CONSOLIDATED FINANCIAL STATEMENTS

Contents

Consolidated financial statements

Consolidated income statement

(€m)

	NOTE	2018	2017
A – REVENUE			
1. Revenue from sales and services	1	2,272.5	2,184.0
of which: related parties		*1,603.6*	*1,593.3*
2. Other revenue and income	2	46.6	64.0
of which: related parties		*16.1*	*6.7*
Total revenue		**2,319.1**	**2,248.0**
B – OPERATING COSTS			
1. Raw and consumable materials used	3	204.4	158.1
of which: related parties		*0.2*	*0.1*
2. Services	4	191.2	182.4
of which: related parties		*19.7*	*25.7*
3. Personnel expenses	5	244.1	257.2
- gross personnel expenses		*312.3*	*321.0*
- capitalised personnel expenses		*(68.2)*	*(63.8)*
of which: related parties		*2.9*	*2.6*
4. Amortisation. depreciation and impairment losses	6	554.1	526.5
5. Other operating costs	7	28.8	46.4
of which: related parties		*0.1*	*0.2*
Total costs		**1,222.6**	**1,170.6**
A - B OPERATING PROFIT/(LOSS)		**1,096.5**	**1,077.4**
C – FINANCIAL INCOME/(EXPENSES)			
1. Financial income	8	6.9	3.9
2. Financial expenses	8	(98.3)	(96.5)
of which: related parties		*(3.1)*	*(3.8)*
3. Share of profit/(loss) of investees accounted for using the equity method	9	2.6	3.8
D – PROFIT/(LOSS) BEFORE TAX		**1,007.7**	**988.6**
E – INCOME TAX EXPENSE	**10**	**296.1**	**294.4**
F – PROFIT FOR THE YEAR		**711.6**	**694.2**
Profit attributable to owners of the Parent		***706.6***	***688.3***
Profit attributable to non-controlling interests		***5.0***	***5.9***
Earnings per share	**11**		
Basic earnings per share		0.352	0.342
Diluted earnings per share		0.352	0.342

Consolidated statement of comprehensive income

(€m)

	NOTE	2018	2017
PROFIT FOR THE YEAR		**711.6**	**694.2**
Other comprehensive income for the year reclassifiable to profit or loss			
- Cash flow hedges, after taxation	23	(32.1)	5.5
- Financial assets at fair value through other comprehensive income, after taxation	23	1.1	
- Gains/(Losses) from translation of financial statements in currencies other than the euro	23	(4.8)	(6.9)
- Cost of hedges, after taxation	23	(1.8)	-
Other comprehensive income for the year not reclassifiable to profit or loss			
- Actuarial gains/(losses) on provisions for employee benefits, after taxation	23	0.9	(0.4)
COMPREHENSIVE INCOME FOR THE YEAR		**674.9**	**692.4**
COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Parent		*669.9*	*686.5*
Non-controlling interests		*5.0*	*5.9*

Consolidated statement of financial position

(€m)

	NOTE	31 DECEMBER 2018	31 DECEMBER 2017
A – NON-CURRENT ASSETS			
1. Property, plant and equipment	12	13.244,3	12.752,8
of which: related parties		*40.9*	*26,2*
2. Goodwill	13	230,1	230,1
3. Intangible assets	14	289,3	275,6
4. Deferred tax assets	15	3,3	-
5. Investments accounted for using the equity method	16	76,1	77,9
6. Non-current financial assets	17	229,0	120,1
of which: related parties		-	*0,3*
7. Other non-current assets	18	14,8	14,2
Total non-current assets		**14.086,9**	**13.470,7**
B – CURRENT ASSETS			
1. Inventories	19	15,2	14,8
2. Trade receivables	20	1.189,7	1.265,9
of which: related parties		*409,7*	*407,1*
3. Current financial assets	17	404,5	0,2
4. Cash and cash equivalents	21	1.328,9	1.989,2
of which: related parties		*0,1*	*0,1*
5. Income tax assets	22	19,3	36,9
6. Other current assets	18	86,0	139,1
of which: related parties		*3,3*	-
Total current assets		**3.043,6**	**3.446,1**
TOTAL ASSETS		**17.130,5**	**16.916,8**

(continues)

(continued)

(€m)

	NOTE	31 DECEMBER 2018	31 DECEMBER 2017
C – EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
1. Share capital		442.2	442.2
2. Other reserves		788.5	820.4
3. Retained earnings/(accumulated losses)		2,240.1	2,001.7
4. Interim dividend		(158.2)	(149.3)
5. Profit for the year		706.6	688.3
Total equity attributable to owners of the Parent	**23**	**4,019.2**	**3,803.3**
D – EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	**23**	**35.0**	**25.7**
Total equity attributable to owners of the Parent and non-controlling interests		**4,054.2**	**3,829.0**
E – NON-CURRENT LIABILITIES			
1. Long-term borrowings	24	8,227.6	8,671.6
of which: related parties		*-*	*500.0*
2. Employee benefits	25	69.4	80.7
3. Provisions for risks and charges	26	241.4	266.5
4. Deferred tax liabilities	15	-	8.6
5. Non-current financial liabilities	24	59.2	10.5
6. Other non-current liabilities	27	373.8	251.0
Total non-current liabilities		**8,971.4**	**9,288.9**
F – CURRENT LIABILITIES			
1. Short-term borrowings	24	25.0	118.0
2. Current portion of long-term borrowings	24	1,230.6	884.3
of which: related parties		*500.0*	*-*
3. Trade payables	28	2,514.1	2,497.9
of which: related parties		*66.7*	*46.1*
4. Tax expense	28	5.1	-
5. Current financial liabilities	24	90.4	105.7
of which: related parties		*0.5*	*0.5*
6. Other current liabilities	28	239.7	193.0
of which: related parties		*14.7*	*5.6*
Total current liabilities		**4,104.9**	**3,798.9**
TOTAL LIABILITIES AND EQUITY		**17,130.5**	**16,916.8**

Consolidated statement of changes in equity

31 DECEMBER 2017 - 31 DECEMBER 2018
GROUP'S SHARE CAPITAL AND RESERVES

	SHARE CAPITAL	LEGAL RESERVE	SHARE PREMIUM RESERVE	CASH FLOW HEDGE RESERVE
EQUITY AT 31 DECEMBER 2017	**442.2**	**88.4**	**20.0**	**(12.7)**
Change in accounting standards	-	-	-	-
RESTATED EQUITY AT 1 JANUARY 2018	**442.2**	**88.4**	**20.0**	**(12.7)**
PROFIT FOR THE YEAR				
OTHER COMPREHENSIVE INCOME:				
- Change in fair value of cash flow hedges, after taxation				(32.1)
- Actuarial gains/(losses) on employee benefits, after taxation				
- Gains/(Losses) from translation of financial statements in currencies other than the euro				
- Financial assets at fair value through other comprehensive income, after taxation				
- Cost of hedges, after taxation				(1.8)
Total other comprehensive income	**-**	**-**	**-**	**(33.9)**
COMPREHENSIVE INCOME	**-**	**-**	**-**	**(33.9)**
TRANSACTIONS WITH SHAREHOLDERS:				
- Appropriation of profit for 2017:				
Retained earnings				
Dividends				
- Interim dividend 2018				
Total transactions with shareholders	**-**	**-**	**-**	**-**
Contribution of newly acquired companies				
Other changes				
Total other changes	**-**	**-**	**-**	**-**
EQUITY AT 31 DECEMBER 2018	**442.2**	**88.4**	**20.0**	**(46.6)**

31 DECEMBER 2016 - 31 DECEMBER 2017
GROUP'S SHARE CAPITAL AND RESERVES

	SHARE CAPITAL	LEGAL RESERVE	SHARE PREMIUM RESERVE	CASH FLOW HEDGE RESERVE
EQUITY AT 31 DECEMBER 2016	**442.2**	**88.4**	**20.0**	**(18.2)**
PROFIT FOR THE YEAR				
OTHER COMPREHENSIVE INCOME:				
- Change in fair value of cash flow hedges, after taxation				5.5
- Actuarial gains/(losses) on employee benefits, after taxation				
- Gains/(Losses) from translation of financial statements in currencies other than the euro				
Total other comprehensive income	**-**	**-**	**-**	**5.5**
COMPREHENSIVE INCOME	**-**	**-**	**-**	**5.5**
TRANSACTIONS WITH SHAREHOLDERS:				
- Appropriation of profit for 2016:				
Retained earnings				
Dividends				
- Interim dividend 2017				
Total transactions with shareholders	**-**	**-**	**-**	**-**
Other changes				
Total other changes	**-**	**-**	**-**	**-**
EQUITY AT 31 DECEMBER 2017	**442.2**	**88.4**	**20.0**	**(12.7)**

(€m)

OTHER RESERVES	RETAINED EARNINGS/ (ACCUMULATED LOSSES)	INTERIM DIVIDEND	PROFIT FOR THE YEAR	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT AND NON-CONTROLLING INTERESTS
724.7	2,001.7	(149.3)	688.3	3,803.3	25.7	3,829.0
	(3.0)	-	-	(3.0)	(0.6)	(3.6)
724.7	1,998.7	(149.3)	688.3	3,800.3	25.1	3,825.4
			706.6	706.6	5.0	711.6
				(32.1)		(32.1)
0.9				0.9		0.9
	(4.8)			(4.8)		(4.8)
1.1				1.1		1.1
				(1.8)		(1.8)
2.0	(4.8)	-	-	(36.7)	-	(36.7)
2.0	(4.8)	-	706.6	669.9	5.0	674.9
	246.1		*(246.1)*	-		-
	-	*149.3*	*(442.2)*	*(292.9)*		*(292.9)*
		(158.2)		(158.2)		(158.2)
-	246.1	(8.9)	(688.3)	(451.1)	-	(451.1)
					4.9	4.9
	0.1			0.1		0.1
-	0.1	-	-	0.1	4.9	5.0
726.7	2,240.1	(158.2)	706.6	4,019.2	35.0	4,054.2

(€m)

OTHER RESERVES	RETAINED EARNINGS/ (ACCUMULATED LOSSES)	INTERIM DIVIDEND	PROFIT FOR THE YEAR	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT AND NON-CONTROLLING INTERESTS
725.1	1,789.7	(144.9)	633.1	3,535.4	19.8	3,555.2
			688.3	688.3	5.9	694.2
				5.5		5.5
(0.4)				(0.4)		(0.4)
	(6.9)			(6.9)		(6.9)
(0.4)	(6.9)	-	-	(1.8)	-	(1.8)
(0.4)	(6.9)	-	688.3	686.5	5.9	692.4
	219.1		*(219.1)*	-		
		144.9	*(414.0)*	*(269.1)*		*(269.1)*
		(149.3)		(149.3)		(149.3)
-	219.1	(4.4)	(633.1)	(418.4)	-	(418.4)
	(0.2)			(0.2)		(0.2)
-	(0.2)	-	-	(0.2)	-	(0.2)
724.7	2,001.7	(149.3)	688.3	3,803.3	25.7	3,829.0

Consolidated statement of cash flows

(€m)

	2018	2017
PROFIT FOR THE YEAR	**711.6**	**694.2**
ADJUSTED BY:		
Amortisation, depreciation and impairment losses /(reversals of impairment losses) on non-current property, plant and equipment and intangible assets *	545.0	516.4
Accruals to provisions (including provisions for employee benefits) and impairment losses	43.2	74.1
(Gains)/Losses on sale of property, plant and equipment	(3.5)	(2.1)
Financial (income)/expense	91.5	82.8
Income tax expense	296.1	294.4
CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN NET WORKING CAPITAL	**1,683.9**	**1,659.8**
Increase/(decrease) in provisions (including provisions for employee benefits and taxation)	(54.5)	(69.2)
(Increase)/decrease in inventories	(0.4)	(4.8)
(Increase)/decrease in trade receivables and other current assets	129.2	89.7
Increase/(decrease) in trade payables and other current liabilities	62.7	200.2
Increase/(decrease) in other non-current liabilities	128.0	135.2
(Increase)/decrease in other non-current assets	(115.0)	(98.7)
Interest income and other financial income received	5.0	352.0
Interest expense and other financial expenses paid	(230.0)	(228.7)
Income tax paid	(302.3)	(343.8)
CASH FLOW FROM OPERATING ACTIVITIES [A]	**1,306.6**	**1,691.7**
- of which: related parties	*24.1*	*(138.0)*
Investments in non-current property. plant and equipment after grants received	(992.5)	(864.9)
Revenue from sale of non-current property, plant and equipment and intangible assets and other movements	12.7	9.4
Capitalised financial expenses	15.1	12.8
Investments in non-current intangible assets after grants received	(56.4)	(40.1)
Recognition of intangible assets and property, plant and equipment from new acquisitions	(17.6)	-
(Increase)/decrease in investments in associates	1.8	(2.7)
CASH FLOW FOR INVESTING ACTIVITIES [B]	**(1,036.9)**	**(885.5)**
- of which: related parties	*(14.7)*	*9.6*
Increase/(decrease) in retained earnings and accumulated losses	(2.9)	-
Dividends paid	(451.1)	(418.4)
Movements in short- and medium/long-term financial liabilities (including short-term portion)**	(78.8)	465.7
Movements in short-term financial investments	(401.5)	-
Recognition of non-controlling interests in equity of newly acquired companies	4.9	-
Increase/(decrease) in equity attributable to non-controlling interests	(0.6)	-
CASH FLOW FROM FINANCING ACTIVITIES [C]	**(930.0)**	**47.3**
INCREASE/(DECREASE) IN CASH AND EQUIVALENTS [A+B+C]	**(660.3)**	**853.5**
Cash and cash equivalents at beginning of year	1,989.2	1,135.7
Cash and cash equivalents at end of year	1,328.9	1,989.2

* *After grants related to assets recognised in the income statement for the year.*
** *After derivatives and impact of fair value adjustments.*

Notes

A. Accounting policies and measurement criteria

Introduction

Terna S.p.A.'s registered office is at Viale Egidio Galbani 70, Rome, Italy. The consolidated financial statements at and for the year ended 31 December 2018 include the Company's financial statements and those of its subsidiaries (the "Group"). The subsidiaries included within the scope of consolidation are listed below.
These consolidated financial statements were authorised for publication by the Board of Directors on 20 March 2019.
The consolidated financial statements at and for the year ended 31 December 2018 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 also authorised the Chairwoman and the Chief Executive Officer to make any alterations to the form of the consolidated financial statements and any additions and adjustments to the sections concerning significant subsequent events.

The Terna Group is the largest independent transmission system operator in Europe and one of the leading operators in the world in terms of kilometres of line managed (more than 72 thousand km).
It is responsible for the transmission and management of power flows on the high-voltage (HV) and very high-voltage (VHV) grid throughout Italy, in order to guarantee a balance between demand and supply for energy (dispatching). It is also responsible for the planning, construction and maintenance of the grid. It acts as the Italian TSO (Transmission System Operator), having been granted a monopoly under a government concession, and is subject to regulation by Italy's Regulatory Authority for Energy, Networks and the Environment (ARERA) and the guidelines established by the Ministry for Economic Development. It ensures the security, quality and cost-effectiveness of the national electricity system and has the task of developing the grid and integrating it with the European grid. It ensures equal access for all grid users.

Compliance with IAS/IFRS

The consolidated financial statements at and for the year ended 31 December 2018 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 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, 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 (including reclassification adjustments) that are recognised in equity rather than profit or loss for the year.
The statement of cash flows has been prepared using the indirect method.
The consolidated financial statements are accompanied by the Integrated Report for Terna S.p.A. and the Group, which as from financial year 2008 has been prepared as a single document, exercising the option granted by Legislative Decree 32 of 2 February 2007, which amended art. 40 (Integrated Report) of Legislative Decree 127 of 9 April 1991.
These consolidated financial statements are presented in millions of euros, and all amounts are shown in millions of euros, unless otherwise indicated.
It should be noted that, for the purposes of comparison, certain amounts in the financial statements for the year ended 31 December 2017 have been restated, without, however, altering amounts in equity at 31 December 2017 or those in the income statement and the statement of comprehensive income for 2017.

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.

Impairment losses

Property, plant and equipment and intangible assets with finite useful lives are tested at least once a year to check for evidence of impairment. If there is evidence that an asset may be impaired, its recoverable amount is estimated.
The recoverable amount of goodwill and intangible assets with indefinite useful lives, where present, as well as intangible assets not yet available for use, is estimated at least annually. The recoverable amount is equal

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

Allowance for doubtful accounts

Trade receivables are initially recognised at fair value net of any losses relating to sums considered non-recoverable, for which specific provisions have been made in the allowance for doubtful accounts. The new accounting standard, IFRS 9, adopted from 1 January 2018, has introduced the 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, superseding the approach used in IAS 39. It is, therefore, no longer necessary for a trigger event to occur before the recognition of losses on receivables.
Specifically, the Group has applied the simplified approach permitted by IFRS 9 to trade receivables, finance lease receivables and assets deriving from contracts with customers, in order to measure the allowance for doubtful accounts based on expected losses over the life of the receivable. The Group has thus determined the amount of expected credit losses using a provisioning matrix, based on information regarding historical credit losses for similar past due exposures, adjusted to take into account current conditions and forward-looking elements.

Provisions for risks and charges

Provisions for risks and charges are allocated when a disbursement of cash, for an amount which can be reliably estimated, will be necessary to fulfil a legal or constructive obligation arising as a result of a past event. Where the time value of money is significant, provisions are discounted, using a rate that the Group believes to be appropriate (a rate is used that reflects current market conditions and the specific risks connected with the liability). After initial recognition, the value of the provisions for risks and charges is updated to reflect the passage of time and any changes in the estimate following alterations to the amounts forecast, the timing and the discount rates used. Any increase in provisions associated with the passage of time is recognised in the income statement under "Financial expenses".
Liabilities that can be associated with legal and tax disputes and liabilities associated with urban and environmental restoration projects are estimated by the Group. The measurement of provisions for legal disputes is based on the probability of incurring an expense, including through the use of external legal advisors supporting the Group companies; the estimate of provisions to be set aside for urban and environmental restoration projects, the "offsets" aimed at compensating for the environmental impact of the construction of new plant, is based on an analysis of the agreements entered into with the local authorities concerned and the progress of work on construction of the new plant.

Employee benefits

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. The actuarial valuations used to quantify employee benefits (of all plans except termination benefits [*TFR - Trattamento di Fine Rapporto*]) were based on "vested benefits", applying the projected unit credit method. These valuations are based on economic and demographic assumptions: the discount rate (used to determine the 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.

