



ENERGY IS OUR RESPONSIBILITY

2019

Consolidated Interim Financial
Report - 30 September
Terna Group

 **Terna**



OUR MISSION

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

To play a leading role in the 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.**

The **sustainability of our actions** is at the heart of our decision-making.

We are working hard on **development of the national 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 leading the energy transition continued in the first nine months of 2019, including a growing emphasis on strategic partnerships with government institutions and businesses in order to transform the process into an opportunity for investment and job creation.



Turning a challenge into a growth opportunity.

CDP, Terna and Snam working together on sustainable energy infrastructure

On **16 and 17 October**, Cassa Depositi e Prestiti, Snam and Terna hosted the **States General of the Italian Energy Transition** in Rome, promoted by the Ministry for Economic Development and the Cabinet Office, in collaboration with The European House – Ambrosetti. The key stakeholders in the energy sector were brought together for the first time – with contributions from representatives of national and international institutions and companies – to take part in a strategic debate on the most crucial issues for Italy. On this occasion, Luigi Ferraris and Marco Alverà, the CEOs of Terna and Snam, also signed a memorandum of understanding regarding network security and the prevention of cyber threats.



Roadmap towards a sustainable development model.

Online Scenario Description Document for 2019

On **30 September**, Terna and Snam published the first joint **study on future scenarios** for the energy sector, ahead of preparation of ten-year plans for the development of electricity transmission and gas transportation networks. With a view to stepping up collaboration on vital issues such as the resilience, security, flexibility, capacity, planning and management of infrastructure systems, Snam and Terna set out four scenarios that clearly reveal the key roles played by gas and electricity carriers in the transition.

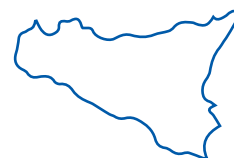


Strengthening institutional partnerships to help create a more efficient and secure system.

In order to strengthen surveillance and prevention in the areas where approximately 1,500 km of Terna's submarine cables are located, on **7 October**, an agreement **was signed with Port Authorities and the Coast Guard**.

Investment in improving the electricity service in Sicily.

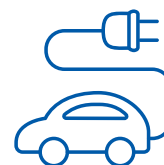
Planning agreement with the Regional Authority and CDP on 18 September, covering electricity system security initiatives and regional development. The agreement provides for investment of €614 million in work on Sicily's electricity grid over the next five years.



Innovation and research for an increasingly sustainable electricity system.

MoU with FCA on e-mobility

On **19 September**, Terna and FCA signed a **memorandum of understanding regarding joint trials for sustainable mobility technologies and services**, such as Vehicle-to-Grid (V2G), which enables interaction between vehicles and the grid, thanks to an "intelligent" charging infrastructure that meets the system's flexibility requirements.



Expertise helping to reach decarbonisation targets.

On **19 April**, Terna, Eni, CDP and Fincantieri signed an agreement to set up a company to develop and build **wave energy plants** on an industrial scale. The agreement aims to combine the expertise of each company with the aim of transforming the Inertial Sea Wave Energy Converter (ISWEC) pilot project into a plant that can be built on an industrial scale, and that will thus be ready for immediate application and use. In particular, Terna is supporting the electrical design stages for plants and implementable connection solutions, whilst also helping to develop studies looking at how to integrate the energy production system within the national electricity grid.



Terna is continuing to develop the national grid, with progress made on all the major investment projects supporting the current energy transition.



Regulated Activities in Italy



2 km of new line for the cable connection for the Genoa Exhibition Centre primary substation has been completed, as part of the reorganisation of the Port of Genoa area that aims to support the city's economic recovery after it was badly hit by the collapse of the Morandi road bridge.

The Valle-Piscioli cable connection (11 km) and the La Rosa-Azimut primary substation line (9 km) were also completed.



Non-regulated Activities



Open Fiber Project: 1,255 km of new fibre connections delivered.

Italy-France interconnector: the laying of 64 km of cable has been completed, representing around 67% of the entire connection.



International Activities



New acquisitions in Brazil:

a preliminary agreement was signed with Construtora Quebec for the acquisition of two new 30-year concessions, regarding the construction of power lines in Brazil. The Company will build 305 km of electricity infrastructure in the State of Minas Gerais. Conclusion of the transaction depends on certain conditions being met.



SUSTAINABILITY AWARDS

Inclusion for the first time in the **Bloomberg Gender Equality Index (GEI)** and **confirmation of the Company's presence** in the EuroNext and FTSE4Good indices.

RobecoSAM confirms Terna's ranking as world leader in the Electric Utilities Sector and its position in the World Index and in the smaller Europe Index.

Improvements in all key performance indicators confirm the virtuous growth path outlined in the Grids and Values Strategic Plan.

HIGHLIGHTS

(€m)	9M 2019	9M 2018	% Change
Revenue	1,665.5	1,605.0	+3.8%
EBITDA	1,278.4	1,230.1	+3.9%
Profit attributable to owners of the Parent	552.5	541.5	+2.0%
Capital expenditure	670.0	561.4	+19.3%
	9M 2019	FY2018	
Net debt	8,249.5	7,899.4	

SHARE PRICE AND FINANCE

Terna's share price

Share price up 19% since the beginning of the year, with a price of €5.89 at 30 September 2019 versus €4.95 at 31 December 2018.

New all-time high of €6.012 registered on 6 November 2019

Finance

July 2019: €500m issue of bonds to institutional investors paying a coupon of 0.125%, a record low for a corporate bond with a term in excess of 5 years.

Renewal of the €8bn EMTN programme.

BUSINESS ENABLERS

People



214 new hires since the beginning of the year to support delivery of the 2019-2023 Strategic Plan, compared with 72 leavers.

Innovation



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

The **AMS – Advanced Materials for Sustainability** call for innovation launched in July 2019 ended in October.

An **MoU regarding cyber security signed with Snam in October**, aimed at detecting, preventing and countering potential threats, attacks and damage to IT infrastructure.

PERFORMANCE OF THE ELECTRICITY SYSTEM

Demand*
[TWh]



COVERAGE BY RENEWABLE SOURCES*



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

RENS quality*
[MWh]



MAJOR INCIDENTS

Performance in 9M 2019:

no major incidents affecting performance in 9M 2019.

(*) Provisional data.

Cost of quality
[€m]



COST ALLOCATION 9M 2019



(*) Fund for Exceptional Events.



INTRODUCTION

The **Terna Group's Consolidated Interim Financial Report for the nine months ended 30 September 2019**, which has not been audited, has been 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).

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We promote the energy transition and sustainable development by focusing on people and innovation. Every day, we work to build an atmosphere of dialogue and trust in local areas, to which we bring a vital asset for everyone's economic and social lives: electricity. This translates into choices based on respect for the environment and local communities. Our inclination to listen begins within the Company, among our people, in the awareness that the radical transformation the world is experiencing is a shared responsibility. This responsibility is our energy.”





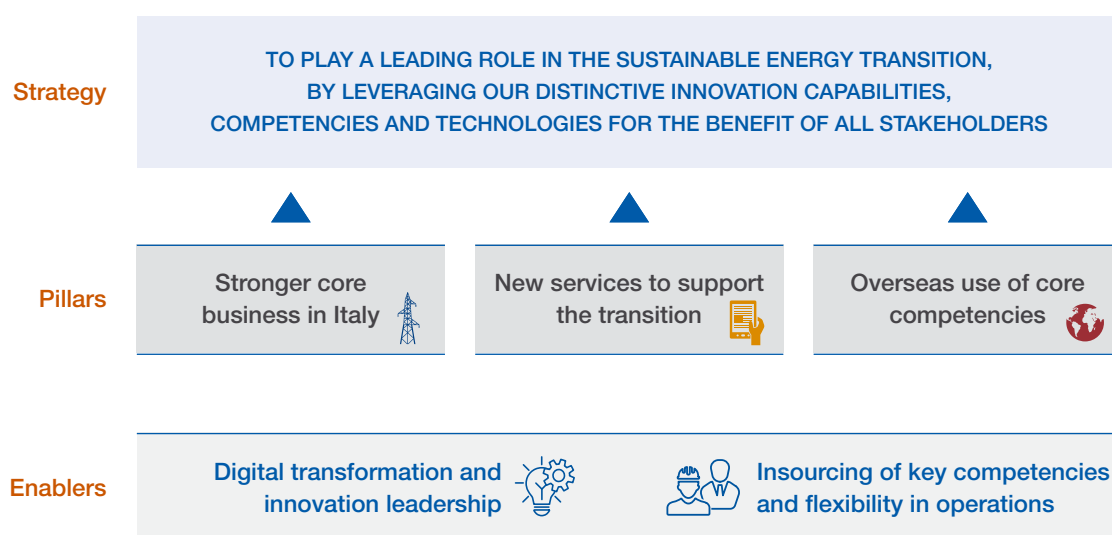
The Terna Group

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), 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, decarbonisation, 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 2019-2023 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 added value 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.

