



ENERGY IS OUR RESPONSIBILITY

2019

Consolidated Interim Report for
the three months ended 31 March

Terna Group

 **Terna**



OUR MISSION

**Energy is our responsibility.
Responsibility is our energy.**

To play a leading role in the coming sustainable energy transition, by leveraging our distinctive innovation capabilities, competencies and technologies for the benefit of all stakeholders.

We are a major operator of grids used to transport energy.

We manage the high-voltage transmission of electricity in Italy, ensuring **security, quality and cost-effectiveness over time.**

We are working hard on **development of the electricity grid**, the achievement of ongoing improvements in operational efficiency and integration with the European grid.

We guarantee **equal access** to all grid users.

We are developing **Non-regulated Activities** and new business opportunities, building on the experience and technical expertise gained in managing complex systems and on our technological excellence. ”



Highlights

Terna's commitment to developing the grid continued in the first quarter 2019, with progress on all the major investment projects supporting the current energy transition. Improvements in all key performance indicators confirm the virtuous growth path outlined in the "Grids and Values" Strategic Plan.

Regulated Activities in Italy



MAJOR INVESTMENT DURING THE PERIOD

Development Plan

- Italy-France interconnector (€5.8 million)
- Italy-Montenegro interconnector (€3.0 million)
- Rome area reorganisation (€2.7 million)
- Benevento-Pontelandolfo power line (€1.9 million)

Security Plan

- Fiber for The Grid project (€6.2 million)

Renewal Plan

- Renewal of electricity assets (€44.4 million)

INFRASTRUCTURE ENTERING SERVICE

- **Lines:** 2 new km as part of the reorganisation of the Port of Genoa area

Non-regulated Activities



Italy-France interconnector: 20 km of MV and 12 km of HV and LV cable laid.

Open Fiber project: 152 km of fibre network tested.

Tamini: value of production in line with expectations.

Avvenia: delivery of a new non-fossil steam production plant.

International Activities



Uruguay: the 500kV "Melo-Tacuarembò" power line is 70% complete, with completion expected by the end of 2019.

Brazil:

- **New acquisitions:** a preliminary agreement for the acquisition of two new concessions to build and operate power lines in Brazil was signed on 12 April 2019.
- **Santa Lucia:** 99% complete, with completion due in the second quarter of 2019.

Peru: work on the construction of 132 km of new 138kV lines, between Aguaytia and Pucallpa, continued. Completion is expected in 2020.



- Inclusion for the first time in the **Bloomberg Gender Equality Index (GEI)**.

- **RobecoSAM includes Terna in its Gold Class** in the "Sustainability Yearbook 2019", in recognition of its ranking as "Industry Leader" in the Dow Jones Sustainability Index.

HIGHLIGHTS

| (€m) | Q1 2019 | Q1 2018 | Change |
|---|---------|---------|--------|
| Revenue | 537.0 | 523.1 | +2.7% |
| EBITDA | 420.2 | 409.3 | +2.7% |
| Profit attributable to owners of the Parent | 186.0 | 182.7 | +1.8% |
| Capital expenditure | 164.4 | 141.6 | +16.1% |
| | Q1 2019 | FY 2018 | |
| Net debt | 7,918.7 | 7,899.4 | |

SHARE PRICE AND FINANCE

Terna's share price

Share price up 14%, outperforming the European DJ Stoxx Utilities index (up 10.7%), with a price of €5.648 at 29 March 2019 versus €4.95 at 31 December 2018.

New record high of €5.660 registered on 26 March 2019.

Finance

April 2019: launch of a new €500m green bond issue with a 7-year term and a 1% coupon.

Back-up ESG-linked Revolving Credit Facility, totalling €1.5bn, agreed.

March 2019: Fitch confirms Terna's rating at one notch above Italy's sovereign rating.

January 2019: launch of a €250m green bond issue.

BUSINESS ENABLERS

People



46 new hires in the first quarter to support delivery of the 2019-2023 Strategic Plan, compared with 18 leavers.

Innovation



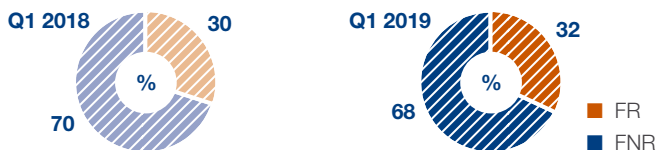
Terna's first ever Innovation Hub opens at Turin site, providing a platform for the Group's innovation development.

PERFORMANCE OF THE ELECTRICITY SYSTEM

Demand [TWh]

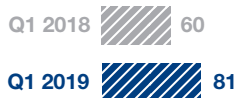


COVERAGE BY RENEWABLE SOURCES*



(*) Provisional data. RS: renewable sources; NRS: non-renewable sources.

RENS quality [MWh]



MAJOR INCIDENTS

There were no major incidents affecting performance in Q1 2019.

Cost of quality [€m]



COST ALLOCATION Q1 2019



(*) Fund for Exceptional Events.



INTRODUCTION

The Terna Group's consolidated interim report for the three months ended 31 March 2019, which has not been audited, is prepared on a voluntary basis, pursuant to art. 82-ter of the CONSOB's Regulations for Issuers (as amended by CONSOB Resolution 19770 of 26 October 2016).

Contents



| | |
|------------------------------|----------|
| The Terna Group | 6 |
| The Company and our strategy | 6 |
| The structure of the Group | 9 |



| | |
|---------------------------------------|-----------|
| The energy environment | 10 |
| Energy demand and production in Italy | 10 |



| | |
|-------------------------------|-----------|
| The Group's business | 12 |
| Regulated Activities in Italy | 12 |
| Non-regulated Activities | 16 |
| International Activities | 18 |
| Business enablers | 20 |



| | |
|--|-----------|
| Performance | 23 |
| Financial review for Q1 2019 | 23 |
| Terna's shares | 31 |
| Outlook | 33 |
| Declaration of the manager responsible for financial reporting | 34 |



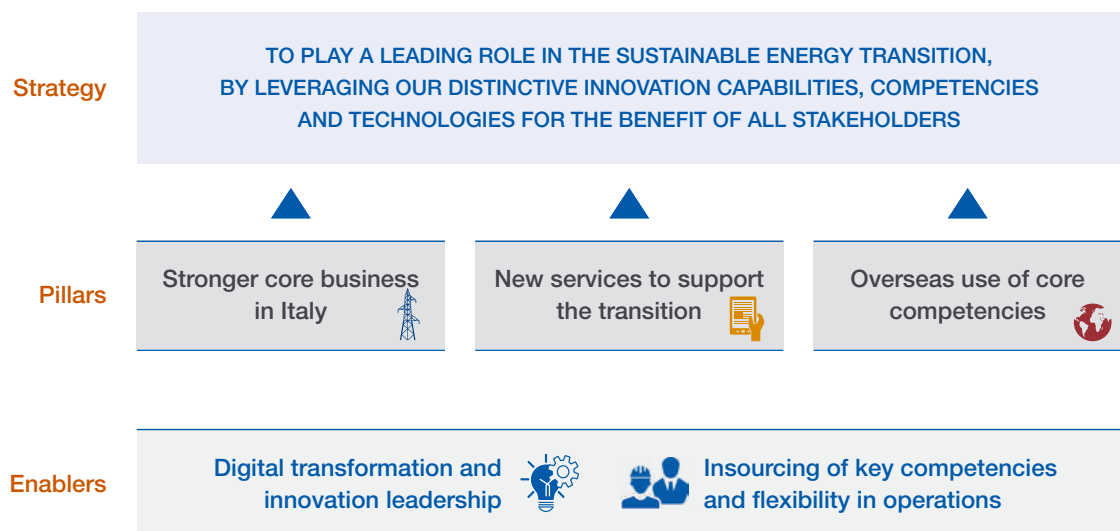
| | |
|----------------|-----------|
| Annexes | 35 |
|----------------|-----------|

The Company and our strategy

The Terna Group's main activities are the transmission and dispatching of electricity in Italy. Terna performs these activities in its role as the Italian TSO (Transmission System Operator and ISO (Independent System Operator), operating under a monopoly arrangement and a government concession.

The electricity sector is rapidly evolving as a result of the radical transition underway, which aims to achieve challenging objectives linked to sustainability, competitiveness and security. In particular, the expected increase in global electricity consumption, in a context of progressive decarbonisation, will see strong development of renewables, resulting in a growing need to integrate them within the electricity system. The pursuit of energy security by strengthening interconnections, the development of power grid resilience and, finally, greater competitiveness in the market, will be the determining factors in managing complex trading relations between TSOs and other parties operating within the system.

In this context, Terna has redesigned the strategy set out in the 2018-2022 Plan by further stepping up infrastructure investment to meet the new requirements of the electricity system, as part of an integrated approach based on sustainability values, community engagement, skills development and the promotion of innovation.



The guidelines identified for the Group's various strategic business areas have been divided into appropriate priority actions to be carried out over the life of the Plan.