Subsidiaries and scope of consolidation

The scope of consolidation includes the Parent Company, Terna S.p.A., and the companies over which it has the power to directly or indirectly exercise control. 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 CONTROILLED DIRECTLY BY TERNA S.P.A.					
Terna Rete Italia S.p.A.	Rome	Euro	120,000	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	173,000,000	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.				
Monita Interconnector S.r.l.	Rome	Euro	10,000	95%**	Line-by-line
Business	Responsible for construction and operation of the private section of the Italy-Montenegro interconnector.				
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.				
Difebal S.A.	Montevideo (Uruguay)	Uruguayan peso	140,000	100%	Line-by-line
Business	Design, construction and maintenance of electricity infrastructure in Uruguay.				
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.				
Resia Interconnector S.r.l.	Rome	Euro	10,000	100%	Line-by-line
Business	Design, construction, management, development, operation and maintenance, including on behalf of third parties, of power lines and grid infrastructure and other infrastructure connected to such grids, plant and equipment for use in electricity transmission operations, or in similar, related or connected sectors, and has been established to fulfil the obligations assumed by the energy-intensive companies in relation to implementation of the interconnection with Austria.				

* *5% is held by Terna Rete Italia S.p.A. and 30% by Transenergia S.r.l..*
** *5% is held by Terna Rete Italia S.p.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 (Chile)	Chilean peso	1,000,000	100%	Line-by-line
Business	Design, construction, administration, development, operation and maintenance of any type of electricity system, plant, equipment and infrastructure, including interconnectors; provision of all types of product and service, construction, electrical and civil engineering work; research, consultancy and assistance in matters relating to the core business; any other activity capable of improving the use and development of plant, resources and expertise.				
SPE Santa Maria Transmissora de Energia S.A.	San Paolo (Brazil)	Real	45,474,716	99.99%*	Line-by-line
Business	Provision of public electricity transmission services, including construction, operation and maintenance of transmission infrastructure or any other activity necessary in order to fulfil the above purpose.				
SPE Santa Lucia Transmissora de Energia S.A.	San Paolo (Brazil)	Real	208,714,431	99.99%*	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 Peru S.A.C.	Lima (Peru)	Sales	28,191,000	99.99%*	Line-by-line
Business	Design, construction, administration, development, operation and maintenance of any type of electricity system, plant, equipment and infrastructure, including interconnectors; provision of all types of product and service, construction, electrical and civil engineering work; research, consultancy and assistance in matters relating to the core business; any other activity capable of improving the use and development of plant, resources and expertise.				

** 0.01% Terna Chile S.p.A.*

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST	METHOD OF CONSOLIDATION
SUBSIDIARIES CONTROLLED THROUGH TERNA ENERGY SOLUTIONS S.R.L.					
Tamini Trasformatori S.r.l.	Melegnano (MI)	Euro	4,285,714	70%*	Line-by-line
Business	Construction, repair and trading in electrical equipment.				
Rete Verde 17 S.r.l.	Rome	Euro	10,000	100%	Line-by-line
Business	Implementation and development of renewable energy projects.				
Rete Verde 18 S.r.l.	Rome	Euro	10,000	100%	Line-by-line
Business	Implementation and development of renewable energy projects.				
Rete Verde 19 S.r.l.	Rome	Euro	10,000	100%	Line-by-line
Business	Implementation and development of renewable energy projects.				
Rete Verde 20 S.r.l.	Rome	Euro	10,000	100%	Line-by-line
Business	Implementation and development of renewable energy projects.				
Avvenia The Energy Innovator S.r.l.	Rome	Euro	10,000	70%**	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.				
SUBSIDIARIES CONTROLLED THROUGH TAMINI TRASFORMATORI S.R.L.					
Tamini Transformers USA LLC	Sewickley - Pennsylvania	US dollar	52,089	100%	Line-by-line
Business	Commercialisation of industrial-grade and high-power electricity transformers.				
Tamini Trasformatori India Private Limited	Maharashtra (India)	Indian rupee	13,175,000	100%	Line-by-line
Business	Commercialisation of industrial-grade and high-power electricity transformers.				

* *30% Holdco TES (controlled by the Xenon Private Equity V fund, Riccardo Reboldi and Giorgio Gussago).*
** *30% Avvenia S.r.l..*

The following changes in the structure of the Group have taken place with respect to 31 December 2017:

- as part of the process of identifying and acting on new commercial opportunities for the provision of energy efficiency services and projects, on 15 February 2018, Terna completed the acquisition of a 70% interest in Avvenia The Energy Innovator S.r.l.;
- on 16 July 2018, Resia Interconnector S.r.l. was incorporated. This company will be involved in construction of the private Italy-Austria interconnector, for which the process of obtaining the necessary consents for the Passo Resia - Glorenza cable section should be completed in 2019.
- on 2 August 2018, the partial demerger of Terna Plus S.r.l. (a wholly-owned subsidiary of the parent, Terna S.p.A.), and the transfer of the demerged assets to a newly established company named Terna Energy Solutions S.r.l., came into effect. The demerged business is focused on Non-Regulated Activities and on the energy solutions activities already carried out by Terna Plus which, following the demerger, is responsible for the Group's South American activities.

The transaction also resulted in the transfer to Terna Energy Solutions of equity interests in the companies that carry out Non-Regulated Activities in Italy: Tamini Trasformatori S.r.l., Rete Verde 17 S.r.l., Rete Verde 18 S.r.l., Rete Verde 19 S.r.l., Rete Verde 20 S.r.l. and Avvenia The Energy Innovator S.r.l..

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.

Joint ventures

Investments in joint ventures, 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 significant influence begins and until that influence ceases.

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 associates and joint ventures included is shown below:

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL *	PROFIT FOR THE YEAR*	% INTEREST	METHOD OF CONSOLIDATION	CARRYING AMOUNT AT 31 DECEMBER 2018 (€M)
ASSOCIATES							
Cesi S.p.A.	Milan	Euro	8,550,000	7,478,270	42.698%	Equity Method	49
Business	Experimental research and provision of services related to electro-technology.						
Coreso S.A.	Brussels (Belgium)	Euro	1,000,000	245,771	15.84%	Equity Method	0.4
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 AD	Podgorica (Montenegro)	Euro	155,108,283	4,880,060	22.0889%	Equity Method	26.7
Business	Provision of transmission and dispatching services in Montenegro.						
JOINT VENTURES							
ELMED Etudes Sarl	Tunis (Tunisia)	Tunisian dinar	2,700,000	(178.503)	50%	Equity Method	0
Business	Conduct of preparatory studies for construction of the infrastructure required to connect the Tunisian and Italian electricity systems.						

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

Basis of consolidation

All the separate financial statements of the investees used to prepare the consolidated financial statements were drafted as of 31 December 2018 and have been approved by their respective Boards of Directors and shareholders' meetings; they have been adjusted, where necessary, to align them with the Parent Company's accounting policies.
During preparation of the consolidated financial statements, intercompany balances, transactions, revenue and costs are fully eliminated, net of the related tax effect, where material ("consolidation on a line-by-line basis"). Unrealised gains and losses on transactions with associates and joint ventures are eliminated in proportion to the Group's interest therein. In both cases, unrealised losses are eliminated, unless they represent an impairment.

Translation of foreign currency items

In the Group's financial statements, all transactions in currencies other than the functional currency are recognised at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities in currencies other than the functional currency are subsequently adjusted at the exchange rate prevailing at year end. Any translation differences are taken to the income statement.
Non-monetary assets and liabilities in foreign currency stated at historical cost are converted at the exchange rate prevailing when the transaction was initially recognised. Non-monetary assets and liabilities in foreign currency stated at fair value are converted at the exchange rate prevailing when fair value was measured.

Property, plant and equipment

Property, plant and equipment is recognised at historical cost, including costs directly attributable to preparing the asset for its intended use. In the event of legal or constructive obligations, cost also includes the present value of the estimated cost of dismantling or removing the asset. The corresponding liability is recognised in provisions for risks and charges. Borrowing costs directly attributable to the purchase, construction or production of an asset that qualify for capitalisation pursuant to IAS 23 are capitalised as part of the cost of the asset. Costs incurred after purchase are recognised as an increase in the carrying amount of the asset to which they relate if it is probable that the future benefits of that cost will flow to the Group, and if the cost can be reliably measured. All other costs are expensed as incurred.

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

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

Liabilities associated with items of property, plant and equipment are taken to a specific provision as a contra account of the related asset. The amount is taken to the income statement through 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	
Civil and industrial buildings	2.50%
Transmission lines	2.22%
Transformer substations:	
- Electrical machinery	2.38%
- Electrical devices and equipment	3.13%
- Automation and control systems	6.70%
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.

Property, plant and equipment obtained under finance leases - and through which the Group has substantially acquired all the risks and rewards of ownership - are recognised as the Group's assets at the lower of fair value and the present value of the minimum lease payments due, including any amounts to be paid to exercise the purchase option. The corresponding liability to the lessor is recognised as a financial liability. Assets are depreciated using the criteria and rates described above. If the Group is not reasonably certain that it will acquire ownership at the end of the lease, the asset is depreciated over the shorter of the term of the lease and the asset's useful life.

Leases in which the lessor maintains substantially all the risks and rewards of ownership are classified as operating leases. Costs related to operating leases are expensed out in equal instalments over the term of the lease.

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, construction or production of a non-current asset which justifies capitalisation pursuant to IAS 23 are capitalised to the asset as part of its cost.
All other development costs and research expenses are recognised in the income statement when incurred.
These intangible assets are amortised over their estimated residual useful life, which is normally three years, given their rapid obsolescence.

Infrastructure rights

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

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;
- at fair value through profit or loss ("FVTPL"), of the asset is not held in one of the above business models. This category primarily includes derivative financial instruments held for trading and debt instruments with contractual cash flows that are not solely payments of capital and interest.

Infrastructure rights

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

Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method. Receivables with due dates that reflect normal commercial terms are not discounted.
In accordance with the provisions of IFRS 9, the Group's trade receivables fall within the hold to collect business model, as these assets are held with the objective of collecting the cash flows primarily by collecting the contractual cash flows, the receivables primarily fall due within 12 months and do not include a significant financial component, and the Group does not intent to sell such receivables.
Trade receivables are recognised net of any losses recognised in a specific allowance for doubtful accounts (identified on the basis described in the paragraph, "Allowance for doubtful accounts"). The new standard,

IFRS 9, adopted from 1 January 2018, 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, superseding the approach used in IAS 39. It is, therefore, no longer necessary for a trigger event to occur before the recognition of losses on receivables. 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. The introduction of IFRS 9 has not led to material changes in the method of accounting for these payables.

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 includes 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.

An entity shall discontinue 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" 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 EU-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.

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.

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, applied from 1 January 2018, 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).

- **Other revenue and income**, which includes revenue from lease arrangements (which from 1 January 2019 are governed by IFRS 16) 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.

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 2018 was 1.23% (the rate for 2017 was 1.30%).

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.

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.

Income taxes

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

New accounting standards

International financial reporting standards effective as of 1 January 2018

Two new accounting standards, whose application has not had a material impact for the Group, and a number of new amendments to standards already applied came into effect from 1 January 2018.

The following information is provided with regard to the new accounting standards:

IFRS 15 - Revenue from Contracts with Customers
On 29 October 2016, the European Commission endorsed the new IFRS 15 on revenue recognition. The new standard introduced a five-step revenue recognition model. The steps are as follows: 1) identification of the contract; 2) identification of the performance obligations in the contract; 3) determination of the transaction price; 4) allocation of the transaction price; 5) recognition of revenue when the performance obligation is satisfied. Under the standard, the obligation is satisfied when control over the goods or services underlying the performance obligation is transferred to the customer. Control is defined as the ability to direct the use of and obtain substantially all of the remaining benefits from the asset.

The purpose of the new standard is to provide a consistent, overall framework for revenue recognition, applicable to all contracts with customers (with the exception of leases, insurance contracts and financial instruments). The new standard has replaced all existing revenue recognition requirements under IFRS. Specifically, it has replaced the following standards:
- IAS 11 - Construction Contracts and related interpretations;
- IAS 18 - Revenue;
- IFRIC 13 - Customer Loyalty Programmes;
- IFRIC 15 - Agreements for the Construction of Real Estate;
- IFRIC 18 - Transfers of Assets from Customers;
- SIC 31 - Revenue - Barter Transactions Involving Advertising Services.

In addition, on 31 October 2016, the European Commission endorsed guidance to clarify certain practical aspects brought to the fore during discussion of the TRG (Transition Resource Group for Revenue Recognition) regarding the application of IFRS 15: identifying performance obligations, principal versus agent considerations and application guidance on licensing. The new standard was effective from 1 January 2018, with early and retrospective application permitted.

The Terna Group has applied the new standard from 1 January 2018, using the modified retrospective approach, accounting for the cumulative effect of adoption of IFRS 15 from the date of first-time adoption, electing not to apply the standard to completed contracts.

Adoption of the new standard has had non-material quantitative effects for the Group, limited to minor aspects of its Regulated Activities (revenue from connections to the NTG) and certain contracts related to Non-Regulated Activities (consolidated revenue generated by the Tamini Group). The effects on the accounts of application of the new standard have resulted in a negative impact on Non-Regulated contract revenue, generating an overall after-tax reduction in the Group's equity at 1 January 2018 of approximately €1 million and trade receivables of approximately €2 million.

IFRS 9 - Financial Instruments

On 22 November 2016, the European Commission approved IFRS 9 - Financial Instruments, in its final version of 24 July 2014, which starts the complex and detailed process of replacing IAS 39, divided into the following phases: classification and measurement, derecognition, impairment and hedge accounting. The new standard was effective from 1 January 2018, with early application permitted. The main changes introduced by the new standard include, among other things, unified classification guidance for all types of financial instruments, including the requirements for recognition and measurement, impairment, derecognition and hedge accounting. Financial assets will therefore be classified as a whole and not subject to complex separation rules. The new classification criterion for financial instruments is based on the business model adopted by the Company to manage financial assets with reference to the collection of cash flows and to the characteristics of the contractual cash flows of the financial assets. As regards impairment, the model provided for in IAS 39 based on the criterion of incurred loss, which postponed the recognition of losses on receivables to the moment of occurrence of the trigger event, has been replaced, as it was considered a weakness. The new IFRS 9 provides for a model based on a prospective view, which requires the immediate recognition of losses on receivables expected over the life of the financial instrument, as a trigger event no longer needs to occur before the recognition of losses on receivables. The new standard has also completed the stage of the Hedge accounting project, except for the rules on macro hedge accounting, which will be published at a later date. It provides, among the other changes, for a substantial revision of hedge accounting so as to better reflect risk management activities in the financial statements.

The Terna Group has applied the new standard retrospectively from 1 January 2018 with regard to classification and measurement, derecognition and impairment, with presentation of the cumulative effects of first-time adoption at the transition date in equity.

Adoption of the new standard has had non-material quantitative effects for the Group, limited essentially to the impairment of trade receivables, bank deposits and financial guarantees. Analysis of the impact was applied to impaired financial assets held by the Group. In application of the simplified approach permitted by the standard, based on the recognition of losses on receivables expected over the life of the financial instrument, receivables classified in stage 2 (with particular regard to trade receivables representing the largest part of the Group's receivables) have been grouped according to due date. The Group then applied the impairment model based on a collective assessment of expected losses. In conducting the assessment, the Group used a matrix to calculate the expected loss, based on information regarding historical losses for similar instruments, adjusted to take into account forward-looking elements. The effects on the accounts of application of the new standard have resulted in a negative impact on trade receivables, reducing their value by approximately €1.5 million, and on bank deposits, which have been reduced by approximately €1.5 million. This generated an overall after-tax reduction in equity attributable to owners of the parent at 1 January 2018 of approximately €2 million and in equity attributable to non-controlling interests of approximately €0.9 million. With regard to hedge accounting, application was prospective from the date of first-time adoption. At that date, existing hedging relationships were not modified and the new accounting rules, with specific regard to the time value of options and the forward elements of forward contracts, did not result in any differences.

The following table shows changes in the consolidated statement of financial position at 1 January 2018 as a result of application of the two standards, IFRS 15 and IFRS 9.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(€m)

	AT 31 DECEMBER 2017	IMPACT OF IFRS 9	IMPACT OF IFRS 15	RESTATED AT 1 JANUARY 2018
A – NON-CURRENT ASSETS				
1. Property, plant and equipment	12,752.8			12,752.8
2. Goodwill	230.1			230.1
3. Intangible assets	275.6			275.6
4. Investments accounted for using the equity method	77.9			77.9
5. Non-current financial assets	120.1			120.1
6. Other non-current assets	14.2			14.2
Total non-current assets	**13,470.7**	**-**	**-**	**13,470.7**
B – CURRENT ASSETS				
1. Inventories	14.8			14.8
2. Trade receivables	1,265.9	(1.5)	(2.0)	1,262.4
3. Current financial assets	0.2			0.2
4. Cash and cash equivalents	1,989.2	(1.5)		1,987.7
5. Income tax assets	36.9			36.9
6. Other current assets	139.1			139.1
Total current assets	**3,446.1**	**(3.0)**	**(2.0)**	**3,441.1**
TOTAL ASSETS	**16,916.8**	**(3.0)**	**(2.0)**	**16,911.8**
C – EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT				
1. Share capital	442.2			442.2
2. Other reserves	820.4			820.4
3. Reserves	2,001.7	(2.0)	(1.0)	1,998.7
3. Retained earnings/ (accumulated losses)	(149.3)			(149.3)
4. Interim dividend	688.3			688.3
Total equity attributable to owners of the Parent	**3,803.3**	**(2.0)**	**(1.0)**	**3,800.3**
D – EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	**25.7**	**(0.2)**	**(0.4)**	**25.1**
Total equity attributable to owners of the Parent and non-controlling interests	**3,829.0**	**(2.2)**	**(1.4)**	**3,825.4**
E – NON-CURRENT LIABILITIES				
1. Long-term borrowings	8,671.6			8,671.6
2. Employee benefits	80.7			80.7
3. Provisions for risks and charges	266.5	0.1		266.6
4. Deferred tax liabilities	8.6	(0.9)	(0.6)	7.2
5. Non-current financial liabilities	10.5			10.5
6. Other non-current liabilities	251.0			251.0
Total non-current liabilities	**9,.288.9**	**(0.8)**	**(0.6)**	**9,287.6**
F – CURRENT LIABILITIES				
1. Short-term borrowings	118.0			118.0
2. Current portion of long-term borrowings	884.3			884.3
3. Trade payables	2,497.9			2,497.9
4. Tax expense	-			-
5. Current financial liabilities	105.7			105.7
6. Other current liabilities	193.0			193.0
Total current liabilities	**3,798.9**	**-**	**-**	**3,798.9**
TOTAL LIABILITIES AND AT EQUITY	**16,916.8**	**(3.0)**	**(2.0)**	**16,911.8**

(€m)

		IAS 39		IFRS 9
		RECEIVABLES AND LOANS	HELD TO MATURITY	HELD TO COLLECT
	AT 1 JANUARY 2018	RECEIVABLES	ASSETS HELD TO MATURITY	FINANCIAL ASSETS MEASURED AT AMORTISED COST
A – NON-CURRENT ASSETS				
5. Non-current financial assets	120.1	-	120.1	120.1
B – CURRENT ASSETS				
2. Trade receivables	1,262.4	1,262.4	-	1,262.4
3. Current financial assets	0.2	-	0.2	0.2
4. Cash and cash equivalents	1,987.7	-	1,987.7	1,987.7
TOTAL ASSETS		**1,262.4**	**2,108.0**	**3,370.4**

(€m)

		IAS 39		IFRS 9	
		OTHER FINANCIAL LIABILITIES	HEDGE ACCOUNTING	OTHER	HEDGE ACCOUNTING
	AT 1 JANUARY 2018	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	CASH FLOW HEDGES	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	CASH FLOW HEDGES
C – EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT					
2. Other reserves	820.4	807.7	12.7	807.7	12.7
E – NON-CURRENT LIABILITIES					
1. Long-term borrowings	8,671.6	8,671.6	-	8,671.6	-
5. Non-current financial liabilities	10.5	-	10.5	-	10.5
F – NON-CURRENT FINANCIAL LIABILITIES					
1. Short-term borrowings	118.0	118.0	-	118.0	-
2. Current portion of long-term borrowings	884.3	884.3	-	884.3	-
3. Trade payables	2,497.9	2,497.9	-	2,497.9	-
5. Current financial assets	105.7	105.7	-	105.7	-
TOTAL LIABILITIES AND EQUITY		**13,085.2**	**23.2**	**13,085.2**	**23.2**

The new amendments are not expected to have a material impact, with the main ones described below:

IFRIC 22: Foreign Currency Transactions and Advance Consideration

On 28 March 2018, the European Commission endorsed the interpretation of IAS 21 through Regulation 2018/519. The interpretation providing guidance in the selection of an exchange rate to be used when recording a transaction in a foreign currency, should the consideration in the foreign currency have been received or paid in advance of recognition of the related assets.

