Terna Group

Interim consolidated financial report

30 September 2012

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Introduction

This **Interim consolidated financial report of the Terna Group at 30 September 2012**, not submitted for accounting audit, has been prepared in accordance with the provisions of Art. 154-*ter* of Italian Legislative Decree No. 58/98 introduced by Italian Legislative Decree No. 195 of 6 November 2007 (the "Transparency Decree"), as amended by Italian Legislative Decree No. 27 of 27 January 2010. It does not, therefore, contain the disclosure required in accordance with IAS 34.

Summary of the first nine months

The first nine months of 2012, which coincided with the beginning of the new regulation period 2012-2015, saw application of Resolutions No. 199/11, No. 204/11 and No. 197/11 with which the Authority for Electricity and Gas established the remuneration for providing electricity transmission, distribution, metering and dispatching services and the regulation of transmission service quality.

During the period in question and as extensively described by the Interim Financial Report at 30 June 2012, the Terna Group corporate/operational reorganisation process continued. This was aimed at overseeing in a strategic manner the business opportunities deriving from the Industrial Plan (approved by Terna S.p.A. on 20 March 2012) and maximising efficiency in managing the business.
The new organisational structure, in place from 1 April 2012, is based on a Parent Company and two operating companies wholly controlled by the said Parent Company:

- **Terna S.p.A.**, the Parent Company, besides conserving ownership of the Concession relating to electricity dispatch and transmission activities (issued with a Decree of 20 April 2005 of the Ministry of Productive Activities) maintains ownership of the capital assets and responsibility for defining the NTG Development Plan and the Defence Plan;
- **Terna Rete Italia S.p.A.** (subsidiary established by Terna S.p.A. on 23 February 2012) is delegated, through a business unit rental agreement with a five-year term, to perform all the core businesses of operation, ordinary and extraordinary maintenance of the NTG, management and performance of work on developing the grid, connected with the implementation of the provisions of the said Agreement and on the basis of guidelines laid down in the Development Plan;
- **Terna Plus S.r.l.** is instead the operating company devoted to work on the creation of non-core business projects and has developed a slim and flexible operating structure.

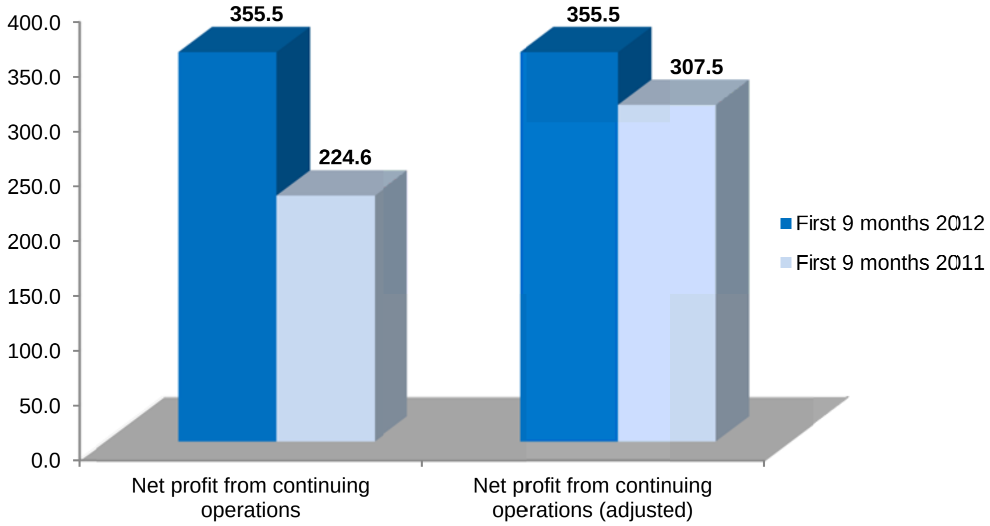
The Group's new organisational structure outlined above enables a better focus on the core business and on the new businesses that may be developed, as well as achieving better efficiency and effectiveness of the operating/management processes attributed to the responsibility of the respective subsidiaries, in compliance with the Parent Company's strategic guidelines.

Comprehensive Group results

The consolidated income statement at 30 September 2012 showed a **net profit from continuing operations** of 355.5 million euros, showing an increase of 130.9 million euro (+58.3%) on the same period of 2011, which suffered the comprehensive effects of the 2011 tax budget[1].

Even if the one-off tax effect caused by the adjustment to the new IRES and IRAP rates of the net deferred tax liabilities in place at the start of FY 2011 is excluded, the **net profit for the period of continuing operations (*adjusted*)** would in any case be up 48 million euros (+15.6%) compared with the 307.5 million euros from the same period of the previous year.

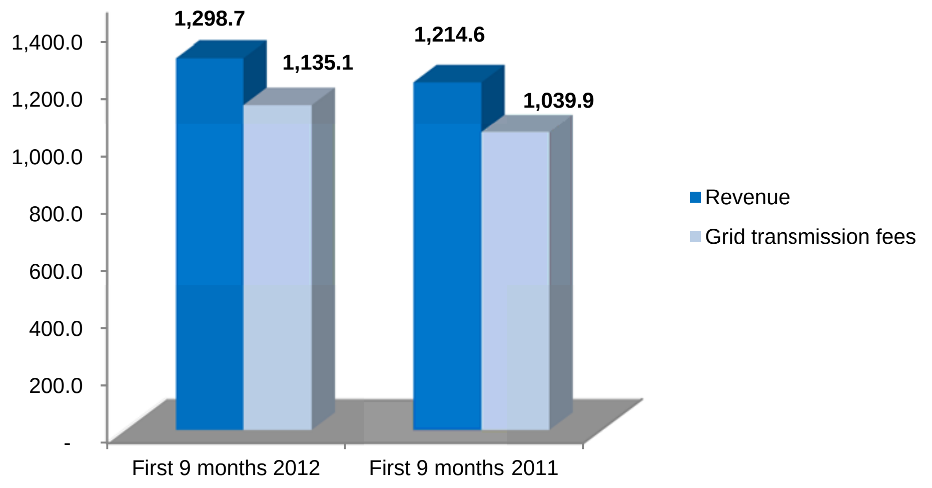
In millions of euros



Revenue amounted to 1,298.7 million euros of which 1,135.1 million euros relating to the transmission fee attributable to the Parent Company in the amount of 1,161.1 million euros and to the subsidiary Terna Rete Italia S.r.l. (formerly TELAT) in the amount of 132.3 million euros.

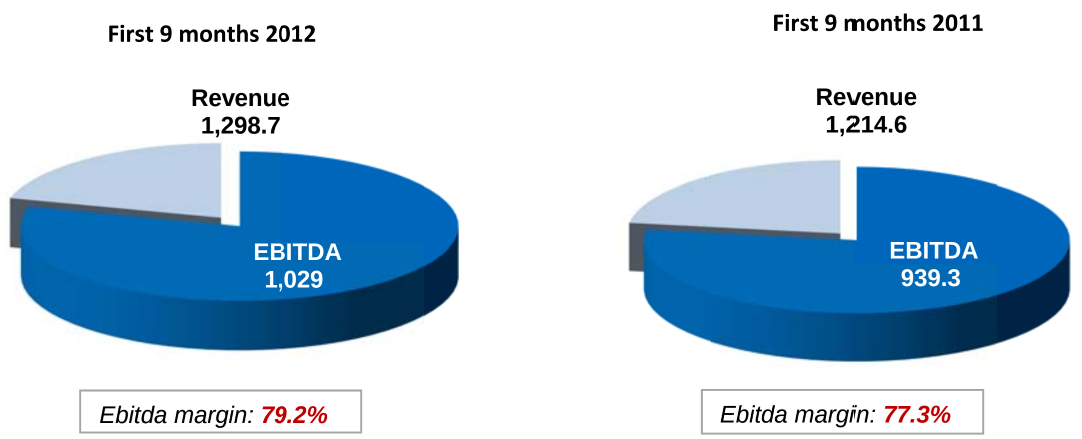
[1] Italian Law Decree No. 138 of 13.08.2011 (the so-called "Robin Hood Tax") and Italian Law Decree no. 98 of 06.07.2011, Art. 23, paragraph 5 (economic budget for concession holders – IRAP adjustment).

In millions of euros



Operating expenses amounted to approximately 269.7 million euros, of which 146.2 million euros relating to personnel expenses and 95.4 million euros to services, leases and rentals. **EBITDA** (Gross Operating Margin) came out at 1,029.0 million euros, equal to 79.2% of revenues, up by 89.7 million euros from 939.3 million euros in the first nine months of 2011 (+9.5%).

In millions of euros



EBIT (Operating Profit) came out at 718.1 million euros, after **depreciation and amortisation** charges of 310.9 million euros, of which 275.7 million euros recognised by the Parent Company and 34.8 million euros by the subsidiary Terna Rete Italia S.r.l.

Net financial expenses of the period, 72 million euros, decreased by 15.6 million euros (-17.8%) compared with the same period of 2011.

