

2018-2022 STRATEGIC PLAN: DEVELOPMENT, DIGITIZATION AND RESILIENCE AS THE MAIN INVESTMENTS' DRIVERS

- **€ 5.3 billion of investments in Italy** expected, with an increase of over 30% compared to the previous plan. Out of this, around € 2.8 billion concern the development of the national grid and international interconnections; around € 700 million for the Defence Plan; around € 1.9 billion dedicated to renewal activities, improving the quality of service and efficiency
- **Group Revenues** at approximately **€ 2.55 billion** and **EBITDA** at approximately **€ 1.9 billion** in 2022, with **more than 3%** average annual growth for both measures. **Net Profit** is also expected to improve, with average annual growth of **around 3%** and earnings per share (EPS) of **approximately € 38 cents in 2022**
- The **Regulated Asset Base (RAB)** will reach **€ 17.5 billion** in 2022, with a CAGR of over 3%
- **Dividend Policy over the period 2018-2022:** from 2018 to 2020 dividend per share (DPS) is expected at an average annual growth rate (CAGR) of 6% compared to the dividend for the year 2017. For 2021 and 2022 a payout of 75% is expected, with a minimum guaranteed dividend equal to the dividend pertaining to the year 2020
- **70% of the new capital expenditure** will be sustainable: it will resolve congestions and improve the quality of service, as well as the environmental and visual impact
- **Non-Regulated Activities** in the service of energy transition, will contribute for approximately **€ 350 million** overall in terms of **EBITDA** over the 5 years
- **International Activities** will aim to strengthen Italy's role as **Mediterranean energy hub** and to complete the projects begun in Latin America
- Terna's **capital structure** will remain solid thanks to the robust cash generation, which will contribute to the Investment Plan and to supporting the **dividend policy**

RESULTS AT 31 DECEMBER 2017 APPROVED

- **Revenues** at € 2,248 million (+6.9%)
- **EBITDA** at € 1,603.9 million (+3.8%)
- Group's **Net Profit** at € 688.3 million (+8.7%)
- **Proposed dividend for 2017** of € 22 cents per share
(of which € 7.4263 cents already paid as interim dividend and € 14.5737 cents as final dividend payable in June 2018)
- **Investments** at € 1,034 million (+21%)
- **Net financial debt** of approximately € 7,796.4 million (€ 7,976.3 million at 31 December 2016)

Rome, 22 March 2018 - At the meeting of 21 March, chaired by Catia Bastioli, which finished today, the Board of Directors of Terna S.p.A. approved the 2018-2022 Strategic Plan and the 2017 consolidated results, presented by the CEO and General Manager Luigi Ferraris.

*"2017 was an extremely successful year for the Group, with increasing results seen across all the main economic and financial measures - **says CEO and General Manager Luigi Ferraris** - This has made it possible for us to pay our shareholders an increased dividend in 2017. These figures, combined with the significant acceleration in investments, which have grown by 21% compared to 2016, form the basis of the 2018-2022 Strategic Plan that will take Italy towards complete energy transition. The objective is the complete integration of renewables and the digitization of infrastructure for greater security and resilience, which will benefit the entire system. The ambitious objectives that we have set ourselves for the future – **concludes Ferraris** – and which we intend to meet, will also allow us to guarantee our shareholders a generous dividend policy, up compared to the previous plan, thereby ensuring a secure and predictable return on investment".*

The global scenario

The indications of the United Nations (COP21), the EU guidelines (Clean Energy Package) and those of the National Energy Strategy (NES), converge towards a system which over the next few years will necessarily have to be sustainable, de-carbonized and ever-increasingly characterised by the spread and availability of energy from renewable sources. The targets set by the NES provide for renewable sources reaching a level of 28% of total consumption at 2030 (a figure that goes up to 55% in electricity), the **complete phase-out from coal by 2025**, more interconnections with other countries and a storage potential of 5 GW. In this context, electricity grids assume a central and even more strategic role than in the past. Indeed, transmission grid operators such as

Terna will have a central role within this context of great change in energy at the global level: this is confirmed by the **\$ 6,700 billion** of investments envisaged by the **International Energy Agency** for the electricity sector in 2025, mainly concerning generation from renewables and network infrastructures: to make it simple, **each Euro invested in the development of renewable energy entails one Euro invested in the electricity grids.**

These investments will make it possible to create an increasingly interconnected electricity system, with highly-developed technology to optimise the management of flows, besides being sustainable from the point of view of construction of the works and of relations with the areas affected by them.

