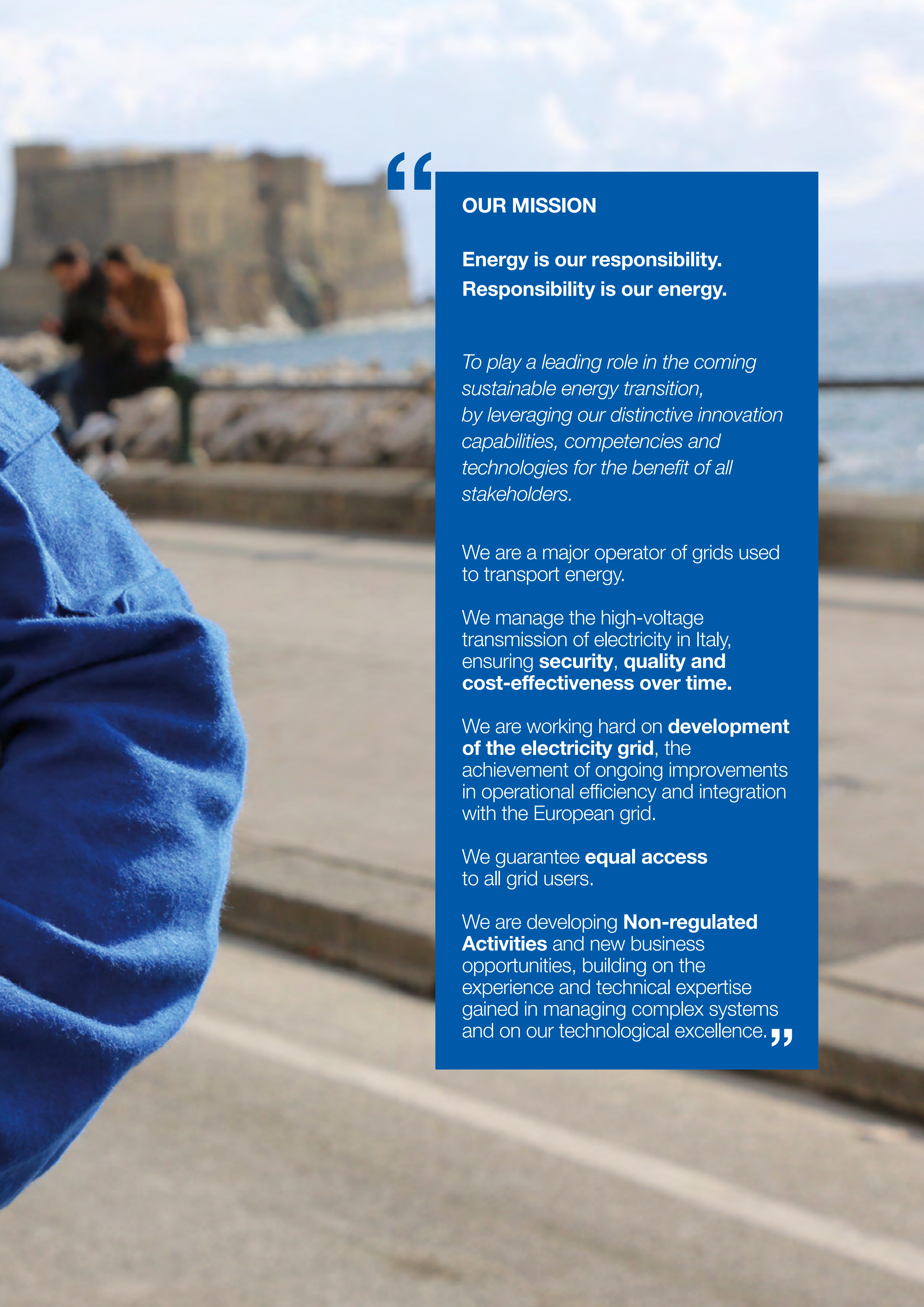
ENERGY IS OUR RESPONSIBILITY

2019
ANNUAL REPORT
INTEGRATED REPORT

Terna


Terna
PETZL



OUR MISSION

Energy is our responsibility.
Responsibility is our energy.

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

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

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

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

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

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

“

The **energy transition** represents a major opportunity. Nothing less than an industrial transformation requiring a collective commitment from businesses, government and other stakeholders, called on to work together to devise strategies and implement projects designed to achieve the goals of decarbonisation, energy efficiency and security, and to deliver research, innovation and competitiveness.

In this new scenario, Terna has a crucial role to play as an enabler of the current transformation, requiring us to manage **the growing complexity of the electricity system**, whilst also establishing Italy's importance as a European energy hub serving the Mediterranean area. As a key player in the "green revolution", Terna is continuing to invest in order to guarantee an increasingly modern, efficient, secure, flexible and sustainable electricity grid.

The **Strategic Plan 2020-2024** envisages accelerated investment in Italy's national grid, with the aim of supporting the energy transition and the country's decarbonisation strategy. This will have a major impact on development, partly through an increase in the induced impact. In this regard, the €7.3 billion we intend to invest in Italy's electricity infrastructure marks the biggest investment programme ever undertaken.

Innovation and digitalisation are of strategic importance in this process. In 2019, Terna opened three new Innovation Hubs in Turin, Naples and Milan to exploit synergies between the Group's own skills base and outstanding local expertise, developing ideas and innovative projects.

Statement to stakeholders from the Chairwoman and the Chief Executive Officer

Terna pays great attention to the relationships between our business activities and the social and environmental context. In the last three years, we have organised over a thousand meetings with local communities, making **participatory design** our chosen approach for reaching shared, sustainable solutions for grid development.

The alignment of Terna's mission with major international sustainable development goals is strengthened by the integration of **sustainability** into everything we do and the decisions we take: in addition to **innovation**, we are committed to **people**, above all to their safety at work both within and outside the Company, to **ongoing dialogue with local communities** and to reducing our environmental footprint.

We aim to put Italy at the centre, strengthening our country's **leading role** in Europe's energy system, take advantage of new enablers and new technologies and making a major contribution to employment and generational turnover among our personnel.

The **results achieved in 2019** show how Terna has the ability to deliver on our objectives and confirm the validity of management's approach to growing the business. The Group's strong operating and financial performance will, moreover, enable Terna to continue to work towards providing a system that is increasingly secure, efficient and sustainable for the benefit of everyone. ”

Catia Bastioli
Chairwoman

Luigi Ferraris
Chief Executive Officer

Terna and the Covid-19 emergency

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

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

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

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

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

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

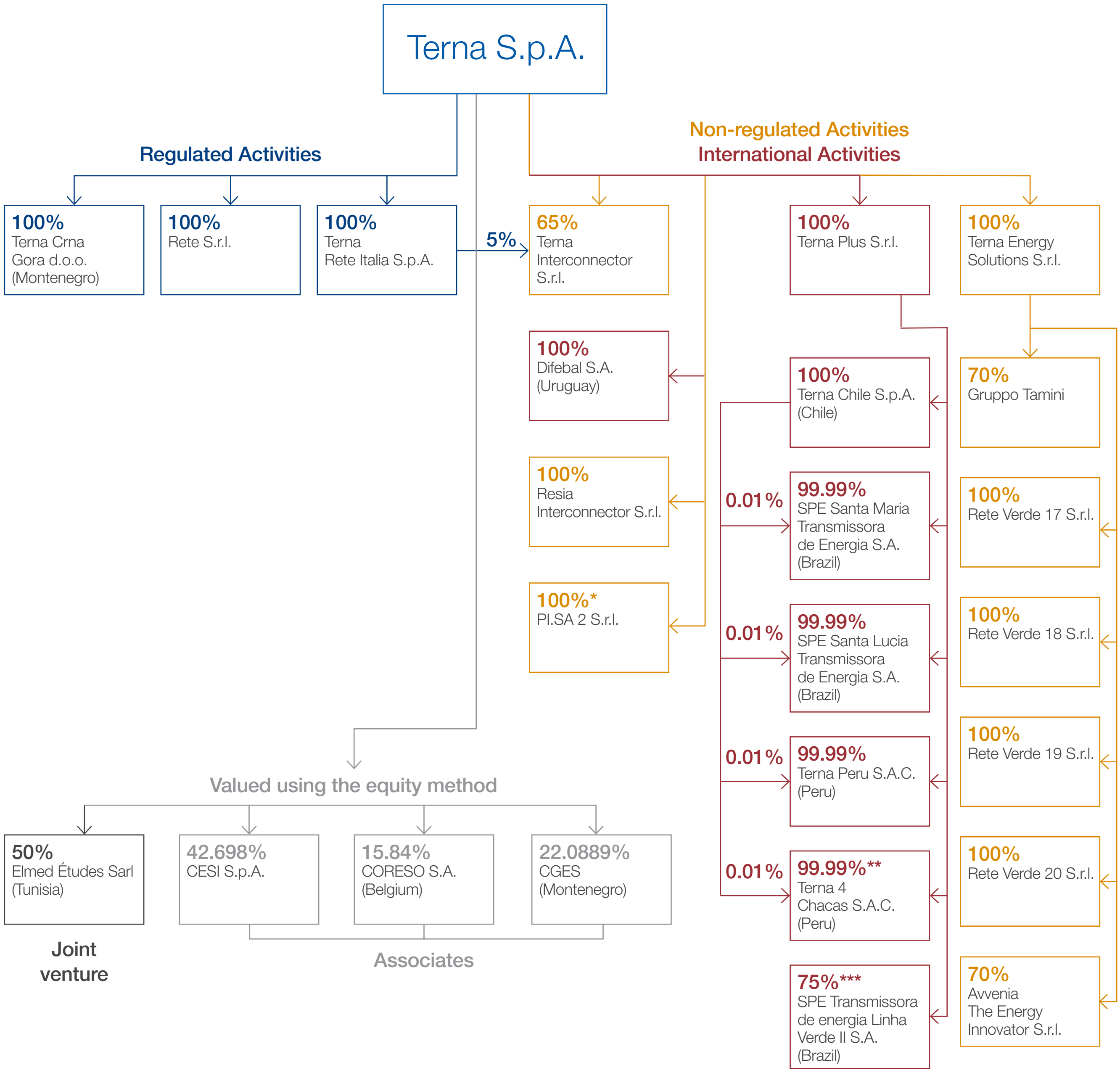
With particular regard to operational personnel, we have given close attention to efforts to protect them from infection, including the rapid deployment of protective equipment (FFP2 and FFP3 masks, latex gloves and protective clothing). Other personnel have been asked to **work from home**. This was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

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

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


Terna

Structure of the Group



Compared with 31 December 2018:

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

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

*** On **11 November 2019**, Terna S.p.A., acting through its subsidiary, Terna Plus S.r.l., closed the transaction with Construtora Quebec resulting in the acquisition of a 75% interest in the Brazilian-registered joint-stock company, SPE Transmissora de energia Linha Verde II S.A..

The sale of Monita Interconnector S.r.l. to Interconnector Energy Italia s.c.p.a. was completed on **17 December 2019**.

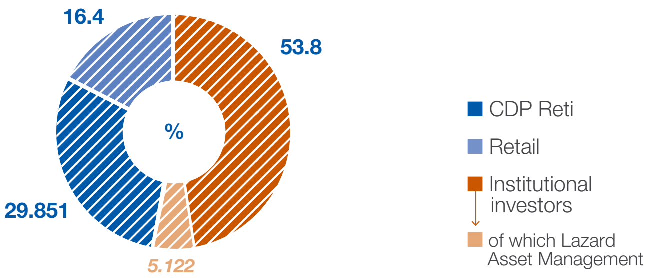
Shareholder structure

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.

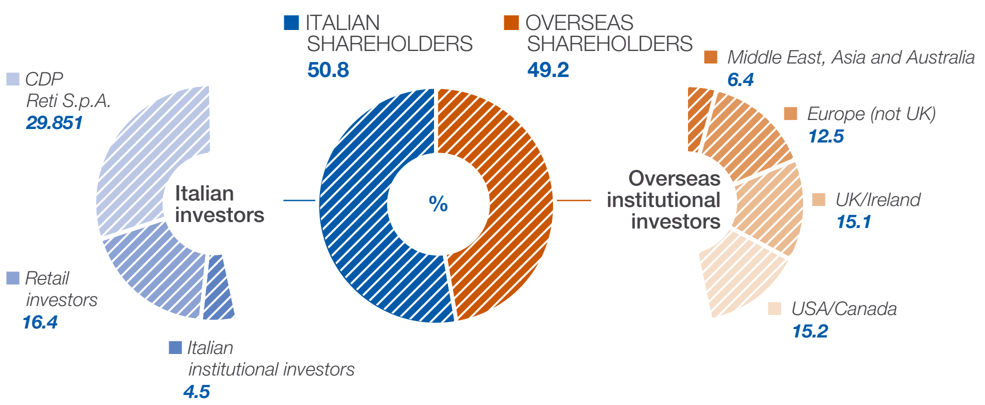
Based on periodic surveys carried out by the Company, it is estimated that 50.8% of Terna's shares are held by Italian shareholders, with the remaining 49.2% held by overseas institutional investors, primarily from the USA and the UK.

Based on information from the shareholder register and other data collected as at February 2020, 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%

Socially Responsible Investors

At the end of 2019, 147 socially responsible investors (SRIs), compared with 109 in 2018, had invested in Terna's shares using an approach that takes into account ESG (Environmental, Social, Governance) aspects.

Environmental, social and governance (ESG) criteria are three key factors that investors take into account when considering a company's ethical impact and the sustainability of its business practices. The criteria are applied in ESG investing, sometimes referred to as sustainable, responsible or socially responsible investing. Examples of ESG criteria include assessing a company's impact on climate change or greenhouse gas emissions, its use of water or its conservation efforts, its approach to fighting corruption, to gender diversity and expertise with regard to members of its board of directors, as well as its record on human rights and community development initiatives.

The interest taken by SRIs in the ESG aspects incorporated in Terna's strategy can also be seen in the bond market. The green issues of the last two years have proved a great success with the market, as well as reducing the effective cost of the issues to the lowest ever level for a corporate bond. This demonstrates the appreciation shown by SRIs of both the positive environmental impact of Terna's infrastructure investments, and the Company's commitment to sustainability across all aspects of its operations, including financial transactions. Terna is, in fact, actively committed to the development of sustainable finance at both national and international level, with the aim of fully incorporating the concept of sustainability into its financial strategy. This involves working with investors to drive the development of a more sustainable economy through the use of innovative forms of financing.

Overall, **at the end of 2019, SRIs represented 11.8% of Terna's free float** (9.5% in 2018) and 15.4% of the capital held by identifiable institutional investors (12.9% at the end of 2018).

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 2019. This is available in the Investor Relations section of Terna S.p.A.'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..

Milestones

ORIGINS · · · · · · · · THE NEW TERNA · · · · · · · ·

1962 1999

From a Monopoly to an Independent System Operator

Terna's principal activities are rooted in Italy's history: in 1962, Law 1943 paves the way for nationalisation of the electricity industry, handing ENEL responsibility for all the stages of the electricity supply chain, previously in private hands.

The monopoly operator is able to complete electrification of the Italian Peninsula, but the driving force behind the changes that have led to the current operating environment is the process of deregulation promoted by the European Union aimed at making grid management independent.

In implementation of Decree 79 of 16 March 1999, focused on separation of ownership the National Transmission Grid ("NTG") from management of the grid itself (involving transmission and dispatching) along the lines of the so-called "Independent System Operator" model, two new companies are established: Terna, owner of the national transmission grid, and GRTN (the National Transmission Grid Operator).

2004 2008

Terna's Initial Public Offering

A Cabinet Office Decree gives the Group a new corporate governance system, designed to guarantee the neutrality and impartiality of Terna's management.

In June 2004, 50% of the Company's share capital is floated on the Italian Stock Exchange (in the Blue-Chip segment).

Unification of the roles of Transmission Operator and System Operator: Terna's new mission to serve the country

In 2005, ownership and management of the grid are combined. This marks the culmination of a process that began in 1999 and the start of a new stage in Terna's mission to serve the country. The percentage of the Company's shares listed on the stock market progressively increases to 70%.

In this period, the Company records continuous growth, acquiring many portions of the grid from other operators. To safeguard Terna's independence as the National Transmission Grid Operator, the Ministry of the Economy and Finance acquires a 29.99% stake in Terna through CDP (Cassa Depositi e Prestiti).

2009 2013

Terna becomes the largest TSO in Europe

Terna acquires 18,600 km of high-voltage lines from Enel, thereby becoming the leading independent grid operator in Europe and the seventh largest in the world. Terna now owns 98.6% of Italy's national grid.

Shareholder value grows

In 2009, Terna sells 66% of the Brazilian subsidiary, Terna Participações, to Cemig, recording a gain of over €400 million, some of which is invested in development of the Italian electricity network and some is returned cash to shareholders.

New infrastructure projects and growing success of Non-regulated Activities

In 2011, Terna develops infrastructure of international excellence. The SA.PE.I. line (Sardinia to the mainland) starts operating, as does the Chignolo Po-Maleo line in Lombardy. Work begins on the Sorgente-Rizziconi line (linking Sicily and Calabria).

Two new operating companies are established in 2012: Terna Rete Italia S.p.A., responsible for regulated activities, and Terna Plus S.r.l., with responsibility for expanding Non-regulated services.

THE PRESENT DAY

2014 2016

European leadership consolidated with new investments

In 2015, Terna acquires the Ferrovie dello Stato group's high-voltage grid for €757 million, consolidating its leadership in Europe with approximately 72,600 km of grid managed. Terna's value has more than doubled since its IPO.

In 2016, Terna focuses on strategic power lines. The Villanova-Gissi and Sorgente-Rizziconi lines enter service. The latter is a record-breaking power line, connecting Sicily and Calabria and the Italian Peninsula with the rest of Europe via the country's high-voltage electricity system.

2017 2020

Investment in the energy transition

In 2017 a new Board of Directors is elected, with Luigi Ferraris appointed Chief Executive Officer and General Manager, new managers appointed to key roles and Catia Bastioli re-appointed as Chairwoman.

The "Grids and Values" Strategic Plan

In line with the guidance provided by the United Nations (COP21), EU guidelines and the objectives set out in the Integrated National Plan for Energy and the Climate (*Piano nazionale integrato per l'energia e il clima* or "PNIEC"), Terna steps up the pace of investment, focusing on development of the national transmission grid in order to facilitate the integration of renewable sources and improve the system's security for the benefit of the energy transition. 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 improve the performance of maintenance activities through the use of digital grid technologies. The new corporate strategy, presented for the first time in March 2018 by the CEO and General Manager, Luigi Ferraris, is revised at the meeting with investors held on 21 March 2019 and 10 March 2020.

A new organisational structure and the Transmission Operator-System Operator logic

In order to optimise and integrate dispatching and long-term planning activities, on the one hand, and maximise the operational efficiency of design, implementation, operations and maintenance, on the other, two key organisational structures, reporting directly to the Chief Executive Officer, are redesigned. Terna thus plays two core roles: as System Operator, embodied in the "Strategy, Development and Dispatching" structure, and as Transmission Operator of the "National Transmission Grid".

The new Terna Plus and Terna Energy Solutions

In August 2018, the partial demerger of Terna Plus S.r.l. (a wholly-owned subsidiary of the Parent Company, Terna S.p.A.), and the transfer of the demerged assets to a newly established company named Terna Energy Solutions S.r.l., came into effect. The latter's business is focused on energy market solutions and energy solutions. Terna Plus will now be responsible for the Group's development and plant construction activities in South America, and more generally for the development of new businesses around the world.

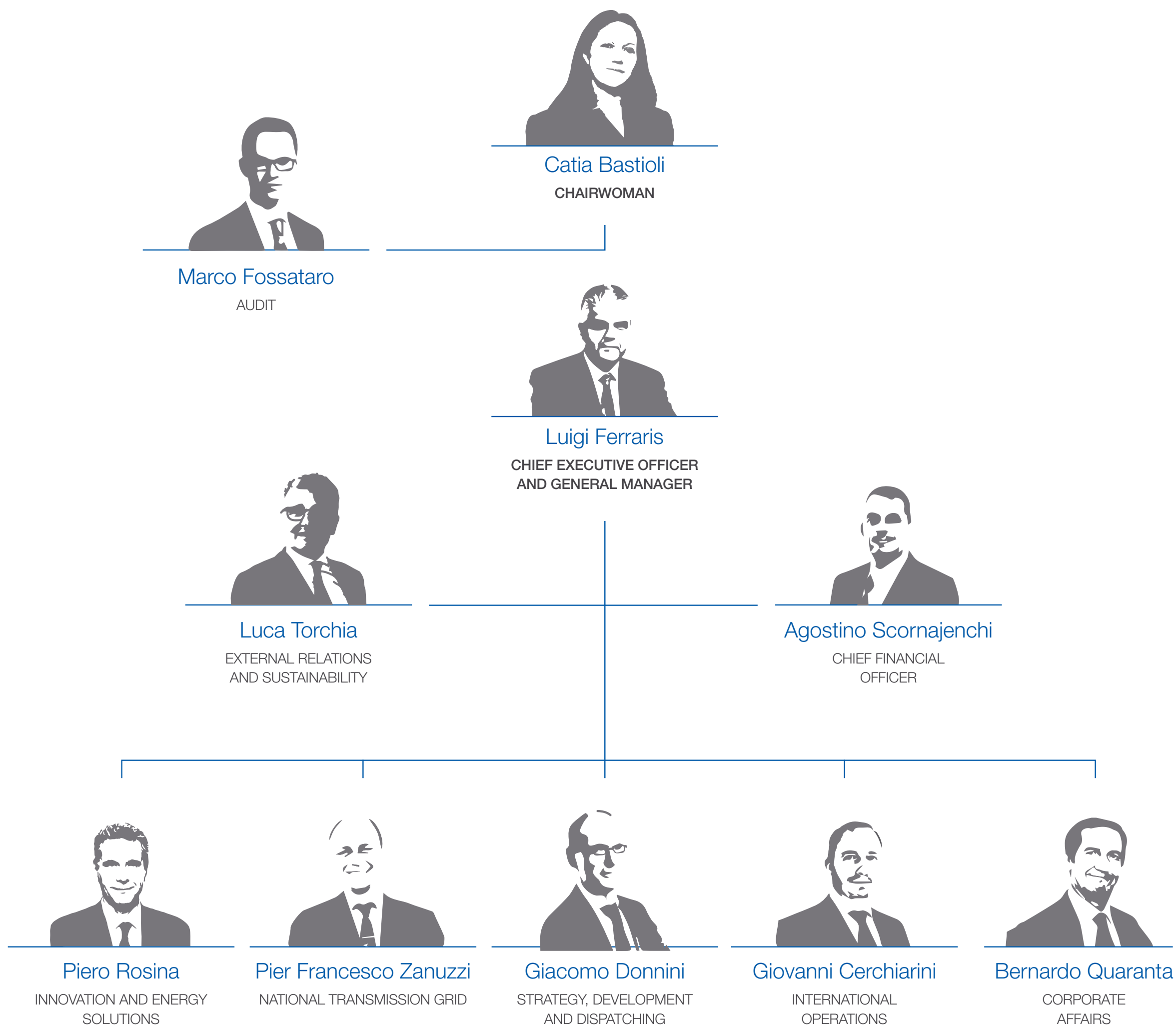
Acquisition of BRUGG CABLE

On 29 February 2020, as part of the growth strategy for Non-regulated Activities, Terna, acting through its subsidiary, Terna Energy Solutions S.r.l., completes the acquisition of a 90% interest in Brugg Kabel AG (a Brugg group company), one of Europe's leading manufacturers of terrestrial cables.

Governance

Our corporate governance system has been designed with the aim of creating value for shareholders, based on an awareness of the social significance of our activities. Promoting collaboration and listening in order to tackle future challenges and apply a culture of responsibility are the underlying principles of our approach.

Our management team



These objectives are pursued taking into account the social and environmental importance of the Group's operations and the resulting need to adequately consider all stakeholders in conducting our business.

In this regard, the ultimate guide relating to matters of sustainability is the **Code of Ethics**[3], which references the ten principles regarding human rights, labour, the environment and corruption covered by the Global Compact, the multi-stakeholder network set up by the United Nations and which Terna has been a member of since 2009. The Code of Ethics also requires the Group to publish an annual Sustainability Report, which in the Group's case also includes the non-financial statement required by art. 4 of Legislative Decree 254/2016. The Sustainability Report contains disclosures on fulfilment of our environmental and social commitments and on the consistency of the results achieved with the targets set.

Board of Directors

Chairwoman
Catia Bastioli

Chief Executive Officer
Luigi Ferraris

Directors
Paolo Calcagnini[4]
Fabio Corsico
Paola Giannotti
Marco Giorgino[4]
Yunpeng He
Gabriella Porcelli
Elena Vasco

Board of Statutory Auditors

Chairman
Riccardo Enrico Maria Schioppo

Standing Auditors
Vincenzo Simone
Maria Alessandra Zunino de Pignier

Alternates
Cesare Felice Mantegazza
Renata Maria Ricotti
Davide Attilio Rossetti

Board Committees[5]

Audit, Risk, Corporate Governance and Sustainability Committee
Paola Giannotti (Chairwoman, independent)
Marco Giorgino (independent)
Gabriella Porcelli (independent)

Remuneration Committee
Fabio Corsico (Chairman, independent)
Gabriella Porcelli (independent)
Elena Vasco (independent)

Nominations Committee
Gabriella Porcelli (Chairwoman, independent)
Fabio Corsico (independent)
Yunpeng He

Related Party Transactions Committee
Elena Vasco (Chairwoman, independent)
Paola Giannotti (independent)
Marco Giorgino (independent)

Manager responsible for Terna S.p.A.'s financial reporting

Manager responsible for Terna S.p.A.'s financial reporting
Agostino Scornajenchi

Independent auditors

PricewaterhouseCoopers S.p.A.

[3] Available on Terna's website at http://www.terna.it/it-it/investorrelations/corporategovernance/eticadimpresa/codiceetico.aspx, sub: http://download.terna.it/terna/0000/0063/62.pdf e sub http://download.terna.it/terna/0000/0054/05.pdf

[4] Following the resignations of the Directors, Stefano Saglia and Luca Dal Fabbro, the Annual General Meeting of 8 May 2019 elected Paolo Calcagnini, following his earlier co-option on 15 February of last year, and Prof. Marco Giorgino as Directors of the Company. Both the new Directors were nominated by a group of funds and institutional investors.

[5] At a meeting on 19 June 2019, Terna S.p.A.'s Board of Directors approved the new compositions of the "Audit, Risk, Corporate Governance and Sustainability Committee" and "Related Party Transactions Committee". The changes to the two committees was made necessary following the Annual General Meeting of 8 May 2019, which elected Paolo Calcagnini and Prof. Marco Giorgino to serve as members of Terna S.p.A.'s Board of Directors, and the subsequent checks on satisfaction of the related independence requirements.


MacGREGOR

Contents

INTEGRATED REPORT

Security

Maintaining electricity system security above all implies the need to ensure the continuing **stability of the electricity grid**, preparing the system to withstand changes to operating conditions as a result of unexpected disruption.
After a storm, however, grid conditions, in terms of frequency and voltage, do not naturally return to the required state.
To restore the grid to normal operation and enable it to cope with further disruption, **it is necessary to take a series of actions, some of them automatic and others not**.

Security
Adequacy
Quality of service
Resilience
Efficiency

1

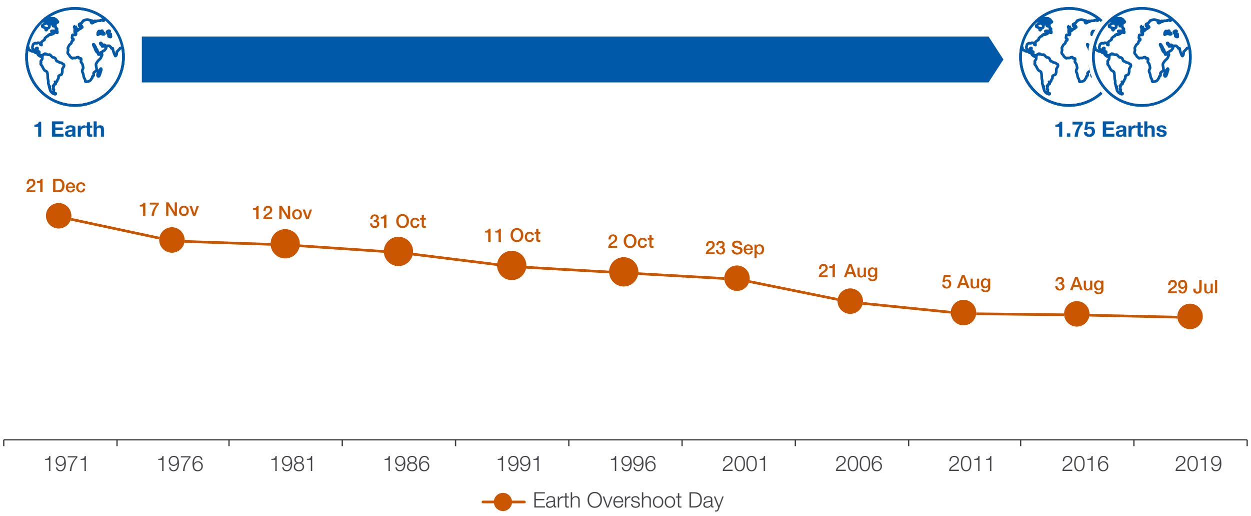
At the centre of the energy transition

Overview of the electricity system

A necessary change

The energy model on which the planet's development has depended in recent years is no longer sustainable. This has led to the need for **a global commitment to a progressive and as rapid as possible decarbonisation** by improving efficiency across all forms of energy. The exponential increase in primary energy consumption over the last century, linked to population growth and economic development, has been driven by the use of fossil fuels, which continue to represent the world's main source of energy.

Consumption of resources now outstrips the ability of nature and the Earth's ecosystems to produce what we need. The Global Footprint Network, an international research organisation that monitors humanity's ecological footprint, calculates the date on which we exhaust nature's budget for the year (Earth Overshoot Day), marking the day of the year when our consumption of the Earth's resources exceeds what the planet's ecosystems are able to regenerate that same year. In 2019, this date was 29 July. In other words, mankind is using natural resources at a rate that is 1.75 times the speed with which ecosystems can regenerate what we use. This is the same as saying that we use 1.75 planet Earths every year.



Energy production from fossil fuels is one of the main sources of manmade greenhouse gas emissions (including CO_2), recognised as having a significant impact on the environment and the climate, including the rise in average global temperatures and the increased intensity of natural catastrophes. The temperature rise caused by human activity is already estimated to be around 1°C, with a trend increase of 0.2°C every ten years.

The frequency and intensity of extreme natural events, allied with growing alarm among the international scientific community, have led to **increased public awareness** of the issues. This has helped to encourage the signature of international agreements and the development of policies and concrete measures designed to combat climate change.

The proposed Integrated National Plan for Energy and Climate (PNIEC), a document valid for the period 2021-2030 and submitted by the Ministry for Economic Development (the "MED") to the European Commission on 8 January 2019, sets out the objectives, strategies and measures to which Italy is committed in order to achieve the European targets for 2030.

TARGETS SET IN THE PROPOSED PNIEC

(The Integrated National Plan for Energy and Climate)

-33% greenhouse gas emissions compared with 2005 levels

-43% primary energy consumption compared with the trend scenario

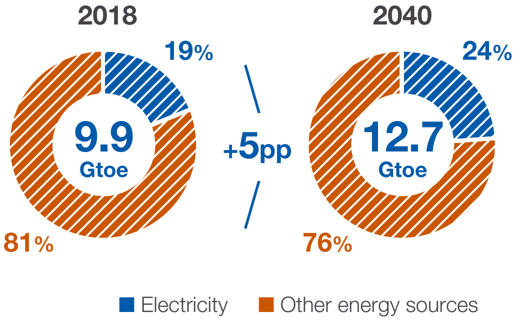
30% penetration of renewables as a proportion of gross final energy consumption

10% interconnection target

2025 phase-out of coal

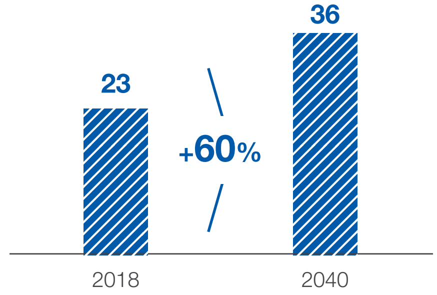
The trend towards electrification and increased use of renewables have been present for some years in many OECD countries. In Italy, electrification now accounts for 19% of final energy consumption compared with 17% in 1990, whilst energy produced from renewable sources represented 35% of total electricity consumed in 2019, broadly in line with the figure for 2018.

ELECTRICITY AS A SHARE OF FINAL ENERGY CONSUMPTION



GLOBAL ELECTRICITY DEMAND

Thousand Twh



In the coming years, accelerated investment in grids will be the main enabler of the energy transition and Terna will play a key role in this process.

Electricity demand trends

To achieve the energy and climate targets, **it is essential for all the main actors in the Italian energy sector to work closely together**, so as to arrive at a coherent vision of where the energy system needs to go and, at the same time, ensure that the necessary action is taken by the various operators.

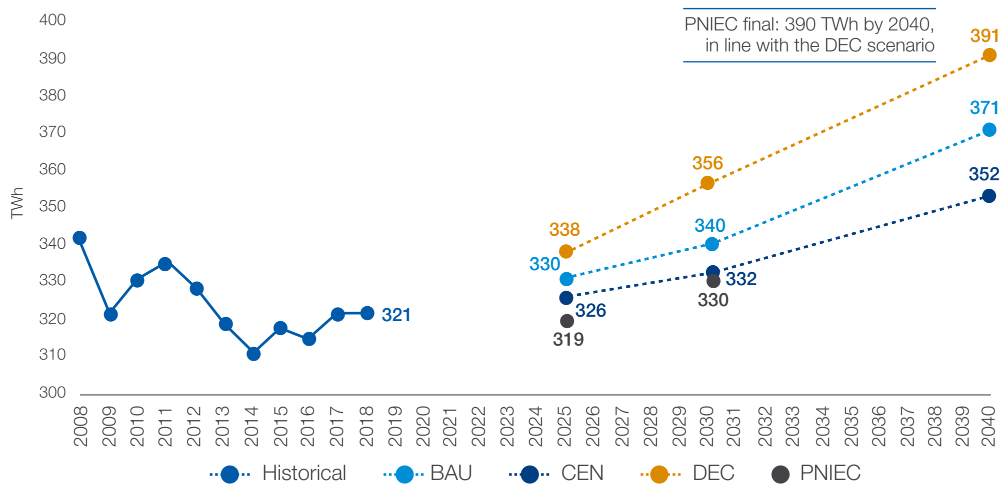
Projected energy scenarios at national level are produced by Terna together with the SNAM, Italy's gas system operator, with the aim of assessing the benefits of transmission grid development projects over a twenty-year timescale.

Business-As-Usual (BAU)	**Technology-driven** scenario	**Inertial projection of current trends**	Targets for 2030 contained in the Clean Energy for all Europeans Package and long-term targets **are not expected to be achieved**
Centralised (CEN)	**Development** scenario	**Increased development of centralised renewable and low-carbon technologies** (photovoltaic, wind and green gas thermoelectric power)	**Will enable achievement of the targets for 2030** contained in the Clean Energy for all Europeans Package and of long-term targets
Dentralised (DEC)	**Policy-driven** scenario	**Significant electrification of consumption** (electric heat pumps, electric vehicles)	In compliance with the national policies contained in the **PNIEC, all coal-fuelled thermoelectric generation is to be phased out by 2025**
PNIEC	**Policy-driven** scenario	Strong **growth in renewables** and storage systems, **electrification driven by heating and transport sectors**	**National and European targets** for decarbonisation, proportion of demand met by renewables and energy efficiency to be **delivered on schedule in 2030**

Demand for electricity rises under all the scenarios, above all under the Decentralised (DEC) scenario, based on assumptions of strong economic growth, the phase-out of coal by 2025, a significant increase in small-scale renewable production coupled with storage systems, energy efficiency incentives and major electrification of consumption.

Over the long term, the PNIEC (Integrated National Plan for Energy and Climate) is aligned with the DEC scenario. The scenarios developed for the document describing the scenarios for 2019 are based on figures for electricity demand that are lower than those used in the European TYNDP-18, Sustainable Transition (ST) and Distributed Generation (DG) scenarios.

ELECTRICITY DEMAND TRENDS (TWh)



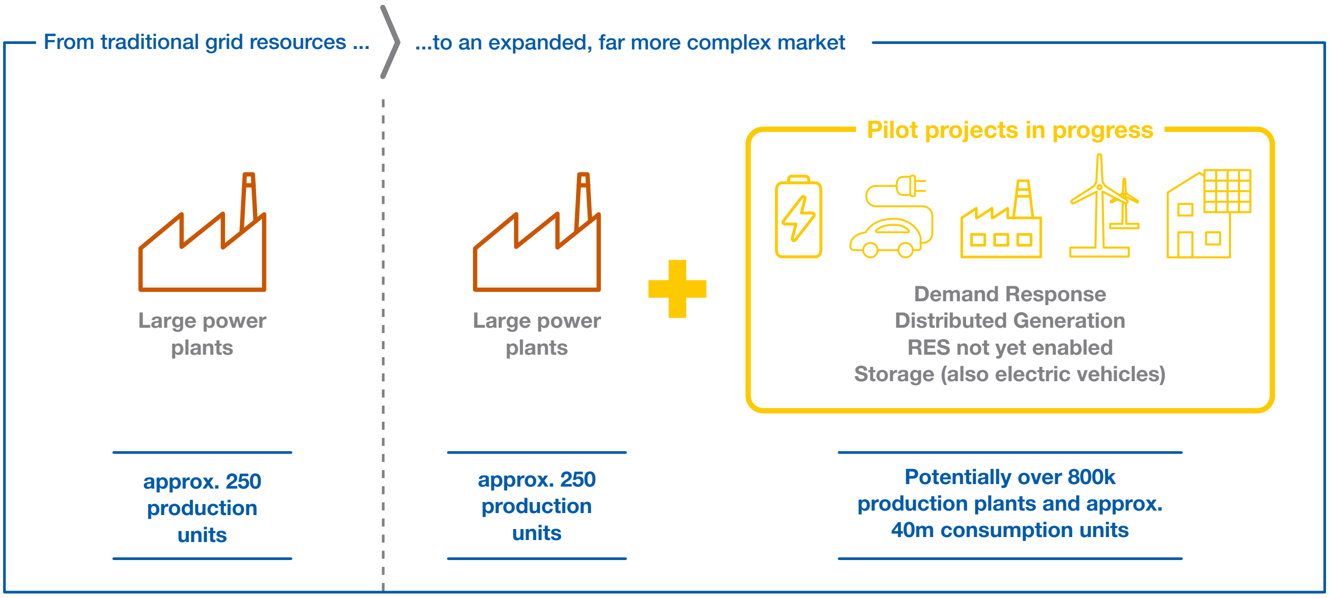
Development of the electricity system and the opening up of the market for services to new resources

In recent years, we have seen a progressive fall in thermoelectric generating capacity, with the decommissioning of a large number of conventional plants due to the reduced profitability of such plants. This partly reflects the growth in renewable energy production, which has helped to drive conventional production out of the market. This trend will continue in the coming years.

In contrast, under all scenarios, production from non-programmable renewable sources is expected to witness significant growth in installed wind and solar generation capacity. Wind and photovoltaic capacity has already recorded constant growth in the last ten years, reaching approximately 31 GW in 2019. Solar generation capacity is also expected to grow significantly in the coming years, in terms of both small-scale production (small plants coupled with electrochemical storage systems) and utility-scale production. The expansion in capacity will be driven by the introduction of new incentive schemes and a further reduction in technology costs.

The phase-out of coal by 2025, together with the growing penetration of intermittent renewable sources, will make one of the biggest contributions to achieving the decarbonisation targets for the electricity sector. However, the decommissioning, albeit gradual, of approximately 8 GW of current coal-fired capacity will inevitably have a major impact on the country's electricity system, above all on the activities of transmission system operators (TSOs) like Terna. This will be one of the most challenging national energy targets to meet.

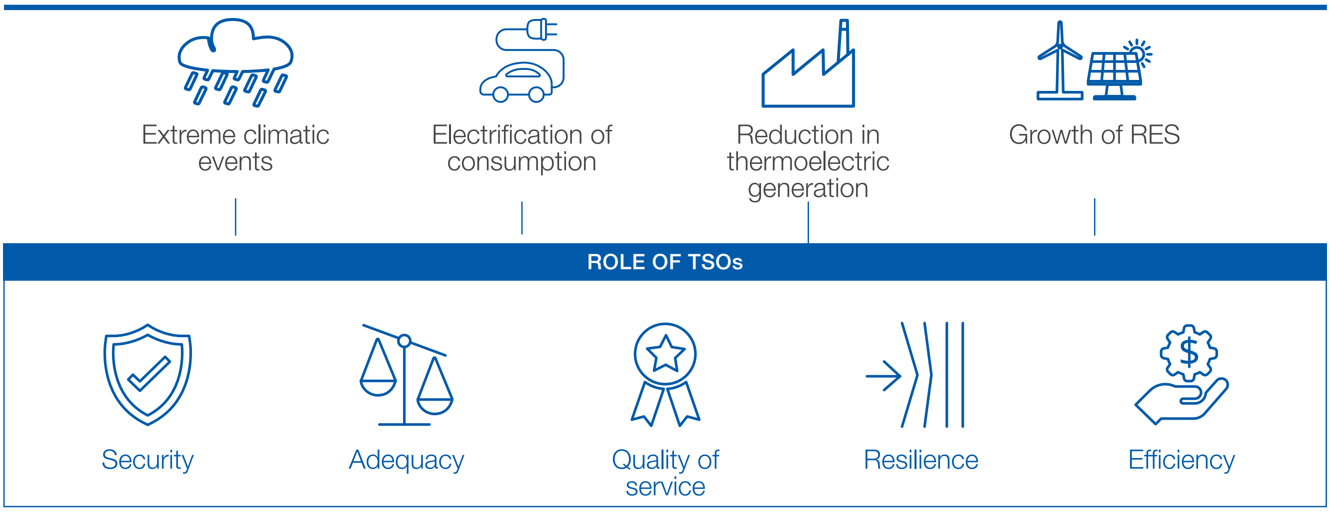
Achievement of the targets in the PNIEC thus implies a major transformation of the generation mix, with a large increase in RES plants.



Key dimensions of the electricity system

The new environment is having a significant impact on the key dimensions that Terna must control in order to manage the electricity system:

KEY DIMENSIONS OF THE ELECTRICITY SYSTEM



- **Security:** the ability of the electricity system to withstand changes to operating conditions as a result of unexpected disruption, without breaching the system's operating constraints;
- **Adequacy:** the system's ability to satisfy demand for electricity whilst meeting security and quality of service requirements. An electricity system is deemed to be adequate if equipped with sufficient resources in terms of generation, storage, control over demand and transport capacity to satisfy expected electricity demand with a reasonable degree of confidence;
- **Quality of service:** the ability to guarantee continuity and quality of service;
- **Resilience:** the system's ability to withstand shocks and return to normal operating conditions, if necessary via temporary actions;
- **Efficiency:** the ability to manage the electricity system to meet security, adequacy and quality requirements at the lowest overall cost to the consumer/end user.

In particular, whilst mid-term energy and climate targets, including the phase-out of coal, are extremely ambitious, they are eminently achievable whilst ensuring the system's adequacy and security, provided that they are accompanied by specific measures and solutions, such as the development of grid infrastructure.

Leading the change

Regulated Activities

Terna believes that the renewable sources can only be fully integrated with the electricity system by carrying out a set of essential, coordinates and coherent actions.
These are three categories of intervention that have a key role to play in achieving Italy's decarbonisation targets.

	INVESTMENT IN THE GRID	LONG-TERM PRICE SIGNALS	MARKET EVOLUTION AND INTEGRATION
FACTORS ENABLING THE ENERGY SYSTEM'S TRANSITION	Upgrade of the north-south backbone and strengthening of the grid serving the south and islands	Capacity market to promote investment in new-generation thermoelectric plants	Evolution of the structure and products traded on the services market to meet new needs (voltage regulation and inertia)
	Investment in voltage regulation and increased system inertia	Auctions and long-term power purchase agreements (PPAs) for renewable plants	Participation of "new" resources providing flexibility for the dispatching services market: demand, distributed generation, storage
	Overseas interconnections	Fixed-term contracts awarded through competitive auctions for new storage capacity, including hydroelectric	Progressive integration with European services markets
	Work on resilience		
	Improvements to core competencies		

INNOVATION AND DIGITALISATION

The factors enabling this transformation include, on the one hand, the new digital technologies that allow data to be gathered at low cost (such as IoT, smart meters, etc.), big data flows to be transferred using reliable connectivity solutions (such as fibre or 5G) and data to be effectively stored and analysed (advanced analytics); on the other, investment in innovation projects bringing together new digital solutions enabling the response to the new challenges presented by the energy environment.

DIALOGUE WITH LOCAL COMMUNITIES

Every project designed to create new infrastructure or modernise existing elements of the grid has a series of effects on the local area. For this reason, in the coming years we are not only committed to stepping up investment, but also to engaging ever more closely with all the parties affected by the infrastructure planning and development process, using an approach based on listening and dialogue. Terna has thus adopted the very latest forms of "participatory design" and stakeholder engagement, enabling us to consult widely with citizens and government institutions and work together with local communities in order to agree on innovative technical solutions.

Non-regulated Activities

Our strong background enables us to offer **solutions allowing customers to take full advantage of the energy transition**. To get the most out of this new energy economy, we use Terna's design, engineering, operational and maintenance expertise to offer complex solutions that increasingly resemble what we like to classify as "from watts to bytes", thanks in part to the integration of telecommunications networks with proprietary systems.

DEVELOPMENT OF TECHNICAL EXPERTISE

International Activities

For many years, our Group has provided support for TSOs and energy companies in developing countries, including as part of multilateral projects and programmes. We make available to international operators the technological know-how acquired **in managing complex systems, in transmission, in the integration of renewable sources and in storage systems**, together with our exceptional experience of constructing, managing and operating plants for all voltages. **In this way, we are promoting the energy transition at international level and the development of markets**, mindful of the fact that the radical transformation the world is undergoing is a shared responsibility.

INFRASTRUCTURE DEVELOPMENT

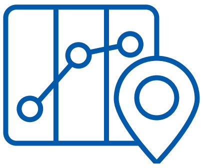
SYSTEMS INTEGRATION

TECHNICAL ADVISORY

Coming together

to overcome a major shared challenge

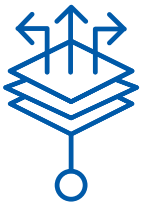
Terna's commitment to the energy transition continued in 2019, including efforts to encourage ever closer strategic cooperation with government institutions, businesses and associations. The energy transition brings a series of risks, but managed correctly represents a major opportunity for investment and job creation.



A permanent focus group to examine grid development

Launch of the "Cantiere dei Consumatori" initiative to look into the future of the electricity system

Terna and eleven consumer associations signed a memorandum of understanding on **31 January 2020**, setting up a permanent focus group to discuss the activities of the electricity system operator, above all looking at the objectives of security and efficiency.



Italy as a hub for transmission and dispatching in the Mediterranean area

Agreement with Steg for an interconnector between Italy and Tunisia

On **22 October**, Terna's CEO, Luigi Ferraris, and the Chairman of Steg, Tunisia's transmission system operator, Moncef Harrabi, signed a memorandum of understanding on the basis of which the two TSOs are "to step up industrial cooperation in the field of electricity infrastructure, and in particular the **Elmed project**" the 600 MW interconnector extending for approximately 200 km agreed by the two governments in April of last year.

Turning a challenge into a growth opportunity

CDP, Terna and Snam working together on sustainable energy infrastructure

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

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

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

Roadmap towards a sustainable development model

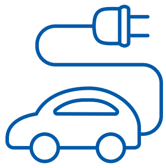
Online Scenario Description Document for 2019

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

Innovation and research for an increasingly sustainable electricity system

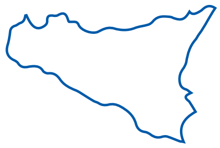
MoU with FCA on e-mobility

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



Investment in improving the electricity service in Sicily

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



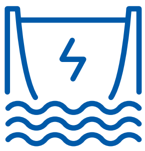
The development of sustainable mobility depends on the grid

Agreement with The Mobility House on intelligent charging solutions for electric vehicles

The memorandum signed with the international technology company based in Germany, Switzerland and Silicon Valley (California) on **31 May** focuses on technological solutions for enabling the integration of renewable sources into the grid and the development of sustainability mobility.

Expertise helping to reach decarbonisation targets

On **19 April, Terna, Eni, CDP and Fincantieri** signed an agreement to develop **wave energy plants**.



Highlights

The development of the national grid continues, with progress on all the major investment projects supporting the current energy transition.

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

ITALY-MONTENEGRO INTERCONNECTOR

This 600 MW interconnector extending for 445 km entered service on 28 December.

Acquisition of BRUGG CABLES

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

Italy-France Interconnector:
the laying of 75 km of cable has been completed, representing around 78% of the entire connection.

Open Fiber Project:
17,000 km of long-distance fibre cable delivered out of the 21,000 km envisaged under the related contract.

New acquisitions in Brazil:
completion of the transaction with Construtora Quebec, regarding the acquisition of a controlling interest in the first of the two companies covered by the transaction, which holds a concession to build a 500kV power line extending for approximately 190 km.

AWARDS AND SUSTAINABILITY

- Terna included for the second year in the **Bloomberg Gender Equality Index (GEI)** and confirmation of our presence in the Euronext and FTSE4Good indices.
- **RobecoSAM confirms Terna's ranking as world leader in the Electric Utilities Sector** and its position in the World Index and in the smaller Europe Index.

UTILITY MANAGER OF THE YEAR FOR 2018

CEO **Luigi Ferraris** rewarded for **his strong commitment at Terna to enabling the shift to an increasingly sustainable, efficient, secure and innovative model**.

OSCAR DI BILANCIO 2019

Terna ranked **first** for financial reporting among Italian blue chips.

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

FINANCIAL HIGHLIGHTS

(€m)	2019	2018	Δ%
Revenue	2,295.1	2,197.0	4.5%
EBITDA	1,741.2	1,650.6	5.5%
Profit attributable to owners of the Parent	757.3	706.6	7.2%
Capital expenditure	1,264.1	1,091.1	15.9%
Net debt	8,258.6	7,899.4	

STOCK MARKET AND FINANCE

Terna's share price

Share price up 20.2% since the beginning of the year, with a price of €5.954 at 31 December 2019 versus €4.95 per share at 31 December 2018.

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

Finance

November 2019: Terna and the European Investment Bank (EIB) agree a €490 million loan to finance investment in improvements to grid reliability and quality.

July 2019: €500 million 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.

April 2019: launch of a new €500 million green bond issue, with a term to maturity of 7 years and paying a coupon of 1%.

January 2019: launch of a €250 million fixed-rate green bond issue in the form of a private placement.

BUSINESS ENABLERS

Our People

323 additions to the workforce in 2019 to support delivery of the 2019-2023 Strategic Plan, compared with 285 leavers.

Innovation

Terna's first three Innovation Hubs open at Turin, Naples and Milan sites, providing a platform for the Group's innovation development.

The **AMS - Advanced Materials for Sustainability** call for innovation launched in July 2019 ends in October.

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

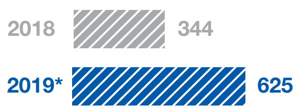
PERFORMANCE OF THE ELECTRICITY SYSTEM

Demand [TWh]

COVERED BY RENEWABLE SOURCES

(*) Provisional data. RS: Renewable sources - NRS: Non-renewable sources

RENS quality [MWh]



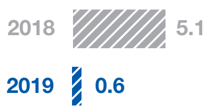
MAJOR INCIDENTS

Performance in 2018: exceptional event in north-eastern Italy.

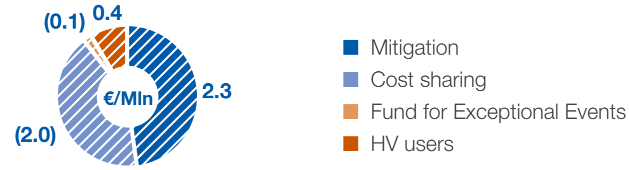
Performance in 2019: no major incidents affecting performance in 2019.

(*) Provisional data.

Cost of quality [€/m]

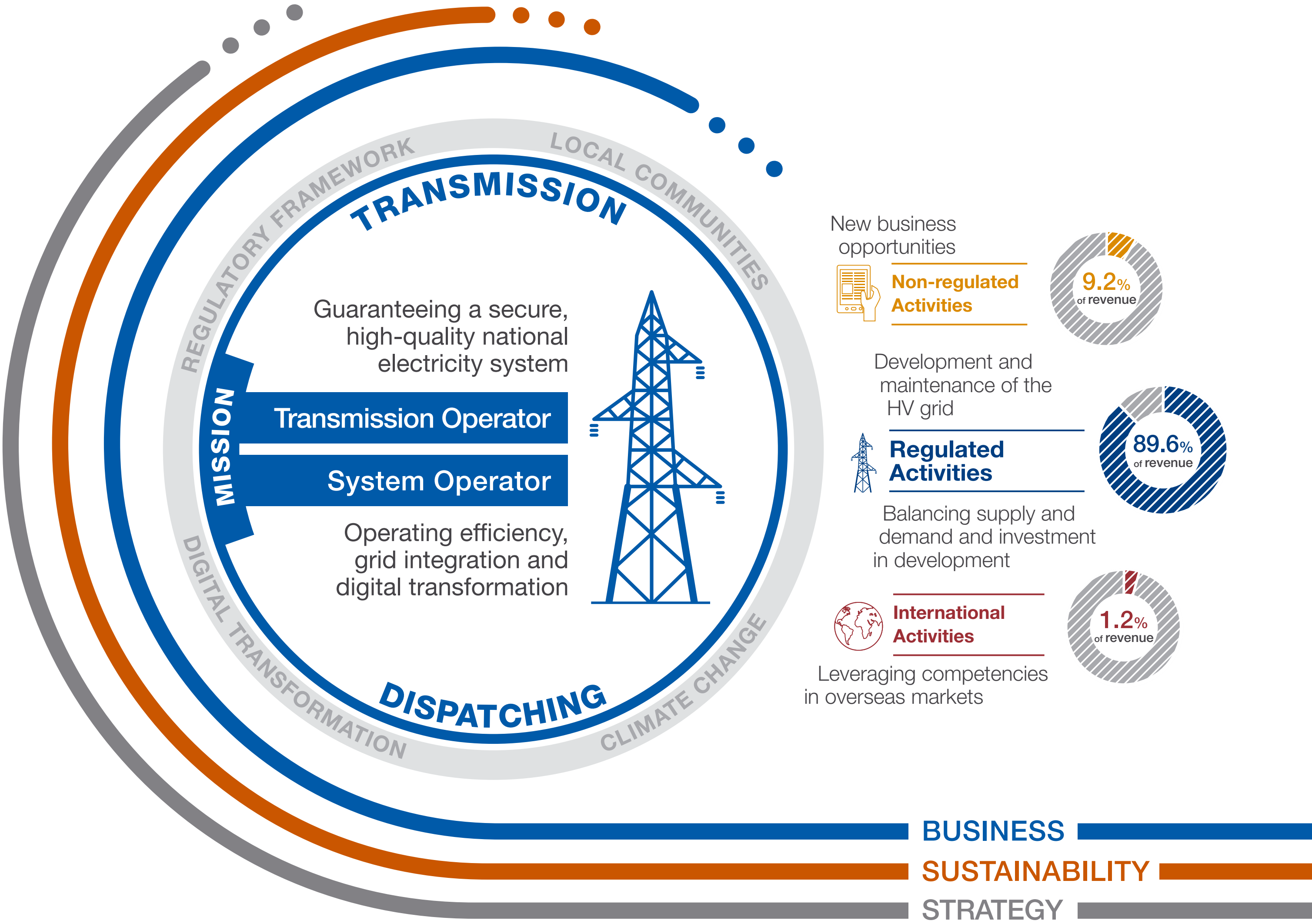


COST ALLOCATION **2019**

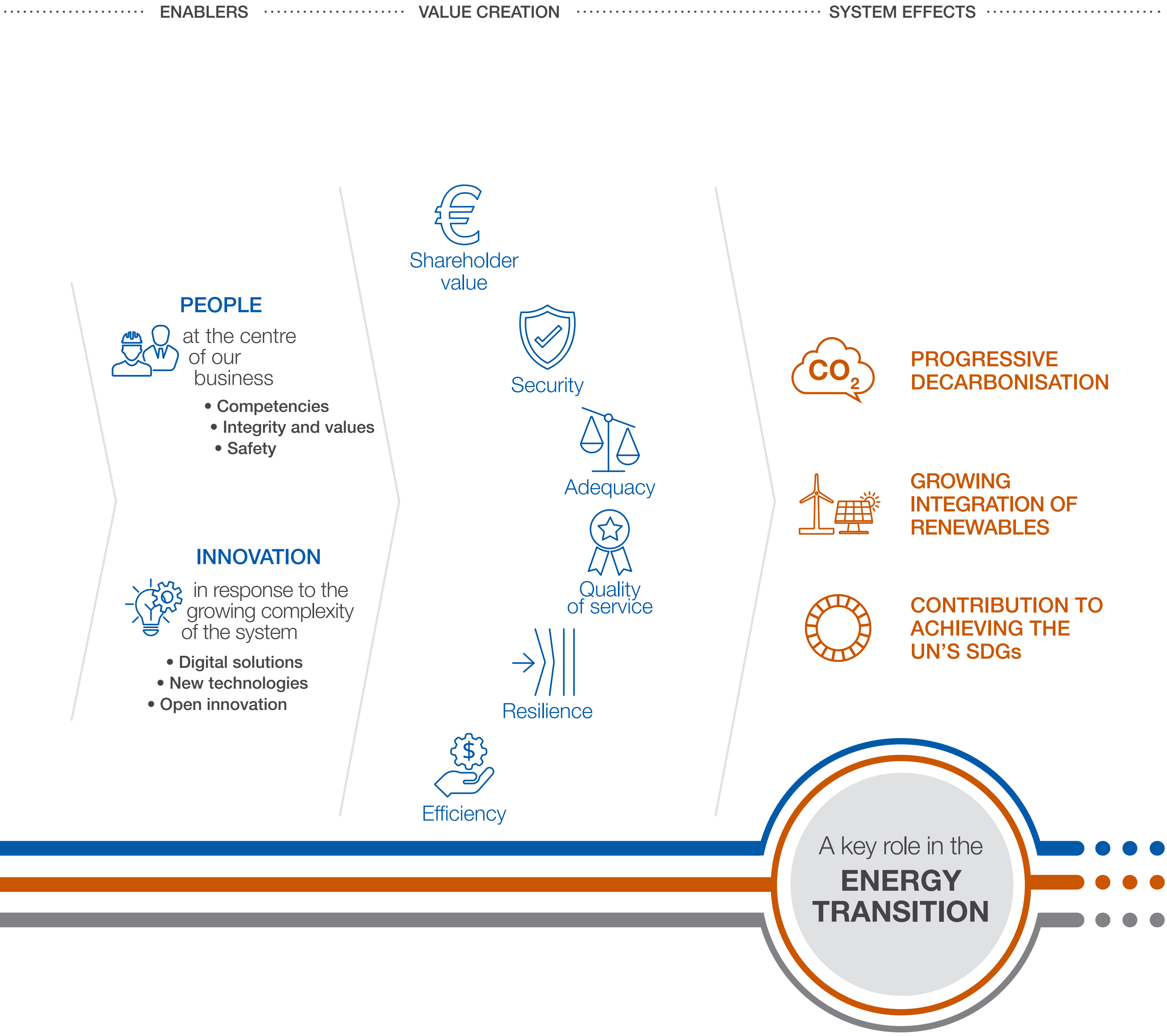


The business model

ROLE ACTIVITIES



Terna has a central role to play in the current energy transition: within a context of radical change that has seen decarbonisation become a global objective, the electricity grid is one of the key enablers of this process.



Adequacy

Adequacy refers to the system's ability to satisfy demand for electricity whilst **meeting security and quality of service requirements**. An electricity system is deemed to be adequate if equipped with sufficient resources in terms of generation, storage, control over demand and transport capacity **to satisfy expected electricity demand** with a reasonable degree of confidence. To measure adequacy, it is necessary to analyse all the potential situations in which the electricity system may have to operate (shifts in demand, the potential unavailability of thermoelectric plants and others).

Security | **Adequacy** | Quality of service | Resilience | Efficiency

2 The new energy environment

Macroeconomic environment

Italy's economy continued to stagnate in 2019, after almost two years of underperformance, against the backdrop of the global slowdown.

Slower pace of expansion at global level

The slower pace of economic growth across the world affected both industrialised and developing nations last year, driving the growth rate down to its lowest level in the last ten years. The trade war between the United States and China and the imposition or threat of tariffs on goods from countries such as Mexico, India and the European Union led to widespread uncertainty among investors, slowing investment and, as a result, global trade. This slowdown in growth also affected the United States, with GDP growth in volume terms projected to be 2.3% in 2019, compared with 2.9% in 2018. This was despite the continuation of expansionary fiscal and monetary policies. In spite of this, the United States retained its position as the fastest growing economy among industrialised countries.

Slowing GDP in the euro area

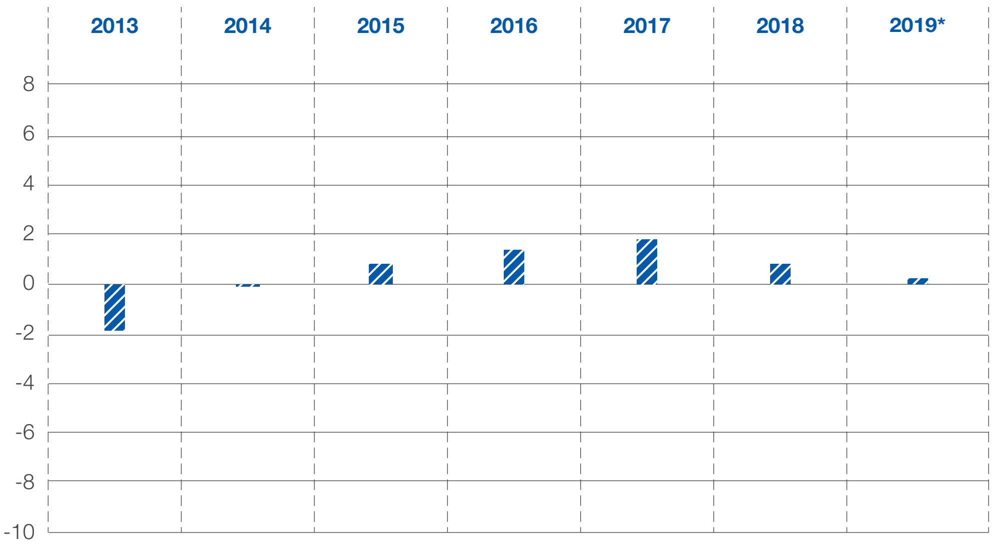
In addition to the uncertainties linked to protectionist policies and the Brexit process, **the level of economic activity in the euro area was impacted by difficulties in the industrial sector, above all those affecting automotive manufacturing**, following the announcement of new emissions limits and the transition to less polluting vehicles. The fallout from the crisis was most clearly seen in Germany and in Italy. For the euro area as a whole, **GDP growth in volume terms is estimated to be 1.2% in 2019**, down from the 1.9% of 2018. In response to this cyclical weakness, the ECB continued with its expansionary monetary policy, even requesting countries with budget surpluses to ease fiscal policy.

The Italian economy remained stagnant in the first three quarters of 2019, registering GDP growth of just 0.14% compared with the same period of the previous year. The most recent forecasts estimate that full-year GDP growth will only have been slightly up on this figure at 0.2%, a marked decline from the 0.8% recorded in 2018 (source: ISTAT, September 2019). Over the year, the contribution to growth from net external demand weakened as a result of falling exports in the second half of the year. In terms of domestic demand, consumer spending continued to be subdued, partly due to renewed interest in saving after the significant decline seen in previous years. Despite this, consumer spending represents the most dynamic component of domestic demand, given the lack of investment, which has been held back by the continued weakness of the outlook for demand and by a series of uncertainties that have had a negative impact on business confidence.

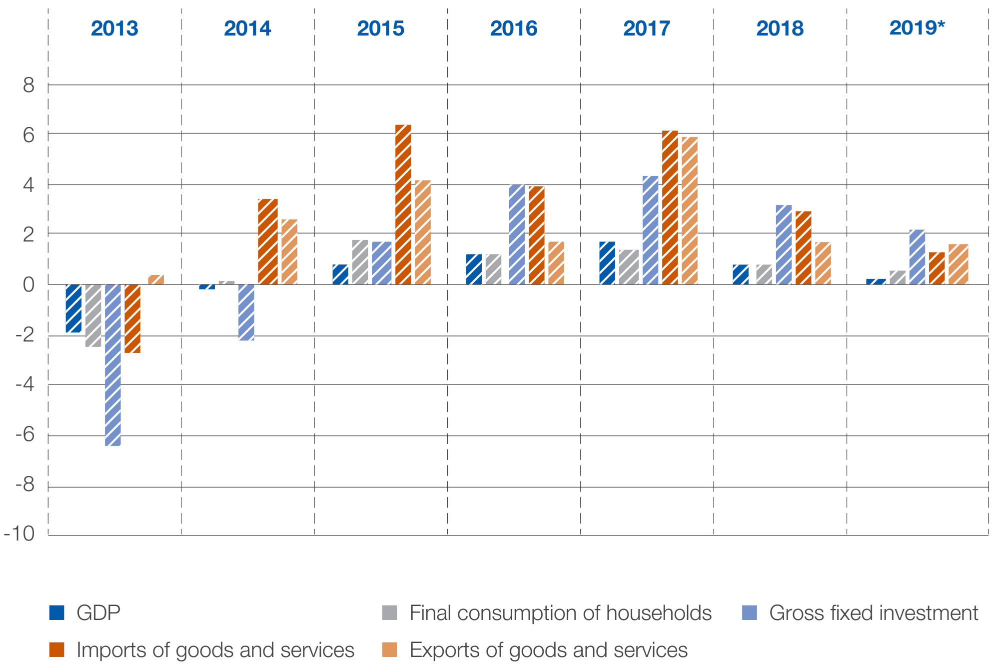
-1.1% Italian Industrial output in 2019

The crisis in the German manufacturing sector was reflected in Italian industrial output, reflecting the high degree of integration between the two systems. In the period between January and November, industrial production fell 1.1% compared with the same period of the previous year. Output fell primarily in sectors linked to automotive manufacturing, such as vehicles (down 4.3%), steel (down 3.9%) and the production of rubber and plastics (down 2.8%), but also affected a number of more traditional specialist sectors, such as for example textiles, clothing, leather goods and accessories (down 4.7%).

ITALIAN GDP AND KEY ECONOMIC INDICATORS
% annual change in volume



+0.14% Italian GDP in 2019



Increased uncertainties held back growth in 2019

** Provisional data*

The energy sector

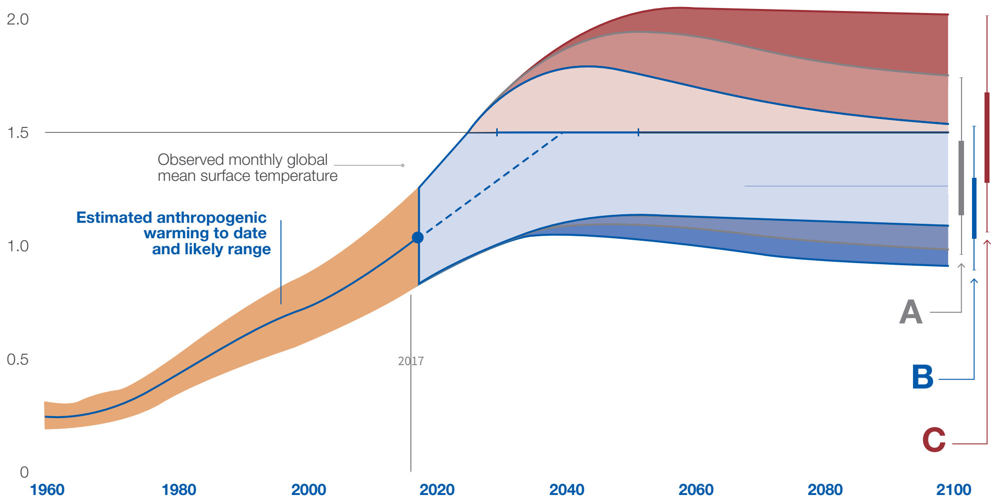
Changes in generation technologies and consumption patterns, together with the application of international directives in Italian energy sector regulations, mean that we are at the centre of a radical transformation: of the €96 billion of investment earmarked to develop the energy industry in Italy, Terna's investment programmes account for 15%[6].

The 2020-2024 scenario

In order to combat global warming, in December 2015, at the end of the twenty-first Climate Change Conference (COP21), 185 countries and international organisations drew up and decided to adopt **an action plan designed to keep the rise in the global temperature** below 2°C compared with pre-industrial levels, and preferably below 1.5°C.

The study published by the Intergovernmental Panel on Climate Change (IPCC) on 6 October 2018 officially announced that global warming is already within the range of 0.8 to 1.2 °C, with a rising trend of 0.2 °C per decade.

GLOBAL WARMING COMPARED WITH THE PERIOD 1850-1900 (C°)



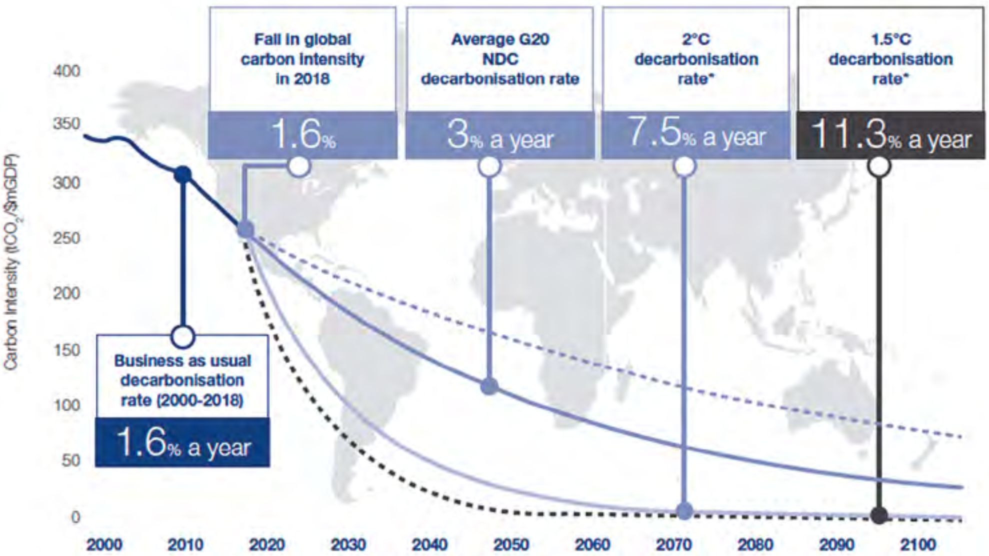
Source: "Global Warming of 1.5 °C", Intergovernmental Panel on Climate Change, 2018.

BASELINE SCENARIO (A)	• Global CO_2 emissions reach net zero by 2055. • Emissions of greenhouse gases other than CO_2 will be reduced from 2030.
SCENARIO (B)	**Best-case scenario:** global CO_2 emissions reach net zero by 2040 (greater likelihood of limiting the temperature rise to 1.5 °C).
SCENARIO (C)	**Worst-case scenario:** emissions of greenhouse gases other than CO_2 are not reduced from 2030 (less likelihood of limiting the temperature rise to 1.5 °C).

[6] A study on "Energy infrastructure, the environment and local communities", prepared by PwC for Confindustria Energia - November 2018.

To prevent warming from rising above 2°C compared to pre-industrial levels, **the global economy must commit to cutting its carbon intensity by 7.5% per year until 2100** (source: "The Low Carbon Economy Index 2019", PwC). A necessary condition for achieving the COP 21 targets is decarbonisation of the electricity sector together with acceleration of the decoupling of economic growth and energy consumption.

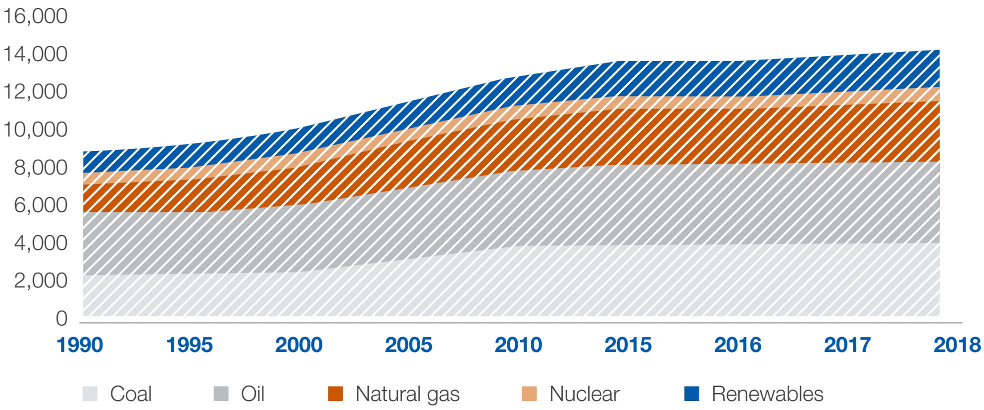
LOW CARBON ECONOMY INDEX 2019



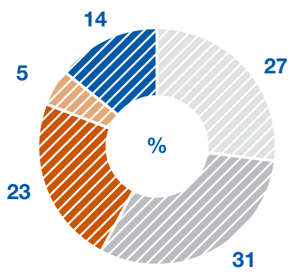
** Source: The Low Carbon Economy Index 2019, PwC.*

World primary energy consumption is growing steadily. In 2018, the RES share of primary energy consumption was approximately 14%, almost the same as 25 years earlier, despite the growing use of RES in the electricity sector.

TOTAL SUPPLY OF PRIMARY ENERGY* AT GLOBAL LEVEL



2018 LEVELS



** Excluding electricity trading.*
Source: World Energy Outlook 2019 - International Energy Agency.

Guidelines at european level

The 2019 European guidelines for the development of the energy sector are set out in the guidelines and regulations in the European Union's **Clean Energy Package**, presented on 30 November 2016 and including a number of legislative measures introduced in 2018 and 2019. These include:

- **Regulation (EU) 2018/1999** which established the Governance of the Energy Union and Climate Action, in line with the Paris Agreement of 2015 (COP21) and the United Nations Sustainable Development Goals (SDGs);
- the Energy Efficiency Directive 2018/2002;
- the Energy Performance of Buildings Directive 2018/844;
- the Renewable Energy Directive 2018/2001;
- the Internal Market for Electricity Regulation 2019/943;
- the Common Rules for the Internal Market for Electricity Directive 2019/944;
- the Risk-preparedness in the Electricity Sector Regulation 2019/941;
- the Regulation establishing an Agency for the Cooperation of Energy Regulators (ACER).

The United Nations SDGs

Approved by 193 member states of the United Nations in September 2015, the 17 Sustainable Development Goals (SDGs) form the heart of the 2030 Agenda, the global plan

that aims to eradicate poverty and promote economic prosperity, social development and protection of the environment.

Terna is playing a central role in enabling the energy system's transition to one in which production is based on renewable sources.

For further details on Terna's commitment to the SDGs, reference should be made to the Sustainability Report.

Key SDGs for Terna

Terna's activities and its mission coincide almost entirely with the SDGs and the related targets, especially Goals 7, 9 and 13.

7 AFFORDABLE AND CLEAN ENERGY	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	13 CLIMATE ACTION	17 PARTNERSHIPS FOR THE GOALS
Ensure access to affordable, reliable, sustainable and modern energy for all.	Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.	Take urgent action to combat climate change and its impacts.	Strengthen the means of implementation and revitalize the global partnership for sustainable development.

Resolutions at national level

In line with these guidelines, at the end of 2018 the Italian government finally prepared a **Proposed Integrated National Plan for Energy and Climate (PNIEC)**, produced by the Ministry of Economic Development, the Ministry of the Environment and Protection of Land and Sea and the Ministry of Infrastructure and Transport. This provides key guidelines on the development policies for the national energy system. Following the recommendations of the European Commission in June 2019, Italy drew up and handed over the final versioin of the PNIEC at the end of 2019.

The final document does not differ significantly from the proposal put forward at the end of 2018 in terms of structure and targets for 2030, providing a number of clarifications and proposing slight changes, above all linked to the transport sector.



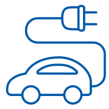


PROPOSED INTEGRATED NATIONAL PLAN FOR ENERGY AND CLIMATE - PNIEC (DECEMBER 2019)	THE 5 DIMENSIONS
• For final energy consumption: 116.6 Mtep by 2020 and 103.8 Mtep by 2030.	Energy efficiency
• RES to increase from 18.6% in 2020 to 30% in 2030 as a share of total energy consumption. • In the electricity sector, the increase will be from 34.1% in 2017 to 55.4% in 2030, compared to expected gross domestic electricity consumption.	Decarbonisation
• Competitive auction mechanisms. • Promotion of self-consumption for smaller power plants and renewable energy communities. • Full deregulation of the retail market.	Internal energy market
• Introduction of the Capacity Market. • Development of the grid to facilitate integration with renewable production plants and resolve congestion. • Addition of 6 GW of centralised storage and 4 GW of distributed storage.	Energy security
• In the industrial sector, the reconversion of infrastructure to improve sustainability. • Additional measures to combat energy poverty.	Research, innovation and competitiveness

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 51.0 Mtoe, and development of renewable resources that will enable an increase in the consumption 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 4 million fully electric and 2 million plug-in hybrid vehicles by 2030) - and **applications relating to air conditioning** that ought to be used more widely, in view of the energy efficiency savings they offer. Finally, a measure adopted in the 2017 SEN for the electricity sector regarding the phase-out of coal for power generation by 2025 is maintained.



6 million
ELECTRIC VEHICLES BY 2030

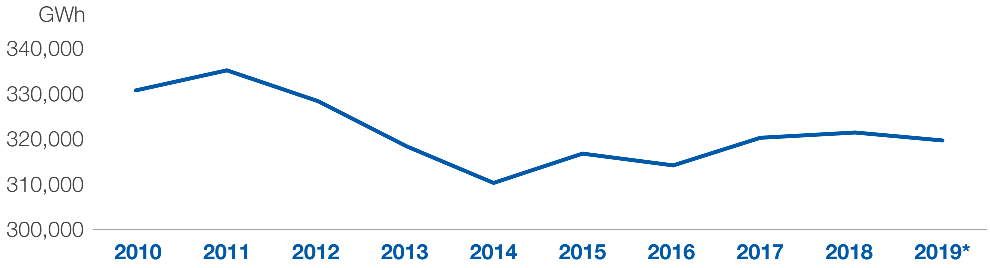
The regulatory measures regarding the **security of supply for energy**, above all electricity, are dependent on the introduction of the Capacity Market, as well as revision of the Emergency Plan for the Security of the Electricity System (*piano di Emergenza per la Sicurezza del Sistema Elettrico* or "PESSE").

There are also plans to increase the capacity of storage systems (an additional 6 GW of centralised storage and 4 GW of distributed storage), above all through the use of pumps, and for further expansion of interconnections with neighbouring countries (up to 14,375 MW). **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

Terna monitors domestic demand trends and takes appropriate actions, in full implementation of EU directives.

DEMAND TREND OVER THE LAST 10 YEARS



* *Provisional data.*

Demand for electricity in Italy

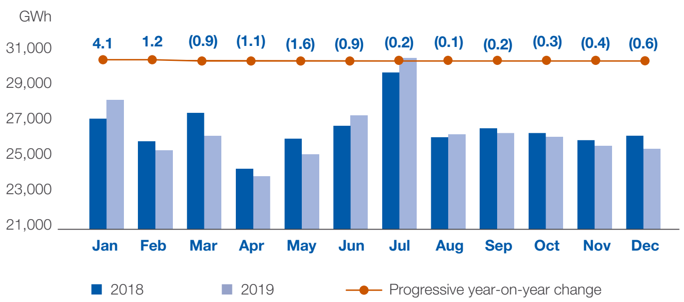
Demand for electricity in Italy amounted to 319,597* GWh in 2019, a **slight reduction of 0.6% compared with 2018**, which registered a rise of 0.3% compared with the previous year.