Amendment to IFRS 15: Clarifications to IFRS 15 Revenue from Contracts with Customers

On 31 October 2017, the European Commission endorsed the amendment to IFRS 15 through Regulation 2017/1987. This amendment provides clarifications on certain aspects of the standard's requirements and proposes transition relief for entities adopting the standard.

Amendment to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
On 3 November 2017, the European Commission endorsed the amendment to IFRS 4 through Regulation 2017/1988. This amendment aims to remedy the temporary accounting impact of the different effective dates of IFRS 9 and of the new standard governing insurance contracts, IFRS 17, which replaces IFRS 4.

Amendment to IFRS 2: Classification and Measurement of Share-based Payment Transactions
On 26 February 2018, the European Commission endorsed the amendment to IFRS 2 through Regulation 2018/289. This amendment clarifies the classification and measurement of share-based payments.

Amendment to IAS 40: Transfers of Investment Property
On 14 March 2018, the European Commission endorsed the amendment to IAS 40 through Regulation 2018/400. This amendment regards the account impact of changes in the use of a property, and above all clarifies the cases in which an entity is authorised to classify a property as investment property.

International financial reporting standards endorsed but not yet effective

IFRS 16 - Leases
Endorsed on 31 October 2017, through Regulation 2017/1986, the new IFRS 16 governs accounting for leases, replacing the previous IAS 17. Among the changes, the new standard, in dispensing with the distinction between operating and finance leases, bases the accounting presentation on the “right-of-use” approach, which for the lessee makes the accounting uniform for any type of lease. The method of accounting applicable to lessors under IFRS 16 remains substantially unchanged with respect to the current accounting policy under IAS 17. Lessors will continue to classify all leases using the same classification rules applicable under IAS 17 and will distinguish between two types of lease: operating and finance. The standard also includes two recognition exemptions for lessees for leases where the underlying asset is of “low value” (for example, personal computers or assets with a unit value of below US$5,000) and short-term leases (lease arrangements with a lease term of less than or equal to 12 months). Under the accounting standard just described, at the inception date of a lease, the lessee must recognise a lease liability and an asset representing the right to use the underlying asset during the lease term (the right of use). Lessees must recognise interest expense on the lease liability separately from the depreciation charge on the right-of-use asset.

Terna will adopt the standard from the mandatory effective date of 1 January 2019, retrospectively accounting for the cumulative effect of initial application of the standard at the date of initial application, in accordance with paragraph C8b). In the case of leases previously classified as operating leases (under IAS 17), the Group will recognise:

a) the lease liability at the date of initial application at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate at the date of initial application;
b) the right-of-use asset at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

Terna will apply the exemptions put forward by the standard for lease arrangements expiring within 12 months of the initial date of application and for leases where the underlying asset is of low value.

Terna has elected to apply the practical expedient provided for in the standard, excluding leases for which the lease term ends within 12 months of the initial date of application from the calculation, when this term has been determined in application of the guidance provided by IFRS16. However, as required by the standard, Terna will provide a specific disclosure in this regard at the time of initial application and on a continuous basis.

Applying this model, Terna will recognise: (i) assets and liabilities for all leases with terms in excess of twelve months; (ii) depreciation of the recognised assets and interest expense on the lease liability separately in the income statement.

Terna is further assessing the impact of application of the new standard, with particular regard to assets such as buildings, equipment and motor vehicles and Indefeasible Rights of Use (IRU).

The assessment process, which is close to completion, does not indicate that there will be a material impact on the Group's financial statements in 2019 as a result of application of this standard, limited essentially to recognition of the right-of-use assets and the lease liabilities.

Amendment to IFRS 9: Prepayment Features with Negative Compensation
Endorsed by the European Commission on 22 March 2018, with Regulation 2018/498, the amendment to IFRS 9 allows the measurement of certain financial assets with a prepayment option with negative compensation features at amortised cost or at fair value through comprehensive income. The amendment will come into effect from 1 January 2019.

IFRIC 23 - Uncertainty over Income Tax Treatments
Endorsed by the European Commission on 23 October 2018, with Regulation 2018/1595, IFRIC 23 came into effect from 1 January 2019. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. It also provides guidance on how to account for current and deferred tax assets and liabilities.

International financial reporting standards 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:

IFRS 17 - Insurance Contracts
The new accounting standard for insurance contracts was published by the IASB on 18 May 2017, to replace the interim version of IFRS 4. The standard defines the new principles for the recognition, measurement, presentation and disclosure of insurance contracts. The General Model of reference is based on the discounting of expected cash flows, with the indication of a risk adjustment and upfront profits through the "contractual service margin", which cannot be negative, released to income over the term of the contract.

Amendment to IAS 28: Long-term Interests in Associates and Joint Ventures
Published by the IASB on 12 October 2017, the amendment to IAS 28 clarifies which long-term receivables are part of the net investment in the associate or joint venture.

Improvements to IFRSs (2015-2017 Cycle)
Published by the IASB on 12 December 2017, the annual improvements related to the 2015-2017 cycle contain minor amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23.

Amendment to IAS 19: Plan Amendment, Curtailment or Settlement
Published by the IASB on 7 February 2018, the amendment to IAS 19 clarifies how pension costs should be calculated in the event of modifications to a defined-benefit plan.

References to the Conceptual framework in IFRS Standards
Published on 29 March 2018, this is an amendment to the Conceptual Framework for Financial Reporting. The main changes regard a new section on measurement, improved definitions and guidance, above all with reference to the definition of liabilities and clarification on concepts such as prudence and measurement uncertainties.

Amendment to IFRS 3: Definition of a Business
Published by the IASB on 22 October 2018, the amendment to IFRS 3 provides a clearer definition of a business, giving guidance and illustrative examples for identifying when a group of assets constitutes a business, thereby falling within the scope of application of IFRS 3.

Amendment to IAS 1 and IAS 8: Definition of Material
As part of the "Disclosure Initiative" project, the amendment to IAS 1 and IAS 8 was published on 31 October 2018. This modifies the definition of materiality in relation to the two standards, in order to standardise and clarify the definitions currently provided in the standards and in the Conceptual Framework.

B. Notes to the consolidated income statement

Revenue

1. REVENUE FROM SALES AND SERVICES - €2,272.5 MILLION

(€m)

	2018	2017	CHANGE
Transmission charges billed to grid users	1,789.1	1,803.8	(14.7)
Back-billing of transmission charges for previous years	-	(0.2)	0.2
Other energy-related revenue and from services performed under concession	262.3	214.0	48.3
Quality of service bonuses/(penalties)	7.4	7.4	0.0
Other sales and services	213.7	159.0	54.7
TOTAL	**2,272.5**	**2,184.0**	**88.5**

Transmission charges

The charges for use of the NTG regard the revenue attributable to the Parent Company (€1,657.5 million) and the subsidiary, Rete S.r.l. (€131.6 million) as owners and operators of the grid.

The reduction in revenue from the transmission service (down €14.5 million) broadly reflects revision of the related tariff to reflect completion, in 2017, of revenue from work in progress and a reduction in the volume of energy transported, offset by an increase in the portion of the NTG owned by the two companies. The balance also includes the estimated impact of the revised contribution from international interconnections.

Other energy-related revenue and from services performed under concession

This item regards dispatching and metering revenue (essentially relating to €111.0 million for the dispatching component and €32.0 million regarding certain expenses[1] not covered by the dispatching charge) and revenue from infrastructure construction and upgrade services performed under concession, recognised in application of IFRIC 12 (€119.1 million). This includes revenue from activities in South America (€92.4 million in Brazil and €1.3 million in Peru).

The increase in "Other energy-related revenue and from services performed under concession" compared with 2017, totalling €48.3 million, is primarily linked to increases in the dispatching charge and the above expenses not covered by the charge (up €31.2 million). New investment in assets held under concession in South America was also a factor in the increase (up €12.7 million).

(€m)

OTHER ENERGY-RELATED REVENUE AND FROM SERVICES PERFORMED UNDER CONCESSION	2018	2017	Δ
Dispatching and metering revenue	143.2	111.9	31.3
Revenue from services performed under concession (IFRIC 12)	119.1	102.1	17.0
- of which in Italy	*25.5*	*21.1*	*4.4*
- of which overseas	*93.7*	*81.0*	*12.7*
TOTAL OTHER ENERGY-RELATED REVENUE AND FROM SERVICES PERFORMED UNDER CONCESSION	**262.3**	**214.0**	**48.3**

Quality of service bonuses/(penalties)

This item, amounting to €7.4 million, regards the RENS 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 2016-2019 regulatory period.

The figure is unchanged with respect to the previous year.

[1] ARERA has decided to allow the recovery of expenses through the uplift mechanism provided for in art.44 of Resolution 111/2006. These expenses regard receivables that are no longer recoverable and relating to the period 2006-2015 (ref. Resolution 218/2018) and increased payments made to fund the regulator for the years 2013-2017.

Other sales and services

The item, “Other sales and services”, amounting to €213.7 million, mainly regards revenue from Non-regulated Activities, regarding:

- the sale of transformers by the subsidiary, Tamini (€99.6 million);
- Energy Solutions (€35.5 million), including maintenance services, totalling €16.4 million and energy efficiency (€4.2 million), primarily attributable to the subsidiary, Avvenia The Energy Innovator S.r.l., in addition to revenue from EPC contracts, totalling €14.9 million;
- Connectivity (€28.0 million) with specific regard to support and housing services for fibre networks.

This item also includes revenue from the private Italy-France Interconnector (€9.0 million), representing the accrued portion of the revenue attributable to the Group for services provided during construction.
The item also includes revenue attributable to the Group’s International Activities relating to construction of the power line in Uruguay, totalling €38.7 million.

The increase compared with 2017 (up €54.7 million) primarily reflects the following:

- increased revenue as construction work in Uruguay progresses (up €31.5 million);
- the new classification of revenue from support and housing services for fibre networks, totalling €22.9 million, essentially following the reclassification of this revenue - classified in other revenue and income in 2017 - in application if the new standard, IFRS 15;
- an increase in revenue at the Tamini Group (up €8.1 million), primarily due increased sales of transformers during the year;
- an increase in revenue from Energy Solutions (up €6.0 million), primarily due to the contribution from energy efficiency activities (up €4.1 million, reflecting Avvenia’s contribution), new contracts (up €4.5 million) after the reduction in O&M revenue (down €2.6 million), above all in the photovoltaic sector following the renegotiation of contracts with a company operating in the sector;
- a reduction in revenue from the private Italy-France Interconnector (down €7.0 million), due to the increase in revenue recognised in 2017 following recovery of the amount due for the period prior to being granted the exemption;
- reduced revenue from connection services (down €4.2 million).

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)

	2018	2017	CHANGE
Power Exchange-related revenue items	**3,860.1**	**4,039.8**	**(179.7)**
- Uplift	1,648.4	2,093.5	(445.1)
- Electricity sales	523.0	434.6	88.4
- Imbalances	506.2	543.6	(37.4)
- Congestion revenue	331.1	368.0	(36.9)
- Charges for right to use transmission capacity and market coupling	337.8	297.6	40.2
- Interconnectors/shippers	75.2	75.1	0.1
- Load Profiling for public lighting	66.8	73.7	(6.9)
- Other Power Exchange-related pass-through revenue items	371.6	153.7	217.9
Total over-the-counter revenue items	**1,311.7**	**1,260.2**	**51.5**
- Transmission revenue passed on to other NTG owners	4.8	5.9	(1.1)
- Charge to cover cost of essential plants	392.6	327.5	65.1
- Charge to cover cost of energy delivery capacity	277.6	208.9	68.7
- Charge to cover cost of interruptibility service	279.5	359.8	(80.3)
- Charge to cover cost of LV capacity and protection service	276.2	267.6	8.6
- Other pass-through revenue for over-the-counter trades	81.0	90.5	(9.5)
TOTAL PASS-THROUGH REVENUE	**5,171.8**	**5,300.0**	**(128.2)**
Total Power Exchange-related cost items	**3,860.1**	**4,039.8**	**(179.7)**
- Electricity purchases	2,496.5	2,322.9	173.6
- Imbalances	331.6	771.3	(439.7)
- Congestion revenue	217.1	280.6	(63.5)
- Charges for right to use transmission capacity and market coupling	136.1	116.0	20.1
- Interconnectors/Shippers	366.8	330.8	36.0
- Load Profiling for public lighting	80.5	81.1	(0.6)
- Other Power Exchange-related pass-through cost items	231.5	137.1	94.4
Total over-the-counter cost items	**1,311.7**	**1,260.2**	**51.5**
- Transmission costs passed on to other NTG owners	4.8	5.9	(1.1)
- Fees paid for essential units	392.6	327.5	65.1
- Fees paid for energy delivery capacity	277.6	208.9	68.7
- Fees paid for interruptibility service	279.5	359.8	(80.3)
- Fees paid for LV capacity and protection service	276.2	267.6	8.6
- Other pass-through costs for over-the-counter trades	81.0	90.5	(9.5)
TOTAL PASS-THROUGH COSTS	**5,171.8**	**5,300.0**	**(128.2)**

The total uplift cost in 2018, amounting to €1,648.4 million, is down €445.1 million on the figure for the previous year, primarily reflecting a reduction in the cost of demand- and supply-side imbalances, linked partly to the application of new regulations effective from September 2017.

2. OTHER REVENUE AND INCOME - €46.6 MILLION

(€m)

	2018	2017	CHANGE
Revenue from IRU contracts for fibre	10.7	11.2	(0.5)
Insurance proceeds as compensation for damages	10.3	3.2	7.1
Sundry grants	8.4	8.5	(0.1)
Gains on sale of components of plant	3.8	2.8	1.0
Sales to third parties	3.5	2.5	1.0
Contingent assets	2.2	9.1	(6.9)
Rental income	0.7	23.1	(22.4)
Other revenues	7.0	3.6	3.4
TOTAL	**46.6**	**64.0**	**(17.4)**

The most significant components of “Other revenue and income” primarily regard IRU contracts for fibre (€10.7 million), insurance proceeds (€10.3 million), sundry grants (€8.4 million) and other revenues (€7.0 million).
This item, totalling €46.6 million, is down €17.4 million compared with the previous year, primarily due to the fact that the figure for 2017 included revenue from support and housing services for fibre networks, totalling €22.1 million, which from 2018 has been reclassified to revenue from sales and services in application of the new standard, IFRS 15, as described above.
The figure also reflects adjustment, in 2017, of the exposure to contractual obligations following the sale of a photovoltaic project (down €6.2 million) and an increase of €3.4 million in other revenues, including €3.0 million reflecting revenue recognised following the acquisition of Avvenia, partially offset by an increase of €7.1 million in insurance proceeds.

Operating costs

3. RAW AND CONSUMABLE MATERIALS USED - €204.4 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 in the performance of contract work by the Tamini Group and in South America.
The increase of €46.3 million compared with the previous year (€158.1 million in 2017), an increase in costs relating to construction of the power line in Uruguay (up €37.5 million) and an increase in costs relating to contracts acquired as part of Non-regulated Activities, above all regarding the increase in contracts for the supply of transformers by the subsidiary, Tamini (up €9.2 million) and the contribution from the subsidiary, Avvenia The Energy Innovator, totalling €3.0 million.

4. SERVICES - €191.2 MILLION

(€m)

	2018	2017	CHANGE
Maintenance and sundry services	91.9	86.8	5.1
Tender costs for plant	45.9	42.8	3.1
Remote transmission and telecommunications	12.3	12.2	0.1
Lease expense	17.2	13.2	4.0
IT services	13.0	16.4	(3.4)
Insurance	10.9	11.0	(0.1)
TOTAL	**191.2**	**182.4**	**8.8**

This item, totalling €191.2 million, reflect an increase of €8.8 million compared with 2017 (€182.4 million). This reflects revised right-of-way fees in certain regions of Italy and the increased cost of maintenance, works and various services provided by external contractors, after a reduction in the cost of contract work carried out by the Tamini Group, amounting to €4.3 million.

5. PERSONNEL EXPENSES - €244.1 MILLION

(€m)

	2018	2017	CHANGE
Salaries, wages and other short-term benefits	300.4	293.2	7.2
Directors' remuneration	2.2	2.4	(0.2)
Termination benefits (*TFR*) energy discounts and other employee benefits	9.7	5.8	3.9
Early retirement incentives	-	19.6	(19.6)
Gross personnel expenses	***312.3***	***321.0***	***(8.7)***
Capitalised personnel expenses	(68.2)	(63.8)	(4.4)
TOTAL	**244.1**	**257.2**	**(13.1)**

Personnel expenses, amounting to €244.1 million in 2018, are down €13.1 million, primarily due to net provisions for early retirement schemes in 2017 (down €19.6 million), partially offset by the significant increase in the average workforce primarily as a result of the launch, in 2018, of the new initiatives envisaged in the Strategic Plan.