- **Regulated Activities in Italy:** to give top priority to all the activities that enable Italy to tackle its energy challenges in a safe, efficient and sustainable way by leveraging the specific characteristics of local areas;
 - > the system needs a new investment drive to respond to developing needs, with a focus on maximising long-term use and sustainability. The role of proactive system operator in defining the grid's structure should also be strengthened by combining Terna's specialist expertise with the experience gained in the most advanced markets.
- **Non-regulated Activities:** to launch new services to support the energy transition, taking advantage of opportunities beyond our core activities, to be pursued in line with Terna's mission, and if distinctive and/or of high added value;
 - > as an energy solutions provider, the aim is to develop services for companies, taking advantage of value added market opportunities for traditional and renewable energy customers. The connectivity business will continue to pursue opportunities based on leveraging the Group's infrastructure assets.
- **International Activities:** to leverage the core competencies developed in Italy as a TSO through growth opportunities overseas;
 - > International Activities will focus on the execution of projects in progress and the management of projects in operation, taking advantage of the Group's specialist expertise by leveraging the new organisational structure. Among the priority actions, the main focus will be on selecting international growth opportunities with a high technological content (a key aspect for Terna) and involving potential agreements/partnerships, including the management of assets without the need to tie up large amounts of capital.

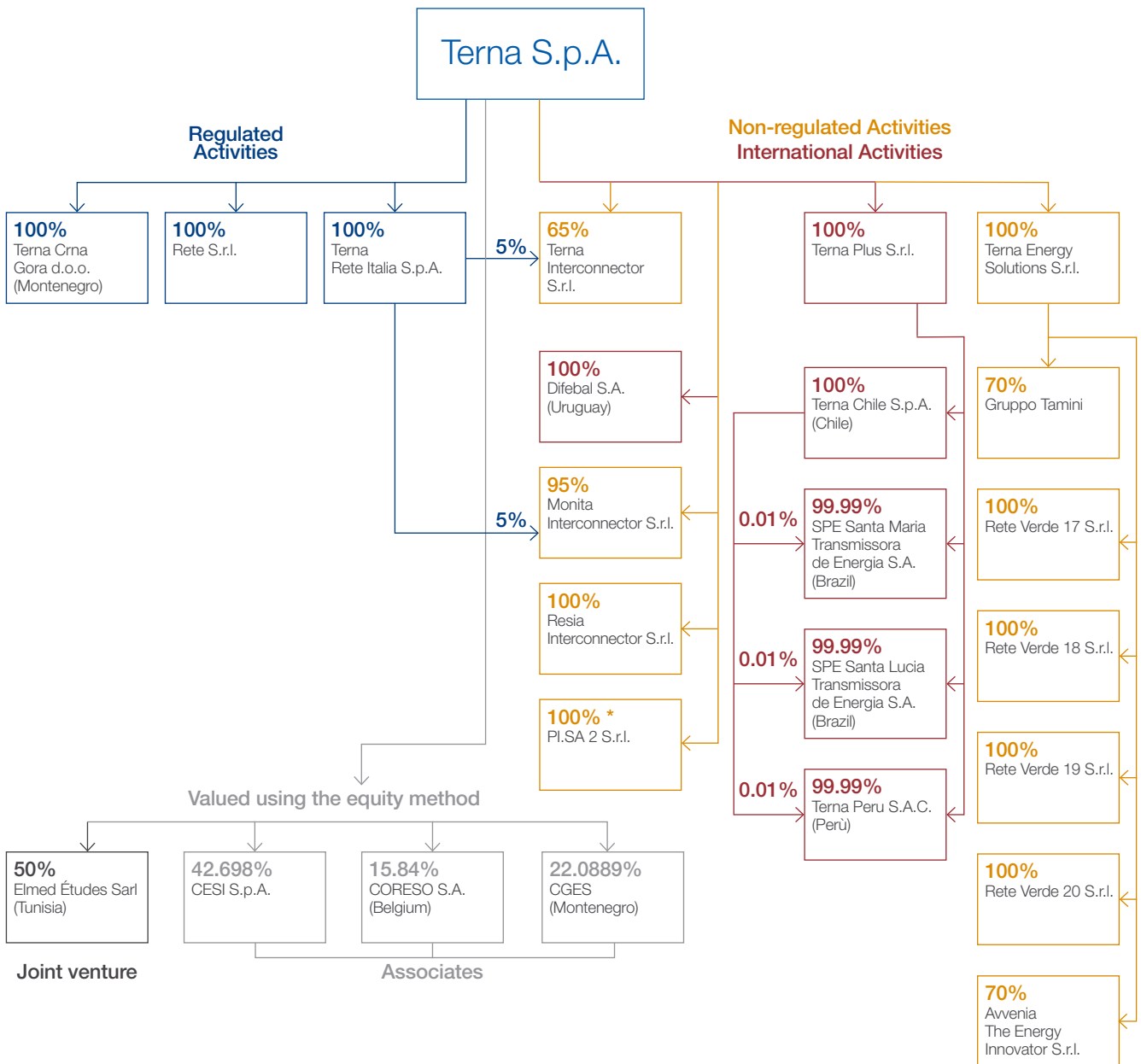
A key driver of this strategy will be investment in the innovation and digital solutions needed to facilitate proactive management of the system. Attention will also be paid to the development and insourcing of the strategic skills required to cope with projects of growing size and complexity.

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



The structure of the Group

The structure of the Terna Group at 31 March 2019 is shown below.



Compared with 31 December 2018:

* a new wholly owned subsidiary of Terna S.p.A., named PI.SA.2 S.r.l., was established on **15 February 2019**, following a restructuring of the Regulated Activities relating to the Italy-France interconnector.

Electricity demand and production in Italy

Electricity demand

Demand for electricity in Italy amounted to 80,343 GWh in the first quarter of 2019, a decrease of 1.0% compared with the same period of 2018.

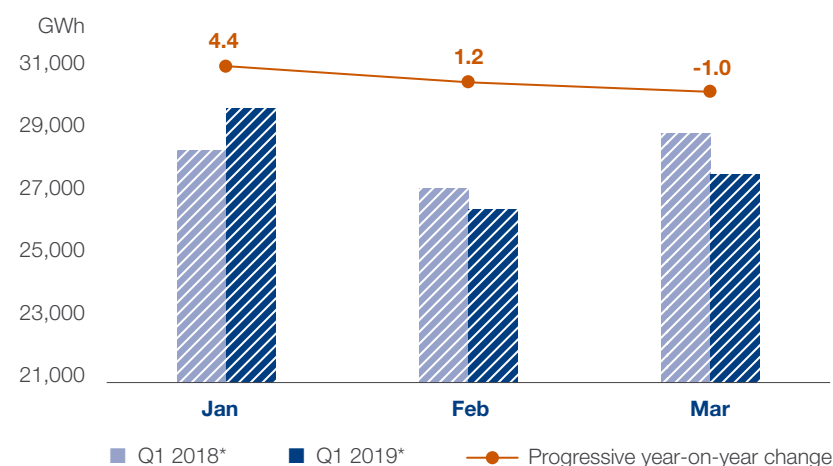
| ELECTRICITY BALANCE IN ITALY (GWH)* | Q1 2019 | Q1 2018 | CHANGE | % CHANGE |
|---|----------------|---------------|--------------|---------------|
| Net production | 70,565 | 68,291 | 2,274 | 3.3% |
| From overseas suppliers (imports) | 11,700 | 14,242 | (2,542) | (17.8%) |
| Sold to overseas customers (exports) | (1,272) | (705) | (567) | 80.4% |
| For use in pumping** | (652) | (701) | 49 | (7.0%) |
| Total demand in Italy | 80,341 | 81,127 | (786) | (1.0%) |

* Provisional data. Does not include demand for energy for ancillary services related to electricity production.

** Electricity used for pumping water, for sole subsequent use in electricity production.

Monthly demand for electricity in Italy in the first three months of 2019 is slightly down compared with the same period of 2018, with the exception of January, when demand rose compared with the same month in 2018, due primarily to particularly cold weather in this period.

MONTHLY DEMAND FOR ELECTRICITY IN ITALY

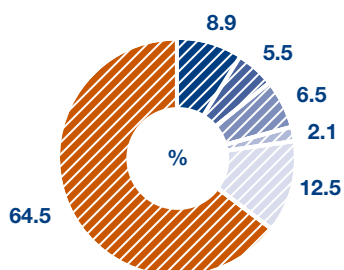


* Provisional data.

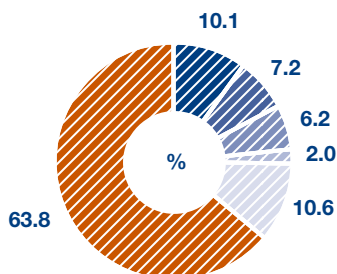
Meeting demand and energy production

NET ELECTRICITY PRODUCTION BY SOURCE

Q1 2018*
68.3 TWh



Q1 2019*
70.6 TWh



- Net wind production
- Net photovoltaic production
- Net biomass production
- Net geothermal production
- Net hydroelectric production
- Net thermoelectric production

* Provisional data.

Overall, net production in Italy rose, compared with a sharp decline in net imports.

In the first quarter of 2019, approximately **32% of total energy demand was met by renewable energy sources**, up from the figure of 30% in the same period of 2018. This performance mainly reflects a significant increase in photovoltaic and wind production (up 36% and 16%, respectively), which more than offset the reduction in hydroelectric production (down 12%).

