



Terna Group
Interim Financial Report
31 March 2014

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Introduction

This **Interim Consolidated Financial Report of the Terna Group as at 31 March 2014**, 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.

Organisation and reference scenario

Terna S.p.A., a **listed company** in the Borsa Italiana electronic market since 2004, operates mainly in the Italian electricity system (approximately 97% of consolidated revenue derived from activities monitored by the AEEGSI - the Italian Regulatory Authority for Electricity Gas and Water).

Within the industry supply chain - the production, transmission, distribution and sale of electricity - Terna **manages the transmission segment, in the role of Italian TSO (*Transmission System Operator*) a monopoly position through government concession**. The activities performed are regulated by the Italian Regulatory Authority for Electricity Gas and Water (AEEGSI) and the Ministry for Economic Development.

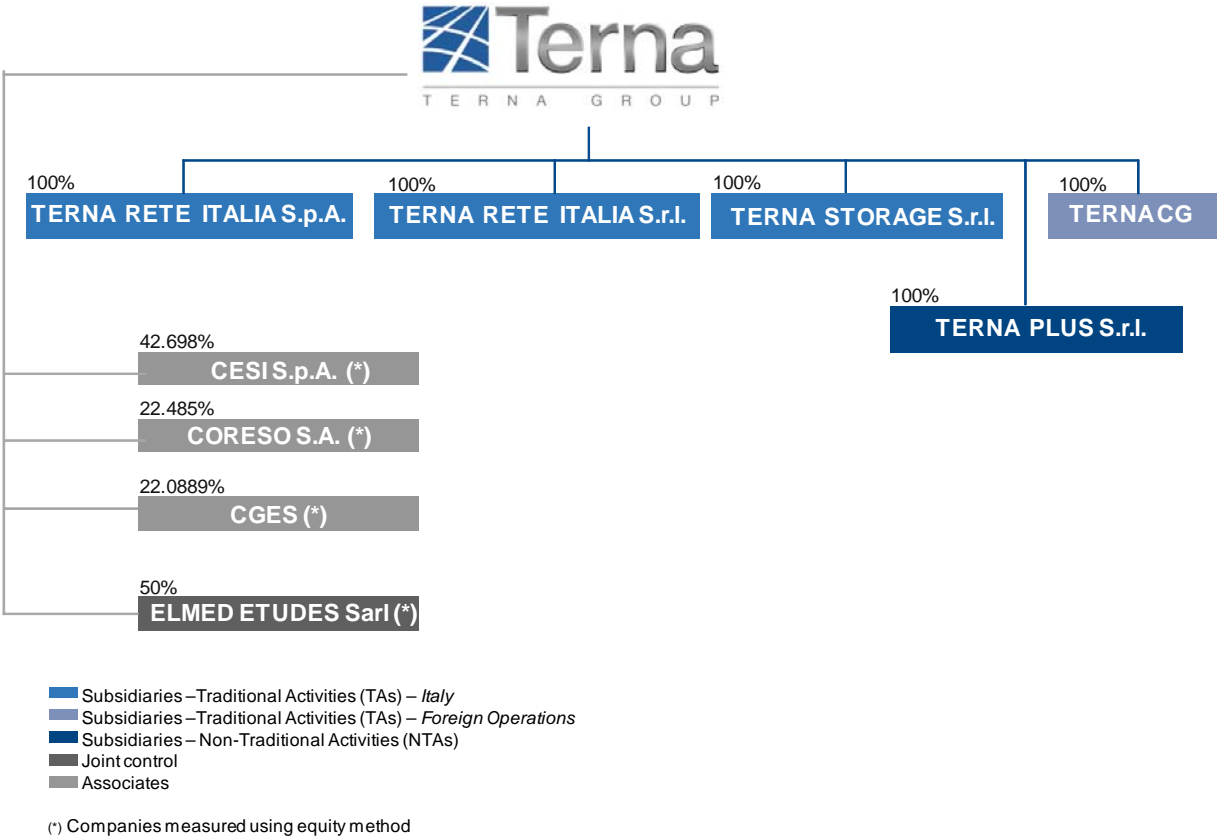
The Terna Group **owns almost all of the National Transmission Grid (NTG) in Italy** and is responsible for the transmission and dispatching of electricity on the High and Very High voltage grid throughout the country, as well as the planning, implementation and maintenance of the grid.

By managing transmission, Terna guarantees the security and quality of the national electricity system, and its cost-effectiveness over time. ensure equal conditions of access for all grid users; develop market activity and new business opportunities with the experience and technical skills gained in managing complex systems; create value for its shareholders with a strong commitment to professional best practices and with a responsible approach to the community, respecting the environment in which it operates.

Further protection of the general interest duties entrusted to Terna as operator of the National Transmission Grid is guaranteed by the presence of the Economy and Finance Ministry in the Company, through the Cassa Depositi e Prestiti (CDP).

Organisational structure

The Group structure at 31 March 2014:



Terna S.p.A., the Parent Company, owns the concession relating to electricity dispatching and transmission (issued with the Decree of 20 April 2005 of the Ministry of Productive Activities), and maintains ownership of the capital assets and responsibility for defining the NTG Development Plan and the Defence Plan.

Core business:

Terna's core business is mainly associated with **Regulated Activities**. Terna, in fact, receives remuneration based on a tariff system set by the Italian Regulatory Authority for Electricity Gas and Water, in relation to the two important traditional activities it conducts in Italy: the transmission and dispatching of electricity, both in implementation of the concession granted by the Ministry of Economic Development.

Within this context, the Terna Group carries out these regulated activities of transmission and dispatching of electrical energy on the National Transmission Grid through the Parent Company Terna S.p.A. and the companies that are direct subsidiaries of the latter:

Core activities – National Transmission Grid

- **Terna Rete Italia S.p.A.**

The company, founded on 23 February 2012 by the parent company Terna, **is tasked, within the Terna Group, with performing all core operational activities, ordinary and extraordinary maintenance of the proprietary section of the NTG, and management and performance of work on developing the grid** as provided for in the Concession for transmission and dispatching, on the basis of the provisions of the Development Plan of the parent company, Terna. To this end, with effect from 1 April 2012, a business unit rental contract was drawn up with the parent company with consequent ad hoc intergroup contracts for regulating business.

- **Terna Rete Italia S.r.l.**

The Company **owns approximately 12% of the NTG**; the design, construction, management, development, running and maintenance of High-Voltage electricity lines fall within the subsidiary's company purpose.

- **Terna Storage S.r.l.**

The Company, founded in 2012, is responsible within the Terna Group, pursuant to *an ad hoc contract signed with the parent company*, for **"safeguarding the construction" of diffused energy storage systems projects, as well as relative coordination, study and research activities.**

The parent company has in fact launched an ambitious storage-system programme aimed at "promoting the dispatching of non-programmable plants", in line with the relative legislation which provides for the possibility of including it among the works for developing the electricity transmission grids and inclusion in the extra-incentive mechanisms established by the Italian Regulatory Authority for Electricity Gas and Water (AEEGSI) in the two Resolutions 43/2013 and 66/2013.

Core Activities - Abroad

- **Terna Crna Gora d.o.o.**

The company, founded in Montenegro in 2011 by the parent company Terna, works to **authorise, construct and manage the transmission infrastructure consisting of the electricity interconnection line between Italy and Montenegro, on Montenegro territory**, as well as promoting or developing new investment opportunities in the transmission sector associated with the construction and management of new interconnection lines between Montenegro and neighbouring countries and of connection infrastructure of renewable energy plants in said countries.

