

CONSOLIDATED INTERIM FINANCIAL REPORT
31 MARCH 2017
TERNA GROUP

2017

Enabling Energy Transition



CONSOLIDATED INTERIM FINANCIAL REPORT

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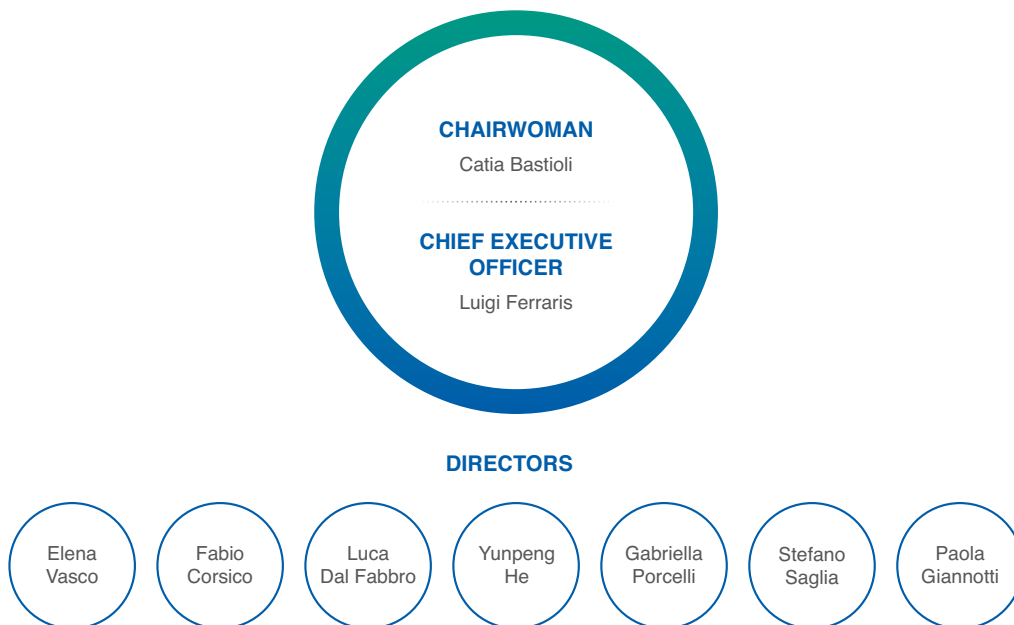
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Highlights - 1Q 2017

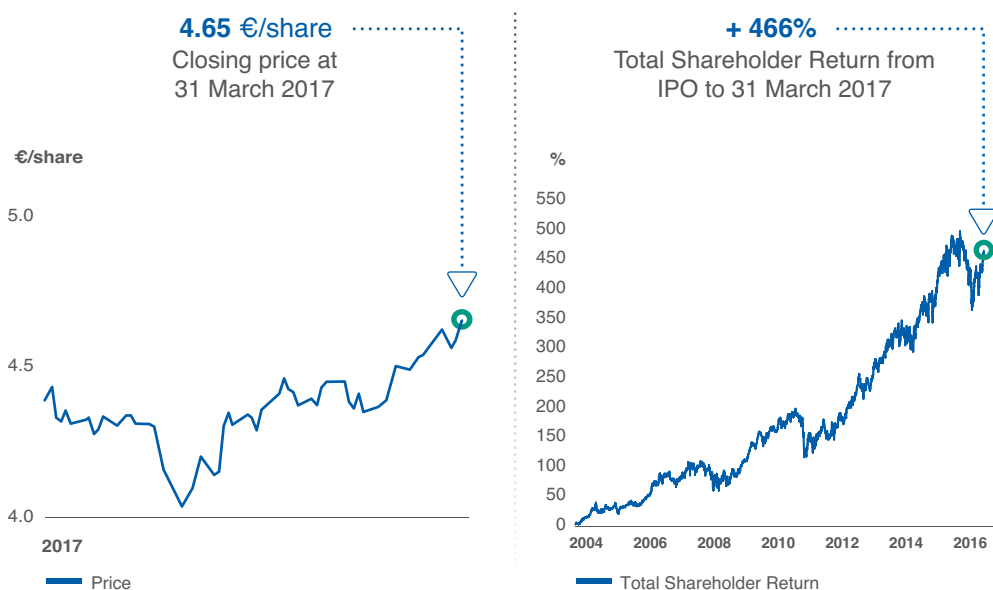


New Board of Directors (2017 -2019)

New Terna S.p.A. BoD appointed on 27 April 2017



Stock performance and shareholder return





Operating performance



Italy-Montenegro Interconnection

Submarine cable production ongoing (capital expenditure of € 17.9 million in the quarter): laying of the first pole has been completed and protection activities are being finalized; laying of underground cables is underway, with 2.7 km of cable in Montenegro and 4 km in Italy.



Italy-France interconnection

Exemption Decree issued by the MISE for the private line (April 2017). Line-construction activities continue (capital expenditure of € 3.9 million in the period): approximately 9 km of a total of 17 km of the provincial stretch has been completed and procurement for civil works on the motorway sections has been finalized.



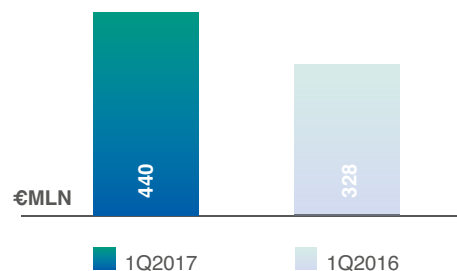
Capri-Continent interconnection

The interconnection between Capri and mainland has been completed and the commissioning activities are underway (capital expenditure of € 3.8 in the quarter).



MSD

MSD net expense increased compared to the corresponding period of last year (+€ 112 million).



Economic and financial performance

(Amounts in € millions)

Revenue	EBITDA	Group net profit	Capital expenditure	Net Financial debt
523.9	402.8	179.3	99.7	7,444.8
+1.3%*	+1.9%*	+10.6%*	-36.9%*	-6.5%**

* Comparative figure 1Q2016.

** Comparative figure 31.12.2016

Introduction

This **Consolidated Interim Financial Report of the Terna Group at 31 March 2017**, which has not been audited, was prepared on a voluntary basis, pursuant to art. 82-ter of the CONSOB Issuer Regulations (as amended by CONSOB Resolution No. 19770 of 26 October 2016). As in the past, the following publicly disclosed financial information is guaranteed to be consistent, coherent and comparable with the corresponding data in the previously released interim financial reports.

The Company

The main business of the Terna Group is the transmission and dispatching of electricity in Italy, playing the role of TSO (Transmission System Operator) and ISO (Independent System Operator) through a government concession. Terna manages all its activities focusing on their economic, social and environmental consequences and adopts a sustainable approach to business to create, maintain and consolidate a relationship of mutual trust with its stakeholders, in order to create value for the Company and its stakeholders. It owns infrastructures and is responsible for defining the National Transmission Grid Development Plan, Security Plan and, starting in 2017, also the Resilience Plan (Resolutions 653/15/R/eel and 646/15/R/eel and subsequent amendments and/or additions).

The main business unit of the Terna Group are presented below:

Regulated Activities – Electricity transmission and dispatching in Italy

The Terna Group owns 99.6% of the Italian National Transmission Grid (NTG).

It is the largest independent transmission system operator in Europe and among the leaders in the world in terms of kilometres of lines managed (more than 72 thousand km).

It is responsible for the management of electricity flows on the High-Voltage and Very-High-Voltage Grid throughout the national territory, with the objective of maintaining the balance between energy demand and supply (dispatching). It is also responsible for the planning, construction and maintenance of the grid. It acts as the Italian TSO in accordance with the regulations of the Italian Regulatory Authority for Electricity, Gas and Water (AEEGSI) and the guidelines of the Ministry of Economic Development (MISE). It ensures the security, quality and cost efficiency of the national electricity system and pursues the development of the grid and its integration with the European grid. It ensures equal conditions of access for all Grid users.

Non-Regulated Activities – New business opportunities in Italy

The Terna Group offers products and services, pursuing new business opportunities where it can take advantages of its experience, technical expertise and ability to innovate.

