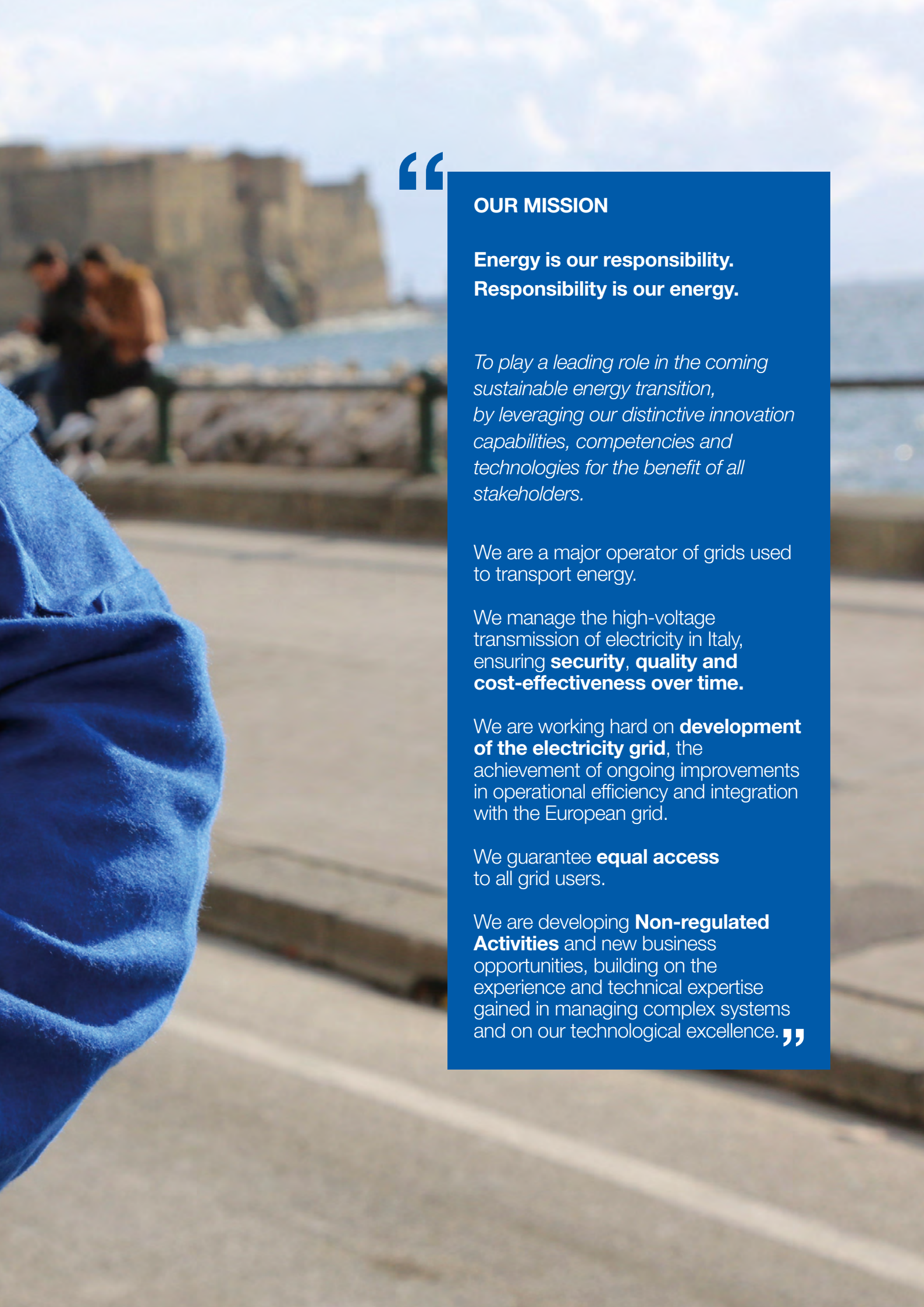
ENERGY IS OUR RESPONSIBILITY

2020
CONSOLIDATED INTERIM FINANCIAL REPORT - 31 MARCH

Terna


Terna
PETZL



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.

Terna and the Covid-19 emergency

The Covid-19 ("Coronavirus") epidemic, which began in Italy on 21 February 2020 with confirmation of the country's first case, has resulted in a complex health emergency that is still ongoing. Terna responded quickly to the situation and has been in constant contact with the relevant authorities, acting in line with the government's instructions. Responsibility for all decisions regarding the health emergency was assigned to a special **Crisis Committee**, chaired by the Chief Executive Officer and consisting of the heads of key departments. One Committee member is also a permanent member of the Civil Protection Agency's Operations Committee.

In the most serious emergency the country has had to face in the post-war period, Terna has the key task of ensuring the **operational continuity** needed in order to guarantee that everyone has **access to electricity**. To do this, Terna has acted on a number of fronts at the same time, all with the aim of putting in place the **necessary safeguards** designed to ensure the **security of the transmission system**, bearing in mind the international nature of the coronavirus problem, and the **health and safety of people**, our **operational personnel** and, in general, **all the people who work for us**.

As regards our activities as the country's **TSO** (Transmission System Operator), and above all the construction and maintenance of electricity infrastructure, in agreement with the labour unions, the Company has **cut back our operations**, reducing the number of sites where work is taking place from 200 to 25. This means only **continuing with work that is strictly necessary in order to guarantee continuity of service and the security of the system**. At the same time, we have begun preparing a **plan to accelerate investment** so that, once the emergency is over, we can make up the lost ground as quickly as possible.

Ongoing dialogue between Terna and the government has also enabled us to obtain further guarantees for service continuity, by exempting a number of key components of the **electricity supply chain** from Italy's industry shutdown, including, for example, companies that manufacture motors, generators and electricity transformers and equipment used in the distribution and control of electricity.

The security of **dispatching** activities was ensured by taking steps to safeguard staffing levels and operational capacity at sites around the country. New devices have been introduced in order to control access to Control Rooms and Remote Control Centres (e.g. thermal scanners to measure body temperatures"), whilst measures have been put in place to ensure that sites are thoroughly cleaned between one shift and another and that social distancing rules are adhered to. The operational capacity of our Control Rooms and Remote Control Centres forming part of the country's dispatching system have been **stress tested** by simulating critical scenarios based on growing shortfalls in available energy. The daily monitoring of interruptible users has also been introduced, with their availability already affected by the initial business shutdowns in northern Italy. **Cooperation with neighbouring TSOs has also been intensified** to reduce the risk of critical situations developing. The **Ministry for Economic Development** has assigned Terna a key role in liaising with the Civil Protection Agency and in managing urgent interventions by producers around the country.

The **health of all our personnel and their ability to continue to operate** was one of Terna's immediate priorities. All of us have been kept constantly informed of any new legislation and its impact on the Company, whilst events have been organised to provide people with much needed information, including a live-streamed video conference on the Company's intranet with the Head of the Department responsible for Clinical Studies and Research into Infectious Diseases at the "Lazzaro Spallanzani" National Institute for Infectious Diseases in Rome.

With particular regard to operational personnel, we have given close attention to efforts to protect them from infection, including the rapid deployment of protective equipment (FFP2 and FFP3 masks, latex gloves and protective clothing). Other personnel have been asked to **work from home**. This was initially applied to staff with minor children, people over 65 or those with underlying health issues, before being extended, as the situation gradually worsened, to all non-operational personnel.

Everyone within the Group has been able to continue working as a result of the efforts made by our **ICT-Information Communication Technology** unit which, thanks to upgraded internet access (e.g. the VPN-Virtual Private Network) and the large-scale extension of access to the TEAMS platform, has enabled everyone to work remotely. The average number of connections each day is 3,400, with 2,600 active users at any one time and the generation of 3.5 Terabytes of data traffic per day, principally due to smart working sessions and video and audio meetings (4,500 a day).

Terna has also obtained specific Covid-19 insurance cover for all our personnel.

Highlights

The development of the national grid continues with progress made on all major investment projects to support the ongoing energy transition.

The revised **Grids and Values corporate strategies for 2020-2024**, as approved by the Board of Directors, were presented to the market and to stakeholders on **10 March 2020**.

RENEWAL OF TERNA – SNAM MOU

On 15 April 2020, Terna and Snam renewed their partnership set up to coordinate joint initiatives regarding research, development and innovation and explore the potential for convergence between the electricity and gas systems.

- The 150kV Benevento III-Pontelandolfo power line (+15 km) **entered service**.

- On 8 April 2020, Terna published the **2020 Development Plan**: investment of over €14 billion in the next 10 years to enable the energy transition and facilitate the full integration of renewable sources, creating an increasingly decarbonized system.

ACQUISITION OF BRUGG CABLES

On 29 February 2020, Terna completed the acquisition of a 90% interest in Brugg Kabel AG, one of Europe's leading manufacturers of terrestrial cables. The acquired company designs, develops, produces, installs and maintains electric cables for all voltages and accessories for high-voltage cables.

RICONOSCIMENTI E SOSTENIBILITÀ

- Terna included for the second year in the **Bloomberg Gender Equality Index (GEI)**.
- SAM includes Terna in the **Gold Class of the Sustainability Yearbook 2020**, a leading international publication on corporate sustainability issues and performance.

FINANCIAL HIGHLIGHTS

(€m)	Q1 2020	Q1 2019	Change
Revenue	567.5	537.0	5.7%
EBITDA	434.2	420.2	3.3%
Profit attributable to owners of the Parent	186.6	186.0	0.3%
Capital expenditure	217.5	164.4	32.3%
	Q1 2020	FY 2019	
Net debt	8,408.5	8,258.6	

STOCK MARKET AND FINANCE

Terna's share price

Share price of €5.770 at 31 March 2020 versus €5.648 per share at 31 March 2019.

New all-time high of €6.786 per share registered on 19 February 2020.

Finance

CFO Taskforce for the SDGs: Terna recently took part in the initiative launched by the UN Global Compact in February 2020 regarding the development of **sustainable finance**. Via the implementation of principles and guidelines, the Taskforce aims, to align corporate finance and investment with the Sustainable Development Goals promoted by the United Nations.

Fitch, Moody's, S&P and Scope confirm Terna's rating. The Company's rating is now two notches above the rating assigned to the Italian state by Fitch and one notch above the ratings assigned by the other agencies.

BUSINESS ENABLERS

Our people

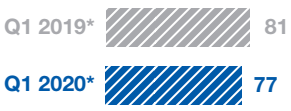
370 personnel added in the first quarter of 2020 following the acquisition of Brugg Kabel AG.

Innovation

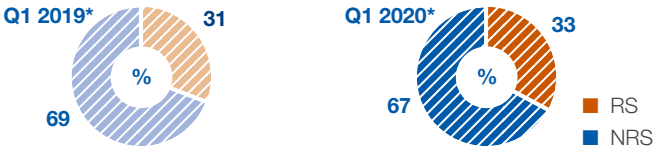
Terna Innovation Hubs' Digital Twin: a Digital Innovation Hub has been created to give innovation activities a digital slant.

PERFORMANCE OF THE ELECTRICITY SYSTEM

Demand [TWh]



COVERAGE BY RENEWABLE SOURCES



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

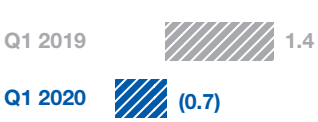
RENS quality [MWh]

MAJOR INCIDENTS

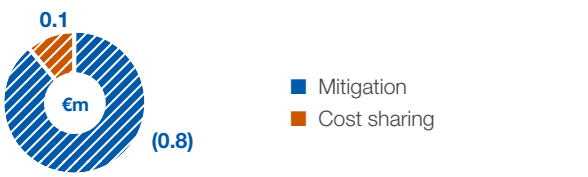
Performance in Q1 2020: no major incidents affecting performance in Q1 2020.

(*) Provisional data.

