



**Terna Group**  
**Interim consolidated financial report**  
**30 September 2013**



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## Introduction

This **Interim Consolidated Financial Report of the Terna Group at 30 September 2013**, not submitted for accounting audit, has been prepared in accordance with the provisions of Art. 154-*ter* of Italian Legislative Decree No. 58/98 introduced by Italian Legislative Decree No. 195 of 6 November 2007 (the “Transparency Decree”), as amended by Italian Legislative Decree No. 27 of 27 January 2010. It does not, therefore, contain the disclosure required in accordance with IAS 34.

## Summary of the first nine months

In the first nine months of 2013, the Terna Group continued its activity in line with the provisions of the **2013-2017 Strategic Plan** approved by the Board of Directors on 6 February 2013.

In the period under discussion, with the approval of the planned merger of SunTergrid S.p.A. into Terna Plus S.r.l. and with the adoption of the new organisational framework of the Operations Divisions of Terna Rete Italia S.p.A. - respectively commented on in the context of “Significant events of the first half of 2013” and of the paragraph “Human Resources and Organisation” of the Interim Financial Report at 30 June 2013 - the Terna Group corporate/operational reorganisation process continued. This was aimed at overseeing in a strategic manner the business opportunities deriving from the Industrial Plan and maximising efficiency in managing the business.

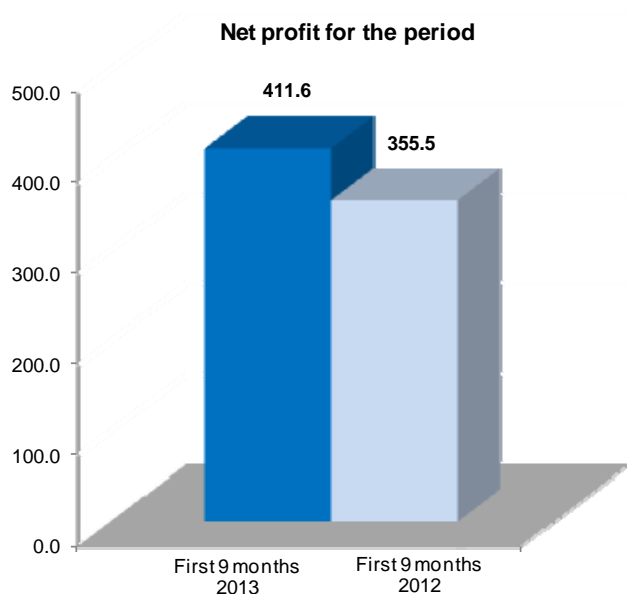
In addition, during the third quarter of 2013, the sale of the company Rete Solare S.r.l. was completed. This is described in the paragraph “Significant events in the third quarter of 2013”.

The amounts discussed below derive from the reclassified statements included in the “Terna Group performance and financial position” section of this Interim Consolidated Financial Report.

## Comprehensive Group results

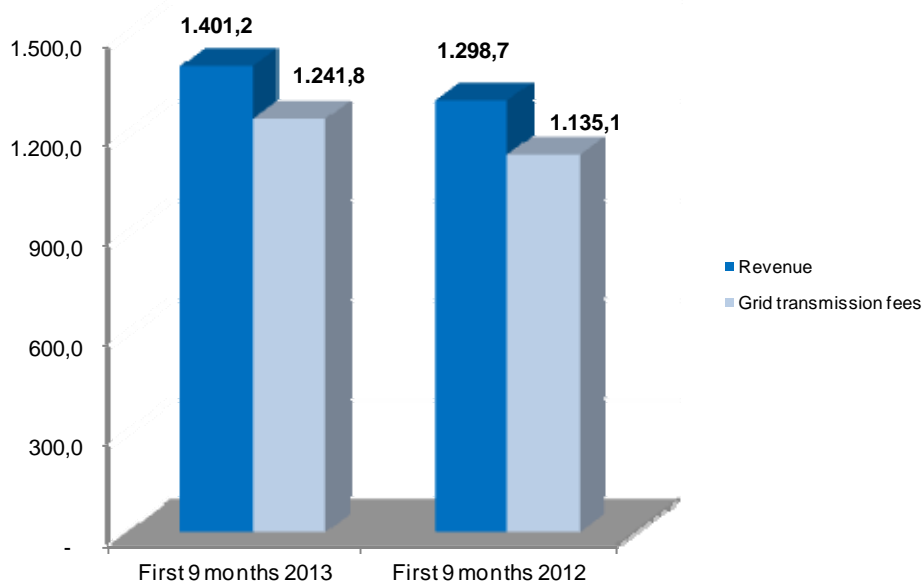
The consolidated economic situation at 30 September 2013 shows a **net profit for the period** of € 411.6 million, an increase of € 56.1 million (+15.8%) compared with the corresponding period of 2012.

€ million



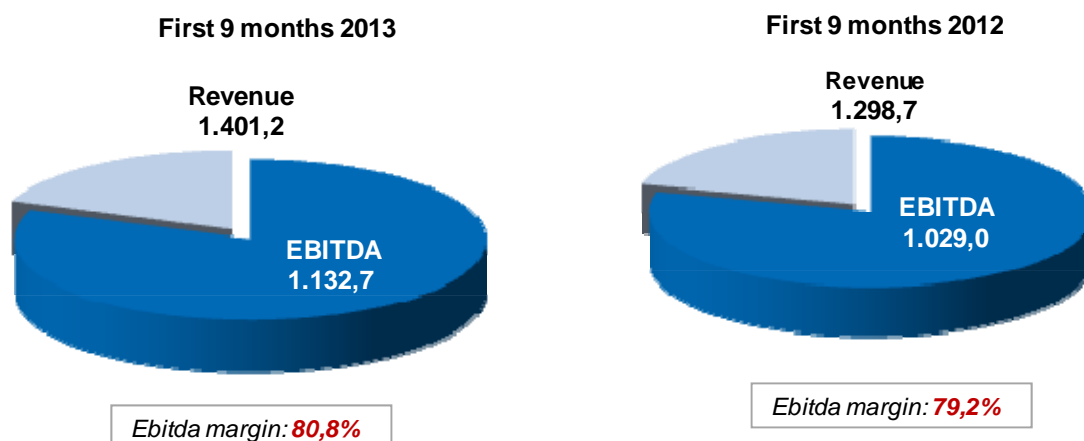
**Revenue** in the first nine months of 2013 amounted to **€ 1,401.2 million**, +€ 102.5 million compared with the same period of the previous year (+7.9%), of which € 1,241.8 million refers to the transmission fee, attributable to the Parent Company for € 1,110.2 million and to the subsidiary Terna Rete Italia S.r.l. for € 131.6 million.

€ million



**Operating expenses** amounted to € 268.5 million, of which € 144.3 million relating to personnel expenses and € 93.5 million to services, leases and rentals. The increase in revenue combined with the basically stable operating costs led to **EBITDA** (Gross Operating Profit) of **€ 1,132.7 million**, 80.8% of revenue, an increase of € 103.7 million compared with € 1,029.0 million in the first nine months of 2012 (+10.1%).

€ million



**EBIT** (Operating Profit) came out at € 810.7 million (+12.9% compared with the € 718.1 million of the first nine months of 2012), after **depreciation and amortisation** charges of € 322.0 million, of which € 286.1 million recognised by the Parent Company and € 35.0 million by the subsidiary Terna Rete Italia S.r.l.

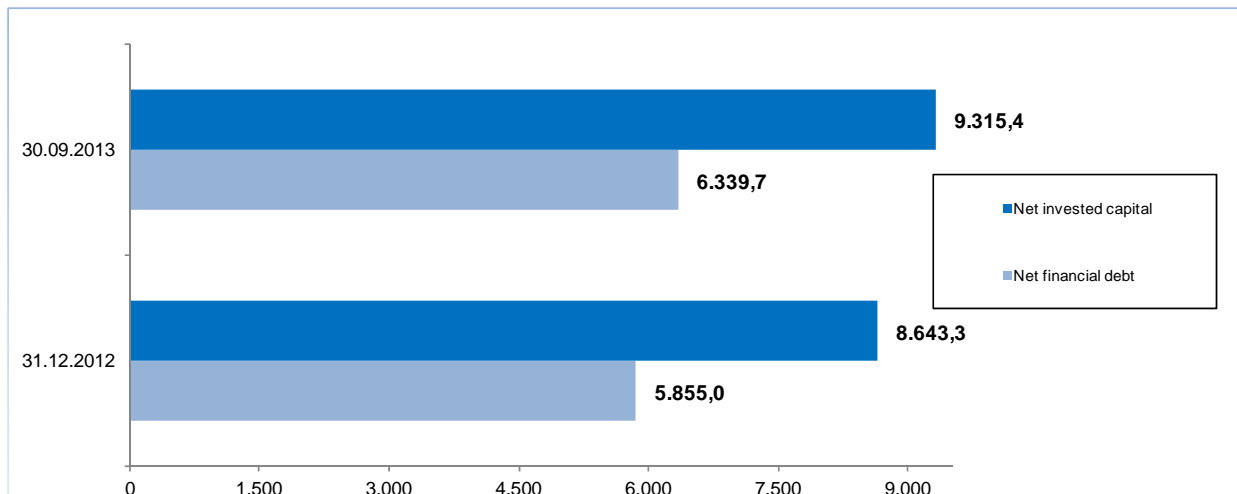
Net financial expense for the first nine months of 2013, of € 70.9 million and mainly referable to the Parent Company (€ 69.3 million), was substantially in line (-1.5%) with the figure for the same period of 2012. After deducting net financial expense, **profit before taxes** came out at € 739.8 million, up by € 93.7 million compared with the corresponding period of the previous year (+14.5%).

