SEPARATE FINANCIAL STATEMENTS

Contents

Separate financial statements

Income statement of Terna S.p.A.

(€)

	NOTE	2018	2017
A - REVENUE			
1. Revenue from sales and services	1	1,892,840,140	1,861,453,047
of which: related parties		*1,616,989,988*	*1,618,317,512*
2. Other revenue and income	2	74,707,510	90,053,148
of which: related parties		*54,332,356*	*43,160,360*
Total revenue		**1,967,547,650**	**1,951,506,195**
B - OPERATING COSTS			
1. Raw and consumable materials used	3	5,290,261	10,024,776
of which: related parties		*244,934*	*119,063*
2. Services	4	364,580,334	349,832,712
of which: related parties		*309,122,126*	*300,498,593*
3. Personnel expenses	5	63,929,242	65,987,971
- gross personnel expenses		*67,117,442*	*69,027,451*
- capitalised personnel expenses		*(3,188,200)*	*(3,039,480)*
of which: related parties		*738,069*	*585,840*
4. Amortisation, depreciation and impairment losses	6	517,865,399	495,192,305
5. Other operating costs	7	18,172,002	39,011,448
of which: related parties		*26,033*	*98,418*
Total costs		**969,837,238**	**960,049,212**
A-B OPERATING PROFIT/(LOSS)		**997,710,412**	**991,456,983**
C - FINANCIAL INCOME/(EXPENSES)			
1. Financial income	8	13,020,750	5,729,373
of which: related parties		*8,096,591*	*1,951,401*
2. Financial expenses	8	(91,582,167)	(95,554,625)
of which: related parties		*(3,076,200)*	*(3,770,511)*
D - PROFIT/(LOSS) BEFORE TAX		**919,148,995**	**901,631,731**
E - INCOME TAX EXPENSE	9	**257,857,793**	**261,588,853**
F - PROFIT FOR THE YEAR		**661,291,202**	**640,042,878**

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

(€)

	NOTE	2018	2017
PROFIT FOR THE YEAR		**661,291,202**	**640,042,878**
Other comprehensive income for the year reclassifiable to profit or loss			
- Cash flow hedges after taxation	20	(32,502,930)	5,904,878
- Financial assets at fair value through other comprehensive income, after taxation	20	1,168,219	-
- Cost of hedges, after taxation	20	(1,789,675)	-
Other comprehensive income for the year not reclassifiable to profit or loss			
- Actuarial gains/(losses) on provisions for employee benefits, after taxation	20	16,440	(24,536)
COMPREHENSIVE INCOME FOR THE YEAR		**628,183,256**	**645,923,220**

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

(€)

	NOTE	31 DECEMBER 2018	31 DECEMBER 2017
A - NON-CURRENT ASSETS			
1. Property, plant and equipment	10	12,034,962,379	11,705,228,618
of which: related parties		*73,329,994*	*66,973,041*
2. Goodwill	11	190,228,231	190,228,231
3. Intangible assets	12	237,451,427	234,080,643
4 Deferred tax assets	13	18,248,879	-
5. Non-current financial assets	14	1,091,128,621	1,009,659,871
of which: related parties		*9,956,332*	*339,745*
6. Other non-current assets	15	4,257,446	3,526,176
Total non-current assets		**13,576,276,983**	**13,142,723,539**
B - CURRENT ASSETS			
1. Inventories	16	-	5,307,324
2. Trade receivables	17	1,090,063,061	1,142,545,872
of which: related parties		*422,445,664*	*426,736,699*
3. Current financial assets	14	494,024,680	213,317
of which: related parties		*89,484,556*	-
4. Cash and cash equivalents	18	945,044,880	1,678,217,732
of which: related parties		*(204,749,945)*	*(219,450,417)*
5. Income tax assets	19	16,016,310	57,927,658
of which: related parties		-	*9,910,413*
6. Other current assets	15	20,446,631	63,226,507
of which: related parties		*3,266,360*	-
Total current assets		**2,565,595,562**	**2,947,438,410**
TOTAL ASSETS		**16,141,872,545**	**16,090,161,949**

(continued)

(continued)

(€)

	NOTE	31 DECEMBER 2018	31 DECEMBER 2017
C - EQUITY			
1. Share capital		442,198,240	442,198,240
2. Other reserves		792,531,833	825,639,778
3. Retained earnings/(accumulated losses)		2,113,051,689	1,916,706,986
4. Interim dividend		(158,186,370)	(149,268,036)
5. Profit for the year		661,291,202	640,042,878
Total equity	**20**	**3,850,886,594**	**3,675,319,846**
D - NON-CURRENT LIABILITIES			
1. Long-term borrowings	21	8,171,886,525	8,638,448,258
of which: related parties		-	*500,000,000*
2. Employee benefits	22	11,768,108	12,744,530
3. Provisions for risks and charges	23	213,829,474	243,496,364
4. Deferred tax liabilities	13	-	17,258,091
5. Non-current financial liabilities	21	59,089,581	9,904,232
6. Other non-current liabilities	24	196,119,231	181,316,955
of which: related parties		*39,929,872*	*41,855,770*
Total non-current liabilities		**8,652,692,919**	**9,103,168,430**
E - CURRENT LIABILITIES			
1. Short-term borrowings	21	-	90,000,000
2. Current portion of long-term borrowings	21	1,229,798,720	884,039,788
of which: related parties		*500,000,000*	-
3. Trade payables	25	2,113,384,836	2,106,382,361
of which: related parties		*472,324,200*	*403,564,166*
4. Tax expense	25	8,072,200	-
of which: related parties		*(18,871,910)*	-
5. Current financial liabilities	21	90,092,567	105,682,938
of which: related parties		*497,000*	*531,125*
6. Other current liabilities	25	196,944,709	125,568,586
of which: related parties		*15,724,498*	*4,646,208*
Total current liabilities		**3,638,293,032**	**3,311,673,673**
TOTAL LIABILITIES AND EQUITY		**16,141,872,545**	**16,090,161,949**

Statement of changes in equity

31 DECEMBER 2017 - 31 DECEMBER 2018
SHARE CAPITAL AND RESERVES OF TERNA S.P.A.

(€m)

	SHARE CAPITAL	LEGAL RESERVE	SHARE PREMIUM RESERVE	CASH FLOW HEDGE RESERVE	OTHER RESERVES	RETAINED EARNINGS/ (ACCUMULATED LOSSES)	INTERIM DIVIDEND	PROFIT FOR THE YEAR	EQUITY
EQUITY AT 31 DECEMBER 2017	442.2	88.4	20.0	(12.2)	729.5	1,916.7	(149.3)	640.0	3,675.3
Change in accounting standards						(1.3)			(1.3)
RESTATED EQUITY AT 1 JANUARY 2018	442.2	88.4	20.0	(12.2)	729.5	1,915.4	(149.3)	640.0	3,674.0
PROFIT FOR THE YEAR								661.3	661.3
OTHER COMPREHENSIVE INCOME:									
Change in fair value of cash flow hedges.after taxation				(32.5)					(32.5)
- Financial assets at fair value through other comprehensive income, after taxation					1.1				1.1
- Cost of hedges after taxation				(1.8)					(1.8)
Total other comprehensive income	-	-	-	(34.3)	1.1	-	-	-	(33.2)
COMPREHENSIVE INCOME	-	-	-	(34.3)	1.1	-	-	661.3	628.1
TRANSACTIONS WITH SHAREHOLDERS:									
Appropriation of profit for 2017:									-
- Retained earnings						197.8		(197.8)	-
- Dividends							149.3	(442.2)	(292.9)
Interim dividend 2018							(158.2)		(158.2)
Total transactions with shareholders	-	-	-	-	-	197.8	(8.9)	(640.0)	(451.1)
Other changes						(0.1)			(0.1)
EQUITY AT 31 DECEMBER 2018	442.2	88.4	20.0	(46.5)	730.6	2,113.1	(158.2)	661.3	3,850.9

31 DECEMBER 2016 - 31 DECEMBER 2017
SHARE CAPITAL AND RESERVES OF TERNA S.P.A.

(€m)

	SHARE CAPITAL	LEGAL RESERVE	SHARE PREMIUM RESERVE	*CASH FLOW HEDGE RESERVE*	OTHER RESERVES	RETAINED EARNINGS/ (ACCUMULATED LOSSES)	INTERIM DIVIDEND	PROFIT FOR THE YEAR	EQUITY
EQUITY AT 31 DECEMBER 2016	442.2	88.4	20.0	(18.1)	729.5	1,372.2	(144.9)	535.5	3,024.8
PROFIT FOR THE YEAR								640.0	640.0
OTHER COMPREHENSIVE INCOME:									
Change in fair value of cash flow hedges, after taxation				5.9					5.9
Total other comprehensive income	-	-	-	5.9	-	-	-	-	5.9
COMPREHENSIVE INCOME	-	-	-	5.9	-	-	-	640.0	645.9
TRANSACTIONS WITH SHAREHOLDERS:									
Appropriation of profit for 2016:									-
- Retained earnings						121.5		(121.5)	-
- Dividends							144.9	(414.0)	(269.1)
Merger contribution						423.0			423.0
Interim dividend 2017							(149.3)		(149.3)
Total transactions with shareholders	-	-	-	-	-	544.5	(4.4)	(535.5)	4.6
EQUITY AT 31 DECEMBER 2017	442.2	88.4	20.0	(12.2)	729.5	1,916.7	(149.3)	640.0	3,675.3

Statement of cash flows

(€m)

	2018	2017
PROFIT FOR THE YEAR ADJUSTED BY:	**661.3**	**640.0**
Amortisation, depreciation and impairment losses /(reversals of impairment losses) on non-current property, plant and equipment and intangible assets*	508.9	485.5
Accruals to provisions (including provisions for employee benefits) and impairment losses	33.9	64.3
(Gains)/Losses on sale of property, plant and equipment	(3.0)	(1.7)
Financial (income)/expense	78.7	80.1
Income tax expense	257.9	261.6
CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN NET WORKING CAPITAL	**1,537.7**	**1,529.8**
Increase/(decrease) in provisions (including provisions for employee benefits and taxation)	(39.0)	(2.1)
of which merger contribution	-	*48.2*
(Increase)/decrease in inventories	5.3	(5.4)
(Increase)/decrease in trade receivables and other current assets	121.8	230.2
Increase/(decrease) in trade payables and other current liabilities	81.4	125.7
Increase/(decrease) in other non-current assets	(21.1)	(23.7)
Increase/(decrease) in other non-current liabilities	19.9	16.9
Interest income and other financial income received	3.0	352.4
Interest expense and other financial expenses paid	(228.3)	(228.7)
Income tax paid	(272.6)	(337.1)
CASH FLOW FROM OPERATING ACTIVITIES [A]	**1,208.1**	**1,658.0**
- of which: related parties	*55.2*	*50.5*
Change in non-current property, plant and equipment	(793.8)	(1,774.9)
of which purchase of non-current property, plant and equipment after grants collected	*(793.8)*	*(685.7)*
of which merger contribution	-	*(1,089.2)*
Proceeds from the sale of non-current property, plant and equipment and other movements	4.8	(7.6)
Change in non-current intangible assets	(58.4)	(40.1)
of which intercompany additions	*(6.6)*	-
of which merger contribution	-	*(1.6)*
Capitalised financial expenses	15.1	12.3
Goodwill resulting from merger	-	(101.6)
(Increase)/decrease in investments	(55.7)	529.7
of which merger contribution	-	*559.7*
CASH FLOW FOR INVESTING ACTIVITIES [B]	**(888.0)**	**(1,382.2)**
- of which: related parties	*(6.4)*	*(8.4)*
Changes in equity due to merger	-	423.0
Increase/(decrease) in retained earnings and accumulated losses	(1.4)	-
Dividends paid	(451.1)	(418.4)
Movements in short- and medium/long-term financial liabilities (including short-term portion)**	(19.7)	341.0
Movement in short-term loans and borrowings	(179.5)	129.0
Movements in short-term financial investments	(401.5)	-
CASH FLOW FROM FINANCING ACTIVITIES [C]	**(1,053.2)**	**474.6**
- of which: related parties	*(99.1)*	*39.0*
INCREASE/(DECREASE) IN CASH AND EQUIVALENTS [A+B+C]	**(733.1)**	**750.4**
Cash and cash equivalents at beginning of year	1,678.2	927.8
Cash and cash equivalents at end of year	945.1	1,678.2

* *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., which provides electricity transmission and dispatching services, is a joint-stock company and its registered office is at Viale Egidio Galbani 70, Rome, Italy.
These financial statements were authorised for publication by the Board of Directors on 20 March 2019.
The 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 authorised the Chairwoman and the Chief Executive Officer to make any alterations to the form of the financial statements and any additions and adjustments to the sections concerning significant subsequent events.

Compliance with IAS/IFRS

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

Basis of presentation

The separate financial statements consist of the statement of financial position, the income statement, the statement of comprehensive income, the statement of 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 Company's normal operating cycle; current liabilities are those expected to be settled in the Company's normal operating cycle or within one year of the end of the financial year.
The income statement is classified on the basis of the nature of costs. The income statement is presented as two statements, the first of which (the income statement) presents revenue and expense items for the year; the second (the statement of comprehensive income) starts with the result for the year and then presents the revenue and expense items (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 separate 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.

The separate financial statements are presented in euros, whilst amounts in the notes are presented in millions of euros, unless otherwise stated.
The separate financial statements have been prepared on a historical cost basis, with the exception of certain items that, in accordance with EU-IFRS, are recognised at fair value, as indicated in the measurement criteria for individual items.