Cost of quality [€m]



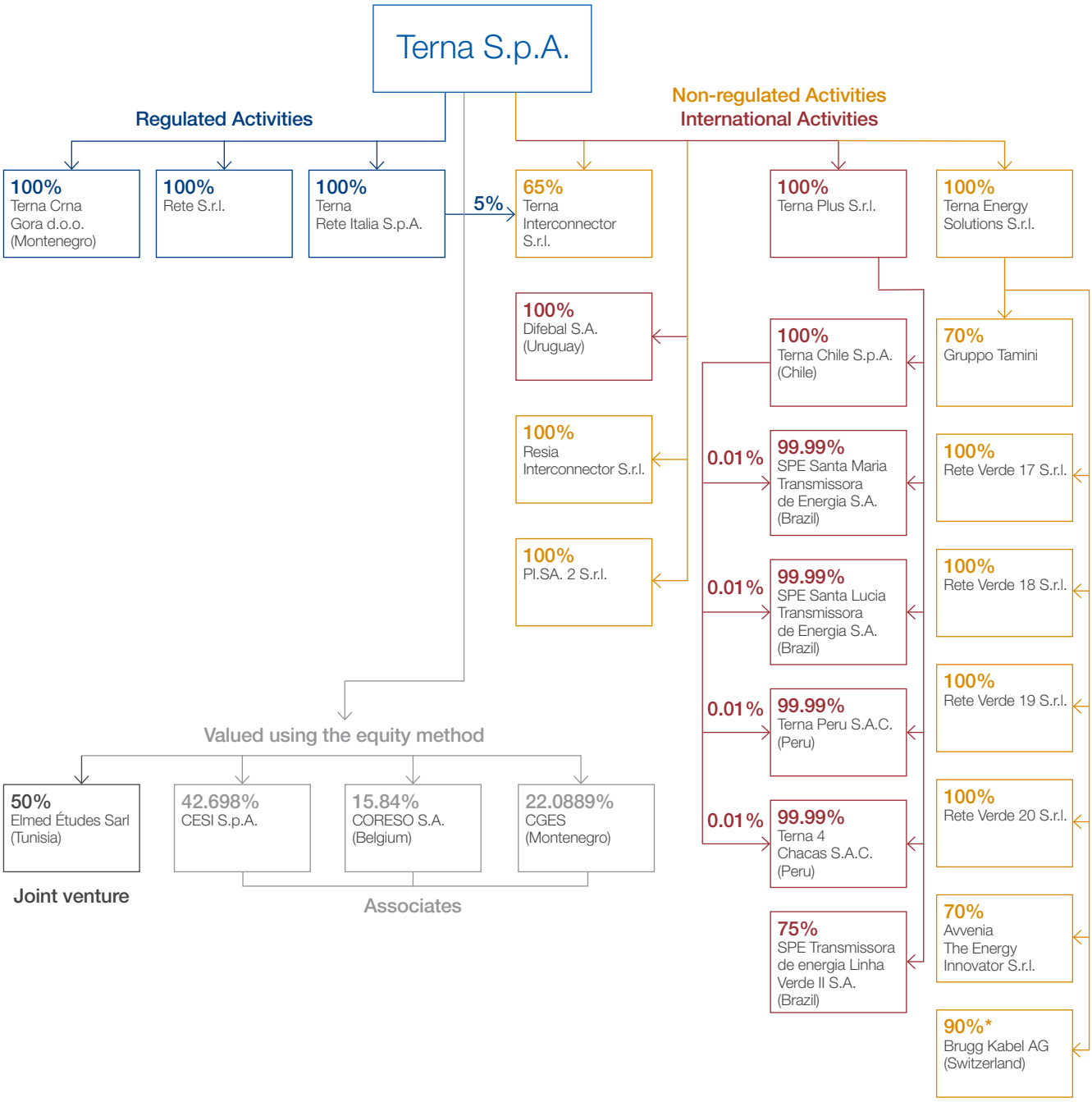
COST ALLOCATION **Q1 2020**




Terna

Structure of the Group

The structure of the Terna Group at 31 March 2020 is shown below.



Compared with 31 December 2019:

* On **29 February 2020**, as part of the growth strategy for Non-regulated Activities, Terna, acting through its subsidiary, Terna Energy Solutions S.r.l., completed the acquisition of a 90% interest in Brugg Kabel AG (a Brugg group company).

INTRODUCTION

The **Terna Group's consolidated interim financial report for the three months ended 31 March 2020**, 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).

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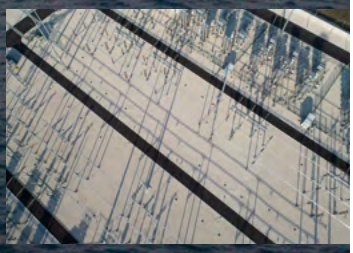

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We promote the energy transition and sustainable development by focusing on people and innovation.
Every day, we work to build an atmosphere of dialogue and trust in local areas,
to which we bring a vital asset for everyone's economic and social lives: 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.

1

The Group's strategy

The Company and our strategy

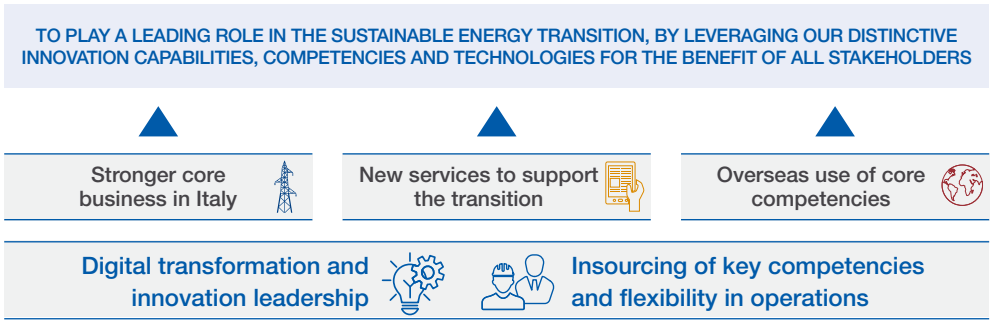
The Terna Group's main activities are the transmission and dispatching of electricity in Italy. Terna performs these activities in its role as the Italian TSO (Transmission System Operator) and ISO (Independent System Operator), operating under a monopoly arrangement and a government concession.

The energy model on which the planet's development has depended in recent years is no longer sustainable. This is borne out by the exponential increase in global primary energy consumption, the increase in CO_2 emissions and the impact on our planet's ecosystem, as demonstrated by the growing attention paid to issues relating to the climate and environment by international institutions. This situation requires a global commitment to a progressive decarbonisation and improved efficiency across all forms of energy. In this context, the electricity sector has a central role to play in achieving the energy system's overall decarbonisation goals, thanks to the intrinsic efficiency of electricity as an energy carrier and the technological maturity of renewable energy sources (RES).
This transformation will not have zero impact on the electricity system, but will face us with a series of challenges that we must meet in order to ensure that the energy transition takes place in a decisive and effective manner, maintaining the current high levels of service quality and, at the same time, avoiding an increase in the cost to society.
The large-scale use of RES has a significant impact on the way in which Terna manages the grid. This is because they are intermittent sources, not as flexible as traditional power plants and sometimes far away from centres of consumption, leading to an increase in grid congestion, especially from south to north.
In addition, the growing frequency of extreme climate events, allied with the structural nature of the Italian transmission grid, puts major demands on the TSO, which is called on to protect and manage the grid in order to guarantee the security of electricity supply.

In response to the changes brought about by this new energy environment, Terna has to focus on five key dimensions of the system: **Security**, **Adequacy**, **Quality of service**, **Resilience** and **Efficiency**. In this regard, the Company has confirmed the strategy set out in the Plan for the period 2019-2023, 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.

Consequently, the strategic guidelines for the various areas of the Group have been identified:

- **Regulated Activities:** 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;
- **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;
- **International Activities:** to leverage the core competencies developed in Italy as a TSO through growth opportunities overseas.



A key driver of this strategy will be investment in the innovation and digital solutions needed to manage an increasingly complex, integrated and distributed 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.

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.

With reference to **Regulated Activities**, the system needs an additional 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 and in digitally managing assets should also be strengthened by combining Terna's specialist expertise with the experience gained in the most advanced markets. In this regard, Terna is to invest €7.3 billion over the five-year period 2020-2024, making the Company's largest ever investment programme.

Non-regulated Activities will be geared towards supporting the energy transition, with competency-based initiatives focusing on the development of services for corporate customers and on taking advantage of value-added market opportunities for traditional and renewable customers.
Asset-based initiatives will, on the other hand, aim to pursue opportunities based on connectivity and distributed computing linked to the Group's infrastructure.

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. 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.

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

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 2020	AT 31 DECEMBER 2019	CHANGE
Senior managers	**81**	72	9
Middle managers	**674**	617	57
Office staff	**2,531**	2,382	149
Blue-collar workers	**1,371**	1,219	152
Total	**4,657**	**4,290**	**367**

The increase in the Terna Group's workforce at 31 March 2020 primarily reflects the growth of international Non-regulated Activities, involving 370 additions following the acquisition of Brugg Kabel AG.

The Covid-19 emergency

Since the issue of the Cabinet Office Decree of 23 February 2020, Terna has progressively introduced **measures to contain and reduce the risk of Covid-19 contagion**, including suspension of classroom training activities, corporate events and business trips in Italy and abroad, as well as dissemination of **hygiene and health measures** to be implemented by all personnel, and the start of periodic **sanitisation** activities at workplaces.

The Company promptly updated **Terna's anti-contagion security protocol**, implementing the further instructions contained in the protocol between the government and the social partners of 14 March. More generally, during the entire emergency period, Terna has **constantly informed workers**, employers and their representatives via direct communication and posting on the intranet site, including a streaming conference with Prof. Petrosillo from the Spallanzani Institute in Rome and Prof. Marchetti, a psychiatrist, which was attended online by more than 1,700 Terna people from all over Italy.

Terna has also obtained a **specific Covid-19 insurance policy** for all our personnel, which includes the payment of compensation in the event of hospitalisation due to infection with Covid-19.

As part of the initiatives, Terna has welcomed the request submitted by the national trade union offices to allow our personnel to pay a voluntary contribution equal to one hour's salary, to be allocated to an initiative undertaken in agreement with the National Civil Protection Department and aimed at strengthening the National Health Service's intensive care facilities and personal protection equipment. The initiative saw the participation of around 2,300 Terna people. Senior managers also contributed to the collection with donation of their choice.

During this emergency phase, Terna has progressively adopted specific organisational measures aimed at reducing the risk of Covid-19 contagion, including the following:

A. Working from home

The **working from home initiative has been extended to all office staff**, with the exception of the Infrastructure Units, and personnel on duty in the Dispatching and Security Operations Centre (SOC) rooms, for whom specific operating procedures have been implemented as described below.

B. Specific infrastructure unit measures

New operating procedures for Infrastructure Units has been drawn up based on:

- a reduction of construction site activities and keeping operation and maintenance activities to the bare minimum required to guarantee the continuity and security of the electricity service;
- sub-dividing the workforce into their relevant sites and stations in order to separate teams and reduce the risk of contagion;
- the alternation of teams to ensure ordinary operations as well as on-call interventions;
- working from home for technical staff based on weekly shift cycles that guarantee the presence of only 30% of on-site staff.

C. Specific dispatching room measures

Several measures have been adopted for the Dispatching control and operations rooms, including:

- alternation of use of the main rooms with the backup rooms, in order to ensure the separation of teams;
- the rotation of work sites, in order to limit contact between staff, including during the handover from one shift to another, and modifications to shifts;
- the cleaning, disinfection and sanitisation of premises carried out at the end of each shift;
- meals served directly in the control rooms and in the rooms reserved for on-call staff;
- body temperature measurement using thermal scanners at site entrances.

D. Specific SOC and CERT measures

In order to guarantee social distancing among operators, thus ensuring the safe management of the Company's video surveillance and intrusion detection monitoring, a new control room has been set up at the Rome site in Via Galbani, so as to ensure the alternation of staff on duty in the SOC room in Via della Marcigliana in Rome.

Also, in order to maintain social distancing among operators, while at the same time ensuring safe management of the Company's cyber security systems, the new CERT room at the Rome office in Via Galbani has been activated.

INITIATIVES IN THE FIRST QUARTER OF 2020

Zero Accidents

The **"Zero Accidents"** project is continuing in 2020, also with specific initiatives linked to the improvement proposals received from around the country and during the competition held at all the Infrastructure Units in the previous year.

