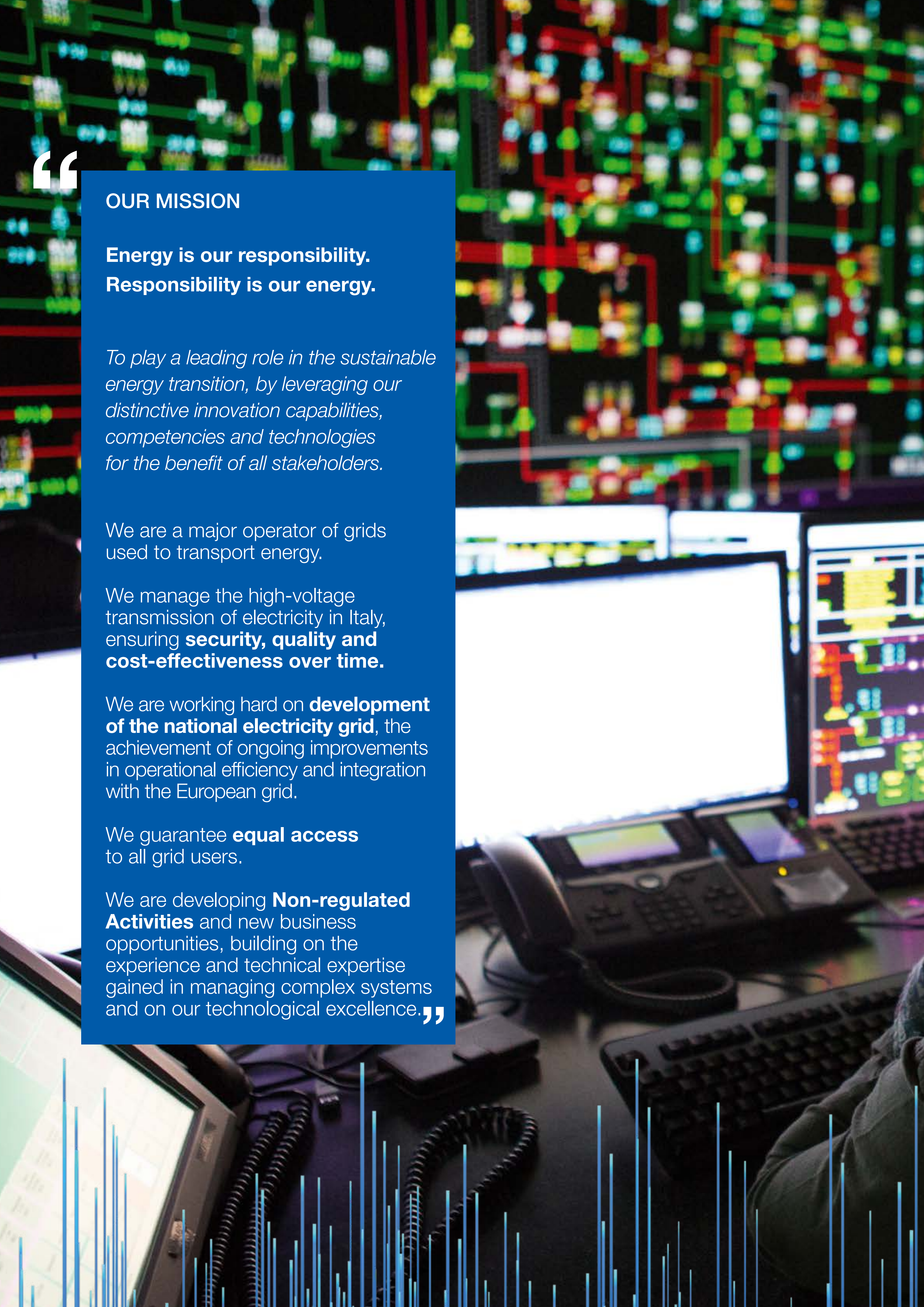
ENERGY IS OUR RESPONSIBILITY

2019

Half-Year Report
30 June 2019
Terna Group

Terna



OUR MISSION

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

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

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

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

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

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

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


Terna

Highlights

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

Regulated Activities in Italy

MAJOR INVESTMENT DURING THE PERIOD

Development Plan

- **International interconnections:** work is continuing on the infrastructure connecting the Italian electricity system with the systems in **France** and the Balkans (**Montenegro**).
- **Sorrento Peninsula Interconnector:** work is continuing on the interconnector serving the Sorrento Peninsula and the island of Capri.
- **Reorganisation of metropolitan areas:** major work was carried out on cable infrastructure in the Rome area.
- **Work on substations:** the provisional setup of the Belcastro substation, with the aim of integrating renewable sources, was completed; work on the Brennero substation is in progress.

Security Plan: work on the Fiber for the Grid project is continuing, with 19 electricity substations in the NTG connected and lit (making a total of 415 substations).

Renewal Plan: our major commitment to renewing electricity assets and the functional separation of the substations of Rete S.r.l. is continuing.

INFRASTRUCTURE ENTERING SERVICE

- **2 km of new line for the cable connection for the Genoa Exhibition Centre primary substation has been completed**, as part of the reorganisation of the Port of Genoa area that aims to support the city's economic recovery after it was badly hit by the collapse of the Morandi road bridge.
- **The Valle-Piscioli cable connection (11 km) was also completed,** as was the upgrade of the Monte Narbone, Picerno and Belcastro substations.

Non-regulated Activities

Open Fiber Project: 486 km of new fibre connections delivered.

Italy-France Interconnector: the laying of 57 km of cable has been completed, representing around 60% of the entire connection.

International Activities

Uruguay: the 500kV "Melo- Tacuarembò" power line is 88% complete, with completion expected by the end of 2019.

Brazil:

- *Santa Lucia:* the second 355 km power line in Mato Grosso, due to play a key role in integrating renewable sources into Brazil's national grid, entered service.
- *New acquisitions:* a preliminary agreement for the acquisition of two new concessions to build and operate power lines was signed.

Perù: work on the construction of 132 km of new 138kV lines, between Aguaytìa and Pucallpa, is continuing. Completion is expected in 2020.

SUSTAINABILITY AWARDS

- Inclusion for the first time in the **Bloomberg Gender Equality Index (GEI) and confirmation** of presence in the EuroNext and FTSE4Good indices.
- **RobecoSAM includes Terna in its Gold Class** in the "Sustainability Yearbook 2019", in recognition of its ranking as **Industry Leader** in the **Electric Utilities Sector** of the Dow Jones Sustainability Index.

FINANCIAL HIGHLIGHTS

(€m)	H1 2019	H1 2018	Change
Revenue	**1,097.8**	1,062.8	+3.3%
EBITDA	**846.2**	814.9	+3.8%
Profit attributable to owners of the Par-ent	**366.6**	360.2	+1.8%
Capital expenditure	**396.3**	337.9	+17.3%
	H1 2019	**FY 2018**	
Net debt	**8,293.5**	7,899.4	

SHARE PRICE AND FINANCE

Terna's share price

Share price up 13.1%, outperforming the European DJ Stoxx Utilities index (up 11.7%), with a price of €5.60 at 28 June 2019 versus €4.95 at 31 December 2018.

New all-time high of €6.01 registered on 21 June 2019

Finance

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

Renewal of the **€8bn EMTN programme**.

May 2019: Scope assigns new **long-term rating of A-**.

January and April 2019: launch of two new green bond issues, amounting to €250m and €500m, respectively. **Back-up ESG-linked Revolving Credit Facility,** totalling €1.5bn, agreed.

BUSINESS ENABLERS

People

120 new hires in the first half to support delivery of the 2019-2023 Strategic Plan, compared with 44 leavers.

Innovation

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

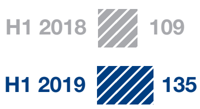
PERFORMANCE OF THE ELECTRICITY SYSTEM

Demand* [TWh]

COVERAGE BY RENEWABLE SOURCES*

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

RENS quality* [MWh]

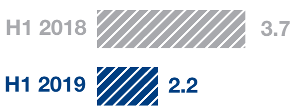


MAJOR INCIDENTS

Performance in H1 2019
no major incidents affecting performance in H1 2019.

(*) Provisional data.

Cost of quality [€m]



COST ALLOCATION H1

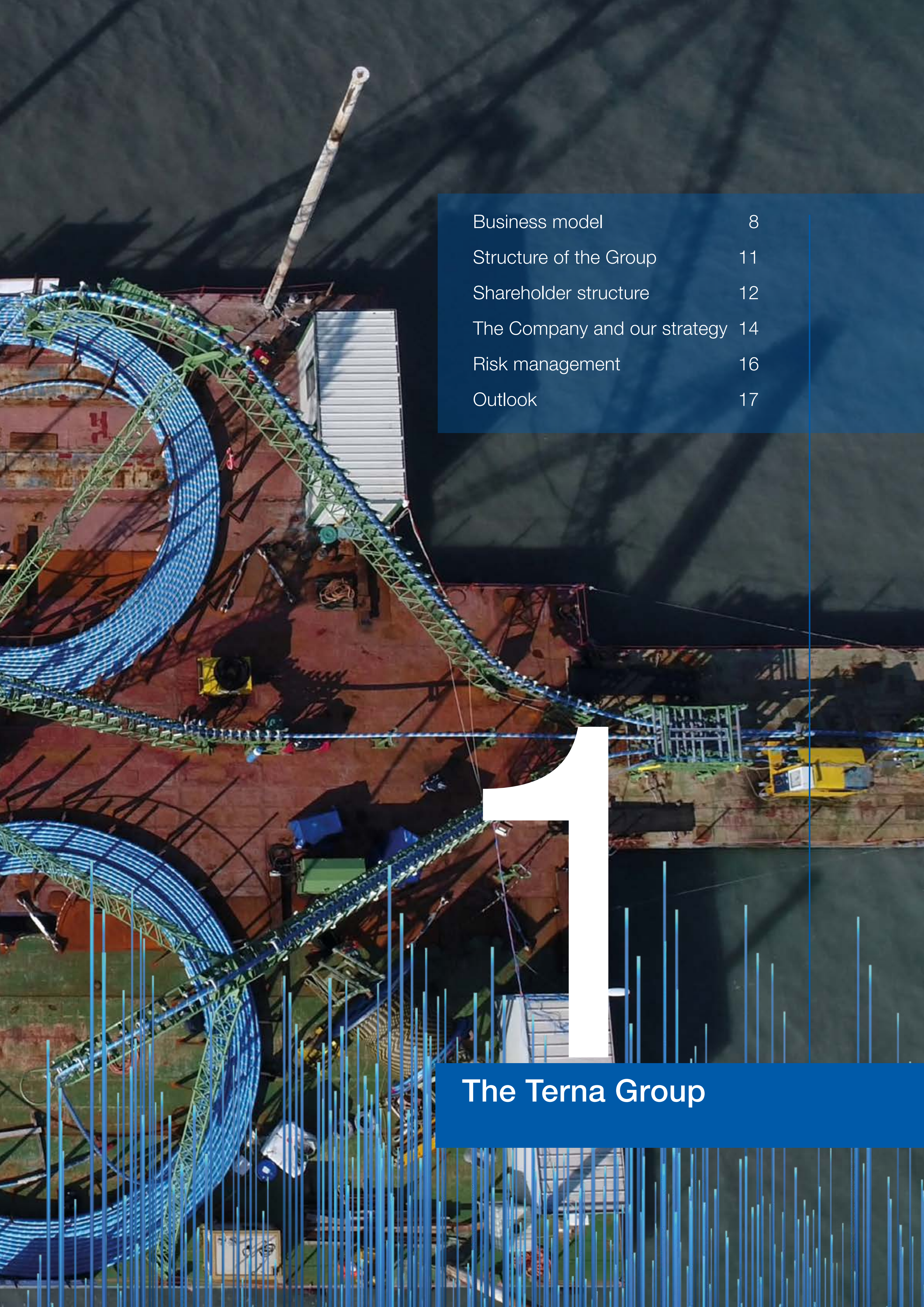
(*) Fund for Exceptional Events.

PREAMBLE

The Terna Group's interim report for the six months ended 30 June 2019 has been prepared in accordance with the requirements of art. 154-ter of Legislative Decree 58/98 introduced by Legislative Decree 195 of 6 November 2007 (the "Transparency Decree"), as amended by Legislative Decree 254 of 30 December 2016.

Contents

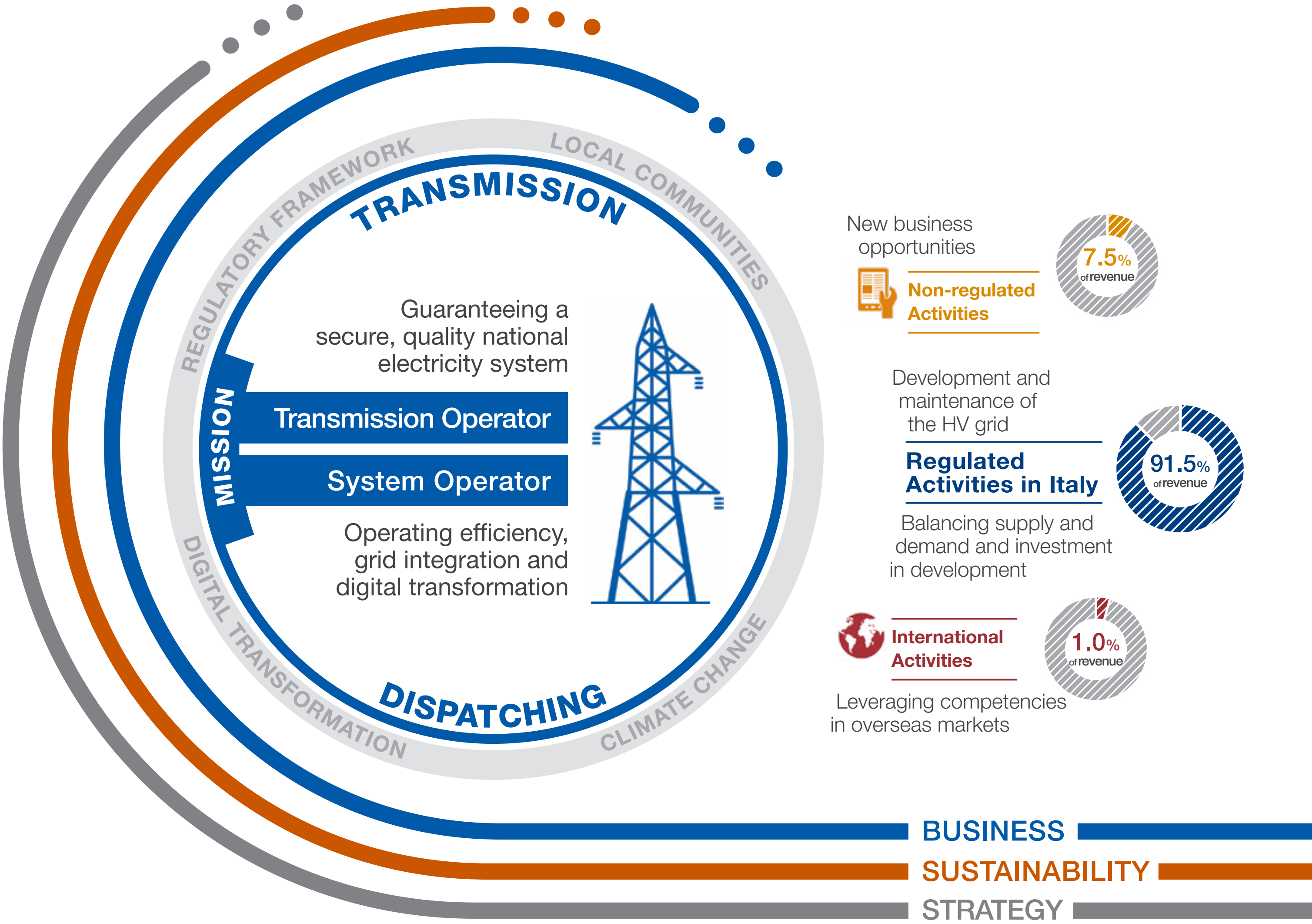
“We promote the energy transition and sustainable development by focusing on people and innovation. Every day, we work to build an atmosphere of dialogue and trust in local areas, to which we bring a vital asset for everyone’s economic and social lives: electricity. This translates into choices based 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 Terna Group

The business model

ROLE ACTIVITIES



Terna plays a central role in the energy transition process underway: in a context of radical change with decarbonisation emerging as a global objective, the electricity grid is one of the main enabling factors.

ENABLERS · **VALUE CREATION** · **SYSTEM EFFECTS**

ENABLERS

PEOPLE

at the centre of our business

- Competencies
- Integrity and Values
- Safety

INNOVATION

in response to the growing complexity of the system

- Digital solutions
- New technologies
- Open innovation

VALUE CREATION

Shareholder value with constant, predictable growth in returns over a five-year period

Risk control through prevention and real-time response

Value for money of the prices charged to end users

Quality of service to provide the community with a reliable electricity supply, minimising outages

Resilience in the face of the increasingly complex challenges posed by climate change

Checks on the impact of our activities in our approach to every stakeholder

Grid development and maintenance to maximise the reliability of the service

SYSTEM EFFECTS

CO_2

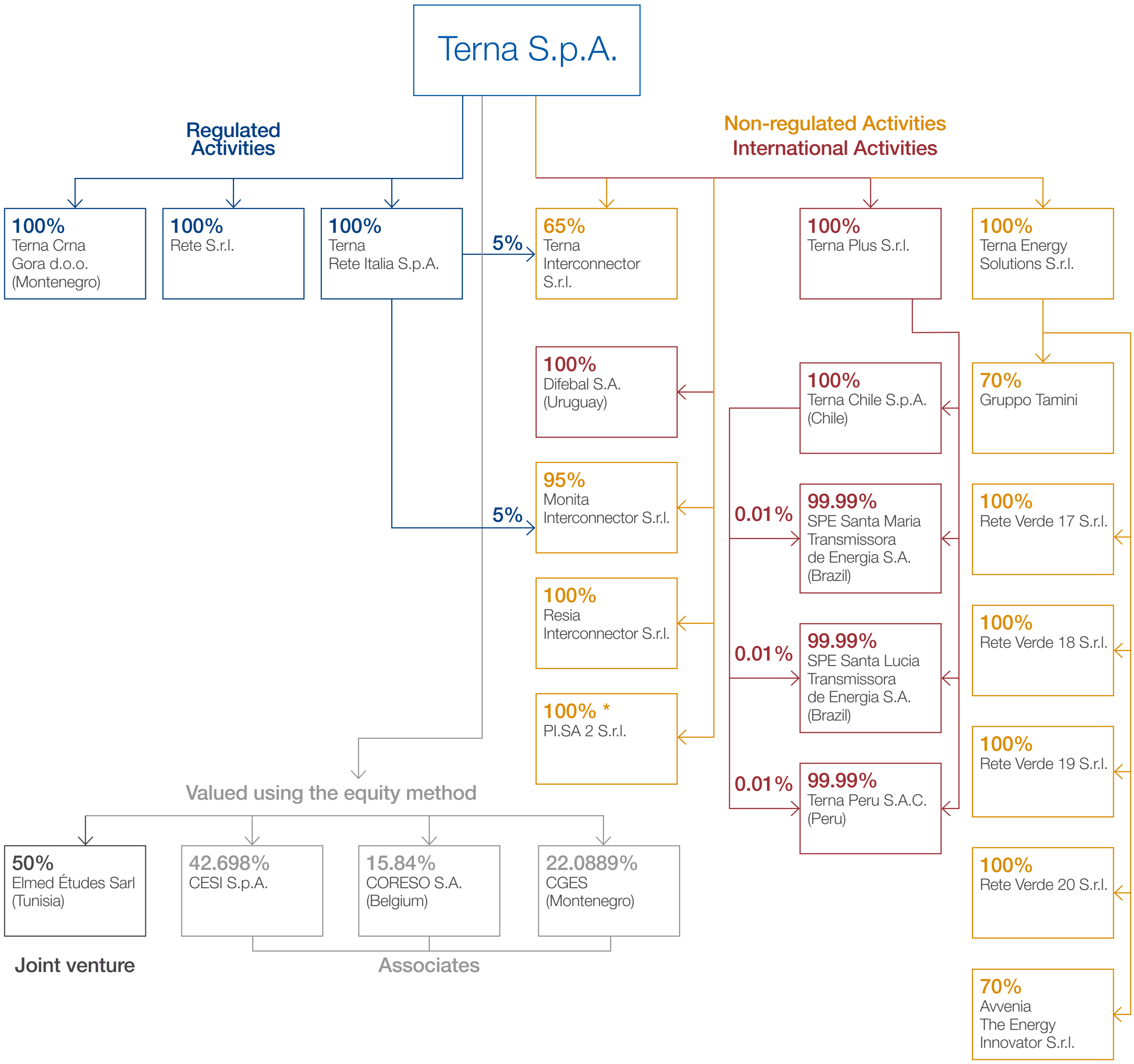
PROGRESSIVE DECARBONISATION

GROWING INTEGRATION OF RENEWABLES

CONTRIBUTION TO ACHIEVING THE UN'S SDGs

A key role in **ENERGY TRANSITION**

Structure of the Group



Compared with 31 December 2018:

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

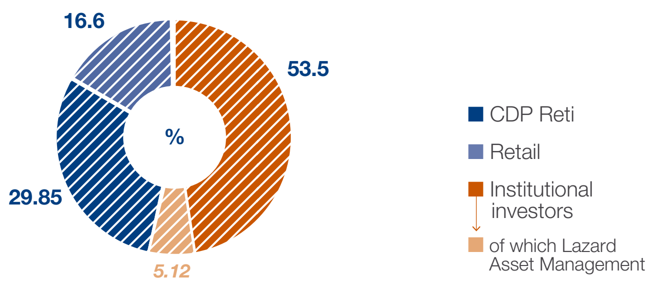
Shareholder structure

At the date of preparation of this report, **Terna's share capital amounts to €442,198,240**, comprising 2,009,992,000 fully paid-up ordinary shares with a par value of €0.22 each.

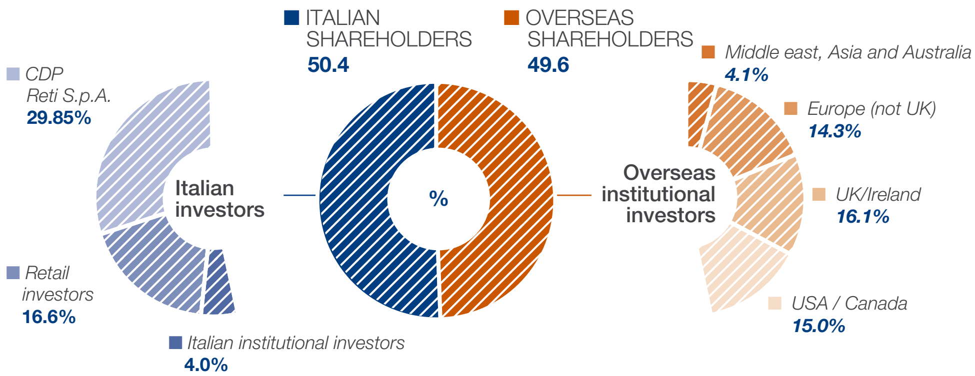
Based on periodic surveys carried out by the Company, it is estimated that 50.4% of Terna's shares are held by Italian shareholders, with the remaining 49.6% held by overseas institutional investors, primarily from the USA and the UK.

Based on information from the shareholders' register and other data collected, as at July 2019 Terna's shareholder structure breaks down as follows:

SHAREHOLDERS BY CATEGORY



SHAREHOLDERS BY GEOGRAPHICAL AREA AND CATEGORY



Major shareholders[1]

CDP RETI S.p.A.[2]
(a company controlled by Cassa Depositi e Prestiti S.p.A.):_____________ 29.851%

LAZARD ASSET MANAGEMENT LLC
(as a discretionary asset manager): _________________________________ 5.122%

Information on the ownership structure, restrictions on the transfer of shares, securities that grant special rights, and restrictions on voting rights, as well as on shareholder agreements, is provided in the "Report on Corporate Governance and Ownership Structures" for 2018. This is available in the Investor Relations section of Terna's website (www.terna.it).

1. Shareholders who, based on the available information and notifications received from the CONSOB, own interests in Terna S.p.A. that are above the notifiable threshold established by CONSOB Resolution 11971/99.
2. On 27 November 2014, a shareholder agreement was entered into by Cassa Depositi e Prestiti S.p.A. (CDP), on the one hand, and State Grid Europe Limited (SGEL) and State Grid International Development Limited (SGID), on the other, in relation to CDP RETI S.p.A., SNAM S.p.A. and TERNA S.p.A.. This was later amended and supplemented to extend the scope of the agreement to include Italgas S.p.A..

The Company and our strategy

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

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

In this context, Terna has redesigned the strategy set out in the 2019-2023 Plan by further stepping up infrastructure investment to meet the new requirements of the electricity system, as part of an integrated approach based on sustainability values, community engagement, skills development and the promotion of innovation.

Strategy

TO PLAY A LEADING ROLE IN THE SUSTAINABLE ENERGY TRANSITION,
BY LEVERAGING OUR DISTINCTIVE INNOVATION CAPABILITIES,
COMPETENCIES AND TECHNOLOGIES FOR THE BENEFIT OF ALL STAKEHOLDERS

Pillars

- Stronger core business in Italy
- New services to support the transition
- Overseas use of core competencies

Enablers

- Digital transformation and innovation leadership
- Insourcing of key competencies and flexibility in operations

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

- **Regulated Activities in Italy:** to give top priority to all the activities that enable Italy to tackle its energy challenges in a safe, efficient and sustainable way by leveraging the specific characteristics of local areas:
  > the system needs a new investment drive to respond to developing needs, with a focus on maximising long-term use and sustainability. The role of proactive system operator in defining the grid's structure should also be strengthened by combining Terna's specialist expertise with the experience gained in the most advanced markets.

- **Non-regulated Activities:** to launch new services to support the energy transition, taking advantage of opportunities beyond our core activities, to be pursued in line with Terna's mission, and if distinctive and/or of high added value:
  > as an energy solutions provider, the aim is to develop services for companies, taking advantage of value-added market opportunities for traditional and renewable energy customers. The connectivity business will continue to pursue opportunities based on leveraging the Group's infrastructure assets.

- **International Activities:** to leverage the core competencies developed in Italy as a TSO through growth opportunities overseas:
  > International Activities will focus on the execution of projects in progress and the management of projects in operation, taking advantage of the Group's specialist expertise by leveraging the new organisational structure. Among the priority actions, the main focus will be on selecting international growth opportunities with a high technological content (a key aspect for Terna) and involving potential agreements/partnerships, including the management of assets without the need to tie up large amounts of capital.

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

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

Risk management

In view of the distinctive and specific nature of the core business, regulated primarily through a government concession arrangement and by the Regulatory Authority for Energy, Networks and the Environment (ARERA, or the *Autorità di Regolazione per Energia reti e Ambiente*), Terna is exposed not to the usual price- and market-related risks (or is so only to a limited extent with regard to its non-regulated and overseas operations), but to regulatory and legislative risk, as well as the traditional operational risks which have become increasingly critical with the energy transition in progress.

Regulatory risk derives from potential changes in the criteria used to determine regulated revenue, particularly following a multi-year review of the regulatory framework. Legislative risk relates to potential changes in Italian and European laws governing matters relating to the environment, energy, tax and social aspects (above all labour and tenders).

For a detailed analysis of the methods used and the controls put in place by the Group, and on risk monitoring and management, reference should be made to the section, “Risk management” in the Annual Report for 2018.

On **17 June, Terna and the Ministry of Defence signed a cooperation agreement** with the aim of promoting studies and research in the field of **energy security**. The agreement will lead to the implementation of pilot projects designed to boost Italy’s energy resilience, improve the energy efficiency of military bases and reduce the cost of energy procurement.

Outlook

In the second half of 2019, Terna will be engaged in implementing the 2019-2023 Strategic Plan approved by the Board of Directors and presented to the financial community on 21 March 2019.

In particular, the Company will continue to pursue its strategic objectives, stepping up the pace of investment, which will focus on development of the national transmission grid in order to facilitate the integration of renewable sources and improve the security of the system. At the same time, it intends to renew the Group's asset base in order to mitigate the risk of interruptions to supply, boost environmental sustainability and make it easier to carry out maintenance activities through the use of digital grid technologies.

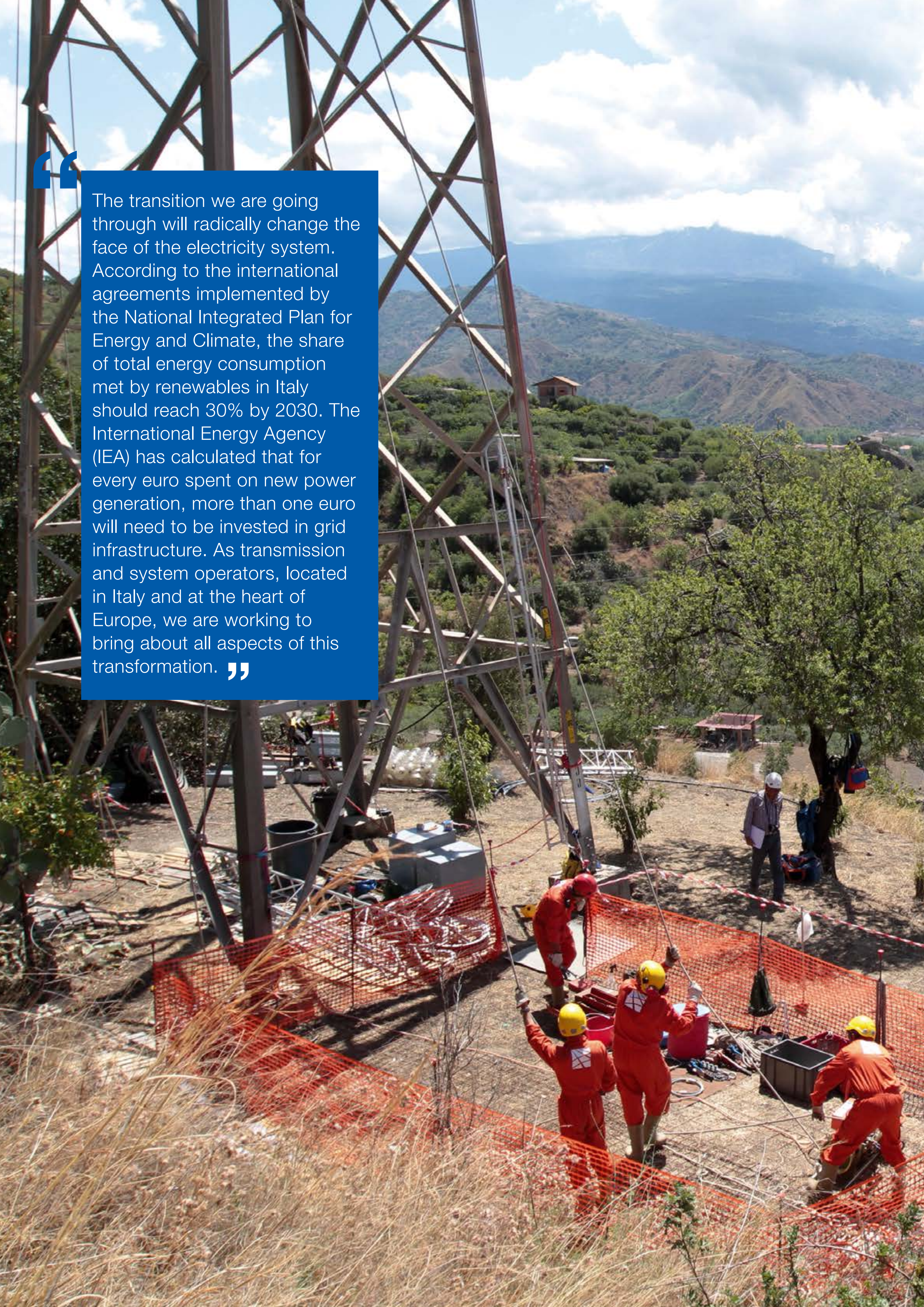
Terna will continue to step up investment in innovation and digital solutions in order to manage the growing complexity of the system, whilst also developing and insourcing strategic competencies and strengthening internal departments in order to implement its planned investment programme. This innovation path will involve the opening of Innovation Hubs which, following the inauguration of the Turin hub, the Company plans to open in other Italian cities in the coming months. Via a programme of interaction and exchange with external entities such as universities, research centres, start-ups and businesses, the Innovation Hub will become a laboratory where the Company can create, develop and conduct practical testing of new ideas in the energy field.