ELECTRICITY BALANCE IN ITALY (GWh)*	2019**	2018	CHANGE	% CHANGE
Net production	283,846	279,845	4,001	1.4%
From overseas suppliers (imports)	43,987	47,170	(3,183)	(6.7%)
Sold to overseas customers (exports)	(5,822)	(3,271)	(2,551)	78.0%
For use in pumping***	(2,414)	(2,313)	(101)	4.4%
Total demand in Italy	319,597	321,431	(1,834)	(0.6%)

* *Does not include demand for energy for ancillary services related to electricity production.*
** *Provisional data.*
*** *Electricity used for pumping water, for sole subsequent use in electricity production.*

Compared with the previous year, monthly demand for electricity in Italy in 2019* only rose in the months most subject to low or high temperatures (January, June, July and August).

MONTHLY DEMAND FOR ELECTRICITY IN ITALY (2019* vs. 2018)



* *Provisional data.*

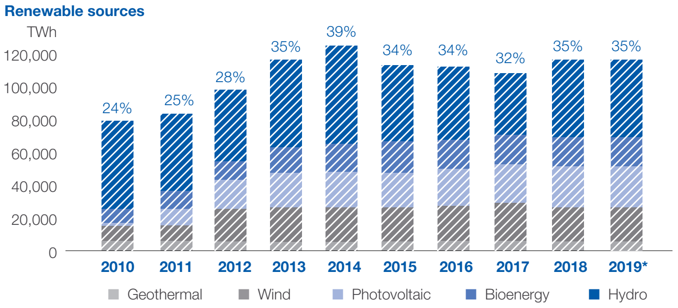


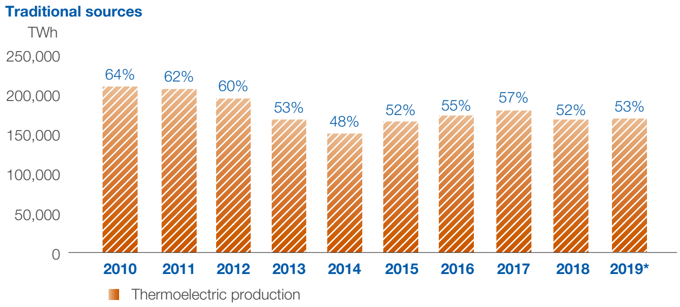


Meeting demand and energy production

In 2019, approximately **35% of total energy demand was met by renewable energy sources**, in line with the figure for 2018.
In terms of the performance of the various renewable sources, there were increases in wind production (up 14%) and photovoltaic production (up 9%), which offset the sharp decline in hydroelectric (down 6%).

PERFORMANCE OF PRODUCTION SOURCES IN TERMS OF DEMAND[7]

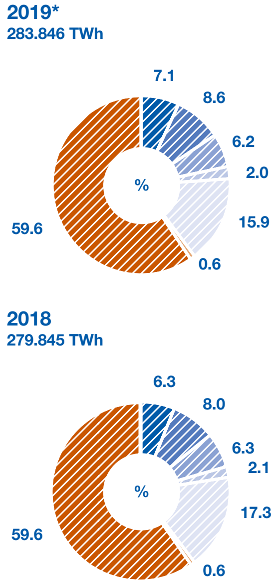




* Provisional data.

The two charts on the left show the performance of renewable production in Italy over the last ten years, compared with the performance of thermoelectric production over the same time period.

NET ELECTRICITY PRODUCTION BY SOURCE



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

* Provisional data.

As can be seen from the charts, Italy met the target set in European Community directives, which required that renewable sources account for over 27% of demand by 2020, from as early as 2012.

[7] The percentages shown in the two charts compared refer to the share of demand met by renewable sources (blue chart) and thermoelectric sources (orange chart).

European and international relations

Terna plays a strategic role in the integration of Europe's main electricity grids. Our goal is a to achieve an increasingly secure and efficient continental system that serves citizens and businesses. As the leading independent grid operator in Europe, we are members of various associations at European, national and industry level.

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.

Stakeholder	EUROPEAN RELATIONS
ENTSO-E (European Network of Transmission System Operators for Energy)	ENTSO-E is the European Network of Transmission System Operators for Electricity including 43 operators which is involved in the process of integrating national electricity markets, coordinating the secure operation of interconnected electricity systems and developing electricity transmission grids, in implementation of EU legislation (the latest of which being the CEP-Clean Energy Package). ENTSO-E's main objectives are to: draw up European network codes, guarantee the coordinated development of the electricity grid at European level by drawing up the European Electricity Grid Development Plan (TYNDP) and the related benchmark scenarios, and draw up the Research, Development and Innovation Plan at European level. ENTSO-E's activities focus on four courses of action (security of supply, functioning of the energy market, promotion of energy saving, and promotion of the interconnection of energy networks), which generate new tasks for ENTSO-E (implementation of the Regional Coordination Centres - RCC, enhanced cooperation with DSOs, digitisation of networks and development of demand response). These activities will be developed in line with the new climate policies previously set out by the European Commission with the launch of the so-called European Green Deal, a roadmap that seeks to make the EU the first climate-neutral continent by 2050.
EASE (European Association for Storage of Energy)	The European association that is responsible for promoting industrial research and development in the field of electricity storage system applications in Europe and around the world and the use of this technology for the transition to a stable, flexible, sustainable and cheaper continental energy system. In particular, EASE is working on the development of a European platform for sharing information in the field of energy storage.
RGI (Renewables Grid Initiative)	An association consisting of eleven European TSOs and twelve environmental NGOs which aims to promote the integration of renewable energy sources through the development of electricity grids. RGI is committed to promoting strategic planning and participating in the construction of new power lines, via a meeting platform involving environmental NGOs and European TSOs.

In 2019, Terna intensified a series of contacts with the senior managements of European and non-European system operators, **with the aim of concluding cooperation agreements**, at bilateral and multilateral level, in areas of common interest, particularly with regard to gird development, electricity system operations and technological innovation.

In 2019, together with 7 other European TSOs, Terna signed a joint declaration aimed at highlighting the crucial role played by transmission system operators in facilitating the energy transition, ensuring the adequacy and security of the electricity system, promoting the development of networks and guaranteeing the necessary flexibility.

Terna has had a Brussels Office, together with the other entities in which CDP has a stake, since 2018. It enables the Company to strengthen Terna's links with European institutions, including from a technical standpoint, and to take advantage of the Company's technical contribution regarding European matters ahead of implementation of European legislation to reform the electricity sector (the Clean Energy Package and the European Green Deal) in support of the energy transition and the EU's decarbonisation goals.

INTERNATIONAL RELATIONS	Stakeholder
An international non-profit association that conducts research regarding high-voltage grids. It has over 90 member countries, represented by 60 national committees, and Terna is currently the Chair and Vice Chair of the Italian Committee.	CIGRE (Conseil International des Grands Réseaux Electriques)
An independent, nonpartisan US-based organisation dedicated to the study and analysis of global problems. The organisation promotes debate on key strategic and political issues of international importance.	CFR (Council on Foreign Relations)
This is the 50/50 Tunisian joint venture between Terna S.p.A. and STEG (Tunisia's vertically integrated, state-owned electrical utility) established in 2009 with the role of conducting studies and providing technical assistance for the Tunisia-Italy electricity interconnector.	ELMED Etudes SARL
An international association bringing together the 17 leading grid operators worldwide in order to share best practices in the management of electricity transmission grids. In addition to being present on the Steering Board and Governing Board, Terna co-chairs the "Resilience, infrastructure development and interconnections" strategic working group.	GO15 (Reliable and Sustainable Power Grids)
This association brings together the TSOs from 19 Mediterranean countries, with the aim of promoting the standardisation of development plans and the coordinated management of grids. The association also works to facilitate the creation of a legislative and regulatory framework designed to drive the development of interconnection projects and promote the exchange of electricity between electricity systems in the Mediterranean area. Terna hosts the association's offices in Rome and appoints its Secretary General, as well as chairing the Technical Planning Committee.	Med-TSO (Mediterranean Transmission System Operators)

RES4MED/RES4FRICA (Renewable Energy Solutions for the Mediterranean & Africa)	This is a non-profit foundation established on 7 June 2019 following the transformation of the association of the same name. The objective is to promote the use of renewable sources and the adoption of energy efficiency measures, and to support the creation of favourable conditions for investment in renewable energies in countries in the southern and eastern Mediterranean and Sub-Saharan Africa. Its registered office is in Rome. Terna, as the founding member, sits on the Executive Committee.
WEC Italia (World Energy Council/Italian Committee)	The Italian national committee of the WEC, an international organisation that brings together operators from over 90 countries, with the aim of promoting a sustainable energy system worldwide.

KEY OPPORTUNITIES FOR COOPERATION IN 2019

Council on Foreign Relations	In addition to consolidating its presence in industry associations, in 2019, Terna participated in two major international events organised by the Council on Foreign Relations (one in April and the other in June) regarding geopolitical and geo-economic issues at global level. In April, 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. In June, at the Council's "CFR 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.
Italy-Tunisia Interconnector	As part of the ongoing activities linked to development of the electricity interconnector project between Italy and Tunisia (the "ELMED project"), on 22 October 2019, **Terna and STEG**, Tunisia's state-owned electrical utility, signed a **memorandum of cooperation** and a partnership agreement with a view to developing reciprocal exchanges and collaborating on areas of interest in relation to electricity infrastructure, such as for example live-line working, HV lines and stations and operation of the electricity system. Via ELMED Etudes SARL, **work 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.
Italy-Austria Interconnector	On 19 February 2020, a **Memorandum of Understanding relating to development of the 220kV Lienz-Soverzene power line** was signed with the Austrian TSO, APG. This project forms part of the planned construction of the 220kV Italy-Austria Interconnector. Signature of the MoU will enable the TSOs to devise and agree on a joint strategy for developing cross-border capacity and coordinating the companies' plans and investment programmes. This will facilitate joint development of the project and strengthen the respective national grids in readiness for achieving the planned 500 MW increase in cross-border capacity. >>

Other European and international events

On 10 October 2019, Terna took part, for the fourth time, in the **10th Italy-Latin America and Caribbean Conference**, held at the Ministry of Foreign Affairs and International Cooperation. Terna took part in the session on "**Sustainable growth and infrastructure**", focusing on the topic "*Innovation in the management of RES and electricity systems in order to increase the resilience and security of interconnected systems*", illustrating the Group's presence in Latin America.

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.

In the second half of 2019, Terna joined the **Harvard Electricity Policy Group (HEPG)**, a think-tank whose members include leading stakeholders in the electricity sector (regulators, academics, managers, specialists, etc.), with aim of taking part in debates on the entire electricity chain (generation, distribution and transmission).

On 28 November 2019, Terna took part in the **conference organised by ARERA and CEI on the integration of energy systems in the Balkans.** The KEP (Know-How Exchange Programme), launched by ARERA, focuses on the implementation of market coupling mechanisms in order to facilitate the creation of a regional electricity market and its integration with the European single market. This will involve technical cooperation with regulators in Albania, Montenegro and Serbia.

Regulatory environment

Regulated revenue accounts for approximately 88% of the Group's total revenue

Terna operates as a natural monopoly and within a market regulated by the Regulatory Authority for Energy, Networks and the Environment (ARERA).

Regulated revenue, which represents approximately 88% 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 fifth regulatory period (sub-period "NPR1", 2016-2019). The regulatory framework for the second four-year period (sub-period "NPR2", 2020-2023) was revised by Resolutions 567/2019/R/eel, 568/2019/R/eel and 574/2019/R/eel.

The framework for NPR2 (2020-2023) is broadly in line with the criteria applied in the period 2016-2019, with the principles for recognising the cost of capital (rate of return) and operating costs (price cap and profit sharing) unchanged with respect to NPR1. The most important change regards readmission of the return on fixed assets in progress, under a mechanism that reflects the related expenditure in tariffs based on rates of return differentiated on the basis of how long ago the expenditure was incurred and for a maximum of four years (beyond four years, the tariff will take into account interest expense incurred whilst work was in progress)[8]. The change will enable operators to recover earlier costs, together with those relating to the Italy-France Interconnector project.
At the end of NPR2, and on a trial basis in 2023, the regulations provide for adoption of a **TOTEX/OUTPUT BASED approach.** This recognises costs based on total expenditure incurred (operating and capital expenditure) and shares the resulting benefits for the community.

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, which, with Resolution 639/2018/R/COM, enabled 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 an adequate return on capital, 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 fifth regulatory period are described below, with regard to allowed revenue for transmission and dispatching services.

[8] When reviewing transmission tariffs for 2020, ARERA also accepted Terna's request for the partial readmission of the Italy-Montenegro Interconnector project among the list of strategic projects in the regulatory period 2012-2015. This means restoring the return on the related WIPs not already included in the tariffs, in relation to the share of public investment (not covered by the interconnectors).

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).

Transmission revenue makes up the most significant portion of regulated revenue

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.

THE THREE MAIN TYPES OF ALLOWED COST

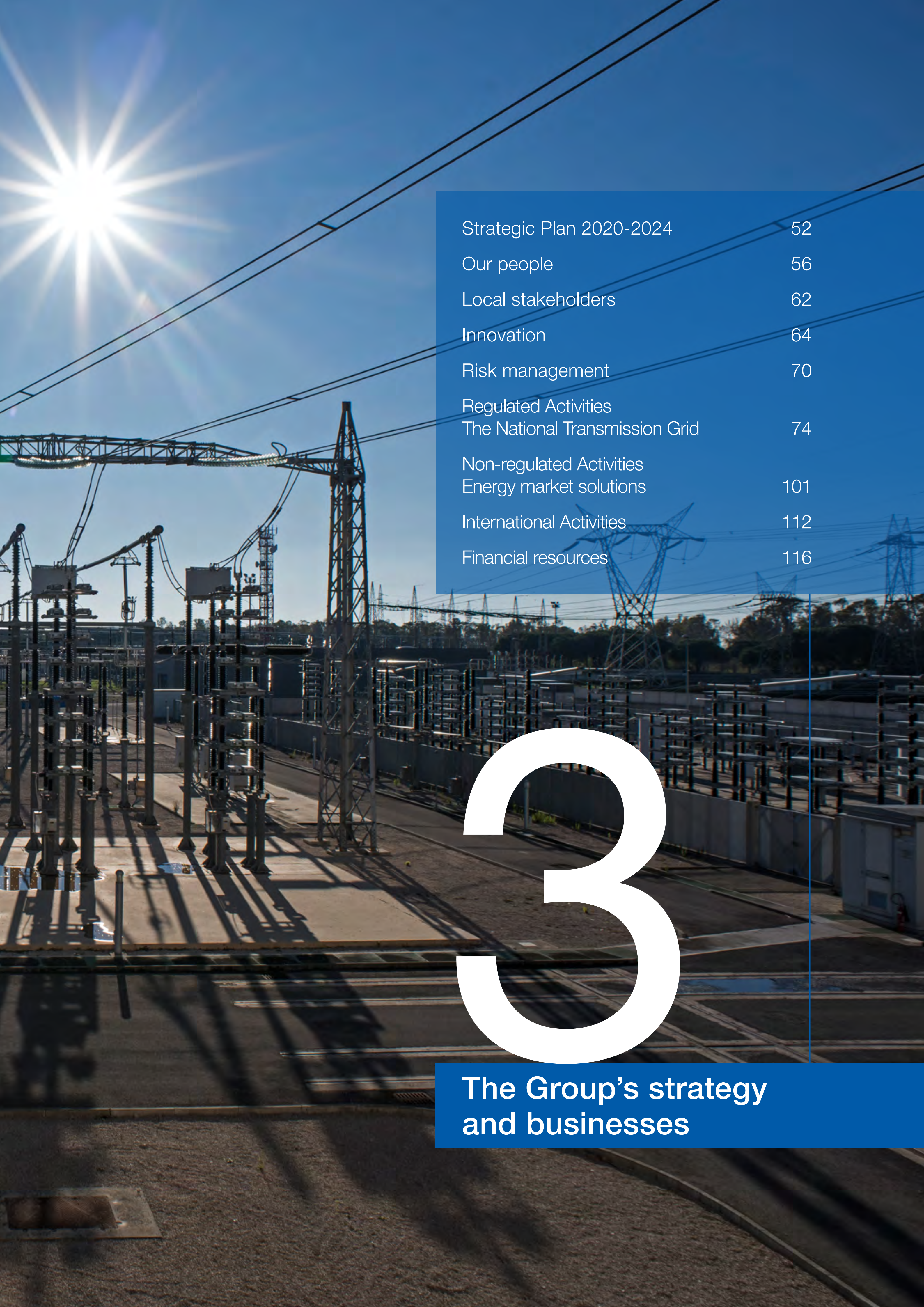
Determined on the basis of the Regulated Asset Base (RAB) and the Weighted Average Cost of Capital (WACC). The RAB represents net invested capital for regulatory purposes. It is revalued annually on the basis of data from ISTAT (Italy's Office of National Statistics) on the change in the deflator applied to gross fixed investment and revised on the basis of the performance of investment and disposals. The WACC[9] represents the weighted average cost of equity and debt. The methods of determining and revising the WACC are established by the regulator.	1. To cover the return on capital (RAB)
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.	2. To cover depreciation
Allowed costs are determined by the regulator at the beginning of the regulatory sub-period, based on operating costs recognised during the relevant year (which, in the case of NPR1, was 2014 and in the case of NPR2 is 2018) and increased by any remaining portions of additional efficiencies achieved in previous 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.	3. To cover operating costs

[9] 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.

Quality

Quality of service is of ever greater importance, reflecting the growing electrification of consumption, which is highly dependent on the continuous availability of the service.
In addition, the increased use of electrical automation components, above all in industrial equipment, requires a high-quality of supply. This topic primarily breaks down into two aspects: **service continuity** (the absence of interruptions to the supply of high-voltage electricity) and **power quality**, meaning the ability to maintain a steady supply voltage and frequency for end users within prescribed ranges.

Security | Adequacy | **Quality of service** | Resilience | Efficiency



3

The Group's strategy and businesses

Strategic Plan 2020-2024

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: this is the mission confirmed in the new Grids and Values Strategic Plan for 2020-2024.

The energy model on which the planet's development has depended in recent years is no longer sustainable. This is borne out by the exponential increase in global primary energy consumption, the increase in CO2 emissions and the impact on our planet's ecosystem and the growing attention paid to issues relating to the climate and environment by international institutions. This situation requires a global commitment to a progressive and as rapid as possible decarbonisation and improved efficiency across all forms of energy. In this context, the electricity sector has a central role to play in achieving the energy system's overall decarbonisation goals, thanks to the intrinsic efficiency of electricity as an energy carrier and the technological maturity of renewable energy sources (RES).
This transformation will not have zero impact on the electricity system, but will face us with a series of challenges that we must meet in order to ensure that the energy transition takes place in a decisive and effective manner, maintaining the current high levels of service quality and, at the same time, avoiding an excessive increase in the cost to society.
The large-scale use of RES has a significant impact on the way in which Terna manages the grid. This is because they are intermittent sources, not as flexible as traditional power plants and sometimes far away from centres of consumption, leading to an increase in grid congestion, especially from south to north.
In addition, the growing frequency of extreme climate events, allied with the structural nature of the Italian transmission grid, puts major demands on the TSO, which is called on to protect and manage the national grid in order to guarantee the security of electricity supply.

In response to the changes brought about by this new energy environment, Terna has to focus on five key dimensions of the system: **Security, Adequacy, Quality of service, Resilience** and **Efficiency**. In this regard, the Company has confirmed the strategy set out in the Plan for the period 2019-2023, further stepping up infrastructure investment to meet the new requirements of the electricity system, as part of an integrated approach based on sustainability values, community engagement, skills development and the promotion of innovation.

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

- **Regulated Activities:** to give top priority to all the activities that enable Italy to tackle its energy challenges in a safe, efficient and sustainable way by leveraging the specific characteristics of local areas;
- **Non-regulated Activities** to launch new services to support the energy transition, taking advantage of opportunities beyond our core activities, to be pursued in line with Terna's mission, and if distinctive and/or of high added value;
- **International Activities:** to leverage the core competencies developed in Italy as a TSO through growth opportunities overseas.

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

A key driver of this strategy will be investment in the innovation and digital solutions needed to manage an increasingly complex, integrated and distributed system. Attention will also be paid to the development and insourcing of the strategic skills required to cope with projects of growing size and complexity.
The guidelines identified for the Group's various strategic business areas have been divided into appropriate priority actions to be carried out over the life of the Plan.

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

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

International Activities will focus on the execution of projects in progress and the management of projects in operation, taking advantage of the Group's specialist expertise. Among the priority actions, the main focus will be on selecting international growth opportunities with a high technological content (a key aspect for Terna) and involving potential agreements/partnerships, including the management of assets without the need to tie up large amounts of capital.

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

	Plan 2020-2024	Plan 2019-2023	
Net capex	€7.3 bn	6.2 bn €	Regulated Activities
RAB (end of Plan)	€19.7 bn	18.5 bn €	
CAGR RAB[1]	5%	> 4%	
EBITDA	€~ 450 m	> 400 m €	Non-regulated Activities
Capex	€[2]~ 150 m	350 m €	International Activities
EBITDA[3]	€~ 200 m	150 m €	
Capex[4]	€~ 900 m	700 m €	Digitalisation and innovation
CAGR EBITDA	> 4%	> 4%	Efficiency and value creation
CAGR EPS	5%	> 3%	

1. Calendar RAB, including work in progress;
2. Capex in execution + to be identified;
3. Includes financial income from Uruguay project;
4. Already included in investment plan for Regulated Activities.

Outlook

As described above, the electricity industry is evolving rapidly as a result of the current energy transition, which requires the achievement of challenging objectives relating 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, giving rise to criticalities regarding their integration into 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 the management of complex trading relations between TSOs and other parties operating within the system.

In 2020, the Group will be engaged in implementing the provisions of the 2020-2024 Strategic Plan. With specific reference to the total investment of €7.8 billion planned over the next five years, investment of approximately €1.3 billion is planned for 2020.

The principal electricity infrastructure under construction includes the interconnection with France, which is expected to come on stream in 2021, as well as the start of work on the new SA.CO.I.3 project (strengthening the link between Sardinia, Corsica and the Italian mainland). In addition, the main projects to increase the exchange capacity between the various areas of the Italian electricity market include the Colunga-Calenzano and Paternò-Pantano-Priolo power lines, while the reorganisation of electricity grids in metropolitan areas will concern the cities of Genoa, Milan, Naples and Rome, and will primarily entail renewal of the existing infrastructure, using more technologically advanced connections in line with the best environmental sustainability standards.

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

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

To provide support for these initiatives, the Company plans to step up investment in innovation and digital solutions in order to manage the growing complexity of the system. Attention will also be paid to the development and insourcing of strategic competencies, to the strengthening of departments, and to the consolidation of project execution and project control capabilities.

The Plan must ensure sustainability and respect for the ESGs, minimising the environmental impact, involving local stakeholders and meeting the need for integrity, responsibility and transparency, principles that have always formed the basis of Terna's approach to doing business.

The above objectives will be pursued whilst maintaining our commitment to maximising the cash generation necessary ensure a sound, balanced financial structure.
Above all, however, these ambitious goals can only be met thanks to our most important asset: our people.

Further details of the impact of the Covid-19 emergency on the Terna Group's activities are provided in the section, "Events after 31 December 2019".

Our people

A key role in driving the change: all our actions are underpinned by our corporate values.

The world of energy is undergoing a radical and rapid transformation: requirements are evolving, challenges are increasing, and our ways of working and the skills we need are changing. Against this backdrop, the two inextricably linked enabling factors of Terna's Strategic Plan - Innovation and People - are vital in taking up the challenges of the current energy transition, and therefore for our Company's growth and development. **No change can take place unless it is driven by people.**

Comprising a wide range of professionals across a broad spectrum of skills, Terna's team places great emphasis on working together. For us it is vital to have the best talent on our team, so we seek to identify new ways of working, tapping into new ways of thinking, and thus creating more productive and satisfying working conditions and corporate wellbeing.

Terna's values system

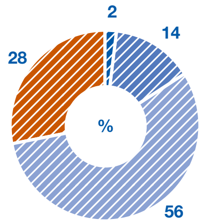
TRUST | PASSION | RESPONSIBILITY

Our corporate identity and our values - **Trust, Passion and Responsibility** - are the foundations for everything we do and include:

- Up-skilling and re-skilling of staff, giving priority to digital skills
- New ways of working together
- Agreements and partnerships with top universities in Italy and abroad
- Innovative sharing and crossover initiatives (hackathons, hackstorms, calls for innovation)
- Projects to raise corporate environmental awareness
- Constant commitment to consolidating the safety and accident prevention culture via extensive training, communication and engagement programmes
- Paying attention to the work-life balance via smart working, welfare programmes and parent support initiatives
- An internal communication system to develop the corporate culture and strengthen the sense of belonging
- An industrial relations system based on dialogue and engagement with the labour unions

WORKFORCE	AT 31.12.2019	AT 31.12.2018	CHANGE
Senior managers	72	67	5
Middle managers	617	638	(21)
Office staff	2.382	2,290	92
Blue-collar workers	1.219	1,257	(38)
TOTAL	4,290	4,252	38

% COMPOSITION OF THE WORKFORCE



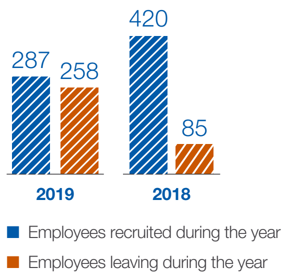
The increase in the Terna Group's workforce at 31 December 2019 reflects 323 additions to the workforce and 285 people leaving the Group. The amount of additions to the workforce, as well as the replacements relating to the generational turnover programme that will end in 2020, includes the new initiatives envisaged in the Strategic Plan, primarily focused on the Investment Plan, on the development of non-regulated business in Italy and overseas and strengthening the Group's distinctive expertise.

323
additions to the workforce

At 31 December 2019, the number of agency workers employed by the Terna Group totalled 29 (15 in 2018).

The turnover rate[10] of 6.71% was up compared with 2018, due to staff taking retirement under the regulatory framework agreement of art. 4 of the Fornero Law, signed with the trade unions. The incidence of voluntary resignations is very low (1.12%).

WORKFORCE TRENDS



COMPOSITION OF THE WORKFORCE	2019	2018	CHANGE
Permanent employees	100%	100%	-
Average age (in years)	41	42	(1)
University and high-school graduates	95.6%	94.3%	+1.3%
Women as a % of the total	13.9%	13.5%	+0.4%
Women in senior and middle management roles out of total senior and middle managers	19.8%	19.7%	+0.1%

The average age of the workforce is 41, down on the figure for 2018. University and high-school graduates make up 95.6% of the total workforce, up 1.3% compared with 2018.

41
average age

In terms of gender, there has been an **increase in women employed (up 0.4%),** although the majority of the Group's workforce consists of men (accounting for 86.1% in 2019).

The presence of women in the workforce has grown steadily over the years, rising from 8.8% in 2005 to 13.9% in 2019. In addition, in 2019, 21% of new recruits, excluding operating personnel, were women.

In terms of type of contract, all employees are on permanent contracts.

100%
permanent contracts

[10] The following commentary refers to employees of the Terna Group, excluding the employees of the Tamini Group (351), Avvenia (17) and Terna Crna Gora d.o.o. (10), as well as the workforces of other overseas companies (local staff in Brazil, Uruguay and Peru, numbering 25, 8 and 7, respectively).

TERNA'S APPROACH

Occupational safety

Safety and accident prevention to guarantee the physical integrity of employees are among the Company's main priorities.

In 2019, Terna launched the **"Zero Accidents"** project, a structured and integrated long-term process which, via a series of wide-ranging initiatives, aims to promote a global approach to safety involving all the Company's staff, as well as people working at Terna's plants in various capacities. Through the definition of improvement and prevention plans, including awareness raising and training initiatives, the two-year project aims to ensure that safety becomes nothing less than a way of life.

The objective is to obtain a significant reduction in accident indicators over the years, in order to achieve and then maintain the target of **zero accidents**.

A total number of 34 accidents was registered, none of which had an initial prognosis of more than 40 days of estimated recovery time, while 8 accidents had a subsequent ongoing prognosis of more than 40 days, which therefore had not been deemed serious[11] on initial prognosis. Five accidents were also registered with an initial prognosis of less than 3 days of estimated recovery time[12].

OCCUPATIONAL INJURIES SUFFERED BY TERNA EMPLOYEES - GRI-ILO DEFINITIONS	2019	2018
Injury rate	0.98	1.28
Lost day rate	39.31	34.40
Number of injuries	34	40
- of which serious (initial prognosis > 40 days)	-	-
- of which serious (subsequent ongoing prognosis > 40 days)	8	11
- of which fatal	-	-

The injury rate and the lost day rate in 2019 are down compared with the previous year.
For further details on this matter, reference should be made to the "Sustainability Report".

Environmental protection

Environmental protection is a priority for the Company, which has always been committed to improving its ESG (Environmental, Social, Governance) performance. This commitment is reflected positively in the sustainability ratings assigned by specialist agencies, in the Company's inclusion in the leading international sustainability indices and in the appreciation shown by socially responsible investors.
In 2019, for example, Terna carried out two "**Terna Plastic Free**" campaigns at its Rome headquarters, which provide for the elimination of single-use plastic from its offices, and "**Terna Recycling**", which steps up the separate collection of municipal solid waste. These initiatives were gradually extended to the regional offices.

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[11] Since 2018, the criterion for classifying an injury as serious has become more detailed. A serious injury is now defined as resulting in a total absence from work of 40 (forty) days or more, excluding the day of the event, as an initial prognosis or as a subsequent ongoing prognosis accompanied by medical certificates. Previously, only injuries with an initial prognosis of 40 (forty) days or more were registered as being serious, excluding the day of the event.

[12] Since 12 October 2017 (art. 3, paragraph 3-bis of Law Decree 244/2016), companies have an obligation to report to INAIL any injuries resulting in an absence from work of at least one day, excluding the day of the relevant event. Previously, the obligation only applied to absences of over 3 days, excluding the day of the event. Absences of less than 3 days were only registered internally.

Training

During 2019, over **183,193 hours of training were provided (47 hours per capita)**.
Approximately 183,000 hours of training had been provided at 31 December 2019, primarily focused on professional and technical and operational skills (for example, **multi-skills**), transmitting highly specialised know-how (for example, **high voltage working**), ensuring compliance with **HSE, GDPR and statutory 231** requirements, and integrating newly hired personnel.

As part of the Call for Open Innovation "**HRR-Human Renewable Resources**" - launched in April by Terna and Digital Magics - innovative training and development initiatives were designed in collaboration with the best start-ups that have responded to the call for proposals, which will be implemented in 2020. In particular, the project in collaboration with EggUp/Together will supplement digital assessment and performance and training management by gauging the effectiveness of the initiative at the end of the course. The project in collaboration with MAAM envisages use of a training method that turns life experience (parenting/caring) into business/managerial skills, thus creating a virtuous continuity between personal and professional life.

Development of human capital

In support of human resources development policies, **Terna uses the Professional System as a basic architecture to manage roles, skills and development paths within the organisation**, enhancing competencies and crafts ("professional families") identified on the basis of core business and corporate processes.

Recruitment and selection

In 2019, the recruitment and selection strategy was strengthened with the introduction of new initiatives aimed at recruiting new hires and enhancing staff who already work at the Company.
In line with the previous year, staff recruited on the external labour market are university graduates - especially engineers - and graduates from technical colleges, most of whom have specialised in electrical engineering. 2019 also saw the recruitment of specialist and middle manager profiles, needed to acquire new expertise and professional skills.
The third edition of **Next Energy**, an excellence programme that enables the Company to recruit outstanding new graduates with a flair for innovation, was implemented in 2019. The **Call for Talent** concluded in July 2019 with the selection and recruitment of 10 talented young people. The fourth edition of the project began on 31 October, and 10 new talented young people started an internship on 20 January 2020.
Other initiatives dedicated to our people included the launch of these **Calls for Employees:**

- **the Guest Auditor Programme**, which enabled two internal staff members to join the Internal Audit team for a period of around 3 months;
- the second edition of **Terna - RTE TSO Erasmus** led to the selection of 2 Terna employees and 2 employees from the French TSO, Réseau de Transport d'Électricité (RTE), to swap their respective offices and working groups for 4 weeks;
- **the Terna - Caiso Exchange Programme** enabled us to host a senior manager from the California Independent System Operator (Caiso) for one month in the dispatching department. In 2020, a Terna employee will undergo the same experience in California;
- the **Stanford Visiting Scholar** programme provides an opportunity to attend a semester of courses at this prestigious California university and take part in a strategic research project.

Terna also manages relations with schools, universities and job centres in order to support the process of recruiting new staff and to sustain a virtuous circle of sharing between the Company and the outside world.
In this connection, during 2019, the third edition of the **Work Experience Scheme** project took place, involving 15 technical colleges throughout Italy and around 750 4th- and 5th-year students, which led to the Company recruiting its first 4 dual apprentices.
Lastly, as part of its partnership with Luiss University, Terna continued its commitment to support engineering and economics students from South American countries. With the second edition of the **International Training Programme** launched in July, two candidates - on Brazilian, and one Peruvian - were selected to attend a specialised two-year Business Administration course at Luiss University, starting in September.

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Company welfare

Given the successful outcomes of the trial in the previous year, and following the signing of specific agreements with the labour unions in 2019, the **Terna Welfare initiative, which allows Group employees to allocate part of their performance bonus for the purchase of welfare goods and services and supplementary pension schemes, was confirmed.** The amount chosen is tax-free and increased by 15% (compared with 12% in 2018), thanks to an additional supplement paid for by the Company. In defining the management service for the welfare plan, special attention was paid to the "Family" category. Indeed, employees allocated a significant portion of their bonuses to reimbursement of this type of expenditure, especially school expenses relating to tuition fees, study holidays, books and taxes.

In addition, in order to facilitate work-life balance, on 1 July 2018 a **smart working** trial was launched lasting throughout the second half of 2018, involving approximately 100 employees from organisational departments at offices in Rome. Given the success of the trial and its largely positive reception, in 2019 **smart working** was extended to staff based in Rome and other large cities, such as Turin, Milan, Padua and Naples, affecting a **total of approximately 550 employees.** This extension of the initiative, in line with the desire to enlarge the role played by collective bargaining in relation to such issues, was also the subject of a specific agreement with the labour unions.

Remuneration

Further details of remuneration and incentive schemes are provided in Terna S.p.A.'s annual Remuneration Report, which is published on the Company's website (www.terna.it).

Local stakeholders

Engagement with local communities is a key part of our Grid Development Plan. This allows us to create the conditions in which together we can build an increasingly sustainable national grid.

A favourable social environment, coinciding with the availability of sufficient relational capital, is essential to Terna's ability to carry out the investments envisaged in the Grid Development Plan within the established time-scale and to exploit available opportunities for its Non-regulated business, in Italy and overseas.

Participatory design

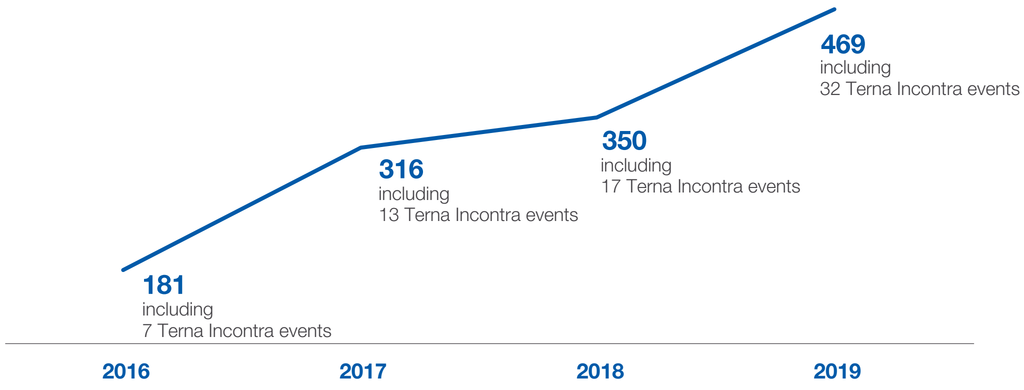
To create the best conditions for building and maintaining high-quality stakeholder relations, Terna has developed a number of tools and procedures within its "Stakeholder Engagement Model" designed to engage with and monitor public opinion, with the aim of creating an increasingly efficient and sustainable grid together.

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.

In line with this approach, Terna:

- speaks directly to people living in the areas where new infrastructure is to be located;
- presents and explains projects, and listens to local communities' opinions and requests for clarification;
- shares improvement solutions regarding the location of new infrastructure or the reorganisation of existing assets, always respecting environmental and landscape constraints.

NUMBER OF LOCAL MEETINGS



SUSTAINABILITY INITIATIVES

Stakeholder

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.

Terna also held **40 public meetings**, including 32 "Terna Incontra" events, in 11 Italian regions (Piedmont, Lombardy, Veneto, Tuscany, Emilia-Romagna, Campania, Sicily, Basilicata, Abruzzo, Trentino-Alto Adige and Calabria), respectively, in Ponte Gardena, Chiusa, Fortezza, Renon Frazione Auna di Sotto, Bressanone, Tiles, Barbiano, Treviglio, Chiari, Casirate d'Adda, Urago d'Oglio, Malles-Venosta, Curon, Vizzini, Celano, Scafati, Castelnovo, Reggio-Emilia and Sant'Ilario d'Enza, at which the potential locations for 16 Development Plan initiatives were discussed.

Local communities: more engagement and consultation

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 partnerships with Legambiente, the WWF and Greenpeace.

Environmental organisations: strengthening partnerships

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), large companies are now required to publish an annual non-financial statement. 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 (an examination of the emerging risks has also been included this year in the section "Dispatching of electricity").

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

Innovation

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

The current **energy transition** process requires a new systemic and organic approach to innovation, based around the acceleration of a portfolio of effective research, development and innovation initiatives in keeping with the Group's strategies.

Terna decided to further speed up innovation in 2019, adopting a centralised, coordinated vision in order to encourage and coordinate research and the development of ideas, with the aim of creating a synergistic innovation ecosystem within the Company, **capable of enabling the transition to a new TSO 2.0 model**.

The transition requires a new, smarter approach to managing the electricity system, which should be increasingly intelligent and flexible both at the level of the grid, thanks to the use of Industry 4.0 enabling technologies, above all the Internet of Things or IoT (advanced sensors, big data, advanced analytics), and in terms of the market. This will entail an unprecedented revolution that will rapidly result in the integration of distributed generation resources, storage and market demand for services, and the Europe-wide integration of national markets. Moreover, in the medium term, it will be necessary to ensure the progressive integratability and interoperability of electricity grids and other networks (transport, gas, water, etc.), in order to make the Italian and European economies stronger and more eco-sustainable.

The main tools Terna has put in place to develop innovation are:

- implementation of an **Open Innovation process**;
- creation of **Terna Innovation Hubs**;
- execution of projects within the **Innovation Hubs** via the **Innovation Factories and central departments**.

Today's form of innovation calls for an approach capable of opening up new possibilities for development and cooperation with the outside world and the creation of dynamic interactions, including close attention to start-ups. This will lead Terna to invest in technological initiatives of greater value for the Company and the national electricity and energy system.

RELEVANT TECHNOLOGICAL TRENDS FOR TERNA

Analytics
Advanced analytics
Machine learning
Artificial Intelligence
Big data

Digital & Computing
Distributed computing
Cloud computing
Augmented and Virtual Reality

Energy Tech
Power system productions
Energy efficiency
Storage
Charging stations
Electric mobility
Renewables
Power to Gas
Smart Grid

Cybertech
Encryption Management
Cybersecurity

Advanced Materials
3D Printing
Nanotech Materials

Full IOT
Satellites
Sensors
Drones
5G
Robotics

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

INNOVATION PLAN

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

Terna Innovation Hubs

In 2019, Terna inaugurated its first three Innovation Hubs at local sites:

- On 9 April 2019, the first Innovation Hub was inaugurated at Terna's Turin site. The Turin Innovation Hub focuses on IoT (Internet of Things) and on advanced monitoring processes for power transmission infrastructure.
  Four areas of interest (satellites, drones, robots and advanced sensors) will be developed there, aimed at controlling the grid in a more dynamic and innovative way 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 increasing the reliability of the transmission grid;
- On 7 November 2019, the second Innovation Hub was inaugurated at Terna's Naples site. The Naples Innovation Hub focuses on Digital to People, namely on the digital transformation of business processes and the innovation of tools in the Human Resources, Organisation and General Affairs department. With the selected start-ups, Terna will develop Digital Safety and Digital Human Resources projects at the Naples Hub, including processes designed to make asset maintenance more efficient, the creation of apps that virtually reconstruct field operations to be used for staff training, and implementation of a platform for collecting information about training needs for use in designing personalised training and digital coaching courses;
- On 17 December 2019, the third Innovation Hub was inaugurated at Terna's Milan site. On 17 December 2019, the third Innovation Hub was inaugurated at Terna's Milan site. The Milan Innovation Hub operates in the field of Analytics and Energy Systems, in order to develop tools and skills for increasingly "intelligent" power grid management, via the processing and interpretation of data and the development of algorithms and advanced simulation and forecasting tools. The Milan Hub has two separate laboratories. The first one focuses on Advanced Analytics, in order to interact with start-ups and innovative companies in a specially designed environment. The second one, nicknamed the Energy Tech Lab, is a laboratory for System Operators' innovation projects, where Terna staff can experiment with innovative technologies in order to develop solutions for secure operation of the electricity system. The Energy Tech Lab consists of three different environments:
- Simulation and Modelling Desk - workstations for the simulation and modelling of process data from Terna's offline systems (historical data);
- Simulation and Modelling Integrated Systems - workstations for simulation and modelling via synchronous interaction with Terna systems (online data);
- Operational Console - workstations that provide synchronous interaction with Terna systems, which are capable of sending commands to the field.

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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. Terna's role is to lead Working Package 5 (WP5, one of the 4 demonstrators of actual grid situations to be developed in Italy along a 150kV portion of the NTG between Basilicata and Puglia, and coordinate important Italian partners in order to develop a new Energy Management System, which will involve the combined, "optimal" use of Dynamic Thermal Rating, Power Flow Control devices, new forecasting techniques and demand side response resources, with the aim of giving the electricity system greater flexibility. Regarding the D5.2 "General technical specification for EMS and physical demo implementation" project, the main engineering and construction activities have been launched with regard to the Energy Management System, as well as the peripheral flexibility resources (industrial Demand Side Response and wind farms) and line monitoring (Dynamic Thermal Rating).

OPEN INNOVATION

New initiatives, which may be driven by requirements within the Company or by the Open Innovation process, are classified within a coherent framework, based on the principal new technologies earmarked by Terna:

- **Internet of Things**: IoT, industrial IoT, 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.

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

Sector	Description
Energy sector and infrastructure peers	The signature of agreements and partnerships with energy business players who are not competitors (TSOs, DSOs, utilities, etc.). Membership of and active participation in leading associations and international bodies involved in the electricity sector and innovation. *Examples: RTE, ENI, RFI, ENTSO-E, EASE*
Universities and research centres	Collaborations to promote and coordinate studies and research with national universities and research centres of excellence in areas of strategic interest, in order to contribute to the preparation of expert researchers in this field and to promote and encourage initiatives aimed at teaching and training in the energy sector. *Examples: RSE, Ensiel*
Large companies and industries	The signature of agreements and partnerships with suppliers or companies who may be competitors, regarding areas of common interest in the electricity sector or applications aimed at ensuring greater sustainability, cost-effectiveness and security in the management of grids.
Start-ups, SMEs & venture capital	The scouting of start-ups and mature enterprises in order to grasp opportunities for the development of specific initiatives of interest to Terna and/or business partnerships. *Examples: the Next Energy programme*

The main initiatives during the year include:

LARGE COMPANIES, INCLUDING IN THE ENERGY AND INFRASTRUCTURE SECTORS

MoU with SNAM

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

On 1 March 2019, **Terna and SNAM signed a memorandum of understanding** to define and implement joint initiatives 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 power generation and the development of innovative technological solutions for the analysis and monitoring of infrastructure.

MoU with The Mobility House

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

UNIVERSITIES AND RESEARCH CENTRES

Hackathon

The Hackathon Smart Tower was held at the Turin Innovation Hub in September. The event, involving teams made up of Polytechnic University of Turin students with the support of CLIK and tutoring by Terna specialists, was aimed at identifying profiles of potential future interest. Innovative proposals were developed for services that use the Smart Tower platform.

Academy

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

START-UPS, SMES AND VENTURE CAPITAL

Next Energy

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

- **Call for Talent:** 10 new graduates were selected, who, from January 2019, had access to a 6-month internship at Terna's Innovation facilities;
- **Call for Ideas:** In May, the Windcity project, deemed to be the best idea among the 10 finalists selected at the end of January 2019, which developed and produced V-Stream, a variable geometry turbine, was awarded a €50,000 voucher to be exchanged for acceleration services;
- **Call for Growth:** In January 2019, with support from the Cariplo Factory, 5 start-ups were selected for further engagement, with a view to defining use cases for subsequent partnerships with Terna.

On 31 October 2019, the fourth edition of Next Energy was launched on the theme of energy transition, with a focus on aspects of the Innovation Plan (Full Internet of Things, Energy Tech, Advanced Materials and Sustainability Digitization Data Management & Analytics).

AMS (Advanced Materials for Sustainability)	On 9 October 2019, the start-up, Particular Materials, won the **AMS - Advanced Materials for Sustainability** Terna Call for Innovation, aimed at developing latest-generation solutions as part of the quest for innovative materials to improve the efficiency and sustainability of electricity grid infrastructure.
D2O (Digital to Operations)	On 8 July 2019, the start-up, Smart Track, won the **D2O - Digital to Operations** Terna Call for Innovation, launched in May, aimed at improving the effectiveness of operations, with particular reference to personal safety issues, through the development of new technologies, devices, applications and high-added-value services to bring about "digital transformation".
Human Renewable Resources (HRR)	On 21 June 2019, Eggup, an HR-Tech SME, won the **HRR - Human Renewable Resources Terna Call for Innovation**, launched on 1 April, aimed at identifying the best services, applications and latest-generation and high-added-value solutions, to help bring about a real digital transformation in human resources management.

Factories

The main strategies relating to **Transmission Operator (TO)** and **System Operator (SO)** activities regard two factories set up in 2018: **the Transmission Operator Innovation Factory** and the **System Operator Innovation Factory**, which are responsible for the Innovation projects assigned to them, monitoring their progress, and the results of research and innovation activities in their fields.

The TO Innovation Factory includes the field of **Transmission Technologies** and is related to asset management, engineering and plant construction processes. It provides support for technological scouting, identification and implementation of technologies, and innovative processes and solutions for the evolution and continuous improvement of the NTG. Specifically, Transmission Operator R&D&I activities are mainly driven by the requirements of the Development Plan and asset management activities. Therefore, priorities are focused on new technologies for the construction and maintenance of Terna's assets (overhead lines, underground cables, electricity substations, HVDC systems).

The SO Innovation Factory includes the **Dispatching and Conduction** process, as well as the related engineering, supervision, control, management and monitoring activities of the national electricity system to ensure the adequacy, security, economy, continuity, quality and efficiency of the transmission service, in accordance with predefined and measurable standards; and **System Engineering**, with a focus on the upgrade and management of the national electricity system, preparation of defence and restart plans, commissioning of plants, calibration and protection systems, malfunction analysis and statistics, and system innovation.

Therefore, SO innovation is mainly focused on enabling participation in distributed generation resources markets, and electricity demand and storage, with the key objective of promoting the penetration and integration of Non-Programmable Renewable Sources within the National Electricity and Energy System. The priority innovation project streams in this sector regard the flexibility of the Electricity System (e.g. vehicle-to-grid projects, demand side response, etc.), and the secure management of the Electricity System (e.g. R&D activities relating to the resilience of the Electric System, pilot projects relating to enhanced monitoring of distributed resources, etc.).

Digitalisation is the main enabler of innovation and the energy transition, to be implemented via projects in the following areas: connectivity (e.g. IoT technologies for asset management and dynamic network management), synchronous data management (e.g. advanced forecasting technologies for data management and electricity market processes), and asynchronous data management (e.g. big data technologies and machine learning for use in data analytics and the exploitation of historical data).

Innovation within the Company is supported and promoted via:

- **Systems and processes to support the enhancement of assets and internal expertise**, including tools to enhance intellectual capital and share corporate know-how, as well as portfolio management tools;
- **Open innovation**, which encourages openness towards new areas for development within and beyond the Company, through dynamic interactions with universities and research centres, partnerships with peers and large industrial players, as well as access to start-ups and innovative small and medium-sized enterprises;
- **Access to incentive and soft financing mechanisms**, which encourages access to incentives (e.g. tax relief for companies investing in research and development and patent box schemes), and to specific funding programmes for both international and national R&D subjects.

RISK MANAGEMENT

Cybersecurity and data protection

Some time ago, Terna adopted an Information Security Governance model that has enabled identification of the top cyber risks. The model is based on a constantly evolving system of rules and procedures, inspired by national and international reference standards (including NIST, National Cybersecurity and Data Protection Framework, ISO 27001). The Cybersecurity and Data Protection operating model supports the main ICT processes, by guaranteeing task segregation principles and associating governance responsibilities with operational and cybersecurity event management responsibilities.

The nerve centre for cyber event management is Terna's Computer Emergency Readiness Team ("TERNA-CERT"). TERNA-CERT ensures centralised real-time monitoring of the Group's security, and preventive and reactive monitoring of potential cyber threats. A member of the main CERT communities at international level, TERNA-CERT is for all intents and purposes a cutting-edge centre for the prevention, identification and prompt management of cyber incidents, via the collection, monitoring and correlation of security events from diverse ICT platforms. Vital cybersecurity info-sharing processes are based on reports from institutional sources - especially from the National Anti-Crime Computer Centre for Critical Infrastructure Protection (CNAIPIC), with which Terna has had an active protocol for some years, and from the national CERT, with which cooperation agreements have been in force for some time - as well on specific agreements with specialised cybersecurity intelligence providers.

It is also important to highlight Terna's constant commitment to the preparation of dedicated cybersecurity infrastructure (relating to IT, OT and IoT), to the security by design of technological projects, and to continuous implementation of vulnerability assessments and penetration tests on the Company's information systems.

Terna has also adopted a Privacy Management Model in order to ensure compliance with GDPR. The Group's Privacy Management Model ("Privacy Model") is constantly updated, and organisational processes inspired by the "Principle of Responsibility and Transparency" (accountability) are implemented.

Specifically, this requirement translates into Terna's obligation to demonstrate and document implementation of all the necessary measures to protect the privacy of parties who entrust their personal information to the Company for various reasons.

Risk management

We carefully analyse all types of risk and assess the most suitable actions to take in order to mitigate any resulting effect, adopting specific safeguards, tools and organisational structures for this purpose.

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).

Risk management actors

From an organisational point of view, the key players in the risk management process are:

- **Audit, Risk, Corporate Governance and Sustainability Committee:** this committee consists of independent members of the Board of Directors and supports the Board of Directors in making assessments and decisions regarding the Internal Control and Risk Management System (ICRMS). Periodically, it is called on to assess the adequacy and efficacy of this system with respect to the nature of the Company and its risk profile;
- **Chief Risk Officer (CRO):** the CRO is responsible for planning and supporting implementation of the risk management process, encouraging the development of the necessary methods and tools, and for coordinating all the entities involved in the ICRMS, to maximise efficiency and minimise the duplication of roles;
- **Quality and Risk Management department:** through its Risk Coordination unit, this department guarantees effective oversight of the implementation of risk management policies and guidelines and supports other departments in this regard.

Risk management methodology

over
1,000
operational
risks

The Terna Group has for some time used an **approach to risk management that is based on best Enterprise Risk Management (ERM) practices**, appropriately tailored to its own situation as grid operator, to identify, assess, control and monitor its risks. ERM analysis has enabled the Group to create a detailed map of its operations and their inter-relations, which are associated with a catalogue of over a thousand operational risks of differing importance in terms of critical nature and impact. This has provided a significant body of information for use when assessing critical areas.

Alongside the adoption and application of an integrated risk management model, Terna has also developed an enterprise Governance, Risk and Compliance (eGRC) IT tool, allowing it to simplify and classify information to obtain a standardised and comparable representation of the Group's risks and produce an integrated report for senior management.

The risks to which the Terna Group is exposed may therefore be grouped into three macro-categories: **Governance & Compliance** (described below), **Operations** and **Strategy & Financial** (details are provided below in line with the corresponding activities).

RISK MANAGEMENT

Governance and Compliance models

By continuously monitoring Governance, Integrity and Compliance risks, and based on **best governance and compliance practices**, Terna:

- has adopted a Code of Ethics;
- has implemented an *Organisational and Management Model, as provided for in Legislative Decree 231 of 2001, as amended;*
- has approved "*Compliance rules for the prevention of administrative offences and violations relating to market abuse*" and adopted *Anti-corruption Guidelines*";
- has adopted a "*Global Compliance Program*";
- has appointed a "*Manager responsible for financial reporting*";
- has adopted an *Integrated Management System*, laying down the criteria for the management of Quality, the Environment, Occupational Health and Safety, Energy, Anti-corruption efforts, Information Security, multi-site Test Lab Security, Live-Line Working and the multi-site Calibration Centre, and a *Management System for the Prevention of Major Accidents* in accordance with the provisions of Legislative Decree 105/15 ("SEVESO III"), as amended (integrated into the Integrated Risk management system;
- has developed an *Information Security Governance Model*;
- has implemented a *Data Protection Model* in compliance with EU Regulation 2016/679 ("GDPR").

The Group has also adopted a "*Trade Compliance Policy*" on overseas trade and established a *Fraud Management* team, accompanied by an *Anti-Fraud Model*.

Fraud management

The approach to combating fraud is based on the **continuous monitoring of processes, in order to determine the level of exposure to the risk of fraud and the related risk factors.** The aim is to adopt suitable governance measures and increasingly rigorous controls, such as, for example, the definition of new internal rules and procedures.

In pursuit of this objective, Terna has established, and continues to study, various types and forms of control, as part of a constant commitment to identifying new approaches to fraud management and new ways of implementing them in order to combat the related risks in the most efficient and effective manner possible.

The systematic analysis of the conditions that could give risk to fraud events, and cooperation with numerous government institutions, constitute the methodological approach to identifying critical areas that may give rise to such events.


Terna

Regulated Activities

The National Transmission Grid

We are responsible for planning, development and maintenance of the grid, contributing our expertise, technology and innovation (as the Transmission Operator). We are responsible for the transmission and dispatching of electricity (as the System Operator), with the aim of ensuring access to electricity for everyone with the highest level of quality and at the lowest possible cost.

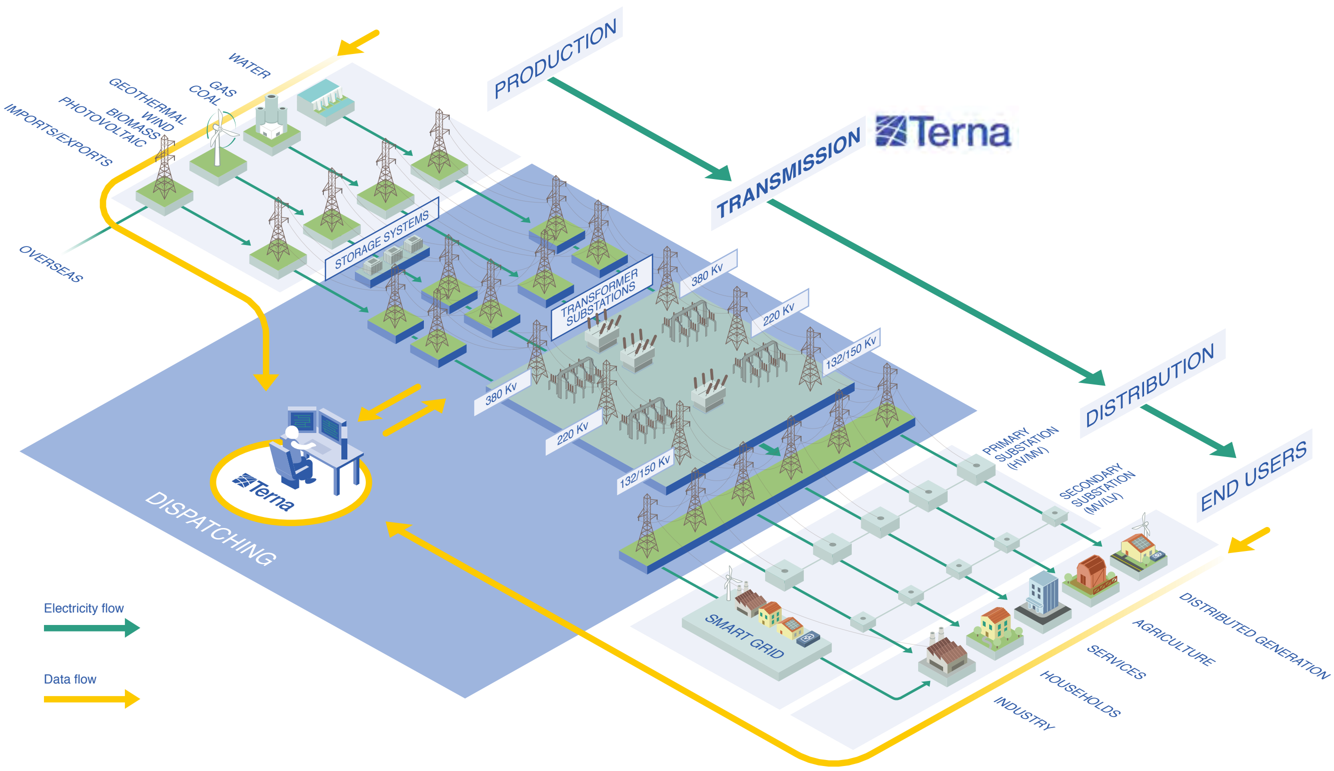
Terna's role in the Italian electricity supply chain

The Italian electricity supply chain consists of four segments: production, transmission, distribution and the sale of electricity.

The Terna Group's main regulated 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), under a monopoly arrangement and a government concession.

THE NATIONAL ELECTRICITY SYSTEM SUPPLY CHAIN



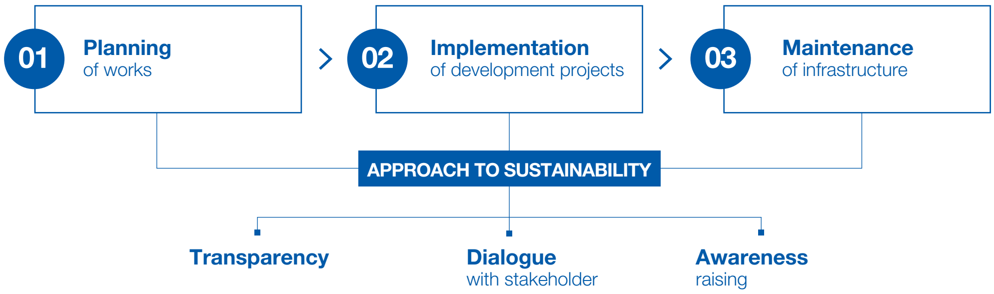




As the Italian System Operator, Terna is responsible for the dispatching service forming part of the National Electricity System.
One of the peculiarities of every electricity system is the need to be able to continuously guarantee that demand for energy from end users (households and businesses) is always balanced by the energy produced by power plants.
Terna has the key and delicate role of guaranteeing this balance through a high-technology system, using a specific market (the dispatching services market or "MSD"), in which it makes daily purchases of the "services" necessary to constantly ensure the continuity and security of electricity supply.

Electricity transmission

Planning for development of the National Transmission Grid, the performance of construction services and the maintenance of electricity infrastructure are the three areas of responsibility included in the regulated electricity transmission business.



The Group adopts a sustainable approach throughout every stage of the process. This takes the form of transparency in managing the Group's social capital through engagement with the stakeholders directly affected by the Group's development initiatives, with a view to building awareness of the importance of delivering the planned new electricity infrastructure.

Terna's infrastructure

888
ELECTRICITY SUBSTATIONS

74,669
KM OF CIRCUITS

67,907
KM OF LINES
95% overhead

N° **4**
CONTROL CENTRES

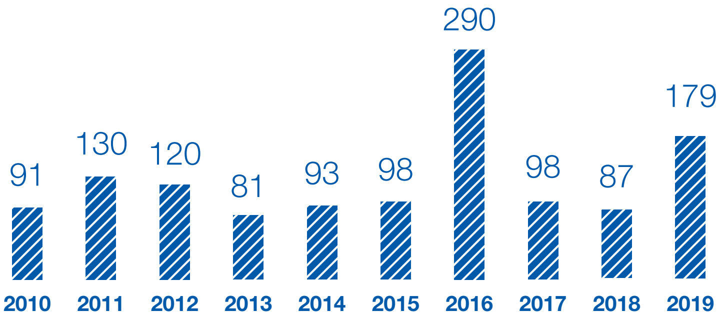
736
TRANSFORMERS

5
STORAGE SITES

6,379
BAYS

235,569
LINE SPANS

Risk management covers each phase of the operational process for regulated transmission activities. Each risk identified by the Group's adopted ERM methodology is assigned a level of importance. For risks that are above the selected acceptance threshold (risk appetite), possible mitigation actions are identified and implementation times estimated.



1,268 km

POWER LINES REMOVED (KM)

The figure for 2016 is exceptional due to the demolition of over 200 km of obsolete power lines in Valtellina as a result action that began in previous years. After adjusting for this removal, demolitions amounted to approximately 80 km, in line with previous years (approximately 100 km per year).

Integration with the environment

The main initiatives designed to mitigate Terna's environmental impact are described below.

- **Rationalisation:** Complex initiatives involving several components of the grid, replacing certain components with others of a superior type, thereby eliminating parts of the grid that are of little use following the installation of new infrastructure or adding new elements of the grid to avoid the upgrade of power lines that have reached saturation point. The demolition of obsolete lines represents one of the most important positive contributions that Terna makes to improving the environment: 179 km of lines were demolished in 2019, freeing up an area equal to 556 hectares. This brings the total number of kilometres of line demolished since 2010 to 1,268. Demolition is defined as the physical removal of overhead lines (or their replacement with underground cable) and does not include downgraded or upgraded lines;
- **Use of pylons with reduced visual impact:** Terna increasingly uses new single-pole pylons with a low environmental impact (occupying only 10 m^2 of ground, rather than the 150 m^2 occupied by the traditional pad/pyramid type pylons). Other mitigation measures consist of camouflaging pylons with paint and the use of coloured insulators that enable the new lines to blend in better with the landscape;
- **Use of underground cables:** may eliminate or reduce the typical visual impact of overhead lines. Over 60% of the new power lines entering service during the timeframe of the new Plan will be "invisible", as they will be made of terrestrial or submarine cable;
- **Camouflaging electricity substations:** use of natural engineering techniques for habitat reconstruction and the stabilisation of slopes and embankments.

Electricity substations are significant from an environmental viewpoint partly as they are the principal source of the Group's direct greenhouse gas emissions. These consist of leakages of SF_6 (sulphur hexafluoride), a gas used as insulation in certain electrical equipment (circuit breakers, current transformers and armoured equipment). Leakages as a percentage of installed gas capacity in 2019 stood at 0.40%.

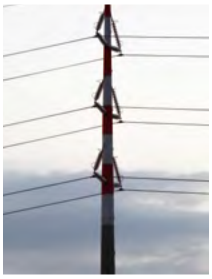
The Group's direct CO_2 equivalent emissions have thus fallen.

TOTAL DIRECT AND INDIRECT GREENHOUSE GAS EMISSIONS - TONNES OF CO_2 EQUIVALENT[13]	2019	2018	2017
Direct emissions			
Total direct emissions	**68,404.4**	**62,999.2**	**75,792.9**
of which: Leakages of SF_6	60,162.2	54,846.1	67,371.4
Indirect emissions			
Electricity[14]	**65,246.9**	**64,050.5**	**72,489.3**

CARBON INTENSITY TONNES OF CO_2 EQUIVALENT / REVENUE (€M)	2019	2018	2017
Total emissions (direct and indirect)	**133,651.3**	**127,049.7**	**148,282.2**
Ratio of total emissions to revenue	**58.2**	**57.8**	**68.6**

[13] The conversion of direct energy consumption and leakages of SF_6 (sulphur hexafluoride) and refrigerant gases into equivalent CO_2 emissions has been carried out using the parameters indicated in the IPCC Fifth Assessment Report (AR5) and the Greenhouse Gas Protocol (GHG) Initiative.

[14] The conversion of indirect electricity consumption is carried out taking into account the share of total Italian electricity production represented by thermoelectric production in 2019. Allocation for the purposes of the production mix was based on the December 2019 issue of the "Monthly Report on the Electricity System", available on the website at www.terna.it.


At the end of their normal lifecycle, the materials used in electricity infrastructure are recovered for reuse in operations. Only a residual portion is sent to landfill and has an impact on the environment.

The percentage of waste recovered amounted to 94% in 2019 (86% in 2018, 87% in 2017 and 93% in 2016). The effective amount recovered depends on the materials contained in the waste: some of them are easy to separate out and thus reuse (for example, the iron parts of pylons); in other cases, instead, it is not possible or it is too costly to separate the various parts, above all when dealing with the most obsolete equipment. For this reason, annual changes in the amount of waste generated and the percentage of waste recycled should not be interpreted as indicating a trend.

RISK MANAGEMENT

In running test Strategic Environmental Assessments (SEAs) of the impact of its Grid Development Plan and then, once implemented, in complying with EU Directive 42/2001/EC, Terna has realised that, by progressively involving stakeholders and with the proactive participation of the authorities in deciding on the location of alternative corridors and the feasibility of routes for infrastructure, it has managed to significantly reduce the time needed to complete the consents process for works involved in developing the NTG.

By then extending this participatory approach to the Environmental Impact Assessment (EIA) process through engagement with local communities, the time employed to complete development projects is reduced to a minimum, with increasingly rare instances of opposition or attempts to halt construction work. Terna has invested in "participatory design", creating the conditions for the shared "construction" of an increasingly sustainable national grid. At the same time, we have identified institutional partners with whom we can discuss the risks resulting from their activities. This has led to cooperation with national bodies and authorities and the signature of memoranda of understanding, represented by a total of around 400 agreements. In this way, it is possible to overcome potential problems arising during operations.

Relations with government institutions and local communities

The 2020 Development Plan

Terna's Board of Directors approved the 2020 Development Plan on 31 January 2020. Key aspects of the Plan are set out below:

CAPITAL EXPENDITURE

- **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. The electricity system's transition to complete decarbonisation requires use of all the tools necessary in order to fully integrate renewable production plants in order to reduce emissions over the long term, guaranteeing the system's security.

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 (in particular, 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. Security of supply ensures the security of the national electricity system and, at the same time, creates an increasingly resilient system, capable of handling critical events external to the system itself.

SYSTEMIC SUSTAINABILITY

4. The ability to conceive, design and implement following rigorous analysis capable of maximising the environmental and economic benefits is the only possible guarantee of sustainability.

PROJECT GUIDELINES

INTEGRATION WITH LOCAL PLANNING	GRID OPERATION	ENVIRONMENTAL SUSTAINABILITY
Focus on local development needs in response to 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 through the growing connection and integration of new renewable energy plants.

The key project guidelines have been divided into four **areas of action**, the main aspects of which are:

RATIONALISATION	RESILIENCE	ACQUISITION OF GRID ASSETS	INTEGRATION OF RES
› Metropolitan areas › Critical areas › Local agreements/ commitments › Optimisation of the former RFI grid	› Development of new risk-based approach › Assessment of other climate events other than ice and snow › Infrastructure works	› Acquisition of HV/HV substations and other assets to resolve operational issues	› Development of RES › Interconnections › Phase-out of coal

INTEGRATION WITH LOCAL PLANNING

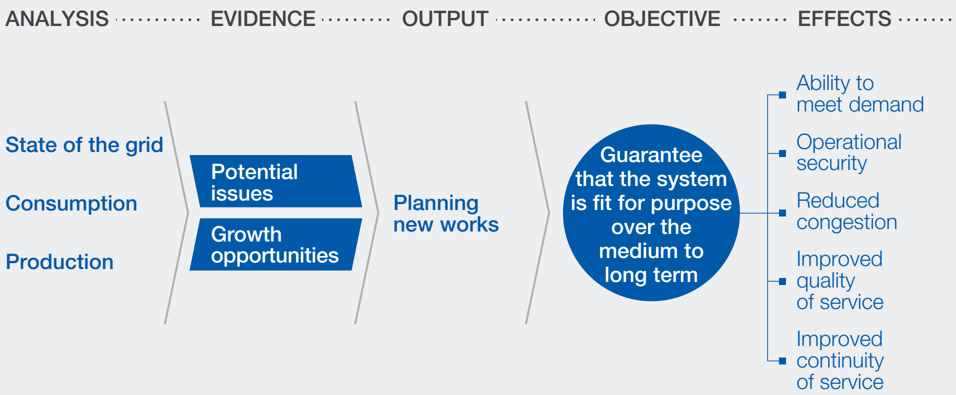
GRID OPERATION

ENVIRONMENTAL SUSTAINABILITY

With regard to decarbonisation, in line with Legislative Decree 93/11 and Resolution 627/16, as amended[15], Terna has included a specific section in the National Development Plan setting out the actions needed in order to make full use of the power produced by renewable plants. The network assessments conducted with a view to facilitating the use and development of renewable production have led to the identification of the work to be carried out on both the primary 380-220kV transmission grid and on the 150-132kV high-voltage grid.

The national electricity grid planning process

Analysis of the state of the grid (electricity flows through the grid and electricity market trends), and the evolution and distribution of consumption and production, enables Terna to identify critical issues and development opportunities and, consequently, to plan the new works required to ensure that the system is adequate, including in the medium to long term with regard to meeting demand, operational safety, reducing congestion and improving service quality and continuity.



The new works to be carried out are included in the **National Transmission Grid Development Plan**, which is submitted annually to the Ministry of Economic Development for approval. The approval process also includes adoption by the Ministry of the Environment and Protection of Land and Sea (MATTM) in agreement with the Ministry of Cultural Heritage (MIBAC) of the opinion relating to the Strategic Environmental Assessment (SEA) pursuant to Legislative Decree 152/06.

The **NTG Development Plan** sets out the grid development initiatives envisaged over the next ten years, as well as the state of progress of the development works planned in previous years.

The Plan contains all the investments that Terna is committed to carrying out in order to guarantee the efficiency of the grid, the security of supply and of the service and the integration of production from renewable sources in keeping with the objectives identified in the recent **Proposal for an Integrated National Plan for Energy and Climate (PNIEC)**, provided for by Regulation 2016/0375 of the European Parliament and of the Council on the Governance of the Energy Union.

All investment in development of the grid is subject to a prior cost-benefit analysis, comparing the related expenditure with the resulting benefits, expressed in monetary terms, resulting from its implementation.

A positive cost-benefit ratio is a necessary condition for an investment project's inclusion in the Development Plan.

[15] Resolution 627/2016/R/eel, as amended - Provisions for consultation on the ten-year National Transmission Grid Development Plan and approval of the minimum requirements for the Plan, in relation to the assessments for which the regulator is competent.

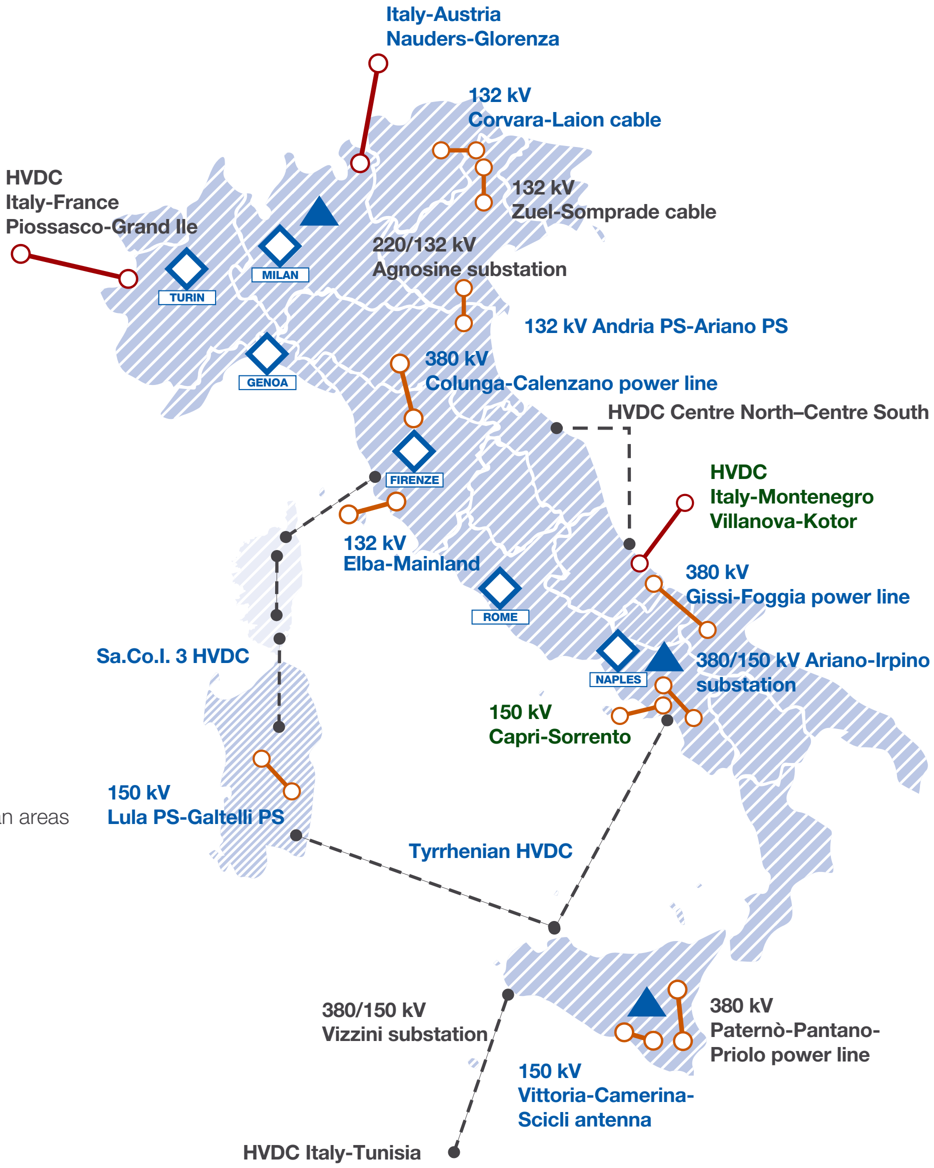
Principal projects for the National Transmission Grid

The Development Plan envisages capital expenditure of over €4 billion in the period 2020-24, which is in addition to expenditure on the Security Plan, the Electricity Asset Renewal Plan and other investment:

Capex 2019

in up 15.9%

versus 2018



Key to assets

- New substations
- Reorganisation of metropolitan areas
- Interconnections
- VHV grid upgrades
- HVDC under design

Key to work in progress

- Project in progress
- Project awaiting consents
- Completed project

DEVELOPMENT PLAN

Interconnections and lines	Km of circuit	Status	Driver
Italy-Montenegro interconnector	445	Completed/in service	Market efficiency, Decarbonisation, Systemic sustainability
Italy-France interconnector	190	Under construction	Market efficiency, Decarbonisation, Security of supply, Systemic sustainability
Italy-Austria interconnector	24	Awaiting consents	Market efficiency, Decarbonisation, Systemic sustainability
Italy-Switzerland interconnector	100	Awaiting consents	Market efficiency, Decarbonisation, Security of supply, Systemic sustainability
Italy-Slovenia interconnector	114	Awaiting consents	Market efficiency, Decarbonisation, Systemic sustainability
Sardinia-Corsica-Italy interconnector	540	Consultation	Market efficiency, Security of supply, Systemic sustainability
HVDC Centre South - Centre North	221	Under design	Market efficiency, Decarbonisation, Security of supply, Systemic sustainability
HVDC Italy-Tunisia	200	Planned	Market efficiency, Decarbonisation, Systemic sustainability
HVDC Mainland Sicily-Sardinia	882	Under design	Market efficiency, Decarbonisation, Security of supply, Systemic sustainability
Sorrento Peninsula interconnector	20	Completed/in service	Security of supply, Systemic sustainability
Reorganisation of metropolitan areas ✓	182	Under construction	Security of supply, Systemic sustainability
Chiaramonte-Gulfi-Ciminna	173	Awaiting consents	Market efficiency, Decarbonisation, Security of supply, Systemic sustainability
Rationalisation in the Mid Piave Valley ✓	90	Awaiting consents	Decarbonisation, Security of supply, Systemic sustainability
Colunga- Calenzano ✓	85	Awaiting consents	Market efficiency, Decarbonisation, Security of supply, Systemic sustainability
Gissi-Foggia	140	Awaiting consents	Market efficiency, Decarbonisation, Security of supply, Systemic sustainability
Cassano- Chiari	36	Awaiting consents	Market efficiency, Security of supply
Deliceto Bisaccia	36	Under construction	Market efficiency, Decarbonisation, Security of supply, Systemic sustainability
Upgrade North - Calabria	10	Awaiting consents	Market efficiency, Decarbonisation, Security of supply, Systemic sustainability
Paternò-Pantano-Priolo	63	Under construction	Market efficiency, Decarbonisation, Security of supply, Systemic sustainability
Elba-Mainland	35	Awaiting consents	Market efficiency, Security of supply, Systemic sustainability
Substations			
Substations entering service: Cepagatti and Kotor belonging to the Italy-Montenegro Interconnector project and Brennero, Nuraminis, Santerno, Mercatello sul Metauro, Picerno and Pontelandolfo		Completed/in service	Security of supply, Systemic sustainability

SECURITY PLAN

Projects	Status	Driver
Fiber for the Grid	Under construction	Market efficiency, Security of supply, Systemic sustainability
Ice and snow risk mitigation systems ✓	Under construction	Decarbonisation, Security of supply, Systemic sustainability
Control devices	Under construction	Market efficiency, Security of supply, Systemic sustainability

RENEWAL PLAN

The Plan to renew electricity assets provides for widespread initiatives across the entire NTG, aimed at improving the reliability of the electricity grid. Particular efforts were made in 2019 with regard to the renewal of overhead lines and substation equipment, including through the use of equipment with insulation using vegetable esters.

Legenda Resilienza e Status *

✓ Resilience Plan | Completed/ in service | Under construction | Awaiting consents | Consultation | Under design | Planned

Key *

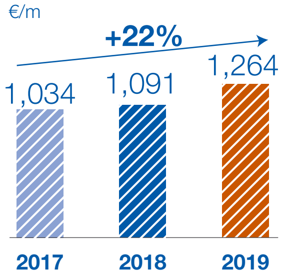
Decarbonisation | Market efficiency | Security of supply | Systemic sustainability

** The other initiatives completed in 2019 are shown in the section "Changes in the dimensions of the NTG" in the annexes.*

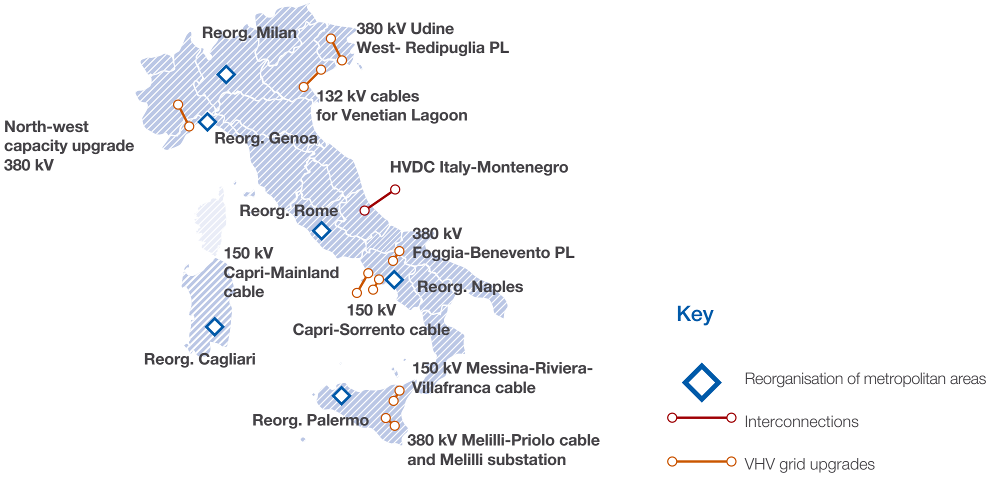
The Group's capital expenditure

The Terna Group's total capital expenditure in 2019 amounts to **€1,264.1 million**, compared with €1,091.1 million in the previous year **(up 15.9%)**.

