



2018

Consolidated Interim Financial
Report - 31 March

Terna Group

A photograph of a modern, multi-story office building at night. The building's facade is illuminated with blue and white lights. The Terna logo is prominently displayed on one of the lower floors. In the foreground, a multi-lane highway is visible with long-exposure light trails from cars, showing red and white streaks. A blue diagonal line runs across the lower half of the image, serving as a background for the slogan.

Energy is our responsibility



INTRODUCTION

The **Terna Group's consolidated interim report for the three months ended 31 March 2018**, which has not been audited, is prepared on a voluntary basis, pursuant to art. 82-ter of the CONSOB's Regulations for Issuers (as amended by CONSOB Resolution 19770 of 26 October 2016).

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Highlights Q1 2018

CORPORATE EVENTS

Strategic Plan 2018-22 GRIDS AND VALUES

Presented to the financial community on 22 March 2018

Annual Report 2017

Approved by the Annual General Meeting of shareholders on 4 May 2018

FINANCIAL HIGHLIGHTS

	Q1 2018	Q1 2017	Change
Revenue	537.8	523.9	+2.7%
EBITDA	409.3	402.8	+1.6%
Profit attributable to owners of the Parent	182.7	179.3	+1.9%
Capital expenditure	141.6	99.7	+42.0%
	Q1 2018	FY2017	
Net debt	7,617.7	7,796.4	

SHARE PERFORMANCE AND SHAREHOLDER RETURN

Total Shareholder Return

+502%
from the IPO to the end
of March 2018

Closing price at the end of March 2018

4.749€
per share

OPERATIONAL HIGHLIGHTS BY AREA OF BUSINESS



Regulated Italy

- › 45 km of new lines and 1 new electricity substation
- › Resolutions on output-based incentives published



Non-Regulated

- › Acquisition of Avvenia The Energy Innovator Srl completed



International

- › Implementation of projects in South America continues



Innovation & Digitalisation

- › Design phase for various development initiatives (Industrial IoT)



Workforce

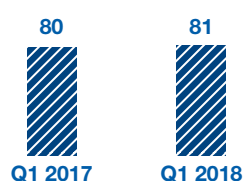
- › Partnership with LUISS university

PERFORMANCE DURING THE PERIOD

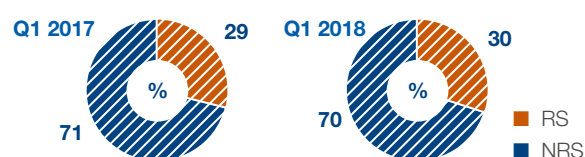
TRENDS



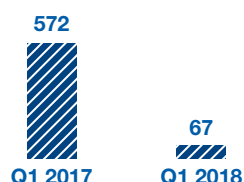
Demand [TWh]



COVERAGE BY RES¹



RENS quality [MWh]



MAJOR INCIDENTS

Performance Q1 2018:
no major incident

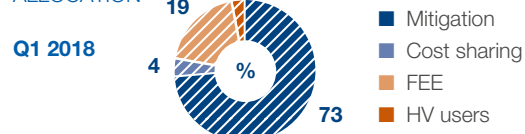
Performance Q1 2017:
incident due to weather emergency in Abruzzo and Marche (480 MWh)



Cost of quality [€m]



COST ALLOCATION²



¹ Provisional data

² Mitigation of Acciaio transformer malfunction (€2.5m) and avoidance of RENS (approx. €10m)



The Company and our strategy

The Terna Group's main activities are the transmission and dispatching of electricity in Italy. Terna performs these activities in its role as the Italian TSO (Transmission System Operator) under a monopoly arrangement and a government concession.

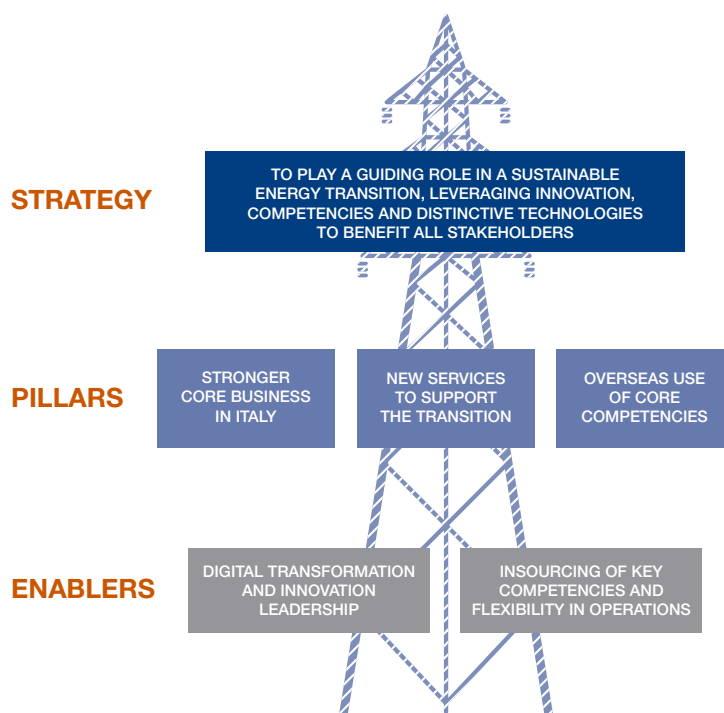
The electricity sector is rapidly evolving as a result of the radical transition underway, which aims to achieve challenging objectives linked to sustainability, decarbonisation, competitiveness and security. In particular, the sector is witnessing the strong development of renewables, resulting in measures designed to integrate them within the electricity system. We are also seeing the pursuit of energy security by strengthening interconnections, the development of grid storage and power grid resilience and, finally, greater competitiveness in the market, requiring the management of complex trading relations between TSOs and other parties operating within the system.

In this context, the leading European TSOs are redesigning their strategies and increasing investment to meet the requirements of the new system. Their investment plans take into account the varying stages of energy transition in different countries and are strongly impacted by the development of renewables.

Terna's role in the national electricity system is to lead the coming sustainable energy transition, by leveraging our distinctive innovation capabilities, competencies and technologies for the benefit of all stakeholders.

In managing our businesses, Terna pays great attention to the possible economic, social and environmental impacts, and adopts a sustainable approach to business in order to establish, maintain and consolidate relationships with our stakeholders that are based on mutual trust, with a view to creating value for both the Company and our stakeholders. Terna owns its infrastructure and is responsible for drawing up the National Transmission Grid Development Plan (the NTG), the Security Plan and the Resilience Plan (resolutions 653/15/R/eel and 646/15/R/eel, as amended).

To support this strategy, the Company plans to step up investment in innovation and digital solutions in order to manage the growing complexity of the system. Attention will also be paid to the development and insourcing of strategic skills to cope with projects of growing size and complexity.



The Group's main areas of business are as follows:

Regulated Activities in Italy - Electricity transmission and dispatching in Italy

The Terna Group owns 99.7% of the NTG, which is among the most modern and technologically advanced transmission grids in Europe. We are the largest independent electricity transmission network operator in Europe and one of the world's leading operators, with **around 73 thousand kilometres of high and very high-voltage lines**.

The Group is responsible for managing the flow of electricity through the grid in every part of Italy, with the aim of ensuring that there is a constant balance between the quantity of energy injected into the grid and demand, and guaranteeing continuity and accessibility of service for the population as a whole.

We are also responsible for planning, construction and maintenance of the grid. We operate as a TSO in accordance with the regulations defined by the Regulatory Authority for Energy, Networks and the Environment (ARERA) and in implementation of the guidelines established by the Ministry for Economic Development (the MED). We are responsible for the long-term safety, quality and cost-effectiveness of the national electricity system, pursuing its development and integration with the European system and ensuring that all users of the system have equal access.

With reference to Regulated Activities in Italy, the system needs a **new investment drive** to respond to the developing needs of the system, with a focus on maximising long-term use and sustainability. The role of proactive system operator in defining the grid's structure should also be strengthened by combining Terna's specialist expertise with the experience gained in the most advanced markets.

