CONSOLIDATED INTERIM FINANCIAL REPORT

30 SEPTEMBER 2017

TERNA GROUP

2017

TERNA GROUP

Enabling Energy Transition

CONSOLIDATED INTERIM FINANCIAL REPORT

30 SEPTEMBER 2017

TERNA GROUP

TERNA GROUP

Contents

Introduction

This Consolidated Interim Financial Report of the Terna Group, dated 30 September 2017 has not been audited and was prepared voluntarily, pursuant to art. 82-ter of CONSOB Issuer Regulations (as amended by CONSOB Resolution no. 19770 of 26 October 2016).

Highlights – 9M 2017

New Board of Directors (2017-2019)

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

CHAIRWOMAN
Catia Bastioli

CHIEF EXECUTIVE OFFICER
Luigi Ferraris

DIRECTORS

Elena Vasco
Fabio Corsico
Luca Dal Fabbro
Yunpeng He
Gabriella Porcelli
Stefano Saglia
Paola Giannotti

Economic and financial performance

(Amounts in € millions)

Revenues	EBITDA	Group Net profit	Capital expenditure	Net Financial debt
1,627.4	1,207.1	528.8	545.0	7,362.9
+4.9%*	+2.6%*	+8.6%*	+2.8%*	(7.5)**

* comparative figure 9M2016
** comparative figure 31/12/2016

New Head of the Administration, Finance and Control Department and Manager in charge of preparing the company's accounting data from 01 September 2017: Mr. Agostino Scornajenchi appointed.

Agostino Scornajenchi, previously at Poste Italiane, where he managed the company's listing on the stock exchange, CFO of GDF Suez Italia and previously CFO of Acea Electrabel. In the past, he has held various key roles in the Enel Group.
Chartered Accountant and Auditor.

Operating performance

Udine Ovest-Redipuglia power line

Activation of the 380 kV power line.
Increased supply security for Friuli Venezia Giulia's electricity system.
Important benefits, also in employment terms, for a community of 230 thousand people.
It will be possible to decommission over 110 km of old lines, more than double the 40 km of new line built.

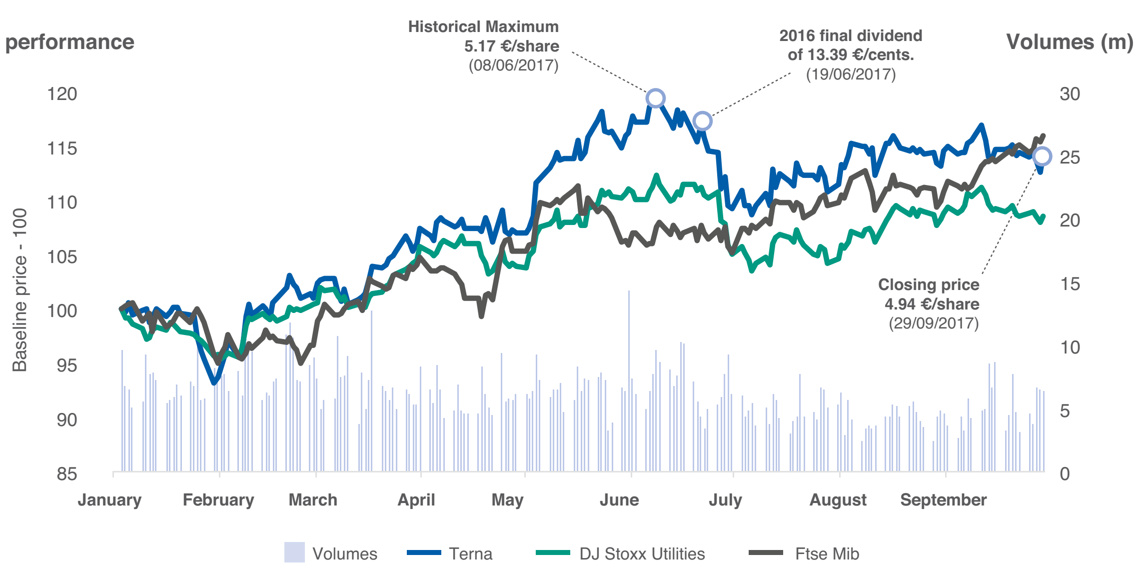
Italy-France interconnection

04 July 2017: Sale of Piemonte Savoia S.r.l. to the syndicate Interconnector Italia S.c.p.a. with exemption from the rules of third-party access for 10 years.

Signing for the acquisition of Avvenia

On 10 October, the agreement was signed for purchase of 70% of Avvenia, a leading company in the energy efficiency sector and one of the main Italian organisations certified as an Energy Service Company (ESCo).
Closing will take place in early 2018.

Stock performance



The Company

The Terna Group operates primarily in the transmission and dispatching of electricity across Italy in its role as TSO (Transmission System Operator) and ISO (Independent System Operator), performed in compliance with a monopoly framework granted by a government concession. Terna manages its activities with great attention to economic, social and environmental consequences and adopts a sustainable approach to business. The aim is to create, maintain and consolidate a trusting relationship with its stakeholders, for the purpose of creating value for the Company and the stakeholders. Terna owns the infrastructure and is responsible for preparing the National Transmission Grid (hereinafter the NTG) Development Plan, its Security Plan and, from 2017, the Resilience Plan (Resolutions 653/15/R/EEL and 646/15/R/EEL, as amended).

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

Regulated Activities – Transmission and Dispatching of Electricity in Italy

The Terna Group owns 99.7% of the NTG, which is one of the most modern and technologically-advanced in Europe. It is the largest independent electricity transmission grid operator in Europe and one of the global leaders with **around 73,000 km of High-Voltage and Extra-High-Voltage lines**.
It is responsible for the management of electricity flows on the grid throughout the whole of Italy, with the aim of ensuring that the supply of energy fed into the grid is constantly aligned with demand, guaranteeing continuity and maximum availability of the service for the population.
It is also responsible for grid planning, construction and maintenance activities. It fulfils the role of TSO on the basis of the regulations defined by the Italian Regulatory Authority for Electricity, Gas and Water (hereinafter AEEGSI) and the guidelines of the Ministry of Economic Development (hereinafter MISE). It guarantees the security, quality and reliability over time of the Italian Electricity System and pursues the development of the grid and its integration with the European grid. It ensures equal access conditions for all Grid users.

Non-Regulated Activities – New Business Opportunities in Italy

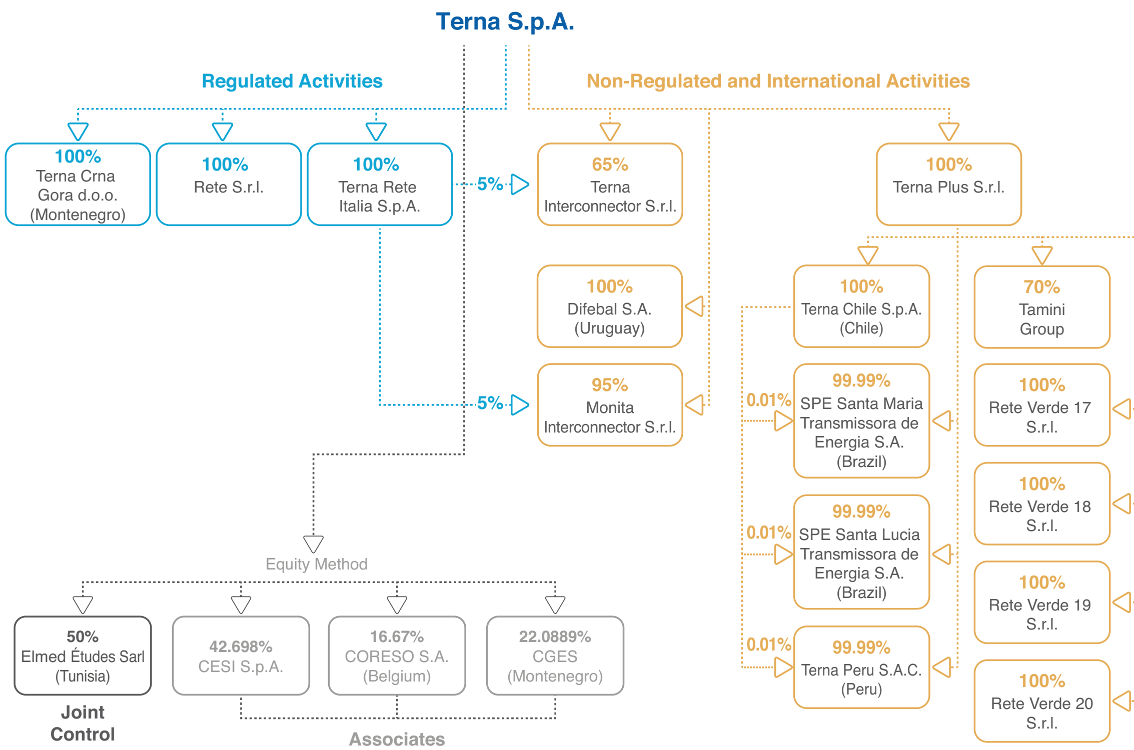
The Terna Group offers products and services pursuing new business opportunities thanks to the experience, technical skills and innovation capabilities acquired through the management of complex systems.

International Activities

The Terna Group offers products and services abroad with a view to diversifying its activities carried out in Italy, and collaborates with energy operators with a consolidated international presence.
The development activities focus on geographical areas requiring investments in transmission infrastructures that also have stable political and regulatory frameworks and an adequate risk/return profile.

The Group

The corporate structure of the Terna Group at 30 September 2017 is presented below.



For changes to the Group's corporate structure, please see the dedicated section "Evolution in the Group's Corporate Structure", which is attached.

Our Team

At 30 September 2017, the Terna Group had 3,958 employees. The breakdown of personnel by type is shown below:

Category	as of 30/09/2017	as of 31/12/2016	Δ
Senior managers	71	76	(5)
Middle managers	589	567	22
Office staff	2,037	1,978	59
Blue-collar workers	1,261	1,248	13
TOTAL	3,958	3,869	89

The headcount for the period showed an increase of 89 units compared with 31 December 2016 (142 new hirings against 53 releases); this variation is mainly due to the process to integrate the high-voltage assets acquired from the FS Group and the consequent implementation of the reinforcement policy in terms of resources and releases through retirement.