The review of the **"DPRET"** document has been launched, and the new rescue procedure for live-line working carried out high above the ground submitted to the Ministry of Labour and Social Policies for approval has been defined. The new procedure for the management of personal protective equipment (PPE) has been defined, and the new "SMART PPE" working group which involves other Company departments and aims to develop innovative technologies for the use of protective devices, has been set up.

In 2020, the Terna-ANIE (National Association of Electricity Companies) technical working groups continued. These are involved in drafting safety procedures at construction sites where overhead and underground cable power lines are built.

Plastic Free project

Terna's **Plastic Free project**, which is inspired by the reduce-reuse-recycle principle, is aimed at environmental sustainability, a value promoted by the Company in all its external activities, as recognised by our recent top ranking in the 2019 Dow Jones Sustainability Index, and internally, thanks to the active commitment of individual workers who have become actors in a process of change.
In early 2020, joint initiatives were also developed to launch the project in the Transmission Operating Area offices in Naples, Palermo, Turin, Florence and Padua.

Training

In the first quarter of 2020, **approximately 24,582 hours** of training were provided, relating to the continuation of various training projects, including:

- in the **corporate** sphere:
  a) renewal of support for **"Valore D"**, an association that promotes skills development and networking with a special focus on diversity and women's career development. Since January, 5 colleagues have been involved, with a total of 49 hours of training;
  b) participation in the **"Music and Management"** programme in collaboration with Luiss Business School and the National Academy of Santa Cecilia. The training course consists of four modules each lasting 6 hours, the first of which has been held.

- in the area of **online training**:
  a) regarding the project to adopt **Microsoft Office 365** - launched at the end of 2019 - 5 workshops were held at the Microsoft headquarters for more than 170 staff (Digital Ambassadors and Digital Leaders), and 8 workshops - at the Campus - for around 80 senior managers with the aim of promoting internal use of the new applications: Teams, OneDrive and SharePoint;
  b) training in **Compliance**, with a training plan dedicated to the "Organisation and Management Model pursuant to Legislative Decree 231/2001": 4 editions of the **"Business Ethics and Compliance"** course, involving 169 staff, and 3 editions of the **"Business Information Management"** course for 79 staff.

Recruitment and selection

During the first quarter of 2020, staff recruitment and selection activities focused on technical and operational roles to complete the generational turnover process launched in previous years, and roles for disabled people (in line with the provisions of Law 68/99).
The talent attraction strategy has been enhanced by new partnerships with the STEM departments of the leading Italian universities. The aim is to make Terna more attractive for recent graduates in physics, statistics, mathematics and data science.

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 main tools Terna has put in place to develop innovation are: identification of an organised **Innovation Plan**, and implementation of an **Open Innovation** process.

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.

Innovation Hubs

On 9 April 2020, an agreement was signed relating to research, technological development and innovation of the national electricity infrastructure, which provides for the opening of the **Polytechnic University of Bari and Terna's Innovation Hub**. An Innovation Hub will be opened at the Polytechnic University of Bari, where a mixed team of university researchers and business experts will work side by side on scientific projects of common interest. The projects, which will be closely linked to the economic, social and productive context of the area, will seek to enhance collaboration between the university and enterprises regarding the development and integration of skills in multidisciplinary research areas, dedicated to the management and security of the national electricity system. In particular, the projects will regard these themes: edge computing/distributed computing, for real-time data collection and analysis; advanced electricity infrastructure services; IT security; digital technologies; and additive manufacturing.

Activities continued at the **Milan Advanced Analytics** laboratory, to develop and train predictive models able to predict electricity transits on a limited portion of the NTG.

The predictive models, trained using the most modern machine learning techniques, have been developed by 3 start-ups (Orobix, Energy Way and MoxOff), each of which has implemented a prototype software made available to Terna for an initial assessment and testing. In addition to the development of projects, the 2020 Innovation Programme includes a series of initiatives involving all the actors of the Innovation Ecosystem, to be implemented at the Terna Innovation Hubs.

The first quarter of 2020 saw the birth of the **Terna Innovation Hubs' Digital Twin**, a Digital Innovation Hub where new forms of interaction and dialogue can be tested using digital tools.

The health emergency arising from Covid-19 has imposed new ways of carrying out innovation initiatives. The outcome has been a digital redefinition, aimed at involving people, local areas and other actors from the ecosystem in the innovation process. The Terna Innovation Hubs thus become virtual - and no longer just physical - places where ideas and projects can continue to be developed with innovation ecosystems and Terna's people.

Open innovation

Open Innovation is the approach Terna adopts in developing our innovation initiatives. This approach 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 innovation initiatives undertaken in the first quarter of 2020 are summarised below.

LARGE COMPANIES, INCLUDING IN THE ENERGY AND INFRASTRUCTURE SECTORS

MoU with Snam

On 15 April 2020, Snam and Terna renewed and extended their partnership regarding coordinated research, development and innovation activities, and potential convergence between the electricity and gas systems, by **renewing their memorandum of understanding** (first signed on 1 March 2019). The two companies intend to carry on working together to identify, define and implement joint initiatives, also sharing their expertise and best practices, with the aim of further strengthening their commitment as key players in the current energy transition.
Specifically, the agreement aimed at exploiting potential synergies between the gas system and the electrical system breaks down into three areas of interest:

- "dual fuel" power plants, in which Snam plans to convert its compression and storage plants to gas-electric power, entailing significant environmental benefits for the national economy in terms of reducing CO_2 emissions, and the development of new flexibility resources for the electricity system;
- research and development, in which initiatives relating to so-called "sector coupling" will be developed, with particular reference to flexibility dynamics and integration of renewable energy sources;
- co-innovation, to continue the testing and development of innovative initiatives and technological solutions regarding the sustainability of energy networks, via infrastructure monitoring using drones, satellites and IoT sensors, as well as workers' safety and the environment.

UNIVERSITIES AND RESEARCH CENTRES

Partnership with the University of Padua

In March 2020, the University of Padua promoted an initiative envisaging the participation of Terna and other companies aimed at involving students, PhD students and recent graduates from all disciplinary fields in project challenges launched by companies. Terna's proposal sets out a design challenge aimed at generating ideas and technological solutions in the field of additive manufacturing, which can be applied in the Company's operations.

START-UPS, SMES AND VENTURE CAPITAL

Next Energy

The fourth edition of **Next Energy** consisted of three Calls:

- **Call for Talent:** 10 new graduates were selected, who, from January, had access to a 6-month internship at several of Terna's facilities;
- **Call for Ideas:** 10 innovative ideas proposed by teams of innovators were selected in January, and the idea development phase (empowerment) began in March with the support of the Cariplo Factory;
- **Call for Growth:** 5 start-ups were selected in January, and in March an engagement process, supported by the Cariplo Factory, was launched, with a view to defining use cases for subsequent collaborations with Terna.

Open Italy

Terna continues to participate in the **Open Italy** programme, an ELIS Open Innovation initiative set up to encourage dialogue and collaboration between large companies, Italian start-ups/SMEs and innovation facilitators such as accelerators and research centres, regarding concrete innovation projects relating to eight areas of innovation. The 2020 edition of Open Italy was launched in December 2019. Terna identified three priority areas of innovation (urban intelligence and smart mobility, cybertech, and clean technologies and advanced materials) regarding which the Company has expressed specific business needs. In March, Terna began assessing the start-up candidates in these areas.

Innovation Review

This new, completely digital initiative is aimed at monitoring the progress of Innovation Hub projects. It includes a series of meetings involving Terna's project managers, innovative companies and the central innovation team to discuss the state of progress of their activities, areas for further attention and next steps. The first meeting took place in March 2020 and was attended by the start-ups involved in Turin Innovation Hub projects.

Call for Innovation I4G – Innovation for the Grid

On 29 April 2020, Terna launched the Call for Innovation **I4G – Innovation for the Grid**, with the support of **Digital Magics**, a business incubator listed on the Borsa Italiana's AIM Italia market. The launch, which took digital form for the first time ever, is aimed at innovative start-ups and SMEs looking to propose solutions that can help to drive digitalization and increase the resilience of the national transmission grid.
This new Call is focused on the search for solutions capable of enhancing and improving the IoT monitoring system that Terna is installing on the various assets that make up the national high-voltage electricity system. The aim is to find advanced analytics algorithms and develop a special type of sensor for use on power lines, capable of being integrated with and improving the monitoring system in place.

OTHER OPEN INNOVATION INITIATIVES IN THE FIRST QUARTER OF 2020

Intellectual Property Protection

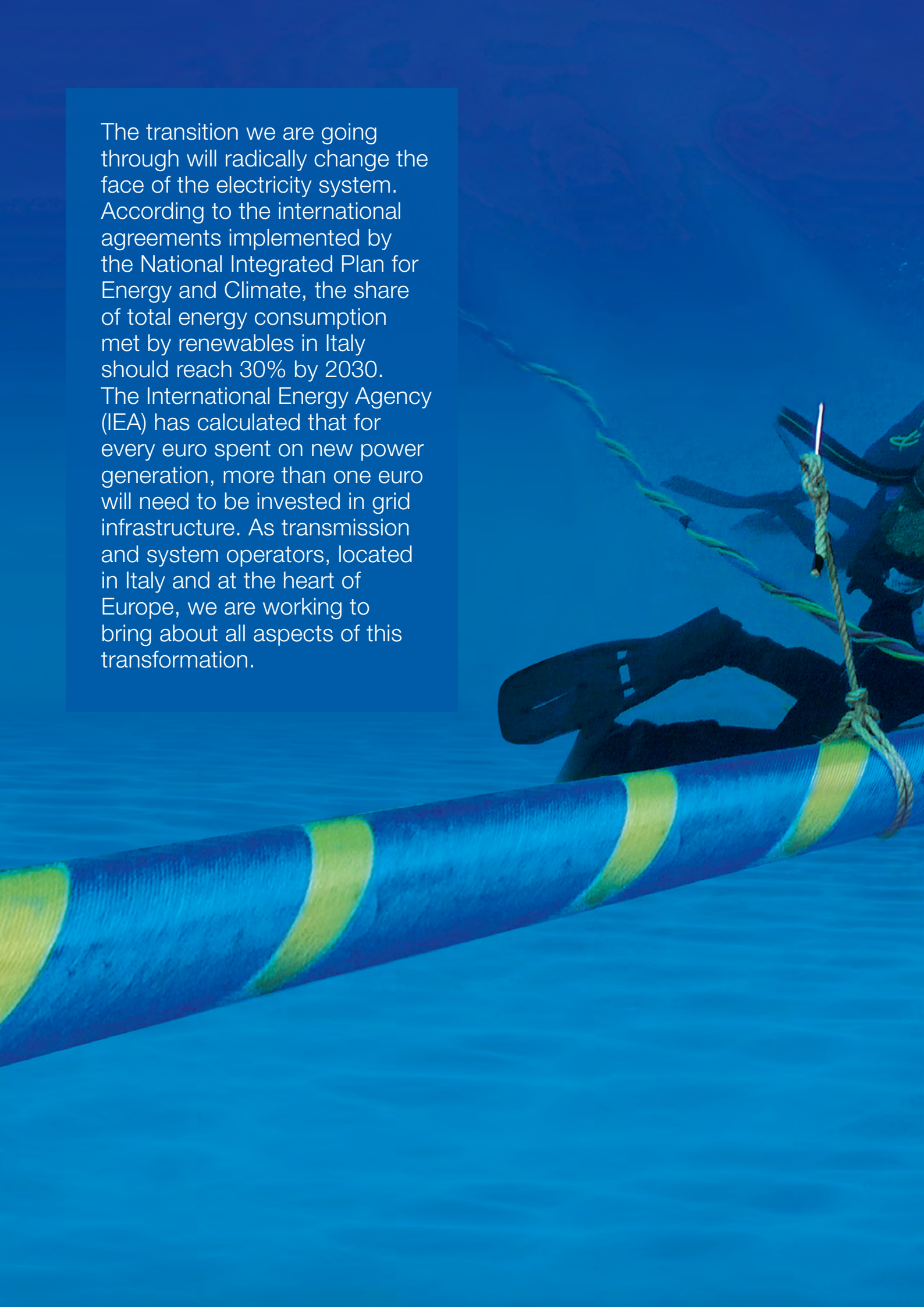
In January 2020, specific activities relating to **Intellectual Property Protection** were defined within the Open Innovation unit. One of the unit's first objectives is to implement a process of leveraging and protecting intellectual property generated by Terna. Strengthening and raising awareness among Terna's stakeholders of the intellectual property management process is at an evolutionary stage. Ideas and solutions must be protected with the tools available (patents, design, copyright and know-how) in conjunction with Terna's business strategies.

