Terna Group

Interim Financial Report

31 March 2012

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Introduction

This **Interim Financial Report of the Terna Group as of 31 March 2012**, not subject to auditing, 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 the Italian Legislative Decree no. 27 of 27 January 2010. Therefore it does not contain the required disclosures pursuant to IAS 34.

Summary of the first quarter

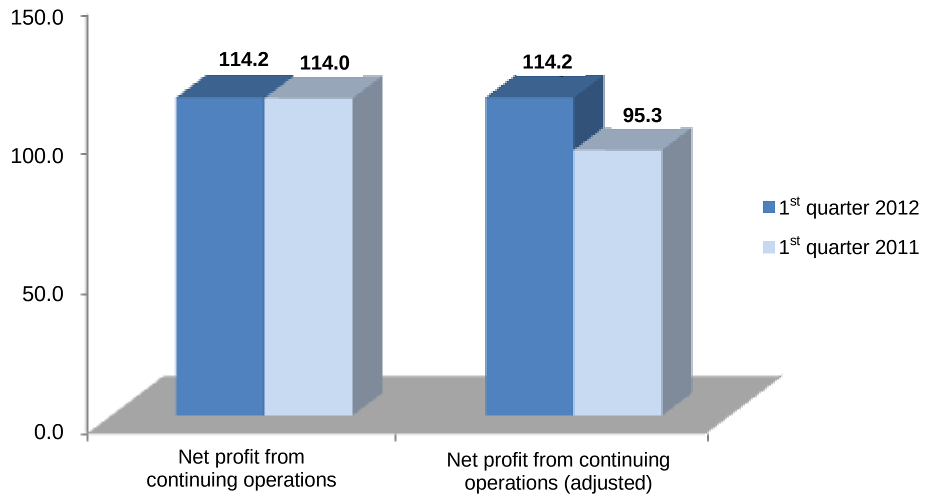
During the first quarter of 2012, which coincides with the beginning of the first regulatory period 2012-2015, Resolutions nos. 199/11, 204/11 and 197/11, with which the Authority for Electricity and Gas has set forth the remuneration for the supply of electricity transmission, distribution, measurement and dispatching services as well as the regulation of the quality of the transmission service, were implemented. In addition, the parent company Terna, in order to use and safeguard, to the greatest extent possible, its own resources and maximize the profitability of its assets, has continued in this first quarter the reorganisation process of its operations, already started at the end of 2011 and reflected in the guidelines of the 2012-2016 Business Plan, approved on 12 March 2012. Two new companies were established within the Terna Group: Terna Rete Italia S.p.A. (Core Business), established by the Parent Company on 23 February 2012 and Terna Storage S.r.l. (Non-Core Business), established by the subsidiary Terna Plus S.r.l. on 23 March 2012.

COMPREHENSIVE GROUP RESULTS

The consolidated income statement as of 31 March 2012 shows a **net profit from continuing operations** of €**114.2 million** (+0.2%), a slight increase compared with the same period of the previous year.

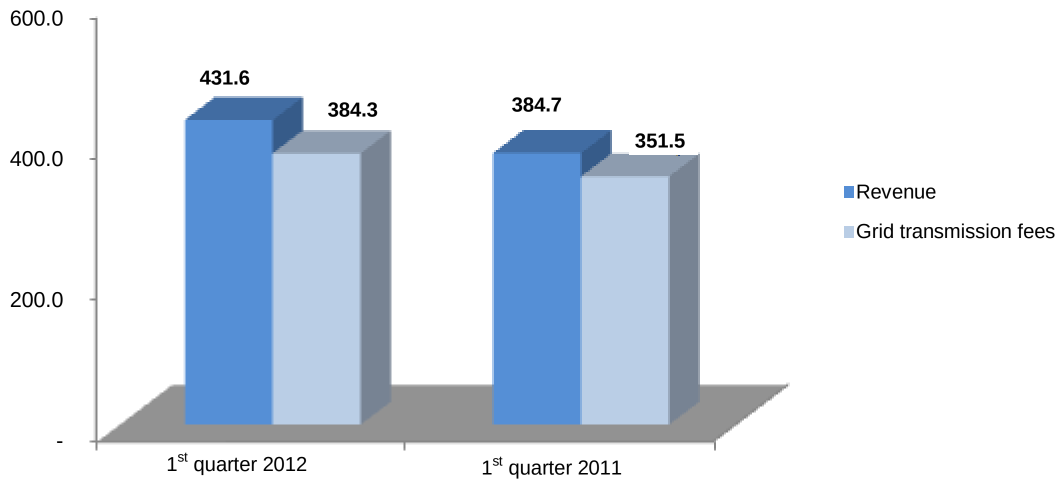
The application of the so-called Robin Hood Tax ("corrective manoeuvre-*bis*") also to the first quarter of 2011 has confirmed the **net profit for the period from continuing operations (*adjusted*)** of €95.3 million showing, in the first quarter of 2012, an increase of €18.9 million compared with the same period of the previous year.

In millions of euros



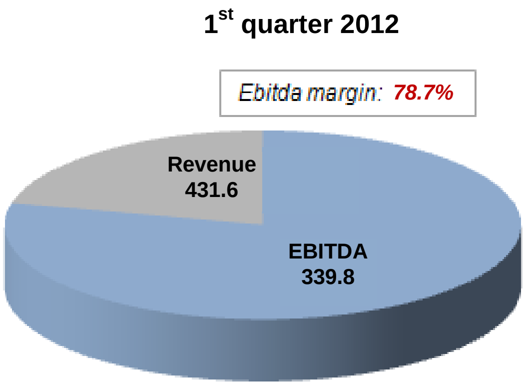
Revenue amounted to **€431.6 million**, of which €384.3 million relates to the transmission fee attributable to the Parent Company in the amount of €339.8 million and to the subsidiary Terna Rete Italia S.r.l. in the amount of €44.5 million.

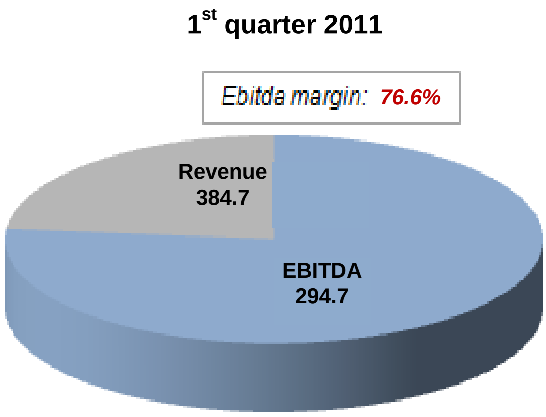
In millions of euros



Operating expenses amount to €91.8 million, of which €51.8 million for personnel expense and €33.0 million for services. **EBITDA** (gross operating profit) **stands at €339.8 million** (78.7%) of revenue showing an increase of €45.1 million from €294.7 million posted in the first quarter of 2011 (+15.3%). The subsidiary Terna Rete Italia S.r.l. contributes €43.6 million.

In millions of euros





EBIT (Operating profit) stands at approximately €238.6 million, after **depreciation and amortisation** charges of €101.2 million, of which €89.9 million attributable to the Parent Company and €11.2 million to the subsidiary Terna Rete Italia S.r.l..

Net financial expenses for the period amount to €31.0 million, up €5.9 million compared with the same period of 2011.

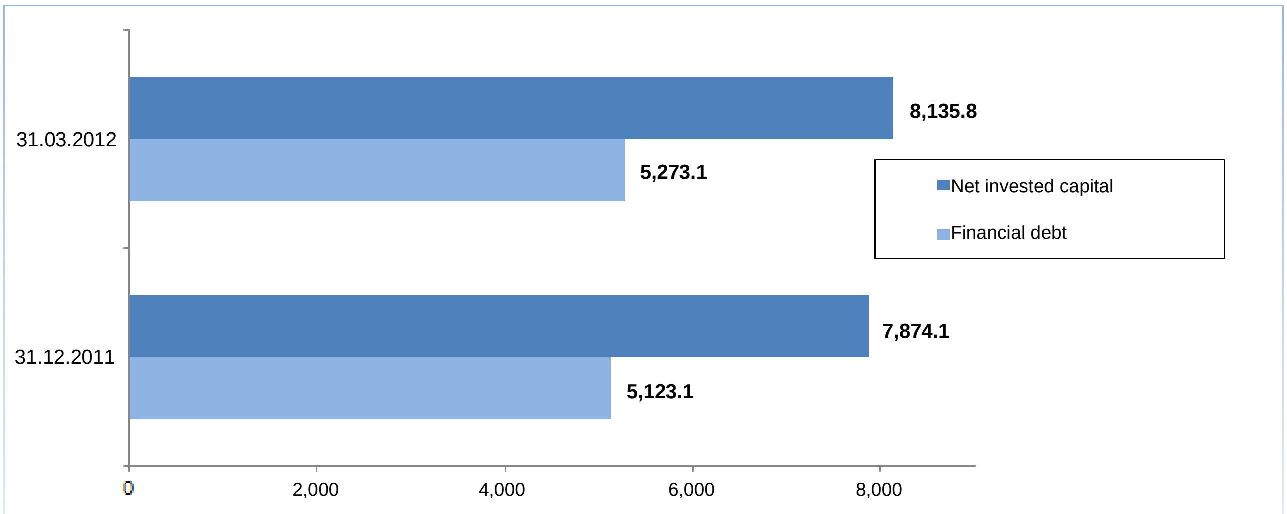
Profit before taxes, after net financial expense, amount to €207.6 million, up €33.2 million compared with the same period of last year (+19.0%).

Income tax charges for the period amount to €93.4 million, up €33.0 million (+54.6%) compared with the same period of the previous year and due mainly to the "corrective manoeuvre-*bis*" (the so-called Robin Hood Tax).

Profit for the period from continuing operations, due to this taxation, stands at €114.2 million, up €0.2 million (+0.2%) compared with the figure of the first quarter of 2011 (a negative €59.0 million compared to €173.2 million in the first quarter of 2011, if considering the contribution to the net profit for the period from the results attributed to the discontinued operations amounting to €59.2 million, concerning the portion pertaining to the transfer of the investment in Rete Rinnovabile S.r.l.) and attributable for €90.7 million to the Parent Company and for €23.6 million to the subsidiary Terna Rete S.r.l..

Total net invested capital, amounting to €8,135.8 million is covered by the **net equity** for €2,862.7 million and by the **net financial debt** for €5,273.1 million.