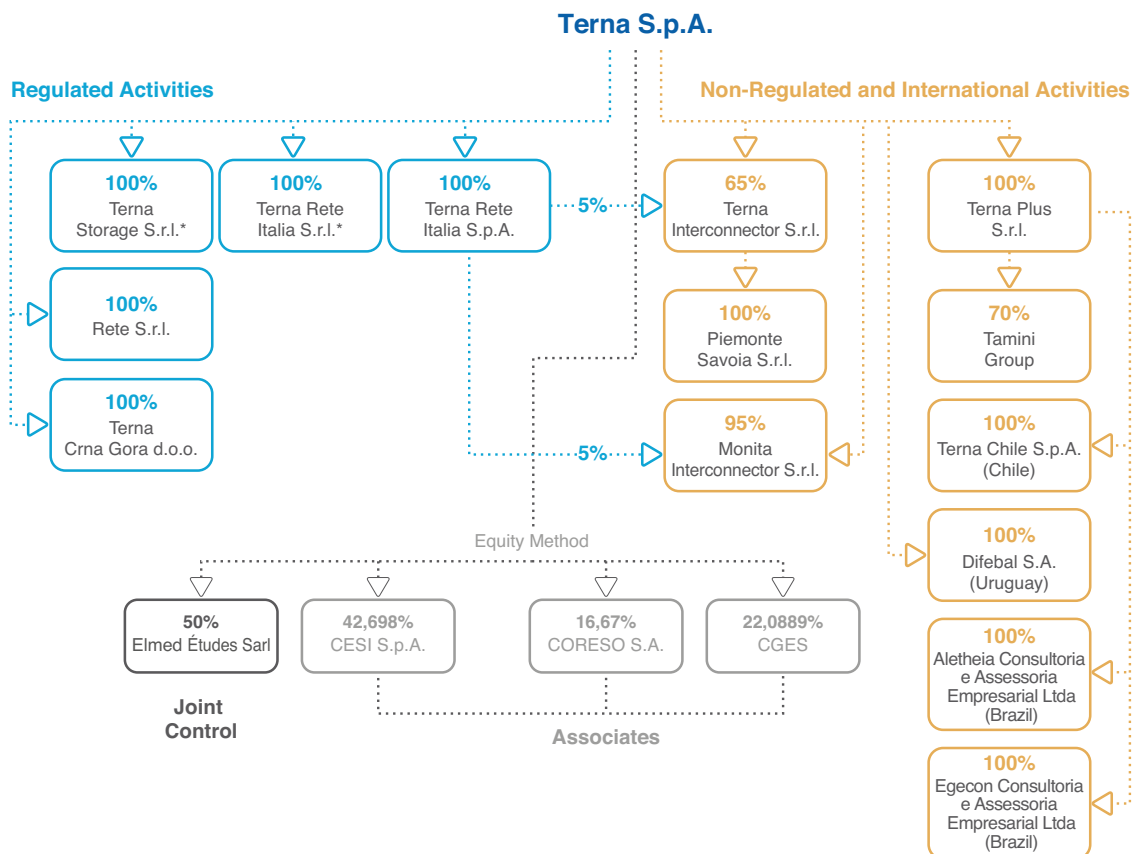
International Activities

The Terna Group offers products and services in other countries, with a view to diversification with respect to the national business, also in partnership with energy operators with consolidated presence abroad.

The development activities focus on geographical areas requiring capital expenditure in transmission infrastructures and which, at the same time, have stable political and regulatory frameworks and a risk/return profile in line with that of the Company.

Corporate structure

The corporate structure of the Terna Group at 31 March 2017 is shown below.



Compared to the situation at 31 December 2016, on 27 January 2017 the subsidiary Terna Plus S.r.l. acquired the entire share capital of Brazilian companies “Egecon Consultoria and Assessoria Empresarial Ltda” and “Aletheia Consultoria e Assessoria Empresarial Ltda”, described in detail below.

Strategy and Main Events

Strategy

On **20 February 2017**, Terna approved and presented to the market the **Strategic Plan for the 2017–2021 period**. In particular, the reference scenario of the electricity sector in Italy and in Europe, which is characterised by the growth of non-programmable renewable production sources and the gradual decommissioning of traditional generation plants, makes requires new capital expenditure to develop the electricity grids. The capital expenditure plan for the period has therefore been increased to € 4 billion in order to:

- Create interconnections with other Countries;
- Support the integration of renewable sources and improve the security of the system;
- Improve internal grid interconnections to reduce local congestions;
- Develop cutting-edge technologies, with ever-increasing attention to sustainability.

In addition, the 2017–2021 Strategic Plan includes the consolidation of Non-Regulated Activities, positioning Terna as an Energy Solution Provider, and an international strategy to support growth and value creation over the long term. Finally, maintaining a solid capital structure through stable cash generation will contribute to sustain an attractive dividend policy, which will ensure 3% annual dividend growth until 2021.

Main events in the first quarter of 2017 and beyond

▶ January

From **16 to 19 January 2017** some areas in **Abruzzo** and **Marche** were hit by an intense wave of bad weather with heavy and persistent snowfall, which led to a blackout for users of the distribution and transmission grids. Terna, the distribution companies, the Civil Protection Agency and the Institutions acted quickly to end the blackouts and restore the service.

On **31 January 2017**, the Group became the first in Italy to obtain the anti-corruption certification according to the new international standard ISO 37001:2016 – Anti-bribery management systems.

▶ February

On **2 February 2017** in Brazil, an agreement was signed with Planova, a Brazilian construction company, aimed at the acquisition of two concessions to build and to operate a total of around 500 km of electricity infrastructure in the South American Country. Capital expenditure expected at € 180 mln.

On **14 February 2017**, the MISE issued the new authorisation decree EL-146-bis "**Udine Ovest – Redipuglia**": benefits for the electricity system, environmental benefits and savings estimated over 100 €/mln/year.

On **20 February 2017**, the Terna Group's **2017–2021 Strategic Plan** was approved and presented to the market and stakeholders.

▶ March

On **6 March 2017**, Fitch confirmed Terna's rating at BBB+ with a stable outlook, which was reconfirmed on 21 April 2017 after the Italian Republic was downgraded to a BBB/stable, thanks to the independence of the regulator, the mature regulatory scenario without risk to volumes and the full access to financial markets.

31 March 2017 the **merger** of the companies Terna Rete Italia S.r.l. and Terna Storage S.r.l into Terna S.p.A., was effective. Accounting and tax effects shall take effect from 1 January 2017.

▶ April

On **3 April 2017**, the Board of Directors of the companies "Tamini Trasformatori S.r.l.", "T.E.S. Transformer Electro Service S.r.l." and "V.T.D. Transformers S.r.l." approved the **merger** project aimed at improving the operation of the **Tamini Group**.

On **6 April 2017**, the MISE confirmed to the company Piemonte Savoia S.r.l. the conclusion of the exemption procedure for the Italy-France Interconnector, pursuant to art. 17 of Regulation (EC) No. 714/2009 of the European Parliament and of the Council of 13 July 2009, taking into account the MISE Directorial Decree 20/07/2016 and positive opinion released on 9/12/2016 by the European Commission in accordance with Regulation (EC) No. 714/2009.

On **27 April 2017**, the Shareholders' Meeting approved the Separate Financial Statements of Terna S.p.A. at 31 December 2016 and a dividend of 20.6 €/cent per share. A new Board of Directors and a new Board of Statutory Auditors were appointed for the period 2017–2019 and the remuneration policy was approved.

External Context

Legislative

The main legislative sources that govern the activities of the national electricity transmission grid operator are the following:

LEGISLATIVE PILLARS

► Unification of ownership and operation of the national electricity transmission grid

Prime Ministerial Decree of 11 May 2004 implementing Decree Law No. 239 of 29 August 2003, which defined the methods and initiated the process of unification of ownership and management of the national electricity and transmission grid to a single independent operator.

► Concession

Ministerial Decree of 20 April 2005 for Production Activities and the annexed Convention, which governs the transmission and dispatching of electricity in national territory, including the unified management of the National Transmission Grid.

► The internal electricity market

Legislative Decree 93/11, on the internal electricity market, describes the core activities of the electricity grid operator and establishes the methods with which the AEEGSI issues the certification required for transmission system operators by the EU directive 2009/72/EC.

Energy

Electricity demand and production in Italy

During the first three months of 2017, electricity demand in Italy increased by 0.6% compared to the same period of 2016. In fact, in the period January-March 2017, demand for electricity in Italy amounted to 78,962 million kWh, compared to the 78,489 million kWh of the comparative period.

ELECTRICITY BALANCE FOR ITALY

GWh	1 January – 31 March (*)			
	2017	2016	Δ	Δ %
Net production** (National production)	70,426	66,165	4,261	6.4%
Import	10,793	14,464	(3,671)	(25.4%)
Export	(1,591)	(1,534)	(57)	3.7%
For pumping***	(666)	(606)	(60)	9.9%
Total demand in Italy	78,962	78,489	473	0.6%

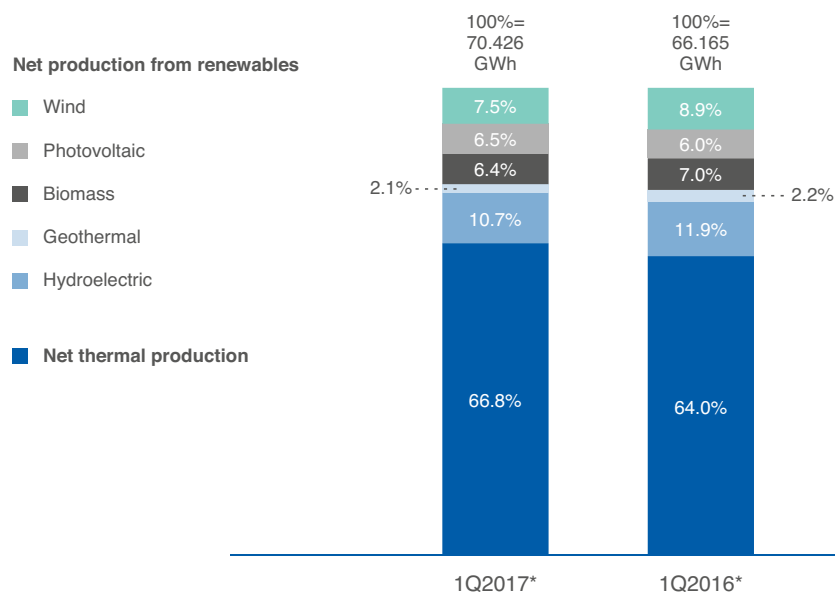
* Provisional data.

