In the most important projects, Terna appoints specialist external providers to assess the impact. The community initiatives implemented by Terna in 2023, classified in accordance with the B4SI model, are broken down in the following table.

[134] Rebranding of the London Benchmarking Group (LGB).

Community initiatives

€

	2023	2022	2021
Total value of contributions (excluding internal operating costs)	2,607,375	2,410,992	1,818,375
By type of contribution			
- In cash	2,206,709	1,940,560	1,587,732
- In kind (the donation of assets)	290,355	148,660	34,277
- Working hours	110,311	321,772	196,367
- Management costs	12,254	14,815	13,580
By type of initiative (*)			
- Donations	365,398	421,035	274,200
- Investment in the community	1,859,931	1,549,699	883,296
- Commercial initiatives	382,046	440,259	660,879
By purpose			
- Education and youth	1,574,931	786,100	606,758
- Healthcare	147,000	108,000	56,000
- Economic development	122,400	102,300	97,900
- Environment	108,660	145,046	67,367
- Art and culture	210,200	220,000	251,300
- Social wellbeing	33,000	57,000	45,000
- Emergency aid	282,884	725,573	312,461
- Other	128,300	266,972	381,589

*(*) **Donations**: sporadic contributions, typically in response to requests for funds from charitable organisations deemed to be of merit.*
***Investment in the community**: expenditure on initiatives coordinated/organised by the Company in accordance with a medium- to long-term programme, often in partnership with non-profit organisations.*
***Iniziative commerciali**: marketing initiatives with beneficial effects (only the portion of expenditure that constitutes a charitable contribution is accounted for).*

Terna's corporate giving Policy gives preference to initiatives projects relating to SDGs 4 (Quality education), 7 (Affordable and clean energy), 9 (Industry, innovation and infrastructure) and 11 (Sustainable cities and communities).

In 2023, spending on initiatives aligned with priority SDGs 4, 7, 9 and 11 accounted for 77% of Terna's expenditure on community initiatives. For the purposes of full disclosure, it should also be noted that, in 2023, expenditure accounted for as donations and sponsorships amounted to €504,962 and €1,019,500.

Finally, support for environmental causes has not been included in the above table, as it is usually linked to the construction of new lines and has therefore been classified under environmental expenditure.

Communication activities

In 2023, the Group's communication generated coverage via the release of a total of 30,037 items (up 0.5% on 2022), In detail, traditional (newspapers, periodicals, radio and TV) and online media. In detail, 5,050 press articles appeared (up 5% on 2022), including 2,383 in the national press (up 4% on 2022). The Company featured 876 times in broadcasts by leading TV and radio channels (up 41% on 2022), whilst 24,037 articles were posted on leading websites (slightly up on the 2022 figure).

In November 2023, Terna launched a new corporate communication campaign on TV, print and digital media with the motto "Let's think about the future of energy" and the messages *"Let's think about the future of energy. Everyone has a right to energy, and it's Terna's duty to transmit it throughout Italy. Let's respect it to take care of the environment and our country"*, which are aimed at calling for a collective energy culture based on awareness and responsibility.

In the first quarter of 2023, Terna presented the 2023 Development Plan for the National Transmission Grid, which is also available in a digital version in a special section on the Terna app. This provides fast and accessible multimedia content regarding the main projects and grid development initiatives on mobile devices. Via the app, you can learn about the key energy transition projects and explore additional content in four special sections: specific contexts; the planning process; development initiatives; and benefits for the electricity system. For the presentation of the new Plan, Terna made a video and used infographics and animations to illustrate the main innovations and areas for action on which the 2023 Development Plan is based, as well as specific contexts. On 13 November 2023, at an event held simultaneously at the universities of Cagliari, Palermo and Salerno, the second edition of the master's degree course on "Digitalisation of the electricity system for the energy transition", promoted by Terna in partnership with the three universities as part of the **Tyrrhenian Lab** project, was inaugurated (see box on page 265), for which the Company has planned total investment of €100 million for the period 2022-2026. In August 2023, with a view to engaging talented young people and enhancing the distinctive skills offered in these courses, Terna launched "Voci dal Master" (The Master's voice) on TikTok. This new editorial format enables master's degree students to voice their opinions on the value of the educational and professional pathway.

In 2023, Terna obtained "**BIC – Best in Media Communication certification 2022**" from Fortune Italia and Eikon Strategic Consulting. The experts praised Terna's *"excellent reputational positioning, journalists' appreciation of the clarity and comprehensiveness of the information and interesting content provided in particular, and highly effective and distinctive communication of the image of a robust and expanding company that is a leading sustainability player engaged in the process of energy transition and the development of resources"*. BIC – Best in Media Communication certification is the outcome of an auditing process that certifies the results of the communication actions of companies, organisations and public authorities, based on a scientific methodology and transparent, objective performance measurement criteria.

In 2023, Terna launched **EcoTips: actions for a more sustainable world**, which is a development of the feature *EcoTips: good sustainability practices* initiated as an internal communication campaign in 2022 to talk about the Company's commitment to sustainability. The new project, which was relaunched with the aim of encouraging people to adopt more virtuous behaviour in their everyday lives, was the outcome of synergy and continuous dialogue with a number of corporate functions, including the People Organisation and Change, Investor Relations, Corporate Development and Sustainability departments. On specific International Days, various topics were discussed, some of which are associated with the Sustainable Development Goals (SDGs): social relations with a focus on inclusion, attentive use of the grid and fair trade, the relationship between humans and the environment, and green mobility. Each topic was explored in depth and enhanced with activities organised specifically for Terna people and their families and friends, thanks to strategic partnerships with leading bodies and associations (Informatici Senza Frontiere, Sistech, WWF Italia, Caritas Italiana, Parks Liberi e Uguali).

In 2023, Terna also launched the second edition of the **Driving Energy – Contemporary Photography Prize**, a free competition open to all photographers in Italy, aimed at promoting Italy's cultural development and new photographic talents. The theme of the second edition of the prize, which received the President of the Republic Award, was **In Praise of Balance**, inspired by the Company's dispatching activities. The project more than doubled the results of the first edition, marking major achievements in terms of openness, participation and inclusion: 2,800 registered participants from 20 Italian regions and all of the 107 provinces, participants with ages ranging from 18 and 89, and a substantial female presence of around 60% among the young participants (under 30). From 27 September to 15 October, the five winning works, and those of the other 36 finalists, were exhibited at the Palazzo delle Esposizioni in Rome, with entrance free of charge. The use of innovation and digital technologies was also revamped and expanded, with the aim of bringing spectators closer to the works and their creators, thus making them accessible at any time, and from anywhere in the world. On the Prize's official website, a Virtual Tour offers a 3D digital version of the exhibition at the Palazzo delle Esposizioni, and a Metaverse Exhibition enables even more immersive and engaging appreciation of the works via a tailor-made virtual environment. The new **Terna PDE** app, which can be downloaded free of charge from all app stores, presents the finalists' photographs and a set of exclusive content created by the photographers themselves, including explanations of the photographs, which can be listened to on their phones, and short self-presentation videos. Many initiatives were dedicated to Terna's people, who became part of "Italy's largest jury" by giving a special mention. In addition, all the photographs nominated by employees were collected in a virtual exhibition on the internal TernaCult website, and each photographer was given a professionally printed copy of their work.

FOCUS

For the fourth consecutive year, Terna leads the way in Italy and Europe in terms of the quality of our digital communication

The Webranking by Comprend 2023-2024 study on the quality and transparency of the digital communication of listed companies, carried out in collaboration with Lundquist, ranked Terna number one among the 500 largest companies by capitalisation in Europe for the fourth consecutive year. This marks a record for the well-known international ranking, as no company has ever previously managed to top the ranking for four years in a row.

With a score of 94.7 out of 100, more than double the 47-point average for European companies, Terna was recognised for its excellence in terms of accessibility and the quality of the corporate information presented on the Company's website and on the main social media platforms. Terna is a top performer with regard to its effective and transparent digital communication in the areas of sustainability, governance and investor relations. In particular, Comprend's analysts pointed out that *"Terna's ranking as Europe's best-performing company for four consecutive years shows an ongoing commitment to excellence in corporate communication and transparency. The company is the best in Europe with respect to its approach to sustainability, but also in investor communication, the area in which European companies score lowest overall. The company also gives ample space to describing its governance policy, explaining in great detail the structure and functions of the Board of Directors"*. This clear and accurate communication – in terms of accessibility and the quality of the corporate information presented on the Company's website and on the main internet and social media platforms, enhanced by a rich mix of videos and infographics – is fully expressed in the digital magazine Lightbox.

Economic value created and distributed to stakeholders

The Terna Group confirms its commitment to pursuing a sustainable business model aimed at **creating value for all our stakeholders**. The model's results are effectively summarised in the table below showing the **economic value created and distributed**. The following figures have been computed taking into account all the requirements established by Standard GRI 201-1 for reclassification of the Group's consolidated income statement.

In 2023, the total **economic value created** by the Group amounted to **€3,338.19 million** (€3,021.29 million in 2022).

The **economic value distributed** amounted to **€3,140.51 million** and was distributed to the following stakeholder categories: suppliers, employees, lenders, shareholders, the Public Administration and local communities.

201-1 >

Economic value directly created and distributed- €m (*)

€m

	2023 (**)	2022 (**)	2021 (**)	CHANGE 2023/2022	% CHANGE 2023/2022
1 – ECONOMIC VALUE GENERATED (A)	**3,338.19**	**3,021.29**	**2,653.02**	**316.90**	**10**
B – Operating costs relating to suppliers	1,435.00	1,269.59	1,102.23	165.40	13
C – Employees	378.18	348.40	295.31	29.78	9
D – Credit providers	232.81	113.70	89.81	119.11	105
E – Shareholders (1)	682.59	631.94	585.11	50.65	8
F – The public administration	410.41	409.37	359.78	1.04	0
G – Investment in local communities (2)	1.52	2.18	2.31	(0.65)	(30)
2 – ECONOMIC VALUE DISTRIBUTED TO STAKEHOLDERS (B+C+D+E+F+G)	**3,140.51**	**2,775.18**	**2,434.55**	**365.34**	**13**
3 – PROFIT/(LOSS) FOR THE YEAR FROM ASSETS HELD FOR SALE	**2.54**	**(20.35)**	**(12.84)**	**22.88**	**(112)**
4 – ECONOMIC VALUE RETAINED (1-2+3) (3)	**200.21**	**225.76**	**205.63**	**(25.55)**	**(11)**

(*) Amounts relating to the creation and distribution of economic value have been taken from the consolidated income statement prepared in accordance with IFRS/IAS. The Terna Group has used IFRS/IAS since 2005.

(**) Given that the requirements of IFRS 5 have been met, the total results for 2023, 2022 and 2021 attributable to the South American subsidiaries included in the planned sale of assets have been classified in the item "Profit/(Loss) from assets held for sale" in economic value retained.

(1) Payments to the providers of risk capital in 2023 correspond with the interim dividend for 2023 (€230.3 million) payable from 22 November 2023 to the holders of each ordinary share outstanding (net of treasury shares held at the record date of 21 November 2023, the amount for which was taken to "retained earnings") and the final dividend to be proposed to the AGM, as decided by the meeting of Terna S.p.A.'s Board of Directors held on 19 March 2024 (€452.3. million).

(2) Donations and sponsorships are considered. Details of "Investment in local communities" are provided on page 267.

(3) Corresponds with consolidated net profit for the year (including the share attributable to non-controlling interests) after payments to the providers of risk capital.

There was a 10% increase in the economic value created by the Terna Group in 2023 compared with 2022. This primarily reflects the increase in the regulatory asset base during the period, after the volume effect and the effect of output-based incentive mechanisms.

Compared with 2022, economic value distributed is up 13%. This mainly reflects increases in payments to credit providers (up 105%), due primarily to the higher interest rates payable on borrowings, an increase in operating costs (up 13%), broadly relating to the costs incurred by the Brugg Group and the LT Group (acquired in October 2021), and the greater volume of activity and new initiatives carried out by the Group and the resulting increase in personnel expenses (up 9%).

Economic value retained also includes the net result for the year from discontinued operations and assets held for sale, which is up €22.8 million compared with 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 and an increase in operating losses in view of the difference in scope. Further details are provided in the relevant note to the consolidated financial statements.

Created value distributed – %

	2023
Operating costs relating to suppliers	43.0
Employees	11.3
Credit providers	7.0
Shareholders	20.4
The Public Administration	12.3
Investment in local communities	0.0
Retained by the entity	6.0

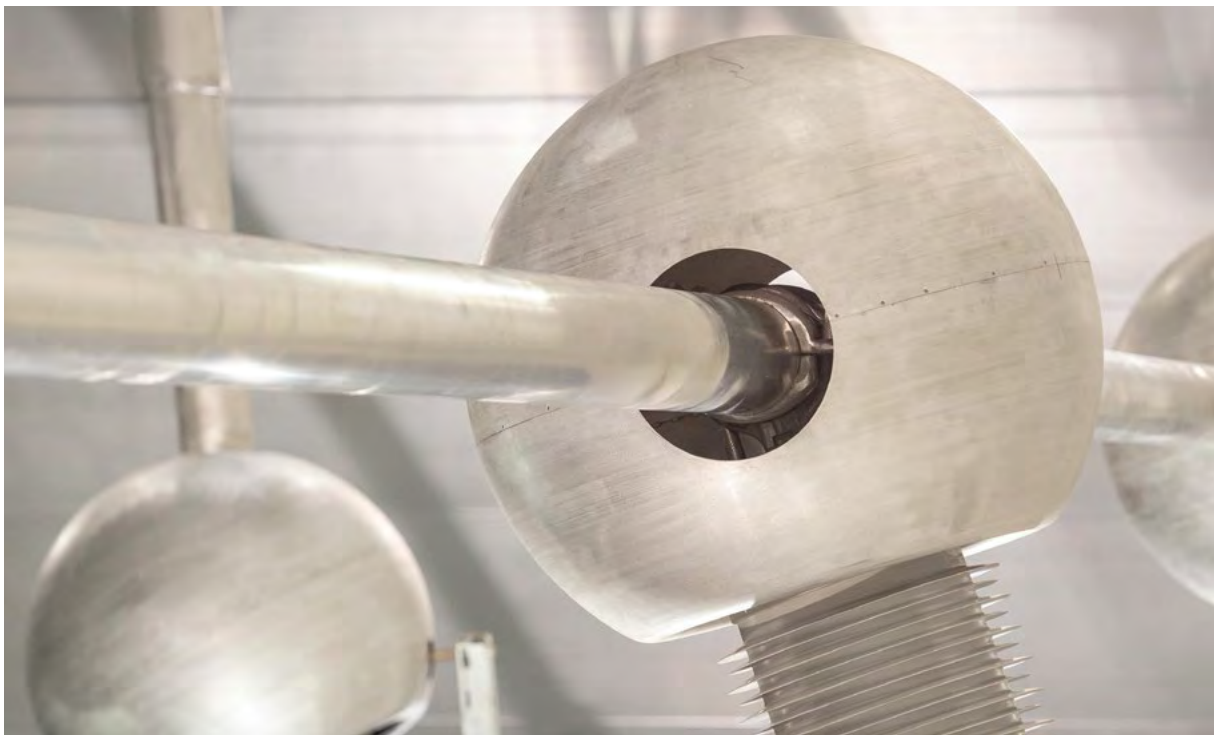
It should also be noted that, in 2023, Terna received the sum of €6,617,869 from the Ministry of Business and Made in Italy as an advance on government grants for projects to be funded under the National Operational Programme (NOP). Public organisations also provided grants of €3,088,483, essentially to fund the re-routing of power lines. In August 2023, Terna received an advance payment from the European Commission in relation to the Italy-Tunisia Interconnector project (€38.5 million being the portion attributable to the Company).

< 201-4

Grants

€	2023	2022	2021
Grants related to assets from Public Organisations (*)	3,088,483	4,769,078	13,261,517
For projects funded by MIMIt the Ministry for Business and Made in Italy (*)	6,617,869	15,574,648	22,902,683
For projects financed by the European Union	38,457,902,67	0	0

(*) These grants are recognised as a direct reduction in the carrying amount of assets.



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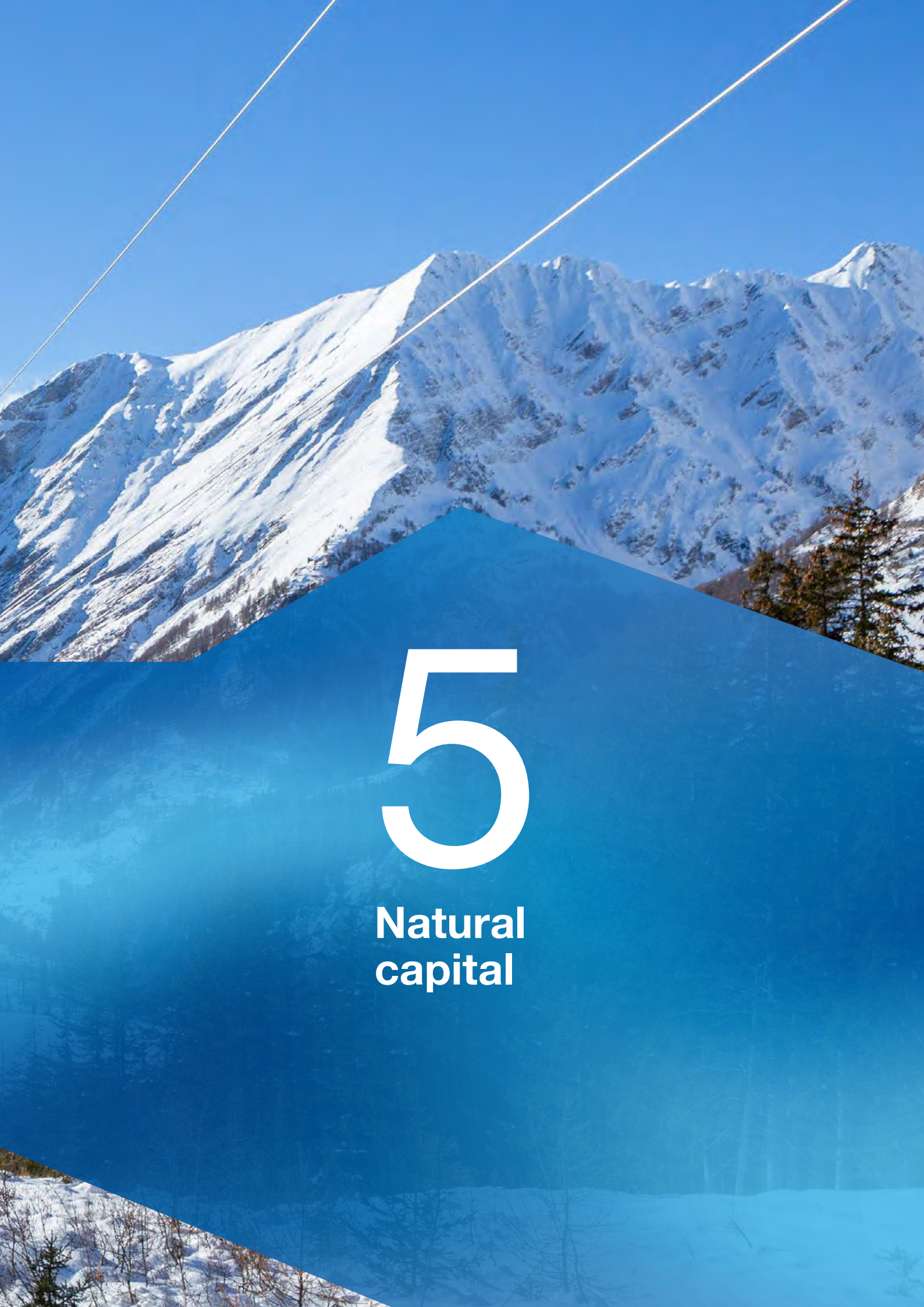
Landscape and biodiversity 296

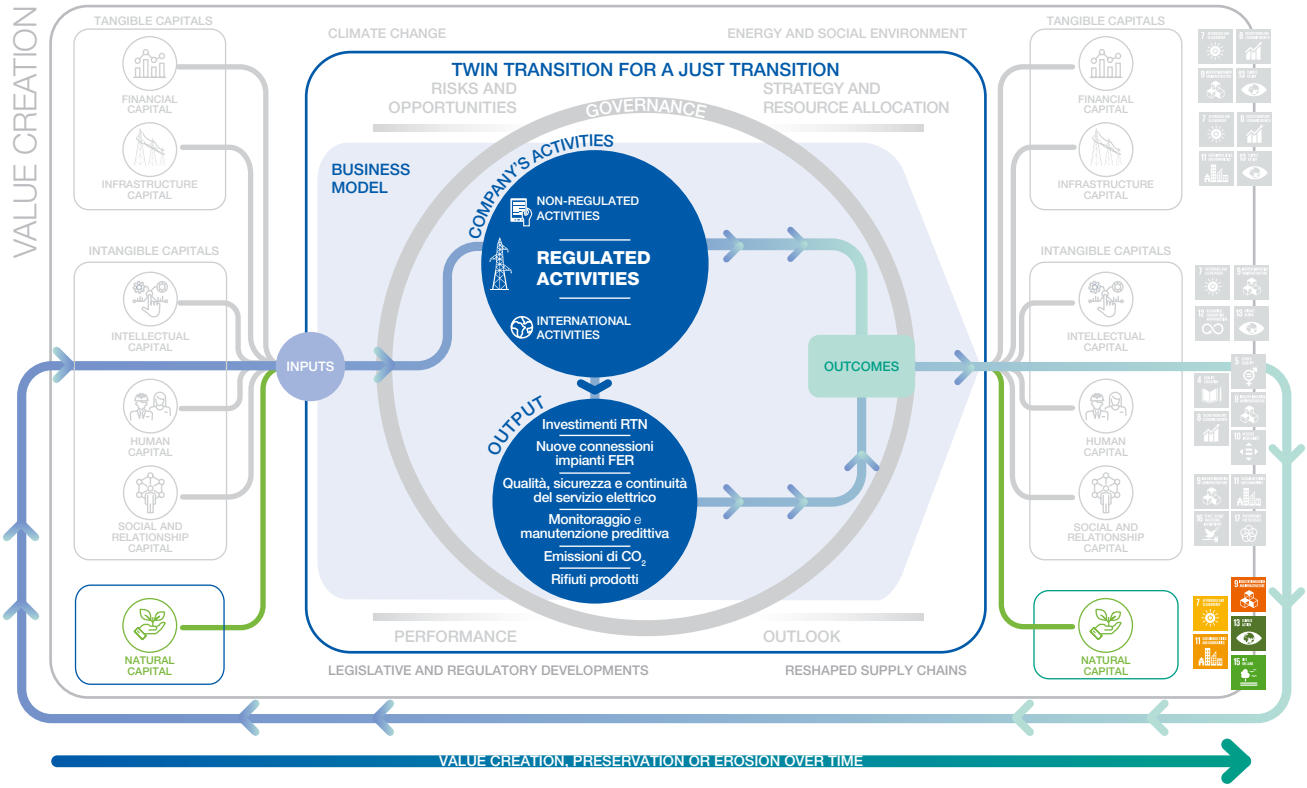


5

Natural capital

In this section

Natural capital is the only capital that Terna, in common with every other business or person, does not have at its disposal but has an obligation to preserve, and potentially enhance, for the benefit of future generations. In keeping with the outcome of the materiality analysis, implementation of the Group's business model focuses on cutting atmospheric emissions and energy efficiency, the recycling and reuse of materials in accordance with circular economy principles, protecting landscapes and biodiversity and, where possible, a circular approach to operations.



These infographics highlight the topics dealt with in this section with the aim of **facilitating information connectivity**: in this way, the section offers an overall view showing the links between all the factors that influence Terna's ability to create value over time.

INPUTS

At 31 December 2022

(Direct scope 1 CO_2 emissions)
72,477.1 tonnes of CO_2 equivalent
0.41 SF_6 leakage rate

(Direct scope 2 CO_2 emissions)
1,735,046.6 tonnes of CO_2 equivalent

46.2 Carbon intensity
Tonnes of CO_2 equivalent / Revenue (€m)

(Electricity consumption)
703,080.0 GJ to fuel substations and offices

(Landscape impact)
68 km of obsolete lines removed
245 hectares of land freed up

At 31 December 2023

(Direct scope 1 CO_2 emissions)
71,724.8 tonnes of CO_2 equivalent
0.40 SF_6 leakage rate

(Direct scope 2 CO_2 emissions)
1,530,657.7 tonnes of CO_2 equivalent

40.0 Carbon intensity
Tonnes of CO_2 equivalent / Revenue (€m)

(Electricity consumption)
691,776.0 GJ to fuel substations and offices

(Landscape impact)
89 km of obsolete lines removed
299 hectares of land freed up

OUTCOMES

CO_2 emission and electricity consumption reduction programmes

Rationalisation of the grid with benefits for local areas

OUTPUTS

NFS

2-23 >

Managing the impact on natural capital

Terna's main reference point in managing natural capital[135] is the **Environmental Policy**, which is part of the Group's Integrated Policy.

The Group policies set 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, such as, for example, the security and continuity of the electricity service.

This Policy is fully implemented through the **Integrated Management System**, which plays a key role in its implementation and control. In addition, in view of its sustainable business approach, Terna extends the issue of Natural Capital protection to both its supply chain and local stakeholders directly affected by NTG development projects.

Terna's main contribution to achievement of the most urgent environmental target – being an efficient and concrete fight against climate change – is its commitment to carrying out the investment provided for in the Development Plan to enables the energy transition towards an electricity system powered by renewable energy sources. The Company is also aware that the current international situation has made the energy transition a strategic imperative for the country, in terms of both the economic and social aspects. To achieve the energy transition objective, Terna constantly refers to the **Just Transition**, taking into account the impact of the energy transition on employees, suppliers and local communities. (see page 10).

In terms of greenhouse gas emissions, Terna has for years focused on a number of voluntary programmes, primarily regarding the achievement of reductions in SF_6 gas leakage, (scope 1), making buildings energy efficient and saving energy at substations (scope 2). In 2021, Terna's commitment to tackling climate change was furthered bolstered with the formal definition and adoption of its **Science Based Target (SBT)** initiative for 2030, subsequently updated in 2022 and approved by the third party body, Science Based Target Initiative, in February 2023. This has brought Terna into line with the scenario of "1.5°C", namely the most ambitious objective set by the Paris Agreement of 2015. To achieve this, Terna has committed to **cutting its carbon dioxide equivalent emissions by 46.2% compared with 2019 levels (scope 1 and 2) by 2030** and, as regards to **scope 3 emissions, by 11.1% compared with 2021**, also thanks to actions set out in the Group's Circular Economy Roadmap (see page 290).

[135] When the data presented in this section refers to the "Group", it refers to 100% of employees, unless otherwise stated; when instead the data refers to "Terna", it refers to 83% of all the Group's employees, if referring to the Group the percentage is 100%. With regard to revenue, the percentages are 87% with reference to Terna and 100% to the Group.

The construction of electricity infrastructure, provided for in the Development Plan, together with the maintenance of existing infrastructure and the removal of obsolete equipment, is linked to the production of waste, a high proportion of which is recovered. In 2023 the Company, concluded preparations for the definition of a Circular Economy Strategy, setting out a roadmap for actions through to 2023, and establishing an initial Action Plan designed to gradually adopt a **circular economy** model (see page 291).

Terna's activities also have an environmental impact on the landscape, resulting from the physical presence of power lines and electricity substations and their interaction with the surrounding natural and manmade environment. To minimise this, we adopt solutions such as the use of pylons with a reduced visual impact and, when possible, the use of underground sections of line or the use of green engineering, which also consider the **protection of the surrounding biodiversity**. In this context, the most important contribution is the physical removal of obsolete power lines following rationalisation initiatives.

In this regard, it should be noted that Terna is the first company at international level to have developed guidelines enabling application of the assessment criteria in the international **Envision**[136] protocol to new electricity transmission infrastructure. The protocol measures, confirms and certifies the sustainability and resilience of its infrastructure by applying a framework based on **64 sustainability and resilience indicators**, divided into **five categories: quality of life, leadership, resource allocation, natural world, climate and resilience**. The Envision guideline adopted by Terna has been approved by ICMQ, the certification body with sole responsibility for developing awareness of the protocol across Italy.

[136] See page 249 of the 2022 Integrated Report.

SASB

Atmospheric emissions

The guidelines in Terna's 2024-2028 Industrial Plan are consistent with the targets set internationally to combat climate change, starting with the agreement signed by 195 countries – including Italy – at the end of the United Nations Climate Conference (COP21) in Paris in December 2015, which identified the containment of CO_2 emissions into the atmosphere as the most urgent and efficient action to keep global warming within acceptable limits.

In line with these guidelines, Terna has established specific goals – formalised into a Science Based Target through to 2030 – for the three emission scopes (scopes 1, 2 and 3), setting out the actions necessary to achieve them and the indicators to monitor their state of progress.

Terna Group direct and indirect emissions
(Scope1, Scope2 and Scope3)

Scope1
Direct emissions

Leakages of SF_6 and refrigerant gases

Fuel consumption

Scope2
Indirect emissions

Electricity consumption for substations and offices

Grid losses

Scope3
Indirect emissions

Purchased goods and services

Capital goods

Activities related to energy and fuels

Upstream transport and distribution

Use of sold products

Waste generated in operations

Business travel

Commuting employees

Downstream transport and distribution

End of life treatment of the products sold

Action to combat climate change

SCOPE	ACTION	KPIs	OBJECTIVE
TERNA's ACTIVITY			
Scope 1 emissions	Reduction of SF_6 gas emissions by cutting losses	SF_6 leaks as a percentage of total installed	**- 46%** (2030 vs 2019 – Terna's SBT)
		SF_6 amount	
		SF_6 emissions	
	Greater energy efficiency and reduction of consumption related to offices, substations and plants.	Building and substation consumption	
		Number of buildings and substations monitored through sensors	
	Reduction of vehicle fleet consumption thanks to green vehicles	% Electric and hybrid vehicles	
		Fleet consumption	
Scope 2 emissions	Reduction of emissions associated with grid losses thanks to Development Plan projects	Grid losses in GWh	
		losses as a percentage of energy transported	
		Emissions associated with grid losses	
Scope 3 emissions	Reduction of scope 3 emissions thanks to circular economy projects and green transformers	% of recycled waste	**- 11%** (2030 vs 2021 – Terna's SBT)
		Number of green transformers sold	
		Energy and fuel consumption	
DECARBONISATION OF THE COUNTRY			
Italian emissions	Development Plan projects for the country's decarbonisation	New RES connections	**- 55%** (2030 vs 1990 – EU Green Deal)
		Improving the energy mix	

Direct CO_2 emissions (scope 1)

< 305-1

Direct greenhouse gas emissions connected with Terna's activities **derive mainly from SF_6 gas leaks (89% of total direct emissions in 2023)**, which are slightly down from the previous year (see page 282).

SF6 (sulphur hexafluoride) gas is used as insulation in certain electrical equipment (circuit breakers, current transformers and armoured equipment. Part of the gas in the equipment can leak into the atmosphere due to defective seals, when faults occur, and also sometimes during the re-pressuring process. SF_6 gas has a very powerful greenhouse effect, which is 23,500 times greater than CO_2: leakage into the atmosphere of 1 kg of SF_6 is equivalent to 23.5 tonnes of CO_2.

Total direct greenhouse gas emmissions – Tonnes of CO_2 equivalent

	GROUP (*)			TERNA		
	2023 (**)	2022	2021	2023	2022	2021
Direct emissions	77,588.9	76,505.6	73,203.7	71,724.8	72,477.1	68,942.0

(*) The figures shown in the column "Group" regard the Terna Group in 2023; in 2022, they regarded Terna, Tamini Group and Brugg Group, whilst in 2021 Terna, Tamini Group and Brugg Switzerland.
(**) With regard to Brugg's emissions, only a minimal part is due to leakages of natural gas following work on cables.

The direct emissions produced by Tamini and Brugg are primarily attributable to natural gas consumption.

The table below shows details of Terna's emissions, without taking into account Tamini and Brugg, as their environmental impacts in terms of CO_2 are not fully comparable due to the specific nature of their businesses.

Total direct greenhouse gas emmissions – Tonnes of CO_2 equivalent (*)

	TERNA		
	2023	2022	2021
Direct emissions			
Leakages of SF_6	63,956.2	64,732.5	61,204.6
Diesel for motor vehicles	4,039.6	6,198.7	6,453.4
Petrol for motor vehicles	1,615.2	103.2	95.7
Jet fuel for helicopters	1,192.8	595.9	452.0
Fuel oil for heating and generators	233.3	336.5	279.5
Natural gas for heating	200.7	291.1	196.5
Leakages of refrigerant gases (R407C, R410A, R32, R134A) (1)	487.0	219.2	260.3
Total direct emissions	**71,724.8**	**72,477.1**	**68,942.0**

(*) The conversion of direct energy consumption and leakages of SF_6 (sulphur hexafluoride) and refrigerant gases into equivalent CO_2 emissions has been carried out using the parameters indicated in the IPCC Fifth Assessment Report (AR5) and the Greenhouse Gas Protocol (GHG) Initiative.
(1) It should be noted that the figure for 2023 also includes for the first time leakages of R32 and R134A gases. For a better understanding of these figures, in addition to those included in the table, in 2022, leakages of R32 and R134 gases were recorded, amounting to 117 tonnes of CO_2 equivalent.

Overall emissions related to fuel consumption have reduced by 647.1 tonnes of CO_2 equivalent, attributable to the reduction in diesel vehicles, which were replaced by hybrid vehicles, which also use petrol, and fully electrical vehicles.

The increase recorded in jet fuel (up 596.9 tonnes of CO_2 equivalent) can be attributed to the increase in the helicopter fleet and, as a result, the hours of flight to monitor power lines.

305-5 >

The management of SF_6 gas

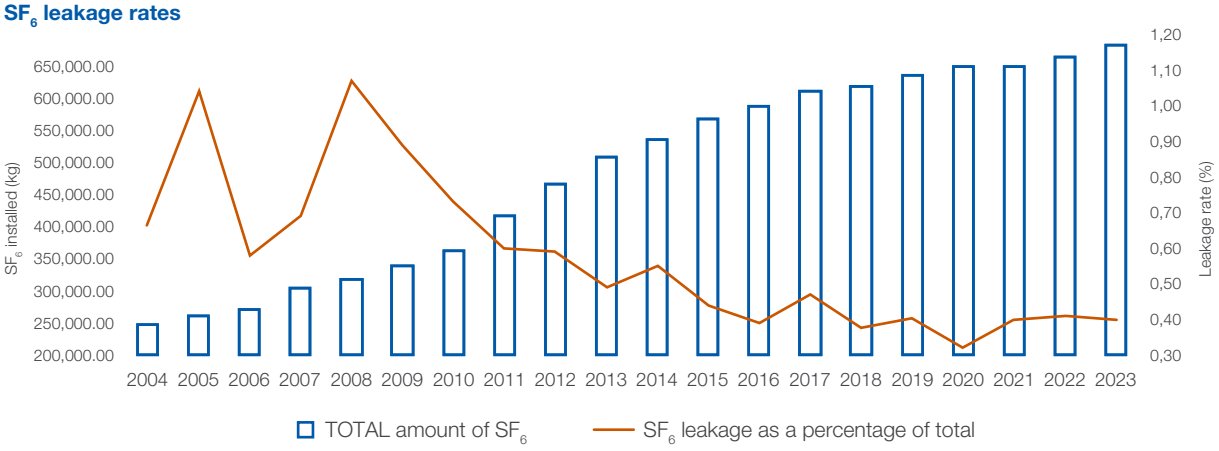
The amount of SF_6 present in the Group's infrastructure has consistently grown. This is a trend linked to the better insulating performance of this gas and the smaller footprint of substations built ("armoured") with equipment containing SF_6 in comparison with more traditional solutions. This is a significant aspect for Italy, which has landscapes of major value and is densely populated. The search for solutions able to contain climate-changing emissions produced by SF_6 leakages took full shape at the end of 2020, with the adoption of a closed cycle regenerated SF_6 gas management system (see the dedicated box on page 292), and the introduction of a new voltage level (a nominal 36 kV), which provided alternative solutions to the use of SF_6 gas.

SF_6 amounts and emissions

		TERNA		
	UNIT	2023	2022	2021
SF_6 amount	kg	683,045.0	664,192.2	650,239.8
- in equipment installed	kg	629,840.8	616,579.6	608,766.5
- in cylinders	kg	53,204.2	47,612.6	41,473.2
SF_6 leakage as % of total	%	0.40	0.41	0.40
SF_6 greenhouse gas emissions	kg	2,721.5	2,754.6	2,604.5

During the period from 2012 to 2017, the related target for the leakage rate was 0.60%. In the light of the actual performance recorded until 2017, in the early months of 2018, the target was reformulated and reduced to 0.47 for the two-year period 2018-2019 and, from 2020 through to 2025, to 0.45. At the beginning of 2024, at the time of the finalisation of the new 2024-2028 Sustainability Plan, the target was further revised, as shown in the following table, with an expected improvement by the end of the plan period equal to a 20% reduction with respect to the target set for 2023.

SF_6 leakage rates



In 2023 the leakage rate regarding total equipment installed and cylinders was **0.40%**. Though down slightly from 2022, this figure is in line with the company target.

"Energy transition" pillar – 2024-2028 Sustainability Plan KPI and target

KEY ACTIVITIES	KPI	2024	2025	2026	2027	2028
Renew/improve the efficiency of infrastructure and plants to reduce SF_6 leakages.	SF_6 leakage rate on total installed as a percentage.	≤ 0.44	≤ 0.42	≤ 0.40	≤ 0.38	≤ 0.36

Indirect CO_2 emissions (scope 2)

< 305-2

In line with the GHG Protocol standard[137] and the main international benchmarks, starting with the Integrated Report - Consolidated Non-financial Statement ("NFS") for 2021, Terna includes in the figure for its total indirect emissions (scope 2), in addition to those resulting from electricity consumption, the CO_2 emissions associated with grid losses, despite these not being completely under its control.

In terms of indirect emissions related to the consumption of electricity, it should be borne in mind that, for technical reasons, Terna's energy consumption is not attributable to a supply contract. This makes it impossible to reduce indirect emissions by selecting supplies from renewable sources and accounts for the need to use an average conversion factor for Italian electricity consumption. For this reason, in line with GHG Protocol methodology, emissions linked to electricity consumption are classified only as location-based and not as market-based.

Total indirect greenhouse gas emmissions – Tonnes of CO_2 equivalent

	GROUP (*)			TERNA		
	2023	2022	2021	2023	2022	2021
Indirect emissions	1,534,836.9	1,662,890.5	1,450,131.4	1,530,657.7	1,735,046.6	1,658,342.6

(*) The figures shown in the column "Group" regard the Terna Group in 2023; in 2022, they regarded Terna, Tamini Group and Brugg Group, whilst in 2021 Terna, Tamini Group and Brugg Switzerland.

The table below shows details of Terna's emissions, without taking into account Tamini and Brugg Switzerland, as their environmental impacts in terms of CO_2 are not fully comparable due to the specific nature of their businesses.

Total indirect greenhouse gas emmissions – Tonnes of CO_2 equivalent

	TERNA		
	2023	2022	2021
Electricity [(1)]	55,620.7	64,380.6	61,232.6
Grid losses	1,475,037	1,670,666	1,597,110

(1) The conversion of indirect electricity consumption is carried out taking into account the share of total Italian electricity production represented by thermoelectric production in 2023. Allocation for the purposes of the production mix was based on the December 2023 issue of the "Monthly Report on the Electricity System" available on the website at www.terna.it. It should also be noted that approximately 12% of Terna's electricity consumption is based on an estimate, above all for buildings at the construction site at Polo Galbani.

Further information regarding the consumption of electricity and grid losses is provided in the following paragraphs. With regard to reducing related emissions, the electricity mix produced and injected into the grid is a significant contributing factor. This factor has reduced by over 10%.

[137] The GHG Protocol has established an internationally recognised framework for measuring and managing greenhouse gas (GHG) emissions from private and public sector operations, value chains and mitigation actions.

EU12 >

Grid losses

Grid losses are defined as the difference between energy injected by producers (including imported energy) and final consumption; the losses for Terna[138] are those associated with the transmission grid. The figures shown in the following table are based on direct measurement of the energy injected and withdrawn from the transmission system.

Grid losses

	2023		2022		2021	
	% COMPARED WITH ENERGY DEMAND	GWh	% COMPARED WITH ENERGY DEMAND	GWh	% COMPARED WITH ENERGY DEMAND	GWh
VHV and HV grid	1.66	5,096	1.60	5,068	1.62	5,143

Grid losses are a physical effect of the electricity lost as it passes through conductors and during transformation. Losses are influenced by the level of voltage, the volume of electricity transported, the materials used and the distance between the points at which energy is produced and consumed. Terna can only determine the extent of the losses, which are not completely under its control. Grid development activities, given the same structure of production, would lead to greater efficiency and thus a reduction in losses. However, the actual impact of development initiatives on losses is unpredictable and not under the control of the transmission operator, as it depends on concomitant changes in production capacity and electricity supply and demand at local level.

Dispatching operations, needed to guarantee a constant balance between injections and withdrawals and to prevent the occurrence of grid security problems and disruptions, are carried out in accordance with regulatory criteria within the production set-up created by the energy market. They cannot be influenced by Terna with the aim of minimising losses.

CO_2 emissions associated with grid losses amounted to 1,475,037 tonnes in 2023, 1,670,666 tonnes in 2022 and 1,597,107 tonnes in 2021[139]. The trend differs from the one regarding losses measured in GWh due to changes in the conversion factor used to convert energy into CO_2 equivalent emissions, which in turn is affected by changes in the production mix among Italian power generators.

As previously noted, Terna does not have complete control over grid losses and, for this reason, up to 2020 the related CO_2 emissions were not reported in the scope 2 indirect emissions. However, starting from the report for 2021 it was deemed opportune to align the reporting methodology with that set by the GHG Protocol, the leading international standard for reporting CO_2 emissions[140].

[138] Terna became responsible for the direct measurements in 2017, whereas in previous years the Company had been responsible only for the measurement of energy injected into the NTG and not for the energy withdrawn, for which the distribution companies were responsible.
[139] It should be noted that the figures of emissions in tonnes of CO_2 equivalent for 2021 have been updated compared with those published on page 264 of the 2022 Integrated Report: 1,507,110 tonnes of CO_2.
[140] The GHG Protocol has established an internationally recognised framework for measuring and managing greenhouse gas (GHG) emissions from private and public sector operations, value chains and mitigation actions.

Summary of direct and indirect emissions: carbon intensity

The overview of Terna's direct and indirect CO_2 emissions shows how the first (scope 1) primarily relate to SF_6 gas leakages whilst the second (scope 2) to grid losses and electricity consumption at substations and offices (scope 2).

Total direct and indirect greenhouse gas emmissions - Tonnes of CO_2 equivalent

	GROUP (*)			TERNA		
	2023	2022	2021	2023	2022	2021
Direct emissions	77,588.9	76,505.6	73,203.7	71,724.8	72,477.1	68,942.0
Indirect emissions	1,534,836.9	1,739,906.5	1,662,890.5	1,530,657.7	1,735,046.6	1,658,342.6
Totale emissions	**1,612,425.8**	**1,816,412.1**	**1,736,094.2**	**1,602,382.5**	**1,807,523.7**	**1,727,284.6**

(*) The figures shown in the column "Group" regard the Terna Group in 2023; in 2022, they regarded Terna, Tamini Group and Brugg Group, whilst in 2021 Terna, Tamini Group and Brugg Switzerland.

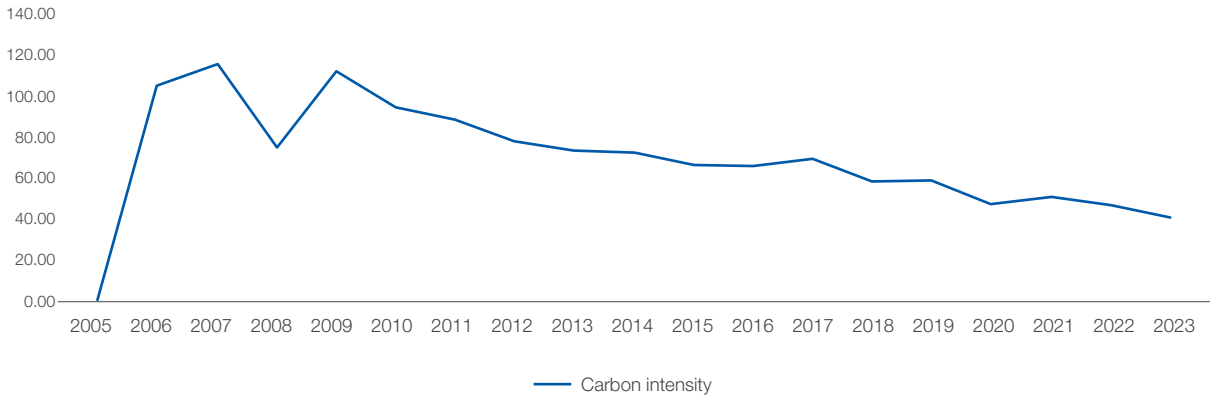
Carbon intensity, based on the ratio between Terna's direct and indirect emissions and revenue, has improved thanks to the overall reduction of over 11% in CO_2 and the performance of revenue.

Carbon intensity – Tonnes of CO_2 equivalent/Revenue (€m)

< 305-4

	TERNA		
	2023	2022	2021
Emissions (scope 1 and electricity)	127,345.5	136,857.7	130,174.6
Emissions (scope 1 and electricity) in relation to revenue	40.0	46.2	50.0

Carbon intensity



In order to factor in network losses, over which Terna does not have complete control, into an emissions comparison (see page 284) with a comparable economic scale, it was decided to compare total emissions with the inclusion of pass-through items[141] in Terna's revenue. Taking these factors into account, the resulting ratio is 133.3 tonnes of CO_2 equivalent/revenue (€m) in 2023, 128.2 in 2022 and 158.9 in 2021.

[141] The definition of pass-through items is provided in the note on revenue in the notes to the consolidated financial statements.

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Other indirect CO_2 emissions (scope 3)

In addition to emissions deriving from electricity consumption and losses from Terna's grid, in line with the GHG Protocol, Terna also reports the following indirect (scope 3) emissions.

Other indirect emissions (scope 3) - Tonnes of CO_2 equivalent

	GROUP (*)			TERNA		
	2023	2022	2021	2023	2022	2021
Purchased goods and services	152,730.8	122,650.7	98,638.4	24,041.4	4,120.1	1,308.7
Capital goods	355,647.2	81,294.8	27,447.8	355,647.2	81,294.8	27,447.8
Energy and fuel related activities	470,898.1	468,983.8	475,907.6	468,777.2	466,686.0	473,450.6
Upstream transportation and distribution	6,833.7	1,142.9	395.0	6,833.7	1,142.9	395.0
Waste generated in operations	16,511.7	3,945.9	2,321.8	16,511.7	3,945.9	2,321.8
Business travel	1,137.6	985.8	918.0	885.5	712.0	918.0
Employee commuting	10,075.9	9,321.1	8,731.2	8,275.60	7,690.8	7,180.8
Downstream transportation and distribution	274.1	233.2	502.7	n.a.	n.a.	n.a.
Use of products sold	1,166,872.1	965,738.9	973,225.1	n.a.	n.a.	n.a.
End-of-life treatment of products sold	141.0	105.4	132.2	n.a.	n.a.	n.a.

(*) The figures shown in the column "Group" in this table regard Terna, the Tamini Group and Brugg.

