



2018

Consolidated Interim Financial
Report - 30 September

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 the building's exterior. In the foreground, a highway with blurred red and white light trails from cars is visible. A blue diagonal line runs across the lower part of the image, serving as a background for the slogan.

Energy is our responsibility



INTRODUCTION

The Terna Group's Consolidated Interim Financial Report for the nine months ended 30 September 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 9M2018

SUSTAINABILITY

DOW JONES SUSTAINABILITY INDEX 2018

Terna ranked number one in the world among electric utilities for its sustainability performance

SHARE PERFORMANCE AND SHAREHOLDER RETURN

Total Shareholder Return

+502%

from the IPO to the end
of September 2018

Closing price at the end of September 2018

4.601€

per share

FINANCIAL HIGHLIGHTS

(€m)

	9M2018	9M2017	% change
Revenue	1,624.9	1,570.4	+3.5%
EBITDA	1,230.1	1,207.1	+1.9%
Profit attributable to owners of the Parent	541.5	528.8	+2.4%
Capital expenditure	561.4	545.0	+3.0%
	9M2018	FY 2017	
Net debt	7,591.7	7,796.4	

OPERATIONAL HIGHLIGHTS BY AREA OF BUSINESS



Regulated Italy

- › Entry into service of **5 new power lines (95 km of lines)** and **3 new electricity substations**
- › Publication of Resolution 498/2018/R/com, initiating process of **revising WACC**



Non-Regulated

Energy Solutions

- › Smart Island: Work on island of Giannutri completed
- › Acquisition of Avenia The Energy Innovator Srl completed

Telecommunications: implementation of commercial agreements in line

- › Open Fiber project proceeding



International

- Brazil:** conclusion of work on Santa Maria line, with completion of Santa Lucia line expected in coming months
- Uruguay and Peru:** implementation of projects continues

Cross-business enablers



Capital structure

- › **New fixed-rate green bond issue** raises €750 million
- › €900 million ESG-linked Revolving Credit Facility agreed on 24 September



Innovation & Digitalisation

- › Third edition of **Next Energy** launched



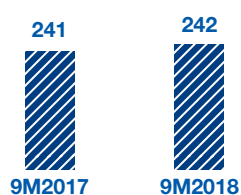
Workforce

- › **Partnerships** with LUISS University and Stanford University
- › **Recruitment plan:** 357 new people recruited by Terna Group since beginning of year

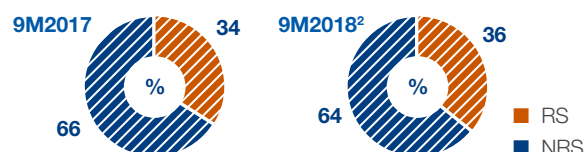
PERFORMANCE OF THE ELECTRICITY SYSTEM



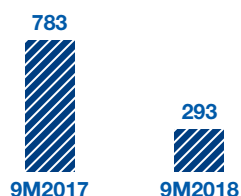
Demand [TWh]



COVERAGE BY RENEWABLE SOURCES¹



RENS quality [MWh]



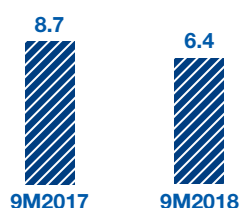
MAJOR INCIDENTS

Performance 9M2017: major incident due to weather emergency in Abruzzo and Marche (480 MWh)

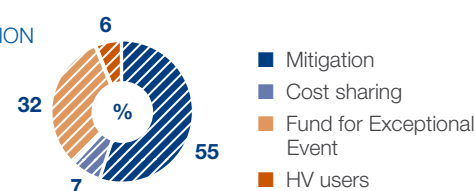
Performance 9M2018: no major incident



Cost of quality [€m]



COST ALLOCATION 9M2018



¹ RS: renewable sources; NRS: non-renewable sources.

² Provisional data.



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.

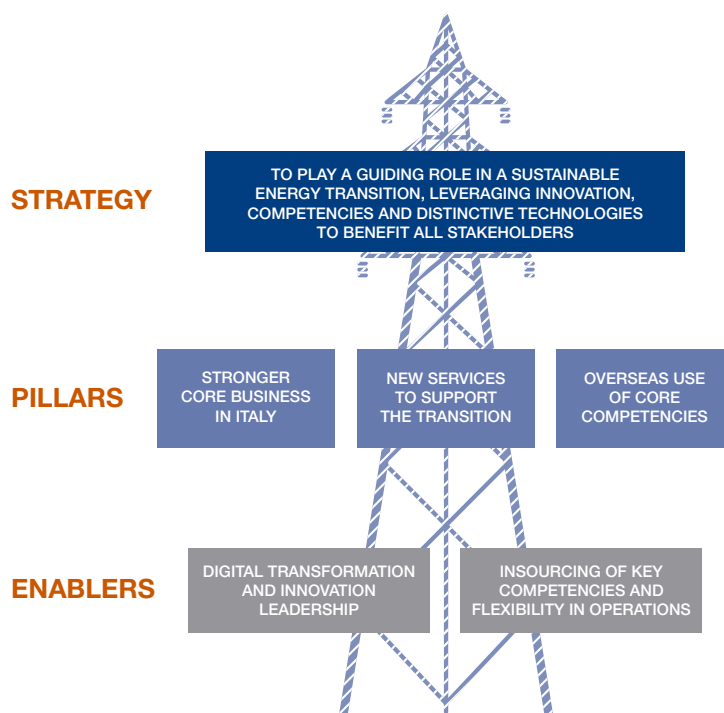
The electricity sector is rapidly evolving as a result of the radical transition underway, which aims to achieve challenging objectives linked to sustainability, decarbonisation, competitiveness and security. In particular, the sector is witnessing the strong development of renewables, resulting in measures 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 Defence 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. Significant 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

> **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.

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, a new investment drive is needed to respond to the developing needs of the system, with the focus on maximising its long-term usability 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.

Non-Regulated Activities - New business opportunities in Italy

> **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 capable of adding significant value**, as a **platform for innovation and sustainability** within the process of the TSO's development.

In line with the guidelines in our Strategic Plan, the Group is pursuing opportunities beyond its core operations, whilst remaining true to its mission 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 on exploiting the Group's infrastructure capabilities.

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

International Activities

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

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 major importance in the host country.

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

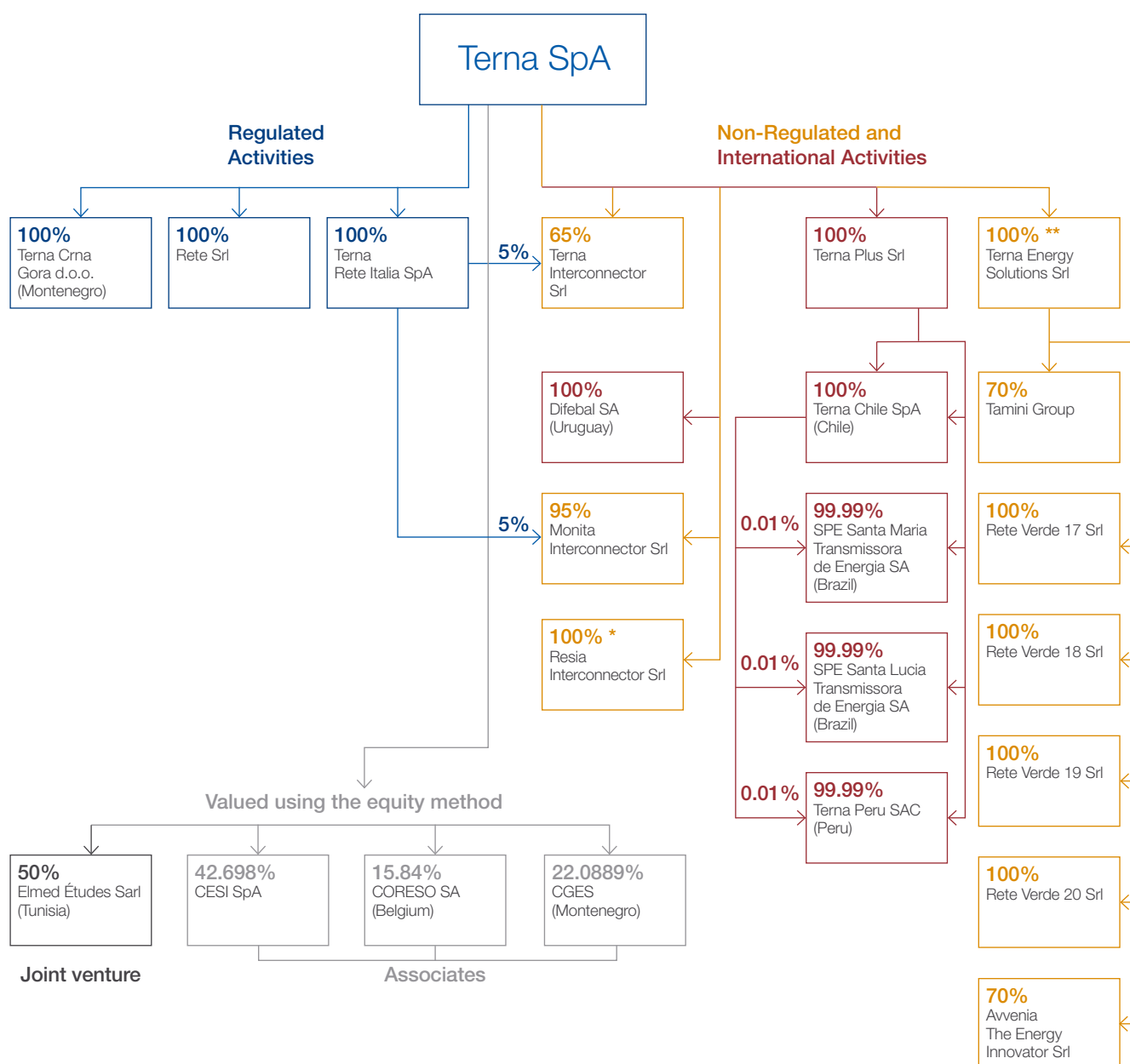
In the next three years, our international activities will focus on the execution of existing projects, leveraging the Group's specialist expertise. Among the priority actions, the main focus will be on selecting international growth opportunities with a high technological content (a key aspect for Terna)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





Structure of the Group

The structure of the Terna Group at 30 September 2018 is shown below.