In millions of euros



Debt/equity ratio stands at 1.84.

Total investment in Core Business made by the Group during the period amounts to €245.4 million (of which €237.7 million attributable to property, plant and equipment), down 4.7% from €257.4 million posted in the first quarter of 2011.

Significant events in the first quarter 2012

Below are the main significant events of the first quarter of 2012.

Regulatory period

Resolutions published by the AEEG for the new tariffs in regulatory period 2012-2015

On **2 January 2012**, the Authority for Electricity and Gas (AEEG) published Resolutions nos. 199/11, 204/11 and 197/11 thereby establishing, for the new regulatory period 2012-2015, the remuneration for the supply of electricity transmission, distribution, measurement and dispatching services and the regulation of the quality of the transmission service. The new features introduced by AEEG Resolution 199/11 include taking the weighted average cost of capital (WACC) from the previous 6.9% to 7.4% and establishing a review by November 2013, to apply from the second two-year period of the regulatory period (2014-2015). There will also be a new incentive category (category I4) for an extra remuneration of accumulation systems amounting to 2% for a period of 12 years subsequent to the coming into force of the investments. As from 2012, the AEEG has recognised a further 1% on the WACC, aimed at compensating for the effect of the “regulatory lag”, i.e. the delay with which the tariff remunerates investments made. Resolution 204/11 updates for 2012 the price for the electricity dispatching service, amounting to €0.0526 c/kWh. Resolution 197/11 on the regulation of the quality of service confirms the framework of the previous regulatory period, based on a premium/penalty mechanism. Quality of service will only be monitored by the Energy not supplied index. With this mechanism, the potential maximum impact is estimated for the Terna Group as ranging between a negative €12/€30 million per year.

Finance

5-year bond issue for €1.25 billion

On **13 February 2012** Terna launched a bond issue on the market in euros, at a fixed rate, with expiry in 5 years, for a total of €1.25 billion under the scope of its Euro Medium Term Notes (EMTN) programme. This has been assigned an A- Credit Watch Negative rating for Standard and Poor’s, A3 Outlook Negative for Moody’s and A for Fitch.

The bond expires on 17 February 2017, has an annual coupon of 4.125% and issue price of 99.809%. The security has thus been priced with a spread of 257 basis points as compared with the mid swap. The securities are listed on the Luxembourg Stock Exchange.

The operation is intended for institutional investors and is placed by a pool of banks comprising BNP Paribas, Credit Suisse, Deutsche Bank, J.P. Morgan, Mediobanca, MPS Capital Services, Natixis and Unicredit Bank AG as joint-lead managers and joint-bookrunners; it closed successfully that same day, and was 4.5 times oversubscribed compared to the offer, 80% of which came from abroad. The bond is intended to finance the grid development investments envisaged in the Company’s business plan.

Terna rating

On **30 January 2012** Fitch Ratings revised the rating for the senior unsecured debt of Terna S.p.A. from A+ to A following the downgrading of the Italian Republic from A+ to A- with negative outlook. At the same time, Fitch confirmed both the long-term rating of the issuer at A with negative outlook and the short-term rating at F1. On **22 March 2012**, Fitch Ratings has confirmed the long term rating of the issuer (IDR) and the Company's non-guaranteed senior debt rating as "A"; the IDR outlook remains negative. At the same time, the Agency has confirmed also the issuer's short term rating as "F1". The confirmation of the rating reflects the higher visibility of the Company's financial profile following the submission by Terna S.p.A. of the new Business Plan.

On **8 March 2012** S&P confirmed the long and short-term rating of Terna S.p.A. as A- and A-2 respectively, and the senior unsecured debt rating at A-. In line with the Agency method for government related entities, these levels had been assigned to the Company on **20 January 2012**, following the downgrading from A to BBB+ of the Italian Republic. At the same time, the Agency removed the "CreditWatch" status with negative implications, the long-term rating of the Company and the rating of the senior unsecured debt, a status assigned by the agency in December 2011. The outlook is negative.

On **20 March 2012**, Moody's has confirmed its A3 credit rating assessment of Terna S.p.A. following submission of the new Investment Plan by the Company. Nevertheless, the Terna rating remains subject to a negative outlook due to the exposure of the Company to pressures related to the sovereign debt of Italy.

Business Plan

2012-2016 Business Plan

On **20 March 2012**, Terna approved the Terna Group Business Plan for the period 2012-2016; guidelines are set out below:

- **Core Business**: over the next 5 years, €4.1 billion will be invested in the safety and modernisation of the electricity grid, of which 82% will be for the National Transmission Grid development with investments focused on maximizing the use of system capacity and reducing congestion, fostering the development of generation capacity from renewable sources;
- **Non-Core Business**: up to approximately €1 billion will be used for the development of battery accumulation systems for 240 MW, at present awaiting authorisation and in any case as long as suitable remuneration is obtained. Additionally, both in Italy and abroad, investments of up to 900 million are planned in projects for private customers, with a forecast return that exceeds that of regulated business. In thus doing, the objective expenditure in Non-Core Business is doubled (up to €1.9 billion), with respect to the previous Plan;
- **improved margins (EBITDA margin):** it is expected that the increased revenue and cost controls will allow to achieve an accumulated EBITDA over the period 2012-16, up approximately 19% with respect to the previous five-year plan. Average annual growth in EBITDA goes from 5% to 7.5%,

showing a consistent improvement in operative cash flow. At the end of the period, the EBITDA margin will exceed 80% increasing with respect to the previous target of 78%;

- **a sound capital structure**: the commitment to strengthen equity coefficients continues. During the course of the plan, net debt is estimated as growing by approximately €1.6 billion to €6.7 billion, with a significant reduction of €1 billion with respect to the previous plan. The capital structure remains solid: during the plan, the ratio of net debt and RAB remains below 55% in all years of the plan and the ratio of net debt and EBITDA with respect to the 4.2 times of end 2011, remaining below the 4 times;
- **new dividends policy**: as from 2012, a basic dividend is envisaged from Core Business amounting to 19 euro cents per share, in addition to the contribution of Non-Core Business (payout of 60% on results and/or gains).

Corporate

Terna Cnra Gora share capital increase

On **10 February 2012**, Terna subscribed a share capital increase of the subsidiary Terna Cnra Gora for €5 million, in order to provide the company with the resources necessary to develop the business.

Establishment of a new company of the Group

On **23 February 2012,** Terna S.p.A. established a company called Terna Rete Italia S.p.A. with a share capital of €120,000; the purpose of the company is the planning, construction, management, development, operations and maintenance of power lines and grids, as well as other infrastructures connected to such grids, plants and equipment necessary for their operations within the sectors of the dispatch and transmission of electricity or in similar, related or connected sectors.

On **23 March 2012,** the subsidiary Terna Plus S.r.l. established the company called Terna Storage S.r.l. with a share capital of €10,000; the purpose of the new company is the planning, construction, management, development and maintenance of diffused accumulation of energy (including batteries) and pumping and/or storage systems.

Other

Terna alone in the Gold Class of the Sam Sustainability Yearbook 2012

On **30 January 2012** Terna, the only Italian electrical company and amongst the world's best, joined the Gold Class of the Sam - Sustainability Yearbook 2012, the yearbook of the international ratings agency that screens companies, assessing the possibility of their accessing, remaining in or being excluded from the prestigious Dow Jones indexes. If we compare this result with those of previous years (Silver Class in 2011, Bronze Class in 2010), we can see that Terna is reinforcing, indeed improving its position in a global top position, coming before some of the best international operators.

Tax Authority

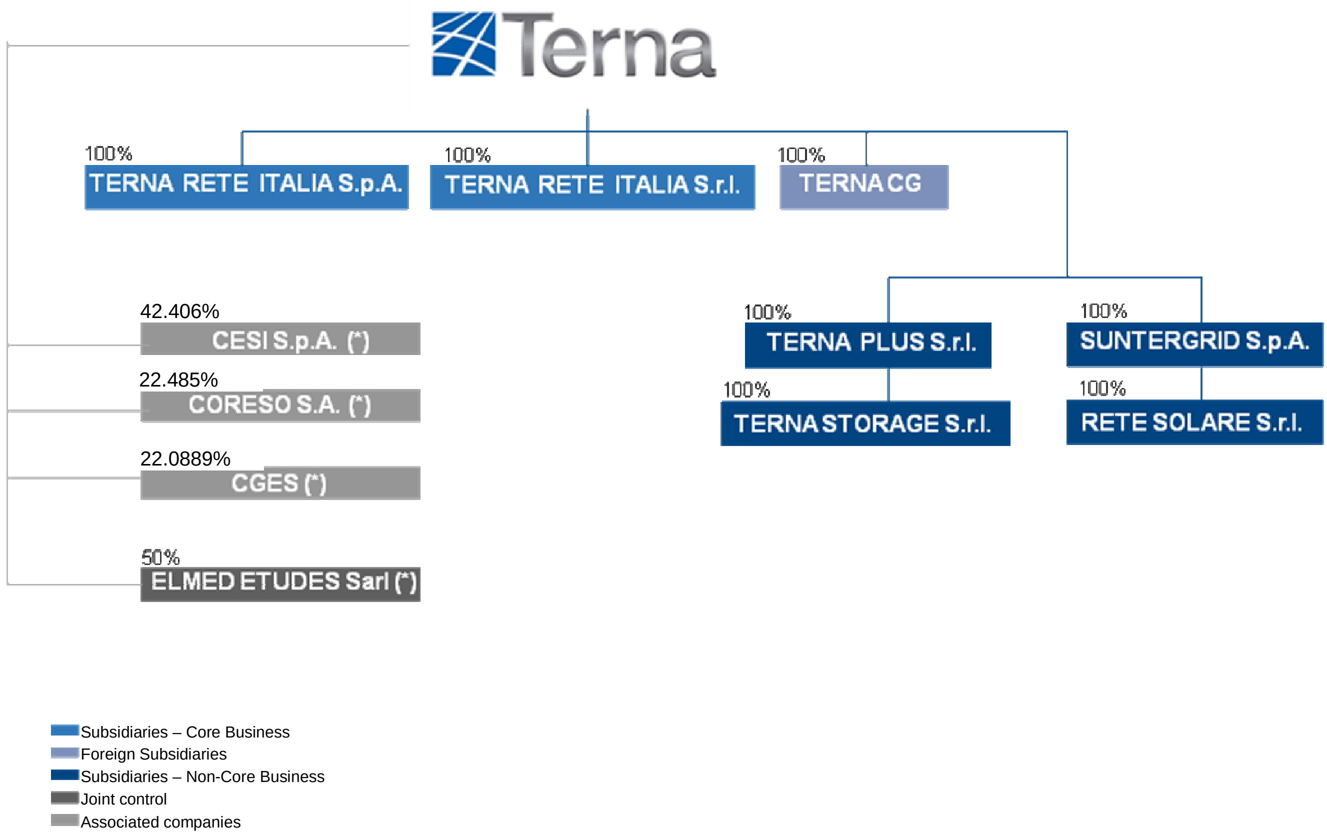
On **27 March 2012,** Terna was given, in its capacity as a promisor jointly with Enel Distribuzione S.p.A. ("Enel Distribuzione"), a liquidation notification of a higher tax resulting from the transfer operation of the investment held by Enel Distribuzione in Elat S.r.l. (later TELAT S.r.l., today Terna Rete Italia S.r.l.) to Terna S.p.A. (amounting to a total of €38 million, inclusive of all interest). According to the provisions of the equity investment sale agreement, Enel Distribuzione S.p.A. is required to hold Terna harmless from any and all costs, liabilities and damages deriving from the above notification and the issues contested therein. Enel Distribuzione, in agreement with Terna, intends to submit, in the appropriate forum, its own petition holding Terna harmless from any payments/advanced payments. Therefore, based on contract agreements, confirmed by Enel Distribuzione with a letter dated 17 April 2012, Terna does not believe that this liquidation notice will entail a payment.

