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We have less than twelve years to deliver on the commitments made by the international community at the Paris climate talks and keep global warming to within the 1.5°C above pre-industrial levels. The Intergovernmental Panel on Climate Change (IPCC) has already reported that the temperature of the Earth has already risen by between 0.8 and 1.2 degrees. Fossil fuels still account for over 80% of global primary energy consumption. This is the reason why decarbonisation is a shared goal throughout the world and is the driving force behind our commitment to do all we can to improve our planet.”





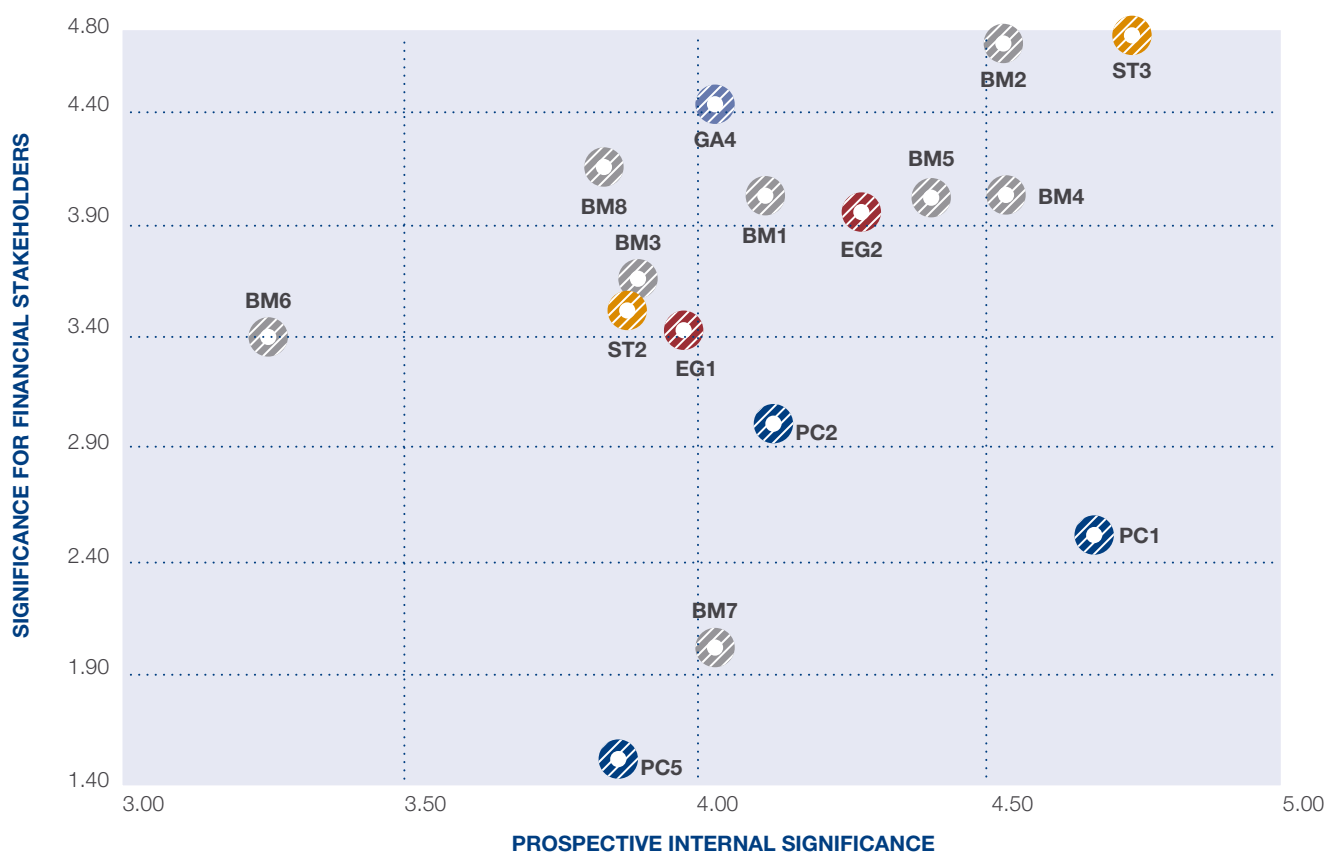
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## Annexes

# Materiality analysis

## PROSPECTIVE MATERIALITY MATRIX



### Ethics and governance model

- EG1:** Alignment with best governance practices
- EG2:** Business integrity

### Transmission service

- ST2:** Electricity market integration
- ST3:** Quality, security and service continuity

### People and community

- PC1:** Health and safety and correct labour practices
- PC2:** HR development
- PC5:** Social responsibility and positive impact on local communities

### Business management

- BM1:** Strategic approach to stakeholder management
- BM2:** Compliance with financial targets
- BM3:** Prudent risk management
- BM4:** Choice of investments and conformity with plan
- BM5:** Engagement with local stakeholders
- BM6:** Business and development and diversification
- BM7:** Monitoring of environmental and social aspects of the supply chain
- BM8:** Innovation and research

### Management of environmental impacts

- GA4:** Reduction of the Group's environmental footprint

In the preparation of its Integrated Report for 2018, Terna has taken into account the guiding principles in the Integrated Reporting Framework developed by the IIRC-International Integrated Reporting Council. One of these principles is materiality, which requires entities to consider, when selecting the matters to cover and the related KPIs, their effective relevance in terms of their role in value creation.