The Company continues to be committed to engagement with local stakeholders and to respect for the principles of integrity, responsibility and transparency, on which the management of Terna's business has always been based, in order to ensure our ability to minimise the environmental impact and meet the ESGs. In this regard, Terna will have a presence in the Coldiretti Villages to be set up by Italy's largest farmers' association in the main squares of towns and cities throughout Italy. This will enable the Company to tell people about its work and projects and actively involve the public in participatory design.

In terms of **Regulated Activities**, key electricity infrastructure under construction includes the interconnections with Montenegro and France, which are expected to come on stream in 2019 and 2020, respectively.
With regard to the main projects designed to boost quality of service, during the second half, we expect the submarine connection linking Capri and Sorrento and the Sorrento and Brennero substations to enter service.
With regard to work on the reorganisation of electricity grids in the principal metropolitan areas, primarily entailing the renewal of the current infrastructure with more technologically advanced connections in line with the best environmental sustainability standards, we expect major connections in the cities of Florence, Genoa and Milan to enter service in the second half of the year.
In addition, the second part of the year will see the Group engaged in the review of tariffs and quality of service requirements for electricity transmission in the NPR2 sub-period (2020-2023). This will involve specific consultation processes to be set up by the regulator, ARERA.

As regards our **Non-regulated Activities**, in line with previous years, the Group will focus on supporting the energy transition through the development of innovative services.
Specifically, Terna will consolidate its role as an Energy Solutions Provider, developing services with high added value for businesses and taking advantage of market opportunities. In this regard, having completed the integration of Avvenia and its distinctive know-how in designing energy efficiency projects for industrial customers, the Group intends to intensify commercial initiatives designed to exploit its customer base via cross-selling.
In the telecommunications sector, opportunities in connectivity will also be pursued by extracting value from the Group's dark fibre infrastructure.

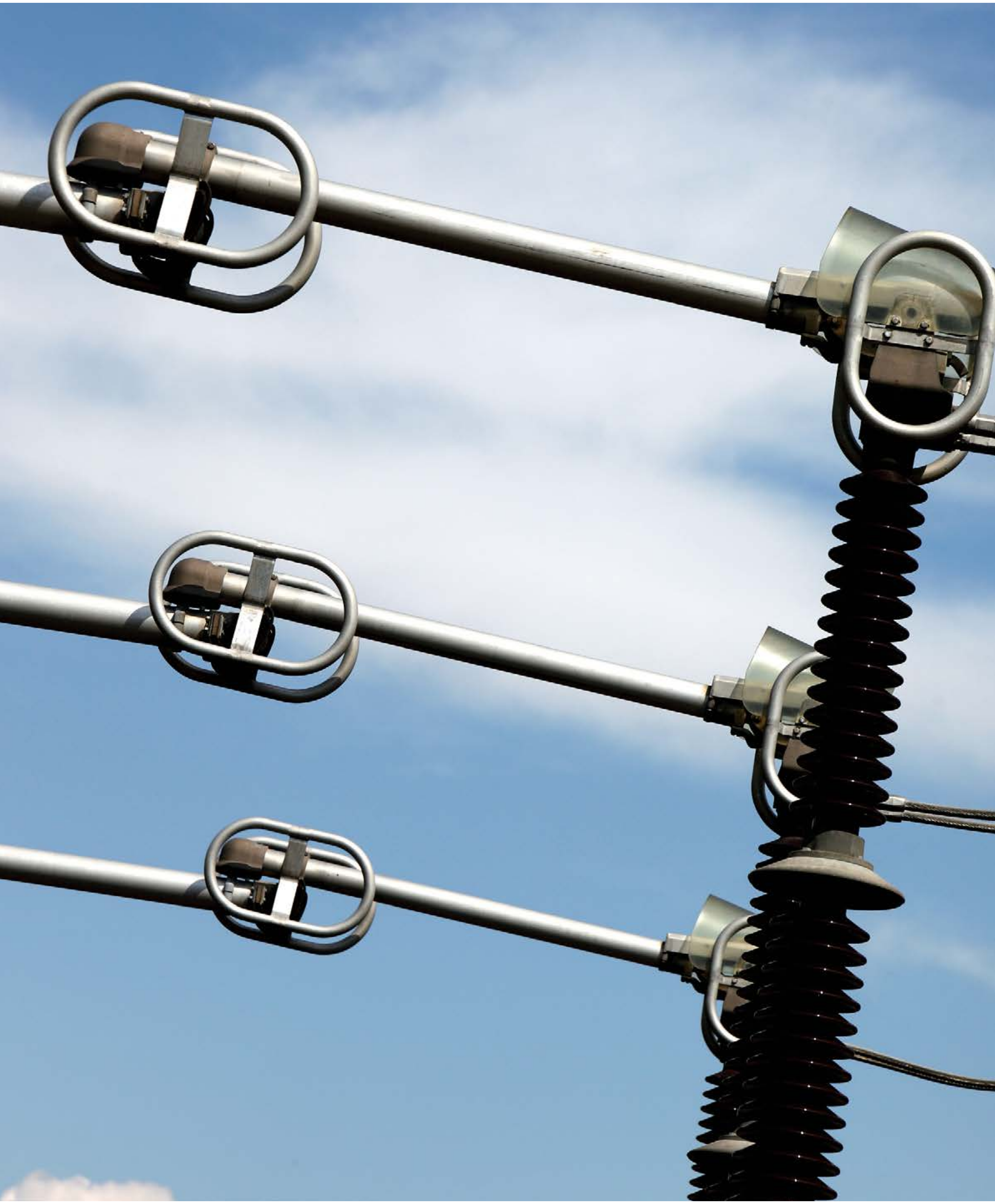
In the second half, our **International Activities** will focus on operation and maintenance of the Brazilian power lines that entered service between the end of 2018 and the first half of 2019 (Santa Maria Transmissora de Energia and Santa Lucia Transmissora de Energia) and on continuing with existing projects in Uruguay and Peru, which are due to be completed in 2019 and 2020, respectively. Provided that the necessary conditions are met, we will also seek to close the agreement with Construtora Quebec regarding the acquisition of two new concessions for the construction of power lines in Brazil (the preliminary agreement was signed on 11 April 2019).
Finally, 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.



“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



Macroeconomic environment

In the early months of 2019, **the Italian economy registered a slight improvement** compared to the relapse into recession that marked the second half of 2018.

Global economic expansion continued

Global economic expansion continued, albeit in a context made less favourable by increased uncertainty. In the first quarter of 2019, the US economy grew 0.8% compared to the previous quarter, still bolstered by the beneficial effects of fiscal stimulus on domestic demand. GDP in the euro area also performed well (up 0.4%), thanks to positive contributions from consumer spending, investment and external demand. Looking forward, growth expectations for the coming months have been reduced, to the extent that both the Federal Reserve and the ECB have explicitly stated their readiness to implement monetary expansion measures if necessary. Uncertainties generated by trade wars and, in Europe, by the prospect of a disorderly Brexit, are weighing on economic operators' confidence and on financial conditions, with increases in volatility and the risk premium.

+0.1%
Italian GDP
H1 2019

The latest figures from ISTAT (Italy's Office of National Statistics) confirm that Italy has moved out of the recession registered in the second half of last year. Indeed, after two quarters of negative growth, GDP grew 0.1%, in absolute terms in the first quarter of 2019, which while very limited still marks an upturn compared to the previous three months. This GDP growth derives from the contribution of domestic demand in terms of consumer spending and investment (up 0.2%), and from the even stronger contribution of net external demand (up 0.5%), which more than offset the negative effect of declining inventories. The comparison on a year-on-year basis was still negative, with GDP 0.1% lower than in the first quarter of 2018.

In the early months of the year, industrial production showed no signs of growth compared to the average level in 2018. On an annual basis, the industrial production index for the period January-April was 0.7% lower than the corresponding figure for the first four months of 2018. The index's performance was significantly influenced by the difficulties experienced in the motor vehicle manufacturing sector (a 14.7% year-on-year reduction in the index measured over the first four months of the year), which is being affected, as is the case in Germany, by a tightening of emissions regulations.

The energy sector

In line with the guidelines and regulations contained in the European Union's **Clean Energy Package**, the Italian government has prepared a **Proposal for an Integrated National Plan for Energy and Climate (PNIEC)**. The document, which was submitted to the EU at the beginning of 2019 and will soon be subject to consultation with key stakeholders, proposes some important revisions to the benchmark targets and is closely linked to the five Energy Union dimensions.

THE 5 DIMENSIONS	PROPOSAL FOR AN INTEGRATED NATIONAL PLAN FOR ENERGY AND CLIMATE - PNIEC
Energy efficiency	• For final energy consumption: 116.6 Mtep by 2020 and 103.8 Mtep by 2030.
Decarbonisation	• RES to increase from 18.6% in 2020 to 30% in 2030 as a share of total energy consumption. • In the electricity sector, the increase will be from 34.1% in 2017 to 55.4%, compared to expected gross domestic electricity consumption.
Internal energy market	• Competitive auction mechanisms. • Promotion of self-consumption for smaller power plants and renewable energy communities. • Full deregulation of the retail market.
Energy security	• Introduction of the Capacity Market. • Development of the grid to facilitate integration with renewable production plants and resolve congestion. • 6,000 MW expansion of central storage, pumping and electrochemical plants.
Research, innovation and competitiveness	• In the industrial sector, reconversion of infrastructure to improve sustainability. • Additional measures to combat energy poverty.

To **reduce energy demand**, it will be necessary to deploy major initiatives. The expected reduction in final energy consumption will result in overall savings of 51.4 Mtoe, and development of renewable resources that will enable an increase in the contribution of RES as a share of total consumption.

Even more challenging are the goals set for the electricity sector, which will see a rise in the share of total electricity consumption represented by renewables from 34.1% in 2017 to 55.4% in 2030. This will increase the amount generated from renewables to 186.8 TWh by 2030, compared with 113.1 TWh in 2017.

Sustainable growth will also be enabled through the development of new technologies - such as **electric vehicles** (up to 6 million vehicles by 2030, including hybrid and fully electric models) - and **applications relating to air conditioning** that ought to be used more widely, in view of the energy efficiency savings they offer. Finally, a highly challenging measure adopted in the 2017 SEN for the electricity sector regarding the phase-out of coal for power generation by 2025 has been confirmed.

The regulatory measures regarding the **security of supply for energy**, above all electricity, are dependent on the introduction of the Capacity Market, as well as revision of the Emergency Plan for the Security of the Electricity System (*piano di Emergenza per la Sicurezza del Sistema Elettrico* or "PESSE"). The regulations governing capacity payments made in return for making electricity production capacity available (the Capacity Market) were approved by the Ministerial Decree of 28 June 2019, following a favourable opinion from ARERA. The purpose of the mechanism is to ensure that Italy's electricity system is fit for purpose. Terna will hold auctions with a delivery period for 2022 and 2023 by the end of 2019.

There are also plans to increase the capacity of storage systems (an increase of 6,000 MW, after distributed storage), above all through the use of pumps, and for further expansion of interconnections with neighbouring countries. Investment in resilience, in relation to transmission grids and interconnector projects, will also play a major role, by helping to increase the network's ability to cope with increasingly frequent extreme weather events and the emergencies they create, including boosting coordination at European level. This has taken on added importance given the structural changes currently taking place in the electricity systems of many European countries, primarily linked to progressive decarbonisation and the reduction in nuclear generation capacity.

Electricity demand and production in Italy

Demand for electricity

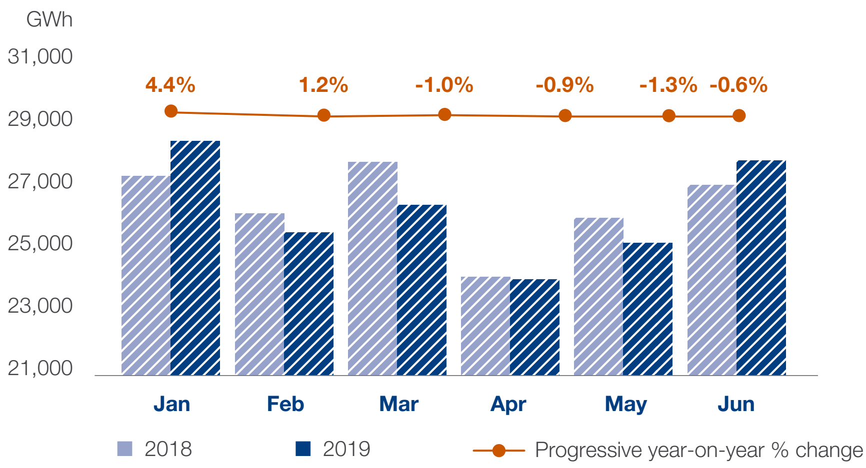
Demand for electricity in Italy amounted to 157,320 GWh in the first six months of 2019, registering a slight decrease of 0.6% compared with the same period of 2018.

ELECTRICITY BALANCE IN ITALY (GWh)*	H1 2019	H1 2018	CHANGE	% CHANGE
Net production	139,193	135,727	3,466	2.6%
From overseas suppliers (imports)	21,979	25,530	(3,551)	(13.9%)
Sold to overseas customers (exports)	(2,598)	(1,687)	(911)	54.0%
For use in pumping**	(1,254)	(1,340)	86	(6.4%)
Total demand in Italy	157,320	158,230	(910)	(0.6%)

* *Provisional data. Does not include demand for energy for ancillary services related to electricity production.*
** *Electricity used for pumping water, to be stored and subsequently used in electricity production.*

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

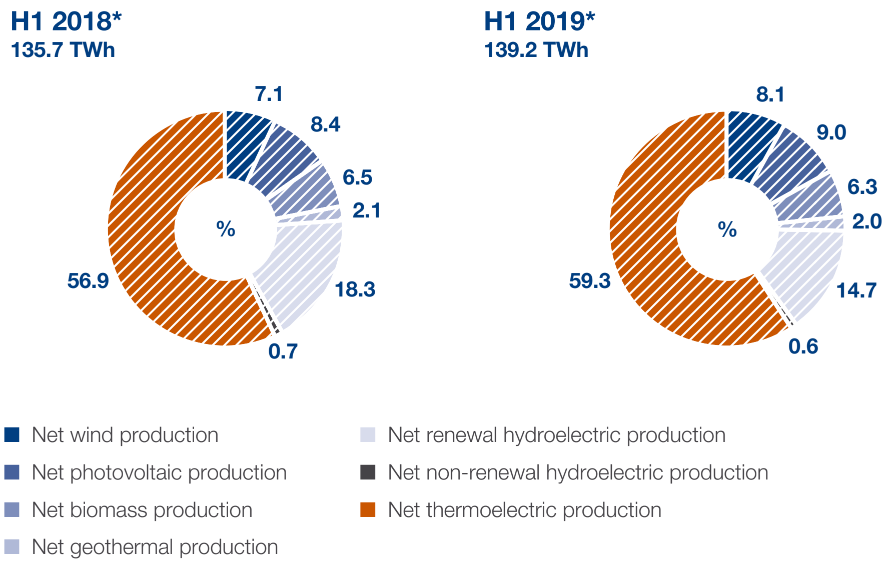
MONTHLY DEMAND FOR ELECTRICITY IN ITALY*



* *Provisional data.*

Meeting demand and energy production*

NET ELECTRICITY PRODUCTION BY SOURCE



** Provisional data.*

Despite a slight fall in demand, net production in Italy rose 2.6%, compared with a 19% reduction in net imports.

In the first half of 2019, **35.4% of total energy demand was met by renewable energy sources**, slightly down from the figure of 36.4% registered in the first half of 2018. In particular, hydroelectric production is down 18% due to reduced volumes of available water in 2019 compared with 2018; this was partly offset by a significant increase in wind production (up 16%) and solar production (up 10%). Biomass and geothermal production are substantially in line with the same period of the previous year.

European
and international relations

Opportunities for engagement and dialogue are provided by Terna's membership of the **principal national and international trade associations**, as well as of the leading associations connected with sustainability issues.

European stakeholder

ENTSO-E	European Network of Transmission System Operators for Energy
EASE	European Association for Storage of Energy
RGI	Renewables Grid Initiative

During the period, Terna continued a series of contacts with the senior managements of European and non-European system operators, with the aim of entering into **cooperation agreements**, at bilateral and multilateral level, **in areas of common interest**, especially in these sectors:

- grid development
- electricity system operation
- technological innovation.

In Latin America, in 2018 Terna joined the regional body, **CIER (*Comision de Integracion Energetica Regional*)**, whose members are energy companies and local authorities and which pursues the goal of greater regional energy integration through cooperation between its members.

International stakeholder

CIGRE	*Conseil International des Grands Réseaux Electriques* (International Council on Large Electric Systems)
GO15	Reliable and Sustainable Power Grids
Med-TSO	Mediterranean Transmission System Operators
RES4MED and RES4FRICA	Renewable Energy Solutions for the Mediterranean & Africa
WEC	World Energy Council (Italian committee)

During the first half of 2019, in addition to consolidating its presence in the trade associations it belongs to, Terna participated in international events organised by the **Council on Foreign Relations**. Terna took part in a discussion of the theme of "Transatlantic Commerce in a Post-Brexit Reality: Leveraging the European-America Connection", focusing on the role of TSOs in managing the current energy transition in a sustainable manner. At the Council's "CEO Summit 2019", Terna focused on the need to invest in electricity infrastructure as an enabling factor in the energy transition to a decarbonised economy.

Via ELMED Etudes SARL[3], activities continued on development of the electricity interconnector project between Italy and Tunisia. In execution of two financing agreements granted by the World Bank to the Republic of Tunisia regarding the project to provide technical assistance for the Tunisia - Italy electricity interconnector, in January 2019 ELMED Etudes signed two subsidiary agreements with the Republic of Tunisia, appointing it as the implementing agency for the project components relating to preparatory studies and project management. On 30 April 2019, the Italian Minister for Economic Development and the Tunisian Minister for Industry signed an "Intergovernmental agreement regarding the development of electricity transmission infrastructure to maximise electricity exchanges between Europe and North Africa", in which the activities entrusted to ELMED Etudes are also covered.

In early 2019, as part of the Group's international activities, Terna initiated contacts with the main IFIs (International Financial Institutions) to explore the potential for cooperation in geographical areas of interest to the Group.

During the first half of 2019, ahead of the Climate Action Summit in September 2019, Terna worked with Italy's Permanent Mission to the UN on the issue of energy transition within the context of small islands.

3. A Tunisian company jointly owned (50-50) by Terna S.p.A. and STEG (a vertically integrated Tunisian state utility in the electricity sector), set up in 2009 with the aim of carrying out research and consultancy for the benefit of the Italy - Tunisia electricity interconnector project.

Regulatory environment

Regulated revenue represents approximately 89% of the Group's total revenue

Regulated revenue, which represents approximately 89% of the Group's total revenue, mostly derives from transmission and dispatching, subject to regulation by the **Regulatory Authority for Energy, Networks and the Environment (ARERA)**.

In Resolutions 653/2015/R/eel, 654/2015/R/eel and 658/2015/R/eel, ARERA set the tariff regime for electricity transmission, distribution, metering and dispatching services and regulations regarding the quality of the transmission service for the 2016–2023 regulatory period (the fifth regulatory period). This period has been divided into two sub-periods: NPR1 (2016-2019) and NPR2 (2020-2023).

The first four-year period has been substantially in line with the past, despite a number of changes, including **gradual greater emphasis on output-based** regulation. This has been achieved through ARERA's progressive introduction of various incentive mechanisms relating to transmission service outputs, including one aimed at creating additional transmission capacity to meet capacity targets, and another aimed at relieving congestion within zones, network constraints for voltage regulation and establishing the conditions for essential service provision.

Regarding the second-four-year period - for which the adoption by 2020 of a new method of regulation for the transmission service, involving the recognition of costs based on the total expenditure incurred (operating expenses and capital expenditure), also known as the **"TOTEX" approach** was originally planned - the regulatory framework will be established as the outcome of the procedure launched by ARERA with Resolution 126/2019/R/eel, regarding the mid-period review of tariffs and the quality of electricity transmission, distribution and metering services.

In this resolution, ARERA proposed, among other things, the possible gradual introduction of typical preparatory instruments for a **TOTEX** regulatory system during NPR2, specifying that this approach could be applied in the last year of NPR2 (2023), on an experimental basis, for the purpose of determining the recognised transmission costs.

In Resolution 583/2015/R/com, ARERA announced the procedure for determining and revising the **Weighted Average Cost of Capital (WACC)** for a period of six years (2016-2021). This applies to infrastructure services in the electricity and gas sectors and is subject to revision, mid-way through the period. Together with Resolution 639/2018/R/COM, this has resulted in an adjustment of the WACC in a predictable and transparent manner in keeping with the economic cycle. The WACC for the period 2019-2021 has been set at **5.6%**. This is a vital element in guaranteeing revenue stability, a key factor in enabling Terna to complete the substantial investment programme needed to meet the challenges of the energy transition.

A number of key aspects of regulation in the period NPR1 are described below, with regard to allowed revenue for transmission and dispatching services.

Transmission revenue makes up the most significant portion of regulated revenue and is generated from application of the related transmission charge (**TC**), billed by Terna to distributors connected to the National Transmission Grid. This charge pays for the transmission services provided by all transmission service operators, including the owners of residual portions of the grid (external to the Terna Group), and is divided into two components: a power component (equal to 90% of revenue, expressed in euro cents/kW/year) and an energy component (10% of revenue, expressed in euro cents/kWh).

The **dispatching service charge (DSC)** aims to recompense Terna for carrying out the activities relating to the dispatching service and is billed by Terna to users of the dispatching service in proportion to the quantity of energy dispatched.

Allowed costs that combine to determine the TC and DSC components are attributable to three main categories, as summarised below:

Transmission revenue makes up the most significant portion of regulated revenue

THE THREE MAIN TYPES OF ALLOWED COST

1. To cover the return on capital (RAB)

Determined on the basis of the Regulated Asset Base (RAB) and the Weighted Average Cost of Capital (WACC). The RAB represents net invested capital for regulatory purposes. It is revalued annually on the basis of data from ISTAT (Italy's Office of National Statistics) on the change in the deflator applied to gross fixed investment and revised on the basis of the performance of investment and disposals. The WACC[4] represents the weighted average cost of equity and debt.

2. To cover depreciation

Allowed depreciation (calculated on the basis of an asset's useful life for regulatory purposes) is revalued annually based on the change in the deflator applied to gross fixed investment.

3. To cover operating costs

Allowed costs are determined by the regulator at the beginning of the regulatory period, based on operating costs recognised during the relevant year (which, in the case of NPR1, was 2014) and increased by any remaining portions of additional efficiencies achieved in the previous two regulatory periods.

The resulting amount is revalued annually to take account of inflation and reduced by an efficiency factor designed to ensure that additional efficiencies are, over time, passed back to end users in full.

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

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

3
The Group’s businesses

Regulated Activities in Italy

Transmission and dispatching

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

Capital expenditure

The 2019 Development Plan

GOALS

- **To boost overall exchange capacity with other countries**
- **To reduce congestion**
- **To cut energy losses**
- **To reduce CO_2 emissions** as a result of the production mix and lower grid losses

DRIVERS

DECARBONISATION

1. Use of all the tools necessary in order to fully integrate renewable production plants.

MARKET EFFICIENCY

2. The structure and mix of Europe's generation mix in general and of Italian generation in particular are undergoing a radical transformation, just as transmission lines are being developed in keeping with new European directives regarding Market Design. The adoption of new mechanisms at national level (the Capacity Market and the reform of the dispatching services market) will have a major impact on development of the electricity system.

SECURITY OF SUPPLY

3. The security of the supply chain ensures the security of the national electricity system and creates an increasingly resilient system, capable of handling critical events external to the system itself.

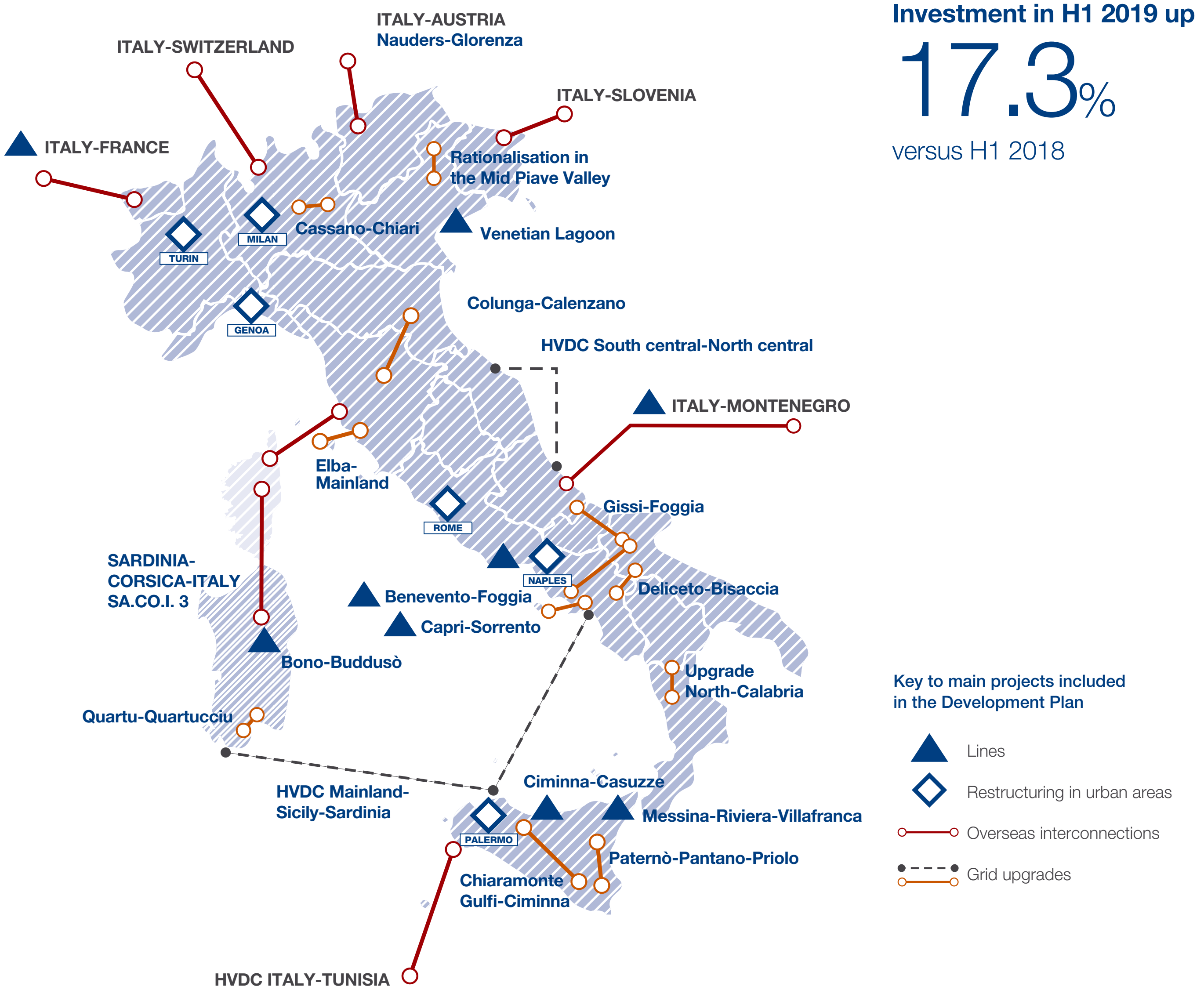
SYSTEMIC SUSTAINABILITY

4. The fourth driver consists of the ability to conceive, design and implement following rigorous analysis capable of maximising the environmental and economic benefits.

PROJECT GUIDELINES

PAYING ATTENTION TO LOCAL NEEDS	GRID OPERATION	ENVIRONMENTAL SUSTAINABILITY
Focus on local development needs and support Italy's new challenges, such as the new electric mobility projects, paying attention to metropolitan areas and reviewing projects in order to make them environmentally-friendly.	Identify and develop initiatives aimed at improving grid operation, with a special focus on enhancing service quality of service and the resilience of the system.	Support and guide the energy transition via increasing connection and integration of new renewable energy plants.

PRINCIPAL PROJECTS PLANNED FOR THE PERIOD 2019-2023



Investment in H1 2019 up

17.3%

versus H1 2018

The Terna Group's total capital expenditure in the first half of 2019 amounts to **€396.3 million**, compared with €337.9 million in the same period of the previous year **(up 17.3%)**.

GROUP CAPITAL EXPENDITURE (€m)	H1 2019	H1 2018	CHANGE	% CHANGE
Development Plan	138.0	183.2	(45.2)	(24.7%)
Security Plan	29.4	28.8	0.6	2.1%
Projects to renew electricity assets	135.5	82.2	53.3	64.8%
- of which electricity assets (before functional separations)	*117.6*	*69.1*	*48.5*	*70.2%*
- of which functional separations	*17.9*	13.1	4.8	*36.6%*
Other capital expenditure(1)	39.8	10.3	29.5	286.4%
Total Regulated Assets(2)	**342.7**	**304.5**	**38.2**	**12.5%**
Non-regulated Assets(1) (2)	**47.5**	**27.0**	**20.5**	**75.9%**
Capitalised financial expenses	6.1	6.4	(0.3)	(4.7%)
TOTAL CAPITAL EXPENDITURE	**396.3**	**337.9**	**58.4**	**17.3%**

(1) Includes the impact of IFRS 16.
(2) The figure for H1 2018 is on a pro forma basis due to the reclassification of NOP and ROP as Regulated Assets.

193 km
removal of overhead lines in H12019

Changes in the asset base during the first half of 2019 include removal of a total of 193 km of overhead lines and an increase in new underground cable lines amounting to 26 km.

Infrastructure entering service in the first half of 2019 includes the new 11-km, 150 kV underground cable that connects the Piscioli substation in the municipality of Candela (FG) to the Valle (FG) substation, and the 2 km of new power lines serving the Port of Genoa. Completed in just 11 months, the Piscioli substation will be used as a switching station for renewable energy produced by plants in the area, thanks to a total investment of €10 million and use of the latest technologies designed to more effectively prevent and identify faults. The reorganisation in the Port of Genoa area falls under the Memorandum entered into by CDP, Fincantieri, the Ferrovie dello Stato group and SNAM with the Municipality of Genoa and Liguria Regional Authority, with the aim of supporting economic recovery and urban renewal in Genoa and its metropolitan area, which was badly hit by the collapse of the Morandi road bridge last August. As part of plans to reorganise the grid serving the city of Genoa, Terna is committed to implementing a programme of modernisation for the city's transmission grid and working in partnership with the University of Genoa in order to promote studies or research in the energy and environmental fields.

The upgraded electricity substations of Monte Narbone, Picerno and Belcastro also entered service during the period.

With regard to the removal of lines, **the demolition of the "Fusina 2–Sacca Fisola" overhead power line was completed** on 11 June 2019. This has enabled the total removal of all electricity pylons in the Venetian Lagoon.

MAIN WORKS CARRIED OUT DURING THE PERIOD

	DEVELOPMENT PLAN - €138 MILLION
Italy-France interconnector *(€24.9 million)*	• **Piossasco converter station:** the related civil works and the main buildings (control building, valve room, direct current equipment room) have been completed, as has production of key equipment for the station (converters and transformers), which are currently being installed. 7 transformers have been delivered on site, of which 5 have already been installed, and 2 are in the process of being assembled. • **Cable connection**, cables have been laid over a 57 km section, representing over 60% of the connection as a whole: - **Former Sitaf section:** (from the station to the motorway): completed; - **Upper and lower sections** (A32 motorway): 29.1 km of trenches have been excavated (civil works) out of a total of approximately 45 km and 16.2 km of cable has been laid; - **Middle section** (avoiding the A32 motorway): 24 km of trenches have been excavated (civil works) and 20.5 km of cable has been laid out of a total of approximately 25 km; - **Frejus:** the civil works have been completed and 1.9 km of cable has been laid out of a total of 6.7 km.
Italy-Montenegro interconnector *(€7.9 million)*	The initial connection and work on assembling the electromechanical equipment for the converter stations have been completed. Energisation of the direct current section at the Cepagatti and Kotor converter stations on the Italian and Montenegran sides, as well as of the entire live operating cable, was completed in March; energy transmission tests are in progress.
Belcastro substation *(€6.5 million)*	The provisional layout of the substation was completed in May 2019, and production from renewable sources consequently connected. Work is in progress to build the final layout of the substation.
Sorrento Peninsula interconnector *(€5 million)*	**Submarine cable:** cable production, which is expected to be tested by the end of the fourth quarter of 2019, is in progress; **Terrestrial cables Capri side:** installation completed; **Terrestrial cables Sorrento side:** 1.7 km of cable laid out of a total of 2.4 km; **Sorrento substation:** civil works nearing completion.

