



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*

Terna SpA

**Separate financial statements
as of 31 December 2018**



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.