

RESULTS APPROVED AS OF 30 SEPTEMBER 2018

- **Revenue** at € 1,624.9 million (€ 1,570.4 million in 9M17, +3.5%)
- **EBITDA** at € 1,230.1 million (€ 1,207.1 million in 9M17, +1.9%)
- **Group net profit for the period** at € 541.5 million (€ 528.8 million in 9M17, +2.4%)
- **Capital expenditure** at € 561.4 million (€ 545 million in 9M17, +3%)
- **Net debt** at € 7,591.7 million, down by € 204.7 million compared to 31 December 2017
- 2018 **Interim dividend** of 7.87 eurocents per share

Rome, 9 November 2018 – CEO and General Manager Luigi Ferraris outlined the results of the first nine months and the third quarter of 2018, which were examined and approved by the Board of Directors of Terna S.p.A. (“Terna”), at a meeting today chaired by Catia Bastioli.

“With all the main economic figures on the rise, the positive results achieved in the first nine months of the year confirm the effectiveness of the managerial actions taken and support the continued growth outlined in the 2018-2022 Strategic Plan. Investments in the Italian national transmission grid foster the process of energy transition towards a decarbonised system and aid in creating value for all our stakeholders,” stated Luigi Ferraris, Chief Executive Officer and General Manager of Terna.

CONSOLIDATED ECONOMIC AND FINANCIAL RESULTS FOR THE FIRST 9 MONTHS OF 2018

€ million	9M 2018	9M 2017	% change
Revenue*	1,624.9	1,570.4	+3.5%
EBITDA (Gross Operating Margin)	1,230.1	1,207.1	+1.9%
EBIT (Operating Profit)	830	816.9	+1.6%
Group net profit for the period	541.5	528.8	+2.4%
CAPEX	561.4	545	+3%

* Directly including the margin of the assets in concession implemented abroad

Revenue in the first 9 months of 2018, of € 1,624.9 million, registered an increase of € 54.5 million (+3.5%) compared to the same period in 2017. This result was due to an increase in tariff revenue of Regulated Activities and to the contribution of Non-Regulated Activities, in particular thanks to the sales growth of the Tamini Group and the progress of activities on the private Italy-France Interconnector.

EBITDA (Gross Operating Margin) of the period reached at € 1,230.1 million, an increase of € 23 million (+1.9%) compared to € 1,207.1 million in the first 9 months of 2017.

EBIT (Operating Profit) of the period, after amortisation, depreciation and impairment of € 400.1 million, stood at € 830 million, compared to the € 816.9 million for the first 9 months of 2017 (+1.6%).

Net financial expenses for the period, of € 66.8 million, were substantially in line with the figure for the first 9 months of 2017 (€ -1.5 million).

Profit before taxes stood at € 763.2 million, up by € 14.6 million compared to the same period in 2017 (+2%).

Income tax expense of the period amounted to € 218.2 million and decreased by € 3.4 million compared to the corresponding period of 2017 (-1.5%), mainly thanks to non-recurring not relevant tax income generated in the period. The tax rate stood at about 29%.

The **Group net profit** for the period was € 541.5 million, up by € 12.7 million compared to the € 528.8 for the first 9 months of 2017 (+2.4%).

The **consolidated statement of financial position** as of 30 September 2018 showed **Equity attributable to owners of the Parent** at € 4,033.5 million, compared to € 3,803.3 million as of 31 December 2017.

Net debt amounted to € 7,591.7 million, down by € 204.7 million compared to 31 December 2017 (€ 7,796.4 million), mainly thanks to the cash generation of the period.

The Terna Group's **total capital expenditure** for the first 9 months of 2018 stood at € 561.4 million, up 3% compared to the € 545 million for the same period of the previous financial year. The main projects for the period included the *Italy-Montenegro* and *Italy-France* electrical

interconnections and the works for the implementation of the Venetian Lagoon undersea connection.

The Group's **employees**, at the end of September 2018, totalled 4,188, up by 291 compared to 31 December 2017. This increase was mainly related to the generational turnover programme launched during 2017 and to the core skills strengthening policy in line with the Strategic Plan 2018 - 2022.

KEY EVENTS DURING THE 3rd QUARTER OF 2018 AND AFTER THE REPORTING PERIOD

Business

The new 150 kV electricity line "**Quartu - Quartucciu**" via underground cable in the Cagliari area came into operation on 9 October 2018. The new power line will bring noticeable benefits to the electricity system in the Cagliari area, both in terms of security and efficiency of the service, and increasing reliability during maintenance. The new cable connection is 5.9 km long and will allow the subsequent demolition of around 7.7 km of old overhead power lines, as well as 26 pylons also located near the houses of the neighbourhood of Pitz'e Serra, which came out after the power lines were built, and on green public space such as the Europa Park.