Compared with 31 December 2017:

* On **16 July 2018**, **Resia Interconnector Srl** was incorporated. This company will be involved in construction of the private Italy-Austria interconnector, for which the process of obtaining the necessary consents for the Passo Resia - Glorenza cable section is currently underway.

** On **2 August 2018**, the partial demerger of **Terna Plus Srl** (a wholly-owned subsidiary of the parent, Terna SpA), and the transfer of the demerged assets to a newly established company named **Terna Energy Solutions Srl**, came into effect. The demerged business is focused on Non-Regulated Activities and on the energy solutions activities already carried out by Terna Plus which, following the demerger, is responsible for the Group's South American activities. The transaction also resulted in the transfer of equity interests in the companies that carry out Non-Regulated Activities in Italy: **Tamini Trasformatori Srl**, **Rete Verde 17 Srl**, **Rete Verde 18 Srl**, **Rete Verde 19 Srl**, **Rete Verde 20 Srl** and **Avvenia The Energy Innovator Srl** (acquired on 15 February 2018).





Key events

during the third quarter of 2018 and after the end of the reporting period

Business

- On **9 October 2018**, the new **150 kV** underground power line connecting **Quartu and Quartucciu** in the Cagliari area entered service. The new line, which is the result of agreements between Terna and the Sardinia Regional Authority, will bring significant benefits for the local electricity system, in terms of both security and efficiency of the electricity service and greater reliability in the event of maintenance. The new cable connection, laid along the existing road network, is 5.9 km long and goes through the municipalities of Quartu, Maracalagonis and Quartucciu. The plan involves the subsequent demolition of approximately 7.7 km of old overhead line and 26 pylons in areas close to houses in the Pitz'e Serra district, built following construction of the power line, and in areas of public green space, such as the Europa Park. The decommissioning project will be the final phase of network rationalisation in the Cagliari area, as provided for in the agreement with the Sardinia Regional Authority. This has already led to demolition of the 150 kV "Selargius - Molentargius" line and power lines passing through the Molentargius - Saline environmental park in 2008 and 2009. Implementation of the new network development project took one year, involving around 10 companies and 40 workers, many of them local.
- On **3 October 2018**, the new **230 kV Santa Maria 3-Santo Angelo 2** power line in the State of Rio Grande do Sul, **in south-west Brazil, entered service**. This project is part of the Group's International Activities via its subsidiary, Santa Maria Transmissora de Energia (SMA). The new 230 kV, 158-km long power line is considered a key priority for the State of Rio Grande do Sul, as it will enable the energy produced by renewable plants, above all wind farms located in the south of the country, to be integrated into the national transmission grid. Brazil is currently the largest energy market in Latin America, and the third largest in the world after China and the USA. The new power line is fully operational two months ahead of the planned date agreed with ANEEL (the National Electricity Agency) and just over a year after Terna acquired the 30-year concessions.
- On **6 July 2018**, **Terna's new 150kV Electricity Substation at San Salvo (Chieti)** entered service, as did connections to the relevant power lines, "Gissi – Montecilfone" and "San Salvo industrial park - Termoli Sinarca", and the connection to the Primary Substation in San Salvo that supplies electricity to the area. The completed project makes the electricity system serving the Adriatic coast, which experiences extremely high demand during the summer season, more reliable and secure. The project, in which Terna invested approximately €8 million, was carried out paying particular attention to sustainability. This involved the installation of connections using low-profile, single-pole pylons instead of the traditional truncated pyramid-type pylons, considerably reducing the footprint. The substation has also been equipped with a modern digital control system, which allows the plant to increase electrical insulation and, consequently, its resilience under particular weather-related and environmental conditions caused by high levels of salinity. Finally, Terna has undertaken to reuse excavated material as much as possible on site, allocating the surplus material to the environmental restoration of some of the quarries in the area.



Finance

- On **12 October 2018**, Terna renewed its €8 billion Euro Medium Term Notes Programme (EMTN). Deutsche Bank and Citigroup acted as Joint Arrangers for the programme, which has been assigned ratings of “BBB+/A-2” by S&P, “(P)Baa1, On Review for Downgrade/(P)P-2” by Moody’s and “BBB+” by Fitch.
- On **24 September 2018**, shortly after achieving the highest ranking among the world’s electric utilities in the Dow Jones Sustainability Index 2018, Terna entered into a committed **ESG-linked back-up Revolving Credit Facility**, with a value of €900 million, with a pool of banks made up of Banca IMI, Banco BPM, BNP Paribas and UniCredit as Joint Mandated Lead Arrangers. BNP Paribas worked in partnership with Terna in the role of Sustainability Coordinator. At the same time, the Company cancelled a €750 million line of credit expiring on 11 December 2019. Following the success of the first Green Bond issue, this new revolving credit facility, the first transaction of its kind for Terna, **introduces elements relating to sustainability** through a series of bonuses and penalties linked to the achievement of specific environmental, social and governance (“ESG”) objectives. The facility is for a period of 5 years and will be used to fund the Company’s day-to-day operations. The interest rate is linked to EURIBOR plus an initial spread of 0.65% (variable between a minimum of 0.6% and a maximum of 1.45% depending on Terna’s rating). The transaction means that Terna can count on adequate liquidity in respect of its current rating, and confirms the Group’s strong commitment to introducing a model aimed at reinforcing the role of sustainability as a strategic lever in the creation of value for all its stakeholders.
- On **16 July 2018**, Terna successfully launched a **fixed-rate green bond issue amounting to €750 million** under its €8 billion Euro Medium Term Notes (EMTN) Programme. The bonds have a term to maturity of 5 years and pay coupon interest of 1%, with a yield of 1.08% (mid-swap + 80bps). The transaction is part of Terna’s financial optimisation strategy designed to support the Group’s investment programme and the cost of the new borrowing is below the overall average cost of 1.6% envisaged in the Strategic Plan. The transaction marks the reopening of the corporate bond market after a number of months of inactivity caused by rising yields. This is undoubtedly a positive development, not only for Terna but for the sector as a whole. The issue proved a great success with investors, with the bonds being six times oversubscribed and leading to the issue being increased from €500 million to €750 million when the bonds started trading.

Sustainability

- On **1 October 2018**, Terna’s inclusion in the **Stoxx Global Leaders Index was confirmed for the eighth year running and in the Ethibel Sustainability Index (ESI) Excellence for the tenth consecutive year**. After achieving the highest ranking among the world’s electric utilities in the Dow Jones Sustainability Index, Terna has gained two further endorsements. Inclusion in these indexes confirms the solidity of the Company’s management systems and Terna’s ability to achieve excellence in its sustainability performance. For Terna, sustainability is a strategic lever in moving towards an energy paradigm that is capable of creating ever greater value for businesses and the community.

- On **13 September 2018**, Terna's inclusion in the Dow Jones Sustainability Index 2018 was confirmed for the tenth year running, with the Company ranked **number one in the world among Electric Utilities** based on its sustainability performance. The ranking is based on the results of the latest annual assessment conducted by the Swiss sustainability rating agency, RobecoSAM. Terna was awarded a **score of 91/100**, the highest ever achieved by the Company and the highest of any electric utility (the average for the sector is 46/100), improving its 2017 score by 4 points, after recalculation using the new method introduced this year. Terna headed the rankings in 9 out of 23 of the assessment criteria applicable to the Company: Terna is number one based on the economic criteria of Materiality, Risk and Crisis Management and Policy Influence; the environmental criteria of Environmental Reporting, Operational Eco-efficiency and Transmission and Distribution; and the social criteria of Social Reporting, Human Capital Development and Corporate Citizenship and Philanthropy.

Innovation

- On **12 July 2018**, the new **latest generation green transformer**, using vegetable oil as insulating fluid, entered service at the Udine West electricity substation after two years of tests. The new machinery, which combines efficiency, security and sustainability, possesses a number of unique technical characteristics: it drastically cuts the risk of fire and reduces the environmental impact, thanks to the use of renewable and almost 100% biodegradable vegetable oil as an insulator in place of the mineral oil, petroleum distillate. Terna, which leads the way in the use of this alternative green technology, plans to install green autotransformers in other electricity substations around Italy as part of its innovation strategy designed to provide the country with an increasingly secure, modern and sustainable electricity grid. The Udine West and Tavazzano (Lodi) substations are the first two electricity substations in Italy to benefit from the new transformer.
- On **2 July 2018**, Terna became the **first Italian company to receive certification for its Asset Management System**, for tangible assets, namely its power lines and substations, in accordance with the international ISO 55001:2014 "Asset Management" standard (introduced in Italy in 2015 as UNI ISO 55001:2015), which sets out the requirements for optimised asset management. The Company has voluntarily complied with the "Asset management - Management systems - Requirements", a global standard for the management of corporate assets. The certification guarantees the effectiveness and efficiency of the process of maintaining and replacing the power lines and electricity substations forming part of the national transmission grid throughout their lifecycle and the achievement of high levels of sustainable performance. The new certification adds to the other accreditations already obtained by Terna in previous years, and confirms the Company's commitment to responsibility and the close attention paid to security, transparency, sustainability and efficiency within the Company. This certification provides further confirmation of the high level of performance achieved by Terna when measured against ITOMS (International Transmission Operations and Maintenance Study) and ITAMS (International Transmission Asset Management Study).