MAIN WORKS CARRIED OUT DURING THE PERIOD - *continued*

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

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

Reorganisation in Rome
(€4.8 million)

Brennero substation: the related civil works are being carried out, at the end of which electromechanical assembly of the completed machines that are currently at the supplier's premises will be started.

Overhead links: work has begun on construction of the Prati di Vizze-Austria cross-border line that will connect to the new Brenner substation.

Brennero substation
(€4.6 million)

The overhead section was completed in 2018, and the new cable section will have been laid by June 2019. Construction of the joints and terminations is in progress.

Upgrade of Schio-Arsiero grid
(€4.4 million)

SECURITY PLAN – €29.4 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.

19 electricity substations in the NTG were connected and lit in the first quarter of 2019 (making a total of 415 substations).

Fiber for the Grid
(€14.7 million)

RENEWAL PLAN – €135.5 MILLION

The Group has maintained its commitment to renewing electricity assets with the aim of improving the reliability of the NTG. In the first half of 2019, projects were launched to further improve the reliability of the National Transmission Grid and the resilience of the electricity system. Overhead lines along 660 standardised km[5], and 57 standardised bays at substations have been renewed[6].

Renewal of electricity assets
(€117.6 million)

Work continued on the project involving the separation of Rete S.r.l.'s substations, aimed at progressive integration of the HV substations acquired from FSI S.p.A. in 2015 into the grid. A further 6 electricity substations were integrated in the first half of 2019 (making a total of 245 substations out of the 350 acquired).

Separation of Rete S.r.l.'s substations
(€18.4 million)

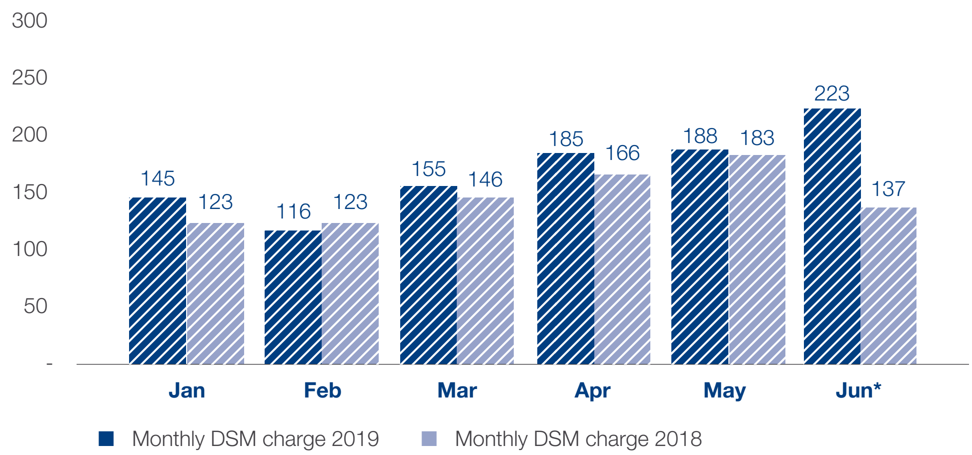
5. The standardised km is a unit of measurement that takes into account the work carried out on lines by means of the appropriate weighting of each component planned as a replacement.
6. The standardised bay represents a unit of measurement that takes into account the work carried out at a substation by means of the appropriate weighting of each piece of equipment being renewed.

Electricity cost trends

Dispatching Services Market

The net charge for using the DSM was approximately €1,012 million in the first half of 2019 (provisional data), up on the same period of the previous year (€878 million).
The increase primarily reflects an increase in the cost of selection following the resolution of local technical constraints and in the related prices.

MONTHLY DSM COSTS
€m



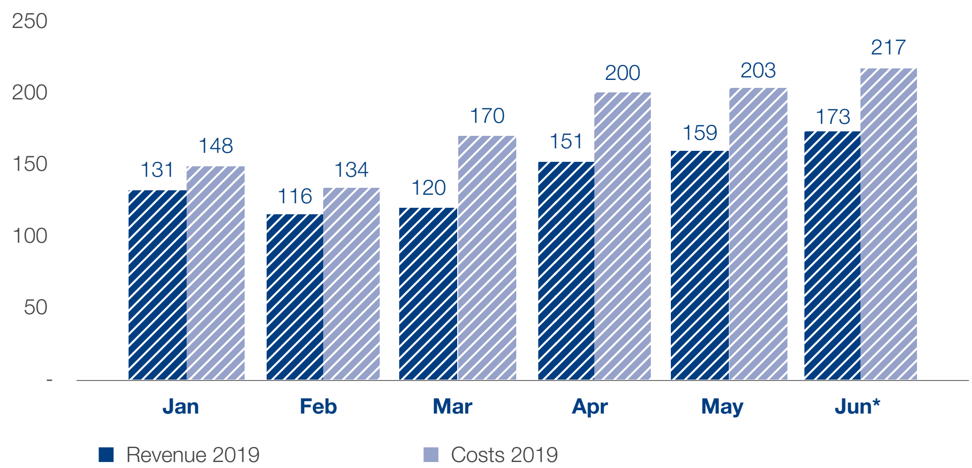
** Provisional data*

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

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

The total uplift was €1,072 million in the first half of 2019 (provisional data), up slightly on the same period of the previous year (€998 million). This reflects an increase in the cost of using the Dispatching Services Market, partially offset by reductions in imbalance costs, in the bonus on contracts linked to the provision of essential services and in start-up payments.

MONTHLY PERFORMANCE OF REVENUE AND UPLIFT COSTS
€m



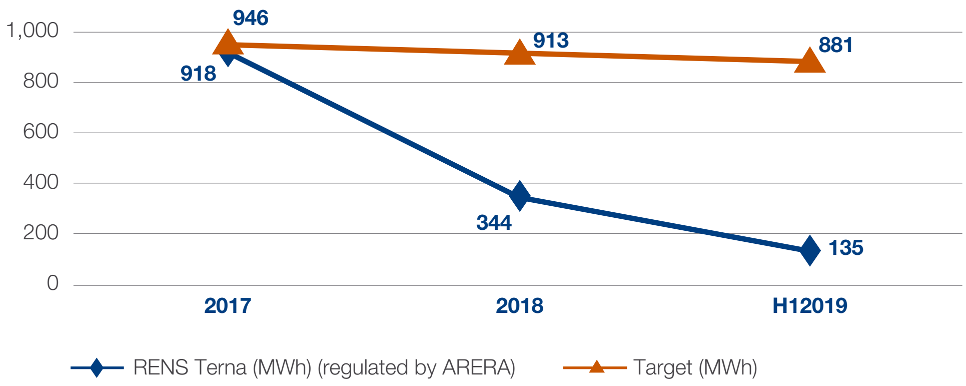
** Provisional data*

Quality of service

Each phase of the electricity system – generation, transmission and distribution – plays a role in ensuring the availability of electricity in Italy, always guaranteeing adequate quality standards and keeping the number of outages below pre-set thresholds.
Terna monitors service continuity through various indicators defined by ARERA (Resolution 250/04) and in Terna's Grid Code.

These continuity indicators are significant for the system, as they monitor the frequency and impact of events that have occurred on the electricity grid as a result of faults or due to external factors, such as weather events. In all cases, the period of observation is three years, a period in which annual targets have not been exceeded, testifying to the high quality of service achieved.

NTG RENS INDICATOR[7]



The **"NTG RENS"** indicator for the period from January to June 2019, based on preliminary data, amounts to approximately 135 MWh (compared with an annual target of approximately 881 MWh set by ARERA).

As regards the **ASA** indicator, the operating performance shows that ASA has remained stable at a high level over the years (the higher the indicator, the better the performance). This indicator shows that the energy not supplied following a fault on the owned grid represents a minimal part of the total quantity of energy supplied to users of the grid. In particular, availability was 99.99981% in 2018, compared with 99.99974% in the previous year.

Existing regulations (set out in Resolution 653/2015/R/eel) envisage a series of mechanisms designed to regulate and encourage improvements in the quality of service provided by Terna. The overall economic effects of these mechanisms related to quality of service resulted in recognition of costs of €2.2 million in the first half of 2019 (€3.7 million in the first half of 2018).

CONTINUITY INDICATORS USED

RENS*

What it measures
Energy not supplied following events affecting the relevant grid.**

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

ASA***

What it measures
Availability of the service provided by the NTG.

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

7. The targets for 2016–2023 have been set as an average of the 2012–2015 RENS indicator, referred to in ARERA Resolution 653/15/R/eel, with a 3.5% improvement in performance required for each year compared with the previous one. Since 2016, the RENS indicator also includes the performance of Terna Rete Italia S.r.l.'s network. The 2018 is provisional, awaiting the ARERA Resolution.

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

28.7m

increase from Regulated Activities in Italy

Operating results of Regulated Activities in Italy

The following table shows a breakdown of the results from the Terna Group's Regulated Activities in the first half of 2019 and in the first half of 2018[8].

(€m)

	H1 2019	H1 2018	CHANGE
Total regulated revenue in Italy	**1,004.8**	**979.4**	**25.4**
Tariff revenue	984.3	958.4	25.9
- Transmission revenue	*928.7*	*898.5*	*30.2*
- Dispatching, metering and other revenue	*55.6*	*59.9*	*(4.3)*
Other Regulated revenue	15.5	14.7	0.8
Revenue from construction services performed under concession in Italy	5.0	6.3	(1.3)
Total cost of Regulated Activities in Italy	**190.3**	**193.6**	**(3.3)**
Personnel expenses	110.3	108.1	2.2
External resources	68.5	71.2	(2.7)
Other	6.5	8.0	(1.5)
Cost of construction services performed under concession in Italy	5.0	6.3	(1.3)
EBITDA from Regulated Activities in Italy	**814.5**	**785.8**	**28.7**

Regulated EBITDA in Italy amounts to €814.5 million, an increase of €28.7 million compared with the first half of 2018, primarily due to an increase in the WACC used in setting tariffs.

Regulated Revenue in Italy is up €25.4 million, due to the adjustment to the Group's WACC applied by Resolution 639/18 (up to 5.6% for the three-year period 2019-2021 from the 5.3% of the previous period 2016-2018), an increase in invested capital (RAB) and the recognition of additional payments for energy-intensive storage systems (ARERA Resolution 169/19), offset by ARERA's recognition of certain costs arising during the first half of 2018 (down €3.8 million).

The **cost of Regulated Activities in Italy** is down €3.3 million, primarily due to a reduction in lease expense and hire costs relating to contracts within the scope of IFRS 16 (€2.8 million), and lower costs relating to quality of service (down €1.5 million, above all due to the impact of mitigation costs incurred following an outage at a production plant in Tuscany in 2018), partially offset by the impact on personnel expenses of the increase in the average workforce during the period (€2.2 million).

8. The Terna Group's operating segments are consistent with the internal control system adopted by the Parent Company, in line with the Strategic Plan for the period 2019-2023.

Non-regulated Activities

The main areas in which these activities are developed are:

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

CONNECTIVITY

Fibre

Open Fiber: 5,346 km of fibre network is scheduled for delivery in 2019, in addition to 275 km of fibre still to be completed from 2018.

In detail, 486 km of fibre was delivered in the first half of 2019, including a first pair of 289 km and an additional pair of 197 km.

Smart Towers

Installation of the facilities and new communications equipment for 9 out of the 11 Smart Towers forming part of the pilot project in Sicily has been completed. Of the 9 completed towers, 7 are powered by a low voltage grid connection or photovoltaic panels; for two towers, low voltage connection by E-distribuzione is awaited.

Installation of the last two towers is nearing completion.

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

A memorandum of understanding has been signed with Waterview, a start-up selected as part of the second edition of the Next Energy project to develop tailor-made monitoring solutions for Terna infrastructure.

FWA pylons

On 6 June 2019, a framework agreement was signed regarding provision of housing services to the customer Open Fiber, which provides for activation of up to 500 sites using FWA (Fixed Wireless Asset) technology in the three-year period 2019-2022 on Terna pylons. The implementation phase of the project has been launched.

ENERGY SOLUTIONS

Energy efficiency

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

This is an innovative energy efficiency project, the first of its kind in Italy, designed and implemented by Avvenia. The plant is designed to boost the qualitative and environmental performance of production, enabling AST to produce up to 70% of the steam needed to manufacture stainless steel without using fossil fuels and cutting the quantity of CO_2 released into the atmosphere by 30 thousand tonnes a year.

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

A letter of intent has been signed with the not-for-profit Giovanni Campaniello Foundation regarding its "A Farmstead for Life" project. The main aim of the project is to carry out initiatives to support autistic people involving the construction of facilities where they can be autonomous and no longer have to depend on support from their family members. The "A Farmstead for Life" project follows the so-called "social farm" organisational philosophy and green building criteria, respecting the environmental characteristics of the rural context in which it is located, and using these natural elements for educational and therapeutic purposes.

The involvement of ATEI as general contractor to manage the activities relating to the construction of the facilities is aimed at identifying, optimising and implementing high-efficiency technological solutions, including monitoring systems for environmental, safety and clinical requirements, secondary wastewater treatment plants with a phytodepuration and rainwater recovery system, a photovoltaic plant with adjoining storage system, and air conditioning plants with high-efficiency heat pumps. ATEI is also involved in specialist consultancy regarding energy efficiency issues, supplemented with analysis of the facilities via dynamic modelling, with a view to obtaining the relevant LEED (Leadership in Energy and Environmental Design) certification.

PRIVATE INTERCONNECTORS PURSUANT TO LAW 99/2009

Italy-Montenegro

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

On 25 June 2019, ARERA issued clearance for the exemption of 200 MW of capacity. Therefore, Terna is currently awaiting issuance of the exemption decree by the Ministry of Economic Development.

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

Italy-France

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

Approximately 27.5 km of civil works were completed and 15.2 km of cable laid for the Upper and Lower sections along the A32 motorway in the first half of 2019, whilst around 23.6 km of civil works and approximately 20.5 km of cable for the middle section were also completed. The production of converters, transformers and the assembly of all the main buildings of the Piossasco converter station have been completed. Production of the equipment is also in progress.

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

INTERCONNECTOR PRIVATI EX LEGGE 99/2009 *(CONTINUED)*

Italy-Austria

On 18 April 2019, the design for the construction of a new 220 kV alternating current interconnection between the substations of Glorenza (Italy) and Nauders (Austria) was granted consent for the portion within Italian territory (a 26 km section of cable between Passo Resia and Glorenza), which comprises the Italy-Austria interconnector envisaged pursuant to Law 99/09. As regards the Austrian side, on 28 January 2019, electrical consents were granted for the Nauders substation and its grid connection lines.

With reference to this project, in order to submit an exemption application for a capacity of 150 MW on behalf of the energy-intensive companies, in July 2018 Terna has set up the special purpose vehicle, Resia Interconnector S.r.l..

TRANSFORMERS – TAMINI GROUP

Order book

Tamini received orders for transformers worth approximately €57 million in the first half of 2019, in line with the same period of 2018. Service orders amount to €6.7 million, up compared with 2018.

H1 2019 results

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

Operating results of Non-regulated Activities

A breakdown of the Terna Group's results from its Non-regulated Activities for the first half of 2019 and the first half of 2018 is shown below[9].

4.3 m

increase from Non-Regulated Activities

(€m)

	H1 2019	H1 2018	Change
Revenue from Non-regulated activities	**82.2**	**77.9**	**4.3**
Tamini	44.8	39.0	5.8
Connectivity	16.8	15.9	0.9
Energy Solutions	15.7	17.0	(1.3)
- EPC	*6.3*	*6.4*	*(0.1)*
- Energy efficiency	*1.8*	*3.3*	*(1.5)*
- O&M	*7.6*	*7.3*	*0.3*
Italy-France interconnector	4.0	4.8	(0.8)
Other	0.9	1.2	(0.3)
Cost of Non-regulated Activities	**56.0**	**50.7**	**5.3**
EBITDA from Non-regulated Activities	**26.2**	**27.2**	**(1.0)**

EBITDA from Non-regulated Activities, totalling €26.2 million, is down slightly by €1 million, broadly reflecting income generated on the acquisition of Avvenia in the first half of 2018, after the increase in EBITDA generated by the Tamini Group (up €0.7 million).

9. The Terna Group's operating segments are consistent with the internal control system adopted by the Parent Company, in line with the Strategic Plan for the period 2019-2023.

International Activities

Overseas initiatives of interest to the Terna Group are:

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

NEW ACQUISITIONS IN BRAZIL

On **12 April 2019**, the Group signed a preliminary agreement with Construtora Quebec for the acquisition of two new concessions for the construction of power lines in Brazil. This will involve construction of 305 km of electricity infrastructure in the State of Minas Gerais, with the aim of boosting the efficiency, security and sustainability of local grids and facilitate the full integration of renewable sources. The agreement was signed through the subsidiary, Terna Plus, and provides for the acquisition of control of two thirty-year concessions. The total value of the agreement, including the cost of designing and building the infrastructure, is approximately US$130 million and this will be funded mainly through project financing.

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

INITIATIVES IN PROGRESS IN LATIN AMERICA

Uruguay

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

At the end of June, more than 99% of the foundations had been completed, over 90% of the pylons installed, and 25% of the conductor installed.

Over 88% of the works have been carried out, with completion expected by the end of 2019.

Brazil

Construction of the Santa Lucia Transmissora de Energia (SLTE) in the State of Mato Grosso was completed in the first half of 2019, and operations relating to the Santa Maria Transmissora de Energia (SMTE) concession in the State of Rio Grande do Sul continued.

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

SLTE concession: on 30 April 2019, the concession's entry into commercial service was formally authorised by ONS (*Operador Nacional Do Sistema Eletrico* - the Brazilian regulator), and operation and maintenance activities regarding the concession have been launched. 75% of the line was built using single-pole cable-stayed pylons with a low environmental impact.

Peru

Work on construction of 132 km of new 138kV lines between Aguaytìa and Pucallpa is continuing, and environmental certification (Senace) has been issued.

The process of acquiring the related easements is underway and construction work has begun. The procurement of transmission line materials also continued. The project is expected to be completed by the end of 2020.

On 27 February 2019, an agreement was signed with the Parish of Chacas, following on from a contract signed in November 2016, regarding the launch of works to build a new 16 km power line. Engineering and procurement activities are underway, in order to start construction work during the second half of 2019.

Operating results of International Activities

A breakdown of the Terna Group's results from International Activities for the first half of 2019 and the first half of 2018 is shown below[10].

(€m)

	H1 2019	H1 2018	Change
Revenue from International Activities	10.8	5.5	5.3
Cost of International Activities	5.3	3.6	1.7
EBITDA from International Activities	**5.5**	**1.9**	**3.6**

EBITDA from International Activities, amounting to €5.5 million for the first half of 2019, is up €3.6 compared with the same period of the previous year. This primarily reflects the impact of initiatives in Brazil (up €6.2 million), where the related infrastructure has fully entered service, after the different performance of construction services in Uruguay relating to construction of the Melo-Tacuarembò power line (down €1.6 million).

10. The Terna Group's operating segments are consistent with the internal control system adopted by the Parent Company, in line with the Strategic Plan for the period 2019-2023.

Business enablers

Our people

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

THE WORKFORCE	AT 30 JUNE 2019	AT 31 DECEMBER 2019	CHANGE
Senior managers	76	67	9
Middle managers	640	638	2
Office staff	2,362	2,290	72
Blue-collar workers	1,250	1,257	(7)
TOTAL	**4,328**	**4,252**	**76**

The increase in the Terna Group's workforce at 30 June 2019 reflects 120 new hires and 44 people leaving the Group. In particular, workers and technical specialists in the Transmission and System Operator field were hired, accounting for 60% of the total, while the remaining 40% of hires were aimed at developing the Non-regulated business in Italy and abroad and strengthening the Group's distinctive skills.

ORGANISATION

The main organisational changes decided on in the first half of 2019 include:
- as regards **System Operator** activities, the definition of a new organisational structure for Dispatching and Conduction that is more focused on core activities and on achieving the targets for security, flexibility and adequacy of the National Electricity System;
- as regards **Transmission Operator** activities, a review of the organisational structure of the Asset Management and Technologies departments, aimed at strengthening oversight of the process of maintaining electricity grid assets and new technologies serving the network, respectively;
- finally, as regards **Energy Solutions**, organisational measures were aimed at rationalising the Energy Solutions value chain for the benefit of Business Development activities, developing sales activities, and enhancing the engineering process involved in the offering and project coordination processes.

INITIATIVES IN THE FIRST HALF OF 2019

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

At the end of April, Terna and Digital Magics launched a **"Terna HRR - Human Renewable Resources"** call for Open Innovation, with the aim of identifying the best services, applications and latest-generation, high-added-value solutions for innovating processes and functions, to be made available to the Human Resources department, thus contributing to a real digital transformation. On 20 June, the pitch day was held with an award given to the winning start-up.

Launched in 2018 with a survey on digital attitudes aimed at the entire Company workforce, the **Terna.4 Go Digital** project continued in 2019 with an extensive and well-structured two-year training programme that we carry out with an exceptional partner - Talent Garden - one of the best innovation players in Italy. The Envisioning Academy training sessions started in April 2019: two days of training and knowledge sharing, with top-quality external contributors. Five two-day sessions had been held by the end of June.

Innovation

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

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

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

INNOVATION PLAN – INITIATIVES IN THE FIRST HALF OF 2019

Innovation Hub

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

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

Origination and R&D projects

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

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

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

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

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

OPEN INNOVATION – INITIATIVES IN THE FIRST HALF OF 2019

HRR	In April, the Terna **HRR - Human Renewable Resources Call for Innovation** was launched. The aim of the Call is to identify the best services, applications and latest-generation, high-added-value solutions for innovating processes and functions to be made available to Terna's HR department, thus contributing to a real digital transformation. The 10 most promising start-ups and SMEs were the protagonists at the final pitch day at Terna's headquarters in Rome on 20 June, and 3 of them were selected to access acceleration pathways at Terna's Innovation Hubs. Eggup, an HR-Tech SME, won the call and was awarded the €15,000 prize for the best innovative HRR solution.
D2O	May saw the launch of the Terna **D2O - Digital to Operations Call for Innovation**. The aim is to identify the best Italian start-ups and innovative SMEs that are able to find digital solutions for improving the safety of people and the Company's core operating processes, thus increasing their effectiveness and efficiency. From among the projects submitted, the 10 selected on the final assessment day present their innovations and business models. The finalist who proposes the best project wins a €15,000 prize. The 10 finalists also have the opportunity to embark on a development and Open Innovation path at a Terna office, dedicated to Human Renewable Resources and Digital to Operation. The chosen winner was a start-up called "Smart Track".
Next Energy 3rd edition	The third edition of **Next Energy** consisted of 3 Calls: - the **Call for Talents** led to the selection of 10 new graduates who had access, from January, to a 6-month internship at Terna's Innovation facilities; - the **Call for Ideas** made an award for the Windcity project in May, as the outcome of the best idea among the 10 finalists selected at the end of January. The winner developed and produced V-Stream, a variable geometry turbine, and was awarded the €50,000 prize for acceleration services; - the **Call for Growth** led to the selection in January of 10 start-ups that had access to an incubation programme lasting up to 3 months, which includes allocation to the winner of a €50,000 voucher to be spent on acceleration services.
Academy	In March 2019, the research project, to be carried out as part of the five-year partnership between Terna and California's **Stanford** University, got underway. The six-month project, which will involve a member of Terna's personnel, selected in 2018, will look at adoption of a nodal market model in Italy.

On 1 March 2019, **Snam and Terna signed a memorandum of understanding** with the aim of defining and implementing joint initiatives, in particular regarding **research, development and innovation** and the potential for convergence between the electricity and gas systems. In accordance with the legislative and regulatory framework, the agreement regards the development of shared scenarios for use in designing investment plans, the exploitation of convergence between the gas and electricity systems, the use of programmable renewable sources for electricity generation and the development of innovative technological solutions for the analysis and monitoring of infrastructure.

MoU with SNAM

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

MoU with The Mobility House

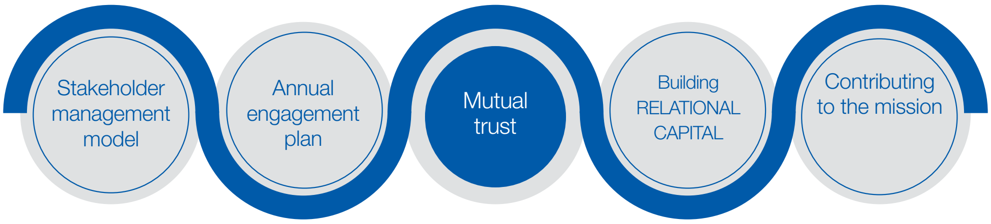
On 19 April 2019, Terna, Eni, CDP and Fincantieri signed a non-binding agreement for the **development and construction on an industrial scale of wave farms**. This confirms Terna's commitment to sustainable innovation as a means of supporting the energy transition.

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

Wave energy: agreement with ENI, CDP and Fincantieri

Local stakeholders

Mitigating the risks arising from non-acceptance of electricity projects provided for in the Development Plan by the local communities concerned may, in many cases, facilitate compliance with the time-scales set for their completion and, as a result, early fruition of the associated benefits.



To build and maintain good stakeholder relations, Terna has developed a number of tools and procedures within its “Stakeholder Engagement Model” designed to engage with and monitor public opinion, with the aim of avoiding the risk of failing to identify any problems in good time.

A specific engagement programme is conducted each year to identify the actions to be taken in order to bring the Group’s relations into line with best practices and to ensure that stakeholders are listened to on a regular basis.

Since 2018, Terna has stepped up its engagement at local level, with a view to raising awareness of the Company and its responsibilities, promoting an electricity culture and the decarbonisation objectives, and initiating transparent engagement with all local stakeholders, opinion makers and influencers, in order to gauge their opinions and needs. Precise and accurate mapping of all local stakeholders in the main areas affected by grid development projects has been carried out, as well as an assessment of their capacity to influence their respective communities and their perception of Terna and the proposed initiatives.

SUSTAINABILITY INITIATIVES

Stakeholder

Local communities: more engagement and consultation

Terna has, since 2002, adopted a voluntary approach designed to foster the prior involvement of local government (regional and local authorities, park authorities, etc.). Since 2015, this has been extended to include people from the communities directly affected by Terna's plans through public meetings called **"Terna incontra"**. These events focus on listening to local concerns, sharing design ideas and on dialogue, with the aim of ensuring a secure, efficient and sustainable grid.

During the first half of 2019, 13 such meetings were held in six Italian regions: at Riccione (RN) and Rimini in Emilia-Romagna; at Belcastro (CZ), Mesoraca (KR) and Soveria Simeri (CZ) in Calabria; at Suvereto (LI) and Sesto Fiorentino (FI) in Tuscany; at Catania (two meetings), Priolo (SR) and Carlentini (SR) in Sicily; at Matera in Basilicata; and at Atri (TE) in Abruzzo.

On 14 June 2019, Terna's Chief Executive Officer, Luigi Ferraris, and the mayor of Matera, Raffaello De Ruggieri, **signed a memorandum of understanding** for the reorganisation of the town's electricity grid. This will result in the removal of 40 pylons in the **Matera** area, whilst the reorganisation will also benefit the local electricity, making it more secure, efficient and capable of coping with the growing volume of renewal energy produced and increased civil and industrial development in the area. Finally, from 5 to 7 July, Terna attended the three-day Coldiretti Village event in Milan with its own delegation. This important opportunity for dialogue and engagement with institutions and citizens drew in more than 700,000 visitors.

Environmental organisations: strengthening partnerships

Terna's commitment to the environment and biodiversity led, in 2009, to the conclusion of partnership agreements with critical stakeholders, such as leading environmental organisations, with the aim of arriving at shared solutions designed to boost the environmental sustainability of the National Transmission Grid (NTG). Growing concerns over the impact of climate change, and the accompanying focus on energy transition initiatives, has led to further cooperation between Terna and these organisations. In particular, in 2016, Terna renewed and expanded its three-year partnerships with Legambiente, the WWF and Greenpeace. At European level, Terna is one of the nine TSOs that, together with eight non-governmental organisations in the environmental sector, make up the RGI (Renewables Grid Initiative) association. Three working groups have been set up to: (1) foster dialogue with strategic stakeholders regarding the need for new electrical infrastructure in their local areas; (2) identify the most relevant environmental issues and define guidelines for sustainable design; and (3) develop new indicators relating to the benefits of new electricity works. Also, as part of its activities with RGI, in March 2019 Terna signed the "Marine Grid Declaration", a programmatic commitment aimed at gaining a greater understanding of the effects of submarine power cables on the marine environment.

Investors: a growing demand for transparency regarding environmental, social and governance aspects

Approaches to climate change and the energy transition have widened **calls from numerous institutional investors** for major companies to conduct an informed and full assessment of the business risks linked to ESG (environmental, social and governance) issues. Moreover, with the adoption, by European countries, of Directive 2014/95/EU on non-financial disclosures (in Italy with Legislative Decree 254/2016), since 2017 large companies have been required to publish an annual non-financial statement, which for Terna is represented by its Sustainability Report. Of particular importance, in terms of transparency and reporting, are the recommendations from the Task Force on Climate-related Financial Disclosures (the so-called Bloomberg Task Force) regarding the publication of information on the implications of climate change for business strategies, in terms of risks and opportunities. This is considered of central importance, with regard to both the best possible allocation of investment and efforts to combat climate change. Terna has for some time now implemented these recommendations.

“As a major transmission and dispatching operator, we invest in skills, technology and innovation to ensure that we are well equipped to plan, develop and maintain the grid (Transmission Operator), and guarantee an electricity service that is balanced, secure and high quality (System Operator). Italy and Terna are at the centre of a system that includes 25 interconnections with neighbouring countries: this gives us a leading role to play in energy integration in Europe and the Mediterranean area.
This know-how is, naturally, also applied in our Non-regulated and International activities.”

4

Performance

Financial review

for the first half of 2019

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

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

Basis of presentation

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

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

The Group's reclassified income statement

The Terna Group's operating results for the first half of 2019, compared with those for the same period of the previous year, and for the second quarter of 2019 and 2018, are summarised in the following reclassified income statement, obtained by reclassifying amounts in the statutory consolidated income statement.

(€m)

Q2 2019	Q2 2018	CHANGE	% CHANGE		H1 2019	H1 2018	CHANGE	% CHANGE
560.8	**539.7**	**21.1**	**3.9%**	**TOTAL REVENUE**	**1,097.8**	**1,062.8**	**35.0**	**3.3%**
504.9	491.8	13.1	2.7%	- Regulated revenue in Italy	1,004.8	979.4	25.4	2.6%
3.0	*3.2*	*(0.2)*	*(6.3%)*	*of which Revenue from construction services performed under concession*	*5.0*	*6.3*	*(1.3)*	*(20.6%)*
49.3	45.5	3.8	8.4%	- Non-Regulated revenue	82.2	77.9	4.3	5.5%
6.6	2.4	4.2	-	- International revenue	10.8	5.5	5.3	96.4%
134.8	**134.1**	**0.7**	**0.5%**	**TOTAL OPERATING COSTS**	**251.6**	**247.9**	**3.7**	**1.5%**
64.4	63.5	0.9	1.4%	- Personnel expenses	129.6	124.4	5.2	4.2%
37.7	42.5	(4.8)	(11.3%)	- Cost of services, leases and rentals	75.0	77.0	(2.0)	(2.6%)
22.4	18.3	4.1	22.4%	- Materials	29.6	23.5	6.1	26.0%
6.5	6.3	0.2	3.2%	- Other costs	10.2	13.0	(2.8)	(21.5%)
0.8	0.3	0.5	-	- Quality of service	2.2	3.7	(1.5)	(40.5%)
3.0	3.2	(0.2)	(6.2%)	- Cost of construction services performed under concession	5.0	6.3	(1.3)	(20.6%)
426.0	**405.6**	**20.4**	**5.0%**	**GROSS OPERATING PROFIT (EBITDA)**	**846.2**	**814.9**	**31.3**	**3.8%**
148.3	134.9	13.4	9.9%	- Amortisation, depreciation and impairment losses	288.7	267.4	21.3	8.0%
277.7	**270.7**	**7.0**	**2.6%**	**OPERATING PROFIT (EBIT)**	**557.5**	**547.5**	**10.0**	**1.8%**
(22.9)	(18.1)	(4.8)	26.5%	- Net financial income/(expenses)	(38.8)	(42.7)	3.9	(9.1%)
254.8	**252.6**	**2.2**	**0.9%**	**PROFIT/(LOSS) BEFORE TAX**	**518.7**	**504.8**	**13.9**	**2.8%**
72.4	74.2	(1.8)	(2.4%)	- Income tax expense for the period	150.3	142.7	7.6	5.3%
182.4	**178.4**	**4.0**	**2.2%**	**PROFIT FOR THE PERIOD**	**368.4**	**362.1**	**6.3**	**1.7%**
1.8	0.9	0.9	100.0%	- Profit/(Loss) attributable to non- controlling interests	1.8	1.9	(0.1)	(5.3%)
180.6	**177.5**	**3.1**	**1.7%**	**PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT**	**366.6**	**360.2**	**6.4**	**1.8%**

(€m)

EBITDA BY SEGMENT	H1 2019	H1 2018	CHANGE
Regulated	814.5	785.8	28.7
Non-regulated	26.2	27.2	(1.0)
International	5.5	1.9	3.6
EBITDA	**846.2**	**814.9**	**31.3**

Gross operating profit (EBITDA) for the period amounts to **€846.2 million**, up €31.3 million on the €814.9 million of the first half of 2018, primarily due to an improvement in EBITDA from Regulated Activities in Italy.