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

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

Impairment losses

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

Allowance for doubtful accounts

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

Provisions for risks and charges

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

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 or *TFR*) were based on "vested benefits", applying the projected unit credit method. These valuations are based on economic and demographic assumptions: the discount rate (used to determine the 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.

Investments in subsidiaries and associates

Investments in subsidiaries are investments where Terna has the power to directly or indirectly govern the financial and operating policies of the investee so as to obtain benefits from its activities. Associates are investees over which Terna exercises significant influence.
In assessing whether or not Terna has control or significant influence, being the ability to participate in the determination of these companies' financial and operating policies, without having control or joint control, potential voting rights that are exercisable or convertible are also taken into account.
Investments in subsidiaries and associates are recognised at cost, written down in the event of an impairment loss. If the circumstances that gave rise to the impairment cease to exist, the value of the investment is restored to the extent of the impairment loss recognised and the reversal is recognised in the income statement.

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

Translation of foreign currency items

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

Property, plant and equipment

Property, plant and equipment is recognised at historical cost, including costs directly attributable to preparing the asset for its intended use. In the event of legal or constructive obligations, cost also includes the present value of the estimated cost of dismantling or removing the asset. The corresponding liability is recognised in provisions for risks and charges. Borrowing costs directly attributable to the purchase, construction or production of an asset that qualify for capitalisation pursuant to IAS 23 are capitalised as part of the cost of the asset. Costs incurred after purchase are recognised as an increase in the carrying amount of the asset to which they relate if it is probable that the future benefits of that cost will flow to the Company, and if the cost can be reliably measured. All other costs are expensed as incurred.
Each element of an item of property, plant and equipment of material value, with respect to the total value of the item to which it belongs, is recognised and depreciated separately.
Property, plant and equipment is shown net of accumulated depreciation and any impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful economic life of the asset, which is reviewed annually, with revisions applied on a prospective basis. Depreciation of an asset begins when the asset becomes available for use.
Liabilities associated with items of property, plant and equipment are taken to a specific provision as a contra account of the related asset. The amount is taken to the income statement through the depreciation of the asset.
Property, plant and equipment is written off either at the time of disposal or when no future economic benefit is expected from their use or disposal. Any profit or loss, recognised in the income statement, is determined as the difference between the net proceeds deriving from disposal and the net carrying amount of the assets eliminated.

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

RATES OF DEPRECIATION

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%

The estimated useful life of transmission lines has been reviewed to take account of empirical evidence, primarily of physical deterioration and technical obsolescence. This process has resulted in the reasonable conclusion that the expected useful life of transmission lines should be raised to 45 years (from the 40 years previously used). Based on similar considerations, ARERA has conducted its own review of the useful life of the lines for regulatory purposes (see Resolution 654/2015/R/eel).
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 Company has substantially acquired all the risks and rewards of ownership - are recognised as the Company'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 Company 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.

Intangible assets

Intangible assets, which all have finite useful lives, are recognised at cost and shown net of accumulated amortisation and any impairment losses. Amortisation begins when the asset becomes available for use and is calculated on a straight-line basis over the estimated useful life of the related asset, which is reviewed annually. Any revisions to estimated figures are applied on a prospective basis.
Intangible assets essentially consist of the concession to exclusively provide electricity transmission and dispatching services, granted to Terna S.p.A., on 1 November 2005, with the acquisition of the TSO business unit. As established in the Decree issued by the Ministry of Productive Activities on 20 April 2005, this concession has a 25-year term, renewable for another 25 years, from the date of effective transfer of the activities, functions, assets and legal arrangements of the concession from GSE (formerly GRTN) to Terna S.p.A.. This intangible asset was initially recognised at cost, which reflected fair value.
Other intangible assets essentially refer to software developments and upgrades.
Development costs are capitalised by the Company only if they can be reliably estimated and there is the technical possibility and intention to complete the intangible asset so that it will be available for use, and the asset can be used and it is possible to demonstrate that it will generate probable future economic benefits.
Financial expenses directly attributable to the acquisition, construction or production of a non-current asset which justifies capitalisation pursuant to IAS 23 are capitalised to the asset as part of its cost.
All other development costs and research expenses are recognised in the income statement when incurred.
These intangible assets are amortised over their estimated residual useful life, which is normally three years, given their rapid obsolescence.

Infrastructure rights

Infrastructure includes the property, plant and equipment and intangible assets employed in dispatching activities in Italy 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 identified cash generating units (CGU) or groups of CGUs, coinciding with Group companies that own electricity transmission grids. 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 Company 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 Company correctly classifies these assets based on the results of co-called SSPI ("solely payments of principal and interest") tests. Under this test, assets may be recognised at amortised cost or fair value through other comprehensive income if they generate cash flows that are solely payments of principal and interest on the principal amount outstanding. This measurement is applied at the level of each individual instrument.

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

Trade receivables

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

Trade receivables are recognised net of any losses recognised in a specific allowance for doubtful accounts (identified on the basis described in the paragraph, "Allowance for doubtful accounts"). The new standard, IFRS 9, adopted from 1 January 2018, has introduced application of a model based on expected credit losses. This requires the Company to assess expected credit losses, and the related changes, at each reporting date, 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 Company has applied the simplified approach permitted by IFRS 9 to trade receivables, finance lease receivables and assets deriving from contracts with customers, in order to measure the allowance for doubtful accounts based on expected losses over the life of the receivable. The Company has thus determined the amount of expected credit losses using a provisioning matrix, based on information regarding historical credit losses for similar past due exposures, adjusted to take into account current conditions and forward-looking elements.

Cash and cash equivalents

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

Trade payables

Trade payables are initially recognised at fair value and subsequently stated at amortised cost. If their due dates reflect normal commercial terms, they are not discounted. 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 in the hedging relationship is the same as the ratio between the quantity of the hedged item that the entity effectively hedges and the quantity of the hedging instrument that the entity effectively uses to hedge the quantity of the 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 Company has a legal or constructive obligation as the result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the disbursement. Where the effect is material, provisions are made by discounting estimated future cash flows using a discount rate that reflects current market rates and the specific risk applicable to the obligation, if any. Where

discounting is used, the increase in the provisions due to the passage of time is recognised in the income statement as a financial expense. If it relates to property, plant and equipment (site disposal and restoration, for example), the provision is recognised as a contra entry to the asset to which it relates. The expense is recognised in the income statement through depreciation of the item of property, plant and equipment to which it relates.
Changes in the estimates are recognised in the income statement for the year in which the change occurs, except for the expected costs of dismantling, removal and restoration resulting from changes in the timing and use of the economic resources necessary to extinguish the obligation, or are attributable to a material change in the discount rate. These costs are recognised as an increase or reduction in the related assets and recognised in the income statement through depreciation.

Government grants

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

Revenue

The Company's revenue can be categorised as follows:

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

Income taxes

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

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 Company, 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 replaced all existing revenue recognition requirements under IFRS. Specifically, it 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.

Terna 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.

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.

Terna 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.

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.

(€)

	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	11,705,228,618			11,705,228,618
2. Goodwill	190,228,231			190,228,231
3. Intangible assets	234,080,643			234,080,643
4 Deferred tax assets				
5. Non-current financial assets	1,009,659,871			1,009,659,871
6. Other non-current assets	3,526,176			3,526,176
Total non-current assets	**13,142,723,539**	**-**	**-**	**13,142,723,539**
B - CURRENT ASSETS				
1. Inventories	5,307,324			5,307,324
2. Trade receivables	1,142,545,872	(431,566)	-	1,142,114,306
3. Current financial assets	213,317			213,317
4. Cash and cash equivalents	1,678,217,732	(1,408,479)	-	1,676,809,253
5. Income tax assets	57,927,658			57,927,658
6. Other current assets	63,226,507			63,226,507
Total current assets	**2,947,438,410**	**(1,840,045)**	**-**	**2,945,598,365**
TOTAL ASSETS	**16,090,161,949**	**(1,840,045)**		**16,088,321,904**
C - EQUITY				
1. Share capital	442,198,240			442,198,240
2. Other reserves	825,639,778			825,639,778
3. Retained earnings/(accumulated losses)	1,916,706,986	(1,344,885)	-	1,915,362,101
4. Interim dividend	(149,268,036)			(149,268,036)
5. Profit for the year	640,042,878			640,042,878
Total equity	**3,675,319,846**	**(1,344,885)**	**-**	**3,673,974,961**
D - NON-CURRENT LIABILITIES				
1. Long-term borrowings	8,638,448,258			8,638,448,258
2. Employee benefits	12,744,530			12,744,530
3. Provisions for risks and charges	243,496,364	56,938	-	243,553,302
4. Deferred tax liabilities	17,258,091	(552,098)	-	16,705,993
5. Non-current financial liabilities	9,904,232			9,904,232
6. Other non-current liabilities	181,316,955			181,316,955
Total non-current liabilities	**9,103,168,430**	**(495,160)**	**-**	**9,102,673,270**
E - CURRENT LIABILITIES				
1. Short-term borrowings	90,000,000			90,000,000
2. Current portion of long-term borrowings	884,039,788			884,039,788
3. Trade payables	2,106,382,361			2,106,382,361
5. Current financial liabilities	105,682,938			105,682,938
6. Other current liabilities	125,568,586			125,568,586
Total current liabilities	**3,311,673,673**	**-**	**-**	**3,311,673,673**
TOTAL LIABILITIES AND EQUITYITY	**16,090,161,949**	**(1,840,045)**	**-**	**16,088,321,904**

(€)

		IAS 39		IFRS 9
		RECEIVABLES AND LOAN	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	1,009,659,871	-	1,009,659,871	1,009,659,871
B – CURRENT ASSETS				
2. Trade receivables	1,142,114,306	1,142,114,306	-	1,142,114,306
3. Current financial assets	213,317	-	213,317	213,317
4. Cash and cash equivalents	1,676,809,253	-	1,676,809,253	1,676,809,253
TOTAL ASSETS		**1,142,114,306**	**2,686,682,441**	**3,828,796,747**

(€)

		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	825,639,778	813,388,910	12,250,868	813,388,910	12,250,868
E – NON-CURRENTLIABILITIES					
1. Long-term borrowings	8,638,448,258	8,638,448,258	-	8,638,448,258	-
5. Non-current financial liabilities	9,904,232	-	9,904,232	-	9,904,232
F – CURRENT LIABILITIES					
1. Short-term borrowings	90,000,000	90,000,000	-	90,000,000	-
2. Current portion of long-term borrowings	884,039,788	884,039,788	-	884,039,788	-
3. Trade payables	2,106,382,361	2,106,382,361	-	2,106,382,361	-
5. Current financial assets	105,682,938	105,682,938	-	105,682,938	-
TOTAL LIABILITIES AND EQUITY		**12,637,942,255**	**22,155,100**	**12,637,942,255**	**22,155,100**

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, 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 sue 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. 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 will come into effect from 1 January 2019. The interpretation clarifies who 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 income statement

Revenue

1. REVENUE FROM SALES AND SERVICES - €1,892.9 MILLION

(€m)

	2018	2017	CHANGE
Transmission charges billed to grid users	1,657.4	1,674.6	(17.2)
Back-billing of transmission charges for previous years	0.1	(0.1)	0.2
Quality of service bonuses/(penalties)	7.4	7.4	-
Other energy-related revenue and from services performed under concession	168.6	133.0	35.6
Other sales and services	59.4	46.5	12.9
TOTAL	**1,892.9**	**1,861.4**	**31.5**

Transmission charges

This item, amounting to €1,657.5 million, includes revenue from the core business relating to the allowed return due to the Company for use of the National Transmission Grid.
The reduction in transmission revenue (down €17.0 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 Company. The balance also includes the estimated impact of the revised contribution from international interconnections.

Quality of service bonuses/(penalties)

This item, amounting to €7.4 million in 2017, 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.

Other energy-related revenue

This item regards dispatching and metering revenue (€111.0 million for the dispatching component and €32.0 million regarding certain expenses not covered by the dispatching charge) and revenue from infrastructure construction and upgrade services performed under concession, recognised in application of IFRIC 12 (€25.5 million).

The increase of €35.6 million compared with the previous year is primarily linked to increases in the dispatching charge and the above expenses (up €31.2 million).

Other sales and services

The item, “Other sales and services”, amounting to €59.4 million mainly regards revenue from administrative, support and consultancy services provided to subsidiaries (€22.5 million, including €18.4 million from services rendered to Terna Rete Italia S.p.A.), from connections to the NTG (€1.0 million) and from Non-regulated Activities (€34.2 million), primarily support and housing services for fibre networks (€22.5 million).
The increase of €12.9 million compared with the previous year primarily reflects the following:

- the new classification of revenue from support and housing services for fibre networks, totalling €22.5 million, essentially following the reclassification of this revenue - classified in other revenue and income in 2017 - in application if the new standard, IFRS 15;
- reduced revenue from connection services (down €4.2 million);
- reduced revenue from intercompany administrative, support and consultancy services provided to subsidiaries (down €3.9 million);
- a reduction in other revenue from (down €1.2 million).