Security

- On **30 July 2018**, Terna signed a **memorandum of understanding with the Civil Protection Department** designed to further develop cooperation between the two entities. The aim is to maximise operational efficiency and effectiveness in relation to predicting, preventing and mitigating the related risks and to managing and overcoming emergencies. The agreement focuses in particular on the prevention and management of natural and man-made risks that may affect electricity service continuity in Italy and that could require deployment of the Company's resources. Among the objectives of common interest, the agreement provides for the optimisation of procedures and the flow of communications between Terna and the Department under both ordinary and emergency conditions. This may include potential integration of the respective information systems, based on the different reference scenarios and types of risk, and the creation of specific training programmes and exercises for staff engaged in managing emergencies, with the aim of improving synergies in emergency response and raising awareness of organisational and operational models. Links between the Company and the various branches of the National Civil Protection Service (at regional and provincial level and within Prefectures and Local Government Offices) will also benefit.



Market environment

Electricity demand and production in Italy

Demand for electricity in Italy amounted to 242,177 GWh in the first nine months of 2018, an increase of 0.6% compared with the same period of 2017.

ELECTRICITY BALANCE IN ITALY (GWH)	9M2018*	9M2017	CHANGE	% CHANGE
Net production	209,932	214,301	(4,369)	(2.0%)
From overseas suppliers (imports)	36,375	32,460	3,915	12.1%
Sold to overseas customers (exports)	(2,445)	(4,313)	1,868	(43.3%)
For use in pumping**	(1,685)	(1,770)	85	(4.8%)
Total demand in Italy	242,177	240,678	1,499	0.6%

* Provisional data

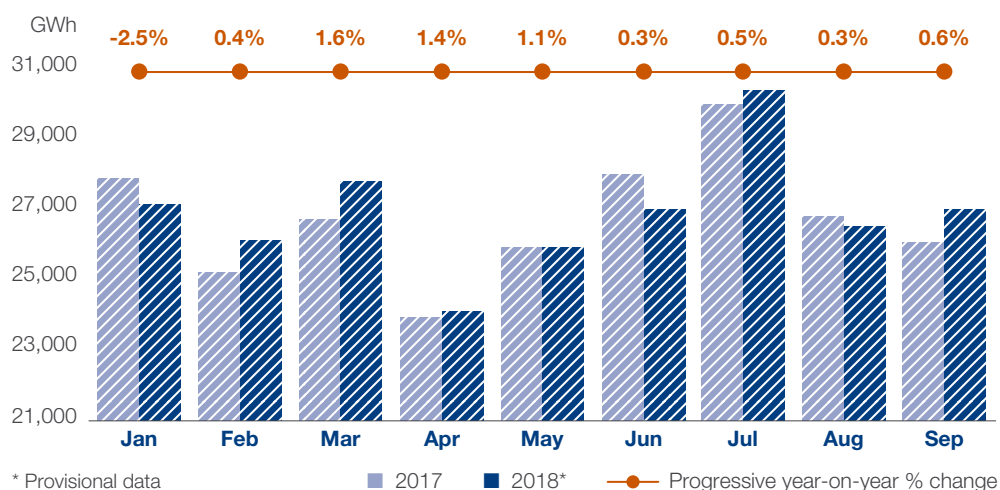
** Electricity used for pumping water, for sole subsequent use in electricity production.

NOTE:

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

Monthly demand for electricity in Italy in the first nine months of 2018 was higher overall compared with the same period of 2017, with the exception of the months of January, June and August, when demand was down on the same months of 2017, due primarily to the fact that temperatures were at variance with seasonal averages.

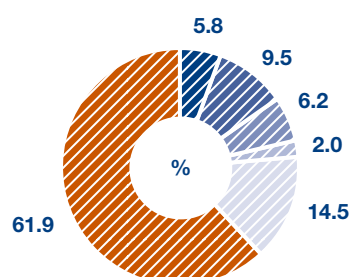
MONTHLY DEMAND FOR ELECTRICITY IN ITALY



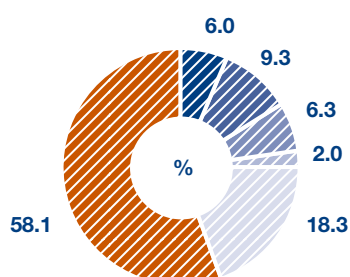
In terms of electricity production by type of source, the first nine months of 2018 saw an increase in the production of hydroelectric and wind power and a reduction in photovoltaic production. Thermoelectric production was also down on the first nine months of 2017.

NET ELECTRICITY PRODUCTION BY SOURCE

9M2017
214.3 TWh



9M2018*
209.9 TWh



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

* Provisional data

Renewable sources accounted for approximately 36% of total energy demand in the first nine months of 2018, up 34% on the figure for the same period of the previous year and reflecting a significant increase in hydroelectric production (up 24%).



Regulated activities in Italy

Transmission and dispatching

Implementation of development initiatives

A total of 95 km of power lines (Bono-Buddusò, Messina Riviera-Villafranca, Ciminna-Casuzze, Cavallino-Sacca Serenella, and the San Salvo substation connections) entered service during the first nine months of 2018, as did the substations serving Ravenna industrial park, San Salvo and Canino. On 9 October 2018, the Quartu-Quartucciu line also entered service, as reported among the key events during the third quarter of 2018 and after the end of the reporting period.

The Terna Group's **total capital expenditure** in the first nine months of 2018 amounts to €561.4 million, compared with the €545 million of the previous first half (**up 3%**). **Investment incentives** amounted to **€67.6 million**, equivalent to 12% of capital expenditure.

(€m)

	9M2018*	9M2017	CHANGE	% CHANGE
Incentives for regulated assets*	67.6	71.8	(4.2)	(5.8)
Other regulated assets	410.0	434.7	(24.7)	(5.7)
Investment in regulated assets	477.6	506.5	(28.9)	(5.7)
Investment in non-regulated assets	72.0	28.9	43.1	149.1
Capitalised financial expenses	11.8	9.6	2.2	22.9
Total capital expenditure	561.4	545.0	16.4	3.0

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

Investment in non-regulated assets, amounting to €72.0 million, primarily regards the private part of the Italy-France interconnector, and other projects being financed.

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

Italy-Montenegro Interconnector (€58 million)

- **Cable connection:**
 - **Italy and Montenegro:** laying of the cables has been completed.
 - **Submarine section:** laying and protection of the entire submarine cable has been completed, as has installation of the conductor and the related submarine cables.
- **Converters:**
 - **Cepagatti:** assembly of the direct current (DC) equipment is in progress, as is completion of the civil works and the cladding of buildings; assembly of buildings, transformers, alternating current (AC) equipment and the converter has been completed.
 - **Kotor:** electromechanical assembly is in progress, of which the alternating current (AC) equipment, the foundations and assembly of the buildings have been completed.

Italy-France
Interconnector
(€28.2 million)

• **Piossasco converter:**

- Assembly of the main buildings and work on the foundations for machinery has been completed. Construction of the foundations for the equipment in external areas 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): construction has been completed.
- **Upper and lower sections** (A32 motorway): 24.3 km of trenches have been excavated (the civil works alone) out of a total of approximately 45 km and 11.5 km of cable has been laid. Work has is in progress on 20 viaducts, of which 10 have already been delivered to the supplier for cable installation.
- **Middle section** (avoiding the A32 motorway): 18.6 km of civil works have been completed and 12.7 km of cable has been laid out of a total of approximately 25 km.

Fibre for the Grid
(€26.2 million)

As regards the Fibre for the Grid project, designed to boost the availability of data on the grid in order to make it easier to monitor and manage the security of the electricity system, by increasing and expanding the fibre optic network, in the period from January to September 2018, 2,841 km of fibre was laid and 28 additional electricity substations in the NTG were connected and lit, making a total of 379 substations.

Functional separation
(€23.6 million)

The project involving the separation of Rete Srl substations, aimed at progressive assumption of responsibility for the high-voltage plant purchased from RFI SpA in December 2015, continued. In the period from January to September 2018, 10 additional electricity substations were taken over (a total of 182 electricity substations since 2016).

Lagoon cables
(€14 million)

- **Sacca Serenella-Cavallino cable:** the cable entered service in June.
- **Fusina 2-Sacca Fisola cable:** construction work is continuing. In particular, laying of the submarine and terrestrial sections has been completed, and land-sea connections on the Sacca Fisola side are nearing completion.

Sorrento Peninsula
Interconnector
(€13 million)

- **Cable connection:** the marine survey has been completed and production of the cable has begun.
- **Sorrento substation:** the executive design has been completed. The procurement of civil works for the substation is underway.

Upgrade of north-west
power line capacity
(€8.7 million)

- **380 kV Vado-Vignole power line:** the supply of conductors and the related accessories has been completed, and the reinforcement of pylons and replacement of conductors and shield wires is in progress (approximately 16 km of power lines).
- **Lacchiarella-Chignolo Po 380 kV power line:** work on approximately 33 km of power lines was completed in June. The process of obtained consents for the alternative route in the municipality of Chignolo Po is in progress (approximately 6 km).