**Income tax** charged to the period was € 328.2 million and determined an effective tax rate of 44.4%. Net of adjustments relating to previous financial years it came out at 45.0%, broadly in line with the figure for the first nine months of 2012.

**Net profit for the period** therefore came out at € 411.6 million, up € 56.1 million (+15.8%) compared with the € 355.5 million of the first nine months of 2012.

**Net invested capital** of € 9,315.4 million is financed through **shareholders' equity** in the amount of € 2,975.7 million and through **net financial debt** in the amount of € 6,339.7 million.

€ million



The *debt/equity* ratio stands at 2.13.

**Total investments** made by the Group in the period amounted to € 758.0 million, compared with the € 778.4 million of the corresponding period of 2012. The drop (-2.6%) was due in particular to the significant work done on the Sorgente-Rizziconi project during 2012.

## Significant events in the third quarter of 2013

Below are the main significant events of the third quarter 2013. With reference to the significant events of the first half of the year, please refer to the interim financial report of the Terna Group at 30 June 2013.

### Agreement with the EIB for a new €570 million loan

On **8 July 2013** Terna signed an agreement with the European Investment Bank (EIB) to obtain a € 570 million loan to be used to expand and strengthen the Italian electricity transport system. The loan will be repaid in six-monthly instalments starting in 2015, with the last repayment date in 2030.

The economic terms envisaged for the new loan are competitive and provide for an annual cost of the loan at the 6-month Euribor rate plus a spread of 79 basis points.

### Terna's rating

On **11 July 2013** Standard and Poor's (S&P) cut Terna's long-term rating from 'A-' to 'BBB+', confirming at the same time the company's short-term rating at 'A-2'. The outlook assigned to the rating remains negative. This rating action follows the recent downgrade by a notch, from BBB+ to BBB, of the Italian Republic. Following this latest downgrade, Terna's rating remains in any case a notch above that of the Italian Republic.



### **New Italy-France interconnection**

On **15 July 2013**, the official go-ahead was given for work to begin on the new Piosasco-Grand'Île interconnection that, together with the work to re-power one of the existing lines by 600 MW, will make the French electricity border the most important for Italy, increasing the electrical transport capacity by more than 60% (from 2,650 MW up to 4,400 MW capacity). A record-breaking project: it will in fact become the longest underground line laid anywhere in the world, with the 190 km of new lines being invisible thanks to the state-of-the-art nature of the project and the technology employed. An investment of over € 400 million for Terna, and returns of € 150 million a year, as soon as the project becomes operational for the Italian electricity system.

### **Sale of Rete Solare S.r.l. completed**

On **24 July 2013** the subsidiary SunTergrid S.p.A. - in accordance with the decision of the Board of Directors of the same on 18 July 2013 - completed the transfer to Tozzi Sud S.p.A. – a company wholly controlled by Tozzi Industries S.r.l. – of 100% of the share capital of Rete Solare S.r.l., for a price of € 4,523,247.00.

Consequently, on **7 August 2013** Terna S.p.A. signed a deed with Rete Solare S.r.l. regarding termination of the rental contract previously in force for the land relating to the project aimed at creating the photovoltaic system of Aranova (RM) and the establishment of a leasehold on the same site.

### **Terna at the top for sustainability in the DJSI for a 5th year**

Fifth consecutive confirmation for Terna in the prestigious Dow Jones Sustainability Index and fourth double presence in the “World” and “Europe” baskets: this is the result of the annual review carried out by the Swiss sustainability rating agency RobecoSAM and published on **12 September 2013**.

The confirmation of Terna in both indices with scores among the highest in the Electric Utilities sector acknowledges the Company's constant commitment to sustainable management and, for investors, constitutes a mark of the ability to create value also in the medium-long term. This figure is confirmed by the growth in the number of investors attentive to ethical issues, which today represent 12.6% of Terna's capital.

This year, the selection identified 333 businesses out of 2,500 on the World index and 177 out of 600 on the Europe index, of which only 13 are Italian. The RobecoSAM analysis assesses in detail the corporate systems for governing risks and the opportunities connected to the social and environmental impacts of businesses. This year, the severity of the assessment criteria determined the exclusion from the indices of 47 companies previously included.

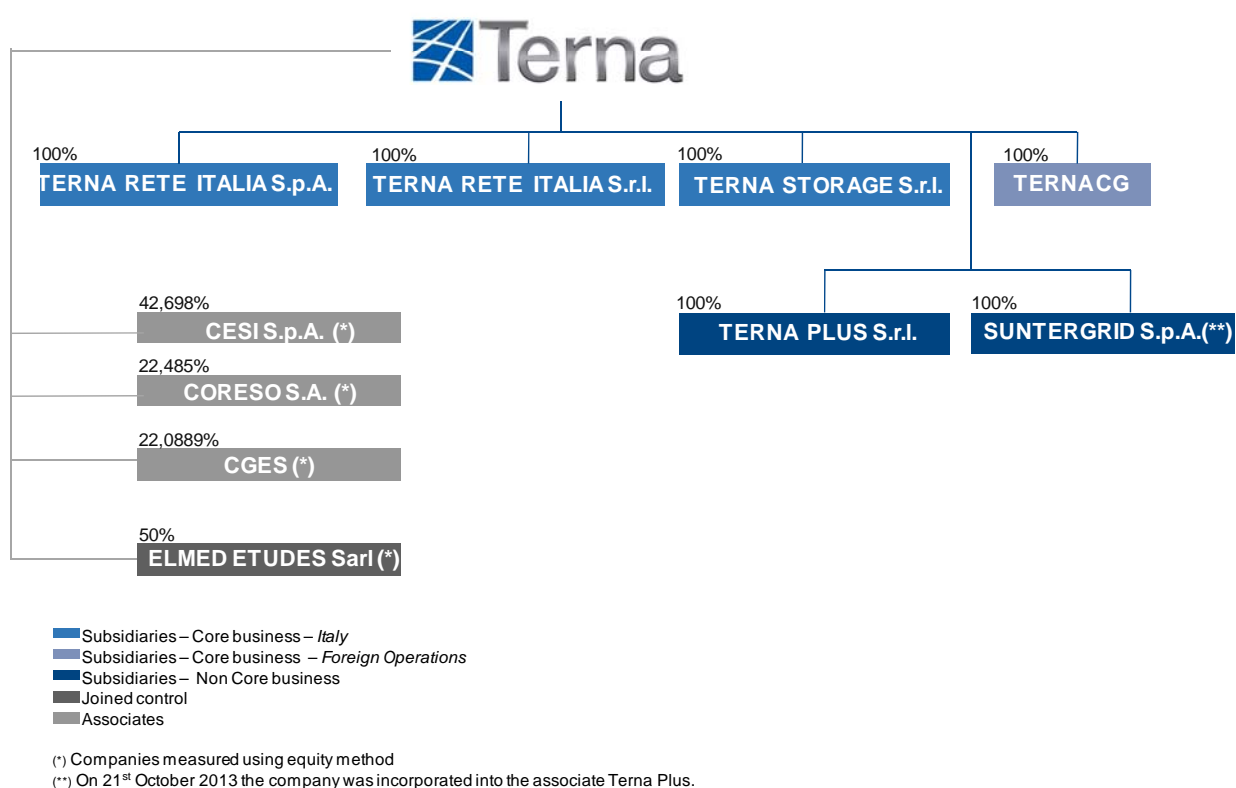
In addition to being on the DJSI, Terna is also on the international indexes FTSE4Good (Global and Europe), Axia (Ethical and CSR), ECPI (Ethical Global, Euro, EMU), MSCI (Global and Europe Sustainability), ASPI Eurozone, Ethibel (Excellence, Sustainability Europe), Vigeo (World e Europe) and on the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

## Terna Group performance and financial position

In order to present the performance of the Terna Group and to analyse its financial position, financial schedules have been prepared. 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 used in the interim disclosure.