** Does not include the demand for energy related to auxiliary services for electricity production activity.

*** Electricity used for lifting water by pumps, for the sole purpose of being used subsequently for electricity production.

The positive change should be attributed mainly to the cold spell in January 2017 and to the fact that Easter fell in March in 2016. The reduction in imports in 2017 is due to the unavailability of nuclear plants in France.

NET ELECTRICITY PRODUCTION BY TYPE OF SOURCE



* provisional data

In the first three months of 2017 renewable generation was about 30% of total energy production, broadly in line with the same period in 2016 although with different trends for single sources. In particular, the reduction of wind, hydroelectric, geothermal and biomass production was offset by the increase in photovoltaic production.

The current level of demand coverage provided by renewables is higher than the European Energy Policy target of 20% to be reached by 2020, and the target of 27% to be reached by 2030 as established by the Clean Energy Package.

Electricity price trends

The average hourly price on the Italian energy exchange (IPEX¹/PUN – Single National Price) for the first three months of 2017 was 57 €/MWh, up by +44% compared to the same period of 2016. The increase in the PUN is attributable in particular to the severe cold spell that hit Europe in January, and the unavailability of nuclear power plants in France and related exports from Italy to France.

Export can mainly be attributed to extraordinary maintenance on French nuclear plants, following the European Union EURATOM directive, as implemented by Autorité de sûreté nucléaire (ASN), issued following the Fukushima accident to implement more frequent and stricter safety procedures.

On average, the Single National Price is still higher than the prices of the French (PNX) and German (EEX/PHELIX) foreign exchanges.

(1) IPEX: Italian Power Exchange.

Regulatory

Regulatory structure for the fifth regulatory period (2016–2023)²

The fifth regulatory period (or new regulatory period: NRP), which came into force in 2016, lasts for eight years and is divided into two sub-periods: NPR1 (2016–2019) and NPR2 (2020–2023). Regulation in effect for the first four years is essentially in line with the past, with a few new elements and, more generally, a greater focus on output-based regulation concepts. For the second four-year period, the Authority plans to implement a new methodological approach for the transmission service, based on total expenses (operating and capital expenditure costs), also known as the TOTEX (Total Expenditure) approach. The Authority also introduced two special regulatory semi-periods with the possibility to review the remuneration rate of Regulated Asset Base (RAB) every 3 years.

Below are some key features of the NPR1 regulation, with reference to the remuneration of transmission and dispatching services.

Transmission and dispatching services in the first four years (2016–2019)

Transmission revenues³ represent the most significant portion of regulated revenues and derive from the application of the transmission fee (TF) invoiced by Terna to the distributors connected to the National Transmission Grid. This fee remunerates the transmission business carried on by all the owners of the NTG, including owners of residual portions (outside the Terna Group), and – since 2016 – has a dual structure: **power component (equal to 90%**, expressed in € cent/kW/year) and **energy component (equal to 10%**, expressed in € cent/kWh).

The **dispatching service fee**⁴ (DIS) remunerates Terna for activities connected to the dispatching service, and it is invoiced by Terna to the dispatching users, in proportion to the respective quantities of energy withdrawn.

(2) With Resolutions no. 583/2015/R/com, no. 653/2015/R/eel, no. 654/2015/R/eel and no. 658/2015/R/eel, the AEEGSI set the tariff regulation for electricity transmission, distribution, measurement and dispatching services and the regulation regarding the quality of the transmission service for the 2016–2023 regulation period (fifth regulatory period).

(3) With Resolution 654/2015/R/eel, the Authority established the criteria and formulae used to calculate the two components in terms of power and energy and for the annual updating of the same for 2016–2019. With resolution 779/2016/R/eel the Authority updated the tariffs for the transmission service for 2017.

(4) Resolution 658/2015/R/eel outlined the fee adjustment criteria for the dispatching service, making amendments and additions to resolution 351/07. The annual update to the DIS is carried out using criteria and methods based on that included in Resolution 654/2015/R/eel for the TF (with the exception of a few specific elements, detailed in resolution 658/2015/R/eel). With Resolution 815/2016/R/eel the dispatching fees for the year 2017 were updated.

The costs recognised that contribute to the determination of the TF components and the DIS can be attributed to three main categories as summarised below:

THE THREE MAIN TYPES OF COSTS RECOGNISED

▷ **capital remuneration (RAB):**

the product of the “Regulated Asset Base” (RAB) and the “Weighted Average Cost of Capital” (WACC). The RAB, which represents invested regulatory capital, is revalued annually in accordance with ISTAT data on the change in the deflator of gross fixed capital expenditure and is updated on the basis of capital expenditure and disposal trends. WACC⁵ refers to the weighted average cost of equity and debt. The methods of determining and updating the WACC are determined in a specific resolution by the Authority.

▷ **depreciation:**

depreciation recognised is adjusted in accordance with the regulatory useful life of assets and is re-evaluated annually according to changes in the deflator of gross fixed capital expenditure.

▷ **operating expenses:**

operating expenses recognised are determined by the Authority at the beginning of the regulatory period, on the basis of operating expenses recorded during the reference year (which for NRP1 was 2014) increased by residual portions of the extra-efficiency achieved in the two previous regulatory periods. The value obtained is revalued annually on the basis of inflation and reduced by an efficiency factor aimed at completing, over time, the transfer to the final users of the extra-efficiency achieved.

For more details on the regulatory framework for the 2016–2023 period, please refer to the description in the 2016 Annual Financial Report.

Social

A description of the main elements of the social context is provided below.

THE THREE MAIN ELEMENTS OF THE SOCIAL CONTEXT

▷ **Local communities: open dialogue for the construction of new electricity infrastructure**

Since 2002, Terna has followed a voluntary process of involvement of local institutions (regional and local administrations, park authorities, etc.) prior to construction which, since 2015, has also been extended to members of the communities directly affected by Terna’s activity through public meetings entitled “Terna meets”. During the first quarter of 2017, six of these meetings were held (in Auronzo, Cortina, Vaiano, Val Formazza, Val d’Ossola and Comignago) to share the security and electricity system goals of the proposed capital expenditure, which Terna provides in the general interest with regard to the construction of new infrastructure in the territory.

▷ **Environmental associations: protection of biodiversity and the environment**

Since 2009, Terna has held partnership agreements with leading environmental associations, aimed at finding solutions to increase the environmental sustainability of the NTG. The growing concern over the effects of climate change and the concomitant process of “Energy Transition” towards renewable energy production has further expanded the scope of partnership between Terna

(5) For the 2016–2018 period, the regulatory WACC (real, pre-tax) for the transmission service is set at 5.3%.

and these associations. In particular, in July 2016 Terna renewed and expanded its partnerships with Legambiente, WWF and Greenpeace. Terna's commitment to biodiversity also continues: in January 2017, artificial nursery installations were completed in parks between Parma and Piacenza provided by an agreement signed in May 2016 with Parchi del Ducato, the management authority for parks and biodiversity of the West Emilia area and the University of Parma.

▶ **Partnership initiatives for the community**

In addition to its role in infrastructure, and with the interest to contribute to the country's civil growth, Terna gives support to social, cultural and environmental initiatives. In the first quarter of 2017, the work experience project "Alternanza scuola-lavoro" began, involving 12 technical institutes throughout Italy. The initiative benefited a total of 240 students, supported by the technical staff of the Company. 31 March marked the end of the first edition of NEXT ENERGY, the programme created by Terna in partnership with the Cariplo Foundation to further the interests of young engineering graduates and support the development of innovative projects in areas related to the development of the electrical system.

Capital



Infrastructural



Financial



Human



Intellectual



Social⁶



Natural⁶

Infrastructural



The high-voltage and very-high-voltage Italian NTG represents the main infrastructural capital owned by the Terna Group. At the end of the first quarter of 2017, total power lines owned and operated by Terna amounted to around 72.8 thousand km, in line with the figure as at 31 December 2016. In this context, the 25 interconnections with other countries are of particular significance, as they make Italy the most electrically-interconnected country in Europe.

Below are the main changes in infrastructure owned by the Terna group in the period.

MAIN CHANGES IN INFRASTRUCTURE

▶ SUBSTATIONS

As part of the strengthening of the Benevento area and the connection of renewable energy plants, the **Benevento III** substation entered in operation, equipped with 5 bays (3 x 380 kV bays and 2 x 150 kV bays).

Also for the connection of renewable sources, the **Foggia Rignano** substation has been commissioned, comprising 4 x 150 kV bays.

Finally, 3 x 132 kV bays have been activated in the **Pian Camuno** substation and the **Cedegolo** substation with 2 x 132 kV bays decommissioned.

▶ POWER LINES

The restructuring of the metropolitan area of Naples included the activation of the **new 220 kV Poggioreale - Secondigliano cable power line**, with 7.3 km of circuits.

Variants and route changes have been constructed, also at the request of third parties, with an overall decrease of 1.3 km of 220 kV circuits and 4.3 km of 132 kV circuits.

(6) Please refer to the paragraph "Social".

Financial

The Group's financial policy is focused on the diversification of financing sources, the balance between short- and medium/long-term instruments and the proactive management of debt.