2018-2022 Strategic Plan

The Group's main strategic lines

Terna's Strategic Plan for the period 2018-2022 envisages an important contribution of the Group aimed both at the further development of renewable energy and at the overall energy efficiency of the electricity system.

- *Regulated Activities: the core business in Italy to be strengthened further, with maximum priority to all activities that enable the country to face up to energy challenges in a secure, efficient and sustainable way;*
- *Non-Regulated Activities: launching new services in support of energy transition seizing high added value opportunities consistent with Terna's core business;*
- *International Activities: make Terna's position at a European level increasingly central in order to strengthen the role of Italy as an energy hub between Europe and the Mediterranean and to complete the projects begun in Latin America.*

Regulated Activities

To achieve the ambitious objectives required by the system, the Terna Group plans **investments for the development of the electricity grid in Italy**, the energy backbone of the country, which in the next 5 years will reach **€ 5.3 billion**, an **increase of more than 30%** compared to the approximately € 4 billion provided in the previous Strategic Plan.

70% of the new capital expenditure will be sustainable, since it is aimed at resolving congestions and improving the quality of service, as well as the environmental and visual impact.

Grid Development

Around **€ 2.8 billion** is dedicated to the **development of the national electricity grid** with works to increase interconnections with other countries, strengthen connections among the market zones and rationalise the grid in the main metropolitan areas of the country. Specifically:

- ✓ between **international interconnections**, projects which place Italy at the centre in the northern continental, Balkan and Euro-Mediterranean system, with the objective of **increasing cross-border exchange capacity** facilitating the gradual integration of the markets at the continental level, including those with **France** and **Montenegro**, which are both planned to be completed by the end of 2019, and the start of work on the new **SA.CO.I.3** project (Sardinia, Corsica and Italian Mainland connection)
- ✓ among the main projects for **increasing exchange capacity among the different zones of the Italian electricity market**, we can note three undersea connections (the **Venetian Lagoon**, **“Capri-Sorrento”** and **“Elba-Continent”**) and the power lines **“Deliceto-Bisaccia”**, **“Foggia-Benevento”** (both between Apulia and Campania), **“Paternò-Pantano-Priolo”** (Sicily), in addition to the start of the works of **“Chiaramonte-Gulfi-Ciminna”** (Sicily), the **“Colunga-Calenzano”** (between Tuscany and Emilia Romagna) and **“Gissi-Foggia”** (between Abruzzo and Apulia).
- ✓ the **rationalisation of electricity grids in the metropolitan areas** will regard the cities of Milan, Rome, Naples and Palermo in particular and will mainly include the replacing of old infrastructures with new sustainable and technological cables.

Approximately **€ 700 million** are related to the Defence Plan: Terna plans to make and install **devices to increase the security and stability of the system** and to further develop its **optical fiber** network with a new installation plan.

Approximately **€ 1.9 billion** is devoted to **renewal** and **efficiency**, mainly to improve the **quality of service** for the integration of the Railways High Voltage Grid acquired at the end of 2015.

Innovation and digitization

Within the three categories of investment mentioned above, Terna will devote **approximately € 600 million** to developing **innovative solutions** to cope with the growing complexity of the system: **investing in digitization is fundamental** for managing in a secure, efficient and reliable way the electricity flows on the grid, given also the need to compensate for the variability of demand and, above all, generation from intermittent renewable sources. In addition to the plan to install optical fiber, **new digital systems** for the remote **control and diagnostics of electrical substations** will be introduced.

RAB growth

The Regulated Asset Base (RAB) will reach € 17.5 billion by 2022, with an average annual growth rate over the Plan period (CAGR) of over 3%.

Non-Regulated Activities

In the 2018-2022 Strategic Plan Non-Regulated Activities will also be oriented to support energy transition. In particular, thanks to an industrial approach based on the Group's distinctive skills, **Terna will consolidate its role as an Energy Solution Provider** developing services for businesses and seizing market opportunities with high added value for traditional and renewable customers. In the **TLC sector** Terna's business will be directed at pursuing opportunities based on making the most of the Group's infrastructures.