### Scope of consolidation

The structure of the Group at 30 September 2013 is as follows:



**Terna S.p.A.**, the Parent Company, owns the concession relating to electricity dispatch and transmission activities (issued with a 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 Authority for Electricity and Gas, in relation to the two important regulated activities it conducts in Italy: namely 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 for the transmission and dispatching of electrical energy (Core Business) on the National Transmission Grid through the Parent Company Terna S.p.A. and the companies that are direct subsidiaries of the latter:

*Italy*

- Terna Rete Italia S.p.A.;
- Terna Rete Italia S.r.l.
- Terna Storage S.r.l.

*Foreign Operations*

- Terna Crna Gora d.o.o.

**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 (**Non-Regulated Activities**) through the company Terna Plus S.r.l. directly controlled by the Parent Company Terna S.p.A..

We can note that, in order to rationalise the non-core business in the Group context, with effect from 21 October 2013, the subsidiary SunTergrid S.p.A. was incorporated into the associate Terna Plus; for more details on the extraordinary operation see the paragraph “Events subsequent to 30 September 2013”.

Compared with 31 December 2012 the change in the consolidation scope at 30 September 2013 exclusively regards “Non-core business” with reference to the sale of the company Rete Solare S.r.l. completed on 24 July 2013 by the subsidiary SunTergrid S.p.A.; for more details see the paragraph “Significant events in the third quarter of 2013”.

## **Basis of presentation**

The measurement and recognition criteria applied in this Interim consolidated financial report are consistent with those adopted in the consolidated financial statements at 31 December 2012, except for the obligatory application of the new "IAS 19 - Employee Benefits" and "IFRS 13 - Fair Value Measurement".

In particular, starting from 1 January 2013, the Terna Group applied, retrospectively, the new "IAS 19 - Employee Benefits", which introduces changes to the recognition and measurement of costs relating to employee benefits and to the related disclosure requirements. The most significant change for the Group's financial statements introduced by the new version of the standard regards elimination of the option to defer recognition of actuarial gains and losses using the corridor approach, with consequent recognition of the same in OCI (Other Comprehensive Income).

Following this, a number of comparative balances of financial year 2012 were adjusted to take account of the change in the accounting model described above. In particular this restatement entailed recognition at 31 December 2012 of higher liabilities for employee benefits of approximately €9 million, higher deferred tax assets amounting to approximately €3 million and a reduction in shareholders' equity of approximately €6 million. The impact on the Income Statement of the first nine months of 2012 is instead completely negligible.

"IFRS 13 – Fair Value Measurement", which came into force going forward from 1 January 2013, establishes a new definition of fair value and the minimum necessary content of the disclosure. IFRS 13 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date"; the main change for the Group's financial statements is the inclusion of counterparty risk in financial instrument measurement models. Adoption of the new standard entailed, at 30 September 2013, a reduction in the value of fair value hedging derivatives of €2.0 million, and a reduction in the value of cash flow hedging derivatives of €0.5 million.

## Economic results

The reclassified income statements of the Terna Group for the first nine months and the third quarters of 2013 and 2012 are summarised in the statement below.

Q3				1 January - 30 September				
2013	2012	Change	%		2013	2012	Change	%
				€ million				
				<b>Revenues:</b>				
422.0	388.9	33.1	8.5%	- Grid transmission fees	1,241.8	1,135.1	106.7	9.4%
34.8	35.1	(0.3)	(0.9%)	- Other energy items	101.8	116.5	(14.7)	(12.6%)
25.6	18.1	7.5	41.4%	- Other operating revenue	57.6	47.1	10.5	22.3%
<b>482.4</b>	<b>442.1</b>	<b>40.3</b>	<b>9.1%</b>	<b>Total revenue</b>	<b>1,401.2</b>	<b>1,298.7</b>	<b>102.5</b>	<b>7.9%</b>
				<b>Operating expenses:</b>				
40.7	43.1	(2.4)	(5.6%)	- Personnel expenses	144.3	146.2	(1.9)	(1.3%)
28.8	31.8	(3.0)	(9.4%)	- Services, leases and rentals	93.5	95.4	(1.9)	(2.0%)
3.6	3.3	0.3	9.1%	- Materials	9.2	10.8	(1.6)	(14.8%)
8.5	3.8	4.7	123.7%	- Other expenses	21.5	17.3	4.2	24.3%
<b>81.6</b>	<b>82.0</b>	<b>(0.4)</b>	<b>(0.5%)</b>	<b>Total operating expenses</b>	<b>268.5</b>	<b>269.7</b>	<b>(1.2)</b>	<b>(0.4%)</b>
<b>400.8</b>	<b>360.1</b>	<b>40.7</b>	<b>11.3%</b>	<b>EBITDA (Gross Operating Profit)</b>	<b>1,132.7</b>	<b>1,029.0</b>	<b>103.7</b>	<b>10.1%</b>
<b>108.6</b>	<b>106.4</b>	<b>2.2</b>	<b>2.1%</b>	<b>Depreciation and amortisation</b>	<b>322.0</b>	<b>310.9</b>	<b>11.1</b>	<b>3.6%</b>
<b>292.2</b>	<b>253.7</b>	<b>38.5</b>	<b>15.2%</b>	<b>EBIT (OPERATING PROFIT)</b>	<b>810.7</b>	<b>718.1</b>	<b>92.6</b>	<b>12.9%</b>
(28.2)	(9.9)	(18.3)	184.8%	- Net financial income (expense)	(70.9)	(72.0)	1.1	(1.5%)
<b>264.0</b>	<b>243.8</b>	<b>20.2</b>	<b>8.3%</b>	<b>PROFIT BEFORE TAXES</b>	<b>739.8</b>	<b>646.1</b>	<b>93.7</b>	<b>14.5%</b>
116.1	110.2	5.9	5.4%	- Income taxes for the period	328.2	290.6	37.6	12.9%
<b>147.9</b>	<b>133.6</b>	<b>14.3</b>	<b>10.7%</b>	<b>NET PROFIT FOR THE PERIOD</b>	<b>411.6</b>	<b>355.5</b>	<b>56.1</b>	<b>15.8%</b>
147.9	133.6	14.3	10.7%	- Attributable to owners of the Parent	411.6	355.5	56.1	15.8%

In the first nine months of 2013 **revenue**, of 1,401.2 million, was attributable for approximately 89% to grid transmission fees and for approximately 7% to **other energy items**. In particular, the increase in revenue of € 102.5 million compared with the corresponding period of 2012 (+7.9%) derives mainly from the higher **grid transmission fees** (CTR) for +€ 106,7 million, essentially referable to:

- review of the transmission service tariffs (+€ 89.2 million);
- CTR fees for the purpose of remunerating the Defence Plan (+€ 12.5 million);

Other energy items fell by € 14.7 million, partially offset by the increase in **other operating revenue** (+€ 10.5 million) which was affected by the capital gain deriving from the sale of the subsidiary RTS (of € 3.5 million) and by the increase (+€ 4.5 million) in rents to third parties of company-owned capital goods (land, cable ducts for fibre-optic support, etc.).

The above change in **other energy items** was mainly due to the amounts recognised in the corresponding period of the previous year for:

- adjustment to fair value of the value attributed to the performance achieved by Terna on the Dispatching Services Market (DSM) under the terms of AEEG Resolution 213/09 (+€ 10 million);

- contingent assets due to the effects of AEEG Resolution 50/2012, which closed the proceedings for the year 2010 related to determining the premiums and penalties for the Parent Company Terna, on the subject of transmission service quality (ENSR-NDU for € 4.5 million).

In the third quarter of 2013, the Group's revenue increased by € 40.3 million, compared with the corresponding period of 2012, owing essentially to the higher transmission revenue and other operating revenue, attributable to the phenomena already commented on above.

In the first nine months of 2013 **operating costs**, of € 268.5 million, were slightly down compared with the same period of the previous year (-0.4%), owing essentially to the effect of lower:

- costs for services and materials (- € 3.5 million), related mainly to investments in dispatching infrastructures<sup>1</sup>; and
- personnel expenses (- € 1.9 million), owing substantially to the recognition of higher capitalisations in the comparison between the periods of reference;

these items more than offset the recognition of penalties related to service quality pursuant to Res. 197/2011 (+4.3 million), booked to "other costs".

With reference to third quarter 2013, the Group's **operating costs**, of € 81.6 million, were substantially in line with the corresponding period of 2012 (-0.5%).

**EBITDA** (Gross Operating Margin) for the period came out at € 1,132.7 million, an increase of € 103.7 million compared with the € 1,029.0 million of the first nine months of 2012 (+10.1%).