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

	AVERAGE WORKFORCE		WORKFORCE AT	
	2018	2017	31 DECEMBER 2018	31 DECEMBER 2017
Senior managers	72	72	67	71
Middle managers	620	579	638	569
Office staff	2,144	2,024	2,290	2,021
Blue-collar workers	1,252	1,263	1,257	1,236
TOTAL	**4,088**	**3,938**	**4,252**	**3,897**

The net increase in the average workforce compared with 2017 amounts to 150.

At 31 December 2018, 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.	AVVENIA THE ENERGY INNOVATOR S.R.L.	GRUPPO TAMINI	TERNA CRNA GORA D.O.O.	SPE SANTA MARIA TRANSMISSORA DE ENERGIA S.A.	SPE SANTA LUCIA TRANSMISSORA DE ENERGIA S.A.	TERNA PERU S.A.C.	DIFEBAL S.A.	TOTAL
Number	648	3,150	45	16	355	9	4	13	5	7	4,252

6. AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES - €554.1 MILLION

(€m)

	2018	2017	CHANGE
Amortisation of intangible assets	52.0	50.4	1.6
- of which rights on infrastructure	*22.8*	*24.8*	*(2.0)*
Depreciation of property, plant and equipment	488.0	465.2	22.8
Impairment losses on property, plant and equipment	13.4	9.3	4.1
Impairment losses on current assets	0.7	1.6	(0.9)
TOTAL	**554.1**	**526.5**	**27.6**

Amortisation, depreciation and impairment losses, amounting to €554.1 million, is up €27.6 million compared with 2017, following the entry into service of new infrastructure.

7. OTHER OPERATING COSTS - €28.8 MILLION

(€m)

	2018	2017	CHANGE
Indirect taxes and local taxes and levies	6.8	7.1	(0.3)
Quality of service costs	5.1	10.5	(5.4)
of which mitigation and sharing mechanisms	*3.1*	*7.7*	*(4.6)*
of which the Fund for Exceptional Events	*1.9*	*2.4*	*(0.5)*
of which compensation mechanisms for HV users	*0.1*	*0.4*	*(0.3)*
Adjustment of provisions for litigation and disputes	(2.6)	9.3	(11.9)
Losses on sales/disposal of plant	0.3	0.7	(0.4)
Net contingent liabilities	4.5	1.4	3.1
Other	14.7	17.4	(2.7)
TOTAL	**28.8**	**46.4**	**(17.6)**

The Group's other operating costs, amounting to €28.8 million, are primarily attributable to the Parent Company (€18.2 million) and the Tamini Group (€6.3 million). They include indirect taxes and local taxes and levies, totalling €6.8 million and including €3.7 million in Tosap (Tassa per l'Occupazione del Suolo Pubblico, a tax on the occupation of public land) and Tares (Tassa Rifiuti e Servizi, a tax on waste and municipal services). These costs also include net quality of service costs (€5.1 million), the adjustment to provisions for litigation and disputes 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 Group's activities (down €2.6 million) and other costs (€14.7 million), which include membership dues and contributions to trade bodies and associations, donations and other expenses.

The reduction of €17.6 million in this item primarily reflects the adjustment to provisions for litigation and disputes (down €11.9 million), mainly as a result of the favourable outcomes to a number of disputes arising in previous years, in addition to the net costs resulting from the mechanisms designed to regulate the quality of service, broadly reflecting higher costs incurred in 2017, totalling €5.4 million, in relation to certain major events in central and southern Italy, with respect to outages in 2018 essentially due to events in northern Italy in October.

8. FINANCIAL INCOME/(EXPENSES) - (€91.4) MILLION

(€m)

	2018	2017	CHANGE
FINANCIAL EXPENSES			
Financial expenses paid to Cassa Depositi e Prestiti	(3.0)	(3.7)	0.7
Interest expense on medium/long-term borrowings and related hedge	(101.0)	(94.0)	(7.0)
Discounting of termination benefits (TFR) other provisions for employee benefits and provisions for risks and charges	(0.7)	(1.1)	0.4
Capitalised financial expenses	15.1	12.8	2.3
Translation differences	(7.5)	(0.8)	(6.7)
Other financial expenses	(1.2)	(9.7)	8.5
Total expenses	**(98.3)**	**(96.5)**	**(1.8)**
FINANCIAL INCOME			
Interest income and other financial income	6.9	1.2	5.7
Restructuring of bond issues and related hedges	-	2.7	(2.7)
Total income	**6.9**	**3.9**	**3.0**
TOTAL	**(91.4)**	**(92.6)**	**1.2**

Net financial expenses of €91.4 million are broadly in line with the previous year. They are essentially attributable to the Parent Company (€86.6 million) and reflect €98.3 million in financial expenses and €6.9 million in financial income. The reduction in new financial expenses compared with 2017, amounting to €1.2 million, primarily reflects the following:

- an increase in financial expenses on medium/long-term borrowings and the related hedges (€7.0 million), primarily due to the greater amount of debt in 2018 and rising inflation recorded during the year;
- an increase in capitalised financial expenses (€2.3 million) linked to an increase in the Group's investment during the year;
- an increase in interest income and other financial income (€5.7 million), primarily reflecting an increase in liquidity invested during the year and the improved return on that liquidity;

9. SHARE OF PROFIT/(LOSS) OF INVESTEES ACCOUNTED FOR USING THE EQUITY METHOD - €2.6 MILLION

This item, amounting to €2.6 million, reflects a reduction of €1.2 million compared with last year (€3.8 million), broadly due to the adjustment to the Group's share of equity in the associate CESI (down €1.3 million).

10. INCOME TAX EXPENSE - €296.1 MILLION

(€m)

	2018	2017	CHANGE
Income tax for the year			
Current tax expense:			
- IRES (corporate income tax)	271.4	273.4	(2.0)
- IRAP (regional tax on productive activities)	57.9	60.2	(2.3)
Total current tax expense	***329.3***	***333.6***	***(4.3)***
New temporary differences:			
- deferred tax assets	(18.4)	(27.9)	9.5
- deferred tax liabilities	6.2	0.9	5.3
Reversal of temporary differences:			
- deferred tax assets	27.5	22.8	4.7
- deferred tax liabilities	(32.7)	(31.2)	1.5
Total deferred tax (income)/expense	***(17.4)***	***(35.4)***	***18.0***
Adjustments of taxes for previous years	(15.8)	(3.8)	(12.0)
TOTAL	**296.1**	**294.4**	**1.7**

Current income tax expense of €329.3 million is down €4.3 million compared with the previous year, essentially due to the impact of the tax relief designed to stimulate economic growth (*ACE - Aiuto alla Crescita Economica*), accelerated depreciation applied by the Parent Company and a reduction in non-deductible items for the purposes of IRAP compared with the previous year.

Deferred tax income of €17.4 million is down €18.0 million, primarily linked to the impact on taxation of depreciation and amortisation and the movement in provisions for risks and charges and employee benefits.

Adjustments to taxes for previous years, amounting to €15.8 million, reflect the overpayment of tax in previous years. The change in 2018 (an increase of €12.0 million) is primarily attributable to the Parent Company.

The effective tax charge for the year (€296.1 million) results in a tax rate of 29.4%, compared with a rate of 29.8% for 2017.
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 for IRES (corporate income tax) purposes.

(€m)

	2018	2017
Profit before tax	1,007.7	988.6
THEORETICAL TAX CHARGE	**241.8**	**237.3**
IRAP	57.9	60.2
Permanent differences	5.9	0.7
Increased taxation paid by overseas companies	**6.3**	**-**
TAX (after adjustment for previous years and one-off changes)	**309.2**	**298.2**
TAX RATE	30.70%	30.20%
Adjustments of taxes for previous years	(15.8)	(3.8)
INCOME TAX EXPENSE FOR THE YEAR	**296.1**	**294.4**
EFFECTIVE TAX RATE	**29.4%**	**29.8%**

11. EARNINGS PER SHARE

Earnings per share, which corresponds to diluted earnings per share, amounts to €0.352 (based on profit for the year attributable to owners of the Parent, totalling €706.6 million, divided by the number of shares outstanding, totalling 2,009,992.0 thousand).

C. Operating segments

In line with the Business Plan 2019-2023, and in compliance with IFRS 8, the Terna Group's identified operating segments are described below:

- **Regulated in Italy**
- **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 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., acquired during the year. This segment also includes Connectivity (support and housing services for fibre networks and IRU contracts for fibre).

This segment also 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 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 segment also includes the operations of the Tamini Group, relating essentially to the construction and commercialisation of electrical equipment, above all power transformers.

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 two Brazilian companies, SPE Santa Lucia Trasmissora de Energia S.A. and SPE Santa Maria Trasmissora de Energia S.A., the Peruvian company Terna Peru S.A.C., the Uruguayan company Difebal S.A. and the Chilean company Terna Chile S.p.A..

(€m)

	2018	2017	CHANGE	% CHANGE
REGULATED REVENUE IN ITALY	1,989.6	1,967.2	22.4	1.1%
NON-REGULATED REVENUE	194.9	189.1	5.8	3.1%
INTERNATIONAL REVENUE*	12.5	6.5	6.0	92.3%
Cost of International Activities	122.1	85.2	36.9	43.3%
TOTAL REVENUE	**2,319.1**	**2,248.0**	**71.1**	**3.2%**
GROSS OPERATING PROFIT (EBITDA)**	**1,650.6**	**1,603.9**	**46.7**	**2.9%**
of which Regulated EBITDA in Italy ***	1,586.5	1,541.7	44.8	2.9%
of which Non-Regulated EBITDA	60.5	62.4	(1.9)	(3.0%)
of which International EBITDA	3.6	(0.2)	3.8	-
Reconciliation of segment result with Group's pre-tax result				
GROSS OPERATING PROFIT (EBITDA)	**1,650.6**	**1,603.9**		
Amortisation. depreciation and impairment losses	554.1	526.5		
OPERATING PROFIT/(LOSS) (EBIT)	**1,096.5**	**1,077.4**		
Financial income/(expenses)	*(91.4)*	*(92.6)*		
Share of profit/(loss) of investees accounted for using the equity method	2.6	3.8		
Profit/(Loss) before tax	**1,007.7**	**988.6**		

* *Relating directly to the margins 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 2018 amounts to €2,319.1 million, an increase of €71.1 million (3.2%) compared with 2017.
Gross operating profit (EBITDA) of €1,650.6 million is up €46.7 million (2.9%) on the €1,603.9 million of 2017.

Regulated EBITDA in Italy amounts to €1,586.5 million for 2018, an increase of €44.8 million compared with the previous year, primarily due to the increase in tariff revenue for dispatching services and a reduction in personnel expenses and other costs.

Non-Regulated EBITDA for 2018 amounts to €60.5 million, a slight decline of €1.9 million, broadly reflecting the accumulated revenue from the private Italy-France Interconnector recognised in 2017, after an increased contribution from the Tamini Group.

International EBITDA for 2018 amounts to €3.6 million, an increase of €3.8 million compared with the previous year. This primarily reflects construction services provided in **Brazil** (up €12.4 million), after the loss incurred on the contract for the construction of a power line in **Uruguay** (down €5.4 million) and an increase in costs incurred in providing **support for overseas initiatives**, totalling €2.2 million, reflecting an increase in the cost of existing contracts and of overseas initiatives.
Information on the financial position periodically reported to senior management is not provided directly on the basis of each individual segment, but based on the measurement and presentation of gross invested capital as a whole, given that the contribution from Non-regulated and International Activities is not material. The following table shows this indicator at 31 December 2018 and 31 December 2017.

(€m)

	31 DECEMBER 2018	31 DECEMBER 2017
Net non-current assets *	14,083.6	13,466.4
of which investments in associates and joint ventures	*76.1*	*77.9*
Net working capital **	(1,822.5)	(1,485.2)
Gross invested capital ***	12,261.1	11,981.2

* *Net non-current assets include the value of "property, plant and equipment", "Goodwill", "Intangible assets", "Investments accounted for using the equity method", "Other non-.current assets" and "Non-current financial assets".*

** *Net working capital is the difference between total current assets less cash and the item, "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

12. PROPERTY, PLANT AND EQUIPMENT - €13,244.3 MILLION

(€m)

	LAND	BUILDINGS	PLANT AND EQUIPMENT	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER ASSETS	ASSETS UNDER CONST. AND PREPAY-MENTS	TOTAL
COST AT 1 JANUARY 2018	**192,4**	**1,844,7**	**16,830,9**	**100,0**	**145,3**	**1,615,3**	**20,728,6**
Investment	0.5	1.0	5.2	3.4	4.1	1,020.5	1,034.7
Assets entering service	8.5	92.2	621.6	4.6	6.8	(733.7)	-
Contribution of newly acquired companies	-	-	-	0.1	-	-	0.1
Other additions	-	-	1.5	-	-	(1.5)	-
Disposals and impairments	(0.1)	(0.3)	(39.7)	(0.1)	(0.2)	(13.2)	(53.5)
Other movements	(0.1)	(0.8)	(9.4)	-	-	(31.3)	(41.6)
Reclassifications	(0.5)	4.3	0.5	0.1	(0.1)	(1.8)	2.5
COST AT 31 DECEMBER 2018	**200.7**	**1,941.1**	**17,410.6**	**108.1**	**155.9**	**1,854.4**	**21,670.8**
ACCUMULATED DEPRECIATION AND IMPAIRMENTS AT 1 JANUARY 2018	**-**	**(525.9)**	**(7,258.6)**	**(81.5)**	**(109.8)**	**-**	**(7,975.8)**
Depreciation for the year	-	(45.6)	(425.9)	(4.8)	(11.7)	-	(488.0)
Disposals	-	0.2	37.2	-	0.2	-	37.6
Other movements	-	(0.3)	-	-	-	-	(0.3)
ACCUMULATED DEPRECIATION AND IMPAIRMENTS AT 31 DECEMBER 2018	**-**	**(571.6)**	**(7,647.3)**	**(86.3)**	**(121.3)**	**-**	**(8,426.5)**
Carrying amount							
AT 31 DECEMBER 2018	**200.7**	**1,369.5**	**9,763.3**	**21.9**	**34.6**	**1,854.4**	**13,244.3**
AT 31 DECEMBER 2017	**192.4**	**1,318.8**	**9,572.3**	**18.5**	**35.5**	**1,615.3**	**12,752.8**
Change	**8.3**	**50.7**	**191.0**	**3.4**	**(0.9)**	**239.1**	**491.5**

The category, "Plant and equipment" at 31 December 2018 includes the electricity transmission grid and transformer substations in Italy.

"Property, plant and equipment" is up €491.5 million compared with the previous year, reflecting ordinary movements during the year as a result of:

- investment of €1,034.7 million, including €952.0 million invested in the Group's Regulated Activities and €82.7 million in Non-regulated Activities, primarily with regard to the private "Italy-France" Interconnector and other projects;
- depreciation for the year of €488 million;
- other changes during the year, resulting in a reduction of €39.4 million, including grants related to assets (€42.2 million, primarily in relation to projects financed by the Ministry for Economic Development and the EU, and disposals and impairments (€15.9 million).

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

	(€m)
Investment	
- Power lines	554.6
- Transformer substations	392.1
- Storage systems	1.6
- Other	86.4
Total investment in property, plant and equipment	**1,034.7**
Contribution of newly acquired companies	0.1
Depreciation for the year	(488.0)
Other changes	(39.4)
Disposals and impairments	(15.9)
TOTAL	**491.5**

The following information regards work on the principal projects during the year in relation to Regulated Activities: progress on construction of the various overseas interconnections, consisting of the power lines linking Italy and Montenegro (€64.7 million) and Italy and France (€56.1 million), progress with the "Functional separation" project (€68.4 million), extension of the fibre network as part of the "Fibre for the Grid" project (€42.5 million, including €2.3 million attributable to the subsidiary, Rete S.r.l.), the laying of cables in the Venetian lagoon (€23.6 million), construction of the Sorrento Peninsula interconnector (€17.5 million), restructuring of the grid serving the city of Naples (€16 million), continued work on devices to mitigate the risk of ice and snow (€11.4 million), construction of the Foggia-Benevento II power line (€10.8 million) and the upgrade of power lines in the north-west of the country (€10.7 million).

13. GOODWILL - €230.1 MILLION

Goodwill regards the Parent Company's acquisition of Terna Rete Italia S.r.l. in previous years, accounted for in the financial statements at a carrying amount of €101.6 million, the acquisition of RTL, with a carrying amount of €88.6 million, the acquisition of Rete S.r.l., with a carrying amount of €26.3 million, and the acquisition of TES- Transformer Electro Services within the Tamini Group, with a carrying amount of €13.6 million.
There are no changes in this item compared with the previous year.

Impairment testing

For the purposes of impairment testing, goodwill has been allocated to two 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.

Disclosures regarding the impairment testing of the goodwill allocated to the Group's "Transmission" CGU is provided below. Measurement of the recoverable value of the Group's "Transmission" CGU was based on the fair value less costs of disposal. This was determined taking into account Terna's share price at 31 December 2018, appropriately adjusted for the estimated fair value of assets and liabilities not attributable to the CGU that includes transmission activities.

The resulting value is significantly higher than the carrying amount inclusive of goodwill.

14. INTANGIBLE ASSETS - €289.3 MILLION

(€m)

	INFRASTRUCTURE RIGHTS	CONCESSIONS	OTHER ASSETS	ASSETS UNDER DEVELOPMENT AND PREPAYMENTS	TOTAL
Cost	412.1	135.4	271.9	34.6	854.0
Accumulated amortisation	(308.2)	(68.1)	(202.1)	-	(578.4)
BALANCE AT 31 DECEMBER 2017	**103.9**	**67.3**	**69.8**	**34.6**	**275.6**
Investment	1.3	-	0.6	54.5	56.4
Assets entering service	20.0	-	32.0	(52.0)	-
Contribution of newly acquired companies	-	-	17.5	-	17.5
Amortisation for the year	(22.8)	(5.6)	(23.6)	-	(52.0)
Other movements	-	-	0.3	-	0.3
Reclassifications	(1.8)	-	-	-	(1.8)
Disposals and impairments	-	-	(6.7)	-	(6.7)
BALANCE AT 31 DECEMBER 2018	**100.6**	**61.7**	**89.9**	**37.1**	**289.3**
Cost	430.9	135.4	315.6	37.1	919.0
Accumulated amortisation	(330.3)	(73.7)	(225.7)	-	(629.7)
BALANCE AT 31 DECEMBER 2018	**100.6**	**61.7**	**89.9**	**37.1**	**289.3**
Change	**(3.3)**	**(5.6)**	**20.1**	**2.5**	**13.7**

Intangible assets amount to €289.3 million (€275.6 million at 31 December 2017); this item includes:
- the infrastructure used in provision of the dispatching service in Italy and in activities in Peru, carried out under concession and accounted for in accordance with “IFRIC 12 - Service Concession Arrangements”. The carrying amount of the former, at 31 December 2018, is €100.6 million, whilst the carrying amount of infrastructure under construction, included in the category “Assets under development and prepayments”, is €27.8 million (at 31 December 2017, €103.9 million and €20.3 million, respectively);
- the concession for electricity transmission and dispatching activities in Italy (with a carrying amount of €61.7 million at 31 December 2018); 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, primarily attributable to the Parent Company (€26.7 million), essentially regard internal development programmes.