As regards emissions linked to the categories, Purchased goods and services, Capital goods, Upstream transportation and distribution and Waste generated in operations, estimates were made using the PEF (Product Environmental Footprint) method, forming the basis of the *LCA (Life Cycle Assessment)* study carried out by Terna in collaboration with Bocconi University. The figure for these emissions is directly influenced by the new power lines built.
With regard to the categories linked to Transport, Use and End-of-life treatments of products sold, the figure for the use of products is particularly significant as it takes into account grid losses associated with the use of the transformers and cables sold. Finally, items linked to energy and fuel related activities, business travel and employee commuting are presented for all the types of business.

Energy consumption and cuts in emissions: energy efficiency

The Terna Group's energy consumption, which also includes the consumption of Tamini and Brugg, is shown below. Tamini's and Brugg's energy consumption is mainly due to natural gas consumption.

302-1 >

The organisation's direct and indirect energy consumption - Gigajoules

	GRUPPO (*)			TERNA		
	2023	2022	2021	2023	2022	2021
Direct consumption in GJ	164,432.1	172,124.2	174,407.2	101,301.6	103,319.0	102,181.9
Indirect consumption in GJ	743,754.3	756,153.2	762,573.6	691,776.0	703,080.0	709,851.6
Total consumption in GJ	**908,186.3**	**928,277.4**	**936,980.8**	**793,077.6**	**806,399.0**	**812,033.5**

(*) The figures shown in the column "Group" regard the Terna Group in 2023; in 2022, they regarded Terna, Tamini Group and Brugg Group, whilst in 2021 Terna, Tamini Group and Brugg Switzerland.

The following table, on the other hand, show details of the Terna's energy consumption without taking into account Tamini and Brugg.

The organisation's direct and indirect energy consumption - Gigajoules (*)

	TERNA		
	2023	2022	2021
Direct consumption in GJ			
Diesel for motor vehicles [1]	54,582.0	83,755.1	87,196.7
Petrol for motor vehicles [1]	23,307.6	1,491.0	1,382.5
Jet fuel for helicopters	16,682.1	8,333.7	6,321.7
Fuel oil for heating and generators	3,152.3	4,547.2	3,776.1
Natural gas for heating	3,577.7	5,192.0	3,505.0
Total direct consumption	**101,301.6**	**103,319.0**	**102,181.9**
Indirect consumption in GJ			
Electricity to power substations and offices[2]	691,776.0	703,080.0	709,851.6

(*) Direct consumption data in tonnes and thousands of m^3 is shown in detail in the "Key indicator tables" (published in the Sustainability section of the website at www.terna.it). To convert the volumes of the primary resources into gigajoules, the parameters set out in the Global Reporting Initiative (GRI) protocols were used (Reference Indicators IP Protocols: EN).

(1) Only consumption of operating vehicles is taken into account and not the cars used by managers.

(2) The conversion of indirect electricity consumption is carried out taking into account the share of total Italian electricity production represented by thermoelectric production in 2022, given Terna's inability to select a specific supplier, due to technical reasons. Allocation for the purposes of the production mix was based on the December 2023 issue of the "Monthly Report on the Electricity System" available on the website at www.terna.it. In view of the above, and in line with the GHG Protocol method, the emissions associated with electricity consumption can only be classified as location-based and not market-based. In keeping with this approach, the portion of electricity deriving from renewable sources for the three-year period is as follows: 262,875 GJ in 2023, 208,129 GJ in 2022 and 244,776 GJ in 2021.

The transmission of electricity only requires direct energy consumption for certain support activities, including:

- fuel for the Company's operational vehicles, cars and helicopters used for line inspections, fault repair and other line and substation maintenance activities. As previously mentioned, the changes in the vehicle fleet's consumption mix – down 9% overall – are attributable to the reduction in diesel vehicles, which were replaced by hybrid vehicles, which also use petrol, and fully electrical vehicles;
- The increase recorded for jet fuel is attributable to the increase in the helicopter fleet and, as a result, the hours of flight to monitor power lines;
- fuel oil for emergency generators that only come into operation in the event of a power failure. It is estimated that, nationwide, generators were used for a total of 6,225 hours (consumption equal to 0.5 GJ per hour, down from the previous year);
- fuel oil and natural gas for office heating.

< 302-3

Indirect energy consumption coincides with the electricity used to run substations and operating equipment (87% of the total in 2023) and for office and laboratory use. The figure relating to office consumption is 88,776 GJ which, compared to the total number of Terna employees (less blue-collar workers), corresponds to per capita consumption of 23.5 GJ. This last figure is the latest in a constant downward trend (24.4 GJ in 2022 and 31.6 GJ in 2021), bearing out the effectiveness of the energy efficiency measures in offices and buildings described on page 289.

< 305-5

Terna focuses its attention on a number of voluntary action programmes aimed at reducing its main sources of greenhouse gas emissions, which primarily regard curbing the SF_6, leakage rate, the energy efficiency of buildings and energy saving at electricity substations.

The Energy Management System

The **online project to monitor electricity consumed** by the 24 transformer substations located across the country (the principal energy carriers are monitored, with measurements covering approximately 90% of total consumption) continued in 2023. The substations are selected according to climatic location, size and type of activity. A further 21 transformer substations located across the country were included in the project in 2023, with overall consumption monitored quarter-hourly basis.

The sensors installed send data to the **EciWeb** information system for deferred and/or online monitoring of energy-intensive elements (in Terna's case, office buildings and substations) relating to the high-voltage electricity transmission service. EciWeb is used for detailed monitoring of electricity consumption at **11 major buildings** and **123 transformer substations**.

During the year, 18 energy audits of the Terna Group's sites (offices and substations) were carried out, in order to comply with Legislative Decree 102 as amended, and the ISO 50001 standard.

Regarding support for the preparation of course content on energy efficiency for in-house training programmes, the "Management Systems" department has implemented and provided, in agreement with relevant internal departments, the following training/information activities:

- The ISO 50001_2018 standard Energy Management Systems;
- Energy Management System: EciWeb software, online monitoring of offices;
- Energy Management System: EciWeb software, online monitoring of substations.

Energy efficiency of substations and offices

At Terna, the development of energy efficiency programmes relating to the use of electricity in substations and offices is experimental, as the Company's electricity consumption falls within the category of "own transmission uses" which, according to the industry's regulator, are not to be included in operating costs.

With a view to improving energy performance, a number of Terna's offices have also been refurbished or are newly built under a long-term programme, which aims to upgrade the energy efficiency class of buildings owned by the Group. Proposed work at offices primarily regards improvements to the energy efficiency of lighting, air-conditioning and heating.

The proposed changes at substations primarily regard the replacement of lighting towers and perimeter lighting with LED technology.

The energy efficiency initiatives carried out since 2014 have led to an overall estimated reduction of **1,338 tonnes of CO_2** as at 31 December 2023 (of which 96 tonnes just in 2023, equal to 1,180.7 GJ). < 305-5

Below is a description of initiatives completed in 2023 with a view to reducing energy consumption, of which the benefits are measurable, both in terms of CO_2 reductions and energy saving:

- **Improving the efficiency of air conditioning systems:** in 2023, the air conditioning systems in the offices used for the North-East Transmission District and the Parma Infrastructure Units and one office used for the Dugale Infrastructure Unit (VR) were replaced with conditioning systems using latest generation motors. These initiatives led to a reduction of approximately 22 tonnes (276.2 GJ) in annual CO_2 emissions.
- **Improving the efficiency of lighting systems:** in 2023 the lighting systems in the offices used for the substations managed by the Frattamaggiore (NA), Florence, Catania, Palermo, Codrongianos (SS) and Turin Infrastructure Units and in the offices used for the Sardinia Transmission District and at the Dugale (VR), Codrongianos (SS) and Rotonda (PZ) Infrastructure Units were replaced. This led to a reduction of approximately 74 tonnes of CO_2 a year (904.6 GJ).
- **Self-production of electricity from renewable sources:** in 2023, in addition to renewable self-production plants consolidated in previous years, a new photovoltaic production plant was installed and activated at the new office used by the Suvereto Infrastructure Unit (LI) and the photovoltaic plant serving the head office in Viale Galbani 55 in Rome returned to production.

Vehicle fleet

The Company's operational vehicles are used nationwide to carry out power line inspections and, in general, to visit infrastructure and construction sites.

Terna's vehicle fleet consists of seven operating helicopters used to carry out scheduled and random inspections of power lines, and a fleet of cars (1,532), that is frequently renewed, of which over 35% made up by hybrid vehicles or electric cars, a significant increase from the previous year (up 454 vehicles).

Circularity in operating processes

For Terna, the establishment of a circular economy strategy in 2022 is an additional contribution to the ongoing transformation process, confirming a new economic model that respects natural capital.

With this programme, launched at the end of 2021, Terna is pursuing the objective of integrating circularity into its business model to strengthen its sustainability, and also extending it to its supply chain.

2-23 >

Circular economy strategy and roadmap

In 2022, the Company drew up its **Circular Economy Strategy** and subsequently set out the **Roadmap of actions through to 2030** for the procurement of materials and their correct use, the sustainable use of resources, including secondary raw materials, and the management of waste.

The strategy is based on four **pillars** – each of which relates to every phase of the Group's operating cycle (including Non-Regulated Activities) – which respond to the need to focus each circularity action in the Company to a specific business area, namely:

- Procurement;
- Asset management;
- Operation of the electricity grid;
- The disposal of assets.

The Strategy's enabling factors, being those elements essential to effectively manage the transition to a circular economy model, are as follows:

1) Systemic vision;

2) Innovation;

3) Governance;

4) Collaboration;

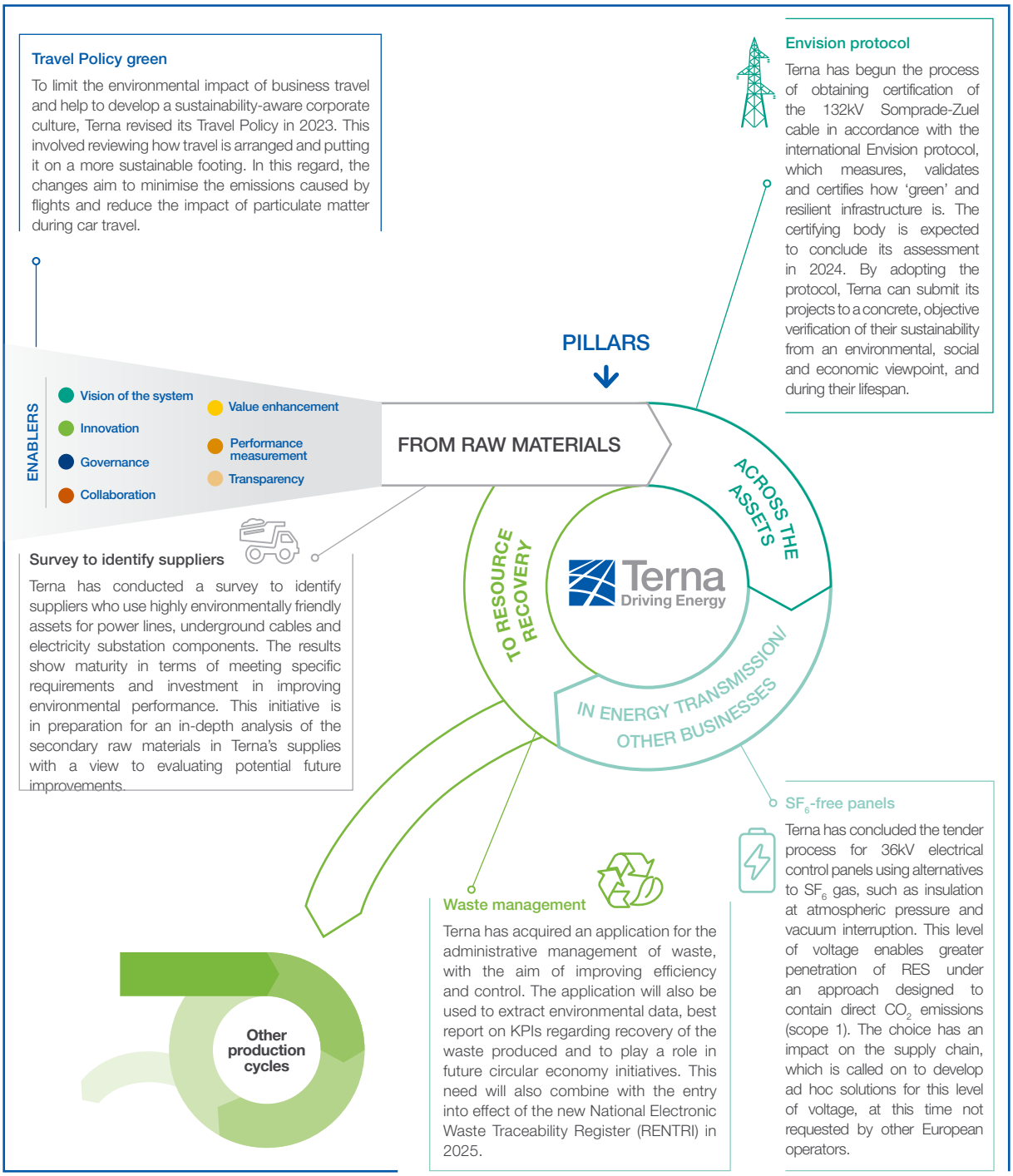
5) Optimising value;

6) Transparency;

7) Performance assessment.

The Circular Economy Roadmap is based on this strategic vision and establishes initiatives and actions – some of which already implemented by 2023 – designed to embed the concept of circularity within Terna's business model. The Roadmap covers the period through to 2030 and is aligned with the 2024-2028 Sustainability Plan, which has been integrated with the 2024-2028 Industrial Plan. The state of progress of the initiatives in achieving the expected targets will be monitored.

In order to constantly improve and progressively align with developing business needs, new regulations and best-practices in the sector, the Roadmap is a dynamic tool, which is revised and expanded over time, also on the basis of the results obtained during monitoring of the progress of the initiatives towards achieving the expected targets.


Travel Policy green
To limit the environmental impact of business travel and help to develop a sustainability-aware corporate culture, Terna revised its Travel Policy in 2023. This involved reviewing how travel is arranged and putting it on a more sustainable footing. In this regard, the changes aim to minimise the emissions caused by flights and reduce the impact of particulate matter during car travel.
Envision protocol
Terna has begun the process of obtaining certification of the 132kV Somprade-Zuel cable in accordance with the international Envision protocol, which measures, validates and certifies how 'green' and resilient infrastructure is. The certifying body is expected to conclude its assessment in 2024. By adopting the protocol, Terna can submit its projects to a concrete, objective verification of their sustainability from an environmental, social and economic viewpoint, and during their lifespan.
PILLARS
ENABLERS
Vision of the system
Innovation
Governance
Collaboration
Value enhancement
Performance measurement
Transparency
FROM RAW MATERIALS
ACROSS THE ASSETS
IN ENERGY TRANSMISSION/ OTHER BUSINESSES
TO RESOURCE RECOVERY
Terna
Driving Energy
Survey to identify suppliers
Terna has conducted a survey to identify suppliers who use highly environmentally friendly assets for power lines, underground cables and electricity substation components. The results show maturity in terms of meeting specific requirements and investment in improving environmental performance. This initiative is in preparation for an in-depth analysis of the secondary raw materials in Terna's supplies with a view to evaluating potential future improvements.
SF6-free panels
Terna has concluded the tender process for 36kV electrical control panels using alternatives to SF6 gas, such as insulation at atmospheric pressure and vacuum interruption. This level of voltage enables greater penetration of RES under an approach designed to contain direct CO2 emissions (scope 1). The choice has an impact on the supply chain, which is called on to develop ad hoc solutions for this level of voltage, at this time not requested by other European operators.
Waste management
Terna has acquired an application for the administrative management of waste, with the aim of improving efficiency and control. The application will also be used to extract environmental data, best report on KPIs regarding recovery of the waste produced and to play a role in future circular economy initiatives. This need will also combine with the entry into effect of the new National Electronic Waste Traceability Register (RENTRI) in 2025.
Other production cycles

FOCUS

An example of circularity: the regeneration of SF_6 gas

At the end of 2020, Terna launched the "Closed Cycle Management of SF_6" project, in collaboration with Synecom, a Company specialising in the **closed cycle management of regenerated SF_6 gas**.

This activity, with the goal of reducing climate-changing emissions, is an example of an initiative already in place which, during the circularity analysis, resulted perfectly in line with the targets set in the Roadmap, in which it was therefore included.

Before the launch of this collaboration, SF_6 gas disposed of during routine and extraordinary maintenance, due to it no longer functioning as an insulator, was sent for final disposal (thermal destruction) and replaced with new gas purchased to top up the infrastructure for maintenance purposes.

Both the production of new SF_6 gas and the disposal of the old gas result in leakages and, therefore, climate-changing emissions into the atmosphere. The regeneration thus enables a doubling of the reduction in CO_2 equivalent emissions. In detail, the emissions saved for each kg of SF_6 not produced from new (because regenerated gas is purchased) are between 3 and 8% (average loss rates for production plants) whilst those saved for each kg of SF_6 not sent for thermal destruction are between 2 and 4% (average loss rates for thermal destruction plants). The average between non-production of new gas and the non-destruction of used gas, for each kg of SF_6 gas, is 8.5% (5.5% + 3%).

During the three-year period 2021-2023, Terna regenerated approximately 28,000 kg of SF_6 gas, preventing the leakage into the atmosphere of approximately 2,380 kg (resulting from the sum of the leakage during production of new gas and the disposal of disused gas) which, based on the 8.5% average between non-production and non-destruction, amounts to **55,930 tonnes of CO_2 equivalent avoided**. The emissions prevented correspond with those emitted in a year by approximately 6,600 diesel fuel vehicles.

In the Circular Economy Roadmap, Terna has set a target of regenerating 42,000 kg of SF_6 gas by 2025. The target has been calculated taking into account the average quantity of gas regenerated annually to meet with Terna's needs, i.e., the kilograms of SF_6 gas disposed of.

SASB

Use of resources and waste management

Development and maintenance of the NTG requires a substantial amount of capital goods, such as power lines (pylons, conductors, insulators), transformer substations (transformers, circuit breakers, other equipment) and control systems.

Terna does not use raw materials, but does purchase finished products (electrical equipment, conductors, tools and other components). An estimate of the materials contained in the main products purchased is shown in the table below. Amounts have been estimated taking into account the average material content of the various products purchased in the years referred to. The bulk of the materials used are steel (pylons) and aluminium and copper (conductors and cables).

Main materials provided by suppliers - Tonnes

< 301-1

		TERNA		
	U.M.	2023	2022	2021
Steel	tonnes	15,134	32,527	20,793
Copper [1]	tonnes	8,010	10,226	9,475
Aluminium	tonnes	4,264	8,695	8,988
Glass	tonnes	1,693	3,805	4,324
Dielectric oil	tonnes	1,253	1,096	1,656
Of which vegetable oil	*tonnes*	376	304	491
Porcelain	tonnes	533	466	518
Polymers	tonnes	471	293	508

[1] The figures regarding copper in 2022 have been recalculated and therefore differ from those published in the previous Integrated Report.

Compared with the previous year, there have been reductions in steel, aluminium, copper and glass, all determined by a drop in purchases. In the case of aluminium, purchases have been halved, with only half the number of conductors purchased compared with 2022. Finally, a reduction in the quantity of glass insulators purchased has been accompanied by an increase in those in porcelain.

With regard to water consumption[142] environmental and materiality analyses indicate that the issue is not significant. This is because water does not usually form part of the production cycle for electricity transmission and dispatching. This is except for a few items of equipment, mostly used in the installation phase, that, in any event, require overall consumption of a marginal volume of water compared with the volumes generally recorded in the electric utilities sector. Indeed, water is used for hygiene purposes, office cleaning and cooling systems and derives from connection to water systems for civil use.

< 303-1

Moreover, in recent years, Terna has introduced compensation systems (Synchronous Compensation Units or SCUs) as one way of responding to evolutions in the electricity system in terms of the integration of production plants fuelled by renewables and new connections to the DC grid. These plants play a key role in regulating voltage in the portion of the grid where they are installed.

In order to ensure the correct use of water, Terna has installed intelligent systems that, by recording internal and external temperatures and the electrical readings from the SCUs, regulate the flow of water, thus minimising consumption. Partly due to these interventions, the amount of water used to cool the synchronous compensators accounts for only 3% of Terna's total water consumption.

Waste

At the end of their normal life cycle, the materials used in electricity infrastructure are recovered for reuse in operations. Only a residual portion is sent to landfill, thereby impacting on the environment.

< 306-1

The percentage of waste recovered amounted to 87% (91% in 2022 and 86% in 2021), **81% in terms of the Group** (89% in 2022 for Terna, Tamini e Brugg; 84% in 2021 for Terna, Tamini and Brugg Switzerland).

< 306-2

Whilst the overall amount of waste produced reflects the timing of equipment replacements, effectual recovery depends on the materials contained in the waste: some of them are easy to separate out and thus reuse (for example, iron parts of pylons). In other cases, it is either too costly or not possible to separate the various parts, above all when dealing with the most obsolete equipment. For these reasons, annual changes in the amount of waste generated and the percentage of waste recycles should not be interpreted as indicating a trend. Monitoring of the waste generated and the means of waste management employed are audited both internally and externally as per ISO 14001 certification requirements, as are the methods of waste disposal, to ensure compliance with existing legislation.

[142] In 2023, the Group consumed 232,088 m^3 of water (in 2022 221,395 m^3 and in 2021 210,269 m^3) whilst Terna consumed 201,892 m^3 (in 2022 190,950 m^3 and 183,807 m^3 in 2021).

306-3 >

Waste type and management - Tonnes

		GROUP (*)			TERNA		
	UNIT	2023	2022	2021	2023	2022	2021
Waste produced [1]	tonnes	**12,368.9**	12,356.8	11,768,8	**7,671,6**	9,078,7	8,524,7
Waste sent for recovery		**9,977.2**	10,948.3	9,927,8	**6,685,1**	8,281,3	7,302,4
Waste recovered	%	**81**	89	84	**87**	91	86
Waste sent for disposal [2]		**2,468.6**	1,338.6	1,828,8	**1,063,4**	823,0	1,210,1
of which hazardous		1,827.6	583.1	980.3	769.9	517.9	910.6
of which non-hazardous		641.0	755.5	848.4	293.5	305.1	299.5
Non-hazardous special waste							
Machinery, equipment, pylons, conductors, cables							
- quantity produced	tonnes	3,615.2	3,826.6	3,725.2	1,627.1	2,020.8	1,901.5
- quantity sent for recovery	tonnes	3,609.9	3,776.3	3,722.8	1,677.9	1,970.5	1,899.1
Packaging							
- quantity produced	tonnes	1,082.1	1,319.5	1,360.7	520.4	537.9	521.0
- quantity sent for recovery	tonnes	1,012.8	950.2	1,047.7	520.4	518.5	527.1
Other							
- quantity produced	tonnes	1,864.3	1,093.3	833.7	823.6	633.7	603.7
- quantity sent for recovery	tonnes	1,349.3	632.7	294.2	530.6	369.0	293.3
Total non-hazardous special waste							
- quantity produced	tonnes	6,561.6	6,239.5	5,967.4	2,971.0	3,192.5	3,073.3
- quantity sent for recovery [3]	tonnes	5,971.9	5,359.2	5,112.5	2,728.9	2,858.0	2,767.3
Hazardous special waste							
Machinery, equipment, pylons, conductors, cables							
- quantity produced	tonnes	2,873.8	4,133.0	3,404.7	2,850.0	4,104.3	3,292.8
- quantity sent for recovery	tonnes	2,877.4	3,998.6	3,505.9	2,870.3	3,970.1	3,393.9
Oils							
- quantity produced	tonnes	1,821.4	1,740.7	2,100.6	1,315.9	1,589.9	1,922.9
- quantity sent for recovery	tonnes	1,051.2	1,521.7	1,196.8	1,011.9	1,401.2	1,040.2
Lead batteries							
- quantity produced	tonnes	31.1	16.0	56.1	31.1	15.4	56.1
- quantity sent for recovery	tonnes	31.1	16.4	55.6	31.1	15.8	55.6
Waste comprising material containing asbestos							
- quantity produced	tonnes	00.0	00.0	00.0	00.0	00.0	00.0
Other							
- quantity produced	tonnes	1,081.1	227.6	240.0	503.6	176.6	179.6
- quantity sent for recovery	tonnes	45.7	52.5	57.0	42.9	36.2	45.3
Total hazardous special waste							
- quantity produced	tonnes	5,807.3	6,117.3	5,801.3	4,700.6	5,886.2	5,451.4
- quantity sent for recovery	tonnes	4,005.3	5,589.2	4,815.3	3,956.3	5,423.3	4,535.1

(*) The figures shown in the column "Group" regard the Terna Group in 2023; in 2022, they regarded Terna, Tamini Group and Brugg Group, whilst in 2021 Terna, Tamini Group and Brugg Switzerland..

*[1] Only special waste produced during the production processes is included, not waste produced by services (urban waste). Excavated earth and rocks, effluents and waste from septic tanks, produced by substations not connected to the sewer network, are not included; the quantity for this waste was **235 tonnes in 2023**, 184 tonnes in 2022 and 618 tonnes in 2021.*

[2] Waste sent for disposal may differ from the mere disparity between waste generated and recovered due to temporary waste storage.

[3] This comprises uncontaminated metal waste deriving from the decommissioning of transformers, electrical equipment and machinery (e.g., generators) with an average recovery rate of 100%.

The main special hazardous waste generated by the operation of Terna's power lines and substations consists of:

Metal waste

This derives from the decommissioning of transformers, electrical equipment and machinery no longer in use and contaminated by hazardous substances; they have an average recovery rate - after treatment by third parties – of over 95%.

Batteries (lead and nickel)

In the event of a blackout, batteries enable emergency generators to be switched on in order to keep the energy transformation and transportation service up and running during emergencies; they have an average recovery rate of 100%.

Dielectric oils

These are used for insulating transformers replaced after periodic maintenance checks. They constitute hazardous waste and have an average recovery rate in the three-year period of over 90%.

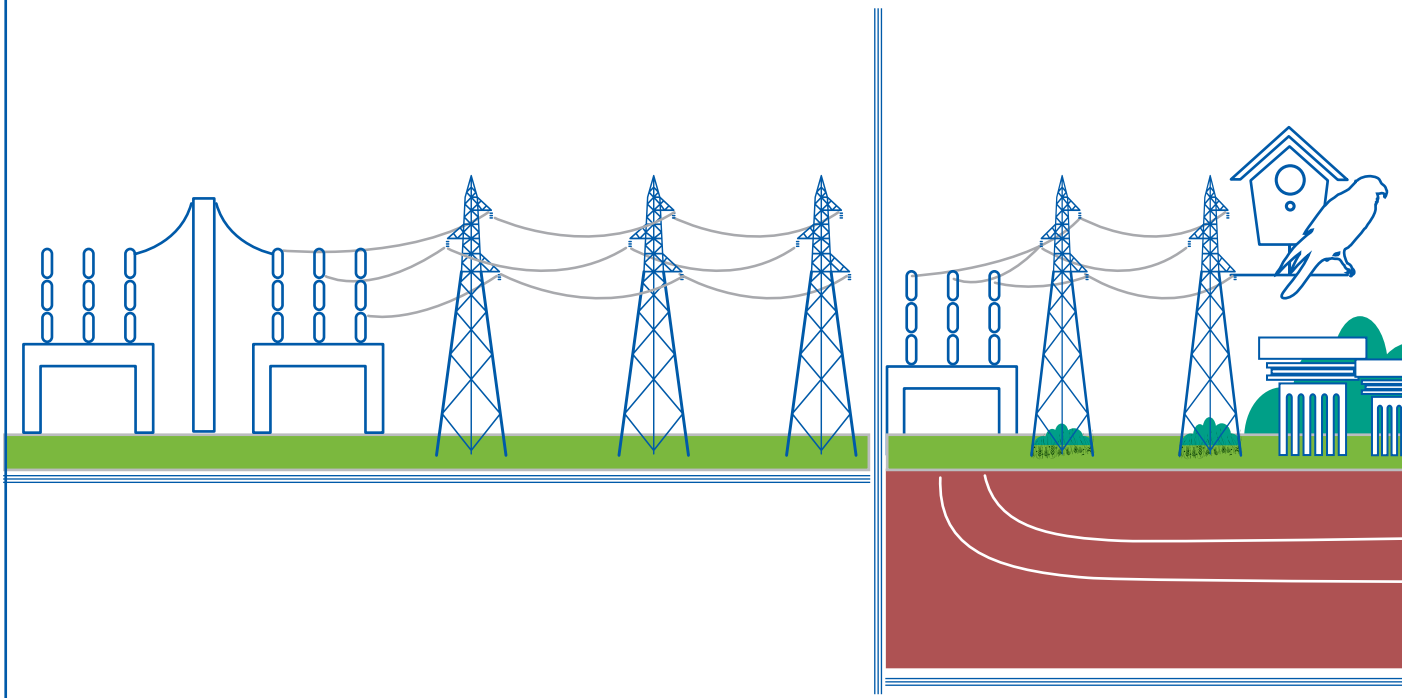
The waste sent for disposal mainly consists of materials deriving from infrastructure maintenance and cleaning activities (oily emulsions and rags containing solvent oils) and insulating materials containing asbestos, for which no form of recovery is envisaged.

As in the previous two-year period, no significant spills of polluting liquids were reported in 2023.

Landscape and biodiversity

Operating with an approach based on environmental sustainability guides all of Terna's activities, especially in the construction of new electrical infrastructure which, in all phases (planning and consultation, design, site operations, mitigation and offsetting), takes into account considerations that include respect for the environment and biodiversity. This commitment was further strengthened during 2022 with the development of guidelines consistent with the ***Envision*** criteria, the international protocol which, through an structured rating system, measures, confirms and certifies the sustainability of new infrastructure

Territory and biodiversity



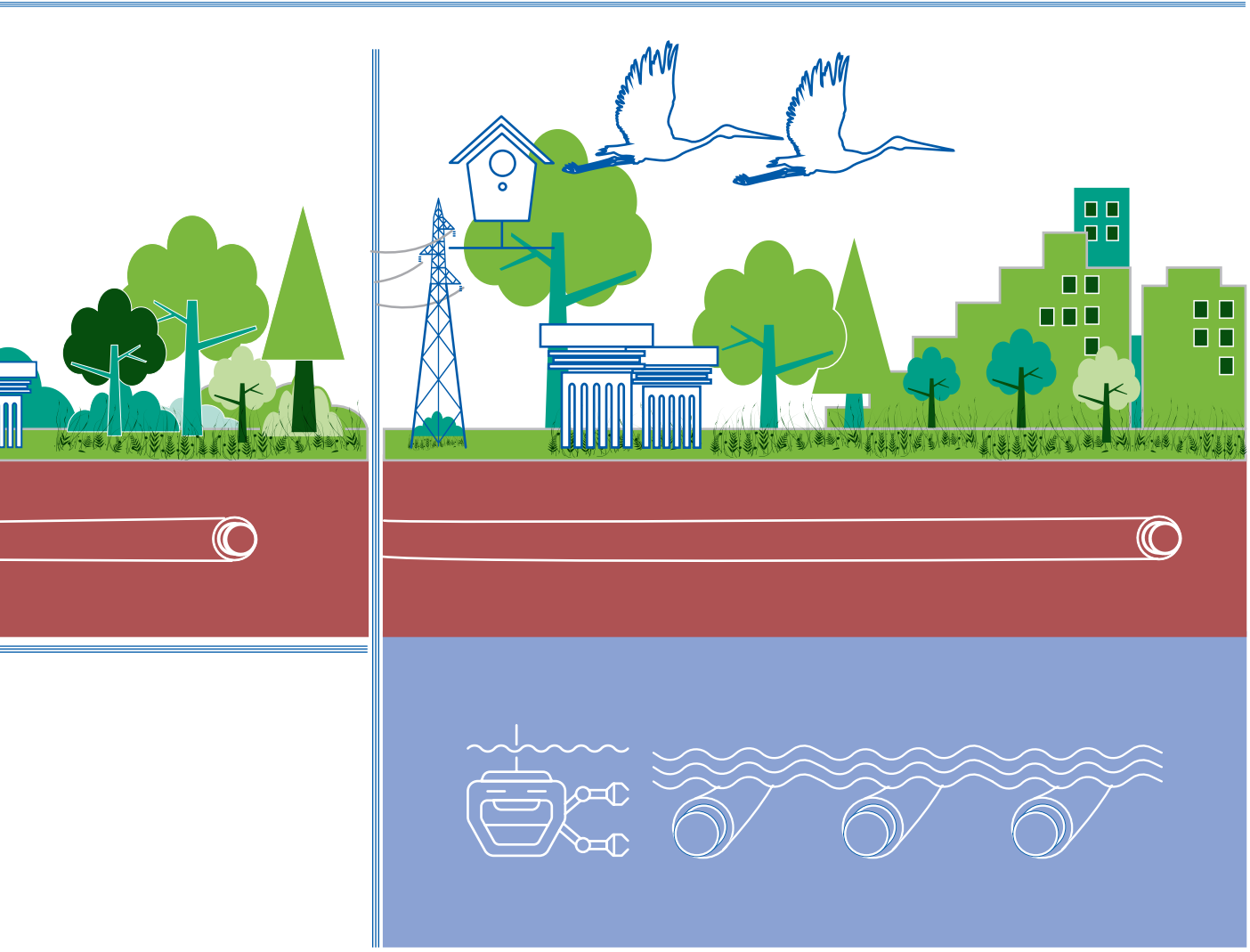
BEFORE

Specifically, during the execution phase at sites, great attention is paid to identifying the areas and access roads of sites which, if compatible with technical and design requirements, are located in areas of reduced natural importance. Upon completion of the construction work, Terna restores the areas concerned to their natural state.

< EU13

If these areas regard natural or semi-natural habitats, in addition to the normal restoration works, specific interventions are implemented. Based on natural engineering techniques, they involve, by way of example, the creation of habitats – land and sea – suitable for animal and/or plant species communities, the replanting of live native plants, which do not require irrigation, special fertilisation or the use of materials (even if only inert), in order to recreate favourable living conditions for animal species, which are monitored overtime by applying the **Incremental Ecological Indicator (IEI)**[143] criteria.

During 2022, the IEI methodological approach led to the establishment of a **Base Indicator** that assesses, site by site, how the ecological status changes and a **Dynamic Indicator** that measures this change over time for each individual site, whilst also providing a global indication of the changes taking place at all the sites in general. The method, as a whole, and in the various indicators, was registered as Intellectual Property (SIAE 2022/02452) during the year.



AFTER

[143] See page 211 of the 2020 Sustainability Report and page 234 of the 2021 Integrated Report.

Another significant aspect from a landscape point of view is the great historic, artistic and cultural value of the Italian territory: to protect this heritage, Terna has created its own **Archaeology Unit**, made up of professionals from the sector able to provide preliminary checks prior to the planning process for an electricity project – so-called **preventive archaeology** – regarding the archaeological value of the site where the work will be carried out. The goal is twofold: avoid an increase in time and costs of the project due to unexpected archaeological findings, and protect these findings until the following phase for their recovery and restoration; this will all be achieved through a solid partnership between all the parties involves, including contractors, heritage departments and the professionals appointed.

The preventive archaeology process involves various phases, the first of which including a disclosure provided by Terna to the local archaeological heritage department regarding its intention to carry out a project in a determined area, which is followed by an assessment to ascertain whether this area is of archaeological interest. From here, based on the probability of finding archaeological layers, the archaeological risk for the project is determined and further investigations are carried out with non-invasive methods (magnetometry, geo-radar, resistivity or geo-electric) or with surveys and extended excavation. If remains are found during excavation, protection will not only entail the recovery of the findings, but will also mean cataloguing, preserving and restoring the remains and carrying out a study of the site identified, also in order to extract value through the display of the remains as part of exhibitions, articles and educational projects and in museums.

Recommendations of the Task Force on Nature-related Financial Disclosures (TNFD): Terna's disclosure

In October 2023, the Task Force on Nature-related Financial Disclosures ("TNFD") published its recommendations, giving Terna the opportunity to carry out this initial alignment process for its reporting on this topic.

Terna's approach to nature stands out for its solid strategy to prevent and minimise the impact related to its operations, in line with the so-called **mitigation hierarchy**. Starting from the application of **ERPA criteria** (Exclusion, Repulsion, Complexity and Attraction) for the Strategic Environmental Assessment (SEA) of the Development Plan, Terna's approach aims to prevent any negative impact and intervene with mitigating initiatives (such as, habitat recovery, transplant of Posidonia oceanic meadows), enhancing, where possible, the interaction of its infrastructure with nature, in order to make a positive impact.

In this regard, **stakeholder engagement** is crucial. The Group is constantly committed to establishing and implementing the most efficient forms of engagement and **participatory planning**, with particular focus on local communities affected by grid development projects. Generally, Terna's work follows certain general operating standards, with regard to stakeholder engagement activities to be carried out, in the various phases of the NTG development process, from the planning to the SEA for the Plan, and from the planning of individual works, to the related approval and their completion[144].

[144] Operating standards: preventive awareness of the territory; preventive disclosure of significant stakeholder; consultation and public debate with stakeholders and citizens; engaging with citizens; preparing and using a company website; preparing specific communication channels. Further details are provided in the "Strategic Environmental Assessment of the Development Plan, 2023 Environmental Report, Non-Technical Summary" https://download.terna.it/terna/Sintesi_Non_Tecnica_8db26077064fb37.pdf

Nature-related issues are also considered in the Group's corporate policies, such as the **Sustainability Policy** and the **Integrated Policy**, both approved by the Board of Directors, who establish the Group's commitments for the protection of biodiversity and the landscape during the planning and maintenance of the NTG.

From an operating point of view, this topic, in addition to the departments that specifically cover the ESG performances (see page 78), involves all the departments engaged in the preparation of the Environmental Report for the Development Plan, in compliance with the environmental regulations both during the planning phase and in the construction and operation of the grid. Departments are also involved in the Environmental Risks Assessment, which identifies and thoroughly analyses the environmental aspects connected to Terna's infrastructure and activities.

The following table provides the references which, within this report, represent an initial response to the recommendations – summarised in the column "Description" and divided by topic area – provided by the Task Force on Nature-related Financial Disclosures.

TOPIC AREAS	DESCRIPTION	REFERENCES
Governance	Supervising dependencies, impact, risks and opportunities linked to nature, also including respect for human rights and stakeholder engagement.	Sustainability Governance Respecting Human Rights Relations with local communities
Strategy	Dependencies, impact, risks and opportunities linked to nature in the short, medium and long-term and related impact on the strategy and the financial planning of the organisation, also in terms of resilience, communicating the position of assets and activities in the direct operations of the organisation and, where possible, also for the upstream and downstream value chain.	2023 Development Plan Security and Resilience Plan Focus: grid resilience and resilience methods Risk governance General context Terna's scenarios Opportunities and risks linked to climate change for Terna
Risk and impact management	Process of identifying, assessing, prioritising, managing and monitoring dependencies, impact, risks and opportunities linked to nature in direct operations and the upstream and downstream value chain.	Risk governance Managing impact on natural capital
Metrics and goals	Metrics used by the organisation to assess and manage risks, opportunities (in line with the strategy and the risk management process), dependencies and tangible impact linked to nature, also including the organisation's goals and the performance with respect to those goals.	Landscape and biodiversity

Nature-related dependencies, impacts, opportunities and risks for Terna

A description of Terna's main management procedures for the nature-related dependencies, impacts, opportunities and risks is provided below, with respect to certain information included in the draft for "Electric utilities and power generators" sector guidelines, published by the TNFD in December 2023.

Dependencies

The draft sector guidelines have not identified any dependencies directly linked to the transmission and dispatching of electricity. A potential dependency identified by the guidelines regards ecosystem services, in relation to increasingly frequent extreme weather events due to climate change. Further information is provided in the paragraph "Disclosure on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)" on page 100.

Impacts

A selection of various impacts identified by the draft sector guidelines is provided below.

Sustainable use of land and water

Every two years Terna publishes the NTG Development Plan, setting out the infrastructural projects to be implemented over the course of ten years in Italy. This is subject to a Strategic Environmental Assessment, which analyses the potential environmental impact and the activities carried out across the country. With regard to the SEA, the partnership between Terna and the responsible authority has focused the attention to finding an agreement on a sustainable location for new construction, applying various methods (ERPA criteria, indicators, etc.). The local sustainability indicators, used in the SEA to analyse and assess the overall impact of implementation of the Development Plan, include: "Protecting natural and seminatural environments" and "Reducing interference with areas at hydrogeological risk".

Power lines and risk of collision for birdlife

Terna actively studies the interaction between power lines and birdlife, focusing on integrating electricity infrastructure into the territory in a sustainable manner. Terna, in collaboration with LIPU, has conducted scientific research to tackle the issue regarding collision between birdlife and power lines, demonstrating a low risk of collision. Nevertheless, Terna has installed deterrents, which make it easier for birds to see and hear the power lines in flight, thereby contributing to further reducing the potential risk of collision[145].

Power lines and interference with wildlife movement

Power lines offer a solution to combat climate change, however, they have impact that must be analysed given that, in view of their structural characteristics, the impact on wildlife movement can affect birdlife and varies based on the species and their environment. Nevertheless, the monitoring campaigns conducted on Terna's power lines, above all those covering the Stretto di Messina project – being one of the three main migration corridors – detected no significant impact. Power lines also generate electromagnetic fields, which could affect movement for the more sensitive species; for this reason, Terna conducted an experiment on the bats in the Piedmont valley. The recordings of movements made through batdetectors, and the traffic in the batboxes installed along the pylons detected no significant impact.

Opportunity

Terna believes that protecting nature and improving the environmental conditions of the territories in which it operates is crucial, recognising the importance of quality stakeholder relations, not only for social consensus, but also in integrating economic development and respecting the environment. Over the years, Terna has promoted many nature-related initiatives, also in collaboration with environmental associations. Information regarding the projects, "Nests among pylons", "Biodotti" and "Tiny Forest®" is provided on page 305.

Risks

A risk related to Terna's activities regards the need to adjust to climate-related regulations and managing the resulting impact. Further information is provided in the paragraph, "Disclosure on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)" on page 100. With regard to the potential future nature-related regulatory changes, Terna has managed this topic for some time and, in addition to already being subject to a fairly strict regulatory regime, has adopted tools, methods and measurement techniques. For this reason, it is deemed that a potential expansion of regulatory obligations will not cause issues for the Company.

[145] Further information is provided in the paragraph "Power lines, biodiversity and birdlife" on page 302.

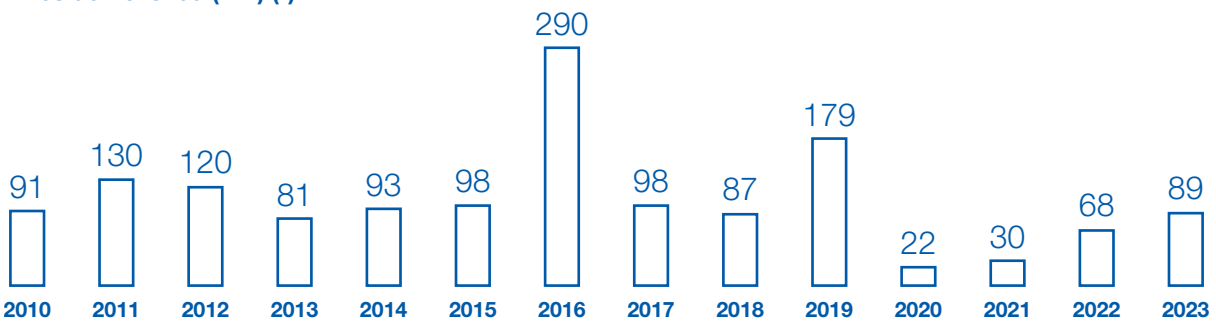
Protecting local areas and respecting the landscape

< 413-2

Physical removal of obsolete lines is one of the most radical ways Terna reduces environmental impacts, also in terms of land use. Demolitions form part of upgrade initiatives[146], often resulting from agreements signed with local authorities during the consultation phase prior to the construction of new infrastructure.

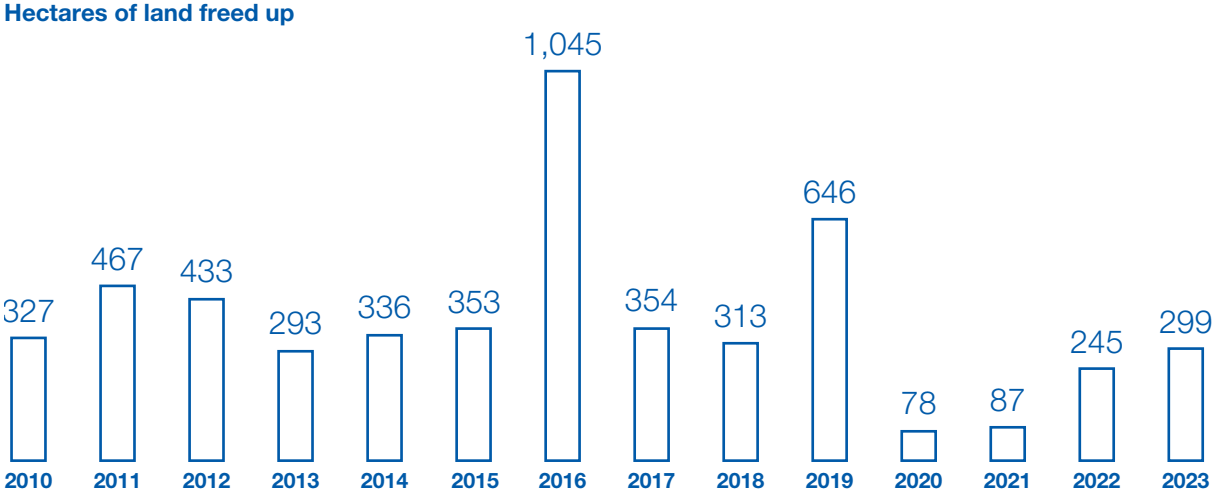
In 2023 89 km of lines were demolished, freeing up an area equal to 300 hectares which covers the national territory. In the period 2010-2023, a total of 1,478 km of lines were demolished, freeing up approximately 5.275 hectares of land. Demolition concern the Italian territory and is defined as the physical removal of overhead lines and does not include declassified or upgraded lines[147].

Lines demolished (KM) (*)



(*) The figure for 2016 is exceptional due to the demolition of over 200 km of obsolete power lines in Valtellina, which had been in preparation in previous years. After adjusting for this removal, demolitions amounted to approximately 80 km, in line with previous years (around 100 km per year). The exceptional performance in 2019 was due to a speedier execution of programmes that year, with a consequent reduction in the targets for 2020 and 2021.

Hectares of land freed up



[146] This comprises complex initiatives involving several components of the grid, replacing certain components with others of a superior type, thereby eliminating parts of the grid that are of little use. This takes place following the installation of new infrastructure or the addition of new elements to the grid to avoid the need to upgrade power lines that have reached saturation point.

[147] A reclassification involves the conversion of existing power lines to a higher voltage through the installation of new conductors and pylons to replace existing ones, which may be larger in size and therefore take up more space. Unlike the construction of a new line, this type of intervention usually has the advantage of using existing infrastructure corridors, thus avoiding the occupation of additional land.

Electricity power lines, biodiversity and birdlife

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The impact of Terna's electricity grid on biodiversity may take different forms.

During power line construction, the impact on biodiversity is linked to construction site activities (e.g., the opening up of access routes to build pylons, soil excavation and the removal of residual materials) and is temporary and reversible.

During the operational phase, the potential impact of lines on biodiversity are twofold. On the one hand, the route of the line may be a factor in increasing biodiversity and protecting certain species as pylons, with their bases, make it impossible for land to be used for intensive agriculture and constitute "islands" where biodiversity can flourish. On the other, the presence of lines has potentially negative effects on biodiversity, in particular on birds, due to the risk of collision– the risk of electrocution regards LV and MV lines and, therefore, does not concern Terna's infrastructure – protected areas or areas of natural interest.