Terna Group performance and financial position

In order to present the performance of the Terna Group and to analyse its financial position, management schedules have been prepared, obtained by reclassifying the consolidated data of the income statement and statement of financial position (Annex II). These reclassified statements which have not been examined by the independent auditors, contain alternative performance indicators that Management believes to be useful for monitoring Group performance and fairly reflect its financial position and results of operations. In line with recommendation CESR/05-178b, the criteria for constructing these indicators are described in the reconciliation footnotes to the reclassified statements.

Scope of consolidation

The structure of the Group at 31 March 2012 is as follows:



(*)Companies accounted for by the equity method.

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

Core Business

- the incorporation dated 23 February 2012 and carried out by Terna S.p.A. of the company named **Terna Rete Italia S.p.A.** with a share capital of €120,000; purpose of the company is the planning, construction, management, development, operations and maintenance of power lines and grids, as well as other infrastructures connected to such grids, plants and equipment necessary for their operations in the sectors of electricity dispatch and transmission or in similar, related or connected sectors.

Non-Core Business

- the incorporation on 23 March 2012, by the subsidiary Terna Plus S.r.l., of the company called **Terna Storage S.r.l.** with a share capital of €10,000; the purpose of the new company is the planning, construction, management, development and maintenance of diffused accumulation of energy, pumping and/or storage systems.

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 also specified that some comparative financial balances of the first quarter of the year 2011 have been adjusted in order to consider the change to the model for booking the release [1] of goodwill made by the Parent Company in 2009 for tax purposes. More specifically, the previous model for booking substitute tax (advances on current taxes) has been reviewed in line with the different accounting recognition (prepaid and current taxes) of the substitute tax paid in 2011, in relation to the release[2] of goodwill resulting from the consolidation of the subsidiary Terna Rete Italia. In particular, this restatement has entailed the posting, in the first quarter of 2011, of higher taxes amounting to €0.4 million as a combined effect of the reversal of deferred tax assets for €0.8 million and lower current taxes for €0.4 million.

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

Financial results

The reclassified consolidated income statement of the Terna Group for the first quarter of 2012 and 2011, is summarised in the table below, based on a reclassification of the data posted in the Consolidated Income Statement (Annex II).

	1 January - 31 March			
In millions of euros	2012	2011	Change	%
Revenue:				
- Grid transmission fees (1)	384.3	351.5	32.8	9.3%
- Other energy items (1)	32.8	19.2	13.6	70.8%
- Other revenue from sales and services (1)	6.1	7.2	(1.1)	(15.3%)
- Other revenue and income	8.4	6.8	1.6	23.5%
Total revenue	**431.6**	**384.7**	**46.9**	**12.2%**
Operating expenses:				
- Personnel expenses	51.8	51.7	0.1	0.2%
- Services and leases and rentals	33.0	30.8	2.2	7.1%
- Materials	2.7	3.6	(0.9)	(25.0%)
- Other costs (2)	4.3	3.9	0.4	10.3%
Total operating expenses	**91.8**	**90.0**	**1.8**	**2.0%**
EBITDA (gross operating profit)	**339.8**	**294.7**	**45.1**	**15.3%**
Amortisation and depreciation (3)	**101.2**	**95.2**	**6.0**	**6.3%**
EBIT (operating profit)	**238.6**	**199.5**	**39.1**	**19.6%**
- Net financial income (expense) (4)	(31.0)	(25.1)	(5.9)	23.5%
PROFIT BEFORE TAXES	**207.6**	**174.4**	**33.2**	**19.0%**
- Income taxes for the period	93.4	60.4	33.0	54.6%
NET PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	**114.2**	**114.0**	**0.2**	**0.2%**
Net profit for the period from discontinued operations held for sale	**0.0**	**59.2**	**(59.2)**	**(100.0%)**
NET PROFIT FOR THE PERIOD	**114.2**	**173.2**	**(59.0)**	**(34.1%)**
- Attributable to owners of the Parent	*114.2*	*173.2*	*(59.0)*	*(34.1%)*

Revenue, in the first quarter of 2012 amounts to €431.6 million and it is mainly to be attributed to the Parent Company for €386.2 million and to the subsidiary Terna Rete Italia for about €45.1 million. The €46.9 million increase posted for this item, compared with the corresponding period of 2011 (+12.2%), is due mainly to the effect of higher fees charged for electricity transmission (€32.8 million) and dispatch activities (€14.0 million). As regards grid transmission fees (CTR), the above mentioned increase is mainly referring to:

- the Parent Company for €25.1 million to be attributed to:

In the consolidated income statement (Annex II):
(1) this amount is included in the "Revenue from sales and services" caption;
(2) it corresponds to the item "Other operating expenses" and "Amortisation, depreciation and impairment losses" for the value of the asset impairment (€0.1 million);
(3) it corresponds to "Amortisation, depreciation and impairment losses" net of the impairment of the assets (€0.1 million);
(4) total of the captions presented in points 1, 2 and 3 of letter C-"Financial income/expense".

- – review of the transmission service fees (+€23.2 million);
- – grid transmission fees related to the Defence Plan (+€1.9 million);

- the subsidiary Terna Rete Italia for the share of NTG owned, in the amount of €7.7 million.

In the first three months of 2011, **operating expenses** of €91.8 million were mainly incurred by the Parent Company (€90.0 million) and show an increase of €1.8 million compared with the same period of last year (+2%) mainly due to the following combined effects:

- higher costs (+€2.1 million) for services rendered by third parties and related to higher charges for IT services, insurance costs and higher travel expenses;
- lower costs, in the amount of €0.4 million, for materials related to the reduction of investments in the dispatch infrastructures[3], mainly for the optimisation of services in the market completed in the first few months of the previous year.

EBITDA (Gross Operating Margin) for the period, amounts to €339.8 million, with an increase of €45.1 million compared with €294.7 million reported in the first three months of 2011 (+15.3%). During the period Terna Rete Italia accounts for €43.6 million.
The substantial increase in revenue, net of the modest increase in costs, is reflected in the **EBITDA margin**, up from 76.6%, in the first three months of 2011, to 78.7% in the corresponding period of 2012.

Depreciations and amortisations for the period show a €6.0 million increase compared with the same period of the 2011, due mainly to the Parent Company's new plants entering into operation.

EBIT (Operating Result), after having discounted amortisation and depreciation for €101.2 million (of which €89.9 million attributable to the Parent Company and 11.2 million to the subsidiary Terna Rete Italia), stands at about €238.6 million, up by €39.1 million (+19.6%) with respect to the first three months of 2011.

Net financial expenses for the period, amounting to €31.0 million, are entirely attributable to the Parent Company and show a €5.9 million increase, as compared with the €25.1 million in the same period of 2011, mainly due to the following combined effects:

- higher financial expense deriving from medium and long-term debt and the related hedges (a positive €12.5 million, including an adjustment to the fair value) to be attributed to the increase in gross borrowing and to higher reference rates;
- increase in financial income (a negative €7.2 million) to be attributed to greater liquidity invested at higher interest rates;
- greater capitalised financial expense (a negative €2.7 million) due to capital expenditure carried out during the period;

[3] Pursuant to IFRIC 12

- lower gain deriving from currency adjustment following the partial release, carried out in the previous period, of the risk provision concerning the transfer of equity interest in the Brazilian subsidiaries (+€1.7 million);
- gain deriving from the uplift financial component (a negative €1.6 million);
- higher financial expenses accrued in the period (+€3.1 million) concerning the use of the €500 million credit line obtained from Cassa Depositi e Prestiti;

Profit before taxes, less net financial expense, amount to €207.6 million, up €33.2 million compared with the same period of last year (+19.0%).

Income tax charges attributed to the period amount to €93.4 million up €33.0 million (+54.6%) from the same period of the previous year and due mainly to the "corrective manoeuvre-*bis*" (the so-called Robin Hood Tax) and the better result before taxes compared with the first three months of 2011.
The tax rate for the period is 45.0%, about 10 points increase compared with the first three months of 2011, due mainly to the effect of the above mentioned Robin Hood Tax.

The net **profit for the period from continuing operations**, due to this taxation, stands at €114.2 million, up €0.2 million (+0.2%) compared with the data of the first quarter of 2011 (a negative €59.0 million compared to €173.2 million of the first quarter 2011, which include the contribution to the net profit for the period from the results attributable to the discontinued operations, amounting to €59.2 million, concerning the portion pertaining to the transfer of the investment in Rete Rinnovabile S.r.l.).

Net profit for the period from continuing operations, by applying the effects of the "corrective manoeuvre-*bis*" also to the first quarter of the previous year, shows a €18.9 million increase (+19.8%) compared with the net profit of €95.3 million from the adjusted continuing operations profit as of 31 March 2011.

Financial position

Reclassified consolidated statements of financial position of the Terna Group at 31 March 2012, and 31 December 2011, obtained by reclassifying the figures shown in the consolidated statement of financial position (Annex II), are presented below.