Regulated Activities in Italy

Transmission and dispatching

The Terna Group owns 99.7% of the NTG, which is among the most modern and technologically advanced transmission grids in Europe. We are the largest independent electricity transmission network operator in Europe and one of the world's leading operators, with around 72 thousand kilometres of high and very high-voltage lines. The Group is responsible for managing the flow of electricity through the grid in every part of Italy, with the aim of ensuring that there is a constant balance between the quantity of energy injected into the grid and demand, and guaranteeing continuity and accessibility of service for the population as a whole. We are also responsible for planning, construction and maintenance of the grid.

Capital expenditure

The Terna Group's total capital expenditure in the first quarter of 2019 amounts to **€164.4 million**, compared with the €141.6 million of the same period of the previous year (**up 16.1%**).

| (€m) | Q1 2019 | Q1 2018 | CHANGE | % CHANGE |
|--|--------------|--------------|--------------|---------------|
| Development Plan | 53.4 | 74.7 | (21.3) | (28.5) |
| Security Plan | 11.6 | 9.7 | 1.9 | 19.6 |
| Renewal Plan | 52.0 | 27.0 | 25.0 | 92.6 |
| - of which renewal of electricity assets | 44.4 | 21.8 | 22.6 | 103.7 |
| - of which functional separations | 7.6 | 5.2 | 2.4 | 46.2 |
| Other capital expenditure* | 27.4 | 5.5 | 21.9 | 398.2 |
| Total Regulated Assets | 144.4 | 116.9 | 27.5 | 23.5 |
| Non-regulated Assets* | 16.6 | 21.2 | (4.6) | (21.7) |
| Capitalised financial expenses | 3.4 | 3.5 | (0.1) | (2.9) |
| TOTAL CAPITAL EXPENDITURE | 164.4 | 141.6 | 22.8 | 16.1 |

* Includes impact of IFRS16.

In terms of **infrastructure entering service in the first quarter of 2019**, 2 km of new underground power line for the Port of Genoa was completed, as provided for in the Memorandum entered into by CDP, Fincantieri, the Ferrovie dello Stato group and SNAM with the Municipality of Genoa and Liguria Regional Authority, with the aim of supporting economic recovery and urban renewal in Genoa and its metropolitan area, which was badly hit by the collapse of the Morandi road bridge last August. As part of plans to reorganise the grid serving the city of Genoa, Terna is committed to implementing a programme of modernisation for the city's transmission grid and working in partnership with the University of Genoa in order to promote studies or research in the energy and environmental fields.

The upgraded Monte Narbone electricity substation in the province of Agrigento also entered service during the period.

MAIN WORKS CARRIED OUT DURING THE PERIOD

> DEVELOPMENT PLAN - €53.4 MILLION

- **Piossasco converter station:** the related civil works and the main buildings have been completed, as has production of key equipment for the station (converters and transformers), which are currently being installed.
- **Cable connection,** cables have been laid over a 51 km section, representing over 50% of the connection as a whole:
 - **Section from the station to the motorway:** completed;
 - **Upper and lower sections (A32 motorway):** 24.7 km of trenches have been excavated (civil works) out of a total of approximately 45 km and 13.3 km of cable has been laid;
 - **Middle section** (avoiding the A32 motorway): 22.8 km of trenches have been excavated (civil works) and 19.7 km of cable has been laid out of a total of approximately 25 km;
 - **Frejus:** 4 km of civil works.

Italy-France interconnector
(€5.8 million)

The initial connection has been completed and work on assembling the electromechanical equipment for the converter stations is nearing completion.

Italy-Montenegro interconnector
(€3 million)

Energisation tests for the alternating current (AC) section at the Cepagatti and Kotor converter stations on the Italian and Montenegrin sides, respectively, is in progress.

150kV cable linking Rome South-Laurentina 1 and 2: excavation work and laying of the new cables is in progress. Four out of seven sections have been excavated and three cables laid.

Reorganisation in Rome
(€2.7 million)

Main 150kV Laurentina-Nomentana power line: excavation work and laying of the new cables for the Laurentina-Ostiense section and work on the detailed design for the remaining sections is in progress. Excavation of two of six sections of cable A "Laurentina-Ostiense" has been completed.

Forming part of a plan that aims to increase the volume of energy from renewable energy sources injected into the grid and reduce current and potential congestion in the HV/VHV grid, this project is financed by the Ministry for Economic Development.

Benevento III- Pontelandolfo
primary substation
(€1.9 million)

Work on the line is in progress, with 14 foundations and 4 pylons out of 43 completed. 95% of the materials on order has been delivered.

The overhead section of the new 132kV Schio-Arsiero line was completed in 2018, whilst work on the underground section is underway, with approximately 20% of the cable laid.

Upgrade of Schio-Arsiero grid
(€1.6 million)

> SECURITY PLAN - €11.6 MILLION

This project aims to boost the availability of data on the grid in order to make it easier to monitor and manage the security of the electricity system, by increasing and expanding the fibre optic network.

Fiber for the Grid
(€6.2 million)

3 electricity substations in the NTG were connected and lit in the first quarter of 2019 (making a total of 399 substations).

> RENEWAL PLAN - €52.0 MILLION

The Group's has maintained its commitment to renewing electricity assets with the aim of improving service quality, adopting the most modern market solutions in terms of plant digitisation and in terms of better environmental compatibility with the host environment.

Renewal of electricity assets
(€44.4 million)

Work continued on the project involving the separation of Rete S.r.l.'s substations, aimed at progressive integration of the HV substations acquired from FSI S.p.A. in 2015 into the grid. A further 3 electricity substations were integrated in the first quarter of 2019 (making a total of 242 substations out of the 350 acquired).

Separation of Rete S.r.l.'s
substations
(€7.6 million)

Quality of service

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

Terna monitors service continuity through various indicators defined by ARERA (Resolution 250/04) and in Terna's Grid Code.

These continuity indicators are significant for the system, as they monitor the frequency and impact of events that have occurred on the electricity grid as a result of faults or due to external factors, such as weather events. In all cases, the period of observation is three years, a period in which annual targets have not been exceeded, testifying to the high quality of service achieved. There were no major events with an impact on service continuity in the first quarter of 2019.

CONTINUITY INDICATORS USED

RENS*

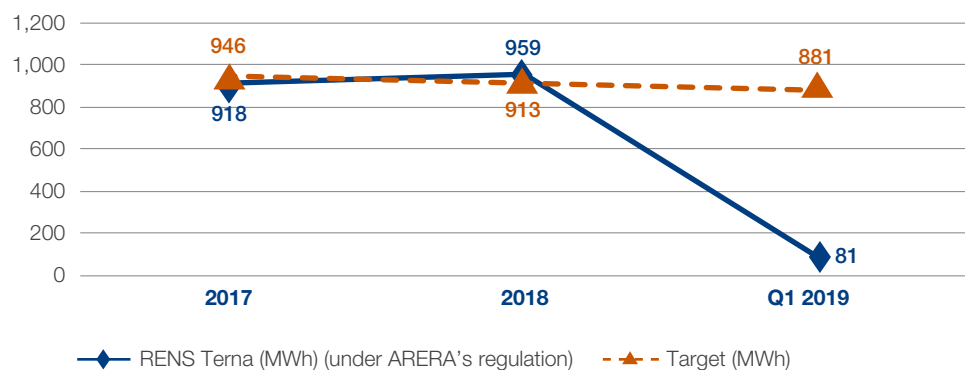
What it measures

Energy not supplied following events affecting the relevant grid.**

How it is calculated

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

NTG RENS INDICATOR¹



The "NTG RENS" indicator for the period from January to March 2019, based on preliminary data, amounts to approximately 81 MWh (compared with an annual target of approximately 881 MWh set by ARERA).

¹ The target for 2016–2023 has been set as an average of the 2012–2015 NTG RENS indicator, referred to in ARERA Resolution 653/15/R/eel, with a 3.5% improvement in performance required for each year compared with the previous one. The figures for 2018 and 2019 are provisional and the figure for 2017 was updated following ARERA Resolution 106/19/R/EEL.

* Regulated Energy Not Supplied.

** The "relevant grid" refers to all of the high-voltage and very high-voltage network.

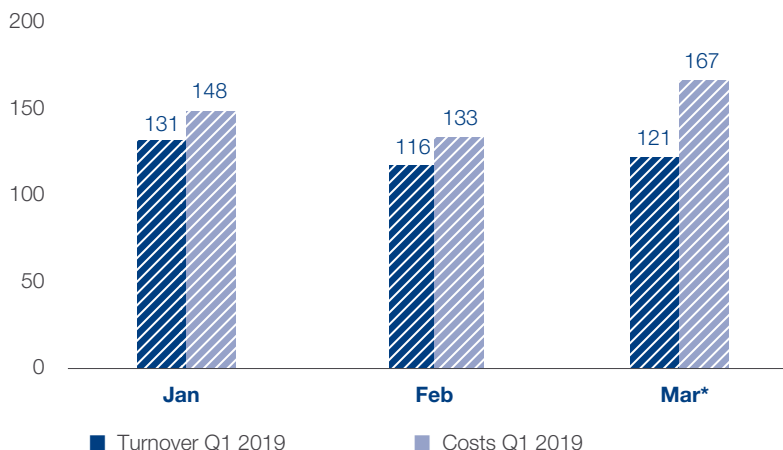
Electricity cost trends

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

The total uplift was €448 million in the first quarter of 2019 (provisional data), down €478 million on the same period of the previous year. This reflects reductions in imbalance costs, in the bonus on contracts linked to the provision of essential services and in start-up payments, partially offset by a slight increase in the cost of using the Dispatching Services Market.