International Activities

The new electricity line "**Santa Maria 3 - Santo Angelo 2**" in the state of Rio Grande do Sul, in south-east Brazil came into operation on 3 October 2018. The new, 158 km long power line is of primary importance for Rio Grande do Sul, as it will help integrate the energy from renewable sources, especially wind power, produced in plants located in the southern part of the country into the Brazilian national transmission grid.

Finance

S&P Global ratings (S&P) has affirmed the long-term corporate credit rating on Terna S.p.A. (Terna) at 'BBB+' on 29 October 2018. Besides, as a result of the change in the outlook on Italy's Government bond ratings to negative from stable, S&P has consequently revised the outlook of Terna to negative from stable. At the same time, the Agency has also affirmed Terna's short-term rating at 'A-2'. Finally, S&P has affirmed the Company's Stand-Alone Credit Profile (SACP) at 'a-'.

As a result of the downgrade of the Government of Italy's bond rating to 'Baa3' with stable outlook from 'Baa2', **Moody's Investors Service** (Moody's) consequently downgraded the long-term

ratings of Terna S.p.A. from 'Baa1' to 'Baa2' on 23 October 2018. Concurrently, Moody's has affirmed Terna's short-term P-2/(P)P-2 ratings. The outlook on all ratings is stable.

Terna updated its **Euro Medium Term Note Programme** (EMTN) bond issue programme for € 8.000.000.000 on 12 October 2018. Deutsche Bank and Citigroup acted as the Joint Arrangers of the programme, which has been rated "BBB+/A-2" by S&P, "(P)Baa1, On Review for Downgrade/(P)P-2" by Moody's and "BBB+" by Fitch.

Just a few days after the world record for electric utilities in the Dow Jones Sustainability Index 2018, Terna signed a back-up **Revolving Credit Facility** linked to ESG, in the form of a "committed" line (the "Revolving Credit Facility") for a total amount of € 900 million with a pool of banks composed by Banca IMI, Banco BPM, BNP Paribas and UniCredit as Joint Mandated Lead Arrangers, on 24 September 2018. After the success of the first Green Bond issued, this new Revolving Credit Facility, the first transaction of this kind for Terna, introduces sustainability elements through a prize/penalty mechanism linked to the achievement of specific environmental, social and governance ("ESG") objectives; it will have 5 years maturity and the available amount can be utilized for routine management needs. The interest rate is indexed by EURIBOR plus an initial margin of 0.65% (variable between a minimum of 0.6% and a maximum of 1.45% based on Terna's rating).

Sustainability

Terna was confirmed for the eighth year running in the **STOXX Global ESG Leaders** sustainability index and for the tenth year in the **Ethibel Sustainability Index** (ESI) Excellence Europe on 1 October 2018. These recognitions confirm the company's solid management system and Terna's ability to generate excellent sustainability performance.

With its 10th consecutive place on the **Dow Jones Sustainability Index 2018**, Terna comes in first place in the global Electric Utilities sector for its sustainability performance on 13 September 2018. This is the result of the annual assessment conducted by the Swiss sustainability rating agency RobecoSAM. Terna received an overall score of 91/100, the highest score Terna has ever received and the highest score for the electric utility sector (average sector score: 46/100). Terna had a 4-point improvement on the 2017 score, recalculated in line with the new methodology introduced this year. Terna's leadership is confirmed in 9 of the 23 selection criteria applicable to the company. Terna comes first for the economic criteria: Materiality, Risk and crisis management, Policy influence, for the environmental criteria: Environmental reporting, Operational eco-efficiency,

Transmission and distribution, and in the social criteria: Social reporting, Human capital development, Corporate citizenship and philanthropy.

Security

Terna and the Civil Protection Department signed a memorandum of understanding to further develop existing institutional-collaboration efforts on 30 July 2018. The goal is to maximise operational efficiency and effectiveness in the context of civil-protection activities aimed at predicting, preventing and mitigating risks as well as managing and overcoming emergencies. The memorandum focuses particularly on the prevention and management of natural and human risks that may compromise national electricity service continuity and which may require use of company resources.

2018 INTERIM DIVIDEND OF 7.87 EUROCENTS PER SHARE

In view of the financial and equity position and income statement results achieved by Terna S.p.A. in the first semester of 2018 and the information regarding the economic prospects and business outlook for the current financial year, the Board of Directors of Terna S.p.A, having today received the opinion from the Auditing Company PricewaterhouseCoopers (PwC) required under Article 2433-*bis* of the Italian Civil Code, has resolved to pay the ordinary interim dividend for the year 2018 in the amount of 7.87 eurocents per share, in line with the growth outlined in the 2018-2022 Strategic Plan. The interim dividend, net of any withholdings required by law, will be payable from 21 November 2018 (record date pursuant to Article 83-*terdecies* of Legislative Decree no. 58 of 24 February 1998 known as the "Consolidated Law on Finance": 20 November 2018), with "ex-dividend" date of coupon no. 29 on 19 November 2018.