Non-core business:

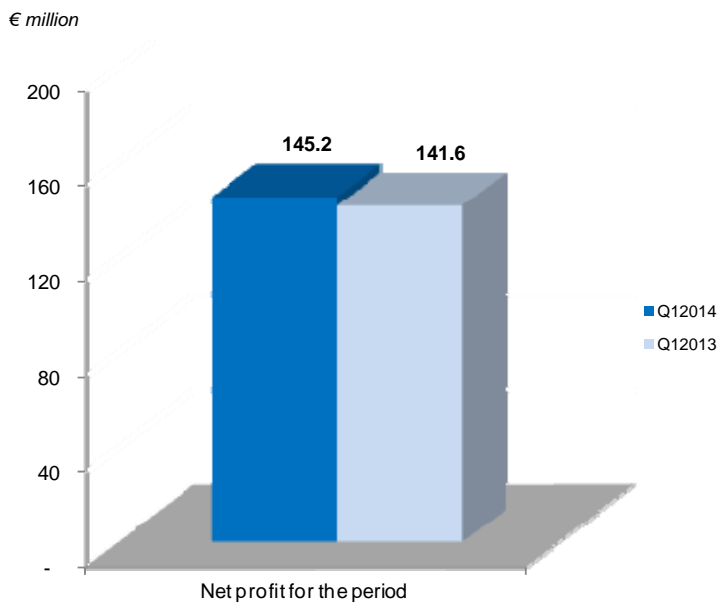
Given its experience and the technical expertise it has acquired, the Terna Group also develops new activities and business opportunities on the free market through the company **Terna Plus S.r.l.** directly controlled by the Parent Company Terna S.p.A.

The development of non-core business pursues the objective of further enhancing assets held and Terna's distinctive skills in the implementation and management of infrastructure, in particular at High Voltage, in Italy and abroad.

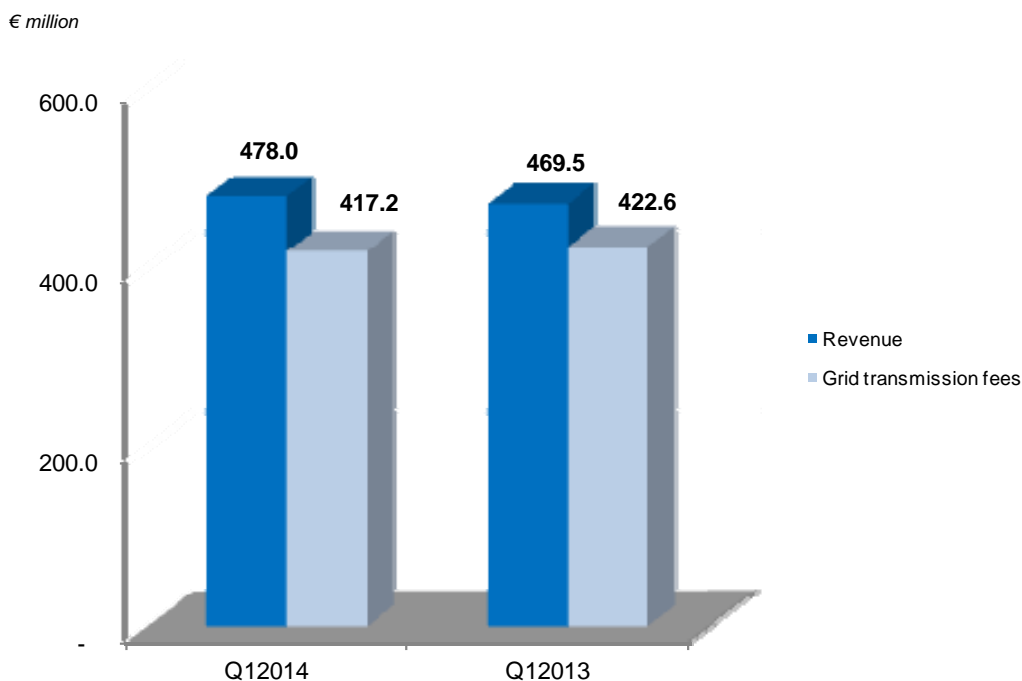
During the first quarter of 2014, there were no events that would have had effects on the Terna Group's organisational structure, which therefore reflects the situation as at 31 December 2013.

Summary of results¹

The consolidated economic situation at 31 March 2014 shows a **net profit for the period** of € 145.2 million, an increase of € 3.6 million (+2.5%) compared with the first quarter the previous period.



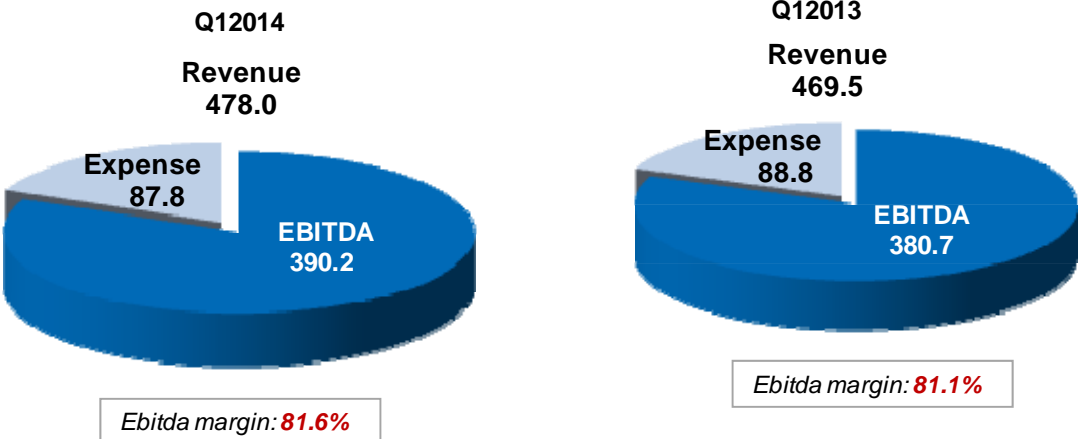
Revenue in the first three months of 2014 amounted to **€478.0 million**, € +8.5 million compared with the same period of the previous year (+1.8%), of which € 417.2 million refers to the transmission fee, attributable to the Parent Company for € 371.6 million and to the subsidiary Terna Rete Italia S.r.l. for € 45.6 million.



¹ The values discussed below are derived from the reclassified statements included in the paragraph "Terna Group performance and financial position" of this interim consolidated Report.

Operating expenses amounted to € 87.8 million, of which € 53.1 million relating to personnel expenses and € 27.7 million to services, leases and rentals. **EBITDA** (Gross Operating Margin) came out at € 390.2 million, equal to 81.6% of revenue, up by € 9.5 million from € 380.7 million in the first quarter of 2013 (+2.5%).

€ million



EBIT (Operating Profit) was € 277.3 million after deducting **depreciation and amortisation** of € 112.9 million, mainly relating to the Parent Company for € 101.0 million and to the subsidiary Terna Rete Italia S.r.l. for € 11.6 million.

Net financial expense for the period amounted to € 31.4 million, mainly attributable to the parent company (€ 30.8 million), showed an increase of € 13.9 million compared to the same period of 2013. After deducting net financial expense, **profit before taxes** came out at € 245.9 million, up by € 11.4 million compared with the corresponding period of the previous year (-4.4%).

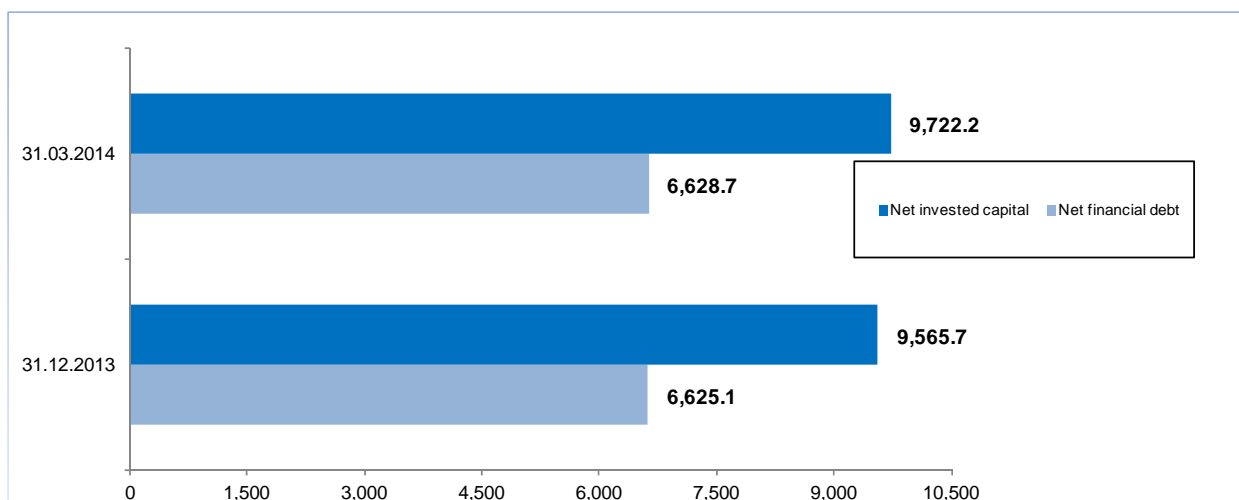
Income taxes for the year amounted to € 100.7 million, a decrease from the first quarter of 2013 of € 15 million (-13%), also because of lower pre-tax profit, mainly due to the reduction of the IRES increase, passing from 38% to 34% overall.

