

## 2018 INTERIM RESULTS APPROVED

- **Revenue** at € 1,080.3 million (€ 1,045.5 million in 1H17, +3.3%)
- **EBITDA** at € 814.9 million (€ 794.8 million in 1H17, +2.5%)
- **Group net profit for the period** at € 360.2 million (€ 351.3 million in 1H17, +2.5%)
- **Capital expenditure** at € 337.9 million (€ 325.7 million in 1H17, +3.7%)
- **Net debt** at € 7,895.5 million (€ 7,796.4 million at 31 December 2017)

**Rome, 25<sup>th</sup> July 2018** – CEO and General Manager Luigi Ferraris outlined the results of the first half 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.

“The main economic and financial indicators for the half-year period confirm a solid managerial approach and allow us to move forward in the direction outlined by the 2018–2022 Strategic Plan. The investment programme is also developing as scheduled and, thanks to initiatives put in place also for the coming months, this will contribute to creating value for our stakeholders” stated **Luigi Ferraris, CEO and General Manager of Terna**.

### SUMMARY OF THE FIRST HALF 2018 CONSOLIDATED RESULTS

€ million	H1 2018	H1 2017	% change
<b>Revenue</b>	1,080.3	1,045.5	+3.3%
<b>EBITDA (Gross Operating Margin)</b>	814.9	794.8	+2.5%
<b>EBIT (Operating Profit)</b>	547.5	534	+2.5%
<b>Group net profit for the period</b>	360.2	351.3	+2.5%
<b>CAPEX</b>	337.9	325.7	+3.7%

**Revenue** in the first half of 2018, of € 1,080.3 million, registered an increase of € 34.8 million (+3.3%) compared to the same period in 2017. This result was mainly 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) reached at € 814.9 million, an increase of € 20.1 million (+2.5%) compared to € 794.8 million in the first half of 2017.

**EBIT** (Operating Profit) of the period, after amortisation, depreciation and impairment at € 267.4 million, came out at € 547.5 million, compared to the € 534 million of the first six months of 2017 (+2.5%).

**Net financial expenses** in the period amounted to € 42.7 million, compared to the € 39.6 million of the first half of 2017 (+€ 3.1 million). This increase was mainly due to interest on the higher gross debt.

**Profit before taxes** stood at € 504.8 million, up by € 10.4 million compared to the first half of 2017 (+2.1%).

**Income tax expense** of the period amounted to € 142.7 million and fell by € 1.2 million compared to the corresponding period of 2017 (-0.8%) mainly thanks to non-recurring not relevant tax income generated in the period.

The **Group net profit for the period** came out at € 360.2 million, up by € 8.9 million compared to the € 351.3 of the first half of 2017 (+2.5%).

The **consolidated statement of financial position** at 30 June 2018 showed **Equity attributable to owners of the Parent** at € 3,842.8 million, compared to € 3,803.3 million at 31 December 2017.

**Net debt** amounted to € 7,895.5 million, compared to € 7,796.4 million at 31 December 2017.

The Terna Group's **total capital expenditure** in the first six months of 2018, equalled € 337.9 million, up 3.7% compared to the € 325.7 million in the first half of the previous financial year, in line with the 2018-2022 Strategic Plan. The main projects for the period included progress in the works for the *Italy-Montenegro* and *Italy-France* electrical interconnections and the works for implementation of the Venetian Lagoon undersea connection.

The Group's **employees**, at the end of June 2018, totalled 4,073, up by 176 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 new Strategic Plan.

## KEY EVENTS DURING THE FIRST HALF OF 2018 AND AFTER THE REPORTING PERIOD

### Business

On 6<sup>th</sup> July 2018 **the new 150kV electrical substation in San Salvo (Chieti) came into operation**, together with the power lines connected to it and the connection to the San Salvo Primary Transformer Room which supplies electricity to the area. This completed project makes the Adriatic coastal area electricity system, which experiences extremely high demand during the summer time, more reliable and secure.

On 2<sup>nd</sup> July 2018 Terna was the **first company in Italy to obtain the certification for its Asset Management System, for property, plant and equipment**, that is power lines and electrical substations, according to the international standard ISO 55001:2014 "Asset Management" which defines the requirements for an optimal management of Assets.

On 15<sup>th</sup> June 2018 **the 132 kV underground cable "C.P. Sacca Serenella – C.P. Cavallino" came into operation**. This is the first phase of the Terna project to modernise the electricity grid in the Venetian Lagoon, making it more secure and efficient, and is a total of 14 km long, of which 10 km are undersea. Terna has also begun the work on the second stretch that makes up and completes the project: the 132 kV "Fusina 2-C.P. Sacca Fisola" underground power line which will be finished before the end of 2018 and will allow for the dismantling of 6.5 km of the current overhead line in the Lagoon.