Activities for **the creation of interconnectors** (L. 99/09) will continue; these will be financed with third-party resources.

It is expected that **Non-Regulated Activities** will generate **€ 350 million to the Group's EBITDA** over the Plan period.

International Activities

In regard to **International Activities**, Terna is committed to making its position even more central **within Europe**, to strengthen **Italy's role as electricity hub** between Europe and the Mediterranean.

Activities in **South America** are focused on the delivery of existing projects, making the most of the skills gained by the Group and characterised by a **low risk profile** and **limited capital absorption**.

Total investment of up to a maximum of € 300 million for international activities is envisaged in the new Strategic Plan.

It is also envisaged that **International Activities will make a cumulative contribution to the Group's EBITDA of approximately € 150 million**, € 70 million higher than the old Plan.

Main results expected

Please note that, in regard to International Activities, the Revenues from the assets under construction (IFRIC 12 - Service Concession Arrangements) were offset by the related costs, thus exposing only the construction margin. As regards the construction of private interconnectors, it should be noted that in reference to the principle "IFRS 15 - Revenues from contracts with clients" that came into force on 1 January 2018, the margin of the work was also attributed to the exemption period and not merely the construction phase, as it was envisaged in the previous Strategic Plan.

Group revenues is expected to increase to approximately € 2.55 billion and EBITDA to increase to approximately € 1.9 billion in 2022, with average annual growth of more than 3% for both measures starting from 2017. Net Profit is also expected to improve, with average annual growth of around 3%, which will lead to **earnings per share (EPS) of approximately € 38 cents in 2022**.

These results will guarantee an **Operating Cash Flow around € 6.3 billion over the Plan period**, which will contribute to the flexibility necessary to make the envisaged investments and support an attractive dividend policy at the same time. Terna's financial structure will remain solid and **the Net Debt/RAB ratio will remain below 60% in the five-year period**.

2018 Outlook

For 2018, total investments will come to around € 1.1 billion, while total revenues is forecast at around € 2.2 billion, with an EBITDA of around € 1.61 billion. Consequently, EPS is expected to be around € 34 cents.

Dividend Policy over the period 2018-2022

The new dividend policy guarantees a constant and predictable growth, as well as full visibility over the Plan period. In particular, from 2018 to 2020 the dividend per share (DPS) is expected at an average annual growth rate (CAGR) of 6% compared to the dividend for the year 2017. For 2021 and 2022 a payout of 75% is expected, with a minimum guaranteed dividend equal to the dividend pertaining to the year 2020.

CONSOLIDATED ECONOMIC AND FINANCIAL RESULTS 2017

€ million	2017	2016	% change
Revenues	2,248	2,103.2	+6.9%
EBITDA (Gross Operating Margin)	1,603.9	1,544.7	+3.8%
EBIT (Operating Profit)	1,077.4	1,036	+4%
Group net profit	688.3	633.1	+8.7%

2017 **revenues** stood at € 2,248 million, an increase of € 144.8 million (+6.9%) compared to the figure for the previous year. This change is attributable to growth of the perimeter of regulated assets.

EBITDA (Gross Operating Margin) of the Group came out at € 1,603.9 million, an increase of € 59.2 million (+3.8%) compared to € 1,544.7 million in 2016, owing mainly to the better result of **Regulated Activities**.

EBIT (Operating Profit), after amortisation, depreciation and impairment of € 526.5 million, came out at € 1,077.4 million, compared to the € 1,036 million in 2016 (+4%).

Net financial expenses of the year, € 88.8 million, decreased by € 14 million compared to € 102.8 million in 2016, mainly as a result of the refinancing of debt at more competitive interest rates during the year.

Profit before taxes came out at € 988.6 million, up by € 55.4 million compared to the previous financial year.

Income taxes for the year were € 294.4 million and decreased compared to the previous year by € 10.9 million (-3.6%) owing essentially to the tax effects deriving from the reduction in the IRES (corporate income tax) from 27.5% to 24%. The **tax rate** for the year was 29.8%, down compared to 32.7% in 2016.