At 31 March 2017, gross debt⁷ totalled approximately € 8.5 billion, of which € 6.4 billion were made up of bond issues and € 2.1 billion of bank loans (mainly EIB). The average debt maturity is around 5.4 years; the proportion of gross debt at fixed and floating rate to the total amounts to 83% and 17% respectively.

Human

At 31 March 2017, there were 3,881 Terna Group employees; below are the numbers per category:

Category	at 31.03.2017	at 31.12.2016	Δ
Senior managers	73	76	(3)
Middle managers	568	567	1
Office staff	1,991	1,978	13
Blue-collar workers	1,249	1,248	1
TOTAL	3,881	3,869	12

The headcount at the end of the first quarter of 2017 shows an increase of 12 compared to 31 December 2016 (24 joining and 12 leaving); this change is associated mainly with the following events:

- integration process of the High-Voltage assets acquired from the FSI Group and consequent implementation of the policy of recruiting new personnel to gradually insource O&M activities;
- termination of employment due to pension requirements being reached.

(7) By gross debt, we refer to the sum of the items "Bond", "Floating-rate loans" and "Short-term loans" detailed in the Statement of Net Financial Debt presented in the paragraph "Economic and financial performance", to which you are referred.

Intellectual

The continual and significant evolution in the electricity sector requires a systemic and organic **new approach to innovation**, based on monitoring and strategic acceleration of the portfolio of Research, Development and Innovation initiatives and based also on the proposal of new lines of initiatives that will lead to correct strategic positioning in the national and international context.

The **Innovation Plan** (2017–2021) was therefore drawn up, with the aim of guiding and overseeing innovation in the company by identifying strategic guidelines, projects and supporting tools.

TOOLS FOR INNOVATION

▶ **Systems and processes supporting the enhancement of assets and internal skills**

This includes the tools necessary to enhance intellectual capital and to share corporate know-how and portfolio management tools.

▶ **Open Innovation**

Facilitating entry into new areas of development both inside and outside the company, through dynamic interaction with universities and research centres, as well as partnership with peers and large industrial players, and access to the of start-ups and SMEs.

▶ **Access to incentive mechanisms and subsidised financing**

Facilitating access to incentives (e.g. tax credit for businesses that invest in research and development activities, or the provisions on patent boxes) and to specific financing programmes for international and national R&D themes.

A summary of the main Research and Development initiatives that took place during the quarter is provided below:

MAIN INITIATIVES

▶ **NEXT ENERGY**

The programme was launched to enhance young talent and support the development of innovative projects from an open innovation approach. Its first edition concluded on 4 April 2017 with the announcement of the three winning start-ups, which received contributions to support their project. Terna will monitor the ongoing development of these start-ups with the aim of being ready to seize any available opportunities for the Group.

▶ **The academic world**

On 21 February 2017, the Partnership Agreement with the Politecnico di Torino was signed with the aim of activating a strategic five-year partnership for training activities (at PhD, Master's degree and university traineeship level) and for research, technological development and innovation in the field of electrical energy systems, with a special focus on the development of three thematic areas: "Strategy and Development – Innovation Research and Development", "Engineering – Dispatching" and "Engineering – Technologies".

▶ **Peers partnership**

Open dialogue with some of the major European TSOs continues in order to promote the continuous improvement of corporate internal business governance processes. In one of these partnership, Terna worked with RTE, the French TSO, on benchmarking and knowledge-sharing activities in the

area of innovation, taking advantage of the MoU currently in force.

Close partnership with players in the European energy sector is also shown by the visits and events organised at the Terna storage plants; the latter are one of the few tangible international examples of utility scale storage systems in operation for TSO needs. In particular, in February, a delegation from the Belgian TSO ELIA visited the Intensive Storage Energy facility at Flumeri in order to gain more knowledge of Terna's experience in storage systems and how they operate to support the national transmission grid.

Lastly, again in February, a project called OSMOSE, led by the French TSO RTE, was submitted to the European Commission Horizon 2020 programme. In addition to Terna and RTE itself, the project involved four other European TSOs (REE, ELES, REN and ELIA), various universities, research centres and industrial partners. The project aims to demonstrate the technical feasibility of an "optimised" mix of flexible solutions that maximise the technical and economic efficiency of the European electricity system, while also guaranteeing safety and reliability.

▶ Transmission technologies

- **Safety Plan - Ice and snow risk management** – the campaign for the installation of "anti-rotational" devices is underway, aimed at mitigating the risk of formation of ice sleeves on overhead lines and possible consequent power disruptions;
 - **Sustainable solutions** – During the quarter, tests were conducted on the first Italian-constructed transformer using vegetable oil.
-

Alongside these initiatives, the increasing value of human capital in the company is stimulated by increasingly active participation in international associations and committees in the electrical and innovation sector. One example is the involvement of Terna, starting from **February 2017**, in the European Commission Platform **ETIP SNET** (European Technology and Innovation Platform - Smart Network for Energy Transition), a reference for the definition of guidelines for research and innovation on issues of Community interest (such as Smart Grid and energy storage technologies) aimed at facilitating ongoing energy transition.

Performance in the first quarter of 2017

Operating Performance

Regulated Activities

Continuity and security of the electricity service

The first quarter of 2017 was marked by exceptional weather condition involving intense snowfall and strong winds. The Abruzzo and Marche regions were severely hit in January, creating serious problems for service continuity. Terna, the distribution companies, the Civil Protection Agency and the Institutions acted quickly to end the blackouts and restore the service.

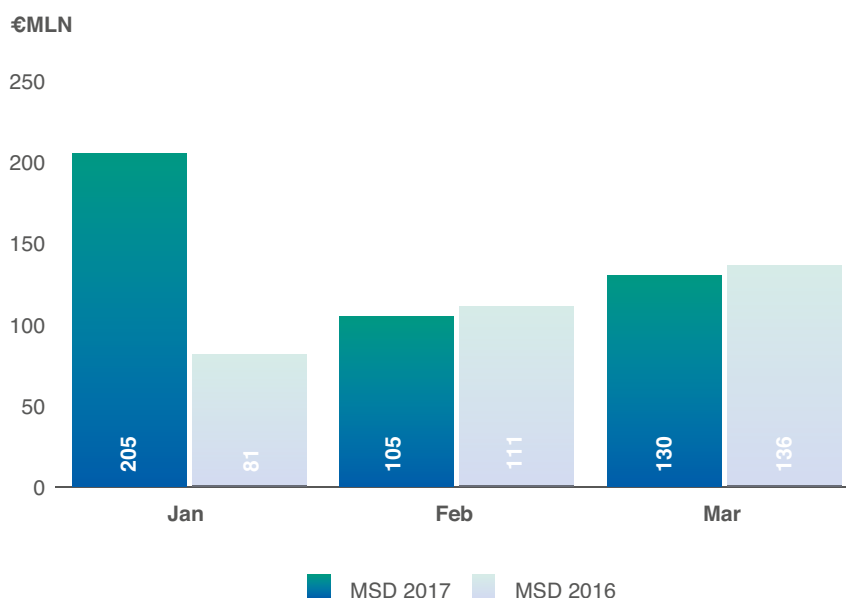
The “RENS - Regulated Energy Not Supplied” indicator based on preliminary operating data for the first quarter of 2017 stood at approximately 174 MWh, without taking into account the above-mentioned exceptional event, against an annual reference target of approximately 946 MWh.

Following these events, the Authority also issued Resolution 127/17, which, with effect from 1 October, makes some adjustments to the rules for compensation that Distributors (directly) and/or Terna (indirectly, through the sharing mechanism) must pay to MV and LV users in case of prolonged interruptions.

Dispatching Services Market

On the Dispatching Services Market (MSD), Terna procures resources to guarantee the security and adequacy of the electricity system. In the first quarter of 2017, the net expense on the MSD was € 440 million, up compared to the corresponding period of the previous year (€ 328 million).

This increase was particularly pronounced in the second half of January due to the intense cold spell in Northern Italy and Northern Europe generally, contributing to an increased need for System Reserve (also partly due to the cold weather and the snowfalls that affected the Abruzzo region and which affected transmission capacity between the market areas).



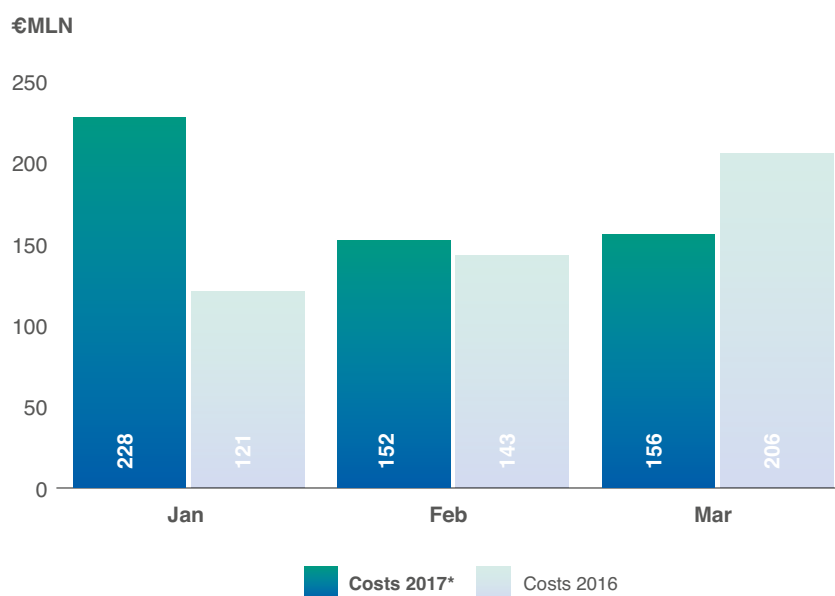
Fee to cover costs for procurement of resources on the MSD (Uplift)

AEEGSI Resolution 111/06 (Title 4) regulates prices for dispatching services and the related guarantees. Dispatching prices include the price for provisioning of resources on the Dispatching Services Market (known as Uplift), pursuant to article 44 and subsequent amendments.