Strategic guidelines for Regulated Activities in Italy

> **To strengthen the core business** by giving top priority to all the activities that enable Italy to tackle its energy challenges in a safe, efficient and sustainable way.

Non-Regulated Activities - New business opportunities in Italy

In line with the guidelines in our Strategic Plan, the Group is pursuing opportunities beyond its core operations, whilst remaining true to its mission (e.g., energy solutions) and if **distinctive and capable of adding significant value**, as a **platform for innovation and sustainability** within the process of the TSO's development.

Non-regulated Activities should be geared towards supporting the energy transition, especially as an **energy solutions provider**, involving the development of services for companies and taking advantage of value added market opportunities for traditional and renewable energy customers. **The telecommunications business** will aim to pursue opportunities based around boosting the Group's infrastructure capabilities.

The Tamini Group will continue with its turnaround plan, exploiting its distinctive competencies.

Strategic guidelines for Non-regulated Activities

> **To launch new services** to support the energy transition, taking advantage of opportunities beyond our core activities, to be pursued in line with Terna's mission, and if distinctive and/or capable of adding significant value.

International Activities

The Group aims to take advantage of opportunities for international expansion by **leveraging our core competencies developed in Italy as a TSO**, where such competencies are of significant importance in the host country.

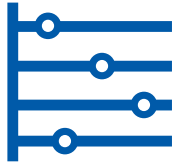
Overseas investment focuses on countries with **stable political and regulatory regimes**.

In the next three years, our international activities will focus on the execution of existing projects, leveraging the Group's specialist expertise. Among the priority actions, the main focus will be on selecting international growth opportunities with a high technological content (a key aspect for Terna) and involving potential agreements/partnerships, including the management of low-risk assets without the need to tie up large amounts of capital.

Strategic guidelines for International Activities

> **To leverage the core competencies** developed in Italy as a TSO through growth opportunities overseas.





Key events

during the first quarter of 2018 and after the reporting period

Corporate events

- On **4 May 2018**, the Annual General Meeting of Terna's shareholders approved the **financial statements for 2017**.
- "Grids and Values", the **Strategic Plan for the period 2018-2022** was presented to the market and stakeholders on **22 March 2018**, following its approval by the Board of Directors.

Business

- In early **April 2018**, Terna began **laying the cable on the A32, forming part of the Italy-France interconnector**, which will run from Condove (TO) to Borgone (TO). The work will continue until June and Terna, in coordination with the authorities involved, will take every possible step to limit the impact on motorway traffic.
- On **8 March 2018**, ARERA published **Resolution 129/2018, "Urgent measures relating to output-based incentives for the transmission service. Amendments to the provisions governing the recognition of high-risk projects"**, which has introduced a series of measures applicable to Terna, including: incentives for the resolution of congestion between internal zones and on interconnections, by investing up to €150 million in additional transmission capacity in the period, 2019-2023; incentives for development of the grid with the aim of resolving congestion within zones, constraints on the grid affecting voltage regulation and the provision of essential services (the general criteria for quantifying the incentives are based on the expected benefits in terms of potential savings on the DSM as a result of the above projects, whilst definition of the detailed criteria will be dealt with in a later resolution); the reinstatement of the return on work in progress (calculated by assuming a WACC with a debt-to-equity ratio of four) for highly complex and risky projects with a duration of over 3 years (between obtaining the necessary consents and entry into service) and when expenditure has not already exceeded 50%. The resolution puts off measures regarding other incentives relating to the following issues until later resolutions: grants from grid operators and overseas entities; additional measures designed to improve efficiency, promote market integration and security of supply and support the related research activities; the implementation of initiatives aimed at fostering stakeholder capabilities and building awareness among local authorities of the benefits of infrastructure.
- On **15 February 2018**, Terna - via its subsidiary, Terna Plus - completed the acquisition of a 70% stake in **Avvenia The Energy Innovator Srl**, a new company to which the principal assets of Avvenia, a leader in the energy efficiency sector and certified as an Energy Service Company (ESCo), have been transferred. This transaction is part of the process of identifying and acting on new commercial opportunities for the provision of energy efficiency services and projects, in order to further strengthen Terna Plus's role as a supplier of comprehensive integrated energy services and expand its range of innovative solutions as an Energy Solutions Provider. This is in line with the strategy set out in the Strategic Plan for the Group's Non-regulated Activities.



Finance

- On **1 May 2018**, the Terna Group was awarded the prize for **“Deal of the Year 2018”** by the leading financial publication, “The Banker”, for the project financing obtained in July 2017 to finance the Melo-Tacuaembò power line in Uruguay. The prize was awarded in the “Americas: Green Finance” category. This achievement is further reward for Terna’s strategy of combining investment and sustainability as a means of driving growth and the creation of value. The power line will connect renewable electricity generation plants with Uruguay’s national grid, playing a key role in guaranteeing the current and future reliability of the country’s national electricity system. Previously, on 15 March 2018, the financing for the Uruguay project was awarded the prize for **“Latin America Transmission/Distribution deal of the year”**, organised by IJ Global’s Project Finance and Infrastructure Journal (one of the leading infrastructure publications in the world, focusing on the energy market). The journal is owned by Euromoney, recognised as one of the world’s most authoritative sources of financial market information.
- On **28 March 2018**, **Fitch Ratings** confirmed its long-term issuer default rating (IDR) and Terna SpA’s senior unsecured rating as **BBB+**, one notch above the rating assigned to the Italian state, with a stable outlook. At the same time, the agency also reiterated its short-term IDR of ‘F2’. Fitch’s assessment confirms the soundness of the Strategic Plan 2018-2022 presented on 22 March 2018, which targets sustainable, consistent growth, allied with a new dividend policy offering attractive return for shareholders.

Sustainability and innovation

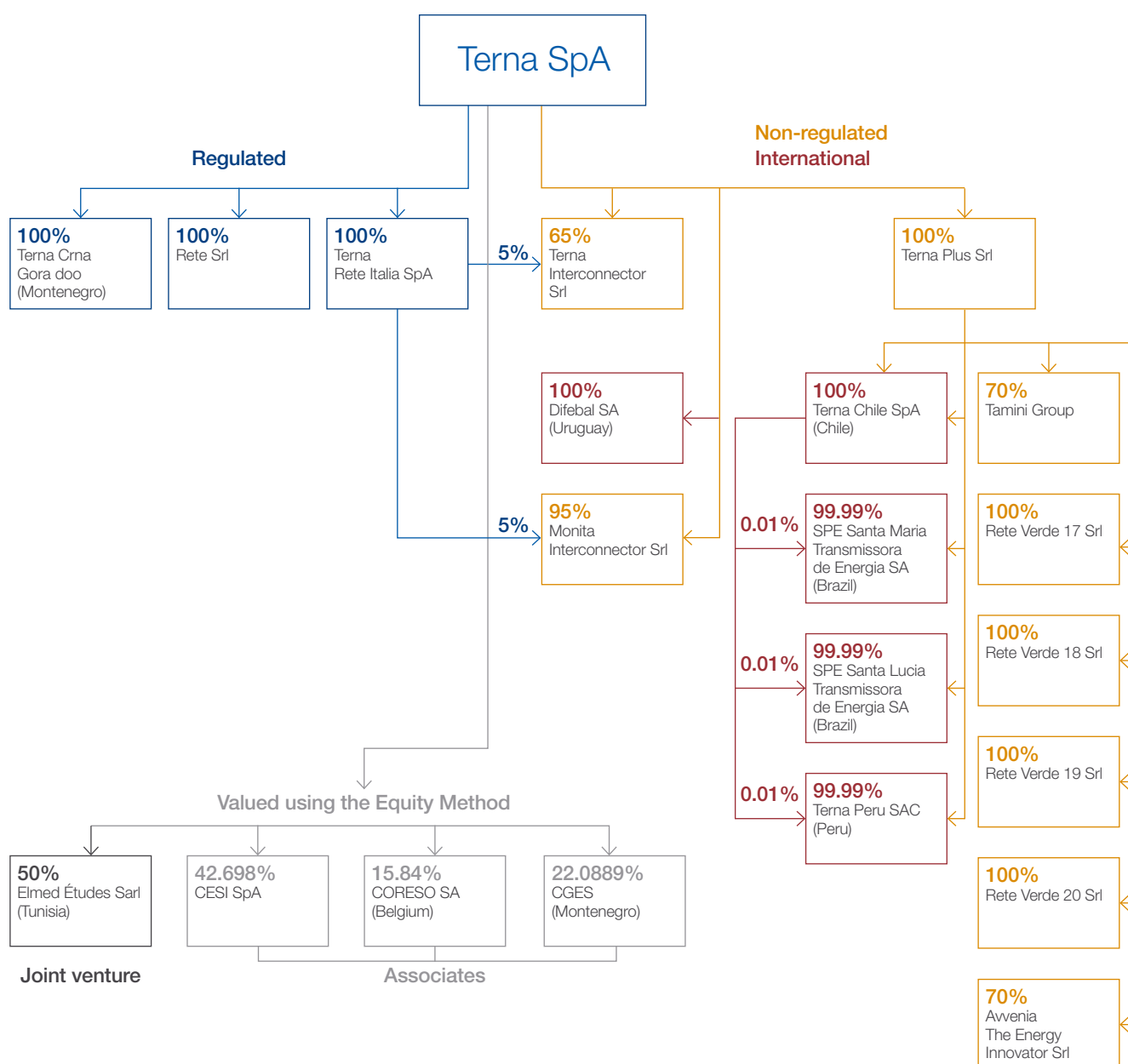
- In its “Sustainability Yearbook 2018”, published in **January 2018**, RobecoSAM ranked Terna in the **Bronze Class**.
- On **16 January 2018**, **Terna and Luiss** signed a partnership agreement that aims to exploit high-potential talents through the recruitment and development of human capital. This marks the launch of Terna’s training programme, which is intended to bring the business and academic worlds together in order to promote development of the expertise and skills needed in today’s labour market and contribute to the country’s growth.