The **Group net profit** for 2017 came out at € 688.3 million, up by € 55.2 million compared to 2016 (+8.7%).

The **consolidated statement of financial position** at 31 December 2017 showed **equity attributable to shareholders of the parent** of € 3,803.3 million, compared to € 3,535.4 million at 31 December 2016.

Net financial debt at 31 December 2017 amounted to € 7,796.4 million (€ -179.9 million) compared to the € 7,976.3 million at 31 December 2016, down as a result of the good cash generation of the period.

The Group's **total investments** came out at € 1,034 million (of which € 958 million related to Regulated Activities), up by 21% compared to the € 854 million of financial year 2016. Amongst the main projects of the period it is worth to mention progress in the works for the *Italy-Montenegro* and *Italy-France* electrical interconnections, the commissioning of the *Capri-Italian Mainland* power line and the "*Udine Ovest-Redipuglia*", 380-kV power line, a critical project for ensuring the electrical security of the Friulian grid and meeting the energy demand of the area, which has more than doubled in recent years.

At 31 December 2017 the Group had 3,897 **employees**, up by 28 compared to 31 December 2016.

2017 results of the Parent Company - TERNA S.p.A.

As regards the Parent Company's 2017 results, compared to the 2016 restated figures¹, Terna S.p.A. ended 2017 with **revenues** of € 1,951.5 million, a decrease of 0.5% (€ -10.3 million) compared to 2016.

EBITDA (Gross Operating Margin) came to € 1,486.6 million, down by € 8.1 million (-0.5%) compared to the figure for 2016.

EBIT (Operating Profit), after amortisation, depreciation and impairment of € 495.2 million, therefore came out at € 991.4 million, down by € 30.1 million (-2.9%) compared to financial year 2016.

Net profit for the year came out at € 640 million, up by € 18.7 million compared to the Net Profit for financial year 2016 (+3%).

The statement of financial position shows **shareholders' equity** of € 3,675.3 million (€ 3,447.8 million at 31 December 2016) and **net financial debt** of € 8,046.5 million (€ -203.2 million compared to 31 December 2016).

Bonds

Please note that on 19 July 2017, Terna S.p.A. launched a bond issuance for a total of € 1 billion that will mature on 26 July 2027, which is subject to a coupon of 1.375%.

Please also note that, on 16 February 2018, the bond for a total of € 750 million and the coupon of 2.875% launched on 9 October 2012 matured and was repaid.

Main events after year end

Innovation

On 16 January 2018 Terna and Luiss signed a partnership agreement to boost the growth of high-potential leading talent through recruitment and development of human resources. With this objective Terna's training project was launched; this demonstrates the desire to create a constructive cycle bringing together the business and academic worlds, supporting development of professional talent ready to enter the world of employment and contribute to Italy's growth.

Business Development

On 15 February 2018 an agreement was finalised through which Terna - via its subsidiary Terna Plus - having signed on 10 October 2017 to acquire 70% of a New.Co. which has incorporated the main assets of Avvenia; leader in the energy efficiency sector and certified as an Energy Service Company (ESCO).

¹ Including the impact of incorporation of Terna Rete Italia S.r.l. and Terna Storage S.r.l., the accounting and tax effects of which run from 1 January 2017.

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.

ARERA Resolution on output-based incentivisation

On 8 March 2018, ARERA published resolution 129/2018 "*Urgent provisions regarding output-based incentivisation mechanisms for the transmission service. Adaptation of provisions concerning the recognition of projects with elevated risks*", which envisages a series of measures for Terna, including: incentives up to € 150 million during the 2019-2023 period for congestion resolution between market zones and on the interconnections, by building transport capacities; incentives for grid development to resolve congestion within the zones, grid limitations for voltage adjustment, essential conditions (the general criteria for quantifying incentives refer to the expected benefits in terms of the potential savings on the MSD determined by the mentioned project, while the definition of detailed criteria has been postponed to a subsequent provision); readmission to the remuneration of the WIP (calculated assuming a WACC with a debt-to-equity ratio equal to four) for investments bearing higher risks and complexity that last more than three years (between authorisation and entry into operation) and for which no more than 50% has been spent as of yet. The provision also postpones the following to subsequent resolutions for additional incentives: attainment of contributions from grid operators and foreign entities; additional aspects aimed at improving efficiency, promoting market integration and security of supply and supporting related research activities; the creation of initiatives to foster capacity mechanisms for stakeholders and raising the awareness of local administrations about the benefits of infrastructure.

