Terna

PRESS RELEASE

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# TERNA'S BOARD OF DIRECTORS: RESULTS AS OF JUNE 30, 2012 APPROVED

- ***Revenues at 856.6 million euros (794.1 million euros in 1H11, +7.9%)***
- ***Ebitda at 668.9 million euros (606.5 million euros in 1H11, +10.3%)***
- ***Ebit at 464.4 million euros (413.8 million euros in 1H11, +12.2%)***
- ***Net Profits at 221.9 million euros (on a like for like basis as the first half of 2011, +13.2%; including the impact of the Robin Hood Tax -4.9%)***
- ***Investments in traditional activities equal to 551 million euros (543 million euros in 1H11, +1.5%)***

**Rome, July 24, 2012 –** CEO Flavio Cattaneo presented the results of the first half of 2012, which were examined and approved by TERNA SpA's Board of Directors that met today chaired by Luigi Roth.

CEO Flavio Cattaneo, commented: *"Even in such difficult times, all indicators are positive for Terna. The Robin Hood Tax still has a strong impact on profits. We are confident we can close positively thanks to the commitment of all the Terna Group."*

## FOREWORD

The Group's half-year report as of June 30, 2012 was drawn up according to the provisions of Art.154-ter of Legislative Decree 58/98 introduced by Legislative Decree no. 195 dated November 6, 2007 (known as "Transparency Decree") and subsequently amended by Legislative Decree no. 27 dated January 27, 2010.

**Revenues** for the first half of 2012, equal to 856.6 million euros, registered an increase of 62.5 million euros, equal to 7.9%, compared to 794.1 million euros in the same period of 2011. The change was mainly related to higher Grid Transmission Fees, equal to +58.2 million euros, and higher fees from dispatching activity (+6 million euros).

**Operating costs,** equal to 187.7 million euros in the first half of 2012, were essentially in line with those of the first half of 2011 (+0.1 million euros).

**Ebitda** (Gross Operating Margin) stood at 668.9 million euros, increasing by approximately 62.4 million euros compared to 606.5 million euros in the first half of 2011 (+10.3%).

**Amortization and Depreciation**, equal to 204.5 million euros, increased by 11.8 million euros compared to the first half of 2011, essentially for the start ups of new plants.

**Ebit** (Operating Income) stood at 464.4 million euros, increasing by 50.6 million euros (+12.2%) compared to the same period of 2011.

**Net financial charges** for the period**,** equal to 62.1 million euros, registered an increase of 4 million euros compared to 58.1 million euros in the first half of 2011, owing to greater financial charges relative to a higher net debt.
**Income before taxes** stood at 402.3 million euros, increasing by 46.6 million euros compared to the same period in 2011 (+13.1%).

**Income taxes** for the period were equal to 180.4 million euros, increasing by 58 million euros (+47.4%) essentially owing to the effect of the ‘corrective manoeuvre-bis’ (the Robin Hood Tax).The tax rate of the first six months stood at 44.8% increasing by 10 points compared to the first half of 2011.

The Robin Hood Tax determined the **Net Profit for from Continuing Operations** at 221.9 million euros, decreasing by 4.9% compared to 233.3 million euros reported in the first six months of 2011. **Adjusted Net Profits from Continuing Operations**, applying the effects of the ‘corrective manoeuvre-bis’ also to the first half of the previous year, registered an increase equal to +25.8 million euros (+13.2%) compared to 196.1 million euros of adjusted net profits from continuing operations as of June 30, 2011. Group Net Profit, equal to 221.9 million euros, decreased by 106.4 million euros compared to 328.3 million euros for the same period in 2011. Such decrease was due to the impact of the Robin Hood Tax and to the lack of the extraordinary contribution essentially relating to the sale of Rete Rinnovabile S.r.l. for 59.2 million euros and to the release of the provisions for contractual obligations linked to the sale of Terna Participações, for 33.8 million euros.

The consolidated statement of financial position as of June 30, 2012 registered a **Net Shareholder’s Equity** equal to 2,695.3 million euros (2,751 million euros as of December 31, 2011).

**Net financial debt** was equal to 5,886.8 million euros and registered an increase of 763.7 million euros compared to data as of December 31, 2011 (5,123.1 million euros). The **debt/equity** ratio as of June 30, 2012, therefore stood at 2.18.

Total **investments** of the Group in **Traditional Activities** in the first half of 2012 were equal to 551.1 million euros (+1.5% compared to the first six months of 2011).