The tax rate for the period therefore correspondingly drops from 45% in the first quarter of 2013 to 41% in the corresponding period of 2014.

Net profit for the period therefore came out at € 145.2 million, up € 3.6 million (+2.5%) compared with the € 141.6 million of the first quarter of 2013.

Net invested capital of € 9,722.2 million is financed through **shareholders' equity** for € 3,093.5 million and through **net financial debt** for € 6,628.7 million.

€ million



The **debt/equity** ratio stands at 2.14.

Total investments made by the Group during the period amounted to € 164.3 million, down 20.2% compared to € 205.8 million in the corresponding period of 2013, which were, however, affected by the optical fibre acquisition by Wind Telecomunicazioni (€ 30 million) and work on the Dolo-Camin power line².

² Last December, the State Council confirmed cancellation of the authorisation order for work on the NTG entitled "Dolo-Camin" (380 kV rationalisation project between Venice and Padua). Therefore, during 2013 a new study was launched on rearranging the grid to form a new proposal for authorisation.

Regulatory and legislative aspects

Regulatory framework

In the first quarter of 2014, the Terna Group's revenue amounted to € 478 million. Of this, the majority (about 97%) is derived from activities regulated by the Italian Regulatory Authority for Electricity Gas and Water (AEEGSI) and about 3% relates to non-core business, or business carried on in a free market environment and through specific marketing initiatives, represented mainly by specialist services provided to third parties, predominantly relating to plant engineering, High and Very High voltage plant operation and maintenance, telecommunications equipment housing and fibre optic network maintenance services, as well as other consulting in the transmission sector.

Regulated revenue

Regulated revenue is generated by the fees for transmission and dispatching,³ and by incentive mechanisms relative to specific spheres of the service and aimed at improving the same. **As is implicit with incentive mechanisms, upon reaching objectives, the benefit to service users will be a multiple of the incentive paid to Terna.** These mechanisms can be divided into:

- a) tariff incentive mechanisms, implemented in the calculation of unit tariffs;
- b) non-tariff incentive mechanisms, such as bonuses/penalties for the quality of the transmission service.

Transmission service

The income linked to the payment for the transmission service (CTR) represents the main item of the regulated revenue. It is invoiced by Terna to the distribution firms which take energy from the NTG, in proportion to the respective energy quantities taken from the NTG.

This payment is to remunerate Terna (and the other subjects which hold residual portions of the NTG) for the activities directly connected to the transmission service, and it also includes certain incentives aimed at promoting investment in infrastructure.

The AEEGSI, with Resolution No. 199/11, following a consultation process, set out (i) the criteria and formulae for calculating the grid transmission fee, valid for the entire regulatory period 2012-2015, (ii) the rules for the annual updating of the unit value of the grid transmission fee during the same regulatory period.

The unit value of the grid transmission fee is therefore determined annually by the AEEGSI, on the basis of rules defined at the beginning of every four-year regulatory period. For the year 2014, the **unit amount of the transmission fee** has been updated by **AEEGSI Resolution No. 607/13** to 0.663 euro cents/KWh.

The same resolution also established an update of the **rate of return on invested capital** for the period 1 January 2014 - 31 December 2015 on the basis of the 10-year BTP average recorded in the period

³ Regulated revenue also includes revenue that Terna receives for the metering service, although the relative tariff is of a negligible amount for the purposes of the results of the period.

November 2012 - October 2013, fixing it at 6.3% (compared to the previous value of 7.4%) with its application starting from the 2014 rates. The Authority, in order to compensate for the "regulatory lag" or the delay with which the rates remunerate investments (rates for the year "Y" reflect the return on investments until the end of year "Y-2"), has also paid investments made after 31.12.2011 a higher rate of return on invested capital, amounting to 1%. Therefore, the RAB base return on such investments (starting from the 2014 tariffs) is 7.3% (6.3%, +1%).

Dispatch service

The fee for the dispatch service (DIS) remunerates Terna for the activities directly connected to the dispatch service, and it is invoiced by Terna to the dispatch users, in proportion to the respective quantities of energy dispatched. The relative revenue is entirely due to Terna, as the only subject responsible for this service.

Resolution No. 204/11 calculated the DIS fee for the year 2012 and decided on the annual updating with the same criteria and methods as contemplated by Resolution No. 199/11 for the grid transmission fee.

The **unit amount of the DIS fee** for 2014 has been updated by **Resolution No. 636/13**, setting it at 0.0673 euro cents/KWh.

Revenue guarantee mechanism

Once the unit amounts of the transmission and dispatch tariffs have been established (recognised expenses divided by the reference quantity), the returns gained by Terna depend on the actual dynamic of the physical quantities concerned, and particularly on the energy transported by the NTG and the energy dispatched. The sharp decline in consumption that began in the second half of 2008, together with the increase of the energy input into the distribution networks due to the effect of incentives for renewable energy production, have made trends in energy transported by the NTG less predictable and have led the AEEGSI to confirm, also for the fourth regulatory period (2012-2015), the **mechanism of partial sterilisation of the volume effect introduced by Resolution 188/08**. This states that any impact on the Group's revenue resulting from possible changes in the energy volumes withdrawn from the transmission grid and dispatched would be limited to +/- 0.5%.

2014 Incentive schemes

The AEEGSI has introduced specific bonus and penalty schemes aimed at encouraging service improvement, both in terms of technical reliability and cost. As is implicit with incentive mechanisms, upon reaching objectives, the benefit to service users will be a multiple of the incentive paid to Terna. In particular, in 2014 incentive mechanisms were provided:

- for the quality of the transmission service (non-tariff incentive mechanism);
- for the promotion of significant investments (tariff incentive mechanisms):
 - *Extra-WACC* (on investments which have entered into service): for some types of development investment, the WACC is increased for 12 years from the date of commissioning;

- *acceleration of investments*: for some strategically important investments, an increase in the WACC is contemplated also in the expenditure period when the works are in progress, provided Terna reaches certain effectiveness indicators.

With reference to the quality of the transmission service, it should be noted that during the first quarter of 2014 the Italian Regulatory Authority for Electricity Gas and Water published Resolution 118/2014 which, pursuant to art. 7 of Appendix A of Resolution 197/2011, taking into account the results of the audit of October 2013, determined the amount of bonuses to be paid to Terna for the year 2012.

In addition, with Resolution 607/2013, the AEEGSI introduced the payment, in the transmission tariffs for the financial year 2014, of incentives to accelerate investment on assets under development as at 31 December 2011 and 31 December 2012, after exceeding the threshold of 70% of the total conventional value of the milestones estimated for the first half of 2013.

Legislative context

With reference to the legislative and regulatory context in which Terna operates, see Annex I "Relevant Italian legislation" for a more detailed description of the regulatory measures and main AEEGSI Resolutions relevant to the company, issued in the first quarter of 2014.

Energy Context

Energy trend in Italy

Electricity demand in the first quarter of 2014

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

1 January - 31 March				
	2014*	2013	Change	%
Production				
Hydroelectric	12,989	9,714	3,275	33.7%
Thermoelectric	42,413	50,047	-7,634	-15.3%
Geothermoelectric	1,339	1,273	66	5.2%
Wind and photovoltaic	8,744	8,558	186	2.2%
Net generation	65,485	69,592	-4,107	-5.9%
Imported	13,667	12,458	1,209	9.7%
Exported	275	373	-98	-26.3%
Export balance	13,392	12,085	1,307	10.8%
Pumping Consumption	736	511	225	44.0%
Electricity demand	78,141	81,166	-3,025	-3.7%

* Provisional data

In the first quarter of 2014, demand for electricity amounted to 78,141 million kWh, a decrease of -3.7% compared to the same period of the previous year. Adjusting for calendar and temperature effects, the change is equal to -2.3%.

Net domestic production amounted to 65,485 million kWh, a decrease of -5.9% compared to the same period of the previous year.

