Terna Group

Interim Financial Report

30 June 2012

Table of contents

Interim Report on Operations at 30 June 2012 3
Condensed consolidated interim financial statements as at 30 June 2012 76
Consolidated financial statements 77
Consolidated income statement 78
Consolidated statement of comprehensive income 79
Consolidated statement of financial position 80
Statement of changes in consolidated equity 81
Consolidated statement of cash flows 83
Notes to the Condensed Consolidated Interim Financial Statements 84
A. Accounting policies and measurement criteria 85
B. Operating segments 92
C. Notes to the consolidated income statement 94
Revenue 94
Operating expenses 96
Financial income and expense 98
D. Notes to the consolidated statement of financial position 102
Assets 102
Liabilities 109
E. Commitments and risks 120
F. Business combinations 128
G. Related-party transactions 128
H. Significant non-recurring events and transactions, and atypical or unusual transactions 130
I. Notes to the statement of cash flows 130
L. Significant events subsequent to 30 june 2012 131
Certification of the condensed interim financial statements under the terms of Art. 81-ter of Consob Regulation no. 11971 of 14 May 1999 and subsequent amendments and additions 132
Report of the Independent Auditors 134

Interim Report on Operations

at 30 June 2012

Table of contents

Foreword 6

Terna and the financial markets 7

Performance of the Terna Stock 7

Shareholders 9

The Terna Business Model 10

The Terna Group 11

Reorganisation of the Terna Group 12

2012-2016 Strategic Plan 13

Economic-financial and sustainability performance 14

Main economic and financial results of the first half of the year 14

Comprehensive Group results 14

Sustainability performance 17

Sustainability indexes and recognitions 17

Comments on the results and significant events 18

Significant events in the first half of 2012 18

Regulatory 18

Finance 18

Corporate 20

Terna Group performance and financial position 21

Consolidation scope 21

Basis of presentation 22

Reclassified income statement 23

Results by geographical area and business segments 26

Reclassified consolidated statement of financial position 26

Reconciliation of consolidated equity and profit for the period with the corresponding figures for the Parent Company 28

Cash flows 29

Net financial debt 29

Consolidated statement of cash flows 30

The Terna Group and outlook 33

Significant events subsequent to 30 June 2012 33

Business outlook 33

The business 34

National Transmission Grid 34

Number and dimensions of plants 34

National Transmission Grid Development Plan 35

Work carried out in period 36

Power generation 38

Energy demand in Italy 38

Electricity generation 38

Dispatching and trade ... 39
Electricity business ... 39
Coverage of demand ... 40
Provisioning of dispatching resources ... 42
Transmission service quality ... 43
Interruptibility service ... 44
Instant reduction service in withdrawals on the main islands ... 45
Terna and new businesses ... 46
Accumulation systems ... 46
Storage Lab ... 47
Risks, organisation and corporate social responsibility ... 48
Risks and uncertainties to which Terna and the Group are exposed ... 48
Regulatory risk ... 48
Domestic legislative risk ... 49
Operational risks: risks connected with NTG malfunction ... 49
Litigation risk: legal disputes ... 50
Market and financial risks ... 50
Risks connected with financing needs ... 50
Risk on non-core business ... 50
Business security ... 51
Corporate social responsibility ... 52
Information Technology ... 53
Managerial information technology and services to people ... 53
Research and Development ... 54
Human Resources and Organisation ... 56
Organisational structure ... 56
Human resources ... 57
Industrial relations ... 57
Other information ... 58
Related party transactions ... 58
Significant non-recurring events and transactions, and atypical or unusual transactions ... 59
Other information ... 59
Treasury shares ... 59
Appendix - Italy's Regulatory Framework ... 60
Regulatory framework ... 60
Resolutions of the Authority for Electricity and Gas ... 68

Foreword

The Interim Financial Report of the Terna Group at 30 June 2012 has been prepared pursuant to Art. 154-*ter* of Italian Legislative Decree 58/98 introduced by Italian Legislative Decree No. 195 of 6 November 2007 (known as the “Transparency Decree”), as amended by Italian Legislative Decree No. 27 of 27 January 2010.