The matters covered in the Integrated Report for 2018 are consistent with the materiality matrix on the previous pages. Construction of the matrix also played a part in the materiality analysis carried out during preparation of the Sustainability Report, which from last year also has the role of "Non-financial statement", now obligatory in accordance with Legislative Decree 254/2016 and also based on the materiality principle.

Key steps in this process are the following:

- **selection of the main topics** for which to determine their significance for Terna and for stakeholders. The selection was conducted in 2016 on the basis of an in-depth analysis of internal and external documents. 23 topics, belonging to 5 areas, were identified: ethics and the governance model; the transmission service; the management of environmental impacts; business management; people and communities;
- **determination of significance for Terna.** The selected topics have been classified according to their importance for Terna. The analysis looked at the degree of active management (the presence of policies, procedures, monitoring, objectives, etc.) of each topic. The Strategic Plan 2018-2022 and the "Sustainability initiatives and KPIs for the Strategic Plan 2019-2023" are the main sources used in assessing materiality in 2018. The analysis also took into account the results of the internal survey on materiality conducted last year, involving second-level heads of department and validated by senior management;
- **determination of significance for stakeholders.** Each topic was ranked by combining the significance of the topic for each category of stakeholder with the weighting assigned to that category in Terna's stakeholder map. In particular, the significance of each topic for a given category of stakeholder was assessed on the basis of a) the analysis of documents, b) the results of specific surveys (e.g. engagement surveys of personnel, questionnaires completed by customers of the Group's non-regulated business) and c) management's perception of the significance of topics for stakeholders with whom they have direct contact.

Further details are provided in the section on materiality in the Sustainability Report-Non-financial Statement.

The materiality matrix used for the Integrated Report differs from the one used for the Sustainability Report-Non-financial Statement as regards the following key aspects:

- the determination of significance for Terna was based on the prospective significance, with reference to the five-year period covered by the Business Plan for 2018-2022: starting from the current level of active management, the need for investment - in boosting management capabilities - in order to achieve the objectives in the Plan was assessed for each topic;
- in determining significance for stakeholders, and again in line with IIRC principles, only the opinions of those belonging to the financial category, meaning "shareholders" (including financial analysts and institutional investors) and "credit providers" (e.g. banks), were taken into account;
- the topics placed in the matrix (16) are those for which, in the set of sources analysed, it was possible to identify the information of significance to financial stakeholders.

In the matrix, the most significant topics are those furthest away from the origin, for both axes.

# Regulatory framework and other information

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## Summary of the principal legislative measures

A brief description is provided below of the principal legislation of interest to the Group issued during 2018 and, subsequently, up to the date of preparation of this Annual Report.

- **Law 205 of 27 December 2017, containing the Budget Law for the 2018 financial year and the long-term budget for the three-year period 2018-2020, published in the Official Gazette of 29 December 2017**

The 2018 Budget Law extended the option of applying super depreciation and hyper depreciation to capital assets purchased in 2019 and the tax breaks on expenditure on Industry 4.0 training. The law has also introduced contributions holidays for new hires and the option, during the three-year period 2018-2020, to apply for early retirement, up to 7 years before reaching the statutory retirement age, provided there is agreement between the employer and workers regarding the payment of contributions.

- **Law Decree 87 of 12 July 2018, containing urgent measures regarding the dignity of workers and enterprises, converted into Law 96 on 9 August 2018, published in Official Gazette no. 186 of 11 August 2018**

The Law Decree has amended the legislation on hyper depreciation, with the benefits no longer available for assets transferred overseas, and on the tax relief on additional spending on research and development, excluding intangible assets purchased from companies in the same group from the relief. The legislation also makes access to state aid dependent on jobs and production remaining in Italy. It also places tighter restrictions on the renewal of fixed term contracts and has introduced an increase in the contributions payable on these types of employment relationship.

- **Legislative Decree 107 of 10 August 2018, containing amendments to Italian legislation in order to bring it into line with the provisions of EU Regulation 596/2014 on market abuse, and which has abrogated EU Directive 2003/6/CE and Directives 2003/124/EU, 2003/125/EC and 2004/72/EC, published in the Official Gazette of 14 September 2018**

The decree has amended Italian legislation on market abuse in line with EU Regulation 596/2014 and requires the issuers of financial instruments to disclose price sensitive information. It has introduced sanctions for so-called “tipping”, when a person discloses inside information outside the normal exercise of their employment, profession or duties.

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- **Law Decree 119 of 23 October 2018, containing urgent measures on tax and finance, converted into law 136 of 17 December 2018, published in Official Gazette no. 293 of 18 December 2018**

This Decree contains measures regarding electronic invoicing and the settlement of VAT, extending the “reverse charge” procedure until 2022.

- **Law Decree 135 of 14 December 2018, containing urgent measures on support and simplification for enterprises and the public administration, published in Official Gazette no. 290 of 14 December 2018**

The Law Decree has abrogated the legislation requiring businesses to keep single electronic records from January and has revised the provisions of the Tenders Code relating to the reasons for the exclusion of economic operators.