The export balance amounted to 13,392 billion kWh, an increase of 10.8%.

Other information

Treasury shares

The parent company does not hold any treasury shares or shares of Cassa Depositi e Prestiti S.p.A., nor has it acquired or sold any during the first quarter of 2014, either directly or indirectly.

Participation in the legislative simplification process adopted by CONSOB Resolution 18079 of 20 January 2012

Pursuant to Art. 3 of Consob Resolution No. 18079 of 20 January 2012, Terna S.p.A. has decided to adhere to the simplified system contemplated by Arts. 70, paragraph 8, and 71, paragraph 1-*bis*, of Consob Regulation No. 11971 of 14 May 1999 and subsequent amendments (Consob Issuers' Regulation), thereby availing of the right to waive the publication requirements of disclosure documents provided for significant mergers, de-mergers, share increases by contribution of non-cash assets, purchases and sales.

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 in 2014 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 quarter of 2014 consisted substantially of services under the scope of ordinary business and settled at market terms, as is described in greater detail in the Consolidated Financial Statements as at 31 December 2013. 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 as at 31 December 2013, to which reference should be made.

It should be recalled that the rules which the Parent Company has adopted, detailed in the specific Report on Corporate Governance and Ownership Structures published together with the 2013 Financial Report, to which you are referred, lay down the conditions for ensuring that related party transactions are carried out in compliance with the criteria of procedural and substantial correctness, with the same terms that would apply to independent counterparties and in accordance with the rules on the transparency of disclosures to the market.

We can note that, in the first quarter of 2014, 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 brought into being, likewise transactions subject to compulsory disclosures; they were instead 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".

It should be noted that, in accordance with the regulatory requirements established by CONSOB Resolution no. 18049 of 23 December 2011, disclosures on remuneration of "members of the boards of directors and auditors, general managers" and other "managers with strategic responsibility", and on investments held by them, shall be included in the Annual Remuneration Report published in accordance with law on the website of the parent company.

The business and the Group's capital

The National Transmission Network (RTN)

Number of plants

The main changes in the numbers of Terna S.p.A and Triple Net Italy S.r.l. plants as at 31 March 2014 compared to the situation at the end of 2013⁴ mainly concern the parent company, Terna S.p.A., whose plant numbers saw an overall decrease of 2 stations and an increase of 2 bays of 730 MVA of transformed power and 3 triads totalling 220.9 km. In particular:

Stations

- disposal of the 220 kV station at Santa Massenza (formerly Edison) and the 220 kV station at San Giacomo;
- activation of 2 new transformers: 380/220 kV of 400 MVA in the Baggio station and 380/150 kV of 250 MVA in the Foggia station;

Power lines

- activation of the new Trino 2 - Lacchiarella 380 kV power line with double triads, equal to 2 triads and 188.0 km;
- restructuring of the 220 kV grid between the Taio and S. Massenza plants, with an increase of 1 triad and 31.8 km.

⁴ The number of NTG plants of the Terna Group at 31 December 2013 consisted of 57,539 km of power lines (equivalent to 63,594 km of triads), 475 transformation stations (a total of 5,105 bays) and 651 transformers with a total power of 138,719 MVA.

Investments

The table below shows a summary table of the investments made by the Terna Group for the period January to March 2014:

Terna Group investments	<i>€ million</i>	% of total investments
Investments		
- Transmission lines	85.8	52.2%
- Transformation stations	55.7	33.9%
- Storage systems	8.5	5.2%
- Other	5.7	3.5%
Total Investments in property, plant and equipment - core business	155.7	94.8%
Total investments in intangible assets - core business	6.4	3.9%
Total investments in core business	162.1	98.7%
Total Investments in property, plant and equipment - non-core business	2.2	1.3%
Total investments in intangible assets - non-core business	0	0.0%
Total investments in non-core business	2.2	1.3%
TOTAL	164.3	100.0%

Below is a brief commentary on the progress of the main works:

- 380 kV power line Sorgente - Rizziconi (€ 19.3 million):
 - With regard to power lines/cables:
 - Calabria: construction of the foundations and the installation of pylons at an advanced stage on the Sorgente – Villafranca power line; completion of excavations and the lining of the first phase of the well and the tunnel at Favazzina; despite some slowdowns, about 500 m of excavations have been completed;
 - Sicily: installation of terrestrial cable section under way.
 - With regard to electrical stations:
 - Calabria: civil works for the second Scilla ATR completed and the new 380 kV armoured section completed and tested;
 - Sicily: completion of the construction of retaining walls and supports of prefabricated buildings in Villafranca.
- Trino-Lacchiarella 380 kV power line (€ 11.5 million): work has been completed on the main power line (which came into operation in the first quarter) and on operations in connection therewith;
- Foggia-Benevento II 380 kV power line (€ 7.0 million): the first section of the power line (from Foggia to Troia) has been completed and work is under way on the tract between the municipalities of Troia and Benevento; the works site is open for the completion of the 150 kV cable variants;
- Restructuring of the 220 kV City of Naples grid (€ 5.7 million): the final design is under way for the Poggioreale - Secondigliano cable connection and activities are ongoing for obtaining secondary authorisations; works have started for the Casalnuovo - Acerra cable connection; provisioning of cables is under way;

- Montecorvino-Benevento power line (€ 3.6 million): works are in progress for the construction of the power station at Avellino Nord and related cable unions: in the station prefabricated buildings have been assembled and installation of armoured equipment has begun;
- Italy-Montenegro interconnection (€ 4.9 million): final design under way for the cable connection and conversion stations; works are open at the Cepagatti site for carrying out preliminary activities;
- Rationalisation 220 kV City of Turin grid (€ 3.0 million): ongoing installation works for underground sections of three power lines, as well as the completion of provisioning for the connections Politecnico - Torino Centro and Politecnico - Torino Sud; cable laying at an advanced stage for the new Martinetto – Levanna connection. In the power stations civil works have been completed for the armoured equipment at Pellerina station, while in the Politecnico station the assembly of the power and control system is nearing completion;
- In the January-March period the storage systems received investments of € 8.5 million, mainly relating to the procurement of NGK battery modules for the three sites at Ginestra, Flumeri and Scampitella, and the site opening and initiation of works on the Flumeri plant.

The table below shows details of investment in the main operations, divided into transmission lines and transformation stations:

	€ million
Main projects - Lines and Stations	55.0
<i>of which transport lines</i>	43.5
<i>of which transformer stations</i>	11.5
380kV Sorgente - Rizziconi power line	19.3
<i>of which transport lines</i>	13.7
<i>of which transformer stations</i>	5.6
380kV Trino - Lacchiarella power line	11.5
<i>of which transport lines</i>	11.2
<i>of which transformer stations</i>	0.3
380kV Foggia - Benevento II power line	7.0
<i>of which transport lines</i>	7.0
<i>of which transformer stations</i>	0.0
Restructuring of the 220kV City of Naples grid	5.7
<i>of which transport lines</i>	5.1
<i>of which transformer stations</i>	0.6
Italy - Montenegro interconnection	4.9
<i>of which transport lines</i>	2.3
<i>of which transformer stations</i>	2.6
Montecorvino-Benevento power line	3.6
<i>of which transport lines</i>	1.7
<i>of which transformer stations</i>	1.9
220kV City of Turin rationalisation	3.0
<i>of which transport lines</i>	2.5
<i>of which transformer stations</i>	0.5

Electrical energy dispatching

As described in the paragraph “Energy context”, electricity demand in the first quarter of 2014 was equal to 78,141 million kWh and at 11 am on 29 January peak demand was recorded at 49,767 MW.

Net national production was equal to 65,485 million kWh, with a -5.9% variation compared to the same period of the previous year, while foreign trade recorded net imports of 13,392 million kWh, an increase of 10% compared with the same period of the previous year.

The **price on the Italian energy exchange** (PUN) was equal to 52.5 €/MWh (-18% compared with the same period of the previous year) and was on average higher than other European markets: French price (PNX) 37.8 €/MWh (-30%); German market price (Phelix) 33.5 €/MWh (-21%).