The Uplift price is set to recover net expenses deriving from energy-related items from the end user, including supplying of services and energy to cover system unbalancing on the MSD, unbalancing prices, congestion income and relative coverage (CCT, CCC, CCPs and DCT)⁸ and the virtual interconnection service (Interconnector).

This price is invoiced pro-rata to dispatching users based on energy withdrawn.

In the first quarter of 2017, total Uplift cost came to approximately € 537 million⁹, up with respect to the same period of the previous year, mainly due to the increase in the MSD cost recorded in the month of January.



* of which the MSD component is presented in detail in the previous paragraph.

(8) 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; CCP - Contract Covering the Risk of Volatility of the Fee for Assignment of Rights of Use of Transmission Capacity; DCT - Contract Covering the Fee for Assignment of Rights of Use of Transmission Capacity on Foreign Interconnections.

(9) Provisional data for March.

Development activities

Below is the classification of the Group's capital expenditure in the first quarter of 2017 according to the remuneration categories identified within the new regulatory framework (5th period):

€ million	1Q2017	1Q2016	Δ	Δ %
I-NPR1	20.8	37.1	(16.3)	(43.9)
O-NPR1	1.5	5.6	(4.1)	(73.2)
Capital expenditure with incentives*	22.3	42.7	(20.4)	(47.8)
Other regulated activities	70.1	107.3	(37.2)	(34.7)
Capital expenditure in Regulated Activities	92.4	150.0	(57.6)	(38.4)
Other	7.3	7.9	(0.6)	(7.6)
Total capital expenditure	99.7	157.9	(58.2)	(36.9)

* Capital expenditure classified in accordance with art. 20 of Resolution 654/2015/R/eel and pending approval by the AEEGSI.

The **total capital expenditure** of the Group in the first three months of 2017 amounted to € 99.7 million, compared to € 157.9 million in the same period of the previous year; of these, **capital expenditure with incentives** (Categories I-NPR1 and O-NPR1) amounted to **€ 22.3 million**, compared with € 42.7 million in the same period of the previous year, in line with year-end targets (€ 0.9 billion).

The item "Other" includes capital expenditure in Non-Regulated Activities (€ 3.6 million, mainly concerning the capital expenditure of the subsidiary Piemonte-Savoia) and capitalised financial costs (€ 3.7 million).

With regard to **main projects of the period**¹⁰, it's worth mentioning:

- activities for the completion of works for interconnection with other countries concerning the lines:
 - Italy-Montenegro (€ 17.9 million), ongoing laying of underground cables, with 2.7 km of cables in Montenegro and 4 km in Italy, completion of the laying of the first undersea pole and finalisation of protection activities;
 - Italy-France (€ 3.9 million), finalising procurement for civil works on the motorway sections and ongoing excavation and laying of cable on the provincial stretch (about 9 km of a total 17 km completed);
- completion of the interconnection between Capri and the Italian mainland (€ 3.8 million) and beginning of associated commissioning;
- construction of 150 kV substations in Oppido and Avigliano (€ 2.6 million and € 2.1 million respectively) and Foggia with a renewable connection (€ 1.7 million) and the 380 kV substation in Bari Nord (€ 1.7 million);
- restructuring of the Rome Metropolitan Area (€ 2.0 million) and the rationalisation of the city of Milan (€ 1.6 million; cable-laying on the Ricevitrice Nord-Gadio line completed);
- capital expenditure related to the network acquired from the FSI Group (€ 2.9 million), as part of the functional separation process of the substations.

Other operating activities

On 9 April 2017, a re-powering **test was carried out on over 1,400 km of electricity lines**, from France to the region of Apulia in Italy. The aim was to test the readiness of the power grid with a simulated anti-blackout test. The test included all grid elements that in an emergency (partial or total blackouts) need to ensure the black - start of the electrical service and the coordinated management of the fault with the foreign network operator. The Italian power grid responded positively to the test, confirming its extreme flexibility and reliability as well as technical excellence.

(10) The following values include capitalised financial costs.

Non-Regulated Activities

2017 ACTIVITIES

Private interconnectors pursuant to Italian Law 99/2009

- ▷ The activities aimed at developing the Interconnector projects implementing Italian Law 99/2009 were carried on during the quarter. In particular, these activities concerned the **“Italy-France” Interconnector** project, which on 6 April 2017 received from the MISE the exemption, taking into account MISE Directorial Decree 20/07/2016 and the positive opinion issued on 9/12/2016 by the European Commission pursuant to Regulation (EC) No. 714/2009.

Services for third parties

- ▷ In Italy, during the first quarter of 2017, Terna continued to perform activities for third parties in the area of engineering services (developing technical solutions and supplying innovative services), EPC (Engineering, Procurement and Construction), Telecommunications (TLC, housing and maintenance services for fibre optic networks) and operating third-party plants (operating and maintaining high-voltage and very-high-voltage plants).

Engineering and EPC: development activities continue in the field of services for energy efficiency, cogeneration and proposals for connection solutions on the HV grid (with a focus on renewable energy producers).

Among the main contracts, we can mention the construction of a 132 kV substation for connection of an underground gas storage plant to the NTG. Also notable is the letter of intent signed with RFI for the development of renewable energy initiatives and the start of the authorisation procedure for the development of the “Smart Island” project concerning Giannutri Island. This venture is part of Terna’s broader modernising strategy to make the smaller islands more innovative and hi-tech.

Telecommunications: the Group has continued to develop services for offering fibre optic and housing services, with particular reference to telecommunication operators.

In particular, during the first quarter of 2017, planning and negotiation continued on fibre optic offers with the main operators, with contracts expected during 2017.

In addition, studies and demonstration projects are underway for the further enhancement of pylons and electrical substation areas through advanced ICT solutions.

Managing third-party Installations: current work continues for the O&M of HV facilities, for contract management and renewals and for the pursuit of new opportunities in this area.

Transformers - Tamini Group

- ▷ Orders for transformers in the first three months are up compared to the same period of the previous year (+10%); factory loads have also risen compared to the end of 2016.

In the course of the period, the first Phase-Shifting Transformer units were delivered; this is a complex and strategic project brought forward by Tamini, which has managed to enter into this important sector on a European scale. In addition, at the Legnano factory, testing was successfully carried out on the first Italian-constructed transformer using vegetable oil.

At the end of March, the Tamini Group headquarters were moved to the Legnano site, while work on the securing and environmental of the Melegnano plant continues, which is still inoperable to date.

International Activities

During 2017, activities abroad continued in accordance with the company strategy.

INITIATIVES/ACTIVITIES 2017

- | | |
|--|--|
| Uruguay | ▶ Ongoing activities include geological and geotechnical surveys, and structural and foundation engineering activities. The preparatory activities for the finalisation of project financing are ongoing. |
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| Brazil | ▶ Through its subsidiary Terna Plus, in February 2017, Terna signed an agreement with Planova, a Brazilian company that constructs civil works and infrastructure, aimed at the acquisition of two concessions to operate a total of around 500 km of electricity infrastructure in the South American country.
The two concessions, which will last for thirty years, involve the construction of 158 km of new lines in the state of Rio Grande do Sul and 350 km in the state of Mato Grosso. The total value of the capital expenditure is around € 180 million. The agreement envisages that the Terna Group will have ownership of the concession and will operate the lines, while engineering, planning and construction will be assigned to Planova.
Final closing of the contract signed by Terna Plus and Planova is conditional on the following: Planova must obtain all permits and licenses needed for construction and operation of the infrastructure, as well as approval from the Brazilian anti-trust authorities (CADE - Conselho Administrativo de Defesa Econômica) and the Regulator (ANEEL - Agência Nacional de Energia Elétrica). |
| <hr style="border-top: 1px dashed #000;"/> | |
| Chile | ▶ In the first quarter of 2017, a contract was signed with Enel Green Power to complete a further substation building (O&M room) and a spare parts warehouse (900 kUSD order value). Work began in March and will last about 90 days. |
-

Economic and financial performance

In order to present the performance of the Terna Group and to analyse its financial position, separate financial tables have been prepared; these have not been audited by the audit company. The reclassified tables contain alternative performance measures (hereinafter APMs, as per ESMA/2015/1415 guidelines), which management considers useful for the purpose of monitoring Group trends and representative of the economic and financial results produced by the business.

The criteria used to construct these measures are the same as those used in the annual reporting; for the related details, please see the contents of the Annex "Alternative Performance Measures (APMs)".

Basis of presentation

The measurement and recognition criteria applied in this consolidated interim financial report are consistent with those adopted in the consolidated financial statements at 31 December 2016.