MONTHLY PERFORMANCE OF REVENUE AND UPLIFT COSTS

€m



* Provisional data.

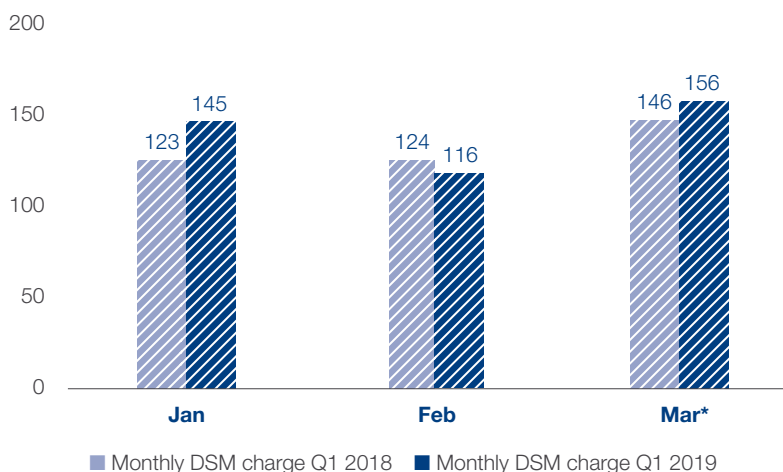
Dispatching Services Market

The net charge for using the DSM was €417 million in the first quarter of 2019 (provisional data), slightly up on the same period of the previous year (€393 million).

The increase primarily reflects an increase in the cost of selection following the resolution of local technical constraints and in the related prices.

MONTHLY DSM COSTS

€m



* Provisional data.

Terna uses the Dispatching Services Market (DSM) to procure dispatching resources to guarantee the security and adequacy of the electricity system.

Non-regulated Activities

The main areas in which these activities are developed are:

- **CONNECTIVITY**
- **ENERGY SOLUTIONS**
- **PRIVATE INTERCONNECTORS PURSUANT TO LAW 99/2009**
- **TRANSFORMERS - TAMINI GROUP**

CONNECTIVITY

Fibre

Open Fiber: 5,849 km of fibre network is scheduled for delivery in 2019, including a first pair of 4,885 km and a second pair of 964 km. 240 km of fibre relating to the 2018 delivery has also been scheduled. On 22 March 2019, the customer was sent a letter advising that 152 km of the first pair of fibre was ready for testing. On 12 February 2019, a purchase order was received from ALPERIA FIBER S.r.l. for a total of 71.5 km.

Smart Towers

Installation of the facilities and new communications equipment for the 11 Smart Towers forming part of the pilot project in Sicily is nearing completion.

The Edge computing platforms for the Sorgente and Misterbianco electricity substations have been installed. These are to be used in low-latency data processing, using hardware made available under a loan for use agreement with Cisco.

A Memorandum of Understanding has been signed with Waterview, a start-up selected as part of the second edition of the Next Energy project to develop special vertical solutions.

FWA pylons

An agreement is in the process of being signed with the customer, Open Fiber, regarding the activation of up to 500 sites using FWA (Fixed Wireless Access) technology in the three-year period 2019-2022 in order to extract value from pylons.

ENERGY SOLUTIONS

Energy efficiency

A non-fossil heat recovery steam generator: a new steam production plant was delivered to Acciaierie Speciali di Terni ("AST").

This is an innovative energy efficiency project, the first of its kind in Italy, designed and implemented by Avenia. The plant is designed to boost the qualitative and environmental performance of production, enabling AST to produce up to 70% of the steam needed to manufacture stainless steel without using fossil fuels and cutting the quantity of CO₂ released into the atmosphere by 30 thousand tonnes a year.

The work, carried out in record time without having to shut down production, involved around a hundred of Avenia's specialist engineers and technicians and a number of local firms. The total investment amounted to €4 million.

EPC

Metering equipment: work is underway on the contract for the provision of metering equipment to RFI. Finalisation of the related implementation agreements is in progress.

Maintenance

Control centre for Non-regulated Activities: a remote monitoring system for the assets operated by Terna is being prepared.

Smart Islands

Giannutri: final testing and delivery of a hybrid photovoltaic/battery storage system for the island will be conducted shortly.

Pantelleria: development, on the island, of a photovoltaic plant with up to 5 MWp of capacity. The agreement between Terna and the Operator, governing the award of a contract for the design, authorisation and construction of the plant and purchase of the necessary land, is currently being negotiated.

PRIVATE INTERCONNECTORS PURSUANT TO LAW 99/2009

Having obtained approval from ARERA, the project is awaiting clearance for the related exemptions.

As regards implementation, the laying and protection of the first pole of the submarine cable between Italy (Pescara) and Montenegro (Kotor) has been completed, as has the laying of the terrestrial cables. The converters in both Italy and Montenegro are at an advanced stage of completion.

[Italy-Montenegro](#)

The Group has continued with construction of the private line on behalf of Piemonte Savoia S.r.l..

Approximately 23 km of civil works were completed and 12 km of cable laid for the Upper and Lower sections along the A32 motorway in the first quarter of 2019, whilst around 22 km of civil works and approximately 20 km of cable for the Middle section were also completed. Erection of the main buildings for the Piossasco converter station has been completed. Production of key equipment is in progress.

[Italy-France](#)

TRANSFORMERS - TAMINI GROUP

Tamini received orders for transformers worth approximately €25 million in the first quarter of 2019, slightly down on 2018. Service orders are also up, rising approximately 25% compared with 2018.

[Order book](#)

The value of production from transformers in the first three months of 2019 is in line with expectations. In recent months, the production, trial and successful short-circuit testing of a 400MVA, 400/155kV transformer was carried out. This was one of the biggest transformers ever subject to short-circuit testing.

[Q1 2019 results](#)

International Activities

Overseas initiatives of interest to the Terna Group are:

- **Concessions:** the construction and operation of transmission systems abroad by taking part in international concession and/or secondary market awards;
- **Technical assistance:** the provision of consulting and technical assistance services regarding a TSO's core activities, as well as the definition and implementation of regulatory and market frameworks in the local energy context;
- **Energy solutions:** high value-added non-traditional activities, above all in the fields of energy storage and smart solutions;
- **EPC Management:** infrastructure management and the implementation of projects overseas.

NEW ACQUISITIONS IN BRAZIL

On **12 April 2019**, the Group signed a preliminary agreement with Construtora Quebec for the acquisition of two new concessions for the construction of power lines in Brazil. This will involve construction of 350 km of electricity infrastructure in the State of Minas Gerais, with the aim of boosting the efficiency, security and sustainability of local grids and facilitate the full integration of renewable sources. The agreement was signed through the subsidiary, Terna Plus, and provides for the acquisition of control of two thirty-year concessions. The total value of the agreement, including the cost of designing and building the infrastructure, is approximately US\$130 million and this will be funded mainly through project financing.

Transaction closing is subject to fulfilment of certain conditions, including the receipt of clearance from the regulator, ANEEL, and from Brazil's antitrust authority, CADE (Conselho Administrativo de Defesa Econômica).

INITIATIVES IN PROGRESS IN LATIN AMERICA

Work continued on the construction of the 213 km Melo-Tacuarembò 500kV transmission line in the first quarter of 2019.



Uruguay

At the end of March, more than 90% of the foundations had been completed and over 70% of the pylons installed.

Over 70% of the works have been carried out, with completion expected by the end of 2019.

Construction and operation of the lines and substations for the two concessions, Santa Maria Transmissora de Energia (SMTE) in the State of Rio Grande do Sul and Santa Lucia Transmissora de Energia (SLTE) in the State of Mato Grosso, continued in the first quarter of 2019.



Brazil

SMTE concession: on 3 October 2018, the concessions' entry into commercial service was formally authorised by ONS (Operador Nacional Do Sistema Eletrico - the Brazilian regulator), and operation and maintenance activities regarding the concessions are in progress. 77% of the line was built using single-pole cable-stayed pylons with a low environmental impact.

SLTE concession: 99% of the works have been carried out, with completion expected during the first half of 2019. 75% of the line was built using single-pole cable-stayed pylons with a low environmental impact. Final checks for the project are in progress and consent has been obtained for completion of the link connecting the line with the substation at Cuiabà and for the subsequent entry into commercial operation. The operation and maintenance contract has also been signed.

Work on construction of 132 km of new 138kV lines between Aguaytia and Pucallpa is continuing.



Peru

Environmental certification (Senace) was issued in the first quarter of 2019.

The process of acquiring the related easements is underway and work on preparing the site began in March.

The procurement of transmission line materials also continued.

The project is expected to be completed by the end of 2020.

As part of Terna's voluntary initiatives designed to support local communities in the areas in which the Group operates, on 27 February 2019, the subsidiary, Terna Plus, signed an agreement with Parish of Chacas prior to starting work on a new power line that will increase the availability of renewable energy and support deprived people in the Andes region. The agreement envisages construction of 16 km of HV power line connecting the Huallin hydroelectric plant owned by the Parish, with Peru's national grid, as well as the supply of substation materials and a Tamini transformer. The infrastructure will boost the quantity of renewable energy transported, benefitting both the local community and all the other communities in need that Operation Mato Grosso is designed to help. A portion of the surplus energy produced by the power plant will be used for initiatives promoted by the Parish in order to support people living in the area.