CAPITAL EXPENDITURE
€/m



WORKS COMPLETED IN THE THREE YEARS 2017-19



(€m)	2019	2018	CHANGE	% CHANGE
Development Plan	488.1	471.7	16.4	3.5%
Security Plan	188.1	135.9	52.2	38.4%
Projects to renew electricity assets	372.4	296.0	76.4	25.8%
- of which electricity assets (before functional separations)	*312.7*	*227.6*	*85.1*	*37.4%*
- of which functional separations	*59.7*	68.4	(8.7)	*(12.7%)*
Other capital expenditure [(1)]	99.0	85.0	14.0	16.5%
Total regulated assets	1,147.6	988.6	159.0	16.1%
Non-regulated assets [(1)(2)]	104.4	87.4	17.0	19.5%
Capitalised financial expenses	12.1	15.1	(3.0)	(19.9%)
TOTAL CAPITAL EXPENDITURE	1,264.1	1,091.1	173.0	15.9%

[1] *Includes impact of IFRS 16.*
[2] *Expenditure in non-regulated assets primarily regards the private Italy-France Interconnector and include the private Italy-Montenegro Interconnector.*

A total of 671 km of power lines entered service in 2019 (the Italy-Montenegro Interconnector, Pontelandolfo- Castelpagano, Capri-Sorrento, Schio-Arsiero, Palo del Colle-Bari Termica, Valle-Piscioli, La Rosa substation - Azimut, Brentelle-Bassanello, the connection to the Fiera substation, Pace del Mela-Villafranca, Marcello-Villafranca), in addition to the **8 electricity substations** referred to above. Following the conclusion of energy transmission tests, the new 150kV Benevento III - Pontelandolfo power line entered service in January 2020. This line, which is over 15 km long, connects the new Pontelandolfo electricity substation with the Benevento III electricity substation.

DEVELOPMENT PLAN - €488.1 million

Italy-France Interconnector (€59.3 million)

Piossasco converter station:

- the civil works and the main buildings for the Piossasco converter station (control building, valve room, direct current equipment room) have been completed, as has production of key equipment for the station (converters and transformers), with installation nearing completion. Installation of the transformers and the cooling system has also been completed.

Cable connection: cables have been laid over a 75-km section, representing 78% of the connection as a whole

- Former Sitaf section (from the station to the A32 motorway): completed;
- Upper and lower sections (A32 motorway): 36 km of civil works have been completed and 29 km of cable laid out of a total 45 km;
- Middle section (avoiding the A32 motorway): 24 km of civil works have been completed and 22 km of cable laid out of a total 25 km;
- Frejus: the civil works have been completed and 5.8 km of cable has been laid out of a total of 6.6 km.

Sorrento Peninsula Interconnector (€27.6 million)

Submarine and terrestrial cable: the new 19-km Capri-Sorrento connection was declared ready to enter service on 28 December 2019 (3 km of underground cable in the town of Sorrento and 16 km of submarine cable).

Sorrento substation: the Sorrento substation is under construction. The reactor has been completed.

Italy-Montenegro Interconnector (€25.9 million)

The entire connection entered service on 28 December and work on the final layout of the site is in progress. This work extends for 445 km between Italy and Montenegro, linking the electricity substations of Cepagatti, in the province of Pescara, and Lastva, in the town of Kotor. This infrastructure is considered to be of strategic importance for the integration of European electricity markets, providing two-way interconnection capacity of 600 MW.

Grid upgrades in the Foggia-Benevento area (€16.5 million)

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

Expansion of the Bisaccia electricity substation and the installation of PSTs: civil works are at an advanced stage; electromechanical assembly of the HV equipment has begun.

Belcastro substation (€13.3 million)

The provisional layout of the substation was completed in May 2019, and production from renewable sources consequently connected. Work has continued in 2020 on the final layout of the substation. In particular, the layout of the site is nearing completion, prefabricated buildings have been completed, as have the foundations for the electrical equipment; electromechanical assembly of the HV and LV equipment is in progress.

>>

Reorganisation in Naples (€10.2 million)	**220kV Castelluccia-Naples Primary Substation cable:** work is nearing completion and the cable is due to be commissioned in the first half of 2020. **220kV Astroni-Naples Centre cable:** work began in May 2019 and cable laying is in progress. **220kV Castelluccia-San Sebastiano power line:** work on the upgrade and putting the existing line under ground began in September 2019; construction work is in progress.
Brennero substation (€10.3 million)	**Brennero substation:** the 132kV section entered service in December 2019; work on the 110kV section is nearing completion, as is arrival of the equipment (the transformer and PSTs). **Overhead links:** work on the links between the new substation and the Prati di Vizze-Austria cross-border line has been completed; this infrastructure is needed to begin operating the interconnection with Austria.
Reorganisation in Rome (€9.5 million)	**150kV cable linking Rome South-Laurentina 1 and 2:** line 1 has been in service since November 2019; excavation work and laying of the new cables for line 2 is in progress. **Main 150kV Laurentina-Nomentana power line:** • Laurentina-Ostiense: excavation work and cable laying is in progress (excavation for three sections has been completed, as has one of the six sections of cable A “Laurentina-Ostiense”; the executive design and archaeological surveys regarding the B “Laurentina-Ostiense” cable are in progress and work on excavation of the first section has begun); • Villa Borghese-Nomentana: work on the executive design is in progress.

SECURITY PLAN - €188.1 million

Synchronous compensators (€84.1 million)

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

In particular:

- **Selargius and Matera:** the civil works are nearing completion and production of the related supplies has been completed. The equipment (synchronous compensators and transformers) has been delivered on site and the related on-site assembly has begun;
- **Garigliano and Maida:** work has begun and the civil works are in progress; production of the related supplies is in progress;
- **Foggia:** the executive design has been completed.

Fiber for the Grid (€36.7 million)

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

A further 40 electricity substations on the NTG (making a total of 436 substations) and 40,800 km of fibre were connected and lit in December 2019.

Power line Brindisi Pignicelle - Brindisi EniPower (€18.4 million)

Construction work began in July 2019 and the laying of cables is in progress.

RENEWAL PLAN - €372.4 million

Renewal of electricity assets (€312.7 million, before functional separations)

A further 4 green assets entered service in 2019 (making a total of 8 green assets). Approximately 15 km of fluid-oil cables have been replaced with new cables with solid insulation, confirming the commitment to using new, more sustainable and eco-friendly technological solutions.

Separation of Rete S.r.l.'s substations (€59.7 million)

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

A further 67 electricity substations were integrated in 2019 (making a total of 306 substations out of the 350 acquired in 2015).

Infrastructure maintenance

Giving priority to quality and security

Maintenance of electricity grid infrastructure is essential in order to guarantee quality of service, the security of the assets managed and the performance of power line and substation components. These operations are carried out on the basis of a predictive and conditional approach. **The tools used to support maintenance activities are subject to continuous innovation**. In particular, the maintenance engineering "engine" is the expert decision support system (DSS) called **MBI (Monitoring and Business Intelligence)** whose engineering models are continuously updated. For scheduling and execution of operations, **(WFM - Work Force Management)** software is used, and aerial inspection techniques for the electricity grid have now been consolidated. Terna has, for many years, participated in international benchmarking for the sector, with the aim of sharing best maintenance practices. It has consistently ranked as one of the best TSOs in terms of fault rates and the efficiency of its maintenance process.

INFRASTRUCTURE MONITORING AND CONTROL

34,740
checks on substations of various voltage levels

1.3
inspections a year for each line

89,174 km
visual inspections of circuits

48,563 km
inspections of underground cable

39,544 km
visual inspections using helicopters

25
total average frequency inspections per year

ROUTINE MAINTENANCE

Repairs are carried out when signs of deterioration are identified as a result of the monitoring process or by on-line sensors. These indications and any problems identified are processed by the expert system used to support decision-making (MBI- Monitoring and Business Intelligence). This system draws up the maintenance plan on the basis of engineering models developed by the Asset Management department.

VEGETATION MANAGEMENT

28,960 km

of power line; this has to be done to ensure the correct and safe operation of the lines

LIVE-LINE WORKING

3,100

checks and line maintenance interventions using live-line working were carried out

RENEWAL PLAN

The Renewal Plan is based on an analytical method that, starting from consistent, objective technical criteria, identifies and evaluates extraordinary maintenance works ("renewal"), assessing the state of repair and technical status of line components and substation equipment, using a priority clustering approach with the aim of improving the quality of the electricity service and prolonging the useful lives of assets.

Renewal work is associated with the following benefits:

- **Sustainability**, resulting from the use of more eco-friendly components, the replacement of fluid-oil cables and improvements to the reliability of assets;
- **Innovation and digitalisation**, reflecting the adoption of monitoring systems for existing assets using digital and innovative solutions;
- **Resilience**, work on strengthening the NTG in order to increase the resilience of the infrastructure.

The main renewal initiatives ("extraordinary maintenance") are described below:

EXTRAORDINARY MAINTENANCE

POWER LINES

2,747 km
of conductors

3,296 km
of ground wires

167
pylons were replaced

SUBSTATIONS

27
static machines

221
circuit breakers

353
disconnectors

678
current transformers

857
voltage transformers were replaced

RISK MANAGEMENT

Relations with institutional partners

Following an innovative approach to risk reduction policies, **Terna cooperates with institutional partners (national and international regulatory bodies and authorities) with which to share the risks resulting from its activities**. These include the Ministry of the Interior, the Italian tax police, the Fire Service, the National Association of Italian Municipalities, Prefectures and CNAIPIC (the National Centre for Combating Cyber Crime and for the Protection of Critical Infrastructure), the State Police, ANIE (the National Association of Electricity Companies), Snam, ISCTI (the Higher Institute of Communication and Information Technologies) in relation to cooperation regarding the national CERT and DIS (the Cabinet Office's Security Intelligence Department). In particular, in October 2019, **a memorandum of understanding was signed by Terna, Port Authorities and the Coast Guard** with the aim of boosting efforts to prevent damage to submarine cables. The parties have committed to increasing the effectiveness of surveillance of the stretches of water where around 1,500 km of submarine cable are located. The aim is to draw up a structured cooperation plan to facilitate the investigation of cases where damage has been caused to submarine electricity cables, in order to identify the persons responsible for the damage.

Protection of people and assets

The physical security of substations is assured by using devices, systems and units operating 24 hours a day, seven days a week. **To safeguard the security of the Company's premises and plant, Terna has also developed a surveillance platform called the Integrated Physical Security System**, which allows the dedicated surveillance centre - the Security Operations Centre or SOC - to continuously monitor any intrusion alarms and video from 235 substations.

When needed, the VideoBox system also makes it possible to set up a video-surveillance and alarm system for critical areas (such as storage areas for materials or construction sites) in just a few hours.

In order to raise the level of physical security, the analysis of video flows using AI began in 2019. This identifies intrusion events through the use of Deep Learning algorithms based on neural networks, integrated with the central physical security systems.

Terna has partnered with the Italy's **Carabinieri police force** to further strengthen its communications and rapid intervention system, which enables the SOC to quickly alert the police in the event of attempts at forced entry to critical substations, all equipped with video surveillance equipment. The new system has been called "O.D.I.N.O." (Operational Device for Information, Networking and Observation) and is connected, via a secure link, to the centralised operating system used by Carabinieri operations rooms throughout Italy.

Ongoing Security Intelligence activities continued in 2019 in order to protect Group companies' assets, operations and interests in Italy and overseas, assessing and monitoring security in the countries and areas of interest to the Group.

The process of installing seismic sensors began in 2019, marking the first step in creating Terna's Accelerometric Network. Work also began on the centralisation of the resulting data on a central platform, making it possible to measure the physical impact of seismic events on electricity substations.

Work also began in 2019 on the protection of pylons using a centralised system to record events (attempts at sabotage and pylon stability), based on data from sensors integrated with central physical security systems. This has been done for the purpose of managing emergency situations and protecting lines and the areas around substations.

Finally, the Advanced Enterprise Protection System (SETA) was released in 2019. **SETA** aims to provide an integrated, georeferenced system for managing business threats and emergencies, based on a single infrastructure available to the SOC. SETA will be made available to senior management and the Company's key departments.

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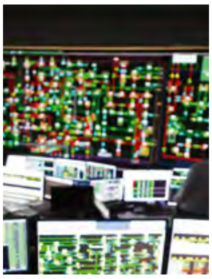
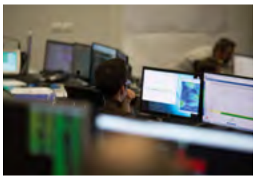
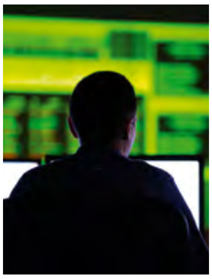
Terna uses a Supplier Qualification System set up pursuant to existing legislation governing Public Works (Legislative Decree 50 of 18 April 2016 "Public contracts code for the supply of works, services and goods"), for all the main core categories of goods, works and services that Terna intends to procure, established on the basis of strategic importance, degree of competitiveness and annual procurement volumes.

The qualification procedure is overseen by a Qualification Committee whose members are senior managers and an independent, external Chair in compliance with the **principles of neutrality, impartiality and collective responsibility**.

The qualification process assesses the suitability of each supplier on the List through rigorously assessing their satisfaction of legal, financial, technical, organizational and health and safety requirements and their social ethics, assessed partly via on-site inspections. During the three-year qualification period, suppliers are constantly monitored. **37 inspections** were carried out in 2019 in order to conduct checks and monitoring on suppliers' premises.

Supply chain

Quality of service

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

Terna monitors service continuity through various indicators defined by ARERA (Resolution 250/04) and in Terna's Grid Code.
These continuity indicators are significant for the system, as they monitor the frequency and impact of events that have occurred on the electricity grid as a result of faults or due to external factors, such as weather events. In all cases, the period of observation is four years, a period in which there have been no significant changes, testifying to the high quality of service achieved.

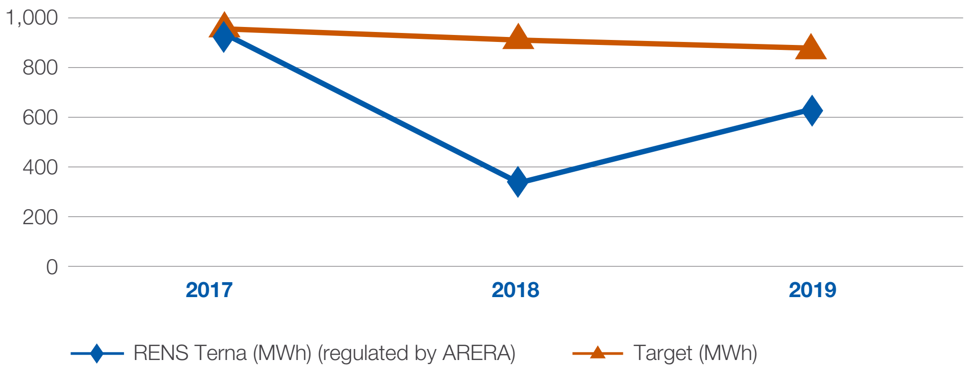
CONTINUITY INDICATORS USED

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).

RENS[16] INDICATOR PERFORMANCE 2017-2019



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

The **"NTG RENS"** indicator for the period from January to December 2019, based on preliminary data, amounts to approximately 625 MWh (compared with an annual target of approximately 881 MWh set by ARERA).

[16] 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, Terna's bonus/penalty mechanism also includes the performance of the grid operated by Terna Rete Italia S.r.l. (merged with Terna S.p.A. on 31 March 2017).

As regards the **ASA** indicator, availability was 99.99980% in 2019, compared with 99.99991% in the previous year. The operating performance shows that ASA has remained stable at a high level over the years (the higher the indicator, the better the performance). This indicator shows that the energy not supplied following a fault on the owned grid represents a minimal part of the total quantity of energy supplied to users of the grid.

Existing regulations (set out in Resolution 653/2015/R/eel) envisage a series of mechanisms designed to regulate and encourage improvements in the quality of service provided by Terna. The overall economic effects of the bonus/penalty mechanisms related to quality of service for 2019, compared with 2018, are shown below.

QUALITY OF SERVICE (€M)	2019	2018	CHANGE
RENS bonuses/(penalties)	20.2	7.4	12.8
Revenue	**20.2**	**7.4**	**12.8**
Mitigation and sharing mechanisms	4.3	7.5	(3.2)
Contributions to the Fund for Exceptional Events	0.6	2.0	(1.4)
Compensation mechanisms for HV users	0.6	0.4	0.2
Contingent assets	(4.9)	(4.8)	(0.1)
Costs	**0.6**	**5.1**	**(4.5)**
TOTAL	**19.6**	**2.3**	**17.3**

CONTINUITY INDICATORS USED

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.

* *Average Service Availability.*

Dispatching of electricity

"Dispatching" is the set of activities necessary to ensure that there is a balance between supply and demand in the country's electricity system. The high degree of complexity and coordination necessary to guarantee the correct operation of the system require the presence of a central coordinator, the provider of the dispatching service. This coordinator has control over a high number of both supply-side and demand-side players, and in the last few years also over production from non-programmable renewable sources.

Constant balance between energy demand and supply

Dispatching includes planning for the unavailability of the grid and of production plants over different time-scales, forecasting national demand for electricity, comparing demand for consistency with planned production in the free energy market (the Power Exchange and over-the-counter contracts), the acquisition of resources for dispatching and monitoring power transfers for all the power lines that make up the grid.

This area of operation also includes management of the **Dispatching Services Market (DSM)**, through which the resources for dispatching services are procured.

In particular, "real-time" control of the National Electricity System is ensured by the **National Control Centre**, the nerve centre for Italy's National Electricity System, which coordinates the other centres around the country, monitors the system and dispatches electricity. The Centre intervenes, by issuing instructions to producers and Remote Centres, in order to modify supply and capacity on the grid. To avoid the risk of prolonged power outages, it may also intervene in an emergency to reduce demand.

The following key events in relation to efficient management of the grid took place in 2019.

KEY EVENTS IN 2019

Black start simulations

Black start simulations are needed to check that the electricity system is working properly and to improve its efficiency by ensuring a rapid reboot of the system in the event of a blackout. In 2019, four live tests **were successfully conducted**, followed by the related black starts.
On 13 January, black start testing was carried out from overseas, from Slovenia to Puglia. In September, November and December, a further three simulations were conducted in Italy, with black starts carried out in Friuli-Venezia Giulia, central Italy (Abruzzo, Lazio and Umbria) and in Sardinia.

TERRE project

The TERRE (Trans-European Replacement Reserve Exchange) project began in 2013 as an early implementation of the Electricity Balancing Guidelines regarding the design, development, implementation and management of a platform to **share balancing resources among European countries.**
The project involves 11 countries of which nine are full members (France, the UK, Switzerland, the Czech Republic, Poland, Spain, Portugal, Romania and Italy) and two are observers (Bulgaria and Hungary).
In August 2019, a Cooperation Agreement was signed that marks the beginning of the implementation and operational phase of the TERRE platform for the exchange of Replacement Reserves (to be activated in over 15 minutes).

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Capacity Market

The Capacity Market enables Terna to procure generation capacity via fixed-term contracts awarded by competitive auction. This market will make the energy market more efficient and guarantee the security of the system and the procurement of electricity. In addition, the Capacity Market also has a key role to play in the phase-out of coal by 2025.

European Regional Coordination initiatives

In implementation of **Regulation SO GL 2017/1485**, regarding the creation of a **Regional Security Coordinator (RSC)** to protect the operational security of the electricity transmission system, the quality of frequency and efficient use of the interconnected system and within the **GRIT Region** (which includes the borders between areas of the internal market within the Italian system and the interconnection with Greece) and the **South-Eastern Europe Region**, on 20 December, the TSOs from the countries concerned (Italy, Greece, Hungary and Romania) agreed to set up a company to be based in Salonika.

In implementation of the Regulation, on 24 December, Terna submitted the following to ARERA:

- the joint proposal agreed by TSOs in the Greece-Italy Region regarding the approach to regional coordination of operational security;
- the joint proposal agreed by TSOs in the Northern-Italy Region (Italy, France, Switzerland, Austria and Slovenia) regarding the approach to regional coordination of operational security.

Opening up of the DSM to new types of resource

In accordance with ARERA Resolution 300/2017/R/EEL (which set up pilot projects as part of the progressive opening up of the dispatching services market to new types of resource, including storage systems and distributed demand and generation), on 20 November 2019, Terna published a document, to be consulted on with entities interested in making use of the **Fast Reserve** service, in the "Pilot Projects" section of its website. These projects aim to increase the resources available to provide grid services, try out new forms of revenue and test new kinds of fixed-term procurement of resources, partly in view of the future scenarios described in the proposed National Integrated Plan for Energy and Climate (PNIEC). The Fast Reserve service could thus contribute to system security by improving the speed of response to frequency changes, a service up to now provided by traditional generating plants.

Application of European Grid Codes

In implementation of the related EU regulations:

- **EU Regulation 2016/631** on requirements for the connection of generators to the grid;
- **EU Regulation 2016/1388** on demand connection;
- **EU Regulation 2016/1447** on requirements for connection to the grid of high voltage direct current systems and direct current-connected power park modules.

Terna submitted changes to the Grid Code to ARERA. These regarded Chapters 1, 4 and 14 and Annexes A17 and A68. The changes were approved by ARERA in resolutions 592/18, 82/19 and 539/19.

In implementation of **EU Regulation 2017/2196** (the "Emergency and Restoration" Regulation), which established a Grid Code for electricity emergencies and restoration, Terna submitted changes to the Grid Code to ARERA regarding Chapter 10 and Annexes A9, A10, A12 and A75. These changes were approved by ARERA in Resolution 546/2019.

In implementation of **EU Regulation 2019/943** on the internal market for electricity in the Italy North Region, Terna submitted its proposed method for calculating capacity to ARERA. The proposal, drawn up by the Region's TSOs, has altered the method to reflect the provisions designed to guarantee markets minimum cross-zonal capacity of 70%.

Dispatching

RISK MANAGEMENT

The transition to a new model of distributed generation from renewable sources is rapidly changing the market, with the rise of the prosumer (producer and consumer) model, which is progressively replacing the traditional consumer. This has resulted in exponential growth of "active" resources connected to the grid.

The risk is linked to difficulties in maintaining observability of the grid in terms of injections and withdrawals of energy. This is having an impact on the ability to forecast residual demand (before self-consumption) and, as a result, on the correct management of generating resources that are able to provide flexible services.

Terna mitigates the risks associated with the management of renewable sources and the "real-time" observability of resources by **using advanced forecasting and planning tools, a supply of new flexibility resources, and innovative data management and analytics solutions.**

Electricity cost trends

Electricity prices

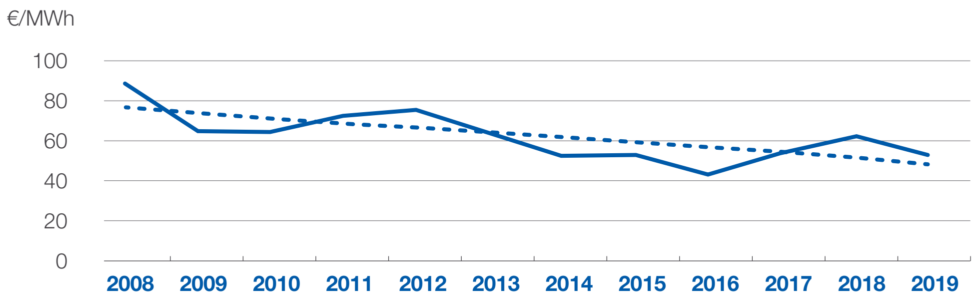
-15%

PUN 2019

The average hourly price on the Italian Power Exchange (IPEX[17]/SNP -Single National Price) for 2019 is €52 per MWh, down 15% compared with 2018, reflecting reductions in commodity prices (especially the price of gas) and the increased supply of renewable energy.
The Day Ahead Market, which sets the SNP, is based on supply and demand, although Italy must, by necessity, also take account of its particular geography, with the physical nature of the electricity grid, the widespread nature of its infrastructure and the location of consumption, and the resulting grid congestion. This means that there are a number of "bottlenecks" on the transmission grid, which have made it necessary to identify "market zones" and set transmission limits. Eliminating these bottlenecks is one of Terna's tasks, above all through development of the grid.

The following chart shows the performance of the SNP from 2008 to 2019, **highlighting a declining trend.**

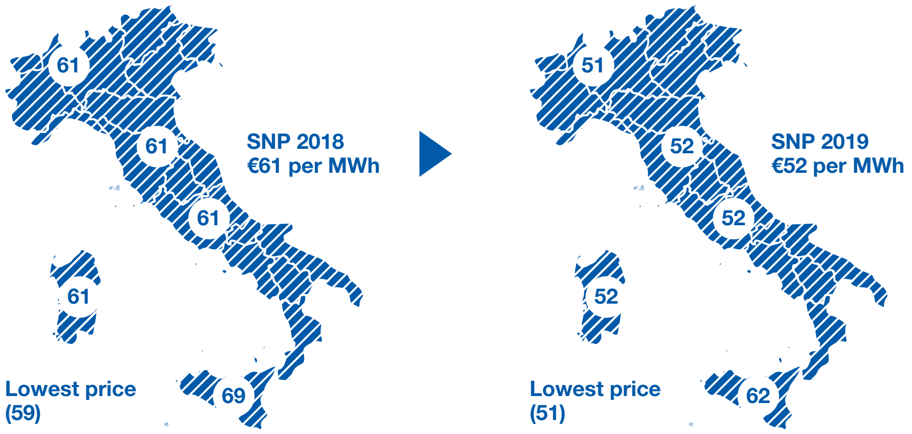
PERFORMANCE OF THE SINGLE NATIONAL PRICE (SNP) FROM 2008



Over the years, prices in the principal zones that make up the Italian electricity market and the Single National Price (SNP) have fallen into line.

[17] IPEX: the Italian Power Exchange.

PERFORMANCE OF ITALY'S SNP AND ZONAL PRICES



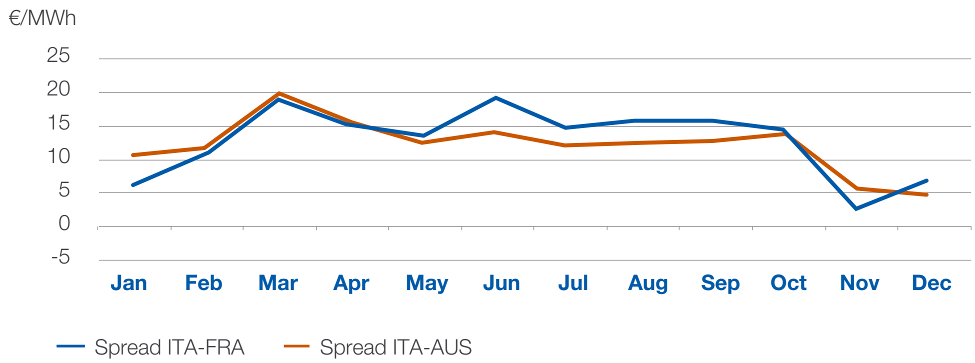
Trade with other countries

Trade with other countries in 2019 resulted in a reduction in net imports, which are down approximately 6 TWh (13%) compared with the previous year.
The winter period (January and the last two months) registered the usual reduction in the quantity of electricity imported, compared with the available transmission capacity in the northern interconnection. This was above all due to the alignment of power exchange prices.

Prices on the French (PNX) and Austrian (EEX) exchanges fell year on year in line with the decline in commodity prices (especially the price of gas).

-6TWh
net imports

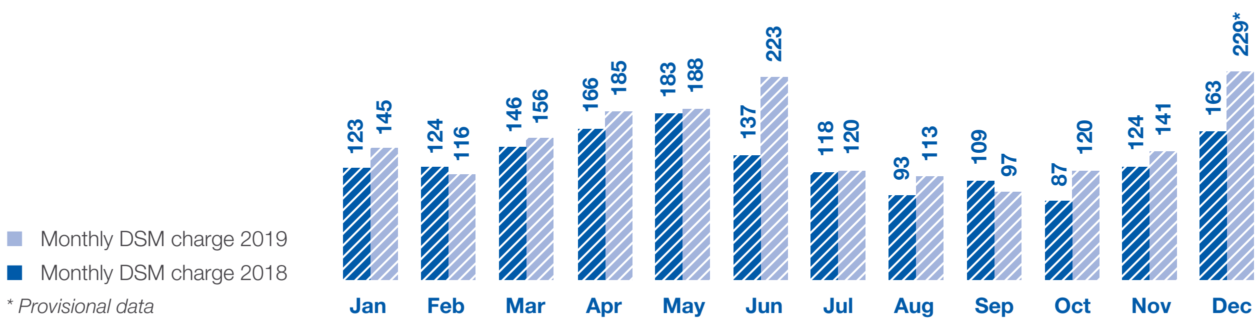
MONTHLY SPREAD FOR ENERGY PRICES COMPARED WITH FRANCE (PNX) AND GERMANY/AUSTRIA (EEX/PHELIX)



In particular:

- the Powernext (French price) registered an increase in the cold months of the year during which, traditionally, energy demand in France rises sharply, whilst recording lower average prices in the summer. The average annual price was €39 per MWh (down €11 per MWh or 21% compared with the previous year);
- during summer, the Austrian price (EEX) diverged from the trend recorded by the French price, registering increases due to both greater demand from Slovenia and the fact that it is no longer coupled with the German market. The average annual price was €40 per MWh (down €6 per MWh or 13% compared with the previous year).

ANNUAL AND MONTHLY DSM COSTS (€M)



Dispatching Services Market (DSM)

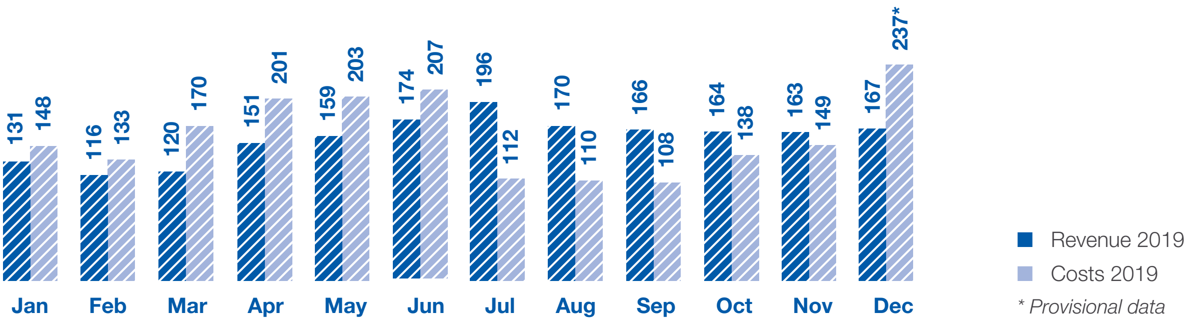
Net DSM charge up in 2019

In 2019, the net charge for using the DSM was €1,833 million, up on the previous year (€1,573 million). The increase is due above all to:

- an increase in the cost of selection, resulting from the need to meet technical constraints due to a reduction in the number of traditional plants in service as a result of Electricity Market trends;
- an increase in the cost of procuring reserve capacity compared with the previous year, primarily due to price increases.

Terna procures dispatching resources on the Dispatching Service Market (DSM) to ensure the security and adequacy of the electricity system.

2019 REVENUE AND UPLIFT COSTS (€M)



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

In 2019, the total uplift was €1,916[18] million, up 10% on the previous year. The rise was primarily due to the increased cost of procuring services on the DSM and a reduction in revenue resulting from imbalance costs.

Uplift payments are the tool used by the system to recover the net costs deriving from energy-related items from the end user, including the supply of services and energy to cover system imbalances in the DSM, imbalance costs, congestion revenue and the related coverage (CCT, CCC, CCP and DCT[19]) and the cost of the virtual interconnection (the Interconnector).

ARERA Resolution 111/06 (TITLE 4) regulates charges for dispatching services and the connected guarantees. Dispatching charges include the cost of procuring resources on the Dispatching Services Market (known as the uplift), pursuant to article 44, as amended.

+10%
the UPLIFT
in 2019

The charge is invoiced pro-rata to dispatching users based on energy withdrawn, to cover the expected accrued monthly cost and any prior differences.

[18] The uplift includes the virtual interconnection, amounting to approximately €232 million in 2019 (compared with approximately €292 million in 2018).

[19] These abbreviations, which refer to the Italian terms, have the following meanings:
CCT - Fees for Assignment of Rights of Use of Transmission Capacity;
CCC - Contract Covering the Risk of Volatility of the Fee for Assignment of Rights of Use of Transmission Capacity (between zones);
CCP - Contract Covering the Risk of Volatility of the Fee for Assignment of Rights of Use of Transmission Capacity (between industrial centres);
DCT - Contract Covering the Fee for Assignment of Rights of Use of Transmission Capacity on Foreign Interconnections.

Operating results of Regulated Activities

The following table shows a breakdown of the results from the Terna Group's Regulated Activities in 2019 and 2018[20].

(€m)

	2019	2018	CHANGE
Total regulated revenue	**2,055.0**	**1,989.6**	**65.4**
Tariff revenue	1,973.1	1,932.2	40.9
- Transmission revenue	*1,860.2*	*1,789.1*	*71.1*
- Dispatching, metering and other revenue	*112.9*	*143.1*	*(30.2)*
Other Regulated revenue	54.3	31.9	22.4
Revenue from construction services performed under concession in Italy	27.6	25.5	2.1
Total cost of Regulated Activities	**397.5**	**403.1**	**(5.6)**
Personnel expenses	213.1	203.4	9.7
External resources	150.6	155.5	(4.9)
Other	6.2	18.7	(12.5)
Cost of construction services performed under concession in Italy	27.6	25.5	2.1
EBITDA from Regulated Activities	**1,657.5**	**1,586.5**	**71.0**

EBITDA from Regulated Activities in Italy amounts to €1,657.5 million, an increase of €71 million compared with the figure for the previous year. This primarily reflects an increase in the WACC used in setting tariffs.

65.4 € mln

the increase of Regulated Revenue

Regulated Revenue is up €65.4 million, reflecting the following:

- a €71.1 million increase in **transmission revenue**, 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), the determination of revenue from the Italy-Montenegro Interconnector (ARERA Resolution 568/19) and the recognition of additional payments for energy-intensive storage systems (ARERA Resolution 169/19);
- a €30.2 million decrease in **dispatching, metering and other revenue**, due to ARERA's one-off recognition of certain expenses arising in the previous year;
- an increase in revenue resulting from the RENS quality incentive mechanism (up €12.8 million), following assessment of the performance in 2018 (Resolution 521/2019/R/eel) and valuation of the performance in 2019, taking into account the estimated results expected overall for the regulatory period 2016-2020 (Resolution 653/2015/r/eel);
- increased revenue from the application of penalties to suppliers (up €1.8 million) and connection services (up €1.7 million).

The **cost of Regulated Activities** is down €5.6 million, primarily reflecting the adjustment of the Group's provisions for taxation, linked to prior provisions made in relation to Land Registry Circular 6/2012 (a reduction of approximately €6.6 million), a decrease in the cost of leases and rentals falling within the scope of IFRS 16 (down €5 million), lower costs relating to quality of service (down €4.5 million, primarily due to the impact of outages and interruptions in 2018), partially offset by the impact on **personnel expenses** due to an increase in the average workforce (up €9.7 million).

[20] 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 2020-2024.

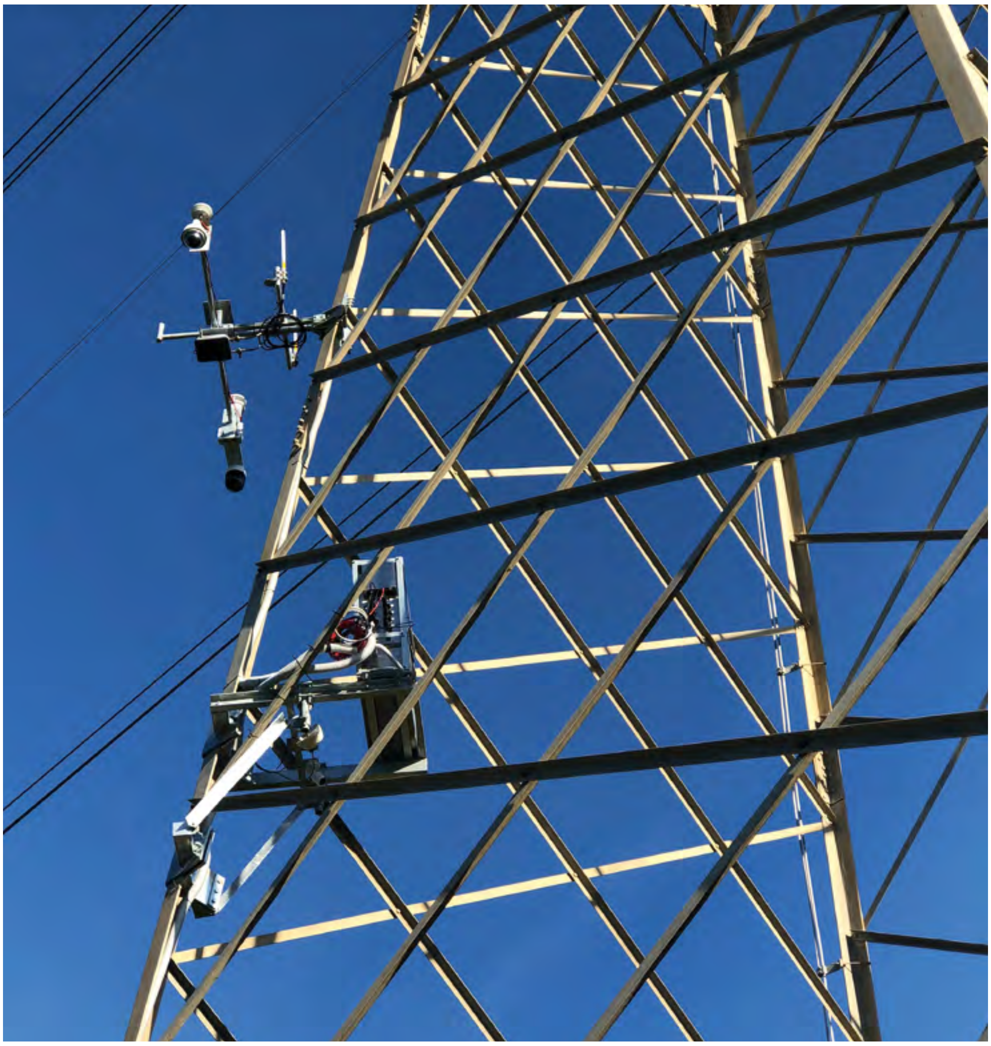
Non-regulated Activities

Energy market solutions

Using our distinctive competences, we develop value added services as an "energy solutions provider" for businesses. Our Non-regulated Activities are designed to support the energy transition, in keeping with our core business.

The main areas in which these activities are developed are:

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



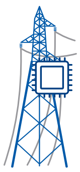
CONNECTIVITY

FIBRE

These projects are designed to extract value from Terna's fibre network by selling IRUs (Indefeasible Rights of Use) and the provision of ancillary services.

OPEN FIBER PROJECT

The backbones connecting the 13 planned national POPs have been delivered, whilst the 41 regional rings that will connect the regional POPs (Clusters A and B) have been designed and partially delivered.
The most significant portion of the fibre optic regional ring requirements have been met by using Terna's overhead power lines, which were also set up during the year, and through the selected acquisition of fibre optic sections from third parties (Retelit and Fastweb).
The plan to make available long-distance fibre infrastructure (regional rings) for Open Fiber S.p.A. was further developed in 2019. With respect to the terms of the related agreement, which call for a total of 21,000 km of long-distance fibre, at 31 December 2019 a total of approximately 17,000 km has been delivered.
Talks are taking place regarding an addendum to the agreement that will cover the provision of fibre in so-called white areas, where the market has failed to offer a solution, by expanding coverage through secondary connections (backhaul lines) to neutral concentration points.
Customers can acquire new infrastructure, which performs better than standard underground cables in terms of both reliability (much lower number of faults per km per year) and quality (low attenuation), with significant savings in terms of length compared with terrestrial connections (> 20% over long distances).

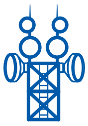


SMART TOWERS

The Smart Tower project aims to extract value from the NTG by expanding its use from an infrastructure exclusively designed for transmitting HV power to an Integrated Monitoring and Environmental Protection System.
The aim of the project is to offer value-added applications and services, exploiting the potential of the IoT (Internet of Things) in various areas of interest, with particular reference to: "environmental protection services", "NTG services" and "connectivity infrastructure".

SMART TOWER INNOVATION PROJECT

Implementation of the experimental project to extract value from high voltage pylons by using them for environmental monitoring (smart towers) was completed with installation of eleven smart tower pylons in Sicily and the purchase of computer systems that were set up at two substations. Another two smart towers have been set up in the province of Belluno and in Abruzzo, to meet the needs of the electricity system. Scouting activities are underway to find new customers.



EXTRACTION OF VALUE FROM PYLONS

Terna is developing a commercial strategy aimed at extracting value from its assets, if available, for the provision of services to telecommunications operators. As Terna is not a telecommunications operator, the Company offers its services on the market in a neutral way, merely providing passive infrastructure (the rental of space on pylons or in substations and dark fibre).

INSTALLATION OF ANTENNAE ON PYLONS

Negotiations have been completed regarding the installation of antennae on Terna's pylons to cover remote areas with Open Fiber (a contract for up to 500 pylons in the three-year period 2020-2022) and with Eolo (for up to a further 500 pylons in the three-year period 2020-2022). The study and design of latest generation mobile radio solutions (software-defined XRAN and 5G) continued in 2019, with field trials and their marketing to potential customers take place in 2020.

By relying on Terna infrastructure (NTG pylons) and taking advantage of its nationwide reach, Open Fiber and Eolo will be able to achieve Fixed Wireless Access coverage in rural areas. In the future, the design of software-defined radio solutions could prove to be a strategic enabler in rolling out new technologies, above all 5G, in geographies where there is a lack of infrastructure.

ENERGY SOLUTIONS

ENERGY EFFICIENCY

This regards energy efficiency initiatives exploiting the know-how developed by Avvenia and Terna Energy Solutions in order to create value for customers, in terms of energy and environmental benefits, the identification of potential efficiency improvements, the management of energy efficiency certificates and improve sustainability performance.

Joint trials of sustainable mobility technologies and services, such as Vehicle-to-Grid (V2G).

MEMORANDUM OF UNDERSTANDING BETWEEN TERNA AND FCA

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

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

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

MEMORANDUM OF UNDERSTANDING BETWEEN TERNA AND ANSALDO ENERGIA

Construction of a **cogeneration plant** for the customer, ITS-SISA Detergenti S.r.l., in collaboration with Compendia S.r.l..
The project, for which design and construction work began in 2018, was completed in March 2019.

CONSTRUCTION OF A COGENERATION PLANT

On 16 April 2019 a new steam production plant was delivered to Acciaierie Speciali di Terni (AST).

This is an innovative energy efficiency project, the first of its kind in Italy, designed and implemented by Avvenia The Energy Innovator S.r.l. (ATEI). The plant is designed to boost the qualitative and environmental performance of production, enabling AST to produce up to 70% of the steam needed to manufacture stainless steel without using fossil fuels and cutting the quantity of 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 ATEI's specialist engineers and technicians and a number of local firms. The total investment amounted to €4 million.

A NON-FOSSIL HEAT RECOVERY STEAM GENERATOR

Activation of an **energy assessment drone** promoted and managed within the Innovation Plan.

The project envisages the conduct of full assessments to identify complex energy efficiency interventions. The drone will also be able to inspect areas or portions of the plant that are difficult to reach or inspect (e.g. roofs for installation of refrigeration units and photovoltaic panels, piping, etc).

The project saves time in carrying out energy audits, especially in the post-processing phase, by automating the process of reporting and identifying faults and possible related interventions. It also presents the opportunity to identify "hidden" interventions that are difficult to detect with normal inspection methods and consequently increase project pipelines. Finally, it offers the possibility of using the diagnostic tool in synergy with other business areas (e.g. for photovoltaic systems and grid infrastructure).

ENERGY ASSESSMENT DRONE

PLANT MAINTENANCE FOR THIRD PARTIES

NON-REGULATED ACTIVITIES (NRA) CONTROL CENTRE

Implementation of a platform that gathers and processes data deriving from the assets managed by Terna in the Energy Solutions segment, optimising performance and maintenance processes. The FTV module monitoring platform was developed in 2019, with initial delivery of the product (basic and advanced functions) in November.

In addition to meeting contractual obligations, the system will enable the optimisation of performance and maintenance processes.

The system will permit constant remote monitoring of the status of plants, with diagnostics and synthetic KPIs. It will provide the possibility to carry out optimised planning of maintenance interventions and implement purpose-built algorithms for the predictive maintenance of assets, including an advanced reporting system.

EPC - ENGINEERING, PROCUREMENT AND CONSTRUCTION

HV/MV SUBSTATION

Design and construction for the customer, Macchiareddu Energy, of the two **HV/MV substations** and the line connecting the future substation and the National Transmission Grid to the "Cilea" and "Tosti" photovoltaic plants located in the municipality of Civita Castellana (VT) and of the HV/MV User Substation and the line connecting the Rumianca substation and the NTG to 8 photovoltaic plants located in an industrial area in the towns of Assemini and Uta, again for Macchiareddu Energy.
The infrastructure is close to completion.

Construction of the infrastructure will take advantage of Terna's positioning and know-how for the construction of the HV/MV substation and the connection line to the future substation and the NTG, developing advanced services for renewable sources.

FRAMEWORK AGREEMENT WITH RFI

Framework agreement with RFI (December 2018) regarding the "Design, supply, installation, certification and entry into service of metering devices".

During 2019, agreement was reached on the plan for work to be carried out in 2020 and work on design, procurement and site surveys began prior to the start-up of work on the planned initiatives.

These activities take advantage of Terna's positioning and know-how regarding the installation of metering equipment in order to ensure that withdrawals by the FS Group's energy service system are accurately measured (timely certification of consumption) in accordance with current legislation, using the Group's distinctive expertise for the benefit of a strategic partner.

SMART ISLANDS

The implementation of sustainable infrastructure projects with very low environmental impact in the interests of the energy transition of small, non-interconnected islands. Overall, these initiatives, as well as minimising the impact of traditional power generation on the local population, will enable islands to reap all the benefits arising from a transition towards more sustainable forms of energy, while at the same time improving the quality of the electricity service.
For the Terna Group, these projects will bring increased know-how regarding the implementation and operation of hybrid off-grid systems, the management of energy flows and the development and testing of innovative grid services. They also allow the Group to mitigate the technological risks relating to key technologies in the Energy Solutions sector with regard to future projects, and enable it to achieve a better technical and economic fit.

GIANNUTRI PROJECT SMART ISLAND

- The **Giannutri Project Smart Island**, built and tested during 2018, is the first real project in Italy that aims to bring about the energy transition from a diesel production system to completely renewable power generation.
  The project received awards for "Sustainable Development 2018" and as "Good Practice of the Year 2018 - Environmental Protection".
  Final testing, in the presence of the customer's technicians, was successfully carried out in November 2019. Once it enters service, expected for the first quarter of 2020, the new arrangement will contribute to meeting the island's energy needs. During the middle of the day (when loads are low and the sun is at its hottest), the island's grid will be able to function without the need for traditional generation, allowing Giannutri to become 100% renewable.
- After the signing of an agreement in 2016 between the **Municipality of Pantelleria** and SMEDE Pantelleria (the company that produces and distributes electricity on the island) and Terna Plus, a new agreement between Terna Energy Solutions and SMEDE was negotiated in 2019 and is awaiting signature. The agreement covers the design of photovoltaic plants and support during the process of obtaining permission for their construction. A number of industrial areas where the plants can be located have already been earmarked.
- In accordance with the guidelines set out in the memorandum of understanding signed in 2015 by Terna Plus with the **Municipality of the Island of Giglio**, the Tuscan Archipelago National Park Authority and SIE, the concessionaire for the production and distribution of electricity on the island, all the necessary preparatory activities for the development of renewable power generation were carried out. Work then started on the purchase of available land for the construction of a 500 kWp plant and a related 2 MW / 1 MWh storage system in Allume. Work is also continuing on the development of an innovative photovoltaic plant at the island's landfill site, which is necessary to achieve the challenging objectives set by the Ministerial Decree of 14 February 2017, in the relation to meeting the energy needs of smaller islands.

PRIVATE INTERCONNECTORS PURSUANT TO LAW 99/2009

In order to support the development of a single electricity market by expanding the infrastructure needed for interconnections with other countries, EU legislation was introduced, setting out guidelines for the creation of interconnections with other countries by entities other than grid operators.

The European guidelines have been introduced into Italian legislation by **Law 99/2009**, which 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. In particular, the law states that these private backers, in exchange for a commitment to finance such projects, are required to commission Terna to build and operate the interconnectors.

A total of five interconnectors are planned for the borders with Montenegro (this project was completed in December 2019), France (at an advanced stage of completion), Austria (the necessary consents have been obtained), Switzerland and Slovenia (currently awaiting the necessary consents).

Italy - Montenegro Interconnector project

On 28 December 2019, the first module of the 500kV direct current interconnector between the substations of Villanova (IT) and Lastva (ME) entered commercial operation. The line, part in submarine cable and part in terrestrial cable, extends for approximately 445 km, has provided interconnection capacity of 600 MW between Italy and Montenegro, including 200 MW available under the exemption to the private backers pursuant to Law 99/09.

In implementation of Law 99/2009, on 17 December 2019, the Terna Group and Consorzio Interconnector Energy Italia S.C.p.A., which brings together the private backers who will have access to cross-border capacity between Italy and Montenegro, signed a series of contracts for construction (EPC), operation and maintenance (O&M) of the Interconnector. Signature of the contracts coincided with execution of the Framework Agreement, under which the Terna Group sold Monita Interconnector S.r.l. to the private backers.

On 18 September 2019, the Ministry for Economic Development issued an exemption decree for Monita Interconnector S.r.l. (covering 200 MW of capacity for a period of 10 years), having taken into account the clearance issued by ARERA on 25 June 2019.

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Italy - France Interconnector project

The new direct current interconnection between Piossasco (IT) and Grande Ile (FR) will increase interconnection capacity between Italy and France by 1200 MW, raising it from approximately the existing 3 GW to over 4 GW.
The Terna Group continued work on construction of the private line, in implementation of Law 99/09 on behalf of Piemonte Savoia S.r.l. (Pi.Sa.), which was transferred to the private backers on 4 July 2017.

Approximately 35.6 km of civil works had been completed and 29.1 km of cable laid for the upper and lower sections along the A32 motorway by December 2019, whilst around 22.4 km of cable and approximately 21.6 km of civil works for the middle section had also been completed. In addition, with regard to the Frejus Tunnel, the laying of cable along sections inside the tunnel had been completed in December 2019. On the section not appertaining to Sitaf *(Società Italiana per il traforo autostradale del Frejus)*, the civil works and the laying of cable for the entire section were completed at the end of August 2018.
The main buildings for the Piossasco converter station had been completed by the end of 2019, as was installation of the principal HV equipment. Installation of equipment for the DC room and valves has been completed. Finally, production and installation of the converter, converter transformers and key AC and DC equipment has also been completed.

During meetings with the Ministry for Economic Development in early 2019, the Ministry:
- stated that there is a need to finance the residual 150 MW[21] of the cross-border capacity originally allocated to selected undertakings for the French border;
- requested that 100 MW of exempted capacity be switched from the Montenegro interconnector to the French one;
- confirmed the need to proceed with construction of the total capacity planned for (250 MW), for this purpose using the other direct current module in the Italy-France Interconnector.

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[21] This residual capacity results from the fact that, in implementation of the provisions of art. 32 of Law 99/09:
- total capacity of 500 MW had been allocated on the French border;
- on 6 April 2017, Pi.Sa. has been granted exemption for capacity of 350 MW on a module in the Italy-France Interconnector currently under construction.

Italy - Austria Interconnector project

The Italy-Austria interconnector (the Reschenpass project) involves construction of a new 220kV AC interconnection between the Glorenza (Italy) and Nauders (Austria) substations. This will consist of 26 km of underground cable and the necessary upgrade of the domestic grid.

On 18 April 2019, Terna received clearance for the laying and operation of the 220kV cable for the Italian section between the Glorenza substation and Passo Resia, which, together with enlargement of the Glorenza substation and other related works, comprises the Italy-Austria interconnector envisaged pursuant to Law 99/09. As regards the Austrian side, all the consents required to implement the project were granted to the Austrian national grid operator in the second half of 2019.

The project will increase cross-border interconnection capacity between Italy and Austria by around 300 MW, practically doubling the currently available capacity.

On 16 July 2018, the Terna Group set up the special purpose vehicle, Resia Interconnector S.r.l., which, on behalf of the private backers, is to prepare and submit a request for exemption from the right of third parties to access capacity of 150 MW. In addition, on 1 October 2019, the Ministry for Economic Development issued the decree transferring the consents for the Interconnector to Resia.

Italy - Switzerland Interconnector project

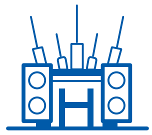
The project involves the development of new transmission lines between Italy and Switzerland, in part in alternating current and in part in direct current, with the aim of increasing interconnection capacity between Italy and Switzerland.

Italy - Slovenia Interconnector project

The creation of a direct current line is planned, partly in undersea cable, between the substations of Salgareda (IT) and Bericevo (SL), together with work on upgrading the domestic grids in Italy and in Slovenia. The project is currently awaiting the necessary consents on the Italian side. The expected increase in cross-border capacity of approximately 1 GW will raise the interconnection capacity to more than double the current level.

TRANSFORMERS - TAMINI GROUP

Tamini operates in the electromechanical sector and is a leader in the design, production, commercialisation and repair of power transformers for electricity transmission and distribution grids, of industrial transformers for the steel and metals industry and of special transformers for convertors used in electrochemical production.



+19%
ORDERS IN THE POWER SECTOR

With a hundred years of experience, Tamini has a well-established name in Italy and overseas, thanks to its technological and engineering capabilities, combined with the degree of customisation and production flexibility it can offer.

Tamini has six production plants in northern Italy - in Melegnano, Legnano, Ospitaletto, Valdagno, Novara and Rodengo - and two trading companies in the United States and India. The Rodengo plant specialises in services, whilst the Novara production plant continues to manufacture coils, operating as a service centre for all the production sites that manufacture for both the Power and Industrial sectors.

THE TAMINI GROUP IN 2019

Order book

Tamini received orders for transformers worth approximately €120 million in 2019, in line with the previous year. Orders in the Power sector recorded strong growth (up 19%), primarily reflecting increased capital expenditure by European utilities.

Service orders amount to approximately €13 million for 2019, up 16% on the figure for 2018 and in line with expectations.

Factory order books are thus slightly up compared with the end of 2018.

2019 results

In 2019, the volume and value of new transformers designed, built and tested rose by around 7%, in line with expectations.
Construction of a Phase Shifter Transformer (PST) and a 400 MVA transformer took place during the year for two European utilities, whilst work for industrial customers included design and production of a furnace transformer using smart technology developed by Tamini's researchers.
Thanks to the increase in volumes and the improved mix of machinery being produced, gross operating profit is significantly ahead of the figure for 2018.

Vegetable oil transformers

Strong growth in the volume of vegetable oil transformers for the Power sector continued in 2019. Six 250 MVA vegetable oil transformers, built at the Legnano plant, were produced and successfully tested. In addition, Tamini also received two orders to design and build vegetable oil transformers for industrial use in 2019.

2020 M&A operations

BRUGG CABLES

In implementation of the preliminary agreement signed on 20 December 2019, on 29 February 2020, Terna acquired a 90% interest in Brugg Kabel AG (a Brugg group company), one of Europe's leading manufacturers of terrestrial cables. The acquired company designs, develops, produces, installs and maintains electric cables for all voltages and accessories for high-voltage cables.

The transaction, which Terna has financed from cash, was completed through the subsidiary, Terna Energy Solutions S.r.l.. The preliminary consideration for the acquisition of the investment is 25.8 million Swiss francs.

The acquisition of Brugg Kabel will give Terna access to a centre of excellence for research, development and testing of one of the core technologies for a TSO, namely terrestrial cables. The transaction gives Terna the opportunity to rapidly integrate core competencies by acquiring a business that possesses:
• Specialist expertise in 150kV cables with standards in line with those required by Terna;
• Production capacity for HV cable in line with Terna S.p.A.'s needs;
• Extensive know-how built up over more than 120 years of activity, as Terna itself can testify;
• Potential for significant synergies with the Group's Non-regulated Activities.

In this connection, it should be noted that Terna's Development Plan, in keeping with the aim of boosting the sustainability and resilience of the NTG, envisages that the quantity of terrestrial cables in use will double in the next 10 years. As a result, the development of distinctive competencies in the use of underground cables to support cable design and installation, as well as O&M expertise, could well play a key role in Terna's future.

Operating results of Non-regulated Activities

A breakdown of the Terna Group's results from its Non-regulated Activities for 2019 and 2018 is shown below[22].

(€m)

	2019	2018	CHANGE
Revenue from Non-regulated activities	**211.7**	**194.9**	**16.8**
Tamini	110.2	103.4	6.8
Connectivity	39.9	41.7	(1.8)
Energy Solutions	41.2	38.5	2.7
- EPC	*19.1*	*14.9*	*4.2*
- Energy efficiency	*4.9*	*7.2*	*(2.3)*
- O&M	*17.2*	*16.4*	*0.8*
Private interconnectors	18.4	9.0	9.4
Other	2.0	2.3	(0.3)
Cost of Non-regulated Activities	**141.7**	**134.4**	**7.3**
EBITDA from Non-regulated Activities	**70.0**	**60.5**	**9.5**

EBITDA from Non-regulated Activities amounts to €70.0 million for 2019, an increase of €9.5 million. This mainly reflects revenue linked to the private Italy-Montenegro Interconnector.

9.5 €/m
the increase in Non-regulated Activities

Revenue from Non-regulated Activities is up €16.8 million. In addition to the above contribution from the private Italy-Montenegro Interconnector (€11.1 million), this is primarily due to the following factors:

- increased revenue at the **Tamini Group** (up €6.8 million), reflecting the greater volume and value of transformers produced in 2019;
- increased revenue from **Energy Solutions** (up €2.7 million), primarily due to the start-up of work in 2019 on the contract with Rete Ferroviaria Italiana - RFI relating to the installation of metering units (up €10.9 million), partly offset by the greater volume of work in progress in the previous year (down €6.2 million, essentially in relation to the construction of two electricity substations in the Lazio and Sardinia regions for a third-party customer, and nearing completion in 2019) and by the gain recognised on the bargain purchase of Avvenia The Energy Innovator S.r.l. in 2018 (down €2.4 million).

[22] 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 2020-2024.

International Activities

International markets offer opportunities to leverage the expertise developed in Italy as a TSO, including in the integration of renewables and the development of power lines. We are aware that the radical transformation the world is experiencing is a shared responsibility.

Overseas investment focuses on countries with stable political and regulatory regimes and a need to develop their electricity infrastructure, with a view to diversification with respect to its Italian businesses. This is done partly in collaboration with other energy companies with a consolidated presence in foreign markets.

International markets offer opportunities in terms of the development of transmission plant, driven by growing demand for electricity and the opening up of markets to foreign operators.

Terna's strategic priorities with regard to its overseas operations include:

- **Europe:** to strengthen its presence (assessing and monitoring M&A opportunities and developing merchant interconnector projects);
- **Latin America:** to complete ongoing projects in Brazil and Peru and operate the infrastructure built in Brazil and Uruguay, consolidating its position in the countries of interest;
- **Other geographical areas:** to develop advanced services in order to leverage Terna's technical expertise acquired in Italy. These initiatives are low risk and absorb a limited amount of capital.

Overseas initiatives of interest to the Terna Group are:

Concessions: this model envisages the acquisition and operation of transmission systems abroad by taking part in international concession and/or secondary market awards, leveraging the core competencies and experience developed in the international arena;

Energy solutions: this includes all high value-added non-traditional activities aimed at exporting the experience Terna has in Italy in the fields of energy storage and smart solutions;

Technical assistance: this involves the provision of consulting and technical assistance services regarding a TSO's core activities, as well as the definition and implementation of regulatory and market frameworks in the local energy context, with a view to exporting and taking advantage of the distinctive expertise acquired in Italy;

Project Management: Project Management (EPCM) activities enable the Group to leverage its expertise in managing overseas projects and in infrastructure management.

INITIATIVES IN PROGRESS IN SOUTH AMERICA


Uruguay

Work on construction of the 213 km Melo-Tacuarembò 500kV transmission line was completed and the line has been in operation since 24 October 2019.

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


Brazil

Operation and maintenance of the **Santa Maria Transmissora de Energia (SMTE)** power line in the State of Rio Grande do Sul continued. 77% of the line, which has been in commercial operation since 3 October 2018, was built using single-pole cable-stayed pylons with a low environmental impact.

The power line located in **the Santa Lucia Transmissora de Energia (SLTE) concession in the State of Mato Grosso** entered commercial operation on 30 April 2019 and the Group is responsible for operation and maintenance. 75% of the line was built using single-pole cable-stayed pylons with a low environmental impact.

In 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 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.

On 11 November, the Terna Group completed the acquisition of a 75% interest in the Brazilian-registered joint-stock company, **SPE Transmissora de Energia Linha Verde II S.A.**, the first of the two companies covered by the transaction with Construtora Quebec. The acquired company holds one of the two concessions to build a 500kV power line extending for approximately 190 km. Acquisition of the second concession is expected to complete in the first quarter of 2020. The agreement assigns the Terna Group responsibility for developing, building and managing the assets, with EPC activities to be carried out by Construtora Quebec. The value of the transaction, which includes the cost of developing and building the infrastructure, is approximately 60 million US dollars and will largely be financed using project financing.


Peru

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

The process of acquiring the related easements was substantially completed in 2019 and construction work and the assembly of pylons have begun. The procurement of transmission line materials has been completed.

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

Operating results of International Activities

A breakdown of the Terna Group's results from International Activities for 2019 and 2018 is shown below[23].

It should be noted that "Revenue from International Activities" directly includes the margin earned on work in progress on overseas concessions. Operating costs and maintenance expenses associated with infrastructure now in operation, together with other operating costs, are classified in the "Cost of International Activities".

(€m)

	2019	2018	CHANGE
Revenue from International Activities	28.4	12.5	15.9
Cost of International Activities	14.7	8.9	5.8
EBITDA from International Activities	**13.7**	**3.6**	**10.1**

EBITDA from International Activities amounts to €13.7 million for 2019, an increase of €10.1 million compared with the previous year. This primarily reflects the impact of initiatives in Brazil (up €6.5 million), where the related infrastructure fully entered service from October 2018 and April 2019, and the completion of work in Uruguay on construction of the Melo-Tacuarembò line (up €4.6 million).

[23] 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 2020-2024.

Financial resources

Our management approach aims to maximise efficiency and achieve and maintain a solid financial structure, taking a highly prudent stance towards mitigation of the potential risks.

The key aspects of the resulting financial strategy are:

- **diversification** of the sources of financing, raising funds on both the capital markets and in the form of borrowings from major banks and supranational financial institutions;
- a **balance** between short and medium-term instruments, in keeping with the composition of assets;
- the **proactive management** of debt in order to take advantage of the opportunities offered by the capital markets;
- a commitment to maintaining **high credit ratings**, based on a strong financial position;
- **active management of the financial risks** to which the Company is exposed, as set out in more detail in the section, "Risk management".

Sustainable finance

Fully in line with Terna's strategy, which aims to combine investment and sustainability to drive growth and value creation, it is Terna's ambition to play a leading role in the sustainable finance market. This strategy was confirmed during 2019 **via the issue of two green bonds amounting to a total of €750 million**, to be used to finance or refinance "Eligible Green Projects". These are projects producing environmental benefits that meet certain criteria (the use of the issue proceeds, the process of selecting and assessing projects, management of the issue proceeds and reporting) listed in the "Green Bond Framework", published by Terna in compliance with the "Green Bond Principles 2018" drawn up by the ICMA (International Capital Market Association). Specifically, the net proceeds from the issues will be used to finance:

- projects that aim to increase renewable energy production - for example, infrastructure enabling renewable energy plants to be connected to the national grid or that allow for a larger volume of renewable energy to be injected into the grid;
- projects designed to cut carbon emissions by reducing grid losses - for example, infrastructure designed to boost the efficiency of the electricity transmission gird;
- projects that aim to reduce soil use and protect biodiversity.

In April, moreover, the Company obtained its second **ESG-linked Revolving Credit Facility**: this facility, amounting to €1.5 billion, also uses a mechanism based on a series of bonuses and penalties linked to the achievement of specific environmental, social and governance ("ESG") objectives.

Debt is described in detail in the section, "The Terna Group's financial review of 2019".

RISK MANAGEMENT

Market, liquidity and credit risk

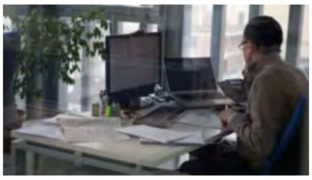
Terna adopts a dynamic approach to managing the various forms of financial risk, including market risk (interest rate, exchange rate and inflation risk), liquidity risk and credit risk. This approach includes constant monitoring of the financial markets, in order to carry out planned hedging operations under favourable market conditions, but also to take advantage of opportunities to improve existing hedges, when changes in market conditions make previous hedges unsuitable or excessively costly.

Further details are provided in the notes to the consolidated financial statements and to the Parent Company's separate financial statements.

Key events relating to finance during 2019 are described below:

- On **19 November 2019**, Terna and the European Investment Bank (EIB) agree a €490 million loan to finance investment in improvements to grid reliability and quality. For the first time in the history of relations between Terna and the Bank, the loan is earmarked for "investment in renewal": the replacement of assets and individual components, adopting the latest solutions in terms of eco-compatibility with the host environment. The loan, with a longer duration and having more competitive costs with respect to those available in the market, is part of Terna's policy of optimising its financial structure and ranks among the EIB's most important transactions in the field of energy and the environment. The agreement provides for disbursement in two fixed-rate tranches, each with a term of approximately 22 years. The first, totalling €147 million, is to be disbursed in June 2020 and is subject to a fixed rate of 0.717%; the second, amounting to €343 million, will be disbursed in March 2021 and is subject to a fixed rate of 0.78%.
- On **18 July 2019**, the Company launched an issue of euro-denominated bonds for 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 equal to 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 at the time of pricing. The effective cost of the issue for Terna is, therefore, equal to 0.25%.
- 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, Santander, SMBC and Unicredit. 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 strengthens the incorporation of sustainability goals within the Company's business strategy through a series of bonuses and penalties linked to ESG criteria.
- On **3 April 2019**, Terna launched an issue of euro-denominated green bonds for institutional investors. The securities have a 7-year term, maturing on 10 April 2016, and pay a coupon of 1.000%. They will be issued at a price equal to 99.886%, with a spread of 78 basis points with respect to the midswap rate and an indicative spread that is around 100 basis points lower than BTPs (Italian Treasury Bills) of the same duration at the time of pricing. The effective cost of the issue for Terna is, therefore, equal to 1.02%. The net proceeds of the issue will be used to finance the Company's eligible green projects.
- On **15 January 2019**, Terna joined the Corporate Forum for Sustainable Finance, a network of 16 major European companies committed to developing sustainable finance as a way of combatting climate change and promoting a more sustainable and responsible society.
- 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 bond issue of 23 July 2018. The bonds, maturing on 23 July 2023, will pay a coupon of 1.000% and will be issued at a price equal to 99.787%, with a spread of 90 basis points with respect to the midswap rate and a yield of 1.05%, slightly below that of the July 2018 issue. The proceeds will be used to finance the Company's eligible green projects.





RATING

	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	7 February 2020
Scope	S-2	BBB+	Stable	7 December 2018

In 2019, the rating agencies (Standard & Poor's, Moody's and Fitch) left the Company's ratings unchanged: Terna's long-term ratings - BBB+ (Negative) for S&P, Baa2 (Stable) for Moody's and BBB+ (Stable) for Fitch - continue to be one notch above those assigned to the Italian state.

Moreover, in May 2019, Scope Ratings AG (Scope) assigned Terna a long-term rating of "A-", with a stable outlook, representing a more favourable rating than those assigned by other agencies. The rating assigned by Scope confirms the strength of Terna's financial structure and financial position and recognises the Group's significant commitment to integrating sustainability into its business strategy as a key driver of value creation.

Resilience

The increased frequency of extreme weather events makes it necessary to boost the electricity system's **capacity to withstand** such events.
The growing intensity and severity of extreme weather events closely linked with global warming has a cascade effect, raising the likelihood of significant damage to the country's infrastructure, including the national transmission grid. **Investment** is therefore needed in the grid, which must be able to respond to this increased threat and, in the event of disruption due to extreme events, we must be **able to manage the resulting emergency** and quickly restore normal operating conditions.

4 Performance

The Terna Group's financial review of 2019

Introduction

The Annual Report for 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 27 of 27 January 2010.

As required by Legislative Decree 38 of 28 February 2005 and EEC Regulation 1606/2002, the financial statements of the parent company Terna S.p.A. and the consolidated financial statements of the Terna Group for the year ended 31 December 2019 were prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and endorsed by the European Commission (hereinafter "EU-IFRS").

In compliance with the provisions of art. 2364 of the Italian Civil Code and art. 9.2 of the Company's Articles of Association, the Board of Directors decided to call an Annual General Meeting of shareholders within 180 days of the end of the annual reporting period, given that Terna S.p.A. is a company required to prepare consolidated financial statements. After the date of approval of this Report, and in view of the current health emergency linked to the Covid-19 epidemic and the legislation introduced in order to contain the outbreak, the Company has announced a new date for TERNA S.p.A.'s Annual General Meeting, which is now scheduled for 18 May 2020.

Basis of presentation

The measurement and recognition criteria applied in this Annual 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 order to present the performance of the Terna Group and Terna S.p.A. and to analyse the financial positions, separate reclassified statements have been prepared. These differ from the statements required by the EU-IFRS adopted and described in the consolidated and separate financial statements for the year ended 31 December 2019.

These reclassified statements contain alternative performance indicators, which differ from those resulting directly from the separate and consolidated financial statements. Management considers these indicators to be useful in assessing the performances of the Group and of Terna S.p.A. and representative of the business's operating results and financial position.
In line with the guidance provided by ESMA/2015/1415, the criteria used in constructing these indicators are described in specific notes, reconciling them with the amounts presented in the consolidated and separate financial statements. The notes are contained in an annex to this Integrated Report.

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.

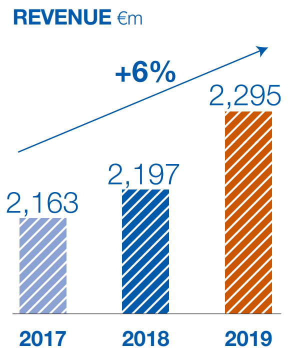
Scope of consolidation

The following changes in the structure of the Group have taken place with respect to 31 December 2018:

- **PI.SA.2 S.r.l.**, a wholly owned subsidiary of Terna S.p.A., was established on 15 February 2019, following a restructuring of the regulated activities relating to the Italy-France interconnector;
- **Terna 4 Chacas S.A.C.** was established on 6 August 2019, following the agreement signed in 2016 to start work on the construction of a new 16-km power line in Peru. The company is 99.99999% owned by Terna Plus S.r.l. with the remaining interest held by Terna Chile S.p.A.;
- on 11 November 2019, Terna S.p.A., acting through its subsidiary, Terna Plus S.r.l., closed the **transaction with Construtora Quebec** resulting in the acquisition of a 75% interest in the Brazilian-registered joint-stock company, **SPE Transmissione de energia Linha Verde II S.A.**, the first of the two companies covered by the transaction, which holds one of the two concessions to build a 500kV power line extending for approximately 190 km;
- the sale of **Monita Interconnector S.r.l.** to Interconnector Energy Italia s.c.p.a. was completed on 17 December 2019. Agreements have been reached with the purchaser regarding construction and operation of the private part of the planned direct current electricity interconnector between Italy and Montenegro.

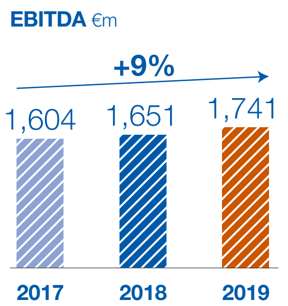
The Group's reclassified income statement

The Terna Group's operating results for the year ended 31 December 2019, compared with those for the previous year, are summarised in the following reclassified income statement, obtained by reclassifying amounts in the statutory consolidated income statement.



(€m)

	2019	2018	CHANGE	% CHANGE
TOTAL REVENUE	**2,295.1**	**2,197.0**	**98.1**	**4.5%**
- Regulated revenue	2,055.0	1,989.6	65.4	3.3%
of which Revenue from construction services performed under concession	*27.6*	*25.5*	*2.1*	*8.2%*
- Non-Regulated revenue	211.7	194.9	16.8	8.6%
- International revenue	28.4	12.5	15.9	127.2%
TOTAL OPERATING COSTS	**553.9**	**546.4**	**7.5**	**1.4%**
- Personnel expenses	251.6	238.8	12.8	5.4%
- Cost of services, leases and rentals	171.8	176.5	(4.7)	(2.7%)
- Materials	86.2	77.9	8.3	10.7%
- Other costs	16.1	22.6	(6.5)	(28.8%)
- Quality of service	0.6	5.1	(4.5)	(88.2%)
- Cost of construction services performed under concession	27.6	25.5	2.1	8.2%
GROSS OPERATING PROFIT (EBITDA)	**1,741.2**	**1,650.6**	**90.6**	**5.5%**
- Amortisation, depreciation and impairment losses	586.1	554.1	32.0	5.8%
OPERATING PROFIT (EBIT)	**1,155.1**	**1,096.5**	**58.6**	**5.3%**
- Net financial income/(expenses)	(77.7)	(88.8)	11.1	(12.5%)
PROFIT/(LOSS) BEFORE TAX	**1,077.4**	**1,007.7**	**69.7**	**6.9%**
- Income tax expense for the year	313.5	296.1	17.4	5.9%
PROFIT FOR THE YEAR	**763.9**	**711.6**	**52.3**	**7.3%**
- Profit/(Loss) attributable to non-controlling interests	6.6	5.0	1.6	32.0%
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	**757.3**	**706.6**	**50.7**	**7.2%**



(€m)

EBITDA BY OPERATING SEGMENT	2019	2018	CHANGE
Regulated Activities	1,657.5	1,586.5	71.0
Non-regulated Activities	70.0	60.5	9.5
International Activities	13.7	3.6	10.1
EBITDA	**1,741.2**	**1,650.6**	**90.6**

Gross operating profit (EBITDA) for the year amounts to **€1,741.2 million**, up €90.6 million compared with the €1,650.6 million of 2018. This primarily reflects the improved result from Regulated Activities.

Revenue

(€m)

REGULATED ACTIVITIES	2019	2018	CHANGE
Tariff revenue	1,973.1	1,932.2	40.9
Other regulated revenue	54.3	31.9	22.4
Revenue from construction services performed under concession in Italy	27.6	25.5	2.1
TOTAL	**2,055.0**	**1,989.6**	**65.4**

Regulated revenue is up €65.4 million, primarily reflecting the impact on tariff revenue of the adjustment of the Group's WACC and an increase in RAB, as well as an increase in the value of the RENS (Regulated Energy Not Supplied) bonus (essentially following assessment of the performance in 2018 and valuation of the performance in 2019, taking into account the estimated results expected overall for the regulatory period 2016-2020).

(€m)

NON-REGULATED ACTIVITIES	2019	2018	CHANGE
Tamini	110.2	103.4	6.8
Services for third parties (telecommunications. energy solutions. other)	83.1	82.5	0.6
Private interconnectors	18.4	9.0	9.4
TOTAL	**211.7**	**194.9**	**16.8**

The increase in **Non-Regulated revenue**, totalling €16.8 million, primarily reflects revenue linked to the private **Italy-Montenegro Interconnector** project (€11.1 million) and revenue growth at the **Tamini Group** (up €6.8 million).

(€m)

INTERNATIONAL ACTIVITIES	2019	2018	CHANGE
Latin America	28.1	10.9	17.2
Other	0.3	1.6	(1.3)
TOTAL	**28.4**	**12.5**	**15.9**

International revenue is up €15.9 million, reflecting revenue generated by investment in assets held under concession in **Brazil**, which are now fully operational (up €12.7 million) and by the contract for construction of the power line in **Uruguay** (up €4.6 million), which has entered service.

Costs

Operating costs are up €7.5 million compared with the previous year. Without taking into account the increase in the cost of work carried out under concession, this reflects the following:

- **Personnel expenses**: up €12.8 million, broadly reflecting an increase in the workforce following the plan to recruit new personnel launched in 2018 in order to keep pace with the Group's expansion;
- **Services, leases and rentals**: down €4.7 million, primarily due to restatement of the cost of leases and rentals following the adoption of IFRS 16;
- **Materials**: up €8.3 million, primarily reflecting the work carried out on the new contract to install metering units for Rete Ferroviaria Italiana (formalized in December 2018);
- **Quality of service**: down €4.5 million, primarily due to the impact of outages and interruptions in 2018;
- **Other operating costs**: down €6.5 million, broadly due to the adjustment to the Group's provisions for risks and charges.

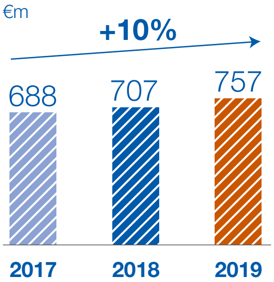
Amortisation, depreciation and impairment losses for the year amount to €586.1 million, an increase of €32 million compared with 2018. This primarily reflects the entry into service of new plant. The change also reflects depreciation charged as a result of leases falling within the scope of IFRS 16 (€6.7 million) and increased impairment losses on assets in the previous year (down €11.1 million).

Operating profit (**EBIT**), after amortisation, depreciation and impairment losses, amounts to **€1,155.1 million**, compared with €1,096.5 million for 2018 (up 5.3%).

Net financial expenses for the year total €77.7 million, a reduction of €11.1 million compared with the €88.8 million of 2018. This primarily reflects the seasonal nature of inflation, increased returns on the investment of liquidity and on short-term financial assets and the reduction in short-term interest rates.

After net financial expenses, **profit before tax** amounts to **€1,077.4 million**, up €69.7 million compared with the previous year (up 6.9%).

PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT
€m



Income tax expense for the year totals €313.5 million, an increase of €17.4 million (5.9%) compared with the previous year, essentially due to the improved profit before tax. The tax rate for the year is 29.1%, broadly in line with the previous year (29.4% for 2018).

Profit for the year amounts to **€763.9 million**, an increase of €52.3 million (7.3%) compared with the €711.6 million of 2018.

Profit for the year attributable to owners of the Parent (after excluding the share attributable to non-controlling interests) amounts to **€757.3 million**, up €50.7 million (7.2%) compared with the €706.6 million of 2018.

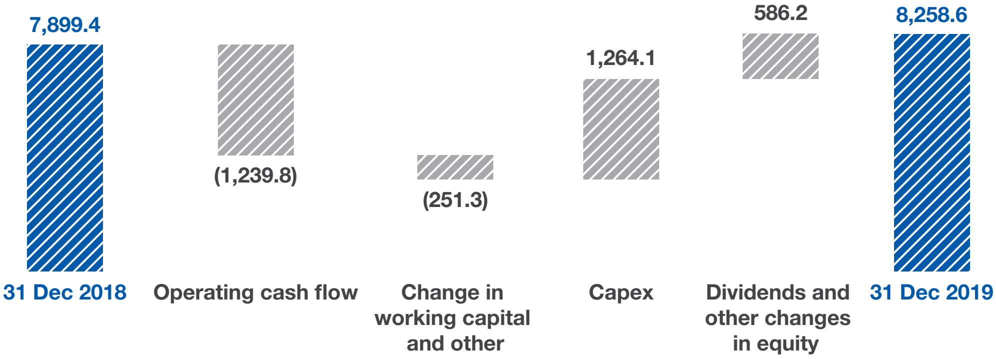
Cash flow

The above performance, combined with non-cash items and other cash flows from and for operating activities, has resulted in a cash inflow of €1,491.1 million, enabling the Group to finance a large part of its investing activities (€1,264.1 million) and provide a return on equity (€586.2 million, including €479.7 million in the form of dividends paid to shareholders). The balance is financed for the remaining part by net debt, which totals €8,258.6 million, compared with €7,899.4 million at the end of 2018 (up €359.2 million).

