

## TERNA BoD: RESULTS AS OF 31 MARCH 2016 APPROVED

- **Revenue** at € 517.2 million
- **EBITDA** at € 395.1 million
- **EBIT** at € 263.9 million
- **Group net profit for the period** at € 162.2 million
- The results reflect the effects of the **fifth regulatory period** in force from 2016 to 2023, which provides for a **new tariff system** and the acquisition of the **FS** high-voltage electricity grid completed at the end of 2015

**Rome, 4 May 2016** – The Chief Executive Officer Matteo Del Fante has illustrated the results of first quarter of 2016, examined and approved by the Board of Directors of Terna S.p.A. ("Terna"), that met today, chaired by Catia Bastioli.

*"The results of the first quarter of 2016 – said Matteo Del Fante, Terna's Chief Executive Officer – are in line with the objectives of the guidance for the year and reflect the effects of the tariff system established by the AEEGSI for the remuneration of energy transmission and dispatching activities, and for the acquisition of the high voltage electricity grid belonging to Ferrovie dello Stato. We confirm the important contribution of Non-Regulated Activities, now more and more an integral part of the Group's growth strategy, and the benefits from improved process efficiency. With a positive and clear regulatory framework, Terna will continue to further commit itself to the infrastructural development of the country, with increasingly selective investments for the electricity grids, and for smart and sustainable technological solutions, also from a European point of view for the completion of the electricity market".*

## CONSOLIDATED ECONOMIC AND FINANCIAL RESULTS OF THE 1st QUARTER OF 2016

€ millions	Q1 2016	Q1 2015	% change
<b>Revenue</b>	517.2	513.3	+0.8%
<b>EBITDA (Gross Operating Margin)</b>	395.1	401.6	-1.6%
<b>EBIT (Operating Profit)</b>	263.9	281.3	-6.2%
<b>Group net profit for the period</b>	162.2	165.2	-1.8%

**Revenue** in the first quarter of 2016, of € 517.2 million, reported a € 3.9 million (+0.8%) increase compared to the corresponding period of 2015. The change is mainly attributable to the increase in revenue related to € 11.6 million in Non-Regulated Activities and to the € 7.4 million reduction in revenue related to Regulated Activities. This is mainly due to the reduction in transmission fees (€ -12.1 million) and to dispatching activities (€ -3.8 million) which reflect the overall effects of the new regulatory period 2016–2023. The figures also include in the first quarter of 2016 the contribution of the national transmission grid acquired at the end of 2015 from the Ferrovie dello Stato Italiane Group (€ +12.3 million). The revenue deriving from Non-Regulated Activities increased by € 11.6 million compared to the first quarter of 2015 as a result of the trend in orders of the Tamini Group (€ +8.1 million), the impact of an order in Chile (€ +2 million) and the fee for the period of the subsidiary Rete S.r.l. for housing the optical fibre owned by Basicel (€ + 1.4 million).

**Operating expenses** were € 122.1 million, up compared to 111.7 million for the same period of 2015 (€ +10.4 million), mainly due to the greater volumes in Non Regulated Activities (€ + 12 million, of which about € 9 million referred to the Tamini Group) and for the maintenance costs of the grid acquired from the FS Group in 2015 (€ 8.9 million), not included in the consolidation scope in the first quarter of 2015, partially offset by the savings generated by the efficiency plan launched in 2015 (€ - 11 million, € 4 million of which from the generational turnover plan and 7 million from external costs).

**EBITDA** (Gross Operating Margin) for the period, therefore, stood at € 395.1 million, a decrease of € 6.5 million (-1.6%) compared to the € 401.6 million of the first quarter of 2015.

The **EBITDA margin** went down from 78.2% for first quarter 2015 to 76.4% for the corresponding period of 2016. Notwithstanding the consolidation of Tamini, the EBITDA margin of the period stood at 81%.

**Amortisation, depreciation and impairment** of the period, of € 131.2 million, increased by € 10.9 million compared to the same period of financial year 2015, essentially as a result of the coming into operation of new plants and to the amortization of the infrastructures acquired from Gruppo Ferrovie dello Stato Italiane.