Main Events in the Third Quarter of 2017 and Subsequent Periods

Operations

- **The "Udine Ovest - Redipuglia" 380-kV power line was activated**. This project was included in the 2003 Development Plan and was critical for ensuring the electrical safety of the Friuli grids, previously based on two 380-kV lines that date back to the 1970-80s, as well as for meeting the energy demand of the area, which has more than doubled.
- In September, the process began to **realize the variant of the "Ca' Poia-Redipuglia" 132-kV power line**, which will allow for 4 km of old line to be decommissioned, demolishing 15 pylons near houses. Furthermore, a new line will be constructed far from residential areas, making use of existing road access: 1.25 km will be aerial lines and 3.0 km will use underground cable.
- On 12 October 2017, **a Memorandum of Understanding was signed with Électricité de France (EDF) for the construction of the Sa.Co.I 3 link**. The goal is to create a new DC tri-terminal connection with up to 400 MW of power (100 of which to power Corsica), by 2023. The new Sa.Co.I 3 link, subject to the operating voltage of the entire connection in 200 kV DC, will replace the current Sa.Co.I 2. link. It will be constructed largely making use of current assets, involving the development and modernisation of the two-way exchange conversion substations and the laying of new undersea and overland cables near to existing pylons, to increase the total transport capacity of the link to 400 MW, also taking the capacity for powering Corsica to 100 MW.

International Interconnections

- **Italy – France**: On 04 July 2017 the Terna Group and the "Interconnector Italia S.c.p.a." syndicate, which gather "energy-intensive" private companies, signed the agreements for the construction and operation of the private part of the project. The entire share capital of Piemonte Savoia S.r.l. was sold to the Interconnector Italia syndicate. Mandate contracts were also signed for construction (EPC) and operation (O&M) for a total amount of over € 400 million. On 06 April 2017, the vehicle company Piemonte Savoia (Pl. SA.) received a notification of exemption from the MISE, taking into account the MISE Directorial Decree of 20/07/2016 and the positive opinion issued on 09/12/2016 by the European Commission under the terms of Regulation (EC) no. 714/2009.
- **Italy – Montenegro**: Works on the undersea cables continue (capital expenditure approx. € 116 million in the first nine months of 2017): laying of the first power line has been completed, while laying of overland cables is under way. Works are progressing on the converting substations in Cepagatti (Italy side, for the assembly of equipment, transformers and converters), and in Kotor (Montenegro side, for the completion of foundations for equipment and main buildings). For further details, please refer to the "Regulated Activities" section under Performance in the first nine months of 2017.

Finance

- On 14 July 2017, Terna signed the Project Finance agreement for USD 81 million for the construction of a 500-kV transmission line to connect the cities of Melo and Tacuarembó in **Uruguay**. The funding is composed of a 17-year loan of approximately USD 56 million with the Inter-American Development Bank (IDB) and a 15-year loan of approximately USD 25 million with the Banco Bilbao Vizcaya Argentaria (BBVA). The funding has been qualified as a "green loan" by Vigeo Eiris, an agency specialising in the assessment of sustainability aspects in the field of business strategy and management, due to the positive impact of the new transmission line on electricity generation from renewables in Uruguay.
- On 19 July 2017, Terna S.p.A. successfully launched a **fixed-rate bond issue for a total of € 1 billion** as part of its Euro Medium Term Notes (hereinafter EMTN) Programme of € 8,000,000,000, which has received a "BBB" rating from Standard and Poor's, "(P)Baa1" from Moody's and "BBB+" from Fitch. The notes, with a duration of 10 years and maturity on 26 July 2027, will pay a coupon of 1.375%. A request for admission to listing on the Luxembourg Stock Exchange will be presented for the Notes. The operation is part of the strategy of financial optimisation in support of investments for an even more sustainable, secure and efficient electricity grid.

- On 21 July 2017, **a € 130 million loan was agreed with the European Investment Bank (EIB)** to support the public part of the "Piemonte-Savoia" project. The loan, with a term of 22 years, provides for a single tranche at a fixed rate of 1.64%. The operation is part of the main EIB financing lines in the energy and environmental fields.
- On 13 October 2017, Terna S.p.A. renewed its **€ 8,000,000,000 EMTN bond issue programme**. Deutsche Bank and Citigroup were the joint arrangers of the programme, which was given a BBB rating by S&P, (P)Baa1 by Moody's and BBB+ by Fitch.
- On 30 October 2017, **S&P Global Ratings raised Terna S.p.A.'s long-term rating from 'BBB' to 'BBB+'**, confirming its short-term rating at 'A-2' (the assigned outlook is stable). Terna's upgrade follows that of Italian Republic from 'BBB-' to 'BBB' and reflects the Company's stand-alone credit profile (SACP) which S&P judges to be level 'a-'.

International Activities

- On 08 September, Terna – via its subsidiary Terna Plus – formalised the contract for the construction of the 138-kV line, 132 km long, in the centre of **Peru**, which will connect the electricity substations of Aguaytìa and Pucallpa. The concession, which Terna was awarded at the end of May following the call for tender issued by Proinversion (the state agency for infrastructural investments controlled by the Peruvian Ministry of Energy and Mines) will last thirty years and is worth approximately USD 9 million.

Innovation

- On 08 September 2017, the **partnership between Terna, Cariplo Factory and the Cariplo Foundation** was renewed to accelerate youth employment and entrepreneurship in the electricity sector, after the highly successful first edition.
- On 10 October 2017, Terna - via its subsidiary Terna Plus - signed an agreement to acquire 70% of a New. Co. which will incorporate the main assets of **Avvenia**; leader in the energy efficiency sector and certified as Energy Service Company (ESCo). This transaction is part of the process of identifying and implementing new commercial opportunities for energy efficiency services and works, in order to further strengthen the role of Terna Plus as a supplier of comprehensive integrated energy services and to enhance its range of innovative solutions as Energy Solution Provider, in line with the indications of the Strategic Plan for the Group's Non-Regulated Activities. Closing of the transaction is expected in the first months of 2018.

Sustainability

- On 07 September 2017, Terna was confirmed in the **Dow Jones Sustainability Index** for the 9th year running. Compared to last year, Terna has further improved its position in the Index, passing, by 89 points, from fifth to fourth position (among the 64 companies evaluated), thanks to progress achieved in various important sustainability parameters, confirming that it is the number one Italian company in the Electric Utilities sector, according to the evaluation of RobecoSAM, which selects the best world-leading companies in the sustainability fields for inclusion in the Index.
- On the 20 September 2017, Terna was confirmed on the **Stoxx Global Leaders** Index for the 7th year running. Its presence on this international index attests to the central role of sustainability in Terna's strategy to combine investments with the growth of the country, through the development and modernisation of an increasingly secure electricity grid with a low environmental impact and reduced costs for the public. Thanks to its outstanding performance in all areas analysed – environmental, social and governance – Terna was confirmed in all three indexes that make up the ESG Leaders.

External Context

Energy Context

Demand and Generation of Electricity in Italy

In the first nine months of 2017, the demand for electricity in Italy recorded a positive change of 1.7% compared to the same period of 2016. In the period January-September 2017, demand for electricity in Italy was 239,540 million kWh compared to 235,458 million kWh in the comparative period.

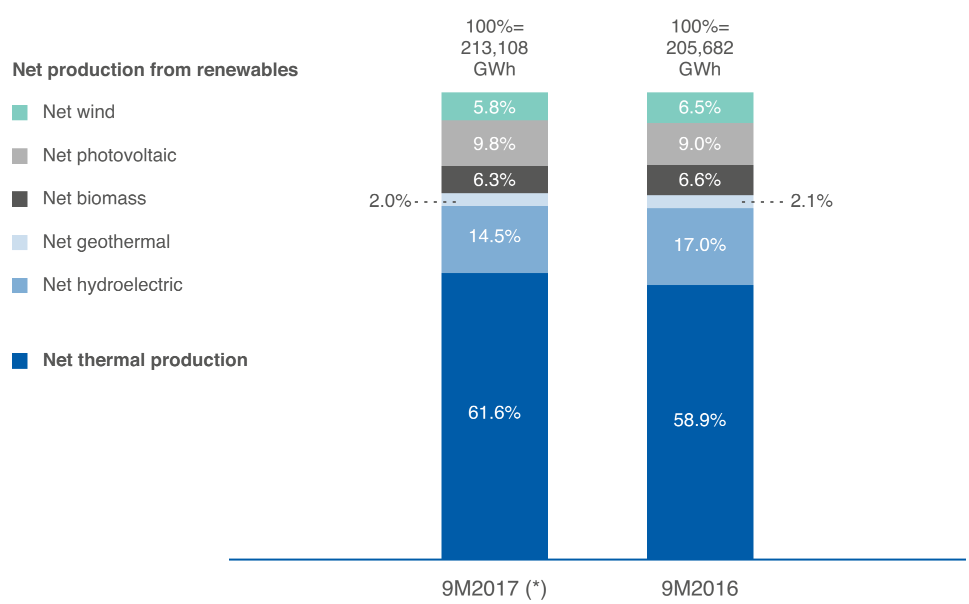
ELECTRICITY BALANCE IN ITALY[1]

	01 January - 30 September			
GWh	**2017***	**2016**	**Δ**	**Δ%**
Net production	213,108	205,682	7,426	3.6
Import	32,448	36,241	(3,793)	(10.5)
Export	(4,310)	(4,706)	396	(8.4)
For pumping	(1,706)	(1,759)	53	(3.0)
Total demand in Italy	**239,540**	**235,458**	**4,082**	**1.7**

* provisional data

The positive variation on the electricity balance in Italy was predominantly due to a cold spell in January 2017. Furthermore, an early and long lasting heatwave also resulted in increased usage mainly due to air-conditioning systems, also beyond August.