Pass-through revenue/expenses

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

The components of these transactions are shown in greater detail below

(€m)

	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	66.8	73.7	(6.9)
- Interconnectors/shippers	337.8	297.6	40.2
- Load Profiling for public lighting	75.2	75.1	0.1
- Other Power Exchange-related pass-through revenue items	371.6	153.7	217.9
Total over-the-counter revenue items	**1,443.4**	**1,389.4**	**54.0**
- Transmission revenue passed on to other NTG owners	136.5	135.1	1.4
- Charge to cover cost of essential plants	392.7	327.5	65.2
- Charge to cover cost of energy delivery capacity	277.5	208.9	68.6
- 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	**5,303.5**	**5,429.2**	**(125.7)**
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	331.5	771.3	(439.8)
- Congestion revenue	217.1	280.6	(63.5)
- Charges for right to use transmission capacity and market coupling	80.6	81.1	(0.5)
- Interconnectors/Shippers	136.1	116.0	20.1
- Load Profiling for public lighting	366.8	330.8	36.0
- Other Power Exchange-related pass-through cost items	231.5	137.1	94.4
Total over-the-counter cost items	**1,443.4**	**1,389.4**	**54.0**
- Transmission costs passed on to other NTG owners	136.5	135.1	1.4
- Fees paid for essential units	392.7	327.5	65.2
- Fees paid for energy delivery capacity	277.5	208.9	68.6
- 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	**5,303.5**	**5,429.2**	**(125.7)**

The total uplift cost in 2018 (including the portion to cover the cost of ITC: inter-TSO compensation and prior year recoveries) 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 - €74.7 MILLION

(€m)

	2018	2017	CHANGE
Lease of operations	35.0	33.6	1.4
Revenue from IRU contracts for fibre	10.3	11.0	(0.7)
Insurance proceeds as compensation for damages	8.6	3.2	5.4
Sundry grants	8.3	8.1	0.2
Gains on sale of components of plant	3.2	2.3	0.9
Rental income	3.0	25.3	(22.3)
Sales to third parties	2.4	2.5	(0.1)
Contingent assets	1.3	1.8	(0.5)
Other revenues	2.6	2.3	0.3
TOTAL	**74.7**	**90.1**	**(15.4)**

The most significant components of "Other revenue and income" primarily regard the revenue received from the subsidiary Terna Rete Italia S.p.A., under the agreement for the lease of certain operations (€35.0 million), revenue from IRU contracts for fibre (€10.3 million), insurance proceeds to cover damage to plant (€8.6 million), sundry grants (€8.3 million), primarily in relation to the re-routing of lines for third parties, and gains from the sale of components of plant (€3.2 million).
The reduction of €15.4 million is 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 increase also benefitted from an increase in insurance proceeds of €5.4 million.

Operating costs

3. RAW AND CONSUMABLE MATERIALS USED - €5.3 MILLION

This item, amounting to €5.3 million, includes the value of the various materials and supplies, including fuel for the Company's vehicle fleet. The reduction of €4.8 million compared with the previous year is primarily due to materials used in the telecommunications business.

4. SERVICES - €364.6 MILLION

(€m)

	2018	2017	CHANGE
Intercompany services, including technical and administrative services	306.7	297.6	9.1
Maintenance and sundry services	35.7	32.0	3.7
Lease expense	11.7	9.6	2.1
Insurance	6.1	6.2	(0.1)
Remote transmission and telecommunications	0.4	0.3	0.1
IT services	2.7	2.4	0.3
Tender costs for plant	1.3	1.7	(0.4)
TOTAL	**364.6**	**349.8**	**14.8**

The item, "Intercompany services, including technical and administrative services" regards the accrued costs incurred under specific intercompany contracts (€306.7 million), largely regarding the subsidiary Terna Rete Italia S.p.A., which maintains and operates the infrastructure owned by the Company (€270.7 million), provides services relating to investment in the development of the Company's transmission and dispatching infrastructure (€22.9 million) and other activities and services relating to plant owned by third parties (€5.1 million). This item also includes bonuses relating to the quality of the transmission service attributable to Terna Rete Italia S.p.A. (€2.3 million).
Fees payable to members of the Board of Statutory Auditors amount to €0.2 million.
After the costs recognised in application of IFRIC 12 for the development of dispatching infrastructure (up €3.0 million), the increase in "Services" is €11.8 million. This primarily reflects a reduction in the cost of intercompany services under specific intercompany contracts and revised right-of-way fees in certain regions of Italy.
Under the Terna Group's current organisational structure, responsibility for the activities involved in investment in the development and upgrade of dispatching infrastructure lies with both Terna S.p.A. itself and the

subsidiary Terna Rete Italia S.p.A.. The related cost is charged in full to "Services" as a service received from the subsidiary. The following table shows details of the costs recognised in application of IFRIC 12 and within the scope of the item under review.

(€m)

	2018	2017	Δ
IT services	0.2	0.3	(0.1)
Tender costs for plant	0.2	0.3	(0.1)
Maintenance and sundry services	0.6	0.0	0.6
Cost of services relating to investment in dispatching infrastructure (IFRIC 12)	**1.0**	**0.6**	**0.4**
Cost of services recognised in application of IFRIC 12 - Services from Terna Rete Italia S.p.A.	19.7	17.1	2.6
TOTAL COST OF SERVICES RELATING TO INVESTMENT IN DISPATCHING INFRASTRUCTURE (IFRIC 12)	**20.7**	**17.7**	**3.0**

5. PERSONNEL EXPENSES - €63.9 MILLION

(€m)

	2018	2017	CHANGE
Salaries, wages and other short-term benefits	63.2	56.4	6.8
Directors' remuneration	1.7	1.8	(0.1)
Termination benefits (TFR), energy discounts and other employee benefits	2.2	(8.8)	11.0
Early retirement incentives	-	19.6	(19.6)
Gross personnel expenses	**67.1**	**69.0**	**(1.9)**
Capitalised personnel expenses	(3.2)	(3.0)	(0.2)
TOTAL	**63.9**	**66.0**	**(2.1)**

Personnel expenses are down €2.1 million, primarily due to net provisions for early retirement schemes in 2017, partially offset by the increase in the average workforce as a result of the launch of the new initiatives envisaged in the Strategic Plan 2018-2022.

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

	AVERAGE WORKFORCE		WORKFORCE AT	
	2018	2017	31 DECEMBER 2018	31 DECEMBER 2017
Senior managers	37	33	36	34
Middle managers	208	173	221	175
Office staff	355	277	391	298
TOTAL	**600**	**483**	**648**	**507**

6. AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES - €517.9 MILLION

(€m)

	2018	2017	CHANGE
Amortisation of intangible assets	46.5	46.3	0.2
- of which rights on infrastructure	*22.8*	*24.8*	*(2.0)*
Depreciation of property. plant and equipment	457.3	438.0	19.3
Impairment losses on current assets	13.4	9.3	4.1
Losses on trade receivables	0.7	1.6	(0.9)
TOTAL	**517.9**	**495.2**	**22.7**

The increase of €22.7 million primarily reflects the entry into service of new plant.

7. OTHER OPERATING COSTS - €18.2 MILLION

(€m)

	2018	2017	CHANGE
Indirect taxes and local taxes and levies	5.3	4.5	0.8
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)*
Net contingent liabilities	0.6	0.9	0.3
Adjustment of provisions for litigation and disputes	(2.8)	9.2	12.0
Losses on sales/disposal of plant	0.2	0.6	(0.4)
Other	9.8	13.3	(3.5)
TOTAL	**18.2**	**39.0**	**(20.8)**

The most significant components of this item regard indirect taxes and local taxes and levies (€5.3 million, including €3.2 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), net quality of service costs (€5.1 million) and other costs (€9.8 million) which include membership dues and contributions to trade bodies and associations, donations and other expenses.

The reduction of €20.8 million in this item primarily reflects:
- adjustment to provisions for litigation and disputes (down €12.0 million), mainly as a result of the favourable outcomes to a number of disputes arising in previous years;
- 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;
- a reduction in other costs (down €3.5 million), primarily regarding the recognition of higher expenses payable to ARERA in the previous year.

8. NET FINANCIAL INCOME/(EXPENSES) - (€78,5) 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 hedges	(98.7)	(94.0)	(4.7)
Discounting of termination benefits (TFR) and other provisions for employee benefits	(0.2)	(0.4)	0.2
Capitalised financial expenses	15.1	12.3	2.8
Other financial expenses	(0.6)	(9.1)	8.5
Translation differences	(4.2)	(0.7)	(3.5)
Total expenses	**(91.6)**	**(95.6)**	**4.0**
FINANCIAL INCOME			
Dividends from associates	1.1	1.1	-
Financial income from subsidiaries	7.0	0.9	6.1
Restructuring of bond issues and related hedges	-	2.7	(2.7)
Interest income and other financial income	5.0	1.1	3.9
Total income	**13.1**	**5.8**	**7.3**
TOTAL	**(78.5)**	**(89.8)**	**11.3**

Net financial expenses for the year amount to €78.5 million, reflecting €91.6 million in financial expenses and €13.1 million in financial income. The reduction in net financial expenses compared with the previous year, amounting to €12.3 million, primarily reflects the following:

- an increase in capitalised financial expenses (€2.8 million) linked to an increase in the Company's capital expenditure during the year;
- an increase in interest income and other financial income (€3.9 million), primarily reflecting an increase in liquidity invested during the year and the improved return on that liquidity;
- an increase in financial income from intercompany transactions with subsidiaries (€6.1 million);
- an increase in financial expenses on medium/long-term borrowings and the related hedges (€4.7 million), primarily due to rising inflation recorded during 2018.

9. INCOME TAX FOR THE YEAR - €257.9 MILLION

(€m)

	2018	2017	CHANGE
Income tax for the year			
Current tax expense:			
- IRES (corporate income tax)	241.7	243.2	(1.5)
- IRAP (regional tax on productive activities)	51.9	54.0	(2.1)
Total current tax expense	***293.6***	***297.2***	***(3.6)***
New temporary differences:			
- deferred tax assets	(12.4)	(18.6)	6.2
Reversal of temporary differences:			
- deferred tax assets	19.4	15.9	3.5
- deferred tax liabilities	(31.1)	(30.0)	(1.1)
Total deferred tax (income)/expense	***(24.1)***	***(32.7)***	***8.6***
Adjustments of taxes for previous years	**(11.6)**	**(2.9)**	**(8.7)**
TOTAL	257.9	261.6	(3.7)

Current income tax expense for the year of €293.6 million is down €3.6 million compared with the previous year, essentially reflecting the impact of the tax relief designed to stimulate economic growth (ACE - *Aiuto alla Crescita Economica*), accelerated depreciation applied by the Company and a reduction in non-deductible items for the purposes of IRAP compared with the previous year.

Deferred tax income, amounting to €24.1 million, is down €8.6 million, primarily due to the effect on net deferred tax assets of movements in provisions for risks and charges.

Adjustments to taxes for previous years, amounting to €11.6 million, reflect the overpayment of tax in previous years and are up €8.7 million.

The effective tax charge for the year (€257.9 million) results in a tax rate of 28.1%, compared with a rate of 29.0% for 2017. For a clearer presentation of the differences between the theoretical and effective tax charges, the table below reconciles the theoretical and effective tax rates for the year.

(€m)

	TAXABLE INCOME	TAX	% CHANGE
Profit before tax	919.2		
IRES - Theoretical tax charge (rate of 24.0%)		220.6	
IRAP - Theoretical tax charge (rate of 5.10% on operating profit of €997.7 million)		50.9	
		271.5	
THEORETICAL TAX RATE			**29.5%**
Permanent differences in IRES			
Employee benefits		0.8	0.1%
Contingent assets and liabilities		0.7	0.1%
Impairments		0.5	0.1%
Membership dues		0.5	0.1%
Other increases/decreases		0.6	0.1%
Dividend		(0.2)	-
Single council tax (Imposta Municipale Unica, IMU)		(0.5)	(0.1%)
IRAP - art. 6 of Law 28/01/2009		(1.2)	(0.2%)
Accelerated depreciation		(3.2)	(0.4%)
Tax relief (ACE - Aiuto alla Crescita Economica)		*(3.7)*	*(0.4%)*
Permanent differences in IRAP			
Capitalised financial expenses		0.8	0.1%
Personnel expenses		0.2	-
Effective tax rate after adjustments of taxes for previous years			**29.0%**
Income tax for previous years		(3.9)	(0.4%)
One-off items		(7.7)	(0.8%)
Release of deferred tax assets on deductible bonuses and incentives		2.7	0.3%
Total income tax expense for the year		***257.9***	
EFFECTIVE TAX RATE			**28.1%**

C. Operating Segments

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

D. Notes to the statement of financial position

Assets

10. PROPERTY, PLANT AND EQUIPMENT - €12,035.0 MILLION

(€m)

	BUILDINGS	PLANT AND EQUIPMENT	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER ASSETS	ASSETS UNDER CONSTRUCTION AND PREPAYMENTS	BUILDINGS	TOTAL
COST AT 1 JANUARY 2018	**127.6**	**1,798.6**	**16,048.1**	**88.2**	**139.8**	**1,350.3**	**19,552.6**
Investments	0.4	0.9	4.9	3.0	3.6	821.5	834.3
Assets entering service	8.4	77.2	557.4	4.6	6.8	(654.4)	-
Intercompany additions	-	-	1.8	-	-	5.5	7.3
Other additions	-	-	1.5	-	-	(1.5)	-
Disposals and impairments	(0.1)	(0.3)	(37.5)	(0.1)	(0.2)	(13.1)	(51.3)
Other movements		-	(8.6)	-	-	(31.9)	(40.5)
Reclassifications	(0.5)	2.7	-	-	-	-	2.2
COST AT 31 DECEMBER 2018	**135.8**	**1,879.1**	**16,567.6**	**95.7**	**150.0**	**1,476.4**	**20,304.6**
ACCUMULATED DEPRECIATION AND IMPAIRMENTS AT 1 JANUARY 2018	**-**	**(516.1)**	**(7,155.5)**	**(70.7)**	**(105.1)**	**-**	**(7,847.4)**
Depreciation for the year	-	(44.1)	(397.6)	(4.3)	(11.3)	-	(457.3)
Intercompany additions	-	-	(0.7)	-	-	-	(0.7)
Disposals	-	0.1	35.7	0.1	0.2	-	36.1
Reclassifications	-	(0.3)	-	-	-	-	(0.3)
ACCUMULATED DEPRECIATION AND IMPAIRMENTS AT 31 DECEMBER 2018	**-**	**(560.4)**	**(7,518.1)**	**(74.9)**	**(116.2)**	**-**	**(8,269.6)**
Carrying amount							
AT 31 DECEMBER 2018	**135.8**	**1,318.7**	**9,049.5**	**20.8**	**33.8**	**1,476.4**	**12,035.0**
AT 31 DECEMBER 2017	**127.6**	**1,282.5**	**8,892.6**	**17.5**	**34.7**	**1,350.3**	**11,705.2**
Change	**8.2**	**36.2**	**156.9**	**3.3**	**(0.9)**	**126.1**	**329.8**

The category, "Plant and equipment", essentially includes the electricity transmission grid and transformer substations in Italy.
"Property, plant and equipment" is up €329.8 million compared with the previous year. This broadly reflects ordinary movements during the year as a result of investment (up €834.3 million), depreciation for the period (down €457.3 million), other movements (down €40.5 million) relating to grants related to assets (primarily for projects financed by the Ministry for Economic Development and the EU) and disposals and impairments (down €15.2 million). The change also reflects the following intercompany additions:

- the transfer, from the subsidiary, Rete S.r.l., on 7 December 2018, of 14 "Integrated Systems" used in the functional control of substations forming part of the National Transmission Grid, in return for a consideration of €5.5 million;
- the transfer, by the subsidiary, Terna Energy Solutions S.r.l., in December, of 2 rapid installation electricity substations for a consideration of €1.1 million.