A screening phase has also begun for ongoing activities that can already be leveraged accordingly, in terms of intellectual property.

Technology Transfer and International Innovation Developments

In the first quarter of 2020, the Technology Transfer and International Innovation Developments unit was set up to manage the application of innovation solutions relating to market applications, as well as collaboration agreements with partners and innovative companies regarding products and solutions. This favours cross-technological and cross-border integration and collaboration initiatives by developing an international perspective for the technological scenario. It develops and manages relevant innovation projects with cross-company commitments involving the integration of internal and external human resources.

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

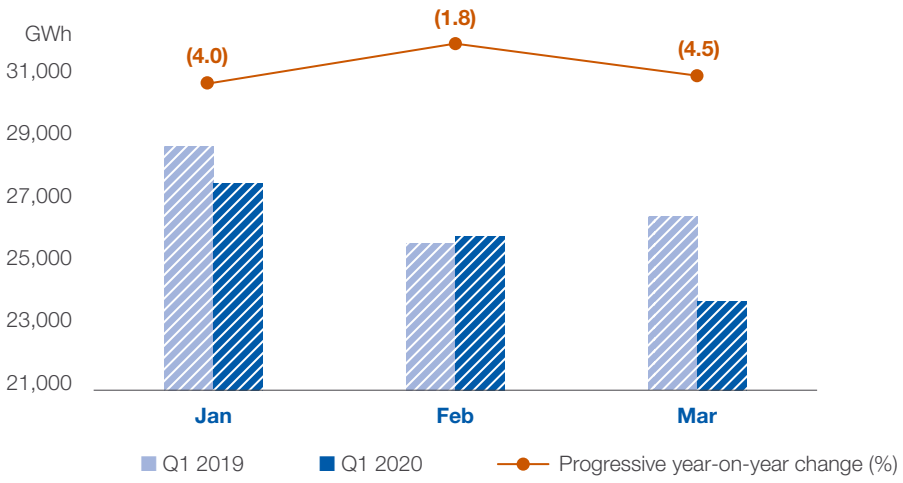
Demand for electricity in Italy amounted to 76,978 GWh in the first quarter of 2020, a **decrease of 4.5% compared with the same period of 2019**, as shown in the figures below.

ELECTRICITY BALANCE IN ITALY (GWH)*	Q1 2020	Q1 2019	CHANGE	% CHANGE
Net production	**66,310**	70,847	(4,537)	(6.4%)
From overseas suppliers (imports)	**13,126**	11,708	1,418	12.1%
Sold to overseas customers (exports)	**(1,797)**	(1,274)	(523)	41.1%
For use in pumping**	**(661)**	(657)	(4)	0.6%
Total demand in Italy	**76,978**	**80,624**	**(3,646)**	**(4.5%)**

* *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 2020 is down compared with the same period of 2019. In January, the sharp reduction was caused by lower temperatures and the calendar effect (fewer working days). The slight increase in February is also due to the calendar effect (leap year). The sharp fall in March (down 10% on March 2019) is largely due to the halting of production activities resulting from the Covid-19 health emergency.

MONTHLY DEMAND FOR ELECTRICITY IN ITALY*

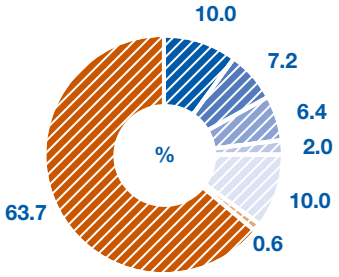


* *Provisional data.*

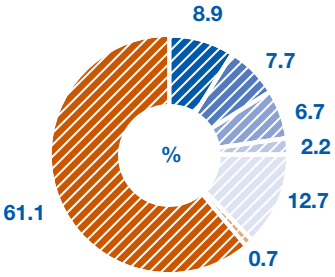
Meeting demand and energy production

NET ELECTRICITY PRODUCTION BY SOURCE

Q1 2019*
80.624 TWh



Q1 2020*
76.978 TWh



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

** Provisional data.*

The sharp reduction in demand for electricity also affected production. The first three months of 2020 registered a 6.4% reduction in national production compared to the same period in 2019.

In the first quarter of 2020, approximately **33% of total energy demand was met by renewable energy sources**, up on the same period of 2019. This performance reflects a decrease in wind production (down 16%), largely offset by a sharp increase in hydroelectric production (up 19%), and to a lesser extent in geothermal production (up 2%). Solar and biomass production are substantially in line with the same period in 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 contribute to the growth and development of sustainable projects for the benefit of Italy.

3

The Group's business

Regulated Activities

The National Transmission Grid

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 75 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 2020 amounts to **€217.5 million**, compared with the €164.4 million of the same period of the previous year (**up 32.3%**).

(€m)	Q1 2020	Q1 2019	CHANGE	% CHANGE
Development Plan	**73.8**	**53.4**	**20.4**	**38.2%**
Security Plan	**39.0**	**11.6**	**27.4**	**-**
Projects to renew electricity assets	**70.8**	**52.0**	**18.8**	**36.2%**
- of which electricity assets (before functional separations)	*59.8*	*44.4*	*15.4*	*34.7%*
- of which functional separations	*11.0*	*7.6*	*3.4*	*44.7%*
Other capital expenditure	**22.5**	**27.4**	**(4.9)**	**(17.9%)**
Total Regulated Assets	**206.1**	**144.4**	**61.7**	**42.7%**
Non-regulated Assets[1]	**9.3**	**16.6**	**(7.3)**	**(44.0%)**
Capitalised financial expenses	**2.1**	**3.4**	**(1.3)**	**(38.2%)**
TOTAL CAPITAL EXPENDITURE	**217.5**	**164.4**	**53.1**	**32.3%**

[1] *Non-regulated Assets primarily regard the private Italy-France interconnector, alternative routes for third-parties and activities in Peru.*

The main regulated assets entering service **in the first quarter of the year** include the 150kV Benevento III-Pontelandolfo power line (+15 km) and the renovation of the 220kV Alfa Avio-Casalnuovo cable.

Reorganisation of the Lodi - Cremona electricity grid

The final project for the reorganisation of the electricity grid in the province of Lodi and Cremona was approved in April 2020.

Involving the construction of 26 km of new underground cable lines and the consequent demolition of 22 km of overhead power lines, the project will enable an overall upgrade of the power grid to 132kV, limiting the local impact of the old electricity infrastructure and ensuring a higher quality power supply to the Lodi area.

MAIN REGULATED WORKS CARRIED OUT DURING THE PERIOD

Due to the restrictive conditions connected with the Covid-19 emergency, the main construction sites were suspended from 13 to 20 March. We expect a progressive return to normality from the second half of April.

DEVELOPMENT PLAN – €73.8 MILLION

220kV Castelluccia-Naples Primary Substation cable: 2.5 km of cable has been laid on the 3.5 km section. Construction is nearing completion.

220kV Astroni-Naples Centre cable: 2.5 km of cable has been laid on the 10.9 km section.

220kV Castelluccia-San Sebastiano power line: excavation is in progress and 2.3 km of cable have been laid on the 7 km section.

Reorganisation in Naples (€4.1 million)

380kV Paternò-Pantano-Priolo power line: procurement of materials is in progress; preliminary activities relating to removal of unexploded war-time bombs and geological and archaeological surveys are nearing completion; the foundations and executive design for the first section are at an advanced stage.

380/220/150kV Pantano substation: procurement of materials is in progress; the executive design has been completed and the contract awarded for civil works; removal of unexploded war-time bombs is in progress.

Paternò-Pantano-Priolo (€3.8 million)

132kV Zuel–Somprade cable: excavation and cable laying are in progress.

Reorganisation in Alto Bellunese (€3.1 million)

380/150kV Garaguso substation: the site layout is nearing completion; construction of the foundations for the 380kV section and equipment has begun.

Garaguso substation (€3.1 million)

380kV Bisaccia-Deliceto power line: archaeological surveys and the removal of unexploded war-time bombs have been completed; the executive design has been completed and the procurement of materials is in progress; construction work has begun.

Expansion of the 380kV Bisaccia electricity substation and the installation of PSTs: civil works are nearing completion; electromechanical assembly of the HV equipment and ancillary services are in progress.

Grid upgrades in the Foggia-Benevento area (€2.9 million)

Piossasco converter station: the civil works, the main buildings and the main equipment, including the related on-site installation of the transformers, for the Piossasco converter station have been completed; installation of the converters and the cooling system valves is nearing completion.

Cable connection: cables have been laid over a 75.7 km section, representing 80% of the connection as a whole.

Former Sitaf section (from the station to the A32 motorway): completed.

Upper and lower sections (A32 motorway): 30.2 km of cable have been laid out of a total 45 km.

Middle section (avoiding the A32 motorway): 21.6 km of cable have been laid out of a total 25 km.

Frejus Tunnel: 5.8 km of cable have been laid out of a total 6.6 km.

Italy-France Interconnector (€2.8 million)

SECURITY PLAN – €39.0 MILLION

Synchronous compensators (€22.7 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.

Selargius and Matera: Assembly of the equipment (synchronous compensators and step-up transformers) is at an advanced stage.

Garigliano: the civil works are in progress (the sub-foundation works have been completed and construction of the integrated building is in progress).

Maida and Foggia: the construction sites have been opened and the site-layout civil works have begun; production of the related supplies is in progress.

Fiber for the Grid (€5.7 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.

A further 6 electricity substations on the NTG (making a total of 442 substations) were connected and lit in March 2020.

Brindisi Pignicelle – Brindisi EniPower 380kV cable (€2.9 million)

Cable laying is in progress. Issue of the consents for the alternative route located in the Syndial area, after approval from the Ministry of Transport, is awaited.

RENEWAL PLAN – €70.8 MILLION

Renewal of electricity assets (€59.8 million, before functional separations)

The commitment to carry out works to renew electricity assets in order to improve the reliability and resilience of the NTG has been confirmed.

The renewal of overhead lines and substation equipment continued during the first quarter of 2020: 460 km of conductors and 7 pieces of equipment were replaced, 2 with innovative "green" equipment, insulated using vegetable esters.

Separation of Rete S.r.l.'s substations (€11.0 million)

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..

During the first quarter of 2020, an additional station was taken over (making a total of 307 out of the 350 substations).

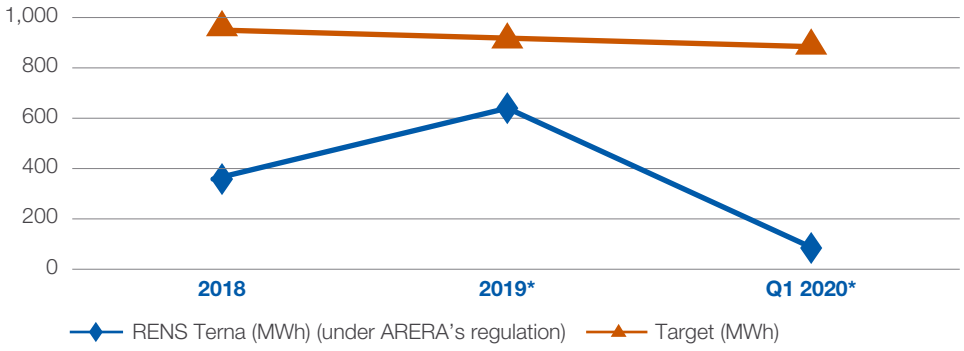
Quality of service

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.

NTG RENS INDICATOR[1]



* *Provisional data.*
** *Regulated Energy Not Supplied.*
*** *The "relevant grid" refers to all of the high-voltage and very high-voltage network.*
**** *Average Service Availability.*

The **"NTG RENS"** indicator the period from January to March 2020 based on preliminary data, amounts to 49 MWh (compared with an annual target of approximately 850 MWh set by ARERA).

As regards the **ASA** indicator, availability was 99.99993% in the first quarter of 2020, compared with 99.99981% in the same period in the previous year. 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.