New appointment in the Audit and Risk, Corporate Governance and Sustainability Committee

Following the disclosure to the market on 31 July and 10 August 2018 regarding the resignation from the Board of Directors of Terna S.p.A of Mr. Stefano Saglia, the Board of Directors has integrated the members of the Audit and Risk, Corporate Governance and Sustainability Committee, appointing the non-executive and independent Director, Mr. Luca Dal Fabbro, as Chairman of said Committee (representative of minorities).

ALTERNATIVE PERFORMANCE MEASURES

In this release, some “alternative performance measures” (EBITDA, Tax Rate and Net Debt) are used, which are not provided by the accounting standards IAS/IFRS, whose meaning and contents are explained below pursuant to the ESMA/2015/1415 guideline published on 3 December 2015:

- EBITDA (Gross Operating Margin): this is a measure of operating performance; it is calculated as “Net profit for the year” before “Income taxes for the year”, “Financial income/(expense)” and “Amortisation, depreciation and impairment”;
- Tax rate: this expresses the proportion of tax with respect to the profit/(loss) and derives from the ratio between “Income taxes for the year” and “Profit before taxes”;
- Net Financial Debt: this is a measure of the company’s financial structure; it is determined as the sum of the short (“Short-term loans”, “Current portion of long-term loans” and “Current financial liabilities”) and long-term debt (“Long-term loans”) and the related derivative instruments (“Non-current financial liabilities”), net of “Cash and cash equivalents” and of the related financial assets (“Non-current financial assets” for the value of deferrals on commissions of available loans and “Current financial liabilities”). It should be noted that the net financial debt of the Terna Group is in compliance with the provisions of ESMA Recommendation no. 319 of 2013 regarding the definition of the net financial position, less “Non-current financial assets”.

Today, at 3pm, a meeting will be held to illustrate the results of the first 9 months of 2018 to financial analysts and investors. The support material for the event will be made available on the Company’s website (www.terna.it), in the Investor Relations/Presentations section, at the beginning of the meeting. The Presentations will also be made available, via “eMarket SDIR”, on the website of Borsa Italiana S.p.A. (www.borsaitaliana.it) and through the authorised storage service “1Info” (www.1info.it). Journalists will have the opportunity to follow the meeting without any right to speak. It will also be possible to follow the presentation by connecting to the audio webcast on the Company website (www.terna.it): following the live-coverage, the file will be available in the Investor Relations/Presentations section.

The Financial Reporting Manager, Agostino Scornajenchi, pursuant to paragraph 2 of Art. 154-bis of the Consolidated Law on Finance, declares that the accounting information included in this press release corresponds to the evidence in the documents, books and accounting records.

The Consolidated Interim Financial Report of the Terna Group, dated 30 September 2018 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). In concordance with the past, the compliance and correctness of the financial information provided to the public and the comparability of the relative information with the corresponding data in the interim reports previously disclosed to the public is ensured. The document containing the Terna Group’s Consolidated Interim Financial Report as of 30 September 2018 will be made available to the public before 14 November 2018 at the Company’s registered office, published on the Company’s website (www.terna.it) and on the website of the authorised storage service “1Info” (www.1info.it), and filed at the stock exchange management company Borsa Italiana S.p.A. (www.borsaitaliana.it). The prescribed disclosure regarding the filing will be issued.

The reclassified Income Statement, Statement of Financial Position and Statement of Cash Flows of the Terna Group are attached. These represent the classification of the results used by management for a more efficient evaluation of the Terna Group’s economic and financial performance.

It is highlighted that, in compliance with Directive no. DME/9081707 of 16 September 2009, these reclassified statements are included in the Terna Group’s Consolidated Interim Financial Report as of 30 September 2018, prepared in line with standard practices for the sector.