- **Law 145 of 30 December 2018, containing the Budget Law for the 2019 financial year and the long-term budget for the three-year period 2019-2021, published in Official Gazette no. 302 of 31 December 2018**

The 2019 Budget Law has extended the option of applying hyper depreciation to 2019, capping eligible expenditure at €20 million and making the applicable rates of depreciation progressive; it has also extended the tax breaks on expenditure on Industry 4.0 training and the contributions holiday for new hires, above all for young people who have recently graduated from university with a first-class degree and people who have recently completed a doctorate. The law has reduced the deductible portion of additional spending on research and development to 25%, of relating to cost items such as personnel expenses for staff not on permanent contracts and contracts with innovative start-ups and SMEs not belonging the same group. It has also abolished ACE tax relief, which permitted companies to deduct a notional return on new equity from taxable income. Finally, the legislation has increased the tax-deductible portion of council tax from 20% to 40% and permits companies to apply an IRES rate reduced to 15% on profits reinvested in capital assets and in increased personnel expenses for permanent workers.

## Resolutions of the Italian Regulatory Authority for Energy, Networks and the Environment

A summary is provided below of the principal resolutions adopted by Italy's Regulatory Authority for Energy, Networks and the Environment (ARERA) during 2018 and, subsequently, up to the date of preparation of this Annual Report.

- **Resolution 44/2018/R/eel:** Adjustments to the payments for volumes accepted in the balancing market in place of the volumes accepted during the planning phase for the ex-ante dispatching services market, in order to supply the secondary reserve service.
- **Resolution 129/2018/R/eel:** Urgent measures regarding output-based incentive mechanisms for transmission services. Changes to the rules governing the recognition of incentives for high-risk projects.
- **Resolution 261/2018/R/eel:** Changes and additions to the criteria and conditions governing capacity payments.
- **Resolution 290/2018/R/eel:** Approval of the proposed division of regional costs for intraday coupling close to Italy's borders pursuant to article 80 of EU Regulation 2015/1222 (CACM).
- **Resolution 292/2018/R/eel:** Audit of contractual compliance by Terna S.p.A. and Gestore dei Mercati Energetici S.p.A. with regard to the launch of intraday coupling.
- **Resolution 338/2018/I/eel:** Revision of the regulator's opinion 701/2016/I/eel granting an exemption for a portion of the "Italy-Montenegro" direct current interconnection.
- **Resolution 363/2018/R/eel:** Downward revision of the charge covering the costs of paying for the load interruptibility service and the charge to cover downward revision of the fee covering the not-recoverable costs incurred by the safeguard operators for the default of non-detachable end users with effect from 1 July 2018.
- **Resolution 383/2018/R/eel:** Approval of the regulation, drawn up by Terna S.p.A. in accordance with the regulator's Resolution 300/2017/R/eel, regarding the pilot project for participation in the dispatching services market (DSM) for relevant production units for which enablement is not obligatory.
- **Resolution 402/2018/R/eel:** Approval of the regulation, drawn up by Terna S.p.A. in accordance with the regulator's Resolution 300/2017/R/eel, regarding the pilot project for provisions of the primary frequency response service via relevant production units integrated with the storage system.
- **Resolution 386/2018/R/eel:** Measures regarding subdivision of the relevant grid into zones, following completion of the review process carried out in accordance with EU Regulation 2015/1222 (CACM).
- **Resolution 422/2018/R/eel:** Approval of the regulation, drawn up by Terna S.p.A. in accordance with the regulator's Resolution 300/2017/R/eel, regarding the pilot project for the participation of mixed virtual units in the dispatching services market (DSM). Amendment of the regulator's Resolution 300/2017/R/eel.

- **Resolution 534/2018/R/eel:** Determinations regarding essential plants. Changes and additions to the related regulations.
- **Resolution 535/2018/R/eel:** Approval of the proposed terms and conditions for balancing, presented pursuant to EU Regulation 2017/2195 (the Balancing Regulation) and assessment of the compliance of the proposed changes to the transmission, dispatching, development and grid security code.
- **Resolution 592/2018/R/eel:** Approval of changes to the transmission, dispatching, development and grid security code drawn up by Terna S.p.A. for the purposes of implementing EU Regulation 2016/631. Addition to the Integrated Text on Active Connections.
- **Resolution 628/2018/R/eel:** launch of the procedure for implementing the regulation governing the exchange of data between Terna S.p.A., electricity distribution companies and significant grid users in order to guarantee the security of the national electricity system.
- **Resolution 668/2018/R/eel:** Financial incentives for initiatives designed to boost the resilience of electricity distribution systems.
- **Resolution 670/2018/R/eel:** Revision of tariffs for provision of the electricity transmission service in 2019 and decisions regarding applications for incentives for specific high-risk projects.
- **Opinion 674/2018/R/eel:** Assessment of the draft 2018 Ten-year Plan for Development of the National Transmission Grid.
- **Resolution 675/2018/R/eel:** Approval of the regulation drawn up by Terna for the provision of resources to be made available for use in voltage regulation in the Brindisi area. Further provisions and pilot projects relating to voltage regulation.
- **Resolution 692/2018/R/eel:** Changes to the regulator's Resolution 627/2016/R/eel and provisions regarding planning for development of the electricity transmission grid.
- **Resolution 698/2018/R/eel:** Determination of the criteria and objectives of output incentive mechanisms for the transmission service in order to build interzonal transmission capacity.
- **Resolution 699/2018/R/eel:** Output incentive mechanisms for projects designed to boost the efficiency of the dispatching service.
- **Resolution 705/2018/R/eel:** Review of dispatching charges for 2019.