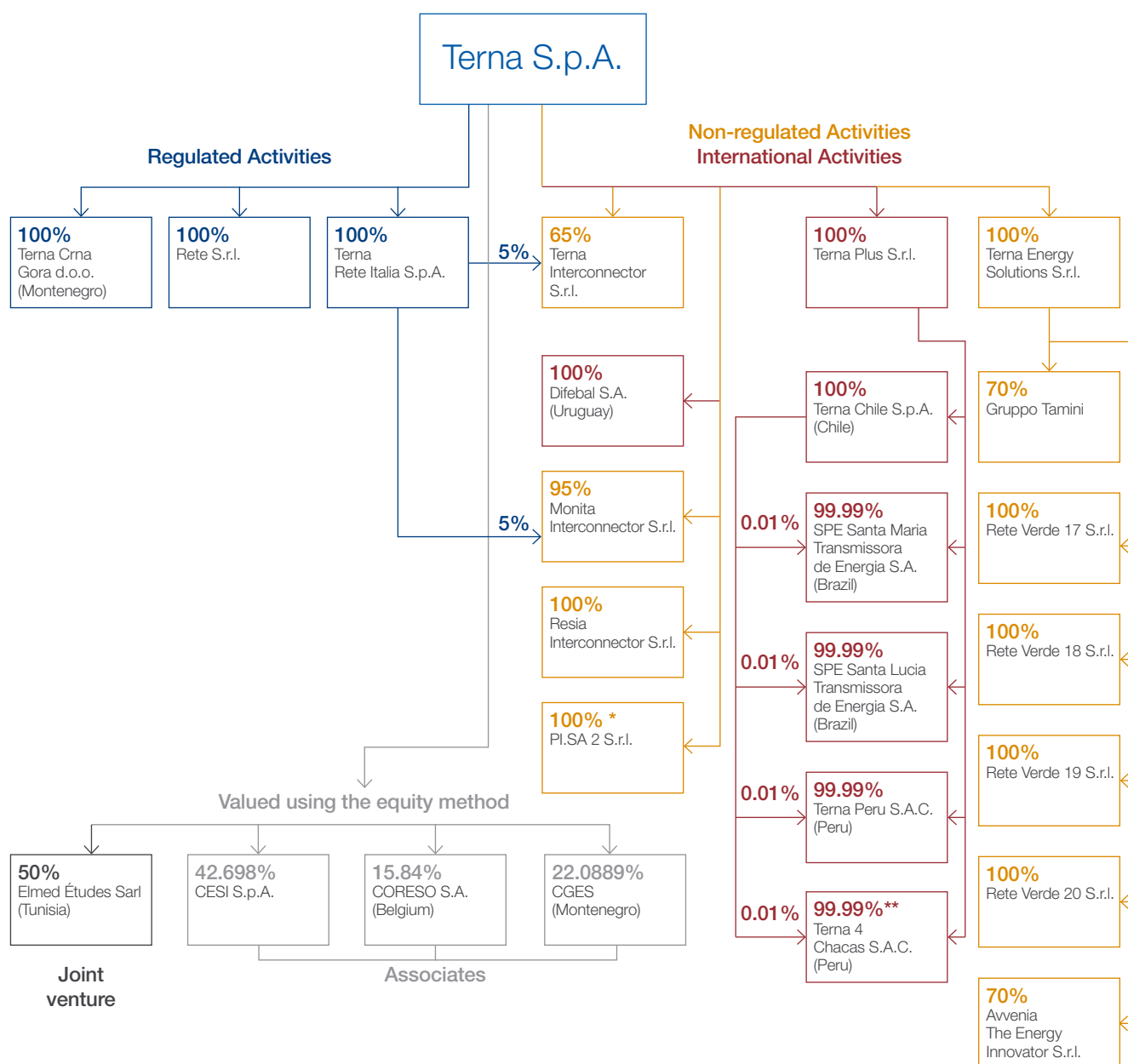
A key driver of this strategy will be investment in the innovation and digital solutions needed to facilitate proactive management of the system. Attention will also be paid to the development and insourcing of the strategic skills required to cope with projects of growing size and complexity.

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



Structure of the Group

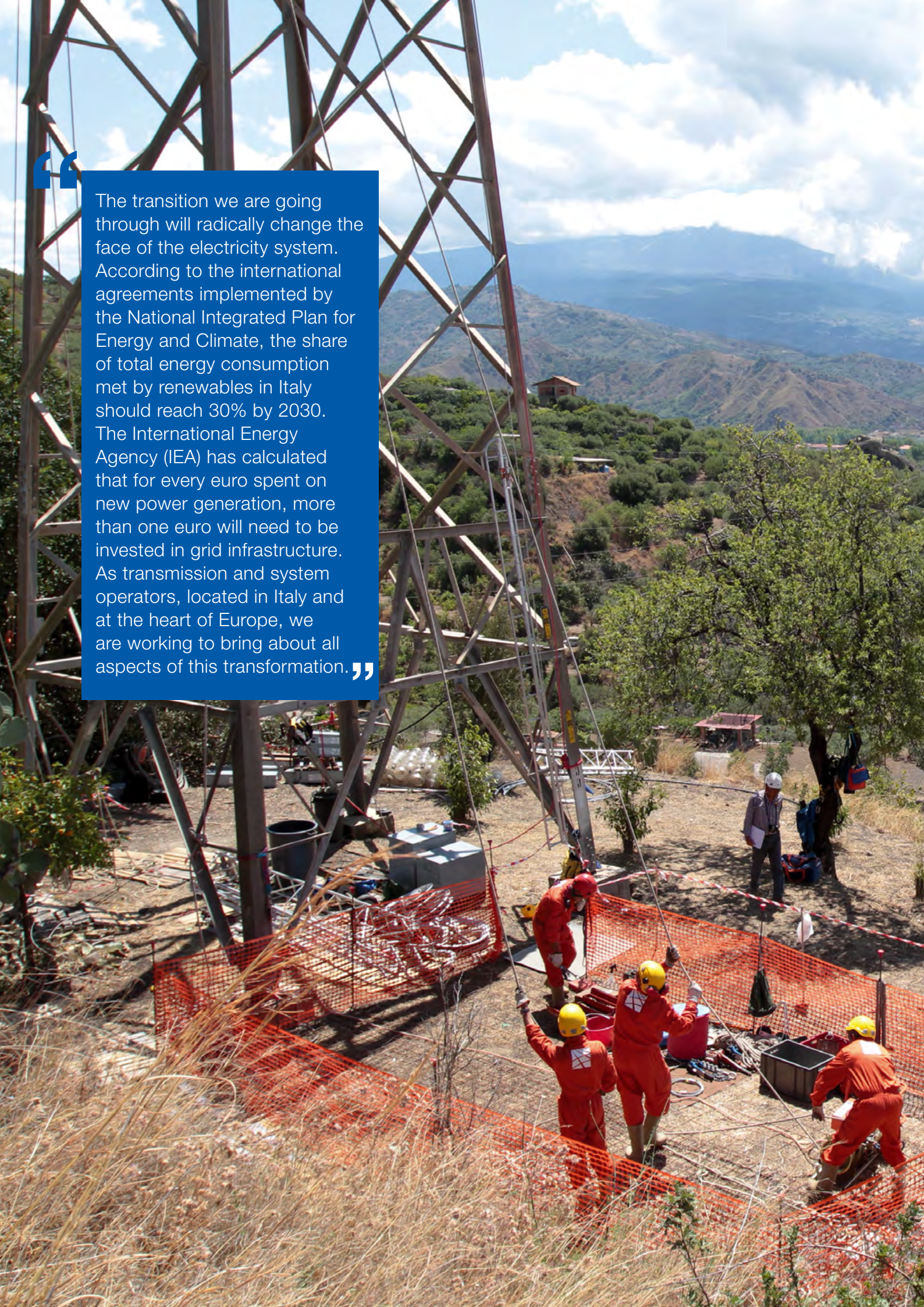
The structure of the Terna Group at 30 September 2019 is shown below.



Compared with 31 December 2018:

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

** On **6 August 2019**, Terna 4 Chacas S.A.C. was established, following the agreement signed in 2016 to start work on the construction of a new 16 km power line. The company is 99.99999% owned by Terna Plus S.r.l., with the remaining interest held by Terna Chile S.p.A..

A large metal lattice tower is the central focus, rising from a construction site in a mountainous region. Several workers in bright orange safety suits and yellow helmets are positioned at the base of the tower, working with equipment and cables. The site is cordoned off with orange safety netting. In the background, there are rolling hills, some trees, and a small building under a blue sky with scattered clouds. The foreground is filled with dry, golden-brown grass.

“The transition we are going through will radically change the face of the electricity system. According to the international agreements implemented by the National Integrated Plan for Energy and Climate, the share of total energy consumption met by renewables in Italy should reach 30% by 2030. The International Energy Agency (IEA) has calculated that for every euro spent on new power generation, more than one euro will need to be invested in grid infrastructure. As transmission and system operators, located in Italy and at the heart of Europe, we are working to bring about all aspects of this transformation.”



2

The energy environment

Electricity demand

and production in Italy

Demand for electricity

Demand for electricity in Italy amounted to 241,936 GWh in the first nine months of 2019, substantially in line (down 0.1%) with the same period of 2018.

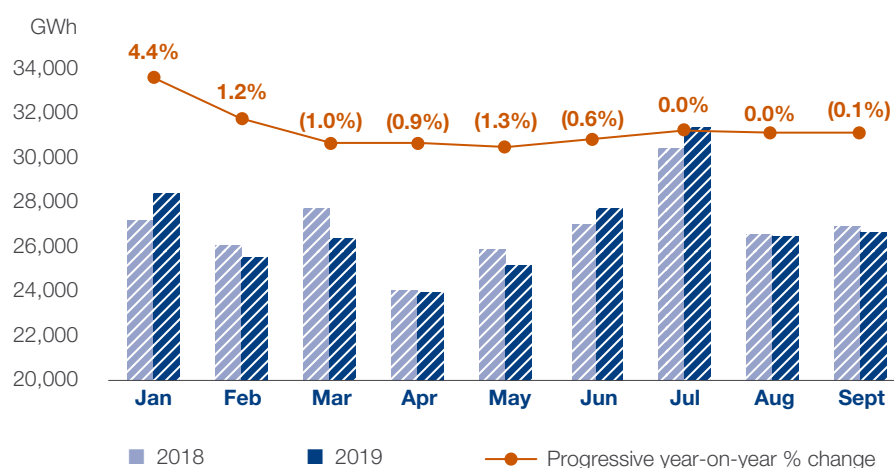
ELECTRICITY BALANCE IN ITALY (GWh)*	9M 2019	9M 2018	CHANGE	% CHANGE
Net production	215,683	210,004	5,679	2.7%
From overseas suppliers (imports)	32,240	36,376	(4,136)	(11.4%)
Sold to overseas customers (exports)	(4,317)	(2,448)	(1,869)	76.3%
For use in pumping**	(1,670)	(1,685)	15	(0.9%)
Total demand in Italy	241,936	242,247	(311)	(0.1%)

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

** Electricity used for pumping water; to be stored and subsequently used in electricity production.

Monthly demand for electricity in Italy in the first nine months of 2019 is slightly down compared with the same period of 2018, with the exception of January, June and July, when demand rose primarily due to temperature effects.