## Finance

On 16<sup>th</sup> July 2018 Terna successfully launched a **“green” bond issue** at fixed rate for a total of € 750 million as part of its € 8 billion Euro Medium Term Notes Programme. The bonds have a duration of 5 years and will pay a coupon of 1%, with a yield of 1.08% (MS +80bps). The operation is part of Terna’s financial optimisation programmes serving the group’s investment plan, and the cost of the new debt is lower than the total average in the Plan period equal to 1.6%. The initiative was very successful with potential investors with a demand of around six times the offered amount.

## Sustainability and Innovation

On 12<sup>th</sup> July 2018 **the new latest-generation green transformer came into operation at the Udine Ovest electrical substation**. This new transformer is isolated in plant-based ester (oil) tested in the last two years. The new machinery drastically limits fire risks and reduces environmental impact thanks to the use of plant-based esters, renewable and almost 100% biodegradable, which replaces mineral oil, a petroleum distillate. Terna, at the leading edge in the use of this technological alternative with lower environmental impact, plans, in the near future, to install green auto-transformers in other electrical substations located around the country; continuing on the pathway of innovation indispensable for an increasingly safe, modern and sustainable electricity grid.

On 29<sup>th</sup> May 2018 the second edition of **Next Energy** came to an end. This is promoted by Terna, the Cariplo Foundation and Cariplo Factory to identify new talent in the Italian energy sector. Bettery is the name of the winning project.

On 25<sup>th</sup> May 2018 Terna obtained the seventh consecutive confirmation in the **Euronext** indices of the rating agency Vigeo Eiris thanks to the results achieved in the Environmental, Social and Governance sectors: further confirmation of the solidity and quality of Terna’s sustainability and of its capacity to integrate sustainability objectives into its business strategy.

## Security

On 10<sup>th</sup> May 2018 an agreement was signed by **Terna and the State Police** for the protection of grids and information systems supporting the institutional functions of the company and for the adoption of effective strategies on preventing and combating cybercrime.

## OUTLOOK

In the second half of 2018, Terna will be focused on the implementation of the 2018-2022 Strategic Plan approved by the Board of Directors and presented to the financial community this past 22<sup>nd</sup> March 2018.

In particular, the company will continue to pursue its strategic targets, sharply accelerating investment activities, focusing on the development of the national transmission grid to facilitate the integration of renewable sources and improve the system's security while also accelerating the renewal of the Group's assets with the aim of reducing service-outage risks, increasing environmental sustainability and supporting maintenance through the use of grid digitisation technologies. Terna will continue to strengthen investments in innovation and digital solutions to manage the increase in the system's complexity.

In relation to **Regulated Activities**, the main electrical infrastructures being built include the interconnections with France and Montenegro, which are expected to be completed by the end of 2019 and will enable an increase in the cross-border capacity, facilitating the gradual integration of markets at the European level. As regards the main projects aimed at increasing the quality of the service, in the second half of the year the work on creating the undersea connections between Capri and Sorrento and in the Venice Lagoon will continue. The new "Foggia-Benevento" 380 kV line is also expected to come into operation in its definitive configuration. This is one of the projects aimed at facilitating the connection of renewable energy sources located mainly in the South of Italy, at the same time rationalising the existing grid. In addition, in order to fulfil the Strategic Plan goal and in line with the ARERA resolution 129/2018 on output-based incentives, activities are in progress in order to grant access to the measures foreseen by the mentioned resolution.

With reference to **Non-Regulated Activities**, the Group will pursue an industrial approach based on the distinctive skills positioning Terna increasingly as an Energy Solution Provider through the continuation of growth in energy efficiency and entry into higher added value integrator activities in support of technological evolution and the role of the TSO in the energy transition. With reference to the company Avvenia, the activities to integrate it into the Group will continue. Commercial and industrial synergies are expected to be achieved already in the second half of the year. With reference to Sustainability, in the second half of the year, the activities provided by the Memorandum of Understanding signed by ANBI, Coldiretti and Terna will continue, in order to identify an action strategy aimed at optimising irrigation resources, energy efficiency and protection of the territories. In addition, the Giannutri project is expected to be completed. This is the first smart infrastructural work in favour of the energy transition of smaller islands that are not interconnected. In relation to the telecommunications business, the focus on high-value services is confirmed, pursuing the opportunities deriving from making the best use of the Group's infrastructures.