The increase compared with the previous year (up €13.7 million) broadly reflects the net effect of investment (up €56.4 million, including €26.4 million in infrastructure rights), amortisation (down €52.0 million), the contribution resulting from the acquisition of Avvenia the Energy Innovator S.r.l. (up €17.5 million, primarily relating to the company’s order book) and disposals and impairments (down €6.7 million).
Investment in intangible assets during the year (€56.4 million, including €51.8 million attributable to the Parent Company’s Regulated Activities) included expenditure on the development of software applications for the Remote Management System for Dispatching (€11.2 million), the Power Exchange (€4.1 million), the Metering System (€1 million) and for protection of the electricity system (€2.1 million), as well as software applications and generic licences (€24.6 million).

15. DEFERRED TAX ASSETS - €3.3 MILLION

(€m)

	31 DECEMBER 2017	RESTATEMENT OF OPENING BALANCES	PROVISIONS	USES AND OTHER MOVEMENTS	EFFECTS RECOGNISED IN COMPRE-HENSIVE INCOME	31 DECEMBER 2018
DEFERRED TAX ASSETS						
Provisions for risks and charges	39.1	-	**9.6**	(12.1)	-	**36.6**
Allowance for doubtful accounts	3.2	-	**-**	-	-	**3.2**
Employee benefits	22.2	-	**2.0**	(9.6)	(0.2)	**14.4**
Cash flow hedges	4.0	-	**-**	-	10.6	**14.6**
Tax relief on goodwill	34.4	-	**-**	(5.5)	-	**28.9**
Other	7.8	-	**6.8**	(0.2)	-	**14.4**
Measurement of financial instruments - IFRS 9/15	-	1.4	**-**	(0.2)	(0.2)	**1.0**
TOTAL DEFERRED TAX ASSETS	110.7	1.4	18.4	(27.6)	10.2	113.1
DEFERRED TAX LIABILITIES						
Property. plant and equipment	(114.8)	-	**-**	32.1	-	**(82.7)**
Other	(1.4)	-	**(6.2)**	(16.4)	-	**(24.0)**
Employee benefits and financial instruments	(3.1)	-	**-**	-	-	**(3.1)**
TOTAL DEFERRED TAX LIABILITIES	(119.3)	-	(6.2)	15.7	-	(109.8)
NET DEFERRED TAX ASSETS	(8.6)	1.4	12.2	(11.9)	10.2	3.3

The balance of this item, amounting to €3.3 million, includes the net impact of movements in the Group's deferred tax assets and liabilities.

Deferred tax assets (€113.1 million) are up by a net €2.4 million compared with 31 December 2017 (€110.7 million). These assets underwent the following movements during the year:

- net provisions that did not impact profit or loss, totalling €10.2 million, primarily reflecting the tax effect of movements in cash flow hedges and employee benefits;
- provisions recognised by the subsidiary Rete S.r.l., for the non-deductible portion of book depreciation recognised by the subsidiary (€2.4 million);
- use of the accrued portion recognised in relation to tax relief on the goodwill resulting from the merger of RTL with and into Terna Rete Italia S.r.l. and attributable to the Parent Company (€5.5 million);
- recognition of the net impact of the adjustment to the opening balance due to first-time adoption of the new accounting standards, IFRS 9/15 (€1.4 million).
- net uses of provisions for risks and charges (€2.5 million), primarily reflecting the impact on taxation of releases from the provisions for litigation and disputes (€2.5 million);
- net uses of provisions for employee benefits (€7.8 million).

Deferred tax liabilities (€109.8 million) are down by a net amount of €9.5 million, essentially due to:

- provisions and other net movements of €22.6 million, primarily following the recognition of deferred tax liabilities on the South American contracts;
- the use of previous provisions for accelerated depreciation at the Parent Company, Terna (down €31.1 million).

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD - €76.1 MILLION

This item, amounting to €76.1 million, regards the Parent Company's investments in the associate CESI S.p.A. (€49.0 million), the associate CORESO S.A. (€0.4 million) and the associate CGES - CrnoGorski Elektroprenosni Sistem AD (€26.7 million).
The change with respect to the previous year, a reduction of €1.8 million, essentially reflects the reduction in the investment in CGES (down €3.3 million) as a result of the dividend declared at the end of 2018, and an increase in the investment in CESI, totalling €1.4 million, compared with the previous year. The latter movement is due to the adjustment of the value to reflect equity in the same company (€2.5 million) at the end of the year attributable to the Parent Company, after taking into account the dividend collected during the year (down €1.1 million).

17. FINANCIAL ASSETS

(€m)

	MEASUREMENT	31 DECEMBER 2018	31 DECEMBER 2017	CHANGE
Financial assets under concession	amortised cost	167.8	73.5	94.3
Deposit in the Interconnector Guarantee Fund	amortised cost	61.1	42.2	18.9
Other investments	FVTOCI	0.1	0.1	-
Other non-current financial assets		-	4.3	(4.3)
NON-CURRENT FINANCIAL ASSETS		**229.0**	**120.1**	**108.9**
Government securities	FVTOCI	**402.6**	**-**	**402.6**
Cash flow hedges	Fair value	1.3	-	1.3
Other current financial assets		0.6	0.2	0.4
CURRENT FINANCIAL ASSETS		**404.5**	**0.2**	**404.3**

"Non-current financial assets" are up €108.9 million compared with the previous year, above all reflecting the increase in investment during the year in infrastructure under concession in Brazil, recognised in application of IFRIC 12 (up €94.3 million) and an increase in the Interconnector Guarantee Fund, set up to fund investment in interconnections by art. 32 of Law 99/09 (up €18.9 million).

"Current financial assets" are up €404.3 million compared with the previous year, primarily following the purchase of government securities for €400 million, maturing in December 2019 (€402.6 million) and the recognition of a foreign currency derivative (€1.3 million) entered into to hedge exchange rate differences linked to overseas activities.

18. OTHER ASSETS

(€m)

	31 DECEMBER 2018	31 DECEMBER 2017	CHANGE
Loans and advances to employees	9.4	9.3	0.1
Deposits with third parties	5.4	4.9	0.5
OTHER NON-CURRENT ASSETS	**14.8**	**14.2**	**0.6**
Other tax credits	44.1	76.8	(32.7)
Amounts due from associates	3.3	-	3.3
Prepayments to suppliers	13.4	35.1	(21.7)
Prepayments of operating expenses and accrued operating income	14.7	18.5	(3.8)
Amounts due from partners selected for Interconnector projects	4.0	4.1	(0.1)
Amounts due from others	6.5	4.6	1.9
OTHER CURRENT ASSETS	**86.0**	**139.1**	**(53.1)**

"Other non-current assets" amount to €14.8 million. substantially in line with the previous year (up €0.6 million, primarily due to amounts deposited with third parties).

"Other current assets", totalling €86.0 million, are down €53.1 million compared with 31 December 2017, primarily reflecting:

- other tax credits (down €32.7 million), primarily reflecting a decrease in the Group's refundable VAT (down €33.4 million), due to higher payments on account in the previous year as a result of the Ministerial Decree of 27 June 2017;
- a reduction in prepayments to suppliers (down €21.7 million), mainly due to the prepayments made in 2017 for work carried out in South America that began in the previous year (down €22.8 million);
- a reduction in expenses already paid for but accruing after 31 December 2018 (down €3.8 million), primarily due to decreases in the prepayment of costs relating to supply of the cable for the new Sardinia-Corsica-Italy - SACOI III connection (down €2.7 million) and in insurance premiums (down €1.1 million);
- the recognition of amounts due from the associate, CGES (up €3.3 million) as a result of the dividend declared at the end of the year;
- amounts due from others (up €1.9 million), broadly reflecting the subscription for shares in Avvenia the Energy Innovator S.r.l. (€1.3 million) and yet to be settled.

19. INVENTORIES - €15.2 MILLION

This item, amounting to €15.2 million, is broadly in line with the previous year (up €0.4 million) and primarily consists of materials and equipment for use in the operation, maintenance and construction of plant and in contract work carried out by the Tamini Group.

20. TRADE RECEIVABLES - €1,189.7 MILLION

(€m)

	31 DECEMBER 2018	31 DECEMBER 2017	CHANGE
Energy-related receivables	743.7	772.8	(29.1)
Transmission charges receivable	310.8	312.2	(1.4)
Other trade receivables	135.2	180.9	(45.7)
TOTAL	**1,189.7**	**1,265.9**	**(76.2)**

Trade receivables amount to €1,189.7 million at 31 December 2018 and are accounted for less any losses on items deemed not to be recoverable and recognised in the allowance for doubtful accounts (€26.1 million for energy-related receivables and €17.8 million for other items in 2018, compared with €26.9 million for energy-related items and €17.2 million for other items in 2017). The carrying amount shown broadly approximates to fair value.

Energy-related/regulated receivables - €743.7 million

This item includes so-called "pass-through items" relating to the Parent Company's activities in accordance with Resolution 111/06 (€715 million) and receivables due from the users of dispatching services forming part of Regulated Activities (€13.9 million). It also includes the amount due from the Fund for Energy and Environmental Services (Cassa per i Servizi Energetici e Ambientali - CSEA), based on the RENS performance for the year (€14.8 million).

The balance is down €29.1 million overall compared with the previous year, essentially due to energy-related pass-through receivables (down €30.9 million), following a reduction of €68.9 million in the uplift, reflecting the reduction in net costs to be recovered linked to both the Dispatching Services Market (DSM) and to imbalances (the related receivables are up €32.2 and €20.3 million, respectively). The change also reflects the reduction in amounts due from the users of dispatching services in relation to the interruptibility service (€41.6 million), partly offset by amounts due from CSEA guaranteeing full coverage of the cost of this service (€28.3 million).

Transmission charges receivable - €310.8 million

Transmission charges receivable, amounting to €310.8 million, represent the amount due to the Parent Company and other grid owners from electricity distributors for use of the National Transmission Grid. The receivable is down €1.4 million compared with 31 December 2017, primarily due to the mechanism for recovering one-off payments recognised in 2017 for the early effect of the tariff adjustment linked to investment.

Other trade receivables - €135.2 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 the Tamini Group's contract work.

The balance is down €45.7 million compared with the previous year, broadly due to the recognition of receivables due from Piemonte Savoia S.r.l. at the end of 2017 for construction work following the achievement of contract milestones (€49.3 million), which were collected in January 2018.

The following table shows receivables resulting from contract work in progress (€107.3 million), being carried out by the Group under multi-year contracts with third parties:

(€m)

	PREPAYMENTS	VALUE OF CONTRACT	BALANCE AT 31 DECEMBER 2018	PREPAYMENTS	VALUE OF CONTRACT	BALANCE AT 31 DECEMBER 2017
Receivables resulting from contract work in progress	(36.2)	143.5	**107.3**	(23.6)	60.5	**36.9**

The Group's receivables resulting from contract work in progress are up €70.4 million on the previous year, primarily in relation to the contract in Uruguay (up €40.3 million) and an increase in contract work at the Tamini Group (up €29.1 million).

Bank guarantees given to third parties in the interest of Group companies at 31 December 2018 total €272.3 million. These break down as follows: €104.1 million in the interests of Terna S.p.A., €39.2 million in the interests of Terna Interconnector S.r.l., €43.5 million in the interests of Terna Rete Italia S.p.A., €9.5 million in the interests of Terna Plus S.r.l., €11.2 million in the interests of Difebal S.A., €3.4 million in the interests of Rete S.r.l., €1.5 million in the interests of Terna Energy Solutions S.r.l. and €59.9 million in the interests of Tamini Trasformatori S.r.l..

21. CASH AND CASH EQUIVALENTS - €1,328.9 MILLION

Cash amounts to €1,328.9 million at 31 December 2018, including €751.5 million invested short-term, readily convertible deposits and €577.2 million deposited in bank current accounts.

22. INCOME TAX ASSETS - €19.3 MILLION

Income tax assets, amounting to €19.3 million, are down €17.6 million compared with the previous year, essentially reflecting the assets recognised at the end of 2017 compared with the liabilities recognised at 31 December 2018 in "Tax liabilities". This reflects higher payments on account made in the previous year (determined on the basis of a higher rate of IRES applied in 2016) and an increase in tax payable for the period (essentially due to the increase in pre-tax profit).

Equity and liabilities

23. EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT - €4,019.2 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.

Other reserves - €700.1 million

The other reserves have decreased by €31.9 million compared with the previous year, primarily as a result of other comprehensive income. This reflects:

- fair value adjustments to the Parent Company's cash flow hedges (down €32.1 million, taking into account the related tax asset of €10.1 million);
- the recognition of actuarial gains and losses on provisions for employee benefits (a gain of €0.9 million, taking into account the related tax liability of €0.3 million).

Retained earnings and accumulated losses - €2,240.1 million

The increase in "Retained earnings and accumulated losses", amounting to €238.4 million, primarily regards the remaining portion of the Group's profit for 2017, following the Parent Company's payment of the dividend for 2017 (totalling €442.2 million).

Interim dividend for 2018

On 9 November 2018, the Parent 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 €0.0787 per share, amounting to a total payout of €158.2 million. The dividend was payable from 21 November 2018, with an ex-dividend date for coupon 29 of 19 November 2018.

Equity attributable to non-controlling interests

Equity attributable to non-controlling interests, relating to the non-controlling shareholders of the Tamini Group, Terna Interconnector S.r.l. and Avvenia The Energy Innovator S.r.l. (consolidated for the first time during the year), amounts to €35.0 million, an increase of €9.3 million compared with 31 December 2017.

This change primarily reflects the profit reported by Terna Interconnector S.r.l. (€6.0 million) and the contribution from Avvenia (€4.9 million).

24. BORROWINGS AND FINANCIAL LIABILITIES

(€m)

	31 DECEMBER 2018	31 DECEMBER 2017	CHANGE
Bond issues	6,563.2	6,541.9	21.3
Bank borrowings	1,664.4	2,129.7	(465.3)
LONG-TERM BORROWINGS	**8,227.6**	**8,671.6**	**(444.0)**
Cash flow hedges	59.2	10.5	48.7
NON-CURRENT FINANCIAL LIABILITIES	**59.2**	**10.5**	**48.7**
SHORT-TERM BORROWINGS	**25.0**	**118.0**	**(93.0)**
Bond issues	616.7	749.9	(133.2)
Bank borrowings	613.9	134.4	479.5
CURRENT PORTION OF LONG-TERM BORROWINGS	**1,230.6**	**884.3**	**346.3**
TOTAL	**9,542.4**	**9,684.4**	**(142.0)**

Borrowings and financial liabilities are down €142.0 million compared with the previous year to €9,542.4 million.

The reduction in bond issues (down €111.9 million) is due to the adjustment to these instruments to reflect their amortised cost. The balance also reflects the repayment of bonds issued on 16 October 2012, totalling €750 million and the green bond issue of 23 July 2018 (€750 million).

The latest official prices at 31 December 2018 and 31 December 2017 for the bonds listed on the Luxembourg Stock Exchange are detailed below:

(€)

	PRICE AT 31 DECEMBER 2018	PRICE AT 31 DECEMBER 2017
bond maturity 2024:	120.51	128.98
bond maturity 2023:	127.61*	135.46
bond maturity 2019:	103.62	108.74
bond maturity 2026:	103.52	102.85
bond maturity 2021:	109.79	114.80
bond maturity 2022:	100.64	102.50
bond maturity 2028:	89.83	96.16
bond maturity 2027:	94.53	100.51
bond maturity 2018:	-	100.38
bond maturity 2023 (Green Bond):	100.17	-

** Source: BNP Paribas, in the absence of up-to-date prices sourced from Reuters and Bloomberg.*

Compared to the previous year, bank borrowings have increased by €14.2 million, due mainly to the following:
- drawdowns on new loans of €152.8 million;
- repayments made to the EIB at maturity and on outstanding leases, totalling €134.1 million.

Long-term borrowings

(€m)

	MATURITY	AT 31 DECEMBER 2017	AT 31 DECEMBER 2018*	PORTION FALLING DUE WITHIN 12 MONTHS	PORTION FALLING DUE AFTER 12 MONTHS	2020	2021	2022	2023	2024	BEYOND	COUPON INTEREST	AVERAGE NET INTEREST RATE ON HEDGES AT 31 DECEMBER 2018
Bonds	2024	1,013.4	982.9		982.9		-	-	-	982.9	-	4.90%	0.86%
IL bonds	2023	692.9	679.2		679.2		-	-	679.2	-	-	2.73%	0.30%
PP bonds	2019	638.7	616.7	616.7			-	-	-	-	-	4.88%	1.14%
PP bonds	2026	78.8	78.9		78.9		-	-	-	-	78.9	1.60%	1.79%
1250 bonds	2021	1,388.7	1,345.9		1,345.9		1,345.9	-		-	-	4.75%	1.20%
1000 bonds	2022	996.8	997.6		997.6		-	997.6	-	-	-	0.88%	0.95%
750 bonds	2018	749.9	-				-	-	-	-	-	2.88%	2.99%
750 bonds	2028	740.1	740.9		740.9		-	-	-	-	740.9	1.00%	1.19%
1000 bonds	2027	992.5	993.2		993.2		-	-	-	-	993.2	1.38%	1.45%
750 bonds	2023	-	744.6		744.6		-	-	744.6	-		0.00%	1.16%
EIB	2039	238.6	368.6		368.6		-	4.6	20.5	20.5	323.0	1.44%	1.44%
Total fixed rate		**7,530.4**	**7,548.5**	**616.7**	**6,931.8**	**-**	**1,345.9**	**1,002.2**	**1,444.3**	**1,003.4**	**2,136.0**		
EIB	2030	1,488.3	1,355.9	111.3	1,244.6	116.1	116.7	128.6	112.7	112.7	657.8	0.25%	1.12%
CDP	2019	500.0	500.0	500.0	-	-	-	-	-	-	-	0.93%	1.04%
Difebal borrowing	2034	32.6	56.9	0.6	56.3	1.9	2.5	2.7	3.0	3.3	42.9	6.48%	6.93%
Leases	2019-2021-2222	4.6	2.4	2.0	0.4	0.3	0.1	-	-	0.1	(0.8)	0.88%	0.88%
Total variable rate		**2,025.5**	**1,915.2**	**613.9**	**1,301.3**	**118.3**	**119.3**	**131.3**	**115.7**	**116.0**	**700.7**		
TOTAL		**9,555.9**	**9,463.7**	**1,230.6**	**8,233.1**	**118.3**	**1,465.2**	**1,133.5**	**1,560.0**	**1,119.4**	**2,836.7**		

* *The balance does not include fees of €5.5 million.*

At 31 December 2018, the Terna Group's borrowings amount to €9,458.2 million (€1,230.6 million maturing within 12 months and €8,227.6 million maturing after 12 months), of which €2,836.7 million maturing after five years.