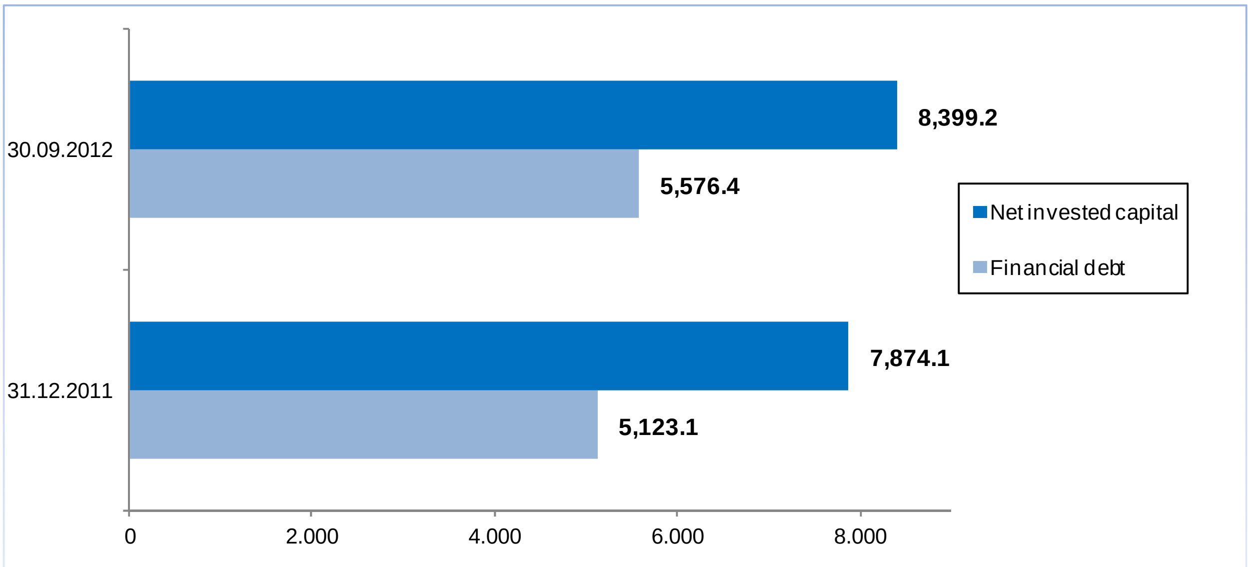
With profit before taxes 83.4 million euros higher (+14.8%), **income taxes** charged to the first nine months of 2012, coming to 290.6 million euros, is down 47.5 million euros (-14.0%) compared with the same period of the previous year; the first nine months of 2011 in fact suffered the one-off tax effect described previously, deriving from the recalculation of the net deferred tax liabilities of the start of 2011, which more than offset the tax on the greater period result.

The period tax rate was 45%, in line with the figure for the first nine months of 2011 (45.4% without considering the one-off effect described above).

As a result of this taxation **net profit for the period from continuing operations** came out at 355.5 million euros (+130.9 million compared with the same period of the previous year and +36 million euros compared with the **net profit** of the first nine months of 2011, which included the result referable to discontinued operations, of 94.9 million euros, mainly relating to the portion attributable for the sale of the equity investment in Rete Rinnovabile S.r.l. of 59.2 million euros and the release of provisions for contractual obligations connected with the sale of Terna Participações of 33.8 million euros).

Net invested capital of 8,399.2 million euros is financed through **shareholders' equity** in the amount of 2,822.8 million euros and through **net financial debt** in the total amount of 5,576.4 million euros.

In millions of euros



The **debt/equity** ratio came out at 1.98.

Total investment made by the Group in the period amounted to 778.4 million euros (of which 747.4 million attributable to property, plant and equipment), down 8.6% from 851.5 million euros recorded in the first nine months of 2011.

Significant events in the third quarter of 2012

Below are the main significant events of the third quarter 2012. With reference to the significant events of the first half of the year, please refer to the interim financial report of the Terna Group at 30 June 2012.

Terna rating

On **16 July 2012**, Moody's downgraded the rating of the issuer and the senior non-subordinate debt of Terna S.p.A. from A3 to Baa1. The outlook for both ratings is negative. At the same time, the short-term rating for Terna remained unchanged at Prime-2. This rating change follows the downgrading of Italian Government Bonds from A3 to Baa2, which took place on 13 July 2012, with negative outlook. Following the downgrade, Terna's rating is one notch higher than the rating of the Sovereign State.

Conferral of business unit to Terna Plus

As part of the Group reorganisation process, by deed dated 19 July 2012 (as amended on 31 October 2012), Terna S.p.A. transferred an operating business unit involved in the development of temporary connections using quick-installation electrical stations and in providing other services, to Terna Plus S.r.l., with effect as from 1 August 2012.

This conferral - subject to measurement pursuant to Art. 2465 of the Italian Civil Code by an independent expert - has increased the investment held by Terna S.p.A. in the subsidiary for an amount of 18.3 million euros.

Terna at the top of the world sustainability classification for the electricity segment

For the third year running, the Company has been included in both the "World" and "Europe" baskets of the Dow Jones Sustainability Index, recording the world's highest score together with Iberdrola.

Once again, Terna improved its performance in both economic terms (governance, risk management and supply chain management, code of ethics and anti-corruption) and social ones, with a total score of 87 (8 points more than the 2010 result and 1 more than 2011): confirmation of continuity at the top of the world for the sector business in the final honours list that recognises the commitment made by the Company to sustainable operations. This year, the selection identified 340 businesses out of 2,500 on the World index and 166 out of 600 on the Europe index. As in 2011, only 13 Italian companies were admitted to this true elite of world sustainability.

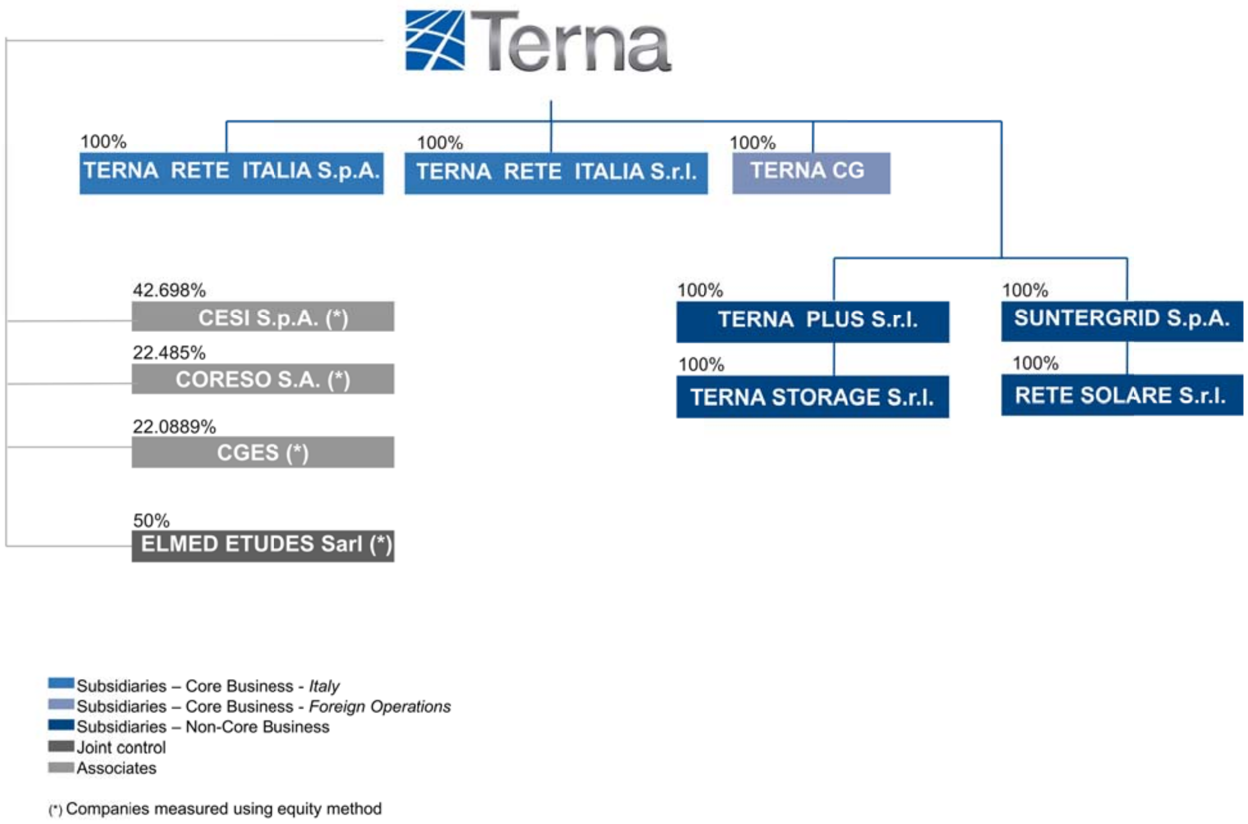
In addition to being on the DJSI, Terna is also on the international indexes FTSE4Good (Global and Europe), Axia (Ethical and CSR), ECPI (Ethical Global, Euro, EMU), MSCI (Global and Europe Sustainability), ASPI Eurozone, Ethibel (Excellence, Sustainability Europe) and on the Italian indexes FTSE, ECPI Italia SRI Benchmark and Italia SRI Leaders, prepared starting from only the companies listed with Borsa Italiana.

Terna Group performance and financial position

In order to present the performance of the Terna Group and to analyse its financial position, financial schedules have been prepared, obtained by reclassifying the consolidated data of the income statement and statement of financial position (Appendix II). These reclassified tables, which are not audited by the auditing company, contain alternative performance indicators, which management considers useful for monitoring Group trends, and representative of the economic and financial results produced by the business. In line with CESR/05-178b recommendation, the criteria for constructing these indicators are described in the footnotes to the reclassified statements, which reconcile them with the schedules contained in the reclassified statements themselves.

Scope of consolidation

The structure of the Group at 30 September 2012 is as follows:



The change in the scope of consolidation since 31 December 2011 relates to:

Core business

- incorporation on 23 February 2012, by Terna S.p.A., of the company named **Terna Rete Italia S.p.A.**;

Non-core business

- incorporation on 23 March 2012, by the subsidiary Terna Plus S.r.l., of the company named **Terna Storage S.r.l.**.