Foggia-Benevento II
power line
(€6.6 million)

- **SE Benevento III:** construction and extension of the double bus bar arrangement to 150kV and a further 3 150 kV bays was completed in September.
- **150 kV cable connections:** Foiano-Benevento III entered service in May, whilst Montefalcone-Benevento III entered service in June.
- **380 kV Benevento II-Benevento III power line:** demolition of the 150 kV overhead power lines causing an obstruction, and construction of the foundations and assembly of the pylons has been completed. Prestressing of conductors is in progress (approximately 13 km of power lines).

Ice and snow
risk mitigation systems
(€6.3 million)

With regard to initiatives aimed at improving the NTG's resilience with respect to weather events characterised by the formation of ice and snow, the installation of devices to mitigate the risk of icicles forming on conductors located in critical areas is continuing. In the period from January to September 2018, approximately 12,500 anti-rotation devices were installed.

Work also continued on structural reinforcement of overhead power lines in critical areas and preparatory work for the additional measures envisaged in the Resilience Plan (e.g. reactance ballasts, the monitoring of electricity substations, motorised disconnectors).

Rome Area reorganisation
(€5.2 million)

- **Rome South-Laurentina 1:** construction of the first section of the 550-metre-long ducted cable has been completed.
- **Rome South-Laurentina 2:** construction of the first section of the approximately 600-metre-long cable has been completed.
- **Roma North-Monterotondo:** following entry into service in 2017, demolition of the overhead section of the previous 60 kV connection is underway.

Quality of Service

Each segment of the electricity system – generation, transmission and distribution – plays a role in ensuring the availability of electricity in Italy, guaranteeing adequate quality standards and keeping the number of outages below pre-set thresholds.

Terna monitors service continuity through various indicators defined by ARERA (Resolution 250/04) and in Terna's Grid Code.

CONTINUITY INDICATORS USED

Indicator	What it measures	How it is calculated
NTG RENS*	Energy not supplied following events affecting the relevant grid**	The sum of the energy not supplied to users connected to the NTG (following events affecting the relevant grid, as defined in the ARERA regulations governing quality of service).
ASA***	Availability of the service provided by the NTG	Based on the ratio of the sum of energy not supplied to users connected to the NTG (ENS) and energy fed into the grid.

* Regulated Energy Not Supplied.

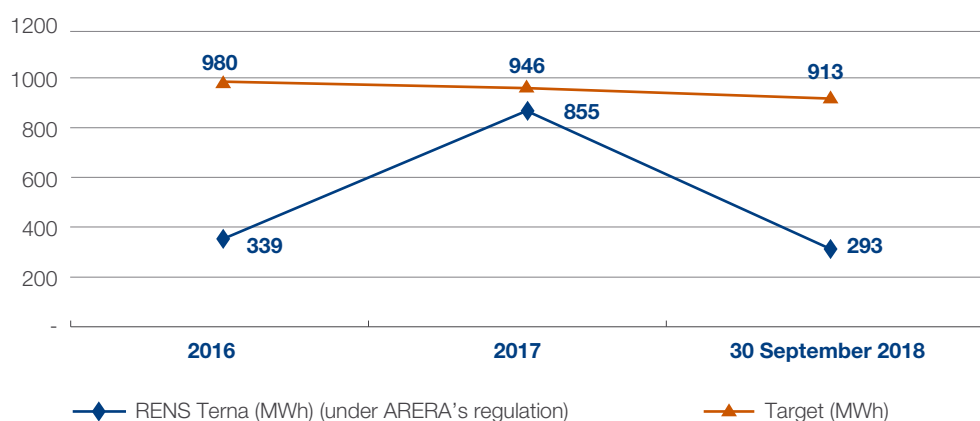
** The "relevant grid" refers to all of the high-voltage and very high-voltage network.

*** Average Service Availability.

These continuity indicators are significant for the system, as they monitor the frequency and impact of events that have occurred on the electricity grid as a result of faults or due to external factors, such as weather events. In all cases, the period of observation is three years, a period in which annual targets have not been exceeded, testifying to the high quality of service achieved. Despite heavy snowfall during the first quarter of the year, the first nine months of 2018 were not marked by events resulting in particular problems with regard to service continuity.

The “**NTG RENS**” indicator for the period from January to September 2018¹, based on preliminary data, amounts to approximately 293 MWh (compared with an annual target of approximately 913 MWh set by ARERA).

NTG RENS*



As regards the **ASA** indicator, the operating performance shows that ASA has remained stable at a high level over the years (the higher the indicator, the better the performance). This indicator shows that the energy not supplied following a fault on the owned grid represents a minimal part of the total quantity of energy supplied to users of the grid. In particular, availability was 99.99974% in 2017, compared with 99.99973% in the previous year. The partial figure for the first nine months of 2018 does not differ significantly from last year's figure.

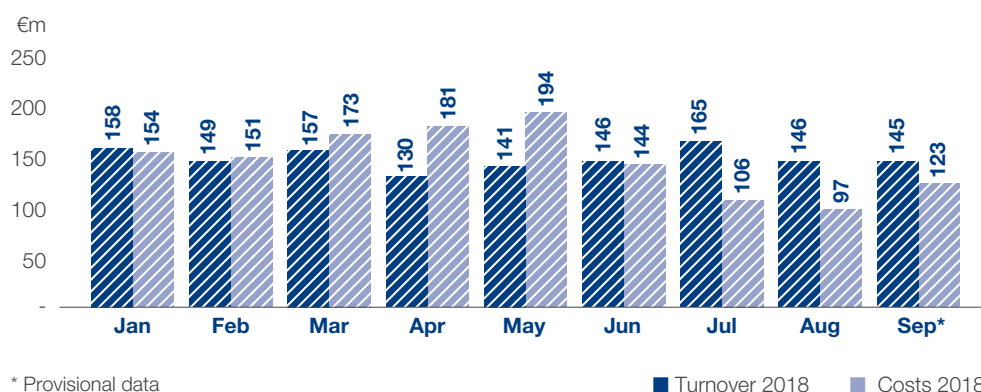
Existing regulations (set out in Resolution 653/2015/R/eel) envisage a series of mechanisms designed to regulate and encourage improvements in the quality of service provided by Terna. The overall economic effects of the bonus/penalty mechanisms related to quality of service have resulted in costs of €6.4 million for the first nine months of 2018 (€8.7 million in the same period of 2017).

¹ The target for 2016–2023 has been set as an average of the 2012–2015 NTG RENS indicator, referred to in ARERA Resolution 653/15/R/eel, with a 3.5% improvement in performance required for each year compared with the previous one. The 2017 figure is provisional.

Electricity cost trends

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

The total uplift was €1,324 million in the first nine months of 2018 (provisional data), down on the same period of the previous year (€1,561 million). This reflects a reduction in imbalance costs, partially offset by a slight increase in the cost of using the Dispatching Services Market.



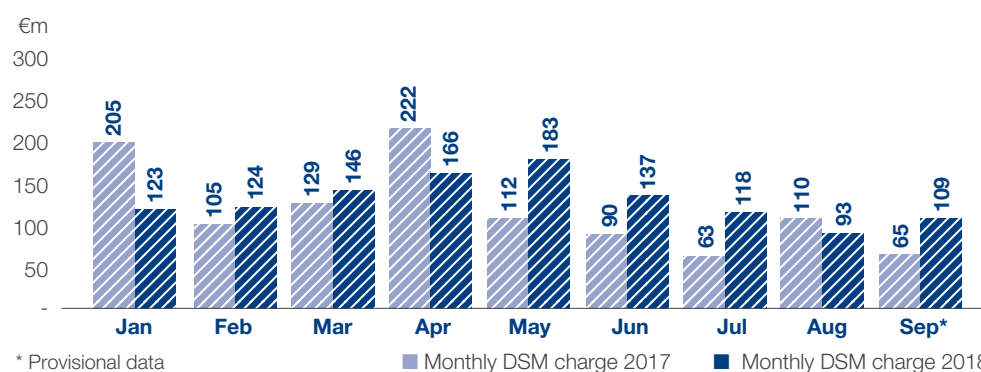
Dispatching Services Market

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 approximately €1,199 million in the first nine months of 2018 (provisional data), slightly up on the same period of the previous year (€1,101 million).

The rise is due to an increase in the cost of selecting providers in order to resolve local technical constraints, only partially offset by application of the regulations governing the provision of essential services and a decrease in the volume of reserve capacity in January compared with the same period of the previous year, when there was an increase in the cost of selecting providers due to the cold snap in Europe.

MONTHLY DSM COSTS



Non-regulated activities



Extraordinary transactions

On 15 February 2018, Terna completed the acquisition of a 70% stake in **Avvenia The Energy Innovator Srl**, as part of the process of identifying and acting on new commercial opportunities for the provision of energy efficiency services and projects. **Avvenia**, a strategic consulting company classified as an Energy Service Company (ESCO) and certified UNI CEI 11352, is a leader in the energy efficiency sector, with one of the highest numbers of efficiency projects completed and operated in Italy, including in the form of EPC (Energy Performance Contract) solutions.

As part of a project to reorganise the Terna Group's Non-Regulated Activities, **Terna Energy Solutions Srl (T.E.S.)** was incorporated following the partial demerger of Terna Plus Srl (Terna Plus), a wholly-owned subsidiary of Terna SpA. The demerger, which was approved by the shareholders of Terna Plus on 22 May 2018, was completed on 2 August 2018.