(€m)

	CASH FLOW 2019	CASH FLOW 2018
- Profit for the year	763.9	711.6
- Amortisation, depreciation and impairment losses	586.1	554.1
- Net change in provisions	(97.3)	(48.3)
- Net losses/(gains) on sale of assets	(12.9)	(3.5)
Operating cash flow	**1,239.8**	**1,213.9**
- Change in net working capital	386.2	336.6
- Other changes in property, plant and equipment and intangible assets	46.8	36.0
- Change in investments	(3.3)	1.7
- Change in financial assets	(178.4)	(113.7)
Cash flow from operating activities	**1,491.1**	**1,474.5**
- Total capital expenditure	(1,264.1)	(1,091.1)
Free cash flow	**227.0**	**383.4**
- Dividends paid to the Parent Company's shareholders	(479.7)	(451.1)
- Cash flow hedge reserve after taxation and other movements in equity attributable to owners of the Parent	(106.5)	(39.6)
- Other movements in equity attributable to non-controlling interests	-	4.3
Change in net debt	**(359.2)**	**(103.0)**

CHANGE IN NET DEBT (€m)



The Group's reclassified statement of financial position

The Terna Group's financial position at 31 December 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 31 DECEMBER 2019	AT 31 DECEMBER 2018	CHANGE
Total net non-current assets	**14,908.5**	**14.083.6**	**824.9**
- Intangible assets and goodwill	542.7	519.4	23.3
- Property, plant and equipment	13,864.2	13,244.3	619.9
- Financial assets	501.6	319.9	181.7
Total net working capital	**(2,207.8)**	**(1,822.5)**	**(385.3)**
- Net energy-related pass-through payables	(575.8)	(777.6)	201.8
- Net receivables resulting from Regulated Activities	320.4	313.9	6.5
- Net trade payables	(899.1)	(908.9)	9.8
- Net tax liabilities	(5.3)	50.9	(56.2)
- Other net liabilities	(1,048.0)	(500.8)	(547.2)
Gross invested capital	**12,700.7**	**12,261.1**	**439.6**
Sundry provisions	(210.2)	(307.5)	97.3
NET INVESTED CAPITAL	**12,490.5**	**11,953.6**	**536.9**
Equity attributable to owners of the Parent	**4,190.3**	**4,019.2**	**171.1**
Equity attributable to non-controlling interests	**41.6**	**35.0**	**6.6**
Net debt	**8,258.6**	**7,899.4**	**359.2**
TOTAL	**12,490.5**	**11,953.6**	**536.9**

The €824.9 million increase in **net non-current assets** compared with 31 December 2018 primarily reflects a combination of the following:

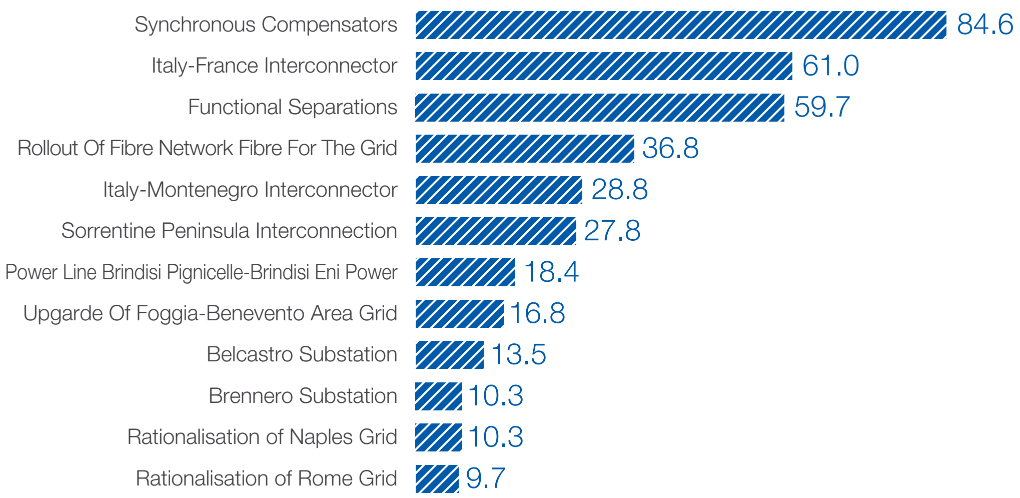
- total capital expenditure of €1,264.1 million, as described below;
- an increase of €181.7 million in financial assets, broadly due to recognition of the amounts deposited by operators who participate in the capacity market pursuant to Resolution 98/2011/R/eel[24], as amended (€142.6 million), an increase in the Interconnector Guarantee Fund, set up to fund investment in interconnections by art. 32 of Law 99/09 (up €22.1 million) and the progress of construction services performed under concession in Brazil (up €12.6 million);
- amortisation and depreciation for the year, totalling €584.7 million;
- other movements during the year, resulting in a reduction of €27.3 million, reflecting grants related to assets (primarily in relation to projects financed by the Ministry for Economic Development and the EU) and disposals and impairment losses amounting to €9 million.

The Group's **capital expenditure** totalled **€1,264.1 million** in 2019, up 15.9% on the €1,091.1 million of 2018.

[24] Legislation governing the system for remunerating the provision of production capacity is contained in the Ministerial Decree of 28 June 2019. Deposits were paid by operators following the outcome of the auctions organised by Terna on 6 and 28 November 2019. They are to guarantee the entire capacity market with effect from 2022, whose aim is to ensure the adequacy of the national electricity system is achieved and maintained. This is necessary to ensure the system's structural ability to meet expected demand for electricity plus the reserve margin needed to provide determinate levels of security and quality of service.

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

KEY CAPITAL EXPENDITURE IN REGULATED ASSETS* (€m)



* *Amounts include financial expenses.*

Capital expenditure in non-regulated assets, amounting to €104.4 million, primarily regards the private parts of the Italy-France and Italy-Montenegro interconnectors.

Net working capital of -€2,207.8 million generated cash of €385.3 million during the year compared with 2018. This reflects the combined effect of:

Cash inflows

- an increase of €547.2 million in **other net liabilities**, primarily due to an increase in payments on account received from the entities financing the private Italy-Montenegro and Italy-France interconnectors (a total increase of €302.8 million), an increase in the guarantee deposits received from operators participating in the capacity market and electricity market operators guaranteeing their obligations assumed in dispatching and virtual interconnection agreements (up €142.6 million and €39.9 million, respectively). There was also an increase in the provision for the Interconnector Guarantee Fund set up by Terna S.p.A. following the issue of the 2016 Stability Law (up €21.9 million) and a rise in payables recognised during the year in the form of amounts to be paid to employees who have opted to take part in the generational turnover plan;
- an increase of €56.2 million in **net tax liabilities**, mainly reflecting an increase in VAT payable by the Group (up €33.2 million, broadly due to a reduction in net energy-related payables, totalling €22.8 million, and the receipt of VAT refunds claimed in previous years, totalling €10.4 million). The increase also reflects the higher amount of income tax payable (up €20.8 million, essentially due to the transfer of IRES and IRAP tax credits from previous years, amounting to €14.1 million, and the increase in pre-tax profit after deducting the higher payments on account made, totalling €6.7 million).

Cash outflows

- a decrease in **net energy-related pass-through payables** of €201.8 million, primarily reflecting the combined effect of:
  - a reduction in net payables relating to capacity payments (€115 million) as a result of an increase in payments required by ARERA[25] compared with the previous years;
  - a reduction in net payables linked to plants that are essential for the security of the electricity system – UESS (€96.9 million), reflecting items collected during the period after payments made in 2019[26];

  partially offset by
  - an increase in net payables as a result of the higher cost of selections (in terms of prices and volumes) relating to the Dispatching Services Market – DSM (€60.2 million) and an increase in imbalances (€19.9 million); these higher costs, primarily registered in December, are reflected in the uplift component, with the related amount receivable having risen €71.2 million;
- an increase of €6.5 million in **net receivables resulting from Regulated Activities**, primarily reflecting increases in amounts due in the form of transmission and dispatching service charges;
- a reduction of €9.8 million in **net trade payables**, broadly due to increased receivables relating to completion of the contract in Uruguay.

Gross invested capital thus amounts to €12,700.7 million, marking an increase of €439.6 million compared with the previous year.

Sundry provisions are down €97.3 million, primarily due to:

- the use of provisions for early retirement under the current generational turnover plan (down €10.1 million) and net uses of provisions relating to quality of service (down €9 million);
- an adjustment to net tax liabilities, primarily as a result of net deferred tax assets (up €60.7 million) due mainly to the effect on taxation of amortisation and depreciation, the above movements in provisions for risks and charges and movements in derivative instruments held by the Group.

Net invested capital of €12,490.5 million is up €536.9 million compared with 31 December 2018 and is financed by equity attributable to owners of the Parent, totalling €4,190.3 million (versus €4,019.2 million at 31 December 2018), equity attributable to non-controlling interests of €41.6 million (€35.0 million at 31 December 2018) and net debt of €8,258.6 million up €359.2 million compared with the €7,899.4 million of 31 December 2018.

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

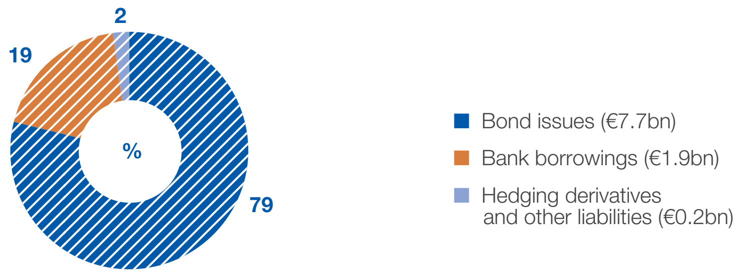
[26] ARERA ordered payments to the owners of essential plants in the following resolutions in 2019: 48-79-101-111-118-150-194-205-235-342-434-459-460-475-476-505-506-523-524-525.

Debt

The Group's financial policy and gross debt

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

Gross debt at 31 December 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 years.



Bonds have been issued in the form of both public and private placements under the €8 billion Euro Medium Term Notes (EMTN) Programme (in which a large number of Italian and overseas banks participate), in addition to a stand-alone issue of €800 million dating back to 2004. Focused specifically on qualified investors and listed on the Luxembourg Stock Exchange, Terna's bonds have a very diverse investor base, in terms of both sector and geographical profile.

The main provider of Terna's bank loans is the European Investment Bank (EIB). Total borrowings from the EIB at 31 December 2019 amount to almost €2.1 billion (including €490 million yet to be drawn on). Thanks to its strong credit ratings, Terna is able to obtain financing from banks on extremely good terms, as shown by the three bond issues launched in 2019, amounting to a total of €1.25 billion, and the agreement, signed on 23 April 2019, for a Revolving Credit Facility of €1.5 billion. The Group currently has two committed revolving credit facilities, amounting to approximately €2.7 billion.

Net debt

The Group's net debt at 31 December 2019 amounts to €8,258.6 million, marking an increase of €359.2 million compared with 31 December 2018.

(€m)

NET DEBT (BY TERM TO MATURITY)	AT 31 DECEMBER 2019	AT 31 DECEMBER 2018	CHANGE
Total medium/long-term debt	**9,596.1**	**8,286.8**	**1,309.3**
- Bond issues	7,757.3	6,563.2	1,194.1
- Borrowings	1,723.4	1,664.4	59.0
- Derivative financial instruments	115.4	59.2	56.2
Total short-term debt/(funds)	**(1,337.5)**	**(387.4)**	**(950.1)**
- Bond issues (current portions)	-	616.7	(616.7)
- Short-term borrowings	25.0	25.0	-
- Borrowings (current portions)	126.5	613.9	(487.4)
- Other current financial liabilities net	81.8	89.8	(8.0)
- Derivative financial instruments	(0.1)	(1.3)	1.2
- Financial assets	(513.3)	(402.6)	(110.7)
- Cash and cash equivalents	(1,057.4)	(1,328.9)	271.5
Total net debt	**8,258.6**	**7,899.4**	**359.2**
NET DEBT (BY TYPE OF INSTRUMENT)			
- Bond issues	7,757.3	7,179.9	577.4
- Borrowings	1,849.9	2,278.3	(428.4)
- Short-term borrowings	25.0	25.0	-
- Derivative financial instruments	115.3	57.9	57.4
- Other financial liabilities net	81.8	89.8	(8.0)
GROSS DEBT	**9,829.3**	**9,630.9**	**198.4**
- Financial assets	(513.3)	(402.6)	(110.7)
- Cash and cash equivalents	(1,057.4)	(1,328.9)	271.5
Total net debt	**8,258.6**	**7,899.4**	**359.2**

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

- an increase in bond issues (up €577.4 million), following the three fixed-rate euro-denominated green bond issues described in the section, "Financial resources" and repayment, in October, of the €600 million bond issue launched on 3 July 2009. The change also reflects the adjustment of the amortised cost of all the bonds in issue;
- a reduction in borrowings (down €428.4 million), primarily due to:
  - repayment, on 2 February 2019, of the €500 million loan from CDP, using EIB funds;
  - repayments of principal on existing EIB loans (down €112.0 million);
  - new EIB loans drawn down in June, totalling €46.6 million;
  - drawdown of the final tranche of the loan granted to the Uruguayan subsidiary, totalling €13.1 million;
  - new loans obtained by the Brazilian subsidiary, totalling €101.8 million;
  - lease liabilities recognised following first-time adoption of IFRS 16 (€24.5 million);

- a reduction in other net financial liabilities (down €8 million), primarily reflecting movements in the interest rates on borrowings and on outstanding hedges;
- an increase in derivative financial instruments (up €57.4 million), primarily due to movements in market interest rates and the change in the notional value of the derivatives held;
- an increase in financial assets (up €110.7 million), primarily following repayment, in December, of government securities with a notional value of €400 million and the purchase of government securities having a notional value of €500 million;
- a reduction in cash and cash equivalents (down €271.5 million). Cash amounts to €1,057.4 million at 31 December 2019, including €647.4 million invested in short-term, readily convertible deposits and €410.0 million held in bank current accounts and in the form of cash in hand.

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

The reconciliation of consolidated equity and consolidated profit for 2019 and the corresponding amounts for the Parent Company is shown below.

(€m)

	PROFIT FOR 2019	EQUITY AT 31 DECEMBER 2019
Parent Company's financial statements	**713.5**	**3,981.1**
Profit and equity contributed by Group companies:		
- Group companies - Regulated Activities	60.1	175.1
- Group companies - Non-regulated Activities*	(8.7)	55.7
- Group companies - International Activities**	(4.3)	(15.0)
Companies accounted for using the equity method	3.3	35.0
Total consolidated financial statements	**763.9**	**4,231.9**
Share attributable to non-controlling interests - Non-regulated Activities	6.6	41.6
Terna Group's consolidated financial statements	**757.3**	**4,190.3**

* *Includes the impact of a different presentation of the interconnector transaction compared with the Parent Company's results.*
** *Includes overheads attributable to Terna Plus S.r.l..*

Terna's shares

+250%

capital gain since the date of the IPO

Terna and the financial markets

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 2019, the share price has risen 250% (a capital gain)**, providing a Total Shareholder Return (TSR[27]) of 724%, ahead of both the Italian market (FTSE Mib +48%) and the relevant European sector index (DJ Stoxx Utilities), which has risen 233%.

Europe's leading stock markets rose during 2019, with Milan gaining 28.3%, Frankfurt and Paris 21.5% and 26.4%, respectively, London 12.1% and Madrid 11.8%.

Performance of Terna's shares

Terna's shares also ended 2019 in positive territory at a price of €5.954, representing an annual increase of 20.2%. The average daily volume traded during the year amounted to approximately 6.2 million shares. The share price reached its peak for the year on 6 November at €6.012. The ex-dividend date for the interim dividend for 2019, amounting to 8.42 euro cents per share, was 18 November.

KEY INDICATORS PER SHARE

	2019	2018	2017	2016	2015	2014
Number of shares (in millions)	2,010	2,010	2,010	2,010	2,010	2,010
Price at year end (€ per share)	5.95	4.95	4.84	4.35	4.76	3.76
Market capitalisation* (€m)	11,273	9,507	9,668	9,367	8,482	7,718
Average price for year (€ per share)	5.61	4.73	4.81	4.66	4.22	3.84
Earnings per share (€)	0.377	0.352	0.339	0.315	0.296	0.271
Dividend per share (€)	0.250	0.233	0.220	0.206	0.200	0.200
Payout ratio**	66.22%	66.34%	64.24%	65.40%	67.51%	73.82%
Dividend yield***	4.2%	4.7%	4.5%	4.7%	4.2%	5.3%
Total shareholder return	25.1%	7.3%	15.9%	(4.3%)	32.5%	8.9%

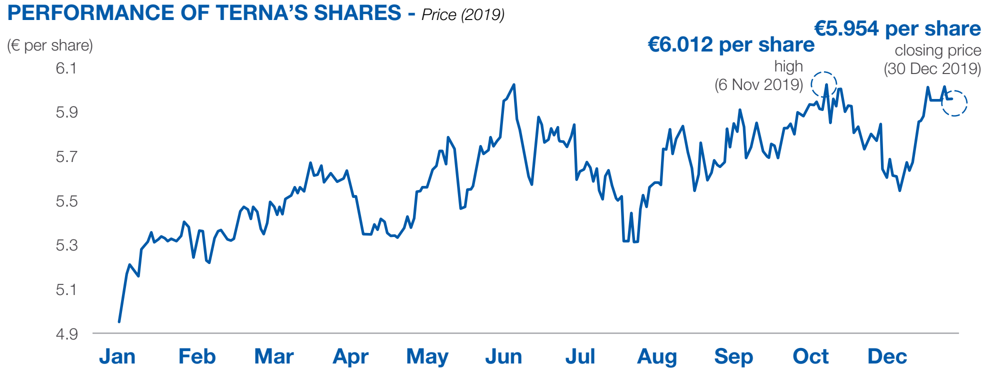
* *Based on the average price for the year.*
** *Ratio of the total dividend to profit attributable to owners of the Parent.*
*** *Dividend per share for the year as a percentage of the share price at year end.*

WEIGHTING OF TERNA'S SHARES	2019	2018
> on the FTSE MIB index	2.27%	2.42%

Source: Borsa Italiana

[27] *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.

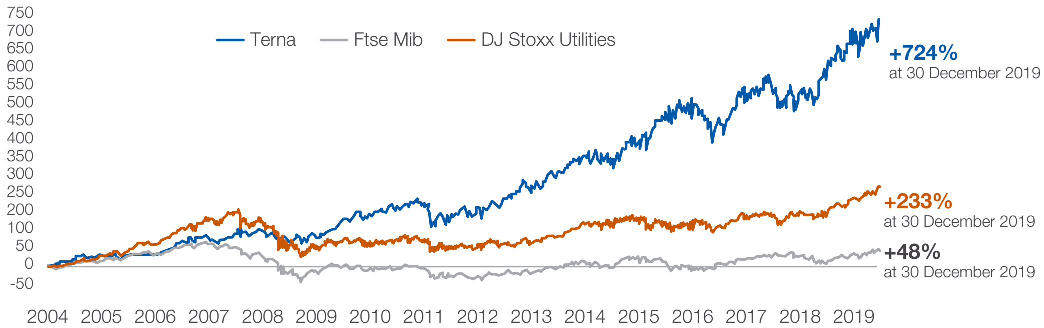
PERFORMANCE OF TERNA'S SHARES - *Price (2019)*



Source: Bloomberg

+20.2%
performance
2019

PERFORMANCE OF TERNA'S SHARES - Total Shareholder Return (from their floatation to the end of 2019) (%)



Source: Bloomberg

Inclusion in stock exchange sustainability indices

Terna's commitment to measuring and improving its ESG (Environmental, Social and Governance) performance is reflected positively in sustainability ratings.
Terna's inclusion in all the leading international stock exchange sustainability indices was confirmed in 2019. In September, on the occasion of the annual review conducted by the Swiss sustainability rating agency, RobecoSAM, Terna's presence in the Dow Jones Sustainability Index (World and Europe) was confirmed, and the Company was, for the second year running, named **Industry Leader in the Electric Utilities sector**.

INDEX	TERNA
BLOOMBERG GENDER EQUALITY INDEX	Included since 2019
DOW JONES SUSTAINABILITY INDEX	Included since 2009
ECPI	Included since 2007
ETHIBEL SUSTAINABILITY INDEX (ESI)	Included since 2009
EURONEXT VIGEO	Included in the World 120, Eurozone 120 and Europe 120 baskets since 2012
FTSE ECPI	Included since 2010
FTSE4Good	Included in the index (Global and Europe baskets) every year since 2005
MSCI GLOBAL SUSTAINABILITY	Included regularly in the index since 2007
STOXX® ESG	Included in the index since 2011
STOXX® LOW CARBON	Included in the index since February 2016, the date the index was launched
UNITED NATIONS GLOBAL COMPACT ("GC100")	Included in the index since 2013

In recognition of its ranking as "Industry Leader", Terna was included in the Gold Class in RobecoSAM's "Sustainability Yearbook 2020", published in January 2020.

Terna S.p.A.

A review of the operating performance and financial position of the Parent Company, Terna S.p.A., is provided below.

Terna S.p.A.'s reclassified income statement

Terna S.p.A.'s operating results for the years 2019 and 2018 are summarised in the following reclassified income statement, obtained by reclassifying amounts in the statutory income statement.

(€m)

	2019	2018	CHANGE	% CHANGE
TOTAL REVENUE	**2,054.5**	**1,967.6**	**86.9**	**4.4%**
- Tariff revenue	1,838.5	1,800.6	37.9	2.1%
of which transmission revenue	*1,725.6*	*1,657.5*	*68.1*	*4.1%*
of which dispatching, metering and other revenue	*112.9*	*143.1*	*(30.2)*	*(21.1%)*
- Other operating income	188.4	141.5	46.9	33.1%
- Revenue from construction services performed under concession*	27.6	25.5	2.1	8.2%
TOTAL OPERATING COSTS	**451.0**	**452.0**	**(1.0)**	**(0.2%)**
- Personnel expenses	60.0	63.6	(3.6)	(5.7%)
- Cost of services, leases and rentals	354.5	343.8	10.7	3.1%
- Materials	1.2	0.9	0.3	33.3%
- Other costs	7.1	13.1	(6.0)	(45.8%)
- Quality of service	0.6	5.1	(4.5)	(88.2%)
- Cost of construction services performed under concession*	27.6	25.5	2.1	8.2%
GROSS OPERATING PROFIT (EBITDA)	**1,603.5**	**1,515.6**	**87.9**	**5.8%**
- Amortisation, depreciation and impairment losses	540.7	517.9	22.8	4.4%
OPERATING PROFIT/(LOSS) (EBIT)	**1,062.8**	**997.7**	**65.1**	**6.5%**
- Net financial income/(expenses)	(63.6)	(78.5)	14.9	(19.0%)
PROFIT/(LOSS) BEFORE TAX	**999.2**	**919.2**	**80.0**	**8.7%**
- Income tax expense	285.7	257.9	27.8	10.8%
PROFIT FOR THE YEAR	**713.5**	**661.3**	**52.2**	**7.9%**

** Recognised in application of interpretation IFRIC 12 - Service Concession Arrangements.*

Revenue of €2,054.5 million is up €86.9 million due to:

- an increase of €37.9 million due to the adjustment to the Company'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), the determination of revenue from the Italy-Montenegro Interconnector (ARERA resolution 568/19) and the recognition of additional payments for energy-intensive storage systems (ARERA Resolution 169/19), offset by ARERA's one-off recognition of certain expenses arising in the previous year;

- recognition of revenue resulting from the sale of the private Italy-Montenegro Interconnector (on 17 December 2019), amounting to €25.8 million;
- the value of the RENS (Regulated Energy Not Supplied) bonus (up €12.8 million);
- connection services (up €1.1 million).

Operating costs are broadly in line with the previous year (down €1 million), primarily reflecting reductions in other costs (down €6 million), following the adjustment of provisions for risks and charges, in quality of service costs (down €4.5 million) and in personnel expenses (down €3.6 million, linked primarily to the different performance of staff incentive schemes), partially offset by an increase in the cost of services, leases and rentals (up €10.7 million), primarily due to intercompany services provided under specific agreements.

Gross operating profit (EBITDA) for 2019 amounts to €1,603.5 million, up €87.8 million (5.8%) on the previous year.

Amortisation, depreciation and impairment losses for the year amount to €540.7 million, an increase of €22.8 million compared with 2018. This primarily reflects the entry into service of new plant, and increased impairment losses on assets in the previous year (down €12.9 million).

Operating profit (**EBIT**) thus amounts to €1,062.8 million, up €65.1 million on the figure for 2018 (up 6.5%).

Net financial expenses for the year total €63.6 million, a reduction of €14.9 million compared with the €78.5 million of 2018, due primarily to the seasonal nature of inflation, increased returns on the investment of liquidity and on short-term financial assets and the reduction in short-term interest rates.

Income tax expense for the year amounts to €285.7 million, an increase of €27.8 million compared with the previous year, essentially due to the increase in pre-tax profit. The tax rate is 28.6% compared with 28.1% for 2018.

Profit for the year thus amounts to €713.5 million, an increase of €52.2 million compared with profit for 2018 (up 7.9%).

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 €1,369.1 million, enabling the Parent Company to finance a large part of its investing activities (€1,045.6 million) and provide a return on equity (€583.3 million, including €479.7 million in the form of dividends paid to shareholders). The balance is financed for the remaining part by net debt, which totals €8,361.6 million compared with €8,101.8 million at the end of 2018 (up €259.8 million).

(€m)

	CASH FLOW 2019	CASH FLOW 2018
- Profit for the year	713.5	661.3
- Amortisation, depreciation and impairment losses	540.7	517.9
- Net change in provisions	(86.3)	(66.1)
- Net losses/(gains) on sale of assets	(11.2)	(3.0)
Operating cash flow	**1,156.7**	**1,110.1**
- Change in net working capital	130.5	243.0
- Change in investments	(29.2)	(55.7)
- Other movements in property, plant and equipment and intangible assets	275.6	38.7
- Change in financial assets	(164.5)	(19.6)
Cash flow from operating activities	**1,369.1**	**1,316.5**
- Total capital expenditure	(1,045.6)	(886.1)
Free cash flow	**323.5**	**430.4**
- Dividends paid to shareholders	(479.7)	(451.1)
- Cash flow hedge reserve after taxation and other movements in equity	(103.6)	(34.6)
Change in net debt	**(259.8)**	**(55.3)**

Terna S.p.A.'s reclassified statement of financial position

Terna S.p.A.'s financial position at 31 December 2019 and 2018 is summarised in the following statement, obtained by reclassifying amounts in the statutory statement of financial position.

(€m)

	AT 31 DECEMBER 2019	AT 31 DECEMBER 2018	CHANGE
Total net non-current assets	**13,981.2**	**13,548.1**	**433.1**
- Intangible assets and goodwill	443.8	427.7	16.1
- Property, plant and equipment	12,258.3	12,035.0	223.3
- Financial assets	1,279.1	1,085.4	193.7
Total net working capital	**(1,517.4)**	**(1,388.0)**	**(129.4)**
- Net energy-related pass-through payables	(598.6)	(799.7)	201.1
- Net receivables resulting from regulated activities	320.4	313.9	6.5
- Net trade payables	(592.5)	(537.6)	(54.9)
- Net tax liabilities	(79.3)	(14.2)	(65.1)
- Other liabilities net	(567.4)	(350.4)	(217.0)
Gross invested capital	**12,463.8**	**12,160.1**	**303.7**
Sundry provisions	(121.1)	(207.4)	86.3
NET INVESTED CAPITAL	**12,342.7**	**11,952.7**	**390.0**
Equity	**3,981.1**	**3,850.9**	**130.2**
Net debt	**8,361.6**	**8,101.8**	**259.8**
TOTAL	**12,342.7**	**11,952.7**	**390.0**

The principal changes with respect to 31 December 2018 are described below.

Net invested capital amounts to €12,342.7 million at 31 December 2019, an increase of €390 million compared with the previous year. This reflects an increase in **net non-current assets** (€433.1 million), the cash generated by **net working capital** (down €129.4 million) and a reduction in sundry provisions (€86.3 million).

The change in **net working capital**, represented by a reduction of €129.4 million, is primarily due to an increase in guarantee deposits received from electricity market operators and increases in VAT and income tax payable and in the Interconnector Guarantee Fund, offset by a reduction in net trade payables.

Net non-current assets are up €433.1 million, primarily due to the Company's capital expenditure (€1,045.6 million, including €12.5 million recognised in application of IFRS 16), after amortisation and depreciation for the year (€541.3 million) and the sale of the private Italy-Montenegro Interconnector (€213.5 million), as well as recognition of the amounts deposited by operators who participate in the capacity market pursuant to Resolution 98/2011/R/eel, as amended (€142.6 million).

Sundry provisions are down €86.3 million, primarily due to adjustments to provisions for net tax liabilities, mainly due to the effect on taxation of amortisation and depreciation, movements in provisions for risks and charges and movements in derivative instruments held by the Company (up €51.4 million), the use of provisions for early retirement under the current generational turnover plan (down €10.1 million) and net uses of provisions relating to quality of service (down €9 million).

Net debt of €8,361.6 million is up €259.8 million.

(€m)

NET DEBT (BY TYPE OF INSTRUMENT)	AT 31 DECEMBER 2019	AT 31 DECEMBER 2018	CHANGE
- Bond issues	7,757.3	7,179.9	577.4
- Borrowings	1,665.5	2,221.8	(556.3)
- Short-term borrowings and other financial liabilities	81.4	89.5	(8.1)
- Derivative financial instruments	114.0	57.8	56.2
Gross debt	**9,618.2**	**9,549.0**	**69.2**
- Long- and short-term loans to subsidiaries	(24.1)	(99.5)	75.4
- Financial assets	(513.3)	(402.6)	(110.7)
- Cash and cash equivalents (including the net balance on intercompany current accounts)	(719.2)	(945.1)	225.9
Total net debt	**8,361.6**	**8,101.8**	**259.8**

In addition to the information provided above, the increase in net debt also reflects the repayment of intercompany loans granted to the Brazilian subsidiaries in 2018 (down €89.5 million), partly offset by an increase in the loan to the Uruguayan subsidiary (up €14.1 million).

Proposal for the Annual General Meeting regarding the distribution of Terna S.p.A.'s profit for the year

Proposal for appropriation of profit for the year

Terna S.p.A.'s Board of Directors proposes to pay a total dividend of €501,493,004.00 for 2019, equal to €0.2495 per share, of which €0.0842 per share was declared in the form of an interim dividend on 13 November 2019.

The Board of Directors thus proposes to appropriate Terna S.p.A.'s profit for 2019, amounting to €713,513,547.45, as follows:

- €169,241,326.40 to cover payment of the interim dividend payable from 20 November 2019;
- €332,251,677.60 to pay a final dividend of €0.1653 to the holders of each of the 2,009,992,000 ordinary shares outstanding at the date of this Board of Directors' meeting. The final dividend will be payable on 24 June 2020, with an ex-dividend date for coupon 32 of 22 June 2020 (a record date, as defined by art.83-terdecies of Legislative Decree 58 of 24 February 1998, the Consolidated Law on Finance, of 23 June 2020);
- €212,020,543.45 to be taken to Retained earnings.

Efficiency

The ability to **manage the electricity system** so as to meet security, adequacy and quality requirements **at the lowest overall cost** to the consumer/end user, representing one of the cornerstones of our mission. An efficient system is able to reduce curtailment affecting renewable energy plants and/or at low cost, caused by congestion on the grid or by overgeneration with respect to demand. In addition, thanks to targeted work on the grid and on the system, it will be possible to contain cost rises in the market for services, caused by the reduction in the number of traditional plants in operation and by the growing volatility of the residual load.

Security

Adequacy

Quality of service

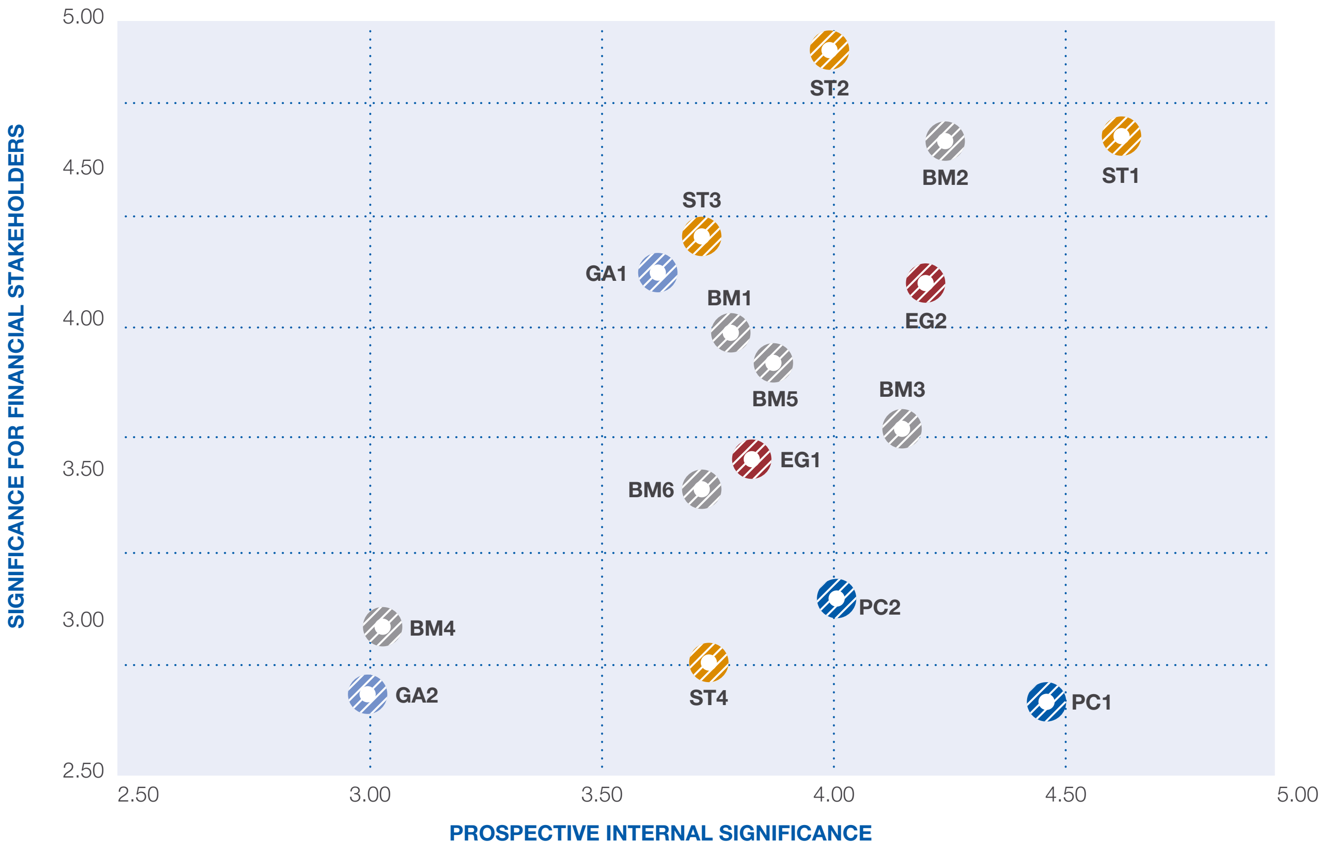
Resilience

Efficiency

5 Annexes

Materiality analysis

PROSPECTIVE MATERIALITY MATRIX



Ethics and governance model

EG1: Governance model effectiveness

EG2: Business integrity

Transmission service

ST1: Delivering the energy transition

ST2: Ensuring the quality, security and continuity of the electricity service

ST3: Grid resilience

ST4: Economic impacts on the community

People and communities

PC1: Workplace health, safety and rights

PC2: HR development

Business Management

BM1: Strategic approach to stakeholder management

BM2: Delivering on financial and performance goals

BM3: Information security

BM4: Optimal management of relations with local stakeholders

BM5: Growing and diversifying the business

BM6: Innovation and digitalisation

Management of environmental impacts

GA1: Reducing the Group's CO_2 emissions

GA2: Reuse and recycling of materials

In the preparation of its Integrated Report for 2019, Terna has taken into account the guiding principles in the Integrated Reporting Framework developed by the IIRC-International Integrated Reporting Council. One of these principles is materiality, which requires entities to consider, when selecting the matters to cover and the related KPIs, their effective relevance in terms of their role in value creation.
The matters covered in the Integrated Report for 2019 are consistent with the materiality matrix on the previous page. Construction of the matrix also played a part in the materiality analysis carried out during preparation of the Sustainability Report, which for the last two years also has the role of "Non-financial statement", now obligatory in accordance with Legislative Decree 254/2016 and also based on the materiality principle.

Key steps in this process are the following:

- **selection of the main topics:** the selection was conducted in 2016 on the basis of an in-depth analysis of internal and external documents and revised in 2019 to take into account changes in Terna's strategic guidelines. 22 topics, belonging to 5 areas, were identified: ethics and the governance model; the transmission service; the management of environmental impacts; business management; people and communities;
- **determination of significance for Terna:** the selected topics were then classified according to their importance for Terna.
  This process took the form of a survey of the Company's managers was carried out (on two levels starting from the Group Parent's Chief Executive Officer), with participants asked to assess the topics in the new topic tree.
  This survey results were weighted against the assessments completed in 2018, aimed at evaluating the level of "active management" (existence of policies, procedures, objectives, monitoring activities, etc.) and the priorities in the Strategic Plan 2018-2022 and the document "Sustainability initiatives and KPIs for the Strategic Plan 2019 – 2023". The overall results were then validated by the Group's senior management;
- **determination of significance for stakeholders:** each topic was ranked by combining the significance of the topic for each category of stakeholder with the weighting assigned to that category in Terna's stakeholder map.
  In particular, the significance of each topic for a given category of stakeholder was assessed on the basis of a) the results of an external survey involving various subgroups of key stakeholders, b) the analysis of documents and c) the results of specific surveys. Each topic was then ranked by combining the significance of the topic for each category of stakeholder with the weighting assigned to that category in Terna's stakeholder map. In particular, the significance of each topic for a given category of stakeholder was assessed on the basis of a) the analysis of documents, b) the results of specific surveys (es. engagement surveys of personnel, questionnaires completed by customers of the Group's non-regulated business) and c) management's perception of the significance of topics for stakeholders with whom they have direct contact.
  Further details are provided in the section on materiality in the Sustainability Report-Non-financial Statement.

  The materiality matrix used for the Integrated Report differs from the one used for the Sustainability Report-Non-financial Statement as regards the following key aspects:
- to determine the significance for Terna, the results of the internal survey of second-level managers conducted in 2019 were weighted against the results of the assessment of prospective significance completed in 2018, which evaluated, with respect to each topic, the need for investment – in terms of boosting management capabilities – in order to achieve the objectives in the Strategic Plan;
- in determining significance for stakeholders, and again in line with IIRC principles, only the opinions of those belonging to the financial category, meaning "shareholders" (including financial analysts and institutional investors) and "credit providers" (e.g. banks), were taken into account;
- the topics placed in the matrix (16) are those for which, in the set of sources analysed, it was possible to identify the information of significance to financial stakeholders.

In the matrix, the most significant topics are those furthest away from the origin, for both axes.

Regulatory framework and other information

Summary of the principal legislative measures

A brief description is provided below of the principal legislation of interest to the Group issued during 2019 and, subsequently, up to the date of preparation of this Annual Report.

- **Law 145 of 30 December 2018, containing the Budget Law for the 2019 financial year and the long-term budget for the three-year period 2019-2021, published in Official Gazette no. 302 of 31 December 2018.**

  The Budget Law extended the application of a number of measures to 2019, including: hyper depreciation (making it possible for businesses to increase the purchase cost of the most innovative operating assets for the purposes of depreciation), capping eligible expenditure at €20 million and making the applicable rates of depreciation progressive; and forms of contribution holiday for newly hired personnel in southern Italy. Again, with regard to job creation incentives, the legislation introduced a new form of contribution holiday for companies who hire young people who have recently graduated from university with a first-class degree and people who have recently completed a doctorate. The law has reduced the deductible portion of additional spending on research and development to 25%, in relation cost items such as personnel expenses for staff not on permanent contracts and contracts with innovative start-ups and SMEs not belonging the same group. The 2019 Budget Law also set up a fund to enable people to take early retirement or take part in generational turnover. Other measures, relating to the tax-deductibility of council tax and incentives for companies to raise more capital, were later revisited in Law Decree 34 of 30 April 2019 and Law 160 of 27 December 2019.

- **Law Decree 4 of 28 January 2019, containing urgent measures regarding citizens' income and pensions, converted into Law 26 of 28 March 2019, published in Official Gazette no. 75 of 29 March 2019.**

  This Law Decree, in implementation of the 2019 Budget Law, granted the right to take early retirement to workers who are at least 62 years old and who have been paying contributions for a minimum of 38 years. In addition, changes to the requirements for access to early retirement based on length of contribution period or age on entering the workforce have been frozen. The Decree has also extended the so-called "women's option", allowing women who, at 31 December 2018, had reached the age of 58 and had been paying contributions for 35 years to qualify for early retirement. Finally, the Decree introduced provisions governing the citizens' income, offering incentives to companies who hire beneficiaries of the income.

- **Law Decree 32 of 18 April 2019, containing urgent measures regarding the award of public works contracts, the acceleration of infrastructure projects, urban regeneration and reconstruction following seismic events, converted into Law 55 of 14 June 2019, published in Official Gazette no. 140 of 17 June 2019.**

  The Decree has introduced a number of measures for 2019 and 2020, such as abolition of the obligation to include a list of subcontractors when tendering and an increase in the maximum proportion of a contract that can be subcontracted from 30% to 40%.

- **Law Decree 34 of 30 April 2019, containing urgent measures designed to stimulate economic growth and resolve specific problems, converted into Law 58 of 28 June 2019, published in the Official Gazette of 29 June 2019.**

  This Law Decree has increased the deductible portion of council tax, previously raised from 20% to 40% in the Budget Law, to 50% and extended the application of hyper depreciation, based on up to 130% of the purchase cost, to new operating assets purchased in 2019, capping the related expenditure at €2.5 million.

- **Law Decree 124 of 26 October 2019, containing urgent measures regarding taxation and non-deferrable necessities, converted into Law 157 of 19 December 2019, published in the Official Gazette of 24 December 2019.**

  The Decree requires entities contracting out works and services, with a total annual value of in excess of €200,000, to request the contractor or the company awarded the contract and any subcontractors to provide copies of proof of payment of any withholdings deducted from the pay of employees. The legislation applies to "contracts… where workers are primarily employed at the principal's premises, using the principal's own operating assets or assets attributable thereto in whatever form". The Decree also provides that the offset of tax credits on income tax and the related surcharges, withholding tax on income and IRAP, amounting to over €5,000 per year, may take place only "from the tenth day following the date of presentation of the tax return or the claim from which the credit emerges".

- **Law 160 of 27 December 2019, containing the Budget Law for the 2020 financial year and the long-term budget for the three-year period 2020-2022, published in the Official Gazette of 30 December 2019.**

  The 2020 Budget Law has re-introduced Aiuto per la Crescita Economica tax relief, previously abolished by the 2019 Budget Law, establishing a deductible notional return on new equity of 1.3% from 2019. Accelerated and hyper depreciation have been replaced, for 2020, by a tax credit on investment in operating assets, applying a regressive rate based on the value of the purchases made. For 2020, in place of the tax credit applied only to additional research and development expenditure, the Law has introduced a new tax credit at a lower rate (6% for technological innovation and 12% for research and development), but applicable to the entire amount spent on the above activities. The legislation has also extended the application of gender quotas to boards of directors and boards of statutory auditors. The quota applicable to the least represented gender may not be less than 2/5. Other changes regard the so-called "women's option", which has been extended for 2020, and the establishment of a fund to reduce the tax wedge, use of which will be the subject of future legislation.

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

A summary is provided below of the principal resolutions adopted by Italy's Regulatory Authority for Energy, Networks and the Environment (ARERA) during 2019 and, subsequently, up to the date of preparation of this Annual Report.

- **Resolution 30/2019/R/eel**: Revision of the criteria for the transitional arrangements for specific capacity payments for 2018.
- **Resolution 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.
- **Resolution 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.
- **Resolution 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.
- **Resolution 103/2019/R/eel**: Further measures regarding sub-division of the grid into zones, following the review process conducted in accordance with Regulation (EU) 2015/1222 (CACM).
- **Resolution 106/2019/R/eel**: Determination of the quality of service bonuses and penalties for electricity transmission for 2017.
- **Resolution 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.
- **Resolution 169/2019/R/eel**: Determination of performance-based incentives for pilot projects relating to energy-intensive storage systems and dynamic thermal rating.
- **Resolution 171/2019/R/eel**: Recognition of the costs incurrent by Terna S.p.A. in 2018 in carrying out the activities involved in managing and developing the unique database of production plants (GAUDÌ).
- **Resolution 195/2019/R/efr**: Revision of the "IA" reliability index, as referred to in article 5 of Annex A to the regulator's determination ARG/elt 5/10, used in calculating the shortfall in wind production.
- **Resolution 233/2019/R/eel**: Revision of the criteria for the transitional arrangements for specific capacity payments for 2019.
- **Resolution 272/2019/R/eel**: Measures relating to extension of the *ex ante* checks on the figure for average annual power with regard to requests for switching submitted by each dispatching user.

- **Resolution 274/2019/R/eel**: Approval of the method for distributing congestion revenue for long-term transmission rights, pursuant to Regulation (EU) 2016/1719 (FCA).
- **Opinion 275/2019/I/eel**: Revision of the regulator's opinion 701/2016/I/eel, provided to the Ministry for Economic Development, granting an exemption for a portion of the "Italy-Montenegro" direct current interconnection.
- **Opinion 281/2019/R/eel**: Opinion provided to the Ministry for Economic Development on the draft decree approving capacity market regulations.
- **Resolution 289/2019/R/eel**: Measures regarding transitional capacity payments for 2019.
- **Resolution 343/2019/R/eel**: Approval of the Regulation drawn up by Terna S.p.A., regarding the procedures for the enablement and participation of consumption units for the capacity market in the dispatching services market and measures regarding the auctions to be held by the end of 2019.
- **Resolution 363/2019/R/eel**: Economic criteria for capacity market auctions for delivery years 2022 and 2023, as referred to in article 6, paragraph 1 of the Ministerial Decree of 28 June 2019.
- **Resolution 364/2019/R/eel**: Assessment of compliance of the technical rules governing the functioning of the capacity market.
- **Resolution 365/2019/R/eel**: Determinations of the fee referred to in article 14 of determination ARG/elt 98/11.
- **Resolution 420/2019/R/eel**: Determinations regarding essential plants. Amendments to the related regulations.
- **Resolution 421/2019/R/eel**: Approval of the forms of contract to be used by Terna S.p.A. and Monita Interconnector S.r.l. for technical and commercial management of the exempted section of the Italy-Montenegro Interconnector.
- **Resolution 437/2019/R/eel**: Measures regarding transitional capacity payments for 2020 and 2021.
- **Resolution 464/2019/R/eel**: Approval of the rules for allocating long-term transition rights and daily transmission rights at the border with Montenegro, valid for 2020.
- **Resolution 494/2019/R/eel**: Approval of Terna's proposed method for correlating the financial value of the guarantees provided by dispatching with the equivalent in MW, for use in determining the value of PMAmax for each user.
- **Resolution 503/2019/R/eel**: Determinations regarding the alternative regime for essential plants.
- **Resolution 504/2019/R/eel**: Measures regarding essential plants for 2020. Amendments to the regulator's determination 111/06.

- **Resolution 539/2019/R/eel**: Approval of changes to the Code for Transmission, Dispatching and Grid Development and Security prepared by Terna S.p.A. for the purposes of implementing European regulations governing connections.
- **Resolution 541/2019/R/eel**: Approval, for 2020, of the estimated costs relating to monitoring of the wholesale electricity market by Gestore dei Mercati Energetici S.p.A., and the fees for participation in the feed-in tariff system.
- **Resolution 546/2019/R/eel**: Compliance review of proposed changes to the Code for Transmission, Dispatching and Grid Development and Security for the purposes of implementing Regulation (EU) 2017/2196.
- **Resolution 558/2019/R/eel**: Amendment of the Consolidated Text for Closed Distribution Systems (TISDC) and extension of the deadline for its application to electricity grids serving ports and airports included in the register of other closed distribution systems after 31 December 2019. Update of the register of other closed distribution systems.
- **Resolution 560/2019/R/eel**: Recognition of the final costs for 2018 and the estimated costs for 2020 incurred by Terna S.p.A. in carrying out its market monitoring activities.
- **Resolution 567/2019/R/eel**: Revision of output-based regulations for the electricity transmission service for the sub-period 2020-2023.
- **Resolution 568/2019/R/eel**: Revision of tariff regulations for electricity transmission, distribution and metering services for the regulatory sub-period 2020-2023.
- **Resolution 574/2019/R/eel**: Revision of dispatching fees from 1 January 2020.
- **Resolution 575/2019/R/eel**: Determinations regarding the request for admission to the regime for covering the costs of the Assemini, Biopower Sardegna and Portoferraio plants.

Further details of the above resolutions, and information of further resolutions adopted by the regulator (ARERA), can be found on the regulator’s website at www.arera.it.

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

Related party transactions entered into by the Terna Group in 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 2019[28].

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[29] were carried out in 2019, nor were any transactions subject to the reporting requirements applicable in the event of exemptions applied in accordance with the relevant regulations[30].

Information on ownership structures

The disclosures required by art. 123-*bis* "Report on Corporate Governance and ownership structures" of the Consolidated Law on Financial Intermediation (Legislative Decree 58 of 24 February 1998) are provided in a separate document approved by Terna's Board of Directors ("Report on Corporate Governance and Ownership Structures" for 2019, available on Terna S.p.A.'s website (www.terna.it – in the section "Investor Relations").

[28] 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 2019. 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.

[29] 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).

[30] 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*".

Attestations pursuant to article 2.6.2, paragraphs 7 and 8 of the Regulations for the markets organised and managed by Borsa Italiana S.p.A., relating to the conditions described in articles 15 and 16 of the CONSOB's Markets Regulation (no. 20249 of 28 December 2017 in Official Gazette no.1 of 2 January 2018)

With reference to the provisions of article 15, paragraph one, letters a), b) and c) point i) of the CONSOB Markets Regulation, under the title *conditions for listing the shares of companies controlling companies incorporated and regulated under the laws of countries not belonging to the European Union*, we declare that TERNA S.p.A. does not hold any significant controlling interests, as defined in Title VI, Chapter II of CONSOB Regulation 11971 of 1999, in companies incorporated and regulated under the laws of countries not belonging to the European Union.

With reference to the provisions of article 16 of the CONSOB Markets Regulation, under the title *conditions prohibiting the listing of the shares of subsidiaries subject to management and coordination by another company*, we declare that TERNA S.p.A. is subject to the de facto control of Cassa Depositi e Prestiti S.p.A., exercised through CDP Reti S.p.A. (a joint-stock company controlled by Cassa Depositi e Prestiti S.p.A.), which holds a 29.851% interest in the Parent Company. The checks, providing confirmation of the above situation of control, were conducted by Cassa Depositi e Prestiti and notified to the Company and the CONSOB with effect from 19 April 2007 and, subsequently, by letter dated 30 October 2014 and 2 December 2014. At this time, there are no formal arrangements for the management and coordination of the Company, nor have any such rights been exercised. Terna S.p.A. conducts its business either directly or through its subsidiaries in conditions of operational and contractual independence.

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.

Changes in 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*

(AT 31 DECEMBER)	UNIT OF MEASUREMENT	2019	2018	CHANGE	% CHANGE
Substations	no.	165	164	1	0.61
Power transformed	MVA	117,504	115,258	2,246	1.95
220kV					
Substations	no.	149	150	(1)	(0.67)
Power transformed	MVA	31,996	31,417	579	1.84
Lower voltages (≤150kV)					
Substations	no.	574	567	7	1.23
Power transformed	MVA	3,884	3,914	(30)	(0.77)
Total					
Substations	no.	888	881	7	0.79
Power transformed	MVA	153,384	150,589	2,795	1.86

* *MVA calculated to the third decimal place and rounded to a whole number. Percentages calculated to the fifth decimal place and rounded to the second decimal place.*

DETAILS OF POWER LINES OWNED BY THE TERNA GROUP*

(AT 31 DECEMBER)	UNIT OF MEASUREMENT	2019	2018	CHANGE	% CHANGE
380kV					
Length of circuits	km	12,854	12,496	358	2.87
Length of lines	km	11,673	11,315	358	3.16
220kV					
Length of circuits	km	11,845	11,915	(70)	(0.58)
Length of lines	km	9,473	9,549	(77)	(0.80)
Lower voltages (≤150kV)					
Length of circuits	km	49,969	50,031	(62)	(0.12)
Length of lines	km	46,761	46,806	(45)	(0.10)
Total					
Length of circuits	km	74,669	74,442	226	0.30
overhead	km	70,815	71,043	(228)	(0.32)
underground cables	km	2,091	1,945	146	7.50
submarine cables	km	1,762	1,454	309	21.24
Length of lines	km	67,907	67,671	236	0.35
overhead	km	64,053	64,271	(218)	(0.34)
underground cables	km	2,091	1,945	146	7.50
submarine cables	km	1,762	1,454	309	21.24
Incidence of direct current connections (200 - 380 - 500kV)					
Circuits	km	2,435	2,077		
% of total	%	3.26	2.79		
Lines	km	2,115	1,757		
% of total	%	3.11	2.60		

* *Km calculated to the third decimal place and rounded to a whole number. Percentages calculated to the fifth decimal place.*

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

Substations

New infrastructure:

The following substations have **entered service:**

- switching substation at Picerno [PZ] (6 150kV bays);
- switching substation at Nuraminis [SU] (3 150kV bays);
- transformer substation at Mercatello [BZ] (5 132kV bays);
- transformer substation at Brennero [BZ] (4 132kV bays);
- switching substation at Santerno [RA] (4 132kV bays);

and **commissioning in final setup** of the transformer substation at Belcastro 380 [CZ] and **acquisition** of the switching substation at Pontelandolfo [BN] (5 150kV bays).

In addition:

- the non-standard infrastructure at the Cepagatti Converter (1 380kV bay) and Kotor Converter (2 380kV bays) and the switching substation at Albacina [AN] (2 150kV bays) **were** also **included** in the Group's assets;
- **elimination** of the infrastructure at the Milan Certosa substation (220 kV);
- **demolition** of the non-standard Roe' Volciano infrastructure [BS] (1 132kV bay).

Existing infrastructure:

- **commissioning** of 19 new line bays at the substations at Selargius (2 380kV bays), La Spezia (1 220kV bay and 1 132kV bay), Milan Marcello (1 220kV bay), Foggia (2 150kV bays), Troia, Castelnuovo, Piscioli, Valle, Genzano and Catanzaro (1 150kV bay each), Rondissone, Villeneuve, Bistagno, Milan Rogoredo, Trento South and Adria (1 132kV bay each);
- **commissioning** of 14 new machine and/or power factor correction bays in the substations of Genzano (2 380kV bays and 2 150kV bays), San Severo (1 380kV bay and 1 150kV bay), Erchie (1 380kV bay), Grosotto and Cardano (1 220kV bay and 1 132kV bay each), Minturno (1 150kV bay), Padua and Valbruna (1 132kV bay each);
- **commissioning** of 3 new parallel and/or connector bays in the substations of Genzano (2 150kV bays) and Milan Rogoredo (1 66kV bay);
- **acquisition** of 2 132kV machine bays for the Bolzano RT and Spinea substations;
- **demolition and/or decommissioning** of 11 bays at the substations at Erchie (1 380kV bay), Grosotto (1 220kV bay and 1 132kV bay), Milan Ricevitrice North (2 220kV bays), Milan Lambrate (1 220kV bay), Bistagno (2 132kV bays), Bolzano RT (1 132kV bay) and Pontebba (2 66kV bays).

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Transformers

The following transformers **entered service**:

- 3 new 380/207kV 194 MVA single-phase transformers at the non-standard Cepagatti Converter;
- 6 new 380/207kV 194 MVA single-phase transformers at the non-standard Kotor Converter;
- 2 new 380/150kV 250 MVA autotransformers at the Belcastro 380 and San Severo substations;
- 2 new 380/132kV 250 MVA autotransformers at the Rondissone and Vignole Borbera substations;
- 3 new 220/132kV 250 MVA autotransformers at the Grosotto, Marcaria and Cardano substations;
- 1 new 220/20kV 63 MVA transformer at the Fratta substation;

and the following **further changes** occurred:

- demolition of 2 380/132kV 250 MVA autotransformers at the Rondissone and Vignole Borbera substations;
- demolition of 1 220/132kV 200 MVA autotransformer at the Marcaria substation;
- replacement of 1 220/132kV 160 MVA autotransformer with another with the same voltage at the Camporosso substation;
- demolition of 1 220/132kV 100 MVA autotransformer at the Grosotto substation;
- replacement of 1 220/60kV 63 MVA transformer with an 80 MVA transformer at the Cardano substation;
- replacement of 1 220/60kV 60 MVA transformer with a 63 MVA transformer at the Borgo Val Sugana substation;
- replacement of 2 220/20kV 40 MVA transformers with 63 MVA transformers at the Conegliano and Verona Borgo Milano substations;
- replacement of 1 220/15kV 63 MVA transformer with another with the same voltage at the Biella East substation;
- replacement of 1 132/15kV 50 MVA transformer with a 40 MVA transformer at the Carpi South substation.

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Power lines

- **entry into service** of the entire pole 1 for the new 500kV direct current connection between Italy and Montenegro (MON.ITA.) Cepagatti - Kotor (299.0 km in cable) and terrestrial sections and the anode and cathode connection for pole 2 (59.0 km in cable);
- **construction** of 7 new lines amounting to 60.0 km of circuit: Porta Venezia - Porta Volta 220kV (3.8 km in cable), Marcello - Porta Venezia 220kV (1.6 km in cable), Capri - Sorrento 150kV (19.0 km in cable), Bari Termica - Palo del Colle 150kV (11.5 km in cable), Piscioli - Valle 150kV (10.8 km in cable), Bassanello - Brentelle 132kV (7.5 km in cable), Canevari - Molassana 132kV (5.8 km in cable);
- **construction** of 2 short 132kV connections between adjacent infrastructure: 1 of 0.3 km in cable and 1 of 0.1 km of overhead;
- **acquisition from third parties** of 3 150kV lines amounting to 146.2 km of circuit: Italcementi Castrovillari - Italcementi Matera 150kV (125.0 km of overhead), Morcone-Pontelandolfo 150kV (13.5 km of overhead) and Castelpagano - Morcone 150kV (7.7 km of overhead);
- **construction** of 8 in-out derivations on lines in operation, with an overall increase of the same number of circuits and 0.8 km of circuit, including: 4 lines of 0.6 km at 150kV, 3 lines of 0.2 km at 132kV, 1 line at 60kV;
- **construction of variants, rigid derivations, re-routings and/or changes to grid distribution** with a total increase of 33.2 km of circuit, including: additional 11.1 km at 220kV, additional 2.2 km at 150kV, additional 23.0 km at 132 kV, additional 0.1 km at 66 kV and removal of 3.4 km at 60kV;
- **downgrade** from 220kV to 132kV of 2 overhead lines amounting to 66.9 km;
- **demolition of** 14 lines and further sections of line amounting to 345.9 km of circuit, including: 3 linee and 25.8 km at 220kV, 1 line and 7.8 km at 150kV, 8 lines and 241.5 km at 132kV, 2 lines and 61.7 km at 70kV, 2.1 km at 60kV and 7.1 km at 50kV;
- **sale to third parties** of 6 lines amounting to 3.6 km of circuit, including 5 lines and 3.2 km at 220kV in cable and 1 line and 0.3 km at 132kV of overhead.

The identification of power lines using the code for each technical unit, adopted from this year, has **on a like-for-like basis** resulted in an increase of 31 in the number of lines.

MON.ITA.

To provide further details with respect to the above information, the 500kV direct current (HVDC) submarine cable between Italy and Montenegro has entered service with the following **initial configuration**:

- **Cepagatti Converter (IT)** consisting of two independent converter modules, **the first of which operated by the Interconnector**;
- **Kotor Converter (ME)** consisting of two independent converter modules;
- **pole 1** of the connection, consisting of:
    - 16 km of HV underground cable (Italy side) **operated by the Interconnector**;
    - 423 km of HV submarine cable, with the first 167 km **operated by the Interconnector**;
    - 6 km of HV underground cable (Montenegro side).

Alternative performance measures (APMs)

In accordance with the guidelines in ESMA/2015/1415, the alternative performance measures used in this Integrated 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 provi**sions 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 and Terna S.p.A. 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	2,055.0	"Revenue from sales and services", totalling €2,287.9 million, "Other revenue and income", totalling €56.9 million, after the cost of International Activities: "Personnel expenses", totalling €0.1 million, " Raw and consumable materials used", totalling €49.0 million, "Services", totalling €0.5 million, and "Other operating costs" of €0.1 million
Non-Regulated revenue	211.7	
Revenue from International Activities	28.4	
Personnel expenses	251.6	"Personnel expenses" after the cost of construction services performed under concession in Italy in accordance with IFRIC 12 (€5.0 million) and the cost of International Activities (€0.1 million)
Cost of services, leases and rentals	171.8	"Services" after the cost of construction services performed under concession in Italy in accordance with IFRIC 12 (15.0 million) and the cost of International Activities (€0.5 million)
Materials	86.2	"Raw and consumable materials used" after the cost of construction services performed under concession in Italy in accordance with IFRIC 12 (€7.6 million) and the cost of International Activities (€49.0 million)
Other costs	16.1	Other operating costs after the cost of International Activities (€0.1 million)
Quality of service	0.6	
Cost of construction services performed under concession	5.0	"Personnel expenses"
	15.0	"Services"
	7.6	"Raw and consumable materials used"
Net financial income/(expenses)	(77.7)	Points 1, 2 and 3 of letter C - "Financial income and expenses"

(follows)

(follows)

THE GROUP'S RECLASSIFIED STATEMENT OF FINANCIAL POSITION	€M	CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Financial assets	501.6	""Investment accounted for using the equity method", "Other non-current assets" and "Non-current financial assets", after the value of fair value hedges (€45.0 million)
Net energy-related pass-through payables	(575.8)	"Trade receivables" relating to the value of energy-related pass-through receivables (€758.4 million) and "Trade payables" relating to the value of energy-related pass-through payables (€1,334.2 million)
Net receivables resulting from Regulated Activities	320.4	"Trade receivables" relating to the value of receivables resulting from Regulated Activities (€345.0 million) and "Trade payables" relating to the value of payables resulting from Regulated Activities (€24.6 million)
Net trade payables	(899.1)	"Trade payables" after the value of energy-related pass-through payables (€1,334.2 million) and payables resulting from Regulated Activities (€24.6 million) and "Trade receivables" after the value of energy-related pass-through receivables (€758.4 million) and the value of receivables resulting from Regulated Activities (€345.0 million)
Net tax liabilities	(5.3)	"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 (€21.9 million) and "Tax liabilities"
Other liabilities net	(1,048.0)	"Other non-current liabilities", "Other current liabilities" after other tax liabilities (€21.9 million), "Inventories" and "Other current assets" after other tax assets (€23.2 million)
Sundry provisions	(210.2)	"Employee benefits", "Provisions for risks and charges" and "Deferred tax assets"
Net debt	8,258.6	"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 fair value hedges (€45.0 million)

THE GROUP'S ANALYSIS OF NET DEBT	€M	CONSOLIDATED STATEMENT OF FINANCIAL POSITION
"Bond issues" and "Borrowings"	9,607.2	Corresponds with "Long-term borrowings" and "Current portions of long-term borrowings"
"Derivative financial instruments" – short- and medium/long-term	115.3	Corresponds with "Non-current financial liabilities", "Current financial assets" relating to the value of cash flow hedges (€0.1 million) and "Non-current financial assets" relating to the value of fair value hedges (€45.0 million)
Other current financial liabilities, net	81.8	Corresponds with "Current financial assets" relating to the value of accrued financial income (€5.9 million) and "Current financial liabilities", after cash flow hedges (€0.3 million)
Financial assets	(513.3)	Corresponds with "Current financial assets" relating to the value of government securities (€513.3 million)

RECONCILIATION OF THE TERNA GROUP'S CASH FLOW

(€m)

	CASH FLOW 2019	RECONCILIATION WITH FINANCIAL STATEMENTS	CASH FLOW 2018	RECONCILIATION WITH FINANCIAL STATEMENTS
- Profit for the year	763.9		711.6	
- Amortisation. depreciation and impairment losses	586.1		554.1	
- Net change in provisions	(97.3)		(48.3)	
Employee benefits		*(5.5)*		*(11.3)*
Provisions for risks and charges		*(31.1)*		*(25.1)*
Deferred tax assets		*(60.7)*		*(3.3)*
Deferred tax liabilities		*-*		*(8.6)*
- Net losses/(gains) on sale of assets (1)	(12.9)		(3.5)	
Operating cash flow	**1,239.8**		**1,213.9**	
- Change in net working capital	386.2		336.6	
Inventories		*12.5*		*(0.4)*
Trade receivables		*(122.8)*		*75.5*
Income tax assets		*14.1*		*17.6*
Other current assets		*(33.3)*		*53.1*
Trade payables		*(94.4)*		*16.2*
Tax liabilities		*6.7*		*5.1*
Other liabilities		*603.4*		*169.5*
- Other changes in non-current assets	(134.9)		(76.0)	
Intangible assets (2)		*0.5*		*(9.3)*
Property. plant and equipment (3)		*46.3*		*45.3*
Non-current financial assets		*(177.3)*		*(113.2)*
Other non-current assets		*(1.1)*		*(0.6)*
Investments accounted for using the equity method		*(3.3)*		*1.8*
- Cash flow from operating activities	**1,491.1**		**1,474.5**	
Capital expenditure				
- Total Capital expenditure	(1,264.1)		(1,091.1)	
Property. plant and equipment (3)		*(1.182.9)*		*(1.034.7)*
Intangible assets (2)		*(81.2)*		*(56.4)*
Total cash flow from (for) investing activities	**(1,264.1)**		**(1,091.1)**	
Free cash flow	**227.0**		**383.4**	
- Cash flow hedge reserve after taxation and other movements in equity attributable to owners of the Parent (4)	(106.5)		(39.6)	
- Other movements in equity attributable to non-controlling interests	-		4.3	
- Dividends paid to Parent Company's shareholders (4)	(479.7)		(451.1)	
- Change in net debt	**(359.2)**		**(103.0)**	
- Change in borrowings	**87.7**		**(557.3)**	
Non-current financial assets		*(45.0)*		*4.3*
Current financial assets		*(114.8)*		*(404.3)*
Non-current financial liabilities		*101.2*		*48.7*
Long-term borrowings		*1,253.1*		*(444.0)*
Short-term borrowings		*-*		*(93.0)*
Current portion of long-term borrowings		*(1,104.1)*		*346.3*
Current financial liabilities		*(2.7)*		*(15.3)*
- Change in cash and cash equivalents	**(271.5)**		**(660.3)**	

(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.

RECONCILIATION OF TERNA S.P.A.'S RECLASSIFIED INCOME STATEMENT AND STATEMENT OF FINANCIAL POSITION AND NET DEBT

TERNA'S RECLASSIFIED INCOME STATEMENT	€M	INCOME STATEMENT
Tariff revenue	1,838.5	"Revenue from sales and services"
Revenue from construction services performed under concession	27.6	"Revenue from sales and services"
Other operating income	188.4	"Revenue from sales and services", totalling €107.2 million, and "Other revenue and income"
Personnel expenses	60.0	"Personnel expenses" after the cost of construction services performed under concession in accordance with IFRIC 12 (€0.3 million)
Cost of services. leases and rentals	354.5	"Services" after the cost of construction services performed under concession in accordance with IFRIC 12 (€23.8 million)
Materials	1.2	"Raw and consumable materials used" after the cost of construction services performed under concession in accordance with IFRIC 12 (€3.5 million)
Other costs	7.1	Other operating costs
Quality of service	0.6	
Cost of construction services performed under concession	0.3	"Personnel expenses"
	23.8	"Services"
	3.5	"Raw and consumable materials used"
Net financial income/ (expenses)	(63.6)	Points 1 and 2 of letter C - "Financial income and expenses"

TERNA'S RECLASSIFIED STATEMENT OF FINANCIAL POSITION	€M	STATEMENT OF FINANCIAL POSITION
Financial assets	1,279.1	"Non-current financial assets" after loans to subsidiaries (€24.1 million) and the value of fair value hedges (€45.0 million) and "Other non-current assets"
Net energy-related pass-through payables	(598.6)	"Trade receivables" relating to the value of energy-related pass-through receivables (€758.4 million) and "Trade payables" relating to the value of energy-related pass-through payables (€1,357 million)
Net receivables resulting from Regulated Activities	320.4	"Trade receivables" relating to the value of receivables resulting from Regulated Activities (€345.0 million) and "Trade payables" relating to the value of payables resulting from Regulated Activities (€24.6 million)
Net trade payables	(592.5)	"Trade payables" after the value of energy-related pass-through payables (€1,357 million) and payables resulting from Regulated Activities (€24.6 million) and "Trade receivables" after the value of energy-related pass-through receivables (€758.4 million) and the value of receivables resulting from Regulated Activities (€345.0 million))
Net tax liabilities	(79.3)	"Tax assets", "Other current assets" relating to the value of other tax assets (€6.5 million), "Other current liabilities" relating to the value of other tax liabilities (€71.9 million) and "Tax liabilities"
Other liabilities net	(567.4)	"Other non-current liabilities", "Other current liabilities" after other tax liabilities (€71.9 million), "Inventories" and "Other current assets" after other tax assets (€6.5 million)
Sundry provisions	(121.1)	"Employee benefits", "Provisions for risks and charges" and "Deferred tax assets"
Net debt	8,361.6	"Long-term borrowings", "Current portion of long-term borrowings", "Non-current financial liabilities", "Short-term borrowings", "Cash and cash equivalents", "Non-current financial assets" relating to the value of fair value hedges (€45.0 million) and loans to subsidiaries (€24.1 million), "Current financial assets" and "Current financial liabilities"

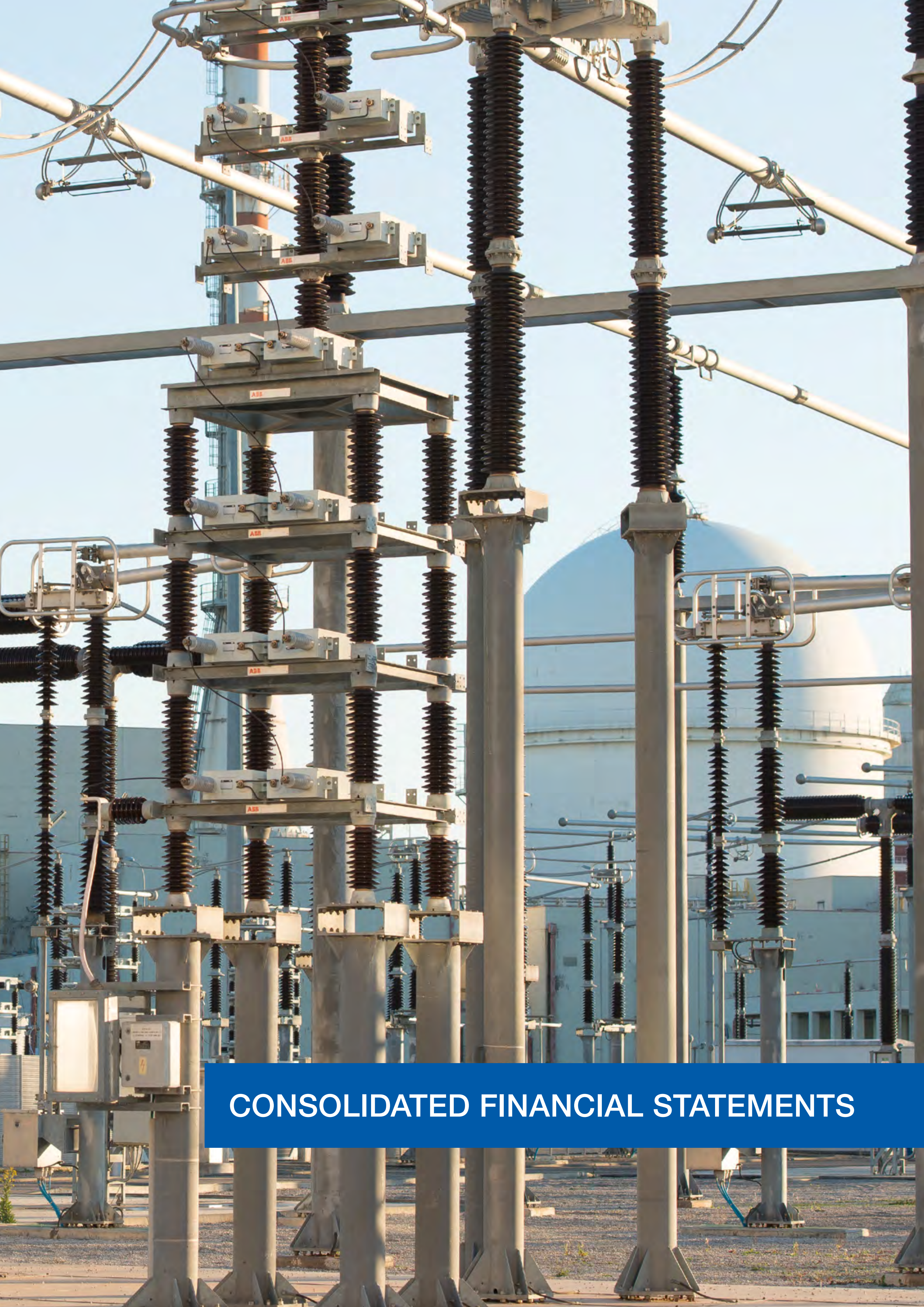
TERNA'S ANALYSIS OF NET DEBT	€M	STATEMENT OF FINANCIAL POSITION
"Bond issues" and "Borrowings"	9,422.8	Corresponds with "Long-term borrowings" and "Current portions of long-term borrowings"
"Derivative financial instruments"	114.0	Corresponds with "Non-current financial liabilities"
"Short-term borrowings and other financial liabilities"	81.4	Corresponds with "Current financial liabilities" and "Current financial assets" relating to the value of accrued financial income (€5.9 million)
"Cash and cash equivalents (including the net balance on intercompany current accounts)"	(719.2)	Corresponds with "Cash and cash equivalents"
"Long- and short-term loans to subsidiaries"	(24.1)	Corresponds with "Non-current financial assets", totalling €24.1 million
"Financial assets"	(513.3)	Corresponds with "Current financial assets" relating to the value of government securities (€513.3 million)

RECONCILIATION OF TERNA S.P.A.'S CASH FLOW

(€m)

	CASH FLOW 2019	RECONCILIATION WITH FINANCIAL STATEMENTS	CASH FLOW 2018	RECONCILIATION WITH FINANCIAL STATEMENTS
- Profit for the year	713.5		661.3	
- Amortisation. depreciation and impairment losses	540.7		517.9	
- Net change in provisions	(86.3)		(66.1)	
Employee benefits		*(0.1)*		*(0.9)*
Provisions for risks and charges		*(34.8)*		*(29.7)*
Deferred tax assets		*(51.4)*		*(18.2)*
Deferred tax liabilities		-		*(17.3)*
- Net losses/(gains) on sale of assets (1)	(11.2)		(3.0)	
Operating cash flow	**1,156.7**		**1,110.1**	
- Change in net working capital	130.5		243.0	
Inventories		-		*5.3*
Trade receivables		*(69.2)*		*51.9*
Income tax assets		*12.5*		*41.9*
Other current assets		*(5.8)*		*42.7*
Trade payables		*(82.4)*		*7.0*
Tax liabilities		*9.3*		*8.1*
Other liabilities		*266.1*		*86.1*
- Other changes in non-current assets	81.9		(36.6)	
Property. plant and equipment (2)		275.4		36.8
Intangible assets (3)		0.2		1.9
Non-current financial assets		(193.9)		(74.6)
Other non-current assets		0.2		(0.7)
Cash flow from operating activities	**1,369.1**		**1,316.5**	
Capital expenditure				
- Total Capital expenditure	(1,045.6)		(886.1)	
Property. plant and equipment (2)		(976.9)		(834.3)
Intangible assets (3)		(68.7)		(51.8)
Total cash flow from (for) investing activities	**(1,045.6)**		**(886.1)**	
Free cash flow	**323.5**		**430.4**	
- Dividends (4)	(479.7)		(451.1)	
- Cash flow hedge reserve after taxation and other movements in equity (4)	(103.6)		(34.6)	
Change in net debt	**(259.8)**		**(55.3)**	
- Change in borrowings	**33.9**		**(677.8)**	
Current financial assets		*(25.2)*		*(493.8)*
Non-current financial assets		*(59.1)*		*(6.8)*
Non-current financial liabilities		*99.9*		*49.2*
Long-term borrowings		*1,133.5*		*(466.6)*
Short-term borrowings		-		*(90.0)*
Current portion of long-term borrowings		*(1,112.4)*		*345.8*
Current financial liabilities		*(2.8)*		*(15.6)*
- Change in cash and cash equivalents	**(225.9)**		**(733.1)**	

(1) Included in "Other revenue" and "Other operating costs" in the financial statements.
(2) See note 10 to the financial statements.
(3) See note 12 to the financial statements.
(4) See the statement of changes in equity.