NET ELECTRICITY GENERATION BY SOURCE



* provisional data

(1) Does not include the demand for energy related to services auxiliary to electricity production activity.
Electricity for Pumping: electricity used to pump water upwards for its subsequent use for electricity generation.

In terms of electricity generation by source, in the first nine months of 2017, renewables accounted for approximately 38% of total energy **generation**, a decrease on the same period of 2016 although with different trends for individual sources. In particular, photovoltaic production increased, while other renewables experienced a drop.
Currently, the total percentage of **demand** met by renewables (approximately 34%) exceeds the 20% target for 2020 set by the European Energy Policy, as well as the target of 27% for 2030 set by the Clean Energy Package.

Electricity Price Trend

The average hourly price on the Italian Power Exchange (IPEX[2]/PUN – Single National Price) for the first nine months of 2017 was 51 €/MWh, an increase (+34%) on the price recorded in the same period of 2016. The intense cold spell across Europe in January, which also coincided with the French nuclear power stations going offline, contributed to the increase in PUN, as well as increases in commodity prices and a surge in demand during the summer months.

Regulatory Context

Regulatory Framework for the Fifth Regulatory Period (2016–2023)[3]

2016 marked the beginning of the fifth regulatory period (or new regulatory period: NRP), an eight-year period divided into two sub-periods: NRP1 (2016–2019) and NRP2 (2020–2023). The regulatory system for the first four years is broadly in line with the previous regime, although with some new elements and, more generally, an increased focus on output-based regulatory logic. For the second four-year period, the AEEGSI has proposed a new methodological approach to transmission service regulation, whereby costs will be recognised on the basis of total spending over time (operating costs and capital expenditure), also known as the TOTEX (Total Expenditure) approach.
The Energy Regulator also introduced two specific regulatory sub-periods in order to fix the rate of recognised return on invested capital, known as the Weighted Average Cost of Capital (WACC), for three years per period (2016–2018 and 2019–2021).
Certain key elements of NPR1 regulation, with reference to the return on transmission and dispatching services, are presented below.

Transmission and dispatching services in the first four-year period (2016–2019)

Transmission revenues[4] represents the most significant portion of regulated revenues and is derived from the application of the transmission fee (TF) invoiced by Terna to distributors connected to the NTG. This fee remunerates the transmission business carried on by the owners of the NTG, including owners of residual portions (outside the Terna Group), and since 2016 has a dual structure: **power** (**90% of all revenues**, expressed in € cent/kW/year) and **energy** (**10% of all revenues**, expressed in € cent/kWh).

(2) IPEX: Italian Power Exchange.
(3) 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).
(4) 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 Energy Regulator updated the transmission service tariffs for 2017.

The **dispatching service fee**[5] (DIS) remunerates Terna for activities connected to the dispatching service, and it is invoiced by Terna to the withdrawal dispatching users, in proportion to the respective quantities of energy dispatched.
The recognised costs used to determine the TF and DIS charge fall into three main categories, as summarised below:

THE THREE MAIN CATEGORIES OF RECOGNISED COSTS

Tariff components covering capital costs (RAB):

Calculated by the Regulated Asset Base (RAB) and the Weighted Average Cost of Capital (WACC). RAB represents regulated invested capital, is reviewed annually on the basis of the ISTAT data on the change in the gross fixed capital deflator and is updated based on dynamic investments and divestitures. WACC represents the weighted average cost of equity capital and debt capital. The roles of determining and reviewing the WACC are established by the relevant resolutions issued by the Energy Regulator. For the 2016–2018 period, the regulatory WACC for transmission services is fixed at 5.3%, real before tax.

Tariff Components Covering Depreciation:

Recognised depreciation (based on the useful regulatory asset lifetime) are reviewed annually on the basis of the change in the gross fixed capital deflator and including the net increase in depreciation as per the evolution of the regulated asset base.

Tariff components covering operating expenses:

Recognised operating expenses are determined by the Energy Regulator at the start of the regulatory period, on the basis of operating expenses of the year of reference (2014 for NRP1) plus the residual quotas of efficiency gains made during the two previous regulatory periods. The value is reviewed annually on the basis of inflation and is offset by a percentage factor designed to redistribute the efficiency gains to end-users over time.

For more details on the regulatory framework for the 2016–2023 period, please refer to the information in the Annual Report at 31 December 2016.

Social Context

Terna's commitment to sustainability is expressed above all in reducing the environmental and social impacts associated with its activities, minimising the environmental footprint and guaranteeing an adequate endowment of intellectual capital over time.
This entails forecasting of the possible environmental and social impacts that development activities can have, as well as adoption of all measures needed to prevent and minimise them. It also means constructive dialogue with the local communities in the places where development is planned or where lines are present.
The Group's community focus is also expressed by its involvement in social, humanitarian and cultural initiatives, representing a tangible example of the Group's role in the development of civil society.
Another key element of Terna's approach to sustainability is its focus on human resources, not only in terms of renewing key technical skills but also through its focus on health and safety in the workplace.

(5) Resolution 658/2015/R/eel outlined the fee adjustment criteria for provision of the dispatching service, making amendments and additions to resolution 351/07. The DIS is updated annually according to the same criteria and procedures set out by Resolution 654/2015/R/eel for the TF (apart from a few exceptions outlined in the same Resolution 658/2015/R/eel). With Resolution 815/2016/R/eel, dispatching fees for 2017 were updated.

The latter is particularly relevant given the fact that many operating activities are associated with specific risks, such as working at height and on live-electrical lines.

The Sustainability Plan is designed to manage and define all activities associated with the growth of the business in terms of sustainability. In particular, it aims to:

- ensure the gradual and constant improvement of the Terna Group's sustainability performance over time, supplementing and supporting the business targets outlined in the Strategic Plan;
- safeguard and consolidate the Group's reputational capital, with specific reference to investors with a focus on sustainability and, more generally, in line with the 231 Model and Law 262.

Infrastructural Capital

The High and Extra-High-Voltage NTG in Italy represents the main infrastructure capital of the Terna Group. At the end of the third quarter in 2017, the electricity lines owned and managed by Terna amounted to approximately 72.8 thousand km, in line with the total at 31 December 2016. In this context, there are 25 international interconnections, making Italy the most interconnected country in Europe.

The main variations to assets owned by the Terna group are presented below.

ASSETS VARIATIONS

SUBSTATIONS

In the context of developing the area of Benevento and the connection of renewable energy plants, the **Benevento III (BN) substation** was activated, equipped with five bays (three 380 kV and two 150 kV).

Also in the context of renewable-energy plants, the **Foggia Rignano** (FG) substation came into operation, equipped with four 150 kV bays.

Furthermore, three 132-kV bays were installed at the **Pian Camuno** (BS) substation, while the **Cedegolo** (BS) substation comprising two 132-kV bays was decommissioned; new switching substations became operational in **Marcello** (MI), comprising four 220-kV bays, and in **Pietramala** (FI), comprising four 132-kV bays.

Finally, the **Mincio** (MN) transformer station, comprising five 220-kV bays and eleven 132-kV bays was acquired from A2A.

POWER LINES

As part of the redevelopment of the Naples metropolitan area, the **new Poggioreale-Secondigliano 220-kV line**, with 7.3 km of circuits, was installed.

Various routing modifications have been made, some at the request of third parties, with a total reduction of 1.3 km of 220-kV circuits and 4.3 km of 132-kV circuits.

As part of the redevelopment of the Lombardy capital, the new **Milano Nord - Marcello** 220-kV line (6.8 km in extruded cable) was installed and the **Milano Nord - Gadio** 220-kV line (8.4 km in fluid-filled cable) was decommissioned.

Finally, three 6-kV cable connections were made between **CP Capri** and **SIPPIC power station** for a total of 2.3 km.

Financial Capital

The Group's financial strategy is characterised by diverse funding sources, a balance between short and mid-to-long term loans and proactive debt management.
Gross debt[6] on 30 September 2017 was approximately € 9.5 billion, represented by € 7.3 billion of bond issues and € 2.2 billion of bank loans (mainly with the EIB). The average debt maturity is around 5.6 years; the proportion of gross debt at fixed and floating rate to the total amounts to 85% and 15% respectively, at 30 September 2017.

Intellectual Capital

The steady and significant evolution of the electricity supply chain requires a **new systematic and organic approach** to **innovation**, based on monitoring activities and the strategic acceleration of a portfolio of Research, Development and Innovation (R&D&I) initiatives, as well as the proposal of new initiatives aimed at achieving the correct strategic position both within Italy and internationally.
The **Innovation Plan** (2017–2021) is based on the above premises, with the aim of guiding and overseeing company innovation by identifying strategic guidelines, monitoring projects and managing support tools.

TOOLS FOR INNOVATION

Systems and processes aimed at supporting the optimisation of internal assets and skills

These include tools designed to optimise the Group's intellectual capital and share corporate know-how, as well as portfolio-management tools.

Open innovation

This aims to open new development opportunities both within the company and externally, through dynamic interaction with universities and research centres, partnerships with peers and other large industrial players, and access to start-ups and small-to-medium sized businesses.

Access to Subsidised Incentive and Financing Mechanisms

Facilitation of 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.

In regard to the innovation initiatives launched in the first nine months of 2017, please note the second edition of the Next Energy programme, a partnership agreement signed with the Polytechnic University of Turin on the 21 February 2017 and the continuation of the campaign to install anti-rotational devices defined in the Security Plan – Ice and Snow Risk Management, which was previously described in the 2017 Interim Financial Report, to which reference should be made.

(6) Net debt refers to the sum of the items "Bonds", "loans" and "Short-term loans" as detailed in the Statement of Net Financial Debt given in the Economic and Financial Performance section.