Terna and the financial markets

Financial indicators		**29 June 2012**
Proportion of Terna shares[(1)]		
> in the FTSE MIB index (%)		2.28%
>in the FTSE Italia All Share index		1.97%
Ratings		
Standard & Poor's	Outlook	Negative
	M/L term	A-
	Short Term	A-2
Moody's	Outlook	Negative
	M/L term	A3
	Short Term	Prime-2
Fitch	Outlook	Negative
	M/L Term[(2)]	A
	Short Term	F1

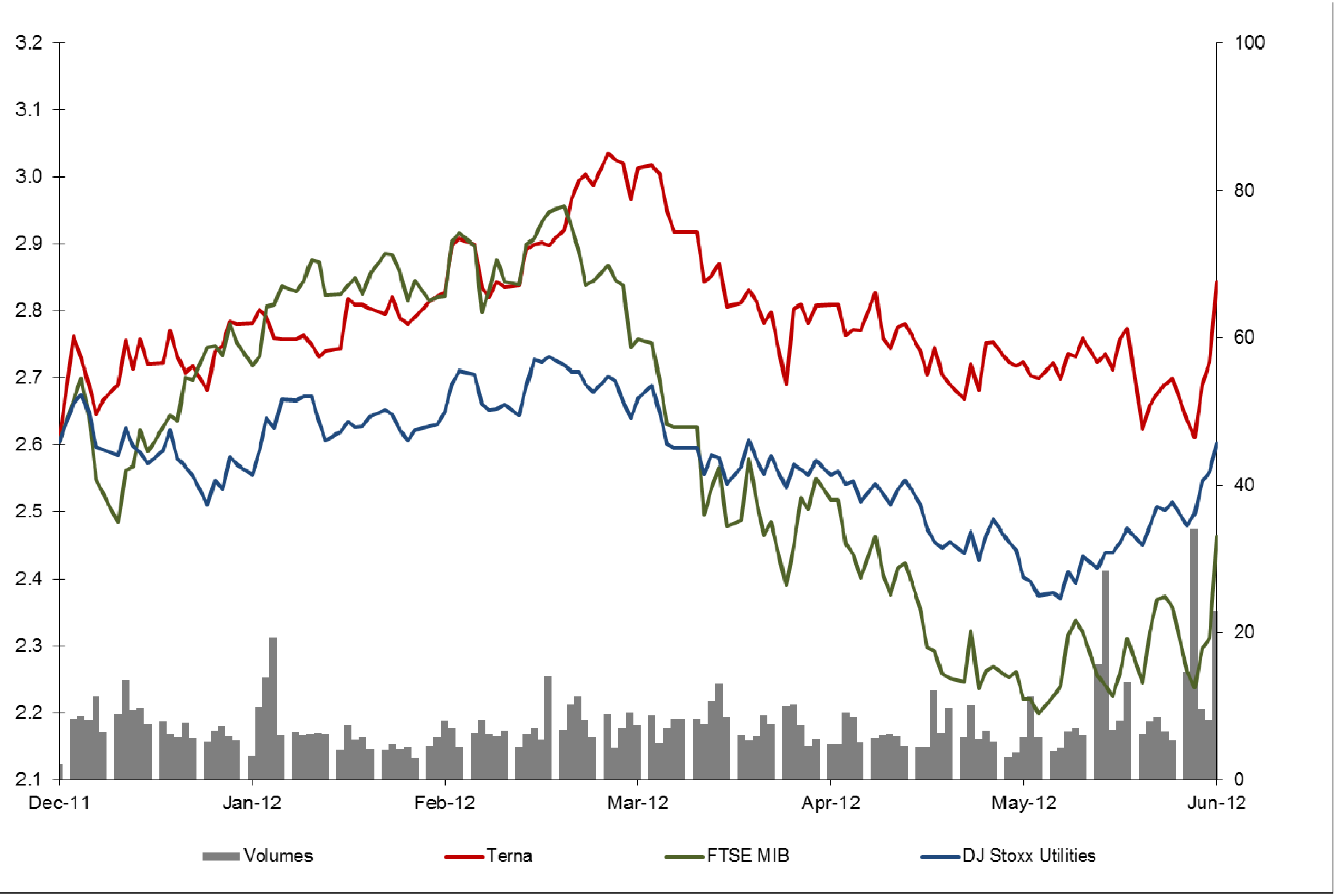
(1) Source: Bloomberg. Data at 29 June 2012
(2) Issuer Default Rating