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 (€26.5 million) and Italy and France (€56.1 million), extension of the fibre network as part of the "Fibre for the Grid" project (€42.5 million), 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 (€11.1 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).

11. GOODWILL - €190.2 MILLION

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

Impairment testing

CGU - Terna S.p.A.'s transmission activities

For impairment testing purposes, Terna S.p.A.'s Regulated Activities was considered to be a cash generating unit (CGU). Measurement of the recoverable value of the goodwill allocated to the transmission activities was based on fair value less costs of disposal. This was determined taking into account Terna's share price at 31 December 2018, after stripping out the estimated fair value of the assets and liabilities not attributable to the CGU represented by transmission activities.
The resulting value is significantly higher than the carrying amount inclusive of goodwill.

12. INTANGIBLE ASSETS - €237.5 MILLION

(€m)

	INFRASTRUCTURE RIGHTS	CONCESSIONS	OTHER ASSETS	ASSETS UNDER DEVELOPMENT AND PREPAYMENTS	TOTAL
Cost	411.0	135.4	221.0	34.3	801.7
Accumulated amortisation	(308.1)	(68.1)	(191.4)	-	(567.6)
BALANCE AT 31 DECEMBER 2017	**102.9**	**67.3**	**29.6**	**34.3**	**234.1**
Investments	-	-	-	51.8	51.8
Assets entering service	20.0	-	32.0	(52.0)	-
Amortisation for the year	(22.8)	(5.6)	(18.1)	-	(46.5)
Reclassifications	(1.9)	-	-	-	(1.9)
BALANCE AT 31 DECEMBER 2018	**98.2**	**61.7**	**43.5**	**34.1**	**237.5**
Cost	428.5	135.4	253.0	34.1	851.0
Accumulated amortisation	(330.3)	(73.7)	(209.5)	-	(613.5)
BALANCE AT 31 DECEMBER 2018	**98.2**	**61.7**	**43.5**	**34.1**	**237.5**
Change	**(4.7)**	**(5.6)**	**13.9**	**(0.2)**	**3.4**

Intangible assets amount to €237.5 million and include:

- the infrastructure used in provision of the dispatching service carried out under concession and accounted for in accordance with "IFRIC 12 - Service Concession Arrangements", with the carrying amount, at 31 December 2018, of infrastructure entering service during the year amounting to €98.2 million and of infrastructure under construction, included in the category "Assets under development and prepayments", amounting to €25.1 million (at 31 December 2017, the matching figures were €102.9 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 (€26.7 million) essentially regards internal development programmes.
The increase compared with the previous year (up €3.4 million) reflects the net effect of investment (€51.8 million, including €25.1 million in infrastructure rights) and amortisation (€46.5 million).

Investment in intangible assets during the year (€51.8 million) 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).

13. DEFERRED TAX ASSETS

(€m)

	31 DECEMBER 2017	RESTATEMENT OF OPENING BALANCES AT 1 JANUARY 2018	PROVISIONS	USES AND OTHER MOVEMENTS	EFFECTS RECOGNISED IN COMPRE-HENSIVE INCOME	31 DECEMBER 2018
DEFERRED TAX ASSETS						
Provisions for risks and charges	38.5	-	7.3	(10.8)	-	35.0
Allowance for doubtful accounts	2.9	-	-	-	-	2.9
Amounts due to employees	6.9	-	1.9	(2.9)	-	5.9
Cash flow hedges	3.8	-	-	-	10.6	14.4
Tax relief on goodwill	34.5	-	-	(5.5)	-	29.0
Other	-	-	3.2	-	-	3.2
Measurement of financial instruments - IFRS 9	-	0.6	-	-	-	0.6
TOTAL DEFERRED TAX ASSETS	**86.6**	**0.6**	**12.4**	**(19.4)**	**10.6**	**91.0**
DEFERRED TAX LIABILITIES						
Property. plant and equipment	(100.8)	-	-	31.1	-	(69.7)
Employee benefits and financial instruments	(3.1)	-	-	-	-	(3.1)
TOTAL DEFERRED TAX LIABILITIES	**(103.9)**	**-**	**-**	**31.1**	**-**	**(72.8)**
NET DEFERRED TAX ASSETS	**(17.3)**	**0.6**	**12.4**	**12.6**	**10.6**	**18.2**

The balance of this item, amounting to €18.2 million, includes the net impact of movements in the Company's deferred tax assets and liabilities.

Deferred tax assets (€91.0 million) are up by a net €4.4 million compared with the previous year, reflecting the following movements:

- net provisions that did not impact profit or loss, totalling €10.6 million, primarily reflecting the tax effect of movements in cash flow hedges;
- net uses of €3.5 million relating to movements during the year in provisions for risks and charges, primarily with regard to litigation and disputes (down €1.5 million) movements in provisions relating to quality of service (down €0.9 million);
- the use of €5.5 million representing the accrued portion recognised in relation to deferred tax assets on tax relief on the goodwill resulting from the merger with RTL and, from this year, goodwill resulting from the merger with Terna Rete Italia S.r.l..

Deferred tax liabilities (€72.8 million) are down €31.1 million compared with the previous year, due to the use of previous provisions for accelerated depreciation, including the net release for depreciation for the year.

14. FINANCIAL ASSETS

(€m)

	MEASUREMENT	31 DECEMBER 2018	31 DECEMBER 2017	CHANGE
Investments in subsidiaries	at cost	975.5	916.5	59.0
Investments in associates	at cost	44.5	47.8	(3.3)
Loan to subsidiaries	amortised cost	10.0	-	10.0
Deposit in the Interconnector Guarantee Fund	amortised cost	61.1	42.2	18.9
Other non-current financial assets		-	3.2	(3.2)
NON-CURRENT FINANCIAL ASSETS		**1,091.1**	**1,009.7**	**81.4**
Short-term loan to subsidiaries	amortised cost	89.5	-	89.5
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		**494.0**	**0.2**	**493.8**

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

The value of "Investments in subsidiaries" (€975.5 million) regards investments in Terna S.p.A.'s direct subsidiaries and is up €59 million compared with 31 December 2017, reflecting the subscription for newly issued shares in the subsidiary, Terna Crna Gora d.o.o..
The value of "Investments in associates" (€44.5 million) regards the investments in CGES - CrnoGorski Elektroprenosni Sistem AD (€26.7 million), CESI S.p.A. (€17.6 million) and CORESO S.A. (€0.2 million). This item is down €3.3 million compared with the previous year, equal to the reduction in the investment in CGES due to the dividend declared at the end of 2018.
The following table shows key information on investments in subsidiaries, associates and joint ventures owned directly by Terna S.p.A. at 31 December 2018. Amounts relate to the latest approved financial statements.

The following table shows key information on investments in subsidiaries, associates and joint ventures owned directly by Terna S.p.A. at 31 December 2018. Amounts relate to the latest approved financial statements.

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST	CARRYING AMOUNT (€)
SUBSIDIARIES CONTROILLED DIRECTLY BY TERNA S.P.A.					
Terna Rete Italia S.p.A.	Rome	Euro	120,000	100%	3,120,000
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%	173,000,000
Business	Authorisation, construction and operation of the transmission infrastructure forming the Italy-Montenegro interconnector on Montenegrin territory.				
Terna Plus S.r.l.	Rome	Euro	16,050,000	100%	16,861,553
Business	Design, construction, management, development, operation and maintenance of plant, equipment and infrastructure for grids and systems, including distributed storage and pumping and/or storage systems.				
Terna Interconnector S.r.l.	Rome	Euro	10,000	65%*	19,926
Business	Responsible for construction and operation of the private section of the Italy-France interconnector and civil works on the public section.				
Monita Interconnector S.r.l.	Rome	Euro	10,000	95%**	39,500
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%	770,214,773
Business	Design, construction, management, development, operation and maintenance of high-voltage power lines.				
Difebal S.A.	Montevideo (Uruguay)	Pesos Uruguayano	140,000	100%	3,597
Business	Design, construction and maintenance of electricity infrastructure in Uruguay.				
Terna Energy Solutions S.r.l.	Rome	Euro	2,000,000	100%	12,282,156
Business	Design, construction, management, development, operation and maintenance of distributed energy storage systems, pumping and/or storage systems, plant, equipment and infrastructure, including grids; research, consultancy and assistance in matters relating to the core business; any other activity capable of improving the use and development of plant, resources and expertise.				
Resia Interconnector S.r.l.	Rome	Euro	10,000	100%	10,000
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	CARRYING AMOUNT (€)
ASSOCIATES					
Cesi S.p.A.	Milan	Euro	8,550,000	42.698%	17,563,381
Business	Experimental research and provision of services related to electro-technology.				
Coreso S.A.	Brussels (Belgium)	Euro	1,000,000	15.84%	210,742
Business	Technical centre owned by several electricity transmission operators, responsible for coordinating joint operations of TSOs, in order to improve and upgrade the security and coordination of the electricity system in central and western Europe.				
CGES A.D.	Podgorica (Montenegro)	Euro	155,108,283	22.0889%	26,694,419
Business	Provision of transmission and dispatching services in Montenegro.				
JOINT VENTURES					
ELMED Etudes S.a.r.l.	Tunis (Tunisia)	Dinaro Tunisino	2,700,000	50%	-
Business	Conduct of preparatory studies for construction of the infrastructure required to connect the Tunisian and Italian electricity systems.				

This item also includes the deposit in the Interconnector Guarantee Fund (€61.1 million), set up to fund investment in interconnections by art. 32 of Law 99/09 and up €18.9 million compared with the previous year, and the financing provided by Terna S.p.A. in 2018 to the subsidiary in Uruguay, totalling €10 million (including net debt).

"Current financial assets" are up €493.8 million compared with the previous year, primarily due to the purchase of government securities, totalling €400 million, and maturing in December 2019, loans granted during the year by Terna S.p.A. to the Brazilian subsidiaries, amounting to €89.5 million, and recognition of the related foreign currency derivative entered into to protect against the effects of the loans.

15. OTHER ASSETS

(€m)

	31 DECEMBER 2018	31 DECEMBER 2017	CHANGE
Loans and advances to employees	3.6	3.0	0.6
Deposits with third parties	0.7	0.6	0.1
OTHER NON-CURRENT ASSETS	**4.3**	**3.6**	**0.7**
Amounts due from associates	3.3	-	3.3
Other tax credits	4.8	50.5	(45.7)
Other current assets - Interconnector Guarantee Fund	4.0	4.1	(0.1)
Prepayments to suppliers	1.2	0.8	0.4
Prepayments of operating expenses and accrued operating income	4.5	5.1	(0.6)
Amounts due from others	2.7	2.7	-
OTHER CURRENT ASSETS	**20.5**	**63.2**	**(42.7)**

"Other non-current assets" amount to €4.3 million, an increase of €0.7 million compared with the previous year, essentially due to loans and advances to employees.

"Other current assets" of €20.5 million are down €42.7 million compared with 31 December 2017, essentially reflecting:

- a reduction in "other tax credits" (down €45.7 million), primarily due to the decrease in refundable VAT (down €46.9 million), mainly due to increased payments on account in the previous year as a result of the Ministerial Decree of 27 June 2017;
- recognition of amounts due from the associate, CGES (€3.3 million) as a result of the dividend declared at the end of the year.

16. INVENTORIES - €0 MILLION

This item amounts to zero at 31 December 2018, having declined €5.3 million with respect to 31 December 2017. This reflects the fact that the item, "Property, plant and equipment" includes goods for sale through Indefeasible Rights of Use (IRU) contracts.

17. TRADE RECEIVABLES - €1,090.0 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	17.6	34.0	(16.4)
Amounts due from subsidiaries	17.9	23.6	(5.7)
TOTAL	**1,090.0**	**1.142.6**	**(52.6)**

Trade receivables amount to €1,090.0 million 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 €11.9 million for other items in 2018, compared with €27 million for energy-related items and €11.3 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 - €17.6 million

Other trade receivables, totalling €17.6 million a reduction of €16.4 million compared with the previous year. This primarily reflects the Company's collection of prior year amounts due from customers of its Non-regulated Activities.