The **Fee for the provisioning of resources in the Market for Dispatching Services** (so-called **Uplift**), referred to in AEEGSI Resolution no. 111/06 art. 44 and subsequent amendments, represents the net expense associated with the following energy-related items: purchases and sales on the Market for Dispatching Services in spot and forward contracts (the latter representing bonuses for contracts signed as an alternative to declaration of essentiality), remuneration of plant goodwill on the Market for Dispatching Services (so-called goodwill token), imbalances, congestion earnings and related financial hedges, virtual interconnection service (i.e. interconnector), other minor items. This price is invoiced pro-rata to users of the dispatching on the energy withdrawn, to cover the envisaged accruing monthly cost and the prior differences. In the first quarter of 2014, the total cost amounted to € 476 million (provisional March data), up 10% compared to the same period of the previous year.

With regard to purchases and sales on the **Market for Dispatching Services** in the first quarter of 2014, Terna procured resources for a net charge of € 460 million (provisional data of March 2014), an increase of 35% compared to the same period of the previous year due to the price effect and volume effect given the increased resources required for the control of the system under low load and/or high renewable production.

Research and Development

When introducing technological and plant solutions, new instruments and methods aimed at improving the reliability of power plants and, in turn, service quality, Terna mainly uses in-house technicians who base their work on carefully monitoring and analysing the performance of plants and equipment. Terna also uses the specialised support of manufacturers as well as collaboration with universities and 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 quarter of 2014 the Terna Group incurred expenses of € 1.6 million in respect of the associate CESI, of which € 1.4 million were capitalised.

Applied research

Research into innovations and new developments in engineering can be divided into four broad fields:

- *Optimisation of infrastructure and materials*

This area is concerned with designing pylons with less visual impact and which are more easily integrated into the surrounding environment; as well as identifying ways to boost the transmission capacity of existing lines; and developing new technology for High-Voltage cables.

After the 2013 installation of the "Germoglio" pylons, designed by the architect Hugh Dutton, on the 380 kV double triad "Trino-Lacchiarella" line and the commissioning of an experimental tract with 150 kV cable produced from fully recyclable raw materials within the "Lacchiarella-Vernate" link, 2014 will see the design of a new series of single-stem supports with a lattice pylon structure.

- *Equipment diagnostics*

The purpose of the research carried out in this area is to develop new monitoring systems which can, for example, be used with station equipment and machinery, line components, and partial discharges in High-Voltage cable systems.

For 2014 it is reported that work on the specifications for the monitoring of certain systems is almost completed and the acquisition process will be launched shortly to allow the extension to other systems from 2015.

- *New equipment*

Research in this area is dedicated to developing and implementing compact rapid installation stations. After a positive trial run with the 150 kV Compact Rapid Installation Station, a similar project has been planned for 380 kV. The viability of this project has been confirmed by the manufacturers and in 2013 the specifications to allow the basic components to be tested were drawn up.

In 2014, we report the study and the development of a specification for a completely container-housed station with a non-conventional layout, which may be beneficially installed either in an emergency as a result of serious faults, or for temporary connections to the network of producers and users.

- *Plant safety*

The main aim of research in this area is to guarantee greater levels of safety at plants and in the surrounding area in the event of external, potentially dangerous events such as fires, earthquakes, etc.

In 2013 a start was made on the development of a project for the use of anti-seismic devices with vulnerable equipment; laboratory tests showed that for a given exerting force, structural stresses dropped by 50%. In 2014 trials will begin with the installation of anti-seismic devices on Siemens 380 kV switches.

Staff

At the end of the period Group employees numbered 3,460, an increase of 15 compared with 31 December 2013. Details of the number of Terna Group employees at 31 March 2014 are shown below:

Change in the workforce*	at 31.03.2014	at 31.12.2013	Change
Senior management	63	62	1
Junior management	525	501	24
Office staff**	1,910	1,925	-15
Production workers	962	957	5
Total	3,460	3,445	15

* The figures, for both periods of reference, do not include retirements with effect from 31 March 2014 and 31 December 2013, respectively.

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

The breakdown by company of number of employees at the end of the quarter is illustrated in the table below:

at 31.03.2014	Terna S.p.A.	Terna Rete Italia S.p.A.	Terna Plus S.r.l.	Terna Storage S.r.l.	Terna Crna Gora d.o.o.	Group Total
Senior management	27	34	2	-	-	63
Junior management	145	372	5	3	-	525
Office staff	212	1,691	2	2	3*	1,910
Production workers	-	962	-	-	-	962
TOTAL	384	3,059	9	5	3	3,460

*Local employees

Economic-financial performance

Significant events in the first quarter of 2014

Below are the main significant events in the first quarter of 2014.

Memorandum of Understanding between Terna and the National Association of Italian Municipalities

On **12 February 2014**, Terna S.p.A. and ANCI, the National Association of Italian Municipalities, to which 7,318 Municipalities belong – representing 90% of the population – signed a Memorandum of Understanding in Rome, the main aim of which is to share the localisation of electricity works in Italy through increased harmonisation between Terna's development activities and the town and territorial planning instruments of the municipalities.

The agreement contemplates, in particular, the institution of a Permanent Coordination Committee between ANCI and Terna, to define specific instruments useful in the consultation phase between the Company and the town councils on routes and on the execution of the works contemplated by Terna's Development Plan. Special consultation committees will also be set up between the town councils and Terna, relative to the individual works, to allow the relevant public bodies to be involved.

The importance of this agreement lies in the fact that Terna and ANCI – to foster sustainable development and to accelerate the execution of strategic works – will work together to harmonise the needs of the electricity system with those of protecting the environment and the local area, relative to the positioning of the electricity grid development works. Terna has invested approximately € 8 billion between 2005 and the present day for 2,500 km of new grid line and 84 new electrical stations, and it plans to invest the same amount again over the next decade, with about € 3 billion already committed for the execution of the 250 construction sites open at present throughout the country, which employ 4,000 people and 750 firms every day. Terna's commitment both to dispatching and the grid, has, from 2005 until today, produced savings of € 5.4 billion in total for citizens and companies.

Terna's rating

On **18 February 2014** Moody's Investors Services (Moody's) raised from negative to stable the outlook assigned to Terna's rating. The issuer rating and the Senior Unsecured Debt rating were confirmed at Baa1, as was the rating assigned to the EMTN Programme at P(Baa1). The short-term rating for Terna remained unchanged at Prime-2. The shift in the outlook from negative to stable reflects the close connection between Terna's credit quality and that of the Italian Republic.

On **12 March 2014**, Fitch Ratings reduced the Long-Term Issuer Default Rating (IDR) and the Senior Unsecured Rating of Terna S.p.A. to "BBB+" from "A-", thus aligning itself with the other agencies. The outlook went from negative to stable. The Short-Term IDR was confirmed at F2.

Agreement signed for the acquisition of Tamini Trasformatori

On **25 February 2014**, within the scope of performance of non-core business by the Terna Group, Terna Plus S.r.l., a company fully controlled by the parent company, signed an agreement for the purchase of the entire share capital of Tamini Trasformatori S.r.l. and a number of companies controlled by it.

The operation, which is expected to cost € 23.9 million for the production plants alone, should be completed with the first half of 2014, subject to a number of suspensive conditions being granted. At the closing date, the purchase price will be adjusted on the basis of the value of the circulating assets (including other items) and the net financial position certified at such date.

The purchase of the Tamini Group, despite the limited direct financial exposure of Terna and the prospects typical of the Group's non-traditional activities – ever considered "non-continuous" operating activities – offers the chance to valorise a historic Italian industrial concern, recognised for its excellence in the electricity sector in Italy and abroad.

Tamini operates in the production and marketing sector of industrial and power electric transformers and is owned by Luciano Tamini (50%) and Carlo Pavese Tamini (50%). It has four production plants all located in Italy in Legnano, Melegnano, Novara and Valdagno.

The Tamini Group involved in the agreement is made up of the parent company V.T.D. Trasformatori S.r.l., Verbano Trasformatori S.r.l. and Tamini Transformers USA L.L.C..

In 2012, the Tamini Group had a turnover of € 119.5 million and an EBITDA of € 7.7 million.