The main Research and Development initiatives in the third quarter of 2017 are summarised below:

MAIN INITIATIVES

National Activities

The **National Technology Energy Cluster** proposal was approved at a national level, which will see ENEA take the helm with Terna as protagonist in one of the two associated projects, part of the network of 12 National Technology Clusters, which act as resource catalyst to meet the needs of the local area and the market, coordinating and strengthening the link between the world of research and that of enterprise.
In regard to the distribution of innovation and excellence activities carried out by Terna, please see the organisation and development of a workshop held in September at the Polytechnic University of Milan, "**The Role of Storage in Grid Management. Terna's Experience: Innovation for the Electricity System**" which disseminated the initial results of Terna's storage pilot projects. The event saw the participation of sector companies and industries, market operators and university professors and students and was also a chance to discuss the wider theme of current energy transition and the role of storage in this development, with talks from representatives of MISE, AEEGSI and CA-ISO (Californian electricity system operator).

European Activities

At European level, Terna confirmed its leadership role in the **ENTSO-E Research, Development and Innovation Committee**, which plays an important part in addressing R&D&I investment priorities in the energy sector at the European Commission level.
The H2020 planning proposal known as **OSMOSE** was approved by the European Commission in August. Led by the French TSO RTE, the project involves Terna and another four European TSOs (REE, ELES, REN and ELIA), as well as various universities, research centres and industrial partners. It aims to demonstrate the technical feasibility of an optimum mix of flexibility solutions capable of enhancing the technical and economic efficiency of the European electricity system while ensuring safety and reliability.

International Activities

The increase in the value of intellectual capital within the company has been supported by an increasingly active participation in leading international associations and committees in the electricity and innovation sector. An example of this is Terna's participation in the work of Mission Innovation, the global initiative promoted by 23 countries aiming to double investments in the **clean energy** sector within the next 5 years. The initiative was presented for the first time in Italy on the 28 September at the GSE with the presence of Terna at the related round table.

Performance in the First Nine Months of 2017

Operating Performance

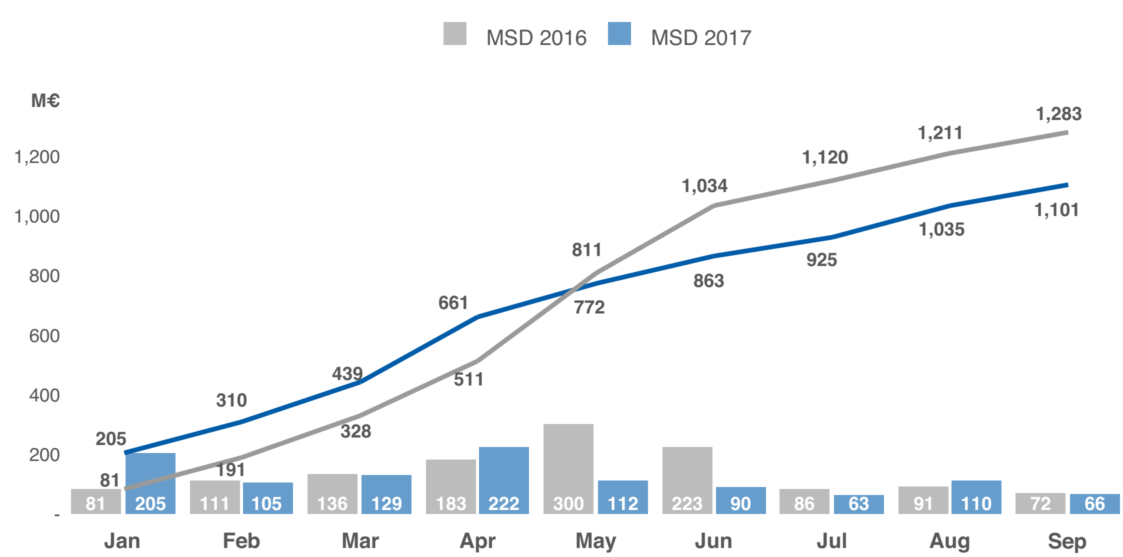
Regulated Activities

Continuity and Security of the Electricity Service

The January-September 2017 period was marked by exceptional weather conditions involving intense snowfall and strong winds. Many areas in Abruzzo and Le Marche were severely hit in January, creating serious problems for service continuity. Terna, the distribution companies, the Civil Protection Department and Public Institutions acted to manage the outages and restore the electricity supply.
Following these events, the Authority also issued Resolution 127/17, which, with effect from 01 October 2017, made some changes to the settlement of compensation that the Distributors (directly) and/or Terna (indirectly, through the sharing mechanism) pay to the MV and LV users in case of prolonged outages.
The "RENS - Reference Energy Not Supplied" measure based on preliminary operating data for the first nine months of 2017 stood at about 480 MWh, compared to the relevant annual target, of about 946 MWh, without taking into account the aforementioned exceptional event.

Dispatching Service Market

On the Dispatching Service Market (MSD) Terna procures the resources to guarantee the security of electricity supply. In the first nine months of 2017, the net expense on the MSD was € 1,101 million[7], down compared to the corresponding period of last year (€ 1,283 million).
The reduction of the net MSD was mainly due to essential-service systems which came into force from May. This effect more than offset the increases recorded in the second half of January due to the very cold spell which hit Northern Italy and Northern Europe in general, contributing to an increased need for System Reserve (also partially owing to the cold weather and snowfalls which affected many areas in Abruzzo, limiting transfer between market zones).

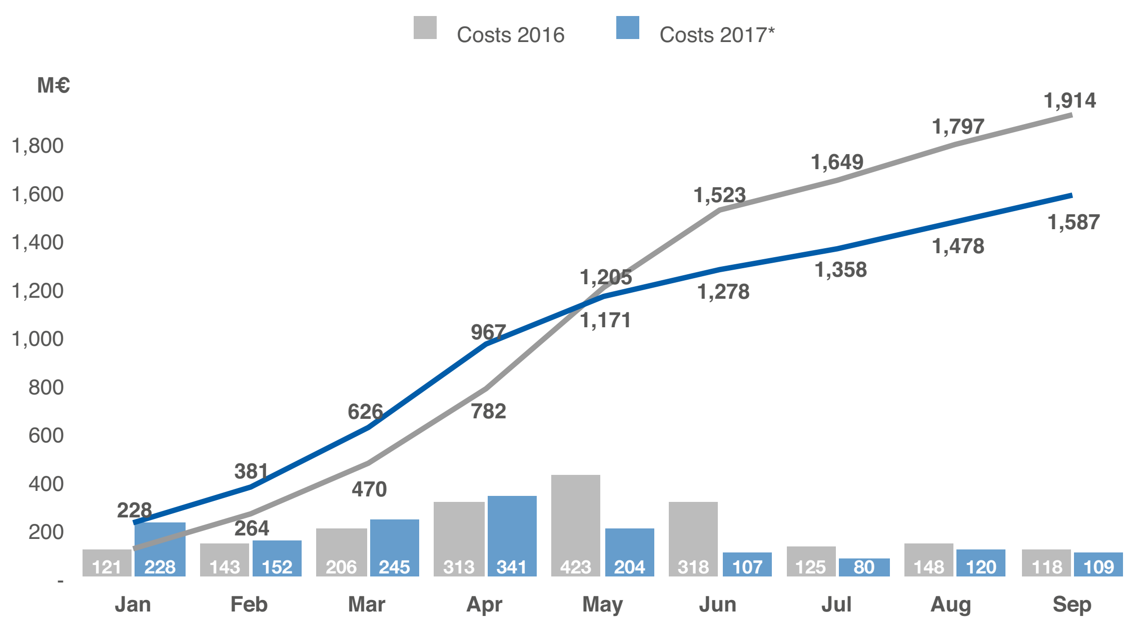


(7) Provisional data for September.

Fee to Cover Costs for Procurement of Resources on the MSD (Uplift)

AEEGSI Resolution no. 111/06 (TITLE 4) regulates the fees for dispatching services and connected guarantees. One of the dispatching fees is the fee for procurement of resources on the dispatching services market (Uplift) pursuant to art. 44 as amended.
The Uplift price is used by the system to recover net expenses deriving from energy-related items from the end user, including provision of services and energy to cover system unbalancing on the MSD, unbalancing prices, congestion income and relative coverage and the virtual interconnection service (the Interconnector).
This fee is invoiced pro-rata to dispatching users on the basis of the energy withdrawn, to cover the monthly cost accruing, and previous months cumulated differences.

In the first nine months of 2017, the total Uplift cost was approximately € 1,587 million[8], down compared to the same period of the previous year, predominantly as a result of the reduction of the MSD cost recorded in May and June.



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

Construction Activities

The Group's capital expenditure in the first nine months of 2017 is presented below. It is classified in relation to the remuneration category and identified in the new regulatory framework (V period).

€ million	9M2017	9M2016	Δ	Δ%
I-NPR1	49.7	17.6	32.1	182.4
O-NPR1	20.1	28.3	(8.2)	(29.0)
Capital expenditure with incentives*	**69.8**	**45.9**	**23.9**	**52.1**
Other Regulated Activities	440.2	458.5	(18.3)	(4.0)
Capital expenditure in Regulated Activities	**510.0**	**504.4**	**5.6**	**1.1**
Other	35.0	25.8	9.2	35.7
Total capital expenditure	**545.0**	**530.2**	**14.8**	**2.8**

* Capital expenditure classified under AEEGSI Resolution 579/2017/EEL.

(8) Provisional data for September.

The Group's **total capital expenditure** in the first nine months of 2017 amounted to € 545.0 million, compared to € 530.2 million in the same period of the previous year; of which **€ 69.8 million** related to **capital expenditure with incentives** (categories I-NPR1 and O-NPR1), an increase compared to the € 45.9 million in the same period of the previous year, in line with the end-of-year targets (€ 0.9 billion).
The item "Other" includes capital expenditure in Non-Regulated Activities (€ 25.4 million, related mainly to the capital expenditure for the private part of the Italy-France interconnection) and capitalised financial expenses (€ 9.6 million).