As regards **International Activities** with reference to the projects in progress in Brazil, the works on building lines and substations are expected to be completed, in relation to two concessions, Santa Maria Transmissora de Energia (SMTE) and Santa Lucia Transmissora de Energia (SLTE), by the end of 2018. In addition, in the second half of the year, works will continue on implementing the existing projects in Uruguay and Peru. The Group will continue to scout for possible international opportunities which may also be developed through partnerships and will be selected through careful evaluation processes, in order to guarantee a low risk profile and a limited capital absorption.

## **ALTERNATIVE PERFORMANCE MEASURES**

In this release, some "alternative performance measures" (EBITDA and Net Debt) are used, which are not provided for in the IAS/IFRS accounting standards, whose meaning and contents are explained below pursuant to the ESMA/2015/1415 guideline published on 3<sup>rd</sup> December 2015:

- EBITDA (Gross Operating Margin): this is a measure of operating performance; it is calculated as "Profit for the year" before "Income tax expense for the year", "Financial income/(expense)" and "Amortisation, depreciation and impairment losses".

- Net Debt: this is a measure of the company's financial structure; it is determined as the sum of the short ("Short-term borrowings", "Current portion of long-term borrowings" and "Current financial liabilities") and long-term debt ("Long-term borrowings") 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 accrued fees on available financing 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 16:00 a meeting will be held to illustrate the results of the first half of 2018 to financial analysts and investors, to which journalists may also connect in listening mode. The support material for the event will be made available on the Company's website ([www.terna.it](http://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](http://www.borsaitaliana.it)) and through the authorised storage service "1Info" ([www.1info.it](http://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 Half-Year Report at 30<sup>th</sup> June 2018, with the certification required by Article 154 bis, paragraph 5 of Italian Legislative Decree 58/98 (CLF) and the report by the audit company, will be filed and available to the public, by the deadline set out by law, at the Company's registered office, published on the Company's website ([www.terna.it](http://www.terna.it)) and on the website of the authorized storage service "1Info" ([www.1info.it](http://www.1info.it)), and filed with the stock exchange management company Borsa Italiana S.p.A. ([www.borsaitaliana.it](http://www.borsaitaliana.it)). Disclosure regarding 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 should be noted that, pursuant to Communication No. DME/9081707 of 16<sup>th</sup> September 2009, the reclassified statements presented below are those included in the Interim Report on Operations at 30<sup>th</sup> June 2018, included in the Half-Year Report of the Terna Group at 30<sup>th</sup> June 2018, for which the Independent Auditing Company, in compliance with Article 14 of Italian Legislative Decree No. 39 dated 27<sup>th</sup> January 2010 will verify consistency with the Condensed Consolidated Interim Financial Statements.*

## The Group's reclassified income statement

(€m)

Q2								
2018	2017	Change	% change		H1 2018	H1 2017	Change	% change
<b>542.5</b>	<b>521.6</b>	<b>20.9</b>	<b>4.0</b>	<b>TOTAL REVENUE</b>	<b>1.080.3</b>	<b>1.045.5</b>	<b>34.8</b>	<b>3.3</b>
491.8	477.4	14.4	3.0	- Regulated revenue in Italy of which Revenue from construction services performed under concession	979.4	967.5	11.9	1.2
3.2	3.2	-	-		6.3	5.6	0.7	12.5
48.3	44.3	4.0	9.0	- Non-Regulated revenue	95.4	77.9	17.5	22.5
2.4	(0.1)	2.5	-	- International revenue*	5.5	0.1	5.4	-
<b>136.9</b>	<b>129.6</b>	<b>7.3</b>	<b>5.6</b>	<b>TOTAL OPERATING COSTS</b>	<b>265.4</b>	<b>250.7</b>	<b>14.7</b>	<b>5.9</b>
63.5	63.0	0.5	0.8	- Personnel expenses	124.4	124.4	-	-
42.5	39.4	3.1	7.9	- Cost of services. leases and rentals	77.0	73.7	3.3	4.5
21.1	16.6	4.5	27.1	- Materials	41.0	31.7	9.3	29.3
6.3	6.6	(0.3)	(4.5)	- Other costs	13.0	11.5	1.5	13.0
0.3	0.8	(0.5)	(62.5)	- Quality of service	3.7	3.8	(0.1)	(2.6)
				- Cost of construction services performed under concession	6.3	5.6	0.7	12.5
<b>3.2</b>	<b>3.2</b>	<b>-</b>	<b>-</b>		<b>6.3</b>	<b>5.6</b>	<b>0.7</b>	<b>12.5</b>
<b>405.6</b>	<b>392.0</b>	<b>13.6</b>	<b>3.5</b>	<b>GROSS OPERATING PROFIT (EBITDA)</b>	<b>814.9</b>	<b>794.8</b>	<b>20.1</b>	<b>2.5</b>
134.9	130.8	4.1	3.1	- Amortisation. depreciation and impairment losses	267.4	260.8	6.6	2.5
<b>270.7</b>	<b>261.2</b>	<b>9.5</b>	<b>3.6</b>	<b>OPERATING PROFIT (EBIT)</b>	<b>547.5</b>	<b>534.0</b>	<b>13.5</b>	<b>2.5</b>
(18.1)	(19.1)	1.0	(5.2)	- Net financial income/(expenses)	(42.7)	(39.6)	(3.1)	7.8
<b>252.6</b>	<b>242.1</b>	<b>10.5</b>	<b>4.3</b>	<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>504.8</b>	<b>494.4</b>	<b>10.4</b>	<b>2.1</b>
74.2	70.2	4.0	5.7	- Income tax expense for the period	142.7	143.9	(1.2)	(0.8)
<b>178.4</b>	<b>171.9</b>	<b>6.5</b>	<b>3.8</b>	<b>PROFIT FOR THE PERIOD</b>	<b>362.1</b>	<b>350.5</b>	<b>11.6</b>	<b>3.3</b>
0.9	(0.1)	1.0	-	- Profit/(Loss) attributable to non-controlling interests	1.9	(0.8)	2.7	-
<b>177.5</b>	<b>172.0</b>	<b>5.5</b>	<b>3.2</b>	<b>PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT</b>	<b>360.2</b>	<b>351.3</b>	<b>8.9</b>	<b>2.5</b>