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 €0.7 million in the first three months of 2020 (€1.4 million in the first three months 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).

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 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 figure for 2019 is provisional whilst awaiting the ARERA Resolution.

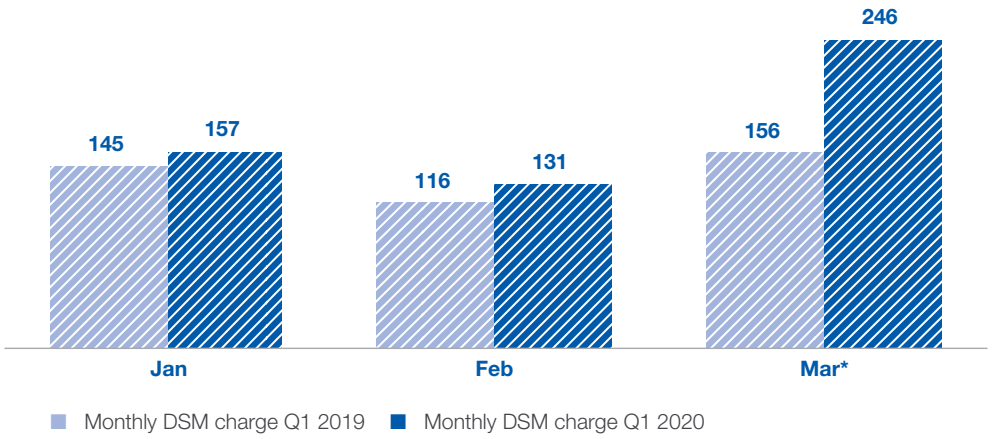
Electricity cost trends

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 €534 million in the first quarter of 2020 (provisional data), up on the same period of the previous year (€417 million).
This increase primarily relates to the month of March 2020, and is attributable to the restrictions set out in the Prime Ministerial Decree of 8 March 2020, as amended, and to the conditions arising from the Covid-19 health emergency. The sharp rise in DSM costs is due to a reduction in electricity consumption, which led to an increase in the cost of selection to aid in resolving local technical constraints.

MONTHLY DSM COSTS (€m)

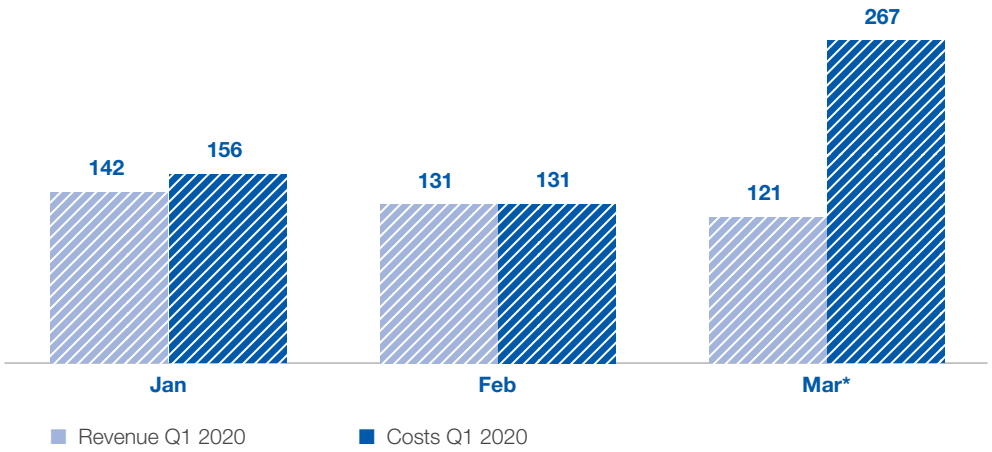


** Provisional data.*

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

The total uplift was €554 million in the first three months of 2020 (provisional data), up on the same period of the previous year (€452 million). This reflects an increase in the cost of using the Dispatching Services Market, partly offset by a reduction in the cost of the virtual interconnector (the Italy-Montenegro interconnector entered service at the end of 2019).

MONTHLY PERFORMANCE OF REVENUE AND UPLIFT COSTS (€M)



** Provisional data.*

Non-regulated Activities

Energy market solutions

The main areas in which these activities are developed are:

- **PRODUCTION OF CABLES AND ACCESSORIES - BRUGG CABLES**
- **ASSET-BASED INITIATIVES**
- **COMPETENCY-BASED ACTIVITIES**
- **PRIVATE INTERCONNECTORS PURSUANT TO LAW 99/2009**
- **TRASFORMERS - TAMINI GROUP**

Acquisition of Brugg Cables

On 29 February 2020, in implementation of the preliminary agreement signed on 20 December 2019, Terna acquired a 90% interest in Brugg Kabel AG (Brugg Group), one of the leading European operators in the terrestrial cable sector, specialising in the design, development, construction, installation and maintenance of electrical cables of all voltages and accessories for high-voltage cables.
The acquisition, which Terna financed with its own funds, was finalised through the subsidiary Terna Energy Solutions S.r.l.. The preliminary amount paid for acquisition of the equity interest is CHF 25.8 million.
The acquisition of Brugg Kabel provides Terna with a centre of excellence for research, development and testing in one of the core technologies for the TSO, such as terrestrial cable technology.
In particular, the transaction gives Terna the opportunity to rapidly integrate core competencies, by acquiring a company featuring:

- specialisation in 150kV cables with standards in line with those Terna requires;
- HV cable production capacity in line with Terna S.p.A.'s requirements;
- expertise consolidated over 120 years, which has been widely verified by Terna;
- significant potential synergies with the Group's Non-regulated Activities.

It should be noted that Terna's Development Plan, in line with the objectives of greater sustainability and resilience for the NTG, envisages doubling the number of terrestrial cables over the next 10 years. Consequently, the development of distinctive expertise in the underground cable sector to support cable design and construction activities, as well as O&M, may be a crucial factor in Terna's future.

From an organisational point of view, Samuel Ansorge was confirmed in the role of CEO, while Agostino Scornajenchi was appointed as Chairman of the Board of Directors.

ASSET-BASED INITIATIVES

Fibre

Open Fiber: During the first quarter, the customer sent the activation letter for 2020. The delivery plan was also defined, involving the delivery of 3,697 km of optical fibre, with estimated total revenue of €3.4 million.

Delivery of part of the optical fibre sections scheduled for the first quarter was rescheduled to the second half of the year, with volumes for 2020 largely confirmed, after the temporary suspension of the supply of ground wires from Prysmian's Spanish factory and the suspension of some construction sites due to the Covid-19 emergency.

Smart Towers

The second phase of the Hackathon project is currently being launched with the Polytechnic University of Turin. This involves the prototyping of two solutions based on the Smart Tower platform for dynamic fire risk monitoring, and for monitoring the effects of saline deposition on metal structures and crops.

During the first three months of the year, a technical round table on environmental monitoring was also launched, in application of the memorandum of understanding between the Sicily Region and Terna. This particularly relates to agriculture and forest monitoring, hydrogeological instability and protection of archaeological areas.

FWA pylons

Initiate inspection, design and authorisation activities were begun regarding the installation of FWA solutions in remote areas in connection with the contracts already signed with Open Fiber and Eolo.

Some of the activities were rescheduled in the second half of 2020, as a result of the suspension, due to the Covid-19 emergency, of certain activities in the field.

COMPETENCY-BASED ACTIVITIES

Smart Grids

Energy efficiency initiatives forming part of the memorandum of understanding between Terna and FCA regarding the joint trials of sustainable mobility technologies and services, such as Vehicle-to-Grid (V2G).

On 25 March 2020, a contract was signed by Avvenia and FCA regarding the identification of possible areas of efficiency recovery, white certificate management and improved sustainability performance, to be partly achieved through the design and installation of monitoring plans.

Memorandum of understanding regarding collaboration between the General Custody of the Sacred Convent of Saint Francis of the Friars Minor Conventual and Terna.

The memorandum of understanding, signed on 16 April 2020, launched a partnership to carry out environmental rehabilitation works and pursue safety, efficiency and energy sustainability objectives for the Sacred Convent. With the planned initiatives, the monumental area of Assisi will also become a sustainability reference point for residents and pilgrims.

Energy efficiency initiatives forming part of the memorandum of understanding, signed by Terna and Ansaldo Energia on 30 September 2019.

Activities to identify, evaluate and implement joint energy research, development and innovation initiatives are continuing. Avvenia is the Terna Group company that plays an active role regarding energy efficiency issues by providing specific technical support, in the identification of possible areas of efficiency recovery, and in the economic leveraging of services and any ad hoc initiatives.

Giannutri project: After the successful outcome of final testing and the plant's entry into service in February 2020, the plant was handed over to Società Impianti Elettrici S.I.E.. The plant will contribute to meeting demand the island's demand for energy. During the middle of the day (when loads are low and the sun is at its hottest), the island's grid will be able to function without the need for traditional generation.

Pantelleria: An agreement is currently being finalised between Terna and the Electricity Operator (SMEDE) regarding the assignment of design, authorisation and construction activities for the photovoltaic plant and for the construction of a storage system of up to 2 MW.

During the quarter, a draft contract regarding the negotiation of contracts for the purchase of land was also discussed with the Electricity Operator. Negotiations are handled directly by the Operator, and is aimed at the development of a photovoltaic plant with capacity of up to 5 MWp.

High voltage

Metering devices: Following the procurement initiatives carried out in 2019, in the first quarter of 2020 executive contracts were received and finalised for 16 devices. Design activities are in progress, which will be finalized subject to technical approval by Rete Ferroviaria Italiana (RFI).

PRIVATE INTERCONNECTORS PURSUANT TO LAW 99/2009

Italy – Montenegro

On 28 December 2019, the first module of the 500kV direct current interconnector between the substations of Villanova (IT) and Lastva (ME) entered commercial operation. The line has provided interconnection capacity of 600 MW between Italy and Montenegro, including 200 MW available under the exemption to the private backers pursuant to Law 99/09.

The private portion of the project is owned by Monita Interconnector S.r.l., which the Terna Group sold to private backers on 17 December 2019.

From the date of entry into commercial operation of the *asset* until the end of the exemption period, Terna will manage routine and special maintenance activities and operate the interconnector for an annual fee to be paid by Monita.

Italy – France

The new direct current interconnection between Piossasco (IT) and Grande Ile (FR) will increase interconnection capacity between Italy and France by 1,200 MW, raising it from approximately the existing 3 GW to over 4 GW.

The Terna Group continued work on construction of the private line, in implementation of Law 99/09 on behalf of Piemonte Savoia S.r.l. (PI.SA.), which was transferred to the private backers selected under the same law on 4 July 2017.

Approximately 36.2 km of civil works had been completed and 30.2 km of cable laid for the upper and lower sections along the A32 motorway by the end of the first quarter of 2020, whilst around 24.5 km of cable and approximately 21.6 km for the middle section had also been completed by March 2020. In addition, with regard to the Frejus Tunnel, the civil works had been completed and around 5.9 km cable laid along sections inside the tunnel by March 2020. On the section not appertaining to Sitaf (Società Italiana per il traforo autostradale del Frejus), the civil works and the laying of cable for the entire section were completed at the end of August 2018.

The main buildings for the Piossasco converter station had been completed by March 2020, as was installation of the principal HV equipment. Installation of equipment for the DC room and valves has also been completed. Finally, production and installation of the converter, converter transformers and key AC and DC equipment has also been completed. Activities to prepare and test the protection system and check the functioning of the converter are in progress.

In order to meet the requirements of the Ministry for Economic of Development issued in early 2019, on 15 February 2019, Terna 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.

The exemption process is still in progress. On February 11, 2020, with Resolution no. 38/2020/R/EEL, the Energy, Networks and Environment Regulator (ARERA) issued and submitted to the Ministry for Economic Development its approval of an exemption for PI.SA.2. In agreement with ARERA, the French regulator, Commission de Régulation de l'Énergie (CRE), also approved the exemption with Resolution no. 2020-027 of 6 February 2020.