With reference to the **main projects in the period**[9], the following is noted:

- the progress of construction works for interconnection with other countries related to the following links:
  - Italy-Montenegro (€ 116.4 million), overland cable-laying activities are in progress for 75% (of 6 km) of cable in Montenegro and 50% (of 16 km) of cable in Italy; laying and protection of the entire undersea cable have been completed;
  - Italy-France (€ 39.4 million), the excavation and cable-laying of the link are in progress along the provincial road (about 16 km of 18 km have been completed), while activities along the motorway are awaiting approval from the Italian Ministry of Infrastructure and Transport and the handover of the land is expected for the beginning of works in November. Moreover, construction of the perimeter fence (52% of the total) and activities to settle the site and lay the foundations for the buildings continue. Finally, the manufacturing of converters is in progress and the testing of converter transformers has been completed;
- the 380-kV "Udine Ovest - Redipuglia" over-head line (€ 17.5 million) was completed, after the new authorisation was obtained in February 2017;
- the construction of cables in the Venice Lagoon (€ 15 million) is in progress on both the underground (58% of 4 km) and undersea (23% of around 10 km) sections. Drilling is underway to arrive at Cavallino and archaeological analyses in agreement with the archaeological authority of Venice are in progress;
- at the Macchialupo substation (€ 14.5 million), the substation and the two 150-kV double three-phase power lines, Bisaccia – Macchialupo 1 and 2 (20.4 km), have been purchased;
- the interconnection between the island of Capri and the mainland (€ 13.5 million) came into operation at the end of June. The new link will supply the island with greater security;
- the rationalization of the Palermo metropolitan area (€ 6.9 million) at the Casuzze substation, where the assembly of equipment and the laying of cables have been completed. Civil works and laying activities are being finished on the secure connection to Casuzze, which is expected to be activated by the end of October;
- the strengthening of 380-kV overhead lines in the North-Western area (€ 6.9 million): Lacchiarella-Chignolo construction site opened in mid-August, with works expected to be completed by the end of the year;
- integration in the NTG of the assets owned by Rete S.r.l. (€ 17.6 million); functional separation of the substations is in progress, as well as line renewal, aimed at enhancing these assets to meet the NTG operational standard.

(9) The amounts below include capitalised financial expenses.

Non-Regulated Activities

Services for Third Parties

In Italy, during the first nine months of 2017, Terna continued to provide services for third parties in the fields of Engineering activities (developing technical solutions and supplying innovative services), EPC (Engineering, Procurement, Construction), Telecommunications (TLC, housing and fibre-optic network maintenance services) and Third-Party Plant Management (operation and maintenance activities involving High-voltage and Extra-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); as well as RES (renewable energy sources) at grid-parity.

Also of importance, was the letter of intent signed with RFI for the development of renewable-energy initiatives and the start of the authorisation procedure for development of the “smart island” project involving Giannutri Island and the technical progress (PTOs, etc…) for the Giglio, Pantelleria and Certosa islands. These projects are part of Terna’s wider strategy to upgrade the electricity systems of the minor islands, making them innovative.

Telecommunications: the Group continued to develop services leveraging electrical infrastructure to provide fibre-optic and housing services, with particular reference to telecommunication operators.

In particular, during the first nine months of 2017, the planning and negotiation of fibre-optic agreements continued with the main operators and contracts were signed which should be executed during 2017 and subsequent years. In addition, studies and demonstration projects are in progress to take further advantage of pylons and areas in electrical substations for advanced solutions in the ICT sector.

Third-Party Plant Management: the existing activities are continuing for the O&M of HV Plants, the management of contracts and renewals and the pursuit of new opportunities in this field.

Transformers – Tamini Group

Orders for transformers acquired in the first nine months of 2017 increased compared to the same period of the previous year (+40%); the workload at the factories also grew compared to the end of 2016.

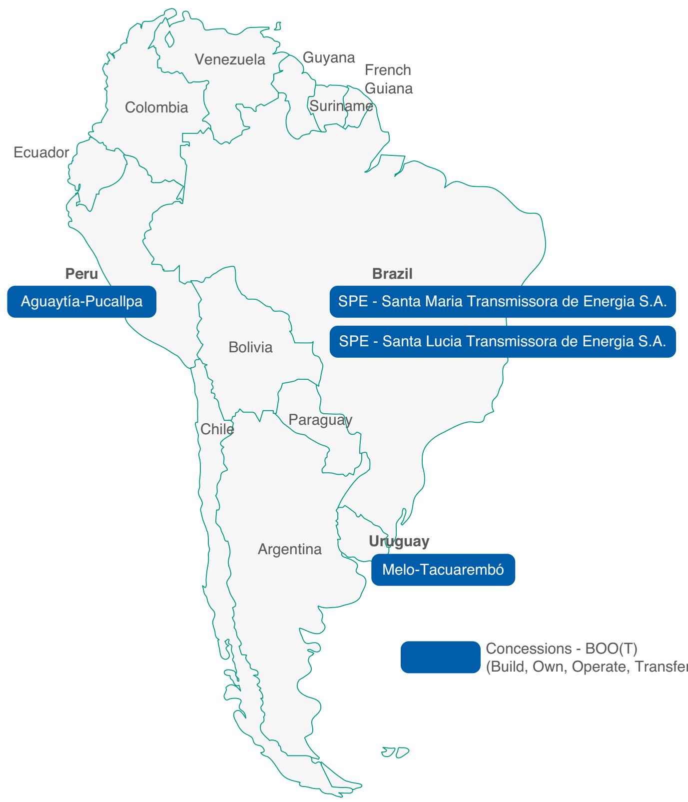
During the period, the supply of Phase Shifting Transformers was completed. This is a complex project, of strategic importance for Tamini, which has managed to break in to this important sector at a European level. In addition, at the Legnano facility, the approval test was performed successfully on the first transformer with vegetable oil built in Italy. At the end of March, the Headquarters of the Tamini Group was transferred to the Legnano office.

Private Interconnectors Pursuant to Italian Law 99/2009

Regarding the main private interconnection projects with other countries, please see the section “Main Events in the Third Quarter of 2017 and Subsequent Periods”.

International Activities

During the first nine months of 2017, activities abroad continued in line with the corporate strategy. The main projects in development in South America are laid out below.



Uruguay

Regarding the construction of the 500-kV power line from Melo to Tacuarembó, geological and geotechnical surveys are in progress, along with engineering of the structures and foundations. The 81-million-dollar Project Financing contract was finalised.

Brazil

In June, the agreement with the Planova Group (a Brazilian company that constructs civil and infrastructural works) was closed in Brazil for the acquisition of two concessions to construct and operate around 500 km of electrical infrastructure for a total of 30 years. Following the signing of the agreement on 02 February 2017, the operation was completed through the subsidiary Terna Plus and resulted in the acquisition of two Brazilian vehicle companies, “SPE - Santa Maria Transmissora de Energia S.A.” and “SPE - Santa Lucia Transmissora de Energia S.A.” According to the agreement, the Terna Group will be responsible for holding the concession and operating the line, while all engineering, procurement and construction (EPC) activities will be entrusted to Planova. Expected investments of € 180 million.

For more details on the new initiatives in **Peru**, please see the paragraph “Main Events in the Third Quarter of 2017 and Subsequent Periods”.

Economic and Financial Performance

In order to present the economic performance of the Terna Group and to analyse its financial position, financial tables have been prepared in line with standard practices for the sector. These reclassified tables contain alternative performance measures (hereinafter APM, in line with ESMA Guidelines 2015/1415) which management considers useful for monitoring Group trends, and representative of the economic and financial results achieved by the business.
The criteria used to construct these measures are the same ones used in the Annual Report; for details, please refer to the Annex "Alternative Performance Measures (APM)".

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. It is noted that some comparative financial balances have been restated for improved presentation, obviously without altering the equity figures at 31 December 2016.

Group Reclassified Income Statement

The operating Income Statements of the Terna Group for the first nine months and for the third quarter of 2017 and 2016 are summarised in the statement below.

III quarter					01 January - 30 September			
2017	2016	Δ	Δ %	*€ million*	2017	2016	Δ	Δ %
580.5	**511.1**	**69.4**	**13.6**	**TOTAL REVENUES**	**1,627.4**	**1,551.0**	**76.4**	**4.9**
490.2	474.0	16.2	3.4	- Revenues from Regulated Activities	1,457.7	1,423.5	34.2	2.4
452.5	*435.0*	*17.5*	*4.0*	*of which Transmission*	*1,347.1*	*1,306.1*	*41.0*	*3.1*
33.3	*31.7*	*1.6*	*5.0*	*of which Dispatching and Measurement*	*94.5*	*93.6*	*0.9*	*1.0*
4.4	*7.3*	*(2.9)*	*(39.7)*	*of which other revenues from Regulated Activities*	*16.1*	*23.8*	*(7.7)*	*(32.4)*
34.3	37.1	(2.8)	(7.5)	- Revenues from Non-Regulated Activities	112.6	125.3	(12.7)	(10.1)
56.0	-	56.0	-	- Revenues from International Activities	57.1	2.2	54.9	-
168.2	**111.8**	**56.4**	**50.4**	**TOTAL OPERATING EXPENSES**	**420.3**	**374.7**	**45.6**	**12.2**
55.6	53.5	2.1	3.9	- Personnel	181.8	168.8	13.0	7.7
31.3	38.7	(7.4)	(19.1)	- Services, leases and rentals	107.8	126.7	(18.9)	(14.9)
21.8	12.2	9.6	78.7	- Materials	54.5	50.4	4.1	8.1
(1.0)	5.9	(6.9)	(116.9)	- Other expenses	10.5	21.9	(11.4)	(52.1)
4.9	1.5	3.4	-	- Quality of service	8.7	5.1	3.6	70.6
55.6	-	55.6	-	- Costs of International Activities	57.0	1.8	55.2	-
412.3	**399.3**	**13.0**	**3.3**	**EBITDA (GROSS OPERATING MARGIN)**	**1,207.1**	**1,176.3**	**30.8**	**2.6**
129.4	136.0	(6.6)	(4.9)	- Amortisation, depreciation and impairment	390.2	403.2	(13.0)	(3.2)
282.9	**263.3**	**19.6**	**7.4**	**EBIT (OPERATING PROFIT)**	**816.9**	**773.1**	**43.8**	**5.7**
(28.7)	(24.2)	(4.5)	18.6	- Net financial income/(expense)	(68.3)	(60.4)	(7.9)	13.1
254.2	**239.1**	**15.1**	**6.3**	**PROFIT BEFORE TAXES**	**748.6**	**712.7**	**35.9**	**5.0**
77.7	77.5	0.2	0.3	- Income taxes for the period	221.6	228.2	(6.6)	(2.9)
176.5	**161.6**	**14.9**	**9.2**	**NET PROFIT FOR THE PERIOD**	**527.0**	**484.5**	**42.5**	**8.8**
(1.0)	(0.4)	(0.6)	150.0	- Profit attributable to Non-controlling interests	(1.8)	(2.3)	0.5	(21.7)
177.5	**162.0**	**15.5**	**9.6**	**GROUP NET PROFIT FOR THE PERIOD**	**528.8**	**486.8**	**42.0**	**8.6**

In the first nine months of 2017, the Terna Group achieved **total revenues** of **€ 1,627.4 million**, an increase of € 76.4 million with respect to the same period of the previous year (+4.9%). This change can be attributed to Regulated Activities for € +34.2 million, to Non-Regulated Activities for € -12.7 million and to International Activities[10] for € +54.9 million.