\* Directly includes the margin earned on overseas concessions.

### The Group's reclassified statement of financial position

(€m)

	at 30 June 2018	at 31 December 2017	Change
<b>Total net non-current assets</b>	<b>13,593.5</b>	<b>13,466.4</b>	<b>127.1</b>
- Intangible assets and goodwill	500.5	505.7	(5.2)
- Property, plant and equipment	12,839.9	12,752.8	87.1
- Financial assets*	253.1	207.9	45.2
<b>Total net working capital</b>	<b>(1,496.0)</b>	<b>(1,485.2)</b>	<b>(10.8)</b>
- Net energy-related pass-through payables	(853.5)	(852.7)	(0.8)
- Net receivables resulting from Regulated Activities	312.0	335.1	(23.1)
- Net trade payables	(555.8)	(714.4)	158.6
- Net tax assets	(3.2)	105.9	(109.1)
- Other net liabilities	(395.5)	(359.1)	(36.4)
<b>Gross invested capital</b>	<b>12,097.5</b>	<b>11,981.2</b>	<b>116.3</b>
Sundry provisions	(327.3)	(355.8)	28.5
<b>NET INVESTED CAPITAL</b>	<b>11,770.2</b>	<b>11,625.4</b>	<b>144.8</b>
<b>Equity attributable to owners of the Parent</b>	<b>3,842.8</b>	<b>3,803.3</b>	<b>39.5</b>
<b>Equity attributable to non-controlling interests</b>	<b>31.9</b>	<b>25.7</b>	<b>6.2</b>
<b>Net debt</b>	<b>7,895.5</b>	<b>7,796.4</b>	<b>99.1</b>
<b>TOTAL</b>	<b>11,770.2</b>	<b>11,625.4</b>	<b>144.8</b>

\* Includes financial assets in Brazil recognised in application of IFRIC12, totalling €110 million, and provision for the Interconnector Guarantee Fund, amounting to €50.1 million at 30 June 2018.

## Cash Flow

(€m)

	<b>Cash flow H1 2018</b>	<b>Cash flow H1 2017</b>
- Profit for the period	362.1	350.5
- Amortisation, depreciation and impairment losses	267.2	260.8
- Net change in provisions	(28.5)	(21.4)
- Net losses/(gains) on sale of assets	(1.0)	(0.2)
<b>Operating cash flow</b>	<b>599.8</b>	<b>589.7</b>
- Change in net working capital	9.1	16.9
- Other changes in property, plant and equipment and intangible assets	(8.5)	3.6
- Change in investments	(0.3)	(1.9)
- Change in financial assets	(44.9)	(10.9)
<b>Cash flow from operating activities</b>	<b>555.2</b>	<b>597.4</b>
- Total capital expenditure	(337.9)	(325.7)
<b>Free cash flow</b>	<b>217.3</b>	<b>271.7</b>
- 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	(27.8)	3.7
- Other movements in equity attributable to non-controlling interests	4.3	-
<b>Change in net debt</b>	<b>(99.1)</b>	<b>6.3</b>