Over the years, Terna has promoted research and scientific studies to further investigate the interaction between power lines and birdlife. The first Italian study devoted to collisions, based on the results of an **agreement between Terna and LIPU**[148], highlights a low potential risk of collision of birdlife with power lines. Nevertheless, Terna's commitment to reducing this risk is constant and is reflected in the installation of special devices consisting of plastic spirals called "deterrents" which, with their visual impact and the noise they generate when blown by the wind, make it easier to see for birds in flight.

Bird deterrents on the NTG

		TERNA		
	UNIT	2023	2022	2021
Lines involved	no.°	92	88	81
Total deterrents installed	no.°	17,638	17,445	16,977

The main tool for identifying critical line sections is a fully comprehensive land use database, containing data provided by regional authorities and ministries. This *GIS (Geographic Information System)* enables integrated analysis of all of the layers of information on the various types of land use and protections (local, natural, cultural, landscape, etc.). Using this tool, Terna has compiled an inventory of the lines that may interfere with protected or highly biodiverse areas, as shown in the table below.

304-1 >

Power lines in protected areas (*) (**)

		TERNA		
	UNIT	2023	2022	2021
Lines impacting on protected areas	km	7,253	6,830	7,110
Lines with an impact as a percentage of total lines operated by Terna	%	10.6	9.3	10.5

(*) The figures for 2023 were obtained by merging the figures for the assets extracted from the SinNet system with the official 2023 EUAP Areas. Until the 2021 reporting period, the ATLARETE database was used, which could have differed from data on the number of lines provided in the "Key indicator tables" (published in the Sustainability section of the website at www.terna.it in the Sustainability section). The figures by geographical area are as follows: North-east 904 km, North-west 1,160 km, Centre 1,543 km, South 2,205 km and, lastly, the Islands 885 km. The total number of km of lines impacting on protected areas shown in the table also includes the 554 km of marine cables.

(**) For the sake of completeness, it should be noted that out of the 910 substations managed by the Terna Group, only 35 are located in protected areas. In 2022 the figure was 37, and in 2021 39.

[148] Italian League for the Protection of Birds.

< 304-4

Based on GIS data, potential threats from the risk of collision for bird species included in the IUNC Red List have been assessed. The **IUCN Red List** is the largest existing international database on the conservation status of thousands of plant and animal species, all catalogued according to their risk of extinction. In its analysis, Terna has specifically considered the presence of bird species on the IUCN Red List and at Natura 2000[149] namely in protected areas with a high level of biodiversity (approximately 3,000 Special Conservation Areas (SCAs[150]) and Sites of Community Importance (SCIs[151]).

In collaboration with the CESI research centre (Italian Electrotechnical Research Centre) and Rome's "La Sapienza" University (the Charles Darwin Department of Biology and Biotechnologies), Terna has developed a **risk assessment model** that evaluates the feasibility of installing a power line in a selected location. This tool (AVIVAL) uses information about the area and data on the distribution of birdlife in order to assign a risk level in terms of potential collision to every single span of the line, allowing the Company to adopt adequate mitigation measures. An eight-month experiment conducted in 2021 (coinciding with the two migrations) tested the reliability. Subsequent monitoring has confirmed the absence of collisions.

In line with specific EU Directives for the protection and preservation of birdlife, since 2020, Terna has carried out a training campaign designed specifically for operating personnel involved in managing the electricity infrastructure in order to raise awareness and, at the same time, collect additional scientific data concerning their impact on birdlife. During 2023, Terna further strengthened its commitment by publishing the **Definition of the Birdlife Protection Plan**, an Operating Educational Course that collects all the initiatives designed to preserve biodiversity, focusing on reducing risks arising from the interaction between birdlife and the NTG, in line with the Terna Group's previous **Commitment for Biodiversity**.

Identification and monitoring of bird species on the IUCN Red List

< 304-4

Terna has carried out a study aimed at identifying the protected species included in the **IUCN Red List**[152] that are potentially impacted by its infrastructure.

The study selected the Natura 2000 areas affected by Terna power lines, then verified which protected species, among those included on the Red List and classified as Vulnerable, Endangered, Critically Endangered and Regionally Extinct – had chosen them as their habitat.

These species are conservation priorities as without specific measures to neutralise the threats they face, and in some cases to increase their populations, their extinction is a real prospect. The analysis showed that Terna's electricity infrastructure could interfere with the habitats of eight endangered species.

After checking scientific publications and via targeted consultations, no specific critical issue emerged regarding bird species except for a potential risk of collision for the corncrake ("*Crex crex*"), a species categorised as "Vulnerable" present in the Alpine area between Friuli-Venezia Giulia and Lombardy. However, a specific study highlighted that the corncrake is only occasionally reported among the victims of collision. In a previous review of the conflict between birds and power lines in Italy, this species never appeared among those listed and there is no other information on corncrake collisions in western Europe.

[149] Natura 2000 is the main instrument of the European Union's biodiversity conservation policy. This ecological network, which covers the entire territory of the European Union, was set up under the Habitats Directive (Council Directive 92/43/EC) to ensure the long-term maintenance of natural habitats and of endangered or rare species of flora and fauna at EU level. The Natura 2000 network consists of Sites of Community Importance (SCIs), identified by Member States in accordance with the Habitats Directive, which are subsequently designated as Special Areas of Conservation (SACs), including Special Protection Areas (SPAs) established under Directive 2009/14/EC regarding the conservation of wild birds.
[150] Special Conservation Areas.
[151] Sites of Community Importance.
[152] International Union for Conservation of Nature's Red List.

Alternative uses for power lines

In partnership with environmental associations, for some years Terna has been working on projects that aim to develop alternative uses for power lines with the installation of nest boxes among its pylons for the benefit of various species, including the kestrel, peregrine falcon, scops owl, cuckoo, common roller, bat and stork.

In 2021, Terna completed a nationwide monitoring campaign to monitor the conditions of the nest boxes installed in past years so as to extend its maintenance programme and include the insertion of artificial nests.

Georeferenced nests at 31 December 2023

LOCATION	NESTS		SPECIES CONCERNED[153]
	NUMBER OF NESTS	OF WHICH IN PROTECTED AREAS	
Abruzzo	30	1	Kestrel
Calabria	30	23	Kestrel
Campania	31	0	
Emilia-Romagna	95	33	Kestrel; scops owl, cuckoo, common roller
Tuscany	8	0	
Friuli-Venezia Giulia	25	0	
Lazio	42	11	Kestrel, scops owl, common roller
Lombardy	20	0	
Piedmont	59	29	Common roller
Puglia	73	0	
Sicily	30	10	
Trentino-Alto Adige	8	0	
Veneto	14	1	
Total	**465**	**108**	

[153] The species concerned are identified by the type of nest installed and by subsequent monitoring. At any rate, there is always the possibility that the nests may be used by other species not on the list.

New environmentally responsible initiatives

< 304-3

During 2022, Terna launched a new environmentally responsible project, called ***Biodotti***, which consists of a series of renaturing measures for areas underlying pylons to increase the ecological value of landscapes. In particular, Terna completed the pilot project in Lombardy, Tuscany and Sicily involving a total of 17 pylons in agricultural areas and 5 overhead power lines.

In this way, Terna's power lines act as an ecological connection (stepping stones) between areas of greater natural characteristics, facilitating bird movement between various natural areas. The project involves the monitoring of the installations made, measuring the effectiveness of the initiatives through the **Incremental Ecological Indicator** (see page 297).

As part of the European contest LIFE "Nature and Biodiversity 2023", with the aim of protecting pollinators, Terna also took part, as a partner, in the candidature of the **PolliNetwork**. The project aims to establish and trial new sustainable methods to improve the management of the environment, with the goal of helping to halt the decline of pollinators. The leader of Life is WWF Italy. The other participants in the initiative are ISPRA, University of Bologna, University of Torino, University of Pisa, COPAGRI, ANAS, RFI e TEAMDEV. Terna's contribution to the project, currently being assessed by the European Commission, includes the experimentation of methods and tools to manage and maintain the environment in the areas around electricity substations and below power lines, in areas specifically identified.

At the beginning of 2023, Terna renewed its agreement with WWF Italia, Legambiente and Greenpeace, aiming to promote sustainability in the planning and maintenance of the NTG.

The Tiny Forest Project

< 304-3

During 2022, Terna, in collaboration with the Italian Botanical Society, launched the **Tiny Forest Project**, relating to the creation of Tiny Forests to increase biodiversity in urban areas.

These Tiny Forests are very efficient as they adopt the Japanese botanical method developed by Akira Miyawaki and based on the reproduction of natural forest groups, which speeds up the growth of plants, promotes the development of biodiversity and improves the ability to absorb CO_2. This type of forestation is still very little used in our country, but is already established in other countries, with 150 sites already created in the UK and over 100 in the Netherlands.

Terna's Tiny Forests – the first to be seen in Italy – are located in Rome and Caserta, in areas operated by social cooperatives engaged in labour and social inclusion projects. In particular, in Rome, the first Tiny Forest was built on land operated by *Nuova Arca Società Agricola*, a cooperative focused on the working inclusion of young mothers, refugees, young Italians and foreign people in difficult conditions and disabled people; the second is located at *Fattoria Sociale Tenuta della Mistica*, focused on hospitality, solidarity and the employment of disabled people at risk of social exclusion. The third Tiny Forest is in Caserta at *Fattoria Sociale Fuori di Zucca*, which, through the recycling of goods confiscated from organised crime, promotes inclusion and decent work for people with psychological issues, former prisoners and addicts.

Each Tiny Forest, planned by the Italian Botanical Company, is approximately 200 m^2 and is home to 400 small plants, carefully selected to reflect the characteristics of local plant communities. The seven tree species and eleven shrub species used for the site are in line with the characteristics of the Mediterranean Bio-Climate Region. The development of the three Tiny Forests will be constantly monitored and will help establish guidelines for the creation of similar sites in other areas of Italy.

For more information on "Terna and Biodiversity" scan this QR Code.

FOCUS

Launch of the trial use of a submarine drone to inspect deep waters

Terna, in collaboration with the American startup Terradepth, has launched **Odisseo**, an innovative project that uses submarine drones – Autonomous Underwater Vehicles (AUVs) – to inspect deep waters and submarine ecosystems to support an effective planning of submarine power lines and, once installed, the subsequent monitoring of the cables.

The first test of the Odisseo project was conducted at the port of Casamicciola Terme, on the island of Ischia. During the test, Terna's technicians assessed the performance of the **Gavia drone**, a Terradepth AUV equipped with advance sensors, such as, for example, Sonar Multibeam, lateral scanning and HD camera.

Trials of this marine drone is important for the security of underwater electricity infrastructure, starting with their planning and movement through to the adoption of adequate installation and protection techniques for the cables, in line with the ten-year Development Plan (latest edition: 2023), which envisages a significant increase in investment in marine cable projects. This particularly regards the **Tyrrhenian Link**, which will connect Campania, Sicily and Sardinia, the **Adriatic Link**, connecting Marche and Abruzzo, and **Elmed**, the energy bridge between Italy and Tunisia. These projects represent Terna's sustainable response to ever-growing energy demand, using innovative, effective solutions that will as far as possible limit the impact on the environment.

Monitoring and supervision of electromagnetic fields

Protection of the population from exposure to electromagnetic fields is precisely defined by law (Cabinet Office Decree of 8 July 2003). This legislation provides for:

- **exposure limits:** In the event of exposure to electric and magnetic fields generated by power lines at a frequency of 50 Hz, the limit is 100 microteslas for magnetic induction and 5 kV/m for the electric field, considered as effective values;
- **safety thresholds:** As a precautionary measure to protect against long-term effects, which may be linked to exposure to magnetic fields generated by the network frequency (50 Hz), in children's play areas, schools and places where people spend not less than four hours a day, a threshold of 10 microteslas has been set for magnetic induction, based on the average of measurements taken over 24 hours under normal operating conditions;
- **quality targets:** In the design of new power lines at the above-mentioned sensitive locations and in the design of new settlements and new areas close to lines and electricity installations already present in the vicinity, in order to gradually minimise exposure to electrical and magnetic fields generated by power lines operating at a frequency of 50 Hz, a quality target of 3 microteslas has been set for magnetic induction, based on the average of measurements taken over 24 hours under normal operating conditions.

The values of the three parameters, especially the threshold value (10 microteslas) and the quality target (3 microteslas), demonstrate that Italian legislation has adopted the prudential approach described in art. 15 of the Rio Principles. These parameters are amongst the strictest at European level. Terna's compliance with the law in its activities implicitly shows that it has adopted the same principle.

Terna carries out inspections and checks on its own lines to ensure compliance with the existing regulatory limits and seeks innovative technical solutions in order to mitigate the impact of magnetic fields. If any complaints or requests are received from competent administrative bodies and authorities, the Company provides the data needed to assess the actual exposure to electric and magnetic fields generated by its infrastructure.

Finally, with a view to providing accurate, easily understandable information on the subject, Terna has prepared an in-depth study on electromagnetic fields ("EMF"), which may be found in the "Sustainability" section of the Company's website www.terna.it.

Reports and complaints regarding environmental concerns

< 2-25

In line with the ISO 14001 Environmental Management System and the ISO 37301 Compliance Management System, Terna monitors and classifies complaints received regarding significant environmental matters.

Any written communication from stakeholders reporting that an activity carried out by Terna causes or has caused damage may be submitted to one of the Group's offices or organisational units, where it will be filed and handled by the competent operating unit.

Complaints received are classified in terms of environmental aspects as defined by environmental analysis: waste, noise, biodiversity, landscape, electrical and magnetic fields, lighting, the management of vegetation and others.

This year, the number of complaints received has slightly increased with respect to 2022 (up 3, making a total of 33) and primarily regarded power lines (85%) relating to **the noise emitted by the infrastructure (30.3%) and the need to cut back vegetation along power line corridors (24.2%)**.

Terna replies as soon as possible, and, in any event, within 30 days from receipt of the request or within 60 days if the scope and complexity of a request are such that it cannot be handled within the first 30 days.

In this case, Terna promptly notifies the person making the request of the extension and explains why it is necessary. Details of the concerns reported and dealt with over the past three years are published in the "Indicator Tables", available on the website www.terna.it in the section "General Archive".

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6 Information on the NFS

Methodological note

The Terna Group's consolidated non-financial statement ("NFS") has been prepared in compliance with the provisions of Legislative Decree 254/2016, as amended. It contains disclosures on the matters deemed material and provided for in art. 3 of the above Decree, to the extent necessary to enable readers to gain an understanding of the Group's activities, its performance, results and impacts. In the paragraph on the "The EU taxonomy", the NFS also includes the disclosures required by the taxonomy, as provided for in Regulation (EU) 852/20.

2-3 >

The NFS, prepared using the new GRI reporting standards "**in accordance with**" version, provides a complete picture of the most significant impact generated by Terna on the economy, the environment and people, including its impact on human rights. The NFS also highlights how the impacts are managed by the Company to deliver its contribution to sustainable development. The data shown in the NFS has been calculated as at 31 December 2023 and refer to the year as a whole with regard to flow indicators. At descriptive level, developments through to 1 March 2024 included have been reported

2-5 >

The document was subject to a limited assurance by Deloitte & Touche S.p.A., resulting in a specific "Assurance report", as required by the provisions of articles 3 and 4 of Legislative Decree 254/16. The opinion of the auditing firm and the related assurance activities did not concern the disclosure relating to the "material performance indicators envisaged in the supplement for the Electric Utility sector (EUSS)", the "other published GRI performance indicators" reported on page 319; the "Key indicator tables", published in the "Sustainability" section in the general archive of the website at www.terna.it or the "The EU taxonomy" disclosures.

The following table shows the content of the disclosures required by the Decree and their position in the Integrated Report. This content, together with the EU taxonomy disclosures, constitute the Group's NFS for 2023 and are appropriately indicated using the abbreviation **NFS**.

COMPLIANCE WITH LEGISLATIVE DECREE 254/2016

LEGISLATIVE DECREE 254/2016 SCOPE	MATERIAL TOPIC FOR TERNA	PARAGRAPHS OF THE REPORT RELATING TO THE NFS	GRI TOPIC STANDARDS / EUSS
ENVIRONMENT	Environmental impact of electricity infrastructure on local areas	• Protecting local areas and respecting the landscape • Electricity power lines, biodiversity and birdlife	304-1; 413-2 EU13; EU22
	Reducing the Group's CO_2 emissions	• Opportunities and risks connected with climate change • Energy consumption and cuts in emissions: energy efficiency • Atmospheric emissions • Direct CO_2 emissions (scope 1) • Indirect CO_2 emissions (scope 2) • Other indirect CO_2 emissions (scope 3) • Summary of indirect and direct emissions: carbon intensity • SF_6 gas management • Grid losses	201-2; 302-1; 302-3 305-1; 305-2; 305-3 305-4; 305-5; EU12
	Delivering the energy transition	• Opportunities and risks connected with climate change • The Group's capital expenditure • Atmospheric emissions • Direct CO_2 emissions (scope 1) • Indirect CO_2 emissions (scope 2) • Summary of indirect and direct emissions: carbon intensity	201-2; 203-1; 302-1 302-3; 305-1; 305-2 305-3; 305-4: 305-5
SOCIAL	Quality, security and continuity of the electricity service	• Electricity transmission • Changes in the dimensions of the NTG • Continuity and quality of service	EU3; EU4 EU28; EU29
	Management of stakeholder relations	• Engagement with local communities • Protecting local areas and respecting the landscape • Landowners affected by grid development	413-1; 413-2; EU22
WORKFORCE RELATED	Workplace health and safety and workers' rights	• Workplace health and safety • Protecting employees and promoting the culture of safety at Terna and in the supply chain • Diversity, inclusion and equal opportunities • Company welfare • Supply chain sustainability • Occupational injuries • Protecting workers at contractors' construction sites	403-1; 403-2; 403-3 403-4 403-5; 403-6 403-7 403-9; EU17 EU18
	HR development and wellbeing	• Company welfare • Workforce trends • Dialogue between the Company and employees: industrial relations training • Recruitment, selection and development • Generational turnover	201-3; 401-1; 401-2 401-3; 402-1; 404-1 404-2; 404-3; EU15
	Advancement of inclusion and diversity	• Diversity, inclusion and equal opportunities • Employee overview • Company welfare	202-2; 405-1; 405-2 406-1
RESPECT FOR HUMAN RIGHTS	Sustainable supply chain	• Supply chain sustainability • Qualification of suppliers and inspections • Protecting workers at contractors' construction sites	204-1; 308-1; 308-2 403-7; 407-1;414-1 414-2; EU17; EU18
TACKLING CORRUPTION	Business integrity	• Preventing corruption • Compliance • Taxation • Privacy	205-1; 205-2; 205-3 206-1; 207-1; 207-2 207-3; 207-4; 418-1 EU25

2-2 >

Scope of reporting and indicators

The scope of reporting for the NFS for 2023, included in the Integrated Report (previously the Report on Operations), refers to the Terna Group, meaning the Parent Company, Terna S.p.A., and the subsidiaries consolidated on a line-by-line basis in the consolidated financial statements as at and for the year ended 31 December 2023.

As of this NFS – following completion of a process aimed at adopting a "One Company" approach to presentation – the social and environmental data[154] of subsidiaries, in Italy and overseas, have been consolidated. In the NFS for 2022, in addition to the "Terna" electricity sector data (meaning Terna, Terna Rete Italia, Terna Plus and Terna Energy Solutions), social and environmental data for the Brugg Group (in the NFS for 2021 this was limited to Brugg Switzerland) and for the Tamini Group (without taking into account employees in the United States and India) was also consolidated, as was environmental data for subsidiaries operating overseas.

With regard to Terna (electricity sector), to guarantee the comparability of the 2023 data with that of the previous two years, data for the same scope as used in the NFSs for 2022 and 2021 have also been reported.

When the data reported in the section, "Human capital", refers to "Terna", it relates to 82% of the workforce of all the Group's employees, whilst when it refers to the Group it relates to 100% of the Group's workforce. In terms of the Group's revenue, these percentages for "Terna" alone are 87% and when referring to the Group 100%.

As regards the data reported in the section, "Natural capital", on the other hand, when this refers to "Terna" it relates to 83% of the workforce of all the Group's employees, whilst when it refers to the Group it relates to 100% of the Group's workforce. In terms of the Group's revenue, these percentages for "Terna" alone are 87% and when referring to the Group 100%.

[154] The environmental data for Avvenia have not been consolidated as they are not material, as shown by the analysis of the company's environmental footprint conducted in 2019.

Finally, any changes to the data published in previous editions are appropriately highlighted in the document. < 2-4

There are no joint ventures, other subsidiaries or leased assets that might significantly influence the scope of compatibility of the environmental or social data.

The NFS contains qualitative and quantitative information relating to topics considered to be "material" for the Group and identified by through the materiality analysis described on page 54.

GRI content index

This section provides an index of the GRI Standards indicators reported in this NFS. Each Topic Specific Standard, where provided for, is linked with the relevant **Sustainable Development Goals** ("SDGs") and, in line with the value creation process over time (see pages 50-51), also with the relevant **capital**.

References to the pages of the Report have been included to facilitate retrieval of the information reported in response to the requirements of the Standards as well as any limitations and notes identified for specific indicators. Finally, it should be noted that the reference standards are those published in 2016 (any references to subsequent standards are clearly indicated in the table) and those related to the edition of the GRI 2021.

STATEMENT OF USE	TERNA REPORTED IN ACCORDANCE WITH GRI STANDARDS FOR THE PERIOD 1ST JANUARY – 31 DECEMBER 2023		
GRI STANDARD		PAGE	LIMITATIONS AND NOTES
GRI 1 – FOUNDATION (2021)		54-56	
GRI 2 – GENERAL DISCLOSURES (2021)			
THE ORGANIZATION AND ITS REPORTING PRACTICES			
2-1	Organizational details.	62; 64; 66; 241	
2-2	Entities included in the organization's sustainability reporting.	64; 66; 312	
2-3	Reporting period, frequency and contact point.	4; 252; 310	
2-4	Restatements of information.	312	
2-5	External assurance.	4; 310	
ACTIVITIES AND WORKERS			
2-6	Activities, value chain and other business relationships.	52; 112; 115; 148 155; 218; 220; 246	
2-7	Employees.	225; 226; 320	
2-8	Workers who are not employees.	227; 246	
GOVERNANCE			
2-9	Governance structure and composition.	68; 69 Report on Corporate Governance and Ownership Structures	
2-10	Nomination and selection of the highest governance body.	69 Report on Corporate Governance and Ownership Structures	
2-11	Chair of the highest governance body.	Report on Corporate Governance and Ownership Structures	
2-12	Role of the highest governance body in overseeing the management of impacts.	45; 56; 68; 69; 71 Report on Corporate Governance and Ownership Structures	
2-13	Delegation of responsibility for managing impacts.	69 Report on Corporate Governance and Ownership Structures	
2-14	Role of the highest governance body in sustainability reporting.	5	

GRI STANDARD		PAGE	LIMITATIONS AND NOTES
2-15	Conflicts of interest.	Report on Corporate Governance and Ownership Structures	
2-16	Communication of critical concerns.	Report on Corporate Governance and Ownership Structures	
2-17	Collective knowledge of the highest governance body.	Report on Corporate Governance and Ownership Structures	
2-18	Evaluation of the performance of the highest governance body.	Report on Corporate Governance and Ownership Structures	
2-19	Remuneration policies.	Report on the remuneration policy and remuneration paid	
2-20	Process to determine remuneration.	Report on Corporate Governance and Ownership Structures	
2-21	Annual total compensation ratio.	82 Report on the remuneration policy and remuneration paid	The ratio between the percentage change in the annual total compensation of the CEO and the average percentage change in the annual total compensation of all employees has not been reported.
STRATEGY, POLICIES AND PRACTICES			
2-22	Statement on sustainable development strategy.	2	
2-23	Policy commitments.	80; 208; 209; 212 219; 222, 276; 290; 321 Report on Corporate Governance and Ownership Structures	
2-24	Embedding policy commitments.	209; 216; 222; 320	
2-25	Processes to remediate negative impacts.	264; 307	
2-26	Mechanism for seeking advice and raising concerns.	80; 217; 321 Code of Ethics: 44-45	
2-27	Compliance with laws and regulations.	209	
2-28	Membership associations.	256; 258	
STAKEHOLDER ENGAGEMENT			
2-29	Approach to stakeholder engagement.	252	
2-30	Collective bargaining agreements.	240; 320	
GRI 3 MATERIAL TOPICS (2021)			
3-1	Process to determine material topics.	54	
3-2	List of material topics.	55	
3-3	Management of material topics.	56	The following section – dedicated to GRI Topic Specific Standards – includes the report on the 3-3 standard.

Topic specific standards – gri 200: economic topics

GRI STANDARD		PAGE	LIMITATIONS AND NOTES	CAPITALS	SDGs
ECONOMIC PERFORMANCE (2016)					
201-1	Direct economic value generated and distributed.	270			
201-2	Financial implications and other risks and opportunities due to climate change.	102; 105 311; 321			
201-3	Defined benefit plan obligations and other retirement plans.	248; 311			
201-4	Financial assistance received from government.	271			
MARKET PRESENCE (2016)					
202-2	Proportion of senior entry level wage by gender compared to local minimum wage.	232; 311			
INDIRECT ECONOMIC IMPACTS (2016)					
203-1	Infrastructure investments and services supported.	126; 266; 311			
PROCUREMENT PRACTICES (2016)					
204-1	Proportion of spending on local suppliers	221; 311			
ANTI-CORRUPTION (2016)					
205-1	Operations assessed for risks related to corruption.	216; 311; 321			
205-2	Communication and training about anti-corruption policies and procedures.	216; 311	*Information on suppliers is provided on page 218.*		
205-3	Confirmed incidents of corruption and actions taken.	209; 311			
ANTI-COMPETITIVE BEHAVIOR (2016)					
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices.	209; 311			
TAX (2019)					
207-1	Approach to tax.	213; 311			
207-2	Tax governance, control, and risk management.	213; 311	*For the reports, see page 217. For the assurance process, see the independent auditor's report on the financial statements.*		
207-3	Stakeholder engagement and management of concerns related to tax.	215; 311			
207-4	Country by country reporting.	66; 215; 311			

Topic specific standards – gri 300: environmental topics

GRI STANDARD		PAGE	LIMITATIONS AND NOTES	CAPITALS	SDGs
MATERIALS (2016)		276; 291			
301-1	Materials used by weight or volume.	293; 321			
ENERGY (2016)		276; 286			
302-1	Energy consumption within the organization.	286; 311; 321			
302-3	Energy intensity.	287; 311; 321			
BIODIVERSITY (2016)		276, 296			
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	302; 311; 321			
304-3	Habitat protected or restored.	305			
304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations.	303; 321			
EMISSIONS (2016)		276; 278			
305-1	Direct (Scope 1) GHG emissions.	281; 311; 321			
305-2	Energy indirect (Scope 2) GHG emissions.	283; 311; 321			
305-3	Other indirect (Scope 3) GHG emissions.	286; 311; 321			
305-4	GHG emissions intensity.	285; 311; 321			
305-5	Reduction of GHG emissions.	282; 287; 289 311; 321			
WASTE AND DISCHARGES (2020)		276; 290			
306-1	Waste generation and significant waste related impacts	293; 321			
306-2	Management of significant waste related impacts.	293; 321			
306-3	Waste generated.	294			
SUPPLIER ENVIRONMENTAL ASSESSMENT (2016)		218			
308-1	New suppliers that were screened using environmental criteria.	223; 311			
308-2	Negative environmental impacts in the supply chain and actions taken	219; 311			

Topic specific standards – gri 400: social topics

GRI STANDARD		PAGE	LIMITATIONS AND NOTES	CAPITALS	SDGs
EMPLOYMENT (2016)		224			
401-1	New employee hires and employee turnover.	227; 228; 311			
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees.	248; 311			
401-3	Parental leave.	233; 311			
LABOR / MANAGEMENT RELATIONS (2016)		224, 240-242			
402-1	Minimum notice periods regarding operational changes.	240; 311; 320			
OCCUPATIONAL HEALTH AND SAFETY (2018)		224, 243-247			
403-1	Occupational health and safety management system.	241; 311			
403-2	Hazard identification, risk assessment, and incident investigation.	242; 311			
403-3	Occupational health services.	242; 311			
403-4	Worker participation, consultation, and communication on occupational health and safety.	241; 311			
403-5	Worker training on occupational health and safety.	243; 311			
403-6	Promotion of worker health.	243; 248; 311			
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships.	222; 311			
403-9	Number of injuries, fatality rate, injury rate, rate of recordable occupational injuries, types of injury, number of hours worked.	244; 311			
TRAINING (2016)		224, 237			
404-1	Average hours of training per year per employee.	237; 311			
404-2	Programs for upgrading employee skills and transition assistance programs.	235; 237; 311	*Information regarding programmes supporting the transition is provided in the consolidated financial statements.*		
404-3	Percentage of employees receiving regular performance and career development reviews.	236; 311			
DIVERSITY AND EQUAL OPPORTUNITY (2016)		224; 229-236			
405-1	Diversity of governance bodies and employees.	70; 226; 229; 231 232; 311; 320			
405-2	Ratio of basic salary and remuneration of women to men.	231; 311; 320			
NON-DISCRIMINATION (2016)		224			
406-1	Incidents of discrimination and corrective actions taken.	217; 311; 320			
FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING (2016)		240-242			
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk.	219; 311; 320			
LOCAL COMMUNITIES (2016)		250; 259-269			
413-1	Operations with local community engagement, impact assessments, and development programs.	259; 262; 311			
413-2	Operations with significant actual and potential negative impacts on local communities.	264; 301; 311; 320			
SUPPLIER SOCIAL ASSESSMENT (2016)		219			
414-1	New suppliers that were screened using social criteria.	223; 311			
414-2	Negative social impacts in the supply chain and actions taken.	219; 311; 320			
PUBLIC POLICY (2016)		265			
415-1	Political contributions.	265			
CUSTOMER PRIVACY (2016)		211			
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data.	211; 311			

The connection of material topics with the categories of the Sustainability Accounting Standards Board (SASB) is available at this QR code.

List of material performance indicators required to meet sector disclosure requirements for the electric utilities sector (GRI-EUSS 2013)

EUSS INDICATORS		PAGE	LIMITATIONS AND NOTES	CAPITALS	SDGs
ORGANIZATIONAL PROFILE					
EU3	Number of residential, industrial, institutional, and commercial customer accounts.	145; 311			
EU4	Length of above and underground transmission and distribution lines by regulatory regime.	114; 311			
SYSTEM EFFICIENCY					
EU12	Transmission and distribution losses as a percentage of total energy.	284; 311			
BIODIVERSITY					
EU13	Biodiversity of offset habitats compared to the biodiversity of the affected areas.	297; 302; 311			
EMPLOYMENT					
EU15	Percentage of employees eligible to retire in the next 5 and 10 years broken down by job category and by region.	228; 311			
EU17	Days worked by contractor and subcontractor employees involved in construction, operation & maintenance activities.	246; 311			
EU18	Percentage of contractor and subcontractor employees that have undergone relevant health and safety training.	246; 311			
LOCAL COMMUNITIES					
EU22	Number of people physically or economically displaced and compensation, broken down by type of project.	264; 311			
CUSTOMER HEALTH AND SAFETY (COMMUNITY)					
EU25	Number of injuries and fatalities to the public involving company assets, including legal judgments, settlements and pending legal cases of diseases.	210; 311			
ACCESS					
EU28	Power outage frequency (SAIFI).	136; 311			
EU29	Average power outage duration (AIT).	136; 311			

List of other GRI performance indicators published

In line with an approach based on voluntary disclosure, the Group has opted to publish certain indicators even if they are judged to fall below the materiality threshold and thus do not fall within the scope of the NFS (see the specific section on materiality on pages 312-313). Finally, it should be noted that these indicators only partially refer to the requirements provided for in the GRI.

GRI STANDARD		PAGE	LIMITATIONS AND NOTES	CAPITALS	SDGs
WATER AND EFFLUENTS (2018)					
303-1	Interactions with water as a shared resource.	293; 321			
CHILD LABOR (2016)					
408-1	Operations and suppliers at significant risk for incidents of labour.	222; 320			
FORCED OR COMPULSORY LABOR (2016)					
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour.	222; 320			

For Key indicator tables scan this QR code.

Links between the GRI Standards and the Global Compact principles

This table shows the links between the GRI Standards reported by Terna and the related Global Compact principles in order to make it easier to find information of significance to stakeholders interested in assessing Terna's commitment to the ten principles in the UN's initiative.

	GLOBAL COMPACT PRINCIPLE	GRI DISCLOSURE	GRI	PAGE
HUMAN RIGHTS	**Principle 1** Businesses should **support and respect the protection of** internationally proclaimed **human rights**.	**Human Rights** "Investment" aspect "Assessment" aspect	2-24	209; 216; 222
		Company "Local Communities" aspect	413-1 413-2	259; 262; 311 264; 301; 311
	Principle 2 **Ensure**, that, even if indirectly, they, **are not complicit in the abuse of human rights.**	**Human Rights** "Investment" aspect"	2-24	209; 216; 222
		"Assessing respect for human rights in the supply chain" aspect	414-1 414-2	223; 311 219; 311
LABOUR	**Principle 3** Businesses should **uphold the freedom of association** and the effective recognition of the **right to collective bargaining**.	**Organisational profile** "Collective bargaining agreements" aspect	2-30	240
		Human Rights "Freedom of association and collective bargaining" aspect	407-1	219; 311
		Labour "Management relations" aspect	402-1	240; 311
	Principle 4 Businesses should eliminate all **forms of forced and compulsory labour.**	**Human Rights** "Forced or compulsory labour" aspect	409-1	222
	Principle 5 Businesses should **eliminate child labour.**	**Human Rights** "Child labour" aspect	408-1	222
	Principle 6 Businesses should eliminate all **forms of discrimination** in respect of employment and occupation.	**Organisational Profile** "Employees" aspect	2-7	226
		Economy "Presence on the market" aspect	202-2	232; 311
		Correct work practices "Employment" aspect	401-1 401-3	228; 229; 311 248; 311
		"Training and education" aspect	404-1 404-3	237; 311 236; 311
		"Diversity and equal opportunities" aspect	405-1	70; 226; 231; 232 311
		"Equal pay for men and women" aspect	405-2	231; 311
		Human Rights "Non-discrimination" aspect	406-1	217; 311

	GLOBAL COMPACT PRINCIPLE	GRI DISCLOSURE	GRI	PAGE
ENVIRONMENT	**Principle 7** Businesses should support a **precautionary approach to environmental challenges.**	**Economico** "Financial Performance" aspect	201-2	102; 105; 311
		Environment "Materials" aspect	301-1	293
		"Energy" aspect	302-1	286; 311
		"Water" aspect	303-1	287; 311
		"Emissions" aspect	305-1	281; 311
	Principle 8 Businesses should undertake initiatives to promote **greater environmental sustainability.**	**Environment** Materials" aspect	305-2 301-1	283; 311 293
		"Energy" aspect	302-1 302-3	286; 311 287; 311
		"Biodiversity" aspect	304-4	303
		"Emissions" aspect	305-1 305-2 305-3 305-4 305-5 304-1	281; 311 283; 311 286; 311 285; 311 282; 287; 289; 311 302; 311
		"Waste" aspect	306-1 306-2	293 293
	Principle 9 Businesses should encourage the **development and diffusion of environmentally friendly technologies.**	**Environment** "Emissions" aspect	305-5	282; 289; 311
TACKLING CORRUPTION	**Principle 10** Businesses should **work against corruption in all its forms**, including extortion and bribery.	**Company** "Ethics and integrity" aspect	2-23 2-26	80; 208; 209; 212 219; 222; 290 80; 209; 217
		"Anticorruption" aspect	205-1	216; 311
		"Public policy" aspect	205-1	216; 311

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Independent Auditor's review report on the NFS for 2023

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INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED NON-FINANCIAL STATEMENT PURSUANT TO ARTICLE 3, PARAGRAPH 10 OF LEGISLATIVE DECREE No. 254 OF DECEMBER 30, 2016, AND ART. 5 OF CONSOB REGULATION N. 20267/2018

To the Board of Directors of
Terna S.p.A.

Pursuant to article 3, paragraph 10, of the Legislative Decree no. 254 of December 30, 2016 (hereinafter "Decree") and to article 5, paragraph 1, letter g) of the CONSOB Regulation n. 20267/2018, we have carried out a limited assurance engagement on the Consolidated Non-Financial Statement of Terna S.p.A. and its subsidiaries (hereinafter "Terna Group" or "Group") as of December 31, 2023 prepared on the basis of art. 4 of the Decree, presented in the specific section of the report on operations and integrated, through cross-references, with information presented in other sections of the report on operations, and approved by the Board of Directors on March 19, 2024 (hereinafter "NFS").

Our limited assurance engagement does not extend to the information required by art. 8 of the European Regulation 2020/852 included in the paragraph "*The Taxonomy EU*".

Responsibility of the Directors and the Board of Statutory Auditors for the NFS

The Directors are responsible for the preparation of the NFS in accordance with articles 3 and 4 of the Decree and the "*Global Reporting Initiative Sustainability Reporting Standards*" established by GRI - *Global Reporting Initiative* (hereinafter "GRI Standards"), which they have identified as reporting framework.

The Directors are also responsible, within the terms established by law, for such internal control as they determine is necessary to enable the preparation of NFS that is free from material misstatement, whether due to fraud or error.

The Directors are moreover responsible for defining the contents of the NFS, within the topics specified in article 3, paragraph 1, of the Decree, taking into account the activities and characteristics of the Group, and to the extent necessary in order to ensure the understanding of the Group's activities, its trends, performance and the related impacts.

Finally, the Directors are responsible for defining the business management model and the organisation of the Group's activities as well as, with reference to the topics detected and reported in the NFS, for the policies pursued by the Group and for identifying and managing the risks generated or undertaken by the Group.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the compliance with the provisions set out in the Decree.

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

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Auditor's Independence and quality control

We have complied with the independence and other ethical requirements of the *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* issued by the *International Ethics Standards Board for Accountants*, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

During the year covered by this assurance engagement, our auditing firm applied *International Standard on Quality Control 1* (*ISQC Italia 1*) and, accordingly, maintained a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's responsibility

Our responsibility is to express our conclusion based on the procedures performed about the compliance of the NFS with the Decree and the GRI Standards. We conducted our work in accordance with the criteria established in the "*International Standard on Assurance Engagements ISAE 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information*" (hereinafter "ISAE 3000 Revised"), issued by the *International Auditing and Assurance Standards Board* (IAASB) for limited assurance engagements. The standard requires that we plan and perform the engagement to obtain limited assurance whether the NFS is free from material misstatement. Therefore, the procedures performed in a limited assurance engagement are less than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised, and, therefore, do not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures performed on NFS are based on our professional judgement and included inquiries, primarily with company personnel responsible for the preparation of information included in the NFS, analysis of documents, recalculations and other procedures aimed to obtain evidence as appropriate.

Specifically, we carried out the following procedures:

1. analysis of relevant topics with reference to the Group's activities and characteristics disclosed in the NFS, in order to assess the reasonableness of the selection process in place in light of the provisions of art.3 of the Decree and taking into account the adopted reporting standard;

2. analysis and assessment of the identification criteria of the consolidation area, in order to assess its compliance with the Decree;

3. comparison between the financial data and information included in the NFS with those included in the consolidated financial statements of Terna Group;

4. understanding of the following matters:

   - business management model of the Group's activities, with reference to the management of the topics specified by article 3 of the Decree;

- policies adopted by the entity in connection with the topics specified by article 3 of the Decree, achieved results and related fundamental performance indicators;
- main risks, generated and/or undertaken, in connection with the topics specified by article 3 of the Decree.

Moreover, with reference to these matters, we carried out a comparison with the information contained in the NFS and the verifications described in the subsequent point 5, letter a);

5. understanding of the processes underlying the origination, recording and management of qualitative and quantitative material information included in the NFS.

   In particular, we carried out interviews and discussions with the management of Terna S.p.A., Terna Rete Italia S.p.A., and Tamini Trasformatori S.r.l., and we carried out limited documentary verifications, in order to gather information about the processes and procedures which support the collection, aggregation, elaboration and transmittal of non-financial data and information to the department responsible for the preparation of the NFS.

   In addition, for material information, taking into consideration the Group's activities and characteristics:

   - at the parent company and subsidiaries level:

     a) with regards to qualitative information included in the NFS, and specifically with reference to the business management model, policies applied and main risks, we carried out interviews and gathered supporting documentation in order to verify its consistency with the available evidence;
     b) with regards to quantitative information, we carried out both analytical procedures and limited verifications in order to ensure, on a sample basis, the correct aggregation of data.

   - for the Northwest Transmission Department, the Sardinia Transmission District, and Genoa and Villasor Plant Units of Terna Rete Italia S.p.A., and for Tamini Trasformatori S.r.l., which we selected based on their activities, their contribution to the performance indicators at the consolidated level and their location, we carried out site visits and remote interviews during which we have met their management and have gathered supporting documentation with reference to the correct application of procedures and calculation methods used for the indicators.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of Terna Group as of December 31, 2023 is not prepared, in all material respects, in accordance with article 3 and 4 of the Decree and the GRI Standards.

Our conclusion on the NFS does not extend to the information required by art. 8 of the European Regulation 2020/852 included in the paragraph *"The Taxonomy EU"*.

DELOITTE & TOUCHE S.p.A.

Signed by
Domenico Falcone
Partner

Rome, Italy
April 17, 2024

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

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Regulatory framework and other information

Summary of the principal legislative measures

A brief description is provided below of the principal legislation of interest to the Group issued during 2023 and, subsequently, up to the date of preparation of this Annual Report.

- **Law Decree 187 of 5 December 2022, containing urgent measures safeguarding the national interest in strategic industrial sectors, converted into Law 10 of 1 February 2023, published in the Official Gazette of 3 February 2023 (the *Interesse Nazionale* Decree)**
  The Law Decree contains measures regarding exercise of the state's **golden power** and safeguards of the national interest in the hydrocarbons sector.

- **Law Decree 199 of 29 December 2022, containing urgent measures regarding legislative deadlines, converted into Law 14 of 24 February 2023, published in the Official Gazette of 27 February 2023 (the *Milleproroghe* Law Decree)**
  The Law Decree contains measures regarding energy maximisation, renewables, compensation mechanisms, general system costs, remote meetings, remote working, tenders and incentives (tax credits) for investment in tangible and intangible assets.

- **Legislative Decree 24 of 10 March 2023, regarding "Implementation of EU Directive 2019/1937 of the European Parliament and Council of 23 October 2019 on the Protection of persons who report breaches of Union law" and containing measures regarding the protection of persons who report breaches of national legislation, published in the Official Gazette of 15 March 2023 (the Whistleblowing Decree)**
  The Decree governs whistleblowing, establishing the subjective and objective scope of application, types of internal and external disclosures, safeguards for whistleblowers and reported persons and administrative sanctions.

- **Legislative Decree 36 of 31 March 2023, containing the Public Contracts Code in implementation of art. 1 of Law 79 of 21 June 2022 delegating the Government to decide on public contracts, published in the Official Gazette of 31 March 2023 (the Public Tenders Code)**
  The Decree has reformed the law on public contracts with regard above all to the sole project manager, tender procedures, databases, the location and design of works, public consultation, design, price adjustments, market consultations and technical advisory committees.

- **Law Decree 13 of 24 February 2023, containing urgent measures regarding implementation of the NRRP and the CNP and the implementation of EU cohesion and agricultural policies, converted into Law 41 of 21 April 2023, published in the Official Gazette of 21 April 2023 (the NRRP Governance Law Decree)**
  The Law Decree governs the organisation of Government entities responsible for NRRP projects, the structure of the NRRP mission, control and monitoring of NRRP and CNP projects, simplification of the procedures for managing NRRP finances, price adjustments for commissioning bodies, public contracts in special sectors, the Fund for Urgent Works, the establishment of a central committee for the technical security of the energy

transition and management of the risks associated with climate change, simplification of the award of contracts relating to the NRRP and CNP and administrative procedures, terms of reference for the **Technical Committee to oversee EIA and SEA procedures and the NRRP-PNIEC Technical Committee** with additional responsibility for **environmental impact assessments**, the terms of reference of the Special Agency to oversee the NRRP, initiatives designed to deal with flood and hydrogeological risks, simplification of the development of green, renewable hydrogen, **the installation of renewable energy plants and the definition of suitable areas** (including with reference to **projects included in Terna's Development Plan**), simplification of the process for handling excavated earth and rocks, energy storage plants and agri-photovoltaics.

- **Law Decree 34 of 30 March 2023, providing urgent support for the purchase of electricity and natural gas by households and businesses and regarding health and tax-related requirements, converted into Law 56 of 26 May 2023, published in the Official Gazette of 29 May 2023 (the *Bollette* Law Decree)**
  This Law Decree contains measures to **contain price rises in the electricity** and natural gas sectors, reinforcing the vouchers system, VAT cuts, tax credits, temporary solidarity payments, tax relief for energy saving initiatives, etc.

- **Law Decree 35 of 31 March 2023, containing urgent measures on the construction of a stable link between Sicily and Calabria, converted into Law 58 of 26 May 2023, published in Official Gazette no. 77 of 30 May 2023 (the Law converting the *Stretto di Messina* Law Decree).**
  The legislation regards the ownership and governance of Stretto di Messina SpA, whose shareholders are RFI, ANAS, Calabria and Sicily regional authorities and the Ministry of the Economy and Finance in consultation with the Ministry of Infrastructure and Transport, the concession arrangement and the restart of work on the planning and design of the infrastructure, expropriation procedures regarding the project with establishment of a website with restricted access to a **virtual mailbox** and unlimited access to a **virtual file**; appointment of a **Special Commissioner** to coordinate the works necessary to upgrade the A19 Palermo-Catania motorway, identification of the **priority projects needed to upgrade the infrastructure and the modify their use**; adoption of a Communication Plan featuring construction of the Bridge over the Strait.

- **Law Decree 39 of 14 April 2023, containing urgent measures addressing water scarcity and regarding the expansion and upgrade of water infrastructure, converted into Law 68 of 13 June 2023, published in the Official Gazette of 13 June 2023 (the *Siccità* Law Decree)**
  The Decree contains measures to guarantee the continuity of electricity production during a state of emergency caused by drought, introducing a derogation from temperature limits for thermal discharges into the sea, waterways, artificial canals and lakes from thermoelectric power stations with a thermal capacity in excess of 300 MW in the period from 20 June to 15 September 2023; establishment of a Steering Committee within the Cabinet Office; simplified procedures for the construction, expansion and upgrade of water infrastructure; establishment of funding for improvements to the security and management of water sources and of permanent district watchdogs; implementation of maintenance work on water sources through the amendment of Regulation 120/2017 containing simplified requirements for handling excavated earth and rocks.

- **Law Decree 44 of 22 April 2023, containing urgent measures to strengthen the administrative capabilities of public bodies, converted into Law 74 of 21 June 2023, published in the Official Gazette of 21 June 2023 (the *Assunzioni PA* Law Decree)**
  The Decree appoints a climate change tsar; legislation on the personnel of ARERA, ENEA, ISPRA and the Cybersecurity Agency; legislation governing appointments to the corporate bodies of the **subsidiaries** of state-owned entities as regards the non-applicability of the ban on the appointment of retired workers.

- **Law Decree 48 of 4 May 2023, containing urgent measures on social inclusion and labour market access, converted into Law 85 of 3 July 2023, published in Official Gazette of 3 July 2023 (the *Lavoro e inclusione sociale* Law Decree)**
  The Decree provides for increased funding for new skills; partial exemption from the payment of social security contributions for employees for the payroll periods from 1 July 2023 to 31 December 2023; **tax measures for corporate welfare** for the 2023 tax year up to the limit of €3,000 and the extension of remote working for public and private employees; measures regarding **shareholder rights and cost controls (remuneration policy)**; changes to **administrative sanctions for non-payment of social security contributions**; changes to the legislation governing fixed-term contracts and simplified procedures for reporting employment relationships; and incentives for private employers who hire young people.