The Italy-Austria interconnector (the Reschenpass project) involves construction of a new 220kV AC interconnection between the Glorenza (Italy) and Nauders (Austria) substations. This will consist of 26 km of underground cable and the necessary upgrade of the domestic grid. The project will increase cross-border interconnection capacity between Italy and Austria by around 300 MW, practically doubling the currently available capacity. On 16 March 2020, the exemption process formally began with Resia submitting an exemption application to the Ministry for Economic Development. The Ministry for Economic Development subsequently submitted the exemption application to ARERA for its approval, to be issued in agreement with the Austrian regulator E-Control. On 16 July 2018, the Terna Group had set up the special purpose vehicle, Resia Interconnector S.r.l., which, on behalf of the private backers, is to prepare and submit a request for exemption from the right of third parties to access capacity of 150 MW, for a period of 10 years. On 18 April 2019, Terna received clearance for the laying and operation of the 220kV cable for the Italian section between the Glorenza substation and Passo Resia, which, together with enlargement of the Glorenza substation and other related works, 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 to the Austrian national grid operator in the second half of 2019. In addition, on 1 October 2019, the Ministry for Economic Development issued the decree transferring the consents for the *interconnector* to Resia.	Italy – Austria
The project involves the development of new transmission lines between Italy and Switzerland, with the aim of increasing interconnection capacity between Italy and Switzerland.	Italy – Switzerland
The creation of a direct current line is planned, partly in undersea cable, between the substations of Salgareda (IT) and Bericevo (SL), together with work on upgrading the domestic grids in Italy and in Slovenia. The project is currently awaiting the necessary consents on the Italian side. The expected increase in cross-border capacity of approximately 1 GW will raise the interconnection capacity to more than double the current level.	Italy – Slovenia

TRANSFORMERS – TAMINI GROUP

Order book

Tamini received orders for transformers worth approximately €31.4 million in the first quarter of 2020, up on the same period in 2019. Orders in the Power sector recorded strong growth (up 19%), primarily reflecting increased capital expenditure by European utilities.
Service orders in the first three months of the year amount to approximately €3.1 million, down on the first quarter of 2019, but in line with expectations. Factory order books are up compared with the end of 2019.

Q1 2020 results

Revenue in the first quarter of 2020 rose sharply compared to the same period in 2019 (up 69%), benefiting from an increase in transformer sales, despite the fact that production at plants slowed down in March mainly as a result of Covid-19.
In the Power sector, a Phase Shifting Transformer (PST) for northern Europe, 7 power transformers for an Italian utility required to upgrade a power plant, and 7 145 MVA transformers for export to the United States are currently in production, whilst the production of two smart pieces of equipment, involving the application of smart technology resulting from research carried out at Tamini, are planned.

Vegetable oil transformers

In 2020, in line with the business plan and the growth registered in 2019, Tamini will continue to allocate a significant part of its production to vegetable oil transformers for the power sector. In the first quarter of the year, one 250 MVA vegetable oil transformer, built at the Legnano plant, was successfully tested. During the period, a further 10 green transformers with sizes ranging between 40 MVA and 400 MVA will be produced and tested. In 2020, Tamini will also produce and test two vegetable oil transformers for industrial use.

International Activities

Overseas **initiatives** of interest to the Terna Group are:

- **Concessions**: this model envisages the acquisition and operation of transmission systems abroad by taking part in international concession and/or secondary market awards, leveraging the core competencies and experience developed in the international arena;
- **Energy solutions**: this includes all high value-added non-traditional activities aimed at exporting the experience Terna has in Italy in the fields of energy storage and smart solutions;
- **Technical assistance**: this involves 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, with a view to exporting and taking advantage of the distinctive expertise acquired in Italy;
- **Project Management**: Project Management (EPCM) activities enable the Group to leverage its expertise in managing overseas projects and in infrastructure management.

INITIATIVES IN PROGRESS IN SOUTH AMERICA


Uruguay

During the first three months of 2020, operation of the 213 km Melo-Tacuarembò 500kV transmission line, which has been in operation since 24 October 2019, continued.

The line is of major importance for the Uruguayan electricity transmission system, above all as it marks completion of the 500kV ring and will help to increase the production of electricity from renewable sources.


Brazil

Operation and maintenance of the **Santa Maria Transmissora de Energia (SMTE)** power line in the State of Rio Grande do Sul and the **Santa Lucia Transmissora de Energia (SLTE)** power line in the State of Mato Grosso continued in the first quarter of 2020.

In addition, activities relating to the authorisation procedure, engineering and acquisition of rights and easements required for the **SPE Transmissora de energia Linha Verde II S.A.** project (a 75% stake in the company was acquired on 11 November 2019) were begun. This is the first of the two concessions covered by the preliminary agreement with **Construtora Quebec** signed on 9 April 2019, regarding the construction of a 190 km 500kV power line.

Acquisition of the second concession is expected to complete in the second quarter of 2020.


Peru

Work, which began in 2017, on construction of 132 km of new 138kV lines between Aguaytìa and Pucallpa is continuing.

Construction activities, which were interrupted during the winter months due to adverse weather conditions, are expected to resume in the second quarter of 2020.

The procurement of transmission line materials has been completed, and **the project is expected to be completed by the end of 2020.**

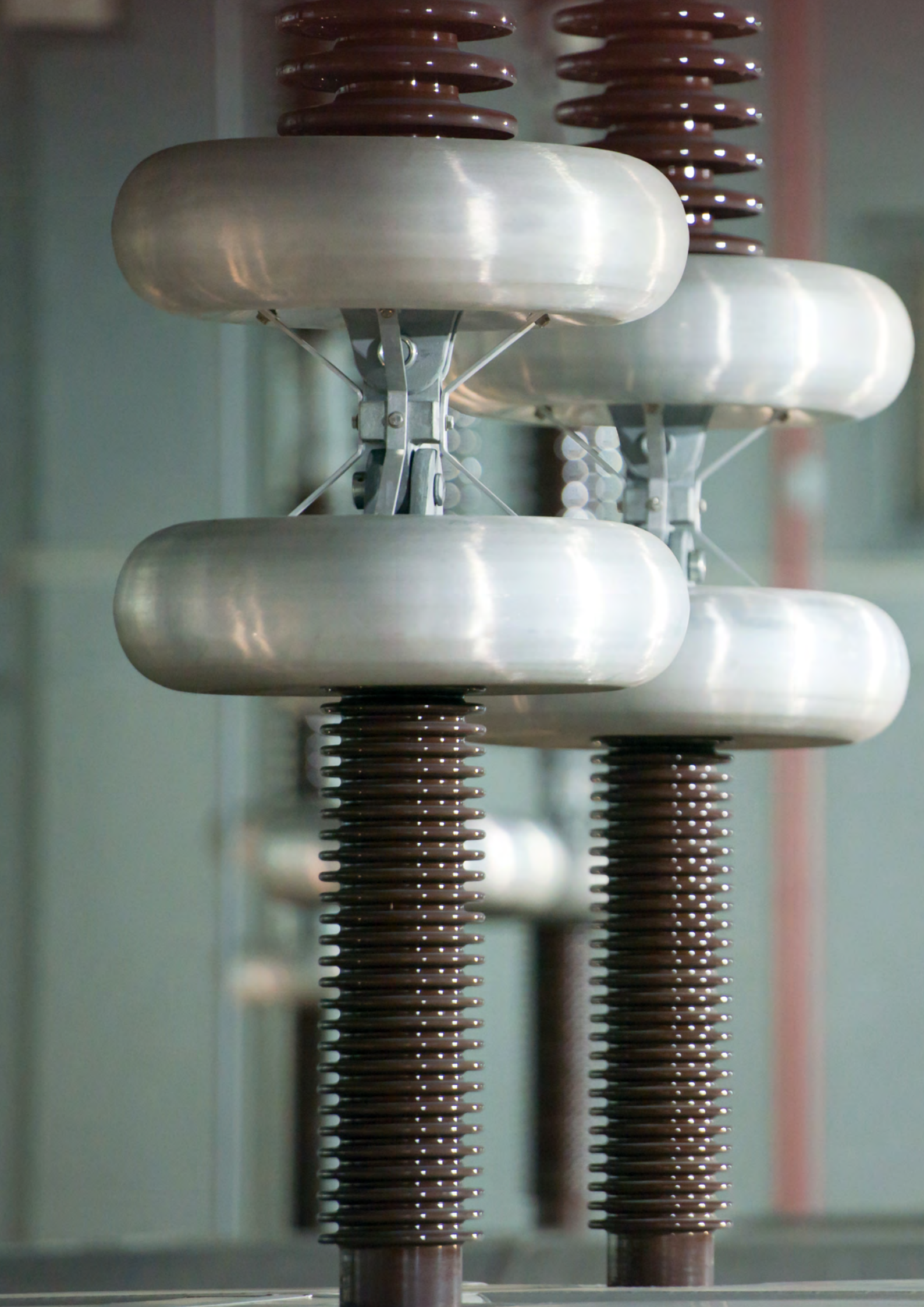
OTHER INTERNATIONAL INITIATIVES

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

In particular, the tender for conducting the survey for the submarine section has been launched. Surveys for the submarine section, the overland section and the environmental and social impact assessment are funded by the two credit facilities granted by the World Bank to the Tunisian Republic in relation to the project to provide technical assistance for the Tunisia - Italy electricity interconnector. ELMED Etudes has also been appointed the implementing agency.

On 23 April 2020, the **Equigy** project, a new platform based on blockchain technology, was launched. Developed by Terna together with the transmission system operators Swissgrid and TenneT, it is aimed at facilitating the participation of distributed demand in the electricity grid balancing process. The project, to be launched in Italy, the Netherlands, Germany and Switzerland, will allow small distributed energy resources to provide flexibility to the grid, thus supporting Terna in its mission to guarantee an increasingly secure, efficient and sustainable electricity grid, with the ultimate objective of facilitating the energy transition that is underway.

In addition to consolidating its presence in the trade associations it leads, Terna has also joined the **Harvard Electricity Policy Group (HEPG)**, a Harvard University study group that analyses policies relating to the electricity sector from various aspects, with a special focus on the US experience.



4

Performance

Financial review
for Q1 2020

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 2019.

It should be noted that, with regard to the previously described acquisition of Brugg Cables on 29 February 2020, the company (Brugg Kable AG has 7 other subsidiaries, located in Italy, Germany, China, India, Poland and Dubai), which prepares financial statements in compliance with Swiss accounting standards, has been valued at cost due to the time required to align them with the Terna Group's consolidation procedures and the immateriality of the amounts involved, with particular reference to the contribution from the date of acquisition of the newly acquired companies' income statement components to the results of this interim report on operations.
An independent third party is in the process of determining the fair value of the assets and liabilities acquired for the purpose of accounting for the business combination.

In addition, 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 2020, compared with those for the same period of the previous year, are summarised in the following reclassified income statement.

(€m)

	Q1 2020	Q1 2019	CHANGE	% CHANGE
TOTAL REVENUE	**567.5**	**537.0**	**30.5**	**5.7%**
- Regulated revenue	516.6	499.9	16.7	3.3%
of which Revenue from construction services performed under concession	*4.2*	*2.0*	*2.2*	*110.0%*
- Non-Regulated revenue	43.9	32.9	11.0	33.4%
- International revenue	7.0	4.2	2.8	66.7%
TOTAL OPERATING COSTS	**133.3**	**116.8**	**16.5**	**14.1%**
- Personnel expenses	66.6	65.2	1.4	2.1%
- Cost of services, leases and rentals	36.5	37.3	(0.8)	(2.1%)
- Materials	21.0	7.2	13.8	-
- Other costs	5.7	3.7	2.0	54.1%
- Quality of service	(0.7)	1.4	(2.1)	(150.0%)
- Cost of construction services performed under concession	4.2	2.0	2.2	110.0%
GROSS OPERATING PROFIT (EBITDA)	**434.2**	**420.2**	**14.0**	**3.3%**
- Amortisation, depreciation and impairment losses	152.2	140.4	11.8	8.4%
OPERATING PROFIT (EBIT)	**282.0**	**279.8**	**2.2**	**0.8%**
- Net financial income/(expenses)	(19.3)	(15.9)	(3.4)	21.4%
PROFIT/(LOSS) BEFORE TAX	**262.7**	**263.9**	**(1.2)**	**(0.5%)**
- Income tax expense for the period	76.4	77.9	(1.5)	(1.9%)
PROFIT FOR THE PERIOD	**186.3**	**186.0**	**0.3**	**0.2%**
- Profit/(Loss) attributable to non-controlling interests	(0.3)	-	(0.3)	-
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT	**186.6**	**186.0**	**0.6**	**0.3%**

(€m)

	Q1 2020	Q1 2019	CHANGE
Regulated EBITDA	418.4	405.4	13.0
Non-regulated EBITDA	10.5	12.3	(1.8)
International EBITDA	5.3	2.5	2.8
EBITDA	**434.2**	**420.2**	**14.0**

Gross operating profit (EBITDA) for the first quarter of 2020 amounts to **€434.2 million**, up €14 million on the €420.2 million of the first quarter of 2019. This primarily reflects an improvement in EBITDA from Regulated Activities.