Group reclassified income statement

The economic results of the Terna Group in the first quarter of 2017 compared with the same period of the previous year are summarised in the table below.

€ million	1Q2017	1Q2016	Δ	Δ %
TOTAL REVENUE	523.9	517.2	6.7	1.3
- Transmission	450.8	431.2	19.6	4.5
- Dispatching and other	28.8	28.0	0.8	2.9
- Other operating revenue	41.9	55.3	(13.4)	(24.2)
<i>of which other revenue from Regulated Activities</i>	8.1	12.2	(4.1)	(33.6)
<i>of which revenue from Non-Regulated Activities</i>	33.8	43.1	(9.3)	(21.6)
- IFRIC 12 effects*	2.4	2.7	(0.3)	(11.1)
TOTAL OPERATING EXPENSES	121.1	122.1	(1.0)	(0.8)
- Personnel	61.4	54.0	7.4	13.7
- Services, leases and rentals	34.3	40.6	(6.3)	(15.5)
- Materials	15.1	20.1	(5.0)	(24.9)
- Other expenses	4.9	3.0	1.9	63.3
- Quality of service	3.0	1.7	1.3	76.5
- IFRIC 12 effects*	2.4	2.7	(0.3)	(11.1)
GROSS OPERATING MARGIN (EBITDA)	402.8	395.1	7.7	1.9
- Amortisation, depreciation and impairment	130.0	131.2	(1.2)	(0.9)
OPERATING PROFIT (EBIT)	272.8	263.9	8.9	3.4
- Net financial income (expense)	(20.5)	(19.2)	(1.3)	6.6
PROFIT/LOSS BEFORE TAXES	252.3	244.7	7.6	3.1
- Income taxes for the period	73.7	83.3	(9.6)	(11.5)
NET PROFIT FOR THE PERIOD	178.6	161.4	17.2	10.7
- Profit for the period attributable to non-controlling interests	(0.7)	(0.8)	0.1	(12.5)
GROUP NET PROFIT FOR THE PERIOD	179.3	162.2	17.1	10.6

* Recognised pursuant to the interpretation of "IFRIC 12 - Service Concession Arrangements"

In the first quarter 2017, the Terna Group reported a **revenue** for a total of **€ 523,9 million**, an increase of **€ 6,7 million** with respect to the first quarter of the previous year (+1.3%); this change can be attributed to Regulated Activities for **+€ 16.3 million** and to Non-Regulated Activities for **-€ 9.3 million** (as well as a decrease of **€ -0.3 million** with respect to the previous financial year referred to the application of IFRIC 12).

Revenue from Regulated Activities

Revenue from Regulated Activities recorded an increase of € 16.3 million compared to the same period of the previous year, mainly due to the following:

- increase of the **transmission revenues** (+€ 19.6 million): full consolidation of the NTG acquired at the end of 2015 from the FSI Group, which in the period of comparison was paid only for operating expenses recovery;
- decrease of the **other revenue** (-€ 4.1 million): of particular importance is the higher revenue in the first quarter of 2016 from sales to third parties (-€ 9.7 million), essentially for the “Copper Plan” (€ 8.3 million), partially offset by higher insurance settlements (+€ 2.9 million, mainly due to the recognition in March 2017 of a pay-out relating to a claim for a transformer) and to higher revenues for connection to national transmission grid systems (+€ 1.9 million).

Revenue from Non-Regulated Activities

€ million	1Q2017	1Q2016	Δ
Tamini Group	20.5	27.2	(6.7)
EPC contracts	2.1	4.5	(2.4)
O&M contracts	3.9	3.5	0.4
Telecommunications	6.5	6.5	-
Other	0.8	1.4	(0.6)
TOTAL	33.8	43.1	(9.3)

Compared with the same period last year, revenues from **Non-Regulated Activities** record a reduction of € 9.3 million, mainly due to the effect of reduced revenues of the Tamini Group (-€ 6.7 million), caused by falling transformer sales and higher revenues recorded in the first quarter of 2016 related to a construction contract in Chile (-€ 2 million). Orders for transformers in the first three months are up compared to the same period of the previous year (+10%).

Operating expenses

Operating expenses during the period totalled € 121.1 million, largely in line with the first quarter of 2016 (-€ 1 million).

€ million	1Q2017	1Q2016	Δ	Δ without Tamini	Δ Tamini
Personnel	61.4	54.0	7.4	8.3	(0.9)
Services, leases and rentals	34.3	40.6	(6.3)	(4.7)	(1.6)
Materials	15.1	20.1	(5.0)	(1.8)	(3.2)
Other expenses	4.9	3.0	1.9	2.2	(0.3)
Quality of service	3.0	1.7	1.3	1.3	-
IFRIC 12 effects*	2.4	2.7	(0.3)	(0.3)	-
TOTAL OPERATING EXPENSES	121.1	122.1	(1.0)	5.0	(6.0)

* Recognised pursuant to IFRIC 12

The change in operating expenses, net of Tamini Group balances (-€ 6 million, mainly due to the contraction of activity) and cost reductions for concession activities (according to IFRIC 12 equal to -€ 0.3 million), amounted to +€ 5 million as detailed below:

- **Personnel:** +€ 8.3 million, mainly as a result of the increase in headcount (+144 FTE, of which +122 for recruitment in Terna Rete Italia S.p.A. for supporting insourcing activity of the HV Grid perimeter) and for the adjustment provided for by the National Collective Employment Contract renewed during the quarter;

- **Services, leases and rentals:** -€ 4.7 million, relating mainly to the insourcing of maintenance costs of Rete S.r.l.;
- **Materials:** -€ 1.8 million, mainly due to the completion of the EPC for the subsidiary Terna Chile S.p.A.;
- **Quality of service:** +€ 1.3 million, due mainly to the provision for the Exceptional Events Fund (+€ 0.9 million), and other institutions as compensation of network outages, caused by exceptional weather events at the beginning of the year;
- **Other expenses:** +€ 2.2 million, due mainly to the change in the IMU (council tax) fund in the comparison quarter.

Gross Operating Margin (EBITDA) of the period was **€ 402.8 million**, an increase of € 7.7 million compared to the € 395.1 million of the first quarter of 2016, mainly due to the improved result of Regulated Activities.

EBITDA margin moved from 76.4% in the first quarter of 2016 to **76.9%** in the corresponding period of 2017.

Amortisation, depreciation and impairment amounted at € 130.0 million, a reduction of € 1.2 million, mainly due to lower depreciation and amortisation after a review of the useful life of electricity lines (increased from 40 to 45 years), partially compensated for by the entry into operation of new plants.

EBIT (Operating Profit) was at **€ 272.8 million**, compared to € 263.9 million in the first quarter of 2016 (+3.4%).

Net financial expenses, at € 20.5 million, mainly attributable to the Parent Company (€20.4 million), show an increase of € 1.3 million compared with the € 19.2 million of 2016, due mainly to lower capitalised financial costs in accordance with lower capital expenditure made in the quarter, compared with the same period of the previous year.

Profit before taxes reached at **€ 252.3 million**, up by € 7.6 million compared to the same period of the previous year (+3.1%).

Income taxes totalled € 73.7 million and were down by € 9.6 million (-11.5%) compared to the first quarter of 2016, mainly due to the reduction in the 2017 IRES rate to 24% from 27,5% (pursuant to Law No. 208/2015 Stability Law for 2016).

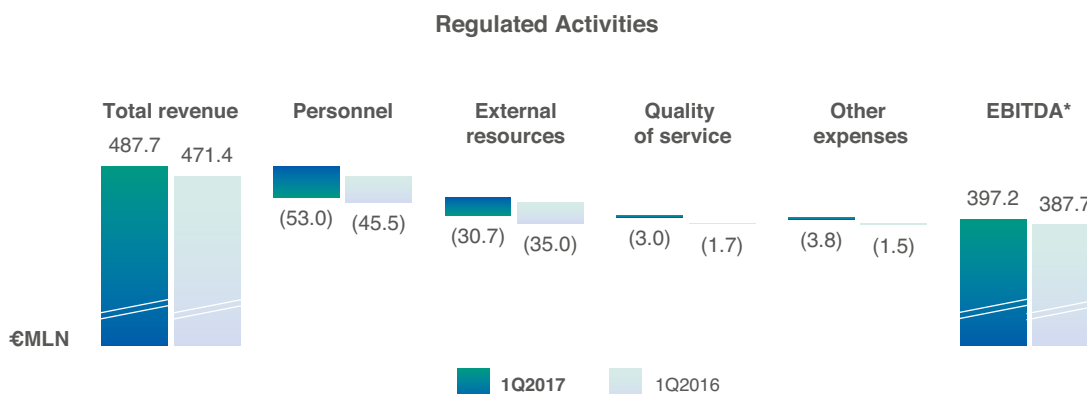
The tax rate for the period amounted to 29.2%, compared with 34.0% in the first quarter of 2016.

Net profit for the period reached **€ 178.6 million**, up € 17.2 million (+10.7%) compared with the € 161.4 million of the same period of the previous year.