Further details of the above resolutions, and information of further resolutions adopted by the regulator (ARERA), can be found on the regulator's website [www.arera.it](http://www.arera.it).



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## Other information

Additional information is presented below in accordance with specific statutory or industry requirements.

### Treasury shares

The Parent Company does not directly or indirectly hold any of its own shares or the shares of CDP Reti S.p.A. or Cassa Depositi e Prestiti S.p.A., nor has it purchased or sold any such shares during the reporting period.

### Related party transactions

Related party transactions entered into by the Terna Group in 2018 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 2018<sup>26</sup>.

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.

No material transactions<sup>27</sup> were carried out in 2018, nor were any transactions subject to the reporting requirements applicable in the event of exemptions applied in accordance with the relevant regulations<sup>28</sup>.

### Information on ownership structures

The disclosures required by art. 123-*bis* "Information on 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 2018, available on Terna S.p.A.'s website ([www.terna.it](http://www.terna.it)) - in the section "Investor Relations").

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<sup>26</sup> 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 2017. In addition, in implementation of CONSOB Resolution 18049 of 23 December 2011, 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 Remuneration Report published in accordance with the law.

<sup>27</sup> These are related party transactions classified in compliance with Annex 3 to the "Regulations on related party transactions" (adopted with CONSOB Resolution 17221 of 12 March 2010, as amended by CONSOB Resolution 17389 of 23 June 2010).

<sup>28</sup> 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*".

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### **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 article 36 of the Regulation implementing the provisions of Legislative Decree 58 of 24 February 1998 regarding markets, adopted with Resolution 16191/2007, and the amended provisions of art. 15 of the above new Regulations adopted with CONSOB resolution no. 20249 of 28 December 2017 (the "CONSOB Markets Regulation"), Terna S.p.A. does not hold any significant controlling interests, as defined in the above regulations, in companies incorporated and regulated under the laws of countries not belonging to the European Union.

With regard to the provisions of article 37 of the same CONSOB Markets Regulation, and to the amended provisions of article 16 of the new Regulations mentioned above, Terna S.p.A. 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

## in the dimensions of the NTG

Below are details of changes in the dimensions of the infrastructure available for use and in service with respect to the situation at 31 December 2017.

### DETAILS OF ELECTRICITY SUBSTATIONS OWNED BY THE TERNA GROUP\*

(AT 31 DECEMBER)	UNIT OF MEASUREMENT	2018	2017	CHANGE	% CHANGE
<b>380 kV</b>					
Substations	no.	164	164	0	0.00
Power transformed	MVA	115,258	114,008	1,250	1.10
<b>220 kV</b>					
Substations	no.	150	150	0	0.00
Power transformed	MVA	31,417	31,317	100	0.32
<b>Lower voltages (≤150 kV)</b>					
Substations	no.	567	557	10	1.80
Power transformed	MVA	3,914	3,890	24	0.62
<b>Total</b>					
Substations	no.	881	871	10	1.15
Power transformed	MVA	150,589	149,215	1,374	0.92

\* MVA are calculated to three decimal places and rounded to the nearest whole number. Percentages are calculated to five decimal places and rounded to two decimal places.

**DETAILS OF POWER LINES OWNED BY THE TERNA GROUP\***

(AT 31 DECEMBER)	UNIT OF MEASUREMENT	2018	2017	Δ	Δ %
<b>380 kV</b>					
Length of circuits	km	12,496	12,487	9	0.07
Length of lines	km	11,315	11,305	10	0.09
<b>220 kV</b>					
Length of circuits	km	11,915	11,915	(0)	0.00
Length of lines	km	9,549	9,549	1	0.01
<b>Lower voltages (≤150 kV)</b>					
Length of circuits	km	50,031	50,123	(92)	(0.18)
Length of lines	km	46,806	46,852	(46)	(0.10)
<b>Total</b>					
Length of circuits	km	74,442	74,525	(83)	(0.11)
overhead	km	71,043	71,182	(139)	(0.20)
underground cables	km	1,945	1,880	65	3.47
submarine cables	km	1,454	1,463	(9)	(0.61)
Length of circuits	km	67,671	67,706	(35)	(0.05)
overhead	km	64,271	64,363	(91)	(0.14)
underground cables	km	1,945	1,880	65	3.47
submarine cables	km	1,454	1,463	(9)	(0.61)
<b>Incidence of direct current connections (200 - 380 - 500 kV)</b>					
Circuits	km	2,077	2,077		
% of total	%	2.79	2.79		
Lines	km	1,757	1,757		
% of total	%	2.60	2.60		

\* Km are calculated to three decimal places and rounded to the nearest whole number. Percentages are calculated to five decimal places.