With reference to associates we can also note that, on 31 May 2012, following the acquisition of a further 0.292% stake in the share capital of the associate **CESI S.p.A.**, Terna increased its interest to 42.698%.

Basis of presentation

The measurement and recognition criteria applied in this consolidated interim financial report are consistent with those adopted in the consolidated financial statements at 31 December 2011.

It is worth noting that some comparative financial and economic balances of the first nine months of 2011 have been adjusted to consider the change in accounting for the release[2] of goodwill made for tax reasons by the Parent Company in 2009. More specifically, the previous model of accounting for substitute tax (advances on current taxes) was reviewed in line with the different accounting recognition (prepaid and current taxes) of the substitute tax paid during financial year 2011 in relation to the release[3] of goodwill resulting from consolidation of the subsidiary Terna Rete Italia S.r.l..
In particular, this restatement entailed recognition in the first nine months of 2011 of lower taxes of 4.4 million euros, as the combined effect of the recalculation of prepaid tax at the start of the year, net of transactions during the first nine months of 2011, for -3.2 million euros and lower current taxes for 1.2 million euros.

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[2] Italian Law Decree No. 185 of 29 November 2008, converted into Italian Law No. 2 of 28 January 2009.
[3] Italian Law Decree No. 98 of 6 July 2011, converted with amendments by Italian Law No. 111 of 15 July 2011.

Economic results

The reclassified income statements of the Terna Group for the first nine months and the third quarters of 2012 and 2011 are summarised in the statement below, obtained reclassifying the data presented in the consolidated income statements (Appendix II).

Q3					1 January 30 September			
2012	**2011**	**Change**	**%**	*In millions of euros*	**2012**	**2011**	**Change**	**%**
				Revenues:				
388.9	351.9	37.0	10.5%	- Grid transmission fees[(1)]	1,135.1	1,039.9	95.2	9.2%
35.1	50.1	-15.0	-29.9%	- Other energy items[(1)]	116.5	125.5	-9.0	-7.2%
6.5	10.0	-3.5	-35.0%	- Other sales and services[(1)]	19.1	24.6	-5.5	-22.4%
11.6	8.5	3.1	36.5%	- Other revenue and income	28.0	24.6	3.4	13.8%
442.1	**420.5**	**21.6**	**5.1%**	**Total revenue**	**1,298.7**	**1,214.6**	**84.1**	**6.9%**
				Operating expenses:				
43.1	43.0	0.1	0.2%	- Personnel expenses	146.2	146.7	-0.5	-0.3%
31.8	36.0	-4.2	-11.7%	- Services, leases and rentals	95.4	99.9	-4.5	-4.5%
3.3	5.0	-1.7	-34.0%	- Materials	10.8	15.5	-4.7	-30.3%
3.8	3.7	0.1	2.7%	- Other expenses[(2)]	17.3	13.2	4.1	31.1%
82.0	**87.7**	**-5.7**	**-6.5%**	**Total operating expenses**	**269.7**	**275.3**	**-5.6**	**-2.0%**
360.1	**332.8**	**27.3**	**8.2%**	**EBITDA (Gross Operating Profit)**	**1,029.0**	**939.3**	**89.7**	**9.5%**
106.4	**96.3**	**10.1**	**10.5%**	**Amortisation and depreciation (3)**	**310.9**	**289.0**	**21.9**	**7.6%**
253.7	**236.5**	**17.2**	**7.3%**	**EBIT (OPERATING PROFIT/LOSS)**	**718.1**	**650.3**	**67.8**	**10.4%**
-9.9	-29.5	19.6	-66.4%	- Net financial income (expense)[(4)]	-72.0	-87.6	15.6	-17.8%
243.8	**207.0**	**36.8**	**17.8%**	**PROFIT/LOSS BEFORE TAXES**	**646.1**	**562.7**	**83.4**	**14.8%**
110.2	215.7	-105.5	-48.9%	- Income taxes for the period	290.6	338.1	-47.5	-14.0%
133.6	**-8.7**	**142.3**		**NET PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS**	**355.5**	**224.6**	**130.9**	**58.3%**
	120.1			*Adjustment - 2011 tax legislation*		*82.9*		
110.2	95.6	14.6	**15.3%**	- Adjusted income taxes for the period	290.6	255.2	**35.4**	**13.9%**
133.6	**111.4**	**22.2**	**19.9%**	**ADJUSTED NET PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS**	**355.5**	**307.5**	**48.0**	**15.6%**
0.0	**-0.1**	**0.1**	**-100.0%**	Net profit for the period from discontinued operations and assets held for sale	**0.0**	**94.9**	**-94.9**	**-100.0%**
133.6	**-8.8**	**142.4**		**NET PROFIT FOR THE PERIOD**	**355.5**	**319.5**	**36.0**	**11.3%**
133.6	*-8.8*	*142.4*		*- Attributable to owners of the Parent*	*355.5*	*319.5*	*36.0*	*11.3%*

In the first nine months of 2012 **revenue,** amounting to 1,298.7 million euros, was mainly generated by the Parent Company (1,161.1 million euros) and by the subsidiary Terna Rete Italia S.r.l. (132.3 million euros). The increase in revenues for 84.1 million euros with respect to the same period of 2011 (+6.9%) derives essentially from the combined effects of:

In the consolidated income statement (Appendix II):

(1) the balance is included in the item "Revenue from sales and services";
(2) corresponds to the item "Other operating expenses"" and to the item "Amortisation, depreciation and impairment" for the amount of impairment of fixed assets (0.1 million euros);
(3) corresponds to the item "Amortisation, depreciation and impairment" net of the amount of impairment of fixed assets (0.1 million euros);
(4) corresponds to the total of the items presented in points 1, 2 and 3 of letter C - "Financial income/expense".

- greater *grid transmission fees (CTR)* for +95.2 million euros in relation to:
  - review of the transmission service tariffs (+92.0 million euros);
  - CTR fees for the purpose of remunerating the Defence Plan (+3.1 million euros);
- lower revenues relating to *dispatching activities* for 9 million euros, mainly due to:
  - adjustment of the fair value related to the measurement of Terna's performance in the Dispatching Services Market (DSM) with reference to the incentive mechanism envisaged by AEEG Resolution 213/09, of 10 million euros in the first nine months of 2012 (-53 million euros compared to the 63 million measured in the same period of 2011), partly offset by
  - revision of the tariff system for dispatching activities (+40.3 million euros);
  - recognition of contingent assets of 4.5 million euro for the effects of AEEG Resolution 50/2012, a measure that closed the proceedings for the year 2010 related to determining the premiums and penalties for the parent company Terna, on the subject of transmission service quality (ENSR-NDU).

The change in revenues also records a reduction of -2.1 million euros for *other sales and services* and *other revenue and income* deriving for the most part from the combined effect of lower orders and other activities towards third parties totalled during the period (-5.5 million euros), greater revenue for changes on lines requested by third parties (+1.9 million euros) and greater capital gains from disposals of parts of the plant and other assets (+2.1 million euros).

In the third quarter of 2012, Group revenue was 21.6 million euros higher than in the corresponding period of 2011, due essentially to the combined effect of the following factors:

- higher transmission revenue of 37 million euros, owing mainly to the tariff effects described above;
- lower revenue from other energy-related items (15 million euros) mainly due to the said incentive mechanism for dispatching activities offset by higher remuneration in relation to the dispatching service;
- lower revenue from other sales and services (3.5 million euros), to a large extent offset by the increase in other revenue and income (3.1 million euros).

In the first nine months of 2012, **operating expenses** of 269.7 million euros were mainly incurred by the Parent Company (147.4 million euros) and the subsidiary Terna Rete Italia S.p.A. (116.6 million euros), recording a reduction of 5.6 million euros with respect to the same period of last year (-2%%, mainly owing to:

- lower costs for *services and materials* (9.2 million euros) in relation to investments in dispatching infrastructures[5] (-2.6 million euros) and lower costs for non-regulated activities with respect to the same period of FY 2011; in addition to
- recognising as part of *other expenses* a contingency liability (3 million euros) relating to the refund of the balance of contributions paid for the years from 2002 to 2006 to the Ministry for Economic Development concerning the former telephony for private use concession and greater local tax and duties (+1.3 million euros) mainly relating to IMU.

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[5] Recognised pursuant to IFRIC 12.

As concerns the third quarter of 2012, the Group's operating expenses showed a reduction of 5.7 million euros due to the lower costs for services (-4.2 million euros) and materials (-1.7 million euros) for the reasons described above.

EBITDA (Gross Operating Margin) for the period came out at 1,029 million euros, an increase of 89.7 million euros compared with the 939.3 million euros of the first nine six months of 2011 (+9.5%).
The considerable increase in revenue and the reduction in costs were reflected in the ***EBITDA margin*** which went from 77.3% in the first nine months of 2011 to 79.2% in the corresponding period of 2012.

Amortisation and depreciation in the period grew by 21.9 million euros compared with the same period of financial year 2011, owing essentially to the commissioning of new plants.

For the same reasons explained above, amortisation and depreciation were higher also in the comparison between the two quarters (+10.1 million euros).

EBIT (Operating Profit), after deducting amortisation and depreciation of 310.9 million euros (of which 275.7 million of the Parent Company and 34.8 million of the subsidiary Terna Rete Italia S.r.l.), came out at 718.1 million euros, up by 67.8 million euros (+10.4%) compared with the first nine months of 2011.