Structure of the Group



The structure of the Terna Group at 31 March 2018 is shown below.



Compared with 31 December 2017, as described above, on 15 February 2018, Terna Plus acquired 70% of Avenia The Energy Innovator Srl.



Market environment

Electricity demand and production in Italy

Demand for electricity in Italy amounted to 81,526 GWh in the first quarter of 2018, an increase of 1.8% compared with the same period of 2017.

ELECTRICITY BALANCE IN ITALY (GWH)	Q1 2018*	Q1 2017	CHANGE	% CHANGE
Net production	68,694	71,581	(2,887)	(4.0%)
From overseas suppliers (imports)	14,235	10,796	3,439	31.9%
Sold to overseas customers (exports)	(702)	(1,590)	888	(55.8%)
For use in pumping**	(701)	(666)	(35)	5.3%
Total demand in Italy	81,526	80,121	1,405	1.8%

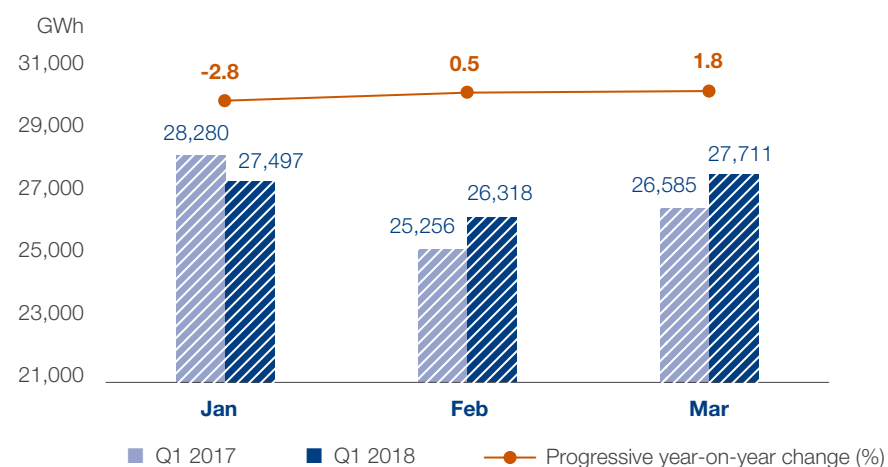
* Provisional data.

** Electricity used for pumping water, for sole subsequent use in electricity production.

Note: Does not include demand for energy for ancillary services related to electricity production.

Monthly demand for electricity in Italy in the first quarter of 2018 continued to rise compared with the same period of 2017, with the exception of January, when demand fell 2.8% year on year compared with January 2017. This primarily reflected above-average temperatures for the season.

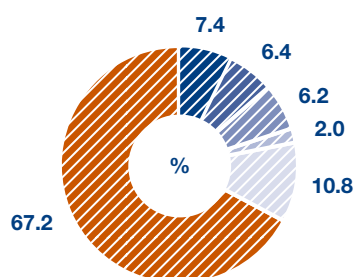
MONTHLY DEMAND FOR ELECTRICITY IN ITALY



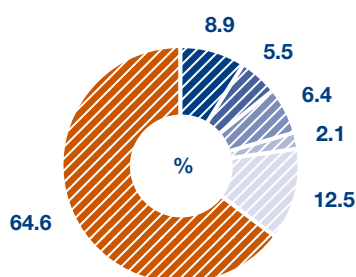
In terms of electricity production by type of source, the first quarter of 2018 recorded an increase in hydroelectric and wind production, whilst photovoltaic and thermoelectric production are down on the first quarter of 2017.

NET ELECTRICITY PRODUCTION BY SOURCE

Q1 2017*
71.6 TWh



Q1 2018*
68.7 TWh



- Net wind production
- Net photovoltaic production
- Net biomass production
- Net geothermal production
- Net hydroelectric production
- Net thermoelectric production

* Provisional data

During the first quarter of 2018, renewable sources accounted for approximately 30% of total energy demand, slightly up on the figure for last year (29%).



Regulated activities in Italy

Dispatching and transmission

Continuity and security of the electricity service

Despite heavy snowfall during the quarter, the period between January and March 2018 was not marked by events resulting in particular problems with regard to service continuity.

The “RENS - Regulated Energy Not Supplied” indicator for the first quarter of 2018 amounts to approximately 67 MWh (compared with an annual target of approximately 913 MWh).

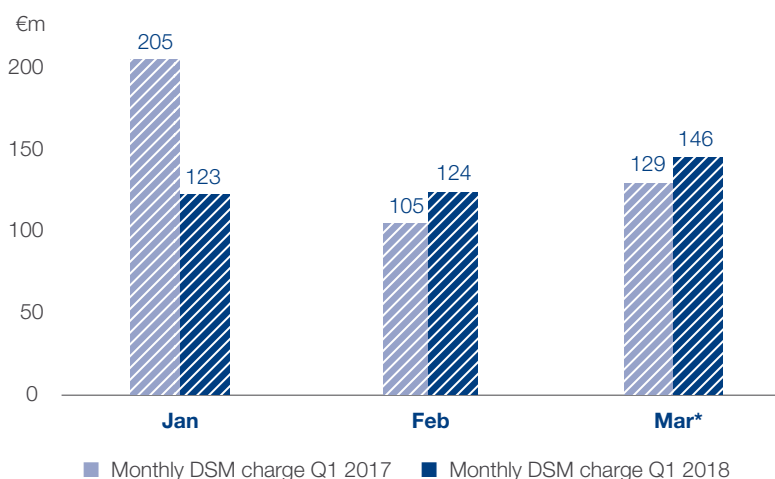
Dispatching services market

Terna uses the Dispatching Services Market (DSM) to procure dispatching resources to guarantee the security and adequacy of the electricity system.

The net charge for using the DSM was €393 million in the first quarter of 2018 (provisional data), down on the same period of the previous year (€439 million).