Business enablers

Our people

People are Terna's most important asset, and one of the enabling factors in the Strategic Plan. Each of us brings skills and experience that can help to increase the value of the Company. Trust, passion and responsibility are our values.

| THE WORKFORCE | AT 31 MARCH 2019 | AT 31 DECEMBER 2018 | CHANGE |
|---------------------|---------------------|------------------------|-----------|
| Senior managers | 76 | 67 | 9 |
| Middle managers | 634 | 638 | (4) |
| Office staff | 2,318 | 2,290 | 28 |
| Blue-collar workers | 1,252 | 1,257 | (5) |
| TOTAL | 4,280 | 4,252 | 28 |

The increase in the Terna Group's workforce at 31 March 2019 reflects 46 new hires and 18 people leaving the Group. The number of new recruits is in line with the initiatives set out in the 2019-2023 Strategic Plan.

INITIATIVES IN THE FIRST QUARTER OF 2019

Recruitment and selection

The **Onboarding Terna** project, launched at the end of 2018, with the aim of supporting employee engagement and strengthening the sense of belonging and inclusion, proceeded.

The project has already led to 25 two-day experiential training courses, entitled "We're On Board - let's network to grow together", in the first quarter for people hired since 2015. In mid-April, a second round of courses will be held for people hired in 2019.

Training

Over 47,000 hours of training was provided in the first quarter of 2019.

The training programme included in the "Zero Accidents" project was launched in March and has already involved specific workshops on behavioural safety for personnel responsible for Prevention and Protection and safety coordinators for Transmission Operations around the country. 60 courses for technicians and operational staff will also be held between March and October.

A series of workshops on Scenarios and Change came to a conclusion in March. This initiative saw management engaged in meetings with leading external testimonials from the academic, business and cultural worlds to focus on topics concerning innovation, sustainability and developing market scenarios.

Finally, the period also witnessed a number of important training initiatives designed to support the development of the technical and operational skills of newly hired personnel and focusing on safety and the environment, partly with the aim of ensuring compliance with the related statutory requirements and company procedures.

Company welfare

As part of the Company's welfare initiatives for families, for the second year running, the children of employees in their penultimate year of secondary school were offered the chance to take part in the **Orientation Summer School** run by the **Luiss University**. This involves a week of academic lessons, application cases and working groups, with board and lodging provided by Luiss within its own accommodation facilities.

ORGANISATION

The main organisational changes decided on in the first half of 2019 include the definition of the organisational structure of the Innovation, Digital & Energy Solutions department, set up to oversee the Group's innovation and support other departments in the search for innovative solutions designed to facilitate the energy transition and enable the Group's digital transformation.

Innovation

Innovation and digital transformation are essential in an increasingly complex energy sector. Decisions regarding future development focus on the technology trends most relevant to our business.

The steps taken in this regard include implementation of an **Open Innovation** process and the development of a structured **Innovation Plan**.

The Innovation Plan organises the innovation flow in a consistent manner, from the birth of new ideas through to development of the projects emerging from the R&D process.

New initiatives, which may be driven by requirements within the Company or by the Open Innovation process, are classified within a coherent framework, based on the principal new technologies earmarked by Terna as being capable of influencing both current and future innovation:

- Internet of Things: Industrial IoT, distributed sensors and wearables;
- Energy Tech: technologies linked to the new Energy Resources (Storage, Demand Side Response, E-mobility) and Smart Grids;
- Advanced Materials: nanotechnologies, biomimicry and smart dust.

INNOVATION PLAN - INITIATIVES IN THE FIRST QUARTER OF 2019

The first Innovation Hub was opened at the Turin Transmission Operations unit on 9 April 2019. This is a platform for developing innovation projects, focusing on the IoT (Internet of Things) and advanced monitoring processes for electricity transmission infrastructure.

The Hub will focus on four areas of interest (satellites, drones, robots and advanced sensors) with a view to developing increasingly dynamic and innovative methods of controlling the grid in order to guarantee the system's efficiency and security. Thanks to centralised data management it will be possible, among other things, to carry out predictive maintenance of assets, thereby cutting costs and boosting the reliability of the transmission grid.

Work on the **"OSMOSE** - Optimal System-Mix of Flexibility Solutions for European Electricity" project, launch in January 2018 as part of the Horizon 2020 initiative, continued. The project aims to identify and demonstrate the technical feasibility of an "optimal" mix of flexibility solutions to maximise the technical and financial efficiency of the European electricity system, thus guaranteeing its security and reliability.

At 31 March 2019, the first two key deliverables were achieved: the D5.1 "Techno-economic analysis of DSR and RES", regarding a technical and economic analysis of grid services to be tested when running the demonstrator and D5.2 "General technical specification for EMS and physical demo implementation", containing detailed hardware and software specifications for implementation of the demonstrator itself.

Terna's role is to lead Working Package 5 (WP5, one of the 4 demonstrators of actual grid situations to be developed in Italy along a 150kV portion of the NTG between Basilicata and Puglia, and coordinates the following Italian partners: ENSIEL, RSE, COMPENDIA, ABB, IBM, Engineering, Enel and Edison. WP5 aims to develop a new Energy Management System to be trialled over almost a year of live testing, which will involve the combined, "optimal" use of Dynamic Thermal Rating, Power Flow Control devices, new forecasting techniques and demand side response resources, with the aim of giving the electricity system greater flexibility.

Innovation Hub

Origination and R&D projects

OPEN INNOVATION - INITIATIVES IN THE FIRST QUARTER OF 2019

Next Energy 3rd edition

As part of the third edition of the **Next Energy** programme, 10 start-ups were selected at an event held in January 2019. The chosen start-ups have been given access to incubators for up to three months and the winner will receive a €50,000 voucher to be exchanged for services.

5 start-ups were selected to take part in an engagement programme lasting up to four months with the aim of creating and testing a pilot project.

Academy

In March 2019, the research project, to be carried out as part of the five-year partnership between Terna and the California's **Stanford University**, got underway. The 6-month project, which will involve a member of Terna's personnel, selected in 2018, will look at adoption of a nodal market model in Italy.

MoU with Snam

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. In accordance with the legislative and regulatory framework, the agreement regards the development of shared scenarios for use in designing investment plans, the exploitation of convergence between the gas and electricity systems, the use of programmable renewable sources for electricity generation and the development of innovative technological solutions for the analysis and monitoring of infrastructure.

Wave energy: agreement with ENI, CDP and Fincantieri

On 19 April 2019, Terna, Eni, CDP and Fincantieri signed a non-binding agreement for the development and **construction on an industrial scale of wave farms**. This confirms Terna's commitment to sustainable innovation as a means of supporting the energy transition.

The agreement envisages that each company will contribute their expertise in order to transform the pilot project for ENI's Inertial Sea Wave Energy Converter (ISWEC), a system installed off the Italian coast near Ravenna and currently in production, into a project that can be duplicated on an industrial scale and will thus be ready for immediate application and use. Terna will contribute to the development of studies looking at how to integrate this system of energy production into the electricity grid, including integration with its integration with hybrid systems consisting of conventional power plants, photovoltaic plants and storage systems.

Financial review

for Q1 2019

In order to report on the Terna Group's operating performance and analyse its financial position, this section includes management accounts prepared in line with industry best practice. These reclassified statements contain alternative performance measures (APMs, as defined in the guidance provided by ESMA/2015/1415), which management considers to be useful in assessing the performance of the Group and representative of the business's operating results and financial position.

The criteria used in constructing these indicators are the same as those used in the annual report. Details are provided in the Annex, "Alternative performance measures (APMs)".

Basis of presentation

The measurement and recognition criteria applied in this Interim Report are consistent with those adopted in the consolidated financial statements for the year ended 31 December 2018, with the exception of the application of the new accounting standard, *IFRS 16 - Leases*, effective from 1 January 2019, which deals with the accounting treatment of leases. The standard was applied in accordance with the modified retrospective approach, with prospective measurement of lease assets and liabilities at the date of first-time adoption, without restating comparative amounts.

In addition, in response to the entry into effect of the new IFRS, a number of comparative amounts in the income statement have been reclassified in order to improve presentation, without changing the comparative result.