CONSOLIDATED FINANCIAL STATEMENTS

Contents

Consolidated financial statements

Consolidated income statement

(€m)

	NOTE	2019	2018
A - REVENUE			
1. Revenue from sales and services	1	2,287.9	2,272.5
of which related parties		*1,632.8*	*1,603.6*
2. Other revenue and income	2	56.9	46.6
of which related parties		*4.9*	*16.1*
Total revenue		**2,344.8**	**2,319.1**
B - OPERATING COSTS			
1. Raw and consumable materials used	3	142.8	204.4
of which related parties		*0.3*	*0.2*
2. Services	4	187.3	191.2
of which related parties		*17.1*	*19.7*
3. Personnel expenses	5	256.7	244.1
- gross personnel expenses		*334.2*	*312.3*
- capitalised personnel expenses		*(77.5)*	*(68.2)*
of which related parties		*2.9*	*2.9*
4. Amortisation, depreciation and impairment losses	6	586.1	554.1
5. Other operating costs	7	16.8	28.8
of which related parties		*0.1*	*0.1*
Total costs		**1,189.7**	**1,222.6**
A-B OPERATING PROFIT/(LOSS)		**1,155.1**	**1,096.5**
C - FINANCIAL INCOME/(EXPENSES)			
1. Financial income	8	11.3	6.9
2. Financial expenses	8	(92.3)	(98.3)
of which related parties		*(0.3)*	*(3.1)*
3. Share of profit/(loss) of investees accounted for using the equity method	9	3.3	2,6
D - PROFIT/(LOSS) BEFORE TAX		**1,077.4**	**1,007.7**
E - INCOME TAX EXPENSE	**10**	**313.5**	**296.1**
F - PROFIT FOR THE YEAR		**763.9**	**711.6**
Profit attributable to owners of the Parent		***757.3***	***706.6***
Profit attributable to non-controlling interests		***6.6***	***5.0***
Earnings per share	**11**		
Basic earnings per share		0.377	0.352
Diluted earnings per share		0.377	0.352

Consolidated statement of comprehensive income

(€m)

	NOTE	2019	2018
PROFIT FOR THE YEAR		**763.9**	**711.6**
Other comprehensive income for the year reclassifiable to profit or loss			
- Cash flow hedge	23	(93.7)	(32.1)
- Financial assets at fair value through other comprehensive income	23	0.6	1.1
- Gains/(Losses) from translation of financial statements in currencies other than the euro	23	(0.6)	(4.8)
- Cost of hedges	23	(11.6)	(1.8)
Other comprehensive income for the year not reclassifiable to profit or loss			
- Actuarial gains/(losses) on provisions for employee benefits	23	(2.1)	0.9
COMPREHENSIVE INCOME FOR THE YEAR		**656.5**	**674.9**
COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Parent		*649,9*	*669,9*
Non-controlling interests		*6,6*	*5,0*

Consolidated statement of financial position

(€m)

	NOTE	31 DECEMBER 2019	31 DECEMBER 2018
A - NON-CURRENT ASSETS			
1. Property, plant and equipment	12	13,864.2	13,244.3
of which related parties		*45.3*	*40.9*
2. Goodwill	13	230.1	230.1
3. Intangible assets	14	312.6	289.3
4. Deferred tax assets	15	64.0	3.3
5. Investments accounted for using the equity method	16	79.4	76.1
6. Non-current financial assets	17	451.3	229.0
7. Other non-current assets	18	15.9	14.8
Total non-current assets		**15,017.5**	**14,086.9**
B - CURRENT ASSETS			
1. Inventories	19	50.9	63.4
2. Trade receivables	20	1,290.7	1,167.0
of which related parties		*423.2*	*409.7*
3. Current financial assets	17	519.3	404.5
4. Cash and cash equivalents	21	1,057.4	1,328.9
of which related parties		*0.1*	*0.1*
5. Income tax assets	22	5.2	19.3
6. Other current assets	18	62.7	86.0
of which related parties		-	*3.3*
Total current assets		**2,986.2**	**3,069.1**
TOTAL ASSETS		**18,003.7**	**17,156.0**

(continues)

(continues)

(€m)

	NOTE	31 DECEMBER 2019	31 DECEMBER 2018
C - EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
1. Share capital		442.2	442.2
2. Other reserves		681.7	788.5
3. Retained earnings/(accumulated losses)		2,478.3	2,240.1
4. Interim dividend		(169.2)	(158.2)
5. Profit for the year		757.3	706.6
Total equity attributable to owners of the Parent	**23**	**4,190.3**	**4,019.2**
D - EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	**23**	**41.6**	**35.0**
Total equity attributable to owners of the Parent and non-controlling interests		**4,231.9**	**4,054.2**
E - NON-CURRENT LIABILITIES			
1. Long-term borrowings	24	9,480.7	8,227.6
2. Employee benefits	25	63.9	69.4
3. Provisions for risks and charges	26	210.3	241.4
4. Non-current financial liabilities	24	160.4	59.2
5. Other non-current liabilities	27	834.9	373.8
Total non-current liabilities		**10,750.2**	**8,971.4**
F - CURRENT LIABILITIES			
1. Short-term borrowings	24	25.0	25.0
2. Current portion of long-term borrowings	24	126.5	1,230.6
of which related parties		-	*500,0*
3. Trade payables	28	2,445.2	2,539.6
of which related parties		*85.5*	*66.7*
4. Tax expense	28	11.8	5.1
5. Current financial liabilities	24	87.7	90.4
of which related parties		-	*0.5*
6. Other current liabilities	28	325.4	239.7
of which related parties		*20.9*	*14.7*
Total current liabilities		**3,021.6**	**4,130.4**
TOTAL LIABILITIES AND EQUITY		**18,003.7**	**17,156.0**

Consolidated statement of changes in equity

31 DECEMBER 2018 - 31 DECEMBER 2019
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 YEAR				
OTHER COMPREHENSIVE INCOME:				
- Change in fair value of cash flow hedges	-	-	-	(93.7)
- 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	-	-	-	(11.6)
Total other comprehensive income	**-**	**-**	**-**	**(105.3)**
COMPREHENSIVE INCOME	-	-	-	(105.3)
TRANSACTIONS WITH SHAREHOLDERS:				
- Appropriation of profit for 2018:				
Retained earnings	-	-	-	-
Dividends	-	-	-	-
- Interim dividend 2019	-	-	-	-
Total transactions with shareholders	**-**	**-**	**-**	**-**
Other changes	-	-	-	-
Total other changes	**-**	**-**	**-**	**-**
EQUITY AT 31 DECEMBER 2019	442.2	88.4	20.0	(151.9)

31 DECEMBER 2017 - 31 DECEMBER 2018
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 in accounting standards	-	-	-	-
RESTATED EQUITY AT 1 JANUARY 2018	442.2	88.4	20.0	(12.7)
PROFIT FOR THE YEAR				
OTHER COMPREHENSIVE INCOME:				
- Change in fair value of cash flow hedges	-	-	-	(32.1)
- 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	-	-	-	(1.8)
Total other comprehensive income	**-**	**-**	**-**	**(33.9)**
COMPREHENSIVE INCOME	-	-	-	(33.9)
TRANSACTIONS WITH SHAREHOLDERS:				
- Appropriation of profit for 2017:				
Retained earnings	-	-	-	-
Dividends	-	-	-	-
- Interim dividend 2018	-	-	-	-
Total transactions with shareholders	**-**	**-**	**-**	**-**
Contribution of newly acquired companies	-	-	-	-
Other changes	-	-	-	-
Total other changes	**-**	**-**	**-**	**-**
EQUITY AT 31 DECEMBER 2018	442.2	88.4	20.0	(46.6)

(€m)

OTHER RESERVES	RETAINED EARNINGS/ (ACCUMULATED LOSSES)	INTERIM DIVIDEND	PROFIT FOR THE YEAR	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
			757.3	757.3	6.6	763.9
-	-	-	-	(93.7)	-	(93.7)
(2.1)	-	-	-	(2.1)	-	(2.1)
-	(0.6)	-	-	(0.6)	-	(0.6)
0.6	-	-	-	0.6	-	0.6
-	-	-	-	(11.6)	-	(11.6)
(1.5)	**(0.6)**	**-**	**-**	**(107.4)**	**-**	**(107.4)**
(1.5)	**(0.6)**	**-**	**757.3**	**649.9**	**6.6**	**656.5**
-	237.9	-	(237.9)	-	-	-
-	-	158.2	(468.7)	(310.5)	-	(310.5)
-	-	(169.2)	-	(169.2)	-	(169.2)
-	**237.9**	**(11.0)**	**(706.6)**	**(479.7)**	**-**	**(479.7)**
-	0.9	-	-	0.9	-	0.9
-	**0.9**	**-**	**-**	**0.9**	**-**	**0.9**
725.2	**2,478.3**	**(169.2)**	**757.3**	**4,190.3**	**41.6**	**4,231.9**

(€m)

OTHER RESERVES	RETAINED EARNINGS/ (ACCUMULATED LOSSES)	INTERIM DIVIDEND	PROFIT FOR THE YEAR	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
	(3.0)	-	-	(3.0)	(0.6)	(3.6)
724.7	1,998.7	(149.3)	688.3	3,800.3	25.1	3,825.4
			706.6	706.6	5.0	711.6
-	-	-	-	(32.1)	-	(32.1)
0.9	-	-	-	0.9	-	0.9
-	(4.8)	-	-	(4.8)	-	(4.8)
1.1	-	-	-	1.1	-	1.1
-	-	-	-	(1,8)	-	(1.8)
2.0	**(4.8)**	**-**	**-**	**(36.7)**	**-**	**(36.7)**
2.0	**(4.8)**	**-**	**706.6**	**669.9**	**5.0**	**674.9**
-	246.1	-	(246.1)	-	-	-
-	-	149.3	(442.2)	(292.9)	-	(292.9)
-	-	(158.2)	-	(158.2)	-	(158.2)
-	**246.1**	**(8.9)**	**(688.3)**	**(451.1)**	**-**	**(451.1)**
-	-	-	-	-	4.9	4.9
-	0.1	-	-	0.1	-	0.1
-	**0.1**	**-**	**-**	**0.1**	**4.9**	**5.0**
726.7	**2,240.1**	**(158.2)**	**706.6**	**4,019.2**	**35.0**	**4,054.2**

Consolidated statement of cash flows

(€m)

	2019	2018
PROFIT FOR THE YEAR	**763.9**	**711.6**
ADJUSTED BY:		
Amortisation, depreciation and impairment losses /(reversals of impairment losses) on non-current property, plant and equipment and intangible assets*	577.6	545.0
Accruals to provisions (including provisions for employee benefits) and impairment losses	30.3	43.2
(Gains)/Losses on sale of property, plant and equipment	(12.9)	(3.5)
Financial (income)/expense	75.2	91.5
Income tax expense	311.9	296.1
CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN NET WORKING CAPITAL	**1,746.0**	**1,683.9**
Increase/(decrease) in provisions (including provisions for employee benefits and taxation)	(69.5)	(54.5)
(Increase)/decrease in inventories	12.5	(0.4)
(Increase)/decrease in trade receivables and other current assets	(111.9)	129.2
Increase/(decrease) in trade payables and other current liabilities	(10.5)	62.7
Increase/(decrease) in other non-current liabilities	427.5	128.0
(Increase)/decrease in other non-current assets	(178.6)	(115.0)
Interest income and other financial income received	24.1	5.0
Interest expense and other financial expenses paid	(225.3)	(230.0)
Income tax paid	(318.9)	(302.3)
CASH FLOW FROM OPERATING ACTIVITIES [A]	**1,295.4**	**1,306.6**
- of which related parties	*14.3*	*24.1*
Investments in non-current property, plant and equipment after grants received	(1,121.0)	(992.5)
Revenue from sale of non-current property, plant and equipment and intangible assets and other movements	19.2	12.7
Capitalised financial expenses	12.1	15.1
Investments in non-current intangible assets after grants received	(81.2)	(56.4)
Recognition of intangible assets and property, plant and equipment from new acquisitions	-	(17.6)
(Increase)/decrease in investments in associates	(3.3)	1.8
CASH FLOW FOR INVESTING ACTIVITIES [B]	**(1,174.2)**	**(1,036.9)**
- of which related parties	*(4.4)*	*(14.7)*
Increase/(decrease) in retained earnings and accumulated losses (change in accounting standards)	-	(2.9)
Dividends paid	(475.2)	(451.1)
Movements in short- and medium/long-term financial liabilities (including short-term portion)**	192.0	(78.8)
Movements in short-term financial investments	(109.5)	(401.5)
Recognition of non-controlling interests in equity of newly acquired companies	-	4.9
Increase/(decrease) in equity attributable to non-controlling interests	-	(0.6)
CASH FLOW FROM FINANCING ACTIVITIES [C]	**(392.7)**	**(930,0)**
- of which related parties	*(500.0)*	-
INCREASE/(DECREASE) IN CASH AND EQUIVALENTS [A+B+C]	**(271.5)**	**(660.3)**
Cash and cash equivalents at beginning of year	1,328.9	1,989.2
Cash and cash equivalents at end of year	1,057.4	1,328.9

* *After grants related to assets recognised in the income statement for the year.*
** *After derivatives and impact of fair value adjustments, including cash movements in right-of-use assets.*


TernaNews

Notes

A. Accounting policies and measurement criteria

Introduction

Terna S.p.A.'s registered office is at Viale Egidio Galbani 70, Rome, Italy. The consolidated financial statements at and for the year ended 31 December 2019 include the Company's financial statements and those of its subsidiaries (the "Group"). The subsidiaries included within the scope of consolidation are listed below.
These consolidated financial statements were authorised for publication by the Board of Directors on 10 March 2020.
The consolidated financial statements at and for the year ended 31 December 2019 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.
The Board of Directors has also authorised the Chairwoman and the Chief Executive Officer to make any alterations to the form of the consolidated financial statements and any additions and adjustments to the sections concerning significant subsequent events.

The Terna Group is the largest independent transmission system operator in Europe and one of the leading operators in the world in terms of kilometres of line managed (more than 74 thousand km).
It is responsible for the transmission and management of power flows on the high-voltage (HV) and very high-voltage (VHV) grid throughout Italy, in order to guarantee a balance between demand and supply for energy (dispatching). It is also responsible for the planning, construction and maintenance of the grid. It acts as the Italian TSO (Transmission System Operator), having been granted a monopoly under a government concession, and is subject to regulation by Italy's Regulatory Authority for Energy, Networks and the Environment (ARERA) and the guidelines established by the Ministry for Economic Development. It ensures the security, quality and cost-effectiveness of the national electricity system and has the task of developing the grid and integrating it with the European grid. It ensures equal access for all grid users.

Compliance with IAS/IFRS

The consolidated financial statements at and for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) 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").

This document has also been prepared taking into account the provisions of Legislative Decree 38 of 28 February 2005, of the Italian Civil Code and CONSOB Resolutions 15519 ("Provisions governing financial statements in implementation of art. 9, paragraph 3 of Legislative Decree 38/2005") and 15520 ("Amendments to the implementing rules for Legislative Decree 58/1998"), as well as CONSOB Communication DEM/6064293 ("Disclosure requirements for listed issuers and issuers of financial instruments that are widely held among the public pursuant to art. 116 of the Consolidated Law on Finance").

Basis of presentation

The consolidated financial statements consist of the statement of financial position, the income statement, and the statement of comprehensive income, the statement of cash flows, the statement of changes in equity and the notes thereto.

In the statement of financial position, assets and liabilities are classified on a "current/non-current" basis, with separate reporting of assets and liabilities held for sale. Current assets, which include cash and cash equivalents, are those held for realisation, sale or consumption in the Group's normal operating cycle; current liabilities are those expected to be settled in the Group's normal operating cycle or within one year of the end of the financial year.
The income statement is classified on the basis of the nature of costs. The income statement is presented as two statements, the first of which (the income statement) presents revenue and expense items for the year; the second (the statement of comprehensive income) starts with the result for the year and then presents the revenue and expense items (including reclassification adjustments) that are recognised in equity rather than profit or loss for the year.
The statement of cash flows has been prepared using the indirect method.
The consolidated financial statements are accompanied by the Integrated Report for Terna S.p.A. and the Group, which as from financial year 2008 has been prepared as a single document, exercising the option granted by Legislative Decree 32 of 2 February 2007, which amended art. 40 (Integrated Report) of Legislative Decree 127 of 9 April 1991.
These consolidated financial statements are presented in millions of euros, and all amounts are shown in millions of euros to the first decimal place, unless otherwise indicated.

It should be noted that, for the purposes of comparison, certain amounts in the financial statements for the year ended 31 December 2018 have been restated, without, however, altering amounts in equity at 31 December 2018 or those in the income statement and the statement of comprehensive income for 2018.

Use of estimates

Preparation of the consolidated financial statements requires the Group 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.
The estimates and underlying assumptions are reviewed periodically and the effects of any changes are recognised in the income statement for the year, if they relate solely to that period. In the case that the revision affects both current and future years, the change is recorded in the year in which the estimate is reviewed as well as in the relevant future years.
The assets and liabilities subject to estimates and key assumptions used by the Group in applying the IFRS endorsed by the European Commission, and that could have a significant impact on the consolidated financial statements, or that could give rise to risks that would entail significant adjustments to the carrying amounts of assets and liabilities in subsequent years, are summarised below.

Impairment losses

Property, plant and equipment and intangible assets with finite useful lives are tested at least once a year to check for evidence of impairment. If there is evidence that an asset may be impaired, its recoverable amount is estimated.
The recoverable amount of goodwill and intangible assets with indefinite useful lives, where present, as well as intangible assets not yet available for use, is estimated at least annually. The recoverable amount is equal

to the greater of the fair value less costs to sell and value in use. Value in use is measured by discounting estimated future cash flows considering information available at the time of estimate and on the basis of estimates of the performance of future variables, such as prices, costs, demand growth rates, production profiles, and discounted at a pre-tax rate that reflects current market assessments of the time value of money for the investment period and risks specific to the asset. If the intangible asset does not generate cash inflows, the asset's recoverable amount is calculated as part of the Cash Generating Unit ("CGU") to which it belongs. An impairment loss is recognised in the income statement when the asset's carrying amount, or the net invested capital of the CGU to which it belongs, is greater than its recoverable amount.
Impairment losses on CGUs are first taken as a reduction in the carrying amount of any allocated goodwill and then as a reduction in other assets allocated to the CGU on a pro rata basis. Except for goodwill, impairment losses may be reversed up to the recoverable amount or the original cost of the asset if there is an indication that the impairment loss no longer exists or when there is a change in the methods used to measure the recoverable amount.

Allowance for doubtful accounts

Trade receivables are initially recognised at fair value net of any losses relating to sums considered non-recoverable, for which specific provisions have been made in the allowance for doubtful accounts. Credit losses are determined in application of IFRS 9 (a model based on expected credit losses). This requires the Group to assess expected credit losses, and the related changes, at each reporting date.
Specifically, the Group has applied the simplified approach permitted by IFRS 9 to trade receivables, finance lease receivables and assets deriving from contracts with customers, in order to measure the allowance for doubtful accounts based on expected losses over the life of the receivable. The Group has thus determined the amount of expected credit losses using a provisioning matrix, based on information regarding historical credit losses for similar past due exposures, adjusted to take into account current conditions and forward-looking elements.

Provisions for risks and charges

Provisions for risks and charges are allocated when a disbursement of cash, for an amount which can be reliably estimated, will be necessary to fulfil a legal or constructive obligation arising as a result of a past event. Where the time value of money is significant, provisions are discounted, using a rate that the Group believes to be appropriate (a rate is used that reflects current market conditions and the specific risks connected with the liability). After initial recognition, the value of the provisions for risks and charges is updated to reflect the passage of time and any changes in the estimate following alterations to the amounts forecast, the timing and the discount rates used. Any increase in provisions associated with the passage of time is recognised in the income statement under "Financial expenses".
Liabilities that can be associated with legal and tax disputes and liabilities associated with urban and environmental restoration projects are estimated by the Group. The measurement of provisions for legal disputes is based on the probability of incurring an expense, including through the use of external legal advisors supporting the Group companies; the estimate of provisions to be set aside for urban and environmental restoration projects, the "offsets" aimed at compensating for the environmental impact of the construction of new plant, is based on an analysis of the agreements entered into with the local authorities concerned and the progress of work on construction of the new plant.

Employee benefits

The liability for employee benefits paid upon or following termination of employment in relation to defined benefit plans or other long-term benefits is recognised net of any plan assets and is measured on the basis of actuarial assumptions, estimating the amount of future benefits that employees have vested at the reporting date. The actuarial valuations used to quantify employee benefits (of all plans except termination benefits [*TFR - Trattamento di Fine Rapporto]*) are based on "vested benefits", applying the projected unit credit method. These valuations are based on economic and demographic assumptions: the discount rate (used to determine the current value of the obligation, determined considering returns on high quality bonds in line with the duration of the group of workers measured), the inflation rate, the rate at which future salary levels are expected to rise, the rate of increase for average health reimbursements, rate of increase for electricity prices and demographic factors, such as mortality and invalidity, retirement, resignation, advances and household composition.

Subsidiaries and scope of consolidation

The scope of consolidation includes the Parent Company, Terna S.p.A., and the companies over which it has the power to directly or indirectly exercise control. Control exists when the Parent Company has the power or the ability to influence the relevant activities (having a substantial impact on the Parent Company's results), and is exposed to or has the right to variable returns from its involvement with the investee, and the ability to use its power over the subsidiaries to affect the amount of the investor's returns. The financial statements of subsidiaries are consolidated on a line-by-line basis from the date when the Parent Company gains control until the date when such control ceases. The companies included within the scope of consolidation are listed below:

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST	METHOD OF CONSOLIDATION
SUBSIDIARIES CONTROLLED 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.				
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, or in similar, related or connected sectors, and has been established to fulfil the obligations assumed by the energy-intensive companies in relation to implementation of the interconnection with Austria.				
PI.S.A.. 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, or in similar, related or connected sectors, and has been established to fulfil the obligations assumed by the energy-intensive companies in relation to implementation of the Italy-France Interconnector.				

** 5% is held by Terna Rete Italia S.p.A. and 30% by Transenergia S.r.l., which does not belong to the Terna Group.*

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	42,474,716	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	153,714,431	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	77,043,000	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.				
Terna 4 Chacas S.A.C	Lima (Peru)	Sales	1,000	99.99%*	Line-by-line
Business	Responsible for construction of a new 16 km power line in Peru.				
SPE Transmissora de energia Linha Verde II S.A.	Belo Horizonte (Brazil)	Real	33,729,548	75%**	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.				

* *0.01% Terna Chile S.p.A..*
** *25% Quebec Holding Eireli, which does not belong to the Terna Group.*

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, energy consulting and 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.				
SUBSIDIARIES 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 Transformatori 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..*

The following changes in the structure of the Group have taken place with respect to 31 December 2018:

- PI.SA.2 S.r.l., a wholly owned subsidiary of Terna S.p.A., was established on 15 February 2019, following a restructuring of the regulated activities relating to the Italy-France interconnector;
- Terna 4 Chacas S.A.C. was established on 6 August 2019, following the agreement signed in 2016 to start work on the construction of a new 16-km power line in Peru. The company is 99.99999% owned by Terna Plus S.r.l, with the remaining interest held by Terna Chile S.p.A.;
- on 11 November 2019, Terna S.p.A., acting through its subsidiary, Terna Plus S.r.l., closed the transaction with Construtora Quebec resulting in the acquisition of a 75% interest in the Brazilian-registered joint-stock company, SPE Transmissione de energia Linha Verde II S.A.;
- the sale of Monita Interconnector S.r.l. to Interconnector Energy Italia s.c.p.a. was completed on 17 December 2019.

Associates

Associates are investees over which the Terna Group exercises significant influence, being the ability to participate in the determination of these companies' financial and operating policies, without having control or joint control. 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. Based on application of the equity method, if there is evidence that the investment has been impaired, the Group determines the amount of the impairment based on the difference between the recoverable amount and the carrying amount of the investment in question. 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 joint control begins and until that control 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.
The list of associates and joint ventures included is shown below:

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL*	PROFIT FOR THE YEAR*	% INTEREST	METHOD OF CONSOLIDATION	CARRYING AMOUNT AT 31 DECEMBER 2019 (€M)
ASSOCIATES							
Cesi S.p.A.	**Milan**	**Euro**	**8,550,000**	**7,035,999**	**42.698%**	**Equity Method**	**52.2**
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**	**0.5**
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**	**4,182,134**	**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 preparatory studies for the construction of the infrastructure required to connect the Tunisian and Italian electricity system.						

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

Basis of consolidation

All the separate financial statements of the investees used to prepare the consolidated financial statements were drafted as of 31 December 2019 and have been approved by their respective Boards of Directors and shareholders' meetings; they have been adjusted, where necessary, to align them with the Parent Company's accounting policies.
During preparation of the consolidated financial statements, intercompany balances, transactions, revenue and costs are fully eliminated, net of the related tax effect, where material ("consolidation on a line-by-line basis").
Unrealised gains and losses on transactions with associates and joint ventures are eliminated in proportion to the Group's interest therein. In both cases, unrealised losses are eliminated, unless they represent an impairment.

Translation of foreign currency items

In the Group's financial statements, all transactions in currencies other than the functional currency are recognised at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities in currencies other than the functional currency are subsequently adjusted at the exchange rate prevailing at year end. Any translation differences are taken to the income statement.

Non-monetary assets and liabilities in foreign currency stated at historical cost are converted at the exchange rate prevailing when the transaction was initially recognised. Non-monetary assets and liabilities in foreign currency stated at fair value are converted at the exchange rate prevailing when fair value was measured.

Property, plant and equipment

Property, plant and equipment is recognised at historical cost, including costs directly attributable to preparing the asset for its intended use. In the event of legal or constructive obligations, cost also includes the present value of the estimated cost of dismantling or removing the asset. The corresponding liability is recognised in provisions for risks and charges.
Borrowing costs directly attributable to the purchase, construction or production of an asset that qualify for capitalisation pursuant to IAS 23R are capitalised as part of the cost of the asset. Costs incurred after purchase are recognised as an increase in the carrying amount of the asset to which they relate if it is probable that the future benefits of that cost will flow to the Group, and if the cost can be reliably measured. All other costs are expensed as incurred.
Each element of an item of property, plant and equipment of material value, with respect to the total value of the item to which it belongs, is recognised and depreciated separately.
Property, plant and equipment is shown net of accumulated depreciation and any impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful economic life of the asset, which is reviewed annually, with revisions applied on a prospective basis. Depreciation of an asset begins when the asset becomes available for use.
Liabilities associated with items of property, plant and equipment are taken to a specific provision as a contra account of the related asset. The amount is taken to the income statement through the depreciation of the asset.
Property, plant and equipment is written off either at the time of disposal or when no future economic benefit is expected from their use or disposal. Any profit or loss, recognised in the income statement, is determined as the difference between the net proceeds deriving from disposal and the net carrying amount of the assets eliminated.
This item also includes right-of-use assets, recognised under IFRS 16, arising from lease arrangements where the Group is lessee and relating to the use of property, plant and equipment. The matching lease liability, equal to the present value of the remaining lease payments, is accounted for in financial liabilities. Right-of-use assets are depreciated from the commencement date to the end of the useful life of the underlying asset or, if earlier, the end of the lease term.
In determining the lease term and the non-cancellable period of the lease, the Group has taken into account the terms of the arrangements and assessed the period of time in which contracts are enforceable.

The main rates of depreciation, calculated on the basis of the useful lives of the relevant assets, are as follows:

RATES OF DEPRECIATION	
Civil and industrial buildings	2.50%
Transmission lines	2.22%
Transformer substations:	
- Electrical machinery	2.38%
- Electrical devices and equipment	3.13%
- Automation and control systems	6.70%
Central systems for remote management and control:	
- Devices, electrical equipment and ancillary plant	5.00%
- Computers	10.00%

Land, regardless of whether it is free of constructions or related to civil and industrial buildings, is not depreciated, since it has an indefinite useful life.

Intangible assets

Intangible assets, which all have finite useful lives, are recognised at cost and shown net of accumulated amortisation and any impairment losses. Amortisation begins when the asset becomes available for use and is calculated on a straight-line basis over the estimated useful life of the related asset, which is reviewed annually. Any revisions to estimated figures are applied on a prospective basis.
Intangible assets essentially consist of the concession to exclusively provide electricity transmission and dispatching services, granted to the Parent Company Terna S.p.A. on 1 November 2005, with the acquisition of the TSO business unit. As established in the Decree issued by the Ministry of Productive Activities on 20 April 2005, this concession has a 25-year term, renewable for another 25 years, from the date of effective transfer of the activities, functions, assets and legal arrangements of the concession from GSE (formerly GRTN) to Terna S.p.A.. This intangible asset was initially recognised at cost, which reflected fair value.
Other intangible assets essentially refer to software developments and upgrades.
Development costs are capitalised by the Terna Group only if they can be reliably estimated and there is the technical possibility and intention to complete the intangible asset so that it will be available for use, and the asset can be used and it is possible to demonstrate that it will generate probable future economic benefits.
Financial expenses directly attributable to the acquisition, construction or production of a non-current asset which justifies capitalisation pursuant to IAS 23 are capitalised to the asset as part of its cost.
All other development costs and research expenses are recognised in the income statement when incurred.
These intangible assets are amortised over their estimated residual useful life, which is normally three years, given their rapid obsolescence.

Infrastructure rights

Infrastructure includes the property, plant and equipment and intangible assets employed in dispatching activities in Italy and in the operations in Peru. These activities are carried out under concession arrangements, which fall within the scope of application of IFRIC 12, since the services provided are regulated and control exists over the residual interest. More specifically, infrastructure rights have been recognised as an intangible asset, as valued on the basis of the Intangible Asset model, given the return generated by dispatching activities thanks to the charges paid by users.
The revenue and costs relating to investment in dispatching activities are recognised with reference to the contracts concerned on a stage-of-completion basis; revenue recognised during the construction phase is limited to the amount of the internal and external construction costs incurred, considering that the fair value of the construction services is equivalent to the construction cost paid to third-party contractors plus the internal cost of the technical personnel employed on such construction activities. The assets continue to be amortised and depreciated in accordance with the initial schedule.
By contrast, dispatching revenue continues to be recognised in accordance with IFRS 15 and financial expenses continue to be capitalised pursuant to IAS 23.
IFRIC 12, instead, is not applicable to the part of the Parent Company's concession arrangement relating to transmission activities, since neither the concession nor the related legislation envisages that ownership of the NTG is to be restored to the public grantor, even for a consideration.

Goodwill

Goodwill, deriving from the acquisition of subsidiaries, is allocated to each of the cash generating units (CGU) identified, coinciding with Group companies that own electricity transmission grids and with the Tamini Group, relating to the production and commercialisation of transformers. Goodwill is not amortised after initial recognition but is adjusted to reflect impairment losses, measured as described above. Goodwill relating to investments in associates and joint ventures is included in the carrying amount of those companies.
Where negative goodwill arises, it is recognised in the income statement at the time of acquisition.

Inventories

Inventories are recognised and measured at the lower of purchase cost and net estimated realisable value. Cost is calculated as the weighted average, including accrued ancillary expenses. Net estimated realisable value means the estimated sale price under normal conditions net of completion costs and the estimated costs to sell.

Financial instruments

Financial assets

The standard IFRS 9 - Financial Instruments, effective from 1 January 2018, is divided into the following phases: classification and measurement, derecognition, impairment and hedge accounting.
In order to classify and measure financial instruments, the Group recognises financial assets at fair value inclusive of transaction costs.
Financial assets represented by debt instruments, and falling within the scope of application of the standard, may be measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss, depending on the business model adopted to manage the financial assets and the characteristics of the contractual cash flows.

In accordance with the provisions of IFRS 9, the Group correctly classifies these assets based on the results of so-called SSPI ("solely payments of principal and interest") tests. Under this test, assets may be recognised at amortised cost or fair value through other comprehensive income if the generate cash flows that are solely payments of principal and interest on the principal amount outstanding. This measurement is applied at the level of each individual instrument.

Specifically, the Group measures financial assets:
- at amortised cost, if the financial asset is held with the aim of collecting the contractual cash flows that meet the SPPI test, as the cash flows represent solely payments of principal and interest;
- at fair value through other comprehensive income ("FVOCI"), if the financial asset is held within a business model whose objective is achieved by collecting the contractual cash flows and by selling the financial asset, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Changes in fair value after initial recognition are recognised in other comprehensive income and recycled through profit or loss on derecognition. The government securities held by the Parent Company are included in this category;
- at fair value through profit or loss ("FVTPL"), of the asset is not held in one of the above business models. This category primarily includes derivative financial instruments held for trading and debt instruments with contractual cash flows that are not solely payments of capital and interest.

Infrastructure rights

These include the property, plant and equipment and intangible assets employed in Brazil under concession arrangements falling within the scope of application of IFRIC 12, since the services provided are regulated and control exists over the residual interest. More specifically, infrastructure rights have been recognised in financial assets, as valued on the basis of the Financial Asset model, given the return generated by the activities. This derives from an unconditional contractual right to receive cash or another financial asset from, or at the direction of, the grantor (or from third parties, according to the grantor's instructions) and the fact that the grantor cannot avoid payment.
The revenue and costs relating to investment are recognised with reference to the contracts concerned on a stage-of-completion basis; revenue recognised during the construction phase includes a profit margin on the work performed.

Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method. Receivables with due dates that reflect normal commercial terms are not discounted.
In accordance with the provisions of IFRS 9, the Group's trade receivables fall within the hold to collect business model, as these assets are held with the objective of collecting the cash flows primarily by collecting the contractual cash flows, the receivables primarily fall due within 12 months and do not include a significant financial component, and the Group does not intent to sell such receivables.
Trade receivables are recognised net of any losses recognised in a specific allowance for doubtful accounts (identified on the basis described in the paragraph, "Allowance for doubtful accounts"). IFRS 9 has introduced application of a model based on expected credit losses. This requires the Group to assess expected credit losses, and the related changes, at each reporting date. Specifically, the Group has applied the simplified approach permitted by IFRS 9 to trade receivables, finance lease receivables and assets deriving from contracts with customers, in order to measure the allowance for doubtful accounts based on expected losses over the life of the receivable. The Group has thus determined the amount of expected credit losses using a provisioning matrix, based on information regarding historical credit losses for similar past due exposures, adjusted to take into account current conditions and forward-looking elements.

Cash and cash equivalents

Cash and cash equivalents are recognised at nominal value and include amounts that are available on demand or can be readily converted into a known amount of cash and are subject to an insignificant risk of changes in value.

Trade payables

Trade payables are initially recognised at fair value and subsequently stated at amortised cost. If their due dates reflect normal commercial terms, they are not discounted.

Financial liabilities

Financial liabilities are recognised at the settlement date and measured at fair value, net of directly related transaction costs. Subsequently, financial liabilities are measured at amortised cost, using the original effective interest method. If the liabilities are covered by fair value hedges, they are adjusted to reflect changes in fair value with respect to the hedged risk.
Subsequent measurement of financial liabilities depends on their classification as financial liabilities at amortised cost or at fair value through profit or loss.

Derivative financial instruments

Derivatives are recognised at fair value at the trade date. The qualifying criteria applied in classifying derivatives as eligible for hedge accounting are as follows:

- the hedging relationship consists only of eligible hedging instruments and eligible hedged items;
- at the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio);
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

An entity shall discontinue hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria. This includes instances when the hedging instrument expires or is sold, terminated or exercised. For this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such a replacement or rollover is part of, and consistent with, the entity's documented risk management objective.

For hedge accounting purposes, there are three types of hedge:
- fair value hedges when the hedge regards the exposure to changes in the fair value of the recognised asset or liability or there is an unrecognised firm commitment;
- cash flow hedges when the hedge regards the exposure to variability in cash flows that is attributable to a particular risk associated with all of the recognised asset or liability or a highly probable forecast transaction or the exchange rate risk on an unrecognised firm commitment;
- the hedge of a net investment in a foreign operation.

When derivatives cover the risk of changes in the cash flows of the hedged instruments (cash flow hedges), the portion of changes in the fair value qualifying as effective is initially recognised in “Other comprehensive income” and subsequently in profit or loss, as the cash flows from the hedged item affects profit or loss. The portion of the fair value of the hedging instrument that does not qualify as effective is recognised in profit or loss.

When hedging derivatives cover the risk of changes in the fair value of hedged instruments (fair value hedges), they are recognised at fair value in profit or loss. Accordingly, the hedged items are adjusted to reflect changes in the fair value associated with the hedged risk.

Changes in the fair value of derivatives that do not meet hedge accounting requirements in accordance with the EU-IFRS are recognised in profit or loss.

Fair value is measured on the basis of official quotations for instruments traded in regulated markets. The fair value of instruments not traded in regulated markets is measured by discounting projected cash flows along a yield curve prevailing in the market at the reporting date, and by translating amounts in currencies other than the euro at closing exchange rates.

Financial and non- financial contracts (which are not already measured at fair value) are also analysed to identify any embedded derivatives, which must be separated and measured at fair value.

This analysis is conducted at the time the entity becomes party to the contract or when the contract is renegotiated in a manner that produces a material change in the original associated cash flows.

Employee benefits

The liability associated with employee benefits payable on or after termination of employment relate to defined benefit plans (deferred compensation benefits, additional months’ pay, payment in lieu of notice, energy discounts, ASEM health cover and other benefits) or other long-term employee benefits (loyalty bonuses) and is recognised net of any plan assets. The liability is measured separately for each plan on the basis of actuarial calculations that estimate the amount of vested future benefits that employees have accrued at the reporting date. The liability is recognised on an accruals basis over the vesting period and is measured by independent actuaries.

Provisions for risks and charges

Provisions set aside for risks and charges are recognised when, at the reporting date, the Group has a legal or constructive obligation as the result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the disbursement. Where the effect is material, provisions are made by discounting estimated future cash flows using a discount rate that reflects current market rates and the specific risk applicable to the obligation, if any. Where discounting is used, the increase in the provisions due to the passage of time is recognised in the income statement as a financial expense. If it relates to property, plant and equipment (site disposal and restoration, for example), the provision is recognised as a contra entry to the asset to which it relates. The expense is recognised in the income statement through depreciation of the item of property, plant and equipment to which it relates.

Changes in the estimates are recognised in the income statement for the year in which the change occurs, except for the expected costs of dismantling, removal and restoration resulting from changes in the timing and use of the economic resources necessary to extinguish the obligation, or are attributable to a material change in the discount rate. These costs are recognised as an increase or reduction in the related assets and recognised in the income statement through depreciation.

Government grants

Government grants are recognised when there is a reasonable certainty that they will be received and that the Group will comply with all the conditions required for disbursement. Grants received in relation to specific assets whose value is recognised under non-current assets are recognised, in the case of plant already in operation at 31 December 2002, among other liabilities and taken to the income statement over the depreciation period for the assets in question. As of the 2003 financial year, grants related to new plant entering service are recognised as a direct reduction in the non-current asset concerned.
Grants related to income are recognised in the income statement when the conditions for recognition are met.

Revenue

The Group's revenue can be categorised as follows:

- **Revenue from sales and services**, including revenue from contracts with customers and therefore falling within the scope of IFRS 15.
  In accordance with the provisions of IFRS 15, revenue from contracts with customers is recognised when the performance obligations identified in the contract are satisfied and control over the goods or services is transferred to the customer for an amount that reflects the consideration that the Group expects to receive in exchange for the goods or services.
  The standard envisages two methods for identifying the correct time at which to recognise the revenue attributable to each performance obligation: at contract inception, the Group determines if the goods or services covered by the performance obligation will be transferred to the customer over a period of time or at a point in time:
  - *Revenue from the sale of goods* is recognised when control of the goods is transferred to the customer (at a point in time). The Group determines if there are other promises in the contract representing a performance obligation to which a part of the transaction consideration must be allocated. In determining the sale price, the Group takes into account the effects of a variable consideration, significant financial components, non-monetary components and amounts to be paid to the customer (if present);
  - *Revenue from services* is recognised with reference to the stage of completion of the activity, in accordance with the provisions of IFRS 15 (over a period of time).

- **Other revenue and income**, which includes revenue from lease arrangements and other residual forms of revenue, included within the scope of application of IFRS 15, deriving from sales of goods not forming part of the Group's ordinary activities.

Financial income and expenses

Financial expenses directly attributable to the acquisition, construction or production of an asset that qualify for capitalisation are capitalised as part of the cost of the asset. The property, plant and equipment and intangible assets involved are those that require at least one year in order to prepare them for use. The directly attributable financial expenses are expenses that would not have been incurred had the expenditure for the asset not been incurred.
Where funds are borrowed specifically, the costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings. Where loans are obtained for general purposes, the eligible amount is determined by applying a capitalisation rate to the expenditure on that asset equal to the weighted average of the financial expenses applicable to the borrowings outstanding for the year, excluding any specifically borrowed funds. The amount of capitalised financial expenses during a year will in any case not exceed the amount of financial expenses incurred during that year.
Capitalisation commences as from the date all the following conditions are first met: (a) expenditure has been incurred for the asset; (b) financial expenses have been incurred; and (c) the activities involved in preparing the asset for its intended use or sale are in progress. Capitalisation ceases when the activities involved in preparing the asset for its intended use or sale are substantially complete.
The average capitalisation rate used for 2019 is approximately 0.9% (1.23% for 2018).
Financial income and expenses other than capitalised amounts are recognised on an accruals basis in respect of the interest on the net value of the related financial assets and liabilities, using the effective interest rate.

Dividends

Dividends from investees are recognised when the shareholders' right to receive payment is established. Dividends and interim dividends payable to shareholders are shown as changes in equity at the date in which they are approved by the General Meeting of shareholders and the Board of Directors, respectively.

Earnings per share

Basic earnings per share is calculated by dividing the profit or loss for the year attributable to holders of the ordinary shares by the weighted average of ordinary shares outstanding during the year.

Income taxes

Current income taxes are recognised as "Tax liabilities", net of advances paid, or "Tax assets" where the net balance of the items is positive. They are based on the estimated taxable income and in accordance with current legislation, taking account of applicable exemptions.
Deferred tax assets and liabilities are calculated on temporary differences between the carrying amounts of assets and liabilities recognised in the separate financial statements and the corresponding amounts recognised for tax purposes, using current tax rates or the rates expected to be in effect when the temporary differences reverse, based on rates approved at the reporting date.
Deferred tax assets are recognised when their recovery is considered probable, i.e. when future taxable income will be available against which the asset can be used. The recoverability of deferred tax assets is reviewed at the end of each year.
Deferred tax liabilities are recognised in any case if they exist. Taxes relating to items recognised directly in OCI are also allocated to Other Comprehensive Income.

New accounting standards

International financial reporting standards effective as of 1 January 2019

One new accounting standard, whose application has not had a material impact for the Group, and a number of new amendments to standards already applied came into effect from 1 January 2019.

IFRS 16 - Leases
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. 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.

The Terna Group 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, the Terna Group 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.

The Group 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.
The Terna Group 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.
In determining the lease term and the non-cancellable period of the lease, the Group has taken into account the terms of the arrangements and assessed the period of time in which contracts are enforceable.

At each reporting date, the Group assesses whether or not there is reasonable certainty that it will exercise or not the option to extend or terminate the lease, considering all the relevant events and circumstances that create an economic incentive to do so.

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 and land.

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 year	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
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. Tax expense	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**

New amendments and interpretations are not expected to have a significant impact. The main ones are described below:

Amendment to IFRS 9: Prepayment Features with Negative Compensation

Endorsed by the European Commission on 22 March 2018, with Regulation 2018/498, the amendment to IFRS 9 proposes to allow certain financial assets with a prepayment option, such as negative compensation features, to be measured at amortised cost (as well as at fair value through comprehensive income).

Amendment to IFRIC 23: Uncertainty over Income Tax Treatments

On 23 October 2019, the European Commission endorsed the amendment to IFRIC 23 in Regulation 2018/1595. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. It also provides guidance on how to account for current and deferred tax assets and liabilities.

Amendment to IAS 28: Long-term interests in Associates and Joint Venture

On 9 February 2019, the European Commission endorsed the amendment to IAS 28 in Regulation 2019/237. The amendment to IAS 28 extends the application of IFRS 9 (including the issue of impairment) to long-term borrowings from associates or joint ventures not accounted for using the equity method.

Amendment to IAS 19: Plan Amendment, Curtailment or Settlement

On 13 March 2019, the European Commission endorsed the amendment to IAS 19 in Regulation 2019/402. This confirms that, following the amendment, curtailment or settlement of a defined-benefit plan, the entity must apply updated assumptions and remeasure its net defined benefit asset or liability for the remainder of the relevant period.

Improvements to IFRSs (2015-2017 Cycle)

On 14 March 2019, the European Commission published Regulation 2019/412 endorsing the annual improvements relating to the 2015-2017 cycle, containing minor amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23.

International financial reporting standards endorsed but not yet effective

References to the Conceptual Framework in IFRS Standards

On 29 November 2019, the European Commission published Regulation 2019/2075, endorsing the amendment to the Conceptual Framework for Financial Reporting. The amendment will come into effect from 1 January 2020. The main changes regard a new section on measurement, improved definitions and guidance, above all in relation to the definition of liabilities and clarification of concepts such as prudence and uncertainty in measurements.

Amendment to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

On 15 January 2020, the European Commission endorsed the amendments to IFRS 9, IAS 39 and IFRS 7, through Regulation 2020/34. The amendment provides a number of reliefs from application of specific hedge accounting requirements, with the aim of allowing entities to continue to use hedge accounting even during the period of uncertainty prior to the modification of hedged instruments, or of the related hedges, as provided for in the amendment.

The Group has opted for early adoption of the changes introduced by the amendment, which are obligatory from 1 January 2020, for the year ended 31 December 2019. Adoption of these requirements allows the Group to continue to apply hedge accounting in the period of uncertainty due to the interest rate benchmark reform. Within its hedge accounting relationships subject to the interest rate benchmark reform, the Group is exposed to the interest rates, EURIBOR and USD LIBOR.

The Group is closely monitoring the market and the results produced by various working groups in the sector that are managing the transition to the new benchmark rates, including announcements from regulators regarding the transition from LIBOR and SOFR (Secured Overnight Financing Rate) and from EURIBOR and ESTER (Euro Short-term Rate). The Group has also drawn up an IBOR transition programme with the aim of understanding which areas of business are exposed to IBOR, and preparing and delivering an action plan that will facilitate a smooth transition to the alternative rates. The Group aims to complete the transition and existing fallback plans by the end of 2020.

The various working group in the sector are working on the fallback language for a number of instruments and IBOR, a process the Group is carefully monitoring and will seek to implement at the appropriate time. The ISDA (International Swaps and Derivative Association) fallback provisions applicable to the Group's derivatives were made available at the end of 2019. The Group will begin discussions with its banks in order to adopt this language in ISDA agreements during 2020.

With regard to bonds linked to USD LIBOR, the Group will contact bondholders in 2020 to propose changes to the fallback provisions and switch from USD LIBOR to SOFR (Secured Overnight Financing Rate).

The risk exposure managed by the entity and that is directly affected by the interest rate benchmark reform amounts to €2,923 million. The nominal value of the hedging instruments in these hedging relationships amounts to €5,394 million.

The Group will continue to apply the changes to IFRS 9 until the uncertainty surrounding the interest rate benchmark reform to which the Group is exposed, with specific regard to the timing and amount of the underlying cash flows, has been resolved. The Group expects the uncertainty to remain until the IBOR-linked contracts have been modified to specify the date after which the benchmark interest rate will be replaced, cash flows linked to the new rate and the related spread adjustment. This is partly dependent on the introduction of the fallback provisions that have yet to be added to the Group's contracts and on the outcome of talks with lenders and bondholders.

International financial reporting standards awaiting endorsement

For newly-issued amendments, standards and interpretations that have not yet been endorsed by the EU, but which address issues that affect or could affect the Terna Group, assessments are currently being conducted of the possible impact of their application on the financial statements, taking into account the date on which they will take effect. In particular:

IFRS 17 - Insurance Contracts

The new accounting standard for insurance contracts was published by the IASB on 18 May 2017, to replace the interim version of IFRS 4. The standard defines the new principles for the recognition, measurement, presentation and disclosure of insurance contracts. The General Model of reference is based on the discounting of expected cash flows, with the indication of a risk adjustment and upfront profits through the "contractual service margin", which cannot be negative.

Amendment to IFRS 3: Definition of a Business

Published by the IASB on 22 October 2018, the amendment to IFRS 3 provides a clearer definition of a business, giving guidance and illustrative examples for identifying when a group of assets constitutes a business, thereby falling within the scope of application of IFRS 3.

B. Notes to the consolidated income statement

Revenue

1. REVENUE FROM SALES AND SERVICES - €2,287.9 MILLION

(€m)

	2019	2018	CHANGE
Transmission charges billed to grid users	1,859.5	1,789.1	70.4
Back-billing of transmission charges for previous years	0.7	-	0.7
Other energy-related revenue and from services performed under concession	172.8	262.3	(89.5)
Quality of service bonuses/(penalties)	20.2	7.4	12.8
Other sales and services	234.7	213.7	21.0
TOTAL	**2,287.9**	**2,272.5**	**15.4**

Transmission charges

The charges for use of the NTG regard the revenue attributable to the Parent (€1,724.4 million) and the subsidiary, Rete S.r.l. (€135.8 million) as owners and operators of the grid.

The increase in revenue from the transmission service (up €71.1 million) is broadly 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), the determination of revenue from the Italy-Montenegro Interconnector (ARERA Resolution 568/19) 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

This item regards dispatching and metering revenue (essentially relating to €111.0 million for the dispatching component, €0.1 million for the metering component and other energy-related revenue of €1.8 million) and revenue from infrastructure construction and upgrade services performed under concession, recognised in application of IFRIC 12 (€59.9 million). This includes revenue from activities in South America (€27.9 million in Brazil and €4.4 million in Peru).

The reduction in "Other energy-related revenue and from services performed under concession" compared with 2018, totalling €89.5 million, is linked to reduced investment in assets held under concession in Brazil (down €64.4 million) following the entry into service between the end of last year and early 2019 of the two power lines built in the country (down €69.1 million), partially offset by investment by Linha Verde II (up €4.7 million), a company acquired towards the end of the year. The reduction also reflects a €30.2 million decrease in dispatching, metering and other revenue, due to ARERA's one-off recognition of certain expenses arising in the previous year.

(€m)

OTHER ENERGY-RELATED REVENUE AND FROM SERVICES PERFORMED UNDER CONCESSION	2019	2018	CHANGE
Dispatching and metering revenue	112.9	143.1	(30.2)
Revenue from services performed under concession (IFRIC 12)	59.9	119.2	(59.3)
- of which in Italy	*27.6*	*25.5*	*2.1*
- of which overseas	*32.3*	*93.7*	*(61.4)*
TOTAL OTHER ENERGY-RELATED REVENUE AND FROM SERVICES PERFORMED UNDER CONCESSION	**172.8**	**262.3**	**(89.5)**

Quality of service bonuses/(penalties)

This item, amounting to €20.2 million, is up €12.8 million compared with the previous year, due mainly to assessment of the performance in 2018 (Resolution 521/2019/R/eel) and valuation of the performance in 2019, taking into account the estimated results expected overall for the regulatory period 2016-2020 (Resolution 653/2015).

Other sales and services

The item, “Other sales and services”, amounting to €234.7 million, mainly regards revenue from Non-regulated Activities, regarding:

- the sale of transformers by the subsidiary, Tamini (€106.1 million);
- Energy Solutions (€37.7 million), including maintenance services, totalling €17.2 million and energy efficiency (€4.9 million), primarily attributable to the subsidiary Avvenia The Energy Innovator S.r.l., in addition to revenue from EPC contracts, totalling €15.7 million;
- Connectivity (€27.5 million) with specific regard to support and housing services for fibre networks.

This item also includes revenue from the private Italy- Montenegro Interconnector (€11.1 million) and Italy-France Interconnector (€7.2 million), representing the accrued portion of the revenue attributable to the Group for services provided during construction.

The item also includes revenue attributable to the Group’s International Activities relating to construction of the power line in Uruguay, totalling €37.9 million.

The increase compared with 2018 (up €21.0 million) primarily reflects the following:

- revenue linked to the above Italy-Montenegro Interconnector project, totalling €11.1 million;
- an increase in revenue at the Tamini Group (up €6.5 million), primarily due to growth in the volume and value of the transformer produced in 2019;
- an increase in revenue from Energy Solutions (up €5.3 million), primarily due to the start-up of work in 2019 on the contract with Rete Ferroviaria Italiana - RFI relating to the installation of metering units (up €10.9 million), partly offset by the greater volume of work in progress in the previous year (down €6.2 million, essentially in relation to the construction of two electricity substations in the Lazio and Sardinia regions for a third-party customer, Macchiareddu, and nearing completion in 2019);
- increased revenue from connection services (up €1.1 million).

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)

	2019	2018	CHANGE
Power Exchange-related revenue items	**3,957.9**	**3.860.1**	**97.8**
- Uplift	1,963.4	1,648.3	315.1
- Electricity sales	538.8	523.1	15.7
- Imbalances	485.7	506.2	(20.5)
- Congestion revenue	295.8	331.1	(35.3)
- Charges for right to use transmission capacity and market coupling	353.0	337.8	15.2
- Interconnectors/shippers	75.3	75.2	0.1
- Load Profiling for public lighting	81.1	66.8	14.3
- Other Power Exchange-related pass-through revenue items	164.8	371.6	(206.8)
Total over-the counter revenue items	**1,362.2**	**1,311.7**	**50.5**
- Transmission revenue passed on to other NTG owners	5.0	4.8	0.2
- Charge to cover cost of essential plants	412.4	392.6	19.8
- Charge to cover cost of energy delivery capacity	206.7	277.6	(70.9)
- Charge to cover cost of interruptibility service	306.0	279.5	26.5
- Charge to cover cost of LV capacity and protection service	340.0	276.2	63.8
- Other pass-through revenue for over-the-counter trades	92.1	81.0	11.1
TOTAL PASS-THROUGH REVENUE	**5,320.1**	**5,171.8**	**148.3**
Total Power Exchange-related cost items	**3,957.9**	**3,860.1**	**97.8**
- Electricity purchases	2,609.7	2,496.5	113.2
- Imbalances	425.6	331.6	94.0
- Congestion revenue	209.4	217.1	(7.7)
- Charges for right to use transmission capacity and market coupling	152.0	136.1	15.9
- Interconnectors/Shippers	307.3	366.8	(59.5)
- Load Profiling for public lighting	100.9	80.5	20.4
- Other Power Exchange-related pass-through cost items	153.0	231.5	(78.5)
Total over-the-counter cost items	**1,362.2**	**1,311.7**	**50.5**
- Transmission costs passed on to other NTG owners	5.0	4.8	0.2
- Fees paid for essential units	412.4	392.6	19.8
- Fees paid for energy delivery capacity	206.7	277.6	(70.9)
- Fees paid for interruptibility service	306.0	279.5	26.5
- Fees paid for LV capacity and protection service	340.0	276.2	63.8
- Other pass-through costs for over-the-counter trades	92.1	81.0	11.1
TOTAL PASS-THROUGH COSTS	**5,320.1**	**5,171.8**	**148.3**

The total uplift cost in 2019, amounting to €1,963.4 million, is up €315.1 million, on the figure for the previous year, primarily reflecting the increased cost of procuring services on the DSM and a reduction in revenue resulting from imbalance costs.

2. OTHER REVENUE AND INCOME - €56.9 MILLION

(€m)

	2019	2018	CHANGE
Insurance proceeds as compensation for damages	12.5	10.3	2.2
Sundry grants	9.4	8.4	1.0
Revenue from IRU contracts for fibre	7.8	10.7	(2.9)
Gains on sale of components of plant	5.6	3.8	1.8
Sales to third parties	3.5	3.5	-
Rental income	2.3	0.7	1.6
Other revenues	15.8	9.2	6.6
TOTAL	**56.9**	**46.6**	**10.3**

The most significant components of "Other revenue and income" primarily regard insurance proceeds (€12.5 million), sundry grants (€9.4 million), IRU contracts for fibre (€7.8 million) and other revenues (€15.8 million), primarily linked to penalties applied to suppliers for breaches of contract and other revenue.
This item, totalling €56.9 million, is up €10.3 million compared with the previous year, primarily due to an increase in penalties from suppliers, totalling €7.6 million, including €6.3 million received by the Brazilian subsidiary, Santa Lucia, in relation to the delay to the entry into service of the power line caused by a supplier. There was also an increase in insurance proceeds (up €2.2 million) and in gains on the sale of components of plan (up €1.8 million).

Operating costs

3. RAW AND CONSUMABLE MATERIALS USED - €142.8 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 performance of contract work by the Tamini Group and in South America.
The reduction of €61.6 million compared with the previous year (€204.4 million in 2018 primarily reflects a decrease in costs relating to the development of operations in South America, recognised in application of IFRIC 12 (down €66.1 million), above all following the entry into service of two lines in Brazil between the end of last year and early 2019 (down €73.7 million), after an increase in work carried out in Peru (up €3.1 million) and the contribution from the new company, Linha Verde II, acquired in November 2019 (up €4.5 million).
The costs incurred by the Tamini Group also rose (up €1.4 million).

4. SERVICES - €187.3 MILLION

(€m)

	2019	2018	CHANGE
Maintenance and sundry services	102.3	91.9	10.4
Tender costs for plant	35.9	45.9	(10.0)
Insurance	13.9	10.9	3.0
IT services	12.9	13.0	(0.1)
Lease expense	11.2	17.2	(6.0)
Remote transmission and telecommunications	11.1	12.3	(1.2)
TOTAL	**187.3**	**191.2**	**(3.9)**

This item, totalling €187.3 million, is down €3.9 million compared with 2018 (€191.2 million). This primarily reflects a reduction in the cost of leases and rentals falling within the scope of IFRS 16 - Leases (down €6.0 million, largely relating to lease expense). There was also an increase in the cost of maintenance and sundry services (€10.4 million, above all attributable to the Tamini Group and general services). This was offset by a reduction in tender costs for plant (down €10.0 million, essentially due to cost savings and the greater volume of contract work carried out by third parties in the previous year in relation to Non-regulated Activities).

5. PERSONNEL EXPENSES - €256.7 MILLION

(€m)

	2019	2018	CHANGE
Salaries, wages and other short-term benefits	315.1	300.4	14.7
Directors' remuneration	1.9	2.2	(0.3)
Termination benefits (TFR) energy discounts and other employee benefits	17.5	9.7	7.8
Early retirement incentives	(0.3)	-	(0.3)
Gross personnel expenses	***334.2***	***312.3***	***21.9***
Capitalised personnel expenses	(77.5)	(68.2)	(9.3)
TOTAL	**256.7**	**244.1**	**12.6**

Personnel expenses, amounting to €256.7 million in 2019, are up €12.6 million primarily due to an increase in the average workforce for the year.

The following table shows the Group's workforce by category at the end of the year and the average for the year.

	AVERAGE WORKFORCE		WORKFORCE AT	
NUMBER	2019	2018	31 DECEMBER 2019	31 DECEMBER 2018
Senior managers	77	72	72	67
Middle managers	638	620	617	638
Office staff	2,373	2,144	2,382	2,290
Blue-collar workers	1,256	1,252	1,219	1,257
TOTAL	**4,344**	**4,088**	**4,290**	**4,252**

The net increase in the average workforce compared with 2018 is 256.

At 31 December 2019, the Terna Group's workforce breaks down as follows:

	TERNA SPA	TERNA RETE ITALIA SPA.	TERNA ENERGY SOLUTIONS SRL.	TERNA PLUS SRL	AVVENIA THE ENERGY INNOVATOR SRL	GRUPPO TAMINI	TERNA CRNA GORA D.O.O.	SPE S.A.NTA MARIA TRANSMISSORA DE ENERGIA S.A.	SPE S.A.NTA LUCIA TRANSMISSORA DE ENERGIA S.A.	SPE TRASMISSORA DE ENERGIA LINHA VERDE II S.A.	TERNA PERU S.A.C	DIFEBAL S.A.	TOTAL
Number	607	3,170	52	43	17	351	10	2	16	7	8	7	4,290

6. AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES - €586.1 MILLION

(€m)

	2019	2018	CHANGE
Amortisation of intangible assets	57.4	52.0	5.4
- of which rights on infrastructure	*22.5*	*22.8*	*(0.3)*
Depreciation of property, plant and equipment	527.3	488.0	39.3
Impairment losses on property, plant and equipment	2.3	13.4	(11.1)
Impairment losses on trade receivables	(0.9)	0.7	(1.6)
TOTAL	**586.1**	**554.1**	**32.0**

Amortisation, depreciation and impairment losses, amounting to €586.1 million (including €6.7 million recognised in application of IFRS16), are up compared with 2018 (up €32.0 million, including an increase of €22.8 million attributable to the Parent Company and €4.7 million and €2.0 million, respectively, attributable to the subsidiaries, Terna Rete Italia S.p.A. and Rete S.r.l.), primarily reflecting the entry into service of new plant and the fact that impairment losses on property, plant and equipment were higher in the previous year (€11.1 million lower in 2019).

7. OTHER OPERATING COSTS - €16.8 MILLION

(€m)

	2019	2018	CHANGE
Indirect taxes and local taxes and levies	(3.4)	6.8	(10.2)
Quality of service costs	0.6	5.1	(4.5)
of which mitigation and sharing mechanisms	*0.3*	*3.1*	*(2.8)*
of which the Fund for Exceptional Events	*(0.1)*	*1.9*	*(2.0)*
of which compensation mechanisms for HV users	*0.4*	*0.1*	*0.3*
Fees paid to regulators and membership dues	6.8	6.8	-
Adjustment of provisions for litigation and disputes	1.7	(2.6)	4.3
Losses on sales/disposal of plant and net contingent liabilities	0.8	4.8	(4.0)
Other	10.3	7.9	2.4
TOTAL	**16.8**	**28.8**	**(12.0)**

The Group's other operating costs, amounting to €16.8 million, are primarily attributable to the Parent Company (€7.7 million) and the Tamini Group (€2.9 million). They include indirect taxes, local taxes and levies (down €3.4 million, specifically linked to prior provisions made in relation to Land Registry Circular 6/2012), membership dues and fees paid to trade bodies and associations relating to the Group's activities (€6.8 million), the adjustment to provisions for litigation and disputes set aside to cover outstanding liabilities that, at the end of the year, could result from court judgements and out-of-court settlements regarding the Group's activities (€1.7 million) and other costs (€10.3 million), which include provisions risks and charges connected with the activities of the subsidiaries, Tamini and SPE Santa Lucia Trasmissora de energia S.A., donations and other expenses.

The reduction of €12.0 million reflects a decrease in indirect taxes, local taxes and levies (down €10.2 million), broadly due to an adjustment of the Group's provisions for taxation, as well as lower costs relating to quality of service (down €4.5 million), primarily due to the impact of outages and interruptions in 2018, partially offset by provisions for risks and charges recognised by the Brazilian subsidiary, totalling €2.3 million.

8. FINANCIAL INCOME/(EXPENSES) - (€81.0) MILLION

(€m)

	2019	2018	CHANGE
FINANCIAL EXPENSES			
Financial expenses paid to Cassa Depositi e Prestiti	(0.3)	(3.0)	2.7
Interest expense on medium/long-term borrowings and related hedge	(96.3)	(101.0)	4.7
Discounting of termination benefits (TFR) other provisions for employee benefits and provisions for risks and charges	(0.4)	(0.7)	0.3
Capitalised financial expenses	12.1	15.1	(3.0)
Translation differences	(5.8)	(7.5)	1.7
Other financial expenses	(1,6)	(1.2)	(0.4)
Total expenses	**(92.3)**	**(98.3)**	**6.0**
FINANCIAL INCOME			
Interest income and other financial income	10.0	6.9	3.1
Restructuring of bond issues and related hedges	1.3	-	1.3
Total income	**11.3**	**6.9**	**4.4**
TOTAL	**(81.0)**	**(91.4)**	**10.4**

Net financial expenses of €81.0 million are essentially attributable to the Parent Company (€69.3 million) and reflect €92.3 million in financial expenses and €11.3 million in financial income. The reduction in new financial expenses compared with 2018, amounting to €10.4 million, primarily reflects the following:

- a reduction in financial expenses on medium/long-term borrowings and the related hedges (€4.7 million) primarily due to a decline in short-term interest rates in 2019 and a fall in inflation recorded during the year, and the expenses paid to Cassa Depositi e Prestiti (€2.7 million) in order to repay the loan of €500 million in February 2019;
- a decrease in capitalised financial expenses (€3.0 million), linked to the above-noted fall in interest rates during the year;
- an increase in interest income and other financial income (€3.1 million), primarily reflecting an increase in liquidity invested during the year and the improved return on that liquidity.

9. SHARE OF PROFIT/(LOSS) OF INVESTEES ACCOUNTED FOR USING THE EQUITY METHOD - €3.3 MILLION

This item, amounting to €3.3 million, reflects an increase of €0.7 million compared with last year (€2.6 million), broadly due to the positive impact of the adjustment of the Group's share of equity in the CESI group.

10. INCOME TAX EXPENSE - €313.5 MILLION

(€m)

	2019	2018	CHANGE
Income tax for the year			
Current tax expense:			
- IRES (corporate income tax)	282.6	271.4	11.2
- IRAP (regional tax on productive activities)	59.4	57.9	1.5
Total current tax expense	***342.0***	***329.3***	***12.7***
New temporary differences:			
- deferred tax assets	(21.9)	(18.4)	(3.5)
- deferred tax liabilities	-	6.2	(6.2)
Reversal of temporary differences:			
- deferred tax assets	22.3	27.5	(5.2)
- deferred tax liabilities	(29.3)	(32.7)	3.4
Adjustment of IRES rate			-
Total deferred tax (income)/expense	***(28.9)***	***(17.4)***	***(11.5)***
Adjustments of taxes for previous years	(1.2)	(15.8)	14.6
Other one-off changes	1.6	-	1.6
TOTAL	**313.5**	**296.1**	**17.4**

Current income tax expense of €342.0 million is up €12.7 million compared with the previous year, essentially due to the increase in pre-tax profit.
Net deferred tax expense of €28.9 million is up €11.5 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 -€1.2 million, reflect the overpayment of tax in previous years. The change compared with the 2018 (an increase of €14.6 million) is primarily attributable to the Parent Company. Other one-off changes (€1.6 million) regard provisions for tax risks.

The effective tax charge for the year (€313.5 million) results in a tax rate of 29.1% compared with a rate of 29.4% for 2018.

For a clearer presentation of the differences between the theoretical and effective tax rates, the table below reconciles the profit before taxes with taxable income for IRES (corporate income tax) purposes.

(€m)

	2019	2018
Profit before tax	1,077.4	1,007.7
THEORETICAL TAX CHARGE	**258.6**	**241.8**
IRAP	59.4	57.9
Permanent differences	(3.3)	5.9
Increased taxation paid by overseas companies	-	6.3
TAX (after adjustment for previous years and one-off changes)	**313.1**	**309.2**
TAX RATE	**29.1%**	**30.7%**
Adjustments of taxes for previous years	(1.2)	(15.8)
Other one-off changes	1.6	-
INCOME TAX EXPENSE FOR THE YEAR	**313.5**	**296.1**
EFFECTIVE TAX RATE	**29.1%**	**29.4%**

11. EARNINGS PER SHARE

Earnings per share, which corresponds to diluted earnings per share, amounts to €0.377 (based on profit for the year attributable to owners of the Parent, totalling €757.3 million, divided by the number of shares outstanding, totalling 2,009,992.0 thousand).

C. Operating segments

In line with the Business Plan 2020-2024, and in compliance with IFRS 8, the Terna Group's identified operating segments are described below:

- **Regulated**
- **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. 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 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., the Chilean company Terna Chile S.p.A., the Brazilian company SPE Transmissora de energia Linha Verde II S.A., which was acquired during the year, and the Peruvian company Terna 4 Chacas S.A.C., established in August.

(€m)

	2019	2018	CHANGE	% CHANGE
REGULATED REVENUE	2,055,0	1,989.6	65.4	3.3%
NON-REGULATED REVENUE	211.7	194.9	16.8	8.6%
INTERNATIONAL REVENUE*	28.4	12.5	15.9	127.2%
Cost of international activities	49.7	122.1	(72.4)	(59.3%)
TOTAL REVENUE	**2,344.8**	**2,319.1**	**25.7**	**1.1%**
GROSS OPERATING PROFIT (EBITDA)**	**1,741.2**	**1,650.6**	**90.6**	**5.5%**
of which Regulated EBITDA***	1,657.5	1,586.5	71.0	4.5%
of which Non-Regulated EBITDA	70.0	60.5	9.5	15.7%
of which International EBITDA	13.7	3.6	10.1	-
Reconciliation of segment result with Group's pre-tax result				
GROSS OPERATING PROFIT (EBITDA)	**1,741.2**	**1,650.6**		
Amortisation. depreciation and impairment losses	586.1	554.1		
OPERATING PROFIT/(LOSS) (EBIT)	**1,155.1**	**1,096.5**		
Financial income/(expenses)	(81.0)	(91.4)		
Share of profit/(loss) of investees accounted for using the equity method	3.3	2.6		
Profit/(Loss) before tax	**1,077.4**	**1,007.7**		

* *Directly includes the margin earned on overseas concessions.*
** *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 2019 amounts to €2,344.8 million, an increase of €25.7 million (1.1%) compared with 2018.
Gross operating profit (EBITDA) of €1,741.2 million is up €90.6 million (5.5%) on the €1,650.6 million of 2018.

Regulated EBITDA in Italy amounts to €1,657.5 million, an increase of €71.0 million compared with the previous year, primarily due to the increase in an increase in the WACC used in setting tariffs.

Non-Regulated EBITDA for 2019 amounts to €70.0 million, an increase of €9.5 million, broadly reflecting revenue linked to the private Italy-Montenegro Interconnector project.

International EBITDA for 2019 amounts to €13.7 million, an increase of €10.1 million compared with the previous year. This primarily reflects construction services provided in Brazil, where the related infrastructure fully entered service (up €6.5 million) from October 2018 and April 2019, and the completion of work in Uruguay on construction of the Melo-Tacuarembò line (up €4.6 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 contribution from Non-regulated and International Activities is not material.
The following table shows this indicator at 31 December 2019 and 31 December 2018.

(€m)

	31 DECEMBER 2019	31 DECEMBER 2018
Net non-current assets*	14,908.5	14,083.6
of which investments in associates and joint ventures	*79.4*	*76.1*
Net working capital**	(2,207.8)	(1,822.5)
Gross invested capital***	12,700.7	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", net of the value of fair value hedges (€45.0 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 - €13,864.2 MILLION

(€m)

	LAND	BUILDINGS	PLANT AND EQUIPMENT	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER ASSETS	ASSETS UNDER CONST. AND PREPAYMENTS	TOTAL
COST AT 1 JANUARY 2019	**200.7**	**1,941.1**	**17,410.6**	**108.1**	**155.9**	**1,854.4**	**21,670.8**
Investments	8.6	24.2	4.5	4.7	4.9	1,136.0	1,182.9
of which right-of-use assets	*8.2*	*22.9*	-	-	*3.5*	-	*34.6*
of which finance leased assets	-	-	*4,1*	-	-	-	*4,1*
Assets entering service	0.7	107.6	1,106.0	4,6	11.2	(1,230.1)	-
Disposals and impairments	-	(3.2)	(78.6)	-	(2.3)	(0.6)	(84.7)
of which right-of-use assets	-	*(0.4)*	-	-	*(0.1)*	-	*(0.5)*
of which finance leased assets	-	-	*(1.6)*	-	-	-	*(1.6)*
Other movements	(0.2)	(4.0)	(27.7)	-	(0.2)	4.3	(27.8)
COST AT 31 DECEMBER 2019	**209.8**	**2,065.7**	**18,414.8**	**117.4**	**169.5**	**1,764.0**	**22,741.2**
ACCUMULATED DEPRECIATION AND IMPAIRMENTS AT 1 JANUARY 2019	**-**	**(571.6)**	**(7,647.3)**	**(86.3)**	**(121.3)**	**-**	**(8,426.5)**
Depreciation for the year	(1.0)	(52.7)	(454.6)	(5.4)	(13.6)	-	(527.3)
of which right-of-use assets	*(1.0)*	*(4.6)*	-	-	*(1.1)*	-	*(6.7)*
of which finance leased assets	-	-	*(3.5)*	-		-	*(3.5)*
Disposals	-	0.6	72.9	-	2.3	-	75.8
of which right-of-use assets	-	-	-	-	-	-	-
of which finance leased assets	-	-	*0.3*	-	-	-	*0.3*
Other movements	-	(0.1)	1.0	-	0.1	-	1.0
ACCUMULATED DEPRECIATION AND IMPAIRMENTS AT 31 DECEMBER 2019	**(1.0)**	**(623.8)**	**(8,028.0)**	**(91.7)**	**(132.5)**	**-**	**(8,877.0)**
Carrying amount							
AT 31 DECEMBER 2019	**208.8**	**1,441.9**	**10,386.8**	**25.7**	**37.0**	**1,764.0**	**13,864.2**
of which right-of-use assets	*7.2*	*17.9*	-	-	*2.3*	-	*27.4*
of which finance leased assets	-	*0.6*	*27.5*	-	*1.5*	-	*29.6*
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*	*28.2*	-	*1.5*	-	*30.3*
Change	**8.1**	**72.4**	**623.5**	**3.9**	**2.4**	**(90.4)**	**619.9**

The category, “Plant and equipment” at 31 December 2019 includes the electricity transmission grid and transformer substations in Italy.

“Property, plant and equipment” is up €619.9 million, compared with the previous year, reflecting ordinary movements during the year as a result of:

- investments of €1,182.9 million during the year (including €34.6 million relating to right-of-use assets recognised in application of the new accounting standard IFRS16), of which €1,089.6 million invested in the Group’s Regulated Activities and €93.3 million in Non-regulated Activities, primarily with regard to the private “Italy-France” and “Italy-Montenegro” Interconnectors;
- depreciation for the year of €527.3 million;
- other changes during the year, resulting in a reduction of €26.8 million, including grants related to assets (primarily in relation to projects financed by the Ministry for Economic Development and the EU) and disposals and impairments (down €8.9 million).

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

	(€m)
Investments	
- Power lines	621.6
- Transformer substations	465.5
- Storage systems	1.2
- Other	94.6
Total investment in property, plant and equipment	**1,182.9**
Depreciation for the year	(527.3)
Other changes	(26.8)
Disposals and impairments	(8.9)
TOTAL	**619.9**

The following information regards work on the principal projects during the year in relation to the Regulated Activities: progress on construction of the various cross-border interconnections, consisting of the power lines linking Italy and France (€61 million) and Italy and Montenegro (€28.8 million and entering service at the end of the year), progress with the "Functional separation" plan (€59.7 million), extension of the fibre network as part of the "Fibre for the Grid" project (€36.8 million), construction of the Brindisi Pignicelle - BR Eni Power power line (€18.4 million), the Sorrento Peninsula interconnector (€27.8 million) and the Belcastro and Brennero substations (€13.5 million and €10.3 million, respectively, with the latter entering service at the end of the year), the grid upgrade in the Foggia-Benevento area (€16.8 million) and reorganisation of the grids serving the cities of Naples (€10.3 million) and Rome (€9.7 million).

13. GOODWILL - €230.1 MILLION

Goodwill regards the Parent Company's acquisition of Terna Rete Italia S.r.l. in previous years, 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.

Impairment testing

For the purposes of impairment testing, goodwill has been allocated to two cash generating units (CGUs): the first consisting of "Transmission activities" within the Group's Regulated Activities, amounting to €216.5 million, and the second relating to the "Production and commercialisation of transformers", forming part of the Group's Non-regulated Activities totalling €13.6 million.

Disclosures regarding the impairment testing of the goodwill allocated to the Group's "Transmission" CGU is provided below. Measurement of the recoverable value of the Group's "Transmission" CGU was based on the fair value less costs of disposal. This was determined taking into account Terna's share price at 31 December 2019, appropriately adjusted for the estimated fair value of assets and liabilities not attributable to the CGU that includes transmission activities.

The resulting value is significantly higher than the carrying amount inclusive of goodwill.

14. INTANGIBLE ASSETS - €312.6 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	4.3	-	0.6	76.3	81.2
Assets entering service	27.6	-	31.5	(59.1)	-
Disposals and impairments	-	-	(0,1)	-	(0,1)
Amortisation for the year	(22.5)	(5.6)	(29.3)	-	(57.4)
Other movements	-	-	(0,4)	(0,1)	(0,5)
Translation differences	0.1	-	-	-	0.1
BALANCE AT 31 DECEMBER 2019	**110.1**	**56.1**	**92.2**	**54.2**	**312.6**
Cost	462.8	135.4	441.5	54.2	1,093.9
Accumulated amortisation	(352.7)	(79.3)	(349.3)	-	(781.3)
BALANCE AT 31 DECEMBER 2019	**110.1**	**56.1**	**92.2**	**54.2**	**312.6**
Change	**9.5**	**(5.6)**	**2.3**	**17.1**	**23.3**

Intangible assets amount to €312.6 million (€289.3 million at 31 December 2018); this item includes:
- the infrastructure used in provision of the dispatching service in Italy and in activities in Peru, carried out under concession and accounted for in accordance with "IFRIC 12 - Service Concession Arrangements". The carrying amount of the former, at 31 December 2019, is €110.1 million, whilst the carrying amount of infrastructure under construction, included in the category "Assets under development and prepayments", is €32.5 million (at 31 December 2018, €100.6 million and €27.8 million, respectively);
- the concession for electricity transmission and dispatching activities in Italy (with a carrying amount of €56.1 million at 31 December 2019); this 25-year concession was recognised in 2005, initially at fair value and subsequently at cost.

Other intangible assets primarily include software applications, either produced internally or purchased as part of systems development programmes. Investment in these assets during the year, primarily attributable to the Parent Company (€40.9 million), essentially regard internal development programmes.

The increase compared with the previous year (up €23.3 million) broadly reflects the net effect of investment (up €81.2 million, including €27.8 million in infrastructure rights) and amortisation (down €57.4 million).
Investment in intangible assets during the year (€81.2 million, including €68.7 million attributable to the Parent Company's Regulated Activities) included expenditure on the development of software applications for the Remote Management System for Dispatching (€11.8 million), the Power Exchange (€3.9 million), the Metering System (€0.7 million) and for protection of the electricity system (€3.5 million), as well as software applications and generic licences (€37.4 million).

15. DEFERRED TAX ASSETS - €64.0 MILLION

(€m)

	31 DECEMBER 2018	PROVISIONS	USES AND OTHER MOVEMENTS	EFFECTS RECOGNISED IN COMPRE-HENSIVE INCOME	31 DECEMBER 2019
DEFERRED TAX LIABILITIES					
Property, plant and equipment	(82.7)	-	31.5	-	(51.2)
Other	(24.0)	-	(3.7)	-	(27.7)
Employee benefits and financial instruments	(3.1)	-	-	-	(3.1)
Total deferred tax liabilities	**(109.8)**	**-**	**27.8**	**-**	**(82.0)**
DEFERRED TAX ASSETS					
Provisions for risks and charges	36.6	7.4	(12.0)	-	32.0
Allowance for doubtful accounts	3.8	-	-	-	3.8
Employee benefits	14.4	1.1	(3.2)	0.9	13.2
Cash flow hedges	14.6	-	-	33.3	47.9
Tax relief on goodwill	28.9	-	(5.5)	-	23.4
Other	14.8	13.4	(2.2)	(0.3)	25.7
Total deferred tax assets	**113.1**	**21.9**	**(22.9)**	**33.9**	**146.0**
NET DEFERRED TAX ASSETS	**3.3**	**21.9**	**4.9**	**33.9**	**64.0**

The balance of this item, amounting to €64.0 million, includes the net impact of movements in the Group's deferred tax assets and liabilities.

Deferred tax assets (€146.0 million) are up by a net €60.7 million compared with 31 December 2018 (€113.1 million). These assets underwent the following movements during the year:
- net provisions that impact in comprehensive income, totalling €33.9 million, primarily reflecting the tax effect of movements in cash flow hedges and employee benefits;
- provisions recognised by the subsidiary Rete S.r.l., for the non-deductible portion of book depreciation recognised by the subsidiary (€2.7 million);
- use of the accrued portion recognised in relation to tax relief on the goodwill resulting from the merger of RTL with and into Terna Rete Italia S.r.l. and attributable to the Parent Company (€5.5 million);
- net uses of provisions for risks and charges (€5.1 million), primarily reflecting the impact on taxation of releases from the provisions relating to quality of service (€1.9 million) and for early retirements (€2.9 million);
- net uses of provisions for employee benefits (€2.1 million).

Deferred tax liabilities (€82.0 million) are down by a net amount of €27.8 million, essentially due to:
- the use of previous provisions for accelerated depreciation at the Parent Company, Terna (down €31.5 million);
- provisions and other net movements of €3.7 million, primarily following the recognition of deferred tax liabilities on the South American contracts.

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD - €79.4 MILLION

This item, amounting to €79.4 million, regards the Parent Company's investments in the associate CESI S.p.A. (€52.2 million), the associate CORESO S.A. (€0.5 million) and the associate CGES - CrnoGorski Elektroprenosni Sistem AD (€26.7 million).

The increase with respect to the previous year, amounting to €3.3 million, essentially reflects the adjustment of the Group's share of equity in the associate, Cesi S.p.A., at 31 December 2019.

17. FINANCIAL ASSETS

(€m)

	MEASUREMENT	31 DECEMBER 2019	31 DECEMBER 2018	CHANGE
Financial assets under concession	amortised cost	180.4	167.8	12.6
Guarantee Deposits	Amortised cost	225.8	61.1	164.7
Fair value hedges	FVTPL	45.0	-	45.0
Other investments	FVTOCI	0.1	0.1	-
NON-CURRENT FINANCIAL ASSETS		**451.3**	**229.0**	**222.3**
Government securities	FVTOCI	513.3	402.6	110.7
Deferred assets on fair value hedges		4.2	-	4.2
Cash flow hedges	FVTPL	0.1	1.3	(1.2)
Other current financial assets		1.7	0.6	1.1
CURRENT FINANCIAL ASSETS		**519.3**	**404.5**	**114.8**

"Non-current financial assets" are up €222.3 million compared with the previous year, reflecting:

- the increase in investment during the year in infrastructure under concession in Brazil, recognised in application of IFRIC 12 (up €12.6 million);
- an increase in the Interconnector Guarantee Fund, set up to fund investment in interconnections by art. 32 of Law 99/09 (up €22.1 million) and an increase in the guarantee deposits received from operators participating in the capacity market in accordance with Resolution 98/2011/R/eel[31] as amended (up €142.6 million);
- the recognition of €45.0 million in fair value hedges backing bond issues; this amount was computed by discounting expected cash flows based on the market interest rate curve at the reporting date.

"Current financial assets" are up €114.8 million compared with the previous year, primarily following the purchase of government securities totalling €500 million and the repayment, in December 2019, of government securities totalling €400 million.