- **Law Decree 51 of 10 May 2023, containing urgent measures on the administration of public entities, legislative deadlines and social solidarity initiatives, converted into Law 87 of 3 July 2023, published in the Official Gazette of 5 July 2023 (the *Amministrazione Enti* Law Decree)**
  The Decree **has extended tax deadlines** (payments made by collection agents, tax advice provided by withholding agents, elections of the Governing Council for tax tribunals); has removed the obligation for commissioning bodies to check the reliability of the certification produced by suppliers on gender equality and extends the deadline regarding the procurement of critical raw materials to 31 December 2026.

- **Law Decree 57 of 29 May 2023, containing urgent measures on local authorities, the timely implementation of the National Recovery and Resilience Plan and for the energy sector, converted into Law 95 of 26 July 2023, published in the Official Gazette of 27 July 2023 (the *Rigassificatori* Law Decree)**
  The Decree governs the construction of new regasification capacity for Italy, and the provisions of the ***Bollette-bis* Law Decree**, containing **measures to contain energy price rise**s, including extension for the third quarter of 2023 of the electricity and gas voucher scheme, the removal of system costs for natural gas and a reduction in VAT to 5% on supplies of methane gas for civil and industrial use.

- **Law Decree 61 of 1 June 2023, containing urgent measures to respond to the emergency caused by flooding after 1 May 2023, converted into law 100 of 31 July 2023, published in the Official Gazette of 31 July 2023 (the *Alluvioni* Law Decree)**
  The Decree provides support for the areas affected by the floods, regarding the suspension of court orders and administrative and public administration deadlines, the postponement of deadlines for businesses relating to the funding of chambers of commerce, accounting and corporate requirements, mortgages and loans, finance leases, social security, income support, refinancing of the National Fund for Emergencies and the Fund for Structural Economic Initiatives, reduction of the approved budget for the fixed grant in the event of high gas prices. The Law Decree also applies the provisions of the **Law Decree *Ricostruzione* Decree** on coordination of the reconstruction procedures and activities in the Emilia-Romagna, Tuscany and Marche regions hit by flooding.

- **Law Decree 69/2023 containing urgent provisions on implementation of the obligations deriving from European Union legislation and pending infringement and pre-infringement procedures against the Italian Government, converted into Law 103 of 10 August 2023, published in the Official Gazzette of 10 August 2023 (the *Salvainfrazioni* Law Decree)**
  The Decree removes the option for Terna to build storage systems in the event of **market** failure. With regard to **electricity interruptibility**, the Decree requires ARERA to establish the criteria and procedures for allocating interruptibility resources, to be allocated by **lowest price auction**, based on technical criteria defined by Terna. **The exemption** for energy-intensive users that provide electricity interruptibility services from the **payment of electricity dispatching and transport charges has been abolished from 1 January 2024**.

- **Law 111 of 9 August 2023, delegating the Government in relation to the tax reform, published in the Official Gazette of 14 August 2023 (the *Riforma Fiscale* Delegated Law)**
  The Law delegates the Government to adopt, within 24 months of the law coming into force, one or more legislative decrees containing the **reform of the tax system** and to adopt future corrective and supplementary decrees, within 24 months of the entry into force of the last of the legislative decrees in accordance with the legal principles

and criteria, including those contained in Italian tax law and in EU and international tax law; to reform the taxpayers' bill of rights; to reform the income tax system for companies and other entities; the reform VAT and IRAP; to reform excise duty and other indirect taxes on production and consumption and the related legal requirements; to fully implement the regional federal tax system; to reform the tax system for municipalities, metropolitan cities and provinces; regarding the procedures for assessments, acceptance and voluntary compliance; to reform the national tax collection system and the rules governing and the organisation of tax litigation.

- **Law Decree 75 of 22 June 2023, containing urgent measures on the organisation of public administrations, agriculture, sport, work and organisation of the Catholic Church's Jubilee in 2025, converted into Law 112 of 10 August 2023, published in the Official Gazette of 16 August 2023 (the *Pa-bis* Law Decree)**
  The Decree has provided funding to the Ministry of the Environment and Energy Security to be allocated to ISPRA and ENEA and contains measures regarding the **Emission Trading System Committee**, the technical secretariat of the Steering Committee for Drought and the Steering Committee for determining **essential standards of service**. It also contains legislation on: granting entry to foreigners for particular jobs; simplifying the procedures for implementing measures to combat high commodity prices; authorising expenditure for the Catholic Church's Jubilee in 2025; the XXV Winter Olympic Games «Milan-Cortina 2026 and extraordinary redundancy scheme; personnel at ARERA, ENEA, ISPRA and the Cybersecurity Agency; the non-applicability of the ban on the appointment of retired workers to the **corporate bodies of state-owned subsidiaries**, with the sole purpose of carrying out a project of major national interest.

- **Law Decree 98 of 28 July 2023, converted into Law 127 of 18 September 2023, containing urgent measures on worker protection in the event of a climate emergency and payment deadlines, published in the Official Gazette of 23 September 2023 (the *Tutela lavoratori emergenza climatica* Law Decree)**
  The Decree extends the deadline for payment, by certain entities operating in the energy sector, of a part of the solidarity contribution introduced in the 2023 Budget Law until 30 November 2023 without the application of fines or interest.

- **Law Decree 104 of 10 August 2023, containing urgent measures to protect end users, regarding economic and financial activities and strategic investments, converted into Law 136 of 9 October 2023, published in the Official Gazette of 9 October 2023 (the *Asset e investimenti o Omnibus* Law Decree)**
  The Decree contains provisions regarding the conditions for purchasing goods and services relating to networks, information systems and IT services, the **financing of transactions relating to strategically important companies** (to provide the necessary financial resources to enable the Ministry of the Economy and Finance to take part in the transaction involving the purchase of TIM Spa's fixed telecommunications network); **measures providing incentives for the production of energy from renewable sources**; urgent measures regarding implementation of the NRRP by the Ministry of Transport in relation to rail infrastructure financed by the NRRP, the CNP or by programmes co-financed by the European Union's structural funds; tax relief for research and development in microelectronics and the Technical Committee for microelectronics and Italy's participation in European programmes (the Chips Joint Undertaking).

- **Law 160 of 27 October 2023, delegating the Government to reform incentives for businesses and simplify the related procedures and regarding the terms of the delegation to simplify controls on economic activities, published in the Official Gazette of 15 November 2023 (the *Sistema incentivi imprese* Delegated Law)**
  From the entry into force of the law, the Government will have 24 months to adopt legislative decrees implementing the legislation therein and, in particular, rationalise the range of incentives for businesses and coordinate their governance via a new **Incentives Code**. To facilitate the synergic use of the resources, including those allocated under the European Union's cohesion policy, regional authorities must be given a role to ensure that regional planning, including in relation to European structural funds and investment, may take into account national programmes. Central Government and regional authorities may enter into specific planning agreements for this purpose.

- **Law Decree 124 of 19 September 2023, containing urgent measures on cohesion policies, the relaunch of the economy in southern Italy and immigration, converted into Law 162 of 13 November 2023, published in the Official Gazette of 16 November 2023 (the *Sud* Law Decree)**
  The Decree contains measures on the use of national and European cohesion funds; the national strategy for inner areas; urgent action to benefit the municipalities of Lampedusa and Linosa; special economic zones for the south; tax credits for the special economic zones; investment; strengthening of the administrative capacity in relation to cohesion policies.

- **Law Decree 131 of 29 September 2023, containing urgent measures on energy, financial support for households and savings protection, converted into Law 169 of 27 November 2023, published in the Official Gazzette of 28 November 2023 (the *Energia e tutela risparmio* Law Decree)**
  The Decree contains legislation that aims to contain the impact of rising prices in the electricity and natural gas sectors; on subsidies for energy-intensive businesses; on the public finances and access to funding for urgent projects; and on municipal energy planning.

- **Law Decree 132 of 29 September 2023, containing urgent measures on the extension of legal deadlines and tax payments, converted into Law 170 of 27 November 2023, published in the Official Gazette of 29 November 2023 (the *Proroga fisco* Law Decree)**
  The Decree contains provisions guaranteeing the **security of the national electricity system**, introducing exemptions to limits on the emissions of coal-fired power plants with a nominal thermal capacity over 300 MW, provided that such plants are included by **Terna** in the list of plants essential for the security of the electricity system and that **Terna** states that the eventual unprogrammed unavailability of the plants would put at risk the security standards for operation of the electricity system. The decree also contains legislation on tenders.

- **Law Decree 181 of 9 December 2023, containing urgent measures on the country's energy security, promoting the use of renewable sources, support for energy-intensive businesses and the functioning of the retail electricity market, converted into Law 11 of 2 February 2024, published in the Official Gazette of 7 February 2024 (the *Sicurezza energetica* Law Decree)**
  The Decree contains measures regarding **electricity grid infrastructure**, **such as efficient planning of the NTG and simplified procedures for primary substations and 30kV power lines covered by the NRRP**; incentives for regional authorities to host renewable energy plants; a grant for non-enabled plants fuelled by sustainable bioliquids to take part in electricity system flexibility; simplification of the process for installing air cooled condensers at existing plants; development of the supply chain for offshore wind farms; the self-production of renewable energy in energy-intensive sectors at risk of relocation through the sale of renewable energy at fair prices to energy-intensive end users; strengthening of the security of natural gas supply and the related flexibility; geothermal concessions; geological carbon storage; the development of remote heating and air-conditioning systems; infrastructure for the decommissioning and management of radioactive waste; a register of photovoltaic technologies; an Italian climate fund; competitive procedures and protections for domestic users in the retail electricity market; reconstruction of the areas hit by flooding; a national solidarity fund for agricultural businesses.

- **Law Decree 145 of 18 October 2023, containing urgent measures on the economy and tax, benefitting local authorities, to protect jobs and to meet urgent needs, converted into Law 191 of 15 December 2023, published in the Official Gazette of 16 December 2023 (the *Fiscale* Law Decree)**
  The Decree introduces **tax measures for corporate welfare**, changes to the **determination of earned income** if loans have been granted; simplifications and protection for taxpayers on **tax advice from withholding agents; tax relief for investment in research and development**; deferral of deadlines for tax and contributions filings and payments following the disaster of 2 November 2023 in the provinces of Florence, Pisa, Pistoia, Livorno and Prato.

- **Law 206 of 27 December 2023, containing organic provisions for the development, promotion and protection of products made in Italy, published in the Official Gazette of 27 December 2023 (the Made in Italy Law)**
  The Law provides for the adoption, by the Ministry of Business and Made in Italy, of guidelines establishing criteria for measuring the quality of products, including aspects relating to sustainability, to be taken into account by commissioning bodies; establishes a national Made in Italy fund at the Ministry of the Economy and Finance to support growth in the country's strategic supply chains for the raw materials that are critical for the energy transition.

- **Legislative Decree 297 of 7 December 2023 applying recommendation CERS/2011/3 issued by the European Systemic Risk Committee, dated 22 December 2011, regarding the macroprudential mandate of national authorities, and for the implementation of articles 23-ter, paragraph 7, and 28 , paragraph 2, of Regulation (EU) 2016/1011, as amended by Regulation (EU) 2021/168, published in the Official Gazette of 27 December 2023 (the *Macroprudenziale* Legislative Decree)**
  The Decree establishes a Committee for Macroprudential Policies to act as an independent authority designated to carry out macroprudential policies, whose members are to be the Bank of Italy, CONSOB, IVASS and COVIP. The Committee's powers include the power to request data and information from private and public entities that carry out significant economic activities for the purposes of financial stability in order to identify, analyse, classify, oversee and assess risks to the stability of the financial system.

- **Legislative Decree 209 of 27 December 2023, implementing the reform of international tax, published in the Official Gazette of 29 December 2024 (the *Fiscalità internazionale* Legislative Decree)**
  The Decree, implementing the Delegated Tax Reform Law, introduces legislation regarding the residence of companies and simplification of the rules governing overseas subsidiaries; transposition of Directive 2022/2523 on the minimum global tax (the location of enterprises and reporting requirements).

- **Law 213 of 30 December 2023, containing the Government's Budget for the 2024 financial year and the multi-year budget for the three-year period 2024-2026, published in the Official Gazette of 30 December 2023 (the 2024 Budget Law)**
  The Law contains legislation on work and pensions (corporate welfare, productivity bonuses, pensions, parental leave, income support), the electricity voucher, changes to the income tax act, special economic zones, development contracts, capital investment, *Ponte sullo Stretto* (the bridge over the Strait of Messina), the Port of Civitavecchia and other matters.

- **Law 214 of 30 December 2023, containing the annual markets and competition law for 2022, published in the Official Gazette of 30 December 2023 (the 2022 Competition Law)**
  The Law contains measures adopting the **national transmission grid development plan** and on cold ironing.

- **Law Decree 215 of 30 December 2023, containing urgent provisions on legal deadlines, converted into Law 18 of 23 February 2024, published in the Official Gazette of 28 February 2024 (the *Milleproroghe* Law decree)**
  The decree extends the deadline for holding shareholders' meetings; for the recruitment of 350 staff by the Ministry of the Environment and Energy Security; for preparation of a Cabinet Office Decree determining essential standards of service and the related costs and standard requirements on the matter in competing legislation (including transport and national energy distribution); for the identification and redefinition of the scope of contaminated sites and cessation of the classification of certain types of waste as waste.

- **Legislative Decree 216 of 30 December 2023, implementing the first module of the reform of personal income tax and other measures on income tax, published in the Official Gazette of 30 December 2024 (the *IRPEF/IRES* Legislative Decree)**
  The Decree, **implementing the Delegated Law for the Tax Reform**, has increased the deductible allowance for new hires; reformed the law on personal income tax and on tax deductions.

- **Legislative Decree 221 of 30 December 2023, containing provisions on cooperative compliance, published in the Official Gazette of 3 January 2024 (the *Adempimento collaborativo* Legislative Decree)**
  The Decree, **implementing the Delegated Law for the Tax Reform**, has amended Legislative Decree 128/2015, containing "Provisions on legal certainty in relations between the tax authority and taxpayers" with regard to the related requirements, duties, effects, responsibilities and procedures.

- **Legislative Decree 1 of 8 January 2024, rationalising and simplifying the legislation on tax compliance, published in the Official Gazette of 12 January 2024 (the *Adempimenti tributary* Legislative Decree)**
  The legislation, **implementing the Delegated Law for the Tax Reform**, provides for: reorganisation of summary tax reliability indices and an increase in the systems designed to reduce the cost of compiling the forms for tax reliability indices; reform of the deadlines for filing tax returns; exclusion of the expiry of the benefit where a taxpayer fails to declare tax credits in their tax return when required to do so; an increase in the threshold for exemption from the need for an auditor's stamp when offsetting tax credits; simplification of the annual declaration to be filed by withholding agents.

- **Law Decree 161 of 15 November 2023, containing urgent measures on the «Mattei Plan» for the development of African states, converted into Law 2 of 11 January 2024, published in the Official Gazette of 13 January 2024 (the Piano Mattei Law Decree)**
  The Decree establishes a **Steering Committee** to coordinate, monitor and implement the Mattei Plan, in which the state-owned companies referred to in the relevant Cabinet Office Decree will participate. It has also established a unit within the **Cabinet Office** to support the Government initiatives, to be partly staffed by personnel from the state-owned companies taking part in the Plan.

- **Law 14 of 21 February 2024, delegating the Government to transpose European directives and implement other EU legislation, published in the Official Gazette of 24 February 2024 (Europe Delegated Law 2022-2023)**
  The Law introduces delegation principles and criteria for applying EU directives on cybersecurity; the resilience of critical entities; the protection of workers against the risks of exposure to carcinogens and mutagens at work; application of the equal pay principle for men and women; reducing greenhouse gas emissions; corporate sustainability reporting.

Resolutions of the Italian Regulatory Authority for Energy, Networks and the Environment

A list is provided below of the principal resolutions adopted by Italy's Regulatory Authority for Energy, Networks and the Environment (ARERA) during 2023 and, subsequently, up to the date of preparation of this Annual Report.

ARERA determinations on the remuneration of transmission and dispatching services

- **Resolution 26/2023/R/eel** – Award to Terna S.p.A. of the incentives provided for in ARERA Resolution 699/2018/R/eel.
- **Resolution 109/2023/R/eel** – Determination of the reward for unification of the national transmission grid following the purchase of a portion of the grid owned by Edyna Transmission S.r.l..
- **Resolution 163/2023/R/com** – Consolidated text of the general criteria and principles for totex and output-based regulation in the period 2024-2031 (TIROSS 2024-2031): approval of part I, containing common measures, and of part II, dedicated to output-based regulation.
- **Resolution 269/2023/R/eel** – Determination of the reward for implementing tools in preparation for output-based regulation of the electricity transmission service in 2018 and 2019.
- **Resolution 367/2023/R/eel** – Award to Terna of the incentives provided for in ARERA Resolution 597/2021/R/eel.
- **Resolution 473/2023/R/eel** – Determination of the rewards for delivery additional interzonal transmission capacity and capex efficiency in relation to the electricity transmission service.
- **Resolution 497/2023/R/com** – Application criteria for totex/output-based regulation for the transport of natural gas and the transmission, distribution and metering of electricity. Amendments to TIROSS 2024-2031 and RTTG 6PRT.
- **Resolution 555/2023/R/eel** – Determination of the reward for the quality of the electricity transmission service for 2022.
- **Resolution 556/2023/R/com** – Revision of the WACC for infrastructure services in the electricity and gas sectors for 2024.
- **Opinion 575/2023/I/eel** – Issue of an opinion by the Ministry of the Environment and Energy Security on the update regarding the national transmission grid.
- **Resolution 606/2023/R/eel** – Recognition of the final costs for 2022 and the estimated costs for 2024 incurred by Terna S.p.A. in carrying out its market monitoring activities.
- **Resolution 615/2023/R/eel** – Criteria for tariff regulation for the electricity transmission and dispatching service for the sixth regulatory period 2024-2027.
- **Resolution 625/2023/R/eel** – Revision of dispatching charges from 1 January 2024.
- **Resolution 632/2023/R/eel** – Determination of allowed revenue for the electricity transmission and dispatching service and of electricity transmission tariffs for 2024.
- **Resolution 55/2024/R/eel** – Approval of *output-based* regulation of the electricity transmission service for the period 2024-2027

ARERA determinations on the provision of transmission and dispatching services

- **Resolution 15/2023/R/eel** – Revision of the minimum requirements for the ten-year national electricity transmission grid development plan.
- **Resolution 84/2023/R/eel** and **Resolution 92/2023/R/eel** - Reactivation of regulation of the virtual import service under Resolution arg/elt 179/09 from April 2023 and deferral of the deadline for reactivation of the service.
- **Resolution 98/2023/R/eel** – Approval of the proposed changes to the Code for Transmission, Dispatching, Development and Security for Terna's grid, concerning the combination of sections in the definition of production units, participation in the DSM and the technical requirements for the provision of frequency services.
- **Resolution 99/2023/R/eel** – Review of the proposed revision of Chapter 1, Section 1C of Annexes A.17 and A.68 and the proposals for the new Annex A.79 in the Code for Transmission, Dispatching, Development and Security for Terna S.p.A.'s grid.
- **Resolution 115/2023/R/eel** – Approval of the proposed changes to the Code for Transmission, Dispatching, Development and Security for Terna's grid, concerning coordination between the DSM and the European aFRR platform and the introduction of asymmetrical semi-bands for secondary reserves.
- **Resolution 209/2023/R/eel** and **Resolution 601/2023/R/eel** - Remuneration of immaterial electricity production plants subject to the obligation to maximise production, pursuant to article 5-bis of Law Decree 14 of 25 February 2022.
- **Resolution 247/2023/R/eel** – Criteria and conditions for the functioning of forward procurement of electricity storage capacity, pursuant to article 18 of Legislative Decree 210 of 8 November 2021.
- **Resolution 320/2023/R/eel** – Compliance review of proposed changes to the Code for Transmission, Dispatching, Development and Grid Security relating to the Emergency Plan for Electricity System Security.
- **Resolution 345/2023/R/eel** – Approval of the Consolidated Law on Electricity Dispatching.
- **Resolution 366/2023/R/eel** – Approval of changes, drawn up by Terna S.p.A., to the pilot project for the participation of mixed virtual units in the dispatching services market (DSM), pursuant to Resolution 300/2017/R/eel.
- **Resolution 374/2023/R/eel** – Provisions on the parameters for determining the allowed variable cost of important but not essential electricity production plants fuelled primarily by solid biomass and included in the maximisation programme. Additions to Resolution 430/2022/R/eel.
- **Resolution 376/2023/R/eel** and **Resolution 437/2023/R/eel** – Compliance review of Terna S.p.A.'s proposals for amendment of the capacity market regulations and the related technical operational requirements. provisions regarding the method for setting the strike price as per Resolution 363/2019/R/eel.
- **Resolution 384/2023/R/eel** – Exemption of the new Somplago (IT) - Würmlach (AT) interconnector following European Commission final decision C(2023) 2822.
- **Resolution 462/2023/R/eel** – Approval of proposed changes to the Code for Transmission, Dispatching, Development and Grid Security, in implementation of the reform of the balancing regulations.
- **Resolution 481/2023/R/eel** and **Resolution 568/2023/R/eel** – Determinations on essential plants. Amendments and additions to the relevant regulations.
- **Resolution 520/2023/R/eel** – Approval of Terna S.p.A.'s proposal for the implementation of auctions for the assignment of hedging instruments protecting against the risk of volatility of the fee for using transmission capacity for 2024.
- **Resolution 564/2023/R/eel** and **Resolution 572/2023/R/eel** – Forward procurement of interruptible resources for 2024 and compliance review of the proposed changes to the Code for Transmission, Dispatching, Development and Grid Security.

- **Resolution 616/2023/R/eel** – Tariff regulation for electricity distribution and metering services for the period 2024-2027. Incentives for distribution companies to sell HV assets to Terna S.p.A..
- **Resolution 5/2024/R/eel** – Definition of the criteria and procedures for identifying and managing uncollected and otherwise non-recoverable receivables due to Terna.

Further details of the above resolutions, and information on further resolutions adopted by the regulator (ARERA), can be found on the regulator's website at www.arera.it.

Relations with public decision-makers – Main activities in 2023

- On 30 May 2023 and 7 June 2023, Terna gave evidence before the Cabinet Office's Marine Policy Unit with regard to definition of strategic guidelines to be included in the "Marine Plan for the three-year period 2023-2025", drawn up and approved by the Interministerial Committee for Marine Policies.
- On 27 June 2023, Terna submitted a written memorandum on the draft law converting Law Decree 69 of 2023, containing "Urgent measures implementing the obligations deriving from European Union legislation and from pending infringement and pre-infringement proceedings against the Italian Government" (the *Salva Infrazioni* Law Decree).
- On 5 September 2023, Terna gave evidence before the Senate's Industry Committee on the draft legislation containing the "Annual Markets and Competition Law 2022" and, on 6 December, Terna submitted a written memorandum to the Chamber of Deputies' Productive Activities Committee as its contribution to the second reading of the bill.
- On 19 September 2023, Terna gave evidence before the Senate's European Union and budget Policy Committee and the Chamber of Deputies' Budget Committee on the report on implementation of the National Recovery and Resilience Plan (NRRP), updated to 31 May 2023.
- On 13 October 2023, Terna submitted a written memorandum to the Chamber of Deputies' joint Budget and Finance Committees on the draft law converting Law Decree 131 of 2023, containing: "Urgent measures on energy, financial support for households and savings protection" (the *Energia e tutela del risparmio* Law Decree).
- On 3 October 2023, Terna gave evidence before the Chamber of Deputies' Budget Committee on the draft law converting Law Decree 124 of 2023, containing "Urgent measures on cohesion policies to boost the economy in the south of Italy, and on immigration" (the *Sud* Law Decree).
- On 12 October 2023, Terna gave evidence before the Parliamentary Committee on efforts to combat the disadvantages of insularity as part of its investigation of such disadvantages and the measures taken to combat it.
- On 21 December 2023, Terna gave evidence before the Chamber of Deputies' joint Environment and Productive Activities Committee as part of its examination of the draft law converting Law Decree 182 of 9 December 2023, containing "Urgent measures on the country's energy security, promoting the use of renewable sources, support for energy-intensive businesses and the functioning of the retail electricity market" (the *Sicurezza Energetica* Law Decree).

Other information

Additional information is presented below in accordance with specific statutory or industry requirements.

Treasury shares

As at 31 December 2023, the Parent Company holds a total of 4,213,660 treasury shares (equal to 0.210% of the share capital).

The above total number of treasury shares held by the Company is the sum of the purchases made in implementation of four separate buyback programmes to service:

(i) the Performance Share Plan 2020-2023, in the period between 29 June 2020 and 6 August 2020,

(ii) the Performance Share Plan 2021-2025, in the period between 31 May 2021 and 23 June 2021,

(iii) the Performance Share Plan 2022-2026, in the period between 27 May 2022 and 13 June 2022 and

(iv) the Performance Share Plan 2023-2027, in the period between 22 June 2023 and 6 July 2023,

after the 1,079,860 treasury shares allotted by the Company, in the period between 9 May 2023 and 1 June 2023, to the beneficiaries of the Performance Share Plan 2020-2023.
The Company does not hold any additional treasury shares other than those purchased under the above programmes, including through subsidiaries[155].

The Parent Company does not directly or indirectly hold any shares in CDP Reti S.p.A. or Cassa Depositi e Prestiti S.p.A., nor has it purchased or sold any such shares during 2023.

Related party transactions

Given that Terna S.p.A. is subject to the de facto control of Cassa Depositi e Prestiti S.p.A., a situation ascertained in 2007, related party transactions entered into by Terna during 2023 include transactions with associates and employee pension funds (Fondenel and Fopen), as well as transactions with Cassa Depositi e Prestiti itself, with CDP Reti S.p.A. and with the companies directly or indirectly controlled by the Ministry of the Economy and Finance ("MEF").

Related party transactions in 2023 primarily regard services forming part of its ordinary activities and provided under normal market conditions, as described in greater detail in the consolidated financial statements for the year ended 31 December 2023[156].

The Parent Company's corporate governance rules ensure that such transactions are conducted in accordance with the rules governing procedural and substantial correctness and on an arm's length basis, and in keeping with the regulations for transparent reporting to the market and in implementation of the regulations issued by the CONSOB[157].

No material transactions[158], were carried out in 2023, nor were any transactions subject to the reporting requirements applicable in the event of exemptions applied in accordance with the relevant regulations[159].

[155] In this regard, see the press releases published on 10 August 2020, 28 June 2021, 13 June 2022 and 10 July 2023, available at the following links:
https://download.terna.it/terna/2020.08.10_CS%20TERNA%20operazioni%20su%20azioni%20proprie%20CHIUSURA%20ITA__8d83d42cfd43cb6.pdf
https://download.terna.it/terna/Terna_operazioni_su_azioni_proprie_conclusione_programma_8d93a651f5f9ffb.pdf
https://download.terna.it/terna/Terna_concluso_programma_acquisto_azioni_proprie_8da4d5856032b0b.pdf
https://download.terna.it/terna/Terna_concluso_programma_acquisto_azioni_proprie_8db81764c5a475a.pdf

[156] Relations with members of the Parent Company's Board of Statutory Auditors, with particular regard to their remuneration, are described in the notes to the item, "Services" in the notes to the consolidated and separate financial statements for the year ended 31 December 2022. In addition, in implementation of CONSOB Resolutions 18049 of 23 December 2011 and 21623 of 10 December 2020, disclosures regarding the remuneration of "*members of management and supervisory bodies and general managers*", and their shareholdings in the Company and those of the other persons referred to in the above article, are included in the annual Report on the Remuneration Policy and Remuneration Paid published in accordance with the law.

[157] The Regulation containing provisions regarding related party transactions adopted in CONSOB Resolution 17221 of 12 March 2010, as amended.

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

[159] As "transactions falling within the scope of the ordinary activities of the Company or its subsidiaries or associates or of financing activities related thereto, provided that the transactions are conducted on equivalent to market or standard terms and conditions".

Information on ownership structures

The disclosures required by art. 123-*bis* "Report on Corporate Governance and ownership structures" of the Consolidated Law on Financial Intermediation (Legislative Decree 58 of 24 February 1998) are provided in a separate document approved by Terna's Board of Directors ("Report on Corporate Governance and Ownership Structures" for 2023, available on Terna S.p.A.'s website www.terna.it - nella sezione "*Sistema di corporate governance/Governance Report*").

Attestations pursuant to article 2.6.2, paragraphs 7 and 8 of the Regulations for the markets organised and managed by Borsa Italiana S.p.A., relating to the conditions described in articles 15 and 16 of the CONSOB's Markets Regulation (no. 20249 of 28 December 2017 in Official Gazette no.1 of 2 January 2018)

With reference to the provisions of article 15, paragraph one, letters a), b) and c) point i) of the CONSOB Markets Regulation, under the title *conditions for listing the shares of companies controlling companies incorporated and regulated under the laws of countries not belonging to the European Union*, TERNA S.p.A. declares that it does not hold any significant controlling interests, as defined in Title VI, Chapter II of CONSOB Regulation 11971 of 1999, in companies incorporated and regulated under the laws of countries not belonging to the European Union.

With reference to the provisions of article 16 of the CONSOB Markets Regulation, under the title *conditions prohibiting the listing of the shares of subsidiaries subject to management and coordination by another company,* TERNA S.p.A. declares that it is subject to the de facto control of Cassa Depositi e Prestiti S.p.A., exercised through CDP Reti S.p.A. (a joint-stock company controlled by Cassa Depositi e Prestiti S.p.A.), which holds a 29.851% interest in the Parent Company. The checks, providing confirmation of the above situation of control, were conducted by Cassa Depositi e Prestiti and notified to the Company and the CONSOB with effect from 19 April 2007 and, subsequently, by letter dated 30 October 2014 and 2 December 2014. At this time, there are no formal arrangements for the management and coordination of the Company, nor have any such rights been exercised. Terna S.p.A. conducts its business either directly or through its subsidiaries in conditions of operational and contractual independence.

Participation in the regulatory simplification process introduced by CONSOB Resolution 18079 of 20 January 2012

Pursuant to art. 3 of CONSOB Resolution 18079 of 20 January 2012, Terna has elected to adopt the simplified regime provided for in articles 70, paragraph 8, and 71, paragraph 1-bis of CONSOB Regulation 11971 of 14 May 1999, as amended (the CONSOB Regulations for Issuers). As a result, Terna exercises the exemption from disclosure requirements provided for in the above Regulations in respect of transactions of a significant nature involving mergers, spin-offs, capital increases involving contributions in kind, acquisitions and disposals.

Changes to the dimensions of the NTG

Details of electricity substations owned by the Terna Group*

	UNIT OF MEASUREMENT	AT 31 DECEMBER 2023	AT 31 DECEMBER 2022	CHANGE	CHANGE%
380 kV					
Substations	no.	**171**	168	3	1.79%
Power transformed	MVA	**128,447**	123,288	5,159	4.18%
220 kV					
Substations	no.	**152**	150	2	1.33%
Power transformed	MVA	**34,530**	34,503	27	0.08%
Lower voltages (≤ 150 kV)					
Substations	no.	**587**	583	4	0.69%
Power transformed	MVA	**4,573**	4,489	84	1.87%
Total					
Substations	no.	**910**	901	9	1.00%
Power transformed	MVA	**167,550**	162,280	5,270	3.25%

** MVA calculated to the third decimal place and rounded to a whole number. Percentages calculated to the fifth decimal place and rounded to the second decimal place.*

Details of power lines owned by the Terna Group*

	UNIT OF MEASUREMENT	AT 31 DECEMBER 2023	AT 31 DECEMBER 2022	CHANGE	CHANGE%
380 kV					
Length of circuits	km	**13,029**	12,911	118	0.91%
Length of lines	km	**11,848**	11,730	119	1.01%
220 kV					
Length of circuits	km	**11,936**	11,871	65	0.54%
Length of lines	km	**9,525**	9,496	30	0.31%
Lower voltages (≤ 150 kV)					
Length of circuits	km	**50,176**	50,128	48	0.10%
Length of lines	km	**46,948**	46,880	68	0.14%
Total					
Length of circuits	km	**75,140**	74,910	231	0.31%
overhead	km	**70,865**	70,831	35	0.05%
underground cables	km	**2,510**	2,317	192	8.30%
submarine cables	km	**1,765**	1,762	4	0.21%
Length of circuits	km	**68,321**	68,105	216	0.32%
overhead	km	**64,046**	64,026	20	0.03%
underground cables	km	**2,510**	2,317	192	8.30%
submarine cables	km	**1,765**	1,762	4	0.21%
Incidence of direct current connections (200 - 380 - 500 kV)					
Circuits	km	**2,535**	2,440		
% of total		**3.37%**	3.26%		
Lines	km	**2,215**	2,120		
% of total		**3.24%**	3.12%		

** Km calculated to the third decimal place and rounded to a whole number. Percentages calculated to the fifth decimal place and rounded to the second decimal place. It should be noted that the figures only include assets that entered service for which the physical census has been completed.*

Principal changes in the size of the Terna Group's infrastructure

Substations

New infrastructure:

The following substations have been **commissioned**:

- transformer substation at Cerignola [FG] (9 380kV bays and 13 ≤150kV bays);
- transformer substation at Pantano d'Arci [CT] (5 380kV bays and 4 220kV bays);
- new switching substation at Auronzo [BL] (2 220kV bays and 7 ≤150kV bays);
- new switching substation at Collesalvetti [LI] (7 ≤150kV bays);
- new switching substation at S.T. Catania [CT] (5 150kV bays);
- new switching substation at Vetropack [MI] (4 132kV bays);

and the following have been **purchased**:

- purchase of the switching substation at Ponte Resia from Edyna Transmission [BZ] (10 220kV bays);
- purchase of the switching substation at Naturno from Edyna Transmission [BZ] (8 220kV bays);
- purchase of the switching substation at Pietrarossa [CL] (3 150kV bays).

Existing infrastructure:

- **commissioning** of 20 new line bays for the substations at Magenta (2 380kV bays), Glorenza (1 220kV bays), Baggio (4 150kV bays), Licodia Eubea (2 150kV bays), Rotello, Fano, Montalto, Carlentini, Foggia, Oppido, Petralia and Ponticino (1 150kV bay each) and Lacchiarella (3 132kV line bays);
- **commissioning** of 5 new machine bays for the substations at Magenta (1 380kV bay), Vallesaccarda, Partinico and S. Viola (1 150kV bay each) and Lacchiarella (1 132kV bay);
- **commissioning** of 5 new power factor corrector bays for the substations at Glorenza, Partinico and Fulgatore (1 220kV bay each), Bari West (1 150kV each) and Pietramala (1 132kV bay);
- **commissioning** of 2 new parallel bays for the substations at Gadio and Campochiesa (1 220kV bay each);
- **commissioning** of 1 new coupling bay for the substation at Ponticino (1 150kV bay);
- **demolition** of 1 150kV power factor corrector bays at the Baggio substation;
- **demolition** of 2 220kV line bays at the Gadio substation;
- **demolition** of 3 132kV line bays at the Lasa substation;
- **demolition** of 1 150kV line bays at the Sandrigo substation;
- **demolition** of 1 132kV line bays at the Villa Opicina substation.

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Transformers

The following transformers have been **commissioned**:

- 1 new 380/220kV 600 MVA autotransformer coinciding with the commissioning of the Pantano D'Arci substation;
- 1 new 380/150kV 400 MVA autotransformer coinciding with the commissioning of the Cerignola substation;
- 1 new 380/150kV 400 MVA autotransformer for the Deliceto substation;
- 1 new 380/132kV 250 MVA autotransformer for the Magenta substation;
- 1 new 220/150kV 250 MVA autotransformer for the Partinico substation;
- 1 150/MT 60 MVA transformer for the Sorrento substation;
- 1 150/20kV 16 MVA transformer for the Brindisi Pignicelle substation.

and the following **further changes** occurred:

- replacement of 1 380/150kV 250 MVA autotransformer with another 400 MVA autotransformer at the Bisaccia 380 substation;
- replacement of 1 380/150kV 250 MVA autotransformer with a similar autotransformer from the Bisaccia 380 substation, at the Bari West substation;
- replacement of 1 380/132kV 100 MVA autotransformer with another 250 MVA autotransformer at the Porto Tolle substation;
- replacement of 1 220/132kV 160 MVA autotransformer with another 250 MVA machine at the Savona substation;
- replacement of 1 132/15kV 40 MVA transformer with a similar transformer at the Leini substation;
- replacement of 1 132/MT 40 MVA transformer with similar equipment at the Este substation;
- demolition of 1 220/132kV 250 MVA autotransformer at the Dolo substation;
- demolition of 1 220/132kV 250 MVA autotransformer at the Magenta substation.

Power lines

- **construction** of the new 320kV direct current connection between Piossasco and Grand Île (Bipole 1) (95.0 km in cable);
- **construction** of the new 380kV connection between Paternò and Pantano D'Arci (17.9 km overhead);
- **construction** of the new 220kV Naturno – p.23/1A line (3.2 km overhead);
- **construction** of the new 150kV double connection between Augusta 2 PS and Filonero PS (2 lines for a total of 15.7 km in cable);
- **construction** of the new 150kV Rotello – Rotello Smistamento line (6.0 km overhead);
- **construction** of the new 150kV Catania East PS – Catania North PS line (3.1 km in cable);
- **construction** of the new 150kV Catania TS – Catania industrial zone line (2.3 km in cable);
- **construction** of the new 150kV Alanno – Alanno 2 line (0.1 km in cable);
- **construction** of the new 132kV Colmata PS – Portoferraio PS line (37.6 km in cable);
- **construction** of the new 132kV Auronzo – Ponte Malon line (7.0 km overhead);
- **construction** of the new 132kV Pelos – Auronzo line (3.5 km overhead);
- **construction** of the new 132kV short double connection Vetropack – ut. Vetropack (2 lines for a total 0.1 km in cable);
- **construction** of 11 in-out derivations with an overall increase of the same number of circuits and 6.7 km of circuit, including: addition of 2 lines and 1.5 km at 380kV, addition of 4 lines and 0.1 km at 150kV, addition of 5 lines and 5.0 km at 132kV;
- **construction of variants, rigid derivations, re-routings and/or changes to grid distribution** adding a total of 8 lines and a reduction of 13.3 km of circuit, including: 0 linee and addition of 0.30 km at 220kV, addition of 2 lines and 18.6 km at 150kV, addition of 6 linee and a reduction of 32.2 km at 132kV;
- **demolition and/or retirement** of 3 lines amounting to 32.3 km of circuit: Colà - Tavazzano East 220kV (2 overhead, equal to 3.2 km); Udine RT – Redipuglia RT 132kV (29.1 km overhead);
- **purchase** of the 220kV Naturno – Ponte Resia (33.8 km overhead), Naturno – Bolzano Ponte Resia (34.1 km overhead) and Ponte Resia – p.6/1 (2.0 km overhead) lines from the former Edyna Transmission.

Taxes paid overseas

With regard to taxes paid overseas by the Group's subsidiaries in 2023, the following should be noted:

Terna

In terms of activities relating to the Italy–Greece interconnector[160], income taxes totalling €1,579,709 were paid on income earned in Greece.

Terna Crna Gora

In 2023, the Company invested a total of €104,556, linked primarily to consents for certain minor assets relating to pending substation work.
Revenue of €15,685,234 euro and net profit of €7,168,118 were recognised in 2023. Income tax totalling €1,146,220 was paid, of which €475,010 regarded deferred taxes due to tax depreciation rates exceeding statutory rates and deferred tax assets totalling €633,403 based on tax losses posted in previous years and estimated taxable income in future periods. Consequently, the company paid income taxes totalling €37,807 to the Montenegrin government in Montenegro.
As regards other forms of taxation, in 2023 the company paid property taxes totalling €122,694 (including €119,768 on land and buildings it owns in the municipality of Kotor and the remainder on the property used as its registered office, located in the municipality of Podgorica).

Tamini Group

Approximately €262,841 was paid, primarily regarding taxes on services and withholding tax.

Terna Chile

The Group's Chilean subsidiary paid taxes totalling €20,540,985 Chilean pesos.

Brazil

The company Transmissora de Energia Linha Verde I S.A. paid total income tax of 6,760,673 Brazilian reals.

Brugg Cables Group

The Brugg Cables, Group, through its subsidiaries operating in China, India and Germany, paid income taxes totalling 185,442 Swiss francs.

Perù

The Peruvian subdiaries, Terna Peru S.A.C. and Terna 4 Chacas S.A.C., paid total income tax of 126,994 dollars and 12,085 dollars, respectively.

[160] Terna's presence in Greece consists of a series of plants and infrastructure assets that provide the DC interconnection between the Italian and Greek electricity systems (the section of submarine cable in Greek territorial waters as well as the terrestrial connection from the terminal for the Greek cable to the Arachtos substation, owned by Terna). As there is a production facility in Greece, a permanent company (or branch) has been established in that country.

Alternative performance measures (APMs)

In accordance with the guidelines in ESMA/2015/1415, the alternative performance measures used in this Annual Report are described below.

MEASURE	DESCRIPTION
OPERATING RESULTS	
Operating profit/(loss) - EBIT	is an indicator of operating performance obtained by adding **Net financial income/(expenses) to Profit/(Loss) before tax**.
Gross operating profit/(loss) - EBITDA	is an indicator of operating performance obtained by adding **Amortisation, depreciation and impairment losses to Operating profit/(loss) (EBIT)**.
TAX RATE	is the amount of tax paid as a proportion of pre-tax profit and is based on the ratio of **Income tax expense to Profit/(Loss) before tax**.
FINANCIAL POSITION	
Net working capital	is an indicator of financial position, showing the Group's liquidity position; it is based on the difference between **Current assets** and **Current liabilities** of a non-financial nature, as presented in the statement of financial position.
Gross invested capital	is an indicator of financial position, showing the Group's total assets and is obtained by adding **Net non-current assets and Net working capital**.
Net invested capital	is calculated by deducting **Sundry provisions** from **Gross invested capital**.
CASH FLOW	
Net debt	is an indicator of the Group's financial structure and is obtained by deducting **Cash and cash equivalents** and **financial assets from Short - and long-term financial liabilities** and the related **derivative instruments**.
Free Cash flow	is the cash generated by operating activities less capital expenditure and is the difference between **Cash flow from operating activities** and **Cash flow for investing activities**.

Reconciliations

In accordance with the guidelines in ESMA/2015/1415, reconciliations of the reclassified income statement and statement of financial position and of net debt and cash flow of the Terna Group and Terna S.p.A. with the related statutory income statement and statement of financial position are shown below.

Reconciliation of the Terna Group's reclassified Income Statement and Statement of Financial Position and Net Debt

THE GROUP'S RECLASSIFIED INCOME STATEMENT	(€M)	CONSOLIDATED INCOME STATEMENT
Regulated revenue	2,669.8	"Revenue from sales and services" totalling €3,122.8 million, "Other revenue and income" totalling €63.9 million
Non-regulated revenue	516.8	
Revenue from International Activities	0.1	
Personnel expenses	368.0	"Personnel expenses" after the costs of construction services performed under concessions in Itali in accordance with IFRIC 12 (€9.2 million)
Cost of services, leases and rentals	249.8	"Services" after the costs of construction services performed under concessions in Itali in accordance with IFRIC 12 (€62.5 million)
Materials	276.1	"Raw and consumable materials used" after the costs of construction services performed under concessions in Itali in accordance with IFRIC 12 (€9.3 million)
Other costs	38.3	"Other operating costs" after the costs of construction services performed under concessions in Itali in accordance with IFRIC 12 (down costs to €0.4 million)
Quality of service	5.3	
Cost of construction services performed under concession	9.2	"Personnel expenses"
	62.5	"Services"
	9.3	"Raw and consumable materials used"
	(0.4)	"Other operating costs"
Net financial income/ (expenses)	(117.7)	Points 1, 2 and 3 of letter C-"Financial income and expenses"

THE GROUP'S RECLASSIFIED STATEMENT OF FINANCIAL POSITION	(€M)	CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Financial assets	500.8	"Investment accounted for using the equity method", "Other non-current assets" and "Non-current financial assets", after the value of cash flow hedges (€17.2 million)
Net energy-related pass-through payables	(912.0)	"Trade receivables" relating to the value of energy-related pass-through receivables (€602.6 million) and "Trade payables" relating to the value of energy-related pass-through payables (€1,514.6 million)
Net receivables resulting from Regulated Activities	1,107.6	"Trade receivables" relating to the value of receivables resulting from Regulated Activities (€1,242.2 million) and "Trade payables" relating to the value of payables resulting from Regulated Activities (€134.6 million)
Net trade payables	(937.1)	"Trade payables" after the value of energy-related pass-through payables (€1,514.6 million) and payables resulting from Regulated Activities (€134.6 million) and "Trade receivables" after the value of energy-related pass-through receivables (€602.6 million) and the value of receivables resulting from Regulated Activities (€1,242.2 million)
Net tax assets	25.7	"Tax assets", "Other current assets" relating to the value of other tax assets (€110.1 million), "Other current liabilities" relating to the value of other tax liabilities (€89.2 million) and "Tax liabilities"
Other liabilities net	(1,458.8)	"Other non-current liabilities", "Other current liabilities" after other tax liabilities (€89.2 million), "Inventories", "Other current assets" after other tax assets (€110.1 million)
Sundry provisions	(32.9)	"Employee benefits", "Provisions for risks and charges" and "Deferred tax assets"
Net assets held for sale	80.4	"Discontinued operations and assets held for sale" and "Liabilities related to discontinued operations and assets held for sale"
Net debt	10,494.3	"Long-term borrowings", "Current portion of long-term borrowings", "Non-current financial liabilities", "Short-term borrowings", "Cash and cash equivalents", "Current financial assets" and "Current financial liabilities" and "Non-current financial assets" relating to the value of cash flow hedges (€17.2 million)

THE GROUP'S ANALYSIS OF NET DEBT	(€M)	CONSOLIDATED STATEMENT OF FINANCIAL POSITION
"Bond issues" and "Borrowings"	10,793.8	Corresponds with "Long-term borrowings" and "Current portions of long-term borrowings"
"Derivative financial instruments"- short- and medium/long-term	147.1	Corresponds with "Non-current financial liabilities", "Current financial liabilities" relating to the value of cash flow hedges (€17.2 million) and "Non-current financial assets" relating to the value of foreign exchange cash flow hedges (€0.4 million) and "Current financial assets" relating to the value of foreign exchange cash flow hedges (€0.1 million)
Other financial liabilities, net	106.4	Corresponds with "Current financial assets" relating to the value of accrued financial income on derivatives (€7.3 million) and the advance disbursed by the European Commission in relation to the Italy-Tunisia interconnector project (€38.5 million), and "Current financial liabilities"
Financial assets	(376.4)	Corresponds with "Current financial assets", after the value of accrued financial income on derivatives (€7.3 million) and derivative assets (€0.4 million)
Net debt attributable to assets held for sale	(10.8)	Corresponds with "Discontinued operations and assets held for sale" (€10.8 million)

Reconciliation of the Terna Group's cash flow

(€m)

	CASH FLOW 2023	RECONCILIATION WITH FINANCIAL STATEMENTS	CASH FLOW 2022	RECONCILIATION WITH FINANCIAL STATEMENTS
- Profit for the year	882.8		857.7	
- Amortisation, depreciation and impairment losses	806.3		725.7	
- Net change in provisions	(35.3)		19.8	
Employee benefits		*1.4*		*(12.4)*
Provisions for risks and charges		*11.0*		*6.6*
Deferred tax assets		*(47.7)*		*25.6*
- Net losses/(gains) on sale of assets [1]	(18.0)		(6.9)	
Operating Cash Flow)	**1,635.8**		**1,596.3**	
- Change in net working capital:	(558.8)		1,024.8	
Inventories		*(23.4)*		*(13.1)*
Trade receivables		*234.3*		*417.8*
Income tax assets		*2.0*		*(2.0)*
Other current assets		*(21.5)*		*(108.8)*
Trade payables		*(822.8)*		*412.1*
Tax liabilities		*(43.8)*		*15.7*
Other liabilities		*116.4*		*303.1*
- Other changes in non-current assets	22.9		(93.1)	
Goodwill		*(0.8)*		*5.0*
Intangible assets [2]		*(2.1)*		*(5.5)*
Property, plant and equipment [3]		*18.0*		*36.2*
Non-current financial assets		*10.3*		*(132.8)*
Other non-current assets		*0.4*		*1.6*
Investments accounted for using the equity method		*(2.9)*		*2.4*
Cash Flow from Operating Activities	**1,099.9**		**2,528.0**	
Capital expenditure				
- Total capital expenditure	(2,290.0)		(1,756.8)	
Property, plant and equipment [3]		*(2,073.8)*		*(1,544.8)*
Intangible assets [2]		*(216.2)*		*(212.0)*
Total cash flow from (for) investing activities	**(2,290.0)**		**(1,756.8)**	
Free Cash Flow	**(1,190.1)**		**771.2**	
Net assets held for sale	**(19.3)**		**56.6**	
- Reserve for equity instruments, cash flow hedge reserve after taxation and other movements in equity attributable to owners of the Parent [4]	(54.0)		1,204.1	
- Other movements in equity attributable to non-controlling interests	(5.6)		(4.7)	
- Dividends paid to Parent Company's shareholders [4]	(649.0)		(601.0)	
Change in net debt	**(1,918.0)**		**1,426.2**	
- Change in borrowings	***1,141.1***		***(837.9)***	
Non-current financial assets		*58.3*		*(73.9)*
Current financial assets		*(128.8)*		*725.3*
Non-current financial liabilities		*(82.7)*		*163.5*
Long-term borrowings		*992.5*		*(418.3)*
Short-term borrowings		*757.6*		*(1,502.9)*
Current portion of long-term borrowings		*(524.7)*		*269.3*
Current financial liabilities		*68.9*		*(0.9)*
CHANGE IN CASH AND CASH EQUIVALENTS	**(776.9)**		**588.3**	

[1] included in "Other revenue and income" and "Other operating costs" in the consolidated financial statements.
[2] see note 15 to the financial statements.
[3] see note 13 to the financial statements.
[4] see the consolidated statement of changes in equity.