**EBIT** (Operating Profit/Loss), after deducting amortisation, depreciation and impairment, stood at € 263.9 million, compared to € 281.3 million in the first three months of 2015 (-6.2%).

Net financial expenses stood at about € 19 million, compared to € 31 million of the first quarter of 2015. This reduction of about € 12 million is mainly due to the reduction in market interest rates and in the Group's gross debt connected to the Liability Management operation carried out in July 2015.

**Profit before taxes**, stood at € 244.7 million, down by € 5.6 million compared to the figure for the corresponding period of the previous year (-2.2%).

**Income taxes** for the period amounted to € 83.3 million and fell by € 1.8 million compared to the corresponding period of 2015 (-2.1%) essentially due to lower pre-tax profit. The **tax rate** for the period (34%) is in line with the first quarter of 2015.

The **Group's net profit for the period** was € 162.2 million, compared to 165.2 in the first quarter of 2015 (-1.8%).

**Total investments** made by the Group in the first three months of 2016 amounted to about € 158 million, compared to the € 177.2 million of the same period of last year. The main projects of the period refer to the progress at the construction sites of the Italy-Montenegro and Italy-France electrical interconnections and of the Sorgente-Rizziconi power line (between Sicily and Calabria) and the coming into operation of the Villanova-Gissi line in January 2016.

**Net financial debt** stood at € 7,687.2 million, down by € 315.5 million (-3.9%) compared to the € 8,002.7 million of 31 December 2015 due to a positive **free cash flow** of € 140 million.

**Consolidated shareholders' equity** as of 31 March 2016 recorded **Equity attributable to the owners of the Parent** of € 3,469.4 million compared to € 3,320.8 million as of 31 December 2015.

At the end of March 2016, Group **employees** numbered 3,778, an increase of 11 compared to 31 December 2015. This increase was mainly due to the completion of the generational turnover project announced last year, which made it possible to bring more than 300 new young professionals into Terna.

## EVENTS SUBSEQUENT TO 31 MARCH 2016

### **Sustainability**

The Group continues its commitment for the development of a more sustainable system: as part of the upgrade of the electricity grid in the province of Naples, we began the demolition of obsolete lines in April 2016. The project involves approximately 18 km of old lines and 56 pylons in the municipalities of Frattamaggiore, Frattaminore, Crispano, Cardito, Caivano, Acerra, Afragola, Orta di Otella and Casalnuovo di Napoli. The dismantling operations, to be concluded in a few months, were possible thanks to the construction and commissioning of a new underground power line 8.7 km in length, in operation since March of 2015. The demolition of the pylons of the 18 km of power lines frees up about 252 thousand square metres of land and allows the recovery of steel, aluminium and glass, which is all delivered to specialised companies for subsequent recycling. After the completion of this grid upgrade work, the savings for the system will be approximately € 11 million per year; on the environmental front, reduced grid losses will result in approximately 7000 tons less of CO<sub>2</sub> emissions each year.

### **Non-Regulated Activities**

On 15 April 2016 a contract was signed with BT Italia S.p.A. (subsidiary of British Telecommunications plc) for the granting of indefeasible rights of use (IRU) of an optic fibre pair of a total length of 683 km, already laid on the guard wires of power lines owned by Terna S.p.A. and Terna Rete S.r.l. Italy. The deal lasts 14 years, whilst the amount of the contract is € 2.9 million.

### **AEEGSI resolutions**

On 21 April 2016, the Authority published resolution 192/2016/R/eel "*Determination of advance payment of the supplementary fee relating to essential isolated production units, in the availability of production Enel Produzione S.p.A. for the year 2013*". With this measure the Authority states that by 31 May 2016 Terna must make Enel Produzione an advance payment of the supplementary fee for generation costs of isolated units, relating to 2013; the amount must be equal to the advance payment of the supplementary fee for 2012 pursuant to Resolution 284/2015/R/eel.