The reduction reflects application of ARERA's new regulations governing the provision of essential services (a lower cost of satisfying the need to meet technical constraints) and a decrease in the volume of reserve capacity compared with the previous year, when there was an increase in the cost of selecting providers due to the cold snap in Europe, which reduced the contribution from imports from France and Switzerland.

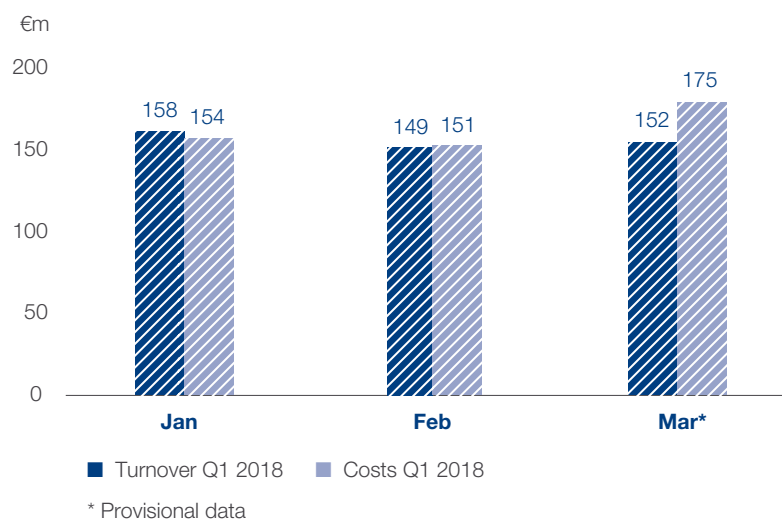
MONTHLY DSM COSTS



* Provisional data

Cost of procuring resources on the Dispatching Services Market (uplift)

As a result of the reduction in the cost of using the DSM and in imbalance costs (on both the demand and supply side) in the first quarter of 2018, the total uplift amounts to €480 million (provisional data), marking a reduction compared with the same period of the previous year (€626 million).



Implementation of development initiatives

During the first quarter of 2018, 45 km of lines (Bono-Buddisò and Messina Riviera-Villafranca) entered service, as did the 132 kV electricity substation serving Ravenna's industrial zone.

The Terna Group's **total capital expenditure**, in the first quarter of 2018 amounts to **€141.6 million**, compared with the €99.7 million of the previous first quarter (**up 42%**). **Investment incentives** amounted to **€19.5 million**, up from the €3 million of the previous first quarter.

THE GROUP'S TOTAL CAPITAL EXPENDITURE (€M)	Q1 2018	Q1 2017	CHANGE	% CHANGE
Incentives for regulated assets*	19.5	3.0	16.5	-
Other regulated assets	94.2	87.6	6.6	7.5
Investment in regulated assets	113.7	90.6	23.1	25.5
Investment in non-regulated assets	24.4	5.4	19.0	351.9
Capitalised financial expenses	3.5	3.7	(0.2)	(5.4)
TOTAL CAPITAL EXPENDITURE	141.6	99.7	41.9	42.0

* Classification of investments in accordance with ARERA Resolution 579/2017/R/EEL.

Investment in non-regulated assets, amounting to €24.4 million, primarily regards the private part of the Italy-France interconnector, described below.

The principal projects involving regulated assets in Italy are described below:

Capri-Sorrento
interconnector
(€9.8 million)

- **Cable connection:** the contract for the supply and installation of the connection has been awarded. A hydrogeological survey of the route for the terrestrial cable to be located in the municipality of Sorrento is in progress.
 - **Sorrento substation:** appraisal of the recently completed detailed design has begun and key equipment has been procured.
-

Lagoon cables
(€3.9 million)

- **Sacca Serenella-Cavallino cable:** 95% of the terrestrial and submarine sections has been completed (out of a total of 14 km).
 - **Fusina 2-Sacca Fisola cable:** the detailed design phase is in progress; production of the cables for the submarine section has been completed and the terrestrial section is being completed.
-

Italy-Montenegro
interconnector
(€19.3 million)

- **Cable connection:**
 - **Italy:** 87% of the cables have been laid;
 - **Montenegro:** installation of the first pole has been completed;
 - **Submarine section:** work on protection of the conductor on the Montenegrin side is nearing completion.
 - **Converters:**
 - **Cepagatti:** assembly of the transformers and alternating current (AC) equipment has been completed and assembly of the converters and direct current (DC) equipment is in progress;
 - **Kotor:** electromechanical assembly is in progress.
-

Italy-France
interconnector
(€6.1 million)

Piovasasco converter:

- Assembly of the main buildings is continuing and work on the foundations for the equipment is in progress.
- Production of the converters and transformers has been completed.
- Production of other equipment is in progress.

Cable connection:

- **Section not appertaining to SitaF** (the section from the substation to the motorway): civil engineering work on 17.8 km has been completed and cables have been laid on 16 km of the connection out of a total of approximately 18 km. Laying of the cables is expected to be completed by the end of the first half of 2018.
 - **Upper and lower sections** (A32 motorway): 6.4 km of trenches have been excavated (the civil works alone) out of a total of approximately 45 km. Preparatory work has begun on 4 viaducts on the lower section and 3 viaducts on the upper section.
 - **Middle section** (avoiding the A32 motorway): 9.7 km of civil works have been completed and 5.4 km of cable has been laid out of a total of approximately 25 km.
-

Fibre for the Grid
(€4.7 million)

The project aims to connect the Terna Group's electricity substations to boost the availability and performance of the services provided and replace the existing aged infrastructure (at 31 December 2017, 351 electricity substations in the NTG had been connected and lit). In the first quarter of 2018, 304 km of new fibre was laid and 14 electricity substations in the NTG lit.

Further progress was also made on the Scafati substation (€2.8 million), the power line crossing the Lucania area (€2.6 million), the restructuring of the Rome metropolitan area (€2.0 million) and on work in Cagliari (€1.8 million).

Non-regulated activities



Services for third parties

During the first quarter of 2018, Terna continued to provide its services to external customers in the areas of **ENERGY SOLUTIONS** (the development of technical solutions and the supply of innovative services), **TELECOMMUNICATIONS** (the housing of telecommunications equipment and maintenance services for fibre networks) and **O&M** (operation and maintenance of high-voltage and very high-voltage infrastructure).

As regards Engineering services, Terna obtained several **EPC** (Engineering, Procurement and Construction) contracts: this model involves the design, development and implementation of solutions to meet the growing demand for infrastructure and grid connections.

Key events during the period include:

- i) conclusion of an EPC contract for construction of a user's substation connecting two photovoltaic plants offering grid parity, having a total capacity of 30 MWp, in the province of Viterbo;
- ii) completion of the acquisition of 70% of AVVENIA - The Energy Innovator on 15 February 2018, following on from the agreement signed in 2017.

Energy Solutions

During the first quarter of 2018, the plan to supply long-distance fibre infrastructure (regional rings) to Open Fiber was extended. With respect to the terms of the contract, envisaging that Open Fiber would purchase a minimum of 2,500 km of network each year, the plan is now to deliver over 6,000 km of regional rings in 2018.

Telecommunications

A three-year framework agreement was entered into with Infratel in January 2018, regarding the supply of backhaul networks as part of the National Ultra-Broadband Plan. This will enable Terna to take part in the related tenders, amounting to a total of €150 million, to be called from the first half of 2018.

Finally, Terna is proceeding with experimental development of projects aimed at exploiting the pylons in its high-voltage network as smart towers and has begun trialling new business models designed to extract value from its assets. During the first quarter, design work began on the use of pylons for radio transmission (wireless transmission in remote area - Fixed Wireless Access and trials of 5G), as did a study of the potential to offer advanced telecommunications services to SMEs in industrial zones.

Contracts to operate third-party infrastructure include the long-term contract to maintain a submarine cable and contracts to maintain third-party users' substations, power lines and substations used in renewable energy production.

Operation of third-party infrastructure

Transformers -Tamini Group

Orders for transformers were up 42% in the first quarter of 2018 compared with the same period of the previous year.