As a result of the demerger, T.E.S. has assumed responsibility for the business unit set up to manage the Group's Non-Regulated and energy solutions activities in Italy or in areas outside of South America.

The company's business purpose of is to carry out the following activities:

- design, implementation, management, development, operation and maintenance of distributed energy storage systems (including batteries) for pumping and/or storage systems;
- design, construction, management, development, operation and maintenance of plant, equipment and infrastructure, including networks;
- research, consultancy and assistance in the above areas;
- any other activity that enables improved use and exploitation of the structures, resources and skills employed.

Services for third parties

In the first nine months 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** (IRU - *Indefeasible Right of Use*, 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 third quarter of 2018 include:

Energy Solutions

- i) The inauguration, on 2 October, of the first heat recovery plant belonging to Laterlite (a leading company in the production of light, premixed and insulating expanded clay for the construction industry), which was designed and built in collaboration with Avvenia at the plant in Rubbiano di Solignano (Parma). This innovative energy efficiency project, aimed at improving environmental sustainability, will enable optimisation of the qualitative and environmental performance of the production of light expanded clay aggregate (LECA), allowing up to 83% of heat to be reused in the production cycle, with a reduction in the consumption of natural gas and a corresponding reduction in atmospheric emissions of approximately 1,400 tonnes of CO₂ per year.
- ii) Signature of a contract between Terna Energy Solutions Srl, Compendia Srl and ITS-SISA Detergenti Srl for construction of a cogeneration plant.
- iii) Finalisation of the renegotiation of plant maintenance contracts with RTR (September 2018). The contracts were finalised in October 2018.

Telecommunications

- i) *IRU fibre optic project for Open Fiber*: the plan to supply long-distance fibre infrastructure (regional rings) to Open Fiber SpA was extended. With respect to the terms of the contract, envisaging that Open Fiber would purchase a minimum of 2,500 km of fibre in 2018, the plan is now to deliver up to a total of approximately 5,200 km of regional rings. Part of the optical fibre requirements for regional rings are met by purchasing optical fibre from third parties (swap transactions with RETELIT and FASTWEB).
- ii) *Infratel*: a three-year framework agreement was entered into 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. The date of the invitations to tender is not yet known, and in any event should not be published before 2019.
- iii) *Rai Way tender*: as part of the dual carrier tender called by Rai Way for bandwidth rental, Terna was the first to qualify for both Lots 1 and 2. Technical meetings regarding the start of activities are currently being planned.
- iv) *Smart Tower Innovation project*: 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. Design work began on the use of pylons for radio transmission (wireless transmission in remote area - Fixed Wireless Access and trials of 5G) and talks were initiated with customers on the first pilot projects. A study of the potential to offer advanced telecommunications services to SMEs in industrial zones was also carried out.

Transformers - Tamini Group

Orders for transformers were up 24% in the first nine months of 2018 compared with the same period of the previous year, whilst the value of the transformers produced in the first nine months 2018 is up 23% on the same period of 2017.

The volume and value of plant tested are up at all production plants compared with the same period of the previous year.

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.

In April 2018, Monita Interconnector Srl submitted a revised application for exemption to the Ministry for Economic Development. On 14 June 2018, ARERA issued clearance for the exemption.

"Italy-France Interconnector" project

The Group continued with construction of the private line in the first nine months of 2018, in implementation of Law 99/09, on behalf of the company, Piemonte Savoia Srl, transferred to a number of energy-intensive companies on the French border, pursuant to Law 99/2009, on 4 July 2017.

On the section not appertaining to Sitaf (Società Italiana per il traforo autostradale del Frejus), civil works had been completed and the cable laid on the entire section by the end of August 2018.

At the end of August 2018, approximately 23 km of civil works along the A32 motorway had been completed and 9 km of cable laid. Another 3-5 km of civil works along the A32 motorway and the laying of approximately 8-12 km of cable are expected to be completed by the end of 2018. In addition, as regards the middle section, by August 2018, approximately 11.1 km of cable had been laid and around 18 km of civil works completed. Completion of an additional 4-6 km of civil works and the laying of cable is expected by the end of 2018.

As regards the Piossasco Converter, assembly of all the main buildings has been completed, and the civil works relating to the area where the transformer will be installed are nearing completion. The production of converters and transformers has been completed, while other equipment is in production.

"Italy-Austria Interconnector" project

On 14 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 Passo Resia - Glorencia cable section is currently underway in Italy. Authorisation of the Austrian part is expected to be completed by the end of 2018.

On 16 July 2018, the Terna Group set up the special purpose vehicle, Resia Interconnector Srl, which, on behalf of the related energy-intensive companies, is to prepare and submit a request for exemption from the right of third parties to access the transport capacity the infrastructure will make available, pursuant to the Ministerial Decree of 21 October 2005.



International activities

During the third quarter of 2018, work continued on the four projects underway in South America:

Uruguay (500-kV transmission line connecting Melo and Tacuarembó)

During the third quarter, work continued on the Melo and Tacuarembó line. Load testing of all types of pylon has been completed, and the process of receiving and obtaining customs clearance for materials, with a special focus on pylon structures, is still in progress.

As regards construction, civil works are underway, involving planned increases in the workforce and in equipment, to cope with the delays registered so far.

Work on the overall project is 40% complete.

Brazil (2 transmission lines and substations in the states of Rio Grande do Sul and Mato Grosso)

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 third quarter of 2018.

Construction of the SMTE line and substations has been completed and the energization tests have been successfully carried out. 77% of the line has been built using single-pole cable-stayed pylons with a low environmental impact.

With effect from 3 October 2018, its entry into commercial service has been formally authorised by ONS (Operador Nacional Do Sistema Eletrico - the Brazilian regulator).

The work being carried out for SMTE is 88% complete, in line with the planned entry into service in the coming months. For SLTE, assembly of the electromechanical equipment for the substations is underway, all the civil works for the transmission line have been completed, and prestressing of the conductors is nearing completion.

The Operation and Maintenance contract for the Santa Maria Concession has been signed.

Peru (132km of new 138kV lines from Aguaytia to Pucallpa)

During the third quarter of 2018, detailed engineering works continued. Structural engineering works on the pylons has begun, and therefore the civil engineering works are being finalised.

The electromechanical engineering is being reviewed for approval by the supervisory authority.

Procurement of transmission line materials has also begun.

As far as permits and consents are concerned, the second socio-environmental workshop with the local population was successfully held, and the environmental impact study was delivered to the authority responsible for issuing the environmental certification (Senace).

In terms of the acquisition of easements, all the land forming part of the line's buffer zone has been surveyed and recorded.

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 30 2018	AT 31 DECEMBER 2017	CHANGE
Senior managers	70	71	(1)
Middle managers	621	569	52
Office staff	2,233	2,021	212
Blue-collar workers	1,264	1,236	28
TOTAL	4,188	3,897	291

The increase in the Terna Group's workforce in the first nine months of 2018 reflects 357 new hires and 66 people leaving the Group. In addition to the plan for generational turnover (accounting for 26% of new hires) launched in 2017, the increase reflects the acquisition of Avvenia and the start-up of new initiatives in accordance with the Strategic Plan for 2018-2022.

The Group's new organisational structure

In this context, the Group's new organisational structure, in place from 1 July 2018, aims to support Terna's central role in the integrated electricity system, with the aim of:

- Optimising and integrating real-time dispatching activities and long-term planning;
- Optimising the management of tangible assets and maximising operational excellence in their design, construction, operation and maintenance.

With regard to the above purposes, the following two organisational units now report directly to the Chief Executive Officer:

- "Strategy, Development and System Operation", which includes system strategy, grid planning, dispatching, regulatory affairs and energy & research insights;
- "National Transmission Grid", which includes asset management and plant design, construction, operation and maintenance, as well as procurement and ICT.

The new organisational structure also strengthens the Group's innovation capabilities through the creation of a new department reporting directly to the Chief Executive Officer, called "Innovation and Energy Solutions".

Finally, the "External Relations and Sustainability" function has been expanded in view of the Group's growing role at international and European level in the development of energy strategies.

Safety in the workplace

During September 2018, Terna finalised the analyses required to build a new, more deep-rooted safety culture. This will result in the launch of the "Zero Accidents" project, a structured and integrated process which, via a series of wide-ranging initiatives, aims to promote a global approach to safety involving all the Company's staff, as well as people working at Terna's plants in various capacities. Through the definition of improvement and prevention plans, including awareness raising and training initiatives, the two-year project aims to ensure that safety becomes nothing less than a way of life. In the first nine months of 2018, 23 accidents with 3 days of estimated recovery time were registered among Terna's staff, 16 of which were minor and none were fatal.

The objective is to obtain a significant reduction in accident indicators over the years, in order to achieve and then maintain the target of zero accidents.

Training

Approximately **128,000 hours of training** was provided in the first nine months of 2018, primarily focused on technical and operational skills and ensuring compliance with HSE, GDPR and statutory 231 requirements, in addition to the integration of newly hired personnel.

"Terna 4.0 Go Digital", a programme of initiatives aimed at strengthening digital aptitudes and an innovation-oriented mindset, was launched. The programme began with an online campaign aimed at helping the entire workforce to become familiar with digital issues by providing tips with useful information and explanations.