Revenues from Regulated Activities

The increase in revenues from Regulated Activities, of € 34.2 million, was due mainly to the combined effect of the following phenomena:

- **Fee for transmission activity**: € +41 million; it is worth noting the fee related to the NTG acquired at the end of 2015 from the FSI Group (€ +48.4 million), which in the comparative period was remunerated only to cover operating expenses, partially offset by the non-recurring effects recognised in the same period of 2016, of € 5.5 million, from recognition of the strategic investments related to incentivised work in progress in 2015;
- **Other revenues**: € -7.7 million, in particular demonstrated the greater revenues accrued in the first nine months of 2016, for the "Copper Plan" (€ -10.3 million), in part offset by higher revenues for connection to the NTG of certain consumption units (€ 2.1 million).

Revenues from Non-Regulated Activities

€ million	9M2017	9M2016	Δ
Tamini Group	66.0	74.9	(8.9)
Telecommunications	24.2	24.3	(0.1)
O&M contracts	12.1	11.4	0.7
EPC contracts	7.0	9.7	(2.7)
Other	3.3	5.0	(1.7)
TOTAL	**112.6**	**125.3**	**(12.7)**

The decrease in **Non-Regulated Activities** of € 12.7 million is mainly due to the contraction in sales of transformers in the period by the Tamini Group (€ -8.9 million). We can note, however, that in the initial months of the year, the Tamini Group's transformer order book grew by around 40% compared to the same period of the previous year. Furthermore, they have recorded lower revenues for third-party orders (€ -2.7 million, essentially due to increased works for connection and adaptation of third-party electrical substations in 2016), as well as a reduction in other revenues (€ -1.7 million, principally for booking in the first nine months of 2016 of the effects of renewal of the company vehicle fleet).

Revenues from International Activities

Revenues from **International Activities** of € 57.1 million reflect the results of activities in South America (€ +54.9 million), mainly related to new capital expenditure for concessions in Brazil (pursuant to IFRIC 12, € +49 million) and the construction of a line in Uruguay (€ +7.1 million) which were discussed previously.

During the third trimester of 2017, revenues increased by € 69.4 million compared to the same period in 2016, mainly due to the phenomena described previously regarding the positive change in the fee for the transmission activity (€ +17.5 million), the increase in International Activities (€ +56 million, essentially for concessions in Brazil), offset by the reduction in revenues from Non-Regulated Activities (€ -2.8 million).

(10) Recognised pursuant to "IFRIC 12 – Service Concession Arrangements"

Operating Expenses

€ million	9M2017	9M2016	Δ	Δ without Tamini	Δ Tamini
Personnel	181.8	168.8	13.0	15.8	(2.8)
Services, leases and rentals	107.8	126.7	(18.9)	(12.5)	(6.4)
Materials	54.5	50.4	4.1	1.1	3.0
Other expenses	10.5	21.9	(11.4)	(9.5)	(1.9)
Quality of service	8.7	5.1	3.6	3.6	-
Costs of International Activities	57.0	1.8	55.2	55.2	-
TOTAL OPERATING EXPENSES	**420.3**	**374.7**	**45.6**	**53.7**	**(8.1)**

Operating expenses, net of Tamini Group balances (€ -8.1 million, mainly due to the reduction in orders and optimisation of costs in the Group's organisation) increased by € 53.7 million, as detailed below:

- **Personnel**: € +15.8 million, mainly due to the increase in the average number of employees (in particular due to recruitment within Terna Rete Italia S.p.A. to support the insourcing of operational and maintenance activities on the assets of Rete S.r.l.);
- **Services, leases and rentals**: € -12.5 million, relating mainly to the savings from the internalisation of maintenance costs for the management of power lines of Rete S.r.l.;
- **Materials**: € +1.1 million, essentially due to costs connected to new TLC projects;
- **Other expenses**: € -9.5 million, attributable principally to adjustment of provisions for risks and charges for the period;
- **Quality of service**: € +3.6 million, for mitigation charges (€ +2.8 million) and for provisions to the exceptional events fund (€ +0.6 million), due to outages during the period;
- **Costs of International Activities**: € +55.2 million, related to investments made for concessions acquired in Brazil during the period (pursuant to IFRIC 12, € +49 million) and the beginning of construction for the electricity line in Uruguay (€ +7.1 million), net of the reduction in costs connected with an EPC in Chile (€ -1.3 million).

In the third quarter of 2017, costs rose by € 56.4 million compared to the same period the year before, mainly due to the increase in costs for the concessions in Brazil discussed previously (pursuant to IFRIC 12), to higher consumption of materials by the Tamini Group (€ +8.9 million) and to the beginning of work in Uruguay (€ +6.5 million); services fell by € 7.4 million due to the factors described above.

EBITDA (Gross Operating Margin) of the period came out at **€ 1,207.1 million**, an increase of € 30.8 million compared to the € 1,176.3 million of the first nine months of 2016, owing mainly to the improved result for Regulated Activities. **EBITDA margin** amounted to **74.2%**.

Amortisation, depreciation and impairment, at € 390.2 million, fell by € 13 million, mainly due to lower depreciation after the review of the useful life of electricity lines (increased from 40 to 45 years), partially offset by the effects of the activation of new plants.

EBIT (Operating Profit) was **€ 816.9 million**, against € 773.1 million in the first nine months of 2016 (+5.7%).

Net financial expenses of € 68.3 million, mainly attributable to the Parent Group (€ 67.1 million), show an increase of € 7.9 million, mainly due to the inflation trend during the period.

Profit before taxes totalled **€ 748.6 million**, up € 35.9 million (+5%).

Income taxes for the period totalled € 221.6 million and were down by € 6.6 million (-2.9%) compared to the first nine months of 2016, mainly due to the reduction in the IRES (corporate income tax) rate from 27.5% to 24% (pursuant to Italian Law no. 208/2015 Stability Law for 2016), partially offset by the

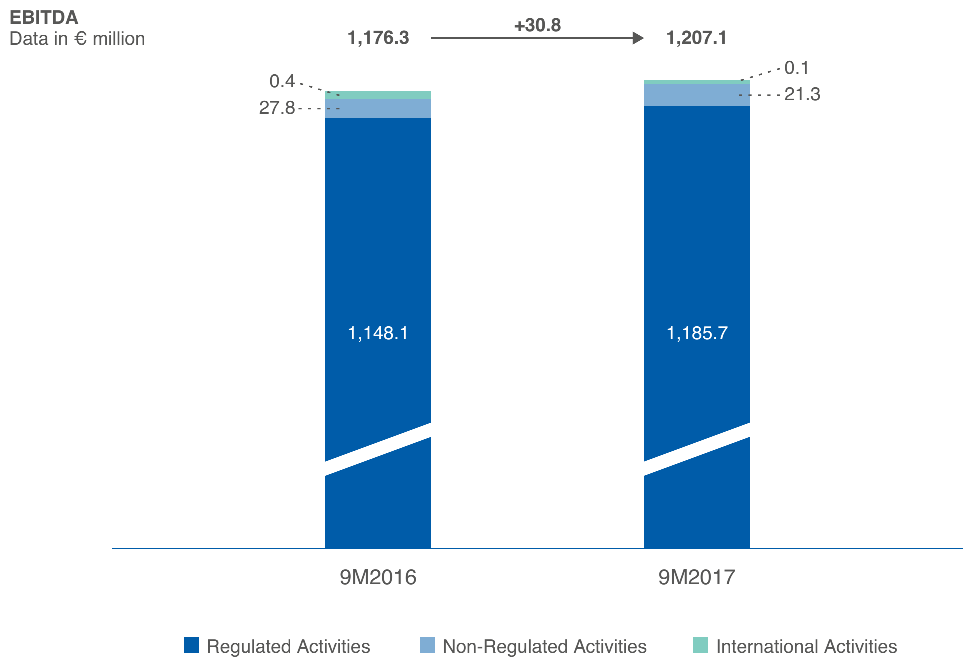
amendments introduced by the Aid to Economic Growth (ACE) regulation - Italian Decree-Law 50/2017.
The tax rate for the period amounted to 29.6%, compared with 32% in the first nine months of 2016.

Net profit for the period reached **€ 527.0 million**, up € 42.5 million (+8.8%) compared with the € 484.5 million of the same period of the previous year.

Group net profit for the period (excluding the profit attributable to non-controlling interests) stood at **€ 528.8 million**, an increase of € 42 million (+8.6%) compared to € 486.8 million in the first nine months of 2016.

Economic Results by Business Segment

The breakdown of the Terna Group's results by business segments, in relation to the first nine months of financial years 2017 and 2016, is shown in the table below[11]:



Regulated Activities EBITDA amounted to € 1,185.7 million, € +37.6 million compared to the figure of the previous year. This increase was due to the growth in transmission revenues, owing to the recognition of capital remuneration and depreciation of the grid acquired from RFI, partly offset by higher personnel expenses, owing to an increase in the amounts for insourcing of the O&M activities previously entrusted to RFI which, on the contrary, entails a reduction in the costs of external resources.