Reconciliation of Terna S.p.A.'s reclassified income statement and statement of financial position and net debt

TERNA'S RECLASSIFIED INCOME STATEMENT	€M	INCOME STATEMENT
Tariff revenue and incentives	2,386.5	"Revenue from sales and services"
Revenue from construction services performed under concession	80.6	"Revenue from sales and services"
Other operating income	167.7	"Revenue from sales and services", totalling €100.2 million, and "Other revenue and income"
Personnel expenses	118.6	"Personnel expenses" after the cost of construction services performed under concession in accordance with IFRIC 12 (€0.6 million)
Cost of services, leases and rentals	422.7	"Services" after the cost of construction services performed under concession in accordance with IFRIC 12 (€75.7 million)
Materials	2.6	"Raw and consumable materials used" after the cost of construction services performed under concession in accordance with IFRIC 12 (€4.7 million)
Other costs	24.8	"Other operating costs" after the costs of construction services performed under concession in accordance with IFRIC 12 (€ -0.4 million)
Quality of service	5.3	
Cost of construction services performed under concession	0.6	"Personnel expenses"
	75.7	"Services"
	4.7	"Raw and consumable materials used"
	(0.4)	"Other costs"
Net financial income/(expenses)	(90.8)	Points 1 and 2 of letter C - "Financial income and expenses"

TERNA'S RECLASSIFIED STATEMENT OF FINANCIAL POSITION	€M	STATEMENT OF FINANCIAL POSITION
Financial assets	1,575.3	"Non-current financial assets" after the value of cash flow hedges (€17.2 million) and "Other non-current assets" after amounts due from subsidiaries in relation to staff incentive plans (€2.7 million)
Net energy-related pass-through payables	(938.4)	"Trade receivables" relating to the value of energy-related pass-through receivables (€602.6 million) and "Trade payables" relating to the value of energy-related pass-through payables (€1,541.0 million)
Net receivables resulting from Regulated Activities	1,107.6	"Trade receivables" relating to the value of receivables resulting from Regulated Activities (€1,242.2 million) and "Trade payables" relating to the value of payables resulting from Regulated Activities (€134.6 million)
Net trade payables	(910.1)	"Trade payables" after the value of energy-related pass-through payables (€1,541.0 million) and payables resulting from Regulated Activities (€134.6 million) and "Trade receivables" after the value of energy-related pass-through receivables (€602.6 million) and the value of receivables resulting from Regulated Activities (€1,242.2 million)
Net tax liabilities	(33.5)	"Tax assets", "Other current assets" relating to the value of other tax assets (€42.4 million), "Other current liabilities" relating to the value of other tax liabilities (€76.2 million) and "Tax liabilities"
Other liabilities, net	(934.5)	"Other non-current liabilities", "Other current liabilities" after other tax liabilities (€76.2 million), "Other current assets" after other tax assets (€42.4 million) and "Other non-current assets" relating to amounts due from subsidiaries in relation to staff incentive plans (€2.7 million)
Sundry provisions	(6.7)	"Employee benefits", "Provisions for risks and charges" and "Deferred tax assets"
Net debt	10,364.7	"Long-term borrowings", "Current portion of long-term borrowings", "Non-current financial liabilities", "Short-term borrowings", "Cash and cash equivalents", "Non-current financial assets" relating to the value of cash flow hedges (€17.2 million), "Current financial assets" and "Current financial liabilities"

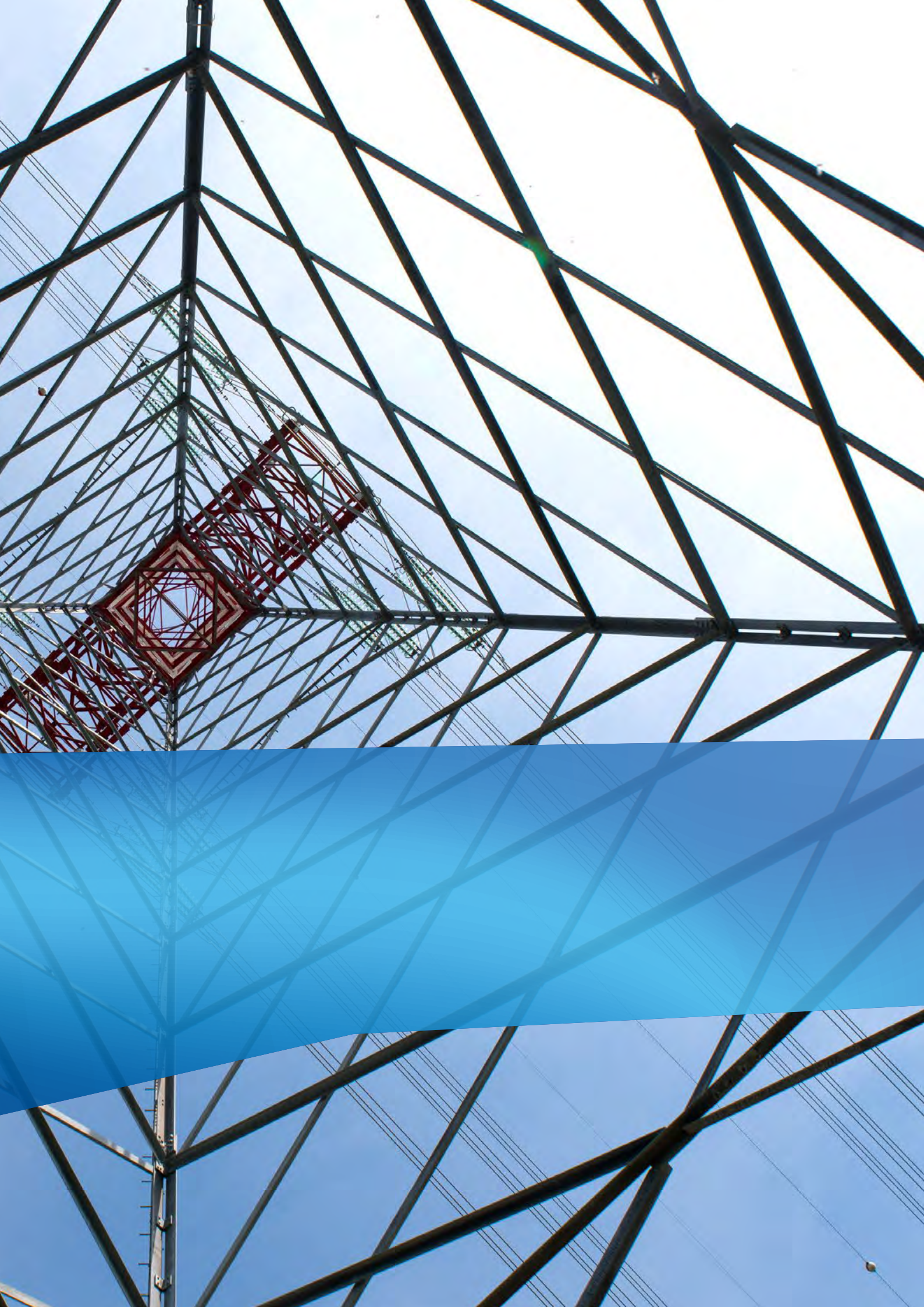
Reconciliation of Terna S.p.A.'s cash flow

(€m)

	CASH FLOW 2023	RECONCILIATION WITH FINANCIAL STATEMENTS	CASH FLOW 2022	RECONCILIATION WITH FINANCIAL STATEMENTS
- Profit for the year	834.8		834.1	
- Amortisation, depreciation and impairment losses	719.3		650.3	
- Net change in provisions	(31.1)		30.2	
Employee benefits		*1.0*		*(2.0)*
Provisions for risks and charges		*11.0*		*(7.3)*
Deferred tax assets		*(43.1)*		*39.5*
- Net losses/(gains) on sale of assets [1]	(15.7)		(5.9)	
Operating Cash Flow	**1,507.3**		**1,508.7**	
- Change in net working capital:	(549.2)		1,056.1	
Trade receivables		*250.5*		*453.8*
Income tax assets		*-*		*0.3*
Other current assets		*(8.0)*		*(32.6)*
Other non-current assets		*0.1*		*(1.4)*
Trade payables		*(846.2)*		*425.0*
Tax liabilities		*(47.9)*		*16.9*
Other liabilities		*102.3*		*194.1*
- Other changes in non-current assets	12.7		(135.6)	
Property, plant and equipment [2]		*22.0*		*12.2*
Intangible assets [3]		*(0.3)*		*-*
Non-current financial assets		*(8.9)*		*(147.7)*
Other non-current assets		*(0.1)*		*(0.1)*
Cash Flow from Operating Activities	**970.8**		**2,429.2**	
Capital expenditure				
- Total Capital expenditure	(2,179.6)		(1,586.9)	
Property, plant and equipment [2]		*(1,965.1)*		*(1,376.2)*
Intangible assets [3]		*(214.5)*		*(210.7)*
Total cash flow from (for) investing activities	**(2,179.6)**		**(1,586.9)**	
Free Cash Flow	**(1,208.8)**		**842.3**	
Net assets held for sale	**-**		**23.0**	
- Dividends [4]	(649.0)		(601.0)	
- Reserve for equity instruments, cash flow hedge reserve after taxation and other movements in equity attributable to owners of the Parent [4]	(60.9)		1,183.5	
Change in net debt	**(1,918.7)**		**1,447.8**	
- Change in borrowings	***1,172.4***		***(865.0)***	
Current financial assets		*(113.5)*		*725.5*
Non-current financial assets		*58.3*		*(73.9)*
Non-current financial liabilities		*(82.7)*		*163.5*
Long-term borrowings		*996.9*		*(441.6)*
Short-term borrowings		*770.9*		*(1,498.1)*
Current portion of long-term borrowings		*(526.3)*		*260.4*
Current financial liabilities		*68.8*		*(0.8)*
- Change in cash and cash equivalents	**(746.3)**		**582.8**	

[1] Included in "Other revenue" and "Other operating costs" in the financial statements.
[2] See note 11 to the financial statements.
[3] See note 13 to the financial statements.
[4] See the statement of changes in equity.

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
of which: related parties		*1,805.9*	*1,718.7*
2. Other revenue and income	2	63.9	66.4
of which: related parties		*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
of which: related parties		*0.1*	-
2. Services	4	312.3	276.9
of which: related parties		*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)*
of which: related parties		*4.4*	*3.7*
4. Amortisation. depreciation and impairment losses	6	806.3	725.7
5. Other operating costs	7	43.2	32.5
of which: related parties		*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**
Other comprehensive income for the year reclassifiable to profit or loss			
- 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)
Other comprehensive income for the year not reclassifiable to profit or loss			
- 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
of which: related parties		*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
of which: related parties		*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
of which: related parties		*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
of which: related parties		*66.5*	*60.9*
4. Tax liabilities	29	-	43.8
5. Current financial liabilities	25	113.8	44.9
of which: related parties		*0.1*	-
6. Other current liabilities	29	809.4	669.9
of which: related parties		*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:													
Retained earnings								*225.0*		*(225.0)*			-
Dividends									*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:													
Retained earnings								*204.3*		*(204.3)*			-
Dividends									*197.4*	*(585.1)*	*(387.7)*	*(3.4)*	*(391.1)*
- Interim dividend 2022									(213.3)		(213.3)		(213.3)
- Purchase of treasury shares					(10.0)						(10.0)		(10.0)
Total transactions with shareholders					**(10.0)**			**204.3**	**(15.9)**	**(789.4)**	**(611.0)**	**(3.4)**	**(614.4)**
Change in scope of consolidation								(1.7)			(1.7)		(1.7)
Equity instruments – Perpetual hybrid bonds						989.0					989.0		989.0
Share option reserve							5.8				5.8		5.8
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 CO_2 emissions. Indeed, in addition to the emissions connected with electricity consumption, the most significant component relating to Terna's indirect emissions is linked to grid losses, 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 previous accounted for. The same conclusion has also been reached with regard to the previously mentioned risk linked to the supply chain due to significant changes in the strategies of key suppliers. As a result, it has not been necessary to carry out a critical review of provisions in the financial statements.

IFRS 15 – Revenue from Contracts with Customers

In terms of Regulated Activities, part of the remuneration for transmission and dispatching services derives from regulatory incentive mechanisms linked to specific targets. The achievement of these targets may be influenced by climate change risks, as for example the intensification of extreme weather events could have an impact on the continuity and quality of the service offered by Terna. The Group monitors these risks 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 CO_2 emissions and achieve Net Zero Emissions targets by most industrial clients could result in increased business opportunities.

IFRS 2 – Share-based Payments

The current long-term incentive plans, so called Performance Share Plans, are 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 Cile (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 Transformatori India Private Limited	Maharashtra (India)	Indian rupee	13,175,000	100%	Line-by-line
Business	Commercialisation of industrial-grade and high-power electricity transformers.				
SUBSIDIARIES CONTROLLED THROUGH BRUGG KABEL SERVICES AG					
Brugg Kabel Manufacturing AG	Brugg (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 sun of the following components: (i) the amount of the initial measurement of the lease liability; (ii) any initial direct costs incurred by the lessee; (iii) any lease payments made at or before the commencement date, less any lease incentives received; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located (or restoring the underlying asset to the condition required by the terms and conditions of the lease). Following initial recognition, the right-of-use asset is adjusted to take into account (i) any accumulated depreciation, (ii) any accumulated impairment losses, and (iii) the effects of any remeasurement of the lease liability.

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 the generate cash flows that are solely payments of principal and interest on the principal amount outstanding. This measurement is applied at the level of each individual instrument.
Specifically, the Group measures financial assets:

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

Infrastructure rights

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

Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method. Receivables with due dates that reflect normal commercial terms are not discounted.
In accordance with the provisions of IFRS 9, the Group's trade receivables fall within the hold to collect business model, as these assets are held with the objective of collecting the cash flows primarily by collecting the contractual cash flows, the receivables primarily fall due within 12 months and do not include a significant financial component, and the Group does not 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 (classed 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 132/022) 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 Tokens[1], 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 providers[2], 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 (*TFR*), 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 (*TFR*), 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 (*TFR*), 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			
Current tax expense:			
- 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**	**-**
New temporary differences:			
- deferred tax assets	(50.8)	(56.4)	5.6
Reversal of temporary differences:			
- 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, Avvenia The Energy Innovator S.r.l..). This segment also includes Connectivity (support and housing services for fibre networks and IRU contracts for fibre. This segment includes the activities carried out in relation to the private interconnectors launched by Law 99/2009, legislation that assigned Terna responsibility for selecting undertakings (the "selected undertakings"), on the basis of public tenders, willing to finance specific cross-border interconnectors in exchange for the benefits resulting from a decree granting a third-party access exemption with regard to the transmission capacity provided by the new infrastructure. The Non-regulated Activities segment also includes the results of the LT Group, acquired in October 2021 and a leading provider of O&M services for photovoltaic plants.

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

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
of which investments in associates and joint ventures	*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
of which right-of-use assets		*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
of which right-of-use assets	-	*(0.2)*	-	-	*(0.1)*	-	*(0.3)*
Disposals and impairments	(0.1)	(3.3)	(104.4)	(3.3)	(18.2)	(8.2)	(137.5)
of which right-of-use assets		*(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)
of which right-of-use assets	*(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
of which right-of-use assets	-	*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**
of which right-of-use assets	*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**
of which right-of-use assets	*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				
	NON-CURRENT ASSETS	CURRENT ASSETS	NON-CURRENT LIABILITIES	CURRENT LIABILITIES	EQUITY
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 €329.1[3] 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 430/2022[4].

[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) scheme[5], 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 CAPITALISATIONS	DRAWDOWNS	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
	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%
Bonds	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 can 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 (TFR)	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	*TFR*	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) scheme[6].

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	BALANACE 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**
Amounts included in OCI:			
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 form part of the Parent Company's activities.

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

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

Interest rate risk

Interest rate risk is represented by the uncertainty associated with interest rate fluctuations. This is the risk that a change in market interest rates may produce effects on the fair value or future cash flows of financial instruments.
In the course of its operations, the Group is exposed to the risk of fluctuations in interest rates. Its main source of interest rate risk is associated with its borrowings and the related hedges in the form of derivative instruments that generate financial expenses. The borrowing strategy 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:

(€m)

	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)
Hypothetical change	*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
Hypothetical change	*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 1st 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.
CORESO S.A.		Technical coordination service for the TSO.
Other related parties		
GSE Group	Metering charge, dispatching charge.	Rental of spaces and workstations.
Fincantieri Group		Development and construction of infrastructure.
Enel Group	Transmission charge and aggregation of meter readings, dispatching charge, leases and rentals, power line maintenance, movement / re-routing of power lines, housing of fibre cable and maintenance of communications carried over proprietary power lines.	Recovery of energy discount, building services, MV power to new substations, specialist services for connection to Terna's control and protection systems.
Ferrovie Group	Dispatching charge, movement of power lines.	Right-of-way fees.
ENI Group	Dispatching charge.	Contributions for NTG connections, sundry services.
Poste Italiane		Sundry services.
Snam Rete Gas S.p.A.	Movement /re-routing of power lines.	
ANAS S.p.A.	Movement /re-routing of power lines.	Right-of-way fees.
Open Fiber S.p.A.	IRU agreements for fibre.	Provision of services for the rental of fibre.
Fondenel e Fopen		Pension contributions payable by the Terna Group.
Other related parties of the MEF	Sundry services	
Ansaldo Energia S.p.A.	Infrastructure maintenance.	

REVENUE AND COSTS

(€m)

	REVENUE COMPONENTS		
	TRANSMISSION CHARGE AND OTHER REVENUE FROM REGULATED ACTIVITIES	NON-ENERGY-RELATED ITEMS	COST COMPONENTS
De facto parent			
Cassa Depositi e Prestiti S.p.A.	-	0.1	1.4
Total de facto parent	**-**	**0.1**	**1.4**
Associates:			
Cesi S.p.A.	-	0.1	1.3
CORESO 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
CORESO 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)

	GRANTOR				
BENEFICIARY ENTITY	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 Adricatic 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 CO_2 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 Tyrrhenian 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 Qinjing 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 CO_2 emissions by around 21 kt CO_2 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 2**9 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

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Cap. Soc. 442.198.240 Euro interamente versato

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)*

CERTIFICAZIONI, ACCREDITAMENTI E ATTESTAZIONI SOA

Independent Auditor's Report

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

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

To the Shareholders of
Terna S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Terna group (the "Group"), which comprise the 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

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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 aucit 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 De egated 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.

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Terna

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Financial statements

Income statement of Terna S.p.A.

(€)

	NOTE	2023	2022
A - REVENUE			
1: Revenue from sales and services	1	2,567,295,537	2,459,716,731
of which: related parties		*1,787,600,000*	*1,701,200,000*
2: Other revenue and income	2	67,480,763	60,771,937
of which: related parties		*33,168,146*	*33,058,251*
Total revenue		**2,634,776,300**	**2,520,488,668**
B - OPERATING COSTS			
1: Raw and consumable materials used	3	7,240,844	6,369,068
of which: related parties		*80,014*	*4,317*
2: Services	4	498,441,079	482,977,197
of which: related parties		*398,584,781*	*396,569,826*
3: Personnel expenses	5	119,148,280	102,351,580
- gross personnel expenses		*138,252,288*	*116,841,972*
- capitalised personnel expenses		*(19,104,008)*	*(14,490,392)*
of which: related parties		*1,458,975*	*1,212,603*
4: Amortisation, depreciation and impairment losses	6	719,320,420	650,291,846
5: Other operating costs	7	29,688,540	21,946,270
of which: related parties		*144,779*	*76,572*
Total operating costs		**1,373,839,163**	**1,263,935,961**
A-B OPERATING PROFIT/(LOSS)		**1,260,937,137**	**1,256,552,707**
C - FINANCIAL INCOME/(EXPENSES)			
1: Financial income	8	142,007,633	38,576,427
of which: related parties		*27,385,018*	*14,171,302*
2: Financial expenses	8	(232,825,258)	(125,644,106)
of which: related parties		*7,119,867*	*7,884,814*
D - PROFIT/(LOSS) BEFORE TAX		**1,170,119,512**	**1,169,485,028**
E - INCOME TAX EXPENSE	9	**335,462,844**	**334,802,306**
F - PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**834,656,668**	**834,682,722**
G - PROFIT/(LOSS) FOR THE YEAR FROM DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE	10	**140,000**	**(544,018)**
H - PROFIT FOR THE YEAR		**834,796,668**	**834,138,704**

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

(€)

	NOTE	2023	2022
PROFIT FOR THE YEAR		**834,796,668**	**834,138,704**
Other comprehensive income for the year reclassifiable to profit or loss			
- Cash flow hedge	20	(37,470,529)	222,870,545
- Financial assets at fair value through other comprehensive income	20	1,011,643	(4,364,155)
- Cost of hedges	20	246,085	(603,150)
Other comprehensive income for the year not reclassifiable to profit or loss			
- Actuarial gains/(losses) on provisions for employee benefits	20	(642,245)	1,398,106
COMPREHENSIVE INCOME FOR THE YEAR		**797,941,622**	**1,053,440,050**

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

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

(€)

	NOTE	31 DECEMBER 2023	31 DECEMBER 2022
A – NON-CURRENT ASSETS			
1 Property, plant and equipment	11	15,612,445,163	14,252,842,069
of which: related parties		*145,758,709*	*121,293,597*
2 Goodwill	12	190,228,231	190,228,231
3 Intangible assets	13	573,282,035	478,476,472
4 Deferred tax assets	14	112,962,270	69,861,565
5 Non-current financial assets	15	1,587,322,763	1,636,686,066
6 Other non-current assets	16	7,926,548	7,923,963
of which: related parties		*2,773,538*	*2,800,167*
Total non-current assets		**18,084,167,010**	**16,636,018,366**
B – CURRENTS ASSETS			
1 Trade receivables	17	1,928,810,157	2,179,392,711
of which: related parties		*355,583,234*	*343,259,089*
2 Current financial assets	15	368,573,965	255,177,882
3 Cash and cash equivalents	18	1,456,303,637	2,202,562,495
of which: related parties		*216,717,235*	*172,981,760*
4 Income tax assets	19	3,277,022	3,277,022
of which: related parties		*1,192,624*	*23,050,708*
5 Other current assets	16	61,518,479,0	53,590,269
of which: related parties		*350,000*	-
Total current assets		**3,818,483,260**	**4,694,000,379**
TOTAL ASSETS		**21,902,650,270**	**21,330,018,745**

(€)

	NOTE	31 DECEMBER 2023	31 DECEMBER 2022
C - EQUITY			
1 Share capital		442,198,240	442,198,240
2 Other reserves		1,851,226,767	1,888,190,860
3 Retained earnings/(accumulated losses)		2,973,143,405	2,794,828,077
4 Interim dividend		(230,345,083)	(213,260,151)
5 Profit for the year		834,796,668	834,138,704
Total equity	20	**5,871,019,997**	**5,746,095,730**
D - NON-CURRENT LIABILITIES			
1 Long-term borrowings	21	9,369,221,337	8,372,355,904
2 Employee benefits	22	11,247,559	10,330,998
3 Provisions for risks and charges	23	108,368,153	97,382,471
4 Non-current financial liabilities	21	164,499,824	247,170,043
5 Other non-current liabilities	24	373,057,942	397,089,647
of which: related parties		*24,178,449*	*25,323,200*
Total non-current liabilities		**10,026,394,815**	**9,124,329,063**
E - CURRENT LIABILITIES			
1 Short-term borrowings	21	1,190,390,479	419,496,075
2 Current portion of long-term borrowings	21	1,368,961,833	1,895,331,276
3 Trade payables	25	2,669,674,313	3,515,917,931
of which: related parties		*940,637,485*	*722,369,117*
4 Tax liabilities	25	2,905,520	50,819,421
5 Current financial liabilities	21	113,681,019	44,851,810
6 Other current liabilities	25	659,622,294	533,177,439
of which: related parties		*33,245,713*	*18,776,726*
Total current liabilities		**6,005,235,458**	**6,459,593,952**
TOTAL LIABILITIES AND EQUITY		**21,902,650,270**	**21,330,018,745**

Statement of changes in equity

31 December 2022 - 31 December 2023

(€/m)

	SHARE CAPITAL	LEGAL RESERVE	SHARE PREMIUM RESERVE	CASH FLOW HEDGE RESERVE	RESERVE FOR TREASURY SHARES	RESERVE FOR EQUITY INSTRUMENTS - PERPETUAL HYBRID BONDS	OTHER RESERVES	RETAINED EARNINGS/ (ACCUMULATED LOSSES	INTERIM DIVIDEND	PROFIT FOR THE YEAR	EQUITY
EQUITY AT 31 DECEMBER 2022	**442.2**	**88.4**	**20.0**	**81.9**	**(29.5)**	**989.0**	**738.4**	**2,794.9**	**(213.3)**	**834.1**	**5,746.1**
Profit for the year										**834.8**	**834.8**
Other comprehensive income:											
- Change in fair value of cash flow hedges				(37.5)							(37.5)
- Financial assets at fair value through other comprehensive income							1.0				1.0
- Cost of hedges				0.2							0.2
- Actuarial gains/(losses) on employee benefits							(0.6)				(0.6)
Total other comprehensive income	**-**	**-**	**-**	**(37.3)**	**-**	**-**	**0.4**	**-**	**-**	**-**	**(36.9)**
Comprehensive income	**-**	**-**	**-**	**(37.3)**	**-**	**-**	**0.4**	**-**	**-**	**834.8**	**797.9**
Transactions with shareholders:											
- Appropriation of profit for 2022											
- Retained earnings								*202.1*		*(202.1)*	-
- Dividends									*213.3*	*(632.0)*	*(418.7)*
- Interim dividend 2023									(230.3)		(230.3)
- Purchase of treasury shares					(0.3)			-			(0.3)
Total transactions with shareholders	**-**	**-**	**-**	**-**	**(0.3)**	**-**	**-**	**202.1**	**(17.0)**	**(834.1)**	**(649.3)**
Share option reserve							0.2				0.2
Coupon payable to holders of hybrid bonds								(23.8)			(23.8)
Other changes								(0.1)			(0.1)
Total other changes	**-**	**-**	**-**	**-**	**-**	**-**	**0.2**	**(23.9)**	**-**	**-**	**(23.7)**
EQUITY AT 31 DECEMBER 2023	**442.2**	**88.4**	**20.0**	**44.6**	**(29.8)**	**989.0**	**739.0**	**2,973.1**	**(230.3)**	**834.8**	**5,871.0**

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

(€/m)

	SHARE CAPITAL	LEGAL RESERVE	SHARE PREMIUM RESERVE	CASH FLOW HEDGE RESERVE	RESERVE FOR TREASURY SHARES	RESERVE FOR EQUITY INSTRUMENTS - PERPETUAL HYBRID BONDS	OTHER RESERVES	RETAINED EARNINGS/ (ACCUMULATED LOSSES)	INTERIM DIVIDEND	PROFIT FOR THE YEAR	EQUITY
EQUITY AT 31 DECEMBER 2021	**442.2**	**88.4**	**20.0**	**(140.4)**	**(19.5)**	**-**	**735.6**	**2,665.4**	**(197.4)**	**735.2**	**4,329.5**
Profit for the year										**834.1**	**834.1**
Other comprehensive income:											
- Change in fair value of cash flow hedges				222.9							222.9
- Financial assets at fair value through other comprehensive income							(4.4)				(4.4)
- Cost of hedges				(0.6)							(0.6)
- Actuarial gains/(losses) on employee benefits							1.4				1.4
Total other comprehensive income	**-**	**-**	**-**	**222.3**	**-**	**-**	**(3.0)**	**-**	**-**	**-**	**219.3**
Comprehensive income	**-**	**-**	**-**	**222.3**	**-**	**-**	**(3.0)**	**-**	**-**	**834.1**	**1,053.4**
Transactions with shareholders:											
- Appropriation of profit for 2021											
- Retained earnings								*150.1*		*(150.1)*	-
- Dividends									*197.4*	*(585.1)*	*(387.7)*
- Interim dividend 2022									(213.3)		(213.3)
- Purchase of treasury shares					(10.0)						(10.0)
Total transactions with shareholders	**-**	**-**	**-**	**-**	**(10.0)**	**-**	**-**	**150.1**	**(15.9)**	**(735.2)**	**(611.0)**
Share option reserve							5.8				5.8
Equity instruments – Perpetual hybrid bonds						989.0					989.0
Coupons payable to holders of hybrid bonds								(21.1)			(21.1)
Other changes								0.5			0.5
Total other changes	**-**	**-**	**-**	**-**	**-**	**989.0**	**5.8**	**(20.6)**	**-**	**-**	**974.2**
EQUITY AT 31 DECEMBER 2022	**442.2**	**88.4**	**20.0**	**81.9**	**(29.5)**	**989.0**	**738.4**	**2,794.9**	**(213.3)**	**834.1**	**5,746.1**

Statement of cash flows

(€/m)

	NOTE	2023	2022
PROFIT FOR THE YEAR		**834.8**	**834.1**
ADJUSTED BY:			
Amortisation: depreciation and impairment losses / (reversals of impairment losses) on non-current property, plant and equipment and intangible assets*		710.7	639.5
Accruals to provisions (including provisions for employee benefits) and impairment losses		31.4	27.8
(Gains)/Losses on sale of property, plant and equipment		(15.7)	(5.9)
Financial (income)/expense	8	90.7	88.9
Income tax expense	9	335.4	334.8
Other non-cash movements	20	4.0	5.8
CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN NET WORKING CAPITAL		**1,991.3**	**1,925.0**
Increase/(decrease) in provisions (including provisions for employee benefits and taxation)		(20.6)	(35.5)
(Increase)/decrease in trade receivables and other current assets		247.5	421.7
Increase/(decrease) in trade payables and other current liabilities		(696.6)	541.4
(Increase)/decrease in other non-current assets		30.4	76.6
Increase/(decrease) in other non-current liabilities		(18.9)	(155.0)
Interest income and other financial income received		113.2	62.6
Dividends collected	8	18.3	11.9
Interest expense and other financial expenses paid		(264.9)	(152.2)
Income tax paid		(411.0)	(344.8)
CASH FLOW FROM OPERATING ACTIVITIES [A]		**988.7**	**2,351.7**
- of which: related parties		*197.1*	*31.4*
Capital expenditure in non-current property, plant and equipment after grants received	11	(1,951.6)	(1,358.1)
Revenue from sale of non-current property, plant and equipment and intangible assets and other movements		19.0	11.7
Capital expenditure in non-current intangible assets after grants received	13	(214.5)	(210.7)
Intercompany (additions)/sales of property, plant and equipment		(6.7)	(16.5)
Capitalised financial expenses		48.3	24.8
(Increase)/decrease in investments		(25.9)	(0.5)
Movements in short- and medium/long-term financial investments		(99.3)	(350.5)
Proceeds from sale of companies		-	27.4
CASH FLOW FOR INVESTING ACTIVITIES [B]		**(2,230.7)**	**(1,872.4)**
- of which: related parties		*(24.5)*	*39.6*
Movement in the reserve for treasury shares	20	(7.0)	(10.0)
Movement in the reserve for equity instruments	20	-	989.0
Dividends paid		(665.8)	(592.4)
Movements in short- and medium/long-term financial liabilities (including short-term portion)**		1,168.5	(283.1)
CASH FLOW FROM/(FOR) FINANCING ACTIVITIES [C]		**495.7**	**103.5**
INCREASE/(DECREASE) IN CASH AND EQUIVALENTS [A+B+C]		**(746.3)**	**582.8**
Cash and cash equivalents at beginning of year		2,202.6	1,619.8
Cash and cash equivalents at end of year		1,456.3	2,202.6

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

Notes

A. Material accounting policies and measurement criteria

Introduction

Terna S.p.A., which provides electricity transmission and dispatching services, is a joint-stock company and its registered office is at Viale Egidio Galbani 70, Rome, Italy.
Publication of the separate financial statements was authorised by the Board of Directors on 19 March 2024.
The separate 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.

As of the financial statements for the year ended 31 December 2021, Terna has complied with the requirement introduce 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 separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), as endorsed by the European Commission ("IFRS").

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

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

Basis of presentation

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

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

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

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

The separate financial statements are presented in euros, whilst amounts in the statement of changes in equity, the statement of cash flows and these notes are presented in millions of euros to the first decimal place, unless otherwise stated.
The separate financial statements have been prepared on a historical cost basis, with the exception of certain items that, in accordance with IFRS, are recognised at fair value, as indicated in the measurement criteria for individual items.

Certain amounts in the financial statements at and for the year ended 31 December 2022 have been restated in order 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

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

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

Revenue related to incentives

Recognition in the financial statements of output-based incentives requires management to use estimates and assumptions based on judgements made using actual data and estimates of the quantity and likelihood of future events. In the case of incentive mechanisms where the performance obligation is satisfied over a period of time, the Group estimates how to allocate the reward in the period, estimating the potential for the return of all or part of the accrued amounts. The amount recognised as revenue in the accounting period is the amount that is most likely not to be returned in the future. 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 Company to assess expected credit losses, and the related changes, at each reporting date.
Specifically, the Company has applied the simplified approach permitted by IFRS 9 to trade receivables, in order to measure the allowance for doubtful accounts based on expected losses over the life of the receivable. The Company has thus determined the amount of expected credit losses using a provisioning matrix, based on information regarding historical credit losses for similar past due exposures, adjusted to take into account current conditions and forward-looking elements.

Provisions for risks and charges

Provisions for risks and charges are allocated when a disbursement of cash, for an amount which can be reliably estimated, will be necessary to fulfil a legal or constructive obligation arising as a result of a past event.
Where the time value of money is significant, provisions are discounted using a rate that the Company believes to be appropriate (a rate is used gross of taxes, which reflects current market conditions and the specific risks connected with the liability). After initial recognition, the value of the provisions for risks and charges is updated to reflect the passage of time and any changes in the estimate 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 Company. The measurement of provisions for legal disputes is based on the probability of incurring an expense, including through the use of external legal advisors

supporting the Company; the estimate of provisions to be set aside for urban and environmental restoration projects which are the offsets aimed at compensating for the environmental impact of the construction of new infrastructure, is based on an analysis of the agreements entered into with the local authorities concerned and the progress of work on construction of the new infrastructure.

Employee benefits

Post-employment benefits are defined on the basis of plans, even if not formalised, that 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 or *TFR*) were 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 present value of the obligation, determined considering returns on high quality bonds in line with the duration of the group of workers measured), the inflation rate, the rate at which future salary levels are expected to rise, the rate of increase for average health reimbursements, rate of increase for electricity prices and demographic factors, such as mortality and invalidity, retirement, resignation, advances and household composition. The method of calculation used for *TFR* consists of discounting to present value, at the measurement date, each estimated payment due to every employee, projected through to the estimated period in which the *TFR* will be paid.
The Company's obligation under defined contribution plans, limited to the payment of contributions to the state or to a legally separate entity (a fund), is measured on the basis of the contributions payable. The cost of such plans is recognised in profit or loss based on the contribution paid during the period.

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 CO_2 emissions. Indeed, in addition to the emissions connected with electricity consumption, the most significant component relating to Terna's indirect emissions is linked to grid losses, 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 – Integrated 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. This 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 previous accounted for. The same conclusion has also been reached with regard to the previously mentioned risk linked to the supply chain due to significant changes in the strategies of key suppliers. As a result, it has not been necessary to carry out a critical review of provisions in the financial statements.

IFRS 15 – Revenue from Contracts with Customers

In terms of Regulated Activities, part of the remuneration for transmission and dispatching services derives from regulatory incentive mechanisms linked to specific targets. The achievement of these targets may be influenced by climate change risks, as for example the intensification of extreme weather events could have an impact on the continuity and quality of the service offered by Terna. The Group monitors these risks 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 CO_2 emissions and achieve Net Zero Emissions targets by most industrial clients could result in increased business opportunities.

IFRS 2 – Share-based Payments

The current long-term incentive plans, so called Performance Share Plans, are 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.

Investments in subsidiaries and associates

Investments in subsidiaries are investments where Terna has the power to directly or indirectly govern the financial and operating policies of the investee so as to obtain benefits from its activities. Associates are investees over which Terna exercises significant influence.
In assessing whether or not Terna has control or significant influence, being the ability to participate in the determination of these companies' financial and operating policies, without having control or joint control, potential voting rights that are exercisable or convertible are also taken into account.
Investments in subsidiaries and associates are recognised at cost, written down in the event of an impairment loss. If the circumstances that gave rise to the impairment cease to exist, the value of the investment is restored to the extent of the impairment loss recognised and the reversal is recognised in the income statement.
In the event that the loss attributable to the Company exceeds the carrying amount of the equity interest, and the Company is required to meet the legal or constructive obligations of the investee or, in any case, to cover its losses, any excess is recognised in a specific provision.

Joint arrangements

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

Translation of foreign currency items

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

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

Property, plant and equipment

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

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

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

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

This asset class also includes right-of-use assets, recognised under IFRS 16, arising from lease arrangements where the Company is lessee and relating to the use of property, plant and equipment. A lease arrangement is, or contains, a lease, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Applying this standard, the lessee recognises: (i) a right-of-use asset in its statement of financial position and a liability representing its obligation to make the payments provided for under the arrangement, for all leases with terms in excess of twelve months where the asset cannot be considered of low value (Terna has elected to apply the practical expedient provided for in the standard, recognising payments relating to arrangements that do not fall within the scope of this type of lease in the income 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 Company 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 Company's incremental borrowing rate, bearing in mind the frequency and duration of the payments provided for in the lease contract.
Following initial recognition, the lease liability is accounted for at amortised cost and remeasured, with a matching change in the value of the related right-of-use asset, when there is a change in future lease payments as a result of: (i) a renegotiation of the contract; (ii) changes in the index or rate; or (iii) changes in the assessment of whether or not the options contained in the contract will be exercised (e.g., the purchase of the leased asset, extension or termination of the lease). The right-of-use asset is initially recognised at cost, measured as the sun of the following components: (i) the amount of the initial measurement of the lease liability; (ii) any initial direct costs incurred by the lessee; (iii) any lease payments made at or before the commencement date, less any lease incentives received; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located (or restoring the underlying asset to the condition required by the terms and conditions of the lease). Following initial recognition, the right-of-use asset is adjusted to take into account (i) any accumulated depreciation, (ii) any accumulated impairment losses, and (iii) the effects of any remeasurement of the lease liability.

Intangible assets

Intangible assets, which all have finite useful lives, are recognised at cost, and shown net of accumulated amortisation and any impairment losses. Amortisation begins when the asset becomes available for use and is calculated on a straight-line basis over the estimated useful life of the related asset, which is reviewed annually. Any revisions to estimated figures are applied on a prospective basis.
Intangible assets essentially consist of the concession to exclusively provide electricity transmission and dispatching services, granted to Terna S.p.A., on 1 November 2005, with the acquisition of the TSO business unit. As established in the Decree issued by the Ministry of Productive Activities on 20 April 2005, this concession has a 25-year term, renewable for another 25 years, from the date of effective transfer of the activities, functions, assets and legal arrangements of the concession from GSE (formerly GRTN) to Terna S.p.A.. This intangible asset was initially recognised at cost, which reflected fair value.
Other intangible assets essentially refer to software developments and upgrades with a useful life of three years.
Development costs are capitalised by the Company only if they can be reliably estimated and there is the technical possibility and intention to complete the intangible asset so that it will be available for use, and the asset can be used and it is possible to demonstrate that it will generate probable future economic benefits.
Financial expenses directly attributable to the acquisition, 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. These activities are carried out under concession arrangements, which fall within the scope of application of IFRIC 12, since the services provided are regulated and control exists over the residual interest. More specifically, infrastructure rights have been recognised as an intangible asset, as valued on the basis of the Intangible Asset model, given the return generated by dispatching activities thanks to the charges paid by users. These assets have a useful life of three years.

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

Financial instruments

Financial assets

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

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

Specifically, the Company measures financial assets:

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

Trade receivables

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

Cash and cash equivalents

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

Trade payables

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

Financial liabilities

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

Derivative financial instruments

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

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

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

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

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

When derivatives cover the risk of changes in the cash flows of the hedged instruments (cash flow hedges), the portion of changes in the fair value qualifying as effective is initially recognised in "Other comprehensive income" (accumulated in equity) and subsequently in profit or loss, as the cash flows from the hedged item affects profit or loss. The portion of the fair value of the hedging instrument that does not qualify as effective is recognised in profit or loss.
When hedging derivatives cover the risk of changes in the fair value of hedged instruments (fair value hedges), they are recognised at fair value in profit or loss. Accordingly, the hedged items are adjusted to reflect changes in the fair value associated with the hedged risk.
Changes in the fair value of derivatives that do not meet hedge accounting requirements in accordance with IFRS are recognised in profit or loss.
Fair value is measured on the basis of official quotations for instruments traded in regulated markets. The fair value of instruments not traded in regulated markets is measured by discounting projected cash flows along a yield curve prevailing in the market at the reporting date, and by translating amounts in currencies other than the euro at closing exchange rates.
Financial and non- financial contracts (which are not already measured at fair value) are also analysed to identify any embedded derivatives, which must be separated and measured at fair value.
This analysis is conducted at the time the entity becomes party to the contract or when the contract is renegotiated in a manner that produces a material change in the original associated cash flows.

Hybrid bonds

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

Employee benefits

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

Share-based payments

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

Provisions for risks and charges

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

Government grants

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

Revenue

The Company's revenue can be categorised as follows:

- **Revenue from sales and services**, including revenue from contracts with customers and therefore falling within the scope of IFRS 15. In accordance with the provisions of IFRS 15, revenue from contracts with customers is recognised when the performance obligations identified in the contract are satisfied and control over the goods or services is transferred to the customer for an amount that reflects the consideration that the Company expects to receive in exchange for the goods or services. The standard envisages two methods for identifying the correct time at which to recognise the revenue attributable to each performance obligation: at contract inception, the Company determines if the goods or services covered by the performance obligation will be transferred to the customer over a period of time or at a point in time:

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

Revenue from sales and services also includes "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 Company's ordinary activities.

Costs

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

Financial income and expenses

Financial expenses directly attributable to the acquisition, construction or production of an asset that qualify for capitalisation are capitalised as part of the cost of the asset. The property, plant and equipment and intangible assets involved are those that require at least one year in order to prepare them for use. The directly attributable financial expenses are expenses that would not have been incurred had the expenditure for the asset not been incurred.
Where funds are borrowed specifically, the costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings. Where loans are obtained for general purposes, the eligible amount is determined by applying a capitalisation rate to the expenditure on that asset equal to the weighted average of the financial expenses applicable to the borrowings outstanding for the year, excluding any specifically borrowed funds. The amount of capitalised financial expenses during a year will in any case not exceed the amount of financial expenses incurred during that year.
Capitalisation commences as from the date all the following conditions are first met: (a) expenditure has been incurred for the asset; (b) financial expenses have been incurred; and (c) the activities involved in preparing the asset for its

intended use or sale are in progress. Capitalisation ceases when the activities involved in preparing the asset for its intended use or sale are substantially complete.
The average capitalisation rate used for 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.

Income taxes

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

Discontinued operations and assets held for sale

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

New accounting standards

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

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 Company is currently assessing the potential impact of the introduction of these amendments on the 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 Company 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 Terna Group, assessments are currently being conducted of the possible impact of their application on the financial statements, taking into account the date on which they will take effect. In particular:

Amendment to IAS 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 income statement

Revenue

1. Revenue from sales and services - €2,567.3 million

(€/m)

	2023	2022	CHANGE
Transmission charges billed to grid users and incentives	1,955.6	1,823.8	131.8
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	89.0	95.3	(6.3)
TOTAL	**2,567.3**	**2,459.7**	**107.6**

Transmission charges and incentives

This item, amounting to €1,955.6 million, includes revenue from the core business relating to the allowed return due to the Company for use of the National Transmission Grid.
The increase in the item (up €131.8 million) primarily reflects the increase in the RAB in the period after the volume effect (up €84.4 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 132/022) 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 service

The item, “Other sales and services”, amounting to €89 million mainly regards revenue from administrative, support and consultancy services provided to subsidiaries (€26.3 million, including €20.4 million from services rendered to Terna Rete Italia S.p.A.), from connections to the NTG (€10.8 million) and from Non-regulated Activities (€51.8 million), primarily support and housing services for fibre networks (€23.8 million) and progress on construction of the private Italy-Austria interconnector (€11.1 million).
The decrease of €6.3 million compared with the previous year is primarily due to a reduction in revenue reflecting the state of progress of work on the private Italy-Austria interconnector (down €14.1 million), partially offset by an increase in revenue from the Connectivity services provided by the Non-regulated business (up €2.7 million), from connections to the NTG (up €2.1 million), from the O&M services provided under the Sacoi contract (up €1.2 million) and from subsidiaries (up €1.3 million), primarily due to administrative services following changes to the range of activities carried out, as well as other non-recurring items.