MONTHLY DEMAND FOR ELECTRICITY IN ITALY *

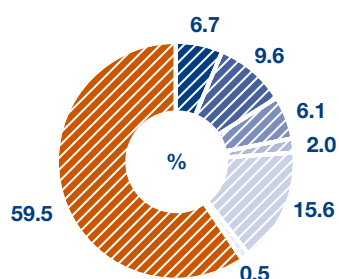


* Provisional data.

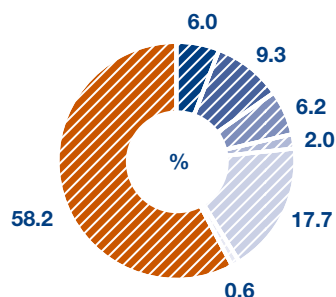
Energy production

NET ELECTRICITY PRODUCTION BY SOURCE

9M 2019*
215.7 TWh



9M 2018*
210.0 TWh



- Net wind production
- Net photovoltaic production
- Net biomass production
- Net geothermal production
- Net renewable hydroelectric production
- Net non-renewal hydroelectric production
- Net thermoelectric production

* Provisional data.

Even though demand was in line with the same period of 2018, net production in Italy rose 2.7%, compared with an 18% reduction in net imports.

In the first nine months of 2019, approximately **36% of total energy demand was met by renewable energy sources**, in line with the same period of 2018. In particular, hydroelectric production is down 10% due to reduced volumes of available water in 2019 compared with 2018; this was largely offset by a significant increase in wind production (up 14%) and solar production (up 6%). Biomass and geothermal production are in line with the same period of the previous year.

“

With our projects and substantial investment in network infrastructure, we are laying the foundations to promote and support the current energy transition with a fit-for-purpose electricity system that is safe, efficient and makes increasing use of renewables. Thanks to the unique skills of our people, constant dialogue with local communities and the adoption of innovative solutions, we are contributing to the growth and development of sustainable projects for the benefit of Italy.”





3

The Group's
businesses

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 the continuity and accessibility of the 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 nine months of 2019 amounts to **€670 million**, compared with €561.4 million in the same period of the previous year (**up 19.3%**).

GROUP CAPITAL EXPENDITURE (€m)	9M 2019	9M 2018 ⁽²⁾	CHANGE	% CHANGE
Development Plan	217.4	259.1	(41.7)	(16.1%)
Security Plan	90.7	61.5	29.2	47.5%
Projects to renew electricity assets	222.5	144.7	77.8	53.8%
- of which electricity assets (before functional separations)	188.1	117.0	71.1	60.8%
- of which functional separations	34.4	27.7	6.7	24.2%
Other capital expenditure ⁽¹⁾	64.2	36.7	27.5	74.9%
Total Regulated Assets	594.8	502.0	92.8	18.5%
Non-regulated Assets ⁽¹⁾⁽³⁾	65.9	47.6	18.3	38.4%
Capitalised financial expenses	9.3	11.8	(2.5)	(21.2%)
Total capital expenditure	670.0	561.4	108.6	19.3%

⁽¹⁾ Includes the impact of IFRS 16.

⁽²⁾ The figure for 2018 is on a pro forma basis due to the reclassification of NOP and ROP as Regulated Assets.

⁽³⁾ Non-regulated Assets primarily regard the private Italy-France interconnector.

Investment in regulated assets, which includes **investment incentives** of **€40.3 million** (6% of total investment), has resulted in the following principal works **entering service in the first nine months of 2019**:

- **2 Km of new power lines serving the Port of Genoa.** Completed in just 11 months, the first project will be used as a switching station for renewable energy produced by plants in the area, thanks to a total investment of €10 million and use of the latest technologies designed to more effectively prevent and identify faults. The reorganisation in the Port of Genoa area falls under 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 in Genoa and its metropolitan area, which was badly hit by

the collapse of the Morandi road bridge. 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 new 11 km**, 150 kV underground cable that connects the **Piscioli** substation in the municipality of Candela (FG) to the **Valle** (FG) substation;
- and
- **the La Rosa-Azimut primary substation line (9 km)**, the Pace del Mela-Villafranca underground cable (3 km), the Marcello-Porta Venezia cable (2 km), and the upgraded electricity substations of Monte Narbone, Picerno and Belcastro.

In addition, the new 132kV Mercatello sull' Metauro electricity substation in the province of Pesaro Urbino, and the related connections, with a total length of around 300 metres, entered service at the end of October.

The new substation, entailing investment of around €6 million, guarantees the safety and efficiency of the local electricity grid, as well as further integrating the significant volume of renewable energy produced in this area. The work was completed on time in around 15 months and special attention was paid to the environmental sustainability of the project.

Alongside this new investment, Terna is continuing to reduce its environmental impact through the removal of lines. These projects include:

- **demolition of the "Fusina 2-Sacca Fisola" overhead power line**, completed on 11 June 2019. This has enabled the total removal of all electricity pylons in the Venetian Lagoon;
- the final phase of **removal of the Malpensata-Bergamo-der.BAS overhead power line** from populated and industrial areas in the city of Bergamo began on 19 July 2019. On completion of the works, 17 electricity pylons will have been eliminated, representing a total of around 3 km of overhead lines.

Following the construction of two new 150 kV underground cable connections - the first between the Sorgente substation and the Pace del Mela primary substation, built in 2014 and around 4.5 km long, and the second of around 3 km in length and, as mentioned above, entering service at the end of July 2019 - on 15 October 2019, the final phase of **decommissioning the 150kV overhead power line connecting the Sorgente substation with the primary substations of Pace del Mela and Villafranca** began. In the first phase of the works, Terna removed around 21 km of aluminium/steel conductors and ground wires. The work is expected to be completed and the affected areas restored by the end of 2019.

MAIN WORKS CARRIED OUT DURING THE PERIOD

> DEVELOPMENT PLAN - €217.4 MILLION

Italy-France
interconnector
(€32.9 million)

- **Piovasasco converter station:** the related civil works and the main buildings (control building, valve room, direct current equipment room) have been completed, as has production of key equipment for the station (converters and transformers), with installation nearing completion. The 7 transformers have been delivered on site and installed.
- **Cable connection,** cables have been laid over a 64 km section, representing over 67% of the connection as a whole:
 - **Former Sitaf section** (from the station to the motorway): completed;
 - **Upper and lower sections** (A32 motorway): 32.8 km of trenches have been excavated (civil works) out of a total of approximately 45 km, and 18.5 km of cable has been laid;
 - **Middle section** (avoiding the A32 motorway): 24.4 km of trenches have been excavated (civil works) and 21.6 km of cable has been laid out of a total of approximately 25 km;
 - **Frejus:** the civil works have been completed and 5.8 km of cable has been laid out of a total of 6.7 km.

Belcastro substation
(€10.7 million)

The provisional layout of the substation was completed in May 2019, and production from renewable sources consequently connected. Work is in progress to build the final layout of the substation. In particular, the layout of the site is nearing completion, the prefabricated buildings are being constructed, and work has begun on laying the foundations.

Grid upgrades in the
Foggia-Benevento area
(€9.0 million)

Bisaccia-Deliceto power line: archaeological surveys and the removal of unexploded war-time bombs have been completed. The executive design and procurement of materials are in progress.

Expansion of the Bisaccia electricity substation and the installation of PSTs: civil works are underway at the substation and key materials have been procured.

Reorganisation
in Rome
(€7.6 million)

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

Main 150kV Laurentina-Nomentana power line: excavation work and laying of the new cables for the Laurentina-Ostiense section is in progress. Excavation of two sections has been completed and one out of six sections of the A "Laurentina-Ostiense" cable has been laid. The executive design and archaeological surveys regarding the B "Laurentina-Ostiense" cable, and executive design activities along the Ostiense-Nomentana section, are in progress.

Italy-Montenegro
interconnector
(€6.8 million)

The initial connection and work on the converter stations have been completed.

Energisation of the direct current section at the Cepagatti and Kotor converter stations on the Italian and Montenegrin sides, as well as of the entire live operating cable, was completed in March; energy transmission tests are in progress.

Brennero substation
(€6.2 million)

Brennero substation: the related civil works are being carried out, at the end of which electromechanical assembly of the completed machines that are currently at the supplier's premises will be started. On-site means of transport are currently being decided on with the relevant infrastructure operators.

Overhead links: work on construction of the Prati di Vizze-Austria cross-border line that will connect to the new Brennero substation is nearing completion.

Sorrento Peninsula
interconnector
(€5.6 million)

Submarine cable: production of the cable, which is expected to be tested by the end of the fourth quarter of 2019, is in progress.

Terrestrial cables Capri side: installation completed.

Terrestrial cables Sorrento side: 1.7 km of cable laid out of a total of 2.4 km.

Sorrento substation: civil works nearing completion, and the reactor is being mounted.

> SECURITY PLAN – €90.7 MILLION

The plan to install synchronous compensators in Sardinia and central and southern Italy is being implemented. This will support the regulation of short-circuit voltage and power in areas of the country characterised by a high level of production from renewable sources and a significant reduction in traditional production.

In particular:

- **Selargius, Matera:** extension of the substation and the production of key equipment have been completed. Civil works in preparation for installation of the equipment are nearing completion, and on-site means of transport are being decided on with the relevant infrastructure operators;
- **Maida:** the production of key equipment has been completed;
- **Garigliano:** civil works are being carried out;
- **Foggia:** the executive design is nearing completion.