**Headcount** of the Group, at the end of June 2012, totaled 3,496, essentially in line with 3,495 employees at the end of December 31, 2011.

## FOCUS ON ENERGY SYSTEM

| GWh (Gigawatt/hour) | 1 H ‘12* | 1 H ‘11 | % |
|---|---|---|---|
| Net Production | 141,465 | 143,997 | -1.89% |
| Intended for pumping | 1,353 | 1,231 | +9.9% |
| Import/export balance | 21,932 | 22,752 | - 3.6% |
| Demand in Italy | 162,044 | 165,518 | -2.1% |

*preliminary data as of July 19, 2012

**Highest peak of electricity consumption:** February 15, 2012 with a 53,035 Megawatt demand, increasing by 0.7% compared to the peak demand in the first half of 2011.

## SIGNIFICANT EVENTS OCCURRED AFTER JUNE 30, 2012

On July 16, 2012 Moody’s downgraded the issuer and the senior unsecured ratings of Terna S.p.A. from A3 to Baa1. The outlook on the ratings is negative. At the same time, Terna’s short-term rating at Prime-2 was unchanged. The rating followed the downgrade on July 13, 2012 of Italy's government bond ratings from A3 to Baa2, with a negative outlook. Following the downgrade, Terna's rating was one notch above the Sovereign State's rating.

**OUTLOOK**

In the second half of the year, the Terna Group will be committed to implementing what is provided for in the 2012-2016 Strategic Plan approved by the Board of Directors on March 20, 2012.

With reference to the electricity demand in Italy, a decrease is expected compared to the previous year also considering the slowdown in electricity demand registered in the first half of the year. It should be noted in this regard that also in 2012 the revenue integration mechanism will be applied, as established by Resolution 188/08, with mitigation of the volume risk for the Company's revenues.

The Group will focus on implementing the investments included in the Development Plan mainly aiming at developing interconnections with foreign countries, at reducing grid congestion (Trino-Lacchiarella power line), at guaranteeing the connection of renewable energy plants and at completing preliminary activities for implementing the "storage system" projects.

Investments will be financed through the Group's cash flow that also includes nearly 1.7 billion euros of cash also thanks to the recent bond issuance (1.25 billion euros with maturity in 2017).

The Group will continue its upgrading activity of processes and efficiency on operating expenses, ensuring at the same time the highest quality in the transmission and dispatching service.

With reference to nontraditional activities, in the second half of 2012, the Group will continue its scouting and new business development activities through its subsidiary Terna Plus.

**PAYMENT OF 2012 INTERIM DIVIDEND**

The amount of the 2012 interim dividend that, gross of any withholdings in compliance with the law, will be paid as of November 22, 2012, following "record date" of coupon no. 17 on November 19, 2012, will be announced to the market in the next few months.

*At 5:30pm a conference call will be held to present the results of the first half of 2012 to financial analysts and institutional investors. Journalists are also invited to listen to the call. The support material for the conference call will be available in the website of Borsa Italiana S.p.A. (www.borsaitaliana.it) and in the Company's website (www.terna.it) in the Investor Relations/Presentations section, at the beginning of the conference call. In the same section it will also be possible to follow the presentation through audio webcasting.*

*The reclassified Income Statement, Balance Sheet and Consolidated Statement of Cash Flows of the Terna Group are attached. It should be noted that some economic comparative balances of the first half of 2011 were adjusted to consider the change in the accounting model of the Group's goodwill exemption for tax purposes. Moreover, following the sale transaction of the equity stake in the company Nuova Rete Solare S.r.l., cost and revenue balances relating to the company were* *reclassified for comparative purposes under item "Net profit for the period from discontinued operations."*

*It should be noted that, in compliance with Directive no. DME/9081707 dated September 16, 2009, such statements and sheets are included in the Interim Management Report which is part of the Half-Year Report of the Terna Group as of June 30, 2012. These are not subject to auditing on the part of the auditing company.*

*The manager in charge of drawing up the company's accounting documents, Mr. Luciano di Bacco, declares pursuant to paragraph 2 of art. 154-bis of the Consolidated Finance Act, that the accounting information included in this press release corresponds to the financial statements, books and accounting records.*

*The Half-Year Report as of June 30, 2012, with the certification in compliance with art.154 bis, paragraph 5 of Legislative Decree 58/98 (Consolidated Finance Act) and the report by the auditing company will be made available to the public at the Company's registered office and at the market management company Borsa Italiana S.p.A. (www.borsaitaliana.it) and will be published in the website www.terna.it according to the law.*

In this release, some "alternative performance indicators" (Ebitda, Ebit and Net financial debt) are used, whose meaning and contents are explained below pursuant to CESR/05-178b recommendation published on November 3, 2005:
- Ebitda (Gross operating profit): represents an indicator of the operating performance; it is calculated by adding amortization to the Operating profit (EBIT);
- Net Financial Debt: represents an indicator of the company's financial structure: it is calculated as a result of the short term and long term financial debt and relative derivatives, net of cash and cash equivalents and of financial assets.