## PRINCIPAL CHANGES IN THE SIZE OF THE TERNA GROUP'S INFRASTRUCTURE

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### Substations

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#### New infrastructure:

The following substations have **entered service**:

- switching substation at Santa Teresa di Gallura [SS] (5 150kV bays);
- switching substation at Canino 150 [VT] (3 150kV bays);
- switching substation at San Salvo [CH] (6 132kV bays);
- switching substation at Ravenna Industrial Park [RA] (3 132kV bays);
- transformer substation at La Rosa 2 [LI] (1 132kV bay);

and the following were **acquisitions**:

- switching substation at Bussento [SA] (5 150 kV bays);
- switching substation at Tanagro [SA] (5 150kV bays);
- switching substation at Portella Pero [PA] (4 150kV bays);
- switching substation at Siculiana [PA] (3 150kV bays);

The substation at Stornarella [FG] was also included in the Group's assets and the future Belcastro 380 [CZ] substation was **commissioned in its provisional setup**.

Existing infrastructure:

- **reconstruction in armoured form** of the San Antonio [BZ] substation (6 220kV bays)
  - **commissioning** of 18 new line bays for the substations at Villanova (2 380kV bays), Benevento III (1 380kV bay and 2 150kV bays), Cassano 380, Cassano d'Adda and Castelluccia (1 220kV bay each), Vaglio (2 150kV bays), Aprilia 150, Butera, Rumianca and San Severo (1 150kV bay each), BAS Bergamo, Bistagno, Cornegliano and Tavazzano (1 132kV bay each);
  - **commissioning** of 10 new machine and/or power factor correction bays in the substations of Redipuglia (1 380kV bay and 1 220kV bay), Benevento III and San Severo (1 380kV bay and 1 150kV bay each), Brindisi Sud and Erchie (1 380kV bay each), Cassano 380 (1 220kV bay), Porto Tolle (1 132kV bay);
  - **commissioning** of 1 new 150kV parallel bay at the San Severo substation;
  - **demolition and/or decommissioning** of 6 bays at the substations of Benevento II (2 150kV bays), San Rocco (2 132kV bays), Diano Marina (2 66kV bays).
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## Transformers

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The following transformers **entered service**:

- 1 new 380/220kV 600 MVA autotransformer for the Redipuglia substation;
- 1 new 380/150kV 400 MVA autotransformer for the Benevento III substation;
- 1 new 380/150kV 250 MVA autotransformer for the San Severo substation;
- 1 new 380/132kV 250 MVA autotransformer for the Travagliato substation;
- 1 new 220/60kV 100 MVA transformer for the San Antonio substation;
- 1 new 132/15kV 40 MVA transformer for the Savona substation;
- 1 new 132/15kV 16 MVA transformer and the concomitant commissioning of the new La Rosa 2 substation;

and the following **further changes** occurred:

- demolition of 1 380/132kV 300 MVA autotransformer at the Travagliato substation;
  - demolition of 1 132/15 kV 32 MVA transformer at the Savona substation;
  - replacement of 1 132/66 kV 25 MVA transformer with another identical transformer at the Cuneo RT substation.
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## Power lines

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- **construction** of 10 new lines amounting to a total of 52.0 km of circuit: Villanova - Cepagatti Conversion 1 \ 2 380kV (2 lines amounting to 4.0 km in cable), Gadio - Ricevitrice Ovest 220 kV (6.0 km in cable), Main Naples primary substation - Naples Levante 220kV (3.9 km in cable), Villafranca - Messina Riviera primary substations (new) 150kV (8.9 km of overhead line and 2.7 km in cable), Quartu - Quartucciu 150kV (5.9 km in cable), Tavazzano - Cornegliano 132kV (5.9 km in cable), Malpensata - BAS Bergamo 132kV (3.3 km in cable), cables in the lagoon: Cavallino - Sacca Serenella 132kV (14.2 km in cable) and Fusina 2 - Saccafisola primary substation 132 kV (5.9 km in cable);
  - **construction** of 4 short connections between adjacent infrastructure, amounting to 1.4 km of circuit, including: 1 220kV line (0.2 km in cable), 2 150kV lines (0.7 km of overhead line and 0.4 km in cable) and 1 132kV line (0.2 km in cable);
  - **acquisition from third parties** of 4 lines amounting to 48.7 km of circuit, including 1 150kV line (18.2 km of overhead line), 2 132kV lines (0.7 km of overhead line), and 1 60kV line (29.8 km of overhead line);
  - **construction** of 12 in-out derivations on lines in operation, with an overall increase of the same number of circuits and 13.8 km of circuit, including: 1 line of 2.2 km at 380kV, 6 lines of 10.6 km at 150kV, 5 lines of 1.1 km at 132kV;
  - **construction of variants, rigid derivations, re-routings and/or changes to grid distribution** with a total reduction of 3 lines amounting to 83.0 km of circuit, including: 3.2 km more at 380kV, 1 line with 6.9 km less at 220kV, 1 line with 28.4 km less at 150kV, 1 line with 50.9 km less at 132kV, 2 66kV lines less;
  - **demolition** of 12 lines and/or parts of lines amounting to 79.2 km of circuit, including: 5.1 km at 220kV, 26.0 km at 150kV, 3.0 km at 132kV, 8.4 km at 60kV, 36.7 km at 50kV;
  - **sale to third parties** of a portion of 220kV overhead line amounting to 0.8 km of circuit.
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# Alternative performance measures (APMs)

In accordance with the guidelines in ESMA/2015/1415, the alternative performance indicators used in this Integrated Report are described below.