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.

22 electricity substations in the NTG were connected and lit in the first nine months of 2019 (making a total of 418 substations).

Construction work began in 2019 and cable laying is in progress.

Synchronous compensators
(€39.8 million)

Fiber for the Grid
(€23.9 million)

Brindisi Pignicelle – Brindisi
Eni Power line
(€6.3 million)

> RENEWAL PLAN – €222.5 MILLION

The Group has maintained its commitment to renewing electricity assets with the aim of improving the resilience of the NTG. In the first nine months of 2019, efforts were particularly focused on the renewal of overhead lines.

Work continued on the project involving the separation of Rete S.r.l.'s substations, aimed at progressive integration into the grid of the HV substations acquired from FSI S.p.A. in 2015.

A further 13 electricity substations were integrated in the first nine months of 2019 (making a total of 252 substations out of the 350 acquired).

Renewal of electricity assets
(€188.1 million, before
functional separations)

Separation of Rete S.r.l.'s
substations
(€34.4 million)

Electricity cost trends

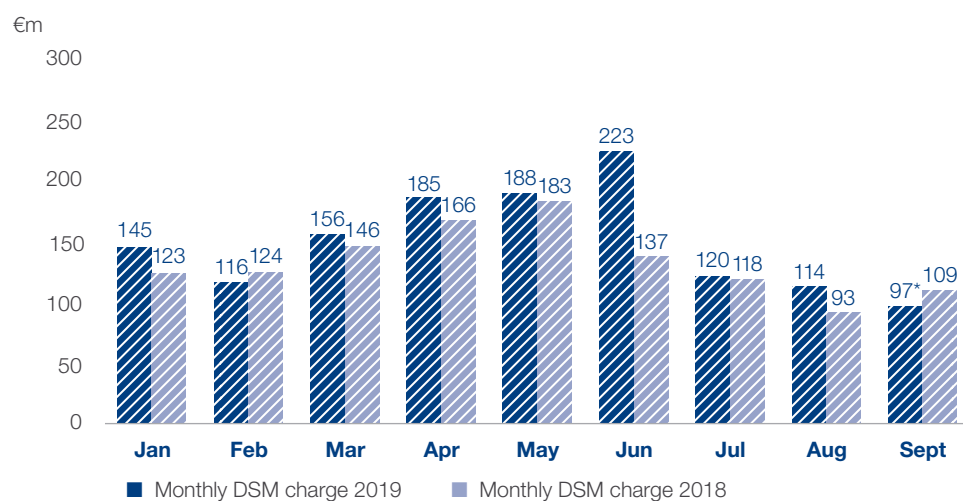
Terna uses the Dispatching Services Market (DSM) to procure dispatching resources to guarantee the security and adequacy of the electricity system.

Dispatching Services Market

The net charge for using the DSM was approximately €1,343 million in the first nine months of 2019 (provisional data), up on the same period of the previous year (€1,199 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

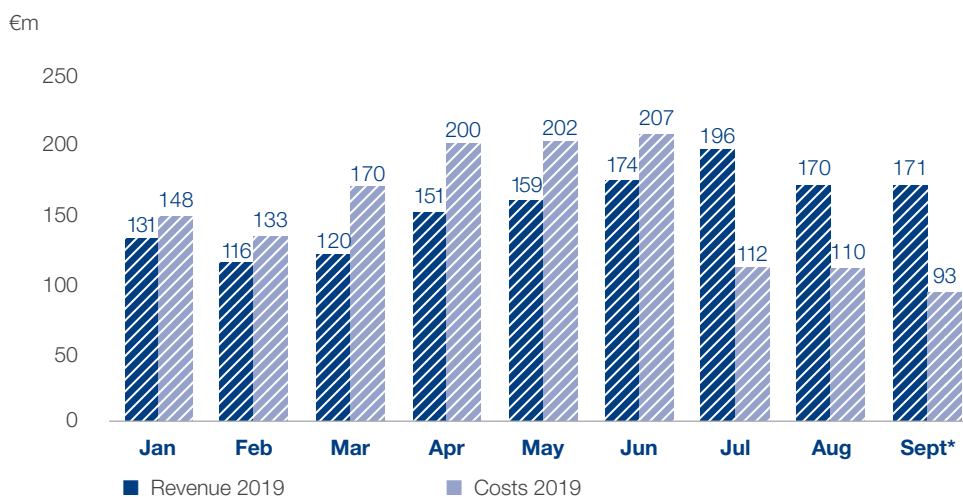


* Provisional data.

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

The total uplift was €1,377 million in the first nine months of 2019 (provisional data), up slightly on the same period of the previous year (€1,313 million). This reflects an increase in the cost of using the Dispatching Services Market and a reduction in revenue linked to non-penalised imbalances, partially offset by reductions in the bonuses payable on contracts linked to the provision of essential services and in start-up payments.

MONTHLY PERFORMANCE OF REVENUE AND UPLIFT COSTS



* Provisional data.

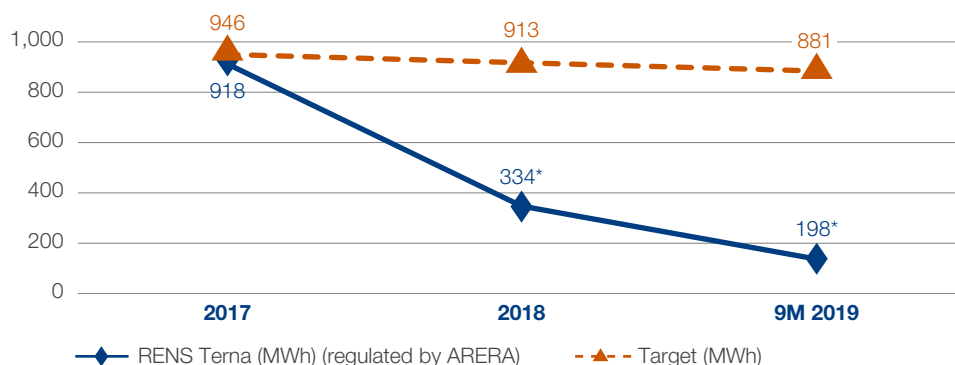
Quality of service

Each phase of the electricity system – generation, transmission and distribution – plays a role in ensuring the availability of electricity in Italy, always 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.

NTG RENS INDICATOR¹



* Provisional data.

The “NTG RENS” indicator for the period from January to September 2019, based on preliminary data, amounts to approximately 198 MWh (compared with an annual target of approximately 881 MWh set by ARERA).

As regards the **ASA** indicator, the operating performance shows that ASA has remained stable at a high level over the years (the higher the indicator, the better the performance). This indicator shows that the energy not supplied following a fault on the owned grid represents a minimal part of the total quantity of energy supplied to users of the grid. In particular, availability was 99.99991% in 2018, compared with 99.99989% in the previous year.

Existing regulations (set out in Resolution 653/2015/R/eel) envisage a series of mechanisms designed to regulate and encourage improvements in the quality of service provided by Terna. The overall economic effects of these mechanisms are accounted for at year end (including RENS). With regard to costs, which are determined periodically on the basis of events that have occurred, Terna recognised costs of €2.4 million in the first nine months of 2019 (€6.4 million in the first nine months of 2018).

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).

ASA***

What it measures

Availability of the service provided by the NTG.

How it is calculated

Based on the ratio of the sum of energy not supplied to users connected to the NTG (ENS) and energy fed into the grid.

¹ The targets for 2016–2023 have been set as an average of the 2012–2015 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 figure for 2018 is provisional pending the ARERA Resolution.

* Regulated Energy Not Supplied.

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

*** Average Service Availability.

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: 5,506 km of fibre network is scheduled for delivery in 2019, in addition to 275 km of fibre still to be completed from 2018, making a total of 5,781 km to be delivered.

In detail, 1,255 km of fibre was delivered in the first nine months of 2019, including a first pair of 426 km and an additional pair of 604 km, as well as 225 km from 2018.

Smart Towers

Installation of the facilities and new telecommunications equipment for the 11 Smart Towers forming part of the pilot project in Sicily has been completed. The 11 Smart Towers are equipped with cabinets, placed high up on the pylons, and sensors.

The latest generation of remote data transmission and processing equipment has been installed at the Sorgente and Misterbianco electricity substations.

FWA pylons

On 6 June 2019, a framework agreement was signed regarding the provision of housing services to the customer Open Fiber, which provides for activation of up to 500 sites using FWA (Fixed Wireless Asset) technology on Terna pylons. The implementation phase of the project has been launched, with construction of the first 20 pylons by the end of 2019.

ENERGY SOLUTIONS

Energy efficiency

Energy efficiency initiatives forming part of the memorandum of understanding, signed by Terna and Ansaldo Energia on 30 September 2019 with a view to identifying, evaluating and implementing joint energy research, development and innovation initiatives.

Avvenia has confirmed the active role it plays in the Group with regard to energy efficiency issues, by providing specific technical support in identifying possible areas for improving efficiency, as well as in monetising services and any ad hoc initiatives.

The joint working group aims to define initiatives to increase consumption efficiency with regard to:

- Load analysis of Ansaldo plants;
- Efficiency improvement proposals;
- Opportunities to enable flexibility services;
- Studies on the development of offerings for external customers.

A non-fossil heat recovery steam generator: on 16 April 2019 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 Avvenia The Energy Innovator S.r.l. (ATEI). 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 ATEI's specialist engineers and technicians and a number of local firms. The total investment amounted to €4 million.

PRIVATE INTERCONNECTORS PURSUANT TO LAW 99/2009

Energy-intensive companies on the border with Montenegro have authorised Monita Interconnector S.r.l. to submit a request to the Ministry for Economic Development (MiSE) to revise the application for exemption for 200 MW of capacity for the Italy-Montenegro interconnector. On 10 May 2019, Monita Interconnector S.r.l. submitted a revised application for exemption to the Ministry for Economic Development.