Key initiatives relating to innovation

Projects and programmes

Description

Next Energy 3rd edition

The third edition of the **Next Energy** Programme, launched in collaboration with the Cariplo Foundation and Cariplo Factory, got underway in June 2018. The new edition, on the theme "Interaction between electricity infrastructure and local areas", is focused on the objective of enabling the transition to a more efficient, secure and sustainable energy system. This transition brings new challenges, such as management of the decarbonisation process, the need to guarantee security of supply, and the affordability of the electricity service for companies and households. In continuity with last year's edition, the Programme seeks to identify talent and innovative ideas through the "Call for Talent" and the "Call for Ideas", and a further call dubbed **Call for Growth**, aimed at finding mature start-ups able to work immediately with Terna in relation to specific needs. Those chosen will include: (i) 10 bright new graduates for a 6-month internship at Terna; (ii) up to a maximum of 10 teams of innovators and/or start-ups which will have access to an incubation programme lasting a maximum of 3 months, with a €50,000 voucher redeemable for services awarded to the winner; and (iii) up to a maximum of 5 start-ups that will have access to an engagement programme lasting a maximum of 4 months, aimed at creating a pilot project and testing. The call for applications to participate in the Programme, which was published on 18 September 2018 in conjunction with the kick-off event streamed live from the Next Energy website, will close on 23 November.

Job posting

As part of the five-year partnership entered into by Terna with Stanford University, the first Terna Visiting Scholar was selected through an internal job post in July 2018. The winner of the competition will attend university courses at Stanford for 6 months and will contribute to a research project sponsored by Terna, focused on studying the adoption of a nodal market model in Italy. The project is scheduled to start at the end of October/beginning of November 2018.

Terna and RTE have launched a training and exchange of personnel initiative. The first edition is dedicated to a 4-week exchange of 2 members of staff working on use of the Italy-France interconnection cable. The competition was posted on the Company's intranet in July 2018 and, after selection, 2 Terna and 2 RTE employees were identified to take part in the exchange of workplace and working group at the end of October/beginning of November 2018.

Academy

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 nine months of 2018, Terna launched 19 projects involving 8 Italian universities from among those most active in the electricity and energy systems sector. The main areas of interest regard boosting the system's resilience and the flexibility of the grid, the development of innovative models to support design work and the operation and study of innovative electric technologies.

Origination and R&D projects

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.

In January, this led to the official launch of the **OSMOSE** Horizon 2020 project. 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.

Terna's role is to lead Working Package 5 (WP5, one of the 4 demonstrators of actual grid situations to be developed in Italy along a 150 kV portion of the NTG between Basilicata and Puglia, and coordinates the following Italian partners: ENSIEL, RSE, COMPENDIA, ABB, IBM, Engineering, Enel Green Power and Edison. WP5 aims to develop a new Energy Management System to be trialled over almost a year of live testing, which will involve the combined, "optimal" use of Dynamic Thermal Rating, Power Flow Control devices, new forecasting techniques and demand side response resources, with the aim of giving the electricity system greater flexibility.

Project activities continued, with identification of the area and staff to be involved in the demonstrations, in particular the industrial customers connected to the HV network, definition of the functional specifications of the new EMS and the development of innovative DTR systems.

Following the first plenary meeting of WP5 in February, a second meeting was held on 20 September to discuss the state of progress.



Financial review

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 International Activities, which directly includes the margin earned on overseas concessions and overseas contract revenue, 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 nine months of 2018, compared with those for the same period of the previous year, and for the third quarters of 2018 and 2017, are summarised in the following reclassified income statement, obtained by reclassifying amounts in the statutory consolidated income statement.

								(€m)
3Q2018	3Q2017	CHANGE	% CHANGE		9M2018	9M2017	CHANGE	% CHANGE
545.6	524.9	20.7	3.9	TOTAL REVENUE	1,624.9	1,570.4	54.5	3.5
501.4	490.2	11.2	2.3	- Regulated revenue in Italy	1,480.8	1,457.7	23.1	1.6
				<i>of which Revenue from construction services performed under concession</i>	12.0	9.9	2.1	21.2
5.7	4.3	1.4	32.6					
43.7	33.9	9.8	28.9	- Non-Regulated revenue	138.1	111.8	26.3	23.5
0.5	0.8	(0.3)	(37.5)	- International revenue*	6.0	0.9	5.1	-
129.4	112.6	16.8	14.9	TOTAL OPERATING COSTS	394.8	363.3	31.5	8.7
57.0	54.5	2.5	4.6	- Personnel expenses	181.4	178.9	2.5	1.4
38.9	29.4	9.5	32.3	- Cost of services, leases and rentals	115.9	103.1	12.8	12.4
16.8	20.5	(3.7)	(18.0)	- Materials	57.8	52.2	5.6	10.7
8.3	(1.0)	9.3	-	- Other costs	21.3	10.5	10.8	102.9
2.7	4.9	(2.2)	(44.9)	- Quality of service	6.4	8.7	(2.3)	(26.4)
				- Cost of construction services performed under concession	12.0	9.9	2.1	21.2
5.7	4.3	1.4	32.6					
416.2	412.3	3.9	0.9	GROSS OPERATING PROFIT (EBITDA)	1,230.1	1,207.1	23.0	1.9
132.7	129.4	3.3	2.6	- Amortisation, depreciation and impairment losses	400.1	390.2	9.9	2.5
283.5	282.9	0.6	0.2	OPERATING PROFIT (EBIT)	830.0	816.9	13.1	1.6
(25.1)	(28.7)	3.6	(12.5)	- Net financial income/(expenses)	(66.8)	(68.3)	1.5	(2.2)
258.4	254.2	4.2	1.7	PROFIT/(LOSS) BEFORE TAX	763.2	748.6	14.6	2.0
75.5	77.7	(2.2)	(2.8)	- Income tax expense for the period	218.2	221.6	(3.4)	(1.5)
182.9	176.5	6.4	3.6	PROFIT FOR THE PERIOD	545.0	527.0	18.0	3.4
1.6	(1.0)	2.6	-	- Profit/(Loss) attributable to non-controlling interests	3.5	(1.8)	5.3	-
181.3	177.5	3.8	2.1	PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT	541.5	528.8	12.7	2.4

* Directly includes the margin earned on overseas concessions.

Gross operating profit (EBITDA) for the first nine months of 2018 amounts to **€1,230.1 million**, up €23.0 million on the €1,207.1 million of the first nine months of 2017. This primarily reflects an improvement in Regulated Activities (up €7.4 million) and Non-Regulated Activities (up 12.9 million):

				(€m)
	9M2018	9M2017	CHANGE	
Regulated EBITDA in Italy	1,193.1	1,185.7	7.4	
Non-Regulated EBITDA	37.0	24.1	12.9	
International EBITDA	-	(2.7)	2.7	
EBITDA	1,230.1	1,207.1	23.0	

Revenue

(€m)

REGULATED ACTIVITIES IN ITALY	9M2018	9M2017	CHANGE
Tariff revenue	1,451.4	1,431.7	19.7
- Transmission revenue	1,348.4	1,347.1	1.3
- Dispatching metering and other revenue	103.0	84.6	18.4
Other regulated revenue	17.4	16.1	1.3
Revenue from construction services performed under concession in Italy	12.0	9.9	2.1
TOTAL	1,480.8	1,457.7	23.1

Regulated revenue in Italy is up €23.1 million compared with the same period of the previous year. Tariff revenue is up €19.7 million, due primarily to an increase in transmission charges, reflecting tariff increases and an increase in the portion of the NTG owned by Terna, as well as ARERA's recognition of certain expenses that are currently not covered by dispatching charges. "Other regulated revenue" is up €1.3 million, essentially due to higher insurance proceeds (up €2.5 million) recognised in the period, and an increase in revenue from the sale of retired assets (including the planned replacement of copper conductors), amounting to €1.9 million, partially offset by a reduction in revenue from the connection of third-party plants to the NTG (down €3.1 million).

(€m)

NON-REGULATED ACTIVITIES	9M2018	9M2017	CHANGE
Services for third parties	51.8	45.8	6.0
- Telecommunications	24.4	24.2	0.2
- O&M	10.2	12.1	(1.9)
- EPC	10.2	5.4	4.8
- Energy solutions (Avvenia)	4.7	-	4.7
- Other	2.3	4.1	(1.8)
Italy - France interconnector	6.8	-	6.8
Tamini	79.5	66.0	13.5
TOTAL	138.1	111.8	26.3

The increase in **Non-Regulated revenue**, totalling €26.3 million, reflects revenue growth at the **Tamini Group** (€13.5 million) and the recognition of revenue resulting from the acquisition of **Avvenia** (€4.7 million) and progress of work on the **private Italy-France interconnector** (€6.8 million).

(€m)

INTERNATIONAL ACTIVITIES	9M2018	9M2017	CHANGE
Latin America	5.0	0.1	4.9
Other	1.0	0.8	0.2
TOTAL	6.0	0.9	5.1

International revenue is up €5.1 million compared with the first nine months of 2017 and broadly reflects investment in assets held under concession in **Brazil** (up €5.5 million).

Revenue rose €20.7 million in the third quarter of 2018, compared with the same period of the previous year, primarily due to the above increase in regulated tariffs (€11.2 million). Non-Regulated revenue is also up €9.8 million, with €4.9 million attributable to the Tamini Group, €2.0 million to the Italy-France Interconnector project and €1.5 million to the contribution from Avvenia.

Operating costs have increased €31.5 million compared with the first nine months of the previous year, primarily due to higher Non-Regulated costs (up €13.4 million, including €8 million incurred on contract work by the Tamini Group) and an increase in Regulated costs, partly linked to the Group's new grid maintenance plan.

Amortisation, depreciation and impairment losses for the period amount to €400.1 million, up €9.9 million on the first nine months of 2017, primarily due to the entry into service of new plant.