Amounts due from subsidiaries - €17.9 million

This item, totalling €17.9 million, primarily regards the amount receivable from the subsidiary, Terna Rete Italia S.p.A. (€13.9 million). This amount primarily regards services provided in the last part of the year under existing contracts, mainly with regard to the lease of certain operations (€10.0 million) and administrative services (€1.9 million). The item is down compared with the previous year (down €5.7 million), broadly due to a reduction of €64. million in amounts due from the subsidiary, Terna Rete Italia S.p.A., above all due to a reduction in amounts due for administrative services (down €4.2 million, largely reflecting the impact of the revised fee charged on the basis of the final assessment of the volume of services provided at the end of 2018) and quality of service (down €3.1 million) reflecting the amount receivable at 31 December 2017 compared with the impact for 2018 recognised in "Trade receivables".

The amount for guarantees given by Group companies to third parties at 31 December 2018 amounts to €212.4 million and breaks 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. and €1.5 million in the interests of Terna Energy Solutions S.r.l..

18. CASH AND CASH EQUIVALENTS - €945.1 MILLION

Cash amounts to €945.1 million at 31 December 2018, including €751.5 million in liquidity invested in readily convertible short-term deposits and €193.6 million in net deposits in bank current accounts (including a net balance of €-204.8 million on intercompany treasury accounts).

19. INCOME TAX ASSETS - €16.0 MILLION

Income tax assets, amounting to €16 million, are down €41.9 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 under the tax consolidation arrangement (determined on the basis of a higher rate of IRES applied in 2016).

Equity and liabilities

20. EQUITY - €3,850.9 MILLION

Share capital - €442.2 million
Terna's share capital consists of 2,009,992,000 ordinary shares with a par value of €0.22 per share.

Legal reserve - €88.4 million
The legal reserve accounts for 20% of the Company's share capital and is unchanged with respect to the previous year.

Other reserves - €704.1 million
The other reserves have decreased €33.2 million, reflecting other comprehensive income in the form of fair value adjustments to the Company's cash flow hedges (down €31.3 million, taking into account the related tax asset of €10.0 million).

Retained earnings and accumulated losses - €2,113.1 million
The increase in "Retained earnings and accumulated losses", amounting to €196.4 million, primarily regards the remaining portion of profit for 2017, following payment of the dividend for that year (totalling €442.2 million).

Interim dividend for 2017
On 9 November 2018, the Company's Board of Directors, having obtained the Independent Auditor's opinion required by article 2433-*bis* of the Italian Civil Code, decided to pay an interim dividend of €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.
The individual components of equity at the end of the year are shown below, specifying their origin, availability and distributability.

(€m)

	31 DECEMBER 2018	POTENTIAL USE	AVAILABLE AMOUNT
Share capital	442.2	-	-
Legal reserve	88.4	B	88.4
Other reserves			
- capital reserves	416.1	A, B, C	416.1
- actuarial gains (losses) on employee benefits and cash flow hedges. after taxation	(45.5)	-	-
- revenue reserves	333.5	A, B, C	333.5
Retained earnings	2,113.1	A, B, C	2,113.1
Interim dividend	(158.2)	A, B, C	-
TOTAL	**3,189.6**		

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

The available amount includes €538.8 million in untaxed revenue reserves.

21. BORROWINGS AND FINANCIAL LIABILITIES

(€m)

	31 DECEMBER 2018	31 DECEMBER 2017	CHANGE
Bond issues	6,563.2	6,541.9	21.3
Bank borrowings	1,608.7	2,096.6	(487.9)
LONG-TERM BORROWINGS	**8,171.9**	**8,638.5**	**(466.6)**
Cash flow hedges	59.1	9.9	49.2
NON-CURRENT FINANCIAL LIABILITIES	**59.1**	**9.9**	**49.2**
SHORT-TERM BORROWINGS	**-**	**90.0**	**(90.0)**
Bond issues	616.7	749.9	(133.2)
Bank borrowings	613.1	134.1	479.0
CURRENT PORTION OF LONG-TERM BORROWINGS	**1,229.8**	**884.0**	**345.8**
TOTAL	**9,460.8**	**9,622.4**	**(161.6)**

Borrowings and financial liabilities have decreased by €161.6 million compared with the previous year to €9,460.8 million.
The reduction in bond issues (down €111.9 million) reflects the repayment of bonds issued on 16 October 2012, totalling €750 million, and the green bond issue of 23 July 2018 (€750 million), as well as the downward adjustment of €111.9 million to these instruments to reflect their amortised cost.
The latest official prices at 31 December 2018 and 31 December 2017 for the bonds listed on the Luxembourg Stock Exchange are detailed below:

(€m)

	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 are down €8.9 million, due primarily to:
- the drawdown of new EIB loans, totalling €130.0 million;
- repayments made to the EIB at maturity and on outstanding leases, totalling €132.4 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%
1250 bonds	2022	996.8	997.6	-	997.6	-	-	997.6	-	-	-	0.88%	0.95%
1000 bonds	2018	749.9		-		-	-	-	-	-	-	2.88%	2.99%
750 bonds	2028	740.1	740.9	-	740.9	-	-	-	-	-	740.9	1.00%	1.19%
750 bonds	2027	992.5	993.2	-	993.2	-	-	-	-	-	993.2	1.38%	1.45%
1000 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%
Leases	2019-2021-2022	3.8	1.9	1.8	0.1	0.1	-	-	-	-	-	0.88%	0.88%
Total variable rate		**1,992.1**	**1,857.8**	**613.1**	**1,244.7**	**116.2**	**116.7**	**128.6**	**112.7**	**112.7**	**657.8**		
TOTAL		**9,522.5**	**9,406.3**	**1,229.8**	**8,176.5**	**116.2**	**1,462.6**	**1,130.8**	**1,557.0**	**1,116.1**	**2,793.8**		

** The balance does not include fees of €4.6 million.*

At 31 December 2018, Terna's borrowings amount to €9,406.3 million (€1,229.8 million maturing within 12 months and €8,176.5 million maturing after 12 months), of which €2,793.8 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	2,230.7	2,230.7	2,235.5	(132.4)	130.0	(6.5)	(8.9)	2,285.3	2,221.8	2,301.2
Total borrowings	**2,230.7**	**2,230.7**	**2,235.5**	**(132.4)**	**130.0**	**(6.5)**	**(8.9)**	**2,285.3**	**2,221.8**	**2,301.2**
Total debt	**9,031.2**	**9,522.5**	**9,618.5**	**(882.4)**	**880.0**	**(118.4)**	**(120.8)**	**9,094.3**	**9,401.7**	**9,357.0**

At 31 December 2018, Terna 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 Company has uncommitted bank credit lines totalling approximately €806 million and approximately €46 million in loans agreed but not yet disbursed.
In addition, as provided for in IFRS 7, the table shows the fair value of borrowings. In the case of bond issues, this is market value based on prices at the reporting date.

Non-current financial liabilities

(€m)

	31 DECEMBER 2018	31 DECEMBER 2017	CHANGE
Cash flow hedges	59.1	9.9	49.2
TOTAL	**59.1**	**9.9**	**49.2**

Non-current financial liabilities, amounting to €59.1 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 €49.2 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

"Short-term borrowings", amounting to zero at 31 December 2018, are down €90.0 million compared with the previous year following repayment of the various credit lines used by the 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 €15.6 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	1.9	2.0	(0.1)
TOTAL	**90.1**	**105.7**	**(15.6)**

Net debt

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

(€m)

	31 DECEMBER 2018
A. Cash	398.4
B. Term deposits	751.5
C. Net balance on intercompany treasury account	(204.8)
D. Cash and cash equivalents (A) + (B) + (C)	**945.1**
E. Current portion of non-current borrowings	1,229.8
of which from related parties	*500.0*
F. Other net financial liabilities	89.5
of which from related parties	*0.5*
G. Current financial assets	403.9
H. Short-term loan to subsidiaries	89.5
I. Current debt (E) + (F) - (G) - (H)	**825.9**
L. Current net debt (I) - (D)	**(119.2)**
M. Non-current borrowings	1,608.7
N. Bond issues	6,563.2
O. Derivative financial instruments held in portfolio	59.1
P. Long-term loan to subsidiaries	10.0
Q. Non-current net debt (M) + (N) + (O) - (P)	**8,221.0**
R. Net debt (L) + (Q)	**8,101.8**

Information on the provisions in outstanding loan agreements at 31 December 2018 is provided in the notes to the consolidated financial statements.

22. EMPLOYEE BENEFITS - €11.8 MILLION

Terna provides its employees with benefits during their period of employment (loyalty bonuses), on termination of employment (*TFR*, additional months' pay and payment in lieu of notice) and after termination in the form of post-employment benefits (energy discounts and ASEM health cover).
Loyalty bonuses are payable to the Company's employees and senior managers once certain requirements have been met regarding length of service (on completing 25 and 35 years of service).
Termination benefits (*TFR*) are payable to all employees, whilst employees hired by 30 June 1996 receive energy discounts, 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/	31.12.2018
Benefits during the period of employment						
Loyalty bonuses	0.6	-	-	0.1	-	0.7
Total	**0.6**	**-**	**-**	**0.1**	**-**	**0.7**
Termination benefits						
Deferred compensation benefits (TFR)	3.8	-	0.1	0.3	-	4.2
Energy discounts	1.8	-	-	(1.5)	-	0.3
Additional months' pay	0.4	-	-	0.2	-	0.6
Payment in lieu of notice	0.1	-	-	(0.1)	-	-
Total	**6.1**	**-**	**0.1**	**(1.1)**	**-**	**5.1**
Post-employment benefits						
ASEM health cover	6.0	0.2	0.1	(0.3)	-	6.0
Total	**6.0**	**0.2**	**0.1**	**(0.3)**	**-**	**6.0**
Total	**12.7**	**0.2**	**0.2**	**(1.3)**	**-**	**11.8**

This item, amounting to €11.8 million at 31 December 2018, is down €0.9 million compared with the previous year, attributable primarily to the release of provisions for the energy discounts (down €1.5 million).

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**
- curtailment (revenue) and other costs				(0.1)	(1.9)	(0.3)	**(2.3)**
- interest income and expense	-	0.1	-	-	-	0.1	**0.2**
TOTAL RECOGNISED IN PROFIT OR LOSS	**-**	**0.1**	**-**	**(0.1)**	**(1.9)**	**-**	**(1.9)**

Revaluation of the net liability for employee benefits had no material impact at 31 December 2018.

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	ENERGY DISCOUNTS	ASEM HEALTH COVER
Discount rate	1.57%	1.53%	0.77%	1.13%	1.57%
Inflation rate	1.50%	1.50%	0.00%	1.50%	3.00%
Duration (in years)	12.29	10.50	5.79	9.07	9.64

(€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%	0.7	4.1	0.6	-	0.3	5.8	**11.5**
Discount rate -0.25%	0.8	4.3	0.6	-	0.3	6.0	**12.0**
Inflation rate +0.25%	0.8	4.3	n/a	n/a	n/a	n/a	**5.1**
Inflation rate -0.25%	0.7	4.1	n/a	n/a	n/a	n/a	**4.8**
Annual rate of increase in health costs +3%	n/a	n/a	n/a	n/a	n/a	7.9	**7.9**
Annual rate of increase in health costs -3%	n/a	n/a	n/a	n/a	n/a	5.0	**5.0**
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	ENERGY DISCOUNTS	ASEM HEALTH COVER	TOTAL
By the end of 2019	-	0.2	0.1	0.4	0.2	0.9
By the end of 2020	-	0.1	0.1	0.5	0.2	0.9
By the end of 2021	0.1	0.3	0.1	0.5	0.2	1.2
By the end of 2022	-	0.2	0.1	0.7	0.2	1.2
By the end of 2023	-	0.2	0.1	0.7	0.2	1.2
After 5 years	0.6	3.2	0.1	(2.5)	5.0	6.4
TOTAL	**0.7**	**4.2**	**0.6**	**0.3**	**6.0**	**11.8**

23. - PROVISIONS FOR RISKS AND CHARGES - €243.5 MILLION

(€m)

	PROVISIONS FOR LITIGATION AND DISPUTES	PROVISIONS FOR SUNDRY RISKS AND CHARGES	PROVISIONS FOR EARLY RETIREMENT INCENTIVES	TOTAL
Amount at 31 December 2017	**23.4**	**157.1**	**63.0**	**243.5**
New provisions	3.6	29.7	-	33.3
Uses and other movements	(8.7)	(44.8)	(9.6)	(63.1)
Restatement of opening balances	-	0.1	-	0.1
Amount at 31 December 2018	**18.3**	**142.1**	**53.4**	**213.8**

Provisions for litigation and disputes - 18.3 million

These provisions, set aside to cover outstanding liabilities that, at the end of the year, could result from court judgements and out-of-court settlements regarding the activities of Group companies, have been assessed partly on the basis of recommendations from internal and external legal advisors. The balance of €18.3 million at 31 December 2018 is down €5.1 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 - €142.1 million

These provisions amount to €142.1 million at 31 December 2018, a reduction of €15.0 million compared with the previous year), reflecting:

- net provisions for staff incentive plans, totalling €7.7 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 of expenses by ARERA;
- 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 reflect the estimated extraordinary expenses linked to the early retirement of the Company's employees who have reached pensionable age. This item has decreased by €9.6 million, reflecting payments during the year in relation to the existing plan for generational turnover.

24. OTHER NON-CURRENT LIABILITIES - €196.1 MILLION

This item, amounting to €196.1 million at 31 December 2018, regards the amount payable to Terna Rete Italia S.p.A., resulting from the transfer of net liabilities included in the operations leased to this subsidiary (€39.9 million), accrued grants related to assets receivable (€90.9 million) and the Interconnector Guarantee Fund (€65.3 million), set up by the 2016 Stability Law, in order to fund investment in interconnections by art. 32 of Law 99/09.