€ million	9M2017	9M2016	Δ	Δ %
Regulated Activities Revenues	1,457.7	1,423.5	34.2	2.4
Regulated Activities Costs	272.0	275.4	(3.4)	(1.2)
EBITDA Regulated Activities*	**1,185.7**	**1,148.1**	**37.6**	**3.3**

* EBITDA including indirect costs.

EBITDA for Non-Regulated Activities in the first nine months of 2017, of € 21.3 million, showed a reduction of € 6.5 million due mainly to non-recurring provisions in 2016 (vehicle sale) and higher costs recorded for 2017 for launching new projects and creating supporting structures.

euro milioni	9M2017	9M2016	Δ	Δ %
Non-Regulated Activities Revenues	112.6	125.3	(12.7)	(10.1)
Non-Regulated Activities Costs	91.3	97.5	(6.2)	(6.4)
EBITDA Non-Regulated Activities	**21.3**	**27.8**	**(6.5)**	**(23.4)**

(11) The Terna Group's business segments are in keeping with the internal management control system adopted by the Parent Company, in line with the 2017-2021 Strategic Plan.

The Group's Reclassified Statement of Financial Position

The reclassified consolidated statement of financial position for the Terna Group at 30 September 2017 and at 31 December 2016 is summarised in the statement below.

€ million	as of 30/09/2017	as of 31/12/2016	Δ
Total Net Non-Current Assets	**13,163.6**	**12,974.0**	**189.6**
- Intangible assets and goodwill	496.8	516.0	(19.2)
- Property, plant and equipment	12,528.2	12,368.9	159.3
- Financial assets	138.6	89.1	49.5
Total net working capital	**(1,641.4)**	**(1,075.3)**	**(566.1)**
- Net Energy-related pass-through payables	(907.2)	(545.9)	(361.3)
- Net receivables from margin Energy items	320.9	342.0	(21.1)
- Net trade payables	(559.2)	(633.5)	74.3
- Net tax liabilities	(95.2)	52.0	(147.2)
- Other Net liabilities	(400.7)	(289.9)	(110.8)
Gross Invested Capital	**11,522.2**	**11,898.7**	**(376.5)**
Provisions	(346.8)	(384.6)	37.8
NET INVESTED CAPITAL	**11,175.4**	**11,514.1**	**(338.7)**
Equity attributable to shareholders of the parent	**3,794.5**	**3,535.4**	**259.1**
Non-controlling interests	**18.0**	**19.8**	**(1.8)**
Net financial debt	**7,362.9**	**7,958.9**	**(596.0)**
TOTAL	**11,175.4**	**11,514.1**	**(338.7)**

The increase in **net non-current assets** of € 189.6 million compared with the figure at 31 December 2016 is mainly attributable to:

- investments of € 526.6 million, described in the paragraph "Construction Activities" of Operating Performance;
- amortisation and depreciation for the period for € 343.9 million;
- other changes during the period of € -15.0 million, which include plant grants (projects funded by the MISE/EU) and the acquisition of a substation located in Ponti sul Mincio for € 10.5 million; disposals and impairment (€ -8.4 million).

Intangible assets and goodwill recorded a drop of € 19.2 million compared to 31 December 2016 for the attributable amortisation (€ 37.6 million) net of investments in the period (€ 18.4 million).

Total capital expenditure made by the Group in the first nine months of 2017 amounted to € 545.0 million, up by 2.8%, compared with the € 530.2 million in the corresponding period of 2016.

€ million	9M2017	9M2016	Δ	Δ%
Capital expenditure in property, plant and equipment	526.6	507.5	19.1	3.8
Capital expenditure in intangible assets	18.4	22.7	(4.3)	(18.9)
Total Group capital expenditure	**545.0**	**530.2**	**14.8**	**2.8**

Financial assets increased by € 49.5 million, essentially due to capital expenditure in the period for infrastructure under concession in Brazil recorded in application of IFRIC 12.

Net working capital amounted to € -1,641.4 million and during the period generated liquidity totalling € 566.1 million with respect to 2016, due to the combined effects of:

Cash Generation

- Increase in **net energy-related pass-through payables** (equal to € 907.2 million at 30 September 2017) of € 361.3 million, mainly due to the combined effect of:
  - increase in the net payable associated with essential units for electricity system security - UESS (€ 272.6 million), for the items associated with collection in the period:
  - decrease in net receivables related to the uplift fee (approximately € 178.7 million), mainly attributable to the reduction of the MSD cost recorded in May and June;
  - reduction in net payables related to the capacity payment (€ 88.1 million), following on from payments made in the period (pursuant to AEEGSI Resolutions no. 398/2017, no. 418/2017 and no. 588/2017) and net of items related to fees received over the nine months to cover the service.
- Decrease in **net receivables from margin energy items** of € -21.1 million, due to the transmission fee (€ -19.5 million), as a result of the new regulations introduced with Italian Decree-Law 50/17 concerning the split payment[12], partially offset by the full recognition of the portion of grid managed by the subsidiary Rete S.r.l. and the increase in energy volumes.
- Higher **net tax liabilities** (€ 147.2 million) attributable mainly to the trend in the payable position with the tax authority for VAT (€ +51.3 million, compared to the credit situation at the end of the 2016 financial year), particularly relative to the effects of the AEEGSI measures of the end of 2016 related to the UESS[13], taking account of the legislative amendments to the above-mentioned spilt payment mechanism. In the period, we also reported higher net tax liabilities for current taxes (€ +100.6 million), as a result of the recognition of income taxes for the period, net of the advances paid in said period and of the final payment of the tax balance for the previous year.
- Increase in **other net liabilities** (€ 110.8 million) mainly related to the payments on account received from the lenders of the Italy-France Interconnector (€ +85.4 million) and the change in plant grants received (€ +82.7 million, mainly due to the collection of the last portion of EU contributions for the Sorgente-Rizziconi project); partly offset by advances paid for the activities launched in South America (€ 40 million) and the increase in inventories for € 5.4 million, mainly for optical fibre to be used in TLC projects.

Cash Utilization

- Decrease in **net trade payables** of € 74.3 million, attributable mostly to investments carried out towards the end of the previous year.

Gross Invested Capital, therefore, amounted to € 11,522.2 million, recording a decrease compared with the previous financial year of € 376.5 million.

Provisions decreased by € 37.8 million, mainly due to:

- provision for deferred tax liabilities of € -19.0 million, chiefly due to tax effects on depreciation and amortisation and changes in the provisions for risks and charges;
- reversal of energy discount provisions (€ -9.3 million) and adjustment for other provisions (€ -9.5 million).

Net Invested Capital amounted to € 11,175.4 million, a decrease of € 338.7 million compared with 31 December 2016 and is financed by equity attributable to shareholders of the Parent Company for € 3,794.5 million (compared with € 3.535,4 million at 31 December 2016), by equity of non-controlling interests for €

(12) With effect from 01 July 2017, art. 1 of Italian Decree-Law no. 50 of 24.04.2017, converted by Italian Law no. 96/2017, amended art. 17-ter of Italian Presidential Decree no. 633/1972, extending the split payment regulation to listed companies included on the FTSE MIB index and to those directly or indirectly controlled by the State or local authorities. Therefore, starting from 01 July 2017, Terna's receivable for operations made with the aforementioned split payment parties no longer include VAT, as this regulation provides for the tax to be paid to the Tax Authority by the purchaser directly.

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

18.0 million (€ 19.8 million at 31 December 2016) and by net financial debt of € 7,362.9 million (€ -596.0 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.

€ million	Cash flow 9M 2017	Cash flow 9M 2016
- Net Profit for the period	527.0	484.5
- Amortisation, depreciation and impairment	390.2	403.2
- Net change in provisions	(37.8)	(14.6)
- Net losses (gains) on asset disposals	(0.8)	(5.5)
Operating Cash Flow	**878.6**	**867.6**
- Change in net working capital*	565.0	147.2
- Other changes in Non-current assets	16.4	1.2
- Change in financial assets	(49.3)	(1.2)
Cash Flow from Operating Activities	**1,410.7**	**1,014.8**
- Total Capital expenditure	(545.0)	(530.2)
Free Cash Flow	**865.7**	**484.6**
- Dividends paid to the owners of the Parent	(269.1)	(261.3)
- Cash flow hedge reserve net of the tax effect and other changes in equity attributable to the owners of the Parent	(0.6)	(21.5)
Change in net financial debt	**596.0**	**201.8**

* Does not account for impairment of current assets (€ 1.1 million in the first nine months of 2017)

Net Financial Debt

The Group's net financial debt at 30 September 2017 stood at € 7,362.9 million, down € 596.0 million compared to 31 December 2016.

€ million	30.09.2017	31.12.2016	Δ
Net financial debt (by duration)			
Total medium- and long-term debt	**8,300.2**	**8,074.1**	**226.1**
- Bonds	6,572.3	6,420.5	151.8
- Loans	2,026.0	1,983.9	42.1
- Derivative financial instruments	(264.8)	(312.9)	48.1
- Other non-current financial assets (Interconnector guarantee fund)	(33.3)	(17.4)	(15.9)
Total short-term debt (liquidity)	**(937.3)**	**(115.2)**	**(822.1)**
- Bonds (current portion)	749.7	769.9	(20.2)
- Short-term Loans	24.7	20.1	4.6
- Floating-rate Loans (current portions)	134.4	134.6	(0.2)
- Other net current financial liabilities	77.6	95.9	(18.3)
- Cash and cash equivalents	(1,923.7)	(1,135.7)	(788.0)
Total net financial debt	**7,362.9**	**7,958.9**	**(596.0)**
Net financial debt (per type of instrument)			
- Bonds	7,322.0	7,190.4	131.6
- Loans	2,160.4	2,118.5	41.9
- Derivative financial instruments	(264.8)	(312.9)	48.1
- Short-term loans and other financial liabilities	102.3	116.0	(13.7)
- Cash and cash equivalents and other financial assets	(1,957.0)	(1,153.1)	(803.9)
Total net financial debt	**7,362.9**	**7,958.9**	**(596.0)**

The proportion of gross debt at fixed and floating rate to the total amounts to 85% and 15% respectively.