Terna Group Strategic Plan 2014-2018 approved

On **25 March 2014**, Terna approved the Terna Group's Strategic Plan for the period 2014-2018; these are the guidelines:

- **Core Business:** planned € 3.6 billion investment for maintenance and development of the network.
- **Non-core business:** increased commitment of up to € 1.3 billion in the time horizon of the Plan (potential 900 million confirmed, to which is added the value of business already announced).
- **Improvement of margins:** the EBITDA margin will amount to over 79% in 2018.
- **A sound financial structure:** no need for refinancing until the end of 2015 and the net debt/RAB ratio less than 60% in the years of the Plan.
- **Dividends policy:** dividends policy with deposit and balance confirmed. Basic dividend envisaged deriving from core business, equal to 19 euro cents per share, to which will be added the contribution of non-core business (60% pay out of results).

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. These are not subject to independent auditing. These reclassified tables contain alternative performance indicators, which management considers useful for monitoring Group trends, and representative of the economic and financial results produced by the business. The criteria used for the construction of such indicators (pursuant to Recommendation CESR/05-178b) are the same as those used in the annual disclosure.

Scope of consolidation

During the first quarter of 2014, there were no events that would have had effects on the Terna Group's consolidation scope, which therefore reflects the situation at 31 December 2013.

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 2013.

Economic results

By the first quarter of 2014, the Terna Group, in consideration of the operating environment and the reference legislative and regulatory aspects described in the preceding paragraphs, continued its activities in line with the provisions of the **Strategic Plan 2014-2018** approved by the Board of Directors on 25 March 2014, and to which reference is made to the press release of the same date available on the website www.terna.it.

The results of the Terna Group for the first three months of 2014 compared with the same period of the previous year, are summarised in the following management income statement.

€ million	1 January - 31 March			
	2014	2013	Change	%
Revenue:				
- Grid transmission fees	417.2	422.6	-5.4	-1.3%
- Other energy items	40.8	34.1	6.7	19.6%
- Other operating revenue	20.0	12.8	7.2	56.3%
Total revenue	478.0	469.5	8.5	1.8%
Operating expenses:				
- Personnel expenses	53.1	52.6	0.5	1.0%
- Services, leases and rentals	27.7	28.3	-0.6	-2.1%
- Materials	2.3	2.6	-0.3	-11.5%
- Other expenses	4.7	5.3	-0.6	-11.3%
Total operating expenses	87.8	88.8	-1.0	-1.1%
EBITDA (gross operating profit)	390.2	380.7	9.5	2.5%
Depreciation and amortisation	112.9	105.9	7.0	6.6%
EBIT (OPERATING PROFIT/LOSS)	277.3	274.8	2.5	0.9%
- Net financial income (expense)	-31.4	-17.5	-13.9	79.4%
PROFIT/LOSS BEFORE TAXES	245.9	257.3	-11.4	-4.4%
- Income taxes for the period	100.7	115.7	-15.0	-13.0%
NET PROFIT FOR THE PERIOD	145.2	141.6	3.6	2.5%

In the first three months of 2014, the Terna Group achieved **revenue** of € 478 million, relating to the Parent Company for € 427.7 million and to the subsidiary Terna Rete Italia S.r.l. for € 48 million, an increase of € 8.5 million compared with the same period of the previous year (+1.8%). This increase is mainly due to **non-core business** - the results of which are presented as part of "Other operating revenue" - largely for the implementation and completion of orders for changes to the NTG (€ 5.7 million, mainly related to business at Expo 2015), as well as new maintenance contracts for photovoltaic systems. Within the **core business**, the increase in "Other energy items" (€ 6.7 million) mainly due to the bonus added for the 2012 transmission service quality observed on the basis of **Resolution 118/2014/R/eel** more than offset the decline in "**Grid transmission fees**", which reflects both the updating of tariffs

pursuant to Resolution 607/2013⁵ and of contingencies recognised in the first quarter of 2013 (€ 5.1 million, pursuant to Res. AEEGSI 565/2012).

In the first three months of 2014 **operating expenses**, amounting to € 87.8 million, mainly related to the Parent Company (€ 27.8 million) and to the subsidiary Terna Rete Italia S.p.A. (€ 57.7 million), are broadly in line with the first quarter of 2013 (€ -1 million, equal to -1.1%)

EBITDA (Gross Operating Margin) for the period came out at € 390.2 million, an increase of € 9.5 million compared with the € 380.7 million of the first nine months of 2013 (+2.5%).

The increase in revenue and the slight reduction in operating expenses were reflected in the **EBITDA margin** which went from 81.1% in the first three months of 2013 to 81.6% in the corresponding period of 2014.

Depreciation and amortisation for the period, amounting to € 112.9 million (of which € 101 million of the parent company and € 11.6 million of the subsidiary Terna Rete Italia S.r.l.), grew by € 7.0 million compared with the same period of 2013 mainly due to the entry into operation of new plants in the last 12 months.

EBIT (Operating Profit), after deduction of depreciation and amortisation, came out at € 277.3 million, up by € 2.5 million (+0.9%) compared with the first three months of 2013.

Net financial expense for the period, amounting to € 31.4 million, mainly attributable to the parent company (€ 30.8 million), revealed an increase of € 13.9 million, compared to € 17.5 million in the same period of 2013, which was affected by higher financial income due to greater liquidity invested at more favourable rates.

After deducting net financial expense, **profit before taxes** came out at € 245.9 million, up by € 11.4 million compared with the corresponding period of the previous year (-4.4%).

Income taxes for the year amounted to € 100.7 million, down € 15 million (-13%) compared to the same period of the previous year, also because of the lower pre-tax profit, mainly due to the reduction of the IRES increase, provided for by Decree Law of 13.08.2011 no. 138 (Robin Hood Tax), which fell from 10.5% to 6.5%, setting the IRES rate at 34% (compared with 38% in 2012).

The tax rate for the period therefore correspondingly drops from 45% in the first quarter of 2013 to 41% in the corresponding period of 2014.

Net profit for the period therefore came out at € 145.2 million, up € 3.6 million (+2.5%) compared with the € 141.6 million of the first quarter of 2013.

⁵ In particular, the 2014 update of transmission service tariffs included, among other things, a reduction in WACC of 6.3% and the inclusion of additional remuneration to the LIC category at 31 December 2011 and 2012.

Equity results

The Terna Group's operating and financial position at 31 March 2014 and at 31 December 2013 is summarised in the table below.

	at 31.03.2014	at 31.12.2013	Change
<i>€ million</i>			
Net non-current assets			
- Intangible assets and goodwill	454.0	461.8	-7.8
- Property plant and equipment	10,176.6	10,119.9	56.7
- Financial assets	84.3	82.8	1.5
Total	10,714.9	10,664.5	50.4
Net working capital			
- Trade receivables	605.3	846.1	-240.8
- Inventories	8.2	8.0	0.2
- Other assets	66.3	95.5	-29.2
- Trade payables	574.1	780.0	-205.9
- Net energy-related pass-through payables	152.7	407.3	-254.6
- Net tax liabilities	140.7	-32.9	173.6
- Other Liabilities	359.9	441.3	-81.4
Total	-547.6	-646.1	98.5
Gross invested capital	10,167.3	10,018.4	148.9
Sundry provisions	445.1	452.7	-7.6
NET INVESTED CAPITAL	9,722.2	9,565.7	156.5
Equity attributable to the owners of the Parent	3,093.5	2,940.6	152.9
Net financial debt	6,628.7	6,625.1	3.6
TOTAL	9,722.2	9,565.7	156.5

The increase in **Net non-current assets** of € 50.4 million, compared with the figure of 31 December 2013, is mainly attributable to the item **Property, plant and equipment** (€ +56.7 million) owing to the combined effect of:

- investments of € 157.9 million, of which 155.7 million in core business;
- Depreciation and amortisation for the year of € 98.5 million.

Intangible assets and goodwill recorded a reduction of € 7.8 million attributable to ordinary movements of intangible assets for investments of € 6.4 million (of which € 4.2 million in dispatching infrastructures), net of the portion of amortisation accruing of € 14.4 million (of which € 9 million relating to amortisation of the dispatching infrastructures and € 1.4 million relating to amortisation of the concession).

Total investments made by the Group in the first quarter of 2014 amounted to € 164.3 million, down 20.2% compared to € 205.8 million in the corresponding period of 2013, which were, however, affected by

the optical fibre acquisition by Wind Telecomunicazioni (€ 30 million) and work on the Dolo-Camin power line⁶.