Factory order books are up compared with the end of 2017. The volume of plant tested during the quarter is in line with the budget.

Private interconnectors pursuant to Law 99/2009

"Italy-Montenegro Interconnector" project

On 29 March 2018, the Ministry for Economic Development and the Ministry of the Environment and of the Protection of Land and Sea issued the decree partially transferring the consents from Monita Interconnector Srl to Terna SpA, in line with the new scope of the private interconnector. The capacity qualifying for third-party access exemption will thus be reduced in keeping with the new scope, in order to make it easier to finance the private interconnector.

In April 2017, laying and protection of the submarine cable, which began in October 2016, was completed. Installation of the terrestrial section of cable and construction of the converter substations in Italy and Montenegro is currently underway.

"Italy-France Interconnector" project

The Group continued with construction of the private line in the first quarter of 2018, in implementation of Law 99/09, on behalf of the vehicle company, Piemonte Savoia (PI.SA.), transferred to a number of energy-intensive companies on 4 July 2017.

Approximately 9 km of civil works were completed and 5.4 km of cable laid in March 2018.

On the section not appertaining to Sitaf (Società Italiana per il traforo autostradale del Frejus), approximately 18 km of civil works were completed and 16 km of cable was laid in March 2018.

At the end of March 2018, around 6.5 km of civil works have been completed, with around 20 km of such works along the A32 motorway and the laying of 18 km of cable expected to be completed by the end of 2018.

The foundations for the main buildings for the Piosasco Converter have been completed, whilst assembly of the principal components is in progress.

"Italy-Austria Interconnector" project

In December 2017, Terna and the Austrian TSO, APG, sign a Cooperation Agreement. This agreement envisages that the two TSOs will coordinate their activities through to construction of the infrastructure. The process for obtaining the necessary consents for the Nauders - Passo Resia cable section is currently underway in Italy. This process is expected to be completed by the end of 2018.



International activities

Work on carrying out the five projects in progress has continued: **Brazil** (Santa Lucia and Santa Maria), **Uruguay** (the 500-kV transmission line connecting Melo and Tucuarembó), **Peru** (132km of new 138kV lines from Aguaytia to Pucallpa) and **Chile** (the connection of a 90 MW photovoltaic plant and the related works).

The project was completed in February 2018 with delivery of the additional works, in line with expectations.

Chile

The process of receiving and obtaining customs clearance for the materials needed to carry out the project took place during the first quarter of 2018 and is still in progress.

Uruguay

Detailed engineering and the construction of civil works is continuing, the latter having started in September 2017. Work has begun on installing the poles and special foundations at two sites in the Melo and Tacuarembó areas.

The tests needed to obtain certification for the remaining types of pylon have been planned.

The project is 18% complete.

Construction of the lines and substations for the two concessions, Santa Maria Transmissora de Energia (SMTE) in the State of Rio Grande do Sul and Santa Lucia Transmissora de Energia (SLTE) in the State of Mato Grosso, continued in the first quarter of 2018.

Brazil

The work being carried out for SMTE is 69% complete, in line with the planned entry into service of the infrastructure by August 2018. All the civil works for the substations have been completed and electromechanical assembly is in progress. All the materials for the line have been supplied and prestressing of the conductors has begun.

The works being carried out for SLTE are 47% complete, in line with the planned entry into service of the infrastructure by December 2018.

Construction of the foundations for the substations for SLTE is at an advanced stage, whilst assembly of the towers has begun.

The Transmission Service contract has been agreed with the Brazilian grid operator (ONS) and all the agreements covering shared use of the electricity substations owned by other operators have been signed.

The activities involved in obtaining approval for the basic engineering from the Peruvian supervisory authority were completed in the first quarter of 2018.

Peru

Work on the detailed engineering is underway, including the pre-operational study required in order to decide on the equipment necessary.

The preliminary environmental impact assessment and the Public Participation Plan have been submitted and approved. Following this, the first workshop involving the population was successfully held. Monthly follow-up meetings with Osinergmin are continuing to assess the progress of work on the project.



Terna's people and innovation

Our people

Terna's personnel, whose expertise is often of a rare or unique nature in the electricity industry, play a vital role in all areas of the Company's business.

THE WORKFORCE	AT 31 MARCH 2018	AT 31 DECEMBER 2017	Change
Senior managers	73	71	2
Middle managers	616	569	47
Office staff	2,080	2,021	59
Blue-collar workers	1,254	1,236	18
TOTAL	4,023	3,897	126

In the first quarter of 2018, the Group continued with the recruitment of personnel as part of its plan for generational turnover launched in 2017. The increase in the workforce compared with 31 December 2017 is also linked to the Group's response to the challenges announced by Terna when presenting its new strategic plan, focusing on Regulated Activities in Italy and Non-Regulated and International Activities. This process will continue during 2018.

The new Genoa Infrastructure Unit was opened on 9 April 2018. This innovative building, which uses cutting-edge energy efficiency technology and has been built to the very highest environmental standards, meets the Company's requirements in terms of the quality of the working environment. The investment of around €2 million has resulted in the modernisation and improvement of approximately 13,500 square metres of office space, services and other premises. An 11-kW photovoltaic plant has also been built to power the building's internal and external LED lighting, thereby maximising energy savings. An underground retarding basin with capacity of 500 cubic metres has also been installed. This releases rainwater at a constant, linear rate, limiting the risk of water courses overflowing, in accordance with the Municipality of Genoa's new Urban Plan.

Key initiatives relating to innovation

Description

Projects and programmes

Terna is taking part in the “**Open Italy**” programme promoted by the Elis consortium during the six-month term of ANAS's presidency, in order to identify start-ups in Italy with whom to develop businesses of potential interest. Following a selection process, from January 2018, Terna has been collaborating with a start-up from the cyber security sector that uses Data Analytics to create innovative security systems for the protection of highly critical sites.

[Open Italy](#)

Following the memorandum of understanding signed with **Ensiel** (a consortium set up by the main Italian universities operating in the power systems sector), towards the end of 2017 and during the first quarter of 2018, Terna has launched 13 projects involving 7 Italian universities from among those most active in the electricity and energy systems sector.

[Academy](#)

With a view to accelerating the strategic initiatives linked to Terna's new Innovation Plan, steps have been taken to monitor internal needs and to scout for external opportunities, regarding both new technologies and the potential for partnership networks and new methods of financing.

[Origination
and R&D projects](#)

This has led two important results: the first is approval, notified by the European Commission in August, of the **OSMOSE**, Horizon 2020 project, with work on the project beginning in January 2018; the second is approval of the proposed **National Energy Technological Cluster** and two associated initial projects.

Overall, the OSMOSE - Optimal System-Mix of Flexibility Solutions for European Electricity project aims to identify and demonstrate the technical feasibility of an “optimal” mix of flexibility solutions to maximise the technical and financial efficiency of the European electricity system, thus guaranteeing its security and reliability. The project involves a broad consortium of 33 partners from 8 different EU countries with the French TSO, RTE, acting as the lead partner.

Terna's role is to lead Working Package 5 (WP5, one of the 4 demonstrators of actual grid situations) called “Multiple services provided by grid devices, large demand-response and RES generation coordinated in a smart management system”.

The energy cluster, with Enea as lead partner and Terna as leader of one of the two projects, is part of the network of 12 national technological clusters, which act as resource catalysts to meet local and market needs, thus coordinating and strengthening the link between the research and business worlds.

The objective of Living Grid project, led by Terna, is to analyse a local grid to test the services offering flexibility to TSOs and DSOs, in order to study and validate new solutions aimed at improving integration between TSOs and DSOs.



review for Q1 2018

In order to report on the Terna Group's operating performance and analyse its financial position, this section includes management accounts prepared in line with industry best practice. These reclassified statements contain alternative performance measures (APMs, as defined in the guidance provided by ESMA/2015/1415), which management considers to be useful in assessing the performance of the Group and representative of the business's operating results and financial position.

The criteria used in constructing these indicators are the same as those used in the annual report. Details are provided in the Annex, "Alternative performance measures (APMs)".