MEASURE	DESCRIPTION
<b>OPERATING RESULTS</b>	
<b>Operating profit/(loss) - EBIT</b>	is an indicator of operating performance obtained by adding <b>Net financial income/(expenses)</b> to <b>Profit/(Loss) before tax</b> .
<b>Gross operating profit/(loss) - EBITDA</b>	is an indicator of operating performance obtained by adding <b>Amortisation, depreciation and impairment losses</b> to <b>Operating profit/(loss) (EBIT)</b> .
<b>Tax rate</b>	is the amount of tax paid as a proportion of pre-tax profit and is based on the ratio of <b>Income tax expense</b> to <b>Profit/(Loss) before tax</b> .
<b>FINANCIAL POSITION</b>	
<b>Net working capital</b>	is an indicator of financial position, showing the entity's liquidity position; it is based on the difference between <b>Current assets</b> and <b>Current liabilities</b> of a non-financial nature, as presented in the statement of financial position
<b>Gross invested capital</b>	is an indicator of financial position, showing the entity's total assets and is obtained by adding <b>Net non-current assets</b> and <b>Net working capital</b> .
<b>Net invested capital</b>	is calculated by deducting <b>Sundry provisions</b> from <b>Gross invested capital</b>
<b>CASH FLOW</b>	
<b>Net debt</b>	is an indicator of the entity's financial structure and is obtained by deducting <b>Cash and cash equivalents</b> and <b>Financial assets from Short- and long-term financial liabilities</b> and the related <b>derivative instruments</b>
<b>Free cash flow</b>	is the cash generated by operating activities less capital expenditure and is the difference between <b>Cash flow from operating activities</b> and <b>Cash flow for investing activities</b>

# 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 in Italy	1,989.6	"Revenue from sales and services", totalling €2,272.5 million, "Other revenue and income", totalling €46.6 million, after the cost of International Activities: "Personnel expenses", totalling €0.6 million, "Raw and consumable materials used", totalling €119.2 million, "Services", totalling €1.2 million, and "Other operating costs" of €1.1 million
Non-Regulated revenue	194.9	
Revenue from International Activities	12.5	
Personnel expenses	238.8	"Personnel expenses" after the cost of construction services performed under concession in Italy in accordance with IFRIC 12 (€4.7 million) and the cost of International Activities (€0.6 million)
Cost of services, leases and rentals	176.5	"Services" after the cost of construction services performed under concession in Italy in accordance with IFRIC 12 (13.5 million) and the cost of International Activities (€1.2 million)
Materials	77.9	"Raw and consumable materials used" after the cost of construction services performed under concession in Italy in accordance with IFRIC 12 (€7.3 million) and the cost of International Activities (€119.2 million)
Other costs	22.6	Other operating costs after the cost of International Activities (€1.1 million)
Quality of service	5.1	
Cost of construction services performed under concession	4.7	"Personnel expenses"
	13.5	"Services"
	7.3	"Raw and consumable materials used"
Net financial income/ (expenses)	(88.8)	Points 1, 2 and 3 of letter C - "Financial income and expenses"

(Continued)



(Continued)

THE GROUP'S RECLASSIFIED STATEMENT OF FINANCIAL POSITION	€M	CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Financial assets	319.9	"Investment accounted for using the equity method", "Other non-current assets" and "Non-current financial assets"
Net energy-related pass-through payables	(777.6)	"Trade receivables" relating to the value of energy-related pass-through receivables (€715 million) and "Trade payables" relating to the value of energy-related pass-through payables (€1,492.6 million)
Net receivables resulting from Regulated Activities	313.9	"Trade receivables" relating to the value of receivables resulting from Regulated Activities (€339.4 million) and "Trade payables" relating to the value of payables resulting from Regulated Activities (€25.5 million)
Net trade payables	(860.7)	"Trade payables" after the value of energy-related pass-through payables (€1,492.6 million) and payables resulting from Regulated Activities (€25.5 million) and "Trade receivables" after the value of energy-related pass-through receivables (€715 million) and the value of receivables resulting from Regulated Activities (€339.4 million)
Net tax assets	50.9	"Tax assets", "Other current assets" relating to the value of other tax assets (€44.1 million), "Other current liabilities" relating to the value of other tax liabilities (€7.4 million) and "Tax liabilities"
Other liabilities, net	(549.0)	"Other non-current liabilities", "Other current liabilities" after other tax liabilities (€7.4 million), "Inventories" and "Other current assets" after other tax assets (€44.1 million)
Sundry provisions	(307.5)	"Employee benefits", "Provisions for risks and charges" and "Deferred tax assets"
Net debt	7,899.4	"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"

THE GROUP'S ANALYSIS OF NET DEBT	€M	CONSOLIDATED STATEMENT OF FINANCIAL POSITION
"Bond issues" and "Borrowings"	9,458.2	Corresponds with "Long-term borrowings" and "Current portions of long-term borrowings"
"Derivative financial instruments" - medium/long-term	59.2	Corresponds with "Non-current financial liabilities"
Other current financial liabilities, net	89.8	Corresponds with "Current financial assets" relating to the value of accrued financial income (€0.6 million) and "Current financial liabilities".
Financial assets	(403.9)	Corresponds with "Current financial assets" relating to the value of government securities (€402.6 million) and cash flow hedges (€1.3 million).