On 25 June 2019, ARERA issued clearance for the exemption of 200 MW of capacity. On 18 September 2019, the Ministry for Economic Development issued an exemption decree for Monita Interconnector S.r.l. in accordance with the conditions set out in the above-mentioned clearance from ARERA.

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 have also been completed. Energisation tests are currently in progress to start the commissioning of the connection by the end of the year.

The Group continued to build the interconnector on the Italian side including a direct current module of the Italy - France interconnection ("Piosasco - Grande Île" project), on behalf of Piemonte Savoia S.r.l. (Pi.Sa.), which has already been granted an exemption for 350 MW, sold in July 2017 to the energy-intensive companies selected pursuant to Law 99/2009.

Approximately 31.3 km of civil works were completed and 45.3 km of cable laid for the Upper and Lower sections along the A32 motorway in the first nine months of 2019, whilst around 24.3 km of civil works and approximately 20.5 km of cable for the middle section were also completed. With regard to the Frejus Tunnel, the civil works have been completed and 5.8 km of cable have been laid. The production of converters, transformers and the assembly of all the main buildings of the Piosasco converter station have been completed. In addition, on-site assembly of the 7 transformers has been completed, the AC and DC equipment has been installed, and assembly of the converters is in progress.

On 15 February 2019, Terna also set up the company Pi.Sa. 2 S.r.l. (Pi.Sa. 2) in order to submit, on behalf of the energy-intensive companies, an exemption application for a capacity of 250 MW, with regard to the portion of the second direct current module of the Italy-France interconnection that is within Italian territory, and to build a new interconnector pursuant to Law 99/09. This 250 MW of capacity consists of the remaining 150 MW portion allocated on the French border, and the 100 MW portion initially allocated on the Montenegrin border and transferred to the French border. The exemption application regarding the new interconnector was submitted to the Ministry for Economic Development on 26 July 2019.

On 18 April 2019, the design for the construction of a new 220 kV alternating current interconnection between the substations of Glorenza (Italy) and Nauders (Austria) was granted consent for the portion within Italian territory (a 26 km section of cable between Passo Resia and Glorenza), which comprises the Italy-Austria interconnector envisaged pursuant to Law 99/09. As regards the Austrian side, all the consents required to implement the project were granted in August 2019.

With reference to this project, in order to submit an exemption application for a capacity of 150 MW on behalf of the energy-intensive companies, in July 2018 Terna set up the special purpose vehicle, Resia Interconnector S.r.l.. In addition, on 12 July 2019, Terna submitted an application to the Ministry for Economic Development regarding the transfer of the Passo Resia - Glorenza consents to Resia Interconnector S.r.l..

[Italy-Montenegro](#)

[Italy-France](#)

[Italy-Austria](#)

TRANSFORMERS – TAMINI GROUP

In the first nine months of 2019, the value of production and gross operating profit (EBITDA) were up on the same period of 2018.

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 subjected to short-circuit testing.

In the first nine months of 2019, Tamini received orders for transformers worth approximately €83 million, whilst service orders amount to €9.2 million. Total orders at the end of the year are set to be in line with expectations.

[9M 2019 results](#)

[Order book](#)

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 added value non-traditional activities, above all in the fields of energy storage and smart solutions;
- **EPC Management:** infrastructure management and the implementation of projects overseas.

INITIATIVES IN PROGRESS IN LATIN AMERICA



Uruguay

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

By the end of September, the civil works, assembly of the pylons and installation of the conductor for the main line had been completed.

Approximately 99% of the works have been carried out, with entry into service expected by the end of 2019.



Brazil

In the third quarter of 2019, operation and maintenance of the Santa Lucia Transmissora de Energia (SLTE) concession in the State of Mato Grosso and of the Santa Maria Transmissora de Energia (SMTE) concession in the State of Rio Grande do Sul continued.

SMTE concession: the concession entered service on 3 October 2018. 77% of the line has been built using single-pole cable-stayed pylons with a low environmental impact.

SLTE concession: the concession entered service on 30 April 2019. 75% of the line has been built using single-pole cable-stayed pylons with a low environmental impact.



Peru

Work on construction of the new 132 km, 138kV line between Aguaytia and Pucallpa is continuing. The process of acquiring the related easements is underway and construction work and the assembly of pylons have begun. The procurement of transmission line materials has been completed. The project is expected to be completed by the end of 2020.

OTHER INTERNATIONAL INITIATIVES

Via **ELMED Etudes SARL**, activities continued on development of the electricity interconnector project between Italy and Tunisia. In particular:

- in execution of two financing agreements granted by the World Bank to the Republic of Tunisia regarding the project to provide technical assistance for the Tunisia - Italy electricity interconnector, in January 2019 ELMED Etudes signed two subsidiary agreements with the Republic of Tunisia, appointing it as the implementing agency for the project components relating to preparatory studies and project management.
 - on 22 October 2019, **Terna and the Chairman of Steg signed a memorandum of understanding** - following the intergovernmental agreement signed on 30 April - with a view to stepping up industrial cooperation in the field of electricity infrastructure, and in particular the **Elmed project**, the 600 MW direct current submarine interconnector that will connect Italy and Tunisia. The European Commission has included the 200 km, completely "invisible" interconnector in the list of Projects of Common Interest (PCI), given its strategic importance for the security and energy sustainability of the two countries, and for the construction of a Mediterranean electricity grid to connect North African countries with each other and with Europe, with a view to achieving full market integration.
-

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 30 2019	AT 31 DECEMBER 2018	CHANGE
Senior managers	77	67	10
Middle managers	640	638	2
Office staff	2,423	2,290	133
Blue-collar workers	1,254	1,257	(3)
Total	4,394	4,252	142

The increase in the Terna Group's workforce at 30 September 2019 reflects 214 new hires and 72 people leaving the Group. In particular, workers and technical specialists in the Transmission and System Operator field were hired, accounting for 70% of the total, while the remaining 30% of hires were aimed at developing the Non-regulated business in Italy and abroad and strengthening the Group's distinctive skills.

Initiatives in the first nine months of 2019

In March 2019, the training campaign provided for by the **"Zero Accidents"** project began. This programme has already involved the Managers and Coordinators of the Transmission Operations departments around Italy with specific workshops dedicated to behavioural safety issues, and is currently involving all technical and operational staff with 60 courses planned between March and October.

In September, the **Skill Mapping** project was launched, aimed at:

- identifying distinctive skills in order to spread specialist technical know-how;
- defining medium to long-term Up/Re-Skilling initiatives that will enable the development of strategic skills for the Company's future.

The project also provides for an updated classification of job categories and the related catalogue of technical skills, which will be surveyed via specific evaluation campaigns to be launched during 2020.

TERNA AND LEGAMBIENTE WORKING TOGETHER ON A PLASTIC-FREE MODEL

On 4 October 2019, a partnership between Terna and **Legambiente** was launched with a view to starting the gradual elimination of single-use plastic items, and their recycling, in the workplace. By early 2020, guidelines will be drawn up and shared to facilitate the elimination of plastic within companies and administrative offices.

Inspired by the principles of reduction, reuse and recycling, the **Plastic-Free project** implemented by Terna is designed to promote environmental sustainability. This is a value the Company promotes in all its external activities, as recognised by its recent top ranking in the 2019 Dow Jones Sustainability Index, as well as internally, thanks to the active commitment of individual workers who have become actors in a process of change.

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**.

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.

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, launched 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.

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 coordinate important Italian partners in order to develop a new Energy Management System, 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.

Regarding the D5.2 "General technical specification for EMS and physical demo implementation" deliverable, the main engineering and construction activities have been launched with regard to the Energy Management System, as well as the peripheral flexibility resources (industrial Demand Side Response and wind farms) and line monitoring (Dynamic Thermal Rating).

Innovation Hub

Origination and R&D projects

Open innovation

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, coatings and adsorbent materials.

In particular, the Open Innovation process encourages the opening up of new development fronts within and beyond the Company, through dynamic interaction with universities and research centres and partnerships with peers and large industrial players, as well as access to start-ups and small and medium enterprises.

The main initiatives during the period include:

LARGE COMPANIES, INCLUDING IN THE ENERGY AND INFRASTRUCTURE SECTORS

MoU with SNAM

On 16 October 2019, Terna and Snam signed a **memorandum of understanding regarding cyber security** within the scope of the States General of the Italian Energy Transition. Terna and Snam will engage in synergistic actions to identify, prevent and counter potential threats, attacks and damage to IT infrastructure, in order to boost the security and protection of electricity and gas systems and networks, which are vital elements of national interest.

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.

MoU with The Mobility House

On 31 May 2019, **Terna Energy Solutions and The Mobility House AG signed a memorandum of understanding** to evaluate the potential for cooperation or a partnership in order to exploit commercial openings **in the field of intelligent charging solutions, stationary storage and microgrids**.

UNIVERSITIES AND RESEARCH CENTRES

Hackathon

In September, a Smart Tower Hackathon was held at the Turin Innovation Hub, together with teams from the Polytechnic University of Milan, with the support of CLIK and tutoring by Terna specialists. The event was aimed at identifying profiles of potential future interest, and developing innovative proposals for services that use the Smart Tower platform.

Academy

In March 2019, the research project, to be carried out as part of the five-year partnership between Terna and California's **Stanford** University, got underway. The six-month project involved a member of Terna's personnel who was selected in 2018. The programme, which focused on the adoption of a nodal market model in Italy, came to a conclusion in August. The second part of the project, which is currently being organised, will see another colleague engaged as a Visiting Scholar at Stanford University to develop and investigate other aspects of the same research. The second part of the project will also last six months, starting in January/February 2020.