The Group's reclassified income statement

The Terna Group's operating results for the first quarter of 2019, compared with those for the same period of the previous year, are summarised in the following reclassified income statement.

| | (€m) | | | |
|---|--------------|--------------|-------------|-------------|
| | Q1 2019 | Q1 2018 | CHANGE | % CHANGE |
| TOTAL REVENUE | 537.0 | 523.1 | 13.9 | 2.7% |
| - Regulated revenue in Italy | 499.9 | 487.6 | 12.3 | 2.5% |
| <i>of which Revenue from construction services performed under concession</i> | 2.0 | 3.1 | (1.1) | (35.5%) |
| - Non-Regulated revenue | 32.9 | 32.4 | 0.5 | 1.5% |
| - International revenue* | 4.2 | 3.1 | 1.1 | 35.5% |
| TOTAL OPERATING COSTS | 116.8 | 113.8 | 3.0 | 2.6% |
| - Personnel expenses | 63.0 | 57.7 | 5.3 | 9.2% |
| - Cost of services, leases and rentals | 37.0 | 34.3 | 2.7 | 7.9% |
| - Materials | 9.7 | 8.6 | 1.1 | 12.8% |
| - Other costs | 3.7 | 6.7 | (3.0) | (44.8%) |
| - Quality of service | 1.4 | 3.4 | (2.0) | (58.8%) |
| - Cost of construction services performed under concession | 2.0 | 3.1 | (1.1) | (35.5%) |
| GROSS OPERATING PROFIT (EBITDA) | 420.2 | 409.3 | 10.9 | 2.7% |
| - Amortisation, depreciation and impairment losses | 140.4 | 132.5 | 7.9 | 6.0% |
| OPERATING PROFIT (EBIT) | 279.8 | 276.8 | 3.0 | 1.1% |
| - Net financial income/(expenses) | (15.9) | (24.6) | 8.7 | (35.4%) |
| PROFIT/(LOSS) BEFORE TAX | 263.9 | 252.2 | 11.7 | 4.6% |
| - Income tax expense for the period | 77.9 | 68.5 | 9.4 | 13.7% |
| PROFIT FOR THE PERIOD | 186.0 | 183.7 | 2.3 | 1.3% |
| - Profit/(Loss) attributable to non-controlling interests | - | 1.0 | (1.0) | (100.0%) |
| PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT | 186.0 | 182.7 | 3.3 | 1.8% |

* Includes the margin earned on services provided under concession overseas.

| | (€m) | | |
|---------------------------|--------------|--------------|-------------|
| | Q1 2019 | Q1 2018 | CHANGE |
| Regulated EBITDA in Italy | 405.4 | 392.8 | 12.6 |
| Non-regulated EBITDA | 12.3 | 15.0 | (2.7) |
| International EBITDA | 2.5 | 1.5 | 1.0 |
| EBITDA | 420.2 | 409.3 | 10.9 |

Gross operating profit (EBITDA) for the first quarter of 2019 amounts to **€420.2 million**, up €10.9 million on the €409.3 million of the first quarter of 2018. This primarily reflects an improvement in EBITDA from Regulated Activities in Italy.

Revenue

| | (€m) | | |
|--|--------------|--------------|-------------|
| | Q1 2019 | Q1 2018 | CHANGE |
| REGULATED ACTIVITIES IN ITALY | | | |
| Tariff revenue | 492.6 | 479.9 | 12.7 |
| - Transmission revenue | 464.4 | 451.4 | 13.0 |
| - Dispatching, metering and other revenue | 28.2 | 28.5 | (0.3) |
| Other regulated revenue | 5.3 | 4.6 | 0.7 |
| Revenue from construction services performed under concession in Italy | 2.0 | 3.1 | (1.1) |
| TOTAL | 499.9 | 487.6 | 12.3 |

Regulated revenue in Italy is up €12.3 million compared with the same period of the previous year. This reflects adjustment of the Group's WACC² and an increase in RAB, after the impact of the reduced volume of electricity on dispatching revenue.

² The real pre-tax regulatory WACC for the transmission service was 5.3% for the period 2016-2018, and is set at **5.6%** for the period 2019-2021.

| | (€m) | | |
|-----------------------------|-------------|-------------|------------|
| NON-REGULATED ACTIVITIES | Q1 2019 | Q1 2018 | CHANGE |
| Tamini | 13.9 | 12.9 | 1.0 |
| Connectivity | 7.6 | 8.5 | (0.9) |
| Energy Solutions | 9.4 | 9.0 | 0.4 |
| Italy-France interconnector | 2.0 | 2.0 | - |
| TOTAL | 32.9 | 32.4 | 0.5 |

Non-Regulated revenue, totalling €32.9 million, is broadly in line with the same period of the previous year.

International revenue is up €1.1 million, reflecting revenue generated by investment in assets held under concession in **Brazil** (up €2.7 million), after taking account of the greater amount of revenue earned on construction of the line in **Uruguay** in the first quarter of 2018 (a reduction of €1.1 million).

Costs

Operating costs have increased €3.0 million compared with the first quarter of the previous year, broadly due to increased personnel expenses (up €5.3 million), primarily reflecting an increase in the average workforce, partially offset by higher quality of service costs recognised in the first quarter of 2018 (down €2.0 million), above all reflecting mitigation costs and provisions to the Fund for Exceptional Events following two outages caused by production plants located in Tuscany and Lazio. The performances of service costs (up €2.7 million) and other operating costs (down €3.0 million) reflect the differing stages of completion of contract work in the two comparative periods.

Amortisation, depreciation and impairment losses for the period amount to €140.4 million, up €7.9 million on the first quarter of 2018, primarily due to the entry into service of new plant.

Operating profit (**EBIT**), after amortisation, depreciation and impairment losses, amounts to **€279.8 million**, compared with €276.8 million for the first quarter of 2018 (up 1.1%).

Net financial expenses for the period total €15.9 million and are primarily attributable to the Parent Company (€15.2 million), marking a decrease of €8.7 million compared with the €24.6 million of the first quarter of 2018. This primarily reflects the seasonal nature of inflation and increased returns on the investment of liquidity and on short-term financial assets.

After net financial expenses, the **profit before tax** amounts to **€263.9 million**, an increase of €11.7 million (4.6%) compared with the same period of 2018.

Income tax expense for the period totals €77.9 million and is up €9.4 million (13.7%) on the same period of 2018, primarily due to the recognition of tax-exempt income during the comparative period. The tax rate is 29.5%, compared with 27.2% for the first quarter of 2018.

Profit for the period amounts to **€186.0 million**, up €2.3 million (1.3%) compared with the €183.7 million of the first quarter of 2018.

Profit for the period attributable to owners of the Parent (after excluding the share attributable to non-controlling interests) amounts to **€186.0 million**, up €3.3 million (1.8%) compared with the €182.7 million of the first quarter of 2018.

Cash flow

The above performance, combined with non-cash items and other cash flows from and for operating activities, has resulted in a cash inflow of €187.4 million, enabling the Group to finance a large part of its investing activities, totalling €164.4 million, and movements in equity, with the remainder financed by net debt, which totals €7,918.7 million, an increase of €19.3 million compared with the €7,899.4 million of 2018.

| | (€m) | |
|---|----------------------|----------------------|
| | CASH FLOW Q1 2019 | CASH FLOW Q1 2018 |
| - Profit for the period | 186.0 | 183.7 |
| - Amortisation, depreciation and impairment losses | 140.4 | 132.5 |
| - Net change in provisions | (29.0) | (10.4) |
| - Net losses/(gains) on sale of assets | (0.5) | (0.6) |
| Operating cash flow | 296.9 | 305.2 |
| - Change in net working capital | (105.6) | 49.8 |
| - Other changes in property, plant and equipment and intangible assets | 9.5 | (8.3) |
| - Change in investments | (1.3) | 0.2 |
| - Change in financial assets | (12.1) | (22.8) |
| Cash flow from operating activities | 187.4 | 324.1 |
| - Total capital expenditure | (164.4) | (141.6) |
| Free cash flow | 23.0 | 182.5 |
| - Cash flow hedge reserve after taxation and other movements in equity attributable to owners of the Parent | (42.3) | (8.1) |
| - Other movements in equity attributable to non-controlling interests | - | 4.3 |
| Change in net debt | (19.3) | 178.7 |

The Group's reclassified statement of financial position

The Terna Group's financial position at 31 March 2019 and 31 December 2018 is summarised below in the reclassified statement of financial position.

| | (€m) | | |
|---|---------------------|------------------------|--------------|
| | AT 31 MARCH 2019 | AT 31 DECEMBER 2018 | CHANGE |
| Total net non-current assets | 14,111.8 | 14,083.6 | 28.2 |
| - Intangible assets and goodwill | 511.0 | 519.4 | (8.4) |
| - Property, plant and equipment | 13,267.5 | 13,244.3 | 23.2 |
| - Financial assets | 333.3 | 319.9 | 13.4 |
| Total net working capital | (1,716.7) | (1,822.5) | 105.8 |
| - Net energy-related pass-through payables | (783.1) | (777.6) | (5.5) |
| - Net receivables resulting from Regulated Activities | 316.5 | 313.9 | 2.6 |
| - Net trade payables | (633.2) | (860.7) | 227.5 |
| - Net tax liabilities | (33.3) | 50.9 | (84.2) |
| - Other net liabilities | (583.6) | (549.0) | (34.6) |
| Gross invested capital | 12,395.1 | 12,261.1 | 134.0 |
| Sundry provisions | (278.5) | (307.5) | 29.0 |
| NET INVESTED CAPITAL | 12,116.6 | 11,953.6 | 163.0 |
| Equity attributable to owners of the Parent | 4,162.9 | 4,019.2 | 143.7 |
| Equity attributable to non-controlling interests | 35.0 | 35.0 | - |
| Net debt | 7,918.7 | 7,899.4 | 19.3 |
| TOTAL | 12,116.6 | 11,953.6 | 163.0 |

The €28.2 million increase in **net non-current assets** compared with 31 December 2018 primarily reflects a combination of the following:

- an increase of €13.4 million in financial assets, mainly due to construction services performed under concession in Brazil during the period (up €7.4 million) and an increase in the Interconnector Guarantee Fund, set up to fund investment in interconnections by art. 32 of Law 99/09 (up €5.0 million);
- total capital expenditure of €164.4 million, as described in the paragraph on “Regulated Activities in Italy”;
- amortisation and depreciation during the period, totalling €140.6 million;
- disposals, impairment losses and other movements during the period, resulting in a decrease of €9.0 million.