Business outlook

The electricity industry will be characterised by increasingly rapid technological evolution which will entail a reduction in costs and an improvement in performance of renewable production sources and storages, new opportunities for digitization of the system and the grid and introduction of more efficient systems, technologies and solutions. In line with the indications of the United Nations (COP21), the EU guidelines and the objectives identified in the National Energy Strategy (NES), the main implications for the TSO will regard the need to enable the integration of all the new resources and to plan and manage the system securely and efficiently. In this context, a sharp acceleration of investment activities is necessary, focusing on the development of the National Grid to enhance the integration of renewable sources and improve the security of the system while also accelerating the renewal of the Group's assets with the aim of mitigating service-outage risk, increasing environmental sustainability and supporting maintenance through the use of digital grid technologies. In the next few months, the Terna Group will be engaged in implementing the 2018-2022 Strategic Plan approved by the Board of Directors on 21 March 2018. In support of the Strategic Plan, the Sustainability Plan plays a role of limiting ESG (environmental, social and governance) risks and of enabling factors, aimed at guaranteeing – with a medium-term horizon – a reduction in environmental impact, the availability of the necessary intangible capital and

observance of the principles of integrity, responsibility and transparency on which management of the business is based.

2017 Sustainability Report - Consolidated Non-Financial Statement

The Board of Directors approved the 2017 Sustainability Report - drawn up according to the GRI-G4 guidelines - which also meets the reporting requirements on non-financial information, under the terms of art. 4 of Italian Legislative Decree 254/2016. Among the main results achieved in 2017, we can note the positioning of Terna as the top Italian company in the Electric Utilities segment of the Dow Jones Sustainability Index, where it further improved its positioning, thanks to the progress made in a number of important sustainability parameters and obtained the maximum score for specific environmental performance in the transmission sector.

Corporate Governance, Shareholders' meeting and dividend

The Board of Directors also approved the 2017 Report on Corporate Governance and Ownership Structure (which reports the outcome of the assessment of the continued independence requirements for the Directors, as already indicated in the communication to the market on 27 April 2017) and, on the proposal of the Remuneration Committee, the 2018 Annual Remuneration Report and Long-Term Incentive Plan based on financial instruments, entitled "2018-2021 Phantom Stock Plan", which will be submitted for approval to the Shareholders' Meeting called to approve the annual Financial Report at 31 December 2017.

The Board of Directors will propose to the Shareholders' Meeting the approval of a total dividend for financial year 2017 of € 442,198,240, or € 22 cents per share and the distribution - net of the ordinary interim dividend related to financial year 2017 of € 7.4263 cents per share already paid from 22 November 2017 - of the remaining € 14.5737 cents per share, before any legal withholdings, to be paid from 20 June 2018 and with "ex-dividend date" 18 June 2018 of coupon no. 28 (record date pursuant to Art. 83-*terdecies* of Italian Legislative Decree no. 58 of 24 February 1998, the "CLF": 19 June 2018).

As disclosed to the market on 24 January 2018, the Shareholder's Meeting called to approve Terna S.p.A.'s financial statements at 31 December 2017, as well as the income allocation, has been scheduled in the following time frame, in single call: 30 April 2018 – 28 May 2018.

As regards convening the Shareholders' Meeting, the Board of Directors resolved to delegate the Chairwoman to establish its place and date.

The section of the Remuneration Report that sets out the Remuneration Policy and the procedures used for the adoption and implementation of this Policy will also be submitted to the Ordinary Shareholders' Meeting in consultative session and with a non-binding vote.