In millions of euros	31.03.2012	31.12.2011	Change
Net non-current assets			
- Intangible assets and goodwill	465.4	470.9	(5.5)
- Property, plant and equipment	8,766.8	8,618.2	148.6
- Financial assets (1)	75.4	74.0	1.4
Total	**9,307.6**	**9,163.1**	**144.5**
Net working capital			
- Trade receivables (2)	605.9	612.4	(6.5)
- Inventories	7.1	16.3	(9.2)
- Other assets (3)	20.3	14.9	5.4
- Trade payables (4)	504.3	705.0	(200.7)
- Payables for pass-through energy items, net (5)	163.6	247.0	(83.4)
- Net tax liabilities (6)	264.1	121.5	142.6
- Other liabilities (7)	322.1	294.3	27.8
Total	**(620.8)**	**(724.2)**	**103.4**
Gross invested capital	**8,686.8**	**8,438.9**	**247.9**
Sundry provisions (8)	551.0	564.8	(13.8)
NET INVESTED CAPITAL	**8,135.8**	**7,874.1**	**261.7**
Equity attributable to owners of the Parent	**2,862.7**	**2,751.0**	**111.7**
Net financial debt (9)	**5,273.1**	**5,123.1**	**150.0**
TOTAL	**8,135.8**	**7,874.1**	**261.7**

Reported in the consolidated statement of financial position (Annex II) as:

(1) "Equity-accounted investees", "Other non-current assets" and "Non-current financial assets" for the carrying amount of the other investments (€0.6 million);
(2) "Trade receivables" net of receivables for energy-related pass-through revenue (€1,127.1 million);
(3) "Other current assets" net of other tax assets (€12,9 million) and "Current financial assets" in relation to the amount of deferred financial assets (€5.7 million);
(4) "Trade payables" net of the payable for energy-related pass-through costs (€1,290.7 million);
(5) "Trade receivables" for the value of receivables for pass-through energy revenue (€1,127.1 million) and "Trade payables" for the value of payables for pass-through energy costs (€1,290.7 million);
(6) "Income tax assets", "Other current assets" for the value of other tax receivables (€12.9 million), "Other current liabilities" for the value of other tax payables (€60.1 million) and "Income tax liabilities";
(7) "Other non-current liabilities", "Current financial liabilities" and "Other current liabilities" net of other tax liabilities (€60.1 million);
(8) "Employee benefits", "Provisions for risks and charges" and "Deferred tax liabilities";
(9) "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 (€547.2.million).

The increase in the **net non-current assets** amounting to €144.5 million, compared with the figures of 31 December 2011, is attributable mainly to the total investments carried out by the Group in property, plant and equipment (+€237.9 million) and in intangible assets (+€7.7million), net of the related depreciation portion (amounting respectively to €88.2 million and 13 million).

Total investments (in properties, plants and equipment and intangible assets) carried out by the Group in reference to the **core activities** in the first quarter of 2012 amount to €245.4 million, down by 4.7% compared with €257.4 million of the same period of 2011.

Net working capital stands at a negative €620.8 million and has generated liquidity for €103.4 million, essentially due to the following combined effects:

- decrease in commercial debts of €200.7 million, of which €194.7 million attributable to the Parent Company, mostly for the purchases and services related to the main investment activities carried out in the last period of 2011, as well as for the effects of the liquidation of substantial debt items, posted at the end of 2011, that was carried out in the first days of the quarter of this year;
- decrease in the net commercial debt related to items originating from the activity of dispatching electricity that was carried out by the Parent Company (€83.4 million) and deriving mostly from the combined effects of:
  - lower debts resulting from a reduction in the quantities and prices of the measurement of the imbalance (a negative €209.8 million); offset by:
  - decrease in net uplift receivables (+€73.1 million);
  - increase in the net debts deriving from virtual inter-connection activities (€22.8 million);
  - increase in net debts linked to the essential production units for the safety of the electrical system (€25.3 million);
- increase in net tax liabilities (€142.6 million) imputable for the most part to the recognition of income taxes for the period (€104.6 million), as well as to the higher net debt for VAT (€40.1 million);
- other higher liabilities (€27.8 million) to be ascribed mainly to:
  - guarantee deposits received by operators in the electricity market as a guarantee of contract obligations set forth in the dispatch contracts (€12.4 million);
  - increase in accrued interest on loans, bonds and related hedges held by the Parent Company (€10.3 million);
  - higher net contributions, under the plants item, received by the Group (€3.5 million) and due to assets still current as of 31 March 2012.

The **gross invested capital** therefore amounts to €8,686.8 million, showing a €247.9 million increase compared with the previous year.

Sundry provisions report a decrease of €13.8 million mainly attributable to the net deferred tax provision for the following reasons:

- utilisation of prior period allocations covering the accelerated depreciation recorded by the parent Terna and the subsidiary Terna Rete Italia in excess of the tax-allowable amounts (€8.6 million and €1.5 million respectively);
- release of the accrued portion (€2.3 million) from the IRAP deferred tax provision, as regulated by Law no. 244 of 24 December 2007 (Finance Law 2008).

Total **net invested capital** stands at €8,135 million, up €261.7 million from 31 December 2011 and covered by the *Group's net equity* in the amount of €2,862.7 million (as compared with €2,751 million at 31 December 2011) and by *net financial borrowing* in the amount of €5,273.1 million (+€150 million compared with €5,123.1 million of net financial borrowing as at 31 December 2011).

Therefore, the **debt/equity** ratio at 31 March 2012 stands at 1.84**.**

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 quarter of 2012 is shown in the following table:

In millions of euros	**Net profit** **First quarter 2012**	**Equity** **At 31.03.2012**
Financial statements of the Parent Company	**102.2**	**2,655.1**
Results and equity contributed by the subsidiaries – Core Business	10.4	70.2
Results and equity contributed by the subsidiaries – Non-Core Business	0.2	121.0
Contribution by equity-accounted investees	1.4	16.4
Terna Group Consolidated financial statements	**114.2**	**2,862.7**

Financial flows

Net financial debt

The Group's net financial debt as of 31 March 2012 (€5,273.1 million) is broken down in the table below. The figures given are taken from the Consolidated statement of financial position (Annex II) through specific reconciliation notes at the foot of the table.

In millions of euros	31.03.2012	31.12.2011	Change
Net financial debt from continuing operations			
A. Medium- and long-term debt:			
- Bond (1)	5,578.3	4,303.9	1,274.4
- Floating-rate loans (1)	2,426.9	2,434.8	(7.9)
- Derivative financial instruments (2)	(431.8)	(410.4)	(21.4)
Total	**7,573.4**	**6,328.3**	**1,245.1**
B. Short-term debt (liquidity):			
- Floating-rate loans (current portion) (3)	59.7	59.7	0.0
- Short-term investments	0.0	(150.0)	150.0
- Cash and cash equivalents	(2,360.0)	(1,114.9)	(1,245.1)
Total	**(2,300.3)**	**(1,205.2)**	**(1,095.1)**
Total net financial debt	**5,273.1**	**5,123.1**	**150.0**

The total net financial debt shows, in the first quarter of 2012, a €150 million increase imputable mainly to the following combined effects:

- increase in bonds (€1,274.4 million), for the issue of a bond on 13 February 2012, for a total value of €1,250.0 million (amounting to €1,245.3 million net of expenses and issue fees), as a result of the fair value adjustment of financial instruments (€24.8 million, including the amortised cost) and the capitalisation of period inflation (€4.3 million);
- repayment of the EIB loan instalments due for €7.9 million;
- increase of the positive net balance of derivative financial instruments (€21.4 million), mainly due to the lowering of the reference interest rates compared to the previous financial year. In particular, we note the change in fair value hedges of bonded loans for €25.4 million and the change in cash flow hedges of the floating-rate debt for a negative €4 million;
- early redemption of the deposit certificates subscribed in 2011 and expiring on 14 June 2013 (€150 million);
- increase in cash and cash equivalents (€1,245.1 million) mainly due to the afore mentioned bond issued by the Parent Company.

Reported in the consolidated statement of financial position (Annex II) as:

(1) this figure corresponds to the "Long-term loans" caption;

(2) this figure corresponds to "Non-current financial liabilities" and "Non-current financial assets" for the value of the fair value hedge derivatives (€547.2 million);

(3) this figure corresponds to the "Current portion of long term loans" caption.

Cash flows

The consolidated statement of cash flows in the first quarter of 2012 and 2011 is shown below:

In millions of euros	Cash flow in the first quarter of 2012	Cash flow in the first quarter of 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	114.2	173.2
of which attributable to continuing operations	*114.2*	*114.0*
- Amortisation and depreciation	101.2	95.2
- Net change in provisions	(13.8)	(12.7)
- Net losses (gains) on asset disposals	(1.1)	(0.8)
Self-financing	**200.5**	**254.9**
- Change in net working capital	(103.4)	41.6
Cash flows from operating activities	**97.1**	**296.5**
Investments		
- Property, plant and equipment	(237.9)	(259.6)
of which attributable to continuing operations - Core Business investments	*(237.7)*	*(249.8)*
- Intangible assets	(7.7)	(7.6)
- Other changes in non-current assets	2.4	0.9
- Change in equity investments	(1.4)	(35.9)
Total cash flows generated by/(used in) investing activities	**(244.6)**	**(302.2)**
NIC in discontinued operations and assets held for sale	**0.0**	**398.8**
- Change in loan	1,395.1	1,161.2
of which attributable to continuing operations	*1,395.1*	*1,393.7**
- Other changes in equity attributable to the owners of the Parent	(2.5)	6.9
of which attributable to continuing operations	*(2.5)*	*22.9*
- Equity attributable to non-controlling interests in discontinued operations	0.0	(0.2)
Total cash flows generated by/(used in) financing activities	**1,392.6**	**1,167.9**
Total cash flows for the period	**1,245.1**	**1,561.0**
of which attributable to continuing operations	*1,245.1*	*1,567.2*
Closing cash and cash equivalents	**2,360.0**	**1,717.3**

**At 31.12.2010, the change includes the net financial position with regard to RTR at 31.12.2010 (€254.6 million).*

The cash flow generated from operating activities during the financial year stands at about €97.1 million and is related to self-financing (€200.5 million) and to financial resources generated by net working capital (€103.4 million).