The increase of €14.8 million compared with the previous year essentially reflects a combination of movements in the Interconnector Guarantee Fund (up €21.9 million), offset by the settlement of a part of the liabilities included in the leased operations (down €1.9 million), referring to the termination benefits (TFR) payable to personnel participating in the generational turnover plan, and the release of portions of grants related to assets (a reduction of €5.2 million).

25. CURRENT LIABILITIES

(€m)

	31 DECEMBER 2018	31 DECEMBER 2017	CHANGE
Short-term borrowings *	-	90.0	(90.0)
Current portion of long-term borrowings *	1,229.8	884.0	345.8
Trade payables	2,113.4	2,106.4	7.0
Tax liabilities	8.1	-	8.1
Current financial liabilities *	90.1	105.7	(15.6)
Other current liabilities	196.9	125.6	71.3
TOTAL	**3,638.3**	**3,311.7**	**326.6**

(*) Information on these items is provided in note 21, “Borrowings and financial liabilities.

TRADE PAYABLES - €2,113.4 MILLION

(€m)

	31 DECEMBER 2018	31 DECEMBER 2017	CHANGE
Suppliers:			
- Energy-related payables	1,540.2	1,624.3	(84.1)
- Non-energy-related payables	124.3	100.7	23.6
Non-energy-related payables due to subsidiaries	447.1	377.0	70.1
Amounts due to associates	1.0	3.6	(2.6)
Payables resulting from contract work in progress	0.8	0.8	-
TOTAL	**2,113.4**	**2,106.4**	**7.0**

Suppliers

- *Energy-related/regulated payables - €1,540.2 million*

The reduction of €84.1 million in this item compared with the previous year essentially reflects energy-related pass-through payables (down €105.6 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 increase compared with the previous year (up €23.6 million) is largely due to increased capital investment towards the end of the year.

Non-energy-related payables due to subsidiaries
This item, totalling €447.1 million, is up €70.1 million compared with the previous year, primarily due to the increased amount payable to Terna Rete Italia S.p.A. (up €64.8 million) as a result of the greater volume of capital expenditure carried out towards the end of the year, compared with the same period of 2017.

Amounts due to associates
This item, amounting to €1.0 million, is down €2.6 million compared with the previous year, reflecting the reduced amount payable to the associate CESI S.p.A., for services provided to the Company, relating to electro technical studies and research.

The commitments assumed by the Company towards suppliers amount to approximately €414.3 million and regard purchase commitments linked to the normal "operating cycle" projected for the period 2019-2023.

Tax liabilities - €8.1 million

This item amounts to €8.1 million at 31 December 2018, compared with a balance of zero last year. 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 - €196.9 MILLION

(€m)

	31 DECEMBER 2018	31 DECEMBER 2017	CHANGE
Prepayments	64.8	15.9	48.9
Other tax liabilities	26.9	1.6	25.3
Social security payables	7.4	7.1	0.3
Amounts due to personnel	11.5	12.5	(1.0)
Amounts due to subsidiaries	3.9	1.7	2.2
Other amounts due to third parties	82.4	86.8	(4.4)
TOTAL	**196.9**	**125.6**	**71.3**

Prepayments
This item (€64.8 million) regards grants related to assets collected by the Company to fund the construction of non-current assets in progress at 31 December 2018.
Compared with the balance at 31 December 2017 (€15.9 million), the balance is up €48.9 million, essentially due to new prepayments from third parties (up €61.6 million, primarily the Ministry for Economic Development) and other grants received for the re-routing of power lines (up €16.2 million), after the impact of grants deducted directly from the carrying amount of the related assets, totalling €40.5 million.

Other tax liabilities
Other tax liabilities, amounting to €26.9 million, regard withholding tax payable on salaries paid at the end of the year, in addition to the balance of the Group's VAT at the end of the year.
Compared with the balance at 31 December 2017 (€1.6 million), this item is up €25.3 million, broadly reflecting increased payments on account in the previous year as a result of the Ministerial Decree of 27 June 2017, after refundable VAT accruing on the greater volume of purchases by subsidiaries towards the end of the year.

Social security payables
Social security payables, essentially relating to employee contributions payable to INPS (the National Institute of Social Security), amount to €7.4 million, in line with the figure for the previous year.

Amounts due to personnel

Amounts due to personnel, amounting to €11.5 million, primarily regard:

- incentives for personnel and early retirement incentives payable in the subsequent year (€7.7 million);
- amounts due to employees in the form of accrued and unused annual leave and bank holiday entitlements (€2.1 million).

The reduction compared with the previous year (€1.0 million) primarily reflects the higher amount recognised in 2017 for payments to be made to personnel participating in the existing generational turnover plan (€1.2 million).

Other payables due to third parties

Other payables due to third parties, amounting to €82.4 million, essentially relate to guarantee deposits (€67.0 million) received from electricity market operators to guarantee their contractual obligations under dispatching and virtual interconnection contracts. This item also includes deferred income (€7.9 million, primarily attributable to Non-regulated Activities).
The reduction of €4.4 million compared with the previous year primarily reflects a reduction in guarantee deposits (down €4.0 million).

E. Commitments and risks

Risk management

Terna S.p.A.'s financial risk

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

This section provides information regarding Terna's exposure to all the above risks, along with a presentation of the objectives, policies and processes for managing those risks and the methods used to assess them, with further quantitative disclosures concerning the separate financial statements for 2018.
Terna's risk management policies seek to identify and analyse the risks that the Company is exposed to, establishing appropriate limits and controls and monitoring the risks and compliance with such limits. These policies and the related systems are reviewed on a regular basis, in order to take account of any changes in market conditions or in the Company's operations.

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

(€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	945.1	-	1,678.2	-
Trade receivables	1,090.0	-	1,142.6	-
TOTAL	**2,035.1**	**-**	**2,820.8**	**-**

(€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	9,401.7	-	9,401.7	9,522.5	-	9,522.5
Derivative financial instruments	-	59.1	59.1	-	9.9	9.9
Trade payables	-	-	-	2,106.4	-	2,106.4
TOTAL	**9,401.7**	**59.1**	**9,460.8**	**11,628.9**	**9.9**	**11,638.8**

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of changes in financial market conditions. Market risk includes three types of risk: exchange rate risk, interest rate risk and inflation risk.
Risk management must be performed with the objective of minimising the related risks by selecting counterparties and instruments compatible with the Company's Risk Management Policy. Speculative activity is not form part of the Company's activities.
Terna S.p.A. 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 carry out the planned hedging transactions in favourable market conditions. The dynamic approach enables the Group to intervene in order to improve existing hedges should there be a change in market conditions or changes in the hedged item, making the hedges inappropriate or excessively costly.

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

Interest rate risk

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

At 31 December 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 Terna:

(€m)

	31 DECEMBER 2018		31 DECEMBER 2017		CHANGE	
	NOTIONAL	FAIR VALUE	NOTIONAL	FAIR VALUE	NOTIONAL	FAIR VALUE
Cash flow hedges	3,225.7	(59.1)	2,546.3	(9.9)	679.4	(49.2)

The notional amount of outstanding cash flow hedges at 31 December 2018, amounting to €3,225.7 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;

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 VALUES	CURRENT RATES -10%
31 December 2018			
Positions sensitive to interest rate variations (bond issues, CFHs)	(48.8)	**(59.1)**	(69.4)
Hypothetical change	*10.3*	-	*(10.3)*
31 December 2017			
Positions sensitive to interest rate variations (bond issues. CFHs)	(9.1)	**(9.9)**	(10.7)
Hypothetical change	*0.8*	-	*(0.8)*

Inflation risk

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

Exchange rate risk

The management of exchange rate risk must aim to protect a company's earnings from the risk of currency fluctuations by keeping a close eye on market movements and constantly monitoring the existing exposures. In managing this risk, Terna from time to time selects hedging instruments with structures and durations matching the Company's exchange rate exposure. The instruments used by Terna are of limited complexity, highly liquid and easy to price, such as forwards and options. Such contracts have a notional amount and maturity date less than or equal to that of the underlying financial liability, or the expected cash flows, so that any change in the fair value and/or estimated cash flows deriving from a rise or fall in the euro against other currencies is fully offset by a corresponding change in the fair value and/or estimated cash flows of the underlying position.

At 31 December 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 Terna might encounter difficulty in discharging its obligations in respect of its financial liabilities and operating cycle. Liquidity risk management seeks to ensure adequate coverage of borrowing requirements by obtaining adequate lines of credit and appropriate management of any surplus liquidity. At 31 December 2018, Terna has available short-term credit lines of approximately €789.9 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 Company's trade receivables and financial investments.

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

Terna provides its services essentially to counterparties considered solvent by the market, and therefore with a high credit standing, and does not have high concentrations of credit risk.
Credit risk management is driven by the provisions of ARERA Resolution 111/06, which, in art. 49, introduced instruments designed to limit the risks related to the insolvency of dispatching customers, both on a preventive basis and in the event of an actual insolvency. In particular, the Resolution establishes three instruments to safeguard the electricity market: a guarantee system (bank guarantees provided by individual dispatching customers, based on their turnover); the option of terminating dispatching contracts (in the event of insolvency or failure to replace enforced guarantees); and, finally, the possibility of recovering uncollected debts, after having taken all other possible collection actions, through a specific fee to be fixed by the regulator.

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

(€m)

	31 DECEMBER 2018	31 DECEMBER 2017	CHANGE
Cash and cash equivalents	945.1	1,678.2	(733.1)
Trade receivables	1,090.0	1,142.6	(52.6)
TOTAL	**2,035.1**	**2,820.8**	**(785.7)**

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	1,059.3	1,085.8
Euro-area countries	14.0	56.1
Other countries	16.7	0.7
TOTAL	**1,090.0**	**1,142.6**

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	408.9	465.3
Parties which have signed virtual import contracts and virtual import services (interconnectors and shippers)	13.7	13.2
Sundry receivables	42.8	61.7
TOTAL	**1,090.0**	**1,142.6**

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

(€m)

	31 DECEMBER 2018		31 DECEMBER 2017	
	IMPAIRMENT	GROSS	IMPAIRMENT	GROSS
Current	(0.4)	949.7	-	1,057.7
0-30 days past due	(0.1)	0.8	-	32.4
31-120 days past due	(0.4)	4.6	-	27.9
Over 120 days past due	(37.1)	172.9	(38.3)	62.9
TOTAL	**(38.0)**	**1.128.0**	**(38.3)**	**1,180.9**

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*	(38.7)	(37.4)
Release of provisions	1.4	0.5
Impairments for the year	(0.7)	(1.4)
Balance	**(38.0)**	**(38.3)**

** The opening balance at 1 January 2018 was adjusted by €0.4 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 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 Terna S.p.A.’s consolidated financial statements.

Parent company guarantees issued in favour of subsidiaries’ suppliers

The Company has issued parent company guarantees in favour of third parties to guarantee fulfilment of a number of contractual obligations assumed by the subsidiaries Terna Interconnector S.r.l., Terna Rete Italia S.p.A., Difebal S.A. and Terna Crna Gora d.o.o.. The Company’s maximum exposure at 31 December 2018 amounts to €533,5 million, including €452.4 million relating to the private Italy-France Interconnector project. With regard to the long-term borrowing arranged by the Uruguayan subsidiary, Difebal, on 14 July 2017, Terna S.p.A. signed a Sponsor Support Agreement that includes a parent company commitment to inject contingent equity of up to US$50 million.

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 Company are described below.

Environmental and urban planning litigation

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

Litigation regarding the legitimacy of construction permits and plant operations

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

Litigation relating to activities carried out under concession

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

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

There were no business combinations in 2018.

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 subsidiaries, associates (Cesi S.p.A., Coreso S.A. and CGES) and employee pension funds (Fondenel and Fopen), as well as transactions with Cassa Depositi e Prestiti itself, with CDP Reti S.p.A. and with the companies directly or indirectly controlled by the Ministry of the Economy and Finance ("MEF").
Given that Terna S.p.A. and the above companies meet the definition for classification as "government-related entities", in accordance with IAS 24 - Related Party Disclosures, the 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.
Under the Terna Group's current organisational structure, the subsidiary, Terna Rete Italia S.p.A., which has entered into an agreement with the Company covering the lease of certain operations and a number of related intercompany agreements. In accordance with the these arrangements, the subsidiary is responsible for the traditional activities involved in operation and routine and extraordinary maintenance of the owned portion of the NTG, and for management and implementation of the grid development initiatives included in the related concession arrangement for transmission and dispatching operations, as set out in Terna's Development Plan.
Terna is responsible for managing the operations of all its subsidiaries under specific service agreements which, in addition to covering administrative and financial coordination and the coordination of relations with government bodies and other institutions, give the Company the right to act on behalf of its subsidiaries, or in their name and on their behalf.
The Company's Non-regulated Activities are conducted in Italy and overseas through the subsidiaries, Terna Energy Solutions S.r.l. and Terna Plus S.r.l. under existing intercompany service agreements.