START-UPS, SMES AND VENTURE CAPITAL

The third edition of **Next Energy** consisted of 3 Calls:

- the **Call for Talents** led to the selection of 10 new graduates who had access, from January, to a six-month internship at Terna's Innovation facilities;
- the **Call for Ideas** made an award for the Windcity project in May, as the outcome of the best idea among the 10 finalists selected at the end of January. The winner developed and produced V-Stream, a variable geometry turbine, and was awarded the €50,000 prize for acceleration services;
- the **Call for Growth** led to the selection in January of 5 start-ups which took part in the engagement process, supported by Cariplo Factory and aimed at defining use cases for subsequent collaborations with Terna.

In September, the fourth edition of Next Energy was launched, dedicated to the theme of energy transition and focused on areas of the innovation plan (Full Internet of Things, Energy Tech, Advanced Materials and Sustainability Digitization Data Management & Analytics).

Next Energy

On 9 October 2019, the start-up, Particular Materials, won the **AMS - Advanced Materials for Sustainability** Terna Call for Innovation. Launched in July, this Call is aimed at developing latest-generation solutions as part of the quest for innovative materials to improve the efficiency and sustainability of electricity grid infrastructure.

AMS
(Advanced Materials
for Sustainability)

On 8 July 2019, the start-up Smart Track won Terna's **D2O - Digital to Operations** Call for Innovation. Launched in May, this Call is aimed at improving the effectiveness of operations, with particular reference to personal safety issues, through the development of new technologies, devices, applications and high added value services to bring about "digital transformation".

D2O
(Digital to Operations)

On 21 June 2019, Eggup, an HR-Tech SME, won Terna's **HRR - Human Renewable Resources** Call for Innovation. Launched in April, this Call is aimed at identifying the best services, applications, and latest-generation and high added value solutions, to help bring about the digital transformation of human resources management.

HRR





4

Performance

Financial review

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 recognition and measurement 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 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 new IFRS, a number of comparative amounts have been reclassified in order to improve presentation, without altering the comparative result.

The Group's reclassified income statement

The Terna Group's operating results for the first nine months of 2019, compared with those for the same period of the previous year, and for the third quarter of 2019 and 2018, are summarised in the following reclassified income statement.

Q3					(€m)			
2019	2018	CHANGE	%		9M 2019	9M 2018	CHANGE	%
567.7	542.2	25.5	4.7%	TOTAL REVENUE	1,665.5	1,605.0	60.5	3.8%
513.2	501.4	11.8	2.4%	- Regulated revenue in Italy	1,518.0	1,480.8	37.2	2.5%
5.9	5.7	0.2	3.5%	of which Revenue from construction services performed under concession	10.9	12.0	(1.1)	(9.2%)
48.2	40.3	7.9	19.6%	- Non-Regulated revenue	130.4	118.2	12.2	10.3%
6.3	0.5	5.8	-	- International revenue	17.1	6.0	11.1	-
135.5	127.0	8.5	6.7%	TOTAL OPERATING COSTS	387.1	374.9	12.2	3.3%
59.6	57.0	2.6	4.6%	- Personnel expenses	189.2	181.4	7.8	4.3%
40.8	38.9	1.9	4.9%	- Cost of services, leases and rentals	115.8	115.9	(0.1)	(0.1%)
22.0	14.4	7.6	52.8%	- Materials	51.6	37.9	13.7	36.1%
7.0	8.3	(1.3)	(15.7%)	- Other costs	17.2	21.3	(4.1)	(19.2%)
0.2	2.7	(2.5)	(92.6%)	- Quality of service	2.4	6.4	(4.0)	(62.5%)
5.9	5.7	0.2	3.5%	- Cost of construction services performed under concession	10.9	12.0	(1.1)	(9.2%)
432.2	415.2	17.0	4.1%	GROSS OPERATING PROFIT (EBITDA)	1,278.4	1,230.1	48.3	3.9%
147.5	132.7	14.8	11.2%	- Amortisation, depreciation and impairment losses	436.2	400.1	36.1	9.0%
284.7	282.5	2.2	0.8%	OPERATING PROFIT (EBIT)	842.2	830.0	12.2	1.5%
(22.3)	(24.1)	1.8	(7.5%)	- Net financial income/(expenses)	(61.1)	(66.8)	5.7	(8.5%)
262.4	258.4	4.0	1.5%	PROFIT/(LOSS) BEFORE TAX	781.1	763.2	17.9	2.3%
76.2	75.5	0.7	0.9%	- Income tax expense for the period	226.5	218.2	8.3	3.8%
186.2	182.9	3.3	1.8%	PROFIT FOR THE PERIOD	554.6	545.0	9.6	1.8%
0.3	1.6	(1.3)	(81.3%)	- Profit/(Loss) attributable to non-controlling interests	2.1	3.5	(1.4)	(40.0%)
185.9	181.3	4.6	2.5%	PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT	552.5	541.5	11.0	2.0%

(€m)			
EBITDA BY SEGMENT	9M 2019	9M 2018	CHANGE
Regulated in Italy	1,233.4	1,193.1	40.3
Non-regulated	36.1	37.0	(0.9)
International	8.9	-	8.9
EBITDA	1,278.4	1,230.1	48.3

Gross operating profit (EBITDA) for the period amounts to **€1,278.4 million**, up €48.3 million on the €1,230.1 million of the first nine months of 2018, primarily due to an improvement in EBITDA from Regulated Activities in Italy.

Revenue

(€m)

REGULATED ACTIVITIES IN ITALY	9M 2019	9M 2018	CHANGE
Tariff revenue	1,479.7	1,451.4	28.3
- Transmission revenue	1,394.9	1,348.4	46.5
- Dispatching, metering and other revenue	84.8	103.0	(18.2)
Other regulated revenue	27.4	17.4	10.0
Revenue from construction services performed under concession in Italy	10.9	12.0	(1.1)
TOTAL	1,518.0	1,480.8	37.2

Regulated revenue in Italy is up €37.2 million, primarily due to the adjustment to the Group's WACC applied by Resolution 639/18 (up to 5.6% for the three-year period 2019-2021 from the 5.3% of the previous period 2016-2018), an increase in invested capital (RAB) and the recognition of additional payments for energy-intensive storage systems (ARERA Resolution 169/19), offset by ARERA's recognition of certain expenses not covered by dispatching charges during the first nine months of 2018 (down €16.4 million).

"Other regulated revenue" also rose €10 million, primarily deriving from an increase in the value of the RENS (Regulated Energy Not Supplied) bonus applied by Resolution 653/2015/r/eel, calculated on a pro rata basis taking into account the estimated overall results expected for the regulatory period 2016-2019 (up €5.6 million) and the application of penalties payable by suppliers (up €3.6 million).

(€m)

NON-REGULATED ACTIVITIES	9M 2019	9M 2018	CHANGE
Tamini	76.8	59.9	16.9
Services for third parties (connectivity, energy solutions, etc.)	47.6	51.5	(3.9)
Italy-France interconnector	6.0	6.8	(0.8)
TOTAL	130.4	118.2	12.2

The increase in **Non-regulated revenue**, amounting to €12.2 million, primarily reflects growth in the **Tamini Group's** order book between the two periods under comparison, net of revenue generated in the first nine months of 2018 as a result of the acquisition of Avvenia The Energy Innovator S.r.l..

(€m)

INTERNATIONAL	9M 2019	9M 2018	CHANGE
Latin America	17.0	5.0	12.0
Other	0.1	1.0	(0.9)
TOTAL	17.1	6.0	11.1

International revenue is up €11.1 million, reflecting revenue generated by investment in assets held under concession in **Brazil** (up €11.3 million), which have now fully entered service.

Revenue rose €25.5 million in the second quarter of 2019, compared with the same period of the previous year, primarily due to the above changes in regulated tariff components (up €11.8 million), and higher revenue generated by the Tamini Group (up €11.1 million). Activities in Latin America also registered higher revenue (up €6.8 million).

Costs

Operating costs have increased €12.2 million compared with the first nine months of the previous year. This is broadly due to the above performance of the Tamini Group's order book and higher personnel expenses attributable to Regulated Activities in Italy, primarily reflecting an increase in the workforce. These increases were partially offset by lower quality of service costs (down €4 million, reflecting outages and blackouts in 2018).

Operating costs rose €8.5 million in the third quarter of 2019, essentially reflecting the above progress of work on the Tamini Group's order book.

Amortisation, depreciation and impairment losses for the period amount to €436.2 million, up €36.1 million on the first nine months of 2018, primarily due to the entry into service of new plant.

Operating profit (**EBIT**), after amortisation, depreciation and impairment losses, amounts to **€842.2 million**, compared with €830 million for the first nine months of 2018 (up 1.5%).

Net financial expenses for the period total €61.1 million and are primarily attributable to the Parent Company (€56.3 million), marking a decrease of €5.7 million compared with the €66.8 million of the first nine months of 2018. This primarily reflects the performance of inflation, increased returns on the investment of liquidity and on short-term financial assets and the reduction in short-term interest rates.

After net financial expenses, **profit before tax** amounts to **€781.1 million**, an increase of €17.9 million (2.3%) compared with the same period of 2018.

Income tax expense for the period totals €226.5 million and is up €8.3 million (3.8%) on the first nine months of 2018, essentially due to the increase in profit before tax and the presence of tax-exempt income in the same period of 2018. The resulting tax rate of 29.0% compares with 28.6% for the first nine months of 2018.

Profit for the period amounts to **€554.6 million**, up €9.6 million (1.8%) compared with the €545.1 million of the first nine months of 2018.

Profit for the period attributable to owners of the Parent (after excluding the share attributable to non-controlling interests) amounts to **€552.5 million**, up €11 million (2%) compared with the €541.5 million of the first nine months 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 €801.3 million, enabling the Group to finance a large part of its investing activities (€670 million) and the return on equity (€481.4 million, including €310.5 million in the form of a dividend paid to shareholders). The remainder was financed by net debt of €8,249.5 million, compared with the €7,899.4 million of 2018 (up €350.1 million).