Net financial expenses for the period, amounting to 72 million euros, relate substantially to the Parent Company and decreased by 15.6 million euros, compared with 87.6 million euros in the same period of 2011, mainly due to the combined effect of:

- a reduction of interest rates that has more than offset the expenses in relation to the greater net debt with respect to 2011 (-12 milion euros);
- higher capitalised financial expenses (-3 million euros);

After deducting net financial expenses, **profit before taxes** came out at 646.1 million euros, up by 83.4 million euros compared with the corresponding period of the previous year (+14.8%).

Income taxes charged to the period were 290.6 million euros, down 47.5 million euros (-14%) on the same period of the previous year, against a result gross of tax that was 83.4 million euros higher. This change is mainly due to greater tax (+82.9 million euros) during the first nine months, deriving from the adjustment of the provisions for net deferred tax established in FY2001 to the new IRES and IRAP rates[6], which more than offset the tax on the higher current period result.

The period tax rate was 45%, in line with the figure for the first nine months of 2011 (45.4% without considering the one-off effect described above).

As a result of this taxation **net profit for the period from continuing operations** came out at 355.5 million euros up 130.9 million euros compared with the same period of the previous year (and +36 million euros compared with the **net profit** of the first nine months of 2011, which included the result referable to discontinued operations, of 94.9 million euros, mainly relating to the portion attributable for the sale of the equity investment in Rete Rinnovabile S.r.l. of 59.2 million euros and the release of provisions for contractual obligations connected with the sale of Terna Participações of 33.8 million euros).

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[6] Italian Law Decree No. 138 of 13.08.2011 (the so-called "Robin Hood Tax") and Italian Law Decree no. 98 of 06.07.2011, Art. 23, paragraph 5 (economic budget for concession holders – IRAP adjustment).

Even excluding the one-off tax effect caused by the adjustment of the net deferred tax liabilities at the start of FY 2011, the **net profit for the period of continuing operations (adjusted)** would in any case be up 48 million euros (+15.6%) compared to the 307.5 million euros from the same period of the previous year.

Equity results

Reclassified consolidated statements of financial position of the Terna Group at 30 September 2012, and 31 December 2011, are presented below. They have been obtained by reclassifying the data given on the Consolidated equity-financial position (Appendix II).

In millions of euros	at 30.09.2012	at 31.12.2011	Change
Net non-current assets			
- Intangible assets and goodwill	462.7	470.9	-8.2
- Property plant and equipment	9,075.9	8,618.2	457.7
- Financial assets(1)	78.3	74.0	4.3
Total	**9,616.9**	**9,163.1**	**453.8**
Net working capital			
- Trade receivables(2)	630.2	612.4	17.8
- Inventories	7.5	16.3	-8.8
- Other assets(3)	22.8	14.9	7.9
- Trade payables(4)	460.5	705.0	-244.5
- Net payables for pass-through energy items(5)	340.4	247.0	93.4
- Net tax liabilities(6)	232.4	121.5	110.9
- Other Liabilities(7)	332.3	294.3	38.0
Total	**-705.1**	**-724.2**	**19.1**
Gross invested capital	**8,911.8**	**8,438.9**	**472.9**
Sundry provisions(8)	512.6	564.8	-52.2
NET INVESTED CAPITAL	**8,399.2**	**7,874.1**	**525.1**
Equity	**2,822.8**	**2,751.0**	**71.8**
Net financial debt(9)	**5,576.4**	**5,123.1**	**453.3**
TOTAL	**8,399.2**	**7,874.1**	**525.1**

The increase in **net non-current assets** of 453.8 million euros, compared with the figure at 31 December 2011, is attributable substantially to the Group's total investments. In greater detail:

In the Consolidated Statement of Financial Position (Appendix II) they correspond to:

(1) the items "Equity-accounted investees", "Other non-current assets" and "Non-current financial assets" for the carrying amount of the other investments (0.6 million euros);
(2) the item "Trade receivables" net of energy-related pass-through revenue receivable(1,402 million euros);
(3) the item "Other current assets" net of other tax assets (10.1 million euros) and "Current financial assets" in relation to the amount of deferred financial assets (6.5 million euros);
(4) the item "Trade payables" net of the energy-related pass-through costs payable (1,742.4 million euros);
(5) the items "Trade receivables" for energy-related pass-through revenue receivable (1,402 million euros) and "Trade payables" for energy-related pass-through costs payable (1,742.4 million euros);
(6) the items "Tax assets", "Other current assets" for the amount of the other tax assets (10.1 million euros), "Other current liabilities" for the amount of other tax liabilities (65.6 million euros) and "Tax liabilities";
(7) the items "Other non-current liabilities", "Current financial liabilities" and "Other current liabilities" net of other tax liabilities (65.6 million euros);
(8) the items "Employee benefits", "Provisions for risks and charges" and "Deferred tax liabilities";
(9) the items ""Long-term loans", "Current portion of long-term loans", "Non-current financial liabilities", "Cash and cash equivalents", "Non-current financial assets" for the value of FVH derivatives (707.6 million euros).

- property, plant and equipment (+747.4 million euros net of the related depreciation of -271.8 million euros and the related set-up grants for -15.5 million euros);
- intangible assets (+31 million euros, of which +21.7 million euros for Rights on the infrastructure, net of the related depreciation and amortisation accruing to the period of -39.1 million euros).

Total investments (in property, plant and equipment and in intangible assets) made by the Group in the first nine months of 2012 amounted to 778.4 million euros, down up by 8.6% compared with the 851.5 million of the corresponding period in 2011.

The increase in **financial assets** of 4.3 million euros was essentially due to adjustment to end-of-period shareholders' equity referable to Terna S.p.A.'s equity investment in the associate CESI (+4.2 million euros) - in which during the period the Group acquired a further stake during the period, for approximately 0.291%.

Net working capital amounted to -705.1 million euros and during the first nine months generated less cash of 19.1 million euros than FY 2011, owing to the combined effect of:

- a reduction in trade payables of 244.5 million euros, to a large extent for purchases and services for the increased investment activity over the last part of 2011, and also the effect of the payment by the Parent of considerable payables outstanding at the end of 2011 at the beginning of this financial year;
- an increase in trade receivables for 17.8 million euros, relating to the amount receivable for the payment of transmission activities (+69.3 million euros), offset by the lower receivables relating to dispatching activities (24.4 million euros, mainly for period collections in relation to incentives) and non-regulated activities (27.1 million euros);
- an increase in net trade payables relating to items originating from the electricity dispatching activities carried out by the Parent Company (93.4 million euros), mainly connected with:
  - an increase in net payables for items relating to EUSES – Essential Units for the Safety of the Electrical System (107.6 million euros), for congestion rent income (37.2 million euros), for virtual interconnection activities (24.8 million euros) and for the production capacity availability (15.5 million euros);
  - the reduction of net payables for capacity payments (99.5 million euros);
- an increase in net tax payables of 110.9 million euros as a result essentially of payment of the balance of current taxes for financial year 2011 (123.9 million euros) and of tax advances for the current year (131.8 million euros), net of the recognition of taxes accruing to the period (320.5 million euros); there were also higher net VAT payables due to the tax authority (47.3 million euros);
- an increase in other liabilities (38 million euros), owing to the higher security deposits received from electricity market operators connected with dispatch contracts (+16.5 million euros) and greater liabilities for interest expense for the period (+24.5 million euros).

Gross invested capital, therefore, amounted to 8,911.8 million euros, recording an increase compared with the previous financial year of 472.9 million euros.

Sundry provisions declined by 52.2 million euros, owing mainly to provisions for net deferred tax liabilities which saw the significant following changes:

- use of amounts set aside previously by the parent company Terna and the subsidiary Terna Rete Italia S.r.l. relating to additional amortisation and depreciation with respect to the economic-technical rates (30.7 million euros and 5.6 million respectively);
- release of the proportion attributable (7.4 million euros) of provisions for deferred IRAP liabilities governed by Italian Law No. 244 of 24 December 2007 (2008 Budget);
- recording as equity of the deferred tax asset on the change of the fair value associated with the derivative cash flow hedging instruments for 13.8 million euros.

Net invested capital amounted to 8,399.2 million euros, an increase of 525.1 million euros compared with 31 December 2011 and is financed by shareholders' equity for 2,822.8 million euros (compared with 2,751 million euros at 31 December 2011) and by net financial indebtedness for 5,576.4 million euros (+453.3 million euros compared with the 5,123.1 million of 31 December 2011).

At 30 September 2012, the ***debt/equity*** ratio therefore came out at 1.98.

Reconciliation of consolidated equity and profit for the period with the corresponding figures for the Parent Company

The reconciliation of consolidated equity and profit for the period and the corresponding figures for the Parent Company for the first nine months of 2012 is shown in the following table:

In millions of euros	**Net profit First 9 months 2012**	**Shareholders Equity at 30/09/2012**
Financial Statements of the Parent Company	**309.0**	**2,581.5**
Profit/loss and equity contributed by the subsidiaries - Core business	42.9	102.7
Profit/loss and equity contributed by the subsidiaries - Non-core business	-0.2	119.9
Contribution of equity-accounted investees	3.8	18.7
Terna Group Consolidated financial statements	**355.5**	**2,822.8**

Cash flows

Net financial debt

The Group's net financial debt at 30 September 2012 (5,576.4 million euros) is broken down in the table below. The figures given are taken from the consolidated statement of financial position (Appendix II) through specific reconciliation notes at the foot of the table.