Revenue

(€m)

REGULATED ACTIVITIES IN ITALY	H1 2019	H1 2018	CHANGE
Tariff revenue	984.3	958.4	25.9
Other regulated revenue	15.5	14.7	0.8
Revenue from construction services performed under concession in Italy	5.0	6.3	(1.3)
TOTAL	**1,004.8**	**979.4**	**25.4**

Regulated revenue in Italy is up €25.4 million, primarily reflecting the impact on tariff revenue of the adjustment of the Group's WACC and an increase in RAB.

(€m)

NON-REGULATED ACTIVITIES	H1 2019	H1 2018	CHANGE
Tamini	44.8	39.0	5.8
Services for third parties (connectivity, energy solutions, etc.)	33.4	34.1	(0.7)
Italy-France interconnector	4.0	4.8	(0.8)
TOTAL	**82.2**	**77.9**	**4.3**

The increase in **Non-regulated revenue**, amounting to €4.3 million, primarily reflects the **Tamini Group's** increased order book.

(€m)

INTERNATIONAL	H1 2019	H1 2018	CHANGE
Latin America	10.6	4.8	5.8
Other	0.2	0.7	(0.5)
TOTAL	**10.8**	**5.5**	**5.3**

International revenue is up €5.3 million, reflecting revenue generated by investment in assets held under concession in **Brazil** (up €7.6 million), after taking account of the greater amount of revenue earned on construction of the line in **Uruguay** in the first half of 2018 (a reduction of €1.6 million).

Revenue rose €21.1 million in the second quarter of 2019, compared with the same period of the previous year, primarily due to the above changes in regulated tariff components (up €13.1 million). The Tamini also registered an increase in revenue (up €4.8 million) and the Brazilian concessions also saw revenue growth (up €4.9 million).

Costs

Operating costs have increased €3.7 million compared with the first half of the previous year, broadly due to the performance of the Tamini Group's order book, partially offset by lower quality of service costs recognised in the first half of 2018 (down €1.5 million), above all reflecting mitigation costs following an outage in Tuscany.

In the second quarter of 2019, **costs** were slightly up on the same period of the previous year (an increase of €0.7 million), mainly due to the increased cost of external and internal staff linked to Non-regulated Activities.It should be noted that the second quarter of 2019 also reflects final computation of the bonuses payable to personnel for the previous year.

Amortisation, depreciation and impairment losses for the period amount to €288.7 million, up €21.3 million on the first half of 2018, primarily due to the entry into service of new plant.

Operating profit (**EBIT**), after amortisation, depreciation and impairment losses, amounts to €557.5 million, compared with **€547.5 million** for the first half of 2018 (up 1.8%).

Net financial expenses for the period total €38.8 million and are primarily attributable to the Parent Company (€37.5 million), marking a decrease of €3.9 million compared with the €42.7 million of the first half of 2018. This primarily reflects the seasonal nature of inflation and increased returns on the investment of liquidity and on short-term financial assets.

After net financial expenses, **profit before tax** amounts to **€518.7 million**, an increase of €13.9 million (2.8%) compared with the same period of 2018.

Income tax expense for the period totals €150.3 million and is up €7.6 million (5.3%) on the first half of 2018. The tax rate is 29.0%, compared with 28.3% for the first half of 2018, which benefitted from the recognition of tax-exempt income.

Profit for the period amounts to **€368.4 million**, up €6.3 million (1.7%) compared with the €362.1 million of the first half of 2018.

Profit for the period attributable to owners of the Parent (after excluding the share attributable to non-controlling interests) amounts to **€366.6 million**, up €6.4 million (1.8%) compared with the €360.2 million of the first half of 2018.

Cash flow

The above performance, combined with non-cash items and other cash flows from and for operating activities, has resulted in a cash inflow of €424.2 million, enabling the Group to finance a large part of its investing activities (€396.3 million) and the return on equity (€422 million, including €310.5 million in the form of a dividend paid to shareholders). The remainder was financed by net debt of €8,293.5 million, compared with the €7,899.4 million of 2018 (up €394.1 million).

(€m)

	CASH FLOW H1 2019	CASH FLOW H1 2018
- Profit for the period	368.4	362.1
- Amortisation, depreciation and impairment losses	288.7	267.2
- Net change in provisions	(69.6)	(28.5)
- Net losses/(gains) on sale of assets	(1.5)	(1.0)
Operating cash flow	**586.0**	**599.8**
- Change in net working capital	(160.0)	9.1
- Other changes in property, plant and equipment and intangible assets	17.1	(8.5)
- Change in investments	(2.2)	(0.3)
- Change in financial assets	(16.7)	(44.9)
Cash flow from operating activities	**424.2**	**555.2**
- Total capital expenditure	(396.3)	(337.9)
Free cash flow	**27.9**	**217.3**
- Dividends paid to the Parent Company's shareholders	(310.5)	(292.9)
- Cash flow hedge reserve after taxation and other movements in equity attributable to owners of the Parent	(111.5)	(27.8)
- Other movements in equity attributable to non-controlling interests	-	4.3
Change in net debt	**(394.1)**	**(99.1)**

The Group's reclassified statement of financial position

The Terna Group's financial position at 30 June 2019 and 31 December 2018 is summarised below in the reclassified statement of financial position, obtained by reclassifying amounts in the statutory consolidated statement of financial position.

(€m)

	AT 30 JUNE 2019	AT 31 DECEMBER 2018	CHANGE
Total net non-current assets	**14,194.4**	**14,083.6**	**110.8**
- Intangible assets and goodwill	507.3	519.4	(12.1)
- Property, plant and equipment	13,348.3	13,244.3	104.0
- Financial assets	338.8	319.9	18.9
Total net working capital	**(1,662.4)**	**(1,822.5)**	**160.1**
- Net energy-related pass-through payables	(706.4)	(777.6)	71.2
- Net receivables resulting from Regulated Activities	326.4	313.9	12.5
- Net trade payables	(560.3)	(908.9)	348.6
- Net tax liabilities	(149.4)	50.9	(200.3)
- Other net liabilities	(572.7)	(500.8)	(71.9)
Gross invested capital	**12,532.0**	**12,261.1**	**270.9**
Sundry provisions	(237.9)	(307.5)	69.6
NET INVESTED CAPITAL	**12,294.1**	**11,953.6**	**340.5**
Equity attributable to owners of the Parent	**3,963.8**	**4,019.2**	**(55.4)**
Equity attributable to non-controlling interests	**36.8**	**35.0**	**1.8**
Net debt	**8,293.5**	**7,899.4**	**394.1**
TOTAL	**12,294.1**	**11,953.6**	**340.5**

The €110.8 million increase in **net non-current assets** compared with 31 December 2018 primarily reflects a combination of the following:

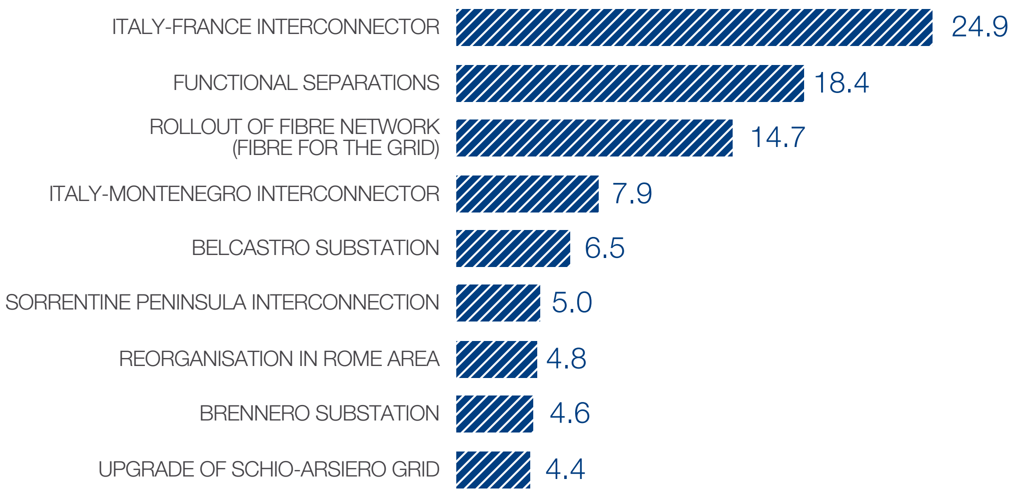
- an increase of €18.9 million in financial assets, mainly due to the progress of construction services performed under concession in Brazil during the period (up €6.2 million) and an increase in the Interconnector Guarantee Fund, set up to fund investment in interconnections by art. 32 of Law 99/09 (up €10.4 million);
- total capital expenditure of €396.3 million, as described in the paragraph on "Regulated Activities in Italy", and including €33.2 million recognised in application of IFRS16;
- amortisation and depreciation during the period, totalling €288.6 million;
- other changes amounting to a reduction of €14.8 million, including grants related to assets (primarily in relation to projects financed by the Ministry for Economic Development and the EU and to the re-routing of power lines at the request of third parties).

The Terna Group's **capital expenditure** during the period, totalling **€396.3 million**, is up **17.3%** compared with €337.9 million in the same period of 2018. Investment incentives of **€29.4 million** account for 7.4% of the total.

Investment in non-regulated assets, amounting to €47.5 million, primarily regards the private part of the Italy-France interconnector.

The following chart shows key capital expenditure on the NTG in the first half of 2019:

KEY CAPITAL EXPENDITURE* (€m)



** Amounts include financial expenses.*

Net working capital (net current liabilities) of €1,662.4 million resulted in a cash outflow of €160.1 million compared with 31 December 2018. This reflects the combined effect of:

Cash outflows

- a reduction of €348.6 million in **net trade payables**, largely due to the greater volume of capital expenditure towards the end of the previous year;
- a reduction of €71.2 million in **net energy-related pass-through payables** compared with the end of 2018, primarily reflecting the combined effect of:
  - an increase in net receivables (€140.2 million) linked for the most part to the increased cost of Dispatching Services Market transactions and imbalances linked to the cost of procuring resources on the Dispatching Services Market (the uplift);
  - a reduction in net payables relating to capacity payments (€82 million) as a result of payments made during the period[11];

  partially offset by
  - an increase in net payables due to plants that are essential for the security of the electricity system (€145.1 million), reflecting items collected during the period after payments approved by ARERA[12];
- an increase of €12.5 million in **net energy-related pass-through receivables**, primarily reflecting the transmission charge due to an increase in the monthly amount due (€5.3 million), the dispatching service charge (€1.7 million) and items relating to quality of service (€4.8 million), which among other things include the attributable RENS bonus for the period.

11. ARERA ordered capacity payments to be made in resolutions 30 and 206/2019.
12. ARERA ordered payments to the owners of essential plants in resolutions 48-79-101-111-118-150-194-205-235/2019.

Cash inflows

- an increase of €200.3 million in **net tax liabilities**, mainly reflecting recognition of income tax for the period (€160.9 million) and a reduction in net refundable VAT (€37.7 million), in line with the reduction in net trade payables;
- an increase of €71.9 million in **other net liabilities**, primarily due to an increase in amounts payable to the entities financing the Italy-France Interconnector (up €60.6 million) and in the provision for the Interconnector Guarantee Fund set up by Terna S.p.A. following the issue of the 2016 Stability Law (up €10.9 million).

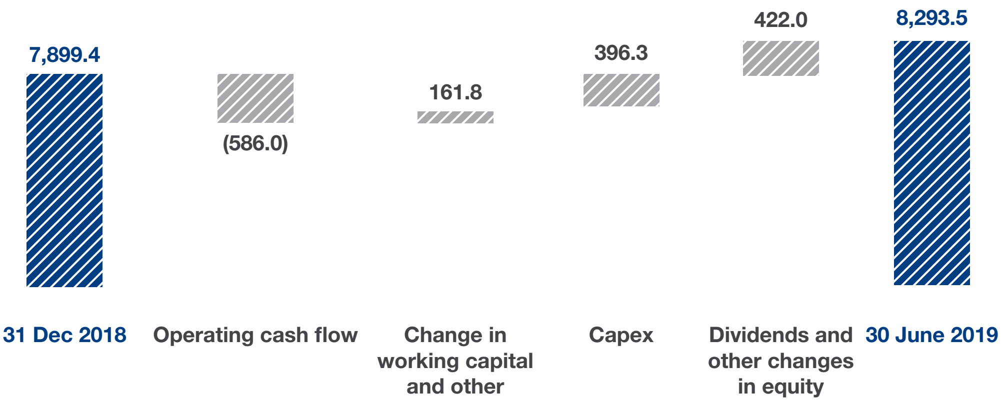
Gross invested capital thus amounts to €12,532.0 million, marking an increase of €270.9 million compared with the previous year.

Sundry provisions are down €69.6 million, primarily due to:

- net uses of provisions for the cost of service quality (down €8.9 million) and those linked to incentive plans for personnel (down €7.7 million);
- net provisions for net deferred tax assets (up €44.5 million), primarily due to the effect on taxation of amortisation and depreciation, the above movements in provisions for risks and charges and movements in derivative financial instruments held by the Group.

Net invested capital of €12,294.1 million is up €340.5 million compared with 31 December 2018 and is financed by equity attributable to owners of the Parent, totalling €3,963.8 million (versus €4,019.2 million at 31 December 2018), equity attributable to non-controlling interests of €36.8 million (€35.0 million at 31 December 2018) and net debt of €8,293.5 million (up €394.1 million compared with the €7,899.4 million of 31 December 2018).

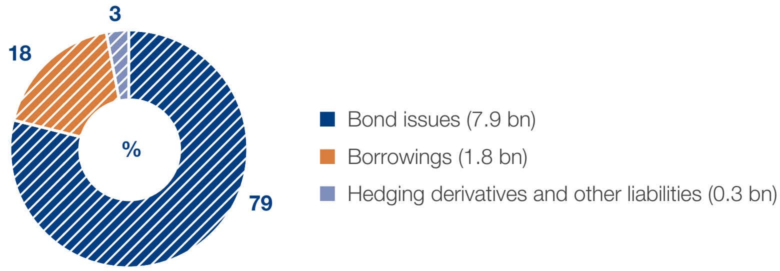
CHANGE IN NET DEBT (€m)



Debt

The Terna Group's financial management is based on an approach that aims to maximise efficiency and achieve and maintain a solid financial structure, whilst adopting a highly prudent stance towards mitigation of the potential financial risks.
The key aspects of the Group's financial policy are diversification of the sources of funding, a balance between short- and medium/long-term forms of debt and the proactive management of debt.

GROSS DEBT



Gross debt at 30 June 2019 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 5.1 years.

SUSTAINABLE FINANCE

Two **green bond** issues were launched during the first half of 2019 under Terna's €8 billion Euro Medium Term Notes (EMTN) Programme. The two green bond issues confirm Terna's ambition to play a leading role in the sustainable finance market, in line with the Company's strategy of combining investment and sustainability to drive growth and value creation:

- On 10 January 2019, Terna launched a fixed-rate green bond issue in the form of a private placement, amounting to €250 million, reopening the earlier issue announced on 16 July 2018 and completed on 23 July 2018. The securities, having an original term of 5 years, a residual term of 4 years and 6 months and maturing on 23 July 2023, pay a coupon of 1.000% and were issued at a price of 99.787, with a spread of 90 basis points with respect to the midswap rate and a yield of 1.05%, slightly below that of the July 2018 issue. The proceeds will be used to finance the Company's eligible green projects.
- On 3 April 2019, a €500 million bond issue was carried out. The securities have a 7-year term and pay a coupon of 1%, with an indicative spread that is around 100 basis points lower than BTPs (Italian Treasury Notes) with the same term to maturity. The cost of the new debt is lower than the overall cost of 1.6% set out in the Plan. The issue was very well-received by investors, with the bonds being seven-times oversubscribed.
- On 18 July 2019, the Company launched an issue of euro-denominated bonds to institutional investors. The issue, which was very popular among investors, with the bonds being approximately four times oversubscribed, was carried out under the EMTN Programme and amounts to €500 million. The bonds will have a term of 6 years and will mature on 25 July 2025. They will pay a coupon of 0.125%, the lowest ever for an Italian corporate bond with a term of more than 5 years, and will be issued at a price of 99.245, with a spread of 45 basis points with respect to the midswap rate and an indicative spread that is around 70 basis points lower than BTPs (Italian Treasury Bills) of the same duration. The effective cost of the issue for Terna is, therefore, equal to 0.25%, compared with a total average cost of consolidated net debt over the life of the Strategic Plan of 1.6%.

On 23 April 2019, the Company agreed a back-up ESG-linked Revolving Credit Facility, in the form of a committed credit facility amounting to €1.5 billion, from a pool of banks made up of Banca IMI, BNP Paribas, Cassa Depositi e Presititi and Unicredit (as Bookrunners and Joint Mandated Lead Arrangers) and Santander and SMBC (as Joint Mandated Lead Arrangers). At the same time, the Company cancelled two back-up facilities totalling €1.3 billion and expiring in 2020 and 2021. The facility is for a period of 5 years and will be used to fund the Company's day-to-day operations. The interest rate is linked to EURIBOR plus an initial spread of 0.65% (variable between a minimum of 0.60% and a maximum of 1.45% depending on Terna's rating). The transaction means that Terna can count on adequate liquidity in respect of its current rating, and strengthens the incorporation of sustainability goals within the Company's business strategy through a series of bonuses and penalties linked to ESG criteria.

The Group's **net debt** at 30 June 2019 amounts to €8,293.5 million, up €394.1 million compared with 31 December 2018.

(€m)

NET DEBT (BY TERM TO MATURITY)	30 JUNE 2019	31 DECEMBER 2018	CHANGE
Total medium/long-term debt	**9,151.2**	**8,286.8**	**864.4**
- Bond issues	7,316.1	6,563.2	752.9
- Borrowings	1,689.4	1,664.4	25.0
- Derivative financial instruments	145.7	59.2	86.5
Total short-term debt/ (funds)	**(857.7)**	**(387.4)**	**(470.3)**
- Bond issues (current portions)	605.7	616.7	(11.0)
- Short-term borrowings	22.0	25.0	(3.0)
- Borrowings (current portions)	121.4	613.9	(492.5)
- Other current financial liabilities, net	104.3	89.8	14.5
- Derivative financial instruments	0.3	(1.3)	1.6
- Financial assets	(502.2)	(402.6)	(99.6)
- Cash and cash equivalents	(1,209.2)	(1,328.9)	119.7
Total net debt	**8,293.5**	**7,899.4**	**394.1**
NET DEBT (BY TYPE OF INSTRUMENT)			
- Bond issues	7,921.8	7,179.9	741.9
- Borrowings	1,810.8	2,278.3	(467.5)
- Short-term borrowings	22.0	25.0	(3.0)
- Derivative financial instruments	146.0	57.9	88.1
- Other financial liabilities, net	104.3	89.8	14.5
GROSS DEBT	**10,004.9**	**9,630.9**	**374.0**
- Financial assets	(502.2)	(402.6)	(99.6)
- Cash and cash equivalents	(1,209.2)	(1,328.9)	119.7
Total net debt	**8,293.5**	**7,899.4**	**394.1**

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

- an increase in bond issues (€741.9 million), following the two fixed-rate green bond issues mentioned above. The change also reflects the adjustment of the amortised cost of all the bonds in issue;
- a reduction in borrowings (down €467.5 million), primarily due to:
  - repayment, on 2 February 2019, of the €500 million loan from CDP, using EIB funds;
  - repayments of principal on existing EIB loans (down €55.7 million);
  - new EIB loans drawn down in June, totalling €42.7 million;
  - a new loan obtained by the Brazilian subsidiary, totalling €22.8 million;
  - lease liabilities recognised following first-time adoption of IFRS 16 (€24.6 million);
- an increase in short-term borrowings and other financial liabilities (up €11.5 million) primarily due to the repayment of short-term credit facilities by the subsidiary, Tamini, and the settlement of interest on outstanding borrowings and the related hedges;
- an increase in the fair value of derivative financial instruments (up €88.1 million), primarily due to movements in market interest rates;
- an increase in financial assets (up €99.6 million), primarily following the purchase of Italian government securities maturing in December 2020 and having a notional value of €100 million;
- a reduction in cash and cash equivalents (down €119.7 million). Cash amounts to €1,209.2 million at 30 June 2019, including €677.4 million invested in short-term, readily convertible deposits and €531.8 million held in bank current accounts and in the form of cash in hand.

Reconciliation of the Group's profit for the period and equity with the corresponding amounts for the Parent Company

The reconciliation of consolidated equity and consolidated profit for the year and the corresponding amounts for the Parent Company is shown below.

(€m)

	PROFIT FOR H1 2019	EQUITY AT 30 JUNE 2019
Parent Company's financial statements	**338.5**	**3,770.1**
Profit and equity contributed by Group companies:		
- Group companies – Regulated Activities	28.3	141.9
- Group companies – Non-regulated Activities	0.4	71.2
- Group companies – International Activities	(1.0)	(16.5)
Companies accounted for using the equity method	2.2	33.9
Total consolidated financial statements	**368.4**	**4,000.6**
Share attributable to non-controlling interests – Non-regulated Activities	1.8	36.8
Terna Group's consolidated financial statements	**366.6**	**3,963.8**

Terna's shares

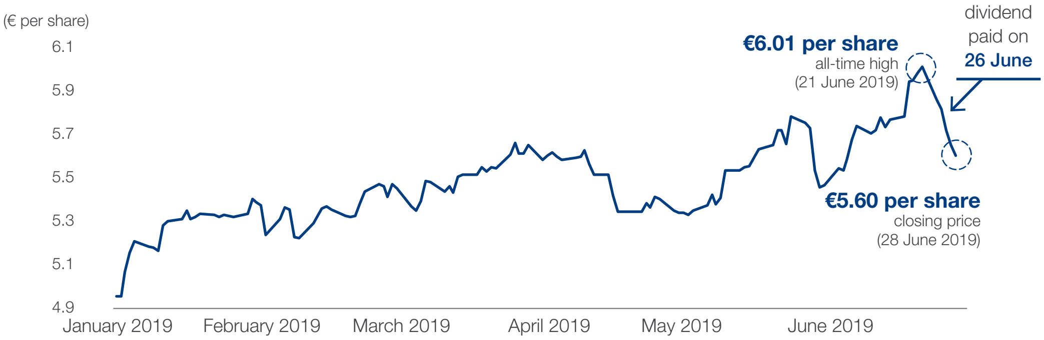
Terna S.p.A. has been listed on Borsa Italiana's screen-based trading system (Mercato Telematico Azionario) since 23 June 2004. **From the date of floatation to the end of June 2019, the share price has risen 229% (a capital gain)**, providing a Total Shareholder Return (TSR[13]) of 664%, ahead of both the Italian market (the FTSE MIB, up 32%) and the relevant European sector index (DJ Stoxx Utilities), which is up 194%.

Europe's leading stock markets rose during the first six months of 2019, with Milan gaining 15.9%, Frankfurt and Paris 13.8% and 17,1%, respectively, London 10.4% and Madrid 7.7%.

Performance of Terna's shares

Terna's shares rose over the first half, rising 13.1% to €5.60 per share and outperforming relevant European sector index (DJ Stoxx Utilities), which rose 11.7%. the shares reached an all-time high of €6.01 on 21 June. The daily average volume traded during the period amounted to approximately 6.5 million. The ex-dividend date for the final dividend for 2018, amounting to 15.45 euro cents per share, was on 24 June.

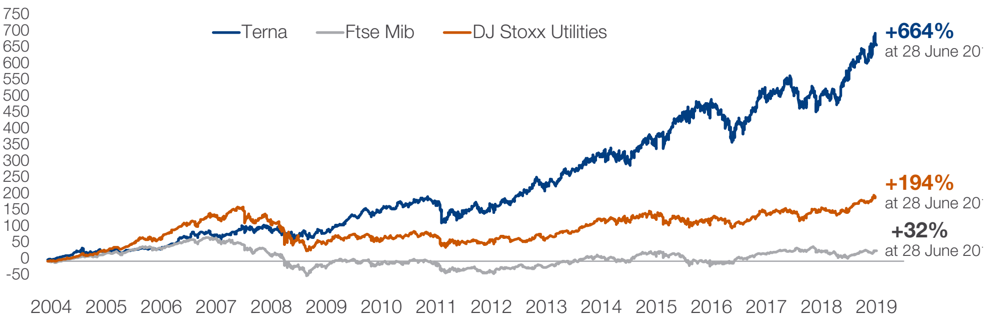
PERFORMANCE OF TERNA'S SHARES *(Price between 1 January and 30 June 2019)*



Source: Bloomberg

23. Total Shareholder Return (TSR): total return on an equity investment, calculated as the sum of:
    I. the capital gain: the change in the share price (difference between the price at the end and at the beginning of the relevant period) as a percentage of the price at the beginning of the period;
    II. reinvested dividends: the ratio between dividends per share paid out during the period and the share price at the beginning of the period. Dividends are assumed to have been reinvested in the shares.

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



Source: Bloomberg

WEIGHTING OF TERNA'S SHARES

	H1 2019	H1 2018
> on the FTSE MIB	2.33%	1.83%

Source: Borsa Italiana.

RATINGS

	SHORT-TERM	MEDIUM/LONG-TERM	OUTLOOK	LATEST REVIEW
Terna S.p.A.				
Standard & Poor's	A-2	BBB+	Negative	29 October 2018
Moody's	Prime-2	Baa2	Stable	23 October 2018
Fitch	F2	BBB+	Stable	28 March 2019
Scope	S-1	A-	Stable	17 May 2019
Italian state				
Standard & Poor's	A-2	BBB	Negative	26 October 2018
Moody's	Prime-3	Baa3	Stable	19 October 2018
Fitch	F2	BBB	Negative	22 February 2019
Scope	S-2	BBB+	Stable	7 December 2018

On 28 March 2019, Fitch Ratings reiterated its long-term IDR and senior unsecured ratings of Terna S.p.A. as BBB+, one notch above Italy's sovereign rating, with a stable outlook.

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


Terna
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Annexes

Regulatory framework and other information

Summary of the principal legislative measures

The principal legislative developments during the first half include the Budget Law for 2019 (Law 145/18) and Law Decree 34 of 30 April 2019 (the so-called Growth Decree), converted into Law 58 of 28 June 2019, containing measures on taxation, in addition to Law Decree 4 of 28 January 2019, converted into Law 26 of 28 March 2019, on pensions, Law Decree 32 of 18 April 2019, converted into Law 55 of 14 June 2019, on tenders and Legislative Decree 49 of 10 May 2019 concerning corporate law.

PRINCIPAL LEGISLATIVE MEASURES IN THE FIRST HALF OF 2019

Changes to taxation and financial law

Law 145 of 30 December 2018 (**the Budget Law for 2019**) has abolished ACE (*Aiuto alla Crescita Economica*) tax relief and extended the option of applying hyper depreciation to 2019, which makes it possible for businesses to increase the purchase cost of the most innovative operating assets for the purposes of depreciation. As regards the tax credit granted in return for an increase in expenditure on research, the cap on the credit has been cut from €20 million to €10 million and the rate at which the credit is applied has been reduced from 50% to 25% in the case of external research conducted by entities other than universities or equivalent research bodies.

In addition, the Budget Law for 2019 initially increased the tax-deductible portion of council tax from 20% to 40% and permitted companies to apply a 9-percentage point reduction in the IRES rate applied to profits reinvested in capital assets and in increased personnel expenses. The last two measures were amended by Law Decree 34/19, converted into Law 58/19. The decree has further raised the tax-deductible portion of council tax to 50% for the 2019 tax year and this percentage will rise gradually in the coming years until council tax is fully deductible from 2023. In place of the 9% cut in the IRES rate on profits reinvested in capital assets and in increased personnel expenses, the latest decree provides for a gradual reduction in the IRES rate applicable to reinvested profits, regardless of whether or not there is increased investment. The reductions now amount to 1.5 percentage points in the 2019 tax year, 2.5 percentage points in 2020, 3 percentage points in 2021, 3.5 percentage points in 2022 and 4 percentage points from 2023. The other changes contained in the decree include the reintroduction of accelerated depreciation, involving an increase in the purchase cost of all operating assets for depreciation purposes up to a maximum amount of €2.5 million in investment. Finally, the decree has also, by amending Legislative Decree 231/02, introduced the obligation to disclose average payment periods in companies' social reports.

Measures regarding tenders

Law Decree 32/19, converted into Law 55/19, has made certain changes to the Code for Tenders and introduced a number of trial measures for 2019 and 2020, such as the option of awarding maintenance contracts on the basis of a final design, an increase in the maximum proportion of a contract that can be subcontracted from 30% to 40% and abolition of the obligation to include a list of subcontractors when tendering.

Pensions

Decree 4/19, converted into Law 26/19, has introduced, for the three-year period 2019-2021, early retirement for workers who are at least 62 years old and who have been paying contributions for a minimum of 38 years. In addition, the number of years of contributions needed to qualify for a pension without having reached the minimum retirement age has been frozen at 42 years and 10 months for men and 41 years and 10 months for women. By extending the so-called "women's option", women who, at 31 December 2018, have reached the age of 58 and have been paying contributions for 35 years or more qualify for early retirement under the contributions system. Finally, with regard to agreements under which employers commit to pay their employees an amount equal to the pension due to them based on the regulations in force, and to pay INPS the contribution until the minimum retirement age has been reached for 4 years (the maximum period has been extended to 7 years until 2020), from 2019, "the employer involved has an obligation to pay this amount to employees until the earliest date on which they reach retirement age and, where provided for in the relevant agreements, to pay the related contribution until the minimum requirements have been met". The change regards cases (such as the Quota 100 retirement scheme) in which the two dates do not coincide.

Corporate law

Legislative Decree 49 of 10 May 2019 has implemented EU Directive 2017/828, which aims to encourage long-term shareholder engagement. The decree grants issuers the right to at any time identify shareholders holding an interest above 0.5% and redetermines the deadline by which, prior to a general meeting, shareholders may submit questions and issuers must respond. In addition, the legislation requires the first section of companies' remuneration reports and the related pay to be put to a binding shareholder vote. The reports are required to disclose the remuneration payable to members of boards of directors, general managers, key management personnel and the members of oversight bodies for the current year or for future years.