Basis of presentation

The measurement and recognition criteria applied in this Interim Report are consistent with those adopted in the consolidated financial statements for the year ended 31 December 2017, with the exception of the application of the new accounting standards, *IFRS 9 - Financial Instruments* and *IFRS 15 - Revenue from Contracts with Customers*, effective from 1 January 2018. These standards have been applied retrospectively, recognising the immaterial cumulative effect of initial application as an adjustment to the opening balance of retained earnings.

In addition, a number of comparative amounts in the income statement, with particular reference to revenue from construction services performed under concession in Italy (included in Regulated Activities in Italy) and from International Activities, have been reclassified in order to improve presentation, without changing the comparative result.

The Group's reclassified income statement

The Terna Group's operating results for the first quarter of 2018, compared with those for the same period of the previous year, are summarised in the following reclassified income statement.

	(€m)			
	Q1 2018	Q1 2017	CHANGE	CHANGE %
TOTAL REVENUE	537.8	523.9	13.9	2.7
- Regulated revenue in Italy	487.6	490.1	(2.5)	(0.5)
<i>of which Revenue from construction services performed under concession</i>	3.1	2.4	0.7	29.2
- Non-Regulated revenue	47.1	33.6	13.5	40.2
- International revenue*	3.1	0.2	2.9	-
TOTAL OPERATING COSTS	128.5	121.1	7.4	6.1
- Personnel expenses	60.9	61.4	(0.5)	(0.8)
- Cost of services, leases and rentals	34.5	34.3	0.2	0.6
- Materials	19.9	15.1	4.8	31.8
- Other costs	6.7	4.9	1.8	36.7
- Quality of service	3.4	3.0	0.4	13.3
- Cost of construction services performed under concession	3.1	2.4	0.7	29.2
GROSS OPERATING PROFIT (EBITDA)	409.3	402.8	6.5	1.6
- Amortisation, depreciation and impairment losses	132.5	130.0	2.5	1.9
OPERATING PROFIT (EBIT)	276.8	272.8	4.0	1.5
- Net financial income/(expenses)	(24.6)	(20.5)	(4.1)	20.0
PROFIT/(LOSS) BEFORE TAX	252.2	252.3	(0.1)	-
- Income tax expense for the period	68.5	73.7	(5.2)	(7.1)
PROFIT FOR THE PERIOD	183.7	178.6	5.1	2.9
- Profit/(Loss) attributable to non-controlling interests	1.0	(0.7)	1.7	-
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT	182.7	179.3	3.4	1.9

* Includes the margin earned on services provided under concession overseas.

Gross operating profit (EBITDA) for the first quarter of 2018 amounts to **€409.3 million**, up €6.5 million on the €402.8 million of the first quarter of 2017. This primarily reflects an improvement in Non-regulated Activities (up €8.6 million) and in International Activities (up €2.3 million).

	(€m)		
	Q1 2018	Q1 2017	CHANGE
EBITDA from Regulated Activities in Italy	392.8	397.2	(4.4)
EBITDA from Non-regulated Activities	15.0	6.4	8.6
EBITDA from International Activities	1.5	(0.8)	2.3
EBITDA	409.3	402.8	6.5

(€m)

REGULATED ACTIVITIES IN ITALY	Q1 2018	Q1 2017	Change
Tariff revenue	479.9	479.6	0.3
- Transmission revenue	451.4	450.8	0.6
- Dispatching and metering revenue	28.5	28.8	(0.3)
Other regulated revenue	4.6	8.1	(3.5)
Revenue from construction services performed under concession in Italy	3.1	2.4	0.7
TOTAL	487.6	490.1	(2.5)

Regulated revenue in Italy is slightly down, decline by €2.5 million. Transmission, dispatching and metering revenue is broadly in line with the same period of the previous year (up €0.3 million), whilst “Other regulated revenue” is down €3.5 million compared with the first quarter of 2017, reflecting greater revenue from connections to the NTG (down €1.8 million) and higher insurance proceeds (down €1 million) in the first quarter of 2017.

(€m)

NON-REGULATED ACTIVITIES	Q1 2018	Q1 2017 ¹	Change
Tamini	27.6	20.5	7.1
Services for third parties	17.5	13.1	4.4
- Telecommunications	8.5	7.1	1.4
- O&M	2.7	3.7	(1.0)
- EPC	2.2	1.6	0.6
- Energy solutions (Avvenia)	3.1	-	3.1
- Other	1.0	0.7	0.3
Italy-France interconnector	2.0	-	2.0
TOTAL	47.1	33.6	13.5

The increase in **non-regulated revenue**, totalling €13.5 million, reflects revenue growth at the **Tamini Group** (€7.1 million) and the recognition of revenue resulting from the acquisition of **Avvenia** (€3.1 million) and progress of work on the **private Italy-France interconnector** (€2 million).

(€m)

INTERNATIONAL ACTIVITIES	Q1 2018	Q1 2017	Change
Brazil	1.8	-	1.8
Uruguay	1.1	-	1.1
Other	0.2	0.2	-
TOTAL	3.1	0.2	2.9

Revenue from International Activities reflects investment in assets held under concession in **Brazil** (up €1.8 million) and construction of the line in **Uruguay** (up €1.1 million) resulting in an increase of €2.9 million in revenue compared with the first quarter of 2017.

¹ Restated due to improved allocation of the related businesses.

Operating costs have increased €7.4 million compared with the first quarter of the previous year, primarily due to higher costs incurred on contract work by the Tamini Group (up €3.5 million) and additional provisions for risks during the period.

Amortisation, depreciation and impairment losses for the period amount to €132.5 million, up €2.5 million on the first quarter of 2017, primarily due to the entry into service of new plant.

Operating profit (**EBIT**), after amortisation, depreciation and impairment losses, amounts to €276.8 million, compared with €272.8 million for the first quarter of 2017 (up 1.5%).

Net financial expenses for the period total €24.6 million and are primarily attributable to the Parent Company (€23.5 million), marking an increase of €4.1 million compared with the €20.5 million of the first quarter of 2017. This primarily reflects interest on the increased amount of debt, only partially offset by the return on the liquidity resulting from the above increase in debt.

After net financial expenses, the **profit before tax** amounts to **€252.2 million**, broadly in line with the first quarter of 2017.

Income tax expense for the period totals €68.5 million and is down €5.2 million (7.1%) compared with the same period of 2017, essentially reflecting tax-exempt income during the period.

Profit for the period amounts to **€183.7 million**, up €5.1 million (2.9%) compared with the €178.6 million of the first quarter of 2017.

Profit for the year attributable to owners of the Parent (after excluding the share attributable to non-controlling interests) amounts to **€182.7 million**, up €3.4 million (1.9%) compared with the €179.3 million of the first quarter of 2017.

Cash flow

The above performance, combined with non-cash items and other cash flows from and for operating activities, has resulted in a cash inflow of €324.1 million, enabling the Group to finance its investing activities, totalling €141.6 million. This has also contributed to the reduction in net debt which, after movements in equity, totals €7,617.7 million, a decrease of €178.7 million compared with the €7,796.4 million of 2017.

(€m)

	CASH FLOW Q1 2018
- Profit for the period	183.7
- Amortisation, depreciation and impairment losses	132.5
- Net change in provisions	(10.4)
- Net losses/(gains) on sale of assets	(0.6)
Operating cash flow	305.2
- Change in net working capital	49.8
- Other changes in non-current assets	(8.3)
- Change in investments	0.2
- Change in financial assets	(22.8)
Cash flow from operating activities	324.1
- Total capital expenditure	(141.6)
Free cash flow	182.5
- Cash flow hedge reserve after taxation and other movements in equity attributable to owners of the Parent	(8.1)
- Other movements in equity attributable to non-controlling interests	4.3
Change in net debt	178.7

The Group's reclassified statement of financial position

The Terna Group's financial position at 31 March 2018 and 31 December 2017 is summarised below in the reclassified statement of financial position.