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## *Terna Group's Reclassified Income Statement*

| *Million euros* | First half year 2012 | | | |
|---|---|---|---|---|
| | **2012** | **2011** | **Change** | **%** |
| **Revenues:** | | | | |
| - Grid transmission fee [(1)] | 746.2 | 688.0 | 58.2 | 8.5% |
| - Other energy items [(1)] | 81.4 | 75.4 | 6.0 | 8.0% |
| - Other revenues from sales and services [(1)] | 12.7 | 14.6 | -1.9 | -13.0% |
| - Other revenues and income | 16.3 | 16.1 | 0.2 | 1.2% |
| **Total revenues** | **856.6** | **794.1** | **62.5** | **7.9%** |
| **Operating expenses:** | | | | |
| - Personnel expenses | 103.1 | 103.7 | -0.6 | -0.6% |
| - Services and use of third party assets | 63.6 | 63.9 | -0.3 | -0.5% |
| - Materials | 7.5 | 10.5 | -3.0 | -28.6% |
| - Other expenses[(2)] | 13.5 | 9.5 | 4.0 | 42.1% |
| **Total operating expenses** | **187.7** | **187.6** | **0.1** | **0.1%** |
| **GROSS OPERATING PROFIT** | **668.9** | **606.5** | **62.4** | **10.3%** |
| **Amortization and Depreciation [(3)]** | **204.5** | **192.7** | **11.8** | **6.1%** |
| **OPERATING PROFIT** | **464.4** | **413.8** | **50.6** | **12.2%** |
| - Net financial income (charges) [(4)] | -62.1 | -58.1 | -4.0 | 6.9% |
| **PROFIT BEFORE TAXES** | **402.3** | **355.7** | **46.6** | **13.1%** |
| - Income taxes for the period | 180.4 | 122.4 | 58.0 | 47.4% |
| **PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS** | **221.9** | **233.3** | **-11.4** | **-4.9%** |
| Profit for the period from Discontinued Operations and assets held for sale | **0.0** | **95.0** | **-95.0** | **-100.0%** |
| **PROFIT FOR THE PERIOD** | **221.9** | **328.3** | **-106.4** | **-32.4%** |
| *-of which belonging to the Group* | *221.9* | *328.3* | *-106.4* | *-32.4%* |

In the Consolidated Statement:
(1) The balance is included in "Revenues from sales and services";
(2) Corresponds to the item "Other operating expenses" and to the item "Amortization and Depreciation" for the value of depreciation of fixed assets (0.1 million euros);
(3) Corresponds to the item "Amortization and Depreciation" net of the value of depreciation of fixed assets (0.1 million euros);
(4) Corresponds to the balance of the items described under points 1, 2 and 3 of letter C-"Financial income/charges".

## Terna Group's Reclassified Statement of financial position

| Million euros | AS of 30.06.2012 | AS of 31.12.2011 | Change |
|---|---|---|---|
| Net fixed assets | | | |
| - Intangible assets and goodwill | 463.6 | 470.9 | -7.3 |
| - Property, plant and equipment | 8,965.3 | 8,618.2 | 347.1 |
| - Financial assets (1) | 76.8 | 74.0 | 2.8 |
| **Total** | **9,505.7** | **9,163.1** | **342.6** |
| Net working capital | | | |
| - Trade receivables (2) | 626.1 | 612.4 | 13.7 |
| - Inventories | 7.3 | 16.3 | -9.0 |
| - Other assets (3) | 43.1 | 14.9 | 28.2 |
| - Trade payables (4) | 559.5 | 705.0 | -145.5 |
| - Net liabilities from energy pass-through expenses (5) | 101.2 | 247.0 | -145.8 |
| - Net tax liabilities (6) | 86.6 | 121.5 | -34.9 |
| - Other liabilities (7) | 323.0 | 294.3 | 28.7 |
| **Total** | **-393.8** | **-724.2** | **330.4** |
| **Gross capital employed** | **9,111.9** | **8,438.9** | **673.0** |
| Sundry provisions (8) | 529.8 | 564.8 | -35.0 |
| **NET CAPITAL EMPLOYED** | **8,582.1** | **7,874.1** | **708.0** |
| **Group's net assets** | **2,695.3** | **2,751.0** | **-55.7** |
| **Net financial debt (9)** | **5,886.8** | **5,123.1** | **763.7** |
| **TOTAL** | **8,582.1** | **7,874.1** | **708.0** |