Resolutions of the Italian Regulatory Authority for Energy, Networks and the Environment

ARERA Resolution	CONTENT
30/2019/R/eel	Revision of the criteria for the transitional arrangements for specific capacity payments for 2018.
39/2019/R/eel	Measures regarding adjustments to guarantees for the electricity transmission service. Confirmation, with additional operational criteria, of ARERA Resolution 655/2018/R/eel.
69/2019/R/eel	Audit of contractual compliance by Terna S.p.A. and Gestore dei Mercati Energetici S.p.A. with regard to the launch of single day-ahead coupling.
78/2019/R/eel	Definition and regulation of physical and financial items relating to injections and withdrawals of electricity into and from Italian distribution networks interconnected only with overseas networks.
83/2019/R/eel	Compliance review of proposed changes to the code governing grid transmission, dispatching, development and security in relation to the series of guarantees that must be provided to Terna by end users of the dispatching service.
106/2019/R/eel	Determination of the quality of service bonuses and penalties for electricity transmission for 2017.
126/2019/R/eel	Launch of the process of reviewing the sub-period for the regulation of tariffs and of the quality of electricity transmission, distribution and metering services.
146/2019/R/eel	Determination of the bonus for implementation of tools in preparation for output-based regulation of the electricity transmission service in 2017.
169/2019/R/eel	Determination of performance-based incentives for pilot projects relating to energy-intensive storage systems and dynamic thermal rating.
171/2019/R/eel	Recognition of the costs incurred by Terna S.p.A. in 2018 in carrying out the activities involved in managing and developing the unique database of production plants (GAUDÌ).
206/2019/R/eel	Measures regarding the amount of transitional capacity payments for 2018.
233/2019/R/eel	Revision of the criteria for the transitional arrangements for specific capacity payments for 2019.
242/2019/A	The regulator's Strategic Framework for 2019-2021.
275/2019/I/eel	Revision of the regulator's opinion 701/2016/I/eel, issued by the Ministry for Economic Development, granting an exemption for a portion of the "Italy-Montenegro" direct current interconnection.
281/2019/R/eel	Ministry for Economic Development opinion on the draft decree approving capacity market regulations.

Other information

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

Treasury shares

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

Related party transactions

Given that Terna S.p.A. is subject to the *de facto* control of Cassa Depositi e Prestiti S.p.A., a situation ascertained in 2007, related party transactions entered into by Terna during the first six months of 2019 include transactions with the associates and employee pension funds (Fondenel and Fopen), as well as transactions with Cassa Depositi e Prestiti itself, with CDP Reti S.p.A. and with the companies directly or indirectly controlled by the Ministry of the Economy and Finance ("MEF").

Related party transactions in the first six months of 2019 primarily regard services forming part of its ordinary activities and provided under normal market conditions, as described in greater detail in the consolidated financial statements for the year ended 31 December 2018[14].

The Parent Company's corporate governance rules ensure that such transactions are conducted in accordance with the rules governing procedural and substantial correctness and on an arm's length basis, and in keeping with the regulations for transparent reporting to the market.

No material transactions[15] were carried out in the first six months of 2019, nor were any transactions subject to the reporting requirements applicable in the event of exemptions applied in accordance with the relevant regulations[16].

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

Pursuant to art. 3 of CONSOB Resolution 18079 of 20 January 2012, Terna has elected to adopt the simplified regime provided for in articles 70, paragraph 8, and 71, paragraph 1-bis of CONSOB Regulation 11971 of 14 May 1999, as amended (the CONSOB Regulations for Issuers). As a result, Terna exercises the exemption from disclosure requirements provided for in the above Regulations in respect of transactions of a significant nature involving mergers, spin-offs, capital increases involving contributions in kind, acquisitions and disposals.

14. Relations with members of the Parent Company's Board of Statutory Auditors, with particular regard to their remuneration, are described in the notes to the item, "Services" in the notes to the consolidated and separate financial statements for the year ended 31 December 2018. In addition, in implementation of CONSOB Resolution 18049 of 23 December 2011, disclosures regarding the remuneration of *"members of management and supervisory bodies and general managers"*, and their shareholdings in the Company and those of the other persons referred to in the above article, are included in the annual Remuneration Report published in accordance with the law.
15. These are related party transactions classified in compliance with Annex 3 to the "Regulations on related party transactions" (adopted with CONSOB Resolution 17221 of 12 March 2010, as amended by CONSOB Resolution 17389 of 23 June 2010).
16. As *"transactions falling within the scope of the ordinary activities of the Company or its subsidiaries or associates or of financing activities related thereto, provided that the transactions are conducted on equivalent to market or standard terms and conditions"*.

Changes to the dimensions of the NTG

Below are details of changes in the dimensions of the infrastructure available for use and in service with respect to the situation at 31 December 2018.

DETAILS OF ELECTRICITY SUBSTATIONS OWNED BY THE TERNA GROUP*

	UNIT OF MEASUREMENT	30 JUNE 2019	31 DECEMBER 2018	CHANGE	% CHANGE
380 kV					
Substations	no.	165	164	1	0.61
Power transformed	MVA	115,508	115,258	250	0.22
220 kV					
Substations	no.	150	150	-	-
Power transformed	MVA	31,590	31,417	173	0.55
Lower voltages (≤150 kV)					
Substations	no.	569	567	2	0.35
Power transformed	MVA	3,914	3,914	-	-
Total					
Substations	no.	884	881	3	0.34
Power transformed	MVA	151,012	150,589	423	0.28

** MVA are calculated to three decimal places and rounded to the nearest whole number. Percentages are calculated to five decimal places and rounded to two decimal places.*

DETAILS OF POWER LINES OWNED BY THE TERNA GROUP*

		UNIT OF MEASUREMENT	30 JUNE 2019	31 DECEMBER 2018	CHANGE	% CHANGE
380 kV						
Length of circuits		km	12,496	12,496	-	-
Length of lines		km	11,315	11,315	-	-
220 kV						
Length of circuits		km	11,895	11,915	(20)	(0.17)
Length of lines		km	9,532	9,549	(17)	(0.18)
Lower voltages (≤150 kV)						
Length of circuits		km	49,875	50,031	(156)	(0.31)
Length of lines		km	46,657	46,806	(150)	(0.32)
Total						
Length of circuits		km	74,266	74,442	(176)	(0.24)
overhead		km	70,841	71,043	(202)	(0.28)
underground cables		km	1,971	1,945	26	1.33
submarine cables		km	1,454	1,454	-	-
Length of circuits		km	67,504	67,671	(167)	(0.25)
overhead		km	64,079	64,271	(193)	(0.30)
underground cables		km	1,971	1,945	26	1.33
submarine cables		km	1,454	1,454	-	-
Incidence of direct current connections (200 - 380 - 500 kV)						
Circuits		km	2,077	2,077		
	% of total	%	2,80	2,79		
Lines		km	1,757	1,757		
	% of total	%	2,61	2,60		

* *Km are calculated to three decimal places and rounded to the nearest whole number. Percentages are calculated to five decimal places.*

PRINCIPAL CHANGES IN THE SIZE OF THE TERNA GROUP'S INFRASTRUCTURE

Substations

New infrastructure:

The following substations have **entered service**:

- Belcastro transformer station 380 [CZ] (1 380kV bay and 1 150kV bay) (already in operation with a provisional setup);
- Picerno switching substation [PZ] (6 150kV bays).

The Albacina substation [AN] (2 150kV bays) was also **included** in the Group's assets.

Existing infrastructure:

- **commissioning** of 7 new line bays for the substations at Troia, Castelnuovo, Piscioli and Valle (1 150kV bay each), Rondissone, Villeneuve and Cardano (1 132kV bay each);
- **commissioning** of 3 new machine bays for the substations of Grosotto (1 220kV bay and 1 132kV bay), Minturno (1 150kV bay);
- **purchase** of 1 132kV machine bay for the Bolzano RT substation;
- **demolition of** 4 bays in the substations of Grosotto (1 220kV bay and 1 132kV bay), Bolzano RT (1 132kV bay), Pontebba (1 66kV bay).

Transformers

The following transformers **entered service**:

- 1 new 380/150kV 250 MVA autotransformer on completion of the commissioning of the Belcastro 380 substation;
- 1 new 220/132kV 250 MVA autotransformer for the Grosotto substation;
- 1 new 220/20kV 63 MVA autotransformer for the Conegliano substation;

and the following **further changes** occurred:

- demolition of 1 220/132kV 100 MVA autotransformer at the Grossotto substation;
- demolition of 1 220/20kV 40 MVA autotransformer at the Conegliano substation.

Power lines

- **construction** of the new 150kV Piscioli - Valle line (10.8 km in cable);
- **construction** of the new 132kV short connection linking Rondissone with CESI Rondissone (0.3 km in cable);
- **acquisition from third parties** of the 150kV Italcementi Castrovillari - Italcementi Matera line (125.0 km of overhead line);
- **construction** of 3 in-out derivations resulting in an increase of the same number of circuits and 0.7 km of circuit, including: the addition of 0.7 km of 150kV line, 1 132kV line and 1 60kV line;
- **construction of variants, rigid derivations, re-routings and/or changes to grid distribution**, adding a total of 6.4 km of circuit, including: 4.9 km at 220kV, 0.4 km at 150kV, 1 line and 4.5 km if circuit at 132kV, less 1 line and 3.4 km of 60kV circuit;
- **demolition** of 9 lines and other parts of lines amounting to 294.7 km of circuit, including: 3 lines and 24.4 km at 220kV, 7.5 km at 150kV, 5 lines and 223.2 km at 132kV, 1 line and 37.5 km at 70kV, 2.1 km at 60kV.

Alternative performance measures (APMs)

In accordance with the guidelines in ESMA/2015/1415, the APMs used in this Half-Year Report are described below.

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

Reconciliations

In accordance with the guidelines in ESMA/2015/1415, reconciliations of the reclassified income statement and statement of financial position and of net debt and cash flow of the Terna Group with the related statutory income statement and statement of financial position are shown below.

RECONCILIATION OF THE TERNA GROUP'S RECLASSIFIED INCOME STATEMENT AND STATEMENT OF FINANCIAL POSITION AND NET DEBT

THE GROUP'S RECLASSIFIED INCOME STATEMENT	(€m)	CONSOLIDATED INCOME STATEMENT
Regulated revenue in Italy Non-Regulated revenue Revenue from International Activities	1,004.8 82.2 10.8	"Revenue from sales and services", totalling €1,109.0 million, "Other revenue and income", totalling €14.5 million, " Raw and consumable materials used", totalling €25.4 million, "Services", totalling €0.2 million, and "Other operating costs" of €0.1 million
Personnel expenses	129.6	"Personnel expenses" after the cost of construction services performed under concession in Italy in accordance with IFRIC 12 (€2.4 million)
Cost of services, leases and rentals	75.0	"Services" after the cost of construction services performed under concession in Italy in accordance with IFRIC 12 (€2.1 million) and the cost of International Activities (€0.2 million)
Materials	29.6	"Raw and consumable materials used" after the cost of construction services performed under concession in Italy in accordance with IFRIC 12 (€0.5 million) and the cost of International Activities (€25.4 million)
Other costs Quality of service	10.2 2.2	Other operating costs after the cost of International Activities (€0.1 million)
Cost of construction services performed under concession	2.4 2.1 0.5	"Personnel expenses" "Services" "Raw and consumable materials used"
Net financial income/(expenses)	(38.8)	Points 1, 2 and 3 of letter C - "Financial income and expenses"

THE GROUP'S RECLASSIFIED STATEMENT OF FINANCIAL POSITION	(€m)	CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Financial assets	338.8	"Investment accounted for using the equity method", "Other non-current assets" and "Non-current financial assets", after the value of fair value hedges (€51.2 million)
Net energy-related pass-through payables	(706.4)	"Trade receivables" relating to the value of energy-related pass-through receivables (€1,059.4 million) and "Trade payables" relating to the value of energy-related pass-through payables (€1,765.8 million)
Net receivables resulting from Regulated Activities	326.4	"Trade receivables" relating to the value of receivables resulting from Regulated Activities (€349.2 million) and "Trade payables" relating to the value of payables resulting from Regulated Activities (€22.8 million)
Net trade payables	(560.3)	"Trade payables" after the value of energy-related pass-through payables (€1,765.8 million) and payables resulting from Regulated Activities (€22.8 million) and "Trade receivables" after the value of energy-related pass-through receivables (€1,059.4 million) and the value of receivables resulting from Regulated Activities (€349.2 million)
Net tax liabilities	(149.4)	"Tax assets", "Other current assets" relating to the value of other tax assets (€23.2 million), "Other current liabilities" relating to the value of other tax liabilities (€25.9 million) and "Tax liabilities"
Other liabilities, net	(572.7)	"Other non-current liabilities", "Other current liabilities" after other tax liabilities (€25.9 million), "Inventories" and "Other current assets" after other tax assets (€23.2 million)
Sundry provisions	(237.9)	"Employee benefits", "Provisions for risks and charges" and "Deferred tax assets"
Net debt	8,293.5	"Long-term borrowings", "Current portion of long-term borrowings", "Non-current financial liabilities", "Short-term borrowings", "Cash and cash equivalents", "Current financial assets" and "Current financial liabilities" and "Non-current financial assets" relating to the value of the derivatives hedging bond issues (€51.2 million)

THE GROUP'S ANALYSIS OF NET DEBT	(€m)	CONSOLIDATED STATEMENT OF FINANCIAL POSITION
"Bond issues" and "Borrowings"	9,732.6	Corresponds with "Long-term borrowings" and "Current portions of long-term borrowings"
"Derivative financial instruments" – short- and medium/long-term	146.0	Corresponds with "Non-current financial liabilities", "Current financial liabilities" relating to the value of cash flow hedges (€0.3 million) and "Non-current financial assets" relating to the value of the derivatives hedging bond issues (€51.2 million)
Other current financial liabilities, net	104.3	Corresponds with "Current financial assets" relating to the value of accrued financial income (€2.4 million) and "Current financial liabilities", after cash flow hedges (€0.3 million)
Financial assets	(502.2)	Corresponds with "Current financial assets" relating to the value of government securities

RECONCILIATION OF THE TERNA GROUP'S CASH FLOW

(€m)	CASH FLOW H1 2019	RECONCILIATION WITH FINANCIAL STATEMENTS	CASH FLOW H1 2018	RECONCILIATION WITH FINANCIAL STATEMENTS
- Profit for the period	368.4		362.1	
- Amortisation, depreciation and impairment losses	288.7		267.2	
- Net change in provisions	(69.6)		(28.5)	
Employee benefits		*5.7*		*(0.6)*
Provisions for risks and charges		*(30.8)*		*(19.4)*
Deferred tax assets		*(44.5)*		*-*
Deferred tax liabilities		*-*		*(8.5)*
- Net losses/(gains) on sale of assets(1)	(1.5)		(1.0)	
Operating cash flow	**586.0**		**599.8**	
- Change in net working capital:	(160.0)		9.1	
Inventories		*(7.7)*		*(1.6)*
Trade receivables		*(415.7)*		*(56.4)*
Income tax assets		*-*		*15.1*
Other current assets		*15.3*		*41.1*
Trade payables		*(16.5)*		*(80.0)*
Income tax liabilities		*160.9*		*36.6*
Other liabilities		*103.7*		*54.3*
- Other changes in non-current assets	(1.8)		(53.7)	
Intangible assets(2)		*0.2*		*(8.4)*
Property, plant and equipment(3)		*16.9*		*(0.1)*
Non-current financial assets		*(16.6)*		*(44.4)*
Other non-current assets		*(0.1)*		*(0.5)*
Investments accounted for using the equity method		*(2.2)*		*(0.3)*
Cash flow from operating activities	**424.2**		**555.2**	
Capital expenditure				
- Total Capital expenditure	(396.3)		(337.9)	
Property, plant and equipment(3)		*(380.1)*		*(326.2)*
Intangible assets(2)		*(16.2)*		*(11.7)*
Total cash flow from (for) investing activities	**(396.3)**		**(337.9)**	
Free cash flow	**27.9**		**217.3**	
- Cash flow hedge reserve after taxation and other movements in equity attributable to owners of the Parent(4)	(111.5)		(27.8)	
- Other movements in equity attributable to non-controlling interests	-		4.3	
- Dividends paid to Parent Company's shareholders(4)	(310.5)		(292.9)	
Change in net debt	**(394.1)**		**(99.1)**	
- Change in borrowings	**274.4**		**(824.2)**	
Non-current financial assets		*(51.2)*		*0.5*
Current financial assets		*(100.1)*		*(0.1)*
Non-current financial liabilities		*137.7*		*16.1*
Long-term borrowings		*777.9*		*(478.0)*
Short-term borrowings		*(3.0)*		*(93.0)*
Current portion of long-term borrowings		*(503.5)*		*(260.4)*
Current financial liabilities		*16.6*		*(9.3)*
Change in cash and cash equivalents	**(119.7)**		**(923.3)**	

(1) Included in "Other revenue and income" and "Other operating costs" in the consolidated financial statements.
(2) See note 14 to the financial statements.
(3) See note 12 to the financial statements.
(4) See the consolidated statement of changes in equity.

Contents

Consolidated financial statements

Consolidated income statement

(€m)

	NOTE	H1 2019	H1 2018
A - REVENUE			
1. Revenue from sales and services	1	1,109.0	1,097.9
of which: related parties		*814.1*	*774.9*
2. Other revenue and income	2	14.5	21.7
of which: related parties		*9.0*	*1.8*
Total revenue		**1,123.5**	**1,119.6**
B - OPERATING COSTS			
1. Raw and consumable materials used	3	55.5	80.0
of which: related parties		*0.1*	*0.1*
2. Services	4	77.3	80.3
of which: related parties		*6.6*	*8.8*
3. Personnel expenses	5	132.0	126.8
- gross personnel expenses		*169.0*	*159.3*
- capitalised personnel expenses		*(37.0)*	*(32.5)*
of which: related parties		*1.4*	*1.2*
4. Amortisation, depreciation and impairment losses	6	288.7	267.4
5. Other operating costs	7	12.5	17.6
of which: related parties		*0.1*	*0.2*
Total costs		**566.0**	**572.1**
A-B OPERATING PROFIT/(LOSS)		**557.5**	**547.5**
C - FINANCIAL INCOME/(EXPENSES)			
1. Financial income	8	4.4	2.6
2. Financial expenses	8	(45.4)	(46.7)
of which: related parties		*(0.3)*	*(1.6)*
3. Share of profit/(loss) of investees accounted for using the equity method	9	2.2	1.4
D - PROFIT/(LOSS) BEFORE TAX		**518.7**	**504.8**
E - INCOME TAX EXPENSE	10	**150.3**	**142.7**
F - PROFIT FOR THE PERIOD		**368.4**	**362.1**
Profit attributable to owners of the Parent		***366.6***	***360.2***
Profit attributable to non-controlling interests		***1.8***	***1.9***
Earnings per share	**11**		
Basic earnings per share		0.182	0.179
Diluted earnings per share		0.182	0.179

Consolidated statement of comprehensive income

(€m)

	NOTE	H1 2019	H1 2018
PROFIT FOR THE PERIOD		**368.4**	**362.1**
Other comprehensive income for the period reclassifiable to profit or loss			
- Cash flow hedges	23	(111.2)	(14.3)
- Financial assets at fair value through other comprehensive income	23	0.6	-
- Gains/(Losses) from translation of financial statements in currencies other than the euro	23	1.1	(8.6)
- Cost of hedges	23	1.9	-
Other comprehensive income for the period not reclassifiable to profit or loss			
- Actuarial gains/(losses) on provisions for employee benefits	23	(3.8)	0.4
COMPREHENSIVE INCOME FOR THE PERIOD		**257.0**	**339.6**
COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Parent		*255.2*	*337.7*
Non-controlling interests		*1.8*	*1.9*

Consolidated statement of financial position

(€m)

	NOTE	30 JUNE 2019	31 DECEMBER 2018
A – NON-CURRENT ASSETS			
1. Property, plant and equipment	12	13,348.3	13,244.3
of which: related parties		*5.1*	*40.9*
2. Goodwill	13	230.1	230.1
3. Intangible assets	14	277.2	289.3
4. Deferred tax assets	15	47.8	3.3
5. Investments accounted for using the equity method	16	78.3	76.1
6. Non-current financial assets	17	296.8	229.0
7. Other non-current assets	18	14.9	14.8
Total non-current assets		**14,293.4**	**14,086.9**
B – CURRENT ASSETS			
1. Inventories	19	71.1	63.4
2. Trade receivables	20	1,582.8	1,167.0
of which: related parties		*411.9*	*409.7*
3. Current financial assets	17	504.6	404.5
4. Cash and cash equivalents	21	1,209.2	1,328.9
of which: related parties		*0.1*	*0.1*
5. Income tax assets	22	19.3	19.3
6. Other current assets	18	70.7	86.0
of which: related parties		-	*3.3*
Total current assets		**3,457.7**	**3,069.1**
TOTAL ASSETS		**17,751.1**	**17,156.0**

(€m)

	NOTE	30 JUNE 2019	31 DECEMBER 2018
C – EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
1. Share capital		442.2	442.2
2. Other reserves		676.0	788.5
3. Retained earnings/(accumulated losses)		2,479.0	2,240.1
4. Interim dividend		-	(158.2)
5. Profit for the period		366.6	706.6
Total equity attributable to owners of the Parent	**23**	**3,963.8**	**4,019.2**
D – EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	**23**	**36.8**	**35.0**
Total equity attributable to owners of the Parent and non-controlling interests		**4,000.6**	**4,054.2**
E – NON-CURRENT LIABILITIES			
1. Long-term borrowings	24	9,005.5	8,227.6
2. Employee benefits	25	75.1	69.4
3. Provisions for risks and charges	26	210.6	241.4
4. Non-current financial liabilities	24	196.9	59.2
5. Other non-current liabilities	27	442.7	373.8
Total non-current liabilities		**9,930.8**	**8,971.4**
F – CURRENT LIABILITIES			
1. Short-term borrowings	24	22.0	25.0
2. Current portion of long-term borrowings	24	727.1	1,230.6
of which: related parties		-	*500.0*
3. Trade payables	28	2,523.1	2,539.6
of which: related parties		*49.5*	*66.7*
4. Income tax liabilities	28	166.0	5.1
5. Current financial liabilities	24	107.0	90.4
of which: related parties		-	*0.5*
6. Other current liabilities	28	274.5	239.7
of which: related parties		*6.6*	*14.7*
Total current liabilities		**3,819.7**	**4,130.4**
TOTAL LIABILITIES AND EQUITY		**17,751.1**	**17,156.0**

Consolidated statement of changes in equity

31 DECEMBER 2018 - 30 JUNE 2019
THE GROUP'S SHARE CAPITAL AND RESERVES

	SHARE CAPITAL	LEGAL RESERVE	SHARE PREMIUM RESERVE	CASH FLOW HEDGE RESERVE
EQUITY AT 31 DECEMBER 2018	442.2	88.4	20.0	(46.6)
PROFIT FOR THE PERIOD				
OTHER COMPREHENSIVE INCOME:				
- Change in fair value of cash flow hedges				(111.2)
- Actuarial gains/(losses) on employee benefits				
- Gains/(Losses) from translation of financial statements in currencies other than the euro				
- Financial assets at fair value through other comprehensive income				
- Cost of hedges				1.9
Total other comprehensive income	-	-	-	(109.3)
COMPREHENSIVE INCOME	-	-	-	(109.3)
TRANSACTIONS WITH SHAREHOLDERS:				
- Appropriation of profit for 2017:				
Retained earnings				
Dividends				
Total transactions with shareholders	-	-	-	-
Other changes				
Total other changes	-	-	-	-
EQUITY AT 30 JUNE 2019	442.2	88.4	20.0	(155.9)

31 DECEMBER 2017 - 30 JUNE 2018
THE GROUP'S SHARE CAPITAL AND RESERVES

	SHARE CAPITAL	LEGAL RESERVE	SHARE PREMIUM RESERVE	CASH FLOW HEDGE RESERVE
EQUITY AT 31 DECEMBER 2017	442.2	88.4	20.0	(12.7)
Change to opening balances	-	-	-	-
EQUITY AT 3 DECEMBER 2017	442.2	88.4	20.0	(12.7)
PROFIT FOR THE PERIOD				
OTHER COMPREHENSIVE INCOME:				
- Change in fair value of cash flow hedges				(14.3)
- Actuarial gains/(losses) on employee benefits				
- Gains/(Losses) from translation of financial statements in currencies other than the euro				
Total other comprehensive income	-	-	-	(14.3)
COMPREHENSIVE INCOME	-	-	-	(14.3)
TRANSACTIONS WITH SHAREHOLDERS:				
- Appropriation of profit for 2017:				
Retained earnings				
Dividends				
Total transactions with shareholders	-	-	-	-
Contribution of newly acquired companies				
Other changes				
Total other changes	-	-	-	-
EQUITY AT 30 JUNE 2018	442.2	88.4	20.0	(27.0)

(€m)

OTHER RESERVES	RETAINED EARNINGS/ (ACCUM-ULATED LOSSES)	INTERIM DIVIDEND	PROFIT FOR THE PERIOD	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT AND NON-CONTROLLING INTERESTS
726.7	2,240.1	(158.2)	706.6	4,019.2	35.0	4,054.2
			366.6	366.6	1.8	368.4
				(111.2)		(111.2)
(3.8)				(3.8)		(3.8)
	1.1			1.1		1.1
0.6				0.6		0.6
				1.9		1.9
(3.2)	1.1	-	-	(111.4)	-	(111.4)
(3.2)	1.1	-	366.6	255.2	1.8	257.0
	237.9		*(237.9)*	-		-
	-	*158.2*	*(468.7)*	*(310.5)*		*(310.5)*
-	237.9	158.2	(706.6)	(310.5)	-	(310.5)
	(0.1)			(0.1)		(0.1)
-	(0.1)	-	-	(0.1)	-	(0.1)
723.5	2,479.0	-	366.6	3,963.8	36.8	4,000.6

(€m)

OTHER RESERVES	RETAINED EARNINGS/ (ACCUM-ULATED LOSSES)	INTERIM DIVIDEND	PROFIT FOR THE PERIOD	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT AND NON-CONTROLLING INTERESTS
724.7	2,001.7	(149.3)	688.3	3,803.3	25.7	3,829.0
	(3.7)	-	-	(3.7)	-	(3.7)
724.7	1,998.0	(149.3)	688.3	3,799.6	25.7	3,825.3
			360.2	360.2	1.9	362.1
				(14.3)		(14.3)
0.4				0.4		0.4
	(8.6)			(8.6)		(8.6)
0.4	(8.6)	-	-	(22.5)	-	(22.5)
0.4	(8.6)	-	360.2	337.7	1.9	339.6
						-
						-
	246.1		*(246.1)*	-		-
	-	*149.3*	*(442.2)*	*(292.9)*		*(292.9)*
-	246.1	149.3	(688.3)	(292.9)	-	(292.9)
				-	4.3	4.3
	(1.6)			(1.6)		(1.6)
-	(1.6)	-	-	(1.6)	4.3	2.7
725.1	2,233.9	-	360.2	3,842.8	31.9	3,874.7

Consolidated statement of cash flows

(€m)

	H1 2019	H1 2018
PROFIT FOR THE PERIOD	**368.4**	**362.1**
ADJUSTED BY:		
Amortisation, depreciation and impairment losses /(reversals of impairment losses) on non-current property, plant and equipment and intangible assets*	282.0	262.2
Accruals to provisions (including provisions for employee benefits) and impairment losses	7.3	14.5
(Gains)/Losses on sale of property, plant and equipment	(1.5)	(1.0)
Financial (income)/expense	39.3	43.1
Income tax expense	150.3	142.7
CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN NET WORKING CAPITAL	**845.8**	**823.6**
Increase/(decrease) in provisions (including provisions for employee benefits and taxation)	(36.4)	(30.7)
(Increase)/decrease in inventories	(7.7)	(1.6)
(Increase)/decrease in trade receivables and other current assets	(400.4)	(20.9)
Increase/(decrease) in trade payables and other current liabilities	19.4	(65.7)
Increase/(decrease) in other non-current liabilities	75.8	35.3
(Increase)/decrease in other non-current assets	(18.1)	(44.4)
Interest income and other financial income received	10.6	1.3
Interest expense and other financial expenses paid	(106.6)	(109.1)
Income tax paid	-	(103.6)
CASH FLOW FROM OPERATING ACTIVITIES [A]	**382.4**	**484.2**
- of which: related parties	*(24.7)*	*14.4*
Investments in non-current property, plant and equipment after grants received	(365.1)	(324.3)
Revenue from sale of non-current property, plant and equipment and intangible assets and other movements	2.3	2.0
Capitalised financial expenses	6.1	6.4
Investments in non-current intangible assets after grants received	(16.2)	(11.7)
Recognition of intangible assets and property, plant and equipment due to new acquisitions	-	(8.1)
(Increase)/decrease in investments in associates	(2.2)	(0.3)
CASH FLOW FOR INVESTING ACTIVITIES [B]	**(375.1)**	**(336.0)**
- of which: related parties	*35.8*	*18.8*
Increase/(decrease) in accumulated earnings and losses (Change in accounting standards)	-	(3.7)
Dividends paid	(308.4)	(292.9)
Movements in short- and medium/long-term financial liabilities (including short-term portion)**	280.9	(779.2)
Movements in short-term financial investments	(99.5)	-
Recognition of non-controlling interests in equity of newly acquired companies	-	4.3
CASH FLOW FROM FINANCING ACTIVITIES [C]	**(127.0)**	**(1,071.5)**
- of which: related parties	*(500.0)*	-
INCREASE/(DECREASE) IN CASH AND EQUIVALENTS [A+B+C]	**(119.7)**	**(923.3)**
Cash and cash equivalents at beginning of period	1,328.9	1,989.2
Cash and cash equivalents at end of period	1,209.2	1,065.9

* *After grants related to assets recognised in the income statement for the period.*
** *After derivatives and impact of fair value adjustments.*

Notes

A. Accounting policies and measurement criteria

Introduction

Terna S.p.A.'s registered office is at Viale Egidio Galbani 70, Rome, Italy. The condensed consolidated interim financial statements at and for the six months ended 30 June 2019 include the Company's financial statements and those of its subsidiaries (the "Group"), in addition to the Group's interests in associates and joint ventures. The subsidiaries included within the scope of consolidation are listed below.
Publication of these condensed consolidated interim financial statements at and for the six months ended 30 June 2019 was authorised by the Directors on 30 July 2019.

The consolidated financial statements at and for the year ended 31 December 2018 are available for inspection on request at Terna S.p.A.'s registered office at Viale Egidio Galbani 70, Rome, or on the Company's website at www.terna.it.

Compliance with IAS/IFRS and basis of presentation

The condensed consolidated interim financial statements at and for the six months ended 30 June 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), as endorsed by the European Commission ("EU-IFRS") at the above date and used in the consolidated financial statements at and for the year ended 31 December 2018.
In particular, the Group's condensed consolidated interim financial statements for the first half of 2019, prepared in compliance with IAS 34, do not include all the information required in the annual financial statements and should be read in conjunction with the consolidated financial statements at and for the year ended 31 December 2018.
These condensed consolidated interim financial statements contain selected disclosures, whilst the statements are consistent with those included in the annual financial statements.

In response to the entry into effect of new IFRS and to provide an improved basis for comparison, a number of comparative amounts have been reclassified in order to improve presentation, without altering the comparative result. In particular: in the consolidated income statement, "Revenue from sales and services" and "Raw and consumable materials used" have been reduced by €17.1 million and, in the consolidated statement of financial position, "Inventories" have been increased by €48.2 million, "Trade receivables" reduced by €22.7 million and "Trade payables" increased by €25.5 million.

Use of estimates

Preparation of condensed consolidated interim financial statements at and for the six months ended 30 June 2019 required management to use estimates and assumptions that affect the carrying amounts of assets and liabilities and the related disclosures, in addition to contingent assets and liabilities at the reporting date. These estimates and the associated assumptions are based on previous experience and various factors that are believed to be reasonable under the circumstances. The resulting estimates form the basis for making the judgements about the carrying amounts of assets and liabilities that are not readily apparent from other objective sources. Actual results may differ from these estimates.

It should also be noted that certain measurement processes, above all those of a complex nature relating to the estimate of potential impairments of non-current assets, are generally only fully carried out during preparation of the annual financial statements, when all the necessary information is available, unless events or changes in circumstances indicate that there may be an impairment requiring the immediate measurement of a loss. In a similar manner, the actuarial valuations necessary in order to quantify employee benefits are normally carried out at the time of preparation of the annual financial statements.
The estimates and underlying assumptions are reviewed periodically and the effects of any changes are recognised in the income statement if the changes relate solely to that period. In the case that the revision affects both the period in which the revision takes place and future periods, the change is recognised from the reporting period in which the estimate is reviewed and in future periods.

Impact of entry into effect of the new accounting standard, IFRS 16, from 1 January 2019

The Terna Group adopted the new IFRS 16 for the first time from 1 January 2019.

The IASB issued IFRS 16 on 13 January 2016. Endorsed by the EU on 31 October 2017 through regulation 2017/1986, the new standard replaces IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard, which governs accounting for leases, is based on the right to control the use of an asset (the right of use), which distinguishes a lease arrangement from a service contract on the basis of certain elements, such as: identification of the asset underlying the lease, the right to substitute the asset, the right to obtain substantially all the economic benefits from use of the identified asset and the right to direct the use of the identified asset.