In millions of euros	30.09.2012	31.12.2011	Change
Financial debt of continuing operations			
A. Medium- and long-term debt			
- Bond loan(1)	5,746.7	4,303.9	1,442.8
- Floating-rate loans(1)	2,387.5	2,434.8	-47.3
- Derivative financial instruments(2)	-559.9	-410.4	-149.5
Total	**7,574.3**	**6,328.3**	**1,246.0**
B. Short-term debt (cash and cash equivalents):			
- Floating-rate loans (current portions)(3)	69.4	59.7	9.7
- Short-term investments	0.0	-150.0	150.0
- Cash and cash equivalents	-2,067.3	-1,114.9	-952.4
Total	**-1,997.9**	**-1,205.2**	**-792.7**
Total net financial debt	**5,576.4**	**5,123.1**	**453.3**

During the first nine months of financial year 2012 net financial debt increased by 453.3 million euros owing to the combined effect of:

- an increase in bond loans (1,442.8 million euros), due essentially to the bond issued on 13 February 2012 for a total amount of 1,250.0 million euros (1,245.2 million net of expenses and the issue discount), as a result of adjusting financial instruments to fair value (185.4 million euros, including the amortised cost) and of capitalising inflation in the period (12.2 million euros);
- repayment of EIB loan instalments falling due of 37.8 million euros;
- an increase in the positive net balance of derivative financial instruments (149.5 million euros), mainly due to lowering of the reference interest rate curve compared to the previous financial year. In particular, we can note the change in fair value hedges of bonds of 185.8 million euros and the change in cash flow hedges of floating-rate debt of -36.3 million euros;
- advance redemption of deposit certificates subscribed in 2011 and due on 14 June 2013 (150 million euros);
- increased liquid funds (952.4 million euros) mainly due to the liquidity generated by the issue of the bonds described above and by current Group operations during the period.

In the Consolidated Statement of Financial Position (Appendix II):
(1) the balance corresponds to the item "Long-term loans";
(2) the balance corresponds to the items “Non-current financial liabilities” and “Non-current financial assets” for the value of FVH derivatives (707.6 million euros);
(3) this figure corresponds to the item "Current portion of long-term loans";

Cash flow

The consolidated cash flow at 30 September 2012 and 30 September 2011 is presented in the statement below.

In millions of euros	Cash flow 30.09.2012	Cash flow 30.09.2011*
Opening cash and cash equivalents	**1,114.9**	**156.3**
of which cash and cash equivalents of discontinued operations	***0.0***	***6.2***
- Net Profit for the period	355.5	319.5
of which attributable to continuing operations	*355.5*	*224.6*
- Amortisation and depreciation	310.9	289.0
- Net change in provisions	-52.2	-9.2
- Net losses (gains) on asset disposals	-3.4	-1.4
Self-financing	**610.8**	**597.9**
- Change in net working capital	-19.1	239.4
Cash flows from operating activities	**591.7**	**837.3**
Investments		
- Property plant and equipment	-747.4	-817.5
of which attributable to continuing operations - core business investments	*-742.6*	*-810.0*
- Intangible assets	-31.0	-34.0
- Other changes in non-current assets	21.2	12.8
- Change in equity investments	-4.1	-40.6
Total cash flows provided by/(used in) investing activities	**-761.3**	**-879.3**
NIC Discontinued operations	**0.0**	**202.2**
- Change in loans	1,405.7	703.6
of which attributable to continuing operations	*1,405.7*	*728.4***
Other changes in equity attributable to owners of the Parent	-22.4	-45.3
of which attributable to continuing operations	*-22.4*	*-16.3*
- Dividends paid to shareholders of the Parent	-261.3	-261.3
- Equity attributable to non-controlling interests in discontinued operations	0.0	-0.2
Total cash flows provided by/(used in) financing activities	**1,122.0**	**396.8**
Total cash flows for the period	**952.4**	**557.0**
of which attributable to continuing operations	*952.4*	*563.2*
Closing cash and cash equivalents	**2,067.3**	**713.3**

* *The figures have been recalculated to take into account the change in accounting for the Group's release of goodwill for tax purposes;*

** *Includes as at 30.09.2011, the total Group loan in favour of NRTS (233 million euros on capital account and the net financial liability position of 43.3 million euros) and as at 31.12.2010, the net financial asset position with regards to RTR (254.6 million euros)*

The cash flow provided by operating activities during the period came to approximately 591.7 million euros and can be attributed to self-financing (610.8 million euros) and to the financial resources (19.1 million euros) used by net working capital.

As far as **self-financing** is concerned, we can note the profit for the period of 355.5 million euros, the amortisation and depreciation for the period of 310.9 million euros and a net decrease in provisions of 52.2 million euros, ascribable mainly to the change in provisions for net deferred tax liabilities.

The change in **net working capital**, of -19.1 million euros, is mostly attributable to the reduction in net trade payables (including pass-through energy-related economic items) and partly offset by the greater tax payables.

Investing activities used financial resources of approximately 761.3 million euros, mostly referable to investments made during the period in property, plant and equipment (747.4 million euros) and intangible assets (31 million euros) – attributable to the Parent Company for a total of 748.6 million euros – net of the related contributions. In this regard we can also note a change in the value of equity interests (4.1 million euros), mainly due to the adjustment of equity at period end of the investment held by Terna S.p.A. in the associate CESI, for which during the period the Group purchased a further share for approximately 0.291%

Own capital flows were mainly used in distributing the 2011 dividend balance to shareholders of the Parent Company (261.3 million euros).
The other changes in equity attributable to owners of the Parent relate essentially to recognition at fair value of derivative instruments hedging CFH floating-rate debt, net of the related tax effect (-22.3 million euros).

Therefore, cash flows used in investing activities and in equity movements determined in the period a total requirement of 1,045 million euros funded in part by cash flows provided by operating activities (591.7 million euros) and, for the rest, by increasing net debt (453.3 million euros).

In line with CESR/05-178b recommendation, the cash flow data are taken from the consolidated accounting statements (Appendix II) through specific reconciliation notes illustrated in the table below.

In millions of euros	Cash flow 30.09.2012	Reconciliation financial statements	Cash flow 30.09.2011	Reconciliation financial statements
Opening cash and cash equivalents	**1,114.9**		**156.3**	
of which cash and cash equivalents of discontinued operations		***0.0***		***6.2***
- Net Profit for the period	355.5		319.5	
of which attributable to continuing operations		*355.5*		*224.6*
- Amortisation and depreciation	310.9		289.0	
- Net change in provisions	-52.2		-9.2	
Employee benefits		*1.3*		*-0.4*
Provisions for future risks and charges		*-0.2*		*-33.0*
Deferred tax liabilities		*-53.3*		*24.2*
- Net losses (gains) on asset disposals (1)	-3.4		-1.4	
Self-financing	**610.8**		**597.9**	
- Change in net working capital:	-19.1		239.4	
Inventories		*8.8*		*-5.4*
Trade receivables		*-342.0*		*21.7*
Current financial assets		*-1.0*		*-4.3*
Income tax assets		*-7.4*		*-116.2*
Other current assets		*-5.9*		*-4.9*
Trade payables		*173.1*		*120.5*
Tax liabilities		*72.2*		*223.4*
Current financial liabilities		*24.5*		*20.6*
Other liabilities		*58.6*		*-16.0*
Cash flows from operating activities	**591.7**		**837.3**	
Investments				
- Property, plant and equipment (2)	-747.4		-817.5	
of which attributable to continuing operations - core business investments		*-742.6*		*-810.0*
- Intangible assets (3)	-31.0		-34.0	
- Other changes in Non-current assets	17.1		-27.8	
Goodwill		*0.0*		*0.0*
Intangible assets		*0.1*		*0.0*
Property, plant and equipment (2)		*21.3*		*12.9*
Other non-current assets		*-0.2*		*-0.1*
Equity-accounted investees		*-4.1*		*-40.6*
Total cash flows provided by/(used in) investing activities	**-761.3**		**-879.3**	
NIC in discontinued operations and assets held for sale	**0.0**		**202.2**	
- Change in loans	1,405.7		703.6	
Non-current financial assets		*-185.8*		*-279.7*
Current financial assets		*150.0*		*-600.0*
Non-current financial liabilities		*36.3*		*52.4*
Long-term loans		*1,395.5*		*1,490.8*
Current portion of long-term loans		*9.7*		*0.0*
Short-term loans		*0.0*		*0.0*
Discontinued operations and assets held for sale		*0.0*		*22.1*
- Other changes in equity attributable to owners of the Parent (4)	-22.4		-45.3	
Equity attributable to owners of the Parent - Share capital, other reserves and retained earnings		*-22.4*		*-16.3*
Equity attributable to owners of the Parent - Reserves for assets held for sale		*0.0*		*-29.0*
- Dividends paid to shareholders of the Parent	-261.3		-261.3	
- Equity attributable to non-controlling interests in discontinued operations and assets held for sale	0.0		-0.2	
Total cash flows provided by/(used in) financing activities	**1,122.0**		**396.8**	
Total cash flows for the period	**952.4**		**557.0**	
of which attributable to continuing operations		*952.4*		*563.2*
Closing cash and cash equivalents	**2,067.3**		**713.3**	

Related party transactions

Taking into account that Cassa Depositi e Prestiti S.p.A. exercises de facto control, as ascertained in 2007, related party transactions undertaken by the Group during the first nine months of 2012 consisted of intra-group transactions, transactions with employee pension funds (Fondenel and Fopen), and transactions with companies belonging to:

- the GSE Group;
- the Enel Group;
- the Eni Group;
- the Ferrovie dello Stato (State Railway) Group;

and with ANAS S.p.A.