Investments in the first quarter of 2013 - extensively annotated in the specific paragraph "Investments for the period" to which we refer you - include in particular those related to the parent company, mainly concerning the advancement of operations on the Sorgente – Rizziconi 380 kV power line (€ 19.3 million), the Trino-Lacchiarella 380 kV power line (€ 11.5 million), the Foggia-Benevento II 380 kV power line (€ 7.0 million), the restructuring of the City of Naples 220 kV grid (€ 5.7 million), the Italy-Montenegro interconnection (€ 4.9 million), the Montecorvino-Benevento power line (€ 3.6 million) and the rationalisation of the 220 kV City of Turin grid (3.0 million).

Financial assets showed an increase of € 1.5 million, mainly due to the adjustment of Terna SpA's investments in associates equity at 31 March 2014.

Net working capital amounted to € -547.6 million and during the period used liquidity of € 98.5 million, owing essentially to the combined effect of:

- a decrease in net payables for pass-through energy items (€ 254.6 million) originated with the electricity dispatching work done by the Parent Company, mainly deriving from the combined effect of:
 - reduction in net debt arising from the remuneration of the units essential for the safety of the electrical system - UESS (€ 108.4 million) for payments made during the quarter related to advances for units in cost reintegration arrangements;
 - reduction in net debt resulting from transactions within the power exchange perimeter (€ 111.4 million);
 - decrease in net debt relating to the provisioning of interruptible resources (€ 20.9 million), due inter alia to adjustments for variable remuneration;
- a reduction in trade payables of € 205.9 million mostly for purchases and services relating inter alia to greater investment activities implemented in the last period of the previous year;
- decrease in other liabilities (€ 81.4 million) due mainly to the liquidation in the quarter of annual coupons related to bonds in the portfolio;
- decrease in trade receivables of € 240.8 million due to collections from CCSE (Electricity Equalisation Fund) in implementation of AEEGSI Resolution 607/2013, relating to the mechanism for integration of revenue related to the transmission service and recognised for the year 2012 (€ 131.5 million), as well as the collection, postponed in January by a market operator, of the portion of the CTR fees of the last part of 2013, the natural deadline of which was the end of the previous year;
- increase in net tax liabilities (€ 173.6 million) mainly due to the recognition of income taxes for the period (€ 110 million) and the higher net debt for VAT (€ 62.9 million).

Gross invested capital therefore amounted to € 10,167.3 million, an increase of € 148.9 million in the previous year.

Sundry provisions recorded a decrease of € 7.6 million, primarily attributable to provisions for net deferred tax liabilities for the use of previous provisions of the parent company Terna and the subsidiary

⁶ Last December, the State Council confirmed cancellation of the authorisation order for work on the NTG entitled "Dolo-Camin" (380 kV rationalisation project between Venice and Padua). Therefore, during 2013 a new study was launched on rearranging the grid to form a new proposal for authorisation.

Terna Rete Italia S.r.l. referred to additional depreciation with respect to the economic and technical portions (€ 10 million and € 1.6 million respectively) and for the use of deferred tax assets of € 4 million, related to the change in fair value associated with derivative cash flow hedging instruments (cash flow hedges) of the parent company.

Net invested capital amounted to € 9,722.2 million, an increase of € 156.5 million compared with 31 December 2013 and is financed by equity attributable to the owners of the Parent for € 3,093.5 million (compared with € 2,940.6 million at 31 December 2013) and by net financial indebtedness for € 6,628.7 million (basically in line with the € 6,625.1 million of net financial indebtedness at the end of 2013).

At 31 March 2014, the debt/equity ratio therefore came out at 2.14.

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 2014 is shown in the following table:

<i>€ million</i>	Net profit Q1 2014	Equity at 31.03.2014
Financial Statements of the Parent Company	124.1	2,820.0
Results and equity contributed by the ongoing activity of subsidiaries	19.7	192.3
Results and equity contributed by extraordinary transactions of subsidiaries	-	57.9
Equity-accounted investees	1.4	23.3
Terna Group Consolidated Financial Statements	145.2	3,093.5

Cash flows

Net financial debt

The Group's net financial debt at 31 March 2014 (€6,628.7 million) is broken down in the table below.

€ million	31.03.2014	31.12.2013	Change
Financial debt			
A. Medium- and long-term debt			
- Bond	5,809.9	5,723.0	86.9
- Floating-rate loans	2,270.4	2,286.9	-16.5
- Derivative financial instruments	-543.7	-447.1	-96.6
Total	7,536.6	7,562.8	-26.2
B. Short-term debt (liquidity):			
- Floating-rate loans (current portions)	78.0	79.0	-1.0
- Fixed-rate loans (current portions)	611.5	618.8	-7.3
- Derivative financial instruments	-11.7	-18.4	6.7
- Cash and cash equivalents	-1,585.7	-1,617.1	31.4
Total	-907.9	-937.7	29.8
Total net financial debt	6,628.7	6,625.1	3.6

During the first quarter of the financial year 2014 net financial debt increased by € 3.6 million owing mainly to the combined effect of:

- an increase in bond loans (€ 79.6 million) as a result of adjusting financial instruments to fair value (€ +78.6 million, including the amortised cost) and the capitalisation of inflation in the period (€ +1 million);
- repayment of EIB loan instalments due of € 17.6 million;
- an increase in the positive net balance of derivative financial instruments (€ 89.9 million), mainly due to an increase in the reference interest rate curve compared to December 2013;
- a decrease in cash and cash equivalents (€ 31.4 million).

Cash flow

The consolidated cash flow for the first quarter of 2014 and 2013 is presented in the statement below:

€ million	Cash flow first 3 months of 2014	Cash flow first 3 months of 2013
Opening cash and cash equivalents	1,617.1	2,510.1
- Net profit for the period	145.2	141.6
- depreciation and amortisation	112.9	105.9
- Net change in provisions	-7.6	-5.0
- Net Losses (Gains) on asset disposals	0.0	-0.2
Self-financing	250.5	242.3
- Change in net working capital:	-98.5	-116.1
Operating cash flow	152.0	126.2
Investments		
- Total investments	-164.3	-205.8
- Other changes in non-current assets	2.4	0.4
- Change in equity investments	-1.4	-2.8
Total cash flows generated by/(used in) investing activities	-163.3	-208.2
- Change in loans	-27.8	-27.7
- Other changes in equity attributable to owners of the Parent	7.7	12.8
Total cash flows generated by/(used in) financing activities	-20.1	-14.9
Total cash flow for the period	-31.4	-96.9
Closing cash and cash equivalents	1,585.7	2,413.2

The cash flow generated by operating activities during the period came to approximately € 152.0 million and is related to self-financing (€ 250.5 million) which more than offset the financial resources (€ 98.5 million) used by net working capital.

As far as **self-financing** is concerned, we can note the effect of the profit for the period of € 145.2 million including depreciation and amortisation for the period of € 112.9 million, reduced by the net decrease in provisions of € 7.6 million, mainly ascribable to the changes in provisions for net deferred tax liabilities, described above.

The change in **net working capital**, equal to € -98.5 million, is mostly attributable to the reduction in net payables relating to pass-through energy items, only partially offset by the increase in net tax liabilities.

Investment business used financial resources of approximately € 163.3 million, mostly referable to investments made during the quarter in property, plant and equipment (€ 157.9 million) and intangible assets (€ 6.4 million) – attributable to the Parent Company for a total of € 156.2 million.

Changes in equity attributable to the owners of the Parent relate essentially to recognition at fair value of derivative instruments hedging floating-rate debt (CFH), net of the related tax effect (€ +7.7 million).

As described above, the necessary financial needs for the period for investment business was substantially covered by the liquidity generated from operating activities (€ 152.0 million), and the remainder was covered by net use of Cash and cash equivalents at end of period in 2013 (net financial debt amounted to € +3.6 million).

Significant events subsequent to 31 March 2014

At the reference date of this interim consolidated Report on operations, there were no significant events subsequent to 31 March 2014.

Declaration by senior management 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 31 March 2014 is consistent with the documents, books and accounts.

ANNEX - Section "Organisation and reference scenario"

Italy's Regulatory Framework

Regulatory framework

Below is a brief description of the main recent regulatory measures of interest for the Parent Company issued until the date of preparation of Consolidated Interim Report on Operations.

Measures issued in 2013 with effect from 2014

Italian Law No. 147 of 27 December 2013 containing "Provisions for drafting the annual and multi-year financial statement of the State", published in the Italian Official Journal of 27 December 2013, No. 87.