(€m)

	AT 31 MARCH 2018	AT 31 DECEMBER 2017	Change
Total net non-current assets	13,507.0	13,466.4	40.6
- Intangible assets and goodwill	506.7	505.7	1.0
- Property, plant and equipment	12,769.8	12,752.8	17.0
- Financial assets*	230.5	207.9	22.6
Total net working capital	(1,535.0)	(1,485.2)	(49.8)
- Net energy-related pass-through payables	(822.0)	(852.7)	30.7
- Net receivables resulting from Regulated Activities	307.7	335.1	(27.4)
- Net trade payables	(624.6)	(714.4)	89.8
- Net tax assets	(11.5)	105.9	(117.4)
- Other net liabilities	(384.6)	(359.1)	(25.5)
Gross invested capital	11,972.0	11,981.2	(9.2)
Sundry provisions	(345.4)	(355.8)	10.4
NET INVESTED CAPITAL	11,626.6	11,625.4	1.2
Equity attributable to owners of the Parent	3,977.9	3,803.3	174.6
Equity attributable to non-controlling interests	31.0	25.7	5.3
Net debt	7,617.7	7,796.4	(178.7)
TOTAL	11,626.6	11,625.4	1.2

* Includes financial assets in Brazil recognised in application of IFRIC12 and provision for the Interconnector Guarantee Fund.

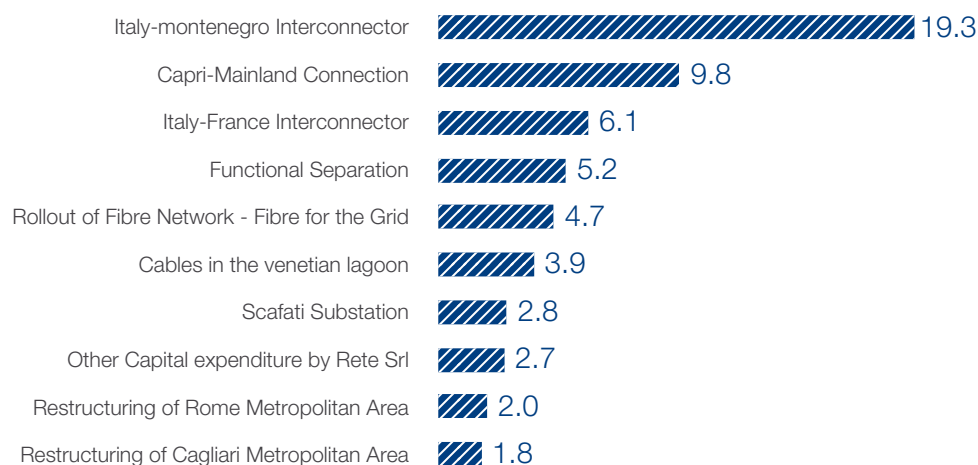
The €40.6 million increase in **net non-current assets** compared with 31 December 2017 primarily reflects a combination of the following:

- an increase of €22.6 million in financial assets, mainly due to construction services performed under concession in Brazil during the period (up €20.7 million);
- total capital expenditure of €141.6 million, as described below;
- amortisation and depreciation during the period, totalling €132.5 million;
- disposals, impairment losses and other movements during the period, resulting in an increase of €0.8 million.

The change during the period also reflects the contribution from the acquisition of Avvenia the Energy Innovator Srl (€8.1 million, primarily reflecting the company's order book).

The Group's **capital expenditure** totalled €141.6 million during the period, an increase of 42% compared with the €99.7 million of the same period of 2017.

KEY CAPITAL EXPENDITURE ON THE NTG* (€m)



* Amounts include financial expenses.

Net working capital (net current liabilities) of €1,535.0 million generated cash of €49.8 million during the period compared with 2017. This reflects the combined effect of:

Cash inflows

- a reduction of €27.4 million in **net energy-related pass-through receivables**, primarily reflecting payment by the Fund for Energy and Environmental Services (*Cassa per i Servizi Energetici e Ambientali-CSEA*) of the RENS bonus for the quality of service provided in 2016 (€25.6 million);
- an increase of €117.4 million in **net tax liabilities**, mainly reflecting recognition of income tax for the period (€80.3 million), and a reduction in net refundable VAT (€39 million) in line with the reductions in net trade payables and net energy-related pass-through payables described below;
- an increase of €25.5 million in **other net liabilities**, primarily due to increases in payments on account received from the entities financing the Italy-France Interconnector (€28.3 million) and in the provision for the Interconnector Guarantee Fund set up by Terna SpA following the issue of the 2016 Stability Law (€5.4 million), partially offset by payment during the quarter of amounts due to personnel that were outstanding at 31 December 2017 in connection with the current early retirement scheme and termination benefits (*TFR*) (a reduction of €9.8 million).

Cash outflows

- a reduction of €30.7 million in **net energy-related pass-through payables** compared with the end of 2017, linked to:
 - an increase in the receivables linked to uplift payments and related items (€103.7 million), primarily reflecting the impact of the unit cost paid on an increased volume of purchases on the DSM in the last quarter of 2017;
 - the greater net amount due from CSEA (€47.6 million) in relation to the interruptibility service.
 Partially offset by:
 - increases in net payables due to plants that are essential for the security of the electricity system and in the form of capacity payments, amounting to €75.6 million and €48.6 million, respectively, reflecting items resulting from the performance of capacity allocation in the first quarter of 2018;
- a reduction of €89.8 million in **net trade receivables**, largely due to the greater volume of capital expenditure carried out during the last quarter of the previous year.

Gross invested capital, thus amounts to €11,972.0 million, marking a reduction of €9.2 million compared with the end of the previous year.

Sundry provisions are down €10.4 million, primarily due to:

- an adjustment to provisions for risks (down €5.7 million), due primarily to the use of provisions for early retirement schemes (down €1.6 million) and net uses for urban and environmental redevelopment schemes (down €2.8 million);
- provisions for net deferred tax liabilities (down €5.2 million), primarily due to the effect on taxation of amortisation and depreciation and movements in provisions for risks and charges.

Net invested capital of €11,626.6 million is up €1.2 million compared with 31 December 2017 and is financed by equity attributable to owners of the Parent, totalling €3,977.9 million (compared with €3,803.3 million at 31 December 2017), equity attributable to non-controlling interests of €31 million (€25.7 million at 31 December 2017) and net debt of €7,617.7 million (down €178.7 million compared with the €7,796.4 million of 31 December 2017).

Debt

Gross debt² at 31 March 2018 amounts to approximately €8.9 billion, including €6.5 billion in the form of bond issues and €2.4 billion in bank borrowings. The average term to maturity of debt, which is almost all fixed rate, is approximately 5.9 years, up from 5.5 years at the end of 2017.

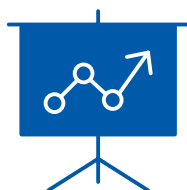
The Group's net debt at 31 March 2018 amounts to €7,617.7 million, down €178.7 million compared with 31 December 2017.