Related party transactions carried out in the first nine months of 2012 consisted substantially of services under the scope of ordinary business and settled at market terms, as is described in greater detail in the Consolidated and Separate Statements at 31 December 2011. In addition, transactions with members of the Board of Statutory Auditors of the Parent Company, and in particular their fees, are detailed in the comments on the "Services" item in the Notes to the Consolidated Financial Statements at 31 December 2011, to which reference should be made.

It should be recalled that the rules on Corporate Governance and Ownership Structures which the Parent Company has produced, detailed in the specific Report published together with the 2011 Financial Report, to which you are referred, lay down the conditions for ensuring that related party transactions be carried out observing the criteria of procedural and substantial correctness and at the same terms that would apply to independent counterparties. This also defined the rules on market transparency disclosures.

We can note that, during the first nine months of 2012, no significant transactions, that is to say related party transactions identified in compliance with the provisions of Appendix 3 to the "Regulation containing rules on related-party transactions" (adopted with Consob Resolution No. 17221 of 12 March 2010, as amended with Consob Resolution No. 17389 of 23 June 2010), were carried out, nor were transactions subject to compulsory disclosures but concluded applying the exclusion established by the Regulation, insofar as they were “transactions coming under the scope of the ordinary business of the Company's continuing operations or those of its subsidiaries or associates or financial activities related thereto, provided that they were concluded at conditions equivalent to market or standard terms”.

Please note that in accordance with new regulations introduced by Consob Resolution No. 18049 of 23 December 2011 published in the Italian Official Journal No. 303 of 30 December 2011 and in force as from 31 December 2011, the disclosure on fees relating to “members of the administrative and auditing bodies, general managers” and other “executives with strategic responsibilities” and on the equity interests held by the same, was included in the annual remuneration report published at the same time as the 2011 Financial Report of Terna and of the Terna Group.

National Transmission Grid

Number and dimensions of plants

The number and dimensions of plants belonging to the Parent Company Terna during the third quarter increased overall by 3 stations, 16 bays, 2 transformers and 5 three-phase circuits for a total of 12.3 km. Below are the main changes:

Stations

- activation of 3 new stations: Tuscania (2 380 kV bays, 1 150 kV bay, 1 380 / 150 kV 250 MVA self-transformer, 1 150 / 20 kV 40 MVA transformer), Aliano (5 380 kV bays, 3 150 kV bays, 2 380 / 150 kV 250 MVA self-transformers) and Monte Narbone (3 150 kV bays);
- activation of the new double phase shifting transformer (PST) in the station of Foggia (2 380 kV machines, each 1,800 MVA, 6 380 kV bays),
- activation of 1 220 / 132 kV transformer (250 MVA) in Pianezza station;
- activation of 3 bays in the stations of Milan Porta Volta (1 220 kV bay), Ginestra and Maida (1 bay of 150 kV each);
- decommissioning, sale and/or demolition of 5 bays in the stations of Milan Porta Volta and Cardano (1 bay on the 220 kV line each) and Cedegolo (2 machine bays 132 kV, 1 line bay 132 kV);
- decommissioning of 1 220 / 132 kV transformer (100 MVA) in Chatillon station;
- sale of 2 132 / 10 kV transformers (70 MVA) in Cedegolo station;
- sale of non-standard plants of Suvereto SC (1 132 / 15 kV 8 MVA transformer, 1 machine bay 132 kV) and Ferrara 2 (1 132 / 15 kV 16 MVA transformer, 1 machine bay 132 kV).

Long-distance power lines

- development of the new Carpi South - Carpi North 132 kV connection for 9.9 km.

The number and dimensions of the assets of the subsidiary Terna Rete Italia S.r.l. at 30 September 2012 reduced by one three-phase circuit compared with the situation at 30 June 2012, for a total of 2.4 km.

Investments

During the first nine months of 2012 the Group carried out the following investments:

Terna Group investments	*In millions of euros*	% of total investments
Investments		
- Transmission lines	419.7	53.9%
- Transformation stations	287.0	36.9%
- Other	35.9	4.6%
Total Investments in property, plant and equipment - core business	***742.6***	***95.4%***
Total investments in intangible assets - core business	***31.0***	4.0%
Total investments in core business	**773.6**	**99.4%**
Investments in property, plant and equipment - non-core business	4.8	0.6%
TOTAL	**778.4**	**100.0%**

The main investments of the period include:

- progress made on work relating to the Sorgente – Rizziconi work (160 million euros); the first three-phase underwater cables have been laid and the first optic fibre cable and cable protection is underway. The well excavation works in Favazzina have also begun (Scilla side) and the sub-horizontal tunnel, work on developing long-distance overhead 380 kV power lines in Calabria is continuing.
  Additionally, in Scilla (Calabria – Reggio Calabria), the buildings, reactors and armoured equipment of the station has been completed; the electro-mechanical assembly work and tests of the HV 150 kV equipment have also been completed. Works are underway on the 380 kV section in addition to civil finishing works (fencing, drainage part and organisation of roads and courtyards).
  In Sorgente (Sicily - Messina), reactor assembly has been completed and the self-transformer tested; internal civil works are currently being finished for the station and the access roads organised.
  In Villafranca, the site is being organised.
  In July 2012, the sites were opened for the 380 kV electric main from Sorgente to Villafranca and service roads, provisioning of materials and the development of the first foundations are underway;
- works have continued to develop the Trino-Lacchiarella work (64 million euros).
  Foundations are currently being developed and supports assembled both on traditional and tubular pylons;
- development of the Aliano power station and its connection, works coming under the scope of the restructuring of the North Calabria Grid works (28 million euros);
- continuation of the works for the station and installation of an SPS (System Phase Shifter) in the electrical station of Villanova (18 million euros);
- development of armoured works in Piossasco station (16 million euros);
- continuation of works for the Capri - Mainland connection with the doubling up of the second overland connection of Patria - Cuma to power the Ischia CP (18 million euros);

- continuation of works for the Foggia - Villanova connection with the installation in Foggia station of an SPS (17 million euros);
- conclusion of works in Castellaneta electrical station (380/150 kV) (13 million euros)
- continuation of works for the Capri - continent interconnection with the doubling up of the second overland connection of Patria Cuma to power the Ischia CP (16.7 million euros).

Energy trend in Italy

Electricity demand in the first nine months of 2012

(GWh = millions of kWh, absolute values and % changes with respect to the same period of the previous year).

	1 January - 30 September			
	2012*	2011	Change	%
Net generation	**217,507**	**221,026**	**-3,519**	**-1.6%**
Hydroelectric	31,512	37,599	-6,087	-16.2%
Thermoelectric	157,594	164,778	-7,184	-4.4%
Geothermoelectric	3,930	3,981	-51	-1.3%
Wind power	9,092	6,628	2,464	37.2%
Photovoltaic	15,379	8,040	7,339	91.3%
Imported	32,203	33,591	-1,388	-4.1%
Exported	1,991	1,301	690	53.0%
Export balance	**30,212**	**32,290**	**-2,078**	**-6.4%**
Consumption for pumping	**2,039**	**1,790**	**249**	**13.9%**
Electricity demand	**245,680**	**251,526**	**-5,846**	**-2.3%**

**Provisional data*

Net generation from January to September 2012 (217,507 GWh) is 1.6% lower than the same period of 2011, whilst the export balance is down 6.4%. The demand for electricity in the first nine months of the year is down 2.3% on the same period of 2011.

Research and Development

To introduce new technological and systems solutions, new instruments and methods aimed at improving the reliability of plants and, therefore, service quality, Terna mainly uses in-house technicians who base their work on the careful monitoring and analysis of the performance of equipment and plants. Terna also uses the specialised support of manufacturers, collaboration with universities, RSE S.p.A. (Ricerca Sistema Energetico) and CESI S.p.A., a specialised service company in which it has a 42.698% equity interest. In particular, in the first nine months of 2012 the Terna Group incurred costs of 10.1 million euros in respect of the associate CESI of which 9.4 million euros were capitalised.

The accounting treatment of research and development expenses is discussed in the “Intangible Assets” paragraph of section “A. ACCOUNTING POLICIES AND MEASUREMENT CRITERIA” of the Notes to the Financial Statements of Terna S.p.A. at 31 December 2011.

Studies for innovation and the development of new engineering solutions take place along the following research lines:

Purpose	Projects and stage of progress 2012
OPTIMISATION OF STRUCTURES AND MATERIALS	
Design of supports with less visual impact and/or improved environmental integration	**International “Pylons of the Future” contest** The executive design of the prototypes has been completed and the load tests successfully completed on the type N DT-24 and NST30 supports at the test field of Guasticce (LI). The foundation design has been completed and commissioning begun for the production of 6 supports.
Upgrading of transmission capacity of existing lines	**Innovative high-performance conductors** Type and installation tests have been completed on the real span of the ACSS-type high temperature conductors (and related clamps), characterised by a steel carrier with very high mechanical resistance and annealed aluminium cladding.
New technology for high voltage cables	**P-Laser** The new cable developed by Prysmian for high voltage (a technology already consolidated on medium voltage), is produced with completely recyclable raw materials. It will enable a reduction in the environmental impact of grids and, at the same time, a rise in their energy transport capacity. The launch stage involves work on testing the prototype in the laboratory and installing a pilot on a plant under construction.
Station optimisation	**Optimisation of layout and structures** A project is currently underway that entails the revising of all electromechanical station layouts envisaged by the current Terna Unified Project with a view to optimising space and therefore reducing electromechanical distances where possible. At the same time, optimisation is being completed of certain structures (fences, fireproof walls, ATR foundations, tanks, etc.) according to the maximum loads to which they are subjected. Different cases have been studied and processed (seismic cuts, wind cuts, functional cuts on each level of voltage) to be applied correctly to different situations, reducing oversizing.