18. OTHER ASSETS

(€m)

	31 DECEMBER 2019	31 DECEMBER 2018	CHANGE
Loans and advances to employees	9.8	9.4	0.4
Deposits with third parties	6.1	5.4	0.7
OTHER NON-CURRENT ASSETS	**15.9**	**14.8**	**1.1**
Other tax credits	23.2	44.1	(20.9)
Amounts due from associates	-	3,3	(3,3)
Prepayments to suppliers	10.2	13.4	(3.2)
Prepayments of operating expenses and accrued operating income	10.3	14.7	(4.4)
Amounts due from partners selected for Interconnector projects	3.7	4.0	(0.3)
Amounts due from others	15.3	6.5	8.8
OTHER CURRENT ASSETS	**62.7**	**86.0**	**(23.3)**

[31] Legislation governing the system for remunerating the provision of production capacity is contained in the Ministerial Decree of 28 June 2019. Deposits were paid by operators following the outcome of the auctions organised by Terna on 6 and 28 November 2019. They are to guarantee the entire capacity market with effect from 2022, whose aim is to ensure the adequacy of the national electricity system is achieved and maintained. This is necessary to ensure the system's structural ability to meet expected demand for electricity plus the reserve margin needed to provide determinate levels of security and quality of service.

"Other non-current assets" amount to €15.9 million and are up €1.1 million compared with the previous year. This is primarily due to an increase guarantee deposits paid under contracts with public bodies and authorities (up €0.7 million).
"Other current assets", totalling €62.7 million, are down €23.3 million compared with 31 December 2018, primarily reflecting:

- other tax credits (down €20.9 million), primarily reflecting the Group's refundable VAT (down €21.9 million), partly due to the tax authority's acceptance of the claim for refundable VAT filed in the annual return for 2018 (down €10.4 million);
- a reduction in prepayments to suppliers (down €3.2 million), mainly due to the prepayments made for work carried out in South America that began in the previous years (down €2.9 million);
- a reduction in expenses already paid for but accruing after 31 December 2019 (down €4.4 million), primarily referring to a reduction in prepayments following adoption of the new IFRS 16, which requires these items to be recognised when recognising right-of-use assets;
- a reduction in amounts due from the associate, CGES (down €3.3 million) following collection of the dividend declared at end of 2018;
- amounts due from others (up €8.8 million), broadly due to the Parent Company's recognition of insurance proceeds (up €1.9 million), receivables relating to the overseas subsidiary, Santa Lucia, and linked to the entry into commercial operation of the power line (up €2.5 million), other items to be settled in the following year (up €4.1 million) and amounts receivable in relation to connectivity activities (€1 million).

19. INVENTORIES - €50.9 MILLION

This item, amounting to €50.9 million, is down €12.5 million compared with the previous year. This primarily reflects the assets to be used to complete the Tamini Group's orders (down €11.8 million).

20. TRADE RECEIVABLES - €1,290.7 MILLION

(€m)

	31 DECEMBER 2019	31 DECEMBER 2018	CHANGE
Energy-related receivables	788.8	743.7	45.1
Transmission charges receivables	314.6	310.8	3.8
Other trade receivables	187.3	112.5	74.8
TOTAL	**1,290.7**	**1,167.0**	**123.7**

Trade receivables amount to €1,290.7 million at 31 December 2019 and are accounted for less any losses on items deemed not to be recoverable and recognised in the allowance for doubtful accounts (€25.2 million for energy-related receivables and €17.7 million for other items in 2019, compared with €26.1 million for energy-related items and €17.8 million for other items in 2018). The carrying amount shown broadly approximates to fair value.

Energy-related/regulated receivables - €788.8 million

This item includes so-called "pass-through items" relating to the Parent Company's activities in accordance with Resolution 111/06 (€758.3 million) and receivables due from the users of dispatching services forming part of Regulated Activities (€18.2 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 year (€12.3 million).
The balance is up €45.1 million overall compared with the previous year, essentially due to energy-related pass-through receivables (€42.4 million). The increase reflects the impact of the amount due in the form of the uplift (€71.2 million), reflecting the increased cost incurred during the period, above all in December, for Dispatching Services Market (DSM) services and transactions and to imbalances (the related receivables are down €22 and €35.6 million, respectively). The change also reflects amounts due from the Fund for Energy and Environmental Services (*Cassa per i Servizi Energetici e Ambientali* - CSEA) to settle fees for dispatching points with LV connections pursuant to art. 25 of the Settlement Code (€27 million).

Transmission charges receivable - €314.6 million

Transmission charges receivable, amounting to €314.6 million, represent the amount due to the Parent Company and other grid owners from electricity distributors for use of the National Transmission Grid. The receivable is up €3.8 million compared with 31 December 2018, primarily due to the rise in income resulting from the increase in the tariff.

Other trade receivables - €187.3 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, as well as in relation to the Tamini Group's contract work.
This item is up €74.8 million compared with the previous year, broadly due to the increased amount due on the contract completed in Uruguay (up €37.9 million), the non-regulated activities carried out by the Parent Company and the subsidiary, TRI SPA (€17.8 million and €13.5 million, respectively) and the Tamini Group's contract work (up €5.3 million).
The following table shows receivables resulting from contract work in progress (€134.2 million), being carried out by the Group under multi-year contracts with third parties:

(€m)

	PRE-PAYMENTS	VALUE OF CON-TRACT	BALANCE AT 31 DECEMBER 2019	PREPAY-MENTS	VALUE OF CON-TRACT	BALANCE AT 31 DECEMBER 2018
Receivables resulting from contract work in progress	(1.8)	136.0	**134.2**	(14.1)	98.7	**84.6**

The Group's receivables resulting from contract work in progress are up €49.6 million, on the previous year, primarily in relation to the contract in Uruguay (up €36.2 million) and increased contract work carried out by the subsidiary, Terna Rete Italia S.p.A. (up €9.5 million).

21. CASH AND CASH EQUIVALENTS - €1,057.4 MILLION

Cash amounts to €1,057.4 million, at 31 December 2019, including €647.4 million invested short-term. Readily convertible deposits and €410.0 million deposited in bank current accounts.

22. INCOME TAX ASSETS - €5.2 MILLION

Income tax assets, amounting to €5.2 million, are down €14.1 million compared with the previous year, due to the transfer of IRES and IRAP tax credits from previous years (down €9.6 million) and the use of IRES and IRAP tax credits used to settle payments on account for 2019 (down €4.5 million).

Equity and liabilities

23. EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT - €4,190.3 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 - €593.3 million

The other reserves have decreased by €106.8 million compared with the previous year, primarily as a result of other comprehensive income. This reflects:

- fair value adjustments to the Parent Company's cash flow hedges (down €105.3 million, taking into account the related tax asset of €33.3 million);
- the recognition of actuarial gains and losses on provisions for employee benefits (losses of €2.1 million, taking into account the related taxation of €0.9 million).

Retained earnings and accumulated losses - €2,478.3 million

The increase in "Retained earnings and accumulated losses", amounting to €238.2 million, primarily regards the remaining portion of the Group's profit for 2018, following the Parent Company's payment of the dividend for 2018 (totalling €468.7 million).

Interim dividend for 2019

On 13 November 2019, the Parent Company's Board of Directors, having obtained the Independent Auditor's opinion required by article 2433-*bis* of the Italian Civil Code, decided to pay an interim dividend of €0.0842 per share, amounting to a total payout of €169.2 million. The dividend was payable from 20 November 2019, with an ex-dividend date for coupon 31 of 18 November 2019.

Equity attributable to non-controlling interests

Equity attributable to non-controlling interests, relating to the non-controlling shareholders of the Tamini Group, Terna Interconnector S.r.l., Avvenia The Energy Innovator S.r.l. and SPE Transmissora de energia Linha Verde II S.A. (consolidated for the first time during the year), amounts to €41.6 million, an increase of €6.6 million compared with 31 December 2018.

This change primarily reflects the profit reported by Terna Interconnector S.r.l. (€6.0 million).

24. BORROWINGS AND FINANCIAL LIABILITIES

(€m)

	31 DECEMBER 2019	31 DECEMBER 2018	CHANGE
Bond issues	7,757.3	6,563.2	1,194.1
Bank borrowings	1,723.4	1,664.4	59.0
LONG-TERM BORROWINGS	**9,480.7**	**8,227.6**	**1,253.1**
Cash flow hedges	160.4	59.2	101.2
NON-CURRENT FINANCIAL LIABILITIES	**160.4**	**59.2**	**101.2**
SHORT-TERM BORROWINGS	**25.0**	**25.0**	**-**
Bond issues	-	616.7	(616.7)
Bank borrowings	126.5	613.9	(487.4)
CURRENT PORTION OF LONG-TERM BORROWINGS	**126.5**	**1,230.6**	**(1,104.1)**
CURRENT FINANCIAL LIABILITIES	**87.7**	**90.4**	**(2.7)**
TOTAL	**9,880.3**	**9,632.8**	**247.5**

Borrowings and financial liabilities are up €247.5 million compared with the previous year to €9,880.3 million.

The increase in bond issues (up €1,194.1 million) is due to three fixed-rate euro-denominated bond issues launched in 2019, amounting to €1,250 million and described in the section "Financial resources" and repayment, in October, of the €600 million bond issue launched on 3 July 2009. The change also reflects the adjustment of the amortised cost of all the bonds in issue.

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

(€m)

	ISIN	PRICE AT 31 DECEMBER 2019	PRICE AT 31 DECEMBER 2018
bond maturity 2019:	XS0436320278	n/a**	103.62
bond maturity 2021:	XS0605214336	105.93	109.79
bond maturity 2022:	XS1178105851	101.90	100.64
bond maturity 2023:	XS0328430003	128.94*	127.61*
bond maturity 2023:	XS1858912915	103.11	100.17
bond maturity 2024:	XS0203712939	122.79	120.51
bond maturity 2025:	XS2033351995	98.86	n/a**
bond maturity 2026:	XS1371569978	107.08	103.52
bond maturity 2026:	XS1980270810	103.18	n/a**
bond maturity 2027:	XS1652866002	105.83	94.53
bond maturity 2028:	XS1503131713	102.87	89.83

* *Source: BNP Paribas and Bloomberg.*
** *Not applicable.*

Compared to the previous year, bank borrowings have decreased by €428.4 million, due mainly to the following:

- repayment, on 2 February 2019, of the €500 million loan from CDP, using EIB funds;
- repayments of principal on existing EIB loans (down €111.3 million);
- new EIB loans drawn down in June, totalling €46.4 million;
- drawdown of the final tranche of the loan granted to the Uruguayan subsidiary, totalling €13.1 million;
- new loans obtained by the Brazilian subsidiaries, totalling €101.8 million;
- lease liabilities recognised following first-time adoption of IFRS 16 (€24.5 million).

Long-term borrowings

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

(€m)

	31 DECEMBER 2018			IMPACT OF IFRS 16 AT 1 JAN 2019	REPAYMENTS AND CAPITALISATIONS	DRAWDOWNS	OTHER	CHANGE IN CARRYING AMOUNT	31 DECEMBER 2019		
	NOMINAL DEBT	CARRYING AMOUNT	FAIR VALUE						NOMINAL DEBT	CARRYING AMOUNT	FAIR VALUE
Bonds maturing 2024	800.0	982.9	964.1	-	-	-	(30.8)	(30.8)	800.0	952.1	982.3
IL bond	579.0	679.2	638.1	-	-	-	(20.1)	(20.1)	579.0	659.1	746.5
Private Placement 2019	600.0	616.7	621.7	-	(600.0)	-	(16.7)	(616.7)	-	-	-
Private Placement 2026	80.0	78.9	82.8	-	-	-	0.2	0.2	80.0	79.1	85.7
Bonds maturing 2021	1,250.0	1,345.9	1,372.4	-	-	-	(43.2)	(43.2)	1,250.0	1,302.7	1,324.1
Bonds maturing 2022	1,000.0	997.6	1,006.4	-	-	-	0.7	0.7	1,000.0	998.3	1,019.0
Bonds maturing 2025	-	-	-	-	-	500.0	(5.3)	494.7	500.0	494.7	494.3
Bonds maturing 2026	-	-	-	-	-	500.0	(2.2)	497.8	500.0	497.8	515.9
Bonds maturing 2028	750.0	740.9	673.7	-	-	-	24.0	24.0	750.0	764.9	771.5
Bonds maturing 2027	1,000.0	993.2	945.3	-	-	-	20.4	20.4	1,000.0	1,013.6	1,058.3
Bonds maturing 2023	750.0	744.6	751.3	-	-	250.0	0.4	250.4	1,000.0	995.0	1,031.1
Total bond issues	**6,809.0**	**7,179.9**	**7,055.8**	**-**	**(600.0)**	**1,250.0**	**(72.6)**	**577.4**	**7,459.0**	**7,757.3**	**8,028.7**
Borrowings	2,285.3	2,278.3	2,301.2	21.4	(616.3)	158.3	8.2	(428.4)	1,831.2	1,849.9	1,878.3
of which leases	-	-	-	*21.4*	*(2.6)*	-	*5.7*	*24.5*	-	*24.5*	-
Total borrowings	**2,285.3**	**2,278.3**	**2,301.2**	**21.4**	**(616.3)**	**158.3**	**8.2**	**(428.4)**	**1,831.2**	**1,849.9**	**1,878.3**
Total debt	**9,094.3**	**9,458.2**	**9,357.0**	**21.4**	**(1,216.3)**	**1,408.3**	**(64.4)**	**149.0**	**9,290.2**	**9,607.2**	**9,907.0**

At 31 December 2019, the Terna 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 €825 million and approximately €496 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 DECEMBER 2018*	31 DECEMBER 2019*	PORTION FALLING DUE WITHIN 12 MONTHS	PORTION FALLING DUE AFTER 12 MONTHS	2021	2022	2023	2024	2025	AFTER	AVERAGE INTEREST RATE 2019	AVERAGE NET INTEREST RATE 2019
	2019	616.7	-	-	-	-	-	-	-	-	-	4.88%	1.18%
	2021	1,345.9	1,302.7	-	1,302.7	1,302.7		-	-	-	-	4.75%	1.21%
	2022	997.6	998.3	-	998.3	-	998.3		-	-	-	0.88%	0.95%
	2023	679.2	659.1	-	659.1	-	-	659.1		-	-	2.73%	(0.65%)
	2023	744.6	995.0	-	995.0	-	-	995.0		-	-	1.00%	1.15%
Bonds	2024	982.9	952.1	-	952.1	-	-	-	952.1		-	4.90%	0.87%
	2025	-	494.7	-	494.7	-	-	-	-	494.7	-	0.13%	0.31%
	2026	78.9	79.1	-	79.1	-	-	-	-	-	79.1	1.60%	1.80%
	2026	-	497.8	-	497.8	-	-	-	-	-	497.8	1.00%	1.22%
	2027	993.2	1,013.6	-	1,013.6	-	-	-	-	-	1,013.6	1.38%	1.02%
	2028	740.9	764.9	-	764.9	-	-	-	-	-	764.9	1.00%	0.62%
EIB		368.6	368.6	-	368.6	4.6	20.5	20.5	20.5	20.5	282.0	1.45%	1.45%
Difebal borrowings		-	38.2	1.5	36.7	1.5	1.5	1.8	1.9	2.1	27.9	4.88%	4.88%
Total fixed rate		**7,548.5**	**8,164.1**	**1.5**	**8,162.6**	**1,308.8**	**1,020.3**	**1,676.4**	**974.5**	**517.3**	**2,665.3**		
EIB	2030	1,355.9	1,291.1	116.1	1,175.0	112.2	112.8	114.0	115.3	115.3	605.4	0.23%	1.76%
CDP	2019	500.0	-	-	-	-	-	-	-	-	-	0.63%	0.63%
Brazilian companies' borrowings	2042	-	102.0	4.5	97.5	3.3	3.5	3.5	3.6	3.6	80.0	7.52%	7.52%
Difebal borrowings	2034	56.9	30.7	1.5	29.2	1.9	1.9	2.2	2.4	2.6	18.2	4.93%	4.93%
Total variable rate		**1,912.8**	**1,423.8**	**122.1**	**1,301.7**	**117.4**	**118.2**	**119.7**	**121.3**	**121.5**	**703.6**		
TOTAL		**9,461.3**	**9,587.9**	**123.6**	**9,464.3**	**1,426.2**	**1,138.5**	**1,796.1**	**1,095.8**	**638.8**	**3,368.9**		

** The balance does not include deferred fees of €5.7 million at 31 December 2019 and €5.5 million at 31 December 2018.*

(€m)

	31 DECEMBER 2018	31 DECEMBER 2019	PORTION FALLING DUE WITHIN 12 MONTHS	PORTION FALLING DUE AFTER 12 MONTHS
Finance leases	2.4	0.5	0.3	0.2
Operating leases	-	24.5	2.6	21.9
TOTAL	**2.4**	**25.0**	**2.9**	**22.1**

At 31 December 2019, payments on operating leases recognised in application of IFRS 16 amount to €2.6 million.

The total value of the Terna Group's borrowings at 31 December 2019 is €9,587.9 million (€123.6 million falling due within 12 months and €9,464.3 million falling due after 12 months), of which €3,368.9 million maturing after five years.

Non-current financial liabilities - €160.4 million

(€m)

	31 DECEMBER 2019	31 DECEMBER 2018	CHANGE
Cash flow hedges	160.4	59.2	101.2
TOTAL	**160.4**	**59.2**	**101.2**

Non-current financial liabilities, amounting to €160.4 million, reflect the fair value of cash flow hedges at 31 December 2019.

Fair value was measured by discounting the expected cash flows using the market yield curve at the reporting date. The increase of €101.2 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 - €25.0 million

There is no change in "Short-term borrowings" compared with the figure for the previous year.

Current financial liabilities - €87.7 million

Current financial liabilities at 31 December 2019 include the value of net interest expense accrued on financial instruments and not yet paid. This item is down €2.7 compared with the previous year.

(€m)

	31 DECEMBER 2019	31 DECEMBER 2018	CHANGE
DEFERRED LIABILITIES ON:			
Hedging derivatives	2.6	2.3	0.3
Bond issues	83.6	85.9	(2.3)
Borrowings	1.5	2.2	(0.7)
TOTAL	**87.7**	**90.4**	**(2.7)**

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 is as follows:

(€m)

	31 DECEMBER 2019
A. Cash	410.0
B. Term deposits	647.4
C. Cash and cash equivalents (A) + (B)	**1.057,4**
D. Current portion of non-current borrowings	126.5
E. Short-term borrowings	25.0
F. Other net financial liabilities	81.8
G. Current financial assets	513.3
H. Current debt (D+E+F+G)	**(280.0)**
I. Current net debt (H) - (C)	**(1,337.4)**
J. Non-current borrowings	1,723.4
K. Bond issues	7,757.3
L. Derivative financial instruments held in portfolio	115.3
M. Non-current net debt (J) + (K) + (L)	**9,596.0**
N. Net debt (I) + (M)	**8,258.6**

Default risk and debt covenants

This risk is associated with the possibility that the loan agreements or bond terms and conditions to which the Group is a party may contain provisions that, if certain events occur, authorise counterparties to call in such loans immediately, 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 €800.0 million issue in 2004 and nine issues as part of its EMTN Programme (the "€ 8,000,000,000 Medium Term Notes Programme*")*;
- bank borrowings, consisting of two revolving line 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 €1,659,8 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.

25. EMPLOYEE BENEFITS - €63.9 MILLION

The Group provides its employees with benefits during their period of employment (loyalty bonuses), on termination of employment (*TFR*, additional months' pay and payment in lieu of notice) and after termination in the form of post-employment benefits (ASEM health cover).
Loyalty bonuses are payable to the Group's employees and senior managers once certain requirements have been met regarding length of service (on completing 25 and 35 years of service).
Termination benefits (*TFR*) are payable to all employees, whilst employees hired by 30 June 1996 receive energy discounts, senior managers recruited or appointed before 28 February 1999 receive payment in lieu of notice and employees (blue-collar workers, office staff and middle managers) employed prior to 24 July 2001 are due additional months' pay on termination.
Post-employment benefits consist of a form of supplementary health cover in addition to that provided by the Italian national health service, as provided for in the national collective contract for industrial managers (the ASEM health plan).
The following table shows the composition of provisions for *TFR* and other employee benefits and movements during the year ended 31 December 2019.

(€m)

	31 DECEMBER 2018	PROVISIONS	INTEREST COST	USES AND OTHER MOVEMENTS	ACTUARIAL GAINS/ (LOSSES)	31 DECEMBER 2019
Benefits during the period of employment						
Loyalty bonuses	4.7	0.6	0.1	(1.1)	-	4.3
Total	**4.7**	**0.6**	**0.1**	**(1.1)**	**-**	**4.3**
Termination benefits						
Deferred compensation benefits (TFR)	43.7	-	0.5	(6.7)	1.5	39.0
Energy discounts	5.3	-	0.1	(1.2)	(0.5)	3.7
Additional months' pay	6.9	0.4	-	(1.4)	0.3	6.2
Payment in lieu of notice and other similar	0.2	-	-	(0.1)	-	0.1
Total	**56.1**	**0.4**	**0.6**	**(9.4)**	**1.3**	**49.0**
Post-employment benefits						
ASEM health plan	8.6	0.3	0.1	(0.2)	1.8	10.6
Total	**8.6**	**0.3**	**0.1**	**(0.2)**	**1.8**	**10.6**
TOTAL	**69.4**	**1.3**	**0.8**	**(10.7)**	**3.1**	**63.9**

This item, amounting to €63.9 million at 31 December 2019, is down €5.5 million compared with the previous year. This is primarily attributable to net uses and other movements (down €10.7 million), above all for TFR, additional months' pay and energy discounts), relating essentially to employees who have opted to take part in the generational turnover plan, partially offset by actuarial gains and losses (up €3.1 million).

The following table shows the current service cost and interest income and expense.

(€m)

	LOYALTY BONUSES	TFR	ADDITIONAL MONTHS' PAY	PAYMENT IN LIEU OF NOTICE AND OTHER SIMILAR	ENERGY DISCOUNTS	ASEM HEALTH COVER	TOTAL
Net impact recognised in profit or loss							
- current service cost	0.6	-	0.4	-	-	0.3	1.3
- curtailment (revenue) and other costs	(0.8)	-	(1.3)	(0.1)	-	-	(2.2)
- interest income and expense	0.1	0.5	-	-	0.1	0.1	0.8
TOTAL RECOGNISED IN PROFIT OR LOSS	**(0.1)**	**0.5**	**(0.9)**	**(0.1)**	**0.1**	**0.4**	**(0.1)**

Revaluation of the net liability for employee benefits is shown in the following table, which provides details of the type of actuarial gain or loss recognised in other comprehensive income.

(€m)

	TFR	ADDITIONAL MONTHS' PAY	ENERGY DISCOUNTS	ASEM HEALTH COVER	TOTAL
Actuarial gain/losses					
- based on past experience	(0.2)	0.1	(0.2)	1.1	0.8
- due to changes in demographic assumptions	-	-	-	-	-
- due to changes in other economic assumptions	-	-	-	(0.2)	(0.2)
- due to changes in discount rate	1.7	0.2	(0.3)	0.9	2.5
TOTAL IMPACT ON OTHER COMPREHENSIVE INCOME	**1.5**	**0.3**	**(0.5)**	**1.8**	**3.1**

Finally, the following tables show the main actuarial assumptions applied, a sensitivity analysis of movements in the assumptions and the payment schedule for the plan. In line with 2018, the interest rate used to determine the present value of the obligation was calculated on the basis of the yield on the Iboxx Eurozone Corporates AA index at 31 December 2019, matching the duration of the relevant group of plan participants.

	LOYALTY BONUSES	TFR	ADDITIONAL MONTHS' PAY	PAYMENT IN LIEU OF NOTICE AND OTHER SIMILAR	ENERGY DISCOUNTS	ASEM HEALTH COVER
Discount rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Inflation rate	1.50%	1.50%	0.00%	1.50%	1.50%	3.00%
Duration (in years)	*10.6-13*	*9.7-26.2*	*4.5-7.2*	*4.00*	*7-10.9*	*15.7-36.3*

(€m)

	LOYALTY BONUSES	TFR	ADDITIONAL MONTHS' PAY	PAYMENT IN LIEU OF NOTICE AND OTHER SIMILAR	ENERGY DISCOUNTS	ASEM HEALTH COVER	TOTAL
Discount rate +0,25%	4.1	38.4	5.9	0.1	3.6	10.2	**62.3**
Discount rate -0,25%	4.4	40.2	6.0	0.1	3.8	11.1	**65.6**
Inflation rate +0,25%	4.4	40.0	n/a	n/a	n/a	n/a	**44.4**
Inflation rate -0,25%	4.2	38.6	n/a	n/a	n/a	n/a	**42.8**
Annual rate of increase in health costs +3%	n/a	n/a	n/a	n/a	n/a	18.5	**18.5**
Annual rate of increase in health costs -3%	n/a	n/a	n/a	n/a	n/a	7.0	**7.0**

(€m)

	LOYALTY BONUSES	TFR	ADDITIONAL MONTHS' PAY	PAYMENT IN LIEU OF NOTICE AND OTHER SIMILAR	ENERGY DISCOUNTS	ASEM HEALTH COVER	TOTAL
By the end of 2019	0.4	2.2	1.4	-	0.4	0.3	**4.7**
By the end of 2020	0.5	2.0	0.7	-	0.2	0.3	**3.7**
By the end of 2021	0.3	2.6	0.5	-	0.3	0.3	**4.0**
By the end of 2022	0.1	2.2	0.5	-	0.3	0.3	**3.4**
By the end of 2023	0.4	2.2	0.4	-	0.3	0.4	**3.7**
After 5 years	2.6	27.8	2.7	0.1	2.2	9.0	**44.4**
TOTAL	**4.3**	**39.0**	**6.2**	**0.1**	**3.7**	**10.6**	**63.9**

26 - PROVISIONS FOR RISK AND CHARGES - €210.3 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**
Provisions	3.0	39.4	-	42.4
Uses and other movements	(2.4)	(61.0)	(10.1)	(73.5)
Amount at 31 December 2019	**19.6**	**147.4**	**43.3**	**210.3**

Provisions for litigation and disputes - €19.6 million

These provisions, set aside to cover outstanding liabilities that, at the end of the year, could result from court judgements and out-of-court settlements regarding the activities of Group companies, have been assessed partly on the basis of recommendations from internal and external legal advisors. The provisions are up €0.6 million compared with the previous year, reflecting higher net provisions during the year.

Provisions for sundry risks and charges - €147.4 million

These provisions are down by a net €21.6 million compared with the previous year, reflecting:

- a net increase of €6.8 million compared with the higher provisions made in the previous year for urban and environmental redevelopment schemes;
- a reduction of €17.8 million due to an adjustment to the provisions for taxation;
- a net reduction of €9.0 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 year, reflects payments to distribution companies and releases following final determination of the penalties due to previous years.

Provisions for early retirement incentives - €43.3 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 a net €10.1 million, reflecting payments during the year in relation to the existing plan for generational turnover.

27. OTHER NON-CURRENT LIABILITIES - €834.9 MILLION

This item, amounting to €834.9 million at 31 December 2019, regards accrued grants related to assets receivable by the Parent Company (€84.8 million), in addition to payments on account received in relation to construction of the private Italy-Montenegro and Italy-France Interconnectors (totalling €520.4 million).
This item also includes the guarantee deposits received from operators participating in the capacity market in accordance with Resolution 98/2011/R/eel (€142.6 million), in addition to the Interconnector Guarantee Fund set up by Terna S.p.A. following the issue of the 2016 Stability Law (€87.1 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 €461.1 million, essentially reflects the recognition of payments on account received from the entities financing the private Italy-Montenegro and Italy-France Interconnectors (a total increase of €302.8 million), the guarantee deposits received from operators participating in the capacity market in accordance with Resolution 98/2011/R/eel (up €142.6 million) and an increase in the Interconnector Guarantee Fund (up €21.9 million).

28. CURRENT LIABILITIES

(€m)

	31 DECEMBER 2019	31 DECEMBER 2018	CHANGE
Short-term borrowings*	25.0	25.0	-
Current portion of long-term borrowings*	126.5	1,230.6	(1,104.1)
Trade payables	2,445.2	2,539.6	(94.4)
Tax liabilities	11.8	5.1	6.7
Current financial liabilities*	87.7	90.4	(2.7)
Other current liabilities	325.4	239.7	85.7
TOTAL	**3,021.6**	**4,130.4**	**(1,108.8)**

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

TRADE PAYABLES - €2,445.2 MILLION

(€m)

	31 DECEMBER 2019	31 DECEMBER 2018	CHANGE
Suppliers:			
- Energy-related payables	1,358.8	1,518.1	(159.3)
- Non-energy-related payables	1,054.9	978.9	76.0
Amounts due to associates	8.6	8.2	0.4
Payables resulting from contract work in progress	22.9	34.4	(11.5)
TOTAL	**2,445.2**	**2,539.6**	**(94.4)**

Suppliers

Energy-related/regulated payables

The reduction of €159.3 million in this item compared with the end of 2018 essentially reflects energy-related pass-through payables (down €158.4 million). This is primarily due to:

- a decrease in payables relating to capacity payments (down €115.3 million) as a result of payments made during the year, as required by ARERA[32].
- a reduction in net payables linked to plants that are essential for the security of the electricity system - *UESS* (down €94.9 million) reflecting items collected during the period after payments ordered by ARERA in 2019[33];

partly offset by

- an increase in payables linked 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 (€41.6 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 31 December 2019 (€1,054.9 million) is up €76.0 million on the previous year, largely due to increased capital expenditure towards the end of the year.

Amounts due to associates

This item, amounting to €8.6 million, is up 0.4 million on the previous year and regards amounts payable to the associate CESI S.p.A., for services provided primarily to the Parent Company (€2.2 million) and to the subsidiary Terna Rete Italia S.p.A. (€5.9 million), relating to electro technical studies and research.

Payables resulting from contract work in progress

Payables resulting from contract work in progress, amounting to €22.9 million at 31 December 2019, are down €11.5 million on the figure for 31 December 2018 (€34.4 million), essentially reflecting the Tamini Group's contract work in progress (€11.7 million).

This item breaks down as follows.

(€m)

	PREPAYMENTS	VALUE OF CONTRACT	BALANCE AT 31 DECEMBER 2019	PREPAYMENTS	VALUE OF CONTRACT	BALANCE AT 31 DECEMBER 2018
Payables resulting from contract work in progress	(40.5)	17.6	**(22.9)**	(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 €2,068.8 million and regard purchase commitments linked to the normal "operating cycle" projected for the period 2020-2024.

TAX LIABILITIES - €11.8 MILLION

This item amounts to €11.8 million at 31 December 2019, compared to a balance of €5.1 million at the end of 2018 (up €6.7 million). This essentially reflects an increase in tax payable for the year after payments on account paid during the period (mainly due to the increase in pre-tax profit).

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

[33] ARERA ordered payments to the owners of essential plants in the following resolutions in 2019: 48-79-101-111-118-150-194-205-235-342-434-459-460-475-476-505-506-523-524-525.

OTHER CURRENT LIABILITIES - 325.4 MILLION

(€m)

	31 DECEMBER 2019	31 DECEMBER 2018	CHANGE
Prepayments	66.9	69.7	(2.8)
Other tax liabilities	21.9	7.4	14.5
Social security payables	25.5	25.0	0.5
Amounts due to personnel	51.2	41.6	9.6
Other amounts due to third parties	159.9	96.0	63.9
TOTAL	**325.4**	**239.7**	**85.7**

Prepayments

This item (€66.9 million) regards grants related to assets collected by the Group (€61.6 million attributable to the Parent Company, €3.3 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 31 December 2019.
Compared with the balance at 31 December 2018 (€69.7 million), this item is down €2.8 million, essentially due to the net impact of grants deducted directly from the carrying amount of the related assets, totalling €27.3 million, and new prepayments received from third parties, primarily the Ministry for Economic Development.

Other tax liabilities

Other tax liabilities, amounting to €21.9 million, are up €14.5 million compared with the previous year. This primarily reflects VAT payable by the Group (up €11.4 million), as well as an increase in council tax payable by the Parent Company (€2.1 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 €25.5 million. The figure is down compared with the previous year of €0.5 milion, broadly due to reduced contributions payable on staff incentives. This item also included the amount payable to the *Fondo Previdenza Elettrici - F.P.E.* (the Electricity Industry Pension Fund), amounting to €3.4 million (€3.5 million at 31 December 2018).

Amounts due to personnel

Amounts due to personnel, amounting to €51.2 million, essentially regard the Parent Company and the subsidiary Terna Rete Italia S.p.A.. They primarily relate to:
- incentives payable in the subsequent year (€23.2 million);
- amounts due to employees in the form of accrued and unused annual leave and bank holiday entitlements (€12.3 million);
- benefits payable to personnel leaving the Company by 31 December 2019 (€11.9 million).

This item is up €9.6 million, primarily due to an increase in amounts payable to personnel who have opted to take part in the current generational turnover plan (up €10.6 million), partially offset by a decrease in other incentives payable to personnel in the following year (down €1.7 million).

Other payables due to third parties

Other payables due to third parties, amounting to €159.9 million, primarily regard guarantee deposits (€107.3 million) received from electricity market operators to guarantee their contractual obligations under dispatching and virtual interconnection contracts. This item also includes deferred income (€11.8 million, primarily attributable to the Group's non-regulated business).
This item is up by a total of €63.9 million, essentially due to an increase in guarantee deposits collected during the year, totalling €39.9 million, and recognition of a refund due from the tax authority and awaiting settlement (up €26.7 million), linked to the acquisition of Rete S.r.l. (December 2015).

E. Commitments and risks

Risk management

The Group's financial risk

In the course of its operations, the Terna Group is exposed to different financial risks: market risk, liquidity risk and credit risk.
This section provides information regarding the Terna Group's exposure to all the above risks, along with a presentation of the objectives, policies and processes for managing those risks and the methods used to assess them, with further quantitative disclosures concerning the separate financial statements for 2019.
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 companies' operations.
The Terna Group's exposure to the aforementioned risks is substantially represented by the exposure of the Parent Company. 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.

(€m)

	31 DECEMBER 2019			31 DECEMBER 2018		
	AMORTISED COST	FAIR VALUE	TOTAL	AMORTISED COST	FAIR VALUE	TOTAL
Assets						
Derivative financial instruments	-	45.1	45.1	-	1.3	1.3
Cash on hand and government securities	1,057.4	513.3	1,570.7	1,328.9	402.6	1,731.5
Trade receivables	1,290.7	-	1,290.7	1,167.0	-	1,167.0
TOTAL	**2,348.1**	**558.4**	**2,906.5**	**2,495.9**	**403.9**	**2,899.8**

(€m)

	31 DECEMBER 2019			31 DECEMBER 2018		
	AMORTISED COST	FAIR VALUE	TOTAL	AMORTISED COST	FAIR VALUE	TOTAL
Liabilities						
Borrowings	9,607.2	-	9,607.2	9,458.2	-	9,458.2
Derivative financial instruments	-	160.4	160.4	-	59.2	59.2
Trade payables	2,445.2	-	2,445.2	2,539.6	-	2,539.6
TOTAL	**12,052.4**	**160.4**	**12,212.8**	**11,997.8**	**59.2**	**12,057.0**

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of changes in financial market conditions. Market risk includes three types of risk: exchange rate risk, interest rate risk and inflation risk.

Risk management must be performed with the objective of minimising the related risks by selecting counterparties and instruments compatible with the Company's Risk Management Policy. Speculative activity is not part of the Parent Company's activities.

The Terna Group seeks to adopt a dynamic approach to financial risk management. This approach is characterised by risk aversion, aimed at minimising risk through continuous monitoring of financial markets in order to obtain new financing and conclude hedging transactions in favourable market conditions. The

dynamic approach enables the Group to intervene in order to improve existing hedges should there be a change in market conditions or changes in the hedged item, making the hedges inappropriate or excessively costly.
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 closing date (such as interest rates, exchange rates and volatility) and discounting projected cash flows on the basis of the market yield curve at the reporting date.

Interest rate risk

Interest rate risk is represented by the uncertainty associated with interest rate fluctuations. This is the risk that a change in market interest rates may produce effects on the fair value or future cash flows of financial instruments.

In the course of its operations, the Group is exposed to the risk of fluctuations in interest rates. Its main source of interest rate risk is associated with its borrowings and the related hedges in the form of derivative instruments that generate financial expenses. The borrowing strategy focuses on long-term borrowings, whose term reflects the useful life of the Group's assets. It pursues an interest rate risk hedging policy that aims to guarantee that percentage of debt represented by fixed rate liabilities is at least 40%, as provided for in the relevant policies. At the end of 2019, 81% of the Group's is fixed rate.

At 31 December 2019, interest rate risk is hedged by fair value hedges and cash flow hedges, which hedge the risk connected with movements in interest rates relating to long-term borrowings.

Below are the notional amounts and fair values of the derivative financial instruments entered into by the Terna Group:

(€m)

	31 DECEMBER 2019		31 DECEMBER 2018		CHANGE	
	NOTIONAL	FAIR VALUE	NOTIONAL	FAIR VALUE	NOTIONAL	FAIR VALUE
Fair value hedges	1,600.0	45.0	-	-	1,600.0	45.0
Cash flow hedges	3,794.5	(160.4)	3,246.3	(59.2)	548.2	(101.2)

The notional amount of outstanding cash flow hedges at 31 December 2019, amounting to 3,794.5 million, breaks down as follows:
- €1,223.5 million (fair value loss of €12.8 million) maturing 2021;
- €1,250.0 million (fair value loss of €71.0 million) maturing 2027;
- €1,300.0 million (fair value loss of €75.2 million) maturing 2028;
- €21.0 million (fair value loss of €1.4 million), relating to the subsidiary, Difebal, maturing 2032.

The notional amount of fair value hedges at 31 December 2019, amounting to €1,600.0 million, breaks down as follows:
- €850.0 million (fair value gain of €20.3 million) maturing 2027;
- €750.0 million (fair value gain of €24.7 million) maturing 2028.

Sensitivity to interest rate risk

As regards the management of interest rate risk, following the restructuring of its portfolio, Terna has floating-to-fixed interest rate swaps (cash flow hedges) in place to hedge the risk associated with expected future cash flows.

Since the hedging relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge, as verified initially and periodically over its life, is high, the Company has elected to use hedge accounting to ensure a perfect match between the maturities of the hedge and the hedged item. The aim of hedge accounting is to recognise the effects of the hedges and the hedged items in profit or loss at the same time. Accordingly, in the case of cash flow hedges, changes in the fair value of the derivative must be recognised in "Other comprehensive income" (recognising any ineffective portion immediately through profit or loss) and then recycled through profit or loss in the same period in which the cash flows of the hedged instrument materialise. The characteristics of cash flow hedges mirror those of the underlyings, with the timing of the related cash flows matching the timing of interest payments on the debt, without changes in fair value having any impact on profit or loss.

The following table reports the amounts recognised through profit or loss and in "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 the reporting date was assumed:

(€m)

	PROFIT OR LOSS			OTHER COMPREHENSIVE INCOME		
	CURRENT RATES +10%	CURRENT AMOUNTS	CURRENT RATES -10%	CURRENT RATES +10%	CURRENT AMOUNTS	CURRENT RATES -10%
31 December 2019						
Positions sensitive to interest rate variations (FVHs, bond issues, CFHs)	2.4	**5.4**	8.4	(98.8)	**(101.2)**	(103.7)
Hypothetical change	*(3.0)*	-	*3.0*	*2.4*	-	*(2.4)*
31 December 2018						
Positions sensitive to interest rate variations (FVHs, bond issues, CFHs)	-	-	-	(48.5)	**(59.2)**	(69.9)
Hypothetical change	-	-	-	*10.7*	-	*(10.7)*

Inflation risk

As regards inflation risk, the rates established by the regulator to provide a return on Terna S.p.A.'s activities are determined so as to cover the allowed costs. Such cost components are updated on an annual basis to take into account the impact of inflation. Having used an inflation-linked bond issue in 2007, the Company has put in place an effective hedge of net income; in fact, any decrease in expected revenue due to a decrease in the inflation rate would be offset by lower financial expenses.

Exchange rate risk

The management of exchange rate risk must aim to protect a company's earnings from the risk of currency fluctuations by keeping a close eye on market movements and constantly monitoring the existing exposures. In managing this risk, Terna from time to time selects hedging instruments with structures and durations matching the Group's exchange rate exposure. The instruments used by Terna are of limited complexity, highly liquid and easy to price, such as forwards and options. Such contracts have a notional amount and maturity date less than or equal to that of the underlying financial liability, or the expected cash flows, so that any change in the fair value and/or estimated cash flows deriving from a rise or fall in the euro against other currencies is fully offset by a corresponding change in the fair value and/or estimated cash flows of the underlying position.

At 31 December 2019, the Group's exposure to the impact of exchange rate risk on its profit or loss is residual and linked to foreign currency cash flows from the subsidiary, Tamini. At 31 December 2019, this exposure is managed using foreign currency derivatives with a notional value of 10.0 million US dollars and registering fair value gains of €0.1 million.

Liquidity risk

Liquidity risk is the risk that the Terna Group might encounter difficulty in discharging its obligations in respect of its financial liabilities and operating cycle. Liquidity risk management seeks to ensure adequate coverage of borrowing requirements by obtaining adequate credit lines and appropriate management of any surplus liquidity. At 31 December 2019, the Terna Group had available short-term credit lines of approximately €825 million and revolving credit lines of €2,650 million.

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 ARERA.

The following table summarises the exposure to such risk at the reporting date:

(€m)

	31 DECEMBER 2019	31 DECEMBER 2018	CHANGE
Fair value hedges	45.0	-	45.0
Cash and cash equivalents	1,057.4	1,328.9	(271.5)
Trade receivables	1,290.7	1,167.0	123.7
TOTAL	**2,393.1**	**2,495.9**	**(102.8)**

The total value of the exposure to credit rate risk at 31 December 2019 is represented by the carrying amount of trade receivables, cash and cash equivalents and fair value hedges.

The following tables provide qualitative information on trade receivables regarding the geographical distribution and type of customer.

GEOGRAPHICAL DISTRIBUTION

(€m)

	31 DECEMBER 2019	31 DECEMBER 2018
Italy	1,146.7	1,076.0
Euro-area countries	27.6	19.9
Other countries	116.4	71.1
TOTAL	**1,290.7**	**1,167.0**

CUSTOMER TYPE

(€m)

	31 DECEMBER 2019	31 DECEMBER 2018
Distributors	313.5	309.8
CSEA	88.9	114.0
Dispatching customers for injections	169.9	200.8
Dispatching customers for withdrawals (non distributors)	517.8	408.9
Parties which have signed virtual import contracts and virtual import services (interconnectors and shippers)	12.8	13.7
Sundry receivables	187.8	119.8
TOTAL	**1,290.7**	**1,167.0**

The following table breaks down customer receivables by due date, showing any potential impairment.

(€m)

	31 DECEMBER 2019		31 DECEMBER 2018	
	IMPAIRMENT	GROSS	IMPAIRMENT	GROSS
Current	(0.7)	1,149.6	(0.4)	1,009.7
0-30 days past due	-	13.5	(0.1)	8.4
31-120 days past due	(0.1)	9.6	(0.4)	7.7
Over 120 days past due	(42.1)	160.9	(43.0)	185.1
TOTAL	**(42.9)**	**1,333.6**	**(43.9)**	**1,210.9**

Movements in the allowance for doubtful accounts in the course of the year were as follows.

(€m)

	31 DECEMBER 2019	31 DECEMBER 2018
Balance at 1 January	(44.1)	(45.6)
Release of provisions	2.3	2.5
Impairments for the year	(1.1)	(0.8)
BALANCE	**(42.9)**	**(43.9)**

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

(€m)

	31 DECEMBER 2019	31 DECEMBER 2018
Dispatching - injections	236.1	233.7
Dispatching - withdrawals	1,109.4	1,099.6
Transmission charges due from distributors	313.7	305.0
Virtual imports	104.3	84.0
BALANCE	**1,763.5**	**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 special procedures to assess counterparties, measuring operating, financial and reputational aspects of the counterparties in question.

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. More information on the contractual provisions of outstanding borrowings at 31 December 2019 is provided in the section, “Borrowings and financial liabilities” in the notes to the Terna Group’s consolidated financial statements.

Bank guarantees

Banks have issued guarantees to third parties on behalf of Group companies which, at 31 December 2019, amount to €255.5 million. This amount breaks down as follows: €93.5 million on behalf of Terna S.p.A., €43.9 million on behalf of Terna Rete Italia S.p.A., €39.2 million on behalf of Terna Interconnector S.r.l., €42.9 million on behalf of Santa Lucia S.A., €22.6 million on behalf of Santa Maria S.A., €6.2 million on behalf of Difebal S.A., €3.4 million on behalf of Rete S.r.l., €2.7 million on behalf of Terna Perù S.A.C., €0.7 million on behalf of Terna Energy Solutions S.r.l., €0.3 million on behalf of Avvenia The Energy Innovator S.r.l., €0.1 million on behalf of Terna Cile S.p.A. and €65.3 million on behalf of Tamini Trasformatori S.r.l..

Litigation

The main commitments and risks not disclosed in the statement of financial position at and for the year ended 31 December 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.

A legal action is pending with regard to the new 380kV "Udine West - Redipuglia" power line and the related works, which entered service two years ago. If the legal challenges brought by local councils and/or private parties were to be successful, and the related consents cancelled, this could have an impact on operation of the infrastructure.

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 accruals are made to the provisions for risks and charges.

Risk Covid-19

Further details of the impact of the Covid-19 emergency on the Terna Group's activities are provided in the section, "Events after 31 December 2019".

F. Business combinations

There were no business combinations in 2019.

G. 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 year include transactions with the associates (Cesi S.p.A., Coreso S.A. and CGES) 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 2019 broadly regard the provision of services in the course of ordinary activities and conducted on an arm's length basis.

The nature of sales to and purchases from related parties by the Terna Group is shown below, followed by details of the revenue and costs resulting from such transactions during the year and the related assets and liabilities outstanding at 31 December 2019.

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.
Open Fiber S.p.A.	IRU agreements for fibre.	Provision of services for the rental of fibre.
Fondenel and Fopen		Pension contributions payable by the Terna Group.
Other related parties of the MEF	Sundry service.	
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.	-	-	-	0.4
Total de facto parent	**-**	**-**	**-**	**0.4**
Associates:				
Cesi S.p.A.	-	0.2	-	2.1
CORESO S.A.	-	-	-	2.4
Total associates	**-**	**0.2**	**-**	**4.5**
Other related parties:				
GSE Group	16.7	0.1	-	0.1
Enel Group	1,588.5	7.7	-	0.3
ENI Group	6.1	2.4	-	0.5
Ferrovie Group	2.2	2.3	-	11.7
Anas S.p.A.	-	-	-	0.2
Fintecna	-	0.1	-	-
Ansaldo Energia S.p.A.	-	1.4	-	-
Poste Italiane Group	-	-	-	0.1
Snam Rete Gas S.p.A.	-	0.1	-	-
Open Fiber S.p.A.	-	9.6	-	-
Other related parties of MEF	-	0.3	-	0.1
Total other related parties	**1,613.5**	**24.0**	**-**	**13.0**
Pension funds:				
Fondenel	-	-	-	0.5
Fopen	-	-	-	2.3
Total pension funds	**-**	**-**	**-**	**2.8**
TOTALE	**1,613.5**	**24.2**	**-**	**20.7**

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.	-	-	0.1	-	-
Total de facto parent	**-**	**-**	**0.1**	**-**	**-**
Associates:					
Cesi S.p.A.	12.8	0.1	8.4	-	-
CORESO S.A.	-	-	0.2	-	-
Total associates	**12.8**	**0.1**	**8.6**	**-**	
Other related parties:					
GSE Group	0.3	2.8	-	-	-
Enel Group	8.5	404.4	32.0	-	595.5
ENI Group	-	2.9	2.8	-	42.1
Ferrovie Group	3.3	3.7	30.9	-	24.5
ANAS S.p.A.	0.2	0.2	0,2	-	-
Fintecna S.p.A.	-	0.1	-	-	-
Ansaldo Energia S.p.A.	20.0	1.7	27.4	-	0.7
Open Fiber S.p.A.	-	7.3	2.2	-	-
Poste Italiane Group	-	-	0.1	-	-
Other related parties of MEF	0.2	-	0.1	0.1	-
Total other related parties	**32.5**	**423.1**	**95.7**	**0.1**	**662.8**
Pension funds:					
Fopen	-	-	2.0	-	-
Total pension funds	**-**	**-**	**2.0**		**-**
TOTAL	**45.3**	**423.2**	**106.4**	**0.1**	**662.8**

* *Guarantees regard surety bonds received from contractors.*

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

With the exception of the instances described above, no significant non-recurring, atypical or unusual events or transactions, involving either third or related parties, took place in 2019.

I. Notes to the statement of cash flows

Cash flow from **continuing operations** amounts to €1,295.4, with approximately €1,746 million in operating cash flow and an outflow of approximately €450.6 million generated by changes in net working capital.

The cash outflow for **investing activities** totals €1,295.4 million, and above all regards €1,121 million relating to investment in property, plant and equipment, €81.2 million invested in intangible assets and €12.1 million in capitalised financial expenses.
The net cash outflow for **shareholder transactions** amounts to €475.2 million, due primarily to payment of the final dividend for 2018 (€310.5 million) and the interim dividend for 2019 (€169.2 million).
As a result, net cash used in investing activities and to provide a return on equity during the year amounted to €1,649.4 million, for the most part covered by cash flow from continuing operations of €1,295.4 million. The remainder was funded through the use of cash reserves.
Net debt has risen by €359.2 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	31 DECEMBER 2019
- Long-term borrowings (including current portion)	9,458.2	192.0	(43.0)	9,607.2
- Short-term borrowings	25.0	-	-	25.0
- Current financial assets - Government securities	(402.6)	(109.5)	(1.2)	(513.3)
NET CHANGE DERIVING FROM FINANCING ACTIVITIES	**9,080.6**	**82.5**	**(44.2)**	**9,118.9**

L. Government grants

Article 1, paragraphs 125 to 129, of Law 124 of 4 August 2017 (the annual markets and competition law) has introduced a number of measures designed to ensure the transparency of the government grants system. These measures, later amended by Law Decree 34 of 30 April 2019, include an obligation for companies to disclose amounts and information regarding assistance, subsidies, benefits, grants or aid, whether in cash or in kind, in the notes to the annual financial statements and, where applicable, in consolidated financial statements, where such amounts are not of a general nature and do not have the form of a fee, remuneration or compensation and have been received from a public body (paragraph 125-bis). The legislation also requires the disclosure of any grants disbursed (paragraph 126).

In accordance with Circular 5 of 22 February 2019 “Transparency in the government grants system: an assessment of the regulations and interpretation guidance” and Circular 32 of 23 December 2019 “Enterprise and competition”, published by Assonime, the Terna Group has adopted the following basis of reporting for government grants:

- the regulations only apply to entities resident in Italy;
- grants have the nature of grants or donations, and represent incentives or subsidies designed to give beneficiaries a recognised economic advantage; the grants therefore take the form of donations or giving and public aid for specific purposes, and are not awarded under a general aid regime;
- the public resources used are exclusively “national”;
- grants are reported on a cash basis and if the amount is not less than €10,000 (with reference to each individual beneficiary) in the reporting period.

In line with the above, the following table shows government grants collected/disbursed by the Group in 2019:

GRANTS RECEIVED (PARAGRAPH 125-BIS)

	GRANTOR					
BENEFICIARY ENTITY	NAME	TAX CODE	VAT NUMBER	TYPE OF TRANSACTION	AMOUNT (€)	NOTE
TERNA S.p.A.	Ministry for Economic Development	80230390587	80230390587	State aid*	7,342,517.68	Grants collected on the basis of an initial report on the state of work in progress Advance on grants awarded for Terna S.p.A. projects financed by government grants, with funding provided under the National Operational Programme (NOP) for Enterprises and Competitiveness 2014 - 2020 ERDF - AXIS IV - investment priority 4d - Action 4.3.1

** This transaction is covered by the obligation to publish in the National State Aid Register.*

GRANTS DISBURSED (PARAGRAPH 126)

	BENEFICIARY					
GRANTOR	NAME	TAX CODE	VAT NUMBER	TYPE OF TRANSACTION	AMOUNT (€)	NOTE
TERNA S.p.A.	Fondazione Costruiamo il Futuro		03194700138	Giving	20,000	Funding for the "Costruiamo il Futuro" Award
TERNA S.p.A.	IRCCS - Istituto Giannina Gaslini		00577500101	Giving	20,000	Funding for renovation of the Laboratory for processing and freezing hematopoietic stem cells in liquid nitrogen
TERNA S.p.A.	Consorzio Irriguo di Chiomonte	96028800017		Giving	20,000	Funding for work on the irrigation system in the town of Chiomonte
TERNA S.p.A.	Fondazione Palazzo Strozzi		04963330487	Giving	30,000	Gift to become a member of the Partners Committee at Palazzo Strozzi
TERNA S.p.A.	Fondazione Cortile dei Gentili		08542180966	Giving	24,200	Funding for the "La Scala. Tra Cielo e Terra" initiative
Terna Rete Italia S.p.A.	VIVERE CON DIGNITA onlus		93195410233	Giving	10,000	Restoration of the ANTICA PIEVE DI SAN SALVAR
TOTAL					**124,200**	

M. Events after 31 December 2019

Terna meetings held in Monterenzio and Calenzano

On **8 and 9 January 2020**, Terna **met the residents of towns in the Province of Bologna in Monterenzio and residents of towns in the Province of Florence in Calenzano** in order to present future projects and inform them of the process involved in installing the new 380kV power line between the existing Colunga and Calenzano substations, and the re-routing of the existing Bargi-Calenzano line.
The project, which will improve the security and efficiency of the local electricity system, consists of the upgrade of an existing line and, for this very reason, local authorities and Terna have chosen to retain as far as possible the current route in order to avoid affecting new areas.

Entry into service of the new Benevento III-Pontelandolfo power line

Following the positive conclusion of energy transmission tests, Terna switched on the **new 150kV Benevento III-Pontelandolfo power line** on **17 January 2020**. The line, which is over 15 km long, connects the new Pontelandolfo electricity substation with the Benevento III electricity substation. The work, which will boost the efficiency and sustainability of the area's electricity grid, is the final phase of work leading to Terna's activation of the new 150kV Castelpagano - Morcone - Pontelandolfo - Benevento III power line and will facilitate the integration of renewable energy produced in the Benevento area in to the grid.
In 2019, the Benevento area also saw Terna complete the final stage of the demolition work involved in construction of the 380kV Benevento II - Foggia power line and the Benevento III electricity substation. This project, in addition to boosting energy transmission capacity in the area, has enabled over 42 km of old lines to be demolished and approximately 10 km to be laid underground.

Bloomberg Gender Equality Index (GEI)

On **21 January 2020**, Terna was confirmed for the second year running in the **Bloomberg Gender Equality Index (GEI)**, an international index that measures companies' performance regarding gender equality issues and the quality and transparency of their public reporting, a decisive factor in the overall assessment. Terna's performance in 2020 was above average both in terms of the companies included in the index and with respect to the companies in the Utilities segment. In addition to its presence in the Bloomberg GEI, Terna is included in the following international sustainability indices: Dow Jones Sustainability (World and Europe), Euronext (World, Europe and Eurozone), FTSE4Good, STOXX® ESG (Global, Environmental, Social and Governance), STOXX® Low Carbon, ECPI, ESI (Ethibel Sustainability Index), MSCI and United Nations Global Compact.

Santerno electricity substation

The **new 150kV Santerno electricity substation**, forming part of the Ravenna Canala - Fusignano power line in the province of Ravenna, entered service on **24 January 2020**, after nine months of work. The substation, built using the latest technology, has boosted the security and efficiency of the local electricity grid and has improved the transport of renewable energy produced in the area. The surface of the substation is approximately 7,600 square metres and the buildings occupy just over 450 square metres.

Fourth edition of Next Energy

The 10 teams of innovators chosen following the Call for Ideas for the **fourth edition of Next Energy** were selected on **29 January 2020** and will take part in an incubation process lasting 3 months. 5 start-ups were also selected following the Call for Growth and will take part in the Engage with Terna programme. The area of interest for both the Calls for the fourth edition of Next Energy was tools designed to enable the energy transition towards a more efficient, secure and sustainable system, including robotics, the internet of things, energy tech, advanced materials, e-mobility, storage, the integration of the environment with infrastructure and digitalisation.
Only one of the 10 teams of innovators will receive a voucher worth €50,000 to be used to purchase services that will help to accelerate the project, whilst the start-ups selected as a result of the Call for Growth will engage in pilot projects to be developed at Terna's Innovation Hubs.

Start-up of work on the new Celano substation

Two months after presenting the design for the **new Celano substation to local citizens**, Terna commenced work on **30 January 2020**. The new 150kV substation and the related connectors (Collarmele - Acea Smist. East/Tagliacozzo, Avezzano substation - Rocca di Cambio/Collarmele substation) will boost the security and efficiency of the local electricity grid, will enable a reorganisation of the area and the secure transport of renewable energy produced in the local area, avoiding grid losses. The new substation is expected to take around 2 years to complete.

Robecosam's Gold Class

After being nominated Industry Leader in the Electric Utilities segment of the Dow Jones Sustainability Index for the second consecutive year, on **30 January 2020**, Terna was again included in **Robecosam's Gold Class**. Terna, which has been included in the Dow Jones for eleven years running, has thus been included in the Gold Class seven times, obtaining a score of 90/100 and ranking number one among Electric Utilities, with the segment scoring an average of 45/100.
RobecoS.A.M's annual rankings are based on strict economic, environmental and social performance criteria and a review of the main disputes. The areas looked at include: risk management, corporate governance, environmental impact, community relations, the management of human resources, stakeholder engagement, respect for human rights and supply chain monitoring.

Memorandum of Understanding with consumer associations

On **31 January 2020**, Terna and 11 consumer associations signed a **Memorandum of Understanding with a view to strengthening cooperation between the parties with regard to Terna's activities as the transmission system operator**, above all in relation to pursuing the goal of a secure, efficient electricity service. Terna and the consumer associations will work together on projects involving the national transmission grid and are committing to cooperating during consultation processes organised in order to identify the best location for new electricity infrastructure. The agreement also centres around information sharing regarding European, national, regional and local legislative initiatives; the promotion of awareness-raising actions regarding energy transmission issues; and the launch of a study of initiatives to decarbonise the electricity and energy systems of Italy's smaller islands. The agreement will also lead to jointly developed training and information campaigns targeted at consumer associations and focusing on issues relating to the electricity industry.

Benevento III electricity substation: Terna begins the planting of over 2,000 trees and shrubs

On **7 February 2020**, Terna began the process of planting greenery around the Benevento III substation in the La Francesca district of Benevento. This green engineering initiative involves the **planting of over 2,000 trees and shrubs** along the substation perimeter, helping the infrastructure to blend in better with its surroundings and bringing benefits for the area's ecology and environment.

Nuraminis substation

The new 150kV Nuraminis substation entered service in Sardinia on **13 February 2020**. The new switching substation, which is on the Nurri-Villasor power line, was connected to the end user, Italcementi's cement works, definitively resolving particular problems with the connection of this major industrial plant, previously connected to the existing line with a hard shunt. The new Nuraminis substation will also guarantee greater efficiency and reliability for entire area of southern Sardinia. The infrastructure was designed and built by the North-western Infrastructure Design and Construction unit, which handed over the substation for operation by the Villasor Infrastructure unit.

Memorandum of Understanding with Veneto Regional Authority

On **18 February 2020**, Terna entered into a **Memorandum of Understanding with Veneto Regional Authority** regarding the start-up of a trial involving use of the regional electricity grid for **environmental**

monitoring of the local area. The Company has, for the first time in Veneto, developed and installed an integrated system for gathering, measuring and real-time processing of data on the performance of our power lines in the region. Thanks to the widespread presence of electricity infrastructure around the region, the use of IoT Boxes will significantly increase our capacity to observe the state of the grid and guarantee efficient management and prompt intervention if needed. We have currently installed approximately 500 devices for monitoring the grid and gathering data on our infrastructure in the region, which is primarily located in the provinces of Belluno, Verona and Vicenza.

Start-up of work on the new Collesalvetti electricity substation

Work began on **construction of the new 132kV "Collesalvetti" switching substation,** located in Guasticce, on **27 February 2020**. The new infrastructure, which will connect with the "Livorno Marzocco-Marginone", "Guasticce-Cascina", "Guasticce-Pisa P.M." and "Guasticce-Acciaiolo Livorno" power lines, will boost the security and efficiency of the local grid, reducing grid losses and the risk of outages. It will also enable the system to meet the increased demand for electricity linked to major residential and industrial development in the area, which is located close to Livorno's "Amerigo Vespucci" freight terminal.
The new substation, built with a 132kV double busbar and overhead insulators, will take approximately 3 and a half years to complete and will cover more than 18,000 square metres. The electricity infrastructure will be located on high ground in order to optimise security in view of the area's hydraulic characteristics.

Acquisition of Brugg Cables completed

On **29 February 2020**, as part of the growth strategy for Non-regulated Activities, Terna, acting through its subsidiary, Terna Energy Solutions S.r.l., **completed the acquisition of a 90% interest in Brugg Kabel AG** (a Brugg group company), one of Europe's leading manufacturers of terrestrial cables. The acquired company designs, develops, produces, installs and maintains electric cables for all voltages and accessories for high-voltage cables. The acquisition follows on from the preliminary agreement signed on 20 December 2019. The acquisition of Brugg Kabel will give the Terna Group access to a centre of excellence for research, development and testing of one of the core technologies for a TSO, namely terrestrial cables.

Covid-19

Early 2020 has been marked by the global health emergency caused by the widespread outbreak of Covid-19. This has had a major impact on markets and on the Italian and global economies. Against a continually changing backdrop and with increased uncertainty linked to the potential development of the infection, the outlook for the global economy remains weak.
The economic impact of the Covid-19 emergency on the Terna Group's business is currently being assessed. However, we do not expect to see significant direct effects, given the largely regulated nature of our business, with regulated revenue based on specific resolutions issued by the regulator, ARERA, on the basis of the level of capital expenditure and assets entering service in previous years. In particular, assuming a progressive return to business as usual in Italy from the second quarter of 2020, the Group's results are expected to be in line with previously announced financial guidance. In terms of our Non-regulated Activities, we do not expect a significant impact on EBITDA, also bearing in mind that a majority of the relevant contracts are of a recurring nature and their contribution to earnings is not at risk.
With regard items in the financial statements measured at fair value, all borrowings and the related hedges accounted for on a hedge accounting basis do not, by their nature, have a significant impact. This reflects existing hedging relationships and the strength of contract counterparties. In addition, in terms of our credit rating, Terna's strong financial position, combined with the stability of our business, means that the stand-alone rating is not significantly at risk.
Finally, it should be noted that the Terna Group has taken all the necessary steps to contain the infection, in line with the legislation in force with the aim of protecting the health and safety of our workforce and ensuring the security of Italy's electricity system.

Disclosure

pursuant to art. 149-*duodecies* of the CONSOB Regulations for Issuers

The following table, prepared pursuant to art. 149-*duodecies* of the CONSOB Regulations for Issuers, shows the fees paid for audit and other services provided by the Terna Group's independent auditors in 2019.

(€)

	ENTITY PROVIDING SERVICE	FEES DUE FOR THE YEAR[34]
Audit of the accounts and financial statements	PwC	842,539
Attestation and other services	PwC	174,495
Total		**1,017,034**

[34] The fees include the contribution payable to CONSOB.

Attestation

of the consolidated financial statements pursuant -to art. 81-*ter* of CONSOB Regulation 11971 of 14 May 1999, as amended

"Terna Group"

1. The undersigned, Luigi Ferraris, as Chief Executive Officer, and Agostino Scornajenchi, as Manager responsible for Terna S.p.A.'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 consolidated financial statements during the year ended 31 December 2019.

2. The administrative and accounting procedures adopted in preparation of the consolidated financial statements for the year ended 31 December 2019 were drawn up, and their adequacy assessed, on the basis of the regulations and methods adopted by Terna S.p.A. in accordance with the Internal Control-Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission. This Commission has established a body of general principles providing a standard for internal control and risk management systems that is generally accepted at international level.

3. We also attest that:

   3.1 the consolidated financial statements for the year ended 31 December 2019:

   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 and the statutory requirements implementing the provisions of art. 9 of Legislative Decree 38/2005;

   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.

   3.2 the Directors' report on operations includes a reliable analysis of the operating and financial performance and situation of the issuer and the companies included in the scope of consolidation, as well as a description of the main risks and uncertainties to which they are exposed.

Rome, 10 March 2020

Chief Executive Officer	Manager responsible for financial reporting
Luigi Ferraris	**Agostino Scornajenchi**
(original signed)	*(original signed)*

Independent auditor's report

pursuant to article 14 and 16 of Legislative Decree 39 of 27 January 2010 and article 10 of the Regulations (EU) no. 537/2014 - Consolidated financial statements for the year ended 31 December 2019

Independent auditor's report

in accordance with article 14 of Legislative Decree 39 of 27 January 2010 and article 10 of Regulation (EU) 537/2014

To the shareholders of Terna SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Terna SpA and its subsidiaries (Terna group), which comprise the statement of financial position as of 31 December 2019, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Terna group as of 31 December 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in section Auditor's Responsibilities for the Audit of the Consolidated Financial Statements of this report. We are independent of Terna SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C .F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Capital expenditure for the development and operation of the transmission grid *Section D – Notes to the consolidated statement of financial position – Note 12 Property, plant and equipment and Note 14 Intangible assets* Costs capitalised during the year as property, plant and equipment and intangible assets amount to Euro 1,264 million and mainly relate to capital expenditure for the development and operation of the transmission grid. Revenue from transmission and dispatching activities (regulated activities) is determined each year in accordance with the approved regulatory tariffs which are based on a pre-established return on capital invested, plus amortisation and depreciation and operating costs recognised. The capitalisation of costs for the operation and development of the transmission grid therefore represented a key matter in the audit of the consolidated financial statements, also considering the magnitude and the high number of transactions.	We performed an understanding and evaluation of the system of internal control over the capital expenditure cycle, with particular reference to identification of the key controls and the verification of their effectiveness. We assessed that the capitalisation of costs complied with the international accounting standards. We also performed substantive procedures analysing, on a sample basis, the supporting documentation of capitalised costs in order to verify that these costs were accurate, complete and pertaining to the reporting period. Our tests also included the analysis of the notes to the consolidated financial statements to verify the adequacy and completeness of the disclosures therein.
Revenue from non-regulated activities *Section B – Notes to the consolidated income statement - Note 1 Revenue from sales and services and Note 2 Other revenue and income and Section C – Operating segments* Total revenue, amounting to Euro 2,345 million, includes revenue from non-regulated activities of Euro 212 million equal to about 9% of total revenue of the group. Non-regulated activities mainly consist of the development, production and sale of power transformers, miscellaneous services in favour of third parties and the construction of a part of international interconnectors, providing for a variety of cases and different degree of complexity of the underlying transactions.	With respect to the main revenue streams from non-regulated activities, we performed an understanding and evaluation of key controls implemented by the group. We verified the recognition of revenue from non-regulated activities through substantive procedures including analyses, on a sample basis, of the supporting documentation, focusing on the contractual clauses underlying the recognition of revenue within the correct reporting period also in consideration of the requirements envisaged by IFRS 15 “Revenue from Contracts with Customers”.

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Therefore, the recognition of revenue from non-regulated activities was a key matter in the audit of the consolidated financial statements.	Our tests also included the analysis of the notes to the consolidated financial statements to verify the adequacy and completeness of the disclosures therein.
Derivative financial instruments *Section D – Notes to the consolidated statement of financial position – Note 24 Borrowings and financial liabilities and Section E – Commitments and risks* The amount of borrowings in the consolidated financial statements at 31 December 2019 is Euro 9,632 million. In accordance with the risk management policies, the group mitigates its exposure to the change in interest rates by entering into derivative financial instruments for hedging purposes. The notional amount of derivatives at 31 December 2019 is Euro 5,394 million. Considering the magnitude of values, the degree of complexity of both the fair value measurement process and the recognition rules provided for by IFRS 9 “Financial Instruments”, the verification of derivative financial instruments was considered as a key matter in the audit of the consolidated financial statements.	We performed an understanding and evaluation of the system of internal control over the measurement process of the derivative financial instruments and related accounting treatment. We recalculated, on a sample basis and involving the experts of the PwC network, the fair value of derivatives and we verified the hedge effectiveness in accordance with the provisions of IFRS 9 and with the corporate procedures. Our tests also included the analysis of the notes to the consolidated financial statements to verify the adequacy and completeness of the disclosures therein.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the group’s ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate Terna SpA or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgment and maintained professional scepticism throughout the audit. Furthermore:

- we identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;
- we evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- we concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern;
- we evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- we obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that are of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report.

Additional Disclosures required by article 10 of Regulation (EU) 537/2014

We were appointed by the shareholders of Terna SpA at the general meeting held on 13 May 2011 to perform the audit of the Company separate and consolidated financial statements for the years ending 31 December 2011 through 31 December 2019.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) 537/2014 and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with article 14, paragraph 2, letter e), of Legislative Decree 39/2010 and article 123-bis, paragraph 4, of Legislative Decree 58/1998

The directors of Terna SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Terna group as of 31 December 2019, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree 58/1998, with the consolidated financial statements of the Terna group as of 31 December 2019 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the Terna group as of 31 December 2019 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree 39/2010, issued on the basis of our knowledge and understanding of the group obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob Regulation implementing Legislative Decree 254 of 30 December 2016

The directors of Terna SpA are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 254 of 30 December 2016.
We have verified that the directors approved the non-financial statements.

Pursuant to article 3, paragraph 10, of Legislative Decree 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Rome, 16 April 2020

PricewaterhouseCoopers SpA

Signed by

Luca Bonvino
(Partner)

This report has been translated from the original version which was issued in Italian language, solely for the convenience of international readers.


Terna Rete Italia
TERNA GROUP

SEPARATE FINANCIAL STATEMENTS

Contents

Separate financial statements

Income statement of Terna S.p.A.

(€)

	NOTE	2019	2018
A - REVENUE			
1. Revenue from sales and services	1	1,973,340,968	1,892,840,140
of which related parties		*1,668,632,968*	*1,616,989,988*
2. Other revenue and income	2	81,191,540	74,707,510
of which related parties		*45,257,533*	*54,332,356*
Total revenue		**2,054,532,508**	**1,967,547,650**
B - OPERATING COSTS			
1. Raw and consumable materials used	3	4,700,629	5,290,261
of which related parties		*350,779*	*244,934*
2. Services	4	378,293,290	364,580,334
of which related parties		*329,488,649*	*309,122,126*
3. Personnel expenses	5	60,317,427	63,929,242
- gross personnel expenses		*64,357,879*	*67,117,442*
- capitalised personnel expenses		*(4.040.452)*	*(3.188.200)*
of which related parties		*722,902*	*738,069*
4. Amortisation, depreciation and impairment losses	6	540,735,053	517,865,399
5. Other operating costs	7	7,652,919	18,172,002
of which related parties		*75,845*	*26,033*
Total costs		**991,699,318**	**969,837,238**
A-B OPERATING PROFIT/(LOSS)		**1,062,833,190**	**997,710,412**
C - FINANCIAL INCOME/(EXPENSES)			
1. Financial income	8	19,214,181	13,020,750
of which related parties		*8,973,188*	*8,096,591*
2. Financial expenses	8	(82,812,923)	(91,582,167)
of which related parties		*(314,851)*	*(3,076,200)*
D - PROFIT/(LOSS) BEFORE TAX		**999,234,448**	**919,148,995**
E - INCOME TAX EXPENSE	9	**285,720,901**	**257,857,793**
F - PROFIT FOR THE YEAR		**713,513,547**	**661,291,202**

Statement of comprehensive income of Terna S.p.A.

(€)

	NOTE	2019	2018
PROFIT FOR THE YEAR		**713,513,547**	**661,291,202**
Other comprehensive income for the year reclassifiable to profit or loss			
- Cash flow hedge	19	(92,777,473)	(32,502,930)
- Financial assets at fair value through other comprehensive income	19	623,683	1,168,219
- Cost of hedges	19	(11,640,758)	(1,789,675)
Other comprehensive income for the year not reclassifiable to profit or loss			
- Actuarial gains/(losses) on provisions for employee benefits	19	(649,112)	16,440
COMPREHENSIVE INCOME FOR THE YEAR		**609,069,887**	**628,183,256**

Statement of financial position of Terna S.p.A.

(€)

	NOTE	31 DECEMBER 2019	31 DECEMBER 2018
A - NON-CURRENT ASSETS			
1. Property, plant and equipment	10	12,258,315,189	12,034,962,379
of which related parties		*95,914,264*	*73,329,994*
2. Goodwill	11	190,228,231	190,228,231
3. Intangible assets	12	253,508,637	237,451,427
4. Deferred tax assets	13	69,630,282	18,248,879
5. Non-current financial assets	14	1,344,149,926	1,091,128,621
of which related parties		*24,025,199*	*9,956,332*
6. Other non-current assets	15	4,096,261	4,257,446
Total non-current assets		**14,119,928,526**	**13,576,276,983**
B - CURRENTS ASSETS			
1. Trade receivables	16	1,160,279,675	1,090,063,061
of which related parties		*434,004,989*	*422,445,664*
2. Current financial assets	14	519,195,615	494,024,680
of which related parties		-	*89,484,556*
3. Cash and cash equivalents	17	719,227,717	945,044,880
of which related parties		*(174,012,553)*	*(204,749,945)*
4. Income tax assets	18	3,494,278	16,016,310
5. Other current assets	15	26,226,584	20,446,631
of which related parties		-	*3,266,360*
Total current assets		**2,428,423,869**	**2,565,595,562**
TOTAL ASSETS		**16,548,352,395**	**16,141,872,545**

(continues)

(continues)

(€)

	NOTE	31 DECEMBER 2019	31 DECEMBER 2018
C - EQUITY			
1. Share capital		442,198,240	442,198,240
2. Other reserves		688,088,173	792,531,833
3. Retained earnings/(accumulated losses)		2,306,586,049	2,113,051,689
4. Interim dividend		(169,241,326)	(158,186,370)
5. Profit for the year		713,513,547	661,291,202
Total equity	**19**	**3,981,144,683**	**3,850,886,594**
D - NON-CURRENT LIABILITIES			
1. Long-term borrowings	20	9,305,362,828	8,171,886,525
2. Employee benefits	21	11,678,307	11,768,108
3. Provisions for risks and charges	22	179,020,206	213,829,474
4. Non-current financial liabilities	20	159,017,636	59,089,581
5. Other non-current liabilities	23	347,454,770	196,119,231
of which related parties		*32,941,295*	*39,929,872*
Total non-current liabilities		**10,002,533,747**	**8,652,692,919**
E - CURRENT LIABILITIES			
1. Current portion of long-term borrowings	20	117,360,983	1,229,798,720
of which related parties		-	*500.000.000*
2. Trade payables	24	2,030,988,890	2,113,384,836
of which related parties		*576.326.166*	*472.324.200*
3. Tax expense	24	17,391,300	8,072,200
of which related parties		*(21,022,843)*	*(18,871,910)*
4. Current financial liabilities	21	87,312,392	90,092,567
of which related parties		-	*497,000*
5. Other current liabilities	24	311,620,400	196,944,709
of which related parties		*22,865,152*	*15,724,498*
Total current liabilities		**2,564,673,965**	**3,638,293,032**
TOTAL LIABILITIES AND EQUITY		**16,548,352,395**	**16,141,872,545**

Statement of changes in equity

31 DECEMBER 2018 - 31 DECEMBER 2019
SHARE CAPITAL AND RESERVES OF TERNA S.P.A.

(€m)

	SHARE CAPITAL	LEGAL RESERVE	SHARE PREMIUM RESERVE	CASH FLOW HEDGE RESERVE	OTHER RESERVES	RETAINED EARNINGS/ (ACCUMULATED LOSSES)	INTERIM DIVIDEND	PROFIT FOR THE YEAR	EQUITY
EQUITY AT 31 DECEMBER 2018	**442.2**	**88.4**	**20.0**	**(46.5)**	**730.6**	**2,113.1**	**(158.2)**	**661.3**	**3,850.9**
PROFIT FOR THE YEAR								**713.5**	**713.5**
OTHER COMPREHENSIVE INCOME:									
- Change in fair value of cash flow hedges	-	-	-	(92.8)	-	-	-	-	(92.8)
- Financial assets at fair value through other comprehensive income	-	-	-	-	0.6	-	-	-	0.6
- Cost of hedges	-	-	-	(11.6)	-	-	-	-	(11.6)
- Actuarial gains/(losses) on employee benefits	-	-	-	-	(0.7)	-	-	-	(0.7)
Total other comprehensive income	**-**	**-**	**-**	**(104.4)**	**(0.1)**	**-**	**-**	**-**	**(104.5)**
COMPREHENSIVE INCOME	**-**	**-**	**-**	**(104.4)**	**(0.1)**	**-**	**-**	**713.5**	**609.0**
TRANSACTIONS WITH SHAREHOLDERS:									
Appropriation of profit for 2018:									
- Retained earnings	-	-	-	-	-	192.6	-	(192.6)	-
- Dividends	-	-	-	-	-	-	158.2	(468.7)	(310.5)
Interim dividend 2019	-	-	-	-	-	-	(169.2)	-	(169.2)
Total transactions with shareholders	**-**	**-**	**-**	**-**	**-**	**192.6**	**(11.0)**	**(661.3)**	**(479.7)**
Other changes	-	-	-	-	-	0.9	-	-	0.9
EQUITY AT 31 DECEMBER 2019	**442.2**	**88.4**	**20.0**	**(150.9)**	**730.5**	**2,306.6**	**(169.2)**	**713.5**	**3,981.1**

31 DECEMBER 2017 - 31 DECEMBER 2018
SHARE CAPITAL AND RESERVES OF TERNA S.P.A.

(€m)

	SHARE CAPITAL	LEGAL RESERVE	SHARE PREMIUM RESERVE	CASH FLOW HEDGE RESERVE	OTHER RESERVES	RETAINED EARNINGS/ (ACCUMULATED LOSSES)	INTERIM DIVIDEND	PROFIT FOR THE YEAR	EQUITY
EQUITY AT 31 DECEMBER 2017	**442.2**	**88.4**	**20.0**	**(12.2)**	**729.5**	**1,916.7**	**(149.3)**	**640.0**	**3,675.3**
Change in accounting standards						(1.3)			(1.3)
RESTATED EQUITY AT 1 JANUARY 2018	**442.2**	**88.4**	**20.0**	**(12.2)**	**729.5**	**1,915.4**	**(149.3)**	**640.0**	**3,674.0**
PROFIT FOR THE YEAR								**661.3**	**661.3**
OTHER COMPREHENSIVE INCOME:									
- Change in fair value of cash flow hedges	-	-	-	(32.5)	-	-	-	-	(32.5)
- Financial assets at fair value through other comprehensive income	-	-	-	-	1.1	-	-	-	1.1
- Cost of hedges	-	-	-	(1.8)	-	-	-	-	(1.8)
Total other comprehensive income	**-**	**-**	**-**	**(34.3)**	**1.1**	**-**	**-**	**-**	**(33.2)**
COMPREHENSIVE INCOME	**-**	**-**	**-**	**(34.3)**	**1.1**	**-**	**-**	**661.3**	**628.1**
TRANSACTIONS WITH SHAREHOLDERS:									
Appropriation of profit for 2017:									
- Retained earnings	-	-	-	-	-	197.8	-	(197.8)	-
- Dividends	-	-	-	-	-	-	149.3	(442.2)	(292.9)
Interim dividend 2018	-	-	-	-	-	-	(158.2)	-	(158.2)
Total transactions with shareholders	**-**	**-**	**-**	**-**	**-**	**197.8**	**(8.9)**	**(640.0)**	**(451.1)**
Other changes	-	-	-	-	-	(0.1)	-	-	(0.1)
EQUITY AT 31 DECEMBER 2018	**442.2**	**88.4**	**20.0**	**(46.5)**	**730.6**	**2,113.1**	**(158.2)**	**661.3**	**3,850.9**

Statement of cash flows

(€m)

	2019	2018
PROFIT FOR THE YEAR	**713.5**	**661.3**
ADJUSTED BY:		
Amortisation, depreciation and impairment losses /(reversals of impairment losses) on non-current property, plant and equipment and intangible assets*	532.5	508.9
Accruals to provisions (including provisions for employee benefits) and impairment losses	17.1	33.9
(Gains)/Losses on sale of property, plant and equipment	(11.2)	(3.0)
Financial (income)/expense	60.4	78.7
Income tax expense	285.7	257.9
CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN NET WORKING CAPITAL	**1,598.0**	**1,537.7**
Increase/(decrease) in provisions (including provisions for employee benefits and taxation)	(54.5)	(39.0)
(Increase)/decrease in inventories	-	5.3
(Increase)/decrease in trade receivables and other current assets	(78.4)	121.8
Increase/(decrease) in trade payables and other current liabilities	31.0	81.4
Increase/(decrease) in other non-current assets	(164.7)	(21.1)
Increase/(decrease) in other non-current liabilities	117.7	19.9
Interest income and other financial income received	31.3	3.0
Interest expense and other financial expenses paid	(216.0)	(228.3)
Income tax paid	(280.4)	(272.6)
CASH FLOW FROM OPERATING ACTIVITIES [A]	**984.0**	**1,208.1**
- of which related parties	*62.5*	*55.5*
Purchase of non-current property, plant and equipment after grants collected	(937.3)	(793.8)
Proceeds from the sale of non-current property, plant and equipment and other movements	17.1	4.8
Change in non-current intangible assets	(68.7)	(58.4)
of which purchases of non-current intangible assets	*(68.7)*	*(51.8)*
of which intercompany additions	-	*(6.6)*
Intercompany (additions)/sales	231.3	-
Capitalised financial expenses	12.1	15.1
(Increase)/decrease in investments	(29.2)	(55.7)
CASH FLOW FOR INVESTING ACTIVITIES [B]	**(774.7)**	**(888.0)**
- of which related parties	*(22.6)*	*(6.4)*
Increase/(decrease) in retained earnings and accumulated losses	-	(1.4)
Dividends paid	(475.2)	(451.1)
Movements in short- and medium/long-term financial liabilities (including short-term portion)**	81.3	(19.7)
Movement in short-, medium- and long-term loans	68.2	(179.5)
Movements in short-term financial investments	(109.5)	(401.5)
CASH FLOW FROM FINANCING ACTIVITIES [C]	**(435.2)**	**(1,053.2)**
- of which related parties	*(424.6)*	*(99.1)*
INCREASE/(DECREASE) IN CASH AND EQUIVALENTS [A+B+C]	**(225.9)**	**(733.1)**
Cash and cash equivalents at beginning of year	945.1	1,678.2
Cash and cash equivalents at end of year	719.2	945.1

* *After grants related to assets recognised in the income statement for the year*
** *After derivatives and impact of fair value adjustments, including cash movements in right-of-use assets.*

Notes

A. Accounting policies and measurement criteria

Introduction

Terna S.p.A., which provides electricity transmission and dispatching services, is a joint-stock company and its registered office is at Viale Egidio Galbani 70, Rome, Italy.
These financial statements were authorised for publication by the Board of Directors on 10 March 2020.
The financial statements at and for the year ended 31 December 2019 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.
The Board of Directors has authorised the Chairwoman and the Chief Executive Officer to make any alterations to the form of the financial statements and any additions and adjustments to the sections concerning significant subsequent events.