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

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

	DEPOSITS*	WITHDRAWALS
Terna Rete Italia S.p.A.	monthly average 1-month Euribor +0.30%	monthly average 1-month Euribor +0.80%
Rete S.r.l.	monthly average 1-month Euribor +0.30%	monthly average 1-month Euribor +0.80%
Terna Energy Solutions S.r.l.	monthly average 1-month Euribor +0.30%	monthly average 1-month Euribor +0.80%
Terna Plus S.r.l.	monthly average 1-month Euribor +0.30%	monthly average 1-month Euribor +0.80%
Resia Interconnector S.r.l.	monthly average 1-month Euribor +0.30%	monthly average 1-month Euribor +0.80%
Monita Interconnector S.r.l.	monthly average 1-month Euribor +0.30%	monthly average 1-month Euribor +0.80%
Difebal S.A.	0.01%	monthly average 3-month Libor +1.30%
Rete Verde 17 S.r.l.	monthly average 1-month Euribor +0.30%	monthly average 1-month Euribor +0.80%
Rete Verde 18 S.r.l.	monthly average 1-month Euribor +0.30%	monthly average 1-month Euribor +0.80%
Rete Verde 19 S.r.l.	monthly average 1-month Euribor +0.30%	monthly average 1-month Euribor +0.80%
Rete Verde 20 S.r.l.	monthly average 1-month Euribor +0.30%	monthly average 1-month Euribor +0.80%

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

Existing intercompany agreements at 31 December 2018 are summarised below.

COUNTERPARTY	TYPE	ANNUAL FEE
Terna Rete Italia S.p.A.	**Service agreement:**	
	Operation & Maintenance	€270,703,680
	Upgrade and development	equal to costs incurred + 5.82% of personnel expenses incurred
	Administrative, support and consultancy services	
	- from Terna S.p.A. to Terna Rete Italia S.p.A. (revenue-generating)	€18,384,832
	- from Terna Rete Italia S.p.A. to Terna S.p.A. (cost-generating)	€4,952,851
	Rental of workstations for staff	
	- from Terna S.p.A. to Terna Rete Italia S.p.A. (revenue-generating)	€1,840,148
	- from Terna Rete Italia S.p.A. to Terna S.p.A. (cost-generating)	€396,124
	Lease of operations	€35,046,653
Rete S.r.l.	**Service agreement:**	
	Upgrade and development	equal to costs incurred + 5.82% of personnel expenses incurred
	Admin., support and consultancy service agreement (revenue-generating)	€1,083,506
Terna Plus S.r.l.	**Service agreement:**	
	Terna's Non-regulated Activities (cost-generating)	€129,164
	Management fee (revenue-generating)	€1,123,052
	Rental of workstations for staff (revenue-generating)	€132,532
Terna Energy Solutions S.r.l.	**Service agreement:**	
	Terna's Non-regulated Activities (cost-generating)	*€125,243*
	Management fee (revenue-generating)	*€364,275*
	Rental of workstations for staff (revenue-generating)	€239,603
Tamini Group	**Administrative service agreement (revenue-generating)**	€510,381
Terna Interconnector S.r.l.	**Administrative service agreement (revenue-generating)**	€630,687
	Management and coordination of civil works for Italy-France Interconnector (cost-generating)	equal to costs incurred + 5.82% of personnel expenses incurred
Monita Interconnector S.r.l.	*Administrative, operational support and project preparation services*	€144,396
Difebal S.A.	**Service agreement**	
	Administrative services	€104,835
	Technical services	variable based on volume of services effectively rendered. "Transportation stub" costs.
Terna Crna Gora d.o.o.	**Service agreement:**	
	Technical services	equal to costs incurred + 5.82%
	Administrative services	€42,973
Avvenia The Energy Innovator S.r.l.	**Administrative service agreement (revenue-generating)**	€99,233
Rete Verde 17 S.r.l. Rete Verde 18 S.r.l. Rete Verde 19 S.r.l. Rete Verde 20 S.r.l.	*Management fee (revenue-generating)*	€4,686 for each counterparty company

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

The nature of sales to and purchases from related parties[1] by the Company is shown below, followed by details of the revenue and costs resulting from such transactions during the year, and the related receivables and payables outstanding at 31 December 2018.

RELATED PARTY	REVENUE-GENERATING TRANSACTIONS	COST-GENERATING TRANSACTIONS
Parent		
Cassa Depositi e Prestiti S.p.A.		Credit facilities.
Related parties: subsidiaries operating in Regulated Activities		
Terna Rete Italia S.p.A.	Rental for leased operations, administrative services, rental of workstations and other services	Maintenance and other technical services, grid upgrade and development, quality of service allowance, administrative services, rental of workstations for staff
Rete S.r.l.	Provision of technical and administrative services	Transmission charge
Terna Crna Gora d.o.o.	Administrative services, services provided by seconded personnel and staff on temporary transfers	
Related parties: subsidiaries operating in Non-regulated Activities		
Terna Energy Solutions S.r.l.	Technical, administrative and financial services, rental of spaces and workstations	Operation of Non-regulated Activities
Terna Plus S.r.l.	Technical, administrative and financial services, rental of spaces and workstations	Operation of Non-regulated Activities
Gruppo Tamini	Administrative and other services	
Terna Interconnnector S.r.l.	Administrative and consultancy services, loan agreements	Management and coordination of performance of civil works for Italy-France interconnector
Monita Interconnector S.r.l.	Administrative, operational support and preparation services in relation to interconnector project	
Santa Maria Transmissora de Energia S.A. (Brazil)	Financial services	Loans
Santa Lucia Transmissora de Energia S.A. (Brazil)	Financial services	Loans
Difebal S.A.	Administrative and legal services	
Rete Verde 17 S.r.l.	Administrative services	
Rete Verde 18 S.r.l.		
Rete Verde 19 S.r.l.		
Rete Verde 20 S.r.l.		
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.
Snam Rete Gas	Dispatching charge	Contributions for NTG connections, sundry services.
ENI Group		Sundry services.
Poste Italiane	Movement /re-routing of power lines	Right-of-way fees.
ANAS S.p.A.		Sundry services.
Other related parties of the MEF		Pension contributions payable by the Terna Group.
Fondenel and Fopen	Metering charge, dispatching charge	Rental of spaces and workstations.

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

REVENUE AND COSTS

(€m)

	REVENUE COMPONENTS		COST COMPONENTS	
	TRANSMISSION CHARGE AND OTHER REVENUE FROM REGULATED ACTIVITIES	NON-ENERGY-RELATED ITEMS	DIVIDENDS	NON-ENERGY-RELATED ITEMS
Subsidiaries				
Terna Rete Italia S.p.A.	-	56.1	-	306.5
Santa Maria Transmissora de Energia S.A. (Brazil)	-	1.7	-	-
Santa Lucia Transmissora de Energia S.A. (Brazil)	-	5.0	-	-
Terna Crna Gora d.o.o.	-	0.6	-	-
Terna Plus S.r.l.	-	1.8	-	0.1
Tamini Group	-	0.6	-	-
Terna Energy Solutions S.r.l.	-	0.7	-	0.1
Rete S.r.l.	-	1.3	-	-
Terna Interconnector S.r.l.	-	0.8	-	-
Monita Interconnector S.r.l.	-	0.2	-	-
Avvenia The Energy Innovator S.r.l.	-	0.1	-	-
Difebal S.A.	-	1.0	-	-
Total subsidiaries	**-**	**69.9**	**-**	**306.7**
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	1.1	0.3
CORESO S.A.	-	-	-	1.6
Total associates	**-**	**0.2**	**1.1**	**1.9**
Other related parties:				
GSE Group	19.0	-	-	0.1
Enel Group	1,564.1	15.5	-	0.1
Eni Group	6.8	-	-	0.3
Ferrovie Group	2.4	0.3	-	0.2
ANAS S.p.A.	-	-	-	0.2
SNAM Rete e Gas		0.2	-	-
Total other related parties	**1,592.3**	**16.0**	**-**	**0.9**
Pensions funds:				
Fondenel	-	-	-	0.3
Fopen	-	-	-	0.4
Total pension funds	**-**	**-**	**-**	**0.7**
TOTAL	**1,592.3**	**86.1**	**1.1**	**313.3**

ASSETS AND LIABILITIES

(€m)

	PROPERTY, PLANT AND EQUIPMENT	RECEIVABLES AND OTHER ASSETS		PAYABLES AND OTHER LIABILITIES		BALANCE ON INTER-COMPANY TREASURY ACCOUNT	GUARANTEES**
	CAPITALISED COSTS	OTHER	FINANCIAL	OTHER	FINANCIAL		
Subsidiaries							
Terna Rete Italia S.p.A.*	56.2	13.9	-	477.4	-	(247.9)	-
Santa Maria Transmissora de Energia S.A. (Brazil)	-	-	22.3	-	-	-	-
Santa Lucia Transmissora de Energia S.A. (Brazil)	-	-	67.2	-	-	-	-
Terna Crna Gora d.o.o.	-	0.1	-	-	-	-	-
Terna Plus S.r.l.*	-	0.8	-	2.2	-	32.1	-
Tamini Group*	13.8	0.7	-	2.4	-	-	-
Terna Energy Solutions S.r.l.*	-	0.5	-	1.6	-	28.7	-
Rete S.r.l.*	-	0.4	-	6.2	-	(19.7)	-
Terna Interconnector S.r.l.	1.5	0.2	-	4.2	-	-	-
Monita Interconnector S.r.l.	-	0.1	-	-	-	0.6	-
Avvenia The Energy Innovator S.r.l.	-	0.1	-	-	-	-	-
Terna Chile S.p.A.	-	0.2	-	-	-	-	-
Difebal S.A.	-	0.9	9.9	-	-	-	-
Rete Verde 17 S.r.l.	-	-	-	-	-	0.2	-
Rete Verde 18 S.r.l.	-	-	-	-	-	0.1	-
Rete Verde 19 S.r.l.	-	-	-	-	-	0.6	-
Rete Verde 20 S.r.l.	-	-	-	-	-	0.5	-
Total subsidiaries	**71.5**	**17.9**	**99.4**	**494.0**	**-**	**(204.8)**	**-**
De facto parent							
Cassa Depositi e Prestiti S.p.A.	-	-	-	-	500.5	-	-
Total de facto parent	**-**	**-**	**-**	**-**	**500.5**	**-**	**-**
Associates:							
Cesi S.p.A.	1.0	0.2	-	0.9	-	-	1.2
CORESO S.A.	-		-	0.1	-	-	-
CGES	-	3.3	-		-	-	-
Total associates	**1.0**	**3.5**	**-**	**1.0**	**-**	**-**	**1.2**
Other related parties:							
GSE Group	-	3.1	-	0.1	-	-	-
Enel Group	0.5	399.3	-	2.2	-	-	586.2
Eni Group	-	1.4	-	1.2	-	-	32.8
Ferrovie Group	0.1	0.4	-	9.4	-	-	24.2
ANAS S.p.A.	0.2	0.1	-	0.2	-	-	-
Snam Rete Gas S.p.A.	-	-	-	0.7	-	-	-
Other related parties of MEF	-	-	-	-	-	0,1	-
Total other related parties	**0.8**	**404.3**	**-**	**13.8**	**-**	**0.1**	**643.2**
Pension funds:							
Fopen	-	-	-	0.3	-	-	-
Total pension funds	**-**	**-**	**-**	**0.3**	**-**	**-**	**-**
TOTAL	**73.3**	**425.7**	**99.4**	**509.1**	**500.5**	**(204.7)**	**644.4**

* *The balances for the item, "Other", include receivables and payables relating to the tax consolidation arrangement for IRES.*
** *Guarantees regard surety bonds received from contractors.*

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 €1,208.1 million, with approximately €1,537.7 million in operating cash flow and an outflow of approximately €329.6 million generated by changes in net working capital.

The cash outflow for **investing activities** totals approximately €888.0 million and above all regards €793.8 million relating to investment in property, plant and equipment, €58.4 million invested in intangible assets and €15.1 million in capitalised financial expenses, in addition to the subscription for new shares issued by Terna Crna Gora d.o.o., totalling €59 million.
The net cash outflow for **shareholder transactions** amounts to €452.5 million, primarily reflecting payment of the final dividend for 2017 (€292.9 million) and the interim dividend for 2018 (€158.2 million).
As a result, net cash used in investing activities and to provide a return on equity during the year amounted to €1,340.5 million, for the most part covered by cash flow from continuing operations of €1,208.1 million. The remainder was funded through the use of cash reserves. Net debt has risen by €55.3 million compared with the previous year.

The following table shows the reconciliation of liabilities 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)	9,522.5	(9.7)	(111.1)	9,401.7
- Short-term borrowings	90.0	(90.0)	-	-
- Loans to subsidiaries *	-	(99.5)	-	(99.5)
- Government securities *	-	(401.5)	(1.1)	(402.6)
Net change deriving from financing activities	**9,612.5**	**(600.7)**	**(112.2)**	**8,899.6**

** Included in "Non-current financial assets" and "Current financial assets" in the statement of financial position.*

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 Company 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. Proposal for appropriation of profit for the year

Terna S.p.A.'s Board of Directors proposes to pay a total dividend of €468,730,134.40 for 2018, equal to €0.2332 per share, of which €0.0787 per share was declared in the form of an interim dividend on 9 November 2018.
The Board of Directors thus proposes to appropriate Terna S.p.A.'s profit for 2018, amounting to €661,291,201.83, as follows:

- €158,186,370.40 to cover payment of the interim dividend payable from 21 November 2018;
- €310,543,764.00 to pay a final dividend of €0.154500 to the holders of each of the 2,009,992,000 ordinary shares outstanding at the date of this Board of Directors' meeting. The final dividend will be payable on 26 June 2019, with an ex-dividend date for coupon 30 of 24 June 2019 and a record date (as defined by art.83-terdecies of Legislative Decree 58 of 24 February 1998, the Consolidated Law on Finance of 25 June 2019);
- €192,561,067.43 to be taken to retained earnings.