EQUIPMENT DIAGNOSTICS	
Advance signalling of anomalies	**New sensors on equipment and machinery** In the Lacchiarella station, on the 132 kV section, the equipment monitoring system is currently being installed. Transformer monitoring has also been commissioned in ten different stations throughout northern Italy.
Analysis and monitoring of line components	**Insulator test laboratory** A project is planned for development of an experimental station for the study and monitoring of surface contamination of insulators. At present, the feasibility study has been concluded, which has enabled the most appropriate sites to be identified and outline planning is in progress for the work on the related authorisations.
Temperature monitoring on high voltage cables	**DTS (Distributed Temperature Sensing)** On a number of cable connections, in order to monitor the operating temperature of the cables in place and make the most of the transport capacities, Distributed Temperature Sensing (DTS) systems have been installed. The data collection and monitoring systems are experiencing operating problems that make it difficult to manage and analyse the data. This activity is prior to defining a specific technique for the acquisition of this technology and installation criteria.
Monitoring of partial discharges on high voltage cable systems	**PDM (Partial Discharge Monitoring)** On a number of cable connections systems have been installed to monitor partial discharge at joints and terminals. Examination of the data collected and of the technologies available on the market, and in a period of rapid evolution, is aimed at finalising a specific technique for the acquisition of such systems and at defining the installation criteria. Other systems are also being assessed to monitor the components installed.
PLANT SAFETY	
Transformer safety	**Fire prevention in the event of serious faults** A further improvement is being studied with regards to safety, consisting of preventing the possibility of explosion and fire in the event of serious failures.
SicurTrafo Project	**Improvement of insulation coordination** The study has been completed to improve protection from overvoltage of atmospheric origin; the study has shown room for improvement.
Reduction of seismic vulnerability	**Application of earthquake-resistant devices to the most vulnerable equipment** A study on the seismic vulnerability of the plants is being defined with particular attention to the equipment most at risk. The purpose of the study is to define earthquake-resistant devices to be inserted between the foundations and the support of equipment in order to improve response to earthquakes. The testing will end with a pilot application and preparation of a guideline for future installations. At present, Rome 3 University has been appointed to carry out tests on materials and size the devices. Pre-sizing has already been completed and the first "pilot" installation is being planned.

Human resources

Changes in the number of Terna Group employees are shown below:

Change in the workforce	at 30.09.2012	at 31.12.2011	Change
Executives	61	60	1
Junior management	500	490	10
Office staff	1,953	1,968	-15
Production workers	965	977	-12
Total	**3,479**	**3,495**	**-16**

** Includes the office staff of Terna Crna Gora with local contracts (Montenegro).*

The figures, for both periods of reference, do not include retirements with effect from 30 September 2012 and 31 December 2011, respectively.

The breakdown by company of the number of employees at 30 September 2012 is presented below:

At 30.09.2012	Terna S.p.A.	Terna Rete Italia S.p.A.	Terna Plus S.r.l.	Terna Crna Gora d.o.o.	Group Total
Executives	28	32	1	-	61
Junior management	136	358	6	-	500
Office staff	190	1755	5	3*	1953
Production workers	-	965	-	-	965
TOTAL	**354**	**3110**	**12**	**3**	**3479**

** Employees with local contract (Montenegro).*

At the end of the period, Group employees numbered 3,479, down 16 compared with 31 December 2011.

Significant events subsequent to 30 September 2012

Approval of the development plan for the national electricity grid 2011

On 2 October 2012, in accordance with Italian Legislative Decree no. 152 of 3 April 2006, as subsequently amended and supplemented, the Ministry for Economic Development approved the Development Plan for the national electricity grid 2011, prepared by Terna S.p.A..

5-year bond issue for 750 million euros, maturing on 16 February 2018

On **9 October 2012** Terna S.p.A. launched on the market a bond issue in euro, at fixed rate, with duration in excess of 5 years and maturity on 16 February 2018, for a total of 750 million euros under the scope of its Euro Medium Term Notes (EMTN) Programme. This has been assigned an A- Outlook Negative rating by Standard and Poor's, Baa1 Outlook Negative by Moody's and A outlook negative by Fitch.

The bond matures on 16 February 2018 and has a coupon of 2.875 and issue price of 99.736%. The security has been priced with a spread of 193 basis points as compared with the mid swap. The bonds, which will pay an annual coupon, will be listed on the Luxembourg Stock Exchange.

The transaction, intended for institutional investors and placed by a syndicate of banks made up of Credit Suisse, Deutsche Bank, Mediobanca, Morgan Stanley, Société Générale and Unicredit in their capacity as joint lead managers and joint book runners, was concluded successfully.

The bond is intended to finance the grid development investments envisaged in the Company's business plan.

Declaration by the executive in charge of the preparation of the company's accounting documents in accordance with the provisions of Art. 154-*bis*, paragraph 2 of Italian Legislative Decree no. 58/1998

The executive in charge of the preparation of the company's accounting documents, Luciano di Bacco, in accordance with Art. 154-*bis*, paragraph 2 of the Consolidated Law on Finance, declares that the accounting disclosure given in this Consolidated Interim Report on Operations at 30 September 2012 is coherent with the documents, books and accounts.

Appendix I

Italy's Regulatory Framework

Regulatory framework

Below is a brief description of the main regulatory measures issued in the third quarter of 2012 that affect the Company.

Italian Legislative Decree no. 123 of 22 June 2012 setting out "Implementation of Directive 2009/109/EC amending Directives 77/91/EC, 78/855/EC and Directive 2005/56/EC with regards to obligations relating to reports and documentation in the event of mergers and spin-offs", published in the Italian Official Journal of 3 August 2012.

Italian Law No. 92 of 28 June 2012 "Rules on employment market reform with a view to growth", published in the Italian Official Journal No. 153 of 3 July 2012.

This provides for changes to the rules on temporary contracts, project work, self-employment, traineeships, dismissal and redundancy incentives.

Italian Law Decree No. 95 of 6 July 2012 setting out "Urgent measures for the revision of public spending without changing citizen services", published in the Italian Official Journal No. 156 of 6 July 2012, converted, with amendments, by Italian Law no. 135 of 7 August 2012, published in the Italian Official Journal No. 189 of 14 August 2012.

This suspends the increase on VAT, deferring the increase of two percentage points from 1 October 2012 to 30 June 2013, as envisaged by Italian Law Decree no. 98/11. It enables the regions subjected to the financial stabilisation plan to apply the increased IRPEF rate early, in the maximum amount of 1.1%.

This provides for the reorganisation of the Ministry of Economy and Finance, the absorption of the Agency of the Territory (the land registry) by the Revenues Agency and an option right for Cassa Depositi e Prestiti (the Deposits and Loans Bank) on equity interests held by the State in Fintecna, Sace and Simest.

Decree by the Ministry for the Economy and Finance of 7 August 2012, published in the Italian Official Journal No. 210 of 8 September 2012.

The decree implements, under Article 157, paragraph 3 of Italian Legislative Decree no. 163/06, where it is established that "*Bonds and debt securities, until the start-up of operations of the infrastructure by the concession holder, can be guaranteed by the financial system, by foundations and private funds, according to the methods defined by Decree of the Ministry for the Economy and Finance jointly with the Ministry for Infrastructures and Transport*".

It identifies the parties who are able to provide guarantees on project obligations and establishes their term and release method.

Decree no. 161 of 10 August 2012 "Regulation setting out the methods for the use of excavation land and rocks", published in the Italian Official Journal of 21 September 2012.

Resolutions of the Authority for Electricity and Gas

Below is a short summary of the main resolutions passed by the Authority for Electricity and Gas (the "Authority") during the third quarter 2012.

Resolution 281/2012/R/efr

By resolution 281/2012/R/efr, the Authority defined a first regulation of the electricity dispatching service also for production plants powered by non-programmable renewable sources. More specifically, in promoting a greater assumption of responsibility of producers in relation to the efficient provision of electricity released to the grid and a regulation of the most cost reflective imbalances, it foresees, as from 2013, extending the application of imbalance fees to include production plants using non-programmable renewable sources. In order to guarantee a gradual application of the measure, the provision defines a transition period with the application of allowances within which the imbalances continue to be valued at the area price.

Resolution 283/2012/R/eel

With Resolution 283/2012/R/EEL, the Authority took urgent measures in the context of the proceedings initiated on the subject of limiting gas consumption in the thermoelectric sector during a gas emergency. The resolutions seeks to clarify the criteria for measuring supplies accepted on the market for dispatching services, with reference to the thermoelectric plants that have been involved by the gas emergency of February 2012, recognising users of the dispatching owners of these plants, in order to make financial exposure less burdensome, an advance on the economic items relating to movements connected with the emergency.

With this provision, the Authority also intervenes in the prices to cover the costs of essential units.

Resolution 288/2012/R/eel

With Resolution 288/2012/R/eel, the Authority has determined the procedure and selection criteria of pilot projects in relation to the storage systems admitted to the incentives envisaged by Art. 22.5 of the TIT. The resolution has specified the minimum selection requirements and optional requirements over and above the minimums that will constitute a preferential requirement for admission to the incentives and has defined the various steps of the admission procedure.

The resolution also governed the appointment, duties and fees of the independent commission of experts in charge of assessing and selecting the individual pilot projects on the transmission grid, according to the criteria identified by the resolution.

Resolution 298/2012/R/eel

With Resolution 298/2012/R/eel, the Authority has set out a series of determinations on the requests for an advance payment on the replenishment price, in relation to the essential systems for 2011. The resolution also contains some changes in relation to the variable cost items recognised for 2011 and 2012.