The Shareholders' Meeting will also be called upon to resolve on the adoption of a long-term incentive plan, based on financial instruments, entitled "2018-2021 Phantom Stock Plan", ("Incentive Plan"), spread across two three-year cycles (2018-2020 and 2019-2021). The Incentive Plan provides, for each cycle, that recipients with a certain number of rights receive, at the end of the vesting period, Phantom Stock linked to the share value, subject to the achievement of the following performance objectives: (i) *Cumulative EBITDA*, ii) *Total Shareholders' Return* ("TSR"),

measured in terms of Terna's positioning in the context of a peer group and (iii) *Terna's Positioning in the Dow Jones Sustainability Index ("DJSI")*; the Incentive Plan attributes to EBITDA profit a weight of 50%, to the TSR a weight of 30% and to the DJSI a weight of 20%.

The beneficiaries of the Incentive Plan are the Chief Executive Officer of Terna S.p.A. as General Manager, Senior Managers with strategic responsibilities, Senior Managers and a selection of Middle Managers of Terna S.p.A. and of its subsidiaries under the terms of Art. 2359 of the Italian Civil Code, as identified at the time of Plan implementation. In consideration of the characteristics of its structure, and the performance objectives identified and the weight attributed to each of them, the Incentive Plan is designed to strengthen the alignment of management interests with the priority objective of creating sustainable value for shareholders over the medium to long term.

For a full description of the Incentive Plan, please see the Report prepared pursuant to Art. 114-*bis* of the Consolidated Law on Finance and Art. 84-*bis* of the CONSOB Regulations for Issuers, which will be made available to the public as provided for by law.

The call notice will be published in the manner and within the deadline required by law, as will the documentation related to the matters on the agenda of the Shareholders' Meeting.

Alternative performance indicators

In this release, some "alternative performance measures" (EBITDA, Tax Rate and Net Financial 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 10:30 am, a meeting is scheduled to present corporate strategy and the 2017 consolidated results to financial analysts, institutional investors and the media. 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. In the same section it will be possible to follow the presentation through web-streaming. 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).

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 2017 Annual Financial Report including Terna S.p.A.'s draft separate financial statements and the Terna Group's consolidated financial statements at 31 December 2017, accompanied by the report on operations on the separate financial statements of Terna S.p.A. and on the consolidated financial statements and by the certification of the Financial Reporting Manager and of the Chief Executive Officer under the terms of paragraph 5 of Art. 154-bis of the Consolidated Law on Finance together with the additional documents as established by the law, the Consolidated Declaration of a Non-Financial Nature and the Annual Report on Corporate Governance and ownership structure, by the deadline set out by law, will be made available to the public at the Company's registered office, published on the Company's website (www.terna.it) and on the website of the authorized 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 2017 Annual Report and the 2017 Consolidated Declaration of a Non-Financial Nature have been submitted to the Board of Statutory Auditors and to the Independent Auditing Company for the assessments they are responsible for.

The report by the Board of Statutory Auditors and the reports by the Independent Auditing Company will be made available to the public as soon as they are available according to the terms established by the law.

The reclassified Income Statement, Statement of Financial Position and Statement of Cash Flows of the Terna Group and of Terna S.p.A. are attached.

It should be noted that, pursuant to Communication No. DME/9081707 of September 16, 2009, the reclassified statements presented below are those included in the Report on Operations (included in the 2017 Annual Financial Report), for which the Independent Auditing Company, in compliance with Article 14 of Italian Legislative Decree No. 39 dated January 27, 2010 shall verify consistency with the Financial Statements.

Terna Group reclassified income statement

€ million	2017	2016	Δ	Δ %
TOTAL REVENUES	2,248.0	2,103.2	144.8	6.9
- Revenues from Regulated Activities	1,946.1	1,895.4	50.7	2.7
- Revenues from Non-Regulated Activities	189.1	182.4	6.7	3.7
- Revenues from International Activities	10.3	4.2	6.1	145.2
- IFRIC 12 effects*	102.5	21.2	81.3	-
TOTAL OPERATING EXPENSES	644.1	558.5	85.6	15.3
- Personnel	252.8	263.6	(10.8)	(4.1)
- Services, leases and rentals	170.5	179.1	(8.6)	(4.8)
- Materials	75.4	66.5	8.9	13.4
- Other expenses	35.9	35.9	-	-
- Quality of service	10.5	(7.8)	18.3	-
Costs of construction of licensed activities	99.0	21.2	77.8	-
EBITDA (GROSS OPERATING MARGIN)	1,603.9	1,544.7	59.2	3.8
- Amortisation, depreciation and impairment	526.5	508.7	17.8	3.5
EBIT (OPERATING PROFIT)	1,077.4	1,036.0	41.4	4.0
- Net financial income/(expense)	(88.8)	(102.8)	14.0	(13.6)
PROFIT BEFORE TAXES	988.6	933.2	55.4	5.9
- Income tax for the year	294.4	305.3	(10.9)	(3.6)
NET PROFIT FOR THE YEAR	694.2	627.9	66.3	10.6
- Profit attributable to Non-controlling interests	5.9	(5.2)	11.1	-
GROUP NET PROFIT FOR THE YEAR	688.3	633.1	55.2	8.7