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

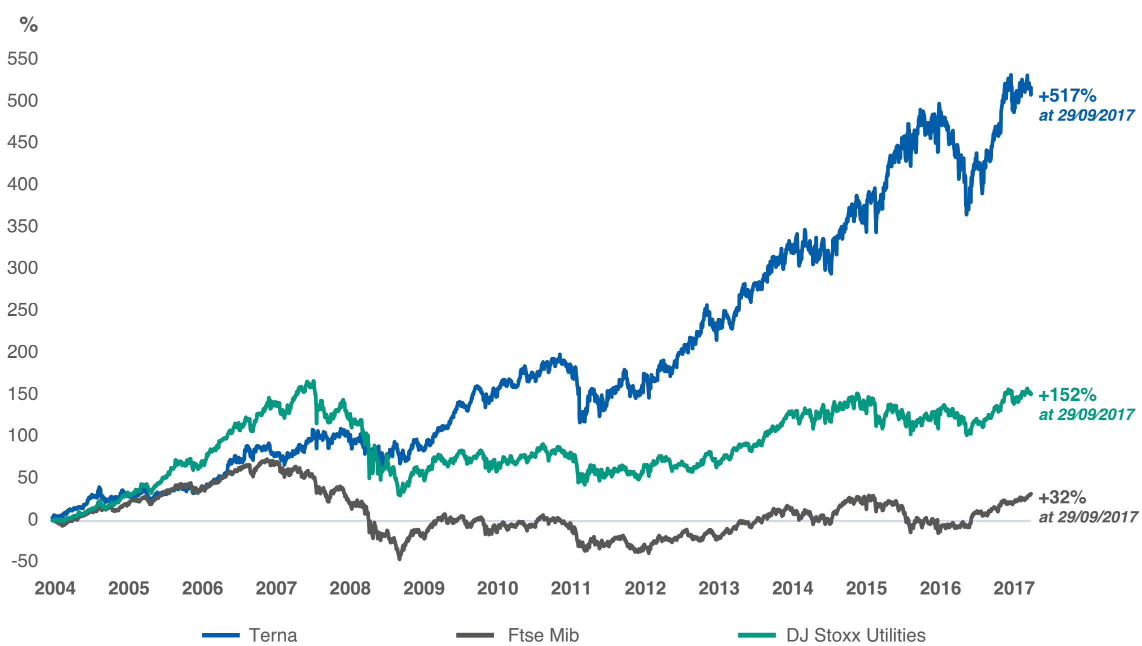
- increase in bonds (€ +131.6 million), as a result of the payment of the bond on 17 February 2017 for € 770.0 million, of the payment of the bond on 26 July 2017 for € 1,000 million and the fair value adjustment of the same financial instruments (€ -98.4 million, including amortised cost) as a result of the increase in forward rates as of 30 September 2017;
- increase in loans (+€ 41.9 million) owing mainly to the disbursement, in June, of an EIB loan of € 165 million and of the instalments repaid in the nine months related to existing loans (€ -123.1 million);
- decrease in the positive net balance of derivative financial instruments (€ +48.1 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 (€ -13.7 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 € 803.9 million. Available liquidity at 30 September 2017 amounted to € 1,923.7 million, of which € 250.4 million invested in time deposits and € 1,673.3 million essentially deposited in current bank accounts, while other non-current financial assets include € 33.3 million for the Interconnector Guarantee Provision established for the creation of interconnection works pursuant to article 32 of Italian Law 99/09.

Terna Stock Performance

Terna has been listed on the Borsa Italiana market since 23 June 2004. Since the listing date, and up to the end of September 2017, the stock has risen by 191% (capital gain) guaranteeing a total shareholder return (TSR[14]) of +517%, outperforming both the Italian market (FTSE MIB +32%) and the European sector reference index (DJ Stoxx Utilities +152%).
Terna stock recorded positive performance of +13,6% in the first nine months of 2017, closing on the 29 September at 4.94 €/share and outperforming the DJ Stoxx Utilities (+8.5%). On 08 June, the stock reached the new all-time high at 5.17 €/share.
The daily average volumes traded in the period came out at about 6 million shares a day, lower compared to the same period of 2016 (7.1 million shares). It is worth mentioning that on 19 June, the stock paid the 2016 final dividend of € 13.39 cents.
In the first nine months of 2017, the main European markets also registered positive performance. Milan saw the biggest rise (+18.0%), followed by Madrid with a gain of 11.0%. Paris and Frankfurt closed respectively at +9.6% and +8.8%, while London registered +3.2%.

Below is the TSR trend of Terna stock and the reference indexes.

TOTAL SHAREHOLDER RETURN OF TERNA STOCK, FTSE MIB AND DJ STOXX UTILITIES INDEXES (SINCE TERNA'S IPO)



(14) Total Shareholder Return (TSR): total return on an equity investment, calculated as the sum of:
I. capital gain: ratio between the change in the share price (difference between price recorded at the end and at the beginning of the reference period) and the price recorded at the beginning of the same period;
II. dividends reinvested: the ratio between dividends per share distributed in the reference period and the price of the stock at the beginning of the same period. The dividends are considered reinvested in the stock.

Weight of Terna Shares[15]

> in the FTSE MIB index[15]	1.93%

Source: Borsa Italiana. Data as of 29 September 2017.

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-2**	BBB**	Stable
Moody's	Prime-2	Baa2	Negative
Fitch	F2	BBB	Stable

* Data at 30 September 2017.
** Data updated at 27 October 2017 (previously Short-Term 'A-3', previously M/L Term 'BBB-').
*** Data updated at 30 October 2017 (previously 'BBB').

Business outlook

The positive results achieved in the period confirm the company's strong growth capabilities in line with the objectives announced to the market for 2017.
Robust cash generation will support the acceleration required in domestic investments aimed at supporting the current energy transition and, in particular, the integration of renewables and increased system security.
Investment of € 900 million is planned this year under the industrial plan.

(15) % out of total FTSE MIB.

Declaration of the Manager in charge of preparing the company's accounting data in Compliance with the Provisions of Art. 154-bis, Paragraph 2, of Italian Legislative Decree 58/1998

The manager in charge of preparing the company's accounting data, Agostino Scornajenchi, declares – pursuant to art. 154-bis, paragraph 2, of the Consolidated Finance Act – that the financial statements contained in this Consolidated Interim Financial Report at 30 September 2017 correspond to the company's accounts, books and records.

ANNEXES

Evolution in the Group's Corporate Structure

Compared to the situation at 31 December 2016, the following changes have been made to the Group's corporate structure.

Acquisitions and Registration of New Companies:

- In regard to the development of renewable-energy initiatives as agreed in the partnership agreement between Terna and RFI signed in November 2016, four limited-liability companies were established by the subsidiary Terna Plus S.r.l., **Rete Verde 17 S.r.l.** and **Rete Verde 18 S.r.l.** (on 10 May 2017); **Rete Verde 19 S.r.l.** and **Rete Verde 20 S.r.l.** (on 14 July 2017).
- On 13 June 2017, the subsidiaries Terna Plus S.r.l. and Terna Chile S.p.A. established the company **Terna Peru S.A.C.** under Peruvian law, with an equity investment of 99.99% and 0.01% respectively, for the construction of a 138-kV line (132 km).
- On 26 June 2017, the subsidiary Terna Plus S.r.l. acquired two Brazilian joint-stock companies, **SPE Santa Maria Trasmissora de Energia S.A. and SPE Santa Lucia Trasmissora de Energia S.A.**. The equity investment of Terna Plus S.r.l. is 99.999998% and 99.999999% respectively, while the remaining 0.000002% and 0.000001% are held by Terna Chile S.p.A..
- On 04 July 2017, Terna Interconnector S.r.l. sold all the Group's equity in the company **Piemonte Savoia S.r.l.** to the syndicate Interconnector Italia S.c.p.a..

Mergers:

- On 31 March 2017, the merger by incorporation of Terna Storage S.r.l. and Terna Rete Italia S.r.l. into Terna S.p.A. came into effect.
- In the context of the Tamini Group, on 08 June 2017 the merger by incorporation of T.E.S. Transformer Electro Service S.r.l. and V.T.D. Trasformatori S.r.l. into Tamini Trasformatori S.r.l. came into effect.

Alternative Performance Measures (APM)

MEASURE	DESCRIPTION
Economic results	
Operating Profit - EBIT	this is an operating performance measure and is calculated as the **Profit before taxes plus Net financial expenses/income**.
Gross Operating Margin - EBITDA	this is an operating performance measure and is calculated as the **Operating Profit (EBIT) plus Amortisation, depreciation and impairment**.
EBITDA MARGIN	this is an operating performance measure and derives from the ratio between the **Gross Operating Margin (EBITDA)** and **Revenues**.
TAX RATE	this expresses the proportion of tax with respect to the result and derives from the ratio between **Taxes on profit** and the **Profit before taxes**.
Financial position results	
Net working capital	this is a measure which expresses the company's liquidity and is determined by the difference between **current assets** and **current liabilities** of a non-financial nature represented on the balance sheet.
Gross Invested Capital	this is a measure which expresses the total of Group activities and is derived from **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 and is 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** (net of "Financial assets recorded in application of IFRIC 12" and "Other investments").
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**.

With reference to the reconciliation of the APM described above compared to the IFRS statements, please refer to the criteria used and described in the 2016 annual report.

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 nine months of 2017.

Related-party Transactions

For information on the related party disclosures, please refer to the detailed account given in the Annual Report at 31 December 2016.

Participation in the Legislative Simplification Process Pursuant to CONSOB Resolution no. 18079 of 20 January 2012

For information on participation in the CONSOB legislative simplification process, please see the detailed account given in the Annual Report at 31 December 2016.

An Asset for the Country

www.terna.it

00156 Rome Viale Egidio Galbani, 70
Ph. +39 06 83138111

Terna

TERNA GROUP