Revenue

(€m)

REGULATED ACTIVITIES	Q1 2020	Q1 2019	CHANGE
Tariff revenue	502.3	492.6	9.7
- Transmission revenue	*474.9*	*464.4*	*10.5*
- Dispatching, metering and other revenue	*27.4*	*28.2*	*(0.8)*
Other regulated revenue	10.1	5.3	4.8
Revenue from construction services performed under concession in Italy	4.2	2.0	2.2
TOTAL	**516.6**	**499.9**	**16.7**

Regulated revenue is up €16.7 million on the same period in the previous year, primarily due to transmission revenue as a result of the impact on tariff revenue (up €9.7 million) of the ARERA Resolution 568/19 tariff increase (especially the increase in RAB and the recognition of amortisation), partly offset by the negative impact of the volume effect and the higher revenue deriving from the quality of service - RENS incentive mechanism (up €5.1 million).

(€m)

NON-REGULATED ACTIVITIES	Q1 2020	Q1 2019	CHANGE
Tamini	23.5	13.9	9.6
Asset-based initiatives	7.6	7.6	-
Competency-based activities	9.3	9.4	(0.1)
Private interconnectors	3.5	2.0	1.5
TOTAL	**43.9**	**32.9**	**11.0**

The increase in **Non-Regulated revenue**, totalling €11.0 million, primarily reflects revenue linked to revenue growth at the Tamini Group (up €9.6 million) and the private Italy-Montenegro Interconnector project (up €1.6 million).

International revenue is up €2.8 million, reflecting revenue generated by investment in assets held under concession in Brazil, which have been fully operational since October 2018 and April 2019 (up €1.3 million), and one-off revenue deriving from penalties applied to suppliers in connection with the order concluded in October 2019 in Uruguay (up €0.7 million).

Costs

Operating costs have increased €16.5 million compared with the first quarter of the previous year, broadly due to the performance of the Tamini Group's order book, partially offset by lower costs for quality of service (down €2.1 million, primarily due to higher costs for mitigation services relating to weather events in the first quarter 2019).

Amortisation, depreciation and impairment losses for the period amount to €152.2 million, up €11.8 million on the first quarter of 2019, primarily due to the entry into service of new plant.

Operating profit (**EBIT**), after amortisation, depreciation and impairment losses, amounts to **€282.0 million**, marking an increase of €2.2 million compared with the first quarter of 2019 (up 0.8%).

Net financial expenses for the period total €19.3 million and are primarily attributable to the Parent Company (€16.3 million), marking an increase of €3.4 million compared with the €15.9 million of the first quarter of 2019. This primarily reflects the performance of inflation and capitalised financial expenses.

After net financial expenses, the **profit before tax** amounts to **€262.7 million**, compared with the €263.9 million of the first quarter of 2019 (down 0.5%).

Income tax expense for the period totals €76.4 million and is down €1.5 million (1.9%) on the same period of 2019. The tax rate is 29.1%, compared with 29.5% for the first quarter of 2019.

Profit for the period amounts to **€186.3 million**, up €0.3 million (0.2%) compared with the €186.0 million of the first quarter of 2019.

Profit for the period attributable to owners of the Parent (after excluding the share attributable to non-controlling interests) amounts to **€186.6 million**, up €0.6 million (0.3%) compared with the €186.0 million of the first quarter of 2019.

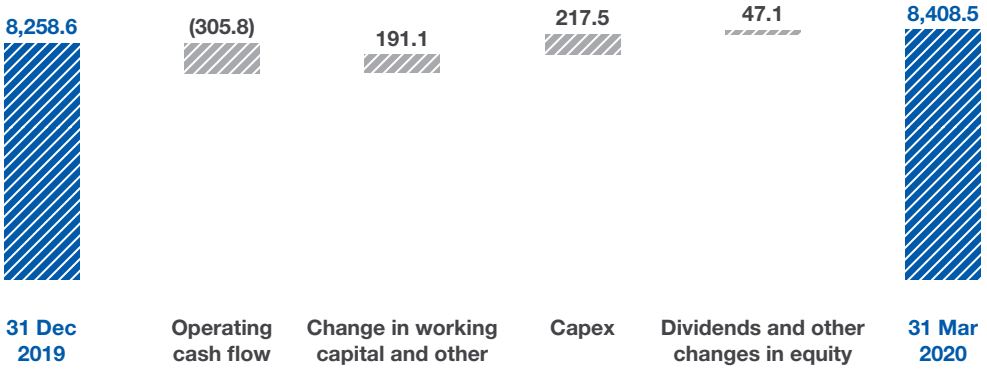
Cash flow

The above performance, combined with non-cash items and other cash flows from and for operating activities, has resulted in a cash inflow of €114.7 million, enabling the Group to finance a large part of its investing activities, totalling €217.5 million, and movements in equity, with the remainder financed by net debt, which totals €8,408.5 million, an increase of €149.9 million compared with the €8,258.6 million of 2019.

(€m)

	CASH FLOW Q1 2020	CASH FLOW Q1 2019
- Profit for the period	186.3	186.0
- Amortisation, depreciation and impairment losses	152.2	140.4
- Net change in provisions	(31.8)	(29.0)
- Net losses/(gains) on sale of assets	(0.9)	(0.5)
Operating cash flow	**305.8**	**296.9**
- Change in net working capital	(228.9)	(105.6)
- Other changes in property, plant and equipment and intangible assets	9.5	9.5
- Change in investments	(26.1)	(1.3)
- Change in financial assets	54.4	(12.1)
Cash flow from operating activities	**114.7**	**187.4**
- Total capital expenditure	(217.5)	(164.4)
Free cash flow	**(102.8)**	**23.0**
- Cash flow hedge reserve after taxation and other movements in equity attributable to owners of the Parent	(47.1)	(42.3)
Change in net debt	**(149.9)**	**(19.3)**

CHANGE IN NET FINANCIAL DEBT (€m)



The Group's reclassified statement of financial position

The Terna Group's financial position at 31 March 2020 and 31 December 2019 is summarised below in the reclassified statement of financial position.

(€m)

	AT 31 MARCH 2020	AT 31 DECEMBER 2019	CHANGE
Total net non-current assets	**14,936.9**	**14,908.5**	**28.4**
- Intangible assets and goodwill	541.4	542.7	(1.3)
- Property, plant and equipment	13,922.2	13,864.2	58.0
- Financial assets	473.3	501.6	(28.3)
Total net working capital	**(1,978.9)**	**(2,207.8)**	**228.9**
- Net energy-related pass-through payables	(538.1)	(575.8)	37.7
- Net receivables resulting from Regulated Activities	331.7	320.4	11.3
- Net trade payables	(712.3)	(899.1)	186.8
- Net tax liabilities	(53.1)	(5.3)	(47.8)
- Other net liabilities	(1,007.1)	(1,048.0)	40.9
Gross invested capital	**12,958.0**	**12,700.7**	**257.3**
Sundry provisions	(178.4)	(210.2)	31.8
NET INVESTED CAPITAL	**12,779.6**	**12,490.5**	**289.1**
Equity attributable to owners of the Parent	**4,329.8**	**4,190.3**	**139.5**
Equity attributable to non-controlling interests	**41.3**	**41.6**	**(0.3)**
Net debt	**8,408.5**	**8,258.6**	**149.9**
TOTAL	**12,779.6**	**12,490.5**	**289.1**

The €28.4 million increase in **net non-current assets** compared with 31 December 2019 primarily reflects a combination of the following:

- total capital expenditure of €217.5 million, as described in the paragraph on "Regulated Activities";
- a decrease of €28.3 million in financial assets, broadly due to collection of fees from infrastructure under concession in Brazil (down €34.4 million) and a reduction in the amounts deposited by operators who participate in the capacity market pursuant to Resolution 98/2011/R/eel[2], as amended, after definition of each party's committed capacity following the auctions held in November 2019 (down €24.6 million), partially offset by recognition of the unconsolidated interest in Brugg Cables acquired on 29 February 2020 (up €24.2 million);
- amortisation and depreciation during the period, totalling €152.1 million;
- disposals, impairment losses and other movements during the period, resulting in a decrease of €8.7 million.

Net working capital of -€1,978.9 million resulted in a cash outflow of €228.9 million in the period, compared with 31 December 2019. This reflects the combined effect of:

[2] The regulations regarding the system of remuneration for availability of production capacity was approved by a Ministerial Decree of 28 June 2019. The deposits were paid by the energy-intensive operators after the competition held by Terna on 6 and 28 November 2019. These provide a guarantee for the entire capacity market from 2022, with the aim of ensuring the achievement and maintenance of the adequacy of the national electricity system, in order to structurally fulfil expected electricity consumption and the power reserve margins needed to meet predetermined levels of safety and quality of service.

Cash outflows

- a reduction of €186.8 million in **net trade payables**, largely due to the greater volume of capital expenditure towards the end of the previous year;
- a decrease in **net energy-related pass-through payables** of €37.7 million compared with 31 December 2019, primarily reflecting the combined effect of:
  - an increase in the amount receivable for the uplift component of €67.9 million, relating to expenses to be recovered, deriving mainly from the higher costs incurred in March in the Dispatching Services Market – DSM after the increase in selections and price differentials;
  - recognition of the net receivable due from the Fund for Energy and Environmental Services (*Cassa per i Servizi Energetici e Ambientali* - CSEA) of €43.6 million, primarily due to recovery of additional charges for 2019 paid during the period to interruptible users:

  partially offset by

  - an increase in net payables relating to capacity payments (€46.4 million) deriving from items collected in the first quarter of 2020;
  - an increase in net payables relating to essential plants for the security of the electricity system - UESS (€20.3 million) reflecting items collected during the period after payments made in the first quarter of 2020[3].
- an increase in **net receivables resulting from Regulated Activities** of €11.3 million, primarily relating to higher transmission service charges for the month (€6 million, net of the ITC portion[4]) and items relating to service quality (€5 million).
- the reduction in **other net liabilities** of €40.9 million, primarily due to lower guarantee deposits received from operators participating in the above-mentioned capacity market and electricity market operators to guarantee the obligations undertaken regarding dispatching and virtual interconnection contracts (down €24.6 million and down €8 million, respectively), and the decrease in amounts due to employees leaving the Group by 31 December 2019 (down €11.7 million).

Cash inflows

- An increase of €47.8 million in **net tax liabilities**, mainly reflecting the higher amount of income tax payable (€80.1 million), and the increase of €26.8 million in VAT payable;

Gross invested capital thus amounts to €12,958 million, marking an increase of €257.3 million compared with the previous year.

Sundry provisions are down €31.8 million, primarily due to:

- net uses of provisions for the cost of service quality (down €2.7 million), and in connection with staff bonus schemes (down €3.9 million) and early retirement provisions (down €1.4 million), as well as the impact of the adjustment of the Group's other provisions (down €5.1 million);
- net provisions for net deferred tax assets (up €18.7 million), primarily due to the effect on taxation of movements in derivative financial instruments held by the Group, amortisation and depreciation and movements in provisions for risks and charges.