* This includes revenue/costs of assets in concession in Italy and abroad recognised applying IFRIC 12.

The Group's reclassified statement of financial position

€ million	at 31.12.2017	at 31.12.2016	Δ
Total Net Non-Current Assets	13,466.4	12,991.4	475.0
- Intangible assets and goodwill	505.7	516.0	(10.3)
- Property, plant and equipment	12,752.8	12,368.9	383.9
- Financial assets	207.9	106.5	101.4
Total net working capital	(1,485.2)	(1,075.3)	(409.9)
- Net Energy-related pass-through payables	(852.7)	(545.9)	(306.8)
- Net receivables from margin energy items	335.1	342.0	(6.9)
- Net trade payables	(714.4)	(633.5)	(80.9)
- Net tax assets	105.9	52.0	53.9
- Other Net liabilities	(359.1)	(289.9)	(69.2)
Gross invested capital	11,981.2	11,916.1	65.1
Provisions	(355.8)	(384.6)	28.8
NET INVESTED CAPITAL	11,625.4	11,531.5	93.9
Equity attributable to shareholders of the parent	3,803.3	3,535.4	267.9
Non-controlling interests	25.7	19.8	5.9
Net financial debt	7,796.4	7,976.3	(179.9)
TOTAL	11,625.4	11,531.5	93.9

Terna Group Cash Flow

<i>€ million</i>	<i>Cash flow 2017</i>	<i>Cash flow 2016</i>
- Net profit for the year	694.2	627.9
- Amortisation, depreciation and impairment	526.5	508.7
- Net change in provisions	(28.8)	11.1
- Net losses (gains) on asset disposals	(2.1)	(9.8)
Operating Cash Flow	1,189.8	1,137.9
- Change in net working capital	408.3	112.8
- Other changes in Non-current assets	137.5	63.0
- Changes in Equity Investments	(2.7)	2.9
- Change in financial assets	(98.7)	(17.4)
Cash Flow from Operating Activities	1,634.2	1,299.2
- Total investments	(1,033.9)	(854.3)
Free Cash Flow	600.3	444.9
- Dividends paid to the owners of the Parent	(418.4)	(406.2)
Cash flow hedge reserve net of the tax effect and other changes in equity attributable to the owners of the Parent	(2.0)	(12.3)
Change in net financial debt	179.9	26.4

Reclassified income statement of Terna S.p.A.

€ million	2017	2016	Δ	Restated**		
				2016	Δ	Δ %
TOTAL REVENUES	1,951.5	1,779.6	171.9	1,961.8	(10.3)	(0.5)
- Transmission Fee	1,674.5	1,497.4	177.1	1,670.6	3.9	0.2
- Dispatching and Measurement Fee	111.9	111.3	0.6	111.3	0.6	0.5
- Other operating revenue	144.0	149.7	(5.7)	158.7	(14.7)	(9.3)
- IFRIC 12 effects*	21.1	21.2	(0.1)	21.2	(0.1)	(0.5)
TOTAL OPERATING EXPENSES	464.9	446.2	18.7	467.1	(2.2)	(0.5)
- Personnel	65.7	82.0	(16.3)	82.2	(16.5)	(20.1)
- Services, leases and rentals	332.1	322.4	9.7	341.4	(9.3)	(2.7)
- Materials	7.0	3.1	3.9	3.1	3.9	125.8
- Other expenses	28.5	25.3	3.2	27.0	1.5	5.6
- Quality of service	10.5	(7.8)	18.3	(7.8)	18.3	-
Costs of construction of licensed activities	21.1	21.2	(0.1)	21.2	(0.1)	(0.5)
EBITDA (GROSS OPERATING MARGIN)	1,486.6	1,333.4	153.2	1,494.7	(8.1)	(0.5)
- Amortisation, depreciation and impairment	495.2	432.7	62.5	473.2	22.0	4.6
EBIT (OPERATING PROFIT)	991.4	900.7	90.7	1,021.5	(30.1)	(2.9)
- Net financial income/(expense)	(89.8)	(102.0)	12.2	(102.7)	12.9	(12.6)
PROFIT BEFORE TAXES	901.6	798.7	102.9	918.8	(17.2)	(1.9)
- Income tax for the year	261.6	263.2	(1.6)	297.5	(35.9)	(12.1)
NET PROFIT FOR THE YEAR	640.0	535.5	104.5	621.3	18.7	3.0