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

(€m)

	AT 31 DECEMBER 2017			REPAYMENTS AND CAPITALISATIONS	DRAWDOWNS	OTHER	CHANGE IN CARRYING AMOUNT	AT 31 DECEMBER 2018		
	NOMINAL DEBT	CARRYING AMOUNT	FAIR VALUE					NOMINAL DEBT	CARRYING AMOUNT	FAIR VALUE
Bonds maturing 2024	800.0	1,013.4	1,031.8	-	-	(30.5)	(30.5)	800.0	982.9	964.1
IL bonds	570.5	692.9	677.3	-	-	(13.7)	(13.7)	579.0	679.2	638.1
Private Placement 2019	600.0	638.7	652.4	-	-	(22.0)	(22.0)	600.0	616.7	621.7
Private Placement 2026	80.0	78.8	82.3	-	-	0.1	0.1	80.0	78.9	82.8
Bonds maturing 2021	1,250.0	1,388.7	1,435.0	-	-	(42.8)	(42.8)	1,250.0	1,345.9	1,372.4
Bonds maturing 2022	1,000.0	996.8	1,025.0	-	-	0.8	0.8	1,000.0	997.6	1,006.4
Bonds maturing 2018	750.0	749.9	752.8	(750.0)	-	0.1	(749.9)	-	-	-
Bonds maturing 2028	750.0	740.1	721.2	-	-	0.8	0.8	750.0	740.9	673.7
Bonds maturing 2027	1,000.0	992.5	1,005.2	-	-	0.7	0.7	1,000.0	993.2	945.3
Bonds maturing 2023	-	-	-	-	750.0	(5.4)	744.6	750.0	744.6	751.3
Total bond issues	**6,800.5**	**7,291.8**	**7,383.0**	**(750.0)**	**750.0**	**(111.9)**	**(111.9)**	**6,809.0**	**7,179.9**	**7,055.8**
Bank borrowings	2,265.5	2,264.1	2,270.4	(134.1)	152.8	(4.5)	14.2	2,285.3	2,278.3	2,301.2
Total borrowings	**2,265.5**	**2,264.1**	**2,270.4**	**(134.1)**	**152.8**	**(4.5)**	**14.2**	**2,285.3**	**2,278.3**	**2,301.2**
Total debt	**9,066.0**	**9,555.9**	**9,653.4**	**(884.1)**	**902.8**	**(116.4)**	**(97.7)**	**9,094.3**	**9,458.2**	**9,357.0**

At 31 December 2018, the Group has access to additional financing of €2,450.0 million, represented by three revolving credit facilities entered into in December 2015, July 2016 and September 2018. In addition, the Group has uncommitted bank credit lines totalling approximately €806 million and approximately €59 million in loans agreed but not yet disbursed.

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.

Non-current financial liabilities

(€m)

	31 DECEMBER 2018	31 DECEMBER 2017	CHANGE
Cash flow hedges	59.2	10.5	48.7
TOTAL	**59.2**	**10.5**	**48.7**

Non-current financial liabilities, amounting to €59.2 million, reflect the fair value of cash flow hedges at 31 December 2018.

Fair value was measured by discounting the expected cash flows using the market yield curve at the reporting date. The increase of €48.7 million compared with 31 December 2017 reflects the change in the market interest rate curve and the change in the notional value of the derivatives portfolio.

Short-term borrowings - €25.0 million

Short-term borrowings are down €93 million compared with the previous year due to the repayment of facilities used primarily by the Parent Company.

Current financial liabilities

Current financial liabilities at 31 December 2018 include the value of net interest expense accrued on financial instruments and not yet paid. This item is down €15.3 million compared with the previous year.

(€m)

	31 DECEMBER 2018	31 DECEMBER 2017	CHANGE
DEFERRED LIABILITIES ON:			
Hedging derivatives	2.3	1.8	0.5
Bond issues	85.9	101.9	(16.0)
Borrowings	2.2	2.0	0.2
TOTAL	**90.4**	**105.7**	**(15.3)**

Net debt

Pursuant to the CONSOB Communication of 28 July 2006 and in compliance with Recommendation ESMA no. 319 of 2013, the Group's net debt is as follows:

(€m)

	31 DECEMBER 2018
A. Cash	577.4
B. Term deposits	751.5
C. Cash and cash equivalents (A) + (B)	**1,328.9**
D. Current portion of non-current borrowings	1,230.6
of which from related parties	*500.0*
E. Short-term borrowings	25.0
F. Other net financial liabilities	89.8
of which from related parties	*0.5*
G. Current financial assets	403.9
H. Current debt (D+E+F)	**941.5**
I. Current net debt (G) - (C)	**(387.4)**
J. Non-current borrowings	1,664.4
K. Bond issues	6,563.2
L. Derivative financial instruments held in portfolio	59.2
M. Non-current net debt (I) + (J) + (K)	**8,286.8**
N. Net debt (H) + (L)	**7,899.4**

Default risk and debt covenants

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

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

- the Company's bond issues, which consist of an €800.0 million issue in 2004 and eight issues as part of its EMTN Programme (the "€ 8,000,000,000 Medium Term Notes Programme"), totalling €6,009 million;
- bank borrowings, consisting of three revolving line of credit of €800 million, €500 million and €1,150 million, ("bank debt");
- a series of loans to the Company from the European Investment Bank (EIB), amounting to a total of €2,225 million;
- project financing, totalling approximately €57 million, to fund the development transmission infrastructure in Brazil and Uruguay, where the Group operates through the operators SPE Santa Maria Transmissora de Energia S.A. and SPE Santa Lucia Transmissora de Energia S.A. (Brazil) and Difebal S.A. (Uruguay).

The main covenants relating to the 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 listed bonds (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) accelerated repayment should the rating fall below investment grade (BBB-) for the majority of rating agencies or should the Company cease to be rated by all the agencies.

The main covenants related to the EIB loans involve clauses related to i) negative pledges, on the basis of which the Company cannot create 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 ratings below BBB+/Baa1 be assigned by two ratings agencies out of three, or in the event that all of the agencies cease to publish ratings; 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; 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.).

The main covenants related to the project financing involve clauses related to i) 'securities' by which the companies undertake to pledge and to continue to pledge shares in the companies and/or their assets to the lenders throughout the terms to maturity of the loans, ii) limitations and/or restrictions on payments and on the distribution of profit until certain conditions have been met, such as completion of a certain number of repayments and/or the fact that financial ratios have remained above certain minimum thresholds, and ii) "*event of default*", on the basis of which if certain predetermined events occur (e.g. failure to make a repayment, serious inaccuracies in declarations, insolvency, the cessation of operations, etc.) a situation of default is established and the loan is immediately called in.

To date, no covenant has been breached.

25. EMPLOYEE BENEFITS - €69.4 MILLION

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

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

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

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

The following table shows the composition of provisions for TFR and other employee benefits and movements during the year ended 31 December 2018.

(€m)

	31 DECEMBER 2017	PROVISIONS	INTEREST COST	USES AND OTHER MOVEMENTS	ACTUARIAL GAINS/ (LOSSES)	31 DECEMBER 2018
Benefits during the period of employment						
Loyalty bonuses	4.6	0.2	0.1	(0.2)	-	4.7
Total	**4.6**	**0.2**	**0.1**	**(0.2)**	**-**	**4.7**
Termination benefits						
Deferred compensation benefits (*TFR*)	46.4	-	0.4	(2.1)	(1.0)	43.7
Energy discounts	13.0	0.4	0.1	(8.3)	0.1	5.3
Additional months' pay	7.1	0.2	-	(0.3)	(0.1)	6.9
Payment in lieu of notice and other similar	0.3	-	-	(0.1)	-	0.2
Total	**66.8**	**0.6**	**0.5**	**(10.8)**	**(1.0)**	**56.1**
Post-employment benefits						
ASEM health plan	9.3	0.3	0.1	(0.9)	(0.2)	8.6
Total	**9.3**	**0.3**	**0.1**	**(0.9)**	**(0.2)**	**8.6**
TOTAL	**80.7**	**1.1**	**0.7**	**(11.9)**	**(1.2)**	**69.4**

This item, amounting to €69.4 million at 31 December 2018, is down €11.3 million compared with the previous year, attributable primarily to the release of provisions for the energy discounts (down €8.3 million) due to changes to the plan and use of provisions for TFR (down €2.1 million), essentially in relation to generational turnover.

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

(€m)

	LOYALTY BONUSES	TFR	ADDITIONAL MONTHS' PAY	PAYMENT IN LIEU OF NOTICE AND OTHER SIMILAR	ENERGY DISCOUNTS	ASEM HEALTH COVER	TOTAL
Net impact recognised in profit or loss							
- current service cost	0.2	-	0.2	-	0.4	0.3	**1.1**
- curtailment (revenue) and other costs	-	-	-	(0.1)	(8.2)	(0.7)	**(9.0)**
- interest income and expense	0.1	0.4	-	-	0.1	0.1	**0.7**
TOTAL RECOGNISED IN PROFIT OR LOSS	**0.3**	**0.4**	**0.2**	**(0.1)**	**(7.7)**	**(0.3)**	**(7.2)**

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

(€m)

	TFR	ADDITIONAL MONTHS' PAY	PAYMENT IN LIEU OF NOTICE AND OTHER SIMILAR	ENERGY DISCOUNTS	ASEM HEALTH COVER	TOTAL
Actuarial gain/losses						
- based on past experience	-	-	-	-	(0.1)	**(0.1)**
- due to changes in demographic assumptions	-	-	-	-	-	-
- due to changes in other economic assumptions	-	0.2	-	-	0.1	0.3
- due to changes in discount rate	(1.0)	(0.3)	-	0.1	(0.2)	**(1.4)**
TOTAL IMPACT ON OTHER COMPREHENSIVE INCOME	**(1.0)**	**(0.1)**	**-**	**0.1**	**(0.2)**	**(1.2)**

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 2017, 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 2018, matching the duration of the relevant group of plan participants.

	LOYALTY BONUSES	*TFR*	ADDITIONAL MONTHS' PAY	PAYMENT IN LIEU OF NOTICE AND OTHER SIMILAR	ENERGY DISCOUNTS	ASEM HEALTH COVER
Discount rate	1.56%	1.16%	0.77%	0.43%	1.13%	1.57%
Inflation rate	1.50%	1.50%	0.00%	1.50%	1.50%	3.00%
Duration (in years)	10.6-12.3	9.1-27.2	5.2-5.8	4.48	5.3-9.1	9.6-17.5

(€m)

	LOYALTY BONUSES	*TFR*	ADDITIONAL MONTHS' PAY	PAYMENT IN LIEU OF NOTICE AND OTHER SIMILAR	ENERGY DISCOUNTS	ASEM HEALTH COVER	TOTAL
Discount rate +0.25%	4.7	43.0	6.7	0.2	5.1	8.5	**68.2**
Discount rate -0.25%	4.6	45.0	6.9	0.2	5.3	8.9	**70.8**
Inflation rate +0.25%	4.6	44.7	n/a	n/a	n/a	n/a	**49.3**
Inflation rate -0.25%	4.7	43.3	n/a	n/a	n/a	n/a	**48.0**
Annual rate of increase in health costs +3%	n/a	n/a	n/a	n/a	n/a	12.5	**12.5**
Annual rate of increase in health costs -3%	n/a	n/a	n/a	n/a	n/a	7.0	**7.0**
Conversion rate for KW/h +5%	n/a	n/a	n/a	n/a	n/a	n/a	**-**
Conversion rate for KW/h -5%	n/a	n/a	n/a	n/a	n/a	n/a	**-**

(€m)

	LOYALTY BONUSES	*TFR*	ADDITIONAL MONTHS' PAY	PAYMENT IN LIEU OF NOTICE AND OTHER SIMILAR	ENERGY DISCOUNTS	ASEM HEALTH COVER	TOTAL
By the end of 2019	0.3	2.3	1.9	-	0.4	0.2	**5.1**
By the end of 2020	0.4	2.6	0.7	-	0.5	0.2	**4.4**
By the end of 2021	0.5	2.6	0.8	-	0.6	0.2	**4.7**
By the end of 2022	0.3	3.4	0.6	-	0.7	0.3	**5.3**
By the end of 2023	0.2	3.0	0.5	-	0.7	0.3	**4.7**
After 5 years	3.0	29.8	2.4	0.2	2.4	7.4	**45.2**
TOTAL	**4.7**	**43.7**	**6.9**	**0.2**	**5.3**	**8.6**	**69.4**

26. PROVISIONS FOR RISK AND CHARGES - €241.4 MILLION

(€m)

	PROVISIONS FOR LITIGATION AND DISPUTES	PROVISIONS FOR SUNDRY RISKS AND CHARGES	PROVISIONS FOR EARLY RETIREMENT INCENTIVES	TOTAL
Amount at 31 December 2017	**23.9**	**179.6**	**63.0**	**266.5**
New provisions	3.9	37.8	-	41.7
Uses and other movements	(8.8)	(48.5)	(9.6)	(66.9)
Restatement of opening balances	-	0.1	-	0.1
Amount at 31 December 2018	**19.0**	**169.0**	**53.4**	**241.4**

Provisions for litigation and disputes - 19.0 million

These provisions, set aside to cover outstanding liabilities that, at the end of the year, could result from court judgements and out-of-court settlements regarding the activities of Group companies, have been assessed partly on the basis of recommendations from internal and external legal advisors. The provisions are down €4.9 million compared with the previous year, reflecting an increase in net uses during the year following positive outcomes to a number of disputes arising in previous years.

Provisions for sundry risks and charges - €169.0 million

These provisions are down €10.6 million compared with the previous year, reflecting:

- net provisions for staff incentive plans, totalling €10.9 million;
- a net decrease of €7.3 million due to the higher value of provisions made in the previous year for urban and environmental redevelopment schemes;
- a reduction of €6.6 million following the payment, by ARERA, of expenses not covered by the transmission and dispatching charges;
- a reduction of €3.9 million due to an adjustment to the provisions for taxation;
- a net reduction of €3.1 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 - €53.4 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. This item has decreased by a net €9.6 million, reflecting payments during the year in relation to the existing plan for generational turnover.

27. OTHER NON-CURRENT LIABILITIES - €373.8 MILLION

This item, amounting to €373.8 million at 31 December 2018, regards accrued grants related to assets receivable by the Parent Company (€90.9 million), in addition to payments on account received in relation to construction of the Italy-France Interconnector (€217.6 million).

This item also includes the Interconnector Guarantee Fund set up by Terna S.p.A. following the issue of the 2016 Stability Law (€65.2 million), in order to fund investment in interconnections by art. 32 of Law 99/09.

The increase in this item compared with the previous year, amounting to €122.8 million, essentially reflects the recognition of payments on account received from the entities financing the Italy-France Interconnector (up €106.1 million) and reflects the recognition of payments on account received from the entities financing the Italy-France Interconnector (up €21.9 million).

28. CURRENT LIABILITIES

(€m)

	31 DECEMBER 2018	31 DECEMBER 2017	CHANGE
Short-term borrowings *	25.0	118.0	(93.0)
Current portion of long-term borrowings *	1,230.6	884.3	346.3
Trade payables	2,514.1	2,497.9	16.2
Tax liabilities	5.1	-	5.1
Current financial liabilities *	90.4	105.7	(15.3)
Other current liabilities	239.7	193.0	46.7
TOTAL	**4,104.9**	**3,798.9**	**306.0**

** Information on these items is provided in note 24, "Borrowings and financial liabilities.*

TRADE PAYABLES - €2,514.1 MILLION

(€m)

	31 DECEMBER 2018	31 DECEMBER 2017	CHANGE
Suppliers:			
- Energy-related payables	1,518.1	1,602.6	(84.5)
- Non-energy-related payables	978.9	874.4	104.5
Amounts due to associates	8.2	14.9	(6.7)
Payables resulting from contract work in progress	8.9	6.0	2.9
TOTAL	**2,514.1**	**2,497.9**	**16.2**

Suppliers

Energy-related/regulated payables - €1,518.1 million

The reduction of €84.5 million in this item compared with the previous year essentially reflects energy-related pass-through payables (down €106 million). This is primarily due to:

- payables related to provision of the dispatching service (down €81 million), primarily due to a significant reduction during the year in the cost of both demand- and supply-side imbalances;
- payables linked to plants that are essential for the security of the electricity system - *UESS* (down €113.9 million), reflecting increased payments at the end of the year;
- amounts due from final customers linked to the interruptibility service (down €24.7 million) and amounts due to the Fund for Energy and Environmental Services (*Cassa per i Servizi Energetici e Ambientali* - CSEA) to cover the cost of the protection service (down €12.6 million);

in part offset by

- payables relating to capacity payments (up €124.7 million), the increase reflecting the cost of the capacity obtained after one single payment made during the year (in accordance with ARERA Resolution 248/2018).

The change also reflects the payable (€22.2 million) resulting from the difference between the amount collected from CSEA for the RENS bonus for 2016 and the related receivable recognised in the financial statements, calculated on a pro-rata basis taking into account the overall results expected in the regulatory period 2016-2019.

Non-energy-related payables

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

The balance at 31 December 2018 (€978.9 million) is up €104.5 million on the previous year, largely due to increased capital expenditure towards the end of the year.

Amounts due to associates

This item, amounting to €8.2 million, is down €6.7 million on the previous year and regards amounts payable to the associate CESI S.p.A., for services provided primarily to the Parent Company (€0.8 million) and to the subsidiary Terna Rete Italia S.p.A. (€7.0 million), relating to electro technical studies and research.

Payables resulting from contract work in progress

Payables resulting from contract work in progress, amounting to €8.9 million at 31 December 2018, are up €2.9 million on the figure for 31 December 2017 (€6.0 million), essentially due to a reduction in amounts payable on contract work at the Tamini Group (€2.0 million).
This item breaks down as follows.

(€m)

	PREPAY-MENTS	VALUE OF CONTRACT	BALANCE AT 31 DECEMBER 2018	PREPAY-MENTS	VALUE OF CONTRACT	BALANCE AT 31 DECEMBER 2017
Payables resulting from contract work in progress	(23.7)	14.8	**(8.9)**	(19.0)	13.0	**(6.0)**

The carrying amount of trade payables broadly approximates to fair value.
The commitments assumed by the Group towards suppliers amount to approximately €3,428.9 million and regard purchase commitments linked to the normal "operating cycle" projected for the period 2019-2023.

Tax liabilities - €5.1 million

This item amounts to €5.1 million at 31 December 2018, compared to a zero balance at the end of 2017. This essentially reflected higher payments on account made in the previous year (determined on the basis of a higher rate of IRES in 2016) and an increase in tax payable for 2018 (essentially due to the increase in pre-tax profit).