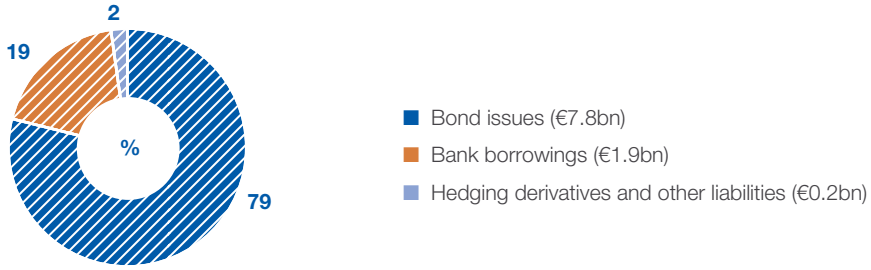
Net invested capital of €12,779.6 million is up €289.1 million compared with 31 December 2019 and is financed by equity attributable to owners of the Parent, totalling €4,329.8 million (compared with €4,190.3 million at 31 December 2019), equity attributable to non-controlling interests of €41.3 million (€41.6 million at 31 December 2019) and net debt of €8,408.5 million (up €149.9 million compared with the €8,258.6 million of 31 December 2019).

[3] ARERA ordered payments to the owners of essential plants via Resolutions 563/2019 and 35-44/2020..
[4] The change is shown net of the portion of transmission service charges receivable (€4.3 million) specifically allocated to cover the costs incurred by Terna for its participation in the Inter TSO Compensation mechanism (ITC mechanism), which was previously included in the uplift fee.

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 at 31 March 2020 amounts to approximately €10 billion, consisting of €8 billion in the form of bond issues and €2 billion in bank borrowings. The average term to maturity of debt, which is almost all fixed rate, is approximately 5 years.



(€m)

NET DEBT (BY TYPE OF INSTRUMENT)	AT 31 MARCH 2020	AT 31 DECEMBER 2019	CHANGE
- Bond issues	7,796.7	7,757.3	39.4
- Borrowings	1,777.3	1,849.9	(72.6)
- Short-term borrowings	125.3	25.0	100.3
- Derivative financial instruments	133.1	115.3	17.8
- Other financial liabilities net	38.2	81.8	(43.6)
GROSS DEBT	**9,870.6**	**9,829.3**	**41.3**
- Financial assets	(508.9)	(513.3)	4.4
- Cash and cash equivalents	(953.2)	(1,057.4)	104.2
Total net debt	**8,408.5**	**8,258.6**	**149.9**

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

- an increase in bond issues (up €39.4 million, primarily due to the bond issue carried out by the Brazilian subsidiary Linea Verde II. The change also reflects the adjustment of the amortised cost of all the bonds in issue;
- a reduction in borrowings (down €72.6 million), mainly as a result of their amortisation;
- an increase in short-term borrowings and other financial liabilities (up €56.7 million) primarily due to the Parent Company's use of short-term credit facilities (up €100 million) and the settlement of interest on outstanding borrowings and the related hedges (down €43.6 million);
- an increase in the fair value of derivative financial instruments (up €17.8 million), primarily due to movements in market interest rates;
- a decrease in financial assets (down €4.4 million), primarily due to a change in the price of Italian government securities held in the portfolio;
- a decrease in cash and cash equivalents (down €104.2 million). Cash amounts to €953.2 million at 31 March 2020, including €673.1 million invested in short-term, readily convertible deposits and €280.1 million held in bank current accounts and in the form of cash in hand.

Terna's shares

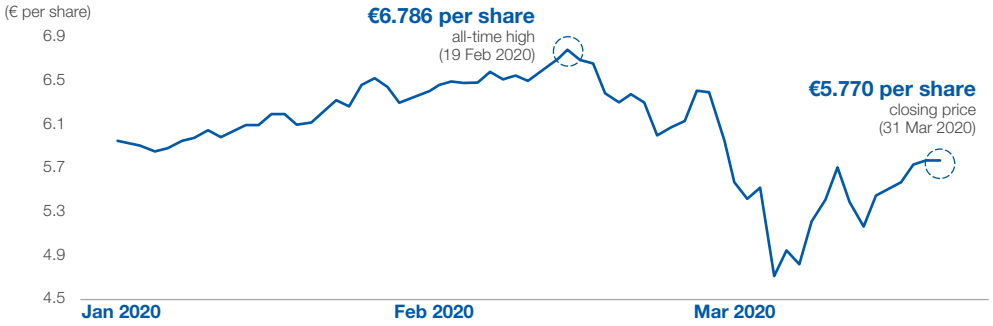
Terna S.p.A. has been listed on Borsa Italiana's screen-based trading system *(Mercato Telematico Azionario)* since 23 June 2004. **From the date of floatation to the end of March 2020, the share price has risen 239% (a capital gain)**, providing a Total Shareholder Return (TSR[5]) of 699%, ahead of both the Italian market (the FTSE MIB, up 8%) and the relevant European sector index (DJ Stoxx Utilities), which is up 193%.

Europe's leading stock markets registered negative performances during the first quarter of 2020, due to the health emergency linked to the spread of Covid-19. Milan fell 27.5%, Paris and Frankfurt were down 25.3% and 26.5%, respectively, whilst London was down 24.9% and Madrid 28.9%.

Performance of Terna's shares

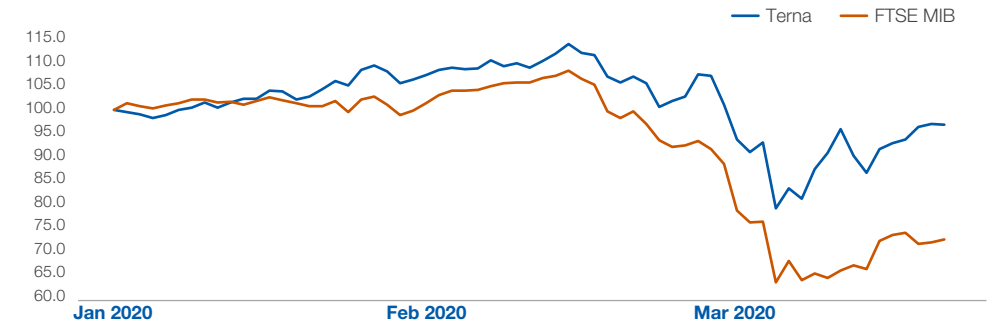
In this context, Terna's shares also fell 3.1% to close the period at €5.770. The daily average volume traded during the period amounted to approximately 8.0 million. It should be noted that on 19 February 2020, the share price rose to a record high of €6.786.

PERFORMANCE OF TERNA'S SHARES *(Price between 1 January and 31 March 2020)*



Source: Bloomberg

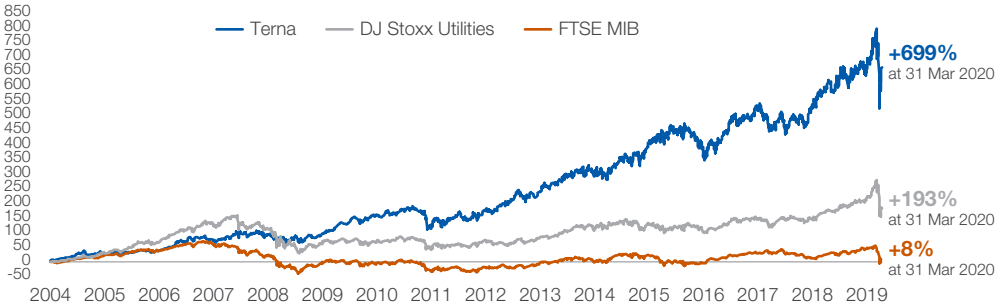
TERNA'S SHARES AND THE FTSE MIB *(Price between 1 January and 31 March 2020)*



Source: Bloomberg

[5] Total Shareholder Return (TSR): total return on an equity investment, calculated as the sum of:
I. 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 flotation to the end of March 2020) (%)



Source: Bloomberg

WEIGHTING OF TERNA'S SHARES	Q1 2020	Q1 2019
> on the FTSE MIB	2.98%	2.35%

Source: Borsa Italiana

RATING

	SHORT-TERM	MEDIUM/ LONG-TERM	OUTLOOK
Terna S.p.A.			
Standard & Poor's	A-2	BBB+	Negative
Moody's	Prime-2	Baa2	Stable
Fitch	F2	BBB+	Stable
Scope	S-1	A-	Stable
Italian state			
Standard & Poor's	A-2	BBB	Negative
Moody's	Prime-3	Baa3	Stable
Fitch	F2	BBB-	Stable
Scope	S-2	BBB+	Stable

Following the presentation of the 2020-2024 Strategic Plan, which envisages investment of €7.3 billion in the Italian electricity grid, Terna's rating, as assigned by all the agencies, remains unchanged. The rating agencies, Standard & Poor's, Moody's, Fitch ratings (Fitch) and Scope Rating (Scope) confirmed a long-term issuer default rating (IDR) of "BBB+", "Baa2", "BBB+" and "A-" respectively, all of which are one notch above the Italian state. Fitch and Scope, who published a credit opinion, point out that among the positive factors impacting the Company's financial soundness and, therefore, confirmation of its rating, are especially the reliability of the regulatory environment, the Company's robust cash flow generation and its reliability in achieving its objectives.

On 30 April, Fitch again confirmed its long-term issuer default rating (IDR) and rating of Terna SpA's senior unsecured debt as BBB+, with a Stable Outlook. At the same time, the agency also confirmed its short-term issuer default rating (IDR) as 'F2'. Confirmation of Terna's ratings is a boost for the substantial programme of investment in Italy launched by the Company, with over €7 billion to be spent in the next five years in order to provide an increasingly secure, efficient and sustainable grid. The Company's rating is now two notches above the rating assigned to the Italian state.

Outlook

In 2020, the Group will be engaged in implementing the provisions of the 2020-2024 Strategic Plan, which confirms Terna's leading role for a sustainable energy transition, leveraging innovation, skills and distinctive technologies to the benefit of all stakeholders.

The Plan envisages the Group making an important contribution aimed at further developing and integrating renewable energy sources and energy efficiency to achieve an increasingly decarbonised, resilient, reliable and secure electricity system, thus guaranteeing the highest standards of service quality and fitness for purpose, in line with the guidelines of the Energy and Climate Plan (PNIEC) and the EU recommendations set out in the Green New Deal.

With regard to **Regulated Activities**, it is planned to continue stepping up investment activities and strengthening the core business, involving direct engagement across the country, through listening and dialogue with all the key stakeholders, local communities, authorities and institutions. The principal electricity infrastructure under construction includes the interconnection with France, which is expected to come on stream in 2021, as well as the start of work on the new SA.CO.I.3 project (strengthening the link between Sardinia, Corsica and the Italian mainland). In addition, the main projects to increase the exchange capacity between the various areas of the Italian electricity market include the Paternò-Pantano-Priolo power line, and the reorganisation of electricity grids in metropolitan areas, such as Naples and Rome.

In terms of our **Non-regulated Activities**, Terna will consolidate its *competency-based* activities, developing high value-added services for corporate customers and taking advantage of market opportunities for traditional and renewable customers. Meanwhile, asset-based initiatives will pursue opportunities linked to connectivity and computing and based on exploiting the Group's infrastructure. In this context, the integration of Brugg Cables within the Group is expected to be completed in 2020.

In 2020, **International Activities** will focus on managing and maintaining the power lines that have entered service in Brazil and Uruguay, and on carrying out existing projects in Peru and Brazil (Quebec). The process of scouting for further opportunities in overseas markets will continue. This may take the form of partnerships and will involve the careful selection of projects with a view to ensuring a low risk profile and avoiding the need to tie up large amounts of capital.

Finally, early 2020 has been marked by the global health emergency caused by the widespread outbreak of Covid-19. This has had a major impact on markets and on the Italian and global economies. Against a continually changing backdrop and with increased uncertainty linked to the potential development of the infection, the outlook for the global economy remains weak.

The economic impact of the Covid-19 emergency on the Terna Group's business is currently being assessed. However, we do not expect to see significant direct effects, given the largely regulated nature of our business, with regulated revenue based on specific resolutions issued by the regulator, ARERA. In particular, assuming a progressive return to business as usual in Italy from the second quarter of 2020, the Group's results are currently expected to be in line with previously announced financial guidance.

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 three months ended 31 March 2020 is consistent with the underlying accounting records.

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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.

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 2019 Annual Report.

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 SpA or Cassa Depositi e Prestiti SpA, nor has it purchased or sold any such shares during the first quarter of 2020.

Related party transactions

Information on related party transactions is provided in the 2019 Annual Report.

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 2019 Annual Report.

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