Pass-through revenue/expenses

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

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

(€/m)

	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)
- Load Profiling for public lighting	348.0	1,833.5	(1,485.5)
- Charges for right to use transmission capacity and market coupling	1,209.8	1,160.0	49.8
- Interconnector/shippers	57.6	66.3	(8.7)
- Other Power Exchange-related pass-through revenue items	677.6	1,176.1	(498.5)
Total over-the-counter revenue items	**3,742.9**	**2,933.6**	**809.3**
- 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	153.0	146.6	6.4
- 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	**8,987.1**	**14,242.0**	**(5,254.9)**
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)
- Load Profiling for public lighting	447.3	1,886.4	(1,439.1)
- Charges for right to use transmission capacity and market coupling	559.0	542.0	17.0
- Interconnectors/Shippers	599.7	874.7	(275.0)
- Other Power Exchange-related pass-through cost items	658.4	857.0	(198.6)
Total over-the-counter cost items	**3,742.9**	**2,933.6**	**809.3**
- 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	153.0	146.6	6.4
- 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	**8,987.1**	**14,242.0**	**(5,254.9)**

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 reduced cost of procuring services, the fall in the consideration due for Start-up and Change of Set-up Tokens[1], 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 providers[2] the slight rise in congestion revenue in Italian and Overseas market areas, only partly offset by lower revenue from imbalances. Further information is provided in "Electricity market trends" in the section, "The Group's business", in the Report on Operations.

[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 – €67.5 million

(€/m)

	2023	2022	Change
Payment for lease of operations	22.7	22.2	0.5
Gains on sale of infrastructure components	12.4	5.1	7.3
Sundry grants	8.5	8.9	(0.4)
Insurance proceeds as compensation for damages	4.9	2.9	2.0
Revenue from IRU contracts for fibre	4.2	0.9	3.3
Rental income	2.9	3.0	(0.1)
Sales to third parties	1.5	3.3	(1.8)
Contingent assets	0.2	4.3	(4.1)
Other revenues	10.2	10.2	-
TOTAL	**67.5**	**60.8**	**6.7**

The most significant components of "Other revenue and income" primarily regard the revenue received from the subsidiary, Terna Rete Italia S.p.A., as payment for the year made under the agreement for the lease of certain operations (€22.7 million), gains on the sale of infrastructure components (€12.4 million), sundry grants (€8.5 million) primarily in relation to the re-routing of lines for third parties, the sale of IRU contracts for fibre (€4.2 million), in addition to other revenues and contingent assets totalling €10.4 million, including €8.7 million from subsidiaries for services rendered under existing intercompany contracts.
The increase in this item of €6.7 million compared to the previous year primarily reflects increased revenue from gains on the sale of infrastructure components (up €7.3 million, essentially scrap, transformers and motor vehicles) and increased revenue from Connectivity services linked to IRU contracts for fibre (up €3.3 million), after a reduction in contingent assets compared with the previous year (down €4.1 million).

Operating costs

3. Raw and consumable materials used - €7.3 million

This item, amounting to €7.3 million, includes the value of the various materials and supplies, including fuel for the vehicle fleet. This item is up €0.9 million compared with the previous year, broadly due to increased purchases of telecommunications equipment.

4. Services – €498.4 million

(€/m)

	2023	2022	Change
Intercompany services, including technical and administrative services	390.6	389.3	1.3
Maintenance and sundry services	61.5	51.2	10.3
Tender costs for plant	14.9	15.5	(0.6)
Lease expense	14.5	12.2	2.3
Insurance	10.6	9.6	1.0
IT services	5.5	4.5	1.0
Remote transmission and telecommunications	0.8	0.7	0.1
TOTAL	**498.4**	**483.0**	**15.4**

The item, "Intercompany services, including technical and administrative services" regards the accrued costs incurred under specific intercompany contracts (€390.6 million), largely regarding the subsidiary Terna Rete Italia S.p.A., which maintains and operates the infrastructure owned by the Company (€294.3 million), to investment in the development of the Company's transmission and dispatching infrastructure (€63.0 million) and activities and services relating to plant owned by third parties (€11.0 million). This item also includes bonuses relating to the quality of the transmission service attributable to Terna Rete Italia S.p.A. (up €5.9 million).

Fees payable to members of the Board of Statutory Auditors amount to €0.2 million, whilst those payable to members of the Supervisory Board set up in compliance with Legislative Decree 231/2001 amount to €0.1 million.

After the costs recognised in application of IFRIC 12 for the development of dispatching infrastructure (up €13.7 million), the increase in "Services" amounts to €15.4 million. This primarily reflects increases in advertising costs (up €7.1 million, essentially linked to the *"noi siamo energia"* advertising campaign), in the costs linked to Terna's investments in GRIT and CORESO (up €1.0 million), in insurance costs (up €1.0 million), IT services (up €1.0 million) provisions for right-of-way fees for power lines (up €1.0 million). There was also a reduction in amounts payable to the subsidiary, Terna Rete Italia S.p.A. (down €13.4 million) due to a reduction in operations and services provided for third-party infrastructure on behalf of the Company (down €8.4 million, essentially regarding a reduction in work carried out on the private Italy-Austria Interconnector) and a decline in the company's share of the performance bonus linked to the quality of the transmission service (down €4.1 million).

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

(€/m)

	2023	2022	Change
IT services	0.8	0.9	(0.1)
Tender costs for plant	14.0	14.6	(0.6)
Maintenance and sundry services	3.4	2.7	0.7
Cost of services relating to investment in dispatching infrastructure (IFRIC 12)	**18.2**	**18.2**	**-**
Cost of services recognised in application of IFRIC 12 – Services from Terna Rete Italia S.p.A.	57.5	43.8	13.7
Total cost of services relating to investment in dispatching infrastructure (IFRIC 12)	**75.7**	**62.0**	**13.7**

5. Personnel expenses - €119.2 million

(€/m)

	2023	2022	Change
Salaries, wages and other short-term benefits	105.0	96.1	8.9
Directors' remuneration	2.1	1.9	0.2
Termination benefits (*TFR*), energy discounts and other employee benefits	14.0	6.2	7.8
Early retirement incentives	17.2	12.6	4.6
Gross personnel expenses	***138.3***	***116.8***	***21.5***
Capitalised personnel expenses	(19.1)	(14.5)	(4.60)
TOTAL	**119.2**	**102.3**	**16.9**

Personnel expenses are up €16.9 million, primarily due to an increase in the average workforce and the impact of renewal of the national collective labour agreement for the electricity sector, after an increase in capitalised expenses.

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

	AVERAGE WORKFORCE		WORKFORCE AT	
	2023	2022	31 DECEMBER 2023	31 DECEMBER 2022
Senior managers	56	51	54	49
Middle managers	342	319	347	326
Office staff	717	629	742	692
TOTAL	**1,115**	**999**	**1,143**	**1,067**

The net increase in the average workforce compared with 2022 is 116. This is essentially linked to the requirements relating to delivery of the investment programme included in the last approved Industrial Plan.

6. Amortisation, depreciation and impairment losses – €719.3 million

(€/m)

	2023	2022	Change
Amortisation of intangible assets	118.7	85.8	32.9
- of which rights on infrastructure	*34.8*	*26.7*	*8.1*
Depreciation of property, plant and equipment	591.8	557.4	34.4
Impairment losses on property, plant and equipment and intangible assets	8.7	7.0	1.7
Impairment losses on trade receivables	0.1	0.1	-
TOTAL	**719.3**	**650.3**	**69.0**

Amortisation, depreciation and impairment losses for the year amount to €719.3 million, an increase of €69.0 million compared with 2022. This primarily reflects the entry into service of infrastructure and the higher value of impairment losses on assets recognized during the year (up €1.7 million).

7. Other operating costs - €29.7 million

(€/m)

	2023	2022	Change
Fees paid to regulators and membership dues	9.7	9.1	0.6
Indirect taxes and local taxes and levies	8.8	9.6	(0.8)
Quality of service costs	5.3	1.9	3.4
of which mitigation and sharing mechanisms	*2.3*	*1.6*	*0.7*
of which 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)	(4.5)	3.6
Losses on sales/disposal of plant	0.8	0.1	0.7
Other	6.0	5.7	0.3
TOTAL	**29.7**	**21.9**	**7.8**

The most significant components of this item regard the costs incurred by the Company for membership dues and fees paid to trade bodies and associations relating to the Group's activities (€9.7 million), indirect taxes, local taxes and levies (€8.8 million, including €7.0 million in council tax), quality of service costs (€5.3 million), and other costs (€6.0 million), which include donations and other expenses.

The increase €7.8 million is due essentially to the adjustment to provisions linked to amounts previously set aside in relation to Land Registry Circular 6/2012 and for litigation and disputes (up €3.6 million), in addition to an increase in the costs incurred for quality of service (up €3.4 million), primarily linked to provisions for exceptional events related to the outages that occurred in eastern Sicily in February 2023, and in the fees paid to regulators and membership dues (up €0.6 million).

8. Financial income/(expenses) – (€90.8) million

(€/m)

	2023	2022	Change
FINANCIAL EXPENSES			
Financial expenses attributable to subsidiaries	(7.1)	(7.9)	0.8
Interest expense on medium/long-term borrowings and related hedges	(235.5)	(138.7)	(96.8)
Adjustments to bonds in issue and the related hedges	(2.8)	-	(2.8)
Foreign exchange losses	(0.1)	-	-
Capitalised financial expenses	48.3	24.8	23.5
Other financial expenses	(35.6)	(3.9)	(31.7)
Total expenses	**(232.8)**	**(125.7)**	**(107.1)**
FINANCIAL INCOME			
Dividends from subsidiaries	17.3	10.4	6.9
Dividends from associates	1.8	1.5	0.3
Financial income from subsidiaries	8.3	2.3	6.0
Adjustments to bonds in issue and the related hedges	-	5.5	(5.5)
Discounting of receivables, termination benefits (*TFR*) and operating leases	31.6	0.1	31.5
Interest income and other financial income	83.0	17.0	66.0
Foreign exchange gains	-	1.8	(1.8)
Total income	**142.0**	**38.6**	**103.4**
TOTAL	**(90.8)**	**(87.1)**	**(3.7)**

Net financial expenses for the year amount to €90.8 million, reflecting €232.8 million in financial expenses and €142.0 million in financial income. The increase in net financial expenses compared with the previous year, amounting to €3.7 million, primarily reflects the following:

- an increase in financial expenses of €96.8 million on medium/long-term debt, reflecting the increase in market interest rates, partially offset by the impact of falling inflation in relation to the inflation-linked bonds maturing in September 2023;
- an increase of €31.7 million in other financial expenses, broadly due to the uplift component;
- an increase in capitalised financial expenses (up €23.5 million) due to increased investment during the period and rising interest rates;
- an increase of €31.5 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;
- an increase in financial expenses attributable to subsidiaries (up €2.4 million), relating primarily to the change in accrued interest on intercompany current accounts held by subsidiaries;
- recognition of an impairment loss on the investment in Terna Plus S.r.l., amounting to €2.6 million, following the adjustment to the investment to reflect the value of the company's equity at 31 December 2023, compared with the impairment loss recognised in the previous year (€7.0 million);
- an increase in dividends paid by the subsidiaries, Terna Interconnector (up €5.2 million) and Terna Gora (€1.7 million), and by the associate, CGES (up €0.3 million);
- a €66.0 million increase in financial income on cash and other financial assets due to improved market conditions.

9. Income tax for the year – €335.4 million

(€/m)

	2023	2022	Change
Income tax for the year			
Current tax expense:			
- IRES (corporate income tax)	299.0	300.8	(1.8)
- IRAP (regional tax on productive activities)	67.3	65.8	1.5
Total current tax expense	**366.3**	**366.6**	**(0.3)**
New temporary differences:			
- deferred tax assets	(41.3)	(41.3)	-
Reversal of temporary differences:			
- deferred tax assets	9.9	11.7	(1.8)
Total deferred tax (income)/expense	**(31.4)**	**(29.6)**	**(1.8)**
Adjustments of taxes for previous years	0.5	(2.2)	2.7
TOTAL	**335.4**	**334.8**	**0.6**

Current income tax expense for the year of €366.3 million is in line with the previous year, essentially reflecting the increase in pre-tax profit and the greater amount of tax-exempt income recognised in the previous year.
Net deferred tax expense of €31.4 million is up €1.8 million, primarily due to the net effect of the reversal of temporary differences, primarily connected with the impact of taxation on depreciation and amortisation.

Adjustments to taxes for previous years, amounting to a reduction of €0.5 million, reflect the overpayment of current tax expense in previous years and have increased by €2.7 million.

The effective tax charge for the year (€335.4 million) results in a tax rate of 28.7%, broadly in line with 2022 (28.6%). For a clearer presentation of the differences between the theoretical and effective tax charges, the table below reconciles the theoretical and effective tax rates for the year.

(€/m)

	TAXABLE INCOME	TAX	% Change
Profit before tax	1,170.1		
IRES – Theoretical tax charge (rate of 24.0%)		280.8	
IRAP – theoretical tax charge (rate of 5.08% on the operating profit of €1,260.9 million)		64.1	
		344.9	
THEORETICAL TAX RATE			**29.5%**
Permanent differences in IRES			
Impairments		0.4	-
Non-deductible remuneration		0.5	0.1%
Contingent assets and liabilities		0.4	-
Membership fees		0.1	
Other increases		1.5	0.2%
Accelerated depreciation		(4.8)	(0.4%)
Dividends		(3.6)	(0.2%)
Tax relief (ACE – Aiuto alla Crescita Economica)		(6.0)	(0.5%)
IRAP at a rate of 10%		(1.8)	(0.1%)
Permanent differences in IRAP			
Capitalised financial expenses		2.5	0.2%
Personnel expenses		0.3	0.1%
Effective tax rate after adjustments of taxes for previous years			**28.9%**
Income tax for previous years		0.5	(0.2%)
Total income tax expense for the year		***335.4***	
EFFECTIVE TAX RATE			**28.7%**

10. Profit/(Loss) from discontinued operations and assets held for sale – €0.1 million

The profit from discontinued operations and assets held for sale, amounting to €0.1 million, reflects the release of provisions for other risks (€0.1 million) relating to liabilities recognised at 31 December 2022 in connection with the sale of Difebal S.A., completed on 22 December 2022. The costs of the sale were lower than expected. This item also reflects a reduction of €0.7 million broadly due to recognition in the previous year of a net loss on the sale of the subsidiary (up €2.4 million) after the net result from the overseas company's operations (€1.7 million).

C. Operating segments

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

D. Notes to the statement of financial position

Assets

11. Property, plant and equipment – €15,612.5 Million

(€/m)

	LAND	BUILDINGS	PLANT AND EQUIPMENT	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER ASSETS	ASSETS UNDER CONSTRUCTION AND PREPAYMENTS	TOTAL
COST At 31 DECEMBER 2022	**137.4**	**2,201.3**	**19,375.9**	**133.4**	**221.1**	**2,217.1**	**24,286.2**
Investments	0.1	2.3	0.2	6.5	2.8	1,953.2	1,965.1
of which right-of-use assets	-	*2.3*	*0.2*	-	*1.8*	-	*4.3*
Assets entering service	9.0	179.1	1,459.1	7.1	25.6	(1,679.9)	-
Intragroup purchases	-	-	9.3	-	-	0.1	9.4
Intercompany sales	-	-	(0.5)	-	-	-	(0.5)
of which right-of-use assets	-	-	*(0.1)*	-	-	-	*(0.1)*
Disposals and impairments	-	(2.4)	(100.0)	(1.0)	(17.2)	(8.2)	(128.8)
of which right-of-use assets	-	*(1.3)*	*(1.4)*	-	*(0.2)*	-	*(3.0)*
Other changes	(0.3)	(12.2)	(26.3)	-	-	29.1	(9.7)
COST AT 31 DECEMBER 2023	**146.2**	**2,368.1**	**20,717.7**	**146.0**	**232.3**	**2,511.4**	**26,121.7**
ACCUMULATED DEPRECIATION AND IMPAIRMENT AT 31 DECEMBER 2022	**(1.2)**	**(747.7)**	**(9,024.2)**	**(95.9)**	**(164.3)**	**-**	**(10,033.3)**
Depreciation	(0.3)	(55.4)	(511.1)	(6.6)	(18.4)	-	(591.8)
of which right-of-use assets	*(0.3)*	*(1.4)*	*(2.4)*	-	*(1.1)*		*(5.2)*
Intercompany purchases	-	-	(2.3)	-	-	-	(2.3)
Intercompany sales	-	-	0.1	-	-	-	0.1
Disposals	-	2.4	97.5	1.0	17.2	-	118.1
of which right-of-use assets	-	*1.3*	*1.4*	-	*0.2*	-	*2.9*
ACCUMULATED DEPRECIATION AND IMPAIRMENT AT 31 DECEMBER 2023	**(1.5)**	**(800.7)**	**(9,440.0)**	**(101.5)**	**(165.5)**	**-**	**(10,509.2)**
Carrying amount							
AT 31 DECEMBER 2023	**144.7**	**1,567.4**	**11,277.7**	**44.5**	**66.8**	**2,511.4**	**15,612.5**
of which right-of-use assets	*4.4*	*4.4*	*16.0*	-	*2.1*	-	*26.8*
AT 31 DECEMBER 2022	**136.2**	**1,453.6**	**10,351.7**	**37.5**	**56.8**	**2,217.1**	**14,252.9**
of which right-of-use assets	*4.7*	*3.5*	*18.3*	-	*1.4*	-	*27.9*
Change	**8.5**	**113.8**	**926.0**	**7.0**	**10.0**	**294.3**	**1,359.6**

The category, "Plant and equipment", essentially includes the electricity transmission grid and transformer substations in Italy.
"Property, plant and equipment" is up €1,359.6 million, compared 31 December 2022, broadly due to the following movements:

- investment of €1,965.1 million during the year, including €1,940.4 million in Regulated Activities;
- the purchase, on 24 July 2023, from the subsidiary, Rete S.r.l., of the 132kV "Fidenza RT - Parma" power line for a consideration of €7.1 million;
- amortisation and depreciation for the year of €591,8 million;
- other movements during the year in "Property, plant and equipment", resulting in a reduction of €20.8 million. This includes 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 disposals and impairment losses resulting in a reduction of €10.7 million.

The following information regards work on the principal projects during the year in relation to Regulated Activities: the start of design work for the construction of the Tyrrhenian Link (€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).

12. Goodwill – €190.2 Million

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

Impairment testing

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

For impairment testing purposes, Terna S.p.A.'s Regulated Activities were considered to be a cash generating unit (CGU). Measurement of the recoverable value of the goodwill allocated to the transmission activities was based on fair value less costs of disposal. Determination of the carrying amount of the CGU represented by the NTG was based on Terna S.p.A.'s net invested capital at 31 December 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.

13. Intangible assets – €573.3 Million

(€/m)

	INFRASTRUCTURE RIGHTS	CONCESSIONS	OTHER ASSETS	ASSETS UNDER DEVELOPMENT AND PREPAYMENTS	TOTAL
Cost	583.0	135.4	523.7	108.7	1,350.8
Accumulated amortisation	(421.6)	(96.1)	(354.6)	-	(872.3)
BALANCE AT 31 DECEMBER 2022	**161.4**	**39.3**	**169.1**	**108.7**	**478.5**
Investments	-	-	-	214.5	214.5
Assets entering service	82.1	-	110.0	(192.1)	-
Disposals and impairments	-	-	-	(1.3)	(1.3)
Amortisation	(34.8)	(5.6)	(78.3)	-	(118.7)
Other changes	-	-	0.3	-	0.3
BALANCE AT 31 DECEMBER 2023	**208.7**	**33.7**	**201.1**	**129.8**	**573.3**
Cost	665.1	135.4	634.0	129.8	1,564.3
Accumulated amortisation	(456.4)	(101.7)	(432.9)	-	(991.0)
BALANCE AT 31 DECEMBER 2023	**208.7**	**33.7**	**201.1**	**129.8**	**573.3**
Change	**47.3**	**(5.6)**	**32.0**	**21.1**	**94.8**

Intangible assets amount to €573.3 million and include:

- the infrastructure used in provision of the dispatching service in Italy accounted for in accordance with "IFRIC 12 – Service Concession Arrangements", with the carrying amount, at 31 December 2023 of infrastructure entering service during the year amounting to €208.7 million and of those under construction, included in the category "Assets under development and prepayments", amounting to €41.7 million (at 31 December 2022, the matching figures were €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. Investment in these assets during the year (€137.0 million) essentially regards internal development programmes.
The increase compared with the previous year (up €94.8 million) reflects the net effect of investment (€214.5 million, including €77.5 million in infrastructure rights) and amortisation (down €118.7 million).
Investment in intangible assets during the year (€214.5 million, entirely within the scope of 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).

14. Deferred tax assets – €113.0 Million

(€/m)

	31 DECEMBER 2022	PROVISIONS	USES AND OTHER MOVEMENTS	EFFECTS RECOGNISED IN COMPRE-HENSIVE INCOME	31 DECEMBER 2023
DEFERRED TAX ASSETS					
Property, plant and equipment	56.7	32.5	-	-	89.2
Provisions for risks and charges	15.6	2.6	(1.8)	-	16.4
Allowance for doubtful accounts	4.3	-	-	-	4.3
Amounts due to employees	(0.1)	6.2	(5.0)	0.2	1.3
Cash flow hedges and financial assets	(24.8)	-	-	11.4	(13.4)
Tax relief on goodwill	14.9	-	(3.0)	-	11.9
Other	6.4	-	-	-	6.4
TOTAL DEFERRED TAX ASSETS	**73.0**	**41.3**	**(9.8)**	**11.6**	**116.1**
DEFERRED TAX LIABILITIES					
Employee benefits and financial instruments	(3.1)	-	-	-	(3.1)
TOTAL DEFERRED TAX LIABILITIES	**(3.1)**	**-**	**-**	**-**	**(3.1)**
NET DEFFERRED TAX ASSETS	**69.9**	**41.3**	**(9.8)**	**11.6**	**113.0**

The balance of this item, amounting to €113.0 million, includes the net impact of movements in the Company's deferred tax assets and liabilities.

Deferred tax assets (€116.1 million) are up by a net €43.1 million compared with the previous year, reflecting the following movements:

- provisions of €11.4 million, reflecting the tax effect on the comprehensive income statement, primarily of movements in cash flow hedges;
- provisions of €32.5 million due to provisions for accelerated depreciation
- net provisions €0.8 million, relating to movements during the year in provisions for risks and charges, primarily due to the tax effect on the release of provisions for quality of service (€0.2 million);
- net provisions of €1.4 million relating to movements during the year in provisions for risks and charges linked to amounts payable to employees;
- the release of deferred tax assets recognised in relation to tax relief on the goodwill resulting from the merger with Terna Rete Italia S.r.l. (€3.0 million).

Deferred tax liabilities of €3.1 million are in line with the figure for 31 December 2022.

15. Financial assets

(€/m)

	MEASUREMENT	31 DECEMBER 2023	31 DECEMBER 2022	Change
Investments in subsidiaries	at cost	1,119.0	1,097.7	21.3
Investments in associates	at cost	46.8	44.8	2.0
Guarantee deposits	Amortised cost	285.0	299.1	(14.1)
Government securities	FVTOCI	119.1	119.6	(0.5)
Cash flow hedges	FVTOCI	17.4	75.5	(58.1)
NON-CURRENT FINANCIAL ASSETS		**1,587.3**	**1,636.7**	**(49.4)**
Government securities	FVTOCI	96.8	148.8	(52.0)
Other securities	FVPNL-FVTOCI	100.4	98.0	2.4
Time deposits	Amortised cost	150.0	-	150.0
Deferred assets on cash flow hedges		7.3	3.5	3.8
Other current financial assets		14.1	4.8	9.3
CURRENT FINANCIAL ASSETS		**368.6**	**255.1**	**113.5**

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

The value of "Investments in subsidiaries" (€1,119.0 million) regards investments in Terna S.p.A.'s direct subsidiaries and is up €21.3 million compared with 31 December 2022. This primarily reflects a capital contribution to Terna Forward S.r.l. (up €9.3 million) and an increase in the investment in Rete S.r.l. (up €14.6 million), following the merger of the subsidiary, Rete Nord S.r.l. (previously acquired by Terna S.p.A. on 22 June 2023), with and into Rete S.r.l. in December 2023, offset by an impairment loss on the investment in the subsidiary, Terna Plus (down €2.6 million), following the adjustment to the investment to reflect the value of the company's equity at 31 December 2023.

The value of "Investments in associates" (€46.8 million) mainly regards the investments in CGES – CrnoGorski Elektroprenosni Sistem AD (€26.7 million), CESI S.p.A. (€17.5 million), CORESO S.A. (€0.2 million) and the joint operations, ELMED Etudes S.a.r.l. (€0.3 million) and Selene CC S.A. (€2.1million). The change with respect to 31 December 2022, amounting an increase of €2.0 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.

The following table shows key information on investments in subsidiaries, associates and joint ventures owned directly by Terna S.p.A. at 31 December 2023. Amounts relate to the latest approved financial statements.

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST	CARRYING AMOUNT (€)
SUBSIDIARIES CONTROLLED DIRECTLY BY TERNA S.P.A.					
Terna Rete Italia S.p.A.	**Rome**	**Euro**	**300,000**	**100%**	**21,461,425**
Business	Design, construction, management, development, operation and maintenance of power lines and grid infrastructure and other grid-related infrastructure, plant and equipment used in the above electricity transmission and dispatching activities and in similar, related and connected sectors.				
Terna Crna Gora d.o.o.	**Podgorica (Montenegro)**	**Euro**	**208,000,000**	**100%**	**208,000,000**
Business	Authorisation, construction and operation of the transmission infrastructure forming the Italy-Montenegro interconnector on Montenegrin territory.				
Terna Plus S.r.l.	**Rome**	**Euro**	**16,050,000**	**100%**	**77,291,727**
Business	Design, construction, management, development, operation and maintenance of plant, equipment and infrastructure for grids and systems, including distributed storage and pumping and/or storage systems.				
Terna Interconnector S.r.l.	**Rome**	**Euro**	**10,000**	**65%***	**19,926**
Business	Responsible for construction and operation of the private section of the Italy-France interconnector and civil works on the public section.				
Rete S.r.l.	**Rome**	**Euro**	**387,267,082**	**100%**	**790,178,808**
Business	Design, construction, management, development, operation and maintenance of high-voltage power lines.				
Terna Energy Solutions S.r.l.	**Rome**	**Euro**	**2,000,000**	**100%**	**12,282,156**
Business	Design, construction, management, development, operation and maintenance of distributed energy storage systems, pumping and/or storage systems, plant, equipment and infrastructure, including grids; research, consultancy and assistance in matters relating to the core business; any other activity capable of improving the use and development of plant, resources and expertise.				
ESPERIA-CC S.r.l.	**Rome**	**Euro**	**10,000**	**1%****	**100**
Business	A technical centre owned by a number of transmission system operators, which acts as the regional security coordinator for the TSOs, with the aim of improving and upgrading the security and coordination of the electricity system in south-eastern Europe.				
Terna Forward	**Rome**	**Euro**	**10,000**	**100%**	**9,810,000**
Business	Development of new technological solutions for the Terna Group, investing in start-ups and small, medium and large enterprises with high innovation and technological potential.				

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

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL*	% INTEREST	CARRYING AMOUNT (€)
ASSOCIATES					
Cesi S.p.A.	**Milan**	**Euro**	**8,550,000**	**42.698%**	**17,563,381**
Business	Experimental research and provision of services related to electro-technology.				
Coreso S.A.	**Bruxelles (Belgium)**	**Euro**	**1,000,000**	**15.84%**	**210,742**
Business	Technical centre owned by several electricity transmission operators, responsible for coordinating joint operations of TSOs, in order to improve and upgrade the security and coordination of the electricity system in central and western Europe.				
CGES A.D.	**Podgorica (Montenegro)**	**Euro**	**155,108,283**	**22.0889%**	**26,694,419**
Business	Provision of transmission and dispatching services in Montenegro.				
JOINT VENTURES					
ELMED Etudes S.a.r.l.	**Tunis (Tunisia)**	**Dinaro Tunisino**	**2,016,120**	**50%**	**274,917**
Business	Conduct of preparatory studies for construction of the infrastructure required to connect the Tunisian and Italian electricity systems.				
SEleNe CC S.A.	**Thessaloniki (Greece)**	**Euro**	**200,000**	**33.33%**	**2,071,219**
Business	A technical centre owned by a number of transmission system operators, which acts as the regional security coordinator for the TSOs, with the aim of improving and upgrading the security and coordination of the electricity system in south-eastern Europe.				
Equigy B.V.	**Arnhem, (Netherlands)**	**Euro**	**50,000**	**20%**	**10,000**
Business	Provision of support for electricity balancing by TSOs through the development and implementation of blockchain technology.				

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

This item also includes:

- guarantee deposits (€285.0 million), including the Interconnector Guarantee Fund (€161.1 million) set up to fund investment in interconnections by art. 32 of Law 99/09 and up €17.6 million compared with the previous year. Guarantee deposits also include €123.9 million received from operators participating in the capacity market in accordance with Resolution Del.98/2011/R/eel[3], as amended, registering a decrease of €31.7 million compared with the previous year;
- cash flow hedges, amounting to €17.4 million, hedging borrowings, measured by discounting expected cash flows using market interest rates at the measurement date; the reduction of €58.1 million reflects the change in market interest rates and a change in the derivatives portfolio;
- the value of Italian government bonds ("BTP"), amounting to €119.1 million, maturing in May 2025, essentially in line with 31 December 2022.

"Current financial assets" are up €113.5 million compared with the previous year, primarily due to an increase in short-term time deposits during the period (amounting to €150.0 million), the increase in unpaid accrued interest on financial investments (amounting to €9.3 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).

16. Other assets

(€/m)

	31 DECEMBER 2023	31 DECEMBER 2022	Change
Loans and advances to employees	3.8	3.8	-
Deposits with third parties	1.3	1.3	-
Non-current receivables due from subsidiaries	2.8	2.8	-
OTHER NON-CURRENT ASSETS	**7.9**	**7.9**	**-**
Current receivables due from subsidiaries	0.4	-	0.4
Other tax credits	42.4	28.7	13.7
Other current assets – Interconnector Guarantee Fund	2.9	3.1	(0.2)
Prepayments to suppliers	1.8	1.0	0.8
Prepayments of operating expenses and accrued operating income	9.5	9.2	0.3
Amounts due from others	4.6	11.6	(7.0)
OTHER CURRENT ASSETS	**61.6**	**53.6**	**8.0**

"Other non-current assets" amount to €7.9 million are in line with the previous year and include receivables due from subsidiaries in relation to incentive plans benefitting the Company's employees through share-based payments (the Performance Share Plans 2021-2025, 2022-2026 and 2023-2027[4]).

"Other current assets" of €61.6 million are up €8.0 million compared with 31 December 2022, essentially reflecting:

- the change in "Other tax credits" (up €13.7 million), primarily reflecting an increase in refundable VAT (up €7.7 million) and withholding tax paid on interest income (up €4.0 million);
- a decrease of €7.0 million in "Amounts due from others", broadly due to other items to be settled recognized during the year and collected in early 2023.

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

[4] On 16 June 2021, 15 June 2022 and 14 June 2023, Terna S.p.A.'s Board of Directors approved the Terms and Conditions of the Performance Share Plans for 2021-2025, 2022-2026 and 2023-2027, respectively, in implementation of the terms established by the Annual General Meetings of shareholders held on 30 April 2021, 29 April 2022 and 9 May 2023. The three LTI plans provide for the grant of the right to be allotted a certain number of Terna S.p.A.'s shares (Performance Shares) free of charge at the end of the performance period provided that the performance targets to which the Plans are linked have been met.

17. Trade receivables – €1,928.8 Million

(€/m)

	31 DECEMBER 2023	31 DECEMBER 2022	Change
Energy-related receivables	1,268.5	1,622.8	(354.3)
Transmission charges receivables	576.3	472.8	103.5
Other trade receivables	60.6	63.6	(3.0)
Amounts due from subsidiaries	23.4	20.2	3.2
TRADE RECEIVABLES	**1,928.8**	**2,179.4**	**(250.6)**

Trade receivables amount to €1,928,8 million and are accounted for less any losses on items deemed not to be recoverable and recognised in the allowance for doubtful accounts (€13.3 million for energy-related receivables and €10.1 million for other items in 2023, compared with €19.6 million for energy-related items and €10.1 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 €354.3 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 €329.1[5] 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 430/2022[6].

[5] 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.

[6] 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 – €576.3 million

Transmission charges receivable, amounting to €576.3 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 €103.5 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) scheme[7], recognised from 2020 through the transmission charge.

Other trade receivables – €60.6 million

Other trade receivables, totalling €60.6 million, are down €3.0 million compared with the previous year. This primarily reflects a decrease in receivables resulting from Non-regulated Activities in the final quarter of the year.

Amounts due from subsidiaries – €23.4 million

This item, totalling €23.4 million, primarily regards the amount receivable from the subsidiary, Terna Rete Italia S.p.A. (€14.7 million), mainly relating to services provided in the last part of the year under existing contracts, primarily relating to the amount due on the business unit leased to this company (€6.8 million), administrative services (€4.8 million) and from the subsidiary, Terna Energy Solutions S.r.l. (€5.8 million).

This item is up on the previous year (€3.2 million), broadly due to an increase in amounts due from the subsidiary, Terna Energy Solutions S.r.l. (up €4.1 million), as a result of receivables recognised in the last quarter in relation to the sale fibre, and from the Brugg Group (up €0.9 million), offset by a reduction in amounts due from Terna Plus S.r.l. (down €1.7 million).

18. Cash and cash equivalents – €1,456.3 million

Cash amounts to €1,456.3 million at 31 December 2023, having decrease by €746.3 million compared with 31 December 2022. This item consists of €1,170.0 million invested short-term readily convertible deposits, €129.3 million deposited in bank current accounts and as cash in hand and €157.0 million representing the net amount receivable on intercompany current accounts held by the Company on behalf of its subsidiaries.

19. Income tax assets – €3.2 million

Income tax assets, amounting to €3.2 million, are in line with the figure for the previous year.

[7] 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

20. Equity – €5,871.0 million

Share capital – €442.2 million

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

Legal reserve – €88.4 million

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

Reserve for treasury shares - (€29.8) 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 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 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 – €803.6 million

The "Share premium reserve", "Cash flow hedge reserve" and "Other reserves" at 31 December 2023 amount to €803.6 million, having fallen €36.7 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 €37.3 million, including the related hedging costs of €0.6 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);
- the change in actuarial gains and losses on provisions for employee benefits (down €0.6 million, after the related taxation).

Retained earnings and accumulated losses – €2,973.1 million

The increase in "Retained earnings and accumulated losses", amounting to €178.2 million, primarily regards the remaining portion of profit for 2022 (up €202.1 million), following the Company's payment of the dividend for 2022 (totalling €632.0 million) and recognition of 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 euro cents 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.

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

(€/m)

	31 DECEMBER 2023	POTENTIAL USE	AVAILABLE AMOUNT
Share capital	442.2	-	-
Legal reserve:			
- equity instruments – Perpetual hybrid bonds	989.0	-	-
- other	416.1	A.B.C	416.1
Revenue reserves:			
- legal reserve	88.4	B	88.4
- actuarial gains (losses) on employee benefits, cash flow hedges and financial assets after taxation	42.5	-	-
- reserve for share-based payments (LTI Plan)	11.2	-	-
- negative reserve for treasury shares	(29.8)	-	-
- other	333.8	A.B.C	333.8
Retained earnings and accumulated losses	2,973.1	A.B.C	2,973.1
Interim dividend	(230.3)	A.B.C	-
TOTAL	**5,036.2**		

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

The available amount includes €501.2 million in untaxed revenue reserves.

21. Borrowings and financial liabilities

(€m)

	31 DECEMBER 2023	31 DECEMBER 2022	CHANGE
Bond issues	5,664.2	5,078.9	585.3
Bank borrowings	3,705.0	3,293.4	411.6
LONG-TERM BORROWINGS	**9,369.2**	**8,372.3**	**996.9**
Fair value hedges	164.5	247.2	(82.7)
NON-CURRENT FINANCIAL LIABILITIES	**164.5**	**247.2**	**(82.7)**
SHORT-TERM BORROWINGS	**1,190.4**	**419.5**	**770.9**
Bond issues	826.4	1,658.8	(832.4)
Bank borrowings	542.6	236.5	306.1
CURRENT PORTION OF LONG-TERM BORROWINGS	**1,369.0**	**1,895.3**	**(526.3)**
CURRENT FINANCIAL LIABILITIES	**113.7**	**44.9**	**68.8**
TOTAL	**12,206.8**	**10,979.2**	**1,227.6**

Borrowings and financial liabilities have increased by €1,227.6 million compared with the previous year to €12,206.8 million. The change primarily reflects:

- an increase in bank borrowings, amounting to €717.7 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 (€770.9 million) due to the use of short-term facilities and the issue of commercial paper by the 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 Bloomber.*
** *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			REPAYMENTS AND CAPITALISATIONS	DRAWDOWNS	OTHER	CHANGE IN THE CARRYING AMOUNT	31 DECEMBER 2023		
	NOTIONAL DEBT	CARRYING AMOUNT	FAIR VALUE					NOTIONAL DEBT	CARRYING AMOUNT	FAIR VALUE
Bond maturing IL	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	9.3	9.3	9.3	(2.5)	-	3.2	0.7	10.0	10.0	10.0
Total borrowings	**3,533.6**	**3,529.9**	**3,529.9**	**(236.9)**	**900.0**	**54.6**	**717.7**	**3,809.4**	**4,247.6**	**4,247.6**
Total debt	**10,525.6**	**10,267.6**	**10,088.3**	**(1,907.7)**	**2,300.0**	**78.3**	**470.6**	**10,539.4**	**10,738.2**	**10,595.4**

At 31 December 2023, Terna 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
	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%
Bonds	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 €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
Operating leases	9.3	10.0	2.7	7.3
TOTAL	**9.3**	**10.0**	**2.7**	**7.3**

At 31 December 2023, payments on operating leases recognised in application of IFRS 16 amount to €2.5 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 the market interest rate curve.

Short-term borrowings – €1,190.4 million

"Short-term borrowings", amounting to €1,190.4 million at 31 December 2023, have increased €770.9 million compared with the previous year, essentially due to the use of short-term credit facilities and the issue of commercial paper by the Company.

Current financial liabilities – €113.7 million

(€m)

	31 DECEMBER 2023	31 DECEMBER 2022	CHANGE
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	**113.7**	**44.9**	**68.8**

Current financial liabilities amount to €113.7 million at 31 December 2023, an increase of €68.8 million compared with 31 December 2022. This essentially reflects the value of net unpaid financial expenses accruing on financial instruments (up €30.3 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 ESMA Recommendation no. 32-382-1138 of 2021, the Company's net debt is as follows:

(€m)

		31 DECEMBER 2023
A.	Cash	286.3
B.	Cash equivalents*	1,170.0
C.	Other current financial assets**	361.3
D.	**Liquidity (A) + (B) + (C)**	**1,817.6**
E.	Current financial liabilities (including debt instruments, but excluding the current portion of non-current financial liabilities)	1,190.4
F.	Current portion of non-current debt***	1,475.4
G.	**Current debt (D+E+F)**	**2,665.8**
H.	**Net current debt (G) - (D)**	**848.2**
I.	Non-current financial liabilities (excluding the current portion and debt instruments)****	3,793.4
J.	Debt instruments*****	5,723.1
K.	**Non-current net debt (I) + (J)**	**9,516.5**
L.	**Net debt (H) + (K)**	**10,364.7**

* *Corresponds with the item, "Cash and can equivalents" relating to the value of short-term deposits.*
** *Corresponds with the item, " Current financial assets" relating to the value of government securities (€197.2 million), readily convertible time deposits (€150.0 million) and accrued interest income (€14.1 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 (€2.7 million), " Current financial liabilities" and "Current financial assets" relating to the value of accrued financial income on derivatives (down €7.3 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 (€7.3 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).*

Information on the provisions in outstanding loan agreements at 31 December 2023 is provided in the notes to the consolidated financial statements.

22. Employee benefits – €11.3 million

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

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

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

Post-employment benefits consist of a form of supplementary health cover in addition to that provided by the Italian national health service, as provided for in the national collective contract for industrial managers (the ASEM 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	0.8	0.1	0.1	(0.1)	-	0.9
Total	**0.8**	**0.1**	**0.1**	**(0.1)**	**-**	**0.9**
Termination benefits						
Deferred compensation benefits (TFR)	3.7	-	0.1	(0.2)	-	3.6
Energy discounts	0.2	-	-	-	-	0.2
Additional months' pay	0.5	0.1	-	(0.1)	-	0.5
Total	**4.4**	**0.1**	**0.1**	**(0.3)**	**-**	**4.3**
Post-employment benefits						
ASEM health cover	5.1	0.2	0.2	(0.3)	0.9	6.1
Total	**5.1**	**0.2**	**0.2**	**(0.3)**	**0.9**	**6.1**
Total	**10.3**	**0.4**	**0.4**	**(0.7)**	**0.9**	**11.3**

This item, amounting to €11.3 million, is up €1.0 million compared with 31 December 2022, due primarily to the change in actuarial gains and losses (up €0.9 million relating to the ASEM health plan).

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

(€m)

	LOYALTY BONUS	TFR	ADDITIONAL MONTHS' PAY	ASEM HEALTH PLAN	TOTAL
Net impact recognised in profit or loss					
- current service cost	0.1	-	-	0.2	0.3
- curtailment (revenue) and other costs	-	-	0.1	-	0.1
- interest income and expense	0.1	0.1	-	0.2	0.4
TOTAL RECOGNISED IN PROFIT OR LOSS	**0.2**	**0.1**	**0.1**	**0.4**	**0.8**

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	ASEM HEALTH PLAN	TOTAL
Actuarial gain/(losses)			
- based on past experience	(0.1)	0.4	0.3
- due to changes in discount rate	0.1	0.5	0.6
TOTAL IMPACT ON COMPREHENSIVE INCOME	**-**	**0.9**	**0.9**

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 Iboxx Eurozone Corporates AA at 31 December 2023, matching the duration of the relevant group of plan participants.

	LOYALTY BONUSES	TFR	ADDITIONAL MONTHS' PAY	ENERGY DISCOUNTS	ASEM HEALTH PLAN
Discount rate	3.17%	3.08%	2.95%	3.08%	3.17%
Inflation rate	2.00%	2.00%	-	-	2.70%
Duration (in years)	17.71	6.53	4.07	5.50	13.73

(€m)

	LOYALTY BONUSES	TFR	ADDITIONAL MONTHS' PAY	ENERGY DISCOUNTS	ASEM HEALTH PLAN	TOTAL
Discount rate +0.25%	0.9	3.6	0.5	0.2	5.8	**11.0**
Discount rate -0.25%	0.9	3.7	0.5	0.2	6.2	**11.5**
Inflation rate +0.25%	0.9	3.7	n/a	n/a	n/a	**4.6**
Inflation rate -0.25%	0.8	3.6	n/a	n/a	n/a	**4.4**
Annual rate of increase in health costs +3%	n/a	n/a	n/a	n/a	6.1	**6.1**
Annual rate of increase in health costs -3%	n/a	n/a	n/a	n/a	5.9	**5.9**

(€m)

	LOYALTY BONUSES	TFR	ADDITIONAL MONTHS' PAY	ENERGY DISCOUNTS	ASEM HEALTH PLAN	TOTAL
By the end of 2024	-	0.5	0.3	-	0.5	**1.3**
By the end of 2025	-	0.6	-	-	0.5	**1.1**
By the end of 2026	0.1	0.5	0.1	-	0.5	**1.2**
By the end of 2027	-	0.1	-	-	0.6	**0.7**
By the end of 2028	0.1	0.4	0.1	-	0.6	**1.2**
After 5 years	0.7	1.5	-	0.2	3.4	**5.8**
TOTAL	**0.9**	**3.6**	**0.5**	**0.2**	**6.1**	**11.3**

23. Provisions for risks and charges – €108.4 million

(€m)

	PROVISIONS FOR LITIGATION AND DISPUTES	PROVISIONS FOR SUNDRY RISKS AND CHARGES	PROVISIONS FOR EARLY RETIREMENT INCENTIVES	TOTAL
Amount at 31 December 2022	**11.3**	**59.2**	**26.9**	**97.4**
New provisions	1.0	24.2	14.5	39.7
Uses and other movements	(1.9)	(19.0)	(7.8)	(28.7)
Amount at 31 December 2023	**10.4**	**64.4**	**33.6**	**108.4**

Provisions for litigation and disputes – €10.4 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, totalling €10.4 million, primarily regards disputes involving the Company in relation to the payment of damages relating to operation and maintenance, requests for compensation for easements and labour and social security disputes. This is down by a net €0.9 million compared with the previous year as a result of lower net provisions during the year.

Provisions for sundry risks and charges – €64.4 million

These provisions amount to €64.4 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.

Compared with the previous year, the provisions are up by a net €5.2 million, reflecting:

- net provisions for right-of-way fees (up €4.8 million);
- net provisions of €3.8 million for urban and environmental restoration schemes;
- net provisions of €2.5 million for staff incentives;
- a net decrease 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 the Company's employees who have reached pensionable age and where the Company 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.

24. Other non-current liabilities – €373.0 million

This item, amounting to €373.0 million at 31 December 2023, regards the amount payable to Terna Rete Italia S.p.A., resulting from the transfer of net liabilities included in the operations leased to this subsidiary (€24.2 million), accrued grants related to assets receivable (€64.3 million) and the Interconnector Guarantee Fund (€163.9 million) set up by the 2016 Stability Law, in order to fund investment in interconnections by art. 32 of Law 99/09. This item also includes guarantee deposits received from operators participating in the capacity market and electricity market operators guaranteeing their obligations assumed in dispatching and virtual interconnection agreements (€120.7 million).

The decrease in this item compared with the previous year, amounting to €24.1 million, essentially reflects a decrease in the guarantee deposits received from operators and subsequent modifications and additions (down €34.9 million), settlement of a part of the liabilities included in the leased business unit (down €1.1 million), with particular regard to the termination benefits (*TFR*) payable to personnel participating in the generational turnover plan, and the release of portions of grants related to assets (a reduction of €5.2 million). after an increase in the Interconnector Guarantee Fund (up €17.2 million).

25. Current liabilities

(€m)

	31 DECEMBER 2023	31 DECEMBER 2022	CHANGE
Short-term borrowings*	1,190.4	419.5	770.9
Current portion of long-term borrowings*	1,369.0	1,895.3	(526.3)
Trade payables	2,669.7	3,515.9	(846.2)
Tax liabilities	2.9	50.8	(47.9)
Current financial liabilities*	113.7	44.9	68.8
Other current liabilities	659.6	533.2	126.4
TOTAL	**6,005.3**	**6,459.6**	**(454.3)**

(*) Information on these items is provided in note 21. "Borrowings and financial liabilities".

Trade payables – €2,669.7 million

(€m)

	31 DECEMBER 2023	31 DECEMBER 2022	CHANGE
Suppliers:			
- Energy-related payables	1,675.6	2,673.3	(997.7)
- Non-energy-related payables	139.3	150.7	(11.4)
Non-energy-related payables due to subsidiaries	852.3	688.5	163.8
Amounts due to associates	1.7	2.6	(0.9)
Payables resulting from contract work in progress	0.8	0.8	-
TOTAL	**2,669.7**	**3,515.9**	**(846.2)**

Suppliers

Energy-related payables

The decrease of €997.7 million in this item compared with 31 December 2022 essentially reflects energy-related pass-through payables (down €1,075.9 million). The decrease in these payables 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) scheme[8].

Non-energy related payables

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

The increase compared with the previous year (down €11.4 million) is largely due to an increase in activity towards the end of the year.

Non-energy-related payables due to subsidiaries

This item, totalling €852.3 million, is up €163.8 million compared with the previous year, primarily due to the increased amount payable to Terna Rete Italia S.p.A. (up €161.9 million) as a result of the greater volume of capital expenditure carried out towards the end of the year, compared with the same period of 2022.

Amounts due to associates

This item, amounting to €1.7 million, is down €0.9 million compared with the previous year, primarily reflecting a reduction in amounts payable to the associate, CESI S.p.A., for services provided to the Company, relating to electro technical studies and research.

The commitments assumed by the Company towards suppliers amount to approximately €328.4 million and regard purchase commitments linked to the normal “operating cycle” projected for the period 2024-2028.