In particular, IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessors to account for all lease arrangements using the same accounting approach applicable to finance leases under IAS 17.

Among the changes, the new standard, in dispensing with the distinction between operating and finance leases, bases the accounting presentation on the “right-of-use” approach, which for the lessee makes the accounting uniform for any type of lease. Under the approach set out in the standard, at the inception date of a lease, the lessee must recognise a lease liability and an asset representing the right to use the underlying asset during the lease term (the right-of-use asset). Lessees must recognise interest expense on the lease liability separately from the depreciation charge on the right-of-use asset.

Lessees are also required to remeasure the lease liability on the occurrence of certain events such as, for example, a change in the lease term or in future lease payments following a change in the index or rate used to determine such payments. The lessee must recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The standard also includes two recognition exemptions for lessees: (i) leases where the underlying asset is of “low value” (for example, personal computers or assets with a unit value of below US$5,000 and (ii) short-term leases (lease arrangements with a lease term of less than or equal to 12 months).

Lessors will continue to classify all leases using the same classification rules applicable under IAS 17 and will distinguish between two types of lease: operating and finance.

Terna adopted the standard from 1 January 2019, accounting for the impact on existing leases at the date of initial application without restating comparatives (the “modified retrospective option”) in accordance with the provisions of paragraph C8b) of the standard. In the case of leases previously classified as operating leases (under IAS 17), the Group has recognised:

a) the lease liability at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate at the date of initial application;

b) the right-of-use asset at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments relating to that lease, as recognised in the statement of financial position immediately before the date of initial application.

Applying this approach, Terna has recognised: (i) assets and liabilities for all leases with terms in excess of twelve months; (ii) depreciation of the recognised assets and interest expense on the lease liability separately in the income statement.

Terna has elected to apply the exemptions provided for in the standard, excluding short-term leases (where the lease term is less than 12 months) and leases where the underlying asset is of low value.
Terna has also elected to apply the practical expedients provided for in the standard, excluding from the calculation leases for which the lease term ends within 12 months of the initial date of application, and not applying the standard to arrangements not previously identified as leases under IAS 17 and IFRIC 4.

The discount rate used on transition to the new standard is the Group’s incremental borrowing rate at 1 January 2019, applied over the term of the leases.

Application of the new standard has not had a material impact on the Group’s financial statements. The principal effects regard recognition of right-of-use assets (and related lease liabilities) resulting from hire contracts for fleet vehicles, rental agreements for accommodation used by certain employees and for properties for office use, land and certain plant.

The following table shows the impact of first-time adoption of IFRS 16 at 1 January 2019:

(€m)

	AT 31 DECEMBER 2018	IMPACT OF IFRS 16	RESTATED AT 1 JANUARY 2019
A - NON-CURRENT ASSETS			
1. Property, plant and equipment	13,244.3	28.6	13,272.9
2. Goodwill	230.1	-	230.1
3. Intangible assets	289.3	-	289.3
4. Deferred tax assets	3.3	-	3.3
5. Investments accounted for using the equity method	76.1	-	76.1
6. Non-current financial assets	229.0	-	229.0
7. Other non-current assets	14.8	-	14.8
Total non-current assets	**14,086.9**	**28.6**	**14,115.5**
B - CURRENT ASSETS			
1. Inventories	63.4	-	63.4
2. Trade receivables	1,167.0	-	1,167.0
3. Current financial assets	404.5	-	404.5
4. Cash and cash equivalents	1,328.9	-	1,328.9
5. Income tax assets	19.3	-	19.3
6. Other current assets	86.0	(7.2)	78.8
Total current assets	**3,069.1**	**(7.2)**	**3,061.9**
TOTAL ASSETS	**17,156.0**	**21.4**	**17,177.4**
C - EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
1. Share capital	442.2	-	442.2
2. Other reserves	788.5	-	788.5
3. Retained earnings/(accumulated losses)	2,240.1	-	2,240.1
4. Interim dividend	(158.2)	-	(158.2)
5. Profit for the period	706.6	-	706.6
Total equity attributable to owners of the Parent	**4,019.2**	**-**	**4,019.2**
D - EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	**35.0**	**-**	**35.0**
Total equity attributable to owners of the Parent and non- controlling interests	**4,054.2**	**-**	**4,054.2**
E - NON-CURRENT LIABILITIES			
1. Long-term borrowings	8,227.6	17.3	8,244.9
2. Employee benefits	69.4	-	69.4
3. Provisions for risks and charges	241.4	-	241.4
4. Deferred tax liabilities	-	-	-
5. Non-current financial liabilities	59.2	-	59.2
6. Other non-current liabilities	373.8	-	373.8
Total non-current liabilities	**8,971.4**	**17.3**	**8,988.7**
F - CURRENT LIABILITIES			
1. Short-term borrowings	25.0	-	25.0
2. Current portion of long-term borrowings	1,230.6	4.1	1,234.7
3. Trade payables	2,539.6	-	2,539.6
4. Income tax liabilities	5.1	-	5.1
5. Current financial liabilities	90.4	-	90.4
6. Other current liabilities	239.7	-	239.7
Total current liabilities	**4,130.4**	**4.1**	**4,134.5**
TOTAL LIABILITIES AND EQUITY	**17,156.0**	**21.4**	**17,177.4**

Scope of consolidation

Subsidiaries

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST	METHOD OF CONSOLIDATION
SUBSIDIARIES CONTROILLED DIRECTLY BY TERNA S.P.A.					
Terna Rete Italia S.p.A.	Rome	Euro	300,000	100%	Line-by-line
Business	Design, construction, management, development, operation and maintenance of power lines and grid infrastructure and other grid-related infrastructure, plant and equipment used in the above electricity transmission and dispatching activities and in similar, related and connected sectors.				
Terna Crna Gora d.o.o.	Podgorica (Montenegro)	Euro	173,000,000	100%	Line-by-line
Business	Authorisation, construction and operation of the transmission infrastructure forming the Italy-Montenegro interconnector on Montenegrin territory.				
Terna Plus S.r.l.	Rome	Euro	16,050,000	100%	Line-by-line
Business	Design, construction, management, development, operation and maintenance of plant, equipment and infrastructure for grids and systems, including distributed storage and pumping and/or storage systems.				
Terna Interconnector S.r.l.	Rome	Euro	10,000	65%*	Line-by-line
Business	Responsible for construction and operation of the private section of the Italy-France interconnector and civil works on the public section.				
Monita Interconnector S.r.l.	Rome	Euro	10,000	95%**	Line-by-line
Business	Responsible for construction and operation of the private section of the Italy-Montenegro interconnector.				
Rete S.r.l.	Rome	Euro	387,267,082	100%	Line-by-line
Business	Design, construction, management, development, operation and maintenance of high-voltage power lines.				
Difebal S.A.	Montevideo (Uruguay)	Uruguayan peso	140,000	100%	Line-by-line
Business	Design, construction and maintenance of electricity infrastructure in Uruguay.				
Terna Energy Solutions S.r.l.	Rome	Euro	2,000,000	100%	Line-by-line
Business	Design, construction, management, development, operation and maintenance of distributed energy storage systems, pumping and/or storage systems, plant, equipment and infrastructure, including grids; research, consultancy and assistance in matters relating to the core business; any other activity capable of improving the use and development of plant, resources and expertise.				
Resia Interconnector S.r.l.	Rome	Euro	10,000	100%	Line-by-line
Business	Design, construction, management, development, operation and maintenance, including on behalf of third parties, of power lines and grid infrastructure and other infrastructure connected to such grids, plant and equipment for use in electricity transmission operations and in similar, related and connected sectors. It has been established to meet the obligations of the energy-intensive companies selected in accordance with Law 99/09 for the purposes of construction of the interconnection with Austria.				
PI.SA. 2 S.r.l.	Rome	Euro	10,000	100%	Line-by-line
Business	Design, construction, management, development, operation and maintenance, including on behalf of third parties, of power lines and grid infrastructure and other infrastructure connected to such grids, plant and equipment for use in electricity transmission operations and in similar, related and connected sectors. It has been established to meet the obligations of the energy-intensive companies selected in accordance with Law 99/09 for the purposes of construction of the Italy-France Interconnector.				

* *5% held by Terna Rete Italia S.p.A. and 30% by Transenergia S.r.l..*
** *5% held by Terna Rete Italia S.p.A..*

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST	METHOD OF CONSOLIDATION
SUBSIDIARIES CONTROLLED THROUGH TERNA PLUS S.r.l.					
Terna Chile S.p.A.	Santiago (Chile)	Chilean peso	2,030,800,000	100%	Line-by-line
Business	Design, construction, administration, development, operation and maintenance of any type of electricity system, plant, equipment and infrastructure, including interconnectors; provision of all types of product and service, construction, electrical and civil engineering work; research, consultancy and assistance in matters relating to the core business; any other activity capable of improving the use and development of plant, resources and expertise.				
SPE Santa Maria Transmissora de Energia S.A.	Rio de Janeiro (Brazil)	Real	45,474,716	99.99%*	Line-by-line
Business	Provision of public electricity transmission services, including construction, operation and maintenance of transmission infrastructure or any other activity necessary in order to fulfil the above purpose.				
SPE Santa Lucia Transmissora de Energia S.A.	Rio de Janeiro (Brazil)	Real	208,714,431	99.99%*	Line-by-line
Business	Provision of public electricity transmission services, including construction, operation and maintenance of electricity transmission infrastructure or any other activity necessary in order to fulfil the above purpose.				
Terna Peru S.A.C.	Lima (Peru)	Sales	28,191,000	99.99%*	Line-by-line
Business	Design, construction, administration, development, operation and maintenance of any type of electricity system, plant, equipment and infrastructure, including interconnectors; provision of all types of product and service, construction, electrical and civil engineering work; research, consultancy and assistance in matters relating to the core business; any other activity capable of improving the use and development of plant, resources and expertise.				

** 0.01% Terna Chile S.p.A..*

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST	METHOD OF CONSOLIDATION
SUBSIDIARIES CONTROLLED THROUGH TERNA ENERGY SOLUTIONS S.r.l.					
Tamini Trasformatori S.r.l.	Legnano (MI)	Euro	4,285,714	70%*	Line-by-line
Business	Construction, repair and trading in electrical equipment.				
Rete Verde 17 S.r.l.	Rome	Euro	10,000	100%	Line-by-line
Business	Implementation and development of renewable energy projects.				
Rete Verde 18 S.r.l.	Rome	Euro	10,000	100%	Line-by-line
Business	Implementation and development of renewable energy projects.				
Rete Verde 19 S.r.l.	Rome	Euro	10,000	100%	Line-by-line
Business	Implementation and development of renewable energy projects.				
Rete Verde 20 S.r.l.	Rome	Euro	10,000	100%	Line-by-line
Business	Implementation and development of renewable energy projects.				
Avvenia The Energy Innovator S.r.l.	Rome	Euro	10,000	70%**	Line-by-line
Business	Provision of energy efficiency and/or energy consulting and/or process engineering services to companies and public and private entities; the application of technology to increase energy end-use efficiency; the design, construction, development and maintenance of plant, equipment and infrastructure for networks and other uses.				
CONTROLLED THROUGH TAMINI TRASFORMATORI S.r.l.					
Tamini Transformers USA LLC	Sewickley - Pennsylvania	US dollar	52,089	100%	Line-by-line
Business	Commercialisation of industrial-grade and high-power electricity transformers.				
Tamini Trasformatori India Private Limited	Maharashtra (India)	Indian rupee	13,175,000	100%	Line-by-line
Business	Commercialisation of industrial-grade and high-power electricity transformers.				

** 30% Holdco TES (controlled by the Xenon Private Equity V fund, Riccardo Reboldi and Giorgio Gussago).*
*** 30% Avvenia S.r.l..*

Compared with 31 December 2018, a new wholly owned subsidiary of Terna S.p.A., named PI.SA.2 S.r.l., was established on 15 February 2019, following a restructuring of the regulated activities relating to the Italy-France interconnector.

Associates

Associates are investees over which the Terna Group exercises significant influence and that are neither subsidiaries or joint ventures. In assessing whether or not Terna has significant influence, potential voting rights that are exercisable or convertible are also taken into account.
These investments are initially recognised at cost and subsequently measured using the equity method. The profits or losses attributable to the Group are recognised in the consolidated financial statements when significant influence begins and until that influence ceases.
In the event that the loss attributable to the Group exceeds the carrying amount of the equity interest, the latter is written off and any excess is recognised in a specific provision, if the Parent Company is required to meet the legal or constructive obligations of the investee or, in any case, to cover its losses.

Joint ventures

Investments in joint ventures, in which the Group exercises joint control with other entities, are recognised initially at cost and subsequently measured using the equity method. The profits or losses attributable to the Group are recognised in the consolidated financial statements when significant influence begins and until that influence ceases.
In assessing the existence of joint control, it is ascertained whether the parties are bound by a contractual agreement and whether this agreement attributes to the parties the joint control of the agreement itself. Joint control exists when an entity has control over an arrangement on a contractual basis, and only when decisions relating to the relevant activities require the unanimous consent of all parties that jointly control the arrangement.

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL*	PROFIT FOR THE PERIOD*	% INTEREST	METHOD OF CONSOLIDATION	CARRYING AMOUNT AT 30 JUNE 2019 (€M)
ASSOCIATES							
Cesi S.p.A.	Milan	Euro	8,550,000	7,035,999	42.698%	Equity method	51.2
Business	Experimental research and provision of services related to electro-technology.						
Coreso S.A.	Brussels (Belgium)	Euro	1,000,000	344,600	15.84%	Equity method	0.4
Business	Technical centre owned by several electricity transmission operators, responsible for coordinating joint operations of TSOs, in order to improve and upgrade the security and coordination of the electricity system in central and western Europe.						
CGES A.D.	Podgorica (Montenegro)	Euro	155,108,283	4,880,060	22.0889%	Equity method	26.7
Business	Provision of transmission and dispatching services in Montenegro.						
JOINT VENTURES							
ELMED Etudes S.a.r.l.	Tunis (Tunisia)	Tunisian dinar	2,700,000	(187,909)	50%	Equity method	-
Business	Conduct of studies regarding the connection of the Tunisian and Italian electricity systems.						

* *Figures taken from the latest approved financial statements at the date of preparation of this document.*

B. Notes to the consolidated income statement

Revenue

1. REVENUE FROM SALES AND SERVICES - €1,109.0 MILLION

(€m)

	H1 2019	H1 2018	CHANGE
Transmission charges billed to grid users	928.7	898.5	30.2
Other energy-related revenue and from services performed under concession	74.3	115.4	(41.1)
Quality of service bonuses/(penalties)	3.7	-	3.7
Other sales and services	102.3	84.0	18.3
TOTAL	**1,109.0**	**1,097.9**	**11.1**

Transmission charges billed to grid users

The charges for use of the NTG regard the revenue attributable to the Parent Company (€861.1 million) and the subsidiary, Rete S.r.l. (€67.6 million) as owners and operators of the grid.

The increase of €32.2 million compared with the first half of 2018 is primarily due to the adjustment to the Group's WACC applied by Resolution 639/18 (up to 5.6% for the three-year period 2019-2021 from the 5.3% of the previous period 2016-2018), an increase in invested capital (RAB) and the recognition of additional payments for energy-intensive storage systems (ARERA Resolution 169/19).

Other energy-related revenue and from services performed under concession

(€m)

OTHER ENERGY-RELATED REVENUE AND FROM SERVICES PERFORMED UNDER CONCESSION	H1 2019	H1 2018	CHANGE
Dispatching, metering and other revenue	55.6	59.9	(4.3)
Revenue from services performed under concession (IFRIC 12)	18.7	55.5	(36.8)
- of which in Italy	*5.0*	*6.3*	*(1.3)*
- of which overseas	*13.7*	*49.2*	*(35.5)*
TOTAL OTHER ENERGY-RELATED REVENUE AND FROM SERVICES PERFORMED UNDER CONCESSION	**74.3**	**115.4**	**(41.1)**

This item regards dispatching and metering revenue (relating to €54.6 million for the dispatching component, €0.1 million for the metering component and other energy-related revenue of €0.9 million) and revenue from infrastructure construction and upgrade services performed under concession, recognised in application of IFRIC 12 (€18.7 million). This includes revenue from activities in South America (€12.1 million in Brazil and €1.6 million in Peru).

The decrease in "Other energy-related revenue and from services performed under concession" compared with the first half of 2018, totalling €41.1 million, is linked to reduced investment in assets held under concession in Brazil (down €37.3 million) following the entry into service between the end of last year and early 2019 of the two power lines built in the country, in addition to ARERA's recognition of certain costs arising during the first half of 2018 (down €3.8 million).

Quality of service bonuses/(penalties)

This item, totalling €3.7 million, regards the RENS incentive mechanism introduced by Resolution 653/2015/r/eel, calculated on a pro rata basis taking into account the estimated overall results expected in the 2016-2019 regulatory period.

Other energy-related items – pass-through revenue/expenses

This item regards “pass-through” revenue and expenses (the balance of which amounts to zero) attributable solely to the Parent Company. These items result from daily purchases and sales of electricity from electricity market operators. Measurements for each point of injection and withdrawal are taken and the differences, with respect to energy market schedules, are calculated. These differences, known as imbalances, are then measured using algorithms established by the regulatory framework. The net charge resulting from calculation of the imbalances and the purchases and sales, carried out by the Parent Company Terna on the DSM, is billed on a pro rata basis to each end consumer via a specific uplift payment. This item also reflects the portion of the transmission charge that the Parent Company passes on to other grid owners not included in the scope of consolidation.

The components of these transactions are shown in greater detail below.

(€m)

	H1 2019	H1 2018	CHANGE
Power Exchange-related revenue items	2,074.1	2,010.8	63.3
Over-the-counter revenue items	716.9	647.4	69.5
TOTAL PASS-THROUGH REVENUE	**2,791.0**	**2,658.2**	**132.8**
Power Exchange-related cost items	2,074.1	2,010.8	63.3
Over-the-counter cost items	716.9	647.4	69.5
TOTAL PASS-THROUGH EXPENSES	**2,791.0**	**2,658.2**	**132.8**

Other sales and services

The item, “Other sales and services”, amounting to €102.3 million, is up €18.3 million compared with the first half of 2018. This broadly reflects increased revenue resulting from progress in completing construction work in Uruguay (up €10.2 million), and increase in sales of transformers at the Tamini Group during the first half (up €6.0 million) and from support and housing services for fibre networks (up €1.8 million).

2. OTHER REVENUE AND INCOME – €14.5 MILLION

(€m)

	H1 2019	H1 2018	CHANGE
Sundry grants	4.7	3.3	1.4
Insurance proceeds as compensation for damages	4.3	5.4	(1.1)
Sales to third parties	2.3	1.7	0.6
Gains on sale of components of plant	1.5	1.8	(0.3)
Contingent assets	0.6	3.0	(2.4)
Revenue from IRU contracts for fibre	0.2	0.9	(0.7)
Rental income	-	0.5	(0.5)
Other revenues	0.9	5.1	(4.2)
TOTAL	**14.5**	**21.7**	**(7.2)**

This item, totalling €14.5 million, is down €7.2 million compared with the previous first half. This is primarily linked to a reduction in other revenues (down €4.2 million, broadly reflecting the recognition of non-recurring revenue resulting from the acquisition of Avvenia in the first half of 2018) and greater insurance proceeds for damages in the first half of 2018 (down €1.1 million).

Operating costs

3. RAW AND CONSUMABLE MATERIALS USED - €55.5 MILLION

This item includes the value of the various materials and equipment used in the ordinary operation and maintenance of the plant belonging to the Group and third parties, and the materials consumed in the production of transformers by the Tamini Group and in the Group's activities in South America.
The reduction of €24.5 million compared with the same period of the previous year primarily reflects a decrease in costs relating to the development of operations in South America, recognised in application of IFRIC 12 (down €41.7 million, above all following the entry into service of two lines in Brazil between the end of last year and early 2019), after increased costs incurred on construction of the line in Uruguay (up €12.0 million).
The Tamini Group's business also registered an increase in costs (up €4.8 million).

4. SERVICES – €77.3 MILLION

(€m)

	H1 2019	H1 2018	CHANGE
Maintenance and sundry services	39.2	35.3	3.9
Tender costs for plant	17.7	22.7	(5.0)
Insurance	6.3	5.1	1.2
Lease expense	5.0	5.8	(0.8)
Remote transmission and telecommunications	4.9	6.0	(1.1)
IT services	4.2	5.4	(1.2)
TOTAL	**77.3**	**80.3**	**(3.0)**

This item, totalling €77.3 million, is down €3.0 million compared with the first half of 2018 (€80.3 million), primarily due to a reduction in lease expense and hire costs relating to contracts within the scope of IFRS 16 - Leases (down €2.8 million).

5. PERSONNEL EXPENSES – €132.0 MILLION

(€m)

	H1 2019	H1 2018	CHANGE
Salaries, wages and other short-term benefits	158.2	149.1	9.1
Directors' remuneration	1.0	1.1	(0.1)
Termination benefits (TFR), energy discounts and other employee benefits	9.4	9.1	0.3
Early retirement incentives	0.4	-	0.4
Gross personnel expenses	***169.0***	***159.3***	***9.7***
Capitalised personnel expenses	(37.0)	(32.5)	(4.5)
TOTAL	**132.0**	**126.8**	**5.2**

Personnel expenses in the first half of 2019, totalling €132.0 million, are up €5.2 million on the first half of the previous year (€126.8 million), broadly reflecting an increase in the average workforce.

The following table shows the Group's average workforce by category for the first half of 2019 and 2018.

	AVERAGE WORKFORCE		
	H1 2019	H1 2018	CHANGE
Senior managers	76	73	3
Middle managers	635	615	20
Office staff	2,322	2,067	255
Blue-collar workers	1,251	1,246	5
TOTAL	**4,284**	**4,001**	**283**

The above net increase in the average workforce in the first six months of the year, compared with the same period of 2018, amounts to 283.

6. AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES - €288.7 MILLION

(€m)

	H1 2019	H1 2018	CHANGE
Amortisation of intangible assets	28.1	25.3	2.8
- of which rights on infrastructure	*11.2*	*11.7*	*(0.5)*
Depreciation of property, plant and equipment	260.5	239.9	20.6
Impairment losses on property, plant and equipment	0.2	0.3	(0.1)
Impairment losses on trade receivables	(0.1)	1.9	(2.0)
TOTAL	**288.7**	**267.4**	**21.3**

This item, totalling €288.7 million (including €3.2 million recognised in application of the new IFRS16), is up on the first half of 2018 (an increase of €21.3 million, including €17.0 million attributable to the Parent Company, and €1.9 million and €1.7 million to the subsidiaries Terna Rete Italia S.p.A. and Rete S.r.l., respectively). This is primarily due to the entry into service of new infrastructure.

7. OTHER OPERATING COSTS - €12.5 MILLION

(€m)

	H1 2019	H1 2018	CHANGE
Quality of service costs	2.2	3.7	(1.5)
Indirect taxes and local taxes and levies	2.7	1.6	1.1
Losses on sales/disposal of plant	0.2	0.8	(0.6)
Net contingent liabilities	0.1	4.2	(4.1)
Other	7.3	7.3	-
TOTAL	**12.5**	**17.6**	**(5.1)**

This item, totalling €12.5 million, is down €5.1 million compared with the same period of the previous year. This primarily reflects a reduction in net contingent liabilities (down €4.1 million, above all reflecting the greater costs recognised by the Tamini Group in the comparative period) and a reduction in quality of service costs (down €1.5 million), above all due to the impact of mitigation costs incurred following an outage in Tuscany.

8. NET FINANCIAL INCOME/(EXPENSES) – (€41.0) MILLION

(€m)

	H1 2019	H1 2018	CHANGE
FINANCIAL EXPENSES			
Financial expenses on the loan from Cassa Depositi e Prestiti	(0.3)	(1.6)	1.3
Interest expense on medium/long-term borrowings and related hedges	(47.6)	(49.7)	2.1
Adjustments to bonds in issue and the related hedges	(0.6)	-	(0.6)
Discounting of termination benefits (TFR) and operating leases	(0.8)	(0.4)	(0.4)
Capitalised financial expenses	6.1	6.4	(0.3)
Translation differences	(1.7)	(1.0)	(0.7)
Other financial expenses	(0.5)	(0.4)	(0.1)
Total expenses	**(45.4)**	**(46.7)**	**1.3**
FINANCIAL INCOME			
Interest income and other financial income	4.4	2.6	1.8
Total income	**4.4**	**2.6**	**1.8**
TOTAL	**(41.0)**	**(44.1)**	**3.1**

Net financial expenses of €41.0 million are essentially attributable to the Parent Company (€37.5 million) and reflect €45.4 million in financial expenses and €4.4 million in financial income. The reduction in financial expenses compared with the first half of 2018, amounting to €3.1 million, primarily relates to a reduction in financial expenses on medium/long-term borrowings and the related hedges (€3.4 million), mainly due to reduced inflation during the period.

9. SHARE OF PROFIT/(LOSS) OF INVESTEES ACCOUNTED FOR USING THE EQUITY METHOD - €2.2 MILLION

This item, totalling €2.2 million, reflects the impact on profit or loss of the adjustment of the Group's share of equity in the associate, CESI S.p.A., at 30 June 2018 and is up €0.8 million compared with the first half of 2018.

10. INCOME TAX EXPENSE - €150.3 MILLION

Income tax expense for the period amounts to €150.3 million and is up €7.6 million on the first half of 2018.

The tax rate for the period is 29.0%, compared with 28.3% for the first half of 2018, which benefitted from income not liable to taxation.

A breakdown of income tax expense for the period is shown below:

(€m)

	H1 2019	H1 2018	CHANGE
Current tax expense:			
- IRES (corporate income tax)	133.5	131.1	2.4
- IRAP (regional tax on productive activities)	28.1	27.8	0.3
Total current tax expense	**161.6**	**158.9**	**2.7**
Temporary differences:			
- deferred tax assets	6.0	9.9	(3.9)
- deferred tax liabilities	(16.2)	(14.7)	(1.5)
Total deferred tax (income)/expense	**(10.2)**	**(4.8)**	**(5.4)**
Adjustments of taxes for previous years	(1.1)	(11.4)	10.3
TOTAL	**150.3**	**142.7**	**7.6**

Current tax expense of €161.6 million is up €2.7 million on the first half of 2018, broadly due to the increase in pre-tax profit.

Net deferred tax expense of €10.2 million is up €5.4 million, primarily linked to the impact on taxation of depreciation and amortisation and the movement in provisions for risks and charges and employee benefits. Adjustments to taxes for previous years, amounting to a reduction of €1.1 million, reflect contingent assets resulting from recognition of the effective amount payable when filing annual tax returns. This item is up €10.3 million compared with the first half of 2018, reflecting the different classification of taxation on bonuses and incentives paid to employees in 2018 when filing the annual tax return for 2017.

11. EARNINGS PER SHARE

Earnings per share, which also corresponds to diluted earnings per share, amounts to €0.182 (based on profit for the period attributable to owners of the Parent, totalling €366.6 million, divided by the number of shares outstanding, totalling 2,009,992.0 thousand).

C. Operating segments

In line with the Strategic Plan 2019-2023, and in compliance with IFRS 8, the Terna Group's identified operating segments are described below:

- **Regulated in Italy**
- **Non-Regulated**
- **International**

The Regulated segment includes the development, operation and maintenance of the National Transmission Grid, in addition to dispatching and metering, and the activities involved in the construction of storage systems. These activities have been included in one operating segment, as they are all regulated by ARERA and have similar characteristics, in terms of the remuneration model and the method for setting the related tariffs.

The Non-regulated segment includes deregulated activities and specific business initiatives, above all relating to the provision of services to third parties in the areas of Energy Solutions, consisting of the development of technical solutions and the supply of innovative services, including EPC (Engineering, Procurement and Construction) services, operation and maintenance of high-voltage and very high-voltage infrastructure, and the supply of energy efficiency services, broadly attributable to the subsidiary, Avvenia The Energy Innovator S.r.l.. This segment also includes Connectivity (support and housing services for fibre networks and IRU contracts for fibre networks).

This segment also includes the activities carried out in relation to the private interconnectors launched by Law 99/2009, legislation that assigned Terna responsibility for selecting undertakings (the "selected undertakings"), on the basis of public tenders, willing to finance specific interconnectors in exchange for the benefits resulting from a decree granting a third-party access exemption with regard to the transmission capacity provided by the new infrastructure. The Non-regulated segment also includes the operations of the Tamini Group, relating essentially to the construction and commercialisation of electrical equipment, above all power transformers.

On the other hand, the International segment includes the results deriving from opportunities for international expansion, which the Group aims to exploit by leveraging its core competencies developed in Italy as a TSO, where such competencies are of significant importance in its home country. Overseas investment focuses on countries with stable political and regulatory regimes and a need to develop their electricity infrastructure. This segment includes the results of the subsidiary, Terna Plus S.r.l., and the two Brazilian companies, SPE Santa Lucia Trasmissora de Energia S.A. and SPE Santa Maria Trasmissora de Energia S.A., the Peruvian company, Terna Peru S.A.C., the Uruguayan company, Difebal S.A., and of the Chilean company, Terna Chile S.p.A..

(€m)

	H1 2019	H1 2018	CHANGE	% CHANGE
REGULATED REVENUE IN ITALY	1,004.8	979.4	25.4	2.6%
NON-REGULATED REVENUE	82.2	77.9	4.3	5.5%
INTERNATIONAL REVENUE	10.8	5.5	5.3	96.4%
Construction costs relating to International Activities*	25.7	56.8	(31.1)	(54.8)%
TOTAL REVENUE	**1,123.5**	**1,119.6**	**3.9**	**0.3%**
GROSS OPERATING PROFIT (EBITDA)**	**846.2**	**814.9**	**31.3**	**3.8%**
of which Regulated EBITDA in Italy***	814.5	785.8	28.7	3.7%
of which Non-regulated EBITDA	26.2	27.2	(1.0)	(3.7)%
of which International EBITDA	5.5	1.9	3.6	189.5%
Reconciliation of segment result with Group's pre-tax result				
GROSS OPERATING PROFIT (EBITDA)	**846.2**	**814.9**		
Amortisation, depreciation and impairment losses	288.7	267.4		
OPERATING PROFIT/(LOSS) (EBIT)	**557.5**	**547.5**		
Financial income/(expenses)	(41.0)	(44.1)		
Share of profit/(loss) of investees accounted for using the equity method	2.2	1.4		
Profit/(Loss) before tax	**518.7**	**504.8**		

* *Shown as a reduction in revenue in the reports provided to senior management.*
** *Gross operating profit - EBITDA is an indicator of operating performance, obtained by adding "Amortisation, depreciation and impairment losses" to "Operating profit/(loss) (EBIT)".*
*** *EBITDA including indirect costs.*

The Group's revenue for the first half of 2018 amounts to €1,123.5 million, an increase of €3.9 million (0.3%) on the first half of 2018.
Gross operating profit (EBITDA) of €846.2 million is up €31.3 million (3.8%) on the €814.9 million of the first half of 2018.

Regulated EBITDA in Italy amounts to €814.5 million, an increase of €28.7 million compared with the first half of 2018, primarily due to an increase in the WACC used in setting tariffs.

Non-Regulated EBITDA for the first half of 2019, totalling €26.2 million, is down slightly by €1 million, broadly reflecting income generated on the acquisition of Avvenia in the first half of 2018, after the increase in EBITDA generated by the Tamini Group (up €0.7 million).

International EBITDA for the first half of 2019, totalling €5.5 million, is up €3.6 million compared with the same period of the previous year. This primarily reflects the impact of initiatives in **Brazil** (up €5.7 million), where the related infrastructure has fully entered service, after the different performance of construction services in **Uruguay** relating to construction of the Melo-Tacuarembò power line (down €1.6 million).

Information on the financial position periodically reported to senior management is not provided directly on the basis of each individual segment, but based on the measurement and presentation of gross invested capital as a whole, given that the contributions from the Non-Regulated and International segments are not material. The following table shows this indicator at 30 June 2019 and 31 December 2018.