The Resolution also envisages the institution of a conformity control in relation to the amount of the contribution margin relating to the unit under the regime of the replenishment of costs and makes such changes to the regulation on the maximum number of the most significant functioning structures, for the identification of groupings of essential plants by Terna.

Resolution 299/2012/R/eel

With Resolution 299/2012/R/eel, the Authority has altered the method used to calculate the compensation mechanism of the average expense for the price for the assignment of rights to use the transport capacity on the previous day's market (CCT), under the scope of electricity dispatching service, in compliance with the sentence of the State Council no. 1212/2010. More specifically, at the request of the parties concerned, the Authority has ordered Terna to make the calculations and settle the economic items in relation to this provision.

Resolution 328/2012/R/eel

With Resolution no. 328/2012/R/eel, the Authority has once again acted on the Consolidated Act on Active Connections – TICA, dictating provisions enacting Resolution 226/2012/R/eel in accordance with which the reservation of grid capacity by the applicant for the connection only occurs where authorisation is also obtained.

More specifically, the provision:

- defines some simplifications of the connection procedure in the case of plants with a power of up to 1 MW
- defines the activities and responsibilities of the applicants requesting the connection and grid managers in greater detail, limiting revision of the technical solution for connection
- restore provisions concerning cases where the estimates accepted in relation to failure to comply with timing for the start-up of the authorisation procedure and the start-up of works developing the production plant are forfeited and forfeiture due to failure to update the grid manager on the progress made on proceedings.

Resolution 339/2012/R/eel

With Resolution 339/2012/R/eel, the Authority adopted urgent measures on the adaptation of services measuring electricity produced and released to the grid. More specifically, some changes have been made to the TIME (Consolidated Act on Metering) in terms of the responsibility for installation and maintenance and collection, validation, registration and making available of meter data for plants started-up as from 27 August 2012 in order to implement the provisions of the Fifth Energy Account.

Resolution 342/2012/R/eel

With Resolution no. 342/2012/R/EEL, the Authority has defined urgent measures in terms of regulating the imbalance of electricity and initiated awareness proceedings in terms of the trend of the electricity market in Sardinia. More specifically, the Authority has ordered Terna:

- to exclude the quantities and prices relating to the use of the secondary reserve from the imbalance prices and to redefine the price of failure to comply with dispatching orders in order to prevent enabled units from gaining advantage from failing to disburse the secondary reserve;
- to review Chapter 7 of the Grid Code, specifying in detail exactly what formulas are used to calculate each dispatching price, including that for imbalances;
- to prepare and send the Authority a new proposal for settling effective imbalances.

The Authority has also initiated an awareness investigation aimed both at ascertaining any speculation by one or more dispatching users and at identifying a more efficient, effective method for regulating effective imbalances. The terms for the conclusion of these investigations have been established as 31 December 2012.

Resolution 344/2012/R/eel

With Resolution 344/2012/R/eel, the Authority has positively verified two appendices to the Grid Code:

- Appendix A.72 incorporating the Procedure for the Reduction of Distributed Generation in emergency situations of the National Electricity System (RIGEDI) prepared by Terna following the user reference process. Appendix A.72 defines the methods by which to implement the reduction in the production by distributed generation plants connected to the medium voltage electricity grids in order to guarantee the safety of the National Electricity System where specific critical operating conditions arise;
- the updated version of Appendix A.70 setting out the technical regulation of the modified distributed generation system requirements to consider the applicable critical issues of certain prescriptions of the appendix, in particular for conventional rotating plants and wind power plants.

The resolution also made some changes to Resolution No. 84/2012/R/eel.

Resolution 354/2012/R/eel

With Resolution 354/2012/R/eel, the Authority ordered the archiving of Terna's request for the definition of a specific remuneration of all its plants coming under the scope of the National Transmission Grid, in accordance with Article 21, paragraph 6 of Italian Law Decree no. 1/12.

Resolution 389/2012/R/eel

With Resolution no. 389/2012/R/eel, the Authority asked Terna to extend the convention with the company Idroelettrica Valcanale for the supply of dispatching resources provided by the Company to assure continuity of electrical service in the territorial area assigned. The new expiry date has been established as 31 December 2014 without prejudice to the early termination of the effects of the agreement, if, prior to expiry, the conditions set out therein for the termination should be met.

Resolution 400/2012/R/eel

With this provision, the Authority has passed resolutions on essential plants and defined changes and supplements to the reference regulations, pursuant to Resolution 111/06.

More specifically, for 2013, it has established the values of technical-economic parameters relevant to the application of the regulations of alternative remuneration to typical regimes (i.e. the stipulation of contracts) and has notified Terna of these and all operators concerned.

Resolution 401/2012/R/eel

With this provision, the Authority has initiated an awareness investigation aimed at identifying the technical causes underlying the critical issues characterising the Sardinian electrical system. To carry out the investigation, the Authority will use a specific technical consultancy of an external party. The terms for the investigation are established as 31 March 2013.

Appendix II

Consolidated financial statements

This Appendix gives the accounting statements at 30 September 2012 of the Terna Group, prepared in accordance with IFRS-EU. These statements are not intended to represent the disclosure of the economic, equity and financial position of the Group in compliance with IAS 34.

TERNA GROUP INCOME STATEMENT *In millions of euros*	First nine months 2012	First nine months 2011*
A REVENUE		
1 Revenue from sales and services	1,270.7	1,190.0
2 Other revenue and income	28.0	24.6
Total revenue	**1,298.7**	**1,214.6**
B OPERATING EXPENSES		
1 Raw materials and consumables	10.8	15.5
2 Services	95.4	99.9
3 Personnel expenses	146.2	146.7
- gross personnel expenses	*199.0*	*197.4*
- gross personnel expenses, capitalised	*-52.8*	*-50.7*
4 Amortisation, depreciation and impairment	311.0	289.3
5 Other operating expenses	17.2	12.9
Total expenses	**580.6**	**564.3**
A-B Operating profit	**718.1**	**650.3**
C Financial income/expense		
1 Financial income	65.9	25.0
2 Financial expense	-142.5	-118.0
3 Share of profit/(losses) of equity-accounted investees	4.6	5.4
D Profit before taxes	**646.1**	**562.7**
E Income taxes	290.6	338.1
F Profit for the period from continuing operations	**355.5**	**224.6**
G Profit for the period from discontinued operations	**0.0**	**94.9**
H Profit for the period	**355.5**	**319.5**
Profit for the period attributable to the owners of the Parent	***355.5***	***319.5***
Earnings per share		
Basic earnings per share	0.177	0.159
Diluted earnings per share	0.177	0.159
Earnings per share from continuing operations		
Basic earnings per share	0.177	0.112
Diluted earnings per share	0.177	0.112

** The figures have been recalculated to take into account the change in accounting for the Group's release of goodwill for tax purposes;*

TERNA GROUP STATEMENT OF COMPREHENSIVE INCOME *In millions of euros*	First nine months 2012	First nine months 2011
Net profit for the period	**355.5**	**319.5**
Other components of comprehensive income		
- Cash flow hedges, net of tax effect of continuing operations	-22.3	-27.4
- Cash flow hedges, net of tax effect of discontinued operations	0.0	-29.0
Net comprehensive income for the period	**333.2**	**263.1**
Net comprehensive income for the period attributable to:	**333.2**	**263.1**
Owners of the Parent	333.2	263.1

TERNA GROUP STATEMENT OF FINANCIAL POSITION ASSETS *In millions of euros*	at 30.09.2012	at 31.12.2011
A- Non-current assets		
1 Property, plant and equipment	9,075.9	8,618.2
2 Goodwill	190.2	190.2
3 Intangible assets	272.5	280.7
4 Equity-accounted investees	70.9	66.8
5 Non-current financial assets	708.2	522.4
6 Other non-current assets	6.8	6.6
Total non-current assets	**10,324.5**	**9,684.9**
B- Current assets		
1 Inventories	7.5	16.3
2 Trade receivables	2,032.2	1,690.2
3 Current financial assets	6.5	155.5
4 Cash and cash equivalents	2,067.3	1,114.9
5 Income Tax assets	11.8	4.4
6 Other current assets	26.4	20.5
Total current assets	**4,151.7**	**3,001.8**
TOTAL ASSETS	**14,476.2**	**12,686.7**

TERNA GROUP STATEMENT OF FINANCIAL POSITION LIABILITIES *In millions of euros*	at 30.09.2012	at 31.12.2011
D- Equity attributable to owners of the Parent		
1 Share capital	442.2	442.2
2 Other reserves	744.8	766.9
3 Retained earnings	1,280.3	1,262.7
4 Interim dividend	0.0	-160.8
5 Net profit for the period	355.5	440.0
Total equity attributable to owners of the Parent	**2,822.8**	**2,751.0**
F- Non-current liabilities		
1 Long-term loans	8,134.2	6,738.7
2 Employee benefits	120.5	119.2
3 Provisions for risks and charges	193.6	193.8
4 Deferred tax liabilities	198.5	251.8
5 Non-current financial liabilities	147.7	111.4
6 Other non-current liabilities	133.5	137.1
Total non-current liabilities	**8,928.0**	**7,552.0**
G- Current liabilities		
1 Current portion of long-term loans	69.4	59.7
2 Trade payables	2,202.9	2,029.8
3 Tax liabilities	188.7	116.5
4 Current financial liabilities	64.6	40.1
5 Other current liabilities	199.8	137.6
Total current liabilities	**2,725.4**	**2,383.7**
TOTAL LIABILITIES AND EQUITY	**14,476.2**	**12,686.7**