OTHER CURRENT LIABILITIES - €239.7 MILLION

(€m)

	31 DECEMBER 2018	31 DECEMBER 2017	CHANGE
Prepayments	69.7	22.3	47.4
Other tax liabilities	7.4	7.8	(0.4)
Social security payables	25.0	24.2	0.8
Amounts due to personnel	41.6	47.0	(5.4)
Other amounts due to third parties	96.0	91.7	4.3
TOTAL	**239.7**	**193.0**	**46.7**

Prepayments

This item (€69.7 million) regards grants related to assets collected by the Group (€64.9 million attributable to the Parent Company, €2.8 million to Rete S.r.l. and €2.0 million to Terna Rete Italia S.p.A.) to fund the construction of non-current assets in progress at 31 December 2018.
Compared with the balance at 31 December 2017 (€22.3 million), this item is up €47.4 million, essentially due to the net impact of grants deducted directly from the carrying amount of the related assets, totalling €42.2 million, and new grants received from third parties, primarily the Ministry for Economic Development (€61.6 million).

Other tax liabilities

Other tax liabilities, amounting to €7.4 million, are broadly in line with the figure at 31 December 2017. These liabilities largely regard IRPEF withholdings on salaries and deferred compensation (TFR) paid to the employees of Terna Rete Italia S.p.A. (€5.0 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 €25.0 million and are broadly in line with the previous year. This item also included the amount payable to the Fondo Previdenza Elettrici - F.P.E. (the Electricity Industry Pension Fund), amounting to €3.5 million.

Amounts due to personnel

Amounts due to personnel, amounting to €41.6 million, essentially regard the Parent Company and the subsidiary Terna Rete Italia S.p.A.. They primarily relate to:

- incentives payable in the subsequent year (€24.9 million);
- amounts due to employees in the form of accrued and unused annual leave and bank holiday entitlements (€11.2 million).

This item is down €5.4 million, primarily due to a decrease in payables recognised in 2018 as a result of amounts payable to personnel who have opted to take part in the current generational turnover plan (down €7.4 million), partially offset by other amounts payable to staff amounts to be reimbursed (up €1.1 million).

Other payables due to third parties

Other payables due to third parties, amounting to €96.0 million, primarily regard guarantee deposits (€67.4 million) received from electricity market operators to guarantee their contractual obligations under dispatching and virtual interconnection contracts. This item also includes deferred income (€12.0 million, primarily attributable to the Group's non-regulated business).
This item is up by a total of €4.3 million, essentially due to an increase in accrued expenses and deferred income (up €3.4 million).

E. Commitments and risks

Risk management

The Group's financial risk

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 2018.
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.

(€m)

	31 DECEMBER 2018		31 DECEMBER 2017	
	RECEIVABLES AT AMORTISED COST	HEDGING DERIVATIVES	RECEIVABLES AT AMORTISED COST	HEDGING DERIVATIVES
Assets				
Derivative financial instruments	-	1.3	-	-
Cash on hand and deposits	1,328.9	-	1,989.2	-
Trade receivables	1,189.7	-	1,265.9	-
TOTAL	**2,518.6**	**1.3**	**3,255.1**	**-**

(€m)

	31 DECEMBER 2018			31 DECEMBER 2017		
	PAYABLES AT AMORTISED COST	HEDGING DERIVATIVES	TOTAL	PAYABLES AT AMORTISED COST	HEDGING DERIVATIVES	TOTAL
Liabilities						
Long-term debt	9,458.2	-	9,458.2	9,555.9	-	9,555.9
Derivative financial instruments	-	59.2	59.2	-	10.5	10.5
Trade payables	2,514.1	-	2,514.1	2,497.9	-	2,497.9
TOTAL	**11,972.3**	**59.2**	**12,031.5**	**12,053.8**	**10.5**	**12,064.3**

Market risk

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

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

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

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

Interest rate risk

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

In the course of its operations, the Group is exposed to the risk of fluctuations in interest rates. Its main source of interest rate risk is associated with its borrowings and the related hedges in the form of derivative instruments that generate financial expenses. The borrowing strategy focuses on long-term borrowings, whose term reflects the useful life of the Group's assets. It pursues an interest rate risk hedging policy that aims to guarantee that 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, the Group has converted all its debt to fixed rate.

At 31 December 2018, 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 the Terna Group:

(€m)

	31 DECEMBER 2018		31 DECEMBER 2017		CHANGE	
	NOTIONAL	FAIR VALUE	NOTIONAL	FAIR VALUE	NOTIONAL	FAIR VALUE
Cash flow hedges	3,246.3	(59.2)	2,566.0	(10.5)	679.2	(48.7)

The notional amount of outstanding cash flow hedges at 31 December 2018, amounting to €3,245.2 million, breaks down as follows:

- €1,325.7 million (fair value loss of €14.7 million) maturing 2021;
- €150.0 million (fair value loss of €3.8 million) maturing 2026;
- €800.0 million (fair value loss of €19.6 million) maturing 2027;
- €950.0 million (fair value loss of €21.0 million) maturing 2028;
- €20.6 million (fair value loss of €0.1 million), relating to the subsidiary, Difebal, maturing 2032.

Sensitivity to interest rate risk

As regards the management of interest rate risk, following the restructuring of its portfolio, Terna has floating-to-fixed interest rate swaps (cash flow hedges) in place to hedge the risk associated with the expected future cash flows.

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)

	OCI		
	CURRENT RATES +10%	CURRENT AMOUNTS	CURRENT RATES -10%
31 December 2018			
Positions sensitive to interest rate variations (bond issues, CFHs)	(48.5)	**(59.2)**	(69.9)
Hypothetical change	*10.7*	-	*(10.7)*
31 December 2017			
Positions sensitive to interest rate variations (bond issues, CFHs)	(12.3)	**(12.8)**	(13.3)
Hypothetical change	*0.5*	-	*(0.5)*

Inflation risk

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

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 2018, the component of financial instruments associated with exchange rate risk is residual in nature and attributable to the investments in Latin America. This exposure is managed, at 31 December 2018, via currency hedges with a notional value of €368.9 million and a fair value gain of €1.3 million.

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 2018, Terna had available short-term credit lines of €805.8 million and revolving credit lines of €2,450 million.

Credit risk

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

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

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

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

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

(€m)

	31 DECEMBER 2018	31 DECEMBER 2017	CHANGE
Cash and cash equivalents	1,328.9	1,989.2	(660.3)
Trade receivables	1,189.7	1,265.9	(76.2)
TOTAL	**2,518.6**	**3,255.1**	**(736.5)**

The total value of the exposure to credit rate risk at 31 December 2018 is represented by the carrying amount of trade receivables and cash and cash equivalents.

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

GEOGRAPHICAL DISTRIBUTION

(€m)

	31 DECEMBER 2018	31 DECEMBER 2017
Italy	1,088.9	1,166.9
Euro-area countries	24.4	75.5
Other countries	76.4	23.5
TOTAL	**1,189.7**	**1,265.9**

CUSTOMER TYPE

(€m)

	31 DECEMBER 2018	31 DECEMBER 2017
Distributors	309.8	311.2
CSEA	114.0	95.3
Dispatching customers for injections	200.8	195.9
Dispatching customers for withdrawals (not distributors)	408.9	465.3
Parties which have signed virtual import contracts and virtual import services (interconnectors and shippers)	13.7	13.2
Sundry receivables	142.5	185.0
TOTAL	**1,189.7**	**1,265.9**

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

(€m)

	31 DECEMBER 2018		31 DECEMBER 2017	
	IMPAIRMENT	GROSS	IMPAIRMENT	GROSS
Current	(0.4)	1,020.5	-	1,159.3
0-30 days past due	(0.1)	13.0	-	43.8
31-120 days past due	(0.4)	9.2	-	17.8
Over 120 days past due	(43.0)	190.9	(44.1)	89.1
TOTAL	**(43.9)**	**1,233.6**	**(44.1)**	**1,310.0**

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

(€m)

	31 DECEMBER 2018	31 DECEMBER 2017
Balance at 1 January*	(45.6)	(43.6)
Release of provisions	2.5	0.9
Impairments for the year	(0.8)	(1.4)
Balance	**(43.9)**	**(44.1)**

** The opening balance at 1 January 2018 was adjusted by €1.5 million following application of the new standard, IFRS9.*

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

(€m)

	31 DECEMBER 2018	31 DECEMBER 2017
Dispatching - injections	233.7	236.6
Dispatching - withdrawals	1,099.6	1,185.2
Transmission charges due from distributors	305.0	302.4
Virtual imports	84.0	81.1
Balance	**1,722.3**	**1,805.3**

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 2018 is provided in the section, “Borrowings and financial liabilities” in the notes to the Terna Group’s consolidated financial statements.

Litigation

The main commitments and risks not disclosed in the statement of financial position at and for the year ended 31 December 2018, relating to the Parent Company Terna, its subsidiary Terna Rete Italia S.p.A. and the Tamini Group companies, are described below. There are no significant commitments or risks for the other subsidiaries at that date.

Environmental and urban planning litigation

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

Litigation regarding the legitimacy of construction permits and plant operations

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

Litigation relating to activities carried out under concession

As the operator of transmission and dispatching activities since 1 November 2005, the Parent Company has been a party in a number of court cases, most of which have contested determinations adopted by ARERA (Italy's Regulatory Authority for Energy, Networks and the Environment), and/or the Ministry for Economic Development, and/or Terna, 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.

Litigation regarding supply contracts

This litigation only refers to Tamini Group companies and relates to supply contracts entered into between Tamini Group companies and its customers, regarding the supply of transformers and/or the related components.
It also concerns certain claims for damages brought against companies, regarding alleged damage caused by machinery and/or components supplied by them.

With regard to these judgements, it is impossible to exclude, in absolute terms, any unfavourable outcomes. Where such outcomes are deemed likely, specific accruals are made to the provisions for risks and charges.

In the opening months of 2019, Terna initiated the necessary liability actions against certain suppliers, in response to their violation of article 101 of the Treaty on the Functioning of the European Union, prohibiting anti-competitive behaviour. Such behaviour was confirmed by the European Commission in 2014 in decision C (2014) 2139 of 2 April 2014, as upheld in full by the court at first instance ruling of 18 July 2018. The Company's actions aim to obtain redress for the inefficiencies caused by the illegal conduct of the above external suppliers.

F. Business combinations

Acquisition of Avvenia The Energy Innovator S.r.l.

On **15 February 2018**, Terna - via its subsidiary, Terna Plus[2] - completed the acquisition of a 70% stake in **Avvenia The Energy Innovator S.r.l.**, a new company to which the principal assets of Avvenia, a leader in the energy efficiency sector and certified as an Energy Service Company (ESCo), have been transferred.

Avvenia is an Energy Service Company ("ESCo"), established in 2001 in Albano Laziale. The company occupies a leading position in the energy efficiency market, thanks to the high degree of specialisation and the wide range of sectors in which it has acquired contracts and in which its customers operate. The company's main aim is to improve the way its customers use energy and operate, using a network of professionals (engineers and architects) with proven experience in the sector to help its customers achieve operating and energy efficiencies.

The company had 16 employees at 31 December 2018.

This transaction is part of the process of identifying and acting on new commercial opportunities for the provision of energy efficiency services and projects, in order to further strengthen Terna Plus's role as a supplier of comprehensive integrated energy services and expand its range of innovative solutions as an Energy Solutions Provider. This is in line with the strategy set out in the Strategic Plan for the Group's Non-regulated Activities.

The company was acquired by Terna for a consideration of €7 million, 80% of which has been paid at the reporting date, whilst the remaining 20% will be payable by Terna based on the new company's financial statements for the year ended 31 December 2018, subject to an earnout basedthe company's performance goals. In this regard, it should be noted that the recognised purchase price already includes the outstanding consideration due, in view of the fact that the subsidiary has already achieved the above performance goals.

The sale agreement includes a call option on the remaining 30% of the new company's shares, exercisable within 24 months of the date of transfer of the initial stake.

The following table summarises the consideration paid to acquire Avvenia The Energy Innovator S.r.l. and shows amounts for assets acquired and liabilities assumed, as recognised at the acquisition date:

[2] On 2 August 2018, the partial demerger of Terna Plus S.r.l. (a wholly-owned subsidiary of the parent, Terna S.p.A.), and the transfer of the demerged assets to a newly established company named Terna Energy Solutions S.r.l., came into effect. As part of the demerger, the investment in Avvenia The Energy Innovator S.r.l. was also transferred to Terna Energy Solutions.

ASSETS ACQUIRED AND LIABILITIES ASSUMED AT 15 FEBRUARY 2018

	(€000)
	FAIR VALUE
ASSETS	
Non-current assets	
Property, plant and equipment	96.5
Intangible assets	17,493.8
Total non-current assets	**17,590.3**
Current assets	
Trade receivables	607.8
Other assets	2.605
Cash and cash equivalents	564.3
Total current assets	**3,777.0**
TOTAL ASSETS	**21,367.3**
LIABILITIES	
Non-current liabilities	
Employee benefits	75.7
Deferred tax liabilities	5,013.1
Total non-current liabilities	**5,088.8**
Current liabilities	
Trade payables	1.0
Other liabilities	2.5
Total current liabilities	**3.5**
TOTAL LIABILITIES	**5,092.3**
NET ASSETS ACQUIRED	**16,275.0**
Equity attributable to non-controlling interests	**4,882.5**
CONSIDERATION	**8,400.0**

After completing the process of accounting for the acquisition, in accordance with IFRS 3, the expected consideration was lower than the value of net assets at the acquisition date after deducting equity attributable to non-controlling interests, resulting in a bargain purchase and a gain of €3.0 million.

G. Related party transactions

Given that Terna S.p.A. is subject to the de facto control of Cassa Depositi e Prestiti S.p.A., 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 2018 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 2018.

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.
CGES	Dividends	
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.
ENI Group	Dispatching charge.	Contributions for NTG connections, 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.
Fondenel and Fopen		Pension contributions payable by the Terna Group.
Other related parties of the MEF		Grants for NTG connections.

REVENUE AND COSTS

(€m)

	REVENUE COMPONENTS		COST COMPONENTS
	TRANSMISSION CHARGE AND OTHER REVENUE FROM REGULATED ACTIVITIES	NON-ENERGY-RELATED ITEMS	
De facto parent			
Cassa Depositi e Prestiti S.p.A.	-	-	3.1
Total de facto parent	**-**	**-**	**3.1**
Associates:			
Cesi S.p.A.	-	0.2	2.4
CORESO S.A.	-	-	1.6
Total associates	**-**	**0.2**	**4.0**
Other related parties:			
GSE Group	19.0	-	0.1
Enel Group	1,564.1	21.5	2.6
ENI Group	6.8	4.2	0.1
Ferrovie Group	2.4	0.9	12.4
Anas S.p.A.	-	-	0.3
Sace S.p.A.		-	0.2
Poste Italiane Group	-	-	0.1
Snam Rete Gas S.p.A.	-	0.2	-
Other related parties of MEF	-	0.4	-
Total other related parties	**1,592.3**	**27.2**	**16.1**
Pension funds:			
Fondenel	-	-	0.5
Fopen	-	-	2.3
Total pension funds	**-**	**-**	**2.8**
TOTAL	**1,592.3**	**27.4**	**26.0**

ASSETS AND LIABILITIES

(€m)

	PROPERTY, PLANT AND EQUIPMENT	RECEIVABLES AND OTHER ASSETS		PAYABLES AND OTHER LIABILITIES		CASH	GUARANTEES*
	CAPITALISED COSTS	OTHER	FINANCIAL	OTHER	FINANCIAL		
De facto parent							
Cassa Depositi e Prestiti S.p.A.	-	-		-	500.5		-
Total de facto parent	**-**	**-**	**-**	**-**	**500.5**	**-**	**-**
Associates:							
Cesi S.p.A.	10.3	0.3	-	8.1	-	-	1.2
CORESO S.A.	-	-	-	0.1	-	-	-
CGES	-	3.3	-	-	-	-	-
Total associates	**10.3**	**3.6**	**-**	**8.2**	**-**	**-**	1.2
Other related parties:							
GSE Group	-	3.1	-	0.1	-	-	-
Enel Group	13.0	402.1	-	30.7	-	-	586.8
ENI Group	-	3.3	-	1.9	-	-	32.8
Ferrovie Group	0.1	0.5	-	23.6	-	-	24.6
ANAS S.p.A.	3.4	0.1	-	1.5	-	-	-
Snam Rete Gas S.p.A.	-	0.1	-	0.7	-	-	-
Ansaldo Energia S.p.A.	13.8	-	-	12.7	-	-	-
Other related parties of MEF	0.3	0.2	-		-	0.1	-
Total other related parties	**30.6**	**409.4**	**-**	**71.2**	**-**	**0.1**	**644.2**
Pension funds:							
Fopen	-	-	-	2.0	-	-	-
Total pension funds	**-**	**-**	**-**	**2.0**	**-**	**-**	**-**
TOTAL	**40.9**	**413.0**	**-**	**81.4**	**500.5**	**0.1**	**645.4**

* *Guarantees regard surety bonds received from contractors.*

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 2018.

I. Notes to the statement of cash flows

Cash flow from **continuing operations** amounts to €1,306.6 million, with approximately €1,683.9 million in operating cash flow and an outflow of approximately €377.3 million generated by changes in net working capital.

The cash outflow for **investing activities** totals €1,036.9 million, and above all regards €992.5 million relating to investment in property, plant and equipment, €56.4 million invested in intangible assets, €15.1 million in capitalised financial expenses, in addition to the contribution deriving from the acquisition of Avvenia The Energy Innovator S.r.l., amounting to €17.6 million.
The net cash outflow for **shareholder transactions** amounts to €449.7 million, due primarily to payment of the final dividend for 2017 (€292.9 million) and the interim dividend for 2018 (€158.2 million), in addition to the contribution to equity attributable to non-controlling shareholders deriving from the acquisition of Avvenia (an inflow of €4.9 million).
As a result, net cash used in investing activities and to provide a return on equity during the year amounted to €1,486.6 million, for the most part covered by cash flow from continuing operations of €1,306.6 million. The remainder was funded through the use of cash reserves.
Net debt has risen by €103 million compared with the previous year.

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

(€m)

	31 DECEMBER 2017	CASH FLOW FROM FINANCING ACTIVITIES	CHANGE IN FV AND OTHER	31 DECEMBER 2018
- Long-term borrowings (including current portion)	9,555.9	14.2	(111.9)	9,458.2
- Short-term borrowings	118.0	(93.0)	-	25.0
- Current financial assets - Government securities	-	(401.5)	(1.1)	(402.6)
NET CHANGE DERIVING FROM FINANCING ACTIVITIES	**9,673.9**	**(480.3)**	**(113.0)**	**9,080.6**

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 include an obligation for the relevant companies to disclose the grants received (paragraph 125) and those disbursed (paragraph 126) in their annual financial statements.