**RECONCILIATION OF THE TERNA GROUP'S CASH FLOW**

(€m)

	CASH FLOW 2018	RECONCILIATION WITH FINANCIAL STATEMENTS	PRO FORMA CASH FLOW 2017	RECONCILIATION WITH FINANCIAL STATEMENTS
- Profit for the year	711.6		694.2	
- Amortisation, depreciation and impairment losses	554.1		526.5	
- Net change in provisions	(48.3)		(28.8)	
<i>Employee benefits</i>		(11.3)		(23.4)
<i>Provisions for risks and charges</i>		(25.1)		27.9
<i>Deferred tax assets</i>		(3.3)		
<i>Deferred tax liabilities</i>		(8.6)		(33.3)
- Net losses/(gains) on sale of assets(1)	(3.5)		(2.1)	
<b>Operating cash flow</b>	<b>1,213.9</b>		<b>1,189.8</b>	
- Change in net working capital:	336.6		408.3	
<i>Inventories</i>		(0.4)		(4.8)
<i>Trade receivables</i>		75.5		176.0
<i>Income tax assets</i>		17.6		(17.2)
<i>Other current assets</i>		53.1		(71.6)
<i>Trade payables</i>		16.2		217.2
<i>Tax liabilities</i>		5.1		(8.1)
<i>Other liabilities</i>		169.5		116.8
- Other changes in non-current assets	(76.0)		36.1	
<i>Intangible assets(2)</i>		(9.3)		-
<i>Property, plant and equipment(3)</i>		45.3		137.5
<i>Non-current financial assets</i>		(113.2)		(98.3)
<i>Other non-current assets</i>		(0.6)		(0.4)
<i>Investments accounted for using the equity method</i>		1.8		(2.7)
<b>Cash flow from operating activities</b>	<b>1,474.5</b>		<b>1,634.2</b>	
<b>Capital expenditure</b>				
- Total Capital expenditure	(1,091.1)		(1,033.9)	
<i>Property, plant and equipment(3)</i>		(1,034.7)		(993.8)
<i>Intangible assets(2)</i>		(56.4)		(40.1)
<b>Total cash flow from (for) investing activities</b>	<b>(1,091.1)</b>		<b>(1,033.9)</b>	
<b>Free cash flow</b>	<b>383.4</b>		<b>600.3</b>	
- Cash flow hedge reserve after taxation and other movements in equity attributable to owners of the Parent(4)	(39.6)		(2.0)	
- Other movements in equity attributable to non-controlling interests	4.3		-	
- Dividends paid to Parent Company's shareholders(4)	(451.1)		(418.4)	
<b>Change in net debt</b>	<b>(103.0)</b>		<b>179.9</b>	
- <b>Change in borrowings</b>	<b>(557.3)</b>		<b>673.6</b>	
<i>Non-current financial assets</i>		4.3		325.7
<i>Current financial assets</i>		(404.3)		26.0
<i>Non-current financial liabilities</i>		48.7		(2.3)
<i>Long-term borrowings</i>		(444.0)		267.2
<i>Short-term borrowings</i>		(93.0)		97.9
<i>Current portion of long-term borrowings</i>		346.3		(20.2)
<i>Current financial liabilities</i>		(15.3)		(20.7)
- <b>Change in cash and cash equivalents</b>	<b>(660.3)</b>		<b>853.5</b>	

(1) Included in "Other revenue and income" and "Other operating costs" in the consolidated financial statements.

(2) See note 14 to the financial statements.

(3) See note 12 to the financial statements.

(4) See the consolidated statement of changes in equity.

**RECONCILIATION OF THE 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	1,800.6	"Revenue from sales and services"
Revenue from construction services performed under concession	25.5	"Revenue from sales and services"
Other operating income	141.5	"Revenue from sales and services", totalling €66.8 million, and "Other revenue and income"
Personnel expenses	63.6	"Personnel expenses" after the cost of construction services performed under concession in accordance with IFRIC 12 (€0.3 million)
Cost of services, leases and rentals	343.8	"Services" after the cost of construction services performed under concession in accordance with IFRIC 12 (€20.8 million)
Materials	0.9	"Raw and consumable materials used" after the cost of construction services performed under concession in accordance with IFRIC 12 (€4.4 million)
Other costs	13.1	Other operating costs
Quality of service	5.1	
Cost of construction services performed under concession	0.3	"Personnel expenses"
	20.8	"Services"
	4.4	"Raw and consumable materials used"
Net financial income/ (expenses)	(78.5)	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	1,085.4	"Non-current financial assets" after loans to subsidiaries (€10 million) and "Other non-current assets"
Net energy-related pass-through payables	(799.7)	"Trade receivables" relating to the value of energy-related pass-through receivables (€715 million) and "Trade payables" relating to the value of energy-related pass-through payables (€1,514.7 million)
Net receivables resulting from Regulated Activities	313.9	"Trade receivables" relating to the value of receivables resulting from Regulated Activities (€339.4 million) and "Trade payables" relating to the value of payables resulting from Regulated Activities (€25.5 million)
Net trade payables	(537.6)	"Trade payables" after the value of energy-related pass-through payables (€1,514.7 million) and payables resulting from Regulated Activities (€25.5 million) and "Trade receivables" after the value of energy-related pass-through receivables (€715 million) and the value of receivables resulting from regulated activities (€339.4 million)
Net tax assets	(14.2)	"Tax assets", "Other current assets" relating to the value of other tax assets (€4.8 million), "Other current liabilities" relating to the value of other tax liabilities (€26.9 million) and "Tax liabilities"
Other liabilities, net	(350.4)	"Other non-current liabilities", "Other current liabilities" after other tax liabilities (€26.9 million), "Inventories" and "Other current assets" after other tax assets (€4.8 million)
Sundry provisions	(207.4)	"Employee benefits", "Provisions for risks and charges" and "Deferred tax assets"
Net debt	8,101.8	"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 loans to subsidiaries (€10 million), "Current financial assets" and "Current financial liabilities"