	(€m)	
	CASH FLOW 9M 2019	CASH FLOW 9M 2018
- Profit for the period	554.6	545.0
- Amortisation, depreciation and impairment losses	436.2	400.1
- Net change in provisions	(101.1)	(37.6)
- Net losses/(gains) on sale of assets	(3.5)	(3.0)
Operating cash flow	886.2	904.5
- Change in net working capital	(82.8)	217.1
- Other changes in property, plant and equipment and intangible assets	23.3	15.9
- Change in investments	(3.4)	0.6
- Change in financial assets	(22.0)	(64.6)
Cash flow from operating activities	801.3	1.073.5
- Total capital expenditure	(670.0)	(561.4)
Free cash flow	131.3	512.1
- Dividends paid to the Parent Company's shareholders	(310.5)	(292.9)
- Cash flow hedge reserve after taxation and other movements in equity attributable to owners of the Parent	(170.9)	(18.4)
- Other movements in equity attributable to non-controlling interests	-	3.9
Change in net debt	(350.1)	204.7

The Group's reclassified statement of financial position

The Terna Group's financial position at 30 September 2019 and 31 December 2018 is summarised below in the reclassified statement of financial position.

	(€m)		
	AT 30 2019	AT 31 DECEMBER 2018	CHANGE
Total net non-current assets	14,322.7	14,083.6	239.1
- Intangible assets and goodwill	520.9	519.4	1.5
- Property, plant and equipment	13,456.5	13,244.3	212.2
- Financial assets	345.3	319.9	25.4
Total net working capital	(1,739.4)	(1,822.5)	83.1
- Net energy-related pass-through payables	(790.0)	(777.6)	(12.4)
- Net receivables resulting from Regulated Activities	329.5	313.9	15.6
- Net trade payables	(612.1)	(908.9)	296.8
- Net tax liabilities	(91.0)	50.9	(141.9)
- Other net liabilities	(575.8)	(500.8)	(75.0)
Gross invested capital	12,583.3	12,261.1	322.2
Sundry provisions	(206.4)	(307.5)	101.1
NET INVESTED CAPITAL	12,376.9	11,953.6	423.3
Equity attributable to owners of the Parent	4,090.3	4,019.2	71.1
Equity attributable to non-controlling interests	37.1	35.0	2.1
Net debt	8,249.5	7,899.4	350.1
TOTAL	12,376.9	11,953.6	423.3

The €239.1 million increase in **net non-current assets** compared with 31 December 2018 primarily reflects a combination of the following:

- an increase of €25.4 million in financial assets, mainly due to an increase in the Interconnector Guarantee Fund, set up to fund investment in interconnections by art. 32 of Law 99/09 (up €15.5 million) and the progress of construction services performed under concession in Brazil (up €6.1 million);
- total capital expenditure of €670 million, as described in the paragraph on “Regulated Activities in Italy”, and including €34 million in leases recognised in application of IFRS16;
- amortisation and depreciation during the period, totalling €436.2 million;
- other changes amounting to a reduction of €18.1 million, including grants related to assets (primarily in relation to projects financed by the Ministry for Economic Development and the EU and to the re-routing of power lines at the request of third parties).

Net working capital (net current liabilities) of €1,739.4 million resulted in a cash outflow of €83.1 million in the period, compared with 31 December 2018. This reflects the combined effect of:

Cash outflows

- a reduction of €296.8 million in **net trade payables**, largely due to the settlement of payables resulting from the greater volume of capital expenditure towards the end of the previous year;
- an increase of €15.6 million in net receivables resulting from Regulated Activities, primarily reflecting an increase in the transmission charge due (€6 million), the dispatching service charge (€2.7 million) and items relating to quality of service (€6.7 million), which among other things include the attributable RENS bonus for the period.

Inflows

- an increase of €141.9 million in **net tax liabilities**, mainly reflecting recognition of income tax for the period after payments on account in July and computation of the income tax payable for the previous year (€112.5 million), in addition to a reduction in net refundable VAT (down €35.3 million) in line with the reduction in net trade payables;
 - an increase of €75 million in **other net liabilities**, primarily due to an increase in amounts payable to the entities financing the Italy-France Interconnector (up €69.3 million);
 - an increase of €12.4 million in **net energy-related pass-through payables**, primarily reflecting the combined effect of:
 - increases in net payables due to plants that are essential for the security of the electricity system (€204.4 million), reflecting items collected during the period after payments approved by ARERA²;
 - an increase in payables linked to the interruptibility service (€36.6 million);
- partially offset by*
- capacity payments made during the period³ (€135.4 million);
 - a reduction in net payables relating to Dispatching Services Market transactions (€98.8 million), linked primarily to a reduced cost of selections due to network constraints in the last few months of the period and lower prices for the procurement of resources for the tertiary reserve.

¹ ARERA ordered payments to the owners of essential plants in resolutions 48-79-101-111-118-150-194-205-235-342 in 2019.

² ARERA ordered capacity payments to be made in resolutions 30, 206 and 233/2019.

Gross invested capital thus amounts to €12,583.3 million, marking an increase of €322.2 million compared with the previous year.

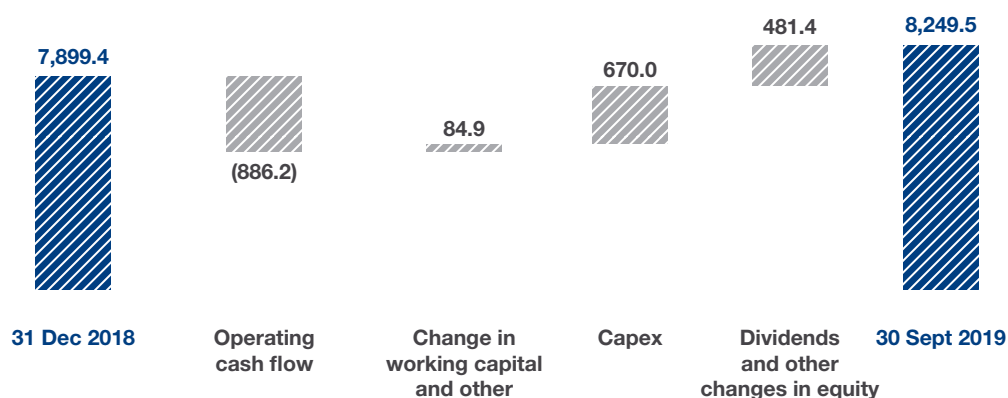
Sundry provisions are down €101.1 million, primarily due to:

- net uses of provisions for the cost of service quality (down €8.8 million, essentially due to payments for events occurring in previous years), for incentive plans for personnel (down €6.0 million), for urban and environmental redevelopment schemes (down €5.1 million) and for litigation and disputes (down €2.1 million, reflecting the settlement of amounts relating to events in previous years);
- the recognition of net deferred tax assets (up €74.7 million), primarily due to the effect on taxation of amortisation and depreciation, the above movements in provisions for risks and charges and movements in derivative financial instruments held by the Group.

Net invested capital of €12,376.9 million is up €423.3 million compared with 31 December 2018 and is financed by equity attributable to owners of the Parent, totalling €4,090.3 million (versus €4,019.2 million at 31 December 2018), equity attributable to non-controlling interests of €37.1 million (€35.0 million at 31 December 2018) and net debt of €8,249.5 million (up €350.1 million compared with the €7,899.4 million of 31 December 2018).

The Group's **net debt** at 30 September 2019 amounts to €8,249.5 million, an increase of €350.1 million compared with 31 December 2018. Net debt is shown below:

CHANGE IN NET DEBT (€m)

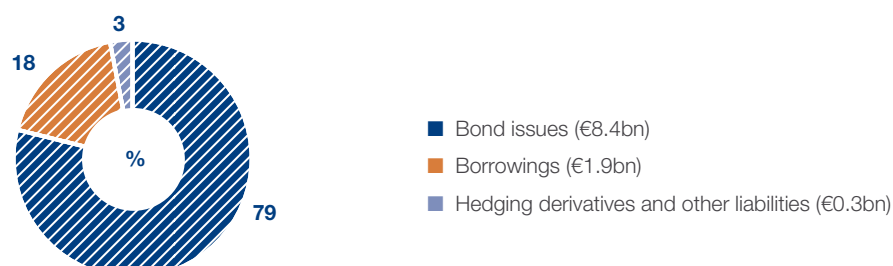


Debt

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



Gross debt at 30 September 2019 amounts to €10.6 billion, consisting of €8.4 billion in the form of bond issues and €1.9 billion in bank borrowings. The average term to maturity of debt, which is almost all fixed rate, is approximately 5 years.

SUSTAINABLE FINANCE

Two green bond issues were launched during the first nine months of 2019 under Terna's €8 billion Euro Medium Term Notes (EMTN) Programme. 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 of 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 18 July 2019, the Company launched an issue of euro-denominated bonds to institutional investors. The issue, which was very popular among investors, with the bonds being approximately four times oversubscribed, was carried out under the EMTN Programme and amounts to €500 million. The bonds will have a term of 6 years and will mature on 25 July 2025. They will pay a coupon of 0.125%, the lowest ever for an Italian corporate bond with a term of more than 5 years, and will be issued at a price of 99.245, with a spread of 45 basis points with respect to the midswap rate and an indicative spread that is around 70 basis points lower than BTPs (Italian Treasury Bills) of the same duration. The effective cost of the issue for Terna is, therefore, equal to 0.25%, compared with a total average cost of consolidated net debt over the life of the Strategic Plan of 1.6%.

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 two back-up facilities totalling €1.3 billion and expiring in 2020 and 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.