Under the scope of **self-financing**, we have a profit for the period of €114.2 million, amortisation/depreciation for the period of €101.2 million and a net decrease in provisions amounting to €13.8 million, all of which reflect mainly the use of the net deferred tax provision.

The change in **net working capital**, equal to a negative €103.4 million, is for the most part due to the net decrease in trade payables (including the pass-through energy revenue and costs) offset by the overall increase in net tax liabilities and other liabilities.

Investing activities have used financial resources for approximately €244.6 million, for the most part relating to investments made during the period in property, plant and equipment (€237.9 million), and in intangible assets (€7.7 million) - attributable to the Parent Company for a total of €238.1 million.

The other **changes in equity** attributable to the owners of the Parent refer to the fair value measurement of the cash flow hedges on the floating-rate debt, net of the related tax effect, of the Parent Company (a negative €2.5 million)

Therefore, cash flows used in investing activities and equity movements for the year resulted in total uses of liquidity in the amount of €247.1 million, which was funded in part by cash flows generated from current operating activities (€97.1 million) and the remaining €150 million through new debt.

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

In millions of euros	**Cash flow in the first quarter 2012**	**Reconciliation financial statements**	**Cash flow in the first quarter 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	114.2		173.2	
of which attributable to continuing operations		*114.2*		*114.0*
- Amortisation and depreciation	101.2		95.2	
- Net change in provisions	(13.8)		(12.7)	
Employee benefits		*0.7*		*0.6*
Provisions for risks and charges		*(1.8)*		*(8.5)*
Deferred tax liabilities		*(12.7)*		*(4.8)*
- Net losses (gains) on asset disposals (1)	(1.1)		(0.8)	
Self-financing	**200.5**		**254.9**	
- Change in net working capital:	(103.4)		41.6	
Inventories		*9.2*		*(0.3)*
Trade receivables		*(42.8)*		*101.5*
Current financial assets		*(0.2)*		*(0.8)*
Income tax receivables		*0.1*		*0.0*
Other current assets		*(7.0)*		*(1.9)*
Trade payables		*(234.6)*		*(201.1)*
Tax liabilities		*104.7*		*72.6*
Current financial liabilities		*10.3*		*18.1*
Other liabilities		*56.9*		*53.5*
Cash flows from operating activities	**97.1**		**296.5**	
Investments				
- Property, plant and equipment (2)	(237.9)		(259.6)	
of which attributable to continuing operations - Core Business investments		*(237.7)*		*(249.8)*
- Intangible assets (3)	(7.7)		(7.6)	
- Other changes in non-current assets	1.0		(35.0)	
Property, plant and machinery (2)		*2.4*		*1.0*
Other non-current assets		*0.0*		*(0.1)*
Equity-accounted investees		*(1.4)*		*(35.9)*
Total cash flows generated by/(used in) investing activities	**(244.6)**		**(302.2)**	
NIC in discontinued operations and assets held for sale	**0.0**		**398.8**	
- Change in loans	1,395.1		1,161.2	
Non-current financial assets		*(25.4)*		*75.4*
Current financial assets		*150.0*		*0.0*
Non-current financial liabilities		*4.0*		*(17.2)*
Long-term loans		*1,266.5*		*1,154.0*
Short-term loans		*0.0*		*(73.1)*
Discontinued operations and assets held for sale		*0.0*		*22.1*
- Other changes in equity attributable to the owners of the Parent (4)	(2.5)		6.9	
Equity attributable to the owners of the Parent - Share capital, other reserves and retained earnings/losses carried forward		*(2.5)*		*22.9*
Equity attributable to the owners of the Parent - Reserves for assets held for sale		*0.0*		*(16.0)*
- Equity attributable to non-controlling interests in discontinued operations and assets held for sale	0.0		(0.2)	
Total cash flows generated by/(used in) financing activities	**1,392.6**		**1,167.9**	
Total cash flows for the period	**1,245.1**		**1,561.0**	
of which attributable to continuing operations		***1,245.1***		***1,567.2***
Closing cash and cash equivalents	**2,360.0**		**1,717.3**	

Related-party transactions

Having been determined in 2007 that Cassa Depositi e Prestiti S.p.A. exercises de facto control, related party transactions undertaken by the Group during 2011 consisted of intercompany transactions, transactions with employee pension funds (Fondenel and Fopen), and transactions with companies of:

- the GSE Group;
- the Enel Group;
- the Eni Group;
- the Ferrovie dello Stato Group;

and ANAS S.p.A..

Related party transactions implemented in the first quarter of 2012 were substantively represented by services that fall under the scope of Core Business and were regulated by market conditions, as is described in greater detail in the Consolidated and separate financial 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 notes to the “Services” captions of the consolidated financial statements at 31 December 2011, to which reference is made.

The Parent Company’s Report on corporate governance, which is detailed in the Specific Report published with the 2011 financial statements, to which we would refer you, establish the conditions for ensuring that related party transactions are carried out in accordance with criteria of procedural and substantive propriety under the same terms and conditions that would apply to transactions with third parties, above all in the light of the new “Related party transactions procedure” adopted at end 2010 by the Parent Company in implementation of CONSOB Resolution no. 17221 of 12 March 2010, subsequently amended by Resolution no. 17389 of 23 June 2010, which issued the “Regulation incorporating provisions on related party transactions”.

It is specified that during the first quarter of 2012, no significant transactions were implemented, namely related party transactions identified in compliance with the provisions of Annex 3 to the Regulation, nor transactions subject to compulsory disclosures but concluded by applying the exclusion established by the Regulation, insofar as they are “transactions coming under the scope of the Core Business of the Company’s continuing operations or those of the subsidiaries or associations or the financial activities related thereto, as long as concluded at conditions equivalent to market or standard conditions”.

Please note that in accordance with new regulations introduced by the CONSOB Resolution no. 18049 of 23 December 2011 published in the Italian Official Gazette no. 303 of 30 December 2011 and in force as from 31 December 2011, the disclosure on fees relating to the “members of the administrative and control bodies, general managers” and other “executives with strategic responsibilities” and on the equity interests held by these, has been included in the “Annual report on remuneration”, published by Terna in accordance with the provisions of Art. 123-*ter* of the Consolidated Law in finance.

National Transmission Grid

Number of plants

The number of the Parent Company's plants at 31 March 2012, compared with the situation at 31 December 2011, highlights the following changes:

Stations

- activation of the new Melissa station (2 bays at 150 kV);
- activation of 15 bays at the stations of Montalto, Aurelia and Scandale (1 bay at 380 kV each), Benevento II (1 bay at 380 kV and 3 bays at 150 kV), Milano Porta Volta and Milano Gadio (1 bay at 220 kV each), Bisaccia 380 and Brindisi Pignicelle (1 bay at 150 kV each), Camporosso, Lizzana, Carpi Fossoli and S. Alberto (1 bay at 132 kV each);
- activation of 1 transformer station 380 / 150 kV of 250 MVA at the Benevento II station.

Long-distance power lines

- development of 6 new lines for a total of 5.8 km: no. 1 at 220 kV (1.6 km), no. 2 at 150 kV (3.9 km), no. 3 at 132 kV (0.3 km);
- development of 4 incoming-outgoing derivations on the same number of operating lines (on 150 kV and 132 kV) with an overall increase equal to the same number of circuits and 3.9 km;
- implementation of changes, rigid derivations and/or modifications made to the line with a total reduction of 4.5 km of the three-phase circuit;

In reference to the amount of assets held by the subsidiary Terna Rete Italia S.r.l., it must be noted also the implementation of changes, rigid derivations and/or modifications made to the line with an overall increase of 0.9 km circuit and the development of 1 incoming-outgoing derivation on a 150 kV operating line with an increase of 1 circuit and 0.1 km.

In the first quarter of 2012, there are no changes made to the plants of the subsidiary SunTergrid.

Investments

During the first quarter of 2012, the Terna Group carried out the following investments:

Terna Group investment	*In millions of euros*	% on total investments
Investments		
- Transmission lines	136.3	55.5%
- Transformation stations	94.8	38.6%
- Other	6.6	2.7%
Total investments in property, plant and equipment - Core Business	***237.7***	***96.8%***
Total investments in intangible assets - Core Business	***7.7***	*3.1%*
Total investments in Core Business	**245.5**	**99.9%**
Investments in property, plant and equipment - Non-Core Business (SunTergrid)	*0.2*	*0.1%*
TOTAL	**245.6**	**100.0%**

Following are the main accomplishments achieved for the period from January to March 2012:

- the progress made in works related to the Sorgente-Rizziconi project (€45 million): the laying of the first power line sea cables and the first fibre optic cable has been completed; the protection of the cables is underway; the excavation of the well in Favazzina has started while the implementation of the aerial electric main with 380 kV in Calabria is also underway. In particular, in Scilla (Sicily) the assembly of the buildings, reactors and armoured equipment of the station has been completed. The electromechanical assembly and the testing of AT equipment are near completion as are all the finishing (fencing, drainage system and the layout of roads and squares). In Sorgente (Calabria) the assembly of the reactors is underway while the ATRs have already been tested; the electromechanical assembly of auxiliary and general services and the finishing of works carried out inside the station are at an advanced stage, as is the layout of the access roads;
- the continuation of work on the Trino-Lacchiarella project (€29 million): foundation and assembly of the supports (as traditional pylon or tubular) are underway;
- the implementation of the electric station of Aliano and its connection, an activity that falls within the scope of the Riassetto Rete Nord Calabria project (€9 million);
- the continuation of work on the stations with 380 kV for the connection of renewable resource fuelled plants, located between Foggia and Benevento (€7 million) to house the production of renewable fuel generating plants located in the Bisaccia and Deliceto areas;
- the progress of work on the Cassano-Chiari project (€4 million);
- the work related to a PST (System Phase Shifter) installation in the Electric Power Station of Foggia (€3 million);
- the completion of the work carried out at the Tuscania station (€3 million).