The considerable increase in revenue and the slight reduction in operating expenses were reflected in the **EBITDA margin** which went from 79.2% in the first nine months of 2012 to 80.8% in the corresponding period of 2013.

**Amortisation and depreciation** in the period grew by € 11.1 million compared with the same period of financial year 2012, owing essentially to the commissioning of new plants.

For the same reasons explained above, amortisation and depreciation were higher also in the comparison between the two quarters (+€ 2.2 million).

**EBIT** (Operating Profit), after deducting amortisation and depreciation of € 322.0 million, therefore came out at € 810.7 million, up by € 92.6 million (+12.9%) compared with the first nine months of 2012.

**Net financial expense** of the period, € 70.9 million, is substantially referable to the Parent Company, and declined slightly, by € 1.1 million, compared with the € 72.0 million of the same period of 2012, owing mainly to the effects of the reduction in interest rates which more than offset net financial expenses related to the higher net debt.

After deducting net financial expense, **profit before taxes** came out at € 739.8 million, up by € 93.7 million compared with the corresponding period of the previous year (+14.5%).

**Income taxes** charged to the period were € 328.2 million, up € 37.6 million (+12.9%) compared with the same period of the previous year, owing essentially to the increase in pre-tax profit

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<sup>1</sup> Recognised pursuant to IFRIC 12

The tax rate for the period (44.4%) is 45% if the adjustments recognised upon payment of 2012 taxes are not taken into account, in line with the figure for the first nine months of 2012 (45.2% without considering the one-off effect described above).

**Net profit for the period** therefore came out at €411.6 million, up €56.1 million (+15.8%) compared with the €355.5 million of the same period of financial year 2012.

## Equity results

The Terna Group's operating and financial position at 30 September 2013 and at 31 December 2012 is summarised in the table below.

	at 30.09.2013	at 31.12.2012	Variation
<i>€ million</i>			
<b>Net non-current assets</b>			
- Intangible assets and goodwill	458.3	470.4	(12.1)
- Property, plant and equipment	9,795.5	9,342.0	453.5
- Financial assets	83.4	81.4	2.0
<b>Total</b>	<b>10,337.2</b>	<b>9,893.8</b>	<b>443.4</b>
<b>Net Working Capital</b>			
- Trade receivables	715.2	744.0	(28.8)
- Inventories	7.0	6.6	0.4
- Other assets	28.8	32.4	(3.6)
- Trade payables	529.0	712.0	(183.0)
- Net payables for pass-through energy items	203.8	440.0	(236.2)
- Net tax liabilities	216.6	35.9	180.7
- Other liabilities	380.0	365.5	14.5
<b>Total</b>	<b>(578.4)</b>	<b>(770.4)</b>	<b>192.0</b>
<b>Gross Invested Capital</b>	<b>9,758.8</b>	<b>9,123.4</b>	<b>635.4</b>
Sundry provisions	443.4	480.1	(36.7)
<b>NET INVESTED CAPITAL</b>	<b>9,315.4</b>	<b>8,643.3</b>	<b>672.1</b>
<b>Equity attributable to owners of the Parent</b>	<b>2,975.7</b>	<b>2,788.3</b>	<b>187.4</b>
<b>Net financial debt</b>	<b>6,339.7</b>	<b>5,855.0</b>	<b>484.7</b>
<b>TOTAL</b>	<b>9,315.4</b>	<b>8,643.3</b>	<b>672.1</b>

The increase in **Net non-current assets** of € 443.4 million, compared with the figure of 31 December 2012, is mainly attributable to the item **Property, plant and equipment** (+€ 453.5 million) owing essentially to the combined effect of:

- investments of € 730.8 million, of which € 717.6 million in the core business and € 13.2 million in non-core business;
- Amortisation and depreciation for the period of € 282.7 million.

**Intangible assets and goodwill** recorded a reduction of € 12.1 million attributable to ordinary movements of intangible assets for investments of € 27.2 million (of which € 17.2 million in dispatching infrastructures), net of the portion of amortisation accruing of € 39.3 million (of which € 22.1 million relating to amortisation of the dispatching infrastructures and € 4.2 million relating to amortisation of the concession).



**Total investments** made by the Group in the first nine months of 2013 amounted to € 758 million compared with the € 778.4 million of the corresponding period of 2012. The drop (-2.6%) was due in particular to the significant work done on the Sorgente-Rizziconi project during 2012.

**Net working capital** amounted to € -578.4 million and during the first nine months of 2013 used cash of € 192.0 million, owing essentially to the combined effect of:

- a decrease in net payables for pass-through energy items (€ 236.2 million) originated with the electricity dispatching work done by the Parent Company, mainly deriving from the combined effect of:
  - an increase in net receivables connected to the uplift (€ 103.8 million);
  - lower net payables connected with the Units essential for security of the electricity system (€ 86.7 million);
  - lower net payables deriving from virtual interconnection activities (€ 44.2 million);
- a reduction in trade payables of € 183.0 million mostly for purchases and services relating to the greater investment activities carried out in at the end of 2012;
- an increase in net tax liabilities of € 180.7 million, essentially as the combined result of the higher net payable to the tax authorities for VAT (€ +87.5 million compared with the receivable position at the end of 2012) and the increase in net income tax payables (€ 98.6 million) deriving from payment of the balance of current taxes relating to financial year 2012 (€ 92.8 million), from payment of tax advances for the current year (€ 177.3 million) and net of the recognition of taxes accruing to the period (€ 368.7 million);
- a reduction in trade receivables of € 28.8 million due in particular to collections in the period related to the receivable for the incentive mechanism provided for in AEEG Resolution 213/09 (€ 47.0 million), in part offset by the increase related to the receivable for the grid transmission fees (€ 53.6 million). The reduction in receivable referable to diversified activities also contributed.

**Gross invested capital**, therefore, amounted to € 9,758.8 million, recording an increase compared with the previous financial year of € 635.4 million.

**Sundry provisions** declined by € 36.7 million, owing mainly to the following changes:

- use of net deferred tax provisions set aside previously by the parent company Terna and the subsidiary Terna Rete Italia S.r.l. relating to additional amortisation and depreciation with respect to the economic-technical rates (€ 31.1 million and € 5.3 million respectively);
- release of the portion accruing (€ 7.4 million) of deferred IRAP tax provisions governed by Italian Law No. 244 of 24 December 2007 (2008 Budget Law);
- use of deferred tax assets related to the change of fair value associated with derivative cash flow hedging instruments for € 18.0 million.
- reduction of the liability relating to employee benefits for the recognition of actuarial gains and losses accruing to the period (€ 7.5 million net of the related deferred tax effect) essentially referable to adjustment of the relevant interest rate.

**Net invested capital** amounted to € 9,315.4 million, an increase of € 672.1 million compared with 31 December 2012 and is financed by shareholders' equity for € 2,975.7 million (compared with € 2,788.3

million at 31 December 2012) and by net financial indebtedness for € 6,339.7 million (+€ 484.7 million compared with the € 5,855.0 million of 31 December 2012).

At 30 September 2013, the *debt/equity* ratio therefore came out at 2.13.

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

A reconciliation of consolidated equity and profit for the period with the amounts reported by the Parent Company in the first nine months of 2013 is provided below:

<i>€ million</i>	Net profit First nine months 2013	Shareholders' Equity at 30.09.2013
<b>Financial Statements of the Parent Company</b>	<b>357.2</b>	<b>2,725.8</b>
Results and Equity contributed by the Group companies in the core business	49.6	167.8
Results and Equity contributed by the Group companies in the non-core business	3.9	59.8
Equity-accounted investees	0.9	22.3
<b>Terna Group Consolidated Financial Statements</b>	<b>411.6</b>	<b>2,975.7</b>

## Cash flows

### Net financial debt

The Group's net financial debt at 30 September 2013 (€ 6,339.7 million) is broken down in the table below.

€ million	30.09.2013	31.12.2012	Change
<b>Financial debt</b>			
A. Medium- and long-term debt			
- Bond loan	6,366.4	6,543.7	(177.3)
- Floating-rate loans	2,308.7	2,365.7	(57.0)
- Derivative financial instruments	(477.0)	(613.7)	136.7
<b>Total</b>	<b>8,198.1</b>	<b>8,295.7</b>	<b>(97.6)</b>
B. Short-term debt (liquidity):			
- Floating-rate loans (current portions)	79.1	69.4	9.7
- Cash and cash equivalents	(1,937.5)	(2,510.1)	572.6
<b>Total</b>	<b>(1,858.4)</b>	<b>(2,440.7)</b>	<b>582.3</b>
<b>Total net financial debt</b>	<b>6,339.7</b>	<b>5,855.0</b>	<b>484.7</b>

During the first nine months of financial year 2013 net financial debt increased by € 484.7 million mainly owing to the combined effect of:

- a decrease in bond loans (€ 177,3 million) as a result of adjusting financial instruments to fair value (-€ 181.5 million, including the amortised cost) and the capitalisation of inflation in the period (+€ 4.2 million) associated with the inflation-linked bond;
- repayment of EIB loan instalments due of € 47.5 million;
- a decrease in the positive net balance of derivative financial instruments (€ 136.7 million), mainly due to an increase in the reference interest rate curve compared to December 2012, which was reflected, in particular, in the change in derivatives hedging bonds (fair value hedges) of -€ 184.6 million, net of the effect on the change in derivatives hedging floating-rate debt (cash-flow hedges) of +€ 47.9 million;
- a decrease in cash and cash equivalents (€ 572.6 million).