Operating profit (**EBIT**), after amortisation, depreciation and impairment losses, amounts to **€830.0 million**, compared with €816.9 million for the first nine months of 2017 (up 1.6%).

Net financial expenses for the period total €66.8 million and are primarily attributable to the Parent Company (€65.9 million), marking a decrease of €1.5 million compared with the €68.3 million of the first nine months of 2017. This primarily reflects higher returns on the investment of liquidity.

After net financial expenses, **profit before tax** amounts to **€763.2 million**, an increase of €14.6 million compared with the first nine months of 2017 (up 2.0%).

Income tax expense for the period totals €218.2 million and is down €3.4 million (1.5%) compared with the same period of 2017, essentially reflecting tax-exempt income during the period. The tax rate stands at around 29%.

Profit for the period amounts to **€545.0 million**, up €18.0 million (3.4%) compared with the €527.0 million of the first nine months of 2017.

Profit for the period attributable to owners of the Parent (after excluding the share attributable to non-controlling interests) amounts to **€541.5 million**, up €12.7 million (2.4%) compared with the €528.8 million of the first nine months 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 €1,073.5 million, enabling the Group to finance a large part of its investing activities (€561.4 million) and the return on equity (€307.4 million, including €292.9 million for payment of the final dividend for 2017). The balance is financed by net debt, which totals €7,591.7 million, marking a decrease of €204.7 million compared with the €7,796.4 million of 2017.

(€m)

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

The Group's reclassified statement of financial position

The Terna Group's financial position at 30 September 2018 and 31 December 2017 is summarised below in the reclassified statement of financial position.

(€m)

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

* Includes financial assets in Brazil recognised in application of IFRIC12, totalling €124.6 million, and provision for the Interconnector Guarantee Fund, amounting to €55.6 million at 30 September 2018.

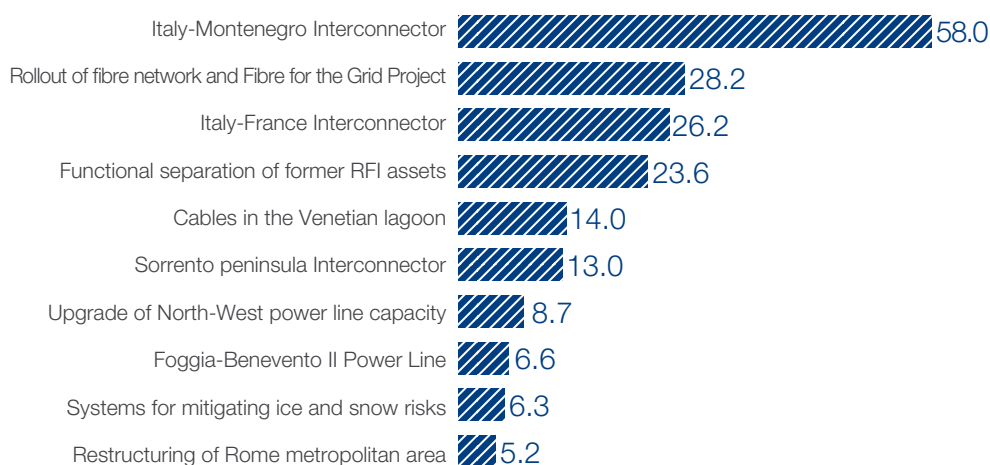
The €212.6 million increase in **net non-current assets** compared with 31 December 2017 primarily reflects a combination of the following:

- an increase of €64.0 million in financial assets, mainly due to construction services performed under concession in Brazil during the period (up €51.1 million) and an increase in the Interconnector Guarantee Fund, set up to fund investment in interconnections by art. 32 of Law 99/09 (up €13.4 million);
- total capital expenditure of €561.4 million, as described below;
- amortisation and depreciation during the period, totalling €400.1 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 €561.4 million during the period, an increase of 3.0% compared with the €545.0 million of the same period of 2017.

KEY CAPITAL INVESTMENT IN THE NTG* [€m]



* Amounts include financial expenses.

Net working capital (net current liabilities) of €1,702.5 million generated cash of €217.3 million during the period compared with 2017. This reflects the combined effect of:

Cash inflows

- an increase of €169.9 million in **net tax liabilities**, mainly reflecting VAT payable (up €57.8 million, compared with net refundable VAT at the end of 2017, essentially due to increased payments on account made during the previous year as a result of the Ministerial Decree of 27 June 2017). The increase also reflects an increase in net income tax payable for the period, after payments on account during the period and the settlement of taxes payable for the previous year (an increase of €117.4 million);
- an increase of €92.7 million in **net energy-related pass-through payables**, reflecting the combined effect of:
 - 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 €147.2 million and €77.8 million, respectively, reflecting items resulting from the performance of capacity allocation after payments made during 2018 approved by ARERA;
 - a reduction in net payables resulting from transactions in the Dispatching Services Market - DSM (€132.1 million) and an increase in receivables relating to imbalances (€133.7 million); the reductions in DSM and imbalance costs are reflected in the amount due to cover the cost of procuring resources on the Dispatching Services Market (the uplift), with the related receivable down €125.5 million compared with the end of 2017;
- an increase of €87.5 million in **other net liabilities**, primarily due to increases in payments on account received from the entities financing the Italy-France Interconnector (up €49.5 million) and a €35.9 million increase in grants received during the period from the Ministry for Economic Development to fund new infrastructure in southern Italy;
- a reduction of €25.8 million in **net receivables resulting from Regulated Activities**, primarily due to receipt of the RENS bonus for the quality of service provided in 2016 (€25.6 million) from the Fund for Energy and Environmental Services (*Cassa per i Servizi Energetici e Ambientali-CSEA*);

Cash outflows

- a reduction of €158.3 million in **net trade payables**, largely due to the difference in the volume of capital expenditure carried out compared with the last part of the previous year.

Gross invested capital thus amounts to €11,976.5 million, marking a decrease of €4.7 million compared with the end of the previous year.

Sundry provisions are down €37.6 million, primarily due to:

- an adjustment to provisions for risks (down €27.8 million), reflecting the use of provisions for early retirement schemes (down €7.4 million), uses for urban and environmental redevelopment schemes (down €6.7 million) and the payment of amounts due to ARERA (down €6.6 million), in addition to net uses of provisions for mitigation and sharing schemes (down €2.3 million);
- net deferred tax assets (up €10 million), primarily due to the effect on taxation of amortisation and depreciation, after uses of provisions for risks and charges.

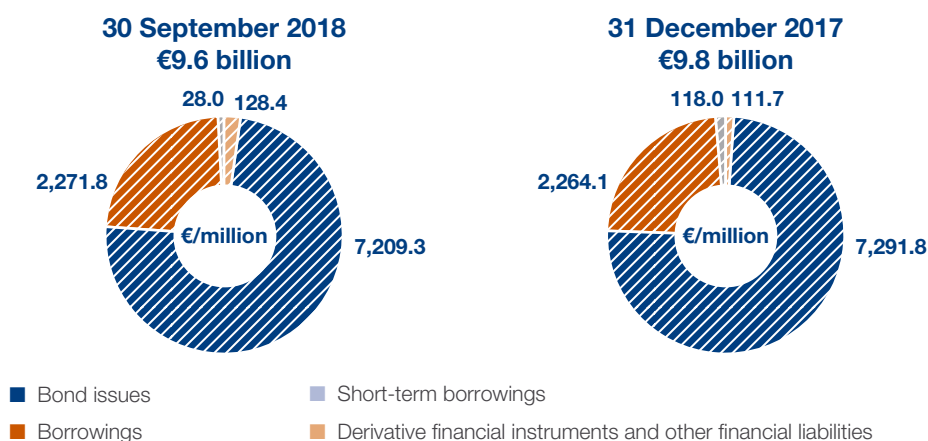
Net invested capital of €11,658.3 million is up €32.9 million compared with 31 December 2017 and is financed by equity attributable to owners of the Parent, totalling €4,033.5 million (compared with €3,803.3 million at 31 December 2017), equity attributable to non-controlling interests of €33.1 million (€25.7 million at 31 December 2017) and net debt of €7,591.7 million (down €204.7 million compared with the €7,796.4 million of 31 December 2017).

² During the first nine months of 2018, ARERA ordered payments to the owners of essential plants in resolutions 137, 185, 332-335, 348, 375, 423/2018 and capacity payments in resolution 248/2018.

Debt

Gross debt at 30 September 2018 amounts to approximately €9.6 billion, consisting of €7.2 billion in the form of bond issues and €2.3 billion in bank borrowings. The average term to maturity of debt, which is almost all fixed rate, is approximately 5.4 years.

GROSS DEBT



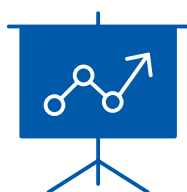
The Group's net debt at 30 September 2018 amounts to €7,591.7 million, a reduction of €204.7 million compared with 31 December 2017.