*We must inform you that this communication related to the consolidated results at 31 March 2016 has been prepared, after a resolution of the Board of Directors, in continuity with the past, while awaiting clarifications on the regulatory framework outlined by Italian Legislative Decree No. 25 of 15 February 2016 (the "Decree"), which removed the obligation to publish interim financial statements on the part of listed companies, delegating to Consob the task of evaluating the possible reintroduction of the obligation to publish "additional periodic financial information" with the limits and conditions set out in said Decree. In this context the document containing the consolidated Interim Financial Report of the Terna Group as of 31 March 2016 will be published by 15 May 2016, filed and available to the public at the head office, on the Company's website ([www.terna.it](http://www.terna.it)) and on the website of the authorised storage system "1Info" ([www.1info.it](http://www.1info.it)), and filed in the stock exchange management company Borsa Italiana S.p.A. ([www.borsaitaliana.it](http://www.borsaitaliana.it)). The disclosure regarding the filing will be issued in due course.*

*The reclassified income statement, statement of financial position and statement of cash flows of the Terna Group are hereby attached. These represent the operating classification of the results used by the management for a more effective assessment of the economic and financial performance of the Terna Group. We must specify, under the terms of Communication No. DME/9081707 of 16 September 2009, that these statements are from the Interim Financial Report of the Terna Group as of 31 March 2016 and have not been audited by the audit company.*

*At 2.30 p.m. a conference call will be held to illustrate the results of the first quarter of 2016 to financial analysts and institutional investors, to which journalists may also connect in listening mode. The supporting material for the conference call will be made available on the Company's website ([www.terna.it](http://www.terna.it)), in the section Investor Relations/Presentations, at the start of the conference call. In the same section it will also be possible to follow the presentation via audio webcast. The Presentations will also be made available, via SDIR-NIS, on the website of Borsa Italiana S.p.A. ([www.borsaitaliana.it](http://www.borsaitaliana.it)) and of the authorised storage system "1Info" ([www.1info.it](http://www.1info.it)).*

*The Executive in Charge of the Preparation of the Company's Accounting Documents, Pierpaolo Cristofori, in accordance with paragraph 2 of Art. 154-bis of the Consolidated Law on Finance, declares that the accounting disclosure provided in this communication is consistent with the documents, books and accounts.*

A number of "alternative performance indicators" (EBITDA, EBITDA margin and Net financial debt) are used in the present communication. The meaning and content of these are illustrated here below in line with the CESR/05-178b recommendation published on 3 November 2005:

- EBITDA (gross operating margin): this represents an indicator of operating performance; it is calculated adding depreciation and amortisation to the operating profit (EBIT);
- EBITDA margin: this represents an indicator of operating performance; it derives from the ratio between Gross Operating Margin (EBITDA) and revenue;
- Net financial debt: this represents an indicator of the company's financial structure; it is determined as the sum of the short- and long-term financial debts and the related derivative instruments, net of cash and cash equivalents and of financial assets.

## Terna Group reclassified income statement

€ million	1Q2016	1Q2015	Δ	Δ %
<b>Revenue:</b>				
- Transmission fee (1)	431.2	443.3	(12.1)	(2.7%)
- Dispatching fees (1)	28.0	31.8	(3.8)	(11.9%)
- Other operating revenue	55.3	35.2	20.1	57.1%
<i>of which other revenue from Regulated Activities (1)</i>	12.2	3.7	8.5	229.7%
<i>of which revenue from Non-Regulated Activities</i>	43.1	31.5	11.6	36.8%
- Revenue from construction of licensed activities (2)	2.7	3.0	(0.3)	(10.0%)
<b>Total revenue</b>	<b>517.2</b>	<b>513.3</b>	<b>3.9</b>	<b>0.8%</b>
<b>Operating expenses:</b>				
- Personnel expenses	54.0	56.3	(2.3)	(4.1%)
- Services, leases and rentals	40.6	30.9	9.7	31.4%
- Materials	20.1	12.5	7.6	60.8%
- Other expenses	3.0	7.3	(4.3)	(58.9%)
- Service quality	1.7	1.7	-	0.0%
- Costs of construction of licensed activities (2)	2.7	3.0	(0.3)	(10.0%)
<b>Total operating expenses</b>	<b>122.1</b>	<b>111.7</b>	<b>10.4</b>	<b>9.3%</b>
<b>EBITDA (GROSS OPERATING PROFIT)</b>	<b>395.1</b>	<b>401.6</b>	<b>(6.5)</b>	<b>(1.6%)</b>
<b>Amortisation, depreciation and impairment</b>	<b>131.2</b>	<b>120.3</b>	<b>10.9</b>	<b>9.1%</b>
<b>EBIT (OPERATING PROFIT)</b>	<b>263.9</b>	<b>281.3</b>	<b>(17.4)</b>	<b>(6.2%)</b>
- Net financial income (expense)	(19.2)	(31.0)	11.8	(38.1%)
<b>PROFIT/LOSS BEFORE TAXES</b>	<b>244.7</b>	<b>250.3</b>	<b>(5.6)</b>	<b>(2.2%)</b>
- Income taxes for the period	83.3	85.1	(1.8)	(2.1%)
<b>NET PROFIT FOR THE PERIOD</b>	<b>161.4</b>	<b>165.2</b>	<b>(3.8)</b>	<b>(2.3%)</b>
-Share attributable to non-controlling interests	(0.8)	-	(0.8)	0.0%
<b>GROUP NET PROFIT FOR THE PERIOD</b>	<b>162.2</b>	<b>165.2</b>	<b>(3.0)</b>	<b>(1.8%)</b>