## Cash flow

The consolidated cash flow at 30 September 2013 and 30 September 2012 is presented in the statement below.

<i>€ million</i>	<i>Cash flow</i> 30.09.2013	<i>Cash flow</i> 30.09.2012
<b>Opening cash and cash equivalents</b>	<b>2,510.1</b>	<b>1,114.9</b>
- Net profit for the period	411.6	355.5
- Amortisation and depreciation	322.0	310.9
- Net change in provisions	(36.7)	(40.6)
- Net Losses (Gains) on asset disposals	(0.9)	(3.4)
<b>Self-financing</b>	<b>696.0</b>	<b>622.4</b>
- Change in net working capital	(192.0)	(19.1)
<b>Cash flows from operating activities</b>	<b>504.0</b>	<b>603.3</b>
<b>Investments</b>		
- Total investments	(758.0)	(778.4)
- Other changes in non-current assets	(5.4)	21.2
- Change in equity investments	(1.1)	(4.1)
<b>Total cash flows generated by/(used in) investing activities</b>	<b>(764.5)</b>	<b>(761.3)</b>
- Change in loans	(87.9)	1,405.7
- Other changes in equity attributable to owners of the Parent	37.1	(34.0)
- Dividends paid to owners of the Parent	(261.3)	(261.3)
<b>Total cash flows generated by/(used in) financing activities</b>	<b>(312.1)</b>	<b>1,110.4</b>
<b>Total cash flows for the period</b>	<b>(572.6)</b>	<b>952.4</b>
<b>Closing cash and cash equivalents</b>	<b>1,937.5</b>	<b>2,067.3</b>

The cash flow generated by operating activities in the first nine months of 2013 came to approximately € 504.0 million and is related to self-financing (€ 696.0 million) which more than offset the financial resources (€ 192.0 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 € 411.6 million including amortisation and depreciation for the period of € 322.0 million, after deducting the net decrease in provisions of € 36.7 million, mainly ascribable to the changes in provisions for net deferred tax liabilities and in liabilities relating to employee benefits, described above.

The change in **net working capital**, -€ 192.0 million, is mostly attributable to the reduction in trade payables, and in net payables relating to pass-through energy items, only partially offset by the increase in net tax liabilities.

**Investment activities** used financial resources of approximately € 764.5 million, mainly referable to investments made in the first nine months of 2013 in property, plant and equipment (€ 730.8 million) and intangible assets (€ 27.2 million) – attributable to the Parent Company for a total of € 676.5 million.

**Own capital flows** were mainly used in distributing the 2012 dividend balance to shareholders of the Parent Company (€ 261.3 million).

The other changes in equity attributable to owners of the Parent relate to recognition at fair value of derivatives hedging floating-rate debt - CFHs of the Parent Company (+€ 29.6 million net of the related tax effect), and to the recognition of the actuarial gain on employee benefits accruing to the period (+€7.5 million, also considering the tax effect) related essentially to adjustment of the relevant interest rate.

For the above reasons, the financial resources used in the period – substantially due to investment activities in the first nine months of 2013 and to payment of the 2012 dividend balance - were covered in part by the liquidity provided by current operations (€ 504.0 million) and, for the remainder, by the net use of cash and cash equivalents of the end of the 2012 period (increase of net financial debt of +€ 484.7 million).

## Related party transactions

Taking into account that Cassa Depositi e Prestiti S.p.A. exercises de facto control, as ascertained in 2007, related party transactions undertaken by the Group during the first nine months of 2013 consisted of intra-group transactions, and transactions with employee pension funds (Fondenel and Fopen), with companies belonging to:

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

and with ANAS S.p.A.

Related party transactions carried out in the first nine months of 2013 consisted substantially of services under the scope of ordinary business and settled at market terms, as is described in greater detail in the Consolidated and Separate Financial Statements at 31 December 2012. In addition, transactions with members of the Board of Statutory Auditors of the Parent Company, and in particular their fees, are detailed in the comments on the "Services" item in the Notes to the Consolidated Financial Statements at 31 December 2012, to which reference should be made.

It should be recalled that the rules on Corporate Governance and Ownership Structures which the Parent Company has adopted, detailed in the specific Report published together with the 2012 Financial Report, to which you are referred, lay down the conditions for ensuring that related party transactions are carried out observing the criteria of procedural and substantial correctness, with the same terms that would apply to independent counterparties and the rules on the transparency of disclosures to the market.

We can note that, during the first nine months of 2013, no significant transactions, that is to say related party transactions identified in compliance with the provisions of Appendix 3 to the "Regulation containing rules on related-party transactions" (adopted with Consob Resolution No. 17221 of 12 March 2010, as amended with Consob Resolution No. 17389 of 23 June 2010), were carried out. Neither were any transactions subject to compulsory disclosures but concluded applying the exclusion established by the Regulation, insofar as they were "transactions coming under the scope of the ordinary business of the Company's continuing operations or those of its subsidiaries or associates or financial activities related thereto, provided that they were concluded at conditions equivalent to market or standard terms".

Please note that in accordance with new regulations introduced by Consob Resolution No. 18049 of 23 December 2011 published in the Italian Official Journal No. 303 of 30 December 2011 and in force as from 31 December 2011, the disclosure on fees relating to "members of the administrative and auditing bodies, general managers" and other "executives with strategic responsibilities" and on the equity interests held by the same, was included in the annual remuneration report published at the same time as the 2012 Financial Report of Terna and of the Terna Group.

## National Transmission Grid

### Number of plants

The number and dimensions of plants belonging to the Parent Company Terna during the third quarter of 2013 increased overall by 3 stations, 14 bays, and 7 three-phase circuits for a total of 47.6 km. Below are the main changes:

#### *Stations*

- activation of 3 new stations: Duino and Molini di Tures (four 132 kV bays for each) and Buia North West (three 132 kV bays);
- activation of 3 bays in the stations of Baggio and Milan West Receiver (one 220 kV bay for each), and Stornara (one 150 kV bay);

#### *Long-distance power lines*

- construction of the new Baggio - Milan West Receiver 220 kV connection, of 7.5 km.
- construction of 4 new 132 kV connections (cp Fiera Nuova - cs Fiorenza RFI, Camin - cp Camin, Buia North West - Fantoni and Duino - Lisert), for a total of 4.9 km;
- acquisition from the company "Dawnia Wind" of two 150 kV connections (Camerelle - Deliceto and Camerelle - Valle), for a total of 26.3 km;
- deactivation and partial demolition of the Opicina - Randaccio 132 kV connection, of 20.8 km;
- construction of 2 incoming-outgoing derivations (1 at 150 Kv and 1 at 132 Kv) on the same number of connections in operation, with a total increase of the same number of three-phase circuits, and of 28.7 km.

Regarding the number and dimensions of the assets of the subsidiary Terna Rete Italia S.r.l. at 30 September 2013, for the same number of three-phase circuits, total length reduced by 5.7 km compared with the situation at 30 June 2013.

## Investments

During the first nine months of 2013 the Group carried out the following investments:

<b>Terna Group investments</b>	<b>€ million</b>	<b>% of total investments</b>
- Transmission lines	431.0	56.9%
- Transformation stations	197.5	26.1%
- Other	89.1	11.7%
<b>Total Investments in property, plant and equipment - core business</b>	<b>717.6</b>	<b>94.7%</b>
<b>Total investments in intangible assets - core business</b>	<b>26.9</b>	<b>3.5%</b>
<b>Total investments in core business</b>	<b>744.5</b>	<b>98.2%</b>
<b>Investments in property, plant and equipment - non-core business</b>	<b>13.2</b>	<b>1.7%</b>
<b>Investments in intangible assets - non-core business</b>	<b>0.3</b>	<b>0.1%</b>
<b>Total investments in non-core business</b>	<b>13.5</b>	<b>1.8%</b>
<b>TOTAL</b>	<b>758.0</b>	<b>100.0%</b>

The main investments of the period include:

- Sorgente - Rizziconi 380 kV power line (€ 119.4 million): the work on laying both the three-phase marine cables and the fibre optics and the related protection work was completed. Work is continuing on excavating the well on the Scilla side and the tunnel on the seaward side of Favazzina.