The Group's **capital expenditure** during the period (totalling €164.4 million) is up 16.1% on the €141.6 million of the same period of 2018. Investment incentives of **€8.9 million** account for 5.4% of the total. Investment in non-regulated assets, amounting to €16.6 million, primarily regards the private part of the Italy-France interconnector and the re-routing of power lines at the request of third parties.

Net working capital (net current liabilities) of €1,716.7 million resulted in a cash outflow of €105.8 million compared with 2018. This reflects a combination of the following:

Cash outflows

- a reduction of €227.5 million in **net trade payables**, largely due to the greater volume of capital expenditure towards the end of the previous year.

Cash inflows

- an increase of €84.2 million in **net tax liabilities**, mainly reflecting recognition of income tax for the period (€82.3 million), and a reduction in net refundable VAT (€4.2 million) in line with the reduction in net trade payables;
- an increase of €34.6 million in **other net liabilities**, primarily due to payments on account and guarantee deposits received from the entities financing the Italy-France Interconnector (up €35.8 million).

Gross invested capital thus amounts to €12,395.1 million, marking an increase of €134.0 million compared with the previous year.

Sundry provisions are down €29.0 million, primarily due to:

- net uses of provisions for the cost of service quality (down €4.6 million) and for urban and environmental redevelopment schemes (down €2.1 million), in addition to the impact of the adjustment of the Group's other provisions (down €4.6 million);
- net provisions for net deferred tax assets (up €18.2 million), primarily due to the effect on taxation of amortisation and depreciation the above uses of provisions for risks and charges and movements in derivative financial instruments held by the Group.

Net invested capital of €12,116.6 million is up €163.0 million compared with 31 December 2018 and is financed by equity attributable to owners of the Parent, totalling €4,162.9 million (compared with €4,019.2 million at 31 December 2018), equity attributable to non-controlling interests of €35.0 million (in line with 31 December 2018) and net debt of €7,918.7 million (up €19.3 million compared with the €7,899.4 million of 31 December 2018).

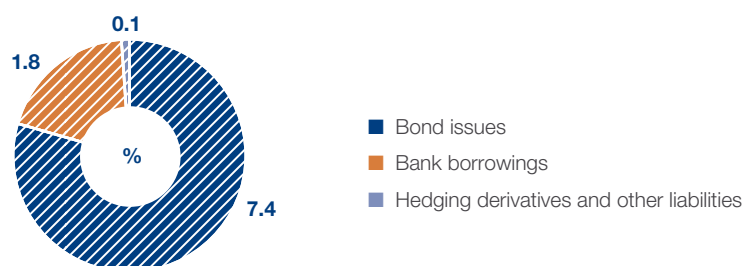
Debt

The Terna Group's financial management is based on an approach that aims to maximise efficiency and achieve and maintain a solid financial structure, whilst adopting a highly prudent stance towards mitigation of the potential financial risks.

The key aspects of the Group's financial policy are diversification of the sources of funding, a balance between short- and medium/long-term forms of debt and the proactive management of debt.

GROSS DEBT

€bn



Gross debt at 31 March 2019 amounts to approximately €9.3 billion, consisting of €7.4 billion in the form of bond issues and €1.8 billion in bank borrowings. The average term to maturity of debt, which is almost all fixed rate, is approximately 5.2 years.

SUSTAINABLE FINANCE

Two **green bond** issues were launched during the quarter under Terna's €8 billion Euro Medium Term Notes (EMTN) Programme, assigned ratings of "BBB+" by Standard and Poor's, "(P) Baa2" by Moody's and "BBB+" by Fitch. The two green bond issues confirm Terna's ambition to play a leading role in the sustainable finance market, in line the Company's strategy of combining investment and sustainability to drive growth and value creation.

- On 10 January 2019, Terna launched a fixed-rate green bond issue in the form of a private placement, amounting to €250 million, reopening the earlier issue announced on 16 July 2018 and completed on 23 July 2018. The securities, having an original term of 5 years, a residual term of 4 years and 6 months and maturing on 23 July 2023, pay a coupon of 1.000% and were issued at a price equal to 99.787%, with a spread of 90 basis points with respect to the midswap rate and a yield of 1.05%, slightly below that of the July 2018 issue. The proceeds will be used to finance the Company's eligible green projects.
- On 3 April 2019, a €500 million bond issue was carried out. The securities have a 7-year term and pay a coupon of 1%, with an indicative spread that is around 100 basis points lower than BTPs (Italian Treasury Notes) with the same term to maturity. The cost of the new debt is lower than the overall cost of 1.6% set out in the Plan. The issue was very well-received by investors, with the bonds being seven-times oversubscribed.

On 23 April 2019, the Company agreed a back-up ESG-linked Revolving Credit Facility, in the form of a committed credit facility amounting to €1.5 billion, from a pool of banks made up of Banca IMI, BNP Paribas, Cassa Depositi e Prestiti and Unicredit (as Bookrunners and Joint Mandated Lead Arrangers) and Santander and SMBC (as Joint Mandated Lead Arrangers). At the same time, the Company cancelled to back-up facilities totalling €1.3 billion and expiring by 2021. The facility is for a period of 5 years and will be used to fund the Company's day-to-day operations. The interest rate is linked to EURIBOR plus an initial spread of 0.65% (variable between a minimum of 0.60% and a maximum of 1.45% depending on Terna's rating). The transaction means that Terna can count on adequate liquidity in respect of its current rating, and strengthens the incorporation of sustainability goals within the Company's business strategy through a series of bonuses and penalties linked to ESG criteria.

The Group's **net debt** amounts to €7,918.7 million at 31 March 2019, marking an increase of €19.3 million compared with 31 December 2018.

| | (€m) | | |
|--|------------------|---------------------|----------------|
| NET DEBT (BY TERM TO MATURITY) | 31 MARCH 2019 | 31 DECEMBER 2018 | CHANGE |
| Total medium/long-term debt | 8,534.6 | 8,286.8 | 247.8 |
| - Bond issues | 6,788.5 | 6,563.2 | 225.3 |
| - Borrowings | 1,629.5 | 1,664.4 | (34.9) |
| - Derivative financial instruments | 116.6 | 59.2 | 57.4 |
| Total short-term debt/ (funds) | (615.9) | (387.4) | (228.5) |
| - Bond issues (current portions) | 611.3 | 616.7 | (5.4) |
| - Short-term borrowings | 22.0 | 25.0 | (3.0) |
| - Borrowings (current portions) | 114.4 | 613.9 | (499.5) |
| - Other current financial liabilities. net | 57.5 | 89.8 | (32.3) |
| - Financial assets | (502.8) | (403.9) | (98.9) |
| - Cash and cash equivalents | (918.3) | (1,328.9) | 410.6 |
| Total net debt | 7,918.7 | 7,899.4 | 19.3 |
| NET DEBT (BY TYPE OF INSTRUMENT) | | | |
| - Bond issues | 7,399.8 | 7,179.9 | 219.9 |
| - Borrowings | 1,743.9 | 2,278.3 | (534.4) |
| - Short-term borrowings | 22.0 | 25.0 | (3.0) |
| - Derivative financial instruments | 116.6 | 59.2 | 57.4 |
| - Other financial liabilities | 57.5 | 89.8 | (32.3) |
| GROSS DEBT | 9,339.8 | 9,632.2 | (292.4) |
| - Financial assets | (502.8) | (403.9) | (98.9) |
| - Cash and cash equivalents | (918.3) | (1,328.9) | 410.6 |
| Total net debt | 7,918.7 | 7,899.4 | 19.3 |

Changes in the **Group's net debt** are as follows:

- an increase in bond issues (€219.9 million), following the €250 million fixed-rate green bond issue in January in the form of a private placement and the adjustment to these instruments to reflect their amortised cost;
- a reduction in borrowings (down €534.4 million), primarily following repayment, on 2 February 2019, of the €500 million loan from CDP, using EIB funds and repayments of outstanding borrowings (down €55.7 million), partially offset by lease liabilities recognised following first-time adoption of IFRS16 (€20.7 million);
- a decrease in short-term borrowings and other financial liabilities (down €35.3 million) primarily due to the repayment of short-term credit facilities by the subsidiary, Tamini, and the settlement of interest on outstanding borrowings and the related hedges;
- an increase in derivative financial instruments (up €57.4 million), primarily due to movements in market interest rates;
- an increase in financial assets (up €98.9 million), primarily following the purchase of government securities maturing in December 2020 and having a notional value of €100 million;
- a reduction in cash and cash equivalents (down €410.6 million), reflecting the above events. Cash amounts to €918.3 million at 31 March 2019, including €677.0 million invested in short-term, readily convertible deposits and €241.3 million held in bank current accounts and in the form of cash in hand.