TERNA'S ANALYSIS OF NET DEBT	€M	STATEMENT OF FINANCIAL POSITION
"Bond issues" and "Borrowings"	9,401.7	Corresponds with "Long-term borrowings" and "Current portions of long-term borrowings"
"Derivative financial instruments"	59.1	Corresponds with "Non-current financial liabilities"
"Short-term borrowings and other financial liabilities"	89.5	Corresponds with "Short-term borrowings", "Current financial liabilities" and "Current financial assets" relating to the value of accrued financial income (€0.6 million)
"Cash and cash equivalents (including the net balance on intercompany current accounts)"	(945.1)	Corresponds with "Cash and cash equivalents"
"Long- and short-term loans to subsidiaries"	(99.5)	Corresponds with "Non-current financial assets", totalling €10 million, and "Current financial assets", totalling €89.5 million
"Financial assets"	(403.9)	Corresponds with "Current financial assets" relating to the value of government securities (€402.6 million) and cash flow hedges (€1.3 million).

## RECONCILIATION OF THE TERNA S.P.A.'S CASH FLOW

(€m)

	CASH FLOW 2018	RECONCILIATION WITH FINANCIAL STATEMENTS	PRO FORMA CASH FLOW FY2017	RECONCILIATION WITH FINANCIAL STATEMENTS
- Profit for the year	661.3		640.0	
- Amortisation, depreciation and impairment losses	517.9		495.2	
- Net change in provisions	(66.1)		(18.5)	
<i>Employee benefits</i>		(0.9)		(17.0)
<i>Provisions for risks and charges</i>		(29.7)		29.8
<i>Deferred tax assets</i>		(18.2)		
<i>Deferred tax liabilities</i>		(17.3)		(31.3)
- Net losses/(gains) on sale of assets(1)	(3.0)		(1.7)	
<b>Operating cash flow</b>	<b>1,110.1</b>		<b>1,115.0</b>	
- Change in net working capital:	243.0		287.3	
<i>Inventories</i>		5.3		(5.4)
<i>Trade receivables</i>		51.9		231.6
<i>Income tax assets</i>		41.9		(43.8)
<i>Other current assets</i>		42.7		(20.7)
<i>Trade payables</i>		7.0		143.8
<i>Tax liabilities</i>		8.1		(5.3)
<i>Other liabilities</i>		86.1		(12.9)
- Other changes in non-current assets	(36.6)		65.3	
Property, plant and equipment(2)		36.8		120.1
Intangible assets(3)		1.9		
Non-current financial assets		(74.6)		(54.8)
Other non-current assets		(0.7)		-
<b>Cash flow from operating activities</b>	<b>1,316.5</b>		<b>1,467.6</b>	
<b>Capital expenditure</b>				
- Total Capital expenditure	(886.1)		(851.9)	
Property, plant and equipment(2)		(834.3)		(813.4)
Intangible assets(3)		(51.8)		(38.5)
<b>Total cash flow from (for) investing activities</b>	<b>(886.1)</b>		<b>(851.9)</b>	
<b>Free cash flow</b>	<b>430.4</b>		<b>615.7</b>	
- Dividends(4)	(451.1)		(418.4)	
- Cash flow hedge reserve after taxation and other movements in equity(4)	(34.6)		5.9	
<b>Change in net debt</b>	<b>(55.3)</b>		<b>203.2</b>	
- Change in borrowings	(677.8)		673.2	
<i>Current financial assets</i>		(492.5)		65.1
<i>Non-current financial assets</i>		(6.8)		326.8
<i>Non-current financial liabilities</i>		47.9		(2.8)
<i>Long-term borrowings</i>		(466.6)		234.8
<i>Short-term borrowings</i>		(90.0)		90.0
<i>Current portion of long-term borrowings</i>		345.8		(20.0)
<i>Current financial liabilities</i>		(15.6)		(20.7)
- Change in cash and cash equivalents	(733.1)		876.4	

(1) Included in "Other revenue" and "Other operating costs" in the financial statements.

(2) See note 10 to the financial statements.

(3) See note 12 to the financial statements.

(4) See the statement of changes in equity.