(€m)			
NET DEBT (BY TERM TO MATURITY)	AT 31 MARCH 2018	AT 31 DECEMBER 2017	Change
Total medium/long-term debt	8,230.2	8,682.1	(451.9)
- Bond issues	6,516.9	6,541.9	(25.0)
- Borrowings	1,703.0	2,129.7	(426.7)
- Derivative financial instruments	10.3	10.5	(0.2)
Total short-term debt/ (funds)	(612.5)	(885.7)	273.2
- Bond issues (current portions)	-	749.9	(749.9)
- Short-term borrowings	28.0	118.0	(90.0)
- Variable rate borrowings (current portions)	634.4	134.4	500.0
- Other current financial liabilities. net	48.8	101.2	(52.4)
- Cash and cash equivalents	(1,323.7)	(1,989.2)	665.5
Total net debt	7,617.7	7,796.4	(178.7)
NET DEBT (BY TYPE OF INSTRUMENT)			
- Bond issues	6,516.9	7,291.8	(774.9)
- Borrowings	2,337.4	2,264.1	73.3
- Derivative financial instruments	10.3	10.5	(0.2)
- Short-term borrowings and other financial liabilities	76.8	219.2	(142.4)
- Cash and cash equivalents	(1,323.7)	(1,989.2)	665.5
Total net debt	7,617.7	7,796.4	(178.7)

Changes in the **Group's net debt** are as follows:

- a reduction in bond issues (down €774.9 million), resulting from the repayment of bonds issued in 2012, totalling €750.0 million and adjustment of the amortised cost of the instruments (down €24.9 million);
- an increase in borrowings (up €73.3 million), primarily due to drawdowns on a new EIB facility of €130 million, after repayments during the period;
- a decrease in short-term borrowings and other financial liabilities (€142.4 million), primarily due to the Parent Company's repayment of short-term credit facilities and the settlement of interest on borrowings and the related hedges;
- a reduction in cash and cash equivalents (€665.5 million). Cash amounts to €1,323.7 million at 31 March 2018, including €849.7 million invested in short-term, readily convertible deposits and €474.0 million deposited in bank current accounts.

² Gross debt is the sum of "Bond issues", "Borrowings" and "Short-term borrowings" shown in the above analysis of net debt.



Terna's shares

Terna and the Financial Markets

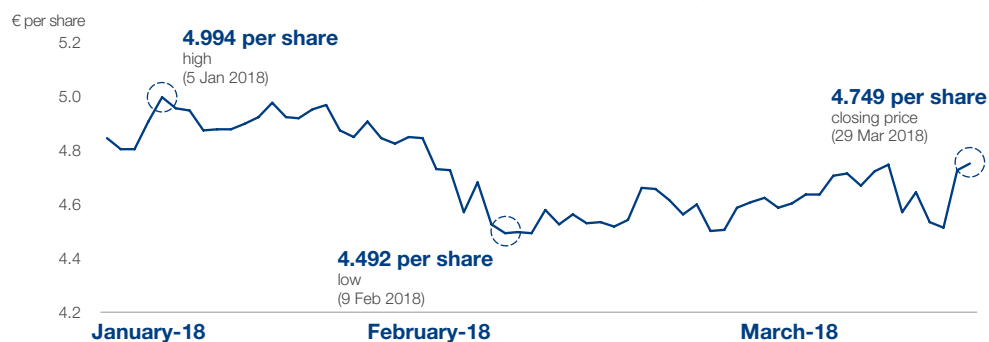
Terna SpA has been listed on Borsa Italiana's screen-based trading system (Mercato Telematico Azionario) since 23 June 2004. From the date of floatation to the end of March 2018, the share price has risen 179% (a capital gain), providing a Total Shareholder Return (TSR) of 502%, ahead of both the Italian market (FTSE Mib +31%) and the relevant European sector index (DJ Stoxx Utilities), which is up 142%.

After a particularly positive 2017 for all global equity markets, Europe's leading stock markets ended the first quarter of 2018 down, with the exception of Milan, which gained 2.6%. London ended the period down 8.2%, Frankfurt and Paris fell 6.6% and 2.7%, respectively, whilst Madrid was down 4.4%.

Performance of Terna's Shares

In this context, Terna's shares closed the first three months of 2018 slightly down (a fall of 1.96% over the quarter) at €4.749, still outperforming its main peers and the relevant sector index (DJ Stoxx Utilities), which ended the period down 3.05%. The daily average volume traded during the year amounted to approximately 7.4 million units per day. It should be noted that the new Strategic Plan for 2018-2022 was presented on 22 March.

PERFORMANCE OF TERNA'S SHARES - Price (1 January 2018 - 31 March 2018)



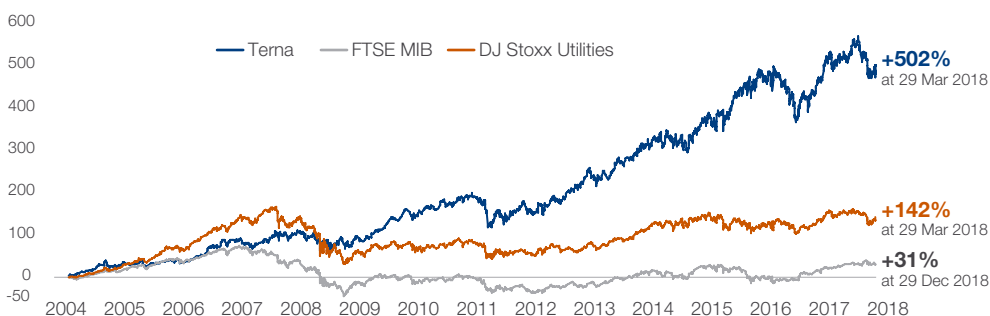
Source: Bloomberg

LAST 12 MONTHS



Total Shareholder Return on Terna's shares and the FTSE MIB and DJ Stoxx Utilities from the floatation to today:

PERFORMANCE OF TERNA'S SHARES - Total Shareholder Return (from the floatation to 31 March 2018) (%)



Source: Bloomberg

WEIGHTING OF TERNA'S SHARES

> on the FTSE MIB³ 1.85%

Source: Borsa Italiana. Data at 31 March 2018

RATINGS

	SHORT-TERM	MEDIUM/LONG-TERM	OUTLOOK
Terna SpA*			
Standard & Poor's	A-2	BBB+	Stable
Moody's	Prime-2	Baa1	Negative
Fitch	F2	BBB+	Stable
Italian state*			
Standard & Poor's	A-2	BBB	Stable
Moody's	Prime-2	Baa2	Negative
Fitch	F2	BBB	Stable

* Data at 31 March 2018.

³ % of the total FTSE MIB.

Declaration

of the manager responsible for financial reporting in
accordance with paragraph 2 of art. 154-*bis* of Legislative
Decree 58/1998

The manager responsible for financial reporting, Agostino Scornajenchi, declares, pursuant to paragraph 2 of article 154-*bis* of the Consolidated Law on Finance, that the accounting information contained in this Consolidated Interim Report for the three months ended 31 March 2018 is consistent with the underlying accounting records.





Annexes

Alternative performance measures (APMs)

In accordance with the guidelines in ESMA/2015/1415, the APMs used in this Interim Report are described below.

INDICATOR	DESCRIPTION
OPERATING RESULTS	
Operating profit/(loss) - EBIT	is an indicator of operating performance, representing Profit for the period before Income tax expense for the period and Net financial income/(expenses) .
Gross operating profit/(loss) - EBITDA	is an indicator of operating performance obtained by adding Amortisation, depreciation and impairment losses to Operating profit/(loss) (EBIT) .
FINANCIAL POSITION	
Net working capital	is an indicator of financial position, showing the entity's liquidity position; it is based on the difference between current assets and current liabilities of a non-financial nature, as presented in the statement of financial position
Gross invested capital	is an indicator of financial position, showing the Group's total assets and is obtained by adding net non-current assets and net working capital .
Net invested capital	is calculated by deducting sundry provisions from gross invested capital .
CASH FLOW	
Net debt	is an indicator of the Group's financial structure and is obtained by deducting cash and cash equivalents and financial assets from short- and long-term financial liabilities and the related derivative instruments .
Free cash flow	is the cash generated by operating activities and is the difference between cash flow from operating activities and cash flow for investing activities .

The criteria used in preparing the reconciliation of the above APMs with the IFRS financial statements are described in the Annual Report for the year ended 31 December 2017.

Other information

Additional information is presented below in accordance with specific statutory or industry requirements.

Treasury shares

The Parent Company does not directly or indirectly hold any of its own shares or the shares of CDP Reti SpA or Cassa Depositi e Prestiti SpA, nor has it purchased or sold any such shares during the reporting period.

Related party transactions

Information on related party transactions is provided in the Annual Report for the year ended 31 December 2017.

Participation in the regulatory simplification process introduced by CONSOB Resolution 18079 of 20 January 2012

Information on participation in the simplified process introduced by the CONSOB is provided in the Annual Report for the year ended 31 December 2017.

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