RATINGS

| | SHORT-TERM | MEDIUM/ LONG-TERM | OUTLOOK | LATEST REVIEW |
|----------------------|------------|----------------------|----------|------------------|
| Terna S.p.A. | | | | |
| Standard & Poor's | A-2 | BBB+ | Negative | 29 October 2018 |
| Moody's | Prime-2 | Baa2 | Stable | 23 October 2018 |
| Fitch | F2 | BBB+ | Stable | 28 March 2019 |
| Italian state | | | | |
| Standard & Poor's | A-2 | BBB | Negative | 26 October 2018 |
| Moody's | Prime-3 | Baa3 | Stable | 19 October 2018 |
| Fitch | F2 | BBB | Negative | 22 February 2019 |

Following the downgrade of Italian government bond ratings from “Baa2” to “Baa3 with a stable outlook”, on 23 October 2018, Moody's consequently cut Terna S.p.A.'s long-term rating from “Baa1” to “Baa2”. At the same time, Moody's reiterated the Company's short-term rating of “P2/(P)P-2”. The outlook for all the ratings is stable.

On 29 October 2018, S&P Global Ratings (S&P) reiterated Terna S.p.A.'s long-term rating of ‘BBB+’. Following the revised outlook for Italian government bond ratings (from stable to negative), S&P also revised Terna's outlook, downgrading it from stable to negative. Terna's short-term rating was confirmed as ‘A-2’. Finally, S&P reiterated the Company's Stand-Alone Credit Profile (SACP) as ‘a-’.

Finally, on 28 March 2019, Fitch Ratings reiterated its long-term IDR and senior unsecured ratings of Terna S.p.A. as BBB+, one notch above Italy's sovereign rating, with a stable outlook. At the same time, the agency confirmed its short-term IDR rating of ‘F2’.

Terna's shares

Terna S.p.A. has been listed on Borsa Italiana's screen-based trading system (*Mercato Telematico Azionario*) since 23 June 2004. From the date of floatation to the end of March 2019, the share price has risen 232% (a capital gain), providing a Total Shareholder Return (TSR) of 651%, ahead of both the Italian market (the FTSE MIB, up 29%) and the relevant European sector index (DJ Stoxx Utilities), which is up 185%.

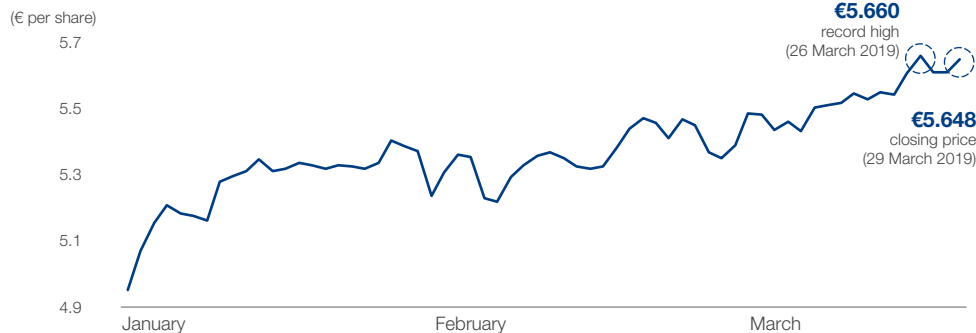
Europe's leading stock markets rose during the first three months of 2019, following the negative performances of 2018. Milan gained 16.2%, Paris and Frankfurt were up 13.1% and 8.5%, respectively, whilst Madrid and London were both 8.2% ahead.

Performance of Terna's shares

In this context, Terna's shares gained 14.0% to close the period at €5.648, outperforming the relevant sector index for Europe (the DJ Stoxx Utilities was up 10.7%). The daily average volume traded during the period amounted to approximately 6.3 million.

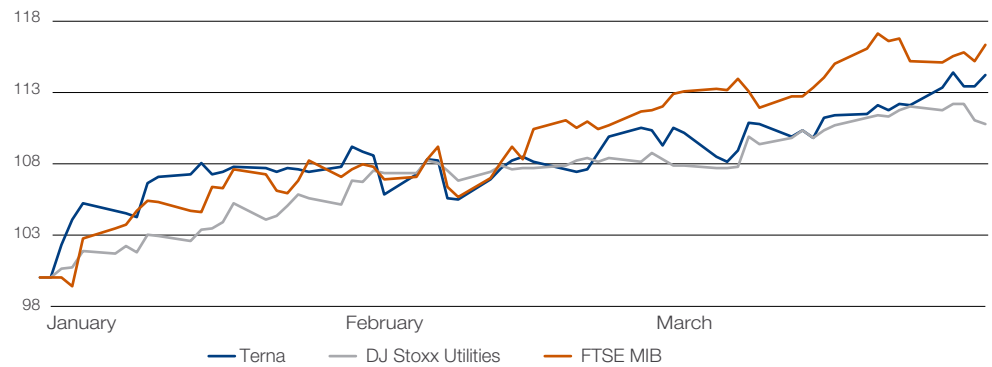
It should be noted that following the presentation of the new Strategic Plan for 2019-2023 on 21 March, the share price rose to a record high of €5.660 on 26 March.

PERFORMANCE OF TERNA'S SHARES (Price between 1 January and 31 March 2019)



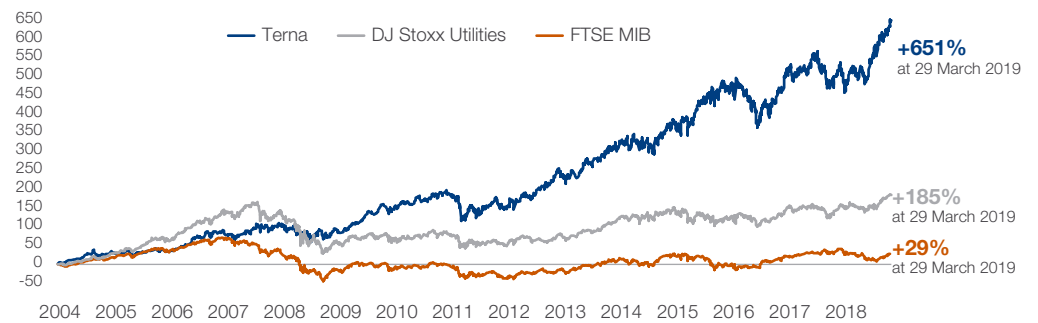
Source: Bloomberg

TERNA'S SHARES, THE FTSE MIB AND DJ STOXX UTILITIES (Price between 1 January and 31 March 2019)



Source: Bloomberg

TOTAL SHAREHOLDER RETURN ON TERNA'S SHARES AND THE FTSE MIB AND DJ STOXX UTILITIES (from the floatation to 31 March 2019) (%)



Source: Bloomberg

WEIGHTING OF TERNA'S SHARES

> on the FTSE MIB 2.35%

Source: Borsa Italiana. Data at 31 March 2019.

³ % of the total FTSE MIB.

Outlook

In the rest of 2019, the Group will be engaged in implementing the objectives in the 2019-2023 Strategic Plan, with the Group making a major contribution to the further development and integration of renewable energy sources and to the overall energy efficiency of the electricity system.

In terms of **Regulated Activities in Italy**, the Group's intends to step up investment and strengthen its core business in Italy by directly involving local stakeholders and through dialogue with all stakeholders and local communities.

The principal electricity infrastructure under construction includes the interconnections with Montenegro and France and the start of work on the new SA.CO.I.3 project (strengthening of the link between Sardinia, Corsica and the Italian mainland).

In our **Non-Regulated Activities**, Terna aims to develop new services in our new role as a high value added systems integrator, supporting the development of new technologies, and in our role as a TSO in the current energy transition. The Group also aims to exploit connectivity opportunities based on extracting value from our dark fibre infrastructure.

In terms of our **International Activities**, in South America, the Group plans to focus on completing and managing projects in Brazil, and continuing projects in Uruguay and Peru. In addition, the Group will continue to conduct scouting initiatives with the aim of identifying new low-risk opportunities for overseas expansion that will enable us to fully exploit our distinctive industrial know-how.

Finally, the operating and financial performance during the period confirm the Company's ability to successfully pursue a virtuous path to growth, in line with the previously announced goals for 2019.

Declaration

of the manager responsible for financial reporting in
accordance with paragraph 2 of art. 154-*bis* of
Legislative Decree 58/1998

The manager responsible for financial reporting, Agostino Scornajenchi, declares, pursuant to paragraph 2 of article 154-*bis* of the Consolidated Law on Finance, that the accounting information contained in this Consolidated Interim Report for the three months ended 31 March 2019 is consistent with the underlying accounting records.

Alternative performance measures (APMs)

In accordance with the guidelines in ESMA/2015/1415, the APMs used in this Consolidated Interim Report are described below.

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

The criteria used in preparing the reconciliation of the above APMs with the IFRS financial statements are described in the Annual Report for the year ended 31 December 2018.

Other information

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

Treasury shares

The Parent Company does not directly or indirectly hold any of its own shares or the shares of CDP Reti S.p.A. or Cassa Depositi e Prestiti S.p.A., nor has it purchased or sold any such shares during the first quarter of 2019.

Related party transactions

Information on related party transactions is provided in the Annual Report for the year ended 31 December 2018.

Participation in the regulatory simplification process introduced by CONSOB Resolution 18079 of 20 January 2012

Information on participation in the simplified process introduced by the CONSOB is provided in the Annual Report for the year ended 31 December 2018.

All pictures are property of Terna.

www.terna.it

Mercurio GP
Milan

Strategic advisory
Creative concept
Graphic design
Layout
Editing

www.mercuriogp.eu

Password Language Services S.r.l.
Rome

Translation



Varigrafica Alto Lazio S.r.l.
Nepi (VT)

Printing

www.varigrafica.com