As regards electrical stations:

- in Calabria, the work at Scilla and the activities of the second stage of the 150 kV section have almost been completed;
- in Sicily, at Sorgente work is in the final stages, while at the Villafranca station the building work is in progress.
- Trino - Lacchiarella 380 kV power line (€ 45.5 million): four deviations were completed on existing interfering power lines, the first Rosental supports were mounted, the clamps are being mounted and the first stretches of the main power line were tested;
- Dolo - Camin 380 kV power line (€ 34.6 million): the work completed regards the final planning and procurement of materials, while awaiting reopening of the authorisation procedure;
- Camerelle Connection (€24.0 million): connection of the wind power plant in the municipality of Ascoli Satriano; the 150 kV cable was purchased; and building work is in progress at the Camerelle 150 kV Electrical Station;
- Foggia - Benevento II 380 kV power line (€ 18.8 million): the foundations are being laid and the supports mounted; burials, owing to interference, are planned and the worksites for these were opened in September;
- Reorganisation of the Northern Calabria grid (€ 18.7 million): upgrading of the Lauria - Padula 150 kV line was completed and work is being completed at all the electrical stations (Aliano, Feroletto, Taranto North, Pisticci and Rotonda);



- Capri-Continent Interconnection (€ 17.2 million): the building sites of the electrical station are open and archaeological surveys are in progress, as prescribed. Final planning of the marine cable is in progress; the contract for planning, supplying and laying the marine cables has been awarded.

The item "Other" includes acquisition of the fibre optics from Wind (€ 30.0 million) and the purchase and renovation of the offices in Rome, Florence, Cagliari, Chiuro and Foggia (a total of € 11.2 million).

## Energy trend in Italy

### Electricity demand in the first nine months of 2013

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

	1 January - 30 September			
	2013*	2012	Change	%
<b>Production</b>				
Hydroelectric	40,695	31,548	9,147	29.0%
Thermoelectric	135,816	159,750	(23,934)	(15.0%)
Geothermoelectric	3,962	3,937	25	0.6%
Wind power	11,447	9,242	2,205	23.9%
Photovoltaic	18,772	15,631	3,141	20.1%
<b>Net generation</b>	<b>210,692</b>	<b>220,108</b>	<b>(9,416)</b>	<b>(4.3%)</b>
Imported	31,845	32,199	(354)	(1.1%)
Exported	1,746	1,977	(231)	(11.7%)
<b>Export balance</b>	<b>30,099</b>	<b>30,222</b>	<b>(123)</b>	<b>(0.4%)</b>
<b>Consumption for pumping</b>	<b>1,744</b>	<b>2,084</b>	<b>(340)</b>	<b>(16.3%)</b>
<b>Electricity demand</b>	<b>239,047</b>	<b>248,246</b>	<b>(9,199)</b>	<b>(3.7%)</b>

\*Provisional data

In the first nine months of 2013 net generation (210,692 GWh) was 4.3% lower than in the same period of 2012, whilst the export balance was down 0.4%. The demand for electricity in the period was down 3.7% on the same period of 2012. Adjusting for the calendar and temperature effects, the change in demand becomes -3.3%.

## Research and Development

To introduce new technological and systems solutions, new instruments and methods aimed at improving the reliability of plants and, therefore, service quality, Terna mainly uses in-house technicians who base their work on the careful monitoring and analysis of the performance of equipment and plants. Terna also uses the specialised support of manufacturers, collaboration with universities, RSE S.p.A. (Ricerca Sistema Energetico) and CESI S.p.A., a specialised service company in which it has a 42.698% equity interest. In particular, in the first nine months of 2013 the Terna Group incurred costs of € 9.0 million in respect of the associate CESI, of which €8.2 million were capitalised.

The accounting treatment of research and development expenses is discussed in the “Intangible Assets” paragraph of section “A. Accounting policies and measurement criteria” of the Notes to the Consolidated Financial Statements at 31 December 2012.

Studies for innovation and the development of new engineering solutions take place along four main research lines, detailed in the table below:

PURPOSE	PROJECTS AND STAGE OF PROGRESS AT 30 SEPTEMBER 2013
<b>OPTIMISATION OF STRUCTURES AND MATERIALS</b>	
<b>Design of supports with less visual impact and/or improved environmental integration</b>	<b>International “Pylons of the Future” contest</b> Tests on the full-scale prototypes, clamps and isolators were completed along with the construction and installation of six supports on the Trino - Lacchiarella 380 kV line.
<b>Upgrading of transmission capacity of existing lines</b>	<b>Innovative high-performance conductors</b> Tests for the qualification and installation on two 150 kV lines of the ACSS-type High Temperature conductor were completed; this is characterised by a steel carrier with very high mechanical resistance and annealed aluminium cladding. Testing of the ACCC conductor with a carbon carrier on a 132 kV line, the study of installation on 380 kV lines and the technical specifications for acquisition were also completed.
<b>Design of tubular supports for 380 kV lines with pylon carrier and seismic characterisation of 380 kV supports</b>	The design of a new type of tubular support with a pylon carrier structure is in progress. By the end of the year load tests on the full-scale prototype are planned. In addition, tests were performed to simulate the effects of an earthquake on a pylon support for 380 kV lines. By the end of the year analysis of the mutual behaviour between foundation and support will be completed.
<b>New technology for high voltage cables</b>	<b>Recyclable cables</b> An HV cable of completely recyclable raw materials (a technology already consolidated on MV) was made available; this will make it possible to reduce the environmental impact of grids and at the same time to raise the energy transport capacity. The new cable was installed on the Lacchiarella - Vernate 132 kV line, which came into operation on 25 August.
<b>Characterisation of HV cables</b>	<b>Variable frequency tests on HV cables</b> New testing methods, at variable frequency in the range 0 – 100 kHz, were developed to characterise behaviour in HV frequency with an extruded dielectric system. This test enables the impact of long lines in alternating current in the NTG to be assessed with greater precision. Measurements and processing of the results were completed on a portion of 132 kV line in northern Italy. The MISCAVAT test campaign is continuing with measurements on 380 kV buried and 150/220 kV submarine cables.
<b>Extruded dielectric HV cables for direct current</b>	<b>Reliability analysis and qualification tests</b> The reliability of this type of cable was assessed using complex phenomenological and statistical models to determine the ageing of the isolating material subjected to electrical and thermal operating stresses. Innovative qualification tests were introduced on cables and accessories capable of determining the quality of the materials isolating the cables right at the qualification stage.
<b>EQUIPMENT DIAGNOSTICS</b>	
<b>Monitoring of station equipment and machinery</b>	<b>New sensors on equipment and machinery</b> At the 380 kV Lacchiarella station, installation of the new types of sensors, positioned on-board the equipment and machinery, and of another type on the 132 kV section was completed. data transmission tests on the central monitoring system (PSE) are nearing completion. The positive results of this installation, the first experience with a Terna station completely monitored online, are the foundation for possible extension to other plants. At the Vado Ligure Electrical Station a system for online monitoring of partial discharges has been installed and is being tested. A similar system was tested at the Verampio Electrical Station with excellent results.

<b>Monitoring of partial discharges on High Voltage cable systems</b>	<b>PDM (Partial Discharge Monitoring)</b> On a number of cables, systems were installed for online monitoring of partial discharges at joints and terminals. Comparative measurements were also carried out with a new instrument which needs no connection to the tested component. The data collected are aimed at finalising a specific technique for the acquisition of such systems and at defining the criteria for installation and for use in testing systems.
<b>NEW EQUIPMENT</b>	
<b>Compact stations with rapid installation</b>	<b>CSRI (Compact Systems for Rapid Installation)</b> This solution, already tested with the 150 kV CSRIs, is being redesigned for 380 kV scenarios. The feasibility has been explored with the manufacturers, tests are in progress and Technical Specifications are being prepared for procurement of a prototype.
<b>PLANT SAFETY</b>	
<b>SicurTrafo Project</b>	<b>Project for a system of containment barriers to protect ATRs</b> Development is being completed of the final project for a system of barriers used to contain power transformers (ATRs), on all four sides of the machine. The functional purpose of the barrier is to screen both flames and impact by flying fragments if the transformer explodes, increasing safety in the plant.
<b>Reduction of seismic vulnerability</b>	<b>Application of earthquake-resistant devices to the most vulnerable equipment</b> Following the study, carried out in cooperation with the Roma Tre University, on the seismic vulnerability of the systems, with particular attention paid to the equipment most at risk, qualification of the Wipe-Rope TRI system was achieved. The laboratory tests showed, for the same exciting force, a 50% reduction in structural stresses.