(€m)

	30 JUNE 2019	31 DECEMBER 2018
Net non-current assets*	14,194.4	14,083.6
of which investments in associates and joint ventures	*78.3*	*76.1*
Net working capital**	(1,662.4)	(1,822.5)
Gross invested capital***	12,532.0	12,261.1

* *Net non-current assets include the value of "property, plant and equipment", "Goodwill", "Intangible assets", "Investments accounted for using the equity method", "Other non-current assets" and "Non-current financial assets", excluding the value of fair value hedges (€51.2 million).*
** *Net working capital is the difference between total current assets less cash and the item, "Current financial assets", and total current liabilities, less the short-term portion of long-term borrowings and the items, "Short-term borrowings" and "Current financial liabilities", and the item, "Other non-current liabilities".*
*** *Gross invested capital is the sum of net non-current assets and net working capital.*

D. Notes to the consolidated statement of financial position

Assets

12. PROPERTY, PLANT AND EQUIPMENT – €13,348.3 MILLION

(€m)

	LAND	BUILDINGS	PLANT AND EQUIPMENT	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER ASSETS	ASSETS UNDER CONST. AND PREPAY-MENTS	TOTAL
COST AT 1 JANUARY 2019	**200.7**	**1,941.1**	**17,410.6**	**108.1**	**155.9**	**1,854.4**	**21,670.8**
Investment	8.3	22.2	3.2	2.7	3.4	340.3	380.1
of which right-of-use assets	*8.2*	*21.9*	*-*	*-*	*3.1*	*-*	*33.2*
of which finance leased assets	*-*	*-*	*2.9*	*-*	*-*	*-*	*2.9*
Assets entering service	0.2	10.6	103.9	0.1	1.4	(116.2)	-
Disposals and impairments	-	(0.4)	(17.2)	-	(1.3)	(0.2)	(19.1)
of which right-of-use assets	*-*	*-*	*-*	*-*	*(0.1)*	*-*	*(0.1)*
of which finance leased assets	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Other movements	-	(1.4)	(13.7)	-	-	0.4	(14.7)
COST AT 30 JUNE 2019	**209.2**	**1,972.1**	**17,486.8**	**110.9**	**159.4**	**2,078.7**	**22,017.1**
ACCUMULATED DEPRECIATION AND IMPAIRMENTS AT 1 JANUARY 2019	**-**	**(571.6)**	**(7.647.3)**	**(86.3)**	**(121.3)**	**-**	**(8,426.5)**
Depreciation for the period	(0.5)	(26.1)	(224.7)	(2.6)	(6.6)	-	(260.5)
of which right-of-use assets	*(0.5)*	*(2.2)*	*-*	*-*	*(0.5)*	*-*	*(3.2)*
of which finance leased assets	*-*	*-*	*(1.5)*	*-*	*(0.1)*	*-*	*(1.6)*
Disposals	-	0.3	16.5	-	1.3	-	18.1
Other movements	-	-	0.1	-	-	-	0.1
ACCUMULATED DEPRECIATION AND IMPAIRMENTS AT 30 JUNE 2019	**(0.5)**	**(597.4)**	**(7,855.4)**	**(88.9)**	**(126.6)**	**-**	**(8,668.8)**
Carrying amount							
AT 30 JUNE 2019	**208.7**	**1,374.7**	**9,631.4**	**22.0**	**32.8**	**2,078.7**	**13,348.3**
of which right-of-use assets	*7.7*	*19.7*	*-*	*-*	*2.5*	*-*	*29.9*
of which finance leased assets	*-*	*0.6*	*28.1*	*-*	*1.4*	*-*	*30.1*
AT 31 DECEMBER 2018	**200.7**	**1,369.5**	**9,763.3**	**21.8**	**34.6**	**1,854.4**	**13,244.3**
of which finance leased assets	*-*	*0.6*	*26.7*	*-*	*1.5*	*-*	*28.8*
CHANGE	**8.0**	**5.2**	**(131.9)**	**0.2**	**(1.8)**	**224.3**	**104.0**

The category, "Plant and equipment" at 30 June 2019 includes the electricity transmission grid and transformer substations in Italy.

"Property, plant and equipment" is up €104 million compared with the previous year, reflecting movements during the period as a result of:

- investment of €380.1 million during the period (including €33.2 million relating to right-of-use assets recognised in application of the new accounting standard, IFRS16), of which €336.9 million invested in the Group's regulated assets and €43.2 million in non-regulated assets, primarily with regard to the private Italy-France" Interconnector;
- depreciation for the period, amounting to €260.5 million;
- other movements during the period, resulting in a reduction of €14.6 million, including grants relating to assets (€15 million, primarily projects financed by the Ministry for Economic Development and the EU).

A summary of movements in property, plant and equipment during the period is shown below.

(€m)

Investment	
- Power lines	199,3
- Transformer substations	147.2
- Storage systems	0.5
- Other	33.1
Total investment in property, plant and equipment	**380.1**
Depreciation for the period	(260.5)
Other movements	(14.6)
Disposals and impairments	(1.0)
TOTAL	**104.0**

The following information regards work on the principal projects falling within the scope of Regulated Activities during the period: progress on construction of the various overseas interconnections, consisting of the power lines linking Italy and France (€24.9 million) and Italy and Montenegro (€7.9 million), progress with the "Functional separation" project (€18.4 million), extension of the fibre network as part of the "Fibre for the Grid" project (€14.7 million), construction of the Sorrento Peninsula interconnector (€5 million) and the substations at Belcastro (€6.5 million) and Brennero (€4.6 million), reorganisation of Rome metropolitan area (€4.8 million) and the upgrade of the Schio-Arsiero grid (€4.4 million).

13. GOODWILL – €230.1 MILLION

Goodwill regards the acquisition of Terna Rete Italia S.r.l., accounted for in the financial statements at a carrying amount of €101.6 million, the acquisition of RTL, with a carrying amount of €88.6 million, the acquisition of Rete S.r.l., with a carrying amount of €26.3 million, and the acquisition of TES- Transformer Electro Services within the Tamini Group, with a carrying amount of €13.6 million.
There are no changes in this item compared with the previous year.

14. INTANGIBLE ASSETS – €277.2 MILLION

(€m)

	INFRASTRUCTURE RIGHTS	CONCESSIONS	OTHER ASSETS	ASSETS UNDER DEVELOPMENT AND PREPAYMENTS	TOTAL
Cost	430.9	135.4	414.0	37.1	1.017.4
Accumulated amortisation	(330.3)	(73.7)	(324.1)	-	(728.1)
BALANCE AT 31 DECEMBER 2018	**100.6**	**61.7**	**89.9**	**37.1**	**289.3**
Investment	1.5	-	0.4	14.3	16.2
Assets entering service	1.4	-	1.6	(3.0)	-
Amortisation for the period	(11.2)	(2.8)	(14.1)	-	(28.1)
Other movements	-	-	-	(0.2)	(0.2)
BALANCE AT 30 JUNE 2019	**92.3**	**58.9**	**77.8**	**48.2**	**277.2**
Cost	433.8	135.4	416.0	48.2	1.033.4
Accumulated amortisation	(341.5)	(76.5)	(338.2)	-	(756.2)
BALANCE AT 30 JUNE 2019	**92.3**	**58.9**	**77.8**	**48.2**	**277.2**
CHANGE	**(8.3)**	**(2.8)**	**(12.1)**	**11.1**	**(12.1)**

Intangible assets amount to €277.2 million (€289.3 million at 31 December 2018). The change compared with the previous year (a reduction of €12.1 million) is broadly due to the net effect of investment (up €16.2 million, including €9.0 million for infrastructure rights) and amortisation (down €28.1 million).

Investment in intangible assets during the period (€16.2 million, including €11.9 million attributable to the Parent Company's Regulated Activities) included expenditure on the development of software applications for the Remote Management System for Dispatching (€2.2 million), the Power Exchange (€1.3 million), the Metering System (€0.2 million) and for protection of the electricity system (€0.4 million), as well as software applications and generic licences (€6.3 million).

15. DEFERRED TAX ASSETS – €47.8 MILLION

(€m)

	31 DECEMBER 2018	EFFECTS RECOGNISED IN PROFIT OR LOSS AND OTHER MOVEMENTS	EFFECTS RECOGNISED IN COMPREHENSIVE INCOME	30 JUNE 2019	CHANGE
Deferred tax assets	113,1	(6,0)	35,5	142,6	29,5
Deferred tax liabilities	(109,8)	14,7	0,3	(94,8)	15,0
NET DEFERRED TAX ASSETS	**3,3**	**8,7**	**35,8**	**47,8**	**44,5**

The balance of this item, amounting to €47.8 million, includes the net impact of movements in the Group's deferred tax assets and liabilities.

Deferred tax assets (€146.2 million) are up €29.5 million compared with 31 December 2018 (€113.1 million), reflecting the following movements:

- net provisions that did not impact profit or loss, totalling €35.8 million, primarily reflecting the tax effect of movements in cash flow hedges and employee benefits;
- net uses of provisions for risks and charges (€8.4 million);
- use of the accrued portion recognised in relation to tax relief on the goodwill resulting from the merger of other companies owning portions of the NTG, acquired and then merged with and into the Group in previous years (€2.8 million);
- provisions recognised by the subsidiary Rete S.r.l., for the non-deductible portion of book depreciation recognised by the subsidiary (€1.4 million).

Deferred tax liabilities (€94.8 million) are down €15.0 million, essentially due to the Parent Company's use of previous provisions for accelerated depreciation.

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD – €78.3 MILLION

This item, amounting to €78.3 million, is up compared with the previous year (an increase of €2.2 million), reflecting the adjustment of the Group's share of equity in the associate, CESI S.p.A., at 30 June 2019.

17. FINANCIAL ASSETS

(€m)

	MEASUREMENT	30 JUNE 2019	31 DECEMBER 2018	CHANGE
Financial assets under concession	amortised cost	174.0	167.8	6.2
Deposit in the Interconnector Guarantee Fund	amortised cost	71.5	61.1	10.4
Fair value hedges	fair value	51.2	-	51.2
Other investments	FVTOCI	0.1	0.1	-
NON-CURRENT FINANCIAL ASSETS		**296.8**	**229.0**	**67.8**
Government securities	FVTOCI	502.2	402.6	99.6
Cash flow hedges	fair value	-	1.3	(1.3)
Deferred assets on fair value hedges	fair value	2.4	-	2.4
Other current financial assets		-	0.6	(0.6)
CURRENT FINANCIAL ASSETS		**504.6**	**404.5**	**100.1**

"Non-current financial assets" are up €67.8 million compared with the previous year, above all reflecting the entry into fair value hedges in relation to two bond issues (up €51.2 million, included in net debt), an increase in investment during the year in infrastructure under concession in Brazil, recognised in application of IFRIC 12 (up €6.2 million) and an increase in the Interconnector Guarantee Fund, set up to fund investment in interconnections by art. 32 of Law 99/09 (up €10.4 million).

"Current financial assets" have increased by €100.1 million compared with the previous year, primarily following the purchase of government securities amounting to €100 million (€99.6 million).

18. OTHER ASSETS

(€m)

	30 JUNE 2019	31 DECEMBER 2018	CHANGE
Loans and advances to employees	9.4	9.4	-
Deposits with third parties	5.5	5.4	0.1
OTHER NON-CURRENT ASSETS	**14.9**	**14.8**	**0.1**
Other tax credits	23.2	44.1	(20.9)
Amounts due from associates	-	3.3	(3.3)
Prepayments to suppliers	11.7	13.4	(1.7)
Prepayments of operating expenses and accrued operating income	20.1	14.7	5.4
Amounts due from selected undertakings in interconnector projects	3.9	4.0	(0.1)
Amounts due from others	11.8	6.5	5.3
OTHER CURRENT ASSETS	**70.7**	**86.0**	**(15.3)**

"Other non-current assets" amount to €14.9 million, broadly in line with the previous year (up €0.1 million) and primarily regard loans and advances disbursed to employees.

"Other current assets" of €70.7 million are down €15.3 million compared with 31 December 2018, primarily due to:

- other tax credits (down €20.9 million), primarily reflecting VAT payable by the Group (down €20.7 million) due to a reduction in trade payables and the refund of the VAT credit due to the subsidiary, Rete S.r.l., prior to its participation in Group VAT arrangement (€10.4 million);
- a reduction in amounts due from the associates (€3.3 million) following collection of the dividend payable by CGES and recognised in the previous year;
- expenses already paid for but accruing after 30 June 2019, which are up €5.4 million and include €6.8 million paid to personnel;
- amounts due from others (up €5.3 million), mainly due to increased payments on account to INAIL in the first half (up €1.5 million) and amounts due from the overseas subsidiary, Santa Lucia, connected with the entry into commercial operation of the related power line (up €2.5 million).

19. INVENTORIES – €71.1 MILLION

This item, amounting to €71.1 million, is up €7.7 million compared with the previous year and primarily consists of materials and equipment for use in the operation, maintenance and construction of plant (up €3.2 million) and otherwise relating to the Tamini Group's business (up €4.5 million).

20. TRADE RECEIVABLES – €1,582.8 MILLION

(€m)

	30 JUNE 2019	31 DECEMBER 2018	CHANGE
Energy-related receivables	1,092.6	743.7	348.9
Transmission charges receivable	316.0	310.8	5.2
Other trade receivables	174.2	112.5	61.7
TOTAL	**1,582.8**	**1,167.0**	**415.8**

Trade receivables amount to €1,582.8 million at 30 June 2019 and are accounted for less any losses on items deemed not to be recoverable and recognised in the allowance for doubtful accounts (€26.3 million for energy-related receivables and €17.5 million for other items). The carrying amount shown broadly approximates to fair value.

Energy-related/regulated receivables – €1,092.6 million

This item includes so-called "pass-through items" relating to the Parent Company's activities in accordance with Resolution 111/06 (€1,059.4 million) and receivables due from dispatching end users resulting from regulated activities (€14.7 million). It also includes the amount due from the Fund for Energy and Environmental Services (Cassa per i Servizi Energetici e Ambientali - CSEA), based on the RENS performance for the period (€18.5 million). The balance is up €348.9 million on the end of 2018, essentially due to energy-related pass-through receivables (€344.4 million), the impact of the amount due in the form of the uplift (€249.5 million), primarily reflecting the increased cost incurred during the period for DSM services and transactions. The change also reflects a reduction in capacity payments due as a result of payments made during the period[1].

Transmission charges receivable – €316 million

Transmission charges receivable, amounting to €316 million, represent the amount payable to the Parent Company and other owners of the national transmission grid by electricity distributors. This receivable is up €5.3 million compared with 31 December 2018 due to the tariff increase described above.

Other trade receivables – €174.2 million

Other trade receivables primarily regard amounts receivable from customers of the Non-Regulated business. These amounts derive from the provision of specialist services to third parties, primarily in relation to plant engineering services, the operation and maintenance of high-voltage and very high-voltage infrastructure, and the housing of telecommunications equipment and maintenance services for fibre networks.

This item is up €61.7 million compared with 31 December 2018, broadly reflecting amounts due from Piemonte Savoia S.r.l. for construction work following the achievement of contract milestones (€24.4 million), amounts receivable for contract work recognised by the South American subsidiary, Difebal (up €21.6 million), and an increase in receivables recognised by the Parent Company (down €16.6 million).

The following table shows receivables resulting from contract work in progress (€103.6 million), being carried out by the Group under multi-year contracts with third parties:

(€m)

	PREPAYMENTS	VALUE OF CONTRACT	BALANCE AT 30 JUNE 2019	PREPAYMENTS	VALUE OF CONTRACT	BALANCE AT 31 DECEMBER 2018
Receivables resulting from contract work in progress	(16.7)	120.3	**103.6**	(14.1)	98.7	**84.6**

The Group's receivables resulting from contract work in progress are up €19.0 million on the previous year, primarily in relation to the contract in Uruguay (up €21.6 million).

Bank guarantees given to third parties in the interest of Group companies at 30 June 2019 total €276.8 million. These break down as follows: €92.2 million in the interests of Terna S.p.A., €39.2 million in the interests of Terna Interconnector S.r.l., €45 million in the interests of Terna Rete Italia S.p.A., €26.9 million in the interests of Terna Plus S.r.l., €7.1 million in the interests of Difebal S.A., €3.4 million in the interests of Rete S.r.l., €1 million in the interests of Terna Energy Solutions S.r.l. and €62 million in the interests of Tamini Trasformatori S.r.l..

21. CASH AND CASH EQUIVALENTS – €1,209.2 MILLION

Cash amounts to €1,209.2 million at 30 June 2019, including €677.4 million invested in short-term, readily convertible deposits and €531.8 million deposited in bank current accounts and cash in hand.

22. INCOME TAX ASSETS – €19.3 MILLION

Income tax assets, amounting to €19.3 million, are unchanged with respect to 31 December 2018.

1. ARERA ordered capacity payments to be made in resolutions 30 and 206/2019.

Equity and liabilities

23. EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT AND NON-CONTROLLING INTERESTS

Equity attributable to owners of the Parent – €3,963.8 million

Share capital – €442.2 million

The Parent Company's share capital consists of 2,009,992,000 ordinary shares with a par value of €0.22 per share.

Legal reserve – €88.4 million

The legal reserve accounts for 20% of the Parent Company's share capital.

Other reserves – €587.6 million

The other reserves are down €112.5 million compared with the previous year, primarily as a result of other comprehensive income. This reflects:

- fair value adjustments to the cash flow hedges relating to variable rate borrowings obtained by the Parent Company and the subsidiary, Difebal (down €109.3 million, after taking into account the related tax asset of €34.6 million);
- the recognition of actuarial gains and losses on provisions for employee benefits (a loss of €3.8 million, after taking into account the related tax asset of €1.2 million).

Retained earnings and accumulated losses – €2,479.0 million

The increase in "Retained earnings and accumulated losses", amounting to €238.9 million, primarily regards the remaining portion of the Group's profit for 2018.

Payment of the final dividend

The Annual General Meeting of shareholders held on 8 May 2019 approved payment of a dividend for full-year 2018 of €0.2332 per share, and the payment – before any withholdings required by law – of a final dividend of €0.1545 per share, amounting to a total of €310.5 million, after taking into account the interim dividend already paid. The final dividend was payable from 26 June 2019, with an ex-dividend date for coupon 30 of 24 June 2019.

Equity attributable to non-controlling shareholders – €36.8 million

Equity attributable to non-controlling interests, relating to the non-controlling shareholders of the Tamini Group, Terna Interconnector S.r.l. and Avvenia The Energy Innovator S.r.l., amounts to €36.8 million, an increase of €1.8 million compared with 31 December 2018.

The increase primarily reflects the relevant share of the profit reported by Terna Interconnector S.r.l. (€1.7 million).

24. BORROWINGS AND FINANCIAL LIABILITIES

(€m)

	30 JUNE 2019	31 DECEMBER 2018	CHANGE
Bond issues	7,316.1	6,563.2	752.9
Bank borrowings	1,689.4	1,664.4	25.0
LONG-TERM BORROWINGS	**9,005.5**	**8,227.6**	**777.9**
Cash flow hedges	196.9	59.2	137.7
NON-CURRENT FINANCIAL LIABILITIES	**196.9**	**59.2**	**137.7**
SHORT-TERM BORROWINGS	**22.0**	**25.0**	**(3.0)**
Bond issues	605.7	616.7	(11.0)
Bank borrowings	121.4	613.9	(492.5)
CURRENT PORTION OF LONG-TERM BORROWINGS	**727.1**	**1,230.6**	**(503.5)**
TOTAL	**9,951.5**	**9,542.4**	**409.1**

Borrowings and financial liabilities have increased by €409.1 million compared with the previous year to €9,951.5 million.

The increase in bond issues (up €741.9 million) is due to the two issues launched in January and April, amounting to a total of €750 million, in addition to changes in fair value after the impact of the adjustment of the amortised cost of these financial instruments.

The latest official prices at 30 June 2019 and 31 December 2018 for the bonds listed on the Luxembourg Stock Exchange are detailed below:

(€)

	PRICE AT 30 JUNE 2019	PRICE AT 31 DECEMBER 2018
bond maturity 2024:	125.301	120.51
bond maturity 2023*:	129.38	127.61
bond maturity 2019:	101.29	103.62
bond maturity 2026:	108.90	103.52
bond maturity 2021:	108.46	109.79
bond maturity 2022:	102.54	100.64
bond maturity 2028:	101.74	89.83
bond maturity 2027:	105.84	94.53
bond maturing 2023 (Green Bond)	103.90	100.17
bond maturing 2026 (Green Bond)	103.16	-

** Source: BNP Paribas, in the absence of up-to-date prices sourced from Reuters and Bloomberg.*

Bank borrowings are down €467.5 million compared with the previous year, primarily due to:
- repayment, on 2 February 2019, of the €500 million loan from CDP, using EIB funds;
- repayments of principal on existing EIB loans (down €55.7 million);
- new EIB loans drawn down in June, totalling €42.7 million;
- new loan obtained by the Brazilian subsidiary, totalling €22.8 million;
- lease liabilities recognised following first-time adoption of IFRS 16 (€24.6 million).

Long-term borrowings

The following table shows movements in long-term debt during the period, including the nominal amount:

(€m)

	31 DECEMBER 2018			REPAY-MENTS AND CAPITAL-ISATIONS	DRAW-DOWNS	OTHER	CHANGE IN CARRYING AMOUNT	30 JUNE 2019		
	NOMINAL DEBT	CARRYING AMOUNT	FAIR VALUE					NOMINAL DEBT	CARRYING AMOUNT	FAIR VALUE
Bonds maturing 2024	800.0	982.9	964.1	-	-	(15.2)	(15.2)	800.0	967.7	1,002.4
IL bonds	579.0	679.2	638.1	-	-	(10.8)	(10.8)	580.1	668.4	646.9
Private Placement 2019	600.0	616.7	621.7	-	-	(11.0)	(11.0)	600.0	605.7	607.7
Private Placement 2026	80.0	78.9	82.8	-	-	0.1	0.1	80.0	79.0	87.1
Bonds maturing 2021	1,250.0	1,345.9	1,372.4	-	-	(21.4)	(21.4)	1,250.0	1,324.5	1,355.8
Bonds maturing 2022	1,000.0	997.6	1,006.4	-	-	0.3	0.3	1,000.0	997.9	1,025.4
Bonds maturing 2026	-	-	-	-	500.0	(2.4)	497.6	500.0	497.6	515.8
Bonds maturing 2028	750.0	740.9	673.7	-	-	27.8	27.8	750.0	768.7	763.1
Bonds maturing 2027	1,000.0	993.2	945.3	-	-	24.8	24.8	1,000.0	1,018.0	1,058.5
Bonds maturing 2023	750.0	744.6	751.3	-	250.0	(0.3)	249.7	1,000.0	994.3	779.3
Total bond issues	**6,809.0**	**7,179.9**	**7,055.8**	**-**	**750.0**	**(8.1)**	**741.9**	**7,560.1**	**7,921.8**	**7,842.0**
Borrowings	2,285.3	2,278.3	2,301.2	(555.7)	89.2	(1.0)	(467.5)	1,810.8	1,810.8	2,251.6
Total borrowings	**2,285.3**	**2,278.3**	**2,301.2**	**(555.7)**	**89.2**	**(1.0)**	**(467.5)**	**1,810.8**	**1,810.8**	**2,251.6**
Total debt	**9,094.3**	**9,458.2**	**9,357.0**	**(555.7)**	**839.2**	**(9.1)**	**274.4**	**9,370.9**	**9,732.6**	**10,093.6**

At 30 June 2019, the Group has access to additional financing of €2,650.0 million, represented by two revolving credit facilities entered into in September 2018 and April 2019. In addition, the Group has uncommitted bank credit lines totalling approximately €839 million and approximately €106 million in loans agreed but not yet disbursed.

In addition, as provided for in IFRS 7, the table shows the fair value of borrowings and bond issues. In the case of bond issues, this is market value based on prices at the reporting date, whilst variable rate loans are measured by discounting expected cash flows based on the market interest rate curve at the reporting date.

The following table shows an analysis of bond issues and other borrowings by maturity, showing the related short-term portions.

(€m)

	MATURITY	31 DEC 2018*	30 JUNE 2019*	PORTION FALLING DUE WITHIN 12 MONTHS	PORTION FALLING DUE AFTER 12 MONTHS	2020	2021	2022	2023	2024	BEYOND	AVERAGE INTEREST RATE AT 30 JUNE 2019	AVERAGE NET INTEREST RATE ON HEDGES AT 30 JUNE 2019
Bond issues	2024	982.9	967.7	-	967.7	-	-	-	-	967.7	-	4.90%	0.87%
	2023	679.2	668.4	-	668.4	-	-	-	668.4	-	-	2.73%	(0.90%)
	2019	616.7	605.7	605.7	-	-	-	-	-	-	-	4.88%	1.16%
	2026	78.9	79.0	-	79.0	-	-	-	-	-	79.0	1.60%	1.80%
	2021	1,345.9	1,324.5	-	1,324.5	-	1,324.5	-	-	-	-	4.75%	1.21%
	2026	-	497.6	-	497.6	-	-	-	-	-	497.6	1.00%	1.06%
	2022	997.6	997.9	-	997.9	-	-	997.9	-	-	-	0.88%	0.95%
	2028	740.9	768.7	-	768.7	-	-	-	-	-	768.7	1.00%	0.86%
	2027	993.2	1,018.0	-	1,018.0	-	-	-	-	-	1,018.0	1.38%	1.21%
	2023	744.6	994.3	-	994.3	-	-	-	994.3	-	-	1.00%	1.15%
EIB	2039	368.6	217.2	-	217.2	-	4.6	20.5	4.6	20.5	167.0	1.46%	1.46%
Difebal loan	2034	-	33.8	0.8	33.0	1.2	1.2	1.2	1.2	1.2	27.3	4.48%	4.48%
Total fixed rate		**7,548.5**	**8,172.8**	**606.5**	**7,566.3**	**1.2**	**1,330.3**	**1,019.6**	**1,668.5**	**989.4**	**2,557.6**		
EIB	2030	1,355.9	1,494.4	116.0	1,378.4	116.1	112.1	112.7	112.7	112.7	812.1	0.27%	1.74%
CDP	2019	500.0	-	-	-	-	-	-	-	-	-	0.63%	0.63%
Loan to Brazilian companies	2042	-	22.8	0.3	22.5	-	0.6	1.9	2.6	2.7	14.7	9.12%	9.12%
Difebal loan	2034	56.9	23.5	0.5	22.9	0.8	0.8	0.8	0.8	0.8	18.9	4.48%	4.48%
Total variable rate		**1,912.8**	**1,540.7**	**116.8**	**1,423.8**	**116.9**	**113.5**	**115.4**	**116.1**	**116.2**	**845.7**		
TOTAL		**9,461.3**	**9,713.5**	**723.3**	**8,990.2**	**118.1**	**1,443.8**	**1,135.0**	**1,784.6**	**1,105.6**	**3,403.3**		

** The balance does not include deferred fees of €6.9 million at 30 June 2019 and €5.5 million at 31 December 2018.*

(€m)

	31 DECEMBER 2018	30 JUNE 2019	PORTION FALLING DUE WITHIN 12 MONTHS	PORTION FALLING DUE AFTER 12 MONTHS
Finance leases	2.4	1.4	1.1	0.3
Operating leases	-	24.6	2.7	21.9
TOTAL LEASES at variable rates	**2.4**	**26.0**	**3.8**	**22.2**

Payments made in the first six months of 2019, in relation to operating leases recognised in application of the new accounting standard IFRS 16, amount to €1.6 million.

The total value of the Terna Group's borrowings at 30 June 2019 amounts to €9,732.6 million (€727.1 million maturing within 12 months and €9,005.5 million after 12 months).

Non-current financial liabilities

(€m)

	30 JUNE 2019	31 DECEMBER 2018	CHANGE
Cash flow hedges	196.9	59.2	137.7
TOTAL	**196.9**	**59.2**	**137.7**

"Non-current financial liabilities", amounting to €196.9 million at 30 June 2019, reflect the fair value of cash flow hedges.

Fair value was measured by discounting the expected cash flows using the market yield curve at the reporting date. The increase of €137.7 million compared with 31 December 2018 reflects the change in the market interest rate curve and the change in the notional value of the derivatives portfolio.

Short-term borrowings – €22.0 million

"Short-term borrowings" are down €3 million compared with the previous year due to the repayment of facilities used by the Tamini Group.

Current financial liabilities

Current financial liabilities at 30 June 2019 include the value of net interest expense accrued on financial instruments and not yet paid. This item is up €16.6 million compared with the previous year.

(€m)

	30 JUNE 2019	31 DECEMBER 2018	CHANGE
DEFERRED LIABILITIES ON:			
Hedging derivatives	2.3	2.3	-
Bond issues	102.5	85.9	16.6
Borrowings	2.2	2.2	-
TOTAL	**107.0**	**90.4**	**16.6**

Net debt

Pursuant to the CONSOB Communication of 28 July 2006 and in compliance with Recommendation ESMA no. 319 of 2013, the Group's net debt, after deducting non-current financial assets represented by the value of derivatives hedging bond issues, is as follows:

(€m)

	30 JUNE 2019
A. Cash	531.8
B. Term deposits	677.4
C. Cash and cash equivalents (A) + (B)	**1,209.2**
D. Current portion of non-current borrowings	727.1
E. Short-term borrowings	22.0
F. Other net financial liabilities	104.3
G. Derivative financial instruments held in portfolio	0.3
H. Current financial assets	502.2
I. Current debt (D+E+F+G+H)	**351.5**
J. Current net debt (I) - (C)	**(857.7)**
K. Non-current borrowings	1,689.4
L. Bond issues	7,316.1
M. Derivative financial instruments held in portfolio	145.7
N. Non-current net debt (K) + (L) + (M)	**9,151.2**
O. Net debt (J) + (N)	**8,293.5**

25. EMPLOYEE BENEFITS – €75.1 MILLION

(€m)

	31 DECEMBER 2018	PROVISIONS	INTEREST COST	USES AND OTHER MOVEMENTS	ACTUARIAL GAINS/ (LOSSES)	30 JUNE 2019
Benefits during the period of employment						
Loyalty bonuses	4.7	0.6	-	(0.1)	-	5.2
Total	**4.7**	**0.6**	**-**	**(0.1)**	**-**	**5.2**
Termination benefits						
Deferred compensation benefits (TFR)	43.7	-	0.3	(0.4)	3.1	46.7
Energy discounts	5.3	-	-	(0.1)	0.4	5.6
Additional months' pay	6.9	0.2	-	-	0.5	7.6
Payment in lieu of notice and other similar	0.2	-	-	-	-	0.2
Total	**56.1**	**0.2**	**0.3**	**(0.5)**	**4.0**	**60.1**
Post-employment benefits						
ASEM health plan	8.6	0.2	0.1	(0.1)	1.0	9.8
Total	**8.6**	**0.2**	**0.1**	**(0.1)**	**1.0**	**9.8**
TOTAL	**69.4**	**1.0**	**0.4**	**(0.7)**	**5.0**	**75.1**

This item, amounting to €75.1 million at 30 June 2019, is up €5.7 million compared with the previous year. This broadly reflects the impact of actuarial gains and losses (up €5.0 million). The main actuarial assumptions used in estimating the liability for employee benefits are broadly in line with those used in the financial statements for 2018.

26 – PROVISIONS FOR RISK AND CHARGES – €210.6 MILLION

(€m)

	PROVISIONS FOR LITIGATION AND DISPUTES	PROVISIONS FOR SUNDRY RISKS AND CHARGES	PROVISIONS FOR EARLY RETIREMENT INCENTIVES	TOTAL
Amount at 31 December 2018	**19.0**	**169.0**	**53.4**	**241.4**
New provisions	0.2	6.5	-	6.7
Uses and other movements	(2.2)	(32.6)	(2.7)	(37.5)
Amount at 30 June 2019	**17.0**	**142.9**	**50.7**	**210.6**

Provisions for litigation and disputes – €17.0 million

These provisions, totalling €17.0 million, have been set aside to cover outstanding liabilities that, at 30 June 2019, could result from court judgements and out-of-court settlements regarding the activities of Group companies, and have been assessed partly on the basis of recommendations from internal and external legal advisors. There has been a net reduction of €2.0 million following the settlement of a number of disputes arising in previous years.

Provisions for sundry risks and charges – €142.9 million

These provisions are down €26.1 million compared with the previous year, reflecting:

- a net reduction of €8.9 million in provisions linked to regulation of the quality of the electricity service (the mitigation and sharing mechanism introduced by ARERA Resolution 653/2015/R/eel) which, after provisions for estimated penalties linked to outages during the first half, reflects payments to distribution companies and releases following final determination of the penalties due to previous years;
- net uses for staff incentive plans, totalling €7.7 million;
- net uses for urban and environmental redevelopment schemes (€3.4 million);
- adjustment of the provisions for taxation and contributions (€4.0 million).

Provisions for early retirement incentives – €50.7 million

Provisions for early retirement incentives reflects the estimated extraordinary expenses to be incurred in relation to the cost of the scheme for the year, linked to the early retirement of Group employees who have reached pensionable age. This item has decreased by €2.7 million, reflecting payments during the period.