[8] 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.

Tax liabilities – €2.9 million

This item amounts to €2.9 million at 31 December 2023, a reduction of €47.9 million compared with 31 December 2022. This reflects the net impact of income tax for the year, the settlement of taxes relating to the previous year and an increase in payments on account.

Other current liabilities – €659.6 million

(€m)

	31 DECEMBER 2023	31 DECEMBER 2022	CHANGE
Prepayments	259.2	147.2	112.0
Other tax liabilities	76.2	84.5	(8.3)
Social security payables	8.7	7.7	1.0
Amounts due to subsidiaries	1.1	0.6	0.5
Amounts due to personnel	16.8	14.2	2.6
Other amounts due to third parties	297.6	279.0	18.6
TOTAL	**659.6**	**533.2**	**126.4**

Prepayments

This item (€259.2 million) regards grants related to assets collected by the Company to fund the construction of non-current assets in progress at 31 December 2023.
Compared with the balance at 31 December 2022 (€147.2 million), the balance is up €112.0 million, essentially due to the impact of grants deducted directly from the carrying amount of the related assets, totalling €9.7 million, and new prepayments from third parties.

Other tax liabilities

Other tax liabilities, amounting to €76.2 million, regard withholding tax payable on salaries paid at the end of the year, in addition to the balance of the Group's VAT at the end of the year.
This item is down €8.3 million, broadly due to a decrease in VAT payable at 31 December 2023 (down €8.9 million).

Social security payables

Social security payables, essentially relating to employee contributions payable to INPS (the National Institute of Social Security), amount to €8.7 million. This is broadly in line with the figure for the previous year.

Amounts due to personnel

Amounts due to personnel, amounting to €16.8 million, primarily regard:

- staff incentives and early retirement incentives payable in the subsequent year (€11.9 million);
- amounts due to employees in the form of accrued and unused annual leave and bank holiday entitlements (€4.2 million).

The increase of €2.6 million in this item compared with the previous year primarily reflects an increase in staff incentives (up €1.5 million) and benefits payable to personnel leaving the Company in the following year (up €1.0 million).

Amounts due to subsidiaries

Amounts due to subsidiaries, totalling €1.1 million, regard the amount payable to Terna Interconnector S.r.l., primarily in the form of compensation payable in relation to the interconnector with France (€0.6 million).
This item is broadly in line with the figure for 31 December 2022.

Other payables due to third parties

Other payables due to third parties, amounting to €297.6 million, essentially relate to guarantee deposits (€257.2 million) received from electricity market operators to guarantee their contractual obligations under dispatching and virtual interconnection contracts. This item also includes deferred income (€11.7 million, primarily attributable to Non-regulated Activities) and coupon interest payable to the holders of hybrid instruments issued during the year (€21.1 million).

The increase of €18.6 million in this item compared with 31 December 2022 essentially reflects the greater amount of guarantee deposits collected during the year (up €32.9 million), partially offset by dividends paid to shareholders during the year (down €18.2 million).

E. Commitments and risks

Risk management

In the course of its operations, Terna is exposed to different financial risks: market risk, liquidity risk and credit risk.
This section provides information regarding Terna's exposure to all the above risks, along with a presentation of the objectives, policies and processes for managing those risks and the methods used to assess them, with further Terna's risk management policies seek to identify and analyse the risks that the Company is exposed to, establishing appropriate limits and controls and monitoring the risks and compliance with such limits. These policies and the related systems are reviewed on a regular basis, in order to take account of any changes in market conditions or in the Company's operations.
As a part of the financial risk management policies approved by the Board of Directors, Terna S.p.A. has established the responsibilities and operating procedures for financial risk management, specifically as concerns the instruments to be used and the precise operating limits to apply in managing them.
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	-	17.4	17.4	-	75.5	75.5
Cash on hand and government securities	1,606.3	316.3	1,922.6	2,202.6	366.4	2,569.0
Trade receivables	1,928.8	-	1,928.8	2,179.4	-	2,179.4
TOTAL	**3,535.1**	**333.7**	**3,868.8**	**4,382.0**	**441.9**	**4,823.9**

(€m)

	31 DECEMBER 2023			31 DECEMBER 2022		
	RECEIVABLES AT AMORTISED COST	FAIR VALUE	TOTAL	RECEIVABLES AT AMORTISED COST	FAIR VALUE	TOTAL
Liabilities						
Long-term debt	11,928.6	-	11,928.6	10,687.1	-	10,687.1
Derivative financial instruments	-	164.5	164.5	-	248.0	248.0
Trade payables	2,669.7	-	2,669.7	3,515.9	-	3,515.9
TOTAL	**14,598.3**	**164.5**	**14,762.8**	**14,203.0**	**248.0**	**14,451.0**

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 form part of the Company's activities.

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

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

Interest rate risk

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

At 31 December 2023, interest rate risk is hedged by cash flow hedges, which hedge the risk connected with movements in interest rates relating to long-term borrowings.
Below are the notional amounts and fair values of the derivative financial instruments entered into by Terna:

(€m)

	31 DECEMBER 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	366.5	(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 €58.9million) maturing 2030;
- €323.0 million (fair value loss of €33.8 million) maturing 2039;
- €490.0 million (fair value loss of €60.1million) 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. As a result:

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

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

(€m)

	PROFIT OR LOSS			OCI		
	CURRENT RATES +10%	CURRENT VALUES	CURRENT RATES -10%	CURRENT RATES +10%	CURRENT VALUES	CURRENT RATES -10%
31 December 2023						
Positions sensitive to interest rate variations (FVHs, bond issues, CFHs)	(0.7)	**(2.8)**	(4.9)	(48.5)	**(58.3)**	(68.2)
Hypothetical change	*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
Hypothetical change	*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 a partial hedge of net income; in fact, any decrease in expected revenue due to a decrease in the inflation rate would be offset by lower financial expenses and 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 Company's exchange rate exposure. The instruments used by Terna are of limited complexity, highly liquid and easy to price, such as forwards and options. Such contracts have a notional amount and maturity date less than or equal to that of the underlying financial liability, or the expected cash flows, so that any change in the fair value and/or estimated cash flows deriving from a rise or fall in the euro against other currencies is fully offset by a corresponding change in the fair value and/or estimated cash flows of the underlying position.
At 31 December 2023, the component of financial instruments associated with exchange rate risk is zero.

Liquidity risk

Liquidity risk is the risk that Terna might encounter difficulty in discharging its obligations in respect of its financial liabilities and operating cycle. Liquidity risk management seeks to ensure adequate coverage of borrowing requirements by obtaining adequate lines of credit and appropriate management of any surplus liquidity.
At 31 December 2023, Terna has available short-term credit facilities of approximately €660 million (out of total facilities of approximately €987 million), revolving credit facilities of €3,455 million and facilities agreed.
Finally, Terna S.p.A. 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 Company's trade receivables and financial investments.
The credit risk originated by open positions on transactions in derivatives is considered to be marginal since the counterparties, in compliance with the financial risk management policies adopted, are leading international banks with high ratings.
Terna provides its services essentially to counterparties considered solvent by the market, and therefore with a high credit standing, and does not have high concentrations of credit risk.
Credit risk management is driven by the provisions of ARERA Resolution 111/06, which, in art. 49, introduced instruments designed to limit the risks related to the insolvency of dispatching customers, both on a preventive basis and in the event of an actual insolvency. In particular, the Resolution establishes three instruments to safeguard the electricity market: a guarantee system (bank guarantees provided by individual dispatching customers, based on their turnover); the option of terminating dispatching contracts (in the event of insolvency or failure to replace enforced guarantees); and, finally, the possibility of recovering uncollected debts, after having taken all other possible collection actions, through a specific fee to be fixed by the regulator.
The following table summarises the exposure to such risk at the reporting date:

(€m)

	31 DECEMBER 2023	31 DECEMBER 2022	CHANGE
Derivative financial instruments	17.4	75.5	(58.1)
Cash on hand, securities and deposits	1,922.6	2,569.0	(646.4)
Trade receivables	1,928.8	2,179.4	(250.6)
TOTAL	**3,868.8**	**4,823.9**	**(955.1)**

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

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

GEOGRAPHICAL DISTRIBUTION

(€m)

	31 DECEMBER 2023	31 DECEMBER 2022
Italy	1,670.1	2,030.4
Euro-area countries	238.8	140.4
Other countries	19.9	8.6
Total	**1,928.8**	**2,179.4**

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	868.0	682.0
Parties which have signed virtual import contracts and virtual import services (interconnectors and shippers)	11.7	11.8
Sundry receivables	86.2	92.3
Total	**1,928.8**	**2,179.4**

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

(€m)

	31 DECEMBER 2023		31 DECEMBER 2022	
	IMPAIRMENT	GROSS	IMPAIRMENT	GROSS
Current	(0.4)	1,738.8	(0.3)	1,974.2
0-30 days past due	-	17.3	-	18.2
31-120 days past due	(0.2)	3.2	(0.2)	51.1
Over 120 days past due	(22.9)	193.0	(29.2)	165.6
Total	**(23.5)**	**1,952.3**	**(29.7)**	**2,209.1**

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 1st January	(29.7)	(43.1)
Release of provisions	6.3	13.6
Impairments for the year	(0.1)	(0.2)
Balance at 31 December	**(23.5)**	**(29.7)**

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.

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

Default risk and debt covenants

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

Parent company guarantees issued on behalf of subsidiaries

The Company has issued parent company guarantees to third parties to guarantee the fulfilment of certain contractual and/or tax obligations assumed by its subsidiaries, with the Company's maximum exposure at 31 December 2023 amounting to €808.8 million, This breaks down as follows: €6.8 for Terna Interconnector S.r.l., €713.3 million for Terna Rete Italia S.p.A., €82.1 million for Rete S.r.l., €5.6 million for Terna energy solutions S.r.l, €1.0 million for Terna Plus S.r.l..

Bank guarantees

Bank guarantees issued to third parties and on behalf of Group companies amount to €157.3 million at 31 December 2023 and break down as follows: €71.9 million on behalf of Terna S.p.A., €53.3 million on behalf of Terna Rete Italia S.p.A., €19.9 million on behalf of Terna Interconnector S.r.l., €0.1 million on behalf of Terna Plus S.r.l., €12.0 million on behalf of Terna Energy Solutions S.r.l and €0.1 million on behalf of Terna Chile S.r.l..

Litigation

The main commitments and risks not disclosed in the statement of financial position at and for the year ended 31 December 2023, relating to the Company are described below.

Litigation regarding the legitimacy of construction permits and plant operations

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

Litigation relating to activities carried out under concession

As the operator of transmission and dispatching activities since 1 November 2005, the 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

There were no business combinations in 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 S.p.A. and the above companies meet the definition for classification as "government-related entities", in accordance with IAS 24 – *Related Party Disclosures*, the Company has elected to adopt the partial exemption – permitted by the standard – from the disclosure requirements in respect of other companies controlled, influenced or jointly controlled by the same government entity. The remainder of this section provides qualitative and quantitative disclosures on transactions with government-related entities having a significant impact on the Company's results. Amounts relating to pass-through items are not included in these disclosures.
Related party transactions in 2023 broadly regard the provision of services in the course of ordinary activities and conducted on an arm's length basis.
Under the Terna Group's current organisational structure, the subsidiary, Terna Rete Italia S.p.A., which has entered into an agreement with the Company covering the lease of certain operations and a number of related intercompany agreements. In accordance with these arrangements, the subsidiary is responsible for the traditional activities involved in operation and routine and extraordinary maintenance of the owned portion of the NTG, and for management and implementation of the grid development initiatives included in the related concession arrangement for transmission and dispatching operations, as set out in Terna's Development Plan.
Terna is responsible for managing the operations of all its subsidiaries under specific service agreements which, in addition to covering administrative and financial coordination and the coordination of relations with government bodies and other institutions, give the Company the right to act on behalf of its subsidiaries, or in their name and on their behalf.
The Company's Non-regulated Activities are conducted in Italy and overseas through the subsidiaries, Terna Energy Solutions S.r.l., Terna Plus S.r.l. and Terna Forward S.r.l. under existing intercompany service agreements.

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

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

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

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

Existing intercompany agreements at 31 December 2023 are summarised below.

(€)

COUNTERPARTY	TYPE	ANNUAL FEE
Terna Rete Italia S.p.A.	**Service agreement:**	
	Operation & Maintenance	€270,974,726
	Upgrade and development	equal to costs incurred + allowed margin on personal expenses incurred
	Administrative, support and consultancy services	
	- from Terna S.p.A. to Terna Rete Italia S.p.A. (revenue-generating)	€20,368,353
	- from Terna Rete Italia S.p.A. to Terna S.p.A. (cost-generating)	€4,739,545
	Rental of workstations for staff	
	- from Terna S.p.A. to Terna Rete Italia S.p.A. (revenue-generating)	€433,344
	- from Terna Rete Italia S.p.A. to Terna S.p.A. (cost-generating)	€546,000
	Lease of operations	€22,647,500
Rete S.r.l.	**Service agreement:**	
	Upgrade and development	equal to costs incurred +5.82% of personnel expenses incurred
	Admin. Support and consultancy service agreement (revenue-generating)	€1,340,110
Terna Plus S.r.l.	**Service agreement:**	
	Management fee (revenue-generating)	€ 175,375
	Rental of workstations for staff (revenue-generating)	€ 26,352
Terna Energy Solutions S.r.l.	**Service agreement:**	
	Terna's Non-regulated Activities (cost-generating)	€10,700,949
	Management fee (revenue-generating)	€1,015,421
	Rental of workstations for staff (revenue-generating)	€168,192
Tamini Group	**Service agreement**	
	Administrative service (revenue-generating)	€43,770
	Technical services	equal to costs incurred +5.82%
	Services provided by staff on secondment and on assignment (revenue-generating)	€484,845
Brugg Kabel AG	**Administrative Service agreement (revenue-generating)**	€96,819
	Services provided by staff on secondment and on assignment (revenue-generating)	€812,185
Terna Interconnector S.r.l.	**Administrative Service agreement (revenue-generating)**	€303,292
	Management and coordination of civil works for Italy-France Interconnector (cost-generating)	equal to costs incurred +5.82% of personnel expenses incurred
Esperia CC S.r.l.	**Administrative Service agreement (revenue-generating)**	€127,518
	Services provided by staff on secondment and on assignment (revenue-generating)	€192,672
	Rental of workstations for staff (revenue-generating)	€66,740
Terna Crna Gora d.o.o.	**Service agreement:**	
	Technical services	equal to costs incurred +5.82%
	Administrative services	€49,872
Avvenia The Energy Innovator S.r.l.	**Administrative service agreement (revenue-generating)**	€32,313
	Technical services (cost-generating)	€35,000
Terna Forward S.r.l.	**Service agreement**	
	Terna's Non-regulated Activities (cost-generating)	€357,670
	Management fee (revenue-generating)	€22,248
	Rental of workstations for staff (revenue-generating)	€5,897
	Services provided by staff on secondment and on assignment (revenue-generating)	€136,547

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

The nature of sales and purchases from related parties[9] by the Company is shown below, followed by details of the revenue and costs resulting from such transactions during the year, and the related receivables and payables outstanding at 31 December 2023.

RELATED PARTY	REVENUE-GENERATING TRANSACTIONS	COST-GENERATING TRANSACTIONS
Parent		
Cassa Depositi e Prestiti S.p.A.		Credit facilities
Related parties: subsidiaries operating in Regulated Activities		
Terna Rete Italia S.p.A.	Rental for leased operations, administrative services, rental of workstations and other services.	Maintenance and other technical services, grid upgrade and development, quality of service allowance, administrative services, rental of workstations for staff
Rete S.r.l.	Provision of technical and administrative services	Transmission charge
Terna Crna Gora d.o.o.	Administrative services, services provided by seconded personnel and staff on temporary transfers.	Transmission charge
Esperia CC S.r.l.	Administrative services, services provided by seconded personnel, rental of workstations.	
Related parties: subsidiaries operating in Non-regulated Activities		
Terna Energy Solutions S.r.l.	Technical, administrative and financial services, rental of spaces and workstations.	Operation of Non-regulated Activities
Terna Plus S.r.l.	Technical, administrative and financial services, rental of spaces and workstations.	Operation of Non-regulated Activities
Tamini Group	Administrative services, services provided by seconded personnel, other services.	
Terna Forward S.r.l.	Administrative services and other services, rental of spaces and workstations, services provided by seconded personnel.	Operation of Non-regulated Activities
Brugg Kabel AG	Administrative services and other services, services provided by seconded personnel.	
Terna Interconnnector S.r.l.	Administrative and consultancy services, loan agreement.	Management and coordination of performance of civil works for Italy-France interconnector
Avvenia The Energy Innovator S.r.l.	Administrative and other services.	
Associates		
Cesi S.p.A.	Rental income on laboratories and other similar facilities for specific uses, dividends.	Technical studies and consultancy, research, design and experimentation
CGES	Dividends.	
CORESO S.A.		Technical coordination service for the TSO
Other related parties		
GSE Group	Metering charge, dispatching charge.	Rental of spaces and workstations
Enel Group	Transmission charge and aggregation of meter readings, dispatching charge, leases and rentals, power line maintenance, movement / re-routing of power lines, housing of fibre cable and maintenance of communications carried over proprietary power lines.	Recovery of energy discount, building services, MV power to new substations, specialist services for connection to Terna's control and protection systems
Ferrovie Group	Dispatching charge, movement of power lines.	Right-of-way fees
Open Fiber S.p.A.	IRU agreements for fibre.	Provision of services for the rental of fibre
ENI Group	Dispatching charge.	Contributions for NTG connections, sundry services
ANAS S.p.A.	Movement/re-routing of power lines.	Right-of-way fees
Other related parties of the MEF		Sundry services
Fondenel and Fopen		Pension contributions payable by the Terna Group

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

REVENUE AND COSTS

(€m)

	REVENUE COMPONENTS			COST COMPONENTS
	TRANSMISSION CHARGE AND OTHER REVENUE FROM REGULATED ACTIVITIES	NON-ENERGY-RELATED ITEMS	DIVIDENDS	NON-ENERGY-RELATED ITEMS
Subsidiaries				
Terna Rete Italia S.p.A.	-	50.5	-	383.9
Terna Crna Gora d.o.o.	-	-	5.6	-
Terna Plus S.r.l.	-	0.7	-	2.6
Tamini Group	-	0.2	-	-
Terna Energy Solutions S.r.l.	-	8.3	-	10.7
Rete S.r.l.	-	3.7	-	-
Terna Interconnector S.r.l.	-	0.4	11.7	-
Esperia CC S.r.l.	-	0.4	-	-
Avvenia The Energy Innovator S.r.l.	-	0.4	-	-
Brugg Kabel AG	-	0.2	-	-
Terna Forward S.r.l.	-	0.2	-	0.5
Total subsidiaries	**-**	**65.0**	**17.3**	**397.7**
De facto parent				
Cassa Depositi e Prestiti S.p.A.	-	-	-	1.4
Total de facto parent	**-**	**-**	**-**	**1.4**
Associates:				
Cesi S.p.A.	-	0.1	-	0.3
CGES	-	-	1.8	5.0
Total associates	**-**	**0.1**	**1.8**	**5.3**
Other related parties:				
GSE Group	8.5	-	-	0.10
Open Fiber S.p.A.	-	1.7	-	-
Enel Group	1,768.3	0.7	-	0.3
Eni Group	8.0	0.1	-	0.1
Ferrovie Group	2.8	0.4	-	-
ANAS S.p.A.	-	0.2	-	0.6
Ministry of Economic and Finance	-	0.2	-	0.6
Total other related parties	**1,787.6**	**3.3**	**-**	**1.7**
Pension funds:				
Fondenel	-	-	-	0.6
Fopen	-	-	-	0.7
Total pension funds	**-**	**-**	**-**	**1.3**
TOTAL	**1,787.6**	**68.4**	**19.1**	**407.4**

ASSETS AND LIABILITIES

(€m)

	PROPERTY, PLANT AND EQUIPMENT	RECEIVABLES AND OTHER ASSETS	PAYABLES AND OTHER LIABILITIES	BALANCE ON INTER-COMPANY TREASURY ACCOUNT AND CASH	GUARANTEES**
	CAPITALISED COSTS	OTHER	OTHER		
Subsidiaries					
Terna Rete Italia S.p.A.*	105.8	17.2	923.9	27.3	-
Terna Gora	-	-	2.6	-	-
Terna Plus S.r.l.*	-	0.7	-	12.0	-
Tamini Group*	33.2	1.3	-	-	-
Terna Energy Solutions S.r.l.*	-	5.8	2.6	138.8	-
Rete S.r.l.*	-	0.6	23.8	34.4	-
Terna Interconnector S.r.l.	0.4	0.2	2.0	-	-
Esperia CC S.r.l.	-	0.1	-	-	-
Avvenia The Energy Innovator S.r.l.*	-	-	-	4.1	-
Terna Forward S.r.l.	-	0.1	5.2	-	-
Total subsidiaries	**139.5**	**26.0**	**960.1**	**216.6**	**-**
De facto parent					
Cassa Depositi e Prestiti S.p.A.	-	-	1.80	-	(274.3)
Total de facto parent	**-**	**-**	**1.8**	**-**	**(274.3)**
Associates:					
Cesi S.p.A.	2.3	0.1	1.4	-	0.4
CORESO S.A.	-	-	0.3	-	-
Total associates	**2.3**	**0.1**	**1.7**	**-**	**0.4**
Other related parties:					
GSE Group	-	0.7	0.1	-	-
Open Fiber S.p.A.	-	0.3	-	-	-
Enel Group	0.4	330.6	17.1	-	1,019.6
Eni Group	-	1.0	1.1	-	110.7
Ferrovie Group	-	0.9	1.8	-	24.3
ANAS S.p.A.	0.2	0.2	2.2	-	-
Snam Rete Gas S.p.A.	-	-	0.1	-	-
Webuld S.p.A.	-	-	11.4	-	-
Other related parties of the MEF	3.5	0.1	0.1	0.1	1.1
Total other related parties	**4.1**	**333.8**	**33.9**	**0.1**	**1,155.7**
Pension funds:					
Fopen	-	-	0.6	-	-
Total pension funds	**-**	**-**	**0.6**	**-**	**-**
TOTAL	**145.9**	**359.9**	**998.1**	**216.7**	**881.8**

* *The balances for the item, "Other", include receivables and payables relating to the tax consolidation arrangement for IRES.*

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

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

STATEMENT OF FINANCIAL POSITION

(€m)

	AT 31 DECEMBER 2023			AT 31 DECEMBER 2022		
	TOTAL	RELATED PARTIES	% SHARE	TOTAL	RELATED PARTIES	% SHARE
Property, plant and equipment	15,613	145.8	0.9%	14,253	121.3	0.9%
Non-current financial assets	1,636.7	-	-	1,415.1	-	-
Other non-current assets	7.9	2.8	35.4%	7.9	2.8	35.4%
Trade receivables	1,928.8	355.6	18.4%	2,179.4	343.2	15.7%
Cash and cash equivalents	1,456.3	216.7	14.9%	2,202.6	173.0	7.9%
Tax assets*	3.3	1.2	36.4%	3.2	23.1	721.9%
Other current assets	61.5	0.4	0.7%	53.6	-	-
Other non-current liabilities	373.0	24.2	6.5%	397.1	25.3	6.4%
Trade payables	2,669.7	940.6	35.2%	3,515.9	722.4	20.5%
Tax liabilities*	2.9	-	-	50.8	-	-
Other current liabilities	659.6	33.2	5.0%	533.2	18.8	3.5%

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

INCOME STATEMENT

(€m)

	2023			2022		
	TOTAL	RELATED PARTIES	% SHARE	TOTAL	RELATED PARTIES	% SHARE
Revenue from sales and services	2,567.3	1,787.6	69.6%	2,459.7	1,701.2	69.2%
Other revenue and income	67.5	33.1	49.0%	60.8	33.1	54.4%
Raw and consumable materials used	7.3	0.1	1.4%	6.4	-	-
Services	498.4	398.6	80.0%	483.0	396.6	82.1%
Personnel expenses	119.2	1.5	1.3%	102.3	1.2	1.2%
Other operating costs	29.7	0.1	0.3%	21.9	0.1	0.5%
Financial income	142.0	27.4	19.3%	38.6	14.2	36.8%
Financial expenses	(232.8)	7.1	(3.0%)	(125.7)	7.9	(6.3%)

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	988.7	197.1	19.9%	2,351.7	31.4	1.3%
Cash flow from investing activities	(2,230.7)	(24.5)	1.1%	(1,872.4)	39.6	(2.1%)
Cash flow from financing activities	495.7	-	-	103.5	-	-

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

No significant non-recurring, atypical or unusual events or transactions, involving either third or related parties, took place in 2023.

I. Notes to the statement of cash flows

Cash flow from **continuing operations** amounts to €988.7 million, with €1,991.3 million in operating cash flow and an outflow of €1,002.6 million generated by changes in net working capital.

The net cash outflow for **investing activities** totals approximately €2,230.7 million and regards €1,951.6 million relating to investment in property, plant and equipment (excluding right-of-use assets recognised in application of IFRS 16), €214.5 million invested in intangible assets and €99.3 million relating to the change in investments in securities, after capitalised financial expenses of €48.3 million.
The net change in **equity** has resulted in a decrease of €672.8 million, due primarily to payment of the final dividend for 2022 and of the interim dividend for 2023 to the Company's shareholders and of dividends paid to non-controlling shareholders (a reduction of €665.8 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 20. "Equity".
As a result, net cash used in investing activities and to provide a return on equity during the year led to a total outflow of €2,903.5 million, covered in part by cash flow from continuing operations of €988.7 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)	10,267.6	392.3	78.3	10,738.2
- Short-term borrowings	419.5	776.2	(5.3)	1,190.4
Net change deriving from financing activities	**10,687.1**	**1,168.5**	**73.0**	**11,928.6**

L. Government grants

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

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

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

In line with the above, the following table shows government grants collected/disbursed by Terna S.p.A. in 2023:

Grants received (paragraph 125-bis)

	GRANTOR				
BENEFICIARY ENTITY	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)

	BENEFICIARY				
GRANTOR	NAME	VAT NUMBER	TYPE OF TRANSACTION	AMOUNT(€)	NOTE
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	SOCIETÀ BOTANICA ITALIANA ONLUS	00464940485	GIVING	56,314	Tiny Forest project
Total				**469,314**	

M. Proposal for appropriation of profit for the year

Terna S.p.A.'s Board of Directors proposes to pay a total dividend of €682,593,283.20 for 2023, equal to €0.3396 per share, of which €0.1146 per share was declared in the form of an interim dividend on 8 November 2023.

The Board of Directors thus proposes to appropriate Terna S.p.A.'s profit for 2023, amounting to €834,796,667.58, as follows:

- €230,345,083.20 to cover payment of the interim dividend payable from 22 November 2023 to the holders of each of the ordinary shares outstanding after adjusting for the treasury shares held at the record date of 21 November 2023 (with the relevant amount of €482,885.44 taken to retained earnings);
- €452,248,200.0 to pay a final dividend of €0.2250 to the holders of each of the 2,009,992,000 ordinary shares representing the share capital at the date of this Board of Directors' meeting. The final dividend will be payable on 26 June 2024, with an ex-dividend date for coupon 40 of 24 June 2024 (a record date, as defined by art. 83-*terdecies* of Legislative Decree 58 of 24 February 1998, the Consolidated Law on Finance, of 25 June 2024). The treasury shares held as of the above record date will not participate in the distribution. The final dividend for 2023 attributable to the treasury shares held by the Company at the record date, will be taken to retained earnings;
- €152,203,384.38 to be taken to retained earnings.

N. 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 Adricatic 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 CO_2 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 Tyrrhenian 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 Qinjing 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 CO_2 emissions by around 21 kt CO_2 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 2**9 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 by Terna S.p.A.'s independent auditors in 2023.

(€)

	ENTITY PROVIDING SERVICE	FEES DUE FOR THE YEAR
Audit of the accounts and financial statements	Deloitte & Touche S.p.A.	254,402
Attestation and other services[10]	Deloitte & Touche S.p.A.	124,288
Total		**378,690**

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

Attestation

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

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Tel. +39 0683138111 - www.terna.it
Reg. Imprese di Roma, C.F. e P.I. 05779661007 R.E.A. 922416
Cap. Soc. 442.198.240 Euro interamente versato

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

"Terna SpA"

1. The undersigned, 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 separate financial statements during the year ended 31 December 2023.

2. The administrative and accounting procedures adopted in preparation of the separate 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 separate 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.

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

Rome, 19 March 2024

Chief Executive Officer — Manager responsible for financial reporting

(original signed) — *(original signed)*

CERTIFICAZIONI, ACCREDITAMENTI E ATTESTAZIONI SOA

Report
of the Board of Statutory Auditors to the Annual General Meeting of Terna S.p.A.'s shareholders

BOARD OF STATUTORY AUDITORS' REPORT
TO THE ANNUAL GENERAL MEETING OF TERNA S.P.A.'s SHAREHOLDERS
under the terms of art. 153 of Italian Legislative Decree 58/1998 and art. 2429 of the Italian Civil Code

Dear Shareholders,

with this report, prepared under the terms of art. 153 of Legislative Decree 58/1998 (CLF) and art. 2429 of the Italian Civil Code, the Board of Statutory Auditors of Terna S.p.A. ("Terna" or also the "Company") details the activities carried out during the year ended 31 December 2023. The report has been prepared in compliance with the applicable legislation, taking into account the "Standards of Conduct for the Boards of Statutory Auditors of Listed Companies" recommended by the Italian Association of Chartered Accountants (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili), the requirements of CONSOB (the Commissione Nazionale per le Società e la Borsa, Italy's Securities and Exchange Commission) regarding corporate controls and the guidelines contained in the *Corporate Governance* Code published by Borsa Italiana.

In addition, given that Terna has adopted the traditional governance framework, the Board of Statutory Auditors also fulfils the role of "Internal Control and Audit Committee", which is responsible for carrying out further specific controls and oversight over financial reporting and statutory auditing, as detailed in art. 19 of Legislative Decree 39 of 27 January 2010, as amended by Legislative Decree No. 135 of 17 July 2016.

The current Board of Statutory Auditors was elected by the Annual General Meeting of Terna Shareholders held on 9 May 2023 and will remain in office until approval of the financial statements for the year ended 31 December 2025. During 2023, the Board of Statutory Auditors performed its responsibilities holding 26 meetings. During the year, the Chairperson of the Board of Statutory Auditors or its members attended 14 meetings of the Board of Directors, 16 meetings of the Audit & Risk and Sustainability Committee[1] (hereinafter the "Audit and Risk Committee"), 12 meetings of the Appointments, Governance and Scenarios Committee[2], 11 meetings of the Remuneration Committee and 13 meetings of the Related-Party-Transactions Committee, in addition to the Annual General Meeting of Shareholders held on 9 May 2023.

[1] The Committee adopted this name from 9 May 2023.
[2] The Committee adopted this name from 9 May 2023.

During the year, the Board of Statutory Auditors, together with the Audit and Risk Committee, met the Supervisory Board in order to exchange information.

Under the terms of Legislative Decree 39/2010 (as amended by Legislative Decree 135/2016) statutory auditing of the accounts is performed by the independent auditors Deloitte & Touche S.p.A. (the "Independent Auditors"), appointed by the Annual General Meeting of 8 May 2019 for nine years from 2020 to 2028.

1. OVERSIGHT ACTIVITIES

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

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

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

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

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

During the year, the Board has monitored the correct application of the *Corporate Governance* Code and, specifically, confirms implementation of the recommendations announced by the Chairperson of the Corporate Governance Committee for 2023.

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

- **Entry into service of new lines**: during the course of 2023, Terna continued developing the national grid via all the main investment projects supporting the energy transition and, during that year, 307 km of lines and 6 new stations part of the National Transmission Grid (NTG) have become operational;
- **Tyrrhenian Link:** the Italian Ministry of Environment and Energy Security (MASE) and relevant regional councils issued authorisation for the entire submarine connection between Sardinia, Sicily and Campania.
- **Adriatic Link:** the Italian Ministry of Environment and Energy Security (MASE) and relevant regional councils issued authorisation for the submarine connection between Marche and Abruzzo;
- **Sa.Co.I 3 :** the Italian Ministry of Environment and Energy Security (MASE) and relevant regional councils issued authorisation for the submarine connection between Sardinia, Corsica and Tuscany;
- **ESG linked Revolving Credit Facility**: on 12 May 2023, Terna signed an agreement for an ESG linked Revolving Credit Facility for a total of € 1.8 billion with Intesa Sanpaolo - IMI Corporate & Investment Banking division as the Original Lender and Sustainability Coordinator having a term of 2 years and an interest rate linked to Terna's performance in relation to specific environmental, social and governance (ESG) indicators;
- **Bond issues**: in the context of the Euro Medium Term Notes (EMTN) programme, three fixed-rate bond issues were carried out in the form of private placements totalling € 2250 million, with duration between six and ten years;
- **European Bank Financing**: the European Investment Bank (EIB) made available a total amount of €1.90 billion to the Tyrrhenian Link. In March 2023, two tranches were signed equal to € 900 million and having a duration of 22 years, destined to support the construction and commissioning of the "Tyrrhenian Link";
- **Ordinary interim dividend for 2023**: on 8 November 2023, the Company's Board of Directors, having obtained the Independent Auditors' opinion required by art. 2433-*bis* of the Italian Civil Code, decided to pay an ordinary interim dividend for 2023 of € 0.1146 per share, up 8% with respect to the previous year and payable from 22 November 2023;

- **Latam**: during 2023, work was completed for construction of the SPE Transmissora de Energia Linha Verde 1 S.A. project, which is planned for transfer in 2024. Operation and maintenance activity continued in Perù on the line under concession;

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

- On 10 January 2024, Terna Spa successfully launched a single-tranche fixed-rate bond issue for a total of € 850 million as part of its Euro Medium Term Notes (EMTN) Programme;
- on 8 February 2024, the European Investment Bank (EIB) and Terna signed the agreement for the final tranche of the € 1.9 billion loan for the Tyrrhenian Link, the submarine electricity connection that will link the Italian mainland to Sicily and Sicily to Sardinia.
- on 19 February 2024, it was announced that in 2023 the Italian Ministry of Environment and Energy Security and the relevant regional councils issued authorisation for 23 projects for development of the national transmission grid, with a total value of more than € 3 billion investment;
- on 19 March 2024, the Board of Directors approved the new **2024–2028 Industrial Plan**, which sets out a total of € 16.5 billion of investment. This will enable Terna to accelerate its commitment to the country for the energy transition, energy independence and decarbonisation, in line with the challenging goals of the National Integrated Energy and Climate Plan and the Green Deal targets set at international level;
- on 19 March 2024, the Board of Directors approved the "2023 Annual Financial Report", which includes the **"2023 Integrated Report"** combining the Report on Operations, the Sustainability Report the Consolidated Non-Financial Statement, the Consolidated Financial Statements for the year ended 31 December 2023, the Annual Financial Statements of the Parent Company for the year ended 31 December 2023 and the 2023 Green Bond Report, into a single document.
- **Hybrid Green Bond**: on 4 April 2024, Terna launched a new "green non-convertible hybrid subordinate perpetual bond" destined to institutional investors and worth € 850 million, with a fixed rate;

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

Regarding the Corporate Governance Code, it is noted that:

- the Company has launched a process for the review of internal procedures on market abuse and handling of insider information (LG005, LG008, IO412CA and LG010), with the objective of aligning the content with its internal organisational structure and to the modification of the rules concerning the sanctions system for market abuse offences;
- on 13 December 2023, the Board of Directors reviewed and updated the "*Guidelines on the operation of the Board of Directors*". The following changes were made to the Guidelines: (i) formal changes deriving from different assignment of duties amongst subcommittees and the consequent changes to their names; (ii) increase from 75% to 80% for participation in board meetings and subcommittee meetings for members of the Board of Directors. On the same date, the Guidelines for Subcommittees were also reviewed and updated to include these rules, along with further changes to facilitate management of meetings.

In the context of participation in the meetings of corporate bodies, and in general in the context of its own activities, the Board of Statutory Auditors has verified compliance with the law and the bylaws.

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

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

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

The annual reports prepared by the Boards of Statutory Auditors of the Italian-registered subsidiaries on the subsidiaries' financial statements have not identified any problems. Similarly, no

concerns have been raised as a result of the information received from the boards of statutory auditors of the main subsidiaries, including in the form of specific questionnaires completed and signed by these oversight bodies and meetings with oversight bodies.

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

On the basis of this information, the Board of Statutory Auditors considers that the organisational structure of the Company, the procedures in place and the composition in terms of roles and responsibilities, are adequate for the size of the company and its type of business.

1.3 Oversight of the internal control and risk management system

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

- examining the report of the Audit and Risk Committee on its activities and on the adequacy of the internal control and risk management system
- examining the Annual Report produced by the Head of Internal Audit on the internal control system
- examining the reports produced by the Supervisory Board pursuant to Legislative Decree 231/2001
- holding periodic meetings, including attendance at Audit and Risk Committee meetings with the Internal Audit and Legal and Compliance departments to assess the procedures for planning work, based on the identification and assessment of the main risks present in organizational processes and units;
- holding meetings with the risk management department in order to analyse the Group's strategic risks;
- holding meetings with senior management regarding the organisational and operational impacts of Terna's activities
- examining the periodic reports prepared by the Audit department in coordination with the Company's Audit and Risk Committee;
- holding meetings with the Manager responsible for financial reporting

- acquiring information from the oversight bodies of the Italian-registered subsidiaries, pursuant to the first and second paragraphs of art. 151 of the CLF, on material events involving Group companies and on the internal control system, through the completion of specific questionnaires
- holding meetings with the Company's Supervisory Body;
- discussing the results of the work carried out by the Independent Auditors
- participating regularly in meetings of the Company's Audit and Risk Committee, the Appointments Committee, the Remuneration Committee and the Related-Party-Transactions Committee;

- meeting with the Company's top management to discuss the adequacy of administrative and accounting systems, in order to understand current and potential risks to be managed;

- noting the results of the Board of Directors' assessment of the adequacy of Terna's organisational, administrative and accounting systems and those of its strategic subsidiaries.

The Company's Internal Audit department operates on the basis of a multi-year plan, which is reviewed annually. This defines the activities and processes to be audited using a risk-based approach. The plan was approved by the Board of Directors on 6 March 2024 having consulted the Audit and Risk Committee and the Board of Statutory Auditors.

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

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

On the basis of the activity carried out, the information gathered, the content of the report produced by the Internal Audit Department, also considering the dynamic and evolving nature of the Company's internal audit and risk-management system, and considering the actions planned and

implemented, the Board of Statutory Auditors concludes that overall this system can be considered adequate, effective and operational.

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

The Board of Statutory Auditors has verified the adequacy of the administrative and accounting system and suitability of the latter for correct representation of management facts and actions, under the coordination of the Manager responsible for financial reporting, pursuant to Italian Law no. 262/2005, "Provisions for the protection of savings and the regulation of financial markets", as amended.

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

The Board of Statutory Auditors also examined the attestation signed by the Chief Executive Officer and the Manager responsible for financial reporting, prepared in accordance with art. 154-bis of the CLF and presented to the Board of Directors on 19 March 2024, in line with the model established by Consob Regulation no. 11971 of 14 May 1999.

On 6 March 2024, the Board of Directors approved the Impairment Testing procedure drawn up in accordance with the requirements of IAS 36, with the aim of providing guidelines for the performance of tests on the recoverability of the Terna Group's assets, and on 19 March 2024 the outcome of application of this procedure to the relevant items in the 2023 financial statements.

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

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

For exchanges of information defined by law, the Board of Statutory Auditors held periodic meetings with the independent auditors Deloitte & Touche Spa, receiving updates on auditing of the accounts and the outcomes of checks performed. During these meetings, no critical issues or anomalies were identified regarding proper keeping of the company accounts, nor recording of operations in the accounting records, that could bring into question the internal control system over administrative and accounting procedures.

The Board of Statutory Auditors has therefore monitored the observation of the procedure rules of the financial disclosure process regarding financial statements and consolidated financial statements;

1.5 Oversight of related-party transactions

Intra-group or related-party transactions are shown in the notes to the financial statements for 2023, under "Related-party transactions", showing transactions with the parent, subsidiaries and associated companies.

Related parties of the Company are identified on the basis of the principles established by IAS 24 and are in principle represented by parent companies, companies connected to the Terna Group, subsidiaries that are not consolidated, associated companies or companies under joint control and other investee companies.

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

2. INTERNAL CONTROL AND AUDIT COMMITTEE

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

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

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

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

The financial statements for the year ended 31 December 2023, accompanied by the Directors' report on operations and the attestation signed by the Chief Executive Officer and the Manager responsible for financial reporting, approved by the Board of Directors at the meeting held on 19 March 2024, were at the same time made available to the Board of Statutory Auditors in view of the Annual General Meeting of shareholders called for 10 May 2024. On 19 March 2024, Terna's Board of Directors approved the consolidated financial statements, as prepared by the Manager responsible for financial reporting and, pursuant to art. 154-*bis* of the CLF, accompanied by the attestation signed by the Chief Executive Officer and the Manager responsible for financial reporting.

On 17 April 2024, the Independent Auditors issued their audit reports, pursuant to art. 14 of Legislative Decree 39/2010 as amended by Legislative Decree 139/2016 and art. 10 of Regulation (EU) 537/2014, on the separate financial statements and the Terna Group's consolidated financial statements for the year ended 31 December 2023, prepared in compliance with the International Financial Reporting Standards – IFRS adopted by the European Union.

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

- issued an opinion stating that Terna's separate financial statements and the Terna Group's consolidated financial statements provide a true and fair view of the financial and equity situation of the Company and Group at 31 December 2023, and of the economic result and cash flows for the year ended on that date, in conformity with the International Financial Reporting Standards adopted by the European Union, as well as with provisions issued in implementation of art. 9 of Legislative Decree 38/2005;

- issued an opinion on the consistency of the Report on Operations accompanying the separate and consolidated financial statements for the year ended 31 December 2023 and certain specific information in the "Report on Corporate Governance and Ownership Structures" indicated in art. 123-*bis*, paragraph 4 of the CLF, responsibility for which lies with the Directors of Terna, with the annual financial statements and with consolidated financial statements and on the preparation in compliance with the law;
- declared that, with regard to potential material errors in the Report on Operations, based on the information obtained and their understanding of the Company and associated context acquired during audit activities, they had nothing to report;
- declared that the annual financial statements were prepared in XHTML format in compliance with the provisions of Delegated Regulation (EU) 2019/815 and the consolidated financial statements were marked in all material ways in compliance with the provisions of the Delegated Regulation;
- confirmed the Directors' approval of the Non-financial Statement and expressed the following conclusions: "*On the basis of the work carried out, no matters have come to our attention that would cause us to conclude that the Terna Group's NFS for the year ended 31 December 2023 has not been prepared, in all material aspects, in compliance with the requirements of arts 3 and 4 of the Decree and GRI Standards.*"

On 17 April 2024, the Independent Auditors also presented the Board of Statutory Auditors with the additional report required by art. 11 of Regulation (EU) 537/2014, in which the auditors do not identify any significant shortcomings relating to the system of internal controls over financial reporting, to be brought to the attention of persons involved in the governance of the Company. The Board of Statutory Auditors will inform the Company's Board of Directors of the outcome of the statutory audit, providing the Directors with the Additional Report required by art. 11 of Regulation (EU) 537/2014, accompanied by any observations, pursuant to art. 19 of Legislative Decree 39/2010, as extended by Legislative Decree 135/2016 and Regulation (EU) 537/2014.

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

The Independent Auditors received attestation and other engagements during 2023, as described in the Annual Financial Report for 2023, prepared in accordance with art. 149-*duodecies* of the Regulations for Issuers.

The fees for these engagements amount to € 124,288 and break down as follows:

- audit of unbundling for ARERA € 9,353
- opinion on payment of interim dividends € 18,653
- issue of EMTN comfort letters and other documents € 30,998
- attestation of Non-Financial Statement € 25,284
- Green Bond Report € 40,000

3. OTHER ASSETS

3.1 Method for effective implementation of corporate governance rules

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

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

The Board of Directors approved the "Report on Corporate Governance and Ownership Structures" on 19 March 2024.

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

The Board of Directors, with the assistance of an external consulting firm, has conducted a board review, whose findings were discussed at the meeting held on 19 March 2024 and described in Terna's Report on Corporate Governance.

With the support of the consulting firm, the Board of Statutory Auditors performed its annual board review, discussing the findings during the meeting on 25 March 2024.

3.2 Remuneration policies

The Board of Statutory Auditors has audited the processes involved in drawing up the Company's remuneration policies, with particular regard to the criteria used in determining the remuneration of the Chief Executive Officer and Senior Managers with strategic responsibilities, providing, where required by law, the related opinions.

Following the proposal of the Remuneration Committee, the Board of Directors' meeting of 19 March 2024 approved the "*Report on the Remuneration Policy and Remuneration Paid*", prepared pursuant to art. 123-*ter* of the TUF and in compliance with art. 5 of the Code of Corporate Governance.

3.3 Reports, complaints, omissions or shortcomings, opinions provided and initiatives undertaken

The Board of Statutory Auditors did not receive any complaints pursuant to art. 2408 of the Italian Civil Code, nor did we receive any petitions from third parties in 2023.

On 7 and 21 August 2023,the Board of Statutory Auditors sent Consob two communications pursuant to art. 149, paragraph 3 of Legislative Decree no. 58/1998 of 24 February 1998 (Consolidated Law on Financial Intermediation - CLF), in relation to the procedure for termination of the employment relationship between Terna and two of its strategic managers, which was the subject of a press release on 3 August 2023, highlighting certain potential critical issues regarding the procedure for reaching termination agreements. This is particularly relevant in the context of application of the rules on related-party transactions issued with Consob Regulation no. 17221/2010, the decision-making responsibility over certain content profiles and the management and communication of insider information pursuant to Regulation (EU) no. 596/2014.

Consob, in turn, made a request for information from the Company pursuant to art. 115 of the CLF, which Terna appropriately satisfied.

The Company received a notification from Consob on 12 April 2024, pursuant to arts 187-ter, paragraph 1 and 187-septies, paragraph 1 of Legislative Decree no. 58/1998 regarding violation of art. 17, paragraph 4, of the EU no. 596/2014. The Company informed that it will submit written accounts, petitions and documents to the competent departments of the Authority in accordance with the terms and conditions and defence procedures set out. The outcome of this proceeding is currently impossible to predict.

The Board of Statutory Auditors, in the context and within the limits of its duties and functions, continues to monitor the ongoing procedure for assessment and improvement of the internal organisational structure initiated by the Company.

3.4 Non-Financial Statement

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

The NFS was approved at the Board of Directors' meeting of 19 March 2024, as a document within the report on operations, included in the Annual Financial Report for the year ended 31 December 2023.

The Independent Auditors issued their report on the NFS pursuant to art. 3, paragraph 10 of Legislative Decree 254/2016 on 17 April 2023. The report states that no matters have been brought to the attention of the independent auditors that would cause them to conclude that the Terna Group's NFS for the year ended 31 December 2024 has not been prepared, in all material aspects, in compliance with the requirements of arts 3 and 4 of Legislative Decree 254/2016 and the *Global Reporting Initiative Standards*.

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

3.5 Review of the Board of Statutory Auditors

In accordance with Standard Q.1.1 in the Standards of Conduct for the Boards of Statutory Auditors of Listed Companies, the Board has, with the assistance of an external consulting firm, conducted a review of our composition, size and functioning, with the outcome of the Review presented to the Board of Directors at the meeting held on 19 March 2024. With regard to the requirements and competencies of individual members and of the Board as a whole, the Review confirmed that:

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

4. CONCLUSIONS

Based on the above, and considering the content of the reports issued by the Independent Auditors, and the attestations released jointly by the Chief Executive Officer and the Manager responsible for financial reporting, the Board of Statutory Auditors, within the scope of our responsibilities, expresses a favourable opinion on approval of Terna's financial statements for the year ended 31 December 2023 and on the appropriation of net profit for the year of € 834,796,668 as proposed by the Board of Directors.