## Human resources

At the end of the period, Group employees numbered 3,467, up 31 compared with 31 December 2012.

Details of the number of Terna Group employees at 30 September 2013 are shown below:

Change in the workforce*	at 30.09.2013	at 31.12.2012	Change
Senior management	62	59	3
Junior management	506	502	4
Office staff**	1,939	1,928	11
Production workers	960	947	13
<b>Total</b>	<b>3,467</b>	<b>3,436</b>	<b>31</b>

\* The above figures do not include terminations with effect, respectively, from 30 September 2013 and 31 December 2012.

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

The breakdown by company of the number of employees at 30 September 2013 is illustrated in the table below:

At 30.09.2013	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	26	34	2	-	-	62
Junior management	136	362	5	3	-	506
Office staff	208	1,722	3	2	4*	1,939
Production workers	-	960	-	-	-	960
<b>TOTAL</b>	<b>370</b>	<b>3,078</b>	<b>10</b>	<b>5</b>	<b>4</b>	<b>3,467</b>

\* Local employees

## **Significant events subsequent to 30 September 2013**

### **Legality Rating**

On **2 October 2013** the Competition and the Market Authority (CMA) resolved to attribute to Terna S.p.A. the Legality Rating with the maximum score of three stars, following the formal application presented by the Company under the terms of Italian Law Decree 1/2012 (Art. 5-ter – Legality Rating of Companies), modified by Italian Law Decree 29/2012 and converted, with amendments, by Italian Law 62/2012.

At the same time the Parent Company was added to the list of companies with a legality rating under the terms of Art. 8 of the regulation issued by the CMA with Res. No. 24075/2012.

This recognition is the result of the work done by all the Terna structures to protect the legality and transparency of all actions carried out in achievement of the company objectives. The rating attributed by the CMA is taken into account when loans are granted to companies by public administrations, and when seeking access to a bank loan.

### **Terna confirmed sustainability leader by the STOXX ESG indices**

For the third consecutive year Terna is present in these indices created by the company STOXX Limited which, on the basis of sustainability performance, selects 313 companies among the 1,800 stocks present in the initial international basket, the STOXX Global 1800 Index.

Terna is one of the 104 companies at the global level – and the only Italian utility company – that can boast inclusion in all three indices, testifying to the solidity of its commitment and excellence on all sustainability fronts.

There are a total of 5 Italian companies in all three indices, while Italian companies included in the STOXX Global ESG Leaders have come down to 9 (there were 13 in 2011 and 10 in 2012), including Terna.

These indices are characterised by transparency in the selection criteria – based on indicators suggested by the EFFAS (European Federation of Financial Analysts Societies) and by the DVFA (Society of Investment Professionals in Germany) – and in the scores attributed by the rating agency Sustainalytics to the companies examined.

In particular, to obtain access or confirmation to the ESG Leaders indices, a company must perform in at least one of the three areas of analysis – environmental, social and governance – for inclusion in the relevant index, the STOXX Global Environmental Leaders, the STOXX Global Social Leaders or the STOXX Global ESG Governance Leaders.

### **Merger by incorporation of Suntergrid S.p.A. into Terna Plus S.r.l.**

On 18 October 2013 the deed of merger by incorporation of Suntergrid S.p.A. into its associate Terna Plus S.r.l. was signed, with legal effectiveness from **21 October 2013**, according to the provisions of the merger project approved on 6 June 2013 by the respective Boards of Directors – after the sole shareholder Terna S.p.A. waived the need to prepare a statement of financial position of each of the companies taking part in the merger under the terms of Art. 2501 *quater*, section 3, of the Italian Civil Code – and subsequently resolved on 10 June 2013 by the relevant Shareholders' Meetings.

In accordance with the provisions of the deed of merger, the operations carried out by the company being incorporated, Suntergrid, are recognised in the financial statements of the incorporating company Terna Plus S.r.l., and the accounting and fiscal effects of the merger start from 1 January 2013.

The aim of the merger operation is to increase the Group's synergies, by rationalising the non-core business within the scope of Terna Plus - as the SunTergrid company operates in the same sector and does similar and complementary work - so as to pursue greater efficiency in managing non-core business.

#### **AEG resolution on positive ascertainment of the milestones for the first half of 2013**

On **24 October 2013** the Authority for Electricity and Gas published Resolution 469/2013/R/eel, with which it ascertained achievement of the milestones of strategic investments for development of the National Transmission Grid in relation to the first half of the year 2013, for the purposes of awarding the acceleration incentives on the investments in progress at 31 December 2011 and 31 December 2012, to be included in the transmission fees for 2014. In particular, the Authority ascertained that the threshold of 70% of the total conventional value of the milestones envisaged for the first half of 2013 had been exceeded, reserving the right to verify *in situ* the effective achievement of the same and, therefore, it granted Terna the incentive for accelerating investments on fixed assets in progress relating to the I=3 investments in existence at 31 December 2011 and 31 December 2012, to be included in the transmission fees related to the year 2014, subject to the decisions to be adopted on completion of the supplementary investigation ordered with Resolution 565/2012/R/eel in relation to the Italy-Balkans interconnection project, which still in progress.

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

The executive in charge of the preparation of the company's accounting documents, Luciano di Bacco, in accordance with Art. 154-*bis*, paragraph 2 of the Consolidated Law on Finance, declares that the accounting disclosure given in this Consolidated Interim Report on Operations at 30 September 2013 is coherent with the documents, books and accounts.

### Italy's Regulatory Framework

#### Regulatory framework

Below is a brief description of the main regulatory measures that affect the Parent Company, issued during the third quarter of 2013 and after, until the preparation of this Interim Consolidated Financial Report.

**Italian Decree Law No. 69 of 21 June 2013 relating to “Urgent measures for relaunching the economy” published in the Italian Official Journal of 21 June 2013, no. 144, converted with Italian Law No. 98 of 9 August 2013, published in the Italian Official Journal of 20 August 2013, No. 63.**

**Italian Decree Law No. 76 of 28 June 2013, regarding VAT and youth employment, "First urgent measures to promote employment, specifically of youth, social cohesion, and in regard to value-added tax (VAT) and other urgent financial measures," published in the Italian Official Journal of 28 June 2013, No. 150, converted with Italian Decree Law No. 99 of 9 August 2013, published in the Italian Official Journal of 22 August 2013, No. 196.**

The increase of VAT from 21 to 22% was postponed from 1 July to 1 October 2013.

For the 2013 tax period, the amount of advances is increased for IRPEF (from 99 to 100%), IRAP (from 100 to 110%) and IRES (from 100 to 101%). The change will take effect as of the second prepayment instalment envisaged for November. In addition, the regions with special status and the autonomous provinces of Trento and Bolzano, as of 2014, may increase the rate of the regional IRPEF supplement by a maximum of one percentage point by their own measures.

An employer who hires workers who receive Social Security/Unemployment Benefit for a full-time permanent position, is granted, for each monthly payment, a monthly contribution equal to 50% of the residual monthly indemnity that would have been paid to the worker.

It is envisaged that the customer or employer is jointly obliged with the contractor and any subcontractors, within the limit of two years after completion of the tender, including with reference to any remuneration due to self-employed workers.

In addition, incentives are envisaged equal to a third of gross monthly remuneration chargeable for social security purposes for a period of 18 months in relation to the permanent hiring of workers between 18 and 29 years of age, who have been without regularly paid employment for at least 6 months, without high school or professional diplomas or who live alone with one or more dependants.

**Italian Decree Law No. 93 of 14 August 2013, “Urgent measures on security and to combat gender violence, and on civil protection and compulsory administration of the provinces”, published in the Italian Official Journal of 16 August 2013, No. 191.**

The Decree provides for a change to the criminal code to introduce more severe penalties in the case of theft of “*metallic components or other material removed from infrastructures destined to provide energy, transport or telecommunications services or other public services and services managed by public or*

*private subjects under a public concession arrangement*” (imprisonment from one to six years and a fine from € 103 to € 1,032 instead of imprisonment from 6 months to three years and a fine from € 154 to € 516); this also applies in the case of being in receipt of these same components.

**Italian Law Decree No. 101 of 31 August 2013 containing “Urgent measures pursuing objectives of rationalisation in public administrations”, published in the Italian Official Journal of 31 August 2013, No. 204.**

The decree lays down that the supervision of the AEEG on the ban on transfers of the so-called “Robin Tax” must be performed “by sample inspections and be exercised only in relation to subjects whose turnover is higher than the total turnover provided for in Article 16, section 1, first case, of Italian Law No. 287 of 10 October 1990”, thus more than €411 million.