The law acts on the matter of taxation of capital real estate, providing for the deductibility of 20% of IMU for the purposes of IRES (at 30% for the taxation period in progress at 31 December 2013 only).

Taxation on property was then widely reviewed with the introduction of a single council tax, replacing TARES and consisting of two components, one to cover the operating expenses of the urban refuse service (TARI) and one to fund the related, indivisible services (TASI).

Stamp duty was then increased on periodic statements to consumers related to financial products (securities accounts) from 1.5 to 2 thousandths of the market value of the securities, starting from 2014.

Starting from the taxation period in progress at 31 December 2014, firms increasing the number of permanent employees compared to the average number of permanent employees in the previous year may deduct a part of labour expenses for three years (the year of hiring and the following two years). The deductible sum may not exceed € 15,000 for each new employee hired. Again on the matter of employment, in the case of moving from a fixed-term contract to a permanent contract, starting from 2014 the additional contribution of 1.4 % paid during the fixed-term contract is returned in full to the employer and no longer just for the last six months. The parameters for calculating deductions for employed work for income groups up to € 55,000 were also redetermined. At the suggestion of INAIL, there are plans to reduce the insurance premiums and contributions for accidents at work and occupational disease by decree of the Minister for Employment.

The law provides that, within ninety days of the law coming into force, at the suggestion of the Italian Regulatory Authority for Electricity Gas and Water, and after consultation with the Minister for the Environment, the Minister for Economic Growth should define the terms and conditions of a system for remunerating production capacity *"able to provide adequately flexible services to the extent strictly required to ensure the security of the electricity system and to cover the demand by grid operators and without increasing electricity prices and tariffs for the end users, within the sphere of electricity market regulation"*.

Italian Decree of 19 December 2013 on the “Methods and criteria for the importation of electricity for 2014”, published in the Italian Official Journal of 21 January 2014, No. 16.

The decree sets out the methods and criteria for importing electricity for 2014 on the national transmission grid.

Italian Decree Law no. 150 of 30 December 2013 on “Extension of the terms envisaged by legislative measures” published in the Italian Official Journal of 30 December 2013, no. 304, converted with Italian Law no. 15 of 27 February 2014, published in the Italian Official Journal of 28 February 2014, no. 49.

The decree refers from 1 January 2013 to 1 July 2014 the application deadline for exclusively electronic acquisition of tender documentation.

Measures issued in 2014

Decree Law of 28 January 2014 no. 4, "Urgent measures for tax and social security contributions and referral of terms related to fulfilment of tax and social security contributions", published in the Italian Official Journal of 29 January 2014 no. 23, converted by the Law of 28 March 2014 no. 50, published in the Official Journal of 29 March 2014, no. 74.

The decree provides for the postponement of the INAIL payments deadline to 16 May 2014.

Law of 11 March 2014 no. 23, "Subordinated government delegation for the provision of rules for a fairer, more transparent and growth-oriented tax system", published in the Official Journal of 12 March 2014, no. 59.

The law carries a subordinated delegation to the Government for the issue, by 27 March 2015 of legislative decrees reforming the tax system.

In the context of tax reform, there are plans for the introduction of new forms of energy and environmental taxation, intended "*to steer the market towards sustainable patterns of consumption and production*", as well as a review of the rules of excise duties on energy products and electricity, "*also in relation to carbon content and nitrogen oxide and sulphur emissions*".

The additional revenue will be used "*primarily for reductions in income tax, particularly for work generated by the green economy, for the diffusion of technologies and products with low carbon content and the financing of sustainable production and consumption models, as well as a revision of the funding of subsidies for energy production from renewable sources*".

The implementing decrees will carry provisions for the revision of the land registry, the restructuring of indirect taxation, the revision of the method of calculation of income and production for tax purposes in respect of VAT, substitute tax and the taxation of employee severance allowances.

Decree Law of 20 March 2014 no. 34, "Urgent measures for boosting employment and for the simplification of the obligations of businesses", published in the Official Journal of 20 March 2014 no. 66.

The decree provides for the establishment of a new electronic system of verification of regular contributions by businesses. The outcome of the requests transmitted electronically will be valid for 120 days, except when they are identified by the Decree of the Minister of Labour for the implementation of the provision. There will also be legislative changes in the law relating to employment, with particular reference to apprenticeship contracts and temporary contracts. In the case of the latter, the number of temporary contract jobs will be capped at 20% of the total workforce, there will no longer be a requirement to indicate in the contract the technical and organisational reasons justifying the determination of a term, and provision will be made for the possible extension of the contract term to 36 months.

Resolutions of the Italian Regulatory Authority for Electricity Gas and Water

Below is a short summary of the main resolutions passed by the Italian Regulatory Authority for Electricity Gas and Water (the "Authority") during the first quarter of 2014 and, later, up to the date of preparation of this Interim Consolidated Financial Report on Operations.

Resolutions 37/2014/R/eel, 38/2014/R/eel, 39/2014/R/eel, 41/2014/R/eel, 42/2014/R/eel and 43/2014/R/eel

With these resolutions, the Authority has intervened in matters of internal user grids (IUGs), introducing changes to Table 1 of Resolution ARG/elt 52/10 containing the list of the IUGs - due to the takeover of certain companies as IUG operators - and storing some applications relating to the inclusion of plants in the IUGs owned by some companies, for failure to comply with the requirements of the Law of 23 July 2009 no. 99.

Resolution 55/2014/R/eel

With this measure, the Authority determined the amounts of the advance fee for cost reintegration, in relation to some of the plants essential for the year 2013 (S. Filippo del Mela and Ottana) and changed the values of the relevant parameters for application of the cost reintegration arrangements for the year 2014, with reference to the Trapani TG plant.

Resolution 65/2014/ R/eel

With this measure, the Authority provided a review of the fee for non-compliance of the order of switch-on (the so-called MROA, designed to cancel or curtail the remuneration paid to the user of the dispatching in the event that switch-on does not take place or takes place with times and methods other than those required), requiring Terna to prepare a proposal to amend the Grid Code in accordance with the criteria defined by the Authority therein. In particular, the Authority requires that:

- the index of non-compliance of the switch-on order (NMROA) is calculated taking into account only the switch-ons ordered by Terna in the Dispatching Services Market in excess with regard to the switch-on operations carried out within the energy market;
- in case it is not possible to uniquely associate the remuneration of the switch-on fee to a specific switch-on manoeuvre ordered in the Dispatching Services Market, the NMROA index is calculated using a conventional criterion defined by Terna.

Resolution 66/2014/ R/eel

With this measure, the Authority introduced a transitional mechanism, in the context of its full operation, which allows the recognition of the remuneration of the contribution to the primary regulation provided by the production unit as early as 1 April 2014, on the basis of the proposal made by Terna in this regard. The transitional mechanism envisages activation of tests remotely by Terna from the month of July 2014 (rather than from the date of certification of the production unit) and authorisation requirements for the production units similar to those provided by the mechanism in normal operation. There are also

measures similar to the operational mechanism, notwithstanding non-recognition of the remuneration of the contribution to the primary regulation from the date of authorisation, in cases of operator failure to start tests remotely and of negative outcome of the first remote test after verification of Terna.

Resolution 90/2014/R/eel

With this measure, the Authority updated the transitional rules for the further remuneration fee for availability of electricity generation capacity referred to in Article 36 of Resolution 48/04 and, in particular, it determined that:

- in the context of the outcome of the cases pending before the Council of State on the method of calculation of the additional remuneration fee for availability of production capacity, Terna shall pay market operators an advance on the further fee relating to the years 2012 and 2013;
- the amount to be allocated to the further fee relating to the years 2012 and 2013 is equal to €60 million per year, deriving, overall, from the residues of the years from 2009 to 2013 and from part of the 2014 revenue.

Resolution 118/2014/R/eel

With this measure, the Authority provided for the determination of bonuses for electricity transmission service quality for the year 2012. The total amount of bonuses amounted to € 19,040,000, divided between the two distinct indicators ENSR – Terna S.p.A. and ENSR – Terna Rete Italia S.r.l.. With the same resolution, the Authority also gave mandate to the Electricity Industry Adjustment Fund to perform, before 30 April 2014, the payment of the total of bonuses to Terna, to the account "Electrical services quality."