Rome, 17 April 2024

The Board of Statutory Auditors

Mario M. Busso (Chairman)

Lorenzo Pozza (Standing Auditor)

Antonella Tomei (Standing Auditor)

This translation was prepared by TERNA exercising its best diligence. However, TERNA shall not be liable or otherwise responsible for its use and any damages or losses resulting out of its use in any individual case and in whatever jurisdiction. Moreover, it is recalled that the only official version of the Report is the Italian version signed by the members of the Board of Statutory Auditors.

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

To the Shareholders of
Terna S.p.A.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

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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 Company accounts in "Property, plant, and equipment" and "Intangible assets", respectively equal to Euro 15.613 million and Euro 573 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 2.180 million. The Company operates as a natural monopoly and within a market regulated by the Italian Regulatory Authority for Energy, Networks and Environment (Autorità di Regolazione per Energia Reti e Ambiente, "ARERA"), which defines, among the others, the rules for the remuneration of the transmission and dispatching services. In particular, the regulated revenues for these services are determined annually by ARERA and provide for recognition of a predefined return on the regulatory net invested capital recognized (RAB – Regulated Asset Base), of the relative depreciation and of some operating expenses. The RAB value is determined by ARERA mainly through the revalued historical cost method. We believe that investments for the operation and development of the electricity transmission grid represent a key audit matter for the Company's financial statements as of 31 December 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 Company's total assets, ii) the relevance of the investments made during the year, iii) their impact in determining the fees for the transmission and dispatching services. Notes "11. Property, plant, and equipment" and "13. Intangible assets" of the financial statements include the disclosure on the investments for the operation and development of the electricity transmission grid.
Audit procedures performed	With reference to investments for the operation and development of the electricity transmission grid, our audit procedures included, among the others, the following: • understand the processes for recognition of such investments in the financial statements; • understand the relevant controls implemented by the Company in relation to these processes and assessment of their operating effectiveness; • comparative analysis of the items "Property, plant, and equipment" and "Intangible assets", as well as critical analysis of the composition of investments made during the year related to these items, including the analysis of any unusual item;

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;

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

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

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

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

In our opinion, the financial statements as at 31 December 2023 have been prepared in XHTML format in accordance with the provisions of the Delegated Regulation.

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

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

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the financial statements of Terna S.p.A. as at 31 December 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 ownership structure are consistent with the financial statements of Terna S.p.A. as at 31 December 2023 and are prepared in accordance with the law.

Deloitte.

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

DELOITTE & TOUCHE S.p.A.

Signed by
Domenico Falcone
Partner

Rome, Italy
April 17, 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.

GREEN BOND REPORT 2023

Green Bond Report 2023

Since 2018, Terna has issued **six green bonds** as part of its Euro Medium Term Notes (EMTN) programme. In addition, in February 2022, the Company issued, on a standalone basis, the first subordinated hybrid green bond to be issued by an Italian corporate. Details of the individual issues are provided below:

- on 16 July 2018, Terna launched its first green bond issue, worth €750 million and having a 5-year term;
- on 10 January 2019, the Company launched a fixed-rate green bond issue in the form of a private placement, amounting to €250 million, having reopened the bond issue announced to the market on 16 July 2018;
- on 3 April 2019, the Company launched an issue of euro-denominated green bonds with a total nominal value of €500 million and a 7-year term;
- on 17 July 2020, the Company placed a green bond amounting to €500 million and having a 12-year term;
- on 16 June 2021, the Company launched a green bond issue amounting to €600 million and having an 8-year term.
- on 2 February 2022, Terna launched its first non-convertible, perpetual subordinated hybrid green bond amounting to €1 billion;
- on 17 July 2023, the Company issued a new green bond amounting to €650 million and having a 10-year term.

The net proceeds from the issues are being used to fund the Company's **Eligible Green Projects**, selected on the basis of the **Green Bond Principles** issued in 2018 and subsequent amendments published by the International Capital Market Association ("ICMA").

At 31 December 2023, Terna had drawn up and published five **Green Bond Frameworks** to enhance the transparency and the quality of the green bonds issued.

The first was adopted on 16 July 2018, the second on 15 July 2020, the third on 15 June 2021 and the fourth on 12 January 2022, with the fifth published on 20 October 2023. These Frameworks and the second party opinions provided by the independent advisor, Vigeo Eiris (subsequently taken over by Moody's ESG), are available to the public on the Company's website (www.terna.it).

In this regard, it should be noted that the first three bond issues are covered by the Green Bond Framework drawn up in 2018, the fourth bond issue is covered by the Green Bond Framework of July 2020, the fifth bond issue by the Green Bond Framework of June 2021, whilst the hybrid issue dated 2 February 2022 and the bond issued on 17 July 2023 were issued in compliance with the updated Green Bond Framework of January 2022.

Vigeo Eiris (subsequently taken over by Moody's ESG) has provided Second Party Opinions[1] for all the issues, having assessed the contribution of all Terna's bond issues to sustainability and assigned them the best possible rating. Similarly, the assessments of the green bond frameworks show that they are fully aligned with the requirements in ICMA's Green Bond Principles and – as regards the latest versions of the framework – the recommendations in the EU Taxonomy.

[1] All the Second Party Opinions issued to Terna are available at the following link: https://www.terna.it/en/investors/debt-rating/sustainable-finance/green-bonds

This alignment was confirmed, with regard to 2023, via the mapping of the activities carried out by the Group to identify those that are eligible and in alignment with the Taxonomy. The analysis revealed that all the investment carried out to deliver the Eligible Green Projects, described in this report, are aligned with the object of mitigating climate change. Finally, Vigeo Eiris considered the Eligible Green Projects to be in line with the following UN SDGs:

UN SDGs

Ensure universal access to affordable, reliable, sustainable and modern energy services.

Build resilient infrastructure, promote fair, inclusive and sustainable industrialization and foster innovation.

Take urgent action to combat climate change and its impacts.

Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

With this report, Terna is delivering on its commitment, made at the time of the bond issues, to report annually on its use of the proceeds and the environmental benefits resulting from the projects financed with those proceeds.

In addition to updating the report on the issues of April 2019, July 2020, June 2021 and February 2022, this edition of the Green Bond Report provides information for the first time on the issue carried out in July 2023.

As noted in the previous reports (see page 5 of the Green Bond Report 2020 and the Green Bond Report 2019 from page 251 of the Sustainability Report for 2019), the proceeds from the bond issues of 16 July 2018 and 10 January 2019 have been fully allocated and accounted for.

The indicators shown in the presented tables have been determined in accordance with the “Green Bond Framework”, showing the relevant amounts, how the proceeds have been allocated and the main environmental benefits for each environmental category within which the projects must fall in order to qualify as “eligible”.

The various categories of environmental benefit indicated in the five Green Bond Frameworks published as of 31 December 2023 are shown below:

CATEGORY OF ENVIRONMENTAL BENEFIT	DESCRIPTION
Renewable energy	Projects designed to boost renewable energy production (primarily wind and photovoltaic): • Connecting renewable energy plants (grid infrastructure designed to directly connect renewable energy plants to the transmission grid); • Integrating renewable energy production, improving the stability of the grid (grid infrastructure that enables a greater volume of renewable energy to be injected into the transmission grid, by, for example, relieving congestion in a certain part of the grid).
Energy efficiency	Projects designed to reduce the CO_2 emissions produced by the electricity system by reducing grid losses: • Grid infrastructure that enhances transmission efficiency (reducing the difference between power produced and energy consumed, all other conditions being equal).
Soil use & Biodiversity	Projects that aim to reduce soil use and the impact on terrestrial biodiversity: • Optimisation of the grid, involving the demolition of kilometres of existing overhead line. Demolition of the lines reduces the permanent occupation of land by overhead lines and the need to cut back the surrounding vegetation. The greatest impact occurs when overhead lines cross areas of environmental interest, such as nature reserves, wetlands and other protected areas. In addition, the demolitions also eliminate the albeit low risk of birds colliding with power lines. Finally, it should be noted that the projects in this category – such as putting cables underground – also reduce the visual impact of electricity infrastructure, an aspect considered one of the most significant impacts by local stakeholders.
Quality, security and resilience of electricity transmission Infrastructure	Projects that aim to ensure the quality, security and resilience of electricity transmission infrastructure: • Projects included in the Development Plan for the national Transmission Grid, focusing on the quality and security of the service by resolving operational issues that are in part linked with the energy transition, involving the decommissioning of thermoelectric plants and the integration of renewable sources. • Investment in the construction of new power lines and/or substations with the aim of boosting the resilience of the national transmission grid ("NTG") in the areas of Italy most exposed to extreme climate events (e.g., high winds, snow and ice).

FOCUS

How we manage our eligible green projects

In planning and delivering investment, Terna adopts a wide range of mitigation controls and measures designed to limit any negative impacts on stakeholders and the environment, guaranteeing:

- **the protection of nature and biodiversity**: Terna's approach is based on the mitigation hierarchy with the aim, from the planning phase – applying the ERPA Strategic Environmental Assessment (SEA) criteria in the Development Plan – through to the habitat restoration phase, of reducing any negative impact to a minimum. This involves taking voluntary initiatives designed to enhance interactions between our assets and nature to obtain net positive impacts, developing our own measurement tools, methodologies and techniques (e.g., the Incremental Ecological Index)[2];
- **efforts to tackle climate change**: in devising its development strategy and planning its investment, which includes the eligible green projects, Terna focuses on achieving the decarbonisation targets set at Italian and EU level (the development scenarios developed in this regard are based on the trajectories provided for in the EU's Fit For 55 package)[3]. At the same time, climate change and rising temperatures may impact grid infrastructure, giving rise to the need to ensure the Italian electricity system's ability to withstand increasingly frequent extreme weather events. In this regard, each year Terna prepares a Resilience Plan setting out all the initiatives designed to prevent and/or reduce damage to the power grid caused by weather events[4];
- **respect for social requirements and the needs of local communities**: Terna takes care to respect workers' rights and the needs of the communities affected by its business, and has adopted a series of prescriptive operational measures, such as policies and guidelines, procedures and management and control systems to ensure respect throughout the supply chain. Stakeholder engagement is a key element; Terna, is continuously committed to devising and implementing the most suitable forms of engagement and participatory design, with particular attention to the needs of the local communities affected by grid development[5].

Allocation reporting

Information on how the proceeds from the bond issues of April 2019, July 2020, June 2021, February 2022 and July 2023 have been used is provided below, showing aggregate amounts and data for each Eligible Green Project at 31 December 2022.

The following tables also show, for the four bonds, the percentage of the proceeds allocated to refinance parts of projects yet to be completed and to refinance projects already completed at the date of the bond issue (% refinanced out of the total) and the balance of unallocated funds and/or funds still held by the issuer at 31 December 2023.

In accordance with Terna's green bond framework, the report for 2023 takes into account certain changes with respect to the reports for previous years. These are primarily due to the reshaping of a number of projects included in the original baskets due to updated completion times. To meet the requirements of the green bond framework, the following tables thus show the effects of this change and summarise the amounts allocated so far to the various projects.

Finally, with regard to the issues of July 2018 and January 2019, the related proceeds had been fully allocated by the time of the previous reports. As a result, the issues are not covered in this report. Further details are provided on page 5 of the Green Bond Report 2020 and on page 251 of the Green Bond Report 2019.

[2] Further information is available in the 2023 Integrated Report, in the section, "The landscape and biodiversity".
[3] Further information is available in the 2023 Integrated Report, in the sections, "Terna's scenarios" and the "2023 Development Plan".
[4] Further information is available in the 2023 Integrated Report, in the section, "Security and Resilience Plan".
[5] Further information is available in the 2023 Integrated Report, in the sections, "Relations with local communities", "Workplace health and safety", "Respect for human rights", "Supply chain sustainability".

Issue of 3 April 2019

DESCRIPTION OF INDICATOR	AMOUNT (€000)
Total amount of the basket at the time of the Green Bond's issuance	528,177
- % of basket refinanced	44
Net Green Bond proceeds	498,430
Green Bond proceeds allocated at 31 December 2023	At 31 December 2023, the bond has been fully allocated
Funds/equivalent funds held by the issuer at 31 December 2023	

CATEGORY OF ELIGIBLE GREEN PROJECT	ELIGIBLE GREEN PROJECT	PROCEEDS ALLOCATED AT 31 DECEMBER 2023 (€000)
Renewable energy	CAPRI-MAINLAND AND SORRENTO INTERCONNECTION	76,806
	150kV OPPIDO SUBSTATION	5,561
	150kV FOGGIA SUBSTATION/ CONNECTION OF RENEWABLES	3,970
	UPGRADE 150kV PUGLIA WIND FARM COLLECTOR	18,833
	380kV FOGGIA - BENEVENTO II POWER LINE	75,117
	REORGANISATION NORTH CALABRIA GRID	4,874
	380kV SORGENTE – RIZZICONI POWER LINE	4,046
	CARDANO-NEW ARMOURED CABLE	9,886
	380kV SUBSTATION FOR FOGGIA-BENEVENTO AREA WIND FARMS	61,677
	RATIONALISATION 220/132kV IN VALLE SABBIA	6,655
	WIND ENERGY S.R.L. BONORVA PLANT	4,589
	RENEWABLE ENERGY COLLECTOR IN SICILY	10,732
	150kV FIUME SANTO-PORTO TORRES LINE	8,295
	PHOENIX RENEWABLES CANINO PHOTOVOLTAIC PLANT	260
	132kV PIETRAMALA (FI) – ALL. PARCO E SUBSTATION	6,690
	380kV BRINDISI SOUTH SUBSTATION	2,228
	380kV GARAGUSO SUBSTATION AND CONNECTIONS	7,586
	WORK ON GRID IN NAPLES-CASERTA AREA	4,881
	150kV PICERNO SUBSTATION FOR CONNECTIONS	133
	GRID TO COLLECT RENWABLE ENERGY IN FOGGIA-BARLETTA AREA	6,369
	150kV SAN SEVERO SUBSTATION FOR CONNECTIONS	12,563
TOTAL Renewable energy		***331,754***
Energy efficiency	UPGRADE OF THE GRID IN UMBRIA	4,962
	ITALY-AUSTRIA INTERCONNECTION	3,932
	RATIONALISATION 132kV PIOMBINO AREA	5,834
	UPGRADE OF MONTECORVINO SUBSTATION	5,944
	PATERNÒ - PANTANO - PRIOLO	59,529
	NEW CONNECTION IN PROVINCE OF TREVISO	9,787
	RATIONALISATION 220kV CITY OF TURIN	43,376
	220kV SCHIO SUBSTATION	347
	REORGANISATION OF HV TERAMO VILLANOVA GRID	4,796
	220kV GLORENZA-TIRANO-PREMADIO LINE	9,761
TOTAL Energy efficiency		***148,267***
Soil use & Biodiversity	REORGANISATION 220kV GRID CITY OF NAPLES	34,357
TOTAL Soil use & Biodiversity		***34,357***
GRAND TOTAL		**514,378**

The sums of the individual items and the sub-totals shown in the table may differ due to the process of rounding the data presented.

Issue of 17 July 2020

DESCRIPTION OF INDICATOR	AMOUNT (€000)
Total amount of the basket at the time of the Green Bond's issuance	505,609
- % of basket refinanced	43
Net Green Bond proceeds	496,865
Green Bond proceeds allocated at 31 December 2023	482,739
Funds/equivalent funds held by the issuer at 31 December 2023	14,126

CATEGORY OF ELIGIBLE GREEN PROJECT	ELIGIBLE GREEN PROJECT	PROCEEDS ALLOCATED AT 31 DECEMBER 2023 (€000)
Renewable Energy	380KV VOLPAGO SUBSTATION	3,281
	WORK ON THE HV GRID FOR RENEWABLE ENERGY COLLECTION IN BASILICATA	4,304
	WORK ON THE HV GRID FOR RENEWABLE ENERGY COLLECTION IN PUGLIA	1,122
	OPPIMITTI CONNECTION	8,921
	ROTELLO SUBSTATION	24,183
	ASCOLI SATRIANO SUBSTATION	4,152
	WORK ON THE HV GRID FOR RENEWABLE ENERGY COLLECTION IN BETWEEN CAMPANIA AND MOLISE	893
	220KV GLORENZA SUBSTATION	14,040
	ARVIER HYDROELECTRIC CONNECTION	612
	AW2 WIND FARM CONNECTION	308
	150KV CASTELNUOVO DI CONZA INTERCONNECTOR SUBSTATION	261
	INERGIA STORNARELLA CONNECTION	-
	BELEOLICO TORRE TRIOLO CONNECTION	6,407
	LIGURIA-TUSCANY WIND FARM CONNECTION	2,108
	SYNCHRONOUS COMPENSATORS FOR MAIDA SUBSTATION	32,190
	SYNCHRONOUS COMPENSATORS FOR MATERA SUBSTATION	29,326
	SYNCHRONOUS COMPENSATORS FOR FOGGIA SUBSTATION	20,313
	SYNCHRONOUS COMPENSATORS FOR CANDIA SUBSTATION	17,024
	SYNCHRONOUS COMPENSATORS FOR FANO SUBSTATION	16,178
	SYNCHRONOUS COMPENSATORS FOR GARIGLIANO SUBSTATION	18,748
	380KV FOGGIA – VILLANOVA POWER LINE	103,406
	RATIONALISATION 220/132kV IN VALLE SABBIA	624
	SYNCHRONOUS COMPENSATORS FOR BRINDISI PIGNICELLE SUBSTATION	26,700
TOTAL Renewable energy		***335,103***
Energy efficiency	RATIONALISATION IN CITY OF MILAN	5,818
	RATIONALISATION OF NORTH-WEST TURIN AREA	2,226
	REORGANISATION OF ROME METROPOLITAN AREA	2,150
	REORGANISATION OF PALERMO METROPOLITAN AREA	38,850
	380KV MAGENTA SUBSTATION	31,296
TOTAL Energy efficiency		***80,340***
Soil use & Biodiversity	RATIONALISATION IN CITY OF TURIN	6,671
	380KV SORGENTE – RIZZICONI POWER LINE	5,973
	REORGANISATION OF 220kV GRID IN CITY OF NAPLES	38,291
	REORGANISATION OF FLORENCE METROPOLITAN AREA	14,407
	150KV CASTROCUCCO – MARATEA POWER LINE	1,954
TOTAL Soil use & Biodiversity		***67,296***
GRAND TOTAL		**482,739**

The sums of the individual items and the sub-totals shown in the table may differ due to the process of rounding the data presented.

Issue of 16 June 2021

DESCRIPTION OF INDICATOR	AMOUNT (€000)
Total amount of the basket at the time of the Green Bond's issuance	615,050
- % of basket refinanced[6]	11
Net Green Bond proceeds	597,594
Green Bond proceeds allocated at 31 December 2023	546,754
Funds/equivalent funds held by the issuer at 31 December 2023	50,840

CATEGORY OF ELIGIBLE GREEN PROJECT	ELIGIBLE GREEN PROJECT	PROCEEDS ALLOCATED AT 31 DECEMBER 2023 (€000)
Renewable energy	SYNCHRONOUS COMPENSATOR VILLANOVA	31,308
	SYNCHRONOUS COMPENSATOR CODRONGIANOS	35,138
	SYNCHRONOUS COMPENSATOR SUVERETO	35,287
	SYNCHRONOUS COMPENSATOR ROSARA	38,858
	132KV PRATI DI VIZZE-STEINACH POWER LINE	14,471
	132KV APECCHIO SUBSTATION	2,511
	ENERMAC CONNECTION[7]	16,591
TOTAL Renewable energy		***174,163***
Energy efficiency	REORGANISATION TERAMO VILLANOVA GRID[7]	-
TOTAL Energy efficiency		**-**
Quality, security and resiliency of electricity transportation Infrastructure	UPGRADE 132KV GENOA METROPOLITAN AREA	26,411
	380-150KV PALO DEL COLLE SUBSTATION	9,262
	UPGRADE OF NORD SCHIO GRID	7,608
	REORGANISATION UPPER BELLUNESE AREA	40,115
	380KV UDINE WEST-REDIPUGLIA POWER LINE	16,304
	ITALY–FRANCE INTERCONNECTOR	165,822
	132KV ELBA-MAINLAND POWER LINE	98,214
	REORGANISATION OF SORRENTINA PENINSULA GRID	8,854
TOTAL Quality, security and resiliency of electricity transportation Infrastructure		***372,591***
GRAND TOTAL		**546,754**

The sums of the individual items and the sub-totals shown in the table may differ due to the process of rounding the data presented.

[6] In accordance with the commitment given in the Green Bond Framework of June 2021, the refinanced projects were completed within 36 months of the latest annual financial statements prior to the date of issue of the relevant Green Bond (16 June 2021).
[7] In line with the requirements of Terna's green bond framework, activity included in the basket in place of projects whose timing is no longer consistent with the basket following their replanning.

Issue of 2 February 2022

DESCRIPTION OF INDICATOR	AMOUNT (€000)
Total amount of the basket at the time of the Green Bond's issuance	1,033,817
- % of basket refinanced[8]	75
Net Green Bond proceeds	991,360
Green Bond proceeds allocated at 31 December 2023	852,318
Funds/equivalent funds held by the issuer at 31 December 2023	139,042

CATEGORY OF ELIGIBLE GREEN PROJECT	ELIGIBLE GREEN PROJECT	PROCEEDS ALLOCATED AT 31 DECEMBER 2023 (€000)
Renewable Energy	BELCASTRO SUBSTATION	34,063
	SCANDALE-MAGISANO CONNECTIONS	4,071
	ITALY-MONTENEGRO INTERCONNECTOR	605,472
	MORCONE SUBSTATION	10,044
	PONTELANDOLFO SUBSTATION	13,840
	PONTELANDOLFO-CASTELPAGANO POWER LINE	9,677
	RUMIANCA SUBSTATION	1,141
	ENLARGEMENT MATERA SUBSTATION	7,813
	ENLARGEMENT CATANZARO SUBSTATION	455
	AERO TANNA CONNECTION – PARTANNA SUBSTATION	614
	AM CONNECTION FOR RENEWABLE ENERGY	10,150
	METORA CONNECTION	9,379
	PRATI DI VIZZE-STEINACH POWER LINE	2,004
	RATIONALISATION IN CITY OF AREZZO	13,287
	REMOVAL OF CONSTRAINTS SOUTH-CENTRAL – NORTH CENTRAL	20,268
TOTAL Renewable energy		***742,278***
Energy efficiency	PATERNÒ - PANTANO – PRIOLO POWER LINE	23,883
TOTAL Energy efficiency		***23,883***
Quality, security and resiliency of electricity transportation Infrastructure	CELANO SUBSTATION	20,793
	RATIONALISATION IN CITY OF MILAN	5,236
	CAMIN-DOLO LINE	7,170
	BARI NORTH SUBSTATION	1,106
	RATIONALISATION IN CITY OF NAPLES	17,301
	SCHIO SUBSTATION	-
	RATIONALISATION OF ROME WEST-ROME SOUTH-WEST GRID	-
	COSTALUNGA PRIMARY SUBSTATION	956
	BORGONOVO - BARDI – BORGOTARO POWER LINE	4,115
	UPGRADE OF GRID BETWEEN NOVARA AND BIELLA	2,116
	S. TERESA-BUDDUSÒ SUBSTATION	7,922
	UPGARDE OF TERNI ROME HV GRID	11,274
	WORK ON RAGUSA GRID	3,717
	COLLECTION OF RENEWABLES ABRUZZO/LAZIO	1,892
	ROMA SOUTH-CIAMPINO	2,558
TOTAL Quality, security and resiliency of electricity transportation Infrastructure		***86,157***
GRAND TOTAL		**852,318**

The sums of the individual items and the sub-totals shown in the table may differ due to the process of rounding the data presented.

[8] In accordance with the commitment given in the Green Bond Framework of January 2022, the refinanced projects were completed within 36 months of the latest annual financial statements prior to the date of issue of the relevant Green Bond (2 February 2022).

Issue of 17 July 2023

DESCRIPTION OF INDICATOR	AMOUNT (€000)
Total amount of the basket at the time of the Green Bond's issuance	657,599
- % of basket refinanced[9]	47
Net Green Bond proceeds	642,571
Green Bond proceeds allocated at 31 December 2023	430,264
Funds/equivalent funds held by the issuer at 31 December 2023	212,307

CATEGORY OF ELIGIBLE GREEN PROJECT	ELIGIBLE GREEN PROJECT	PROCEEDS ALLOCATED AT 31 DECEMBER 2023 (€000)
Renewable Energy	NEW 380/150KV VIZZINI SUBSTATION	6,383
	MICROPOWER S.R.L. CONNECTION	7,766
	ASJA AMBIENTE ITALIA S.P.A. CONNECTION	396
	SARVE S.R.L. CONNECTION	8,305
	SYNCHRONOUS COMPENSATORS SOUTH SARDINIA	32,344
	380KV BRINDISI-BRINDISI ENI POWER LINE	36,639
	STATCOM DEVICES	89,461
	REORGANISATION NORTH CALABRIA GRID	10,261
	UPGRADE OF 150KV FOR BASILICATA WIND ENERGY COLLECTION	6,192
	REORGANISATION FLORENCE METROPOLITAN AREA GRID	4,036
	REORGANISATION TRENTO GRID	12,751
	INERGIA SPA WIND FARM (STORNARA SUBSTATION)	3,177
	220KV GLORENZA SUBSTATION	10,157
	FOSTER WHEELER SUBSTATION – RES CONNECTION	4,913
	380/150KV SUBSTATION MELFI CONNECTIONS	9,236
	FOIANO-GINESTRA-ARIANO 150KV POWER LINE	839
	SOLARWIND 2 CONNECTION	5,246
	NEW MONTEMATTINA SUBSTATION FOR CONNECTIONS	576
	VGE 01 CONNECTION	7,308
	SANDALIA SOLAR FARM S.R.L CONNECTION	537
	E-SOLAR 2 SRL CONNECTION	1,842
	DAUNIA WORK1 CONNECTION	355
	SYNCHRONOUS COMPENSATORS LAZIO NORTH	17,474
	REACTORS	45,806
	UPGRADE OF 150KV FORCALABRIA WIND ENERGY COLLECTION	5,956
	REMOVAL OF CONSTRAINTS SOUTH-CENTRAL – NORTH CENTRAL	13,907
	FOIANO 150KV SUBSTATION FOR CONNECTIONS	7,951
	ECOENERGIA FRANZESE CONNECTION	-
	TRINO BESS 2 CONNECTION	-
TOTAL Renewable energy		***349,816***
Energy efficiency	220KV GLORENZA-TIRANO-PREMADIO LINE	13,707
TOTAL Energy efficiency		***13,707***
Quality, security and resiliency of electricity transportation Infrastructure	220KV LIVORNO M. SUBSTATION	17,993
	UPGRADE MODENA AREA GRID	4,017
	REORGANISATION OF SORRENTINE PENINSULA GRID	4,328
	REORGANISATION ROME SOUTH-LATINA GRID	5,422
	CUNEO/SAVONA GRID	6,253
	RATIONALISATION TRENTO SOUTH	7,403
	REORGANISATION ROME METROPOLITAN AREA	2,831
	WORK ON HV GRID IN CATANIA	7,573
	WORK ON HV GRID FOR ABRUZZO/LAZIO RENEWABLE ENERGY COLLECTION	9,035
	220/150KV CATANIA NORTH SUBSTATION	1,885
TOTAL Quality, security and resiliency of electricity transportation Infrastructure		***66,741***
GRAND TOTAL		**430,264**

The sums of the individual items and the sub-totals shown in the table may differ due to the process of rounding the data presented.

[9] In accordance with the commitment given in the Green Bond Framework of January 2022, the refinanced projects were completed within 36 months of the latest annual financial statements prior to the date of issue of the relevant Green Bond (17 July 2023).

The above tables show the names of eligible projects, coinciding with wide-ranging, complex interventions made up of numerous individual projects and minor works. Each bond (April 2019, July 2020, June 2021, February 2022 and July 2023) may have financed different parts of the same intervention. For this reason, a number of eligible projects, represented by different amounts, have been financed by more than one bond.

Given the nature of the projects financed, each intervention may contribute to achieving a number of environmental benefits. In the above table, the inclusion of an individual project in a category of benefit was based on economic criteria.

Impact reporting

This section details the impact and the benefits associated with the four categories of Eligible Green Project – described at the beginning of the document - financed by each of the five Green Bonds issued by Terna and accounted for in this Report. The percentages indicate the proportion of the benefits that can be associated with the stage of completion of the projects (works that have entered service) at 31 December 2023.

For a better understanding of the data relating environmental impacts, the following should be taken into account:

- the impact of the projects in columns A, B, C and F in the following tables that involve “Connections to renewable energy plants”, “Increased production from renewable sources”, “Reduction in grid losses” and “Reduction in energy not supplied” are measured in MW and MWh. The benefit resulting from completion of these projects may also be measured in terms of greenhouse gas emission savings, amounting to approximately 15.4 million tonnes of CO_2e a year[10]. The above data does not derive from ex-post measurement of the impact of the projects carried out, but are the result of grid simulations, conducted using models that permit a comparison of the ex-ante operation of the electricity system and the related environmental impacts with and without the individual projects. The results of the grid simulations are then used in the cost-benefit analysis applied to the main projects included in the Grid Development Plan. Given that there may be several years between the planning of a project and the start-up of work, the cost-benefit analysis for a project may be repeated to take into account new scenarios and the environmental impacts may change over time. Where projects are not subject to cost-benefit analysis, the value of the related benefits is measured using an approach in line with this method. If there are significant changes to the environmental benefits connected with the projects financed by the Green Bonds, these will be noted in future Green Bond Reports;
- the environmental benefits underpinning the selection of eligible projects – estimated using the methodological approach described above - are calculated, based on the most conservative scenario, at the level of each project, which, however, generally consists of a series of works that may require many years to complete. The proceeds from the Green Bonds may be used to finance or refinance a part of the previously planned works that have a part to play in completion of the selected projects in the baskets and, in this sense, in obtaining the environmental benefits associated with the projects.

None of the selected projects is the subject of significant proceedings (administrative or final court judgements) resulting in Terna being ordered to pay fines or to act or not act (e.g., prohibitions), or in its employees being found guilty of a criminal offence (full compliance in environmental and socio-economic matters).

[10] The overall amount is the sum of the contributions of each bond, broken down as follows: approximately 4.2 million tonnes of CO_2 for the issue of 3 April 2019, approximately 2.3 million tonnes of CO_2 for the issue of 17 July 2020, approximately 1.5 million tonnes di CO_2 for the issue of 16 June 2021, approximately 1.9 million tonnes di CO_2 for the issue of 2 February 2022 and approximately 5.5 million tonnes di CO_2 for the issue of 17 July 2023. The calculation took into account the share of total Italian electricity production represented by thermoelectric production in 2023. Allocation for the purposes of the production mix was based on the December 2023 issue of the “Monthly Report on the Electricity System” available on the website at www.terna.it.

Issue of 3 April 2019

CATEGORY OF ELIGIBLE GREEN PROJECT	OUTPUT & IMPACT INDICATORS									
	A		B		C		D		E	
	CONNECTIONS TO RENEWABLE ENERGY PLANTS (MW)	% AT 31/12	INCREASED PRODUCTION FROM RENEWABLE SOURCES (MWH)	% AT 31/12	REDUCTION IN GRID LOSSES (MWH)	% AT 31/12	LAYING OF UNDERGROUND CABLES (KM)	% AT 31/12	DEMOLITION OF LINES (KM)	% AT 31/12
Renewable energy	1,938	100	8,800,493	96						
Energy efficiency					231,486	59				
Soil use & biodiversity							11	-	30	-

Issue of 17 July 2020

CATEGORY OF ELIGIBLE GREEN PROJECT	OUTPUT & IMPACT INDICATORS									
	A		B		C		D		E	
	CONNECTIONS TO RENEWABLE ENERGY PLANTS (MW)	% AT 31/12	INCREASED PRODUCTION FROM RENEWABLE SOURCES (MWH)	% AT 31/12	REDUCTION IN GRID LOSSES (MWH)	% AT 31/12	LAYING OF UNDERGROUND CABLES (KM)	% AT 31/12	DEMOLITION OF LINES (KM)	% AT 31/12
Renewable energy	1,897	99	4,826,985	88						
Energy efficiency					265,094	91				
Soil use & biodiversity							42	67	275	86

Issue of 16 June 2021

CATEGORY OF ELIGIBLE GREEN PROJECT	OUTPUT & IMPACT INDICATORS							
	A		B		C		F	
	CONNECTIONS TO RENEWABLE ENERGY PLANTS (MW)	% AT 31/12	INCREASED PRODUCTION FROM RENEWABLE SOURCES (MWH)	% AT 31/12	REDUCTION IN GRID LOSSES (MWH	% AT 31/12	REDUCTION IN ENERGY NOT SUPPLIED (MWH PER YEAR)	% AT 31/12
Renewable energy	1,330	1	3,135,602	1				
Energy efficiency					12,028	-		
Quality, security and resiliency of electricity transportation Infrastructure							12,699	0.2

Issue of 2 February 2022

CATEGORY OF ELIGIBLE GREEN PROJECT	OUTPUT & IMPACT INDICATORS							
	A		B		C		F	
	CONNECTIONS TO RENEWABLE ENERGY PLANTS (MW)	% AT 31/12	INCREASED PRODUCTION FROM RENEWABLE SOURCES (MWH)	% AT 31/12	REDUCTION IN GRID LOSSES (MWH	% AT 31/12	REDUCTION IN ENERGY NOT SUPPLIED (MWH PER YEAR)	% AT 31/12
Renewable energy	1,766	100	4,062,013	100				
Energy efficiency					13,200	-		
Quality, security and resiliency of electricity transportation Infrastructure							2,918	2

Issue of 17 July 2023

CATEGORY OF ELIGIBLE GREEN PROJECT	OUTPUT & IMPACT INDICATORS							
	A		B		C		F	
	CONNECTIONS TO RENEWABLE ENERGY PLANTS (MW)	% AT 31/12	INCREASED PRODUCTION FROM RENEWABLE SOURCES (MWH)	% AT 31/12	REDUCTION IN GRID LOSSES (MWH	% AT 31/12	REDUCTION IN ENERGY NOT SUPPLIED (MWH PER YEAR)	% AT 31/12
Renewable energy	4,835	5	11,839,182	8				
Energy efficiency					3,364	-		
Quality, security and resiliency of electricity transportation Infrastructure							11,940	1

In addition to the benefits achievable through each category provided for in the Green Bond Framework, the above tables also show percentages indicating the share of the benefits linked to the stage of progress on projects at 31 December.

It should be noted that, in line with Terna's green bond framework and the information provided in the allocation reporting section, the figures for the impacts presented may differ from those reported in previous years. This primarily reflects the reshaping of certain projects due to changes in the project timings and related cost-benefit analyses.

Examples of Eligible Green Projects

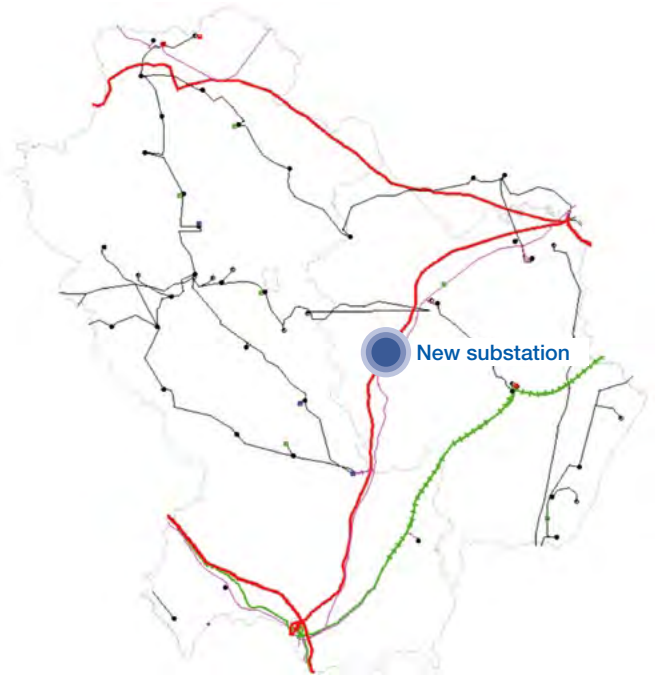
The following pages show key technical and financial data and details of the environmental benefits for four representative projects in the four categories of benefit taken into account.

Category: Renewable Energy - New Electricity Substation at Garaguso (MT)

The new 380/150kV Garaguso substation has been built to connect renewable energy plants in the Basilicata region to the HV Matera–Aliano line.

Applications for the connection of renewable energy plants to the NTG have been received from 11 plants, making a total of 293 MW, of which 40 MW has already been connected to the substation. The expected increase in renewable energy integrated into the NTG, linked to plants already connected to the Garigliano substation and future substations, is 668,471 MWh per year.

DESCRIPTION OF INDICATOR	AMOUNT
Total value of the project included in the Bond at 3 April 2019 (planned amount)	6,490,626 €
Proceeds from the green bond allocated to the project at 31 December 2023 (final amount)	7,586,273 €
Connections of renewable energy plants	293 MW
Increase in renewable energy production	668,473 MWh



New Garaguso substation – Category: "Renewable energy"

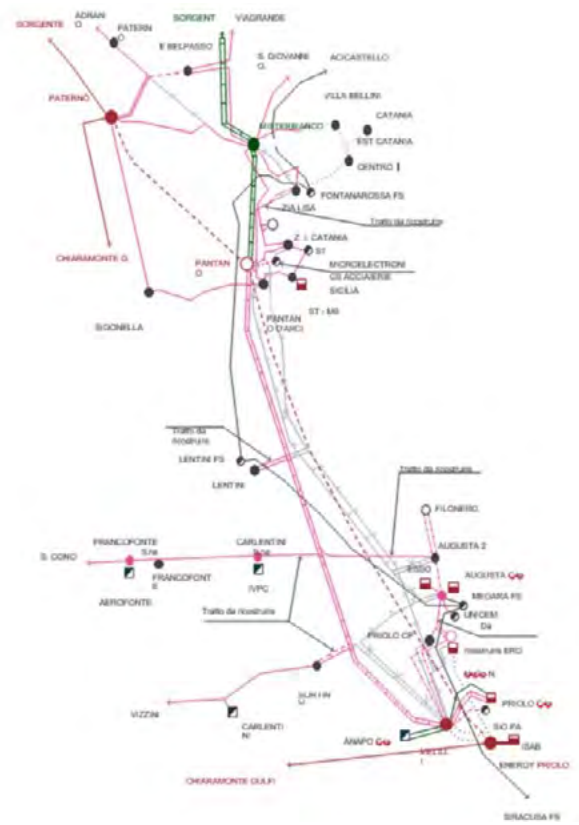
Category: Energy Efficiency - 380kV Paternò - Pantano - Priolo Power Line (Sicily)

Construction of the 380kV Paternò-Pantano-Priolo power line will result in interconnection of the 380kV grid with the 150kV grid in south-eastern Sicily. This will help to drive not only production at renewable energy plants in the area, but also an increase in service continuity and voltage stability in eastern Sicily.

The upgrade and enlargement of the Melilli, Priolo and Pantano D'Arci electricity substations is also significant as this will strengthen the grid and improve meshing, resulting in further benefits in terms of grid reliability.

Thanks to the above works, we expect to be able to reduce grid losses by at least 13,200 MWh a year, as shown in the following table.

DESCRIPTION OF INDICATOR	AMOUNT
Total value of the project included in the Bond at 2 February 2022 (planned amount)	81,273,362 €
Proceeds from the green bond allocated to the project at 31 December 2023 (final amount)	23,882,901€
Reduction in grid losses	13,200 MWh



380kV Paternò-Pantano-Priolo power line – Category: "Energy efficiency"

Category: Environmentally Sustainable Management of Land Use - Reorganisation of the Grid in the City of Naples

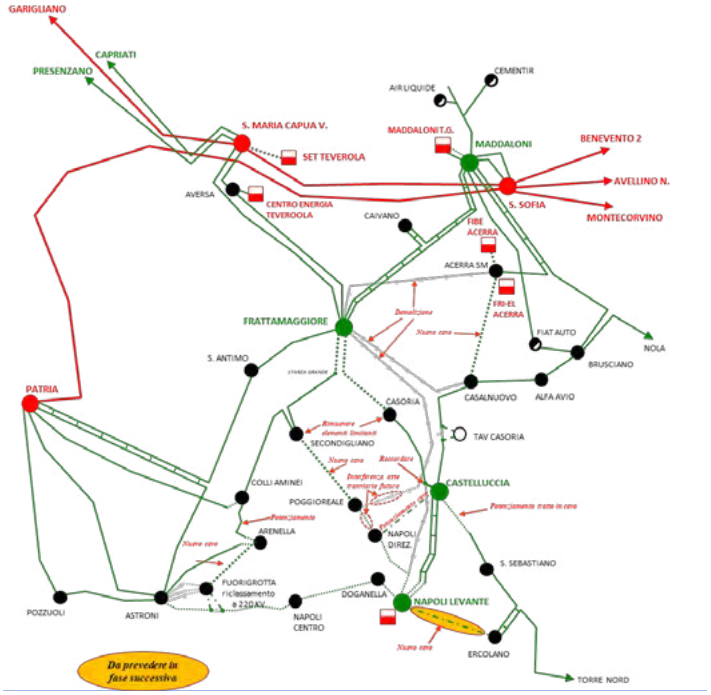
In order to improve the security of the grid in Naples and eliminate operational constraints, the Company has devised a development plan involving the construction of three new 220kV power lines, reconstruction of the "Main Naples – Caselluccia" line and the demolition of extensive sections of the "Casoria – Naples Levante" line.

The "Naples Centre" distribution substation is of strategic importance and will be involved in work designed to boost the reliability of the grid.

In addition to laying new cable connections, the project also envisages the decommissioning of a number of 220kV overhead power lines with environmental and social in terms of the reduced amount of land occupied.
Finally, given the age and reliability of the 60kV grid in Naples, many of these lines are due to be reorganised or decommissioned, with major benefits for the quality of electricity supply.

The above works will bring benefits in terms of freeing up land, as the following table shows.

DESCRIPTION OF INDICATOR	AMOUNT
Total value of the project included in the Bond at 3 April 2019 (planned amount)	31,995,143 €
Proceeds from the green bond allocated to the project at 31 December 2023 (final amount)	34,357,057 €
Construction of underground cable	11 km
Demolition of lines	30 km



Reorganisation of the grid in the city of Naples – Category: "Environmentally sustainable management of soil use"

Category: Quality, Security and Resilience of Electricity Transmission Infrastructure - 220kV Schio Substation and Grid Upgrade

To boost transformer capacity for the 132kV grid, ensure security at local level and improve the voltage profile in the load area to the west of Vicenza, the grid is to be subject to a wide-ranging reorganisation, with the construction of a new 220/132kV transformer substation, to be appropriately linked to the 132kV grid.

At the same time, the 132kV grid is to be strengthened by removing constraints and increasing quality and security of service.

The overall project is expected to reduce the quantity of energy not supplied by at least 453 MWh per year, as the following table shows.

DESCRIPTION OF INDICATOR	AMOUNT
Total value of the project included in the Bond at 16 June 2021 (planned amount)	7,654,036 €
Proceeds from the green bond allocated to the project at 31 December 2023 (final amount)	7,608,369 €
Reduction in energy not supplied	453 MWh

220kV Schio substation and grid upgrade – Category: "Quality, security and resilience of electricity transmission infrastructure"

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INDEPENDENT AUDITOR'S REPORT ON THE SECTIONS "ALLOCATION REPORTING" AND "IMPACT REPORTING" OF THE GREEN BOND REPORT

To the Management of
Terna S.p.A.

We have undertaken to perform a limited assurance engagement on the sections "Allocation reporting" and "Impact reporting" included in the Green Bond Report 2023 (the "Report") as of December 31st, 2023. The Report has been prepared by Terna S.p.A. (the "Company") on the basis of the following frameworks ("Frameworks"): the Framework issued in July 2018 for the Green Bond issued on 3 April 2019 ("GB3"), the Framework issued in July 2020 for the Green Bond issued on 17 July 2020 ("GB 4"), the Framework issued in June 2021 for the Green Bond issued on 16 June 2021 ("GB5") and the Framework issued in January 2022 for Green Bonds issued on February 2, 2022 ("GB 6") and July 17, 2023 ("GB 7"). These Frameworks were defined by the Company in accordance with, respectively: the Green Bond Principles issued by ICMA "2018 edition" for the Frameworks issued in July 2018 and in July 2020 and the Green Bond Principles issued by ICMA "2021 edition" for the Frameworks issued in June 2021 and in January 2022.

Management's Responsibility for the Report

The Management is responsible for the preparation of the Report in accordance with the Frameworks, developed by the Company in accordance with the Green Bond Principles. In particular, the Management is responsible for the preparation of the sections "Allocation reporting" and "Impact reporting" of the Report. The Management is also responsible for such internal control is necessary to enable the preparation of the Report that is free from material misstatement, whether due to fraud or error.

Auditor's Independence and quality control

We have complied with the independence and other ethical requirements of the *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* issued by the *International Ethics Standards Board for Accountants*, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

During the year covered by this assurance engagement, our auditing firm applied *International Standard on Quality Control 1 (ISQC Italia 1)* and, accordingly, maintained a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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

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Auditor's responsibility

Our responsibility is to express a conclusion on sections "Allocation reporting" and "Impact reporting" of the Report based on the procedures performed. We conducted our work in accordance with the criteria established in the "*International Standard on Assurance Engagements ISAE 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information*" (hereinafter "ISAE 3000 Revised"), issued by the *International Auditing and Assurance Standards Board* (IAASB) for limited assurance engagements. The standard requires that we plan and perform the engagement to obtain limited assurance whether the sections "Allocation reporting" and "Impact reporting" of the Report are free from material misstatement. Therefore, the procedures performed in a limited assurance engagement are less than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised, and, therefore, do not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures performed on the sections "Allocation reporting" and "Impact reporting" of the Report are based on our professional judgement and included inquiries primarily with company personnel responsible for the preparation of information included in the sections "Allocation reporting" and "Impact reporting" of the Report, analysis of documents, recalculations and other procedures aimed to obtain evidence as appropriate.

Specifically, we carried out the following procedures:

- analysis of the Green Bond Frameworks adopted by Terna S.p.A. and the Second Party Opinion, which includes assessing the conformity of the Frameworks to the Green Bond Principles defined by ICMA and the applicability of the categories of 'Eligible Green Projects' for the allocation of proceeds and the definition of environmental impacts;

- interviews with the Management and relevant corporate functions of Terna S.p.A. aimed at understanding the criteria and underlying processes for identifying Eligible Green Projects, as well as the generation, identification, and management of significant qualitative and quantitative information included in the 'Allocation reporting' and 'Impact reporting' sections of the Report;

- analysis of the structure and implementation of reporting processes and controls related to the data on the use of proceeds and environmental benefits of the Green Bonds;

- verification of quantitative data included in the 'Allocation reporting' and 'Impact reporting' sections of the Report and sampling analysis conducted through the collection and examination of documentation of Terna S.p.A., aimed at verifying the consistency of information included in the 'Allocation reporting' and 'Impact reporting' sections of the Report with the Green Bond Principles;

- obtaining the representation letter regarding the accuracy and the completeness of the information included in the Report and of those provided to us.

Deloitte.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the 'Allocation reporting' and 'Impact reporting' sections included in the Green Bond Report of Terna S.p.A as of December 31, 2023 is not prepared, in all material respects, in accordance with the criteria established by the Frameworks.

DELOITTE & TOUCHE S.p.A.

Signed by
Domenico Falcone
Partner

Rome, Italy
April 17, 2024

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

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