Compliance with IAS/IFRS

The separate financial statements at and for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) 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").

This document has also been prepared taking into account the provisions of Legislative Decree 38 of 28 February 2005 of the Italian Civil Code and CONSOB Resolutions 15519 ("*Provisions governing financial statements in implementation of art. 9, paragraph 3 of Legislative Decree 38/2005*") and 15520 ("*Amendments to the implementing rules for Legislative Decree 58/1998*"), as well as CONSOB Communication DEM/6064293 ("*Disclosure requirements for listed issuers and issuers of financial instruments that are widely held among the public pursuant to art. 116 of the Consolidated Law on Finance*").

The separate financial statements have been prepared on a historical cost basis, with the exception of certain financial instruments, and on a going concern basis.

Basis of presentation

The separate financial statements consist of the statement of financial position, the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity and the notes thereto.

In the statement of financial position, assets and liabilities are classified on a "current/non-current" basis, with separate reporting of assets and liabilities held for sale. Current assets, which include cash and cash equivalents, are those held for realisation, sale or consumption in the Company's normal operating cycle; current liabilities are those expected to be settled in the Company's normal operating cycle or within one year of the end of the financial year.
The income statement is classified on the basis of the nature of costs. The income statement is presented as two statements, the first of which (the income statement) presents revenue and expense items for the year; the second (the statement of comprehensive income) starts with the result for the year and then presents

the revenue and expense items (including reclassification adjustments) that are recognised in equity rather than profit or loss for the year.
The statement of cash flows has been prepared using the indirect method.

The separate financial statements are accompanied by the Integrated Report for Terna S.p.A. and the Group, which as from financial year 2008 have been prepared as a single document, exercising the option granted by Legislative Decree 32 of 2 February 2007, which amended art. 40 (Integrated Report) of Legislative Decree 127 of 9 April 1991.
The separate financial statements are presented in euros, whilst amounts in the notes are presented in millions of euros to the first decimal place, unless otherwise stated.
The separate financial statements have been prepared on a historical cost basis, with the exception of certain items that, in accordance with EU-IFRS, are recognised at fair value, as indicated in the measurement criteria for individual items.

It should be noted that, for the purposes of comparison, certain amounts in the financial statements for the year ended 31 December 2018 have been restated, without, however, altering amounts in equity at 31 December 2018 or those in the income statement and the statement of comprehensive income for 2018.

Use of estimates

In application of EU-IFRS, preparation of the statement of financial position and the income statement requires the Company 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. The estimates and underlying assumptions are reviewed periodically and the effects of any changes are recognised in the income statement for the year, if they relate solely to that period. In the case that the revision affects both current and future years, the change is recorded in the year in which the estimate is reviewed as well as in the relevant future years.
The assets and liabilities subject to key estimates and assumptions used by the Company in applying the IFRS endorsed by the European Commission, and that could have a significant impact on the separate financial statements, or that could give rise to risks that would entail significant adjustments to the carrying amounts of assets and liabilities in subsequent years, are summarised below.

Impairment losses

Property, plant and equipment and intangible assets with finite useful lives are tested at least once a year to check for evidence of impairment. If there is evidence that an asset may be impaired, its recoverable amount is estimated.
The recoverable amount of goodwill and intangible assets with indefinite useful lives, where present, as well as intangible assets not yet available for use, is estimated at least annually. The recoverable amount is equal to the greater of the fair value less costs to sell and value in use. Value in use is measured by discounting estimated future cash flows considering information available at the time of estimate and on the basis of estimates of the performance of future variables, such as prices, costs, demand growth rates, production

profiles, and discounted at a pre-tax rate that reflects current market assessments of the time value of money for the investment period and risks specific to the asset. If the intangible asset does not generate cash inflows that are largely independent, the asset's recoverable amount is calculated as part of the Cash Generating Unit ("CGU") to which it belongs.
An impairment loss is recognised in the income statement when the asset's carrying amount, or the net invested capital of the CGU to which it belongs, is greater than its recoverable amount.
Impairment losses on CGUs are first taken as a reduction in the carrying amount of any allocated goodwill and then as a reduction in other assets allocated to the CGU on a pro rata basis. Except for goodwill, impairment losses may be reversed up to the recoverable amount or the original cost of the asset if there is an indication that the impairment loss no longer exists or when there is a change in the methods used to measure the recoverable amount.

Allowance for doubtful accounts

Trade receivables are initially recognised at fair value net of any losses relating to sums considered non-recoverable, for which specific provisions have been made in the allowance for doubtful accounts.
Credit losses are determined in application of IFRS 9 (a model based on expected credit losses). This requires the Company to assess expected credit losses, and the related changes, at each reporting date. Specifically, the Company has applied the simplified approach permitted by IFRS 9 to trade receivables, finance lease receivables and assets deriving from contracts with customers, in order to measure the allowance for doubtful accounts based on expected losses over the life of the receivable. The Company has thus determined the amount of expected credit losses using a provisioning matrix, based on information regarding historical credit losses for similar past due exposures, adjusted to take into account current conditions and forward-looking elements.

Provisions for risks and charges

Provisions for risks and charges are allocated when a disbursement of cash, for an amount which can be reliably estimated, will be necessary to fulfil a legal or constructive obligation arising as a result of a past event. Liabilities that can be associated with legal and tax disputes and liabilities associated with urban and environmental restoration projects are estimated by the Company. The measurement of provisions for legal disputes is based on the probability of incurring an expense, including through the use of external legal advisors supporting the Company; the estimate of provisions to be set aside for urban and environmental restoration projects, the "offsets" aimed at compensating for the environmental impact of the construction of new plant, is based on an analysis of the agreements entered into with the local authorities concerned and the progress of work on construction of the new plant. Where the time value of money is significant, provisions are discounted, using a rate that the Company believes to be appropriate (a rate is used gross of taxes, which reflects current market conditions and the specific risks connected with the liability). After initial recognition, the value of the provisions for risks and charges is updated to reflect the passage of time and any changes in the estimate following alterations to the amounts forecast, the timing and the discount rates used. Any increase in provisions associated with the passage of time is recognised in the income statement under "Financial expenses".

Employee benefits

The liability for employee benefits paid upon or following termination of employment in relation to defined benefit plans or other long-term benefits is recognised net of any plan assets and is measured on the basis of actuarial assumptions, estimating the amount of future benefits that employees have vested at the reporting date. The actuarial valuations used to quantify employee benefits (of all plans except termination benefits or *TFR*) were based on "vested benefits", applying the projected unit credit method. These valuations are based on economic and demographic assumptions: the discount rate (used to determine the current value of the obligation, determined considering returns on high quality bonds in line with the duration of the group of workers measured), the inflation rate, the rate at which future salary levels are expected to rise, the rate of increase for average health reimbursements, rate of increase for electricity prices and demographic factors, such as mortality and invalidity, retirement, resignation, advances and household composition.

Investments in subsidiaries and associates

Investments in subsidiaries are investments where Terna has the power to directly or indirectly govern the financial and operating policies of the investee so as to obtain benefits from its activities. Associates are investees over which Terna exercises significant influence.
In assessing whether or not Terna has control or significant influence, being the ability to participate in the determination of these companies' financial and operating policies, without having control or joint control, potential voting rights that are exercisable or convertible are also taken into account.
Investments in subsidiaries and associates are recognised at cost, written down in the event of an impairment loss. If the circumstances that gave rise to the impairment cease to exist, the value of the investment is restored to the extent of the impairment loss recognised and the reversal is recognised in the income statement.
In the event that the loss attributable to the Company exceeds the carrying amount of the equity interest, and the Company is required to meet the legal or constructive obligations of the investee or, in any case, to cover its losses, any excess is recognised in a specific provision.

Translation of foreign currency items

Terna's financial statements are prepared in euros, the Company's functional currency. In the financial statements, all transactions in currencies other than the functional currency are recognised at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities in currencies other than the functional currency are subsequently adjusted at the exchange rate prevailing at year end. Any translation differences are taken to the income statement.
Non-monetary assets and liabilities in foreign currency stated at historical cost are converted at the exchange rate prevailing when the transaction was initially recognised. Non-monetary assets and liabilities in foreign currency stated at fair value are converted at the exchange rate prevailing when fair value was measured.

Property, plant and equipment

Property, plant and equipment is recognised at historical cost, including costs directly attributable to preparing the asset for its intended use. In the event of legal or constructive obligations, cost also includes the present value of the estimated cost of dismantling or removing the asset. The corresponding liability is recognised in provisions for risks and charges.
Borrowing costs directly attributable to the purchase, construction or production of an asset that qualify for capitalisation pursuant to IAS 23 are capitalised as part of the cost of the asset. Costs incurred after purchase are recognised as an increase in the carrying amount of the asset to which they relate if it is probable that the future benefits of that cost will flow to the Company, and if the cost can be reliably measured. All other costs are expensed as incurred.
Each element of an item of property, plant and equipment of material value, with respect to the total value of the item to which it belongs, is recognised and depreciated separately.
Property, plant and equipment is shown net of accumulated depreciation and any impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful economic life of the asset, which is reviewed annually, with revisions applied on a prospective basis. Depreciation of an asset begins when the asset becomes available for use.
Liabilities associated with items of property, plant and equipment are taken to a specific provision as a contra account of the related asset. The amount is taken to the income statement through the depreciation of the asset.
Property, plant and equipment is written off either at the time of disposal or when no future economic benefit is expected from their use or disposal. Any profit or loss, recognised in the income statement, is determined as the difference between the net proceeds deriving from disposal and the net carrying amount of the assets eliminated.
This item also includes right-of-use assets, recognised under IFRS 16, arising from lease arrangements where the Company is lessee and relating to the use of property, plant and equipment. The matching lease liability, equal to the present value of the remaining lease payments, is accounted for in financial liabilities. Right-of-use assets are depreciated from the commencement date to the end of the useful life of the underlying asset or, if earlier, the end of the lease term.
In determining the lease term and the non-cancellable period of the lease, the Group has taken into account the terms of the arrangements and assessed the period of time in which contracts are enforceable.

The main rates of depreciation, calculated on the basis of the useful lives of the relevant assets, are as follows:

RATES OF DEPRECIATION

Civil and industrial buildings	2.50%
Transmission lines	2.22%
Transformer substations:	
- Electrical machinery	2.38%
- Electrical devices and equipment	3.13%
- Automation and control systems	6.70%
Central systems for remote management and control:	
- Devices, electrical equipment and ancillary plant	5.00%
- Computers	10.00%

The estimated useful life of transmission lines has been reviewed to take account of empirical evidence, primarily of physical deterioration and technical obsolescence. This process has resulted in the reasonable conclusion that the expected useful life of transmission lines should be raised to 45 years (from the 40 years previously used). Based on similar considerations, ARERA has conducted its own review of the useful life of the lines for regulatory purposes (see Resolution 654/2015/R/eel).
Land, regardless of whether it is free of constructions or related to civil and industrial buildings, is not depreciated, since it has an indefinite useful life.

Intangible assets

Intangible assets, which all have finite useful lives, are recognised at cost, and shown net of accumulated amortisation and any impairment losses. Amortisation begins when the asset becomes available for use and is calculated on a straight-line basis over the estimated useful life of the related asset, which is reviewed annually. Any revisions to estimated figures are applied on a prospective basis.
Intangible assets essentially consist of the concession to exclusively provide electricity transmission and dispatching services, granted to Terna S.p.A., on 1 November 2005, with the acquisition of the TSO business unit. As established in the Decree issued by the Ministry of Productive Activities on 20 April 2005, this concession has a 25-year term, renewable for another 25 years, from the date of effective transfer of the activities, functions, assets and legal arrangements of the concession from GSE (formerly GRTN) to Terna S.p.A.. This intangible asset was initially recognised at cost, which reflected fair value.
Other intangible assets essentially refer to software developments and upgrades.
Development costs are capitalised by the Company only if they can be reliably estimated and there is the technical possibility and intention to complete the intangible asset so that it will be available for use, and the asset can be used and it is possible to demonstrate that it will generate probable future economic benefits.
Financial expenses directly attributable to the acquisition, construction or production of a non-current asset which justifies capitalisation pursuant to IAS 23 are capitalised to the asset as part of its cost.
All other development costs and research expenses are recognised in the income statement when incurred.
These intangible assets are amortised over their estimated residual useful life, which is normally three years, given their rapid obsolescence.

Infrastructure rights

Infrastructure includes the property, plant and equipment and intangible assets employed in dispatching activities in Italy and in the operations in Peru. These activities are carried out under concession arrangements, which fall within the scope of application of IFRIC 12, since the services provided are regulated and control exists over the residual interest. More specifically, infrastructure rights have been recognised as an intangible asset, as valued on the basis of the Intangible Asset model, given the return generated by dispatching activities thanks to the charges paid by users.
The revenue and costs relating to investment in dispatching activities are recognised with reference to the contracts concerned on a stage-of-completion basis; revenue recognised during the construction phase is limited to the amount of the internal and external construction costs incurred, considering that the fair value

of the construction services is equivalent to the construction cost paid to third-party contractors plus the internal cost of the technical personnel employed on such construction activities. The assets continue to be amortised and depreciated in accordance with the initial schedule.
By contrast, dispatching revenue continues to be recognised in accordance with IFRS 15 and financial expenses continue to be capitalised pursuant to IAS 23.
IFRIC 12, instead, is not applicable to the part of the Parent Company's concession arrangement relating to transmission activities, since neither the concession nor the related legislation envisages that ownership of the NTG is to be restored to the public grantor, even for a consideration.

Goodwill

Goodwill, deriving from the acquisition of subsidiaries, is allocated to each of the identified cash generating units (CGU) or groups of CGUs, coinciding with Group companies that own electricity transmission grids. Goodwill is not amortised after initial recognition but is adjusted to reflect impairment losses, measured as described above. Goodwill relating to investments in associates and joint ventures is included in the carrying amount of those companies. Where negative goodwill arises, it is recognised in the income statement at the time of acquisition.

Financial instruments

Financial assets

The standard IFRS 9 - Financial Instruments, effective from 1 January 2018, is divided into the following phases: classification and measurement, derecognition, impairment and hedge accounting.
In order to classify and measure financial instruments, the Company recognises financial assets at fair value inclusive of transaction costs.
Financial assets represented by debt instruments, and falling within the scope of application of the standard, may be measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss, depending on the business model adopted to manage the financial assets and the characteristics of the contractual cash flows.

In accordance with the provisions of IFRS 9, the Company correctly classifies these assets based on the results of co-called SSPI ("solely payments of principal and interest") tests. Under this test, assets may be recognised at amortised cost or fair value through other comprehensive income if they generate cash flows that are solely payments of principal and interest on the principal amount outstanding. This measurement is applied at the level of each individual instrument.

Specifically, the Company measures financial assets:
- at amortised cost, if the financial asset is held with the aim of collecting the contractual cash flows that meet the SPPI test, as the cash flows represent solely payments of principal and interest;
- at fair value through other comprehensive income ("FVOCI"), if the financial asset is held within a business model whose objective is achieved by collecting the contractual cash flows and by selling the financial asset, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Changes in fair value after initial recognition are recognised in other comprehensive income and recycled through profit or loss on derecognition. The government securities held by the Parent Company are included in this category;
- at fair value through profit or loss ("FVTPL"), of the asset is not held in one of the above business models. This category primarily includes derivative financial instruments held for trading and debt instruments with contractual cash flows that are not solely payments of capital and interest.

Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method. Receivables with due dates that reflect normal commercial terms are not discounted.
In accordance with the provisions of IFRS 9, the Company's trade receivables fall within the hold to collect business model, as these assets are held with the objective of collecting the cash flows primarily by collecting the contractual cash flows, the receivables primarily fall due within 12 months and do not include a significant financial component, and the Company does not intent to sell such receivables.
Trade receivables are recognised net of any losses recognised in a specific allowance for doubtful accounts (identified on the basis described in the paragraph, "Allowance for doubtful accounts"). IFRS 9 has introduced application of a model based on expected credit losses. This requires the Company to assess expected credit losses, and the related changes, at each reporting date. Specifically, the Company has applied the simplified approach permitted by IFRS 9 to trade receivables, finance lease receivables and assets deriving from contracts with customers, in order to measure the allowance for doubtful accounts based on expected losses over the life of the receivable. The Company has thus determined the amount of expected credit losses using a provisioning matrix, based on information regarding historical credit losses for similar past due exposures, adjusted to take into account current conditions and forward-looking elements.

Cash and cash equivalents

Cash and cash equivalents are recognised at nominal value and include amounts that are available on demand or can be readily converted into a known amount of cash and are subject to an insignificant risk of changes in value.

Trade payables

Trade payables are initially recognised at fair value and subsequently stated at amortised cost. If their due dates reflect normal commercial terms, they are not discounted.

Financial liabilities

Financial liabilities are recognised at the settlement date and measured at fair value, net of directly related transaction costs. Subsequently, financial liabilities are measured at amortised cost, using the original effective interest method. If the liabilities are covered by fair value hedges, they are adjusted to reflect changes in fair value with respect to the hedged risk.
Subsequent measurement of financial liabilities depends on their classification as financial liabilities at amortised cost and at fair value through profit or loss.

Derivative financial instruments

Derivatives are recognised at fair value at the trade date.
The qualifying criteria applied in classifying derivatives as eligible for hedge accounting are as follows:

- the hedging relationship consists only of eligible hedging instruments and eligible hedged items;
- at the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio);
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

An entity shall discontinue hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria. This includes instances when the hedging instrument expires or is sold, terminated or exercised. For this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such a replacement or rollover is part of, and consistent with, the entity's documented risk management objective.

For hedge accounting purposes, there are three types of hedge:
- fair value hedges when the hedge regards the exposure to changes in the fair value of the recognised asset or liability or there is an unrecognised firm commitment;
- cash flow hedges when the hedge regards the exposure to variability in cash flows that is attributable to a particular risk associated with all of the recognised asset or liability or a highly probable forecast transaction or the exchange rate risk on an unrecognised firm commitment;
- the hedge of a net investment in a foreign operation.

When derivatives cover the risk of changes in the cash flows of the hedged instruments (cash flow hedges), the portion of changes in the fair value qualifying as effective is initially recognised in "Other comprehensive income" (accumulated in equity) and subsequently in profit or loss, as the cash flows from the hedged item affects profit or loss. The portion of the fair value of the hedging instrument that does not qualify as effective is recognised in profit or loss.
When hedging derivatives cover the risk of changes in the fair value of hedged instruments (fair value hedges), they are recognised at fair value in profit or loss. Accordingly, the hedged items are adjusted to reflect changes in the fair value associated with the hedged risk.
Changes in the fair value of derivatives that do not meet hedge accounting requirements in accordance with the EU-IFRS are recognised in profit or loss.
Fair value is measured on the basis of official quotations for instruments traded in regulated markets. The fair value of instruments not traded in regulated markets is measured by discounting projected cash flows along a yield curve prevailing in the market at the reporting date, and by translating amounts in currencies other than the euro at closing exchange rates.
Financial and non-financial contracts (which are not already measured at fair value) are also analysed to identify any embedded derivatives, which must be separated and measured at fair value.
This analysis is conducted at the time the entity becomes party to the contract or when the contract is renegotiated in a manner that produces a material change in the original associated cash flows.

Employee benefits

The liability associated with employee benefits payable on or after termination of employment relate to defined benefit plans (deferred compensation benefits, additional months' pay, payment in lieu of notice, energy discounts, ASEM health cover and other benefits) or other long-term employee benefits (loyalty bonuses) and is recognised net of any plan assets. The liability is measured separately for each plan on the basis of actuarial calculations that estimate the amount of vested future benefits that employees have accrued at the reporting date. The liability is recognised on an accruals basis over the vesting period and is measured by independent actuaries.

Provisions for risks and charges

Provisions set aside for risks and charges are recognised when, at the reporting date, the Company has a legal or constructive obligation as the result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the disbursement. Where the effect is material, provisions are made by discounting estimated future cash flows using a discount rate that reflects current market rates and the specific risk applicable to the obligation, if any. Where discounting is used, the increase in the provisions due to the passage of time is recognised in the income statement as a financial expense. If it relates to property, plant and equipment (site disposal and restoration,

for example), the provision is recognised as a contra entry to the asset to which it relates. The expense is recognised in the income statement through depreciation of the item of property, plant and equipment to which it relates.
Changes in the estimates are recognised in the income statement for the year in which the change occurs, except for the expected costs of dismantling, removal and restoration resulting from changes in the timing and use of the economic resources necessary to extinguish the obligation, or are attributable to a material change in the discount rate. These costs are recognised as an increase or reduction in the related assets and recognised in the income statement through depreciation.

Government grants

Government grants are recognised when there is a reasonable certainty that they will be received and that the Company will comply with all the conditions required for disbursement. Grants received in relation to specific assets whose value is recognised under non-current assets are recognised, in the case of plant already in operation at 31 December 2002, among other liabilities and taken to the income statement over the depreciation period for the assets in question. As of the 2003 financial year, grants related to new plant entering service are recognised as a direct reduction in the non-current asset concerned.
Grants related to income are recognised in the income statement when the conditions for recognition are met.

Revenue

The Company's revenue can be categorised as follows:

- **Revenue from sales and services**, including revenue from contracts with customers and therefore falling within the scope of IFRS 15.
  In accordance with the provisions of IFRS 15, revenue from contracts with customers is recognised when the performance obligations identified in the contract are satisfied and control over the goods or services is transferred to the customer for an amount that reflects the consideration that the Company expects to receive in exchange for the goods or services.
  The standard envisages two methods for identifying the correct time at which to recognise the revenue attributable to each performance obligation: at contract inception, the Company determines if the goods or services covered by the performance obligation will be transferred to the customer over a period of time or at a point in time:
  - *Revenue from the sale of goods* is recognised when control of the goods is transferred to the customer (at a point in time). The Company determines if there are other promises in the contract representing a performance obligation to which a part of the transaction consideration must be allocated. In determining the sale price, the Company takes into account the effects of a variable consideration, significant financial components, non-monetary components and amounts to be paid to the customer (if present);
  - *Revenue from services* is recognised with reference to the stage of completion of the activity, in accordance with the provisions of IFRS 15 (over a period of time).
- **Other revenue and income**, which includes revenue from lease arrangements and other residual forms of revenue, included within the scope of application of IFRS 15, deriving from sales of goods not forming part of the Company's ordinary activities.

Financial income and expenses

Financial expenses directly attributable to the acquisition, construction or production of an asset that qualify for capitalisation are capitalised as part of the cost of the asset. The property, plant and equipment and intangible assets involved are those that require at least one year in order to prepare them for use. The directly attributable financial expenses are expenses that would not have been incurred had the expenditure for the asset not been incurred.
Where funds are borrowed specifically, the costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings. Where loans are obtained for general purposes, the eligible amount is determined by applying a capitalisation rate to the expenditure on that asset equal to the weighted average of the financial expenses applicable to the borrowings outstanding for the year, excluding any specifically borrowed funds. The amount of capitalised financial expenses during a year will in any case not exceed the amount of financial expenses incurred during that year.
Capitalisation commences as from the date all the following conditions are first met: (a) expenditure has been incurred for the asset; (b) financial expenses have been incurred; and (c) the activities involved in preparing the asset for its intended use or sale are in progress. Capitalisation ceases when the activities involved in preparing the asset for its intended use or sale are substantially complete.
The average capitalisation rate used for 2019 is approximately 0.9% (1.23% for 2018).
Financial income and expenses other than capitalised amounts are recognised on an accruals basis in respect of the interest on the net value of the related financial assets and liabilities, using the effective interest rate.

Dividends

Dividends from investees are recognised when the shareholders' right to receive payment is established. Dividends and interim dividends payable to shareholders are shown as changes in equity at the date in which they are approved by the General Meeting of shareholders and the Board of Directors, respectively.

Income taxes

Current income taxes are recognised as "Tax liabilities", net of advances paid, or "Tax assets" where the net balance of the items is positive. They are based on the estimated taxable income and in accordance with current legislation, taking account of applicable exemptions.
Deferred tax assets and liabilities are calculated on temporary differences between the carrying amounts of assets and liabilities recognised in the separate financial statements and the corresponding amounts recognised for tax purposes, using current tax rates or the rates expected to be in effect when the temporary differences reverse, based on rates approved at the reporting date.
Deferred tax assets are recognised when their recovery is considered probable, i.e. when future taxable income will be available against which the asset can be used. The recoverability of deferred tax assets is reviewed at the end of each year.
Deferred tax liabilities are recognised in any case if they exist. Taxes relating to items recognised directly in the income statement are also allocated to the income statement.

New accounting standards

International financial reporting standards effective as of 1 January 2019

One new accounting standard, whose application has not had a material impact for the Company, and a number of new amendments to standards already applied came into effect from 1 January 2019.

The following information is provided with regard to the new accounting standards:

IFRS 16 - Leases

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. 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.

In determining the lease term and the non-cancellable period of the lease, Terna has taken into account the terms of the arrangements and assessed the period of time in which contracts are enforceable.
At each reporting date, the Company assesses whether or not there is reasonable certainty that it will exercise or not the option to extend or terminate the lease, considering all the relevant events and circumstances that create an economic incentive to do so.

Application of the new standard has not had a material impact on the Company'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 and land.

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

(€)

	31 DECEMBER 2018	IMPACT OF IFRS 16	RESTATED AT 1 JANUARY 2019
A - NON-CURRENT ASSETS			
1. Property, plant and equipment	12,034,962,379	8,426,433	12,043,388,812
2. Goodwill	190,228,231	-	190,228,231
3. Intangible assets	237,451,427	-	237,451,427
4. Deferred tax assets	18,248,879	-	18,248,879
5. Non-current financial assets	1,091,128,621	-	1,091,128,621
6. Other non-current assets	4,257,446	-	4,257,446
Total non-current assets	**13,576,276,983**	**8,426,433**	**13,584,703,416**
B - CURRENT ASSETS			
1. Trade receivables	1,090,063,061	-	1,090,063,061
2. Current financial assets	494,024,680	-	494,024,680
3. Cash and cash equivalents	945,044,880	-	945,044,880
4. Income tax assets	16,016,310	-	16,016,310
5. Other current assets	20,446,631	(239,234)	20,207,397
Total current assets	**2,565,595,562**	**(239,234)**	**2,565,356,328**
TOTAL ASSETS	**16,141,872,545**	**8,187,199**	**16,150,059,744**
C - EQUITY			
1. Share capital	442,198,240	-	442,198,240
2. Other reserves	792,531,833	-	792,531,833
3. Retained earnings/(accumulated losses)	2,113,051,689	-	2,113,051,689
4. Interim dividend	(158,186,370)	-	(158,186,370)
5. Profit for the year	661,291,202	-	661,291,202
Total equity	**3,850,886,594**	**-**	**3,850,886,594**
E - NON-CURRENT LIABILITIES			
1. Long-term borrowings	8,171,886,525	7,037,458	8,178,923,983
2. Employee benefits	11,768,108	-	11,768,108
3. Provisions for risks and charges	213,829,474	-	213,829,474
4. Non-current financial liabilities	59,089,581	-	59,089,581
5. Other non-current liabilities	196,119,231	-	196,119,231
Total non-current liabilities	**8.652.692.919**	**7,037,458**	**8,659,730,377**
F - CURRENT LIABILITIES			
1. Current portion of long-term borrowings	1,229,798,720	1,149,742	1,230,948,462
2. Trade payables	2,113,384,836	-	2,113,384,836
3. Tax expense	8,072,200	-	8,072,200
4. Current financial liabilities	90,092,567	-	90,092,567
5. Other current liabilities	196,944,709	-	196,944,709
Total current liabilities	**3,638,293,032**	**1,149,742**	**3,639,442,774**
TOTAL LIABILITIES AND EQUITY	**16,141,872,545**	**8,187,199**	**16,150,059,744**

New amendments and interpretations are not expected to have a significant impact. The main ones are described below:

Amendment to IFRS 9: Prepayment Features with Negative Compensation

Endorsed by the European Commission on 22 March 2018, with Regulation 2018/498, the amendment to IFRS 9 proposes to allow certain financial assets with a prepayment option, such as negative compensation features, to be measured at amortised cost (as well as at fair value through comprehensive income).

Amendment to IFRIC 23: Uncertainty over Income Tax Treatments

On 23 October 2019, the European Commission endorsed the amendment to IFRIC 23 in Regulation 2018/1595. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. It also provides guidance on how to account for current and deferred tax assets and liabilities.

Amendment to IAS 28: Long-term interests in Associates and Joint Venture

On 9 February 2019, the European Commission endorsed the amendment to IAS 28 in Regulation 2019/237. The amendment to IAS 28 extends the application of IFRS 9 (including the issue of impairment) to long-term borrowings to associates or joint ventures not accounted for using the equity method.

Amendment to IAS 19: Plan Amendment, Curtailment or Settlement

On 13 March 2019, the European Commission endorsed the amendment to IAS 19 in Regulation 2019/402. This confirms that, following the amendment, curtailment or settlement of a defined-benefit plan, the entity must apply updated assumptions and remeasure its net defined benefit asset or liability for the remainder of the relevant period.

Improvements to IFRSs (2015-2017 Cycle)

On 14 March 2019, the European Commission published Regulation 2019/412 endorsing the annual improvements relating to the 2015-2017 cycle, containing minor amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23.

International financial reporting standards endorsed but not yet effective

References to the Conceptual Framework in IFRS Standards

On 29 November 2019, the European Commission published Regulation 2019/2075, endorsing the amendment to the Conceptual Framework for Financial Reporting. The amendment came into effect from 1 January 2020. The main changes regard a new section on measurement, improved definitions and guidance, above all in relation to the definition of liabilities and clarification of concepts such as prudence and uncertainty in measurements.

Amendment to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

On 15 January 2020, the European Commission endorsed the amendments to IFRS 9, IAS 39 and IFRS 7, through Regulation 2020/34. The amendment provides a number of reliefs from application of specific hedge accounting requirements, with the aim of allowing entities to continue to use hedge accounting even during the period of uncertainty prior to the modification of hedged instruments, or of the related hedges, as provided for in the amendment.

The Company has opted for early adoption of the changes introduced by the amendment, which are obligatory from 1 January 2020, for the year ended 31 December 2019. Adoption of these requirements allows the Company to continue to apply hedge accounting in the period of uncertainty due to the interest rate benchmark reform.

Within its hedge accounting relationships subject to the interest rate benchmark reform, the Company is exposed to the interest rates, EURIBOR and USD LIBOR.

The Company is closely monitoring the market and the results produced by various working groups in the sector that are managing the transition to the new benchmark rates, including announcements from regulators regarding the transition from LIBOR and SOFR (Secured Overnight Financing Rate) and from EURIBOR and ESTER (Euro Short-term Rate). The Company has also drawn up an IBOR transition programme with the aim of understanding which areas of business are exposed to IBOR, and preparing and delivering an action plan that will facilitate a smooth transition to the alternative rates. The Company aims to complete the transition and existing fallback plans by the end of 2020.

The various working group in the sector are working on the fallback language for a number of instruments and IBOR, a process the Company is carefully monitoring and will seek to implement at the appropriate time. The ISDA (International Swaps and Derivative Association) fallback provisions applicable to the Company's derivatives were made available at the end of 2019. The Company will begin discussions with its banks in order to adopt this language in ISDA agreements during 2020.

The risk exposure managed by the entity and that is directly affected by the interest rate benchmark reform amounts to €2,891 million. The nominal value of the hedging instruments in these hedging relationships amounts to €5,373 million.

The Company will continue to apply the changes to IFRS9 until the uncertainty surrounding the interest rate benchmark reform to which the Company is exposed, with specific regard to the timing and amount of the underlying cash flows, has been resolved. The Company expects the uncertainty to remain until the IBOR-linked contracts have been modified to specify the date after which the benchmark interest rate will be replaced, cash flows linked to the new rate and the related spread adjustment. This is partly dependent on the introduction of the fallback provisions that have yet to be added to the Company's contracts and on the outcome of talks with lenders and bondholders.

International financial reporting standards awaiting endorsement

For newly-issued amendments, standards and interpretations that have not yet been endorsed by the EU, but which address issues that affect or could affect the Terna Group, assessments are currently being conducted of the possible impact of their application on the financial statements, taking into account the date on which they will take effect. In particular:

IFRS 17 - Insurance Contracts

The new accounting standard for insurance contracts was published by the IASB on 18 May 2017, to replace the interim version of IFRS 4. The standard defines the new principles for the recognition, measurement, presentation and disclosure of insurance contracts. The General Model of reference is based on the discounting of expected cash flows, with the indication of a risk adjustment and upfront profits through the "contractual service margin", which cannot be negative.

Amendment to IFRS 3: Definition of a Business

Published by the IASB on 22 October 2018, the amendment to IFRS 3, provides a clearer definition of a business, giving guidance and illustrative examples for identifying when a group of assets constitutes a business, thereby falling within the scope of application of IFRS 3.

B. Notes to the income statement

Revenue

1. REVENUE FROM SALES AND SERVICES - €1,973.3 MILLION

(€m)

	2019	2018	CHANGE
Transmission charges billed to grid users	1,725.0	1,657.4	67.6
Back-billing of transmission charges for previous years	0.6	0.1	0.5
Quality of service bonuses/(penalties)	20.2	7.4	12.8
Other energy-related revenue	140.5	168.6	(28.1)
Other sales and services	87.0	59.4	27.6
TOTAL	**1,973.3**	**1,892.9**	**80.4**

Transmission charges

This item, amounting to €1,725.6 million, includes revenue from the core business relating to the allowed return due to the Company for use of the National Transmission Grid.

The increase in revenue from the transmission service (up €68.1 million) reflects the adjustment to the 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), the determination of revenue from the Italy-Montenegro Interconnector (ARERA Resolution 568/19) and the recognition of additional payments for energy-intensive storage systems (ARERA Resolution 169/19).

Quality of service bonuses/(penalties)

This item, amounting to €20.2 million, is up €12.8 million compared with the previous year, due mainly to assessment of the performance in 2018 (Resolution 521/2019/R/eel) and valuation of the performance in 2019, calculated on a pro rata basis taking into account the estimated overall results expected in the 2016-2020 regulatory period (Resolution 653/2015/r/eel).

Other energy-related revenue

This item regards dispatching and metering revenue (€111.0 million for the dispatching component, €0.1 million for the metering component and other energy-related revenue of €1.8 million) and revenue from infrastructure construction and upgrade services performed under concession, recognised in application of IFRIC 12 (€27.6 million).

The decrease of €28.1 million compared with the previous year is primarily linked to ARERA's one-off recognition of certain expenses arising in the previous year.

Other sales and services

The item, "Other sales and services", amounting to €87.0 million mainly regards revenue from administrative, support and consultancy services provided to subsidiaries (€22.0 million, including €18.3 million from services rendered to Terna Rete Italia S.p.A.), from connections to the NTG (€2.7 million) and from Non-regulated Activities (€62.3 million), primarily support and housing services for fibre networks (€21.8 million) and the recognition of revenue linked to the sale of the Italy-Montenegro Interconnector (17 December 2019) amounting to €25.8 million.

The increase of €27.6 million compared with the previous year primarily reflects the above revenue linked to the sale of the private Italy-Montenegro Interconnector (€25.8 million), in addition to the effect of increased revenue from connection services (+€1.1 million).

Pass-through revenue/expenses

This item regards “pass-through” revenue and expenses (the balance of which amounts to zero). These items result from purchases and sales of electricity from electricity market operators carried out each day. 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 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 Terna passes on to other grid owners.
The components of these transactions are shown in greater detail below.

(€m)

	2019	2018	CHANGE
Power Exchange-related revenue items	**3,957.9**	**3,860.1**	**97.8**
- Uplift	1,963.4	1,648.4	315.0
- Electricity sales	538.8	523.0	15.8
- Imbalances	485.7	506.2	(20.5)
- Congestion revenue	295.8	331.1	(35.3)
- Load Profiling for public lighting	81.1	66.8	14.3
- Charges for right to use transmission capacity and market coupling	353.0	337.8	15.2
- Interconnectors/shippers	75.3	75.2	0.1
- Other Power Exchange-related pass-through revenue items	164.8	371.6	(206.8)
Total over-the-counter revenue items	**1,498.0**	**1,443.4**	**54.6**
- Transmission revenue passed on to other NTG owners	140.8	136.5	4.3
- Charge to cover cost of essential plants	412.4	392.7	19.7
- Charge to cover cost of energy delivery capacity	206.7	277.5	(70.8)
- Charge to cover cost of interruptibility service	306.0	279.5	26.5
- Charge to cover cost of LV capacity and protection service	340.0	276.2	63.8
- Other pass-through revenue for over-the-counter trades	92.1	81.0	11.1
TOTAL PASS-THROUGH REVENUE	**5,455.9**	**5,303.5**	**152.4**
Total Power Exchange-related cost items	**3,957.9**	**3,860.1**	**97.8**
- Electricity purchases	2,609.7	2,496.5	113.2
- Imbalances	425.6	331.5	94.1
- Congestion revenue	209.4	217.1	(7.7)
- Load Profiling for public lighting	100.9	80.6	20.3
- Charges for right to use transmission capacity and market coupling	152.0	136.1	15.9
- Interconnectors/Shippers	307.3	366.8	(59.5)
- Other Power Exchange-related pass-through cost items	153.0	231.5	(78.5)
Total over-the-counter cost items	**1,498.0**	**1,443.4**	**54.6**
- Transmission costs passed on to other NTG owners	140.8	136.5	4.3
- Fees paid for essential units	412.4	392.7	19.7
- Fees paid for energy delivery capacity	206.7	277.5	(70.8)
- Fees paid for interruptibility service	306.0	279.5	26.5
- Fees paid for LV capacity and protection service	340.0	276.2	63.8
- Other pass-through costs for over-the-counter trades	92.1	81.0	11.1
TOTAL PASS-THROUGH COSTS	**5,455.9**	**5,303.5**	**152.4**

The total uplift cost in 2019 amounting to €1,963.4 million, is up €315.0 million, on the figure for the previous year, primarily reflecting the increased cost of procuring services on the DSM and a reduction in revenue resulting from imbalance costs.

2. OTHER REVENUE AND INCOME - €81.2 MILLION

(€m)

	2019	2018	CHANGE
Payment for lease of operations	35.0	35.0	-
Sundry grants	9.3	8.3	1.0
Insurance proceeds as compensation for damages	9.1	8.6	0.5
Revenue from IRU contracts for fibre	7.4	10.3	(2.9)
Rental income	4.8	3.0	1.8
Gains on sale of components of plant	4.2	3.2	1.0
Sales to third parties	2.5	2.4	0.1
Other revenues	8.9	3.9	5.0
TOTAL	**81.2**	**74.7**	**6.5**

The most significant components of “Other revenue and income” primarily regard the revenue received from the subsidiary Terna Rete Italia S.p.A., under the agreement for the lease of certain operations (€35.0 million), sundry grants (€9.3 million) primarily in relation to the re-routing of lines for third parties, insurance proceeds to cover damage to plant (€9.1 million), revenue from IRU contracts for fibre (€7.4 million) and rental income €4.8 million.

The increase of €6.5 million compared with the previous year is primarily due to a rise in other revenues (up €5.0 million), above all due to an increase in the volume of administrative services provided to the Group’s subsidiaries. Rental income also increased, rising €1.8 million.

Operating costs

3. RAW AND CONSUMABLE MATERIALS USED - €4.7 MILLION

This item, amounting to €4.7 million, includes the value of the various materials and supplies. This item is down €0.6 million compared with the previous year.

4. SERVICES - €378.3 MILLION

(€m)

	2019	2018	CHANGE
Intercompany services, including technical and administrative services	325.9	306.7	19.2
Maintenance and sundry services	33.2	35.7	(2.5)
Insurance	8.0	6.1	1.9
Lease expense	6.0	11.7	(5.7)
IT services	3.3	2.7	0.6
Tender costs for plant	1.4	1.3	0.1
Remote transmission and telecommunications	0.5	0.4	0.1
TOTAL	**378.3**	**364.6**	**13.7**

The item, “Intercompany services, including technical and administrative services” regards the accrued costs incurred under specific intercompany contracts (€325.9 million), largely regarding the subsidiary Terna Rete Italia S.p.A., which maintains and operates the infrastructure owned by the Company (€270.7 million), the costs recognised in application of IFRIC 12 and the margin linked to investment in the development of the Company’s transmission and dispatching infrastructure (totalling €25.4 million) and other activities and services relating to plant owned by third parties (€5.1 million). This item also includes bonuses relating to the quality of the transmission service attributable to Terna Rete Italia S.p.A. (€10.0 million).
Fees payable to members of the Board of Statutory Auditors amount to €0.2 million.

After the costs recognised in application of IFRIC 12 for the development of dispatching infrastructure (up €3.5 million), the increase in “Services” is €10.2 million and primarily regards intercompany services provided under specific intercompany contracts (up €15.7 million, of which up €7.7 million for bonuses relating to the quality of the transmission service attributable to Terna Rete Italia S.p.A.). This was partially offset by a reduction in lease expense, essentially due to the application of revised right-of-way fees in certain regions of Italy in the previous year (down €2.7 million) and the application of IFRS 16 (down €1.6 million).

Under the Terna Group's current organisational structure, responsibility for the activities involved in investment in the development and upgrade of dispatching infrastructure lies with both Terna S.p.A. itself and the subsidiary Terna Rete Italia S.p.A.. The related cost is charged in full to "Services" as a service received from the subsidiary. The following table shows details of the costs recognised in application of IFRIC 12 and within the scope of the item under review.

(€m)

	2019	2018	CHANGE
IT services	0.3	0.2	0.1
Tender costs for plant	0.4	0.2	0.2
Maintenance and sundry services	1.2	0.6	0.6
Cost of services relating to investment in dispatching infrastructure (IFRIC 12)	**1.9**	**1.0**	**0.9**
Cost of services recognised in application of IFRIC 12 - Services from Terna Rete Italia S.p.A.	21.9	19.7	2.2
TOTAL COST OF SERVICES RELATING TO INVESTMENT IN DISPATCHING INFRASTRUCTURE (IFRIC 12)	**23.8**	**20.7**	**3.1**

5. PERSONNEL EXPENSES - €60.3 MILLION

(€m)

	2018	2017	CHANGE
Salaries, wages and other short-term benefits	59.3	63.2	(3.9)
Directors' remuneration	1.7	1.7	-
Termination benefits (TFR), energy discounts and other employee benefits	3.7	2.2	1.5
Early retirement incentives	(0.3)	-	(0.3)
Gross personnel expenses	***64.4***	***67.1***	***(2.7)***
Capitalised personnel expenses	(4.1)	(3.2)	(0.9)
TOTAL	**60.3**	**63.9**	**(3.6)**

Personnel expenses are down €3.6 million, primarily linked to the different performance of staff incentives plans.

The following table shows the Company's workforce by category at the end of the year and as the average for the year.

	AVERAGE WORKFORCE		WORKFORCE AT	
	2019	2018	31 DECEMBER 2019	31 DECEMBER 2018
Senior managers	36	37	34	36
Middle managers	199	208	194	221
Office staff	374	355	379	391
TOTAL	**609**	**600**	**607**	**648**

6. AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES - €540.7 MILLION

(€m)

	2019	2018	CHANGE
Amortisation of intangible assets	52.4	46.5	5.9
- of which rights on infrastructure	*22.5*	*22.8*	*(0.3)*
Depreciation of propert,. plant and equipment	488.9	457.3	31.6
Impairment losses on property, plant and equipment	0.5	13.4	(12.9)
Impairment losses on trade receivables	(1.1)	0.7	(1.8)
TOTAL	**540.7**	**517.9**	**22.8**

The increase of €22.8 million primarily reflects the entry into service of new plant, the fact that impairment losses were higher in the previous year (€12.9 million lower in 2019) and depreciation recognised in application of IFRS 16 (up €1.6 million).

7. OTHER OPERATING COSTS - €7.7 MILLION

(€m)

	2019	2018	CHANGE
Indirect taxes and local taxes and levies	(1.0)	5.3	(6.3)
Quality of service costs	0.6	5.1	(4.5)
of which mitigation and sharing mechanisms	*0.2*	*3.1*	*(2.9)*
of which Fund for Exceptional Events	*(0.1)*	*1.9*	*(2.0)*
of which compensation mechanisms for HV users	*0.4*	*0.1*	*0.3*
Adjustment of provisions for litigation and disputes	1.7	(2.8)	4.5
Losses on sales/disposal of plant	0.4	0.2	0.2
Other	6.0	10.4	(4.4)
TOTAL	**7.7**	**18.2**	**(10.5)**

The most significant components of this item regard other costs (€6.0 million) which include membership dues and contributions to trade bodies and associations, donations and other expenses.

The reduction of €10.5 million in this item primarily reflects a reduction in indirect taxes, local taxes and levies (down €6.3 million, specifically linked to prior provisions made in relation to Land Registry Circular 6/2012) and a reduction in quality of service costs (down €4.5 million), primarily due to the impact of outages and interruptions in 2018.

8. FINANCIAL INCOME/(EXPENSES) - (€63.6) MILLION

(€m)

	2019	2018	CHANGE
FINANCIAL EXPENSES			
Financial expenses paid to Cassa Depositi e Prestiti	(0.3)	(3.0)	2.7
Interest expense on medium/long-term borrowings and related hedges	(90.1)	(98.7)	8.6
Discounting of termination benefits (TFR) and other provisions for employee benefits	(0.5)	(0.2)	(0.3)
Capitalised financial expenses	12.1	15.1	(3.0)
Other financial expenses	(0.8)	(0.6)	(0.2)
Translation differences	(3.2)	(4.2)	1.0
Total expenses	**(82.8)**	**(91.6)**	**8.8**
FINANCIAL INCOME			
Dividends from associates	-	1.1	(1.1)
Financial income from subsidiaries	9.0	7.0	2.0
Restructuring of bond issues and related hedges	1.3	-	1.3
Interest income and other financial income	8.9	5.0	3.9
Total income	**19.2**	**13.1**	**6.1**
TOTAL	**(63.6)**	**(78.5)**	**14.9**

Net financial expenses for the year amount to €63.6 million, reflecting €82.8 million in financial expenses and €19.2 million in financial income. The reduction in net financial expenses compared with the previous year, amounting to €14.9 million, primarily reflects the following:

- a reduction in financial expenses on medium/long-term borrowings and the related hedges (€8.6 million), primarily due to a decline in short-term interest rates in 2019 and a fall in inflation recorded during the year, and the expenses paid to Cassa Depositi e Prestiti (€2.7 million) in order to repay the loan of €500 million in February 2019;
- a decrease in capitalised financial expenses (€3.0 million) linked to the above-noted fall in interest rates during the year;
- an increase in interest income and other financial income (€3.9 million), primarily reflecting an increase in liquidity invested during the year and the improved return on that liquidity.

9. INCOME TAX FOR THE YEAR - €285.7 MILLION

(€m)

	2018	2017	CHANGE
Income tax for the year			
Current tax expense:			
- IRES (corporate income tax)	251.4	241.7	9.7
- IRAP (regional tax on productive activities)	53.0	51.9	1.1
Total current tax expense	**304.4**	**293.6**	**10.8**
New temporary differences:			
- deferred tax assets	(4.5)	(12.4)	7.9
Reversal of temporary differences:			
- deferred tax assets	16.9	19.4	(2.5)
- deferred tax liabilities	(30.6)	(31.1)	0.5
Total deferred tax (income)/expense	**(18.2)**	**(24.1)**	**5.9**
Adjustments of taxes for previous years	(0.5)	(11.6)	11.1
TOTAL	**285.7**	**257.9**	**27.8**

Current income tax expense for the year of €304.4 million, is up €10.8 million compared with the previous year, essentially reflecting to the increase in pre-tax profit.

Net deferred tax expense of €18.2 million is down €5.9 million, primarily due to the increased amount of deferred tax assets used in relation to movements in provisions for risks and charges.
Adjustments to taxes for previous years, amounting to a reduction of €0.5 million, reflect the overpayment of current tax expense in previous years and are down €11.1 million.

The effective tax charge for the year (€285.7 million) results in a tax rate of 28.6%, slightly up on the 28.1% of 2018. For a clearer presentation of the differences between the theoretical and effective tax charges, the table below reconciles the theoretical and effective tax rates for the year.

(€m)

	TAXABLE INCOME	TAX	% CHANGE
Profit before tax	999.2		
IRES - Theoretical tax charge (rate of 24.0%)		239.8	
IRAP - Theoretical tax charge (rate of 5.10% on operating profit of €1,062.8 million)		54.2	
		294.0	
THEORETICAL TAX RATE			**29.4%**
Permanent differences in IRES			
Employee benefits		0.9	0.1%
Contingent assets and liabilities		1.0	0.1%
Impairments		0.3	-
Membership dues		0.5	0.1%
Other increases/decreases		0.5	0.1%
Single council tax (Imposta Municipale Unica, IMU)		(2.6)	(0.3%)
IRAP - art. 6 of Law 28/01/2009		(1.2)	(0.1%)
Accelerated depreciation		(4.2)	(0.4%)
Tax relief (ACE - Aiuto alla Crescita Economica)		(3.7)	(0.4%)
Permanent differences in IRAP			
Capitalised financial expenses		0.7	0.1%
Personnel expenses		0.1	-
Prior year expenses		0.2	-
Net impairments		0.1	-
Other increases /reductions		(0.4)	-
Effective tax rate after adjustments of taxes for previous years and other one-off changes			**28.7%**
Income tax for previous years		(0.5)	(0.1%)
Total income tax expense for the year		***285.7***	
EFFECTIVE TAX RATE			**28.6%**

C. Operating segments

In line with the requirements of “IFRS 8 - Operating segments”, companies that publish a Parent Company’s consolidated financial statements in a single document, together with the Company’s separate financial statements, only have to present segment information in the consolidated financial statements.

D. Notes to the statement of financial position

Assets

10. PROPERTY, PLANT AND EQUIPMENT - €12,258.3 MILLION

(€m)

	LAND	BUILDINGS	PLANT AND EQUIPMENT	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER ASSETS	ASSETS UNDER CONSTRUCTION AND PREPAYMENTS	TOTAL
COST At 1 JANUARY 2019	**135.8**	**1,879.1**	**16,567.6**	**95.7**	**150.0**	**1,476.4**	**20,304.6**
Investments	6.2	6.0	4.1	3.4	2.4	954.8	976,9
of which right-of-use assets	*5.9*	*5.2*	-	-	*1.4*	-	*12.5*
of which finance leased assets	-	-	*4.1*	-	-	-	*4.1*
Assets entering service	0.6	92.6	843.3	4.5	11.1	(952.1)	-
Intercompany sales	(12.8)	(16.3)	(3.5)	-	-	(208.7)	(241.3)
Intercompany additions	-	-	0.9	-	-	-	0.9
Disposals and impairments	-	(0.8)	(77,3)	-	(2.1)	(0.5)	(80.7)
of which right-of-use assets	-	*(0.1)*	-	-	-	-	*(0.1)*
of which finance leased assets	-	-	*(1.6)*	-	-	-	*(1.6)*
Other changes	(0.2)	(3.9)	(27.0)	-	-	4.0	(27.1)
COST AT 31 DECEMBER 2019	**129.6**	**1,956.7**	**17,308.1**	**103.6**	**161.4**	**1,273.9**	**20,933.3**
ACCUMULATED DEPRECIATION AND IMPAIRMENT AT 1 JANUARY 2019	**-**	**(560.4)**	**(7,518.1)**	**(74.9)**	**(116.2)**	**-**	**(8,269.6)**
Depreciation for the year	(0.3)	(46.3)	(424.7)	(4.8)	(12.8)	-	(488.9)
of which right-of-use assets	*(0.3)*	*(0.8)*	-	-	*(0.5)*	-	*(1.6)*
of which finance leased assets	-	-	*(3.3)*	-	-	-	*(3.3)*
Intercompany sales	-	9.3	0.1	-	-	-	9.4
Intercompany additions	-	-	(0,3)	-	-	-	(0.3)
Disposals	-	0.2	72.1	-	2.1	-	74.4
of which right-of-use assets	-	-	-	-	-	-	-
of which finance leased assets	-	-	*0.3*	-	-	-	*0.3*
Other changes	-	(0.1)	0.1	-	-	-	-
ACCUNULATED DEPRECIATION AND IMPAIRMENT AT 31 DECEMBER 2019	**(0.3)**	**(597.3)**	**(7,870.8)**	**(79.7)**	**(126.9)**	**-**	**(8,675.0)**
Carrying amount							
AT 31 DECEMBER 2019	**129.3**	**1,359.4**	**9,437.3**	**23.9**	**34.5**	**1,273.9**	**12,258.3**
of which right-of-use assets	*5.6*	*4.3*	-	-	*0.9*	-	*10.8*
of which finance leased assets	-	*0.6*	*26.2*	-	-	-	*26.8*
AT 31 DECEMBER 2018	**135.8**	**1,318.7**	**9,049.5**	**20.8**	**33.8**	**1,476.4**	**12,035.0**
of which right-of-use assets	-	-	-	-	-	-	-
of which finance leased assets	-	*0.6*	*26.7*	-	-	-	*27.3*
Change	**(6.5)**	**40.7**	**387.8**	**3.1**	**0.7**	**(202.5)**	**223.3**

The category, “Plant and equipment”, essentially includes the electricity transmission grid and transformer substations in Italy.

“Property, plant and equipment” is up €223.3 million compared with the previous year, broadly due to the following movements:

- investments of €976.9 million during the year, including €12.5 million relating to right-of-use assets recognised in application of the new accounting standard, IFRS16;
- the sale of the private Italia-Montenegro Interconnector on 17 December 2019 (€213.5 million) and the transfer of the business unit to the subsidiary, Terna Rete Italia with effect from 1 January 2019 (€18.4 million, consisting of land and buildings);
- depreciation for the year (€488.9 million), other changes (a reduction of €27.1 million) relating above all to grants related to assets (primarily in relation to projects financed by the Ministry for Economic Development and the EU) and disposals and impairments (down €6.3 million).

The following information regards work on the principal projects during the year in relation to Regulated Activities: progress on construction of the Italy-France Interconnector (€61 million), extension of the fibre network as part of the "Fibre for the Grid" project (€34.8 million), construction of the Brindisi Pignicelle - BR Eni Power power line (€18.4 million), construction of the Sorrento Peninsula interconnector (€27.8 million), and the Belcastro and Brennero substations (€13.5 million and €12.8 million, respectively, with the latter entering service at the end of the year), the grid upgrade in the Foggia-Benevento area (€17.4 million) and reorganisation of the grid serving the cities of Naples (€10.3 million) and Rome (€9.7 million).

11. GOODWILL - €190.2 MILLION

Goodwill of €190.2 million regards the goodwill resulting from the mergers with the subsidiaries RTL (€88.6 million, merged into the Company in 2008) and Terna Rete Italia S.r.l. (€101.6 million merged in 2017).
The balance is unchanged with respect to the previous year.

Impairment testing

CGU - Terna S.p.A.'s transmission activities

For impairment testing purposes, Terna S.p.A.'s Regulated Activities was considered to be a cash generating unit (CGU). Measurement of the recoverable value of the goodwill allocated to the transmission activities was based on fair value less costs of disposal. This was determined taking into account Terna's share price at 31 December 2019, after stripping out the estimated fair value of the assets and liabilities not attributable to the CGU represented by transmission activities.
The resulting value is significantly higher than the carrying amount inclusive of goodwill.

12. INTANGIBLE ASSETS - €253.6 MILLION

(€m)

	INFRASTRUCTURE RIGHTS	CONCESSIONS	OTHER ASSETS	ASSETS UNDER DEVELOPMENT AND PREPAYMENTS	TOTAL
Cost	428.5	135.4	253.0	34.1	851.0
Accumulated amortisation	(330.3)	(73.7)	(209.5)	-	(613.5)
BALANCE AT 31 DECEMBER 2018	**98.2**	**61.7**	**43.5**	**34.1**	**237.5**
Investments	-	-	-	68.7	68.7
Assets entering service	27.6	-	31.5	(59.1)	-
Amortisation for the year	(22.5)	(5.6)	(24.3)	-	(52.4)
Other changes	-	-	-	(0.2)	(0.2)
BALANCE AT 31 DECEMBER 2019	**103.3**	**56.1**	**50.7**	**43.5**	**253.6**
Cost	456.0	135.4	284.5	43.5	919.4
Accumulated amortisation	(352.7)	(79.3)	(233.8)	-	(665.8)
BALANCE AT 31 DECEMBER 2019	**103.3**	**56.1**	**50.7**	**43.5**	**253.6**
Change	**5.1**	**(5.6)**	**7.2**	**9.4**	**16.1**

Intangible assets amount to €253.6 million and include:

- the infrastructure used in provision of the dispatching service carried out under concession and accounted for in accordance with "IFRIC 12 - Service Concession Arrangements", with the carrying amount, at 31 December 2019, of infrastructure entering service during the year amounting to €103.3 million and of infrastructure under construction, included in the category "Assets under development and prepayments", amounting to €25.6 million (at 31 December 2018, the matching figures were €98.2 million and €25.3 million, respectively);
- the concession for electricity transmission and dispatching activities in Italy (with a carrying amount of €56.1 million at 31 December 2019). This 25-year concession was recognised in 2005, initially at fair value and subsequently at cost.

Other intangible assets primarily include software applications, either produced internally or purchased as part of systems development programmes. Investment in these assets during the year (€68.7 million) essentially regards internal development programmes.

The increase compared with the previous year (up €16.1 million) reflects the net effect of investment (€68.7 million, including €27.8 million in infrastructure rights) and amortisation (€52.4 million).
Investment in intangible assets during the year (€68.7 million), included expenditure on the development of software applications for the Remote Management System for Dispatching (€11.8 million), the Power Exchange (€3.9 million), the Metering System (€0.7 million) and for protection of the electricity system (€3.5 million), as well as software applications and generic licences (€37.4 million).

13. DEFERRED TAX ASSETS - €69.6 MILLION

(€m)

	31 DECEMBER 2018	PROVISIONS	USES AND OTHER MOVEMENTS	EFFECTS RECOGNISED IN COMPRE-HENSIVE INCOME	31 DECEMBER 2019
DEFERRED TAX ASSETS					
Provisions for risks and charges	35.0	3.8	(8.8)	-	30.3
Allowance for doubtful accounts	3.5	-	-	-	3.5
Amounts due to employees	5.9	0.7	(2.4)	0.4	4.2
Cash flow hedges	14.4	-	-	33.0	47.2
Tax relief on goodwill	29.0	-	(5.5)	-	23.5
Other	3.2	-	-	(0.3)	3,2
TOTAL DEFERRED TAX ASSETS	**91.0**	**4.5**	**(16,7)**	**33.1**	**111.9**
DEFERRED TAX LIABILITIES					
Property, plant and equipment	(69.7)	-	30.5	-	(39.2)
Employee benefits and financial instruments	(3.1)	-	-	-	(3.1)
TOTAL DEFERRED TAX LIABILITIES	**(72.8)**	**-**	**30.5**	**-**	**(42.3)**
NET DEFERRED TAX ASSETS	**18.2**	**4.5**	**13.8**	**33.1**	**69.6**

The balance of this item, amounting to €69.6 million, includes the net impact of movements in the Company's deferred tax assets and liabilities.

Deferred tax assets (€111.9 million) are up by a net €20.9 million compared with the previous year, reflecting the following movements:

- net provisions that did not impact profit or loss, totalling €33.0 million, primarily reflecting the tax effect of movements in cash flow hedges;
- net uses of €5.0 million, relating to movements during the year in provisions for risks and charges, primarily with regard to movements in provisions relating to quality of service (down €1.9 million) and staff incentives (down €1.5 million);
- the use of €5.5 million representing the accrued portion recognised in relation to deferred tax assets on tax relief on the goodwill resulting from the merger with RTL and, from this year, goodwill resulting from the merger with Terna Rete Italia S.r.l..

Deferred tax liabilities (€42.3 million) are down €30.5 million compared with the previous year, due to the use of previous provisions for accelerated depreciation, including the net release for depreciation for the year.

14. FINANCIAL ASSETS

(€m)

	MEASUREMENT	31 DECEMBER 2019	31 DECEMBER 2018	CHANGE
Investments in subsidiaries	at cost	1,004.7	975.5	29.2
Investments in associates	at cost	44.5	44.5	-
Guarantee deposits	amortised cost	225.8	61.1	164.7
Fair value hedges	FVTPL	45.0	-	45.0
Loan to subsidiaries	amortised cost	24.1	10.0	14.1
NON-CURRENT FINANCIAL ASSETS		**1,344.1**	**1,091.1**	**253.0**
Short-term loan to subsidiaries	amortised cost	-	89.5	(89.5)
Government securities	FVTOCI	513.3	402.6	110.7
Deferred assets on fair value hedges	FVTPL	4.2	-	4.2
Cash flow hedges		-	1.3	(1.3)
Other current financial assets		1.7	0.6	1.1
CURRENT FINANCIAL ASSETS		**519.2**	**494.0**	**25.2**

“Non-current financial assets” includes the items described below.

The value of “Investments in subsidiaries” (€1,004.7 million) regards investments in Terna S.p.A.’s direct subsidiaries and is up €29.2 million compared with 31 December 2018, reflecting the capital increase in the subsidiaries, Difebal S.A. (€10,8 million) and Terna Rete Italia S.p.A. (€18.3 million, with the transfer of the business unit to the subsidiary, with effect from 1 January 2019).
The value of “Investments in associates” (€44.5 million) regards the investments in CGES - CrnoGorski Elektroprenosni Sistem AD (€26.7 million), CESI S.p.A. (€17.6 million) and CORESO S.A. (€0.2 million). This item is unchanged with respect to the previous year.

The following table shows key information on investments in subsidiaries, associates and joint ventures owned directly by Terna S.p.A. at 31 December 2019. Amounts relate to the latest approved financial statements.

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST	CARRYING AMOUNT (€)
SUBSIDIARIES CONTROLLED DIRECTLY BY TERNA S.P.A.					
Terna Rete Italia S.p.A.	Rome	Euro	300,000	100%	21,461,425
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%	173,000,000
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%	16,861,553
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%*	19,926
Business	Responsible for construction and operation of the private section of the Italy-France interconnector and civil works on the public section.				
Rete S.r.l.	Rome	Euro	387,267,082	100%	770,214,773
Business	Design, construction, management, development, operation and maintenance of high-voltage power lines.				
Difebal S.A.	Montevideo (Uruguay)	Uruguayan peso	140,000	100%	10,786,150
Business	Design, construction and maintenance of electricity infrastructure in Uruguay.				
Terna Energy Solutions S.r.l.	Rome	Euro	2,000,000	100%	12,282,156
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%	30,000
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, or in similar, related or connected sectors, and has been established to fulfil the obligations assumed by the energy-intensive companies in relation to implementation of the interconnection with Austria.				
PI.SA. 2 S.r.l.	Rome	Euro	10,000	100%	70,000
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, or in similar, related or connected sectors, and has been established to fulfil the obligations assumed by the energy-intensive companies in relation to implementation of the Italy-France Interconnector.				

** 5% is held by Terna Rete Italia S.p.A. and 30% by Transenergia S.r.l., which does not belong to the Terna Group.*

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST	CARRYING AMOUNT (€)
ASSOCIATES					
Cesi S.p.A.	Milan	Euro	8,550,000	42.698%	17,563,381
Business	Experimental research and provision of services related to electro-technology.				
Coreso S.A.	Brussels (Belgium)	Euro	1,000,000	15.84%	210,742
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 AD	Podgorica (Montenegro)	Euro	155,108,283	22.0889%	26,694,419
Business	Provision of transmission and dispatching services in Montenegro.				
JOINT VENTURES					
ELMED Etudes Sarl	Tunis (Tunisia)	Tunisian dinar	2,700,000	50%	-
Business	Conduct of preparatory studies for construction of the infrastructure required to connect the Tunisian and Italian electricity systems.				

This item also includes:
- guarantee deposits (€225.8 million), including the Interconnector Guarantee Fund (€83.2 million) set up to fund investment in interconnections by art. 32 of Law 99/09 and up €22.1 million compared with the previous year. Guarantee deposits also include the amounts received from operators participating in the capacity market in accordance with Resolution 98/2011/R/eel[35] as amended (€142.6 million);
- the recognition of €45.0 million in fair value hedges backing bond issues; this amount was computed by discounting expected cash flows based on the market interest rate curve at the reporting date;
- the financing provided by Terna S.p.A. to the subsidiary in Uruguay, totalling €24.1 million, and up €14.1 million compared with the previous year (included in the calculation of net debt).

"Current financial assets" are up €25.2 million compared with the previous year, primarily due to:
- the purchase of government securities totalling €500 million and the repayment, in December 2019, of government securities totalling €400 million;
- repayment of the loans granted by Terna S.p.A. to the Brazilian subsidiaries in 2018, amounting to €89.5 million and expiry of the related foreign currency derivative entered into to protect against the risks associated with the loans (down €1.3 million).

[35] Legislation governing the system for remunerating the provision of production capacity is contained in the Ministerial Decree of 28 June 2019. Deposits were paid by operators following the outcome of the auctions organised by Terna on 6 and 28 November 2019. They are to guarantee the entire capacity market with effect from 2022, whose aim is to ensure the adequacy of the national electricity system is achieved and maintained. This is necessary to ensure the system's structural ability to meet expected demand for electricity plus the reserve margin needed to provide determinate levels of security and quality of service.

15. OTHER ASSETS

(€m)

	31 DECEMBER 2019	31 DECEMBER 2018	CHANGE
Loans and advances to employees	3.2	3.6	(0.4)
Deposits with third parties	0.9	0.7	0.2
OTHER NON-CURRENT ASSETS	**4.1**	**4.3**	**(0.2)**
Amounts due from associates	-	3.3	(3.3)
Other tax credits	6.5	4.8	1.7
Other current assets - Interconnector Guarantee Fund	3.7	4.0	(0.3)
Prepayments to suppliers	1.4	1.2	0.2
Prepayments of operating expenses and accrued operating income	6.0	4.5	1.5
Amounts due from others	8.7	2.7	6.0
OTHER CURRENT ASSETS	**26.3**	**20.5**	**5.8**

"Other non-current assets" amount to €4.1 million, a reduction of €0.2 million compared with the previous year, essentially due to loans and advances to employees.

"Other current assets" of €26.3 million, are up €5.8 million compared with 31 December 2018, essentially reflecting:

- an increase in "other tax credits" (up €1.7 million), primarily due to the increase in overseas tax credits (up €2.2 million) in relation to the South American companies;
- an increase in "amounts due from others" (up €6.0 million), broadly due to the recognition of insurance proceeds (up €1.9 million) accruing during the year and collected in early 2020, and other items to be settled in the following year (up €3.0 million), in addition to amounts receivable in relation to connectivity activities, totalling €1.0 million;
- a reduction in amounts due from the associate, CGES (down €3.3 million) following collection of the dividend declared in 2018.

16. TRADE RECEIVABLES - €1,160.3 MILLION

(€m)

	31 DECEMBER 2019	31 DECEMBER 2018	CHANGE
Energy-related receivables	788.8	743.7	45.1
Transmission charges receivables	314.6	310.8	3.8
Other trade receivables	35.4	17.6	17.8
Amounts due from subsidiaries	21.5	17.9	3.6
TRADE RECEIVABLES	**1,160.3**	**1,090.0**	**70.3**

Trade receivables amount to €1,160.3 million and are accounted for less any losses on items deemed not to be recoverable and recognised in the allowance for doubtful accounts (€25.2 million for energy-related receivables and €11.7 million for other items in 2019, compared with €26.1 million for energy-related items and €11.9 million for other items in 2018). The carrying amount shown broadly approximates to fair value.

Energy-related/regulated receivables - €788.8 million

This item includes so-called "pass-through items" relating to the Parent Company's activities in accordance with Resolution 111/06 (€758.3 million) and receivables due from the users of dispatching services forming part of Regulated Activities (€18.2 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 year (€12.3 million).

The balance is up €45.1 million compared with the previous year, essentially due to energy-related pass-through receivables (€42.4 million). The increase reflects the impact of the amount due in the form of the uplift (€71.2 million), reflecting the increased cost incurred during the period, above all in December, for Dispatching Services Market (DSM) services and transactions and to imbalances (the related receivables are down €22 and €35.6 million, respectively). The change also reflects amounts due from the Fund for Energy and Environmental Services (*Cassa per i Servizi Energetici e Ambientali* - CSEA) to settle fees for dispatching points with LV connections pursuant to art. 25 of the Settlement Code (€27 million).

Transmission charges receivable - €314.6 million

Transmission charges receivable, amounting to €314.6 million, represent the amount due to the Parent Company and other grid owners from electricity distributors for use of the National Transmission Grid. The receivable is up €3.8 million compared with 31 December 2018, primarily due to the rise in income resulting from the increase in the tariff.

Other trade receivables - €35.4 million

Other trade receivables, totalling €35.4 million, are up €17.8 million compared with the previous year. This primarily reflects an increase in receivables resulting from Non-regulated Activities in the final quarter of the year.

Amounts due from subsidiaries - €21.5 million

This item, totalling €21.5 million, primarily regards the amount receivable from the subsidiary, Terna Rete Italia S.p.A. (€17.9 million). This amount primarily regards services provided in the last part of the year under existing contracts, mainly with regard to the lease of certain operations (€10.0 million) and administrative services (€2.6 million). The item is up compared with the previous year (€3.6 million), broadly due to an increase in amounts due from the subsidiary, Terna Rete Italia S.p.A. (€3.9 million), which reflects an increase in receivables relating to administrative services (up €4.2 million, due to adjustment of the fees to reflect the scope of the activities carried out through to the end of 2019).

17. CASH AND CASH EQUIVALENTS - €719.2 MILLION

Cash amounts to €719.2 million at 31 December 2019, including €647.4 million in liquidity invested in readily convertible short-term deposits and €71.8 million in net deposits in bank current accounts (including a net balance of €-174.1 million on intercompany treasury accounts).

18. INCOME TAX ASSETS - €3.5 MILLION

Income tax assets, amounting to €3.5 million, are down €12.5 million compared with the previous year. This reflects the transfer of IRES and IRAP tax credits from previous years (down €9.6 million) and the use of IRES and IRAP tax credits used to settle payments on account for 2019 (down €2.9 million).

Equity and liabilities

19. EQUITY - €3,981.1 MILLION

Share capital - €442.2 million

Terna'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 Company's share capital and is unchanged with respect to the previous year.

Other reserves - €599.6 million

The other reserves have decreased €104.5 million, reflecting other comprehensive income in the form of fair value adjustments to the Company's cash flow hedges (down €-104,4 million, taking into account the related tax asset of €33.0 million).

Retained earnings and accumulated losses - €2,306.6 million

The increase in "Retained earnings and accumulated losses", amounting to €193.5 million, primarily regards the remaining portion of profit for 2018, following payment of the dividend for that year (totalling €468.7 million).

Interim dividend for 2019

On 13 November 2019, the Company's Board of Directors, having obtained the Independent Auditor's opinion required by article 2433-*bis* of the Italian Civil Code, decided to pay an interim dividend of €0.0842 per share, amounting to a total payout of €169.2 million. The dividend was payable from 20 November 2019, with an ex-dividend date for coupon n. 31 on 18 November 2019.

The individual components of equity at the end of the year are shown below, specifying their origin, availability and distributability.

(€m)

	31 DECEMBER 2019	POTENTIAL USE	AVAILABLE AMOUNT
Share capital	442.2	-	-
Legal reserve	88.4	B	88.4
Other reserves			
- capital reserves	416.1	A, B, C	416.1
- actuarial gains (losses) on employee benefits and cash flow hedges after taxation	(149.9)	-	-
- revenue reserves	333.4	A, B, C	333.4
Retained earnings	2,306.6	A, B, C	2,306.6
Interim dividend	(169.2)	A, B, C	-
TOTAL	**3,267.6**		

Key:
A - for capital increases
B - to cover losses
C - for distribution to shareholders

The available amount includes €570.3 million in untaxed revenue reserves.

20. BORROWINGS AND FINANCIAL LIABILITIES

(€m)

	31 DECEMBER 2019	31 DECEMBER 2018	CHANGE
Bond issues	7,757.3	6,563.2	1,194.1
Bank borrowings	1,548.1	1,608.7	(60.6)
LONG-TERM BORROWINGS	**9,305.4**	**8,171.9**	**1,133.5**
Cash flow hedges	159.0	59.1	99.9
NON-CURRENT FINANCIAL LIABILITIES	**159.0**	**59.1**	**99.9**
Bond issues	-	616.7	(616.7)
Bank borrowings	117.4	613.1	(495.7)
CURRENT PORTION OF LONG-TERM BORROWINGS	**117.4**	**1,229.8**	**(1,112.4)**
CURRENT FINANCIAL LIABILITIES	**87.3**	**90.1**	**(2.8)**
TOTAL	**9,669.1**	**9,550.9**	**118.2**

Borrowings and financial liabilities have increased by €118.2 million compared with the previous year to €9,669.1 million.
The increase in bond issues (up €577.4 million) is due to three fixed-rate euro-denominated bond issues launched in 2019, amounting to €1,250 million and described in the section "Financial resources" and repayment, in October, of the €600 million bond issue launched on 3 July 2009. The change also reflects the adjustment of the amortised cost of all the bonds in issue.

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

(€m)

	ISIN	PRICE AT 31 DECEMBER 2019	PRICE AT 31 DECEMBER 2018
bond maturity 2019:	XS0436320278	n/a **	103.62
bond maturity 2021:	XS0605214336	105.93	109.79
bond maturity 2022:	XS1178105851	101.90	100,64
bond maturity 2023:	XS0328430003	128.94*	127.61*
bond maturity 2023:	XS1858912915	103.11	100.17
bond maturity 2024:	XS0203712939	122.79	120.51
bond maturity 2025:	XS2033351995	98.86	n/a**
bond maturity 2026:	XS1371569978	107.08	103.52
bond maturity 2026:	XS1980270810	103.18	n/a**
bond maturity 2027:	XS1652866002	105.83	94.53
bond maturity 2028:	XS1503131713	102.87	89.83

* *Source: BNP Paribas and Bloomberg.*
** *Not Applicable.*

Compared to the previous year, bank borrowings are down €556.3 million, due primarily to:
- repayment, on 2 February 2019, of the €500 million loan from CDP, using EIB funds;
- repayments of principal on existing EIB loans (down €111.3 million);
- new EIB loans drawn down in June, totalling €46.4 million;
- lease liabilities recognised following first-time adoption of IFRS 16 (€11.3 million).

Long-term borrowings

The table below shows movements in long-term debt during the year, including also the nominal amount:

(€m)

	31 DECEMBER 2018			IMPACT OF IFRS 16 AT 1 JAN 2019	REPAYMENTS AND CAPITALISATIONS	DRAWDOWNS	OTHER	CHANGE IN CARRYING AMOUNT	31 DECEMBER 2019		
	NOMINAL DEBT	CARRYING AMOUNT	FAIR VALUE						NOMINAL DEBT	CARRYING AMOUNT	FAIR VALUE
Bonds maturing 2024	800.0	982.9	964.1	-	-	-	(30.8)	(30.8)	800.0	952.1	982.3
IL bond	579.0	679.2	638.1	-	-	-	(20.1)	(20.1)	579.0	659.1	746.5
Private Placement 2019	600.0	616.7	621.7	-	(600.0)	-	(16.7)	(616.7)	-	-	-
Private Placement 2026	80.0	78.9	82.8	-	-	-	0.2	0.2	80.0	79.1	85.7
Bonds maturing 2021	1,250.0	1,345.9	1,372.4	-	-	-	(43.2)	(43.2)	1,250.0	1,302.7	1,324.1
Bonds maturing 2022	1,000.0	997.6	1,006.4	-	-	-	0.7	0.7	1,000.0	998.3	1,019.0
Bonds maturing 2025				-	-	500.0	(5.3)	494.7	500.0	494.7	494.3
Bonds maturing 2026				-	-	500.0	(2.2)	497.8	500.0	497.8	515.9
Bonds maturing 2028	750.0	740.9	673.7	-	-	-	24.0	24.0	750.0	764.9	771.5
Bonds maturing 2027	1,000.0	993.2	945.3	-	-	-	20.4	20.4	1,000.0	1,013.6	1,058.3
Bonds maturing 2023	750.0	744.6	751.3	-	-	250.0	0.4	250.4	1,000.0	995.0	1,031.1
Total bond issues	**6,809.0**	**7,179.9**	**7,055.8**	**-**	**(600.0)**	**1,250.0**	**(72.6)**	**577.4**	**7,459.0**	**7,757.3**	**8,028.7**
Borrowings	2,285.3	2,221.8	2,301.2	8.2	(615.1)	46.4	4.2	(556.3)	1,659.9	1,665.5	(879.9)
of which leases	-	-	-	*8.2*	*(1.1)*	-	*4.2*	*11.3*	-	*11.3*	-
Total borrowings	**2,285.3**	**2,221.8**	**2,301.2**	**8.2**	**(615.1)**	**46.4**	**4.2**	**(556.3)**	**1,659.9**	**1,665.5**	**(879.9)**
Total debt	**9,094.3**	**9,401.7**	**9,357.0**	**8.2**	**(1,215.1)**	**1,296.4**	**(68.4)**	**21.1**	**9,118.9**	**9,422.8**	**7,148.8**

At 31 December 2019, Terna 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 €813 million and approximately €490 million in loans agreed but not yet disbursed.
In addition, as provided for in IFRS 7, the table shows the fair value of borrowings. In the case of bond issues, this is market value based on prices 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 DECEMBER 2018*	31 DECEMBER 2019*	PORTION FALLING DUE WITHIN 12 MONTHS	PORTION FALLING DUE AFTER 12 MONTHS	2021	2022	2023	2024	2025	AFTER	AVERAGE INTEREST RATE 2019	AVERAGE NET INTEREST RATE 2019
	2019	616.7	-	-		-	-	-	-	-	-	4.88%	1.18%
	2021	1,345.9	1,302.7	-	1,302.7	1,302.7	-	-	-	-	-	4.75%	1.21%
	2022	997.6	998.3	-	998.3	-	998.3	-	-	-	-	0.88%	0.95%
	2023	679.2	659.1	-	659.1	-	-	659.1	-	-	-	2.73%	(0.65%)
	2023	744.6	995.0	-	995.0	-	-	995.0	-	-	-	1.00%	1.15%
Bonds	2024	982.9	952.1	-	952.1	-	-	-	952.1	-	-	4.90%	0.87%
	2025	-	494.7	-	494.7	-	-	-	-	494.7	-	0.13%	0.31%
	2026	78.9	79.1	-	79.1	-	-	-	-	-	79.1	1.60%	1.80%
	2026	-	497.8	-	497.8	-	-	-	-	-	497.8	1.00%	1.22%
	2027	993.2	1,013.6	-	1,013.6	-	-	-	-	-	1,013.6	1.38%	1.02%
	2028	740.9	764.9	-	764.9	-	-	-	-	-	764.9	1.00%	0.62%
EIB	2039	368.6	368.6	-	368.6	4.6	20.5	20.5	20.5	20.5	282.0	1.45%	1.45%
Total fixed rate		**7,548.5**	**8,125.9**	**-**	**8,125.9**	**1,307.3**	**1,018.8**	**1,674.6**	**972.6**	**515.2**	**2,637.4**		
EIB	2030	1,355.9	1,291.1	116.1	1,175.0	112.2	112.8	114.0	115.3	115.3	605.4	0.23%	1.76%
CDP	2019	500.0	-	-	-	-	-	-	-	-	-	0.63%	0.63%
Total variable rate		**1,855.9**	**1,291.1**	**116.1**	**1,175.0**	**112.2**	**112.8**	**114.0**	**115.3**	**115.3**	**605.4**		
TOTAL		**9,404.4**	**9,417.0**	**116.1**	**9,300.9**	**1,419.5**	**1,131.6**	**1,788.6**	**1,087.9**	**630.5**	**3,242.8**		

** The balance does not include deferred fees of €5.7 million at 31 December 2019 and €4.6 million at 31 December 2018.*

(€m)

	31 DECEMBER 2018	31 DECEMBER 2019	PORTION FALLING DUE WITHIN 12 MONTHS	PORTION FALLING DUE AFTER 12 MONTHS
Finance leases	1.9	0.2	0.2	-
Operating leases	-	11.3	1.1	10.2
TOTAL	**1.9**	**11.5**	**1.3**	**10.2**

At 31 December 2019, payments on operating leases recognised in application of IFRS 16 amount to €1.1 million.