Performance of Terna stock

The public debt crisis and the current recession in several "peripheral" European countries have distinguished the scenario of uncertainty and high volatility in which the markets moved in the first half of the year. In this setting, despite distribution of a 13-cent dividend (on 18 June), the Terna stock ended the first half of the year up 9.2%, recording an overperformance with respect to the index (FTSE-MIB -5.4%) and to the industry (DJ Utilities (0.0%). Also significant was the Total Shareholder Return, or TSR, (the return including both the share price increase and the dividends paid in the period), which in the six months gave investors a total return of 14.6%, higher than both the market (FTSE-MIB -2.4%) and the industry (DJ Utilities +4.4%). During the period, the average daily volume of Terna shares traded on the Borsa Italiana's electronic share market was 7.8 million shares, down on the 9.7 million in the same period of 2011.

The performance of the stock seven years after listing is very good: since 23 June 2004 the Terna stock has risen by 67.3% compared with a negative performance of the FTSE MIB of 48.8%. The TSR over this period has reached 176%, in marked contrast with the average negative return of 29.2% of Italian Blue Chips over the period.

Performance of Terna shares and the FTSE MIB and DJ STOXX 600 Utilities indices

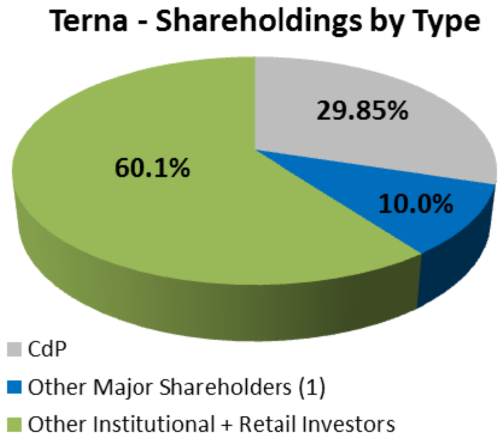


Source: Bloomberg

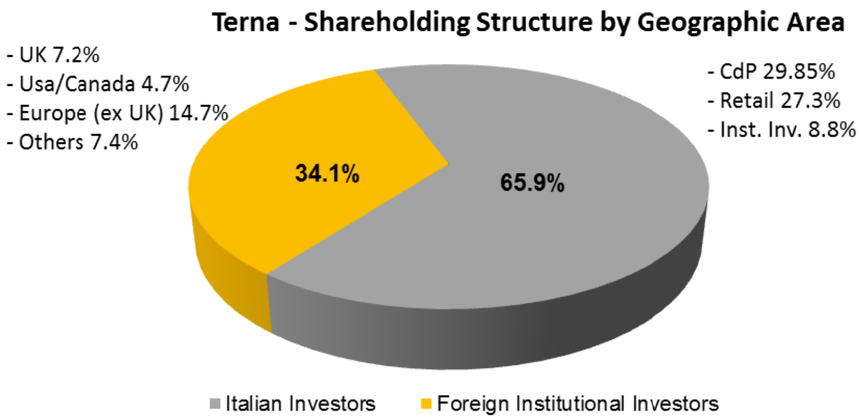
Shareholders

At the date on which this interim report was prepared, the share capital of Terna S.p.A. amounted to 442,198,240 euros, represented by 2,009,992,000 ordinary shares with a par value 0.22 euro each.
Based on the register of shareholders and other information available at the date of preparation of this interim report, the ownership of Terna S.p.A. is divided as follows:

- Cassa Depositi e Prestiti S.p.A (CdP) 29.85%;
- Other Major Shareholders[1] 10.0% of which:
    - Romano Minozzi 5.3%;
    - BlackRock Inc. 2.7%;
    - Assicurazioni Generali 2%.
- Other Institutional and Retail Investors 60.1%.



Based on periodic surveys carried out by the Company, it is believed that 65.9% of the shares of Terna S.p.A. are held by Italian investors (CdP 29.85%, Institutional Investors 8.8% and Retail Investors 27.3%), with the remaining 34.1% being held by Foreign Institutional Investors, mainly European and American.



[1] The term "Major Shareholders" is used to refer to shareholders holding an interest of more than 2% in the share capital of TERNA S.p.A., on the basis of the information available and communications received in accordance with CONSOB Resolution No. 11971/99.