Energy trend in Italy

Energy demand in the first quarter of 2012

(GWh = millions of kWh, absolute values, and % changes compared with the same period of the prior year. Provisional figures)

	1 January – 31 March			
	2012	**2011**	**Change**	**%**
Production				
Hydroelectric	6,839	10,520	(3,681)	(35.0%)
Thermoelectric	56,770	58,278	(1,508)	(2.6%)
Geothermal	1,304	1,323	(19)	(1.4%)
Wind and photovoltaic	7,141	3,206	3,935	122.7%
Net production	**72,054**	**73,327**	**(1,273)**	**(1.7%)**
Import	12,370	12,502	(132)	(1.1%)
Export	698	515	183	35.5%
Foreign balance	11,672	11,987	(315)	(2.6%)
Consumption by pumping	681	649	32	4.9%
Electricity demand	83,045	84,665	(1,620)	(1.9%)

In the first three months of 2012, net production (72,054 GWh) shows a 1.7% drop compared with the same period of 2011; the foreign balance shows also a 2.6% decline. Demand for electric power during the period shows a 1.9% decline.

Research and Development

To introduce new technological and systems solutions, new instruments and methods aimed at improving the reliability of plants and, therefore, quality of service, Terna S.p.A. mainly uses in-house technicians who base their work on the careful monitoring and analysis of conduct of equipment and plants. The Parent Company also uses the specialised support of constructors, collaboration with universities, RSE S.p.A. (Ricerca Sistema Energetico) and CESI S.p.A., a specialised service company in which it has a 42.406% equity interest. In particular, in the first quarter of 2012 the Terna Group incurred costs of €2.4 million in respect of the associate CESI, entirely 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 the innovation and development of new engineering solutions take place in four main families of research.

Purpose	Projects and progress 2012
OPTIMISATION OF STRUCTURES AND MATERIALS	
Design of less bulky supports and/or improved environmental integration	**High-performance single-stem tubular supports** The executive design of the special strain supports for 380 kV lines has been concluded. **International "Pylons of the future" contest** The executive design phase has begun of prototypes in simple and dual circuit with the Dutton-Rosental rewarded support. The insulating tensile structure project has been defined.
Upgrading of transmission capacity of existing lines	**Innovative high-performance conductors** The experience of the INVAR-ZTAL conductors has been consolidated, characterised by a high thermal limit and reduced lengthening, useful for solving critical issues connected with distances from sensitive places. Usage guidelines have been defined. Feasibility studies have begun for the installation of high temperature conductors of a time other than INVAR-ZTAL. A first type of these conductors has a highly-resistant steel support and aluminium cladding. Development tests is underway for a first installation on a 12 km long RTN line. A second type uses carbon fibre cables as a support. For these conductors, experiments are underway on the whole of the high altitude line. An experimental installation has also been realised with a carbon fibre conductor on a mountain stretch. Monitoring activities are underway in order to study the behaviour of the conductor. The study and experimental installation has been completed of an innovative conductor that limits overload by wet snow. Monitoring activities are underway in order to assess efficacy.
New technology for high voltage cables	**P-Laser** The new generation HV cable (using technology that has already been consolidated on the MV), completely produced with recyclable raw materials, is currently being experimented. It will ensure a reduction in the environmental impact of grids and, at the same time, a rise in the capacity to transport energy. To be agreed with Prysmian (cable production) are the tests to be carried out; a plant on which to test a segment of this cable must be identified.
EQUIPMENT DIAGNOSTICS	
Advance signalling of anomalies	**New sensors on station equipment and machinery** At the Lachiarella station, on-line monitoring of the equipment of section 380 kV is operating normally. The installation of another type of sensors on the 132 kV section is underway in order to compare two different technologies and based on the acquired experience, being able to switch to an installation that can be extended to the other plants.
Analysis and monitoring of line components	**Insulator test laboratory** A project for the development of an experimental station for the study and monitoring of surface contamination of insulators is underway. Upon conclusion of the feasibility study which has allowed for the identification of the site, a preliminary project has been set up aiming at fulfilling the DIA request.
Temperature monitoring on high voltage cables	**DTS (Distributed Temperature Sensing)** On the cable connections, in order to monitor and exploit transport capacity to the full, a study has begun on temperature monitoring systems available on the market with an analysis of their reliability. In the reactivation phase, the systems installed on the territory that are currently not operational.
Monitoring of partial discharges from high voltage cables	**PD measurement** During testing, some systems that monitor partial discharges. In the setting up phase, all technical specifications; already set up are those for the component of capacitive tap.
NEW EQUIPMENT	
Reduction of space and development time of electrical stations **Compact stations with rapid installation.**	**Integrated compact station equipment (MCI)** The SCRI mobile station, introduced in 2010, in order to guarantee a rapid reactivation of the service in the event of a disaster recovery as well as to allow for the earlier connection to RTN of new production plants, proved to be useful also in the event of a plant upgrade; its use, as set forth in the project of a Basilicata plant upgrade, will allow for the upgrade of the station without being forced to change technology due to non-availability of free spaces. Contacts are currently being made with manufacturers in order to assess the possibility of developing a mobile station with 380 kV.
PLANT SAFETY	
Transformer safety	**New power transformer project** In 2012, delivery of the first machines, designed according to new technical specifications that were updated in order to increase the intrinsic safety of the machines, has started. Several enhancements were implemented and the following is planned: • installation of polymer insulators with the advantage of better tolerating demands and avoiding the projection of fragments in the event of failure, as it occurs to those made in ceramic and in use to date; • "domes" will be reinforced and equipped with over pressure valves; • flange check devices will be adopted. New testing was also required, including: • induced AC voltage test of short duration in order to assess the dielectric strength (very high voltage) in the presence of serious voltage surges on the winding (line side short circuits with 150-132 kV); • special testing on the pass-through insulators (processed within the Stations Engineering, in the absence of or due to the inadequacy of international standards): internal arch and multiple long lasting stress (5,000 h) on silicon casing. The prototypes of all the types of new machines are subject to short circuit testing due to the fact that the majority of previous tests go back to several years earlier and in the meantime the manufacturers have adjusted their projects, i.e. have moved the productions to other facilities (mostly abroad). In addition, special tests are being carried out on the pass-through insulators with silicon casing: internal arch and multiple long-lasting stress (5,000 h) required in the absence /inadequacy of international standards.

Changes in personnel

Changes in the number of the Parent Company employees are shown below.

Terna S.p.A.			
CHANGE IN THE WORKFORCE	**31.03.2012**	**31.12.2011**	**Change**
Senior management	61	60	1
Junior management	499	490	9
Office staff	1,962	1,966	-4
Production workers	980	977	3
Total	**3,502**	**3,493**	**9**

As at 31 March 2012, the Group's employees are 3,505 of which 3,502 are with the Parent Company and 3 with the subsidiary Terna Crna Gora d.o.o. – an increase of 10 units compared with 31 December 2011. As at the end of the first quarter, the other subsidiaries have no employees.

Significant events subsequent to 31 March 2012

At the reporting date of this Interim Financial Report, no significant relevant events have occurred subsequently to 31 March 2012.

Declaration of the executive in charge of preparing corporate accounting documents in accordance with the provisions of Art. 154-*bis*, paragraph 2 of Italian Legislative Decree 58/1998

Luciano di Bacco, the executive in charge of preparing corporate accounting documents, declares, pursuant to Art. 154-*bis*, paragraph 2 of the Consolidated Law on Financial Intermediation, that the accounting information contained in the present Interim Financial Report at 31 March 2012 corresponds to the entries in the Company's documents, account books and records.

Annex I

Regulatory framework

Regulatory framework

Below is a brief description of the main regulatory measures that affected the Company and that were issued during the first quarter of 2012.

Italian Law no. 10 of 17 February 2012, published in the Italian Official Gazette no. 42 of 20 February 2012, "Urgent provisions on the settlement of the sovereign debt crisis and regulations of civil proceedings". The Law, with a new addition to Art. 14 of Law no. 183 of 12 November 2011, amending Art. 2477 of the Italian Civil Code regarding statutory auditors and statutory auditing of the accounts, introduces a transitional provision for limited liability companies stating that "*the boards of statutory auditors appointed by 31 December 2011 shall remain in office until the natural expiry of the mandate approved by the Shareholders' Meeting that appointed them".*

Italian Law no. 14 of 24 February 2012, published in the Italian Official Gazette of 27 February 2012 "Extension of terms set forth by law provisions". This Law includes tax provisions. It is specified that the single rate of 20% introduced by Italian Law Decree 138/11 applies (Art. 29):
- as from 1 January 2012 with reference to interest and other income "deriving from current and deposit accounts held with banks or post offices, even if represented by certificates maturing as from that date" and not, therefore, to interest and income matured previous to that and liquidated as from 2012;
- from the day after the maturity date of the forward contracts stipulated prior to 1 January 2012 and with a duration of no more than 12 months in relation to capital income, such as income deriving from repurchase and forward contracts on securities and currencies and interest and other income from bonds and similar securities pursuant to Italian Legislative Decree no. 239/1996 ("interest, premiums and other income from bonds and similar securities, public and private").

The terms from which the obligation shall apply, introduced by the 2008 Finance Law, for tax substitutes to electronically communicate the salary data and information necessary for the calculation of tax withholdings and contributions each month, last established as January 2012, has been extended to January 2014, with experimentation, as from 2013, with methods established jointly by the Tax Authority and the National Social Security Institute.

Finally, the terms for the operations of SISTRI are postponed from 9 February 2012 to 30 June 2012. Through a Conversion Law, the term within which the Ministry for Employment, jointly with the Ministry for the Economy, must specify by a decree, the methods for the implementation and the numeric maximum number of subjects admitted to receive the pension pursuant to all applicable laws prior to the 2011 reform (Law Decree 201/11), has been extended from 28 March to 30 June 2012. Still as regards the Italian Social Security benefits, the scope for the application of the requirements that were pre-existing to Italian Law Decree 201/11 is extended to other categories of workers whose employment was terminated prior to 31 December 2011 "in application of collective incentive agreement to early retirement entered into by companies that are the most representative at a national level" and the "workers who at 31 October 2011 are on leave of absence to care for children with serious disabilities.... and who have accrued, within twenty-four months from the beginning of such leave of absence, the right to receive a pension regardless of their actual age".

Italian Law no. 27 of 24 March 2012, published in the Italian Official Gazette no. 53 of 24 March 2012, "Urgent provisions for competition, development of infrastructures and competitiveness" (so called "Liberalisation Law Decree")**.** The law sets forth that "*In order to facilitate and accelerate the development of grid infrastructures of national interest, upon motivated request submitted by concession holders, the Authority for Electricity and Gas, within 90 days of their request for the identification of single regulated assets, shall determine the related remuneration*".