In the consolidated statement of financial position, these correspond to:
(1) The items "Equity-accounted investees", "Other non-current assets" and "Non-current financial assets" for the value of other equity stakes (0.6 million euros);
(2) The item "Trade receivables" net of the value of receivables from energy pass-through revenues (1,229.4 million euros);
(3) The item "Other current assets" net of other tax receivables (8.0 million euros) and the item "Current financial assets" for the value of deferred operations (18.9 million euros);
(4) The item "Trade payables" net of the value of liabilities from energy pass-through expenses (1,330.6 million euros);
(5) The items "Trade receivables" for the value of receivables from energy pass-through revenues (1,229.4 million euros) and "Trade payables" for the value of liabilities from energy pass-through expenses (1,330.6 million euros);
(6) The items "Tax assets", "Other current assets" for the value of other tax receivables (8.0 million euros), "Other current liabilities" for the value of other tax payables (41.7 million euros) and e "Income tax liabilities";
(7) The items "Other non-current liabilities", "Current financial liabilities" and "Other current liabilities" net of other tax payables (41.7 million euros);
(8) The items "Employee benefits", "Provisions for future risks and charges" and "Deferred tax liabilities";
(9) The items "Long-term loans", "Current portion of long-term loans", "Non-current financial liabilities", "Cash and cash equivalents", "Non-current financial assets" for the value of FVH derivatives (635.9 million euros) and "Current financial assets" for the value of securities available for sale (1,032.5 million euros).

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## Terna Group's Cash Flow

| Million euros | Cash flow 1st half 2012 | Cash flow 1st half 2011* |
|---|---|---|
| **Opening cash and cash equivalents** | **1,114,9** | **156.3** |
| ***Of which Opening cash and cash equivalents included in Discontinued Operations*** | ***0.0*** | ***6.2*** |
| - Net profit for the period | 221.9 | 328.3 |
| *Of which attributable to Continuing operations* | *221.9* | *233.3* |
| - Amortization and Depreciation | 204.5 | 192.7 |
| - Net change in provisions | -35.0 | -43.6 |
| - Net losses (Profits) on asset disposal | -1.6 | -0.9 |
| **Self-financing** | **389.8** | **476.5** |
| - Change in net working capital | -330.4 | -42.5 |
| **Cash Flow from operating activities** | **59.4** | **434.0** |
| **Investments** | | |
| - Property, plants and equipment | -532.7 | -521.9 |
| *Of which attributable to Continuing operations – investments in traditional activities* | *-532.4* | *-521.9* |
| - Intangible assets | -18.7 | -21.2 |
| - Other changes in intangible assets | 8.9 | 9.1 |
| - Changes in shareholding | -3.0 | -38.4 |
| **Total cash flow from (to) investing activities** | **-545.5** | **-572.4** |
| **NET INVESTED CAPITAL from discontinued operations** | **0.0** | **368.8** |
| - Change in loans | 361.7 | 146.6 |
| *Of which attributable to continuing operations* | *361.7* | *380.2*** |
| - Other changes in the Group's net assets | -16.3 | 7.2 |
| *Of which attributable to Continuing operations* | *-16.3* | *22.4* |
| - Dividends to shareholders of the Parent Company | -261.3 | -261.3 |
| - Net assets of minority assets from Discontinued operations | 0.0 | -0.2 |
| **Total cash flow from (to) financial activities** | **84.1** | **-107.7** |
| **Total cash flow for the period** | **-402.0** | **122.7** |
| *Of which attributable to Continuing operations* | *-402.0* | *127.8* |
| **Closing cash and cash equivalents** | **712.9** | **279.0** |

**Data was recalculated to consider the change in the accounting of the Group's goodwill exemption;*
***The change includes the positive net financial position toward RTR (254.6 million euros) as of 31.12.2010.*

For the reconciliation with the consolidated accounting statements, reference is made to the paragraph "Economic and Financial Management of the Group" included in the Interim Report on Management of the Terna Group's Half Year Report as of June 30, 2012.