N. Events after 31 December 2018

Transfer of a business unit

With effect from **1 January 2019**, Terna S.p.A. transferred a business unit to Terna Rete Italia S.p.A. under the transfer deed executed on 20 December 2018. The unit consists of the personnel, assets and service agreements involved in the provision of building management, maintenance and support services and facility management for a number of properties owned by Terna S.p.A..
The parties have established a value for the business unit, based on a specific expert appraisal, of €17,949,501.00, including €180,000.00 in the form of new shares issued by Terna Rete Italia S.p.A..
Under the above service agreement, Terna S.p.A. pays Terna Rete Italia S.p.A. an annual fee of €224,000.00 (plus VAT at the statutory rate), in addition to the reimbursement of documented expenses.

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 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 Terna S.p.A.'s independent auditors in 2018.

(€)

	ENTITY PROVIDING SERVICE	FEES DUE FOR THE YEAR
Audit of the accounts	PwC	356,001
Attestation and other services	PwC	160,613
TOTAL		**516,614**

Attestation

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

TERNA GROUP

"Terna S.p.A."

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 separate financial statements during the year ended 31 December 2018.

2. The administrative and accounting procedures adopted in preparation of the separate 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 separate 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.

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

Rome, 21 March 2019

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

Report

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

Board of Statutory Auditors' Report to the Annual General Meeting of Terna S.p.A.'s shareholders pursuant to article 153 Legislative Decree 58 of 24 February 1998 (the Consolidated Law on Finance) and article 2429, paragraph three of the Italian Civil Code

Dear Shareholders,

During the year ended 31 December 2018, the Board of Statutory Auditors di Terna S.p.A. (also the "Company") fulfilled its statutory duties in accordance with the law, complying with the code of conduct for the Statutory Auditors of listed companies issued by the Italian Accounting Profession (*Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili*), the recommendations of the CONSOB (the *Commisione Nazionale per le Società e la Borsa*, Italy's Securities and Exchange Commission) regarding corporate controls and the activities of the Board of Statutory Auditors and the guidelines in the Corporate Governance Code published by Borsa Italiana (the "Corporate Governance Code").

Responsibility for the statutory audit required by Legislative Decree 39 of 27 January 2010 (Legislative Decree 39/2010) has been assigned to the independent auditors, PricewaterhouseCoopers S.p.A., appointed by the Annual General Meeting of 13 May 2011 for nine years from 2011 to 2019.

The Board, which also took into account the indications contained in CONSOB announcement DEM/1025564 of 6 April 2001, as amended, reports the following.

- We verified compliance with the law and the By-laws.
- We attended the meetings of the Board of Directors and specific preparatory meetings regarding the agenda items, as well as meetings of the Audit and Risk, Corporate Governance and Sustainability Committee. We periodically obtained information from the Directors on the overall operating performance, the outlook for the Company and on the most significant transactions, in terms of their impact on the results of operations and financial position, carried out by the Company, satisfying ourselves

that the decisions taken and implemented were compliant with the law and the By-laws and were not manifestly imprudent, risky or in potential conflict of interest or in contrast with resolutions approved by General Meeting, or such as to compromise the value of the Company. In the course of our activities, we found no evidence of transactions of an atypical and/or unusual nature. In carrying out our duties, we analysed information flows from the various departments and also conducted interviews with the Company's senior management, with the independent auditors and with the oversight bodies of subsidiaries.

- At the meetings of 20 and 21 March 2019, the Board of Directors, on the recommendation of the Remuneration Committee, approved the "Annual Remuneration Report", prepared in accordance with article 123-ter of the Consolidated Law on Finance and in compliance with the provisions of article 6 of the Corporate Governance Code.
- We monitored compliance with and effective application of the "Procedure for Related Party Transactions", recently revised by the Board of Directors on 15 December 2016 and compliant with article 4 of the CONSOB Regulation referred to in Resolution 17221 of 12 March 2010, as amended.
- The Company has prepared the financial statements for the year ended 31 December 2018 in compliance with International Financial Reporting Standards (IFRS). These financial statements were audited by PricewaterhouseCoopers S.p.A., which issued its report on 11 April 2019 without any qualification or emphasis of matter. The financial statements, together with the Directors' report on operations, was made available to us within the deadline required by law and we have no particular comments in this regard.

- The Company also prepared the consolidated financial statements for the year ended 31 December 2018 in compliance with International Financial Reporting Standards (IFRS). These financial statements were also audited by PricewaterhouseCoopers S.p.A., which issued its report on 11 April 2019 without any qualification or emphasis of matter.
- Among the most significant transactions carried out in 2018, we note the following, referring you to the report on operations for more detailed information:
  – the issue of green bonds with a five-year term and a value of €750 million at a rate of 1% as part of the Company's €8 billion Euro Medium Term Notes (EMTN) programme;
  – the arrangement of a five-year revolving credit facility of €1,150 million at a rate of EURIBOR plus a variable spread of between 0.60% and 1.45% based on Terna's credit rating (at the same time, the Company cancelled a €750 million line of credit expiring on 11 December 2019).
- We oversaw, within the scope of our responsibilities, the adequacy of the Company's organisational structure, compliance with the principles of good governance and the adequacy of the instructions issued by the Company to its subsidiaries pursuant to article 114, paragraph 2 of the Consolidated Law on Finance, by obtaining information from the heads of the relevant departments, through meetings with the independent auditors and with the oversight bodies of the most important subsidiaries in terms of size. With regard to the provisions of article 15, paragraph one of the Markets Regulation adopted by CONSOB Resolution 20249 of 28 December 2017, the Company's non-EU subsidiaries are not of material importance as defined by the articles in Chapter II, Section VI, Part III of the Regulations for Issuers adopted by CONSOB Resolution 11971 of 14 May 1999, as amended.

- We monitored the adequacy of the administrative and accounting system, assessing its reliability in providing a true and fair view of operations; this activity was carried out by obtaining information from the heads of the various departments, by examining company documents and analysing the results of the work carried out by the independent auditors. The Chief Executive Officer and the Manager responsible for the Company's financial reporting have, with in reports attached to the financial statements for 2018, attested to: a) the adequacy and effective application of accounting and administrative procedures; b) the compliance of the financial reports with international financial reporting standards; c) the consistency of the documents with the underlying accounting books and records and their ability to provide a true and fair view of the financial position and results of operations of the Company. A similar attestation is attached to the Terna Group's consolidated financial statements.
- We assessed and oversaw the adequacy of the internal audit system through: a) examination of the report prepared by the Head of Internal Audit on the internal audit system; b) examination of the Internal Audit reports, as well as information on the results of monitoring; c) meetings with the oversight bodies of the most important subsidiaries pursuant to the first and second paragraphs of article 151 of the Consolidated Law on Finance; d) participation in the meetings of the Audit and Risk, Corporate Governance and Sustainability Committee and acquisition of the relevant documents; e) meetings with the Manager responsible for financial reporting and the Chief Risk Officer. Attending the Audit and Risk, Corporate Governance and Sustainability Committee meetings allowed the Board of Statutory Auditors to coordinate its activities with those of this Committee in performing our functions as the "Internal Audit and Accounting Committee", assigned to us on the basis of article 19 of Legislative Decree 39/2010 and, in particular, to oversee: a) the financial reporting process; b) the effectiveness of the internal quality control, risk management and internal audit systems; c) the statutory audit of the accounts; and d) matters relating to the independence of the audit firm.

On the basis of the activities carried out and considering the evolving nature of the Internal Audit System, in the view of the Board of Statutory Auditors the system is adequate overall and we have no observations to report to shareholders.

The independent auditors have notified their overall fees for auditing Terna S.p.A.'s separate and consolidated financial statements for the year ended 31 December 2018, and for their review of the half-year report, assessment of the regular nature of accounting systems, and for the other tasks assigned to them; the fees for these other tasks (inclusive of expenses) amount to €300,983, as follows:

– audit of the unbundling for ARERA	35,200
– audit of the reporting packages	17,600
– opinion on payment of the interim dividend	35,200
– assurance of the sustainability report/non-financial statement	87,570
– issue of the EMTN comfort letter and other documents	121,525
– other tasks	3,888

Moreover, the independent auditors have notified us that, based on the best information available, and taking into account the regulatory and statutory requirements for auditors, it has, in the period in question, maintained a position of independence and objectivity towards Terna S.p.A. and that there have been no changes regarding the absence of any form of incompatibility with reference to the situations and persons provided for in article 17 of Legislative Decree 39/2010 and the articles referred to in Chapter I-*bis* of Section VI of the Regulations for Issuers.

- We held periodic meetings with representatives of the independent auditors pursuant to article 150, paragraph 3 of the Consolidated Law on Finance, and there are no matters worthy of mention in this Report. We also note that on 11 April 2019 the independent auditors issued its report pursuant to the third paragraph of article 19 of Legislative Decree 39/2010, and the additional report required by article 11 of the European Regulation (EU) 537/2014, in which the auditors do not report on significant issues or shortcomings relating to the system of internal controls over financial reporting and which we have submitted to the Board of Directors without observation.
- On 11 April 2019, the independent auditors issued their report on the consolidated non-financial statement prepared pursuant to article 3, paragraph ten of Legislative Decree 254 of 30 December 2016 and article 5 of CONSOB Regulation adopted with Resolution 20267 of 18 January 2018, which states that no matters have been brought to the attention of the independent auditors that would cause them to conclude that the Terna Group's consolidated non-financial statement for the year ended 31 December 2018 has not been prepared, in all material aspects, in compliance with the requirements of articles 3 and 4 of the above decree and the Global Reporting Initiative Standards (GRI Standards).
- The Terna Group's consolidated non-financial statement constitutes a separate report with respect to the Directors' report on operations, as permitted by article 5, paragraph three of the above decree.

- We monitored the procedures adopted to ensure effective implementation of the Corporate Governance Code adopted by the Company, as set forth in the Report on Corporate Governance and Ownership Structures approved by the Board of Directors on 20 and 21 March 2019. With reference to the recommendations falling within the purview of the Board of Statutory Auditors, we state that:
  - we have verified the correct application of the criteria and procedures for assessing independence, adopted by the Board of Directors;
  - with regard to the self-assessment of the independence requirements for members of the Board of Statutory Auditors, we have verified their existence during our meeting of 1 March 2019, in keeping with the procedures adopted by the Directors;
  - we have complied with the provisions of the regulation governing the management and handling of confidential and privileged company information.

  Finally, it should be noted that the independent auditors have expressed its opinion regarding the consistency of the information provided, in accordance with paragraph 4 of article 123-*bis* of the Consolidated Law on Finance, in the Report on Corporate Governance and Ownership Structures with the separate and consolidated financial statements.
- With reference to Legislative Decree 231 of 8 June 2001, the Company has, for some time, adopted an organisational and management model, which is regularly revised and which is compliant with best practices. Similar models have been adopted by the subsidiaries. During the year, the Board of Statutory Auditors regularly exchanged information with members of the Supervisory Board. The information gathered did not reveal any critical issues with respect to the proper implementation of the organizational model, requiring mention in this report.

- We have not received any complaints pursuant to article 2408 of the Italian Civil Code, nor are we aware of any events or petitions requiring mention during the Annual General Meeting.
- We have verified compliance with the laws regarding the preparation of separate and consolidated financial statements and the report on operations, directly and with the collaboration of the heads of departments and through information obtained from the independent auditors, and we have nothing significant to report.
- We expressed the opinion required from the Board of Statutory Auditors by the third paragraph of article 2389 of the Italian Civil Code (the remuneration of executive Directors).
- The independent auditors issued the opinion referred to in paragraph 5 of article 2433-*bis* of the Italian Civil Code (the interim dividend).
- The members of the Board of Statutory Auditors have complied with the obligation to notify directorships and appointments as statutory auditors in Italian companies within the deadlines and according to the procedures provided for in article 148-*bis* of the Consolidated Law on Finance and the articles in Chapter II, Section V-*bis*, Part III of the Regulations for Issuers.
- During 2018, the Board of Statutory Auditors met seven times, attended the ten meetings of the Board of Directors, the seven meetings of the Audit and Risk, Corporate Governance and Sustainability Committee and the Annual General Meeting of shareholders held on 4 May 2018.

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

Having reviewed the financial statements for the year ended 31 December 2018, the Board of Statutory Auditors has no objections to raise as regards the proposed resolutions submitted by the Board of Directors.

Rome, 11 April 2019

For the Board of Statutory Auditors
The Chairman
Riccardo Schioppo

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 Separate Financial Statements

Opinion

We have audited the separate financial statements of Terna SpA (the Company), 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 notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of the Company 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 Separate Financial Statements of this report. We are independent of 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.

PricewaterhouseCoopers SpA

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate 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 statement of financial position – Note 10 Property, plant and equipment and Note 12 Intangible assets* Costs capitalised during the year as property, plant and equipment and intangible assets amount to Euro 886 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 separate 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 separate financial statements to verify the adequacy and completeness of the disclosures therein.

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Derivative financial instruments *Section D – Notes to the statement of financial position – Note 21 Borrowings and financial liabilities and Section E – Commitments and risks* The amount of borrowings in the separate financial statements at 31 December 2018 is Euro 9,402 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 3,226 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 key matter in the audit of the separate 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 separate financial statements to verify the adequacy and completeness of the disclosures therein.

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

The directors are responsible for the preparation of separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company ability to continue as a going concern and, in preparing the separate financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the separate financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the Company 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 Company's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the separate 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 separate financial statements.

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

- we identified and assessed the risks of material misstatement of the separate 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 Company 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 Company 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 separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we evaluated the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 separate financial statements of the current period and are therefore the key audit matters. We described 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 separate 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 Terna SpA as of 31 December 2018, including their consistency with the relevant separate 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 separate financial statements of the Company 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 separate financial statements of the Company 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 Company obtained in the course of the audit, we have nothing to report.

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.