Revenue from Regulated Activities (totalling € 471.4 million).

(2) Recognised pursuant to IFRIC 12 – “Service Concession Arrangements”.

*Terna Group reclassified statement of financial position*

€ million	at 31.03.2016	at 31.12.2015	Δ
<b>Net non-current assets</b>			
- Intangible assets and goodwill	514.4	520.1	(5.7)
- Property, plant and equipment	12,082.1	12,078.7	3.4
- Financial assets	90.9	89.5	1.4
<b>Total</b>	<b>12,687.4</b>	<b>12,688.3</b>	<b>(0.9)</b>
<b>Net working capital</b>			
- Trade receivables	470.6	568.3	(97.7)
- Inventories	12.6	12.4	0.2
- Other assets	46.2	40.0	6.2
- Trade payables	(609.1)	(747.1)	138.0
- Net energy-related pass-through payables	(593.8)	(617.9)	24.1
- Net tax liabilities	(125.9)	132.5	(258.4)
- Other liabilities	(345.6)	(349.9)	4.3
<b>Total</b>	<b>(1,145.0)</b>	<b>(961.7)</b>	<b>(183.3)</b>
<b>Gross invested capital</b>	<b>11,542.4</b>	<b>11,726.6</b>	<b>(184.2)</b>
Sundry provisions	(361.5)	(378.1)	16.6
<b>NET INVESTED CAPITAL</b>	<b>11,180.9</b>	<b>11,348.5</b>	<b>(167.6)</b>
<b>Equity attributable to the owners of the Parent</b>	<b>3,469.4</b>	<b>3,320.8</b>	<b>148.6</b>
<b>Equity attributable to non-controlling interests</b>	<b>24.3</b>	<b>25.0</b>	<b>(0.7)</b>
<b>Net financial debt</b>	<b>7,687.2</b>	<b>8,002.7</b>	<b>(315.5)</b>
<b>TOTAL</b>	<b>11,180.9</b>	<b>11,348.5</b>	<b>(167.6)</b>

***Terna Group Cash Flow***

€ million	Cash flow 1Q2016	Cash flow 1Q2015
- Net Profit for the period	161.4	165.2
- Amortisation, depreciation and impairment	131.2	120.3
- Net financial expense	19.2	31.0
- Net change in provisions	(16.6)	(11.3)
- Net Losses (Gains) on asset disposals	(0.2)	(0.8)
<b>Self-financing (Operating Cash Flow)</b>	<b>295.0</b>	<b>304.4</b>
- Change in net working capital	183.3	332.3
- Other changes in non-current assets	29.0	12.9
- Change in equity investments	(1.2)	(1.1)
<b>Change in NWC and other (Cash Flow from Operating Activities)</b>	<b>506.1</b>	<b>648.5</b>
- Total investments	(157.9)	(177.2)
<b>Free Cash Flow</b>	<b>348.2</b>	<b>471.3</b>
- Net financial expense	(19.2)	(31.0)
- Equity reserve cash flow hedges net of the tax effect and other changes in equity	(13.5)	9.3
<b>Change in net financial debt</b>	<b>315.5</b>	<b>449.6</b>