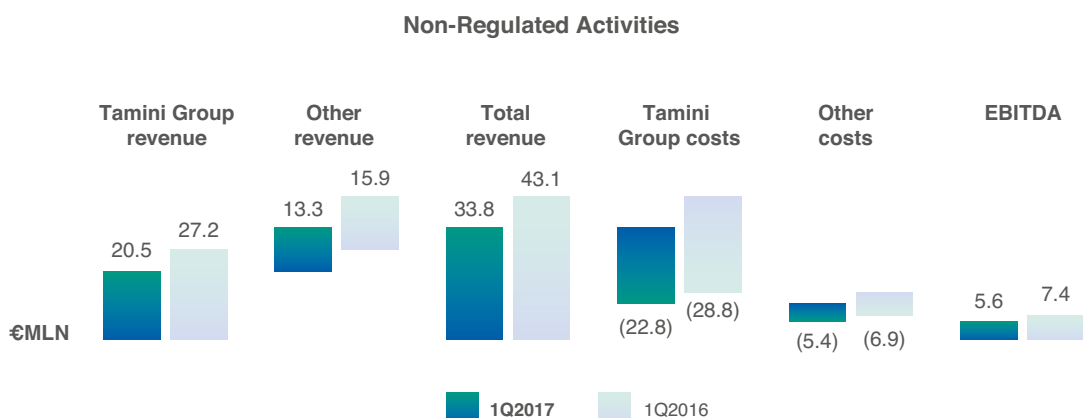
Group net profit of the period (excluding the profit attributable to non-controlling interests) stood at **€ 179.3 million**, an increase of € 17.1 million (+10.6%) compared to € 162.2 million in the first quarter of 2016.

Economic results by business segment

The breakdown of the Terna Group's results by business segment, in relation to the first quarter of financial years 2017 and 2016, is shown in the table below⁽¹⁾:



EBITDA of Regulated Activities of the period amounted to € 397.2 million, up € 9.5 million compared to the figure for the same period of the previous year. This increase is due to the increase in transmission and dispatching revenues partly offset by higher personnel costs.



EBITDA relating to Non-Regulated Activities in the first quarter of 2017, equal to € 5.6 million, reveals a reduction of € 1.8 million substantially attributable to the reduced contribution of the Chilean construction contract and the lower contribution of the Tamini Group (-€ 0.7 million) as mentioned above.

(11) The Terna Group's business segments are defined within the internal management control system adopted by the Parent Company and do not include revenue and costs relative to application of IFRIC 12 for € 2.4 million in the first quarter of 2017 and € 2.7 million in the first quarter of 2016.

The Group's reclassified statement of financial position

€ million	at 31.03.2017	at 31.12.2016	Δ
Total net non-current assets	12,961.8	12,991.2	(29.4)
- Property, plant and equipment	12,363.1	12,386.1	(23.0)
- Intangible assets and goodwill	508.2	516.0	(7.8)
- Financial assets	90.5	89.1	1.4
Total net working capital	(1,404.2)	(1,092.5)	(311.7)
- Trade receivables	499.6	466.9	32.7
- Inventories	10.3	10.2	0.1
- Other assets	44.6	20.4	24.2
- Trade payables	(602.8)	(758.4)	155.6
- Net energy-related pass-through payables	(805.2)	(545.9)	(259.3)
- Net tax liabilities	(120.3)	52.0	(172.3)
- Other liabilities	(430.4)	(337.7)	(92.7)
Gross invested capital	11,557.6	11,898.7	(341.1)
Provisions	(375.1)	(384.6)	9.5
NET INVESTED CAPITAL	11,182.5	11,514.1	(331.6)
Equity	3,718.6	3,535.4	183.2
Minorities	19.1	19.8	(0.7)
Net financial debt	7,444.8	7,958.9	(514.1)
TOTAL	11,182.5	11,514.1	(331.6)

The increase in **net non-current assets** of € 29.4 million, compared with the figure at 31 December 2016, is mainly attributable to the item **Property, plant and equipment** (-€ 23.0 million) owing to the combined effects of:

- capital expenditure for € 94.9 million;
- amortisation and depreciation for the period for € 113.7 million;
- disposals, impairment and other changes in the period, such as the recognition of grants, for € -4.2 million.

Intangible assets and goodwill recorded a decrease of € 7.8 million compared to 31 December 2016, attributable to ordinary changes in intangible assets for capital expenditure of € 4.8 million, net of the amortisation for the period of € 12.6 million.

Total capital expenditure made by the Group in the first three months of 2017 amounted to € 99.7 million, in line with the Strategic Plan, compared with € 157.9 million in the corresponding period of 2016 (-36.9%).

€ million	1Q2017	1Q2016	Δ	Δ %
Capital expenditure in property, plant and equipment	94.9	149.7	(54.8)	(36.6)
Capital expenditure in intangible assets	4.8	8.2	(3.4)	(41.5)
Total Group capital expenditure	99.7	157.9	(58.2)	(36.9)

Net working capital amounted to -€ 1,404.2 million and during the quarter generated liquidity totalling € 311.7 million with respect to 2016, due to:

Cash generated

- increase of **net energy-related pass-through payables** (equal to € 805.2 million at 31 March 2017) for € 259.3 million, mainly due to the combined effect of:

- the increase in net payables related to essential units for the security of the electricity system - UESS (about € 137.5 million) and the capacity payment (€ 44.8 million) relating to the first quarter of 2017;
- reduction of the Uplift fee (approximately € 110 million), essentially due to the increase in net charges;
- increase in net receivables covering the interruptibility service (€ 27.7 million, mainly concerning payables to the Fund for Energy and Environmental Services (Cassa per i Servizi Energetici e Ambientali – CSEA) for the recovery of the 2016 adjustment paid to the assignees of the interruptibility service in the first quarter of the current year);
- increase in **net tax payables** for € 172.3 million, due essentially to the recognition of income taxes for the period (€ 80.9 million), and net payables for VAT recorded on 31 March 2017 equal to € 55.4 million, compared to the payable of € 34.8 million recorded on 31 December 2016 (+€ 90.2 million), due mainly to the effects of the AEEGSI measures issued at the end of the year 2016 concerning UESS¹²;
- an increase in **other liabilities** (€ 92.7 million) mainly relative to the change in grants received (+€ 82.1 million, due to the collection of the last tranche of EU contributions for the Sorgente-Rizziconi project) and the increase of the Interconnector Guarantee Provision (€ 7.1 million) established by the 2016 Stability Law for the creation of interconnection projects pursuant to article 32 of Law 99/09.

Cash absorbed

- a decrease in **trade payables** of € 155.6 million, mostly attributable to the higher capital expenditure activities reported in the last period of the previous year;
- an increase in **trade receivables** for € 32.7 million, due in particular to the increase in grid transmission fee receivables (+€ 21.9 million), mainly attributable to the full recognition of the portion of the grid under Rete Srl; also recognised is the increase in receivables from Non-Regulated Activities, with particular reference to the performance of Tamini Group orders;
- greater **other activities** for +€ 24.2 million, essentially for advance payments for development contracts and the EPC of business in Brazil.

Gross invested capital therefore amounted to € 11,557.6 million, recording a decrease of € 341.1 million compared with the previous financial year.

Provisions decreased by € 9.5 million, mainly due to:

- provision for deferred tax liabilities (-€ 6.3 million), mainly due to tax effects on depreciation and amortisation and changes in the provisions for risks and charges;
- provisions for risks and charges for -€ 3.3 million for the combined effect of the net utilisations of the provision for early retirement incentives (-€ 2.5 million), net utilisations for urban and environmental redevelopment projects with particular reference to those of the Sorgente-Rizziconi and Villanova-Gissi works (-€ 2.3 million) and provisions for “quality of service” expenses of +€ 1.8 million.

(12) AEEGSI resolutions 612/2015/R/eel, 615/2015/R/eel and 616/2015/R/eel.

Net invested capital amounted to € 11,182.5 million, a decrease of € 331.6 million compared with 31 December 2016 and is financed by equity for € 3,718.6 million (compared with € 3,535.4 million at 31 December 2016), by minorities for € 19.1 million (€ 19.8 million at 31 December 2016) and by net financial debt of € 7,444.8 million (-€ 514.1 million compared with the € 7,958.9 million of 31 December 2016).

Below is a summary of the change in the cash flows described above.

Cash Flow

<i>€ million</i>	1Q 2017	1Q 2016
- Net profit for the period	178.6	161.4
- Amortisation, depreciation and impairment	130.0	131.2
- Net change in provisions	(9.5)	(16.6)
- Net losses (gains) on asset disposals	(0.3)	(0.2)
Operating Cash Flow	298.8	275.8
- Change in net working capital	311.7	183.3
- Other changes in non-current assets	0.2	29.0
- Changes in equity investments	(0.8)	(1.2)
Cash Flow from Operating Activities	609.9	486.9
- Total capital expenditure	(99.7)	(157.9)
Free Cash Flow	510.2	329.0
- Cash flow hedge reserve net of the tax effect and other changes in equity	3.9	(13.5)
Change in net financial debt	514.1	315.5

Net financial debt

In the first quarter the Company reported a reduction in the net debt of the Group of € 514.1 million compared to 31 December 2016.