The Terna Business Model

Terna is Europe's largest independent grid operator for electricity transmission (Transmission System Operator - TSO) and is sixth worldwide in terms of kilometres of lines managed.
The Terna Group owns the Italian National Transmission Grid (NTG) with more than 57,500 kilometres of high voltage lines (about 63,500 km of three-phase power lines), 459 transformation stations and 22 interconnection lines with foreign countries.
In Italy, Terna acts as TSO under a government concession. It is responsible for transmitting and dispatching electricity along the high-voltage and very-high-voltage grid throughout the whole of Italy. Terna is also responsible for planning, constructing and maintaining the grid.

The fundamental elements of Terna's Mission are:

- to manage electricity transmission in Italy, guaranteeing its security, quality and affordability over time;
- to ensure equal conditions of access to all grid users;
- to develop market activities and new business opportunities with the experience and technical skills gained in the management of complex systems;
- to create value for the shareholders with a strong commitment to professional best practices and with a responsible approach to the community, respecting the environment in which it operates.

The current scope of Terna's activities is the result of a process of liberalisation of the electricity industry that began in 1999, the year in which the system operator functions were assigned to GRTN - Gestore della Rete di Trasmissione Nazionale, a company under public control. In November 2005, Terna, already the owner of almost all the National Transmission Grid, acquired from the latter the functions of grid operator, with the related human resources and assets, as established by the Prime Ministerial Decree of 11 May 2004. The unification of grid ownership (apart from small residual portions) and management have coincided with Terna's independence from the Enel Group to which it previously belonged. Terna today faces the market with complete strategic and management independence, on the strength of the technical skills acquired in the past: it is therefore both innovation and tradition at the same time, two values that often accompany its development prospects.

The Terna Group

The Group structure at 30 June 2012:

Terna S.p.A.

Core Business

Italy

Terna Rete Italia S.p.A.

Terna Rete Italia S.r.l.

Foreign

Terna Crna Gora d.o.o.

Non-Core Business

Terna Plus S.r.l.

Terna Storage S.r.l.

SunTergrid S.p.A.

Rete Solare S.r.l.

Associates

Cesi S.p.A.

Coreso S.A.

CGES A.D.

Joint Control

Elmed Etudes S.a.r.l.

Core business: the Terna Group transmits and dispatches electricity on the National Transmission Grid; the companies directly controlled by the parent company Terna S.p.A.:

Italy

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

Foreign Operations

- Terna Crna Gora d.o.o.

Non-core business: the Terna Group develops new activities and business opportunities with the experience and technical skills acquired; the companies directly and indirectly controlled by the parent company Terna S.p.A.:

- Terna Plus S.r.l. and Terna Storage S.r.l.;
- SunTergrid S.p.A. and Rete Solare S.r.l..

Reorganisation of the Terna Group

Following approval, by the Terna S.p.A. Board of Directors on 9 November 2011, for the launch of the project for a new organisational structure of the Terna Group - with the aim of operationally implementing the provisions of the Company's Industrial Plan presented at the beginning of 2011 and maximising efficiency in managing the Group's business - during the first half of 2012 the Terna Group's new organisation was defined.

The new organisational structure, in place from 1 April 2012, is based on a Parent Company and two Operating Companies wholly controlled by the said Parent Company:

- **Terna S.p.A.,** identified as the Parent Company, besides conserving ownership of the Concession relating to electricity dispatch and transmission activities (issued with a Decree of 20 April 2005 of the Ministry of Productive Activities) maintains ownership of the capital assets and responsibility for defining the NTG Development Plan and the Defence Plan; through its organisational structures, it performs a function of strategic guidance, management, coordination and control on the achievement of the objectives and on correct application of the strategies and processes defined centrally.
- In accordance with the provisions of Art. 12, paragraph 4, of the decree of 15 December 2010 of the Ministry for Economic Development (Concession Agreement), **Terna Rete Italia S.p.A.** is delegated, through a business unit rental agreement with a five-year term, to perform all the core businesses of operation, ordinary and extraordinary maintenance of the NTG, management and performance of work on developing the grid, connected with the implementation of the provisions of the said Agreement and on the basis of the guidelines laid down in the Development Plan. In addition, Terna Rete Italia S.p.A. has been given all the related responsibilities, in management and technical terms, concerning protection of the environment and the health of workers and third parties.
- **Terna Plus S.r.l.** is instead the operating company devoted to work on the creation of non-core business projects and has developed a slim and flexible operating structure.