27. OTHER NON-CURRENT LIABILITIES – €442.7 MILLION

This item, amounting to €442.7 million at 30 June 2019, regards accrued grants related to assets receivable by the Parent Company (€88.3 million), in addition to amounts payable to the entities financing the Italy-France Interconnector (€278.2 million). This item also includes the Interconnector Guarantee Fund set up by Terna S.p.A. following the issue of the 2016 Stability Law (€76.2 million), in order to fund investment in interconnections by art. 32 of Law 99/09.

The increase in this item compared with the previous year, amounting to €68.9 million, essentially reflects progress of work on the Italy-France Interconnector (a €60.6 million increase in the related liability) and an increase in payments to the Interconnector Guarantee Fund (up €10.9 million).

28. CURRENT LIABILITIES

(€m)

	30 JUNE 2019	31 DECEMBER 2018	CHANGE
Short-term borrowings*	22.0	25.0	(3.0)
Current portion of long-term borrowings*	727.1	1,230.6	(503.5)
Trade payables	2,523.1	2,539.6	(16.5)
Income tax liabilities	166.0	5.1	160.9
Current financial liabilities*	107.0	90.4	16.6
Other current liabilities	274.5	239.7	34.8
TOTAL	**3,819.7**	**4,130.4**	**(310.7)**

** Information on these items is provided in note 24, "Borrowings and financial liabilities".*

TRADE PAYABLES – €2,523.1 MILLION

(€m)

	30 JUNE 2019	31 DECEMBER 2018	CHANGE
Suppliers:			
- Energy-related payables	1,788.6	1,518.1	270.5
- Non-energy-related payables	696.4	978.9	(282.5)
Amounts due to associates	5.1	8.2	(3.1)
Payables resulting from contract work in progress	33.0	34.4	(1.4)
TOTAL	**2,523.1**	**2,539.6**	**(16.5)**

Suppliers

Energy-related/regulated payables – €1,788.6 million

The increase of €270.5 million compared with the end of 2018 essentially reflects energy-related pass-through payables (€273.2 million). This is primarily due to:

- an increase in payables due to plants that are essential for the security of the electricity system (up €147.9 million), reflecting items collected during the period after payments approved by ARERA[2];
- payables due to items deriving from the execution of dispatching contracts for purchases and sales for the purpose of injecting and withdrawing electricity, linked primarily to costs incurred on the Dispatching Services Market - DSM (€74.1 million) and actual imbalances (€35.7 million);
- payables relating to the interruptibility service (€26 million), primarily the amount payable to the Fund for Energy and Environmental Services (*Cassa per i Servizi Energetici e Ambientali* – CSEA);

partly offset by

- payables linked to capacity payments (down €11.7 million).

Non-energy-related payables

The exposure to suppliers regards invoices received and to be received for contract work, services and purchases of materials and equipment.

The balance at 30 June 2019 (€696.4 million) is down €282.5 million compared with 31 December 2018, largely due to increased capital expenditure during the latter part of the previous year (primarily by the subsidiary, Terna Rete Italia S.p.A., where the decrease is €238.0 million).

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

Amounts due to associates

This item, amounting to €5.1 million, is down €3.1 million on the previous year and regards amounts payable to the associate, CESI S.p.A., for services provided primarily to the subsidiary, Terna Rete Italia S.p.A. (€3.8 million), relating to electro technical studies and research.

Payables resulting from contract work in progress

Payables resulting from contract work in progress, amounting to €33.0 million at 30 June 2019, are broadly in line with the figure for 31 December 2018 (€34.4 million).

This item breaks down as follows.

(€m)

	PREPAY-MENTS	VALUE OF CONTRACT	BALANCE AT 30 JUNE 2019	PREPAY-MENTS	VALUE OF CONTRACT	BALANCE AT 31 DECEMBER 2018
Payables resulting from contract work in progress	(50.5)	17.5	**(33.0)**	(45.8)	11.4	**(34.4)**

The carrying amount of trade payables broadly approximates to fair value.

The commitments assumed by the Group towards suppliers amount to approximately €3,691.3 million and regard purchase commitments linked to the normal "operating cycle" projected for the period 2019-2023.

Income tax liabilities – €166.0 million

This item, amounting to €166.0 million, regards the Group's current tax liabilities after payments on account in 2018. This item is up €160.9 million compared with 31 December 2018 due to the recognition of tax for the period.

OTHER CURRENT LIABILITIES – €274.5 MILLION

(€m)

	30 JUNE 2019	31 DECEMBER 2018	CHANGE
Prepayments	61.1	69.7	(8.6)
Other tax liabilities	25.9	7.4	18.5
Social security payables	25.6	25.0	0.6
Amounts due to personnel	51.0	41.6	9.4
Other amounts due to third parties	110.9	96.0	14.9
TOTAL	**274.5**	**239.7**	**34.8**

Prepayments

This item (€69.7 million) regards grants related to assets collected by the Group (€64.9 million attributable to the Parent Company, €2.8 million to Rete S.r.l. and €2.0 million to Terna Rete Italia S.p.A.) to fund the construction of non-current assets in progress at 30 June 2019.

Compared with 31 December 2018 (€69.7 million), this item is down €8.6 million, essentially due to the net impact of grants deducted directly from the carrying amount of the related assets (€15 million) and new prepayments received from third parties.

Other tax liabilities

Other tax liabilities, amounting to €25.9 million, are up €18.5 million compared with the previous year. This primarily reflects the recognition, in 2019, of VAT payable by the companies who participate in the Group VAT arrangement (up €17.0 million), in addition to increased withholding tax payable on salaries and deferred compensation (TFR) paid to employees (€1.4 million).

Social security payables

Social security payables, essentially relating to contributions payable to INPS (the National Institute of Social Security) by the Parent Company and the subsidiary Terna Rete Italia S.p.A., amount to €25.6 million, a slight increase compared with the figure for the previous year (€25.0 million). This item also included the amount payable to the *Fondo Previdenza Elettrici – F.P.E.* (the Electricity Industry Pension Fund), amounting to €3.6 million.

Amounts due to personnel

Amounts due to personnel, amounting to €51.0 million, essentially regard the Parent Company and the subsidiary, Terna Rete Italia S.p.A.. They primarily relate to:

- incentives payable to personnel during the year (€26.2 million);
- amounts due to employees in the form of accrued and unused annual leave and bank holiday entitlements, in addition to the accrued portion of thirteenth month salaries (€20.3 million).

This item is up €9.4 million, primarily due to an increase in amounts payable for accrued and unused annual leave and bank holiday entitlements (up €9.0 million).

Other payables due to third parties

Other payables due to third parties, amounting to €110.9 million, primarily regard guarantee deposits (€71.8 million) received from electricity market operators to guarantee their contractual obligations under dispatching and virtual interconnection contracts. This item also includes accrued expenses and deferred income (€15.3 million, primarily attributable to the Group’s Non-Regulated business). This item is up €14.9 million as a result of an increase in guarantee deposits collected during the first half (up €5.4 million), the amount payable to shareholders in the form of dividends (up €2.1 million) and an increase in accrued expenses and deferred income (up €2.8 million).

E. Commitments and risks

Risk management

The Group's financial risks

In the course of its operations, the Terna Group is exposed to different financial risks: market risk (interest rate risk, exchange rate risk and inflation risk), liquidity risk and credit risk.
The Group's risk management policies seek to identify and analyse the risks that Group companies are exposed to, establishing appropriate limits and controls and monitoring the risks and compliance with such limits. These policies and the related systems are reviewed on a regular basis, in order to take account of any changes in market conditions or in the Group's operations.
As a part of the financial risk management policies approved by the Board of Directors, Terna has established the responsibilities and operating procedures for financial risk management, specifically as concerns the instruments to be used and the precise operating limits to apply in managing them.
The Terna Group's exposure to the aforementioned risks is substantially represented by the exposure of the Parent Company. This section provides information on the Terna Group's exposure to each of the above risks, the objectives, policies and processes applied in managing these risks and the methods used in their assessment, including further quantitative disclosures of the Parent Company's exposures at 30 June 2019.
The fair value of financial instruments is determined in accordance with the fair value hierarchy envisaged under IFRS 7 (Level 2), by means of appropriate valuation techniques for each category of financial instrument, using market data at the end of the period and discounting projected cash flows on the basis of the market yield curve at the reporting date.
The financial assets and liabilities relating to Terna's outstanding derivative instruments during the period consist of:

- cash flow hedges, hedging the risk of changes in cash flows associated with long-term variable rate borrowings;
- fair value hedges, hedging the risk of a change in the fair value of financial liabilities linked to movements in interest rates (fixed-rate bond issues).

The related reasons are described in the section, "The Group's financial risks", in the Notes to the Terna Group's Annual Report for 2018.
Updated information, at the date of this report, is provided below on interest rate, exchange rate, credit and liquidity risks; information on market and inflation risks is provided in the section, "Risk management", in the Notes to the Annual Report for 2018.

Sensitivity to interest rate risk

The following table reports the amounts recognised through "Other comprehensive income" for positions that are sensitive to changes in interest rates, in addition to the theoretical value of the positions following a positive or negative shift in the yield curve and the differential impact of such changes recognised through profit or loss and in other comprehensive income. A hypothetical 10% movement in interest rates with respect to market interest rates at 30 June 2019 was assumed:

(€m)

	PROFIT (LOSS)			COMPREHENSIVE INCOME		
	CURRENT RATES +10%	CURRENT AMOUNTS	CURRENT RATES -10%	CURRENT RATES +10%	CURRENT AMOUNTS	CURRENT RATES -10%
30 June 2019						
Positions sensitive to changes in interest rates	(0.6)	**(0.6)**	(0.6)	(194.3)	**(196.9)**	(199.7)
Hypothetical change	-	-	-	*2.7*	-	*(2.7)*
31 December 2018						
Positions sensitive to changes in interest rates	-	-	-	(48.5)	**(59.2)**	(69.9)
Hypothetical change	-	-	-	*10.7*	-	*(10.7)*

Credit risk

Credit risk is the risk a customer or one of the counterparties to a transaction in financial instruments could cause a financial loss by failing to discharge an obligation. It is mainly generated by the Group's trade receivables and financial investments.
The credit risk originated by open positions on transactions in derivatives is considered to be marginal since the counterparties, in compliance with the financial risk management policies adopted, are leading international banks with high ratings.
Terna provides its services essentially to counterparties considered solvent by the market, and therefore with a high credit standing, and does not have high concentrations of credit risk.
Credit risk management is driven by the provisions of ARERA Resolution 111/06, which, in art. 49, introduced instruments designed to limit the risks related to the insolvency of dispatching customers, both on a preventive basis and in the event of an actual insolvency. In particular, the Resolution establishes three instruments to safeguard the electricity market: a guarantee system (bank guarantees provided by individual dispatching customers, based on their turnover); the option of terminating dispatching contracts (in the event of insolvency or failure to replace enforced guarantees); and, finally, the possibility of recovering uncollected debts, after having taken all other possible collection actions, through a specific fee to be fixed by the regulator, ARERA.

The following table summarises the exposure to such risk at the end of the first half:

(€m)

	30 JUNE 2019	31 DECEMBER 2018	CHANGE
Cash and cash equivalents	1,209.2	1,328.9	(119.7)
Trade receivables	1,582.8	1,167.0	415.8
TOTAL	**2,792.0**	**2,495.9**	**296.1**

The following tables provide qualitative information on trade receivables that are not past due and have not been impaired:

GEOGRAPHICAL DISTRIBUTION

(€m)

	30 JUNE 2019	31 DECEMBER 2018
Italy	1,418.6	1,076.0
Euro-area countries	53.0	19.9
Other countries	111.2	71.1
TOTAL	**1,582.8**	**1,167.0**

TYPE OF CUSTOMER

(€m)

	30 JUNE 2019	31 DECEMBER 2018
Distributors	314.9	309.8
CSEA	97.9	114.0
Dispatching customers for injections	203.4	200.8
Dispatching customers for withdrawals (not distributors)	778.9	408.9
Parties which have signed virtual import contracts and virtual import services (interconnectors and shippers)	13.2	13.7
Sundry receivables	174.5	119.8
TOTAL	**1,582.8**	**1,167.0**

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

(€m)

	30 JUNE 2019		31 DECEMBER 2018	
	IMPAIRMENT	GROSS	IMPAIRMENT	GROSS
Current	(0.3)	1,432.2	(0.4)	1,009.7
0-30 days past due	(0.1)	15.1	(0.1)	8.4
31-120 days past due	(0.4)	11.5	(0.4)	7.7
Over 120 days past due	(43.0)	167.8	(43.0)	185.1
TOTAL	**(43.8)**	**1,626.6**	**(43.9)**	**1,210.9**

Movements in the allowance for doubtful accounts in the course of the period were as follows:

(€m)

	30 JUNE 2019	31 DECEMBER 2018
Balance at 1 January	(44.0)	(45.6)
Release of provisions	0.3	2.5
Impairments for the period	(0.1)	(0.8)
BALANCE	**(43.8)**	**(43.9)**

The value of guarantees received from eligible electricity market operators is illustrated below:

(€m)

	30 JUNE 2019	31 DECEMBER 2018
Dispatching - injections	222.9	233.7
Dispatching - withdrawals	1,085.3	1,099.6
Transmission charges due from distributors	312.6	305.0
Virtual imports	108.3	84.0
BALANCE	**1,729.1**	**1,722.3**

In addition, Non-regulated Activities are exposed to "counterparty risk", in particular in relation to the entities with which sales contracts are entered into, in consideration of the credibility and solvency of the parties in question and the impact that their possible insolvency could have on the financial strength of the business. Counterparty risk is mitigated by implementing specific procedures to assess counterparties.

Default risk and debt covenants

This risk is associated with the possibility that the loan agreements or bond terms and conditions to which the Parent Company is a party may contain provisions authorising counterparties to call in such loans immediately upon the occurrence of certain events, thereby generating liquidity risk.

Certain long-term loans obtained by the Parent Company, Terna S.p.A., contain covenants that are typical of international practice. The principal covenants relate to:

- the Company's bond issues, which consist of an €800 million issue in 2004 and seven issues as part of its EMTN Programme (the "€ 8,000,000,000 Medium Term Notes Programme");
- bank borrowings, consisting of two revolving lines of credit of €1,150 million and €1,500 million ("bank debt");
- a series of loans to the Company from the European Investment Bank (EIB), amounting to a total of €1,711.7 million.

The main covenants relating to the bond issues and the EMTN Programme involve clauses regarding i) "negative pledges", on the basis of which the Issuer or its Relevant Subsidiaries undertake not to create or maintain mortgages, pledges or other encumbrances on their assets or revenue, to guarantee listed bonds (with the exception of certain "permitted guarantees"); ii) *"pari passu"*, on the basis of which the securities constitute a direct, unconditional and unsecured obligation by the Issuer, ranking equally among them and with at least the same level of seniority as other present and future unsecured and non-subordinated borrowings of the Issuer; iii) "event of default", on the basis of which if certain predetermined events occur (e.g., failure to make a repayment, the liquidation of the Issuer, the breach of contractual obligations, a cross- default, etc.) a situation of default is established and the loan is immediately called in.

The main covenants relating to bank borrowings involve clauses related to i) negative pledges, on the basis of which the Issuer or the Relevant Subsidiaries undertake not to create or maintain guarantees on their assets to secure borrowings, with the exception of "permitted guarantees"; ii) *"pari passu"* on the basis of which the Borrower's payment obligations in relation to the loan agreements in question are not subordinated to any obligation related to other unsecured and non-subordinated creditors, without prejudice to privileges under the law; iii) "event of default", on the basis of which if certain predetermined events occur (e.g. failure to make a repayment, serious inaccuracies in documents and/or declarations, insolvency, business discontinuation, substantially prejudicial effects, the breach of contractual obligations, including *pari passu* conditions, a cross-default, etc.) a situation of default is established and the loan is immediately called in; iv) accelerated repayment should the rating fall below investment grade (BBB-) for the majority of rating agencies or should the Company cease to be rated by at least one agency.

The main covenants related to the EIB loans involve clauses related to i) negative pledges, on the basis of which the Company cannot create encumbrances, with the exception of encumbrances granted in relation to borrowings below given amounts and under contractually specified circumstances; ii) the provision to the Bank, at its request, of new guarantees should ratings below BBB+/Baa1 be assigned by two ratings agencies out of three, or in the event that all of the agencies cease to publish ratings; iii) *"pari passu"*, on the basis of which the Company ensures that payment obligations rank equally with those related to all other unsecured, non-subordinated creditors; iv) cases of contract termination/application of the call provision/withdrawal (e.g. failure to make a repayment, serious inaccuracies in documents and/or declarations, insolvency, events that have a negative impact on financial commitments made by the Company, extraordinary administration, liquidation, substantial prejudicial changes, the breach of contractual commitments, etc.); v) accelerated loan payment following the occurrence of given events (e.g. change of control over the Company, loss of the concession, extraordinary corporate events, etc.).

To date, no covenant has been breached.

Litigation

The main commitments and risks not disclosed in the statement of financial position at 30 June 2019, relating to the Parent Company Terna, its subsidiary Terna Rete Italia S.p.A. and the Tamini Group companies, are described below. There are no significant commitments or risks for the other subsidiaries at that date.

Environmental and urban planning litigation

Part of environmental litigation deriving from the construction and operation of Terna's power plants, consists of legal actions taken against the alleged negative effects of electric and magnetic fields generated by power lines. In general, this litigation necessarily involves the Parent Company, which owns the infrastructure in question. Moreover, it cannot be ruled out that the parties concerned may also initiate legal proceedings against the subsidiary Terna Rete Italia S.p.A., as the electromagnetism generated by power lines relates not only to ownership of the plant, but also to its operation and the quantity and quality of electricity it transports.

Regarding this matter, it should be noted that the issue of the Cabinet Office Decree of 8 July 2003 – which specifically set the values of the three parameters (exposure limits, safety thresholds and quality targets) provided for in Framework Law 36 of 22 February 2001, which electricity infrastructure must comply with – led to a significant reduction in any such litigation. Other environmental and urban planning disputes, which do not relate to electromagnetic fields, are also pending with regard to Terna S.p.A.. These disputes are connected with the operation of certain Terna-owned plant, which in the event of an unfavourable outcome could also generate immediate effects for Terna Rete Italia S.p.A. (to date unforeseeable and therefore not included in "Provisions for litigation and sundry risks"), both as the entity appointed by Terna S.p.A. to build the related infrastructure and as the entity responsible for its operation. In particular, charges may arise for Terna Rete Italia S.p.A. connected with changes to the infrastructure involved in such disputes and its temporary unavailability. However, after examination of the disputes in question by Terna S.p.A. and external counsel appointed by the Company, it appears that the possibility of any negative outcomes is remote.

Litigation regarding the legitimacy of construction permits and plant operations

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

Litigation relating to activities carried out under concession

As the operator of transmission and dispatching activities since 1 November 2005, the Parent Company has been a party in a number of court cases, most of which have contested determinations adopted by ARERA (Italy's Regulatory Authority for Energy, Networks and the Environment), and/or the Ministry for Economic Development, and/or Terna, in relation to these activities. In cases in which the plaintiffs have, in addition to inherent defects in the contested determinations, alleged violation of the regulations laid down by the aforementioned authorities, or in cases in which the determination has had an impact on Terna, the Company has also taken action to defend its interests through the legal system. Within the scope of such litigation – even though some cases have been concluded, at first and/or second instance, with the annulment of ARERA's resolutions and, when applicable, of the consequent determinations adopted by Terna – any negative outcomes for the Company itself may be deemed unlikely, as these disputes normally relate to pass-through items.

Litigation regarding supply contracts

This litigation only refers to Tamini Group companies and relates to supply contracts entered into between Tamini Group companies and its customers, regarding the supply of transformers and/or the related components.
It also concerns certain claims for damages brought against companies, regarding alleged damage caused by machinery and/or components supplied by them.

With regard to these judgements, it is impossible to exclude, in absolute terms, any unfavourable outcomes. Where such outcomes are deemed likely, specific provision is made to the provisions for risks and charges.

F. Related party transactions

Given that Terna S.p.A. is subject to the *de facto* control of Cassa Depositi e Prestiti S.p.A., a situation ascertained in 2007, related party transactions entered into by Terna during the period include transactions with the associates (Cesi S.p.A., CGES A.D. and Coreso S.A.) and employee pension funds (Fondenel and Fopen), as well as transactions with Cassa Depositi e Prestiti itself, with CDP Reti S.p.A. and with the companies directly or indirectly controlled by the Ministry of the Economy and Finance ("MEF").
Given that Terna Group companies and the companies directly or indirectly controlled by the Ministry of the Economy and Finance meet the definition for classification as "government-related entities", in accordance with IAS 24 – Related Party Disclosures, the Group has elected to adopt the partial exemption – permitted by the standard – from the disclosure requirements in respect of other companies controlled, influenced or jointly controlled by the same government entity. The remainder of this section provides qualitative and quantitative disclosures on transactions with government-related entities having a significant impact on the Group's results. Amounts relating to pass-through items are not included in these disclosures.

Related party transactions in the first half of 2019 broadly regard the provision of services in the course of ordinary activities and conducted on an arm's length basis.

The nature of the Terna Group's revenue- and cost-generating transactions with related parties is shown below.

RELATED PARTY	REVENUE-GENERATING TRANSACTIONS	COST-GENERATING TRANSACTIONS
Parent		
Cassa Depositi e Prestiti S.p.A.		Credit facilities.
Associates		
Cesi S.p.A.	Rental income on laboratories and other similar facilities for specific uses, dividends.	Technical studies and consultancy, research, design and experimentation.
CORESO S.A.		Technical coordination service for the TSO.
Other related parties		
GSE Group	Metering charge, dispatching charge.	Rental of spaces and workstations.
Enel Group	Transmission charge and aggregation of meter readings, dispatching charge, leases and rentals, power line maintenance, movement /re-routing of power lines, housing of fibre cable and maintenance of communications carried over proprietary power lines.	Recovery of energy discount, building services, MV power to new substations, specialist services for connection to Terna's control and protection systems.
Ferrovie Group	Dispatching charge, movement of power lines.	Right-of-way fees.
ENI Group	Dispatching charge.	Contributions for NTG connections, sundry services.
ANAS S.p.A.	Movement /re-routing of power lines.	Right-of-way fees.
Fondenel and Fopen		Pension contributions payable by the Terna Group.
Other related parties of the MEF	Sundry services.	
Ansaldo Energia S.p.A.	Infrastructure maintenance.	

REVENUE AND COSTS

(€m)

	REVENUE COMPONENTS		COST COMPONENTS
	TRANSMISSION CHARGE AND OTHER REVENUE FROM REGULATED ACTIVITIES	NON-ENERGY-RELATED ITEMS	
De facto parent			
Cassa Depositi e Prestiti S.p.A.	-	-	0.3
Total de facto parent	**-**	**-**	**0.3**
Associates:			
Cesi S.p.A.	-	0.1	0.6
CORESO S.A.	-	-	1.3
Total associates	**-**	**0.1**	**1.9**
Other related parties:			
GSE Group	8.5	-	-
Enel Group	791.7	13.2	0.2
ENI Group	2.9	2.0	0.2
Ferrovie Group	1.1	0.1	4.6
Gestore dei Mercati Energetici S.p.A.	-	2.9	-
Ansaldo Energia S.p.A.	-	0.3	-
Other related parties of MEF	-	0.3	-
Total other related parties	**804.2**	**18.8**	**5.0**
Pension funds:			
Fondenel	-	-	0.2
Fopen	-	-	1.1
Total pension funds	**-**	**-**	**1.3**
TOTAL	**804.2**	**18.9**	**8.5**

ASSETS AND LIABILITIES

(€m)

	PROPERTY, PLANT AND EQUIPMENT	RECEIVABLES AND OTHER ASSETS	PAYABLES AND OTHER LIABILITIES	CASH	GUARANTEES*
	CAPITALISED COSTS	OTHER	OTHER		
De facto parent					
Cassa Depositi e Prestiti S.p.A.	-	-	-	-	-
Total de facto parent	**-**	**-**	**-**	**-**	**-**
Associates:					
Cesi S.p.A.	2.3	-	4.9	-	6.1
CORESO S.A.	-	-	0.2	-	-
Total associates:	**2.3**	**-**	**5.1**	-	6.1
Other related parties					
GSE Group	0.2	2.5	0.2	-	-
Enel Group	2.5	405.5	32.7	-	595.4
ENI Group	-	2.4	1.6	-	34.3
Ferrovie Group	0.1	0.6	14.7	-	24.2
ANAS S.p.A.	-	0.2	0.1	-	-
Ansaldo Energia S.p.A.	-	0.6	-	-	0.7
Other related parties of MEF	-	0.1	-	0.1	-
Total other related parties	**2.8**	**411.9**	**49.3**	**0.1**	**654.6**
Pension funds:					
Fopen	-	-	1.7	-	-
Total pension funds	**-**	**-**	**1.7**		**-**
TOTAL	**5.1**	**411.9**	**56.1**	**0.1**	**660.7**

* *Guarantees regard surety bonds received from contractors.*

G. Significant non-recurring, atypical or unusual events and transactions

No significant non-recurring, atypical or unusual events or transactions, involving either third or related parties, took place in the first half of 2019.

H. Notes to the statement of cash flows

Cash flow from **continuing operations** during the period amounts to €382.4 million, with approximately €845.8 million in operating cash flow and an outflow of approximately €463.4 million generated by changes in net working capital.

The cash outflow for investing activities totals €375.1 million and includes €365.1 million relating to investment in property, plant and equipment (after grants), €16.2 million relating to investment in intangible assets and €6.1 million in capitalised financial expenses.
The net cash outflow for **shareholder transactions** amounts to €308.4 million, reflecting payment of the final dividend for 2018.
As a result, net cash used in investing activities and to provide a return on equity during the period amounted to €683.6 million, for the most part covered by cash flow from continuing operations of €382.4 million. The remainder was funded through the use of cash reserves.
Net debt has risen by €394.1 million compared with the previous year.

The following table shows the reconciliation of net changes deriving from financing activities in the statement of cash flows:

(€m)

	31 DECEMBER 2018	CASH FLOW FROM FINANCING ACTIVITIES	CHANGE IN FV AND OTHER	30 JUNE 2019
- Long-term borrowings (including current portion)	9,458.2	283.9	(9.5)	9,732.6
- Short-term borrowings	25.0	(3.0)	-	22.0
- Current financial assets – Government securities	(402.6)	(99.5)	(0.1)	(502.2)
NET INCREASE/(DECREASE) FROM FINANCING ACTIVITIES	**9,080.6**	**181.4**	**(9.6)**	**9,252.4**

I. Events after 30 June 2019

Regulated Activities in Italy

- On 3 July 2019, the **new 150kV underground cable connection** connecting the Piscioli electricity substation in the town of Candela (FG) to the electricity substation in Valle (FG) entered service. The new 11-km line, which was completed in just 11 months, will enable the substation to be used as a switching station for renewable energy produced by plants in the area, thanks to a total investment of €10 million and use of the latest technologies designed to more effectively prevent and identify faults. Terna's development, maintenance and renewal programme will involve total investment of €419 million over five years, including the Bisaccia- Deliceto and Foggia-Gissi power lines.

Finance

- On 11 July 2019, Terna **renewed its €8,000,000,000 Euro Medium Term Note Programme (EMTN) programme**. Deutsche Bank and Citigroup acted as Joint Arrangers for the programme, which was assigned ratings of "BBB+A-2" by S&P, "(P)Baa2/(p)P-2" by Moody's, "BBB+" by Fitch and "A-/S-1" by Scope.
- On 18 July 2019, Terna **launched an issue of euro-denominated bonds to institutional investors**. The issue, which was very popular among investors, with the bonds being approximately four times oversubscribed, was carried out under the EMTN Programme and amounts to €500 million. The bonds will have a term of 6 years and will mature on 25 July 2025. They will pay a coupon of 0.125%, the lowest ever for an Italian corporate bond with a term of more than 5 years, and will be issued at a price of 99.245, with a spread of 45 basis points with respect to the midswap rate and an indicative spread that is around 70 basis points lower than BTPs (Italian Treasury Bills) of the same duration. The effective cost of the issue for Terna is, therefore, equal to 0.25%, compared with a total average cost of consolidated net debt over the life of the Strategic Plan of 1.6%. An application is to be made for admission of the bonds to trading on the Luxemburg Stock Exchange. The transaction, which aims to raise funds to finance the requirements arising from the Group's Strategic Plan, forms part of Terna's financial strategy, which aims to maximise efficiency and proactively manage debt in order to take advantage of the opportunities offered by the capital markets.

People and Innovation

- On 8 July 2019, **Terna and Digital Magics Energy Tech** selected **Smart Track** as the winning start-up/SME in the D2O- Digital to Operations Call for Innovation. The winner was chosen based on its development of an IoT connected worker platform for worker safety based on next-generation sensors and proprietary wearable devices capable of confirming the correct usage of a worker's PPE, detecting an accidental fall and automatically managing company evacuation plans so as to minimise intervention times. Terna will offer the 10 finalists the opportunity to embark on a development and Open innovation programme within one of the Group's Human Renewable Resources and Digital to Operation facilities.

Sustainability and Local Communities

- On 5 July 2019, representatives from Terna **met the public at Oleggio** to present plans for a new cable power line. The event was attended by the Undersecretary of State for Economic Development, the Hon. Davide Crippa, and the mayors from the towns in the Novara area involved. The project, in implementation of the plan included in the memorandum of understanding linked to construction of the Trino-Lacchiarella power line, envisages approximately 22 km of underground cable, the decommissioning of around 24 km of overhead lines and the subsequent demolition of over 100 pylons. The project will also cover the Ticino Nature Reserve, with the decommissioning of 5 km of overhead lines and 28 pylons.

Attestation

of the Group's half-year report pursuant to 81-*ter* of CONSOB Regulation 11971 of 14 May 1999, as amended

TERNA GROUP

Attestation of the Group's half-year report pursuant to 81-*ter* of CONSOB Regulation 11971 of 14 May 1999, as amended

"Half-year attestation"

The undersigned, Luigi Ferraris, as Chief Executive Officer, and Agostino Scornajenchi, as Manager responsible for Terna SpA's financial reporting, having also taken account of the provisions of art.154-*bis*, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998, attest to:

- the adequacy with regard to the nature of the Company, and
- the effective application of the administrative and accounting procedures adopted in preparation of the condensed consolidated interim financial statements during the six months ended 30 June 2019.

In this regard, no material aspects have emerged.

We also attest that the condensed consolidated interim financial statements:

a. have been prepared in compliance with the International Financial Reporting Standards endorsed by the European Union through EC Regulation 1606/2002, issued by the European Parliament and by the Council on 19 July 2002;

b. are consistent with the underlying accounting books and records;

c. provide a true and fair view of the financial position and results of operations of the issuer and the companies included in the scope of consolidation.

The interim report on operations includes a reliable analysis of key events during the first six months of the year and of their impact on the condensed consolidated interim financial statements, as well as a description of the main risks and uncertainties to which the issuer is exposed in the remaining six months of the year.

The interim report on operations also includes a reliable analysis of related party disclosures.

Rome, 30 July 2019

Chief Executive Officer	Manager responsible for financial reporting
…………………………………………………………	…………………………………………………………………….

Independent Auditor's

review report on the condensed consolidated interim financial statements at and for the six months ended 30 June 2019

REVIEW REPORT ON CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the Shareholders of
Terna SpA

Foreword

We have reviewed the accompanying condensed consolidated interim financial statements of Terna SpA and its subsidiaries (Terna Group) as of 30 June 2019, comprising the income statement, the statement of comprehensive income, the statement of financial position, the statements of changes in shareholders' equity, the statement of cash flows and related notes. The directors of Terna SpA are responsible for the preparation of the condensed consolidated interim financial statements in accordance with international accounting standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of review

We conducted our work in accordance with the criteria for a review recommended by Consob in Resolution No. 10867 of 31 July 1997. A review of condensed consolidated interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full-scope audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed consolidated interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements of Terna Group as of 30 June 2019 have not been prepared, in all material respects, in accordance with international accounting standard 34 applicable to interim financial reporting (IAS 34), as adopted by the European Union.

Rome, 31 July 2019

PricewaterhouseCoopers SpA

Signed by
Luca Bonvino
(Partner)

This report is an English translation of the original report, which was issued in Italian. This report has been prepared solely for the convenience of international readers.

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