€ million	31.03.2017	31.12.2016	Δ
Net financial debt (by duration)			
Total medium- and long-term debt	7,233.8	8,074.1	(840.3)
- Bonds	5,638.1	6,420.5	(782.4)
- Floating-rate loans	1,916.1	1,983.9	(67.8)
- Derivative financial instruments	(297.6)	(312.9)	15.3
- Other non-current financial assets (Interconnector guarantee provision)	(22.8)	(17.4)	(5.4)
Total short-term debt	211.0	(115.2)	326.2
- Bonds (current portion)	749.3	769.9	(20.6)
- Short-term loans	24.0	20.1	3.9
- Floating-rate loans (current portions)	146.2	134.6	11.6
- Other net current financial liabilities*	23.2	95.9	(72.7)
- Cash and cash equivalents	(731.7)	(1,135.7)	404.0
Total net financial debt	7,444.8	7,958.9	(514.1)
Net financial debt (per type of instrument)			
- Bonds	6,387.4	7,190.4	(803.0)
- Floating-rate loans	2,062.3	2,118.5	(56.2)
- Derivative financial instruments	(297.6)	(312.9)	15.3
- Short-term loans and other financial liabilities	47.2	116.0	(68.8)
- Cash and cash equivalents and other financial assets	(754.5)	(1,153.1)	398.6
Total net financial debt	7,444.8	7,958.9	(514.1)

* Including interest accrued not yet collected

The **Group's net financial debt** thus records the following changes:

- decrease in bonds (-€ 803.0 million), as a result of the payment of the bond 2017 on 17 February 2017 for € 770.0 million and the fair value adjustment of the same financial instruments (-€ 33.0 million, including amortised cost) as a result of the change in forward rates as of 31 March 2017;
- decrease in floating-rate loans (-€ 56.2 million), mainly for instalments repaid in the quarter;
- decrease in the positive net balance of derivative financial instruments (+€ 15.3 million), mainly due to the increase in the medium/long-term reference interest rate curve with respect to December 2016;
- decrease in short-term loans and other financial liabilities (-€ 68.8 million) mainly as a result of the liquidation of interest on loans and existing hedges;
- decrease in cash and cash equivalents and other financial assets for € 398.6 million. Available liquidity at 31 March 2017 amounted to € 731.7 million, of which € 458.8 million invested in time deposits and € 272.9 million deposited in current bank accounts, while other non-current financial assets include the recognition of the Interconnector Guarantee Provision established for the creation of interconnection projects pursuant to article 32 of Italian Law 99/09, equal to € 22.8 million at 31 March 2017.

It is noted that the proportion of gross debt at fixed and variable rates to the total amounts is 83% and 17% respectively.

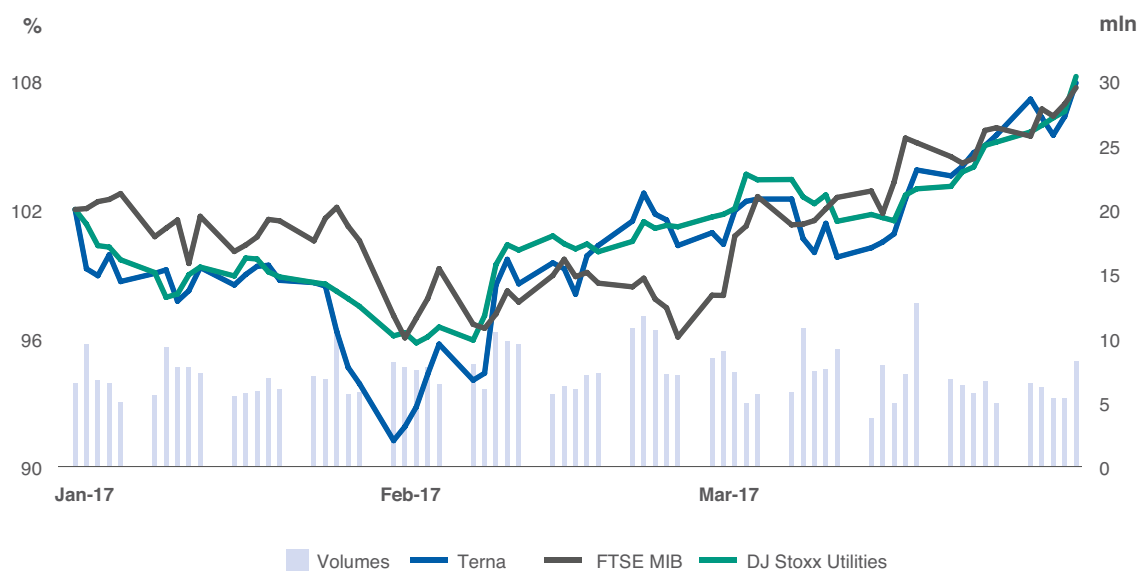
Share performance

Terna S.p.A. is listed on the Borsa Italiana stock Exchange since 23 June 2004 and is one of the leading Italian companies in terms of market capitalisation. From the IPO to the end of March 2017, the share price has almost tripled (+174%) and the Total Shareholder Return (TSR¹³) amounted to 466%.

In the first quarter of 2017, Terna registered an increase of 6.8%, closing at 4.65 €/share, a better performance than the European sector index (DJ Stoxx Utilities) which rose by 5.8%. The average daily volume traded in the period on Terna stock stood at approximately 7 million of shares lower compared to the same period of 2016 (8.4 million of shares).

The first three months of 2017 saw positive performance also in the major European stock markets. From the beginning of the year, Milan registered an increase of 6.5%, Paris and Frankfurt closed respectively at +5.4% and +6.5% and London gained 2.5%. The markets have been positively influenced by international macroeconomic situation characterised by an improving trend, with upwards inflation forecasts in the euro area. In addition, expectations of an expansive USA fiscal policy, further strengthened the expected acceleration of economic growth in America.

TREND OF TERNA STOCK AND THE FTSE MIB AND DJ STOXX UTILITIES INDICES



Proportion of Terna shares

> in the FTSE MIB index ¹⁴	1.98%
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Source: Borsa Italiana. Data at 31 March 2017

(13) Total Shareholder Return (TSR): total return on an equity investment, calculated as the sum of:

I. stock performance;
 II. dividends reinvested: the ratio between the dividends per share distributed in the reference period and the price of the stock at the beginning of the said period. The dividends are considered reinvested in the stock.

(14) % of total FTSE MIB

Ratings

	Short Term	M/L Term	Outlook
Terna S.p.A.*			
Standard & Poor's	A-2	BBB	Stable
Moody's	Prime-2	Baa1	Negative
Fitch	F2	BBB+	Stable
Italian Republic*			
Standard & Poor's	A-3	BBB-	Stable
Moody's	Prime-2	Baa2	Negative
Fitch**	F2	BBB+	Negative

* Data at 31 March 2017.

** On 21 April 2017 Fitch revised its rating for the Italian Republic to BBB/stable, confirmed Terna's rating at BBB+ with a stable outlook thanks to the independence of the regulator, the mature regulatory scenario without risk to volumes and the full access to financial markets.

Declaration by the Executive in charge of preparing the company's accounting data in accordance with the provisions of Art. 154-*bis*, paragraph 2 of Italian Legislative Decree No. 58/1998

The Executive responsible for the company's accounting data, Tiziano Ceccarani, in accordance with Art. 154-*bis*, paragraph 2 of the Consolidated Law on Finance, declares that the accounting disclosure provided in this Consolidated Interim Financial Report at 31 March 2017 corresponds with the documents, books and accounts of the Company.

ANNEXES

Alternative Performance Measures (APMs)

MEASURE	Description
Economic results	
Operating Profit - EBIT	▶ this is a measure of operating performance, calculated as Profit before taxes plus net financial income (expenses) .
Gross Operating Margin - EBITDA	▶ this is a measure of operating performance, calculated as the Operating Profit (EBIT) plus amortisation, depreciation and impairment .
EBITDA MARGIN	▶ this is a measure of operating performance, derived from the ratio between the Gross Operating Margin (EBITDA) and Revenue .
TAX RATE	▶ this expresses the proportion of tax with respect to the result and derives from the ratio between Taxes on the profit and the Profit before taxes .
Financial position results	
Net working capital	▶ this is a measure of the company's liquidity situation and it is determined by the difference between current assets and current liabilities of a non-financial nature represented on the balance sheet.
Gross Invested Capital	▶ Net non-current assets plus Net Working Capital .
Net Invested Capital	▶ determined by Gross invested capital net of Provisions .
Cash flows	
Net financial debt	▶ this is a measure of the Group's financial structure, determined as the sum of the short- and long-term financial liabilities and the related derivative instruments , net of cash and cash equivalents and of financial assets .
Free Cash Flow	▶ this is the cash flow and it is given by the difference between the cash flow from operating activities and the cash flow for capital expenditure .

Regarding the reconciliation of the APMs described above with respect to the IFRS tables, please see the criteria used and described in the context of the 2016 annual reporting.

Further information

“Further information”, which includes indications required by specific laws or regulations governing the sector is provided below.

Treasury shares

The Parent Company does not hold any treasury shares, of CDP Reti S.p.A. or Cassa Depositi e Prestiti S.p.A., nor has it acquired or sold any, either directly or indirectly, during the first three months of 2017.

Related-party transactions

For the disclosure on related parties please see the detailed contents of the Annual Financial Report at 31 December 2016.

Participation in the legislative simplification process pursuant to CONSOB Resolution No. 18079 of 20 January 2012

For the disclosure related to participation in the CONSOB simplification process, please see the detailed contents of the Annual Financial Report at 31 December 2016.

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