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

2012-2016 Strategic Plan

On **20 March 2012**, Terna approved the Terna Group's Strategic Plan for the period 2012-2016; these are the guidelines:

- **core business:** in the next 5 years 4.1 billion euros will be invested for safety and to modernise the electricity grid, of which 82% will be destined for development of the National Transmission Grid with investments focused on maximising use of the system capacity and on reducing congestion, facilitating development of generating capacity from renewable resources;
- **non-core business:** approximately 1 billion euro will be earmarked for development of battery accumulation systems for 240 MW, at present awaiting authorisation and in any case as long as suitable remuneration is obtained. Additionally, both in Italy and abroad, investments of up to 900 million are planned in projects for private customers, with a forecast return that exceeds that of the regulated business. The budget for non-core business is thus doubled (up to 1.9 billion euros), with respect to the previous plan;
- **improved margins *(EBITDA margin)*:** it is expected that increased revenues and cost control will allow us to achieve an accumulated EBITDA over the 2012-16 period, up approximately 19% with respect to the previous five-year plan. Average annual growth in EBITDA will go from 5% to 7.5%, showing a consistent improvement in operating cash flow. At the end of the period, the EBITDA margin will exceed 80% increasing with respect to the previous target of 78%;
- **a sound financial structure:** the commitment to strengthen capital ratios continues. During the Plan, net debt is estimated to grow by approximately 1.6 billion euros to 6.7 billion euros, with a significant reduction of 1 billion euro with respect to the previous plan. The capital structure remains solid: during the plan, the ratio between net debt and RAB remains below 55% in all plan years and the ratio of net debt to EBITDA improves with respect to the 4.2 times of end 2011, remaining below 4 times;
- **new dividends policy:** as from 2012, a basic dividend is envisaged from the core business amounting to 19 euro cents per share, in addition to the contribution of non-core business (payout of 60% on results and/or gains).

Economic-financial and sustainability performance

Main economic and financial results of the first half of the year

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

In addition, as described above, in this first half of the year 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.

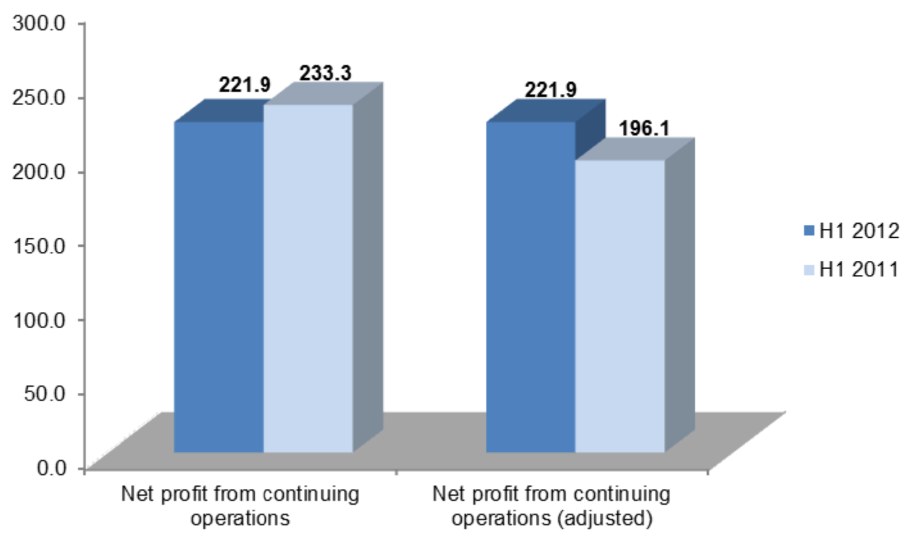
The amounts discussed below have been derived from the reclassified schedules included in the "Terna Group performance and financial position" section of this Report on operations. The footnotes to these schedules provide a reconciliation of these amounts with the consolidated financial statements.

Comprehensive Group results

The consolidated income statement at 30 June 2012 showed a **net profit from continuing operations** of **221.9 million euros** which, against a pre-tax profit up by 46.6 million euros, was slightly down on the same period of the previous year (-4.9%) owing to application of extra IRES corporation tax (2nd package of budget adjustment measures of 2011, the so-called "Robin Hood Tax").