(€m)

	30 2019	31 DECEMBER 2018	CHANGE
NET DEBT (BY TYPE OF INSTRUMENT)			
- Bond issues	8,429.7	7,179.9	1,249.8
- Borrowings	1,842.5	2,278.3	(435.8)
- Short-term borrowings	82.0	25.0	57.0
- Derivative financial instruments	181.9	57.9	124.0
- Other financial liabilities net	117.5	89.8	27.7
GROSS DEBT	10,653.6	9,630.9	1,022.7
- Financial assets	(501.7)	(402.6)	(99.1)
- Cash and cash equivalents	(1,902.4)	(1,328.9)	(573.5)
Total net debt	8,249.5	7,899.4	350.1

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

- an increase in bond issues (€1,249.8 million), following the two fixed-rate green bond issues mentioned above. The change also reflects the adjustment of the amortised cost of all the bonds in issue;
- a reduction in borrowings (down €435.8 million), primarily due to:
 - repayment, on 2 February 2019, of the €500 million loan from CDP, using EIB funds;
 - repayments of principal on existing EIB loans (down €112.0 million);
 - new EIB loans drawn down in June, totalling €42.7 million;
 - the drawdown of the entire amount available to the Uruguayan subsidiary, totalling €16.2 million;
 - a new loan obtained by the Brazilian subsidiary, totalling €94.8 million;
 - lease liabilities recognised following first-time adoption of IFRS 16 (€24.7 million);
- an increase in short-term borrowings and other financial liabilities (up €84.7 million) primarily due to the Parent Company's use of short-term credit facilities and the settlement of interest on outstanding borrowings and the related hedges;
- an increase in the fair value of derivative financial instruments (up €124 million), primarily due to movements in market interest rates;
- an increase in financial assets (up €99.1 million), primarily following the purchase of Italian government securities with a notional value of €100 million;
- an increase in cash and cash equivalents (up €573.5 million). Cash amounts to €1,902.4 million at 30 September 2019, including €677.8 million invested in short-term, readily convertible deposits and €1,224.6 million held in bank current accounts and in the form of cash in hand.

Terna's shares

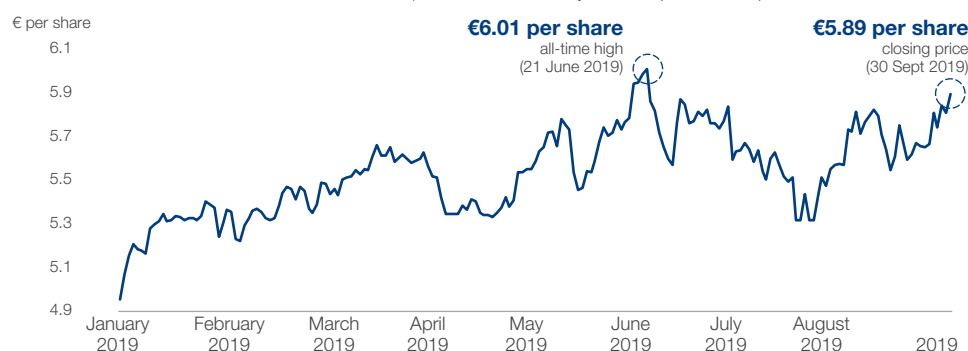
Terna S.p.A. has been listed on Borsa Italiana's screen-based trading system (*Mercato Telematico Azionario*) since 23 June 2004. **From the date of floatation to the end of September 2019, the share price has risen 247% (a capital gain)**, providing a Total Shareholder Return (TSR⁴) of 705%, ahead of both the Italian market (the FTSE MIB, up 39%) and the relevant European sector index (DJ Stoxx Utilities), which is up 221%.

Europe's leading stock markets rose during the first nine months of 2019, with Milan gaining 20.6%, Frankfurt and Paris 14.0% and 20.0%, respectively, London 10.1% and Madrid 8.3%.

Performance of Terna's shares

Terna's share price rose 19.0% over the first nine months of 2019 to €5.89. On 21 June, the shares reached an all-time high of €6.01. The daily average volume traded during the period amounted to 6.4 million. The ex-dividend date for the final dividend for 2018, amounting to 15.45 euro cents per share, was on 24 June.

PERFORMANCE OF TERNA'S SHARES (Price between 1 January and 30 September 2019)



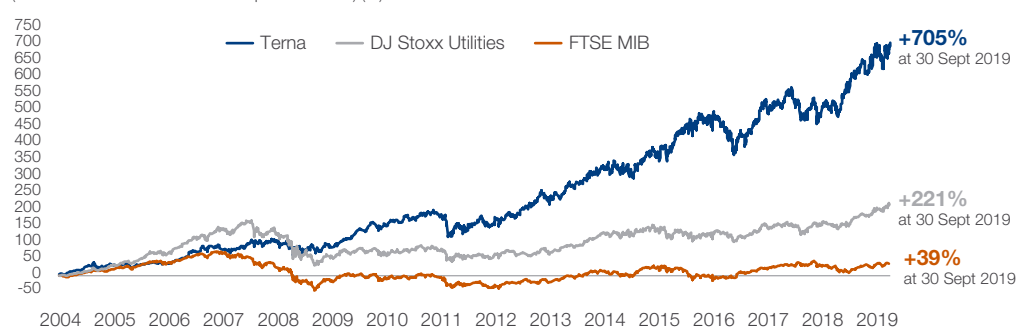
Source: Bloomberg

⁴ Total Shareholder Return (TSR): total return on an equity investment, calculated as the sum of:

- I. the capital gain: the change in the share price (difference between the price at the end and at the beginning of the relevant period) as a percentage of the price at the beginning of the period;
- II. reinvested dividends: the ratio between dividends per share paid out during the period and the share price at the beginning of the period. Dividends are assumed to have been reinvested in the shares.

TOTAL SHAREHOLDER RETURN ON TERNA'S SHARES AND THE FTSE MIB AND DJ STOXX UTILITIES

(from the floatation to the end of September 2019) (%)



Source: Bloomberg

WEIGHTING OF TERNA'S SHARES	9M 2019	9M 2018
> on the FTSE MIB	2.36%	1.87%

Source: Borsa Italiana.

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
Scope	S-1	A-	Stable	17 May 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	9 August 2019
Scope	S-2	BBB+	Stable	7 December 2018

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.

On 17 May 2019, the ratings agency, Scope Ratings AG (Scope), assigned Terna – and the Company's unsecured senior debt – a long-term rating of "A-", with a stable outlook, and a short-term rating of "S-1". The ratings assigned by Scope confirm the strength of Terna's financial position and recognise the Group's significant commitment to integrating sustainability into its business strategy as a key driver of value creation. This means that Scope's ratings are more favourable than the public ratings assigned by S&P (BBB+, Negative), Moody's (Baa2, Stable) and Fitch (BBB+, Stable). Terna was the first non-financial corporate to obtain a public rating from Scope.

Outlook

The positive results achieved during the period mean that the Terna Group can look forward with confidence to delivering on the objectives announced to the market for 2019.

In particular, the Company will continue to decisively pursue the strategic objectives set out in the 2019-2023 Strategic Plan, stepping up the pace of investment in order to focus on development of the national transmission grid with the aim of facilitating the integration of renewable sources and improving the security of the system. At the same time, we intend to renew the Group's asset base in order to mitigate the risk of interruptions to supply, boost environmental sustainability and make it easier to carry out maintenance activities through the use of digital grid technologies.

Terna will continue to boost investment in innovation and digital solutions in order to manage the growing complexity of the system, whilst also developing and insourcing strategic competencies and strengthening internal capabilities in order to implement our planned investment programme. The Company will continue to be committed to engagement with local stakeholders and to respect for the principles of integrity, responsibility and transparency, on which the management of our business has always been based, in order to ensure our ability to minimise the environmental impact and meet the ESGs.

In terms of **Regulated Activities**, key electricity infrastructure under construction includes the interconnection with Montenegro, which is expected to come on stream by the end of 2019. We also expect work on the reorganisation of electricity grids in the principal metropolitan areas, primarily entailing the renewal of the current infrastructure with more technologically advanced connections in line with the best environmental sustainability standards, to lead to the entry into service of major connections in the cities of Florence, Genoa and Milan.

The last quarter of the year will see the Group continue to engage in the review of tariffs and quality of service requirements for electricity transmission in the NPR2 sub-period (2020-2023) as part of the specific consultation processes set up by the regulator, ARERA.

As regards **Non-regulated Activities**, in line with previous years, the Group will focus on supporting the energy transition through the development of innovative services.

Specifically, Terna will consolidate its role as an Energy Solutions Provider, developing services with high added value for businesses and taking advantage of market opportunities.

In the telecommunications sector, opportunities in connectivity will also be pursued by extracting value from the Group's dark fibre infrastructure.

The Group's **International Activities** will focus on operation and maintenance of the Brazilian power lines that entered service between the end of 2018 and the first half of 2019 (Santa Maria Transmissora de Energia and Santa Lucia Transmissora de Energia) and on continuing with existing projects in Uruguay and Peru, where work is proceeding to plan, exploiting the Group's distinctive competencies.

Provided that the necessary conditions are met, we will also seek to close the agreement with Construtora Quebec regarding the acquisition of two new concessions for the construction of 305 km of power lines in Brazil.

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 Financial Report for the nine months ended 30 September 2019 is consistent with the underlying accounting records.







5

Annexes

Alternative Performance Measures (APMs)

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

MEASURE	DESCRIPTION
OPERATING RESULTS	
Operating profit/(loss) - EBIT	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	is an indicator of operating performance obtained by adding “ Amortisation, depreciation and impairment losses ” to Operating profit/(loss) (EBIT) .
Tax rate	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	is an indicator of financial position, showing the Group's liquidity position; it is based on the difference between current non-financial assets and current non-financial liabilities , as presented in the statement of financial position.
Gross invested capital	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	is calculated by deducting “ Sundry provisions ” from “ Gross invested capital ”.
CASH FLOW	
Net debt	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	is the cash generated by operating activities less capital expenditure 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 reporting period.

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.





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www.terna.it

Mercurio GP
Milan

Strategic advisory
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