*Recognised in accordance with IFRIC 12 "Service Concession Arrangements".

** Includes the impact of incorporation of Terna Rete Italia Srl and Terna Storage Srl, the accounting and tax effects of which run from 1 January 2017.

Reclassified statement of financial position of Terna S.p.A.

€ million	at 31.12.2017	at 31.12.2016	Δ	Restated*	
				at 31.12.2016	Δ
Total Net Non-Current Assets	13,139.6	12,212.2	927.4	12,844.9	294.7
- Intangible assets and goodwill	424.3	328.9	95.4	432.1	(7.8)
- Property, plant and equipment	11,705.2	10,368.3	1,336.9	11,457.5	247.7
- Financial assets	1,010.1	1,515.0	(504.9)	955.3	54.8
Total net working capital	(1,144.3)	(825.7)	(318.6)	(855.4)	(288.9)
- Net Energy-related pass-through payables	(874.4)	(576.4)	(298.0)	(550.0)	(324.4)
- Net receivables from margin energy items	335.1	342.0	(6.9)	342.0	(6.9)
- Net trade payables	(424.5)	(354.8)	(69.7)	(378.9)	(45.6)
- Net tax assets	106.8	28.6	78.2	34.5	72.3
- Other net liabilities	(287.3)	(265.1)	(22.2)	(303.0)	15.7
Gross invested capital	11,995.3	11,386.5	608.8	11,989.5	5.8
Provisions	(273.5)	(243.3)	(30.2)	(292.0)	18.5
NET INVESTED CAPITAL	11,721.8	11,143.2	578.6	11,697.5	24.3
Net Equity	3,675.3	3,024.8	650.5	3,447.8	227.5
Net financial debt	8,046.5	8,118.4	(71.9)	8,249.7	(203.2)
TOTAL	11,721.8	11,143.2	578.6	11,697.5	24.3

* Includes the impact of incorporation of Terna Rete Italia Srl and Terna Storage Srl, the accounting and tax effects of which run from 1 January 2017.

Terna S.p.A. Cash Flow

€ million	Cash flow 2017	Cash flow 2017 restated*	Cash flow 2016
- Net profit for the year	640.0	640.0	535.5
- Amortisation, depreciation and impairment	495.2	495.2	432.7
- Net change in provisions	30.2	(18.5)	27.1
- Net losses (gains) on asset disposals	(1.7)	(1.7)	(7.7)
Operating Cash Flow	1,163.7	1,115.0	987.6
- Change in net working capital	317.0	287.3	(37.2)
- Changes in equity investments	529.7	(30.0)	(23.8)
Other changes in non-current assets	(1,097.1)	95.3	47.3
Cash Flow from Operating Activities	913.3	1,467.6	973.9
- Total investments	(851.9)	(851.9)	(706.4)
Free Cash Flow	61.4	615.7	267.5
- Dividends paid to shareholders	(418.4)	(418.4)	(406.2)
- Cash flow hedge equity reserve net of the tax effect and other changes in Equity	428.9	5.9	(12.6)
Change in net financial debt	71.9	203.2	(151.3)

* Includes the impact of incorporation of Terna Rete Italia S.r.l. and Terna Storage S.r.l., the accounting and tax effects of which run from 1 January 2017.