In regards to the gas sector, please see a decree issued by the President of the Council of Ministers, to be adopted by 31 May 2012, that defines the "*criteria, conditions and methods to which SNAM S.p.A. must comply in order to adopt, within 18 months from the date when the conversion law has come into force, the model of proprietary separation pursuant to Art. 19 of Italian Legislative Decree 93/11".* By the same decree *"full service provision is ensured by SNAM S.p.A. toward the major gas production and sale company, as well as toward vertically integrated companies for natural gas and electricity production and supply"*.

The Law states that without prejudice to the annual nature of the National Transmission Grid Development Plan and the assessment, public consultation and approval procedures, the plan shall undergo a yearly evaluation of subjection to SEA procedures and, in any case, once every three years to SEA procedures. Additionally, the Law incorporates provisions relating to the systems for the protection and defence of the grids as well as security devices that must be used in the production plants. Finally, it is set forth that the Ministry for Economic Development, by 23 May 2012, "*having consulted with the Authority for Electricity and Gas, shall issue guidelines and amend the implementing provisions, within the area of its competence*" as regards the reform of the regulations applied to the electricity market as provided for in Italian Law Decree no. 185/08 in order to "*reduce costs and guarantee the security and quality of the supply of electricity, even through the use of flexibility services in compliance with market criteria and principles"*. The Conversion Law has introduced a new provision related to the issue of bonds or debt securities by the operators of national electricity and gas transmission grids which provides for the following: "*The holders of authorisations for the construction of infrastructures that are part of the Development Plan of the Italian national transmission grid of electricity*" and the owners of gas transport and storage infrastructures and regasification terminals may "*issue bonds and debt securities as an exception to the limits stated in Articles 2412 [limits of bond issue] and 2483 [on debt securities] of the Italian Civil Code*". In particular, Art. 2412 of the Italian Civil Code provides that "*The company may issue bearer or nominative bonds for an amount not exceeding double the share capital, the legal reserve and the reserves available as per the most recently approved financial statements"*.

Decree by the Ministry of Employment and Social Policy of 20 January 2012, "Deferment of the coming into force of the Decree of 11 April 2011, incorporating: "Regulation of the method by which regular checks are performed pursuant to Annex VII to Italian Legislative Decree no. 81 of 9

April 2008 and criteria for qualifying subjects pursuant to Art. 71, paragraph 13 of the same Italian Legislative Decree", published in the Italian Official Gazette no. 19 of 24 January 2012.

Italian Law Decree no. 2 of 25 January 2012 stating that: "Extraordinary and urgent environmental measures", published in the Italian Official Gazette no. 20 of 25 January 2012, amended by the Conversion Law no. 28 of 24 March 2012 to the Italian Law Decree "Extraordinary and urgent environmental measures", published in the Italian Official Gazette no. 71 of 24 March 2012".

Italian Law Decree no. 5 of 9 February 2012 "Urgent provisions for simplification and development", published in the Italian Official Gazette no. 33 of 9 February 2012 amended by Law no. 35 of 4 April 2012, published in the Italian Official Gazette no. 82 of 6 April 2012. As regards joint-stock companies, the Conversion Law (Art. 35) provides for the removal of a provision included in Art. 2397 of the Italian Civil Code, already amended by the Italian Law Decree, which stated that, unless otherwise specified in the Articles of Associations and, at all events, in compliance with the set out conditions, the activities to be performed by the Board of Statutory Auditors may be carried out by a single Statutory Auditor.
With reference to limited liability companies, the articles of incorporation may provide for the possibility of instituting a corporate supervisory committee, as an alternative to a monocratic supervisory body; in fact, the articles of incorporation "*may provide for the appointment of a supervisory body or for an auditor and determine its area of authority including the statutory auditing of the account. Unless otherwise provided for in the Articles of Associations, the supervisory body is represented by a single member*".
Paragraph 2 of Art. 2477 of the Italian Civil Code has been modified stating that "*If a supervisory body, even if monocratic, is appointed, the provisions set out for the Boards of Statutory Auditors of joint-stock companies", apply*.
The Decree introduces new provisions if the required procedures are not completed within the set out terms (Art. 1): based on each individual corporate administration, a subject is identified (among the company's executives) and entrusted with substitutive powers to be carried out only in the event of an inactive administration as regards the completion of the procedure. In fact, upon expiration of the terms for the completion of the procedure set forth by the law, the private person may contact the identified subject "*to ensure that within a term equal to half of that originally set forth, the procedure is completed through the competent company structures or through the appointment of a Commissioner*".
Furthermore, the decree (Art. 57-*bis*) states that by a decree issued by the President of the Council of Ministers, following a proposal submitted by the Minister for Economic Development, by July 2012, the energy infrastructures within the national territory and those for the interconnection with foreign countries which, pursuant to Art. 3 of Italian Legislative Decree 93/11 represent the "*minimum implementation and expansion needs*" and for which "*the administrations involved, at any level, in the procedures for the authorisation of the identified infrastructures...attribute...priority and urgency to the fulfilments and evaluations within the area of their competence*", must be identified. The identification of infrastructures is updated at least every two years.
With an amendment to Art. 109 of the Environmental Code (Art. 24) the authorisation for laying undersea excavation materials "*is issued by the Region, except for any interventions involving protected national*

areas... for which the Ministry for the Environment and Protection of the Land and Sea shall issue authorisation".

Finally, the National Data Bank for Government Contracts shall be established by 1 January 2013 (Art. 20): the documentation proving that requirements "*of a general, technical-organisational and financial nature*" are met for the participation in the procedures regulated by the Tenders Code shall be acquired, starting on 1 January 2013, exclusively at the National Data Bank under the Supervisory Authority that oversees government contracts for construction, services and supplies.

Italian Legislative Decree no. 24 of 2 March 2012 "Implementation of the directive 2008/104/EC related to the work performed through a temping agency", published in the Italian Official Gazette no. 69 of 22 March 2012.

Italian Law Decree no. 16 of 2 March 2012 states that: "**Urgent provisions aiming at simplifying taxation procedures and improving the efficiency of auditing procedures" (so-called Taxation Simplification), published in the Italian Official Gazette no. 52 of 2 March 2012**, converted into the amended Law no. 44 of 26 April 2012, published in the Italian Official Gazette no. 85 of 28 April 2012.

Italian Law Decree no. 21 of 15 March 2012 "Regulations on special powers as regards the corporate structures within the defence and national security sectors and for activities of strategic relevance within the sectors of energy, transport and communication", published in the Italian Official Gazette no. 63 of 15 March 2012.

The decree includes a new regulation on the government's special powers aimed at adjusting national laws to the rulings issued by the European Court of Justice on the subject.

Through decrees issued by the President of the Council of Ministers, adopted upon proposal submitted by the Ministry for the Economy and the Ministry for Economic Development, in agreement with the Ministry of Interior and the Ministry of Foreign Affairs in addition to the Ministers within their own area of competence "*grids, plants, assets and relationships of strategic relevance will be identified within the energy, transport and communication sectors*". The decrees are subject to review at least every three years.

"*Any resolution, act or operation",* adopted by a company holding one or more of the above identified assets, *"that entails changes in the ownership, control or availability of the same assets or a change of its destination, including any resolution issued by the shareholders' meeting or the administrative bodies regarding the merger or demerger of the company, the transfer abroad of the main office, of the company or of any of its business units that comprises assets or the posting of the same as a guarantee*", in addition to any resolution issued by the shareholders' meetings or by the administrative body regarding the transfer of subsidiaries that hold the above mentioned assets, these must be notified to the Government (to the Minister for the Economy for the subsidiaries under the control, even if only indirect, of the Ministry itself), by attaching a complete information document, within 10 days, "*and in any events before its implementation*". By a decree issued by the President of the Council of Ministers, upon proposal submitted by the Ministry for the Economy (for the subsidiaries under the control, even if only indirect, of the Ministry itself) and upon resolution issued by the Ministers Council, a veto of the above-mentioned resolutions, acts or operations may be issued if "*they involve an exceptional situation representing a real threat or being seriously prejudicial to the public interest as regards the safety and performance of grids and plants as well as the continuity of the supply*". The Government shall communicate such veto within 15 days from notification; this term can be suspended only once in order to request further information to be submitted within the term set forth by the Government but not exceeding 10 days. Until notification and expiration of the term set out for issuing the veto, the entry into effect of the resolution or act or operation is suspended. After expiration of this term, the operation is to be considered authorised. The Government may, if deemed sufficient and instead of the veto, set forth conditions to which the entry into effect of the act, resolution or operation is bound. The Government power of veto is expressed through a conditional authorisation if this is sufficient to ensure the protection of strategic safety requirements set out for the national defence and security system. With the entry into effect of the execution decrees, the pre-existing golden share regulations shall be repealed (Art. 2 of Italian Law Decree 332/94 and related implementation decrees).

Italian Decree issued by the Ministry for Economic Development in agreement with the Ministry for the Environment dated 15 March 2012 "Definition and qualification of the regional objectives in the area of renewable energy sources and definition of the methods for managing the failure to achieve the objectives preset by the regions and autonomous provinces" (so-called Burden Sharing), published in the Italian Official Gazette no. 78 of 2 April 2012.

The provision defines the interim and final objectives up to 2020 that regions and autonomous provinces must achieve in order to contribute to the meeting of the national objective of 17% of gross consumption needs that must be covered by renewable sources.

In defining the regional objectives, the conditions of the electricity grid and the interventions planned by Terna were taken under consideration. These are deemed "*adequate to address the growth of renewable energy sources based on the regional apportionment*" that is projected in the decree.

Resolutions issued by the Authority for Electricity and Gas

Resolution 5/2012/R/eel

With this resolution, the Authority has approved the proposals submitted by Terna for the amendment of chapter 4 and 7 of the Code for the electricity transmission, dispatch, development and safety of the grid and of Annex A25, specifically related to the provisions set forth in the grid's Code concerning the threshold parameters to be used in the calculation of the unit fee applied for not-compliance with the start up order and with the methods for determining the binding programmes of input and withdrawal.

Resolution 31/2012/R/eel

With this provision, the competent Authority, also in compliance with the guidelines issued by the Ministry for Economic Development, aimed at containing natural gas consumption within the thermoelectric sector and guaranteeing safety in the supply to families and companies, has defined the criteria according to which the dispatch users who have the necessary plants available, submit their offers in the electricity market in order to also specify the measures adopted by Terna as regards market operations. In particular, the Resolution provides for the dispatch user who has available one or more of the necessary plants, to formulate offers in the market for the dispatch service in compliance with the restrictions and criteria defined by Terna pursuant to the Guidelines in effect. Changes within the dispatch market, carried out in compliance with the provision in question, are excluded from the relevant changes for the calculation of premiums and penalties, pursuant to Resolution no. 351/07.