Terna Group reclassified income statement

(€/million)

3Q								
2018	2017	Δ	Δ%		9M 2018	9M 2017	Δ	Δ%
545.6	524.9	20.7	3.9	TOTAL REVENUE	1,624.9	1,570.4	54.5	3.5
501.4	490.2	11.2	2.3	- Regulated Revenue in Italy of which Revenue from construction service performed under concession	1,480.8	1,457.7	23.1	1.6
5.7	4.3	1.4	32.6		12.0	9.9	2.1	21.2
43.7	33.9	9.8	28.9	- Non-Regulated Revenue	138.1	111.8	26.3	23.5
0.5	0.8	(0.3)	(37.5)	- International Revenue*	6.0	0.9	5.1	-
129.4	112.6	16.8	14.9	TOTAL OPERATING COSTS	394.8	363.3	31.5	8.7
57.0	54.5	2.5	4.6	- Personnel expenses	181.4	178.9	2.5	1.4
38.9	29.4	9.5	32.3	- Cost of services, leases and rentals	115.9	103.1	12.8	12.4
16.8	20.5	(3.7)	(18.0)	- Materials	57.8	52.2	5.6	10.7
8.3	(1.0)	9.3	-	- Other costs	21.3	10.5	10.8	102.9
2.7	4.9	(2.2)	(44.9)	- Quality of service	6.4	8.7	(2.3)	(26.4)
5.7	4.3	1.4	32.6	- Costs of construction service performed under concession	12.0	9.9	2.1	21.2
416.2	412.3	3.9	0.9	EBITDA (GROSS OPERATING MARGIN)	1,230.1	1,207.1	23.0	1.9
132.7	129.4	3.3	2.6	- Amortisation, depreciation and impairment losses	400.1	390.2	9.9	2.5
283.5	282.9	0.6	0.2	EBIT (OPERATING PROFIT)	830.0	816.9	13.1	1.6
(25.1)	(28.7)	3.6	(12.5)	- Net financial income/(expenses)	(66.8)	(68.3)	1.5	(2.2)
258.4	254.2	4.2	1.7	PROFIT BEFORE TAXES	763.2	748.6	14.6	2.0
75.5	77.7	(2.2)	(2.8)	- Income tax expense for the period	218.2	221.6	(3.4)	(1.5)
182.9	176.5	6.4	3.6	PROFIT FOR THE PERIOD	545.0	527.0	18.0	3.4
1.6	(1.0)	2.6	-	- Profit((Loss) attributable to Non-controlling interests	3.5	(1.8)	5.3	-
181.3	177.5	3.8	2.1	PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT	541.5	528.8	12.7	2.4

* Directly including the margin of the assets in concession implemented abroad.

The Group's reclassified statement of financial position

(€/million)

	at 30 September 2018	at 31 December 2017	Δ
Total Net Non-Current Assets	13,679.0	13,466.4	212.6
- Intangible assets and goodwill	497.4	505.7	(8.3)
- Property, plant and equipment	12,909.7	12,752.8	156.9
- Financial assets*	271.9	207.9	64.0
Total net working capital	(1,702.5)	(1,485.2)	(217.3)
- Net Energy-related pass-through payables	(945.4)	(852.7)	(92.7)
- Net receivables from margin energy items	309.3	335.1	(25.8)
- Net trade payables	(556.1)	(714.4)	158.3
- Net tax liabilities	(63.7)	105.9	(169.6)
- Other net liabilities	(446.6)	(359.1)	(87.5)
Gross invested capital	11,976.5	11,981.2	(4.7)
Sundry Provisions	(318.2)	(355.8)	37.6
NET INVESTED CAPITAL	11,658.3	11,625.4	32.9
Equity attributable to owners of the parent	4,033.5	3,803.3	230.2
Equity attributable to non-controlling interests	33.1	25.7	7.4
Net debt	7,591.7	7,796.4	(204.7)
TOTAL	11,658.3	11,625.4	32.9

* Includes IFRIC12 financial of Brazil € 124.6 million and Fondo Garanzia Interconnector (Interconnector Guarantee Fund) € 55.6 million at 30.09.2018.

Cash Flow

(€/million)

	Cash flow 9M2018	Cash flow 9M2017
- Profit for the period	545.0	527.0
- Amortisation, depreciation and impairment losses	400.1	390.2
- Net change in provisions	(37.6)	(37.8)
- Net losses/(gains) on sale of assets	(3.0)	(0.8)
Operating Cash Flow	904.5	878.6
- Change in net working capital	217.1	565.0
- Other changes in property, plant and equipment and intangible assets	15.9	16.6
- Changes in Investments	0.6	(1.9)
- Change in financial assets	(64.6)	(63.5)
Cash Flow from Operating Activities	1,073.5	1,394.8
- Total capital expenditure	(561.4)	(545.0)
Free Cash Flow	512.1	849.8
- Dividends paid to the Parent Company's shareholders	(292.9)	(269.1)
- Cash flow hedge reserve after taxation and other movements in equity attributable to owners of the Parent	(18.4)	(0.6)
- Other movements in equity attributable to non-controlling interests	3.9	-
Change in net debt	204.7	580.1