In accordance with Circular 5 of 22 February 2019 "Transparency in the government grants system: an assessment of the regulations and interpretation guidance", published by Assonime in February 2019, 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 2018:

GRANTS RECEIVED (PARAGRAPH 125)

	GRANTOR					
BENEFICIARY ENTITY	NAME	TAX CODE	VAT NUMBER	TYPE OF TRANSACTION	AMOUNT (€)	NOTE
TERNA S.p.A.	Ministry for Economic Development	80230390587	80230390587	State aid*	47,053,290.76	Advance on grants awarded for Terna S.p.A. projects financed by government grants, with funding provided under the National Operational Programme (NOP) for Enterprises and Competitiveness 2014 - 2020 ERDF - AXIS IV - investment priority 4d - Action 4.3.1
TERNA S.p.A.	Sicily Regional Authority	80012000826	02711070827	State aid*	14,499,449.49	Advance on grants awarded for Terna S.p.A. projects financed by government grants, with funding provided under the Regional Operational Programme (ROP) ERDF Sicily 2014 - 2020 - OT4 - Action 4.3.1
TOTAL					**61,552,740.25**	

** This transaction is covered by the obligation to publish in the National State Aid Register.*

GRANTS DISBURSED (PARAGRAPH 126)

	BENEFICIARY					
GRANTOR	NAME	TAX CODE	VAT NUMBER	TYPE OF TRANSACTION	AMOUNT (€)	NOTE
TERNA S.p.A.	Istituto Nazionale per l'Assicurazione contro gli Infortuni sul Lavoro		00968951004	Giving	12,000	The first edition of the Biennial Masters in "Integrated Safety and Health Management in a Changing Workplace"
TERNA S.p.A.	Fondazione Bambino Gesù Onlus	97531780589		Giving	40,000	Financial support for the provisions of accommodation for children's families
TOTAL					**52,000**	

M. Events after 31 December 2018

Revised zonal configuration for Brindisi, Foggia and Priolo

From **1 January 2019**, the new zonal configuration came into force. Compared to the past, the new arrangement has combined the production nodes with limited capacity in Brindisi, Foggia and Priolo with neighbouring zones (the South and Sicily zones, respectively), as well as transferring the Gissi node from the South to the Central-South zone. This change was made in accordance with the European CACM Regulation, which all the regulatory authorities and TSOs of European Union member states must comply with. In particular, the changes made are aimed at ensuring safe operation of the transmission system, as well as boosting the efficiency and cost-effectiveness of the electricity market. In Resolution 386/2018/R/eel, ARERA has approved Terna's proposed revision of the zonal configuration following the review process carried out in 2018 pursuant to the European CACM Regulation and ARERA Resolution 22/18/R/eel.

Private placement of green bond issue

On **10 January 2019**, Terna S.p.A. launched a fixed-rate green bond issue in the form of a private placement, amounting to €250 million. The issue was assigned ratings of "BBB+" by Standard and Poor's, "(P)Baa2" by Moody's and "BBB+" by Fitch. The proceeds will be used to finance the Company's eligible green projects, thus confirming the Group's strategy oriented towards combining sustainability with growth, in order to promote the ongoing energy transition and generate ever increasing benefits for Italy and its stakeholders.

Bloomberg Gender Equality Index

On **16 January 2019**, Terna was included for the first time in the Bloomberg Gender Equality Index (GEI), an international index that measures companies' performance regarding gender equality issues and the quality and transparency of their public reporting, a decisive factor in the overall assessment. For 2019, Bloomberg analysed over 9,000 companies listed on leading world financial markets, including only 230 of them in the GEI index (in total, there are three Italian companies), from 36 countries and representing 10 different sectors (including energy, industry, utilities and finance).

Veneto Regional Authority and Terna: Investment programme

On **21 January 2019**, the Governor of the Veneto Region, Luca Zaia, and Terna's Chief Executive Officer, Luigi Ferraris, signed a planning agreement regarding extraordinary works relating to the security of the electricity system and development of the region, with the aim of promoting sustainable development in the Veneto region and helping local society and the economy to recover from the exceptional weather events of November 2018 by rebuilding and developing regional electricity infrastructure. In this sense, Veneto Regional Authority and Terna have committed to adopting the most advanced forms of cooperation, with local authorities and communities to be closely and fully involved in deciding on the works and initiatives to be undertaken in the various areas. The agreement provides for substantial investment in the implementation of vital works on the Veneto electricity grid, the most significant being an upgrade between Venice and Padua at a cost of over €400 million.

Co-optation of a new Director on to the Board of Directors

Following the resignation of the non-executive Director, Stefano Saglia, on **15 February 2019**, Terna S.p.A.'s Board of Directors co-opted a new non-executive Director, Paolo Calcagnini (the Chief Financial Officer of Cassa Depositi e Prestiti S.p.A.), on to the Board in response to the invitation from the Cassa Depositi e Prestiti Group which, in a letter dated 6 February 2019, submitted Mr Calcagnini's candidacy for the Company's appropriate and independent evaluation.

Establishment of PI.SA. 2 S.r.l.

A new wholly owned subsidiary of Terna S.p.A., named PI.SA. 2 S.r.l., was established on **15 February 2019**. The company's purpose is the design, construction, management, development, operation and maintenance, including for third parties, of power lines and grid infrastructure and other infrastructure connected to the grid, in addition to plant and equipment used in the electricity transmission sector. The company will also engage in research, consulting and support on matters relating to the core business, conduct any form of activity enabling the improved use and deployment of the networks, structures, resources and expertise employed.

Terna and Genoa's electricity grid

As part of the planned rationalisation of the electricity grid in the city of Genoa, on **18 February 2019**, Terna completed the laying of underground cables for the 132kV power lines linking the Fiera and Central primary substations and the Genoa T. and Fiera primary substations. The works are necessary to support the increase in port activities, thanks to the modernisation of the local grid, and for the implementation of strategic projects for the development and urban renewal of the city of Genoa, which was badly hit by the collapse of the Morandi road bridge last August.

New electricity line in Brazil to drive development of renewable sources

The new high-voltage power line extending 158 km in Rio Grande do Sul, which will enable full integration of large quantities of energy produced from renewable sources, above all from wind, into the Brazilian national grid, was inaugurated on **19 February 2019**. Terna, through its subsidiary Santa Maria Transmissora de Energia, activated the new "Santa Maria 3 - Santo Angelo 2" 230 kV power line in the south-east of Brazil, considered of significant importance for the Rio Grande do Sul region, as it will allow for the integration of energy generated by wind farms in the south of Brazil into the Brazilian national transmission grid. With over 80% of electricity produced from clean sources and wind production having increased by 20% in the last year, Brazil currently represents the largest Latin American energy market and is among the top five in the world for its development potential.

Restructuring in the Venetian Lagoon

The underground and submarine cables for the 132kV power lines between the Sacca Serenella Primary Substation - Cavallino Primary Substation entered service on **21 February 2019**. This date also marks the start of work on other projects, such as demolition of the Fusina 2 - Sacca Fisola overhead power line, covering a distance of 6.5 km, and the removal of 24 electricity pylons, most of which located in the lagoon area, in order to boost the efficiency and security offered by the electricity grid in the area of the Venetian Lagoon.

Terna has also embarked on preparations for the demolition of a section of the Villabona - Fusina 2 line where it interferes with the area known as the Vallone Moranzani. Once the removal of the conductors has been completed, it will be possible to begin the dismantling of approximately 2 km of power lines and 9 pylons. The work will lead to the demolition of a further 3.6 km of lines, making a total of 15 lines located in the Malcontenta and Venice Ro-Ro port areas.

Restructuring of the Rimini - Riccione electricity grid

On **27 February 2019**, Terna presented its plan for the restructuring of the grid in the Rimini area, aimed at boosting the security and efficiency of the area's electricity system, above all during the summer season, when electricity consumption rises significantly, with the consequent risk of outages. A total of 8 municipalities are covered by the plan: Rimini, Riccione, Coriano, Sant'Arcangelo di Romagna, San Mauro Pascoli, Savignano sul Rubicone, Gatteo and Gambettola.
In Rimini, 84 pylons and around 21 km of power lines will be demolished, to be replaced with approximately 9 km of new underground lines and two new pylons. The city centre will benefit from the large area of land that removal of the old infrastructure will free up, above all two elementary schools, the "Padulli" and "Rodari", located in the area in which the restructuring will take place.

Operation Mato Grosso

On **27 February 2019**, an Implementation Agreement was signed by the Parish of Chacas and Terna Plus S.r.l. for the construction of over 16 km of high-voltage power line at a record altitude of 4,100 metres in the Andes. The new line will connect Peru's national grid with the Huallin hydroelectric plant located 500 km to the north of the capital Lima, significantly increasing the production and transmission of renewable energy for the benefit of both the local community and all the other communities in need that Operation Mato Grosso is designed to help.
For Terna, the Agreement falls within the wider scope of its "business solidarity" projects and voluntary activities already implemented for several years to support the well-being of the populations most in need in areas where it operates. This includes support for voluntary and non-profit organisations through charitable and social initiatives, again in the context of environmental sustainability.

Snam and Terna: research and innovation partnership and electricity-gas convergence

On **1 March 2019**, Snam and Terna signed a memorandum of understanding with the aim of defining and implementing joint initiatives, in particular regarding research, development and innovation and the potential for convergence between the electricity and gas systems.

The areas of activity covered by the agreement include the development of shared national and European energy scenarios with the aim of exploiting convergence between the gas and electricity systems, as part of Snam's plan for converting its compression and storage plants into "dual energy" gas-electric plants with significant benefits in terms of increased flexibility of the services rendered and reduction of environmental impact.

In addition, research and development initiatives will have great importance, with particular reference to the use of programmable renewable sources for electricity generation and to the new coupling sector technologies, aimed at ever-better use of resources, as well as the testing and development of innovative technological solutions for the analysis and monitoring of infrastructure, hydrogeological analysis, the monitoring of worksites and joint optimisation of the electricity and gas networks.

Restructuring of the electricity grid between Catanzaro and Calusia

On **4 March 2019**, Terna arranged 3 meetings open to residents in the province of Catanzaro and Crotone, during which the Company will provide information on the planned construction of a new 150kV power line in the local area. The project will involve the municipalities of Catanzaro, Soveria Simeri, Simeri Crichi, Zagarise, Sellia Marina, Belcastro, Andali, Cerva, Petronà, Sersale Cropani, Mesoraca, Cotronei, Petilia Policastro and Caccuri. The work aims to guarantee the increased stability and reliability of the local electricity system, to improve the quality of the service and the efficiency of the grid and to encourage increased production from renewables.

The 150kV power line, to be installed between the Catanzaro and Calusia Electrical Substations, with connections to the Belcastro substation and the primary transformer room at Mesoraca, will enable the demolition of around 90 km of overhead power lines.

New composition of Board committees

On **21 March 2019**, the Board of Directors modified the composition of the Company's Board committees, in order to ensure continued compliance with the recommendations in the Corporate Governance Code and remain in line with best governance practices. Gabriella Porcelli has taken on the chair of the Nominations Committee, whose other members continue to be Fabio Corsico and Yunpeng He. The Audit, Risk, Corporate Governance and Sustainability Committee, which continues to be chaired by Luca Dal Fabbro since his appointment on 9 November 2018, will continue to include Paola Giannotti and Elena Vasco. The latter has also been appointed a member of the Remuneration Committee, whose other members continue to be Fabio Corsico (as Chair) and Gabriella Porcelli. Finally, Paola Giannotti has been appointed Chair of the Related Party Transactions Committee, of which Luca Dal Fabbro and Gabriella Porcelli continue to be members.

Green bond launch

On **3 April 2019** TERNA S.p.A. launched a green bond addressed to institutional investors. The issuance is made under Terna's Euro 8,000,000,000 Medium Term Notes Programme (EMTN), which has been rated "BBB+" by Standard & Poor's, "(P)Baa2" by Moody's and "BBB+" by Fitch for an aggregate amount of 500 million Euro. The green bond has been issued with a tenor of 7 years and a maturity date falling on 10 April 2026, will pay a coupon of 1.000%, with an issue price equal to 99.886%, a spread of 78 basis points over the midswap and an indicative spread of approximately 100 basis points lower than the Italian BTP having same maturity. The actual cost for Terna, in respect of such issuance, is therefore equal to 1.02% as opposed to the aggregate average cost of the consolidated debt equal to 1.6% over the new Strategic Plan period.
The net proceeds from the issuance will be used to finance the company's eligible green projects of the Company.

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 the Terna Group's independent auditors in 2018.

(€)

	ENTITY PROVIDING SERVICE	FEES DUE FOR THE YEAR
Audit of the accounts	PwC	797,397
Attestation and other services	PwC	160,613
TOTAL		**958,010**

Attestation

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

"Terna Group"

1. The undersigned, Luigi Ferraris, as Chief Executive Officer, and Agostino Scornajenchi, as Manager responsible for Terna S.p.A.'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 2018.

2. The administrative and accounting procedures adopted in preparation of the consolidated financial statements for the year ended 31 December 2018 were drawn up, and their adequacy assessed, on the basis of the regulations and methods adopted by Terna S.p.A. 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 2018:

   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, 21 March 2019

Chief Executive Officer	Manager responsible for financial reporting
Luigi Ferraris	**Agostino Scornajenchi**
(original signed)	*(original signed)*

Independent auditor's report

in accordance with article 14 of Legislative Decree 39 of 27 January 2010 and article 10 of Regulation (EU) 537/2014

Independent auditor's report

in accordance with article 14 of Legislative Decree 39 of 27 January 2010 and article 10 of Regulation (EU) 537/2014

To the shareholders of Terna SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Terna SpA and its subsidiaries (Terna group), which comprise the statement of financial position as of 31 December 2018, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Terna group as of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 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 section Auditor's Responsibilities for the Audit of the Consolidated Financial Statements of this report. We are independent of Terna SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. 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.

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Capital expenditure for the development and operation of the transmission grid *Section D – Notes to the consolidated statement of financial position – Note 12 Property, plant and equipment and Note 14 Intangible assets* Costs capitalised during the year as property, plant and equipment and intangible assets amount to Euro 1,091 million and mainly relate to capital expenditure for the development and operation of the transmission grid. Revenue from transmission and dispatching activities (regulated activities) is determined each year in accordance with the approved regulatory tariffs which are based on a pre-established return on capital invested, plus amortisation and depreciation and operating costs recognised. The capitalisation of costs for the operation and development of the transmission grid therefore represented a key matter in the audit of the consolidated financial statements, also considering the magnitude and the high number of transactions.	We performed an understanding and evaluation of the system of internal control over the capital expenditure cycle, with particular reference to identification of the key controls and the verification of their effectiveness. We assessed that the capitalisation of costs complied with the international accounting standards. We also performed substantive procedures analysing, on a sample basis, the supporting documentation of capitalised costs in order to verify that these costs were accurate, complete and pertaining to the reporting period. Our tests also included the analysis of the notes to the consolidated financial statements to verify the adequacy and completeness of the disclosures therein.
Revenue from non-regulated activities *Section B – Notes to the consolidated income statement - Note 1 Revenue from sales and services and Note 2 Other revenue and income and Section C – Operating segments* Total revenue, amounting to Euro 2,319 million, includes revenue from non-regulated activities of Euro 195 million equal to 8.4% of total revenue of the group. Non-regulated activities mainly consist of the development, production and sale of power transformers, miscellaneous services in favour of third parties and the construction of a part of international interconnectors, providing for a variety of cases and different degree of complexity of underlying transactions.	With respect to the main revenue streams from non-regulated activities, we performed an understanding and evaluation of key controls implemented by the group. We verified the recognition of revenue from non-regulated activities through substantive procedures including analyses, on a sample basis, of the supporting documentation, focusing on the contractual clauses underlying the recognition of revenue within the correct reporting period also in consideration of the requirements

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Therefore, the recognition of revenue from non-regulated activities was a key matter in the audit of the consolidated financial statements.	envisaged by the new IFRS 15 “Revenue from Contracts with Customers”. Our tests also included the analysis of the notes to the consolidated financial statements to verify the adequacy and completeness of the disclosures therein.
Derivative financial instruments *Section D – Notes to the consolidated statement of financial position – Note 24 Borrowings and financial liabilities and Section E – Commitments and risks*	
The amount of borrowings in the consolidated financial statements at 31 December 2018 is Euro 9,483 million. In accordance with the risk management policies, the group mitigates its exposure to the change in interest rates by entering into derivative financial instruments for hedging purposes. The notional amount of derivatives at 31 December 2018 is Euro 3,246 million. Considering the magnitude of values, the degree of complexity of both the fair value measurement process and the recognition rules provided for by the new IFRS 9 “Financial Instruments”, the verification of derivative financial instruments was considered as a key matter in the audit of the consolidated financial statements.	We performed an understanding and evaluation of the system of internal control over the measurement process of the derivative financial instruments and related accounting treatment. We recalculated, on a sample basis and involving the experts of the PwC network, the fair value of derivatives and we verified the hedge effectiveness in accordance with the provisions of IFRS 9 and with the corporate procedures. Our tests also included the analysis of the notes to the consolidated financial statements to verify the adequacy and completeness of the disclosures therein.

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 with the regulations issued to implement article 9 of Legislative Decree 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the group’s ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate Terna SpA or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed 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 the consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgment and maintained professional scepticism throughout the audit. Furthermore:

- we identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained 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;
- we obtained 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;
- we evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- we concluded on the appropriateness of the directors' 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;
- we evaluated 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;
- we obtained 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 on the consolidated financial statements.

We communicated 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 identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that are 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 auditor's report.

Additional Disclosures required by article 10 of Regulation (EU) 537/2014

We were appointed by the shareholders of Terna SpA at the general meeting held on 13 May 2011 to perform the audit of the Company separate and consolidated financial statements for the years ending 31 December 2011 through 31 December 2019.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) 537/2014 and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with article 14, paragraph 2, letter e), of Legislative Decree 39/2010 and article 123-bis, paragraph 4, of Legislative Decree 58/1998

The directors of Terna SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Terna group as of 31 December 2018, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree 58/1998, with the consolidated financial statements of the Terna group as of 31 December 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the Terna group as of 31 December 2018 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree 39/2010, issued on the basis of our knowledge and understanding of the group obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob Regulation implementing Legislative Decree 254 of 30 December 2016

The directors of Terna SpA are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 254 of 30 December 2016.
We have verified that the directors approved the non-financial statements.

Pursuant to article 3, paragraph 10, of Legislative Decree 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Rome, 11 April 2019

PricewaterhouseCoopers SpA

Signed by

Luca Bonvino
(Partner)

This report has been translated from the original version which was issued in Italian language, solely for the convenience of international readers.