Resolution 36/2012/E/com

With this provision, the competent Authority has introduced some changes made to Annex A to resolution no. 11/07 of 18 January 2007 issued by the Authority for Electricity and Gas (Integrated Unbundling Text) aimed at introducing the measures to be applied in the event of a non-compliance with the functional and accounting unbundling obligations in order to encourage the companies subject to regulations to fulfil the obligations set forth in the Integrated Unbundling Text, according to the methods and the terms stated in the integrated text itself. Terna has noted, in particular, the set forth suspension of contribution payments by the Compensation Fund for the Electrical Sector, in the event of a non-compliance with administrative and accounting unbundling provisions until separate yearly accounts are submitted, pursuant to the methods provided for in the Integrated Unbundling Text. This suspension does not impact the payments for which the party subject to regulations is only required to perform an intermediary role for amounts that are not intended to such party (i.e. pass-through items). In this case, the competent Authority retains the option to initiate sanction proceedings toward non-compliant dealers, pursuant to Art. 2, paragraph 20, letter c) of Law no. 481/95.

Resolution 50/2012/R/eel

With this provision, the competent Authority has completed the procedure for the year 2010 related to the definition of premiums and penalties for the company Terna S.p.A., as regards the quality of transmission services. In particular, the resolution determines:

- the yearly amounts and the actual levels of quality indicators applied to the transmission service;

- the incentives and penalties related to the quality of the electricity transmission service for the year 2010, pursuant to Art. 8, as set forth in Annex A to resolution no. 314/07, taking into account the provisions of Art. 9 of the Annex A itself, as regards allowance and risk containment mechanisms.

Resolution 66/2012/R/eel

With this provision, the competent Authority has updated the transitory regulations for the remuneration of the capacity of generating electricity for the year 2011, and has made changes and additions to the integrated text on the monitoring of the wholesale electricity market with regards to delegating the submission of offers in the previous day's market. In particular, the Resolution:

- attributes to the delegating dispatch user, and not to the delegated market operators, the obligation of declaring to Electricity Market Operator (EMO) the portions of the hourly capacity of each unit to which the dispatch user has granted the authority to submit offers in the previous day's market;
- amends the criteria with which Terna determines the value of the parameters for the determination of the unit payment for the year 2011, specifying that the residuals of 2010 must be allocated entirely to cover the expenses resulting from the recognition of the payments to each market operator for the year 2012;
- provides for the update, to be done by Terna, of the table with the segments breakdown in order to take into consideration the necessary calendar adjustments, and to submit a proposal to the competent Authority.

Resolution 79/2012/R/com

With this Resolution, the competent Authority has approved the operating regulations of the "Integrated Information System" set up by the *Acquirente Unico* (the single buyer) as the manager of this system. It must be noted that Law no. 129/10 has set forth the establishment, at the site of *Acquirente Unico,* of an Integrated Information System *(IIS)* for the management of the information flows related to the electricity and natural gas market, based on a data bank with withdrawal points and identification data of final customers, and that with Resolution ARG/com 201/10, the competent Authority had defined the general criteria, the operating model and the organisational model of the Integrated Information System and has identified the Manager of IIS in the *Acquirente Unico*. With Italian Law Decree no. 1 of 24 January 2012 (and Conversion Law no. 27 of 24 March 2012) the IIS system has also been extended to the management of the information flows on consumption measurements.

The categories of subjects identified by the Resolution as Users of the IIS, and therefore required to be qualified to use the system, are Terna, the distribution companies, the dispatch users and specific market operators (so-called "esercenti la maggior tutela").

The Resolution, while approving the Regulations, defers to a later provision the definition of the performance of other preparatory activities aimed at completing the accreditation and the populating of the Official Central Registry of the Integrated Information System with a complete list of the points of withdrawals of electricity and the redelivery of natural gas as well as the essential data for process management.

Resolution 84/2012/R/eel

With this provision, the competent Authority introduces urgent interventions related to electricity production plants concerning, in particular, distributed generation, in order to guarantee the safety of the National Electrical System. In particular, the resolution approves the proposal submitted by Terna that refers to three new Annexes to the Grid's Code and more specifically:

- Annex A.68 - "Photovoltaic plants. Minimum requirements for the connection and operations in parallel with the High-Voltage Power Grid"

- Annex A.69 - "Criteria for the connection of the production plants to the Terna defence system"

- Annex A.70 - "Technical regulations for the system requirements of distributed generation", with the specification that this Annex must be applied in accordance with the terms and methods set forth in the provision.

As for this last Annex, the competent Authority underlines that the most urgent intervention, in terms of the safety of the National Electrical System, consists in the expansion of the operating field (in terms of frequency and voltage) of the production plants connected to the Medium- and Low-Voltage Grids and provides for a gradual approach toward a complete application of the provision. More specifically, the Resolution makes a distinction, as regards the application scope of this document, between the new plants (defined as plants connected to the Medium- and Low-Voltage Grids starting operations on a date subsequent to 31 March 2012) and existing plants (identified as plants connected or to be connected to the Medium- and Low-Voltage Grids already in operation on or starting operation by 31 March 2012).

Annex A.70 to the Grid's Code applies to the new and to the existing plants that have been adjusted in order to meet the requirements set forth in the document, by adopting a gradual approach. In particular, a payment is granted to the existing plants (with a power above 50 kW) following the adjustment to the requirements by 30 June 2012, initially quantified in the amount of €2,000 and €5,000 (whether the plant was built before or after the CEI 82-25 Guide has become effective); if the adjustment is made after 30 June 2012 and by 31 October 2012, a progressively decreasing premium is granted, on a monthly basis, compared with the one indicated above.

Annex II

Consolidated financial statements

This Annex includes the accounts as of 31 March 2012 of the Terna Group, prepared in accordance with IFRS-EU. These tables do not intend to represent the disclosure on the economic, equity and financial position of the Group in compliance with IAS 34.

TERNA Group INCOME STATEMENT *In millions of euros*	First 3 months of 2012	First 3 months of 2011
A- REVENUE		
1 Revenue from sales and services	423.2	377.9
2 Other revenue and income	8.4	6.8
Total revenue	**431.6**	**384.7**
B- OPERATING EXPENSES		
1 Raw materials and consumables	2.7	3.6
2 Services	33.0	30.8
3 Personnel expenses	51.8	51.7
- gross personnel expenses	*69.0*	*67.6*
- personnel expenses, capitalised	*(17.2)*	*(15.9)*
4 Amortisation, depreciation and impairment	101.3	95.3
5 Other operating expenses	4.2	3.8
Total operating expenses	**193.0**	**185.2**
A-B Operating profit	**238.6**	**199.5**
C- Financial income/expense		
1 Financial income	15.0	9.0
2 Financial expense	(47.4)	(35.8)
3 Share of profit/(losses) of equity-accounted investees	1.4	1.7
D- Profit before taxes	**207.6**	**174.4**
E- Income taxes	93.4	60.4
F- Profit for the period from continuing operations	**114.2**	**114.0**
G- Profit for the period from discontinued operations	**0.0**	**59.2**
H- Profit for the period	**114.2**	**173.2**
Profit for the period attributable to the owners of the Parent	***114.2***	***173.2***
Earnings per share		
Basic earnings per share	0.057	0.086
Diluted earnings per share	0.057	0.086
Earnings per share from continuing operations		
Basic earnings per share	0.057	0.057
Diluted earnings per share	0.057	0.057

TERNA Group COMPREHENSIVE INCOME STATEMENT *In millions of euros*	First 3 months of 2012	First 3 months of 2011
Profit for the period	**114.2**	**173.2**
Other comprehensive income for the period		
- Cash flow hedge, net of tax effect of continuing operations	(2.5)	12.4
- Cash flow hedge, net of tax effect of discontinued operations	0.0	(16.0)
Comprehensive income for the period	**111.7**	**169.6**
Comprehensive income for the period attributable to:	**111.7**	**169.6**
Owners of the Parent	111.7	169.6

TERNA Group STATEMENT OF FINANCIAL POSITION ASSETS *In millions of euros*	31.03.2012	31.12.2011
A- Non-current assets		
1 Property, plant and equipment	8,766.8	8,618.2
2 Goodwill	190.2	190.2
3 Intangible assets	275.2	280.7
4 Equity-accounted investees	68.2	66.8
5 Non-current financial assets	547.8	522.4
6 Other non-current assets	6.6	6.6
Total non-current assets	**9,854.8**	**9,684.9**
B- Current assets		
1 Inventories	7.1	16.3
2 Trade receivables	1,733.0	1,690.2
3 Current financial assets	5.7	155.5
4 Cash and cash equivalents	2,360.0	1,114.9
5 Income tax assets	4.3	4.4
6 Other current assets	27.5	20.5
Total current assets	**4,137.6**	**3,001.8**
TOTAL ASSETS	**13,992.4**	**12,686.7**

TERNA Group STATEMENT OF FINANCIAL POSITION LIABILITIES *In millions of euros*	31.03.2012	31.12.2011
D- Equity attributable to the owners of the Parent		
1 Share capital	442.2	442.2
2 Other reserves	764.4	766.9
3 Retained earnings	1,249.1	1,262.7
4 Undistributed profits to be allocated	453.6	0.0
5 Interim dividend	(160.8)	(160.8)
6 Profit for the period	114.2	440.0
Total equity attributable to the owners of the Parent	**2,862.7**	**2,751.0**
F- Non-current liabilities		
1 Long-term loans	8,005.2	6,738.7
2 Employee benefits	119.9	119.2
3 Provisions for risks and charges	192.0	193.8
4 Deferred tax liabilities	239.1	251.8
5 Non-current financial liabilities	115.4	111.4
6 Other non-current liabilities	135.6	137.1
Total non-current liabilities	**8,807.2**	**7,552.0**
G- Current liabilities		
1 Current portion of long-term loans	59.7	59.7
2 Trade payables	1,795.0	2,029.8
3 Tax liabilities	221.2	116.5
4 Current financial liabilities	50.4	40.1
5 Other current liabilities	196.2	137.6
Total current liabilities	**2,322.5**	**2,383.7**
TOTAL LIABILITIES AND EQUITY	**13,992.4**	**12,686.7**