**Italian Law Decree No. 102 of 31 August 2013, “Urgent provisions on IMU (Council Tax) and other property taxes, on support of housing policies and local finance, and on the temporary redundancy fund and pension schemes”, published in the Official Journal of 31 August 2013, No. 66, converted with Italian Law No. 124 of 28 October 2013, published in the Official Journal of 29 October 2013, No. 254.**

The initial instalment of IMU on first homes (excluding luxury homes), farmland and farm buildings was abolished.



## **Resolutions of the Authority for Electricity and Gas**

Below is a short summary of the main resolutions passed by the Authority for Electricity and Gas (the "Authority") during the third quarter of 2013 and, later, up to the date of preparation of the present Interim Consolidated Financial Report.

### **Resolution 299/2013/R/eel**

With this measure the Authority took urgent action on payment of the economic items arising from settlement and load profiling adjustments relating to the year 2012. In particular, in order to limit the economic effects deriving from differences between energy withdrawn for dispatching purposes and energy transported – which occurred owing to structural problems in the invoicing process of Acea Distribuzione for a considerable number of withdrawal points – the Authority suspended with reference to each user of the dispatching in the area of Acea Distribuzione the provisions pursuant to 27.3 and 55.2 of the TIS, that is to say the check on congruity between energy dispatched and energy transported, enabling Terna to proceed with invoicing of the related economic items.

### **Resolution 327/2013/R/eel**

With this resolution the Authority approved the amounts of revenue supplements to cover the expenses for the discount to electricity industry employees, pursuant to Article 37 of the TIT 2012-2015, in relation to the years 2012 and 2013. Terna is one of companies with a right to this revenue supplement, with amounts of € 1.3 million for the year 2012 and € 1.1 million for the year 2013, to be paid out by the Electricity Industry Adjustment Fund (EIAF).

### **Resolution 357/2013/R/eel**

With this measure, responding to information received from Alcoa of Portovesme, confirmed by the Ministry for Economic Development with reference to the reasons that determined the infringement of the minimum withdrawal constraints pursuant to Article 3, section 3.2, letter a), point ii., of Resolution ARG/elt 15/10, the Authority introduced urgent changes to the contractual terms in relation to the instantaneous load reduction service provided by the Alcoa Portovesme facility to Terna. In particular, the Authority stated that the rule pursuant to Article 3, Section 3.4, of Resolution ARG/elt 15/10 – which provides for a particularly penalising reduction of the fees in the event of infringement of the minimum withdrawal constraint – does not apply with reference to the service of instantaneous reduction of withdrawals of electricity provided by the facility in September and October 2012 and that Terna must consequently define the relevant contractual fees or adjust fees already settled, proceeding to make up the relevant amounts.

### **Resolution 360/2013/R/eel**

With this resolution the Authority introduced decisions on essential plants and amendments and additions to the Authority's Resolution No. 111/06. In particular, the Authority:

- set the amounts to be paid to Edipower and Enel as a further advance on the supplementary fee for the essential units for the year 2011;
- approved the specific typical parameters requested by Enel for its plants;

- asked Terna to recalculate the supplementary fee covering costs for the year 2011 and then to pay any difference after informing the Authority;
- modified the methodology for calculating certain variable cost components;
- defined for the year 2014 the standard category parameters and the specific standard parameters of the individually essential units.

#### **Resolution 375/2013/R/eel**

With this measure the Authority verified positively the Draft Rules for the new capacity market sent by Terna, under the terms of Resolution ARG/elt 98/11, following consultation with the operators and introduced, among other things, the following main changes:

- “interest-bearing” nature of the guarantee deposit which goes into the guarantee fund;
- provision for a “cap” on offers presented in auctions, also with reference to the new capacity;
- in order to avoid potential penalisation of the new capacity compared with the existing capacity in the first two years of delivery, provision for an optional mechanism which would enable holders of new capacity to be qualified for the entire production capacity they have available;
- calculation of the load factor with reference to each market zone, and not with reference to the electrical system as a whole.

Terna consequently sent the modified documents to the Ministry for Economic Development and to the Authority.

#### **Resolution 398/2013/E/eel**

With this measure the Authority approved an inspection of Terna on the subject of service quality. the Authority established that this inspection is to be performed by 31 December 2013 and will regard the correct application of the obligation to record power outages, pursuant to Title 8 of Appendix A to Resolution 250/04, to Chapter 11 of the Grid Code, and to Appendix A.54 to the Grid Code; calculation of the energy not delivered indicators communicated to the Authority in 2013, pursuant to Title 2 of Appendix A to Resolution ARG/elt 197/11.

#### **Resolution 413/2013/R/eel**

With this measure, following the consultation launched with Document DCO 369/201, the Authority established how the value of natural gas is to be calculated in the context of the rules on production plants essential for the security of the electrical system, introducing changes and additions to Resolution 111/06. In particular, the Authority modified, starting from 1 October 2013, the criteria for calculating the value of natural gas both for the units in a typical arrangement (ordinary or cost supplement) in determining the variable cost component paid (CVR) to cover the cost of the fuel, and for the units in an alternative arrangement (contractualised) in determining the marginal offer price.

#### **Resolution 399/2013/R/eel**

With this measure, the Authority adopted urgent rules in relation to provision of the transitory safeguarding service in the municipality of Chiomonte, following termination of the contract between the Municipal Electricity Company of Chiomonte and Exergia (the subject providing safeguards in this area),

until the new tender procedures have been completed to identify the safeguarding service provider under the terms of the decree of 23 November 2007.

#### **Resolution 444/2013/R/EEL**

With this measure the Authority adopted decisions on essential plants and amendments and additions to the related rules. Among other things, in particular, the Authority:

- extended the terms for notification by users of the dispatching of the standard parameters, typical parameters and minimum groups of production plants available to them, to be subject to the rules on essentiality, and of the communication to the Authority and to Terna on the subject of intention to sign the contract;
- extended the terms for publication by Terna of the list of essential plants and for performance by Terna of the activities related to the standard parameters and the typical parameters;
- modified the term by which users of the dispatching ask the Authority to be eligible for the supplement;
- extended certain rules to 2014, the validity of which is currently limited to the year 2013, on the subject of determining the fees for the essential plants;
- extended to 2014 the validity of the list of reference products for calculating the value of fuels applied for the year 2013.

#### **Resolution 450/2013/E/EEL**

With this measure, acknowledging that it had carried out the opportune assessments of price trends in the Sicily zone in the maintenance period of the Sicily - Continent interconnection, the Authority also extended to the Sicilian electrical system, considering the evident critical issues in operating the same securely, the fact-finding investigation launched with Resolution 401/2012/R/eel with reference to the Sardinian electrical system, extending the term for closure of the same to 31 March 2014.

#### **Resolution 456/2013/R/eel**

With this measure, following the consultation launched on 19 September 2013 with the Consultation Document 396/2013/R/EEL, the Authority set forth rules for revision of the tender procedure related to assignment of the safeguarding service and certain aspects of the regulations for said service, with a view to the procedures related to the period 2014-2016. Among other things, the territorial areas with reference to which the service is provided were modified, the minimum requisites that operators participating in the tender procedures must possess were supplemented, and it was stated that the safeguarding provider, starting from 1 January 2015, must sign dispatching contracts related to the service and separate from the dispatching contracts related to any end customers served in the free market.

#### **Resolution 462/2013/R/eel**

With this measure the Authority acted to implement Orders 3565/2013, 3566/2013, 3567/2013 and 3568/2013, with which the Council of State issued judgements following the appeal lodged by the Authority against the judgements with which the Lombardy Regional Administrative Court partially cancelled the Authority's Resolutions 281/2012/R/efr, 343/2012/R/efr and 493/2012/R/efr on calculating the value of imbalances of units supplied by non-programmable renewable sources. In particular, the

Authority established that from 1 January 2013 and until a decision has been made on the merit of the appeals pending before the Council of State:

- to production units supplied by non-programmable renewable sources the imbalance prices envisaged for the ineligible units are applicable exclusively with reference to the portion of effective imbalance exceeding 20% of the modified and corrected binding programme, while within the 20% excess the hourly zonal price is applicable;
- Terna and GSE are obliged to apply the rules in force of Resolution 281/2012/R/efr starting from October 2013, postponing the application related to the period 1 January 2013-30 September 2013 following the decision made by the Council of State.

#### **Resolution 483/2013/R/eel**

With this measure the Authority verified positively the proposed amendment to the Network Code transmitted by Terna, on completion of the consultation with the operators, under the terms of Resolution 231/2013/R/eel, contained in Chapters 4 and 7 of the said Code and in a number of its annexed documents.

The main changes concern:

- valuation of the structure change manoeuvre;
- definition of the technical data of the production units valid for the purposes of the electricity market;
- introduction of an optional mechanism for valuation of the primary frequency adjustment service, under the terms of Resolution 231/2013/R/eel.