The total value of Terna's borrowings at 31 December 2019 is €9,417.0 million (€116.1 million falling due within 12 months and €9,300.9 million falling due after 12 months), of which €3,242.8 million maturing after five years.

Non-current financial liabilities - €159.0 million

(€m)

	31 DECEMBER 2019	31 DECEMBER 2018	CHANGE
Cash flow hedges	159.0	59.1	99.9
TOTAL	**159.0**	**59.1**	**99.9**

Non-current financial liabilities, amounting to €159.0 million, reflect the fair value of cash flow hedges at 31 December 2019.
Fair value was measured by discounting the expected cash flows using the market yield curve at the reporting date. The increase of €99.9 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.

Current financial liabilities - €87.3 million

Current financial liabilities at 31 December 2019 include the value of net interest expense accrued on financial instruments and not yet paid. This item is down €2.8 million compared with the previous year.

(€m)

	31 DECEMBER 2019	31 DECEMBER 2018	CHANGE
DEFERRED LIABILITIES ON:			
Hedging derivatives	2.6	2.3	0.3
Bond issues	83.6	85.9	(2.3)
Borrowings	1.1	1.9	(0.8)
TOTAL	**87.3**	**90.1**	**(2.8)**

Net debt

Pursuant to the CONSOB Communication of 28 July 2006 and in compliance with ESMA Recommendation no. 319 of 2013, the Company's net debt is as follows:

(€m)

	31 DECEMBER 2019
A. Cash	71.8
B. Term deposits	647.4
C. Cash and cash equivalents (A) + (B)	**719.2**
D. Current portion of non-current borrowings	117.4
E. Other net financial liabilities	81.4
F. Current financial assets	513.3
G. Current debt (D+E+F)	**(314.5)**
H. Current net debt (G) - (C)	**(1,033.7)**
I. Non-current borrowings	1,548.1
J. Bond issues	7,757.3
K. Derivative financial instruments held in portfolio	114.0
L. Long-term loan to subsidiaries	24.1
M. Non-current net debt (I) + (J) + (K) - (L)	**9,395.3**
N. Net debt (H) + (M)	**8,361.6**

Information on the provisions in outstanding loan agreements at 31 December 2019 is provided in the notes to the consolidated financial statements.

21. EMPLOYEE BENEFITS - €11.7 MILLION

Terna provides its employees with benefits during their period of employment (loyalty bonuses), on termination of employment (*TFR*, additional months' pay and payment in lieu of notice) and after termination in the form of post-employment benefits (energy discounts and ASEM health cover).

Loyalty bonuses are payable to the Company's employees and senior managers once certain requirements have been met regarding length of service (on completing 25 and 35 years of service).

Termination benefits (*TFR*) are payable to all employees, whilst employees hired by 30 June 1996 receive energy discounts, senior managers recruited or appointed before 28 February 1999 receive payment in lieu of notice and employees (blue-collar workers, office staff and middle managers) employed prior to 24 July 2001 are due additional months' pay on termination.

Post-employment benefits consist of a form of supplementary health cover in addition to that provided by the Italian national health service, as provided for in the national collective contract for industrial managers (the ASEM health plan).

The following table shows the composition of provisions for *TFR* and other employee benefits and movements during the year ended 31 December 2019.

(€m)

	31 DECEMBER 2018	PROVISIONS	INTEREST COST	USES AND OTHER MOVEMENTS	ACTUARIAL GAINS/ (LOSSES)	31 DECEMBER 2019
Benefits during the period of employment						
Loyalty bonuses	0.7	0.1	-	(0.2)	-	0.6
Total	**0.7**	**0.1**	**-**	**(0.2)**	**-**	**0.6**
Termination benefits						
Deferred compensation benefits (TFR)	4.2	-	0.1	(0.8)	0.1	3.6
Energy discounts	0.3	-	-	(0.1)	-	0.2
Additional month pay	0.6	-	-	(0.2)	-	0.4
Total	**5.1**	**-**	**0.1**	**(1.1)**	**0.1**	**4.2**
Post-employment benefits						
ASEM health cover	6.0	0.2	0.1	(0.4)	1.0	6.9
Total	**6.0**	**0.2**	**0.1**	**(0.4)**	**1.0**	**6.9**
TOTAL	**11.8**	**0.3**	**0.2**	**(1.7)**	**1.1**	**11.7**

This item, amounting to €11.7 million at 31 December 2019, is broadly in line with 31 December 2018 (€11.8 million).

The following table shows the current service cost and interest income and expense.

(€m)

	LOYALTY BONUSES	TFR	ADDITIONAL MONTHS' PAY	PAYMENT IN LIEU OF NOTICE AND OTHER SIMILAR	ENERGY DISCOUNTS	ASEM HEALTH COVER	TOTAL
Net impact recognised in profit or loss							
- current service cost	0.1	-	-	-	-	0.2	**0.3**
- curtailment (revenue) and other costs	(0.1)	-	(0.1)	-	-	-	**(0.2)**
- interest income and expense	-	0.1	-	-	-	0.1	**0.2**
TOTAL RECOGNISED IN PROFIT OR LOSS	**-**	**0.1**	**(0.1)**	**-**	**-**	**0.3**	**0.3**

Revaluation of the net liability for employee benefits is shown in the following table, which provides details of the type of actuarial gain or loss recognised in other comprehensive income.

(€m)

	TFR	ASEM HEALTH COVER	TOTAL
Actuarial gain/losses			
- based on past experience	(0.1)	0.6	**0.5**
- due to changes in demographic assumptions	-	-	**-**
- due to changes in other economic assumptions	-	(0.1)	**(0.1)**
- due to changes in discount rate	0.2	0.5	**0.7**
TOTAL IMPACT ON COMPREHENSIVE INCOME	**0.1**	**1.0**	**1.1**

Finally, the following tables show the main actuarial assumptions applied, a sensitivity analysis of movements in the assumptions and the payment schedule for the plan. In line with 2018, the interest rate used to determine the present value of the obligation was calculated on the basis of the yield on the Iboxx Eurozone Corporates AA index at 31 December 2019, matching the duration of the relevant group of plan participants.

	LOYALTY BONUSES	TFR	ADDITIONAL MONTHS' PAY	ENERGY DISCOUNTS	ASEM HEALTH COVER
Discount rate	0.77%	0.77%	0.37%	0.37%	0.77%
Inflation rate	1.20%	1.20%	0.00%	0.00%	2.70%
Duration (in years)	12.76	10.13	7.18	8.13	15.71

(€m)

	LOYALTY BONUSES	TFR	ADDITIONAL MONTHS' PAY	PAYMENT IN LIEU OF NOTICE AND OTHER SIMILAR	ENERGY DISCOUNTS	ASEM HEALTH COVER	TOTAL
Discount rate +0.25%	0.6	3.5	0.4	-	0.2	6.6	**11.3**
Discount rate -0.25%	0.6	3.6	0.5	-	0.2	7.2	**12.1**
Inflation rate +0.25%	0.6	3.6	n/a	n/a	n/a	n/a	**4.2**
Inflation rate -0.25%	0.6	3.5	n/a	n/a	n/a	n/a	**4.1**
Annual rate of increase in health costs +3%	n/a	n/a	n/a	n/a	n/a	11.4	**11.4**
Annual rate of increase in health costs -3%	n/a	n/a	n/a	n/a	n/a	4.7	**4.7**

(€m)

	LOYALTY BONUSES	TFR	ADDITIONAL MONTHS' PAY	ENERGY DISCOUNT	ASEM HEALTH COVER	TOTAL
By the end of 2020	-	0.1	0.1	0.4	0.2	**0.8**
By the end of 2021	0.1	0.2	0.1	0.2	0.2	**0.8**
By the end of 2022	-	0.2	0.1	0.3	0.2	**0.8**
By the end of 2023	-	0.1	-	0.3	0.3	**0.7**
By the end of 2024	-	0.1	-	0.3	0.3	**0.7**
After 5 years	0.5	2.9	0.1	(1.3)	5.7	**7.9**
TOTAL	**0.6**	**3.6**	**0.4**	**0.2**	**6.9**	**11.7**

22. PROVISIONS FOR RISKS AND CHARGES - €179.0 MILLION

(€m)

	PROVISIONS FOR LITIGATION AND DISPUTES	PROVISIONS FOR SUNDRY RISKS AND CHARGES	PROVISIONS FOR EARLY RETIREMENT INCENTIVES	TOTAL
Amount at 31 December 2018	**18.3**	**142.1**	**53.4**	**213.8**
New provisions	2.9	27.5	-	30.4
Uses and other movements	(2.3)	(52.8)	(10.1)	(65.2)
Amount at 31 December 2019	**18.9**	**116.8**	**43.3**	**179.0**

Provisions for litigation and disputes - €18.9 million

These provisions, set aside to cover outstanding liabilities that, at the end of the year, could result from court judgements and out-of-court settlements regarding the activities of the Company, have been assessed partly on the basis of recommendations from internal and external legal advisors. The balance of €18.9 million at 31 December 2019 is up €0.6 million compared with the previous year, reflecting higher net provisions during the year.

Provisions for sundry risks and charges - €116.8 million

These provisions amount to €116.8 million at 31 December 2019, a reduction of €25.3 million compared with the previous year), reflecting:

- net uses for staff incentive plans, totalling €3.2 million;
- a reduction of €17.7 million due to an adjustment to the provisions for taxation;
- a net reduction of €9.0 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 year, reflects payments to distribution companies and releases following final determination of the penalties due to previous years;
- net provisions of €6.8 million due to the higher value of provisions made in the previous year for urban and environmental redevelopment schemes.

Provisions for early retirement incentives - €43.3 million

Provisions for early retirement incentives reflect the estimated extraordinary expenses linked to the early retirement of the Company's employees who have reached pensionable age. This item has decreased by €10.1 million reflecting payments during the year in relation to the existing plan for generational turnover.

23. OTHER NON-CURRENT LIABILITIES - €347.5 MILLION

This item, amounting to €347.5 million at 31 December 2019, regards the amount payable to Terna Rete Italia S.p.A., resulting from the transfer of net liabilities included in the operations leased to this subsidiary (€33.0 million), accrued grants related to assets receivable (€84.8 million) and the Interconnector Guarantee Fund (€87.1 million), set up by the 2016 Stability Law, in order to fund investment in interconnections by art. 32 of Law 99/09.

This item also includes guarantee deposits received from operators participating in the capacity market and electricity market operators guaranteeing their obligations assumed in dispatching and virtual interconnection agreements (€142.6 million).

The increase of €151.4 million compared with the previous year essentially reflects guarantee deposits received from operators (up €142.6 million), movements in the Interconnector Guarantee Fund (up €21.9 million), offset by the settlement of a part of the liabilities included in the leased operations (down €7.0 million), with particular regard to the termination benefits (*TFR*) payable to personnel participating in the generational turnover plan, and the release of portions of grants related to assets (a reduction of €6.1 million).

24. CURRENT LIABILITIES

(€m)

	31 DECEMBER 2019	31 DECEMBER 2018	CHANGE
Current portion of long-term borrowings*	117.4	1,229.8	(1,112.4)
Trade payables	2,031.0	2,113.4	(82.4)
Tax liabilities	17.4	8.1	9.3
Current financial liabilities*	87.3	90.1	(2.8)
Other current liabilities	311.6	196.9	114.7
TOTAL	**2,564.7**	**3,638.3**	**(1,073.6)**

** Information on these items is provided in note 20, "Borrowings and financial liabilities".*

TRADE PAYABLES - €2,031.0 MILLION

(€m)

	31 DECEMBER 2019	31 DECEMBER 2018	CHANGE
Suppliers:			
- Energy-related payables	1,381.6	1,540.2	(158.6)
- Non-energy-related payables	103.9	124.3	(20.4)
Non-energy-related payables due to subsidiaries	542.3	447.1	95.2
Amounts due to associates	2.4	1.0	1.4
Payables resulting from contract work in progress	0.8	0.8	-
TOTAL	**2,031.0**	**2,113.4**	**(82.4)**

Suppliers

Energy-related/regulated payables

The reduction of €158.6 million in this item compared with the previous year is essentially due to energy-related pass-through payables (down €157.7 million). The reduction in these payable is primarily due to:

- a decrease in payables relating to capacity payments (down €115.3 million) as a result of payments made during the year, as required by ARERA[36];
- a reduction in net payables linked to plants that are essential for the security of the electricity system - *UESS* (down €94.9 million) reflecting items collected during the period after payments ordered by ARERA in 2019[37];

partly offset by

- an increase in payables linked 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 (€41.6 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 reduction compared with the previous year (down €20.4 million) is largely due to a decrease in activity towards the end of the year.

Non-energy-related payables due to subsidiaries

This item, totalling €542.3 million, is up €95.2 million compared with the previous year, primarily due to the increased amount payable to Terna Rete Italia S.p.A. (up €92.7 million) as a result of the greater volume of capital expenditure carried out towards the end of the year, compared with the same period of 2018.

Amounts due to associates

This item, amounting to €2.4 million, is up €1.4 million compared with the previous year, reflecting the greater amount payable to the associate CESI S.p.A., for services provided to the Company, relating to electro technical studies and research.

The commitments assumed by the Company towards suppliers amount to approximately €239.7 million and regard purchase commitments linked to the normal "operating cycle" projected for the period 2020-2024.

TAX LIABILITIES - €17.4 MILLION

This item amounts to €17.4 million at 31 December 2019, an increase of €9.3 million compared with the figure for the previous year (€8.1 million). This essentially reflects an increase in tax payable for the year after payments on account paid during the period (mainly due to the increase in pre-tax profit).

OTHER CURRENT LIABILITIES - €311.6 MILLION

(€m)

	31 DECEMBER 2019	31 DECEMBER 2018	CHANGE
Prepayments	61.6	64.8	(3.2)
Other tax liabilities	72.0	26.9	45.1
Social security payables	7.1	7.4	(0.3)
Amounts due to personnel	15.4	11.5	3.9
Amounts due to subsidiaries	6.6	3.9	2.7
Other amounts due to third parties	148.9	82.4	66.5
TOTAL	**311.6**	**196.9**	**114.7**

[36] ARERA provided for payments for Capacity Payment via resolutions 30, 206 and 233/2019.

[37] ARERA provided for payments to the owners of essential plants in 2019 via resolutions 48-79-101-111-118-150-194-205-235-342-434-459-460-475-476-505-506-523-524-525.

Prepayments

This item (€61.6 million) regards grants related to assets collected by the Company to fund the construction of non-current assets in progress at 31 December 2019.

Compared with the balance at 31 December 2018 (€64.8 million), the balance is down €3.2 million, essentially due to the impact of grants deducted directly from the carrying amount of the related assets, totalling €27.3 million, and new prepayments from third parties (€24.1 million, primarily the Ministry for Economic Development).

Other tax liabilities

Other tax liabilities, amounting to €72.0 million, regard withholding tax payable on salaries paid at the end of the year, in addition to the balance of the Group's VAT at the end of the year.

Compared with the balance at 31 December 2018 (€26.9 million), this item is up €45.1 million, due primarily to increases in VAT payable (up €42.7 million) and in council tax (up €2.1 million).

Social security payables

Social security payables, essentially relating to employee contributions payable to INPS (the National Institute of Social Security), amount to €7.1 million. This is broadly in line with the figure for the previous year.

Amounts due to personnel

Amounts due to personnel, amounting to €15.4 million, primarily regard:

- incentives for personnel and early retirement incentives payable in the subsequent year (€11.8 million);
- amounts due to employees in the form of accrued and unused annual leave and bank holiday entitlements (€2.2 million).

The increase compared with the previous year (€3.9 million) primarily due to an increase in amounts payable to personnel who have opted to take part in the current generational turnover plan launched by the Company (€4.8 million) and a decrease in other incentives payable to personnel (down €0.6 million).

Other amounts due to subsidiaries

Amounts due to subsidiaries, totalling €6.6 million, regard the amount payable to Terna Interconnector S.r.l., primarily in the form of VAT payable by the Company (€5.3 million) under the Group's VAT arrangements.

This item is up €2.7 million compared with the previous year, primarily due to recognition of the above VAT payable.

Other payables due to third parties

Other payables due to third parties, amounting to € 148.9 million, essentially relate to guarantee deposits (€106.9 million) received from electricity market operators to guarantee their contractual obligations under dispatching and virtual interconnection contracts. This item also includes deferred income (€7.4 million, primarily attributable to Non-regulated Activities) and recognition of a refund due from the tax authority and awaiting settlement (up €26.7 million), linked to the acquisition of Rete S.r.l. (December 2015).

The increase of €66.5 million in this item compared with the previous year primarily reflects an increase in guarantee deposits collected during the year (up €39.9 million), as well as recognition of the refund due from the tax authority, totalling €26.7 million.

E. Commitments and risks

Risk management

Terna S.p.A.'s market and financial risks

In the course of its operations, Terna is exposed to different financial risks: market risk, liquidity risk and credit risk.

This section provides information regarding Terna's exposure to all the above risks, along with a presentation of the objectives, policies and processes for managing those risks and the methods used to assess them, with further quantitative disclosures concerning the separate financial statements for 2019.

Terna's risk management policies seek to identify and analyse the risks that the Company is 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 Company's operations.

As a part of the financial risk management policies approved by the Board of Directors, Terna S.p.A. 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.

(€m)

	31 DECEMBER 2019			31 DECEMBER 2018		
	RECEIVABLES AT AMORTISED COST	FAIR VALUE	TOTAL	RECEIVABLES AT AMORTISED COST	FAIR VALUE	TOTAL
Assets						
Derivative financial instruments	-	45.0	45.0	-	1.3	1.3
Cash on hand and government securities	719.2	513.3	1,232.5	945.1	402.6	1,347.7
Trade receivables	1,160.3	-	1,160.3	1,090.0	-	1,090.0
TOTAL	**1,879.5**	**558.3**	**2,437.8**	**2,035.1**	**403.9**	**2,439.0**

(€m)

	31 DECEMBER 2019			31 DECEMBER 2018		
	PAYABLES AT AMORTISED COST	FAIR VALUE	TOTAL	PAYABLES AT AMORTISED COST	FAIR VALUE	TOTAL
Liabilities						
Long-term debt	9,422.8	-	9,422.8	9,401.7	-	9,401.7
Derivative financial instruments	-	159.0	159.0	-	59.1	59.1
Trade payables	2,031.0	-	2,031.0	2,113.4	-	2,113.4
TOTALE	**11,453.8**	**159,0**	**11,612.8**	**11,515.1**	**59.1**	**11,574.2**

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of changes in financial market conditions. Market risk includes three types of risk: exchange rate risk, interest rate risk and inflation risk.

Risk management must be performed with the objective of minimising the related risks by selecting counterparties and instruments compatible with the Company's Risk Management Policy. Speculative activity does not form part of the Company's activities.

Terna S.p.A. seeks to adopt a dynamic approach to financial risk management. This approach is characterised by risk aversion, aimed at minimising risk through continuous monitoring of financial markets in order to carry out the planned hedging transactions in favourable market conditions. The dynamic approach enables the Company to intervene in order to improve existing hedges should there be a change in market conditions or changes in the hedged item, making the hedges inappropriate or excessively costly.

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 closing date (such as interest rates, exchange rates and volatility) and discounting projected cash flows on the basis of the market yield curve at the reporting date.

Interest rate risk

Interest rate risk is represented by the uncertainty associated with interest rate fluctuations. This is the risk that a change in market interest rates may produce effects on the fair value or future cash flows of financial instruments.
In the course of its operations, Terna is exposed to the risk of fluctuations in interest rates. Its main source of interest rate risk is associated with its borrowings and the related hedges in the form of derivative instruments that generate financial expenses. Terna's borrowing strategy focuses on long-term borrowings, whose term reflects the useful life of the Company's assets. It pursues an interest rate risk hedging policy that aims to guarantee that the percentage of debt represented by fixed rate liabilities is at least 40%, as provided for in the relevant policies. Considering the low level of interest rates and the new regulatory review, all debt is now fixed rate.

At 31 December 2019, interest rate risk is hedged by fair value hedges and cash flow hedges, which hedge the risk connected with movements in interest rates relating to long-term borrowings.
Below are the notional amounts and fair values of the derivative financial instruments entered into by Terna:

(€m)

	31 DECEMBER 2019		31 DECEMBER 2018		CHANGE	
	NOTIONAL	FAIR VALUE	NOTIONAL	FAIR VALUE	NOTIONAL	FAIR VALUE
Fair value hedges	1,600.0	45.0	-	-	1,600.0	45.0
Cash flow hedges	3,773.5	(159.0)	3,225.7	(59.1)	547.8	(99.9)

The notional amount of outstanding cash flow hedges at 31 December 2019, amounting to €3,773.5 million, breaks down as follows:
- 1,223.5 million (fair value loss of €12.8 million) maturing 2021;
- 1,250.0 million (fair value loss of €71.0 million) maturing 2027;
- 1,300.0 million (fair value loss of €75.2 million) maturing 2028.

The notional amount of outstanding fair value hedges at 31 December 2019, amounting to €1,600.0 million, breaks down as follows:
- 850.0 million (fair value gain of €20.3 million) maturing 2027;
- 750.0 million (fair value gain of €24.7 million) maturing 2028.

Sensitivity to interest rate risk

As regards the management of interest rate risk, Terna has fixed-to-floating interest rate swaps (fair value hedges) in place to hedge fair value risk associated with its fixed-rate bond issues, and floating-to-fixed interest rate swaps (cash flow hedges) in place to hedge the risk associated with expected future cash flows. Since the hedging relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge, as verified initially and periodically over its life, is high, the Company has elected to use hedge accounting to ensure a perfect match between the maturities of the hedge and the hedged item. The aim of hedge accounting is to recognise the effects of the hedges and the hedged items in profit or loss at the same time.
As a result:
- in the case of fair value hedges, changes in the fair value of the hedged item, attributable to the hedged risk, must be accounted for in profit or loss, where they are offset against changes in the fair value of the derivative;

- in the case of cash flow hedges, changes in the fair value of the derivative must be recognised in "Other comprehensive income" (recognising any ineffective portion immediately through profit or loss) and then recycled through profit or loss in the same period in which the cash flows of the hedged instrument materialise.

The following table reports the amounts recognised through profit or loss and in "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 the reporting date was assumed:

(€m)

	PROFIT OR LOSS			OCI		
	CURRENT RATES +10%	CURRENT VALUES	CURRENT RATES -10%	CURRENT RATES +10%	CURRENT VALUES	CURRENT RATES -10%
31 December 2019						
Positions sensitive to interest rate variations (FVHs, bond issues, CFHs)	2.4	**5.4**	8.4	(97.5)	**(99.9)**	(102.3)
Hypothetical change	*(3.0)*	-	*3.0*	*2.4*	-	*(2.4)*
31 December 2018						
Positions sensitive to interest rate variations (FVHs, bond issues, CFHs)	-	-	-	(48.8)	**(59.1)**	(69.4)
Hypothetical change	-	-	-	*10.3*	-	*(10.3)*

Inflation risk

As regards inflation risk, the rates established by the regulator to provide a return on Terna S.p.A.'s activities are determined so as to cover the allowed costs. Such cost components are updated on an annual basis to take into account the impact of inflation. Having used an inflation-linked bond issue in 2007, the Company has put in place a partial hedge of net income; in fact, any decrease in expected revenue due to a decrease in the inflation rate would be offset by lower financial expenses.

Exchange rate risk

The management of exchange rate risk must aim to protect a company's earnings from the risk of currency fluctuations by keeping a close eye on market movements and constantly monitoring the existing exposures. In managing this risk, Terna from time to time selects hedging instruments with structures and durations matching the Company's exchange rate exposure. The instruments used by Terna are of limited complexity, highly liquid and easy to price, such as forwards and options. Such contracts have a notional amount and maturity date less than or equal to that of the underlying financial liability, or the expected cash flows, so that any change in the fair value and/or estimated cash flows deriving from a rise or fall in the euro against other currencies is fully offset by a corresponding change in the fair value and/or estimated cash flows of the underlying position.
At 31 December 2019, the component of financial instruments associated with exchange rate risk is residual in nature and attributable to the investments in Latin America.

Liquidity risk

Liquidity risk is the risk that Terna might encounter difficulty in discharging its obligations in respect of its financial liabilities and operating cycle. Liquidity risk management seeks to ensure adequate coverage of borrowing requirements by obtaining adequate lines of credit and appropriate management of any surplus liquidity. At 31 December 2019, Terna has available short-term credit lines of approximately €813 million and revolving credit lines of €2,650 million.

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 Company'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.

The following table summarises the exposure to such risk at the reporting date:

(€m)

	31 DECEMBER 2019	31 DECEMBER 2018	CHANGE
Fair value hedges	45.0	-	45.0
Cash and cash equivalents	719.2	945.1	(225.9)
Trade receivables	1,160.3	1,090.0	70.3
TOTAL	**1,924.5**	**2,035.1**	**(110.6)**

The total value of the exposure to credit rate risk at 31 December 2019 is represented by the carrying amount of trade receivables, cash and cash equivalents and fair value hedges.

The following tables provide qualitative information on trade receivables regarding the geographical distribution and type of customers.

GEOGRAPHICAL DISTRIBUTION

(€m)

	31 DECEMBER 2019	31 DECEMBER 2018
Italy	1,119.7	1,059.3
Euro-area countries	20.1	14.0
Other countries	20.5	16.7
TOTAL	**1,160.3**	**1,090.0**

CUSTOMER TYPE

(€m)

	31 DECEMBER 2019	31 DECEMBER 2018
Distributors	313.5	309.8
CSEA	88.9	114.0
Dispatching customers for injections	169.9	200.8
Dispatching customers for withdrawals	517.8	408.9
Parties which have signed virtual import contracts and virtual import services (interconnectors and shippers)	12.8	13.7
Sundry receivables	57.4	42.8
TOTAL	**1,160.3**	**1,090.0**

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

(€m)

	31 DECEMBER 2019		31 DECEMBER 2018	
	IMPAIRMENT	GROSS	IMPAIRMENT	GROSS
Current	(0.5)	1,031.5	(0.4)	949.7
0-30 days past due	-	7.3	(0.1)	0.8
31-120 days past due	(0.1)	5.9	(0.4)	4.6
Over 120 days past due	(36.3)	152.5	(37.1)	172.9
TOTAL	**(36.9)**	**1,197.2**	**(38.0)**	**1,128.0**

Movements in the allowance for doubtful accounts in the course of the year were as follows.

(€m)

	31 DECEMBER 2019	31 DECEMBER 2018
Balance at 1 January	(38.2)	(38.7)
Release of provisions	2.2	1.4
Impairments for the year	(0.9)	(0.7)
Balance	**(36.9)**	**(38.0)**

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

(€m)

	31 DECEMBER 2019	31 DECEMBER 2018
Dispatching - injections	236.1	233.7
Dispatching - withdrawals	1,109.4	1,099.6
Transmission charges due from distributors	313.7	305.0
Virtual imports	104.3	84.0
Balance	**1,763.5**	**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 special procedures to assess counterparties, measuring operating, financial and reputational aspects of the counterparties in question.

Default risk and debt covenants

This risk is associated with the possibility that the loan agreements or bond terms and conditions to which the 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. More information on the contractual provisions of outstanding borrowings at 31 December 2019, is provided in the section, "Borrowings and financial liabilities" in the notes to Terna S.p.A.'s consolidated financial statements.

Parent company guarantees issued on behalf of subsidiaries

The Company has issued parent company guarantees to third parties to guarantee the fulfilment of certain contractual obligations assumed by its subsidiaries, with the Company's maximum exposure at 31 December 2019 amounting to €759.3 million. This breaks down as follows: €135.7 million for Terna Interconnector S.r.l., €226.2 million for Terna Rete Italia S.p.A., €15 million for Difebal S.A., €7.1 million for Terna Crna Gora d.o.o , €26.8 million for Rete S.r.l., €41 million for Santa Lucia S.A., €12.3 million for Terna Perù S.A.C, €0.7 million for Terna Energy Solutions and €0.3 million for Terna Plus S.r.l..

In relation to the long-term loan obtained by the Uruguayan subsidiary, Difebal, on 14 July 2017, Terna S.p.A. has signed a Sponsor Support Agreement, requiring the parent to inject contingent equity of up to 50 million US dollars.

Bank guarantees

Banks have issued guarantees to third parties on behalf of Group companies which, at 31 December 2019, amount to €255.5 million. This amount breaks down as follows: €93.5 million on behalf of Terna S.p.A., €43.9 million on behalf of Terna Rete Italia S.p.A., €39.2 million on behalf of Terna Interconnector S.r.l., €42.9 million on behalf of Santa Lucia S.A., €22.6 million on behalf of Santa Maria S.A., €6.2 million on behalf of Difebal S.A., €3.4 million on behalf of Rete S.r.l., €2.7 million on behalf of Terna Perù S.A.C., €0.7 million on behalf of Terna Energy Solutions S.r.l., €0.3 million on behalf of Avvenia The Energy Innovator S.r.l. and €0.1 million on behalf of Terna Cile S.p.A..

Litigation

The main commitments and risks not disclosed in the statement of financial position at and for the year ended 31 December 2019, relating to the Company are described below.

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 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 the subsidiary 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.

A legal action is pending with regard to the new 380kV "Udine West - Redipuglia" power line and the related works, which entered service two years ago. If the legal challenges brought by local councils and/or private parties were to be successful, and the related consents cancelled, this could have an impact on operation of the infrastructure.

Litigation regarding the legitimacy of construction permits and plant operations

Another aspect of litigation connected with the plant owned by the 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 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.

Risk Covid-19

Further details of the impact of the Covid-19 emergency on the Terna Group's activities are provided in the section, "Events after 31 December 2019".

F. Business combinations

There were no business combinations in 2019.

G. 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 year include transactions with subsidiaries, associates (Cesi S.p.A., Coreso SA and CGES) 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 S.p.A. and the above companies 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 2019 broadly regard the provision of services in the course of ordinary activities and conducted on an arm's length basis.
Under the Terna Group's current organisational structure, the subsidiary Terna Rete Italia S.p.A., which has entered into an agreement with the Company covering the lease of certain operations and a number of related intercompany agreements, is responsible for the traditional activities involved in operation and routine and extraordinary maintenance of the owned portion of the NTG, and for management and implementation of the grid development initiatives included in the related concession arrangement for transmission and dispatching operations, as set out in Terna's Development Plan.
Terna is responsible for managing the operations of all its subsidiaries under specific service agreements which, in addition to covering administrative and financial coordination and the coordination of relations with government bodies and other institutions, give the Company the right to act on behalf of its subsidiaries, or in their name and on their behalf.

The Company's Non-regulated Activities are conducted in Italy and overseas through the subsidiaries, Terna Energy Solutions S.r.l. and Terna Plus S.r.l. under existing intercompany service agreements.

From a financial viewpoint, Terna is responsible for subsidiaries' cash management in accordance with specific treasury management arrangements. These cover the conduct and coordination of all the transactions carried out from time to time, in order to manage financial resources and meet subsidiaries' cash and treasury requirements, and the execution of any other related transaction.

The following table shows the contractual terms and conditions governing financial relations with subsidiaries.

	DEPOSITS*	WITHDRAWALS
Terna Rete Italia S.p.A.	monthly average 1-month Euribor +0.30%	monthly average 1-month Euribor +0.80%
Rete S.r.l.	monthly average1-month Euribor +0.30%	monthly average 1-month Euribor +0.80%
Terna Energy Solutions S.r.l.	monthly average 1-month Euribor +0.30%	monthly average 1-month Euribor +0.80%
Terna Plus S.r.l.	monthly average 1-month Euribor +0.30%	monthly average 1-month Euribor +0.80%
Resia Interconnector S.r.l.	monthly average 1-month Euribor +0.30%	monthly average 1-month Euribor +0.80%
Pi.SA2 S.r.l.	monthly average 1-month Euribor +0.30%	monthly average 1-month Euribor +0.80%
Difebal S.A.	0.01%	monthly average 3-month Libor +1.30%
Rete Verde 17 S.r.l.	monthly average 1-month Euribor +0.30%	monthly average 1-month Euribor +0.80%
Rete Verde 18 S.r.l.	monthly average 1-month Euribor +0.30%	monthly average 1-month Euribor +0.80%
Rete Verde 19 S.r.l.	monthly average 1-month Euribor +0.30%	monthly average 1-month Euribor +0.80%
Rete Verde 20 S.r.l.	monthly average 1-month Euribor +0.30%	monthly average 1-month Euribor +0.80%

** If the sum of average 1-month Euribor and the spread of 0.30% is negative, the interest rate applied will be 0.01%.*

Existing intercompany agreements at 31 December 2019 are summarised below.

COUNTERPARTY	TYPE	ANNUAL FEE
Terna Rete Italia S.p.A.	Service agreement:	
	Operation & Maintenance	€270,721,292
	Upgrade and development	equal to costs incurred + 5.82% of personnel expenses incurred
	Administrative, support and consultancy services	
	- from Terna S.p.A. to Terna Rete Italia S.p.A. (revenue-generating)	€18,273,846
	- from Terna Rete Italia S.p.A. to Terna S.p.A. (cost-generating)	€4,952,581
	Rental of workstations for staff	
	- from Terna S.p.A. to Terna Rete Italia S.p.A. (revenue-generating)	€1,840,148
	- from Terna Rete Italia S.p.A. to Terna S.p.A. (cost-generating)	€396,124
	Lease of operations	€35,046,653
Rete S.r.l.	Service agreement:	
	Upgrade and development	equal to costs incurred + 5.82% of personnel expenses incurred
	Admin. support and consultancy service agreement (revenue-generating)	€1,083,506
Terna Plus S.r.l.	Service agreement:	
	Management fee (revenue generating)	€256,197
Terna Energy Solutions S.r.l.	Service agreement:	
	Terna's Non-regulated Activities (cost-generating)	€9,297,896
	Management fee (revenue-generating)	€761,698
	Rental of workstations for staff (revenue-generating)	€575,046
Tamini Group	Service agreement	
	Administrative service agreement (revenue generating)	€510,381
	Technical services	equal to costs incurred + 5.82%
Terna Interconnector S.r.l.	Administrative service agreement (revenue-generating)	€501,502
	Management and coordination of civil works for Italy-France Interconnector (cost-generating)	equal to costs incurred + 5.82% of personnel expenses incurred
Monita Interconnector S.r.l.	*Administrative, operational support and project preparation services*	€132,363
Difebal S.A.	Service agreement	
	Administrative services	€46,409
	Technical services	variable based on volume of services effectively rendered. "Transportation stub" costs.
Terna Crna Gora d.o.o.	Service agreement:	
	Technical services	equal to costs incurred + 5.82%
	Administrative services	€42,973
Avvenia The Energy Innovator S.r.l.	Administrative service agreement (revenue-generating)	€191,368
Rete Verde 17 S.r.l. Rete Verde 18 S.r.l. Rete Verde 19 S.r.l. Rete Verde 20 S.r.l.	*Management fee (revenue-generating)*	€4,686 for each counterparty company

Terna S.p.A. is the consolidating entity in a tax consolidation arrangement for the purposes of corporation tax (IRES), in which the following subsidiaries participate: Terna Rete Italia S.p.A., Rete S.r.l., Terna Plus S.r.l., Terna Energy Solutions S.r.l. and Tamini Trasformatori S.r.l..
The nature of sales and purchases from related parties[38] by the Company is shown below, followed by details of the revenue and costs resulting from such transactions during the year, and the related receivables and payables outstanding at 31 December 2019.

[38] The nature of the items related to centralised treasury management and the tax consolidation already described above are excluded from the table.

RELATED PARTY	REVENUE-GENERATING TRANSACTIONS	COST-GENERATING TRANSACTIONS
Parent		
Cassa Depositi e Prestiti S.p.A.		Credit facilities
Related parties: subsidiaries operating in Regulated Activities		
Terna Rete Italia S.p.A.	Rental for leased operations, administrative services, rental of workstations and other services	Maintenance and other technical services, grid upgrade and development, quality of service allowance, administrative services, rental of workstations for staff
Rete S.r.l.	Provision of technical and administrative services	Transmission charge
Terna Crna Gora d.o.o.	Administrative services, services provided by seconded personnel and staff on temporary transfers	
Related parties: subsidiaries operating in Non-regulated Activities		
Terna Energy Solutions S.r.l.	Technical, administrative and financial services, rental of spaces and workstations	Operation of Non-regulated Activities
Terna Plus S.r.l.	Technical, administrative and financial services, rental of spaces and workstations	Operation of Non-regulated Activities
Tamini Group		
Terna Interconnnector S.r.l.	Administrative and consultancy services, loan agreements	Management and coordination of performance of civil works for Italy-France interconnector
Resia Interconnector S.r.l.	Administrative and other services.	
Monita Interconnector S.r.l.	Administrative, operational support and preparation services in relation to interconnector project	
Santa Maria Transmissora de Energia S.A. (Brazil)	Financial services	Loans
Santa Lucia Transmissora de Energia S.A. (Brazil)	Financial services	Loans
Avvenia The Energy Innovator S.r.l.	Administrative and other services	
Difebal S.A.	Administrative and legal services	
Rete Verde 17 S.r.l.		
Rete Verde 18 S.r.l.		
Rete Verde 19 S.r.l.		
Rete Verde 20 S.r.l.	Administrative services	
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
Open Fiber S.p.A.	IRU agreements for fibre	Provision of services for the rental of fibre
Snam Rete Gas		Contributions for NTG connections, sundry services
ENI Group	Dispatching charge	Contributions for NTG connections, sundry services
Poste Italiane		Sundry services
ANAS S.p.A.	Movement /re-routing of power lines	Right-of-way fees
Other related parties of the MEF		Sundry services
Fondenel and Fopen		Pension contributions payable by the Terna Group

REVENUE AND COSTS

(€m)

	REVENUE COMPONENTS		COST COMPONENTS
	TRANSMISSION CHARGE AND OTHER REVENUE FROM REGULATED ACTIVITIES	NON-ENERGY-RELATED ITEMS	NON-ENERGY-RELATED ITEMS
Subsidiaries:			
Terna Rete Italia S.p.A.	-	57.2	316.6
Santa Maria Transmissora de Energia S.A. (Brazil)	-	1.6	-
Santa Lucia Transmissora de Energia S.A. (Brazil)	-	6.7	-
Terna Perù S.A.C.		0.1	-
Terna Crna Gora d.o.o.	-	0.1	-
Terna Plus S.r.l.	-	0.6	0.0
Tamini Group	-	0.6	-
Terna Energy Solutions S.r.l.	-	1.6	9.3
Rete S.r.l.	-	1.3	-
Terna Interconnector S.r.l.	-	0.6	-
Monita Interconnector S.r.l.	-	26.0	-
Avvenia The Energy Innovator S.r.l.	-	0.2	-
Difebal S.A.	-	1.1	-
Resia Interconnector S.r.l.	-	0.8	
Total subsidiaries	**-**	**98.5**	**325.9**
De facto parent:			
Cassa Depositi e Prestiti S.p.A.	-	-	0.4
Total de facto parent	**-**	**-**	**0.4**
Associates:			
Cesi S.p.A.	-	0.2	0.6
CORESO S.A.	-	-	2.4
Total associates	**-**	**0.2**	**3.0**
Other related parties:			
GSE Group	16.7	0.1	0.1
Poste Italiane Group	0.0	0.0	-
Open Fiber S.p.A.	0.0	9.1	-
Enel Group	1,588.5	0.5	0.1
Eni Group	6.1	-	0.4
Ferrovie Group	2.2	1.0	0.2
ANAS S.p.A.	-	-	0.1
Other related parties of MEF	-	-	0.1
Total other related parties	**1,613.5**	**10.7**	**1.0**
Pension funds:			
Fondenel	-	-	0.4
Fopen	-	-	0.3
Total pension funds	**-**	**-**	**0.7**
TOTAL	**1,613.5**	**109.4**	**331.0**

ASSETS AND LIABILITIES

(€m)

	PROPERTY, PLANT AND EQUIPMENT	RECEIVABLES AND OTHER ASSETS		PAYABLES AND OTHER LIABILITIES	BALANCE ON INTER-COMPANY TREASURY ACCOUNT AND CASH	GUARANTEES**
	CAPITALISED COSTS	OTHER	FINANCIAL	OTHER		
Subsidiaries:						
Terna Rete Italia S.p.A.*	67.5	17.9	-	562.3	(260.3)	-
Santa Maria Transmissora de Energia S.A. (Brazil)	-	0.1	-	-	-	-
Santa Lucia Transmissora de Energia S.A. (Brazil)	-	0.2	-	-	-	-
Terna Perù S.A.C.	-	0.1	-	-	-	-
Terna Plus S.r.l.*	-	0.5	-	.4.0	50.0	-
Tamini Group*	21.3	0.4	-	1.3	-	-
Terna Energy Solutions S.r.l.*	-	0.4	-	9.1	36.1	-
Rete S.r.l.*	-	0.4	-	0.0	(1.2)	-
Terna Interconnector S.r.l.	1.4	0.2	-	6.8	-	-
Avvenia The Energy Innovator S.r.l.	-	0.1	-	-	-	-
Difebal S.A.	-	0.4	24.0	-	-	-
Rete Verde 17 S.r.l.	-	-	-	-	0.1	-
Rete Verde 18 S.r.l.	-	-	-	-	0.1	-
Rete Verde 19 S.r.l.	-	-	-	-	0.5	-
Rete Verde 20 S.r.l.	-	-	-	-	0.4	-
RESIA Interconnector S.r.l.	-	0,8	-	-	-	-
PI.SA. 2 S.r.l.	-	-	-	-	0.2	-
Total subsidiaries	**90.2**	**21.5**	**24.0**	**583.5**	**(174.1)**	**-**
De facto parent:						
Cassa Depositi e Prestiti S.p.A.	-	-	-	0.1	-	-
Total de facto parent	**-**	**-**	**-**	**0,1**	**-**	**-**
Associates:						
Cesi S.p.A.	4.3	0.1	-	2.2	-	-
CORESO S.A.	-	0.0	-	0.2	-	-
CGES	-	0.0	-	0.0	-	-
Total associates	**4.3**	**0.1**	**-**	**2.4**	**-**	**-**
Other related parties:						
GSE Group	0.3	2.7	-	0,0	-	-
Poste Italiane Group		-	-	-	-	-
Open Fiber S.p.A.		6.8		2.1	-	-
Enel Group	0.9	398.5	-	8.5	-	593.6
Eni Group	-	1.2	-	1.1	-	41.3
Ferrovie Group	-	3.0	-	12.8	-	24.2
ANAS S.p.A.	-	0.2	-	0.2	-	-
Other related parties of MEF	0.2	-	-	0.1	0.1	-
Total other related parties	**1.4**	**412.4**	**-**	**24.8**	**0.1**	**659.1**
Pension funds:						
Fopen	-	-	-	0.3	-	-
Total pension funds	**-**	**-**	**-**	**0.3**	**-**	**-**
TOTAL	**95.9**	**434.0**	**24.0**	**611.1**	**(174.0)**	**659.1**

* *The balances for the item, "Other", include receivables and payables relating to the tax consolidation arrangement for IRES.*
** *Guarantees regard surety bonds received from contractors.*

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

With the exception of the instances described above, no significant non-recurring, atypical or unusual events or transactions, involving either third or related parties, took place in 2019.

I. Notes to the statement of cash flows

Cash flow from **continuing operations** amounts to €984 million, with approximately €1,598 million in operating cash flow and an outflow of approximately €614 million generated by changes in net working capital.

The cash outflow for **investing activities** totals approximately €774.7 million and regards €937.3 million relating to investment in property, plant and equipment, €68.7 million invested in intangible assets and €12.1 million in capitalised financial expenses, in addition to the sale of the private Italy-Montenegro Interconnector for €213.5 million.
The net cash outflow for **shareholder transactions** amounts to €475.2 million, primarily reflecting payment of the final dividend for 2018 (€310.5 million) and the interim dividend for 2019 (€169.2 million).
As a result, net cash used in investing activities and to provide a return on equity during the year amounted to €1,318.6 million, for the most part covered by cash flow from continuing operations of €984 million. The remainder was funded through the use of cash reserves.
Net debt has risen by €259.8 million compared with the previous year.

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

€m

	31 DECEMBER 2018	CASH FLOW FROM FINANCING ACTIVITIES	CHANGE IN FV AND OTHER	31 DECEMBER 2019
- Long-term borrowings (including current portion)	9,401.7	81.3	(60.2)	9,422.8
- Loans to subsidiaries*	(99.5)	68.2	7.2	(24.1)
- Government securities*	(402.6)	(109.5)	(1.2)	(513.3)
Net changes deriving from financing activities	**8,899.6**	**40.0**	**(54.2)**	**8,885.4**

** Included in "Non-current financial assets" and "Current financial assets" in the statement of financial position.*

L. Government grants

Article 1, paragraphs 125 to 129, of Law 124 of 4 August 2017 (the annual markets and competition law) has introduced a number of measures designed to ensure the transparency of the government grants system. These measures, later amended by Law Decree 34 of 30 April 2019, include an obligation for companies to disclose amounts and information regarding assistance, subsidies, benefits, grants or aid, whether in cash or in kind, in the notes to the annual financial statements and, where applicable, in consolidated financial statements, where such amounts are not of a general nature and do not have the form of a fee, remuneration or compensation and have been received from a public body (paragraph 125-bis). The legislation also requires the disclosure of any grants disbursed (paragraph 126).

In accordance with Assonime circulars, the first Circular 5 of 22 February 2019 "Transparency in the government grants system: an assessment of the regulations and interpretation guidance" and a second Circular 32 of 23 December 2019 "Enterprise and competition", Terna has adopted the following basis of reporting for government grants:

- the regulations only apply to entities resident in Italy;
- grants have the nature of grants or donations, and represent incentives or subsidies designed to give beneficiaries a recognised economic advantage; the grants therefore take the form of donations or giving and public aid for specific purposes, and are not awarded under a general aid regime;
- the public resources used are exclusively “national”;
- grants are reported on a cash basis and if the amount is not less than €10,000 (with reference to each individual beneficiary) in the reporting period.

In line with the above, the following table shows government grants collected/disbursed by Terna in 2019:

GRANTS RECEIVED (PARAGRAPH 125-BIS)

	GRANTOR					
BENEFICIARY ENTITY	NAME	TAX CODE	VAT NUMBER	TYPE OF TRANSACTION	AMOUNT (€)	NOTE
TERNA S.p.A.	Ministry for Economic Development	80230390587	80230390587	State aid*	7,342,517.68	Grants collected on the basis of an initial report on the state of work in progress Advance on grants awarded for Terna S.p.A. projects financed by government grants, with funding provided under the National Operational Programme (NOP) for Enterprises and Competitiveness 2014 - 2020 ERDF - AXIS IV – investment priority 4d - Action 4.3.1

** This transaction is covered by the obligation to publish in the National State Aid Register.*

GRANTS DISBURSED (PARAGRAPH 126)

	BENEFICIARY					
GRANTOR	NAME	TAX CODE	VAT NUMBER	TYPE OF TRANSACTION	AMOUNT (€)	NOTE
TERNA S.p.A.	Fondazione Costruiamo il Futuro		03194700138	Giving	20,000	Funding for the "Costruiamo il Futuro” Award
TERNA S.p.A.	IRCCS - Istituto Giannina Gaslini		00577500101	Giving	20,000	Funding for renovation of the Laboratory for processing and freezing hematopoietic stem cells in liquid nitrogen
TERNA S.p.A.	Consorzio Irriguo di Chiomonte	96028800017		Giving	20,000	Funding for work on the irrigation system in the town of Chiomonte
TERNA S.p.A.	Fondazione Palazzo Strozzi		04963330487	Giving	30,000	Gift to become a member of the Partners Committee at Palazzo Strozzi
TERNA S.p.A.	Fondazione Cortile dei Gentili		08542180966	Giving	24,200	Funding for the "La Scala. Tra Cielo e Terra" initiative
TOTAL					**114,200**	

M. Proposal for appropriation of profit for the year

Terna S.p.A.’s Board of Directors proposes to pay a total dividend of €501,493,004.00 for 2019, equal to €0.2495 per share, of which €0.0842 per share was declared in the form of an interim dividend on 13 November 2019.

The Board of Directors thus proposes to appropriate Terna S.p.A.'s profit for 2019, amounting to €713,513,547.45, as follows:

- €169,241,326.40 to cover payment of the interim dividend payable from 20 November 2019;
- €332,251,677.60 to pay a final dividend of €0.1653 to the holders of each of the 2,009,992,000 ordinary shares outstanding at the date of this Board of Directors' meeting. The final dividend will be payable on 24 June 2020, with an ex-dividend date for coupon 32 of 22 June 2020 (a record date, as defined by art.83-*terdecies* of Legislative Decree 58 of 24 February 1998, the Consolidated Law on Finance, of 23 June 2020);
- €212,020,543.45 to be taken to Retained earnings.

N. Events after 31 December 2019

Terna meetings held in Monterenzio and Calenzano

On **8 and 9 January 2020**, Terna **met the residents of towns in the Province of Bologna in Monterenzio and residents of towns in the Province of Florence in Calenzano** in order to present future projects and inform them of the process involved in installing the new 380kV power line between the existing Colunga and Calenzano substations, and the re-routing of the existing Bargi-Calenzano line.
The project, which will improve the security and efficiency of the local electricity system, consists of the upgrade of an existing line and, for this very reason, local authorities and Terna have chosen to retain as far as possible the current route in order to avoid affecting new areas.

Entry into service of the new Benevento III-Pontelandolfo power line

Following the positive conclusion of energy transmission tests, Terna switched on the **new 150kV Benevento III-Pontelandolfo power line** on **17 January 2020**. The line, which is over 15 km long, connects the new Pontelandolfo electricity substation with the Benevento III electricity substation. The work, which will boost the efficiency and sustainability of the area's electricity grid, is the final phase of work leading to Terna's activation of the new 150kV Castelpagano - Morcone - Pontelandolfo - Benevento III power line and will facilitate the integration of renewable energy produced in the Benevento area in to the grid.
In 2019, the Benevento area also saw Terna complete the final stage of the demolition work involved in construction of the 380kV Benevento II - Foggia power line and the Benevento III electricity substation. This project, in addition to boosting energy transmission capacity in the area, has enabled over 42 km of old lines to be demolished and approximately 10 km to be laid underground.

Bloomberg Gender Equality Index (GEI)

On **21 January 2020**, Terna was confirmed for the second year running in the **Bloomberg Gender Equality Index (GEI)**, an international index that measures companies' performance regarding gender equality issues and the quality and transparency of their public reporting, a decisive factor in the overall assessment. Terna's performance in 2020 was above average both in terms of the companies included in the index and with respect to the companies in the Utilities segment. In addition to its presence in the Bloomberg GEI, Terna is included in the following international sustainability indices: Dow Jones Sustainability (World and Europe), Euronext (World, Europe and Eurozone), FTSE4Good, STOXX® ESG (Global, Environmental, Social and Governance), STOXX® Low Carbon, ECPI, ESI (Ethibel Sustainability Index), MSCI and United Nations Global Compact.

Santerno electricity substation

The **new 150kV Santerno electricity substation**, forming part of the Ravenna Canala - Fusignano power line in the province of Ravenna, entered service on **24 January 2020**, after nine months of work. The substation, built using the latest technology, has boosted the security and efficiency of the local electricity grid and has improved the transport of renewable energy produced in the area. The surface of the substation is approximately 7,600 square metres and the buildings occupy just over 450 square metres.

Fourth edition of Next Energy

The 10 teams of innovators chosen following the Call for Ideas for the **fourth edition of Next Energy** were selected on **29 January 2020** and will take part in an incubation process lasting 3 months. 5 start-ups were

also selected following the Call for Growth and will take part in the Engage with Terna programme. The area of interest for both the Calls for the fourth edition of Next Energy was tools designed to enable the energy transition towards a more efficient, secure and sustainable system, including robotics, the internet of things, energy tech, advanced materials, e-mobility, storage, the integration of the environment with infrastructure and digitalisation.
Only one of the 10 teams of innovators will receive a voucher worth €50,000 to be used to purchase services that will help to accelerate the project, whilst the start-ups selected as a result of the Call for Growth will engage in pilot projects to be developed at Terna's Innovation Hubs.

Start-up of work on the new Celano substation

Two months after presenting the design for the **new Celano substation to local citizens**, Terna commenced work on **30 January 2020**. The new 150kV substation and the related connectors (Collarmele - Acea Switching East/Tagliacozzo, Avezzano substation - Rocca di Cambio/Collarmele substation) will boost the security and efficiency of the local electricity grid, will enable a reorganisation of the area and the secure transport of renewable energy produced in the local area, avoiding grid losses. The new substation is expected to take around 2 years to complete.

Robecosam's Gold Class

After being nominated Industry Leader in the Electric Utilities segment of the Dow Jones Sustainability Index for the second consecutive year, on **30 January 2020**, Terna was again included in **Robecosam's Gold Class**. Terna, which has been included in the Dow Jones for eleven years running, has thus been included in the Gold Class seven times, obtaining a score of 90/100 and ranking number one among Electric Utilities, with the segment scoring an average of 45/100.
RobecoS.A.M's annual rankings are based on strict economic, environmental and social performance criteria and a review of the main disputes. The areas looked at include: risk management, corporate governance, environmental impact, community relations, the management of human resources, stakeholder engagement, respect for human rights and supply chain monitoring.

Memorandum of Understanding with consumer associations

On **31 January 2020**, Terna and 11 consumer associations signed a **Memorandum of Understanding with a view to strengthening cooperation between the parties with regard to Terna's activities as the transmission system operator**, above all in relation to pursuing the goal of a secure, efficient electricity service. Terna and the consumer associations will work together on projects involving the national transmission grid and are committing to cooperating during consultation processes organised in order to identify the best location for new electricity infrastructure. The agreement also centres around information sharing regarding European, national, regional and local legislative initiatives; the promotion of awareness-raising actions regarding energy transmission issues; and the launch of a study of initiatives to decarbonise the electricity and energy systems of Italy's smaller islands. The agreement will also lead to jointly developed training and information campaigns targeted at consumer associations and focusing on issues relating to the electricity industry.

Benevento III electricity substation: Terna begins the planting of over 2,000 trees and shrubs

On **7 February 2020**, Terna began the process of planting greenery around the Benevento III substation in the La Francesca district of Benevento. This green engineering initiative involves the **planting of over 2,000 trees and shrubs** along the substation perimeter, helping the infrastructure to blend in better with its surroundings and bringing benefits for the area's ecology and environment.

Nuraminis substation

The new 150kV Nuraminis substation entered service in Sardinia on **13 February 2020**. The new switching substation, which is on the Nurri-Villasor power line, was connected to the end user, Italcementi's cement works, definitively resolving particular problems with the connection of this major industrial plant, previously connected to the existing line with a hard shunt. The new Nuraminis substation will also guarantee greater efficiency and reliability for entire area of southern Sardinia. The infrastructure was designed and built by the North-western Infrastructure Design and Construction unit, which handed over the substation for operation by the Villasor Infrastructure unit.

Memorandum of Understanding with Veneto Regional Authority

On **18 February 2020**, Terna entered into a **Memorandum of Understanding with Veneto Regional Authority** regarding the start-up of a trial involving use of the regional electricity grid for **environmental monitoring of the local area**. The Company has, for the first time in Veneto, developed and installed an integrated system for gathering, measuring and real-time processing of data on the performance of our power lines in the region. Thanks to the widespread presence of electricity infrastructure around the region, the use of IoT Boxes will significantly increase our capacity to observe the state of the grid and guarantee efficient management and prompt intervention if needed. We have currently installed approximately 500 devices for monitoring the grid and gathering data on our infrastructure in the region, which is primarily located in the provinces of Belluno, Verona and Vicenza.

Start-up of work on the new Collesalvetti electricity substation

Work began on **construction of the new 132kV "Collesalvetti" switching substation,** located in Guasticce, on **27 February 2020**. The new infrastructure, which will connect with the "Livorno Marzocco-Marginone", "Guasticce-Cascina", "Guasticce-Pisa P.M." and "Guasticce-Acciaiolo Livorno" power lines, will boost the security and efficiency of the local grid, reducing grid losses and the risk of outages. It will also enable the system to meet the increased demand for electricity linked to major residential and industrial development in the area, which is located close to Livorno's "Amerigo Vespucci" freight terminal.
The new substation, built with a 132kV double busbar and overhead insulators, will take approximately 3 and a half years to complete and will cover more than 18,000 square metres. The electricity infrastructure will be located on high ground in order to optimise security in view of the area's hydraulic characteristics.

Acquisition of Brugg Cables completed

On **29 February 2020**, as part of the growth strategy for Non-regulated Activities, Terna, acting through its subsidiary, Terna Energy Solutions S.r.l., **completed the acquisition of a 90% interest in Brugg Kabel AG** (a Brugg group company), one of Europe's leading manufacturers of terrestrial cables. The acquired company designs, develops, produces, installs and maintains electric cables for all voltages and accessories for high-voltage cables. The acquisition follows on from the preliminary agreement signed on 20 December 2019. The acquisition of Brugg Kabel will give the Terna Group access to a centre of excellence for research, development and testing of one of the core technologies for a TSO, namely terrestrial cables.

Covid-19

Early 2020 has been marked by the global health emergency caused by the widespread outbreak of Covid-19. This has had a major impact on markets and on the Italian and global economies. Against a continually changing backdrop and with increased uncertainty linked to the potential development of the infection, the outlook for the global economy remains weak.
The economic impact of the Covid-19 emergency on the Terna Group's business is currently being assessed. However, we do not expect to see significant direct effects, given the largely regulated nature of our business, with regulated revenue based on specific resolutions issued by the regulator, ARERA, on the basis of the level of capital expenditure and assets entering service in previous years. In particular, assuming a progressive return to business as usual in Italy from the second quarter of 2020, the Group's results are expected to be in line with previously announced financial guidance. In terms of our Non-regulated Activities, we do not expect a significant impact on EBITDA, also bearing in mind that a majority of the relevant contracts are of a recurring nature and their contribution to earnings is not at risk.
With regard items in the financial statements measured at fair value, all borrowings and the related hedges accounted for on a hedge accounting basis do not, by their nature, have a significant impact. This reflects existing hedging relationships and the strength of contract counterparties. In addition, in terms of our credit rating, Terna's strong financial position, combined with the stability of our business, means that the stand-alone rating is not significantly at risk.
Finally, it should be noted that the Terna Group has taken all the necessary steps to contain the infection, in line with the legislation in force with the aim of protecting the health and safety of our workforce and ensuring the security of Italy's electricity system.

Disclosure

pursuant to art. 149-*duodecies* of the CONSOB Regulations for Issuers

The following table, prepared pursuant to art. 149-*duodecies* of the CONSOB Regulations for Issuers, shows the fees paid for audit and other services provided by Terna S.p.A.'s independent auditors in 2019.

(€)

	ENTITY PROVIDING SERVICE	FEES DUE FOR THE YEAR[39]
Audit of the accounts and financial statements	PwC	335,244
Attestation services	PwC	168,995
Total		**504,239**

[39] The fees include the contribution payable to CONSOB.

Attestation

of the separate financial statements pursuant to art. 81-*ter* of CONSOB Regulation 11971 of 14 May 1999, as amended

"Terna S.p.A."

1. The undersigned, Luigi Ferraris, as Chief Executive Officer, and Agostino Scornajenchi, as Manager responsible for Terna S.p.A.'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 separate financial statements during the year ended 31 December 2019.

2. The administrative and accounting procedures adopted in preparation of the separate financial statements for the year ended 31 December 2019 were drawn up, and their adequacy assessed, on the basis of the regulations and methods adopted by Terna S.p.A. in accordance with the Internal Control-Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission. This Commission has established a body of general principles providing a standard for internal control and risk management systems that is generally accepted at international level.

3. We also attest that:

   3.1 the separate financial statements for the year ended 31 December 2019:

   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 and the statutory requirements implementing the provisions of art. 9 of Legislative Decree 38/2005;

   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.

   3.2 the Directors' report on operations includes a reliable analysis of the operating and financial performance and situation of the issuer, as well as a description of the main risks and uncertainties to which it is exposed.

Rome, 10 March 2020

Chief Executive Officer	Manager responsible for financial reporting
Luigi Ferraris	**Agostino Scornajenchi**
(original signed)	*(original signed)*

Report

of the Board of Statutory Auditors to the Annual General Meeting of Terna S.p.A.'s shareholders

Board of Statutory Auditors' Report to the Annual General Meeting of Terna S.p.A.'s shareholders pursuant to article 153 Legislative Decree 58 of 24 February 1998 (the Consolidated Law on Finance) and article 2429, paragraph three of the Italian Civil Code

Dear Shareholders,

During the year ended 31 December 2019, the Board of Statutory Auditors di Terna S.p.A. (also the "Company") fulfilled its statutory duties in accordance with the law, complying with the code of conduct for the Statutory Auditors of listed companies (the "Code of conduct") issued by the Italian Association of Chartered Accountants ("*Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili*"), the recommendations of the CONSOB (the *Commisione Nazionale per le Società e la Borsa*, Italy's Securities and Exchange Commission) regarding corporate controls and the activities of the Board of Statutory Auditors and the guidelines in the Corporate Governance Code published by Borsa Italiana (the "Corporate Governance Code").

Responsibility for the statutory audit required by Legislative Decree 39 of 27 January 2010 (Legislative Decree 39/2010) has been assigned to the independent auditors, PricewaterhouseCoopers S.p.A., appointed by the Annual General Meeting of 13 May 2011 for nine years from 2011 to 2019.

The Board, which also took into account the indications contained in CONSOB announcement DEM/1025564 of 6 April 2001, as amended, reports the following.

- We verified compliance with the law and the By-laws.
- We attended the meetings of the Board of Directors and specific preparatory meetings regarding the agenda items, as well as meetings of the Audit and Risk, Corporate Governance and Sustainability Committee. We periodically obtained information from the Directors on the overall operating performance, the outlook for the Company and on the most significant transactions, in terms of their impact on the results of operations and financial position, carried out by the Company, satisfying ourselves that the decisions taken and implemented were compliant with the law and the By-laws and were

not manifestly imprudent, risky or in potential conflict of interest or in contrast with resolutions approved by General Meeting, or such as to compromise the value of the Company. In the course of our activities, we found no evidence of transactions of an atypical and/or unusual nature. In carrying out our duties, we analysed information flows from the various departments and also conducted interviews with the Company's senior management, with the independent auditors and with the oversight bodies of subsidiaries.

- At the meeting of 10 March 2020, the Board of Directors, on the recommendation of the Remuneration Committee, approved the "Annual Remuneration Report", prepared in accordance with article 123-ter of the Consolidated Law on Finance and in compliance with the provisions of article 6 of the Corporate Governance Code.
- We monitored compliance with and effective application of the "Procedure for Related Party Transactions", recently revised by the Board of Directors on 15 December 2016 and compliant with article 4 of the CONSOB Regulation referred to in Resolution 17221 of 12 March 2010, as amended.
- The Company has prepared the financial statements for the year ended 31 December 2019 in compliance with International Financial Reporting Standards (IFRS). These financial statements were audited by PricewaterhouseCoopers S.p.A., which issued its report on 16 April 2020 without any qualification or emphasis of matter. The financial statements, together with the Directors' report on operations, was made available to us within the deadline required by law and we have no particular comments in this regard.
- The Company also prepared the consolidated financial statements for the year ended 31 December 2019 in compliance with International Financial Reporting Standards (IFRS). These financial statements were also audited by PricewaterhouseCoopers S.p.A., which issued its report on 16 April 2020 without any qualification or emphasis of matter.
- Among the most significant transactions carried out in 2019, we note the following, referring you to the report on operations for more detailed information:
  - the entry into service of the Italy-Montenegro Interconnector (445

km long and with capacity of 600 MW) and the subsequent sale of the special purpose vehicle, Monita Interconnector S.r.l., to the consortium of energy-intensive users, Interconnector Italia S.C.p.A.;

- the acquisition (completed in February 2020) of 90% of Brugg Kabel AG, a leading manufacturer of terrestrial cables;
- the issue two green bonds with a five- e and seven-year terms and a total value of €750 million at a fixed rate of 1%, as part of the Company's €8 billion Euro Medium Term Notes (EMTN) programme;
- the arrangement of a five-year revolving credit facility of €1,500 million at a rate of EURIBOR plus a variable spread of between 0.60% and 1.45% based on Terna S.p.A.'s credit rating (at the same time, the Company cancelled two facilities totalling €1,300 million expiring in 2020 and 2021);
- the issue bonds with a term of 6 years and a value of €500 million at a fixed rate of 0.125% (an effective cost of 0.25%), as part of the above EMTN programme;
- the arrangement of a new €490 million loan from the EIB (European Investment Bank), to be disbursed in two tranches (€147 million in June 2020 and €343 million in March 2021) at fixed rates of 0.717% and 0.78%, and with terms of approximately 22 years.

- We oversaw, within the scope of our responsibilities, the adequacy of the Company's organisational structure, compliance with the principles of good governance and the adequacy of the instructions issued by the Company to its subsidiaries pursuant to article 114, paragraph 2 of the Consolidated Law on Finance, by obtaining information from the heads of the relevant departments, through meetings with the independent auditors and with the oversight bodies of the most important subsidiaries in terms of size. With regard to the provisions of article 15, paragraph one of the Markets Regulation adopted by CONSOB Resolution 20249 of 28 December 2017, the Company's non-EU subsidiaries are not of material importance as defined by the articles in Chapter II, Section VI, Part III of the Regulations for Issuers adopted by CONSOB Resolution 11971 of 14 May 1999, as amended (the "Regulations for Issuers").
- We monitored the adequacy of the administrative and accounting system, assessing its reliability in providing a true and fair view of operations; this activity was carried out by obtaining information

from the heads of the various departments, by examining company documents and analysing the results of the work carried out by the independent auditors. The Chief Executive Officer and the Manager responsible for the Company's financial reporting have, with in reports attached to the financial statements for 2019, attested to: a) the adequacy and effective application of accounting and administrative procedures; b) the compliance of the financial reports with international financial reporting standards; c) the consistency of the documents with the underlying accounting books and records and their ability to provide a true and fair view of the financial position and results of operations of the Company. A similar attestation is attached to the Terna Group's consolidated financial statements.

- We assessed and oversaw the adequacy of the internal audit system through: a) examination of the report prepared by the Head of Internal Audit on the internal audit system; b) examination of the Internal Audit reports, as well as information on the results of monitoring; c) meetings with the oversight bodies of the most important subsidiaries pursuant to the first and second paragraphs of article 151 of the Consolidated Law on Finance; d) participation in the meetings of the Audit and Risk, Corporate Governance and Sustainability Committee and acquisition of the relevant documents; e) meetings with the Manager responsible for financial reporting and the Chief Risk Officer. Attending the Audit and Risk, Corporate Governance and Sustainability Committee meetings allowed the Board of Statutory Auditors to coordinate its activities with those of this Committee in performing our functions as the "Internal Control and Audit Committee", assigned to us on the basis of article 19 of Legislative Decree 39/2010 and, in particular, to oversee: a) the financial reporting process; b) the effectiveness of the internal quality control, risk management and internal audit systems; c) the statutory audit of the accounts; and d) matters relating to the independence of the audit firm.

  On the basis of the activities carried out and considering the evolving nature of the Internal Audit System, in the view of the Board of Statutory Auditors the system is adequate overall and we have no observations to report to shareholders.

  In accordance with art. 149-*duodecies* of the Regulations for Issuers, the financial statements include the required disclosure ofthe overall fees charged for auditing Terna S.p.A.'s separate and consolidated financial statements for the year ended 31 December 2019, and for the review of the half-year report, the assessment of the regular nature of accounting systems, and for the other tasks assigned to the audit firm; the fees for these other tasks (inclusive of expenses) amount to €275,987, as follows:

- audit of the unbundling for ARERA 35,200
- audit of reporting packages 17,600
- opinion on payment of the interim dividend 35,200
- assurance of the sustainability report/non-financial statement 54,192
- issue of EMTN comfort letters and other documents 133,795

The independent auditors have notified us that, based on the best information available, and taking into account the regulatory and statutory requirements for auditors, it has, in the period in question, maintained a position of independence and objectivity towards Terna S.p.A. and that there have been no changes regarding the absence of any form of incompatibility with reference to the situations and persons provided for in article 17 of Legislative Decree 39/2010 and the articles referred to in Chapter I-*bis* of Section VI of the Regulations for Issuers.

- We held periodic meetings with representatives of the independent auditors pursuant to article 150, paragraph 3 of the Consolidated Law on Finance, and there are no matters worthy of mention in this Report. We also note that on 16 April 2020 the independent auditors issued their report pursuant to the third paragraph of article 19 of Legislative Decree 39/2010, and the additional report required by article 11 of the European Regulation (EU) 537/2014, in which the auditors do not report on significant issues or shortcomings relating to the system of internal controls over financial reporting and which we have submitted to the Board of Directors without observation.
  The independent auditors' additional report notes that, as a result of the health emergency caused by the outbreak of the Covid-19 virus and the subsequent restrictions imposed by the authorities, its audit

activities had to be completed “at a distance”, but that in any event they were able to complete the collection and adequate and sufficient evidence to support their conclusions, without encountering limits on audit procedures. The independent auditors also notes that Terna S.p.A. considers the above emergency to be a non-adjusting event and that a specific disclosure has been included in the notes to the financial statements.

- On 16 April 2020, the independent auditors issued their report on the consolidated non-financial statement prepared pursuant to article 3, paragraph ten of Legislative Decree 254 of 30 December 2016 and article 5 of CONSOB Regulation adopted with Resolution 20267 of 18 January 2018, which states that no matters have been brought to the attention of the independent auditors that would cause them to conclude that the Terna Group’s consolidated non-financial statement for the year ended 31 December 2019 has not been prepared, in all material aspects, in compliance with the requirements of articles 3 and 4 of the above decree and the Global Reporting Initiative Standards (GRI Standards).
- The Terna Group’s consolidated non-financial statement constitutes a separate report with respect to the Directors’ report on operations, as permitted by article 5, paragraph three of the above decree.
- We monitored the procedures adopted to ensure effective implementation of the Corporate Governance Code adopted by the Company, as set forth in the Report on Corporate Governance and Ownership Structures approved by the Board of Directors on 10 March 2020. With reference to the recommendations falling within the purview of the Board of Statutory Auditors, we state that:
  - we have verified the correct application of the criteria and procedures for assessing independence, adopted by the Board of Directors;
  - with regard to self-assessment of the independence requirements for members of the Board of Statutory Auditors, we have verified their existence in keeping with the procedures adopted by the Directors;
  - we have complied with the provisions of the regulation governing the management and handling of confidential and privileged company information.

Finally, it should be noted that the independent auditors have expressed its opinion regarding the consistency of the information provided, in accordance with paragraph 4 of article 123-*bis* of the Consolidated Law on Finance, in the Report on Corporate Governance and Ownership Structures with the separate and consolidated financial statements.

- We have conducted the review of the Board of Statutory Auditors and prepared the summary of the activities carried out by members of the Board in 2019, as required by Standards Q.1.1 and Q.1.6 of the Italian Association of Chartered Accountants.
- With reference to Legislative Decree 231 of 8 June 2001, the Company has, for some time, adopted an organisational and management model, which is regularly revised and which is compliant with best practices. Similar models have been adopted by the subsidiaries. During the year, the Board of Statutory Auditors regularly exchanged information with members of the Supervisory Board. The information gathered did not reveal any critical issues with respect to the proper implementation of the organizational model, requiring mention in this report.
- We have not received any complaints pursuant to article 2408 of the Italian Civil Code, nor are we aware of any events or petitions requiring mention during the Annual General Meeting.
- We have verified compliance with the laws regarding the preparation of separate and consolidated financial statements and the report on operations, directly and with the collaboration of the heads of departments and through information obtained from the independent auditors, and we have nothing significant to report.
- We expressed the opinion required from the Board of Statutory Auditors by the third paragraph of article 2389 of the Italian Civil Code (the remuneration of executive Directors).
- The independent auditors issued the opinion referred to in paragraph 5 of article 2433-*bis* of the Italian Civil Code (the interim dividend).
- The members of the Board of Statutory Auditors have complied with the obligation to notify directorships and appointments as statutory auditors in Italian companies within the deadlines and according to

the procedures provided for in article 148-*bis* of the Consolidated Law on Finance and the articles in Chapter II, Section V-*bis*, Part III of the Regulations for Issuers.

- During 2019, the Board of Statutory Auditors met seven times, attended the thirteen meetings of the Board of Directors, the six meetings of the Audit and Risk, Corporate Governance and Sustainability Committee and the Annual General Meeting of shareholders held on 8 May 2019.

On the basis of our activities and the information obtained, the Board of Statutory Auditors is not aware of any omissions, shortcomings, irregularities or any other circumstances that require reporting to the supervisory authorities or mention in this report.

Having reviewed the financial statements for the year ended 31 December 2019, the Board of Statutory Auditors has no objections to raise as regards the proposed resolutions submitted by the Board of Directors.

Rome, 17 April 2020

For the Board of Statutory Auditors
The Chairman
Riccardo Schioppo

Independent auditor's report

pursuant to article 14 and 16 of Legislative Decree 39 of 27 January 2010 and article 10 of the Regulations (EU) no. 537/2014 - Separate financial statements for the year ended 31 December 2019

Independent auditor's report

in accordance with article 14 of Legislative Decree 39 of 27 January 2010 and article 10 of Regulation (EU) 537/2014

To the shareholders of Terna SpA

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of Terna SpA (the Company), which comprise the statement of financial position as of 31 December 2019, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of the Company as of 31 December 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in section Auditor's Responsibilities for the Audit of the Separate Financial Statements of this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Capital expenditure for the development and operation of the transmission grid *Section D – Notes to the statement of financial position – Note 10 Property, plant and equipment and Note 12 Intangible assets* Costs capitalised during the year as property, plant and equipment and intangible assets amount to Euro 1,046 million and mainly relate to capital expenditure for the development and operation of the transmission grid. Revenue from transmission and dispatching activities (regulated activities) is determined each year in accordance with the approved regulatory tariffs which are based on a pre-established return on capital invested, plus amortisation and depreciation and operating costs recognised. The capitalisation of costs for the operation and development of the transmission grid therefore represented a key matter in the audit of the separate financial statements, also considering the magnitude and the high number of transactions.	We performed an understanding and evaluation of the system of internal control over the capital expenditure cycle, with particular reference to identification of the key controls and the verification of their effectiveness. We assessed that the capitalisation of costs complied with the international accounting standards. We also performed substantive procedures analysing, on a sample basis, the supporting documentation of capitalised costs in order to verify that these costs were accurate, complete and pertaining to the reporting period. Our tests also included the analysis of the notes to the separate financial statements to verify the adequacy and completeness of the disclosures therein.

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Derivative financial instruments *Section D – Notes to the statement of financial position – Note 20 Borrowings and financial liabilities and Section E – Commitments and risks* The amount of borrowings in the separate financial statements at 31 December 2019 is Euro 9,423 million. In accordance with the risk management policies, the Company mitigates its exposure to the change in interest rates by entering into derivative financial instruments for hedging purposes. The notional amount of derivatives at 31 December 2019 is Euro 5,373 million. Considering the magnitude of values, the degree of complexity of both the fair value measurement process and the recognition rules provided for by IFRS 9 "Financial Instruments", the verification of derivative financial instruments was considered as key matter in the audit of the separate financial statements.	We performed an understanding and evaluation of the system of internal control over the measurement process of the derivative financial instruments and related accounting treatment. We recalculated, on a sample basis and involving the experts of the PwC network, the fair value of derivatives and we verified the hedge effectiveness in accordance with the provisions of IFRS 9 and with the corporate procedures. Our tests also included the analysis of the notes to the separate financial statements to verify the adequacy and completeness of the disclosures therein.

Responsibilities of the Directors and the Board of Statutory Auditors for the Separate Financial Statements

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company ability to continue as a going concern and, in preparing the separate financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the separate financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgment and maintain professional scepticism throughout the audit. Furthermore:

- we identified and assessed the risks of material misstatement of the separate financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company internal control;
- we evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- we concluded on the appropriateness of the directors'use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we evaluated the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that are of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by article 10 of Regulation (EU) 537/2014

We were appointed by the shareholders of Terna SpA at the general meeting held on 13 May 2011 to perform the audit of the Company's separate and consolidated financial statements for the years ending 31 December 2011 through 31 December 2019.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) 537/2014 and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the separate financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with article 14, paragraph 2, letter e), of Legislative Decree 39/2010 and article 123-bis, paragraph 4, of Legislative Decree 58/1998

The directors of Terna SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Terna SpA as of 31 December 2019, including their consistency with the relevant separate financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree 58/1998, with the separate financial statements of the Company as of 31 December 2019 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the separate financial statements of the Company as of 31 December 2019 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree 39/2010, issued on the basis of our knowledge and understanding of the Company obtained in the course of the audit, we have nothing to report.

Rome, 16 April 2020

PricewaterhouseCoopers SpA

Signed by

Luca Bonvino
(Partner)

This report has been translated from the original version which was issued in Italian language, solely for the convenience of international readers.

Annual Report
Integrated Report

Sustainability Report
Non-Financial Statement

REPORTING PROCESS 2019

The purpose of the reports is to provide Terna's internal and external stakeholders with an understanding and overview of the Company and its businesses and operations.

They are the end result of a series of deliberate choices in terms of transparency, communication, accuracy, completeness and the linking of disclosures, and mark the culmination of a sequence of complex processes involving a large number of people from across the Company.

Report on Corporate Governance and Ownership Structures

Report on the Remuneration Policy and Remuneration paid

Information Circular on Terna S.p.A.'s Performance Share Plan 2020-2023

Production of first mock-up

Annual Report Integrated Report:
6 February 2020

Sustainability Report Non-Financial Statement:
6 February 2020

Output for Directors pre-Board meeting
3 March 2020

Printed versions for Board of Directors
10 March 2020

Publication on Borsa Italiana's website
24 April 2020

Annual General Meeting
27 April 2020*

Printing
4 May 2020

** The Annual General Meeting of 27 April 2020, which was later cancelled, has been rescheduled for 18 May 2020.*

All pictures are property of Terna.

www.terna.it

Mercurio GP
Milan

Strategic advisory
Creative concept
Graphic design
Layout
Editing

www.mercuriogp.eu

Password Language Services S.r.l.
Rome

Translation

MIX
Paper from responsible sources
FSC® C103622

Varigrafica Alto Lazio S.r.l.
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Printing

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Terna