	(€m)		
NET DEBT (BY TERM TO MATURITY)	AT 30 2018	AT 31 DECEMBER 2017	CHANGE
Total medium/long-term debt	8,869.3	8,682.1	187.2
- Bond issues	7,209.3	6,541.9	667.4
- Borrowings	1,647.9	2,129.7	(481.8)
- Derivative financial instruments	12.1	10.5	1.6
Total short-term debt/(funds)	(1,277.6)	(885.7)	(391.9)
- Bond issues (current portions)	-	749.9	(749.9)
- Short-term borrowings	28.0	118.0	(90.0)
- Variable rate borrowings (current portions)	623.9	134.4	489.5
- Other current financial liabilities, net	116.3	101.2	15.1
- Cash and cash equivalents	(2,045.8)	(1,989.2)	(56.6)
Total net debt	7,591.7	7,796.4	(204.7)
NET DEBT (BY TYPE OF INSTRUMENT)			
- Bond issues	7,209.3	7,291.8	(82.5)
- Borrowings	2,271.8	2,264.1	7.7
- Short-term borrowings	28.0	118.0	(90.0)
- Derivative financial instruments	12.1	10.5	1.6
- Other financial liabilities	116.3	101.2	15.1
GROSS DEBT	9,637.5	9,785.6	(148.1)
- Cash and cash equivalents	(2,045.8)	(1,989.2)	(56.6)
Total net debt	7,591.7	7,796.4	(204.7)

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

- a reduction in bond issues (down €82.5 million), resulting from the repayment, in February, of bonds issued in 2012, totalling €750.0 million, bonds amounting to €750.0 million issued in July and adjustment of the amortised cost of the instruments;
- an increase in borrowings (up €7.7 million), primarily due to drawdowns on a new EIB facility of €130 million, after repayments during the period;
- an increase in derivate financial instruments (up €1.6 million), primarily due to the change in the notional value of the derivatives portfolio;
- a decrease in short-term borrowings and other financial liabilities (down €74.9 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;
- an increase in cash and cash equivalents (up €56.6 million). Cash amounts to €2,045.8 million at 30 September 2018, including €751.1 million invested in short-term, readily convertible deposits and €1,294.6 million deposited in bank current accounts.





Terna's shares

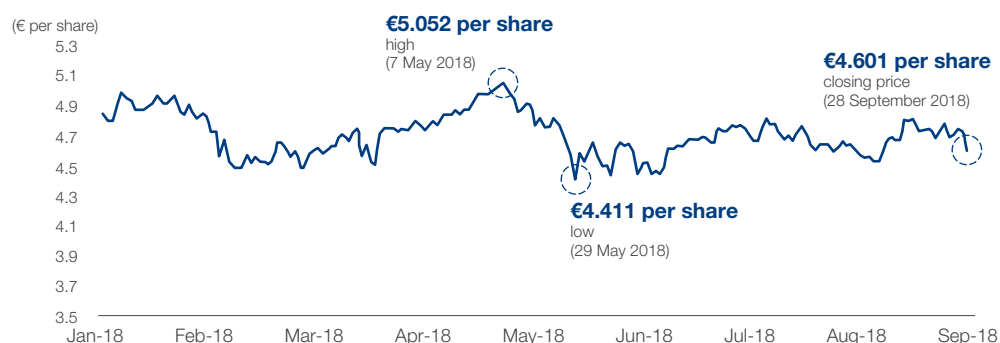
Terna and the financial markets

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 September 2018, the share price has risen 171% (a capital gain), providing a Total Shareholder Return (TSR) of 502%, ahead of both the Italian market (FTSE Mib +25%) and the relevant European sector index (DJ Stoxx Utilities), which is up 150%.

After a particularly positive 2017 for financial markets, Europe's leading stock markets ended the first nine months of 2018 down, with the exception of Paris, which gained 3.4% over the period. Milan lost 5.2%, Frankfurt and London fell 7.9% and 2.3%, respectively, and Madrid is down 6.5%.

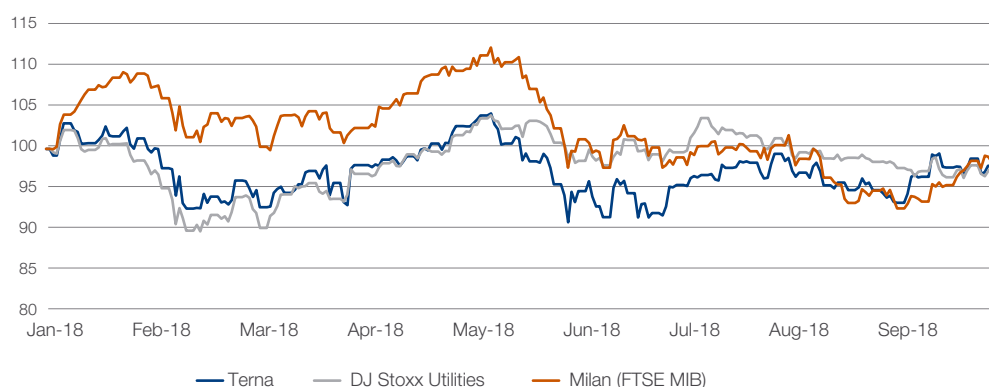
Performance of Terna's shares

In this context, Terna's shares closed the first nine months of 2018 down 5.02% at €4.601 per share, in line with the Italian market and still outperforming its main peers. The daily average volume traded during the period amounted to approximately 6.6 million units per day. On 18 June, the final dividend for 2017, amounting to €0.145737 per share, was paid.



Source: Bloomberg.

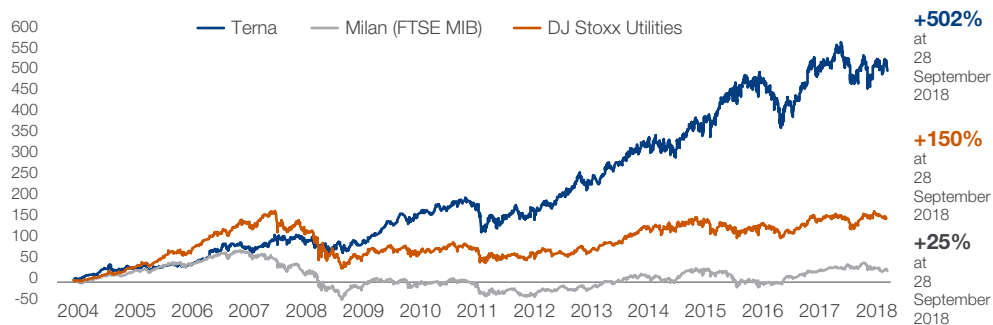
PERFORMANCE OF TERNA'S SHARES, THE FTSE-MIB AND DJ STOXX UTILITIES FROM JANUARY



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 the end of September 2018) (%)



Source: Bloomberg.

WEIGHTING OF TERNA'S SHARES

> on the FTSE MIB³ 1.87%

Source: Borsa Italiana, at the end of September 2018.

RATINGS

	SHORT-TERM	MEDIUM/LONG-TERM	OUTLOOK	DATE OF REVIEW
Terna SpA				
Standard & Poor's	A-2	BBB+	Negative	29 October 2018
Moody's	Prime-2	Baa2	Stable	23 October 2018
Fitch	F2	BBB+	Stable	30 September 2018
Italian state				
Standard & Poor's	A-2	BBB	Negative	29 October 2018
Moody's	Prime-3	Baa3	Stable	23 October 2018
Fitch	F2	BBB	Negative	30 September 2018

In October 2018, the ratings agencies, S&P Global Ratings and Moody's, downgraded Italian government bonds and, as a result, Terna SpA's ratings.

Following the downgrade of Italian government bond ratings from "Baa2" to "Baa3 with a stable outlook", on 23 October 2018, Moody's consequently cut Terna SpA's long-term rating from "Baa1" to "Baa2". At the same time, Moody's reiterated the Company's short-term rating of "P2/(P)P-2". The outlook for all the ratings is stable.

Finally, on 29 October 2018, S&P Global Ratings (S&P) reiterated Terna SpA's long-term rating of 'BBB+'. Following the revised outlook for Italian government bond ratings (from stable to negative), S&P also revised Terna's outlook, downgrading it from stable to negative. Terna's short-term rating was confirmed as 'A-2'. Finally, S&P reiterated the Company's Stand-Alone Credit Profile (SACP) as 'a-'.

³ % of the total FTSE MIB.



Outlook

The positive results achieved during the period confirm the Company's ability to continue along its path to growth, in line with the objectives announced to the market for 2018.

The Company remains strongly committed to implementing the Strategic Plan for the period 2018-2022. This will involve stepping up the pace of investment in our **Regulated Activities**, focusing on development of the national transmission grid in order to facilitate the integration of renewable sources and improve the security of the system. At the same time, we intend to renew the Group's asset base in order to mitigate the risk of interruptions to supply, partly in response to the growing disruption caused by extreme weather events and paying constant attention to the needs of local communities and the environment.

In our **Non-Regulated Activities**, we will continue our commitment to boosting our position in the energy efficiency market and embarking on a role as a high value added systems integrator, supporting the development of new technologies and fulfilment of our role as a TSO in the current energy transition. The telecommunications business will continue to focus on providing high value added services, exploiting the opportunities offered by development of the Group's infrastructure.

In terms of our **International Activities**, the various overseas projects are being delivered on time, leveraging the Group's distinctive competencies.



Declaration

of the manager responsible for financial reporting pursuant
to 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 Financial Report for the nine months ended 30 September 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 Consolidated Interim Financial 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) .
Tax rate	is the amount of tax paid as a proportion of pre-tax profit and is based on the ratio of " Income tax expense " to " Profit/(Loss) before tax ".
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 FLOWS	
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.

Board of Directors

Following the government's decision to appoint the Director, Stefano Saglia, to a post with ARERA, on 31 July 2018, he resigned his membership of Terna SpA's Board of Directors "with effect from the date of issue of the related Presidential Decree following approval of his appointment by the relevant parliamentary committees". In response, on 10 August 2018, the Board of Directors appointed a new member of the Audit, Risk, Corporate Governance and Sustainability Committee, electing the non-executive and independent Director, Luca Dal Fabbro, representing minority shareholders, to serve as the Committee's Chairman.





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Milan

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