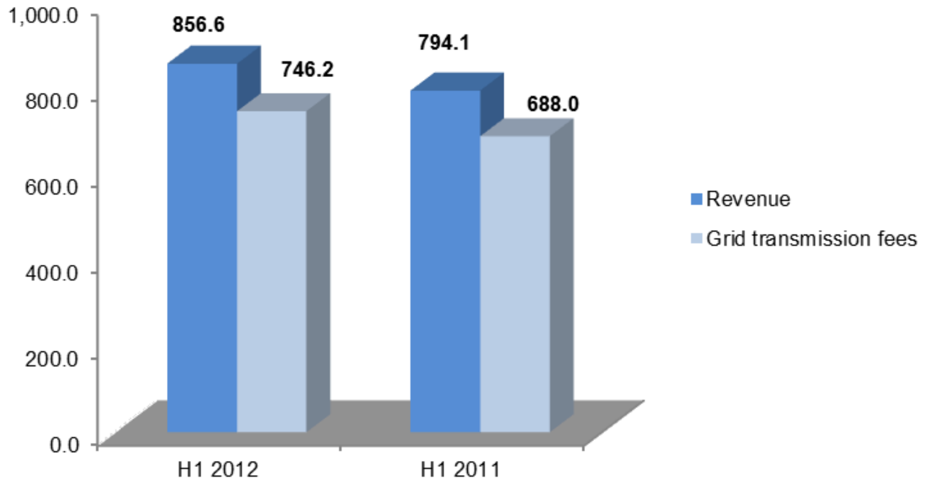
Application of the so-called Robin Hood Tax also in the first half of 2011 would in fact have made the **net profit for the period from continuing operations (*adjusted*)** 196.1 million euros, determining in the first half of 2012 profit growth of 25.8 million euros (+13.2%) compared with the same period of the previous year.

In millions of euros



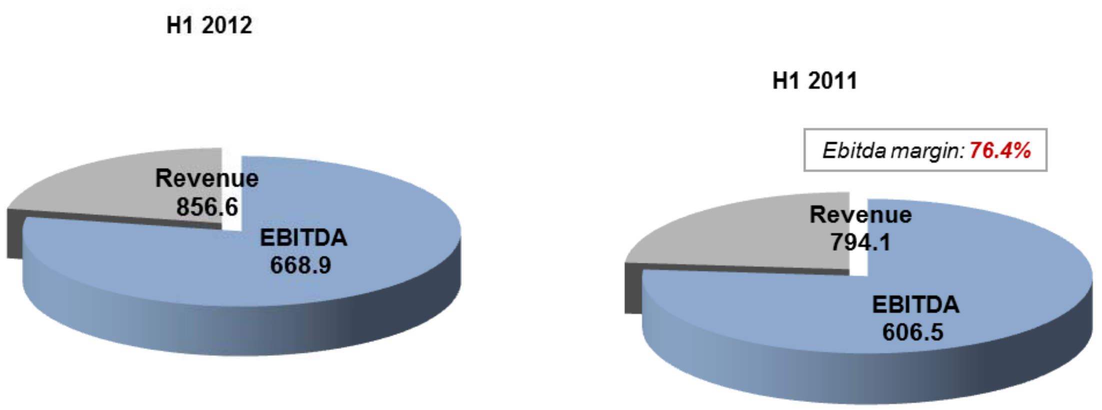
Revenue amounted to **856.6 million euros**, of which 746.2 million euros relating to the transmission fee, attributable to the Parent Company in the amount of 659.2 million euros and to the subsidiary Terna Rete Italia S.r.l. in the amount of 87 million euros.

In millions of euros



Operating expenses amounted to approximately 187.7 million euros, of which 103.1 million euros relating to personnel expenses and 63.6 million euros to services. **EBITDA** (Gross Operating Margin) came out at **668.9 million euros**, equal to 78.1% of revenues, up by 62.4 million euros from 606.5 million euros in the first half 2011 (+10.3%).

In millions of euros



EBIT (Operating Profit) came out at 464.4 million euros, after **depreciation and amortisation** charges of 204.5 million euros, of which 181.6 million euros recognised by the Parent Company and 22.7 million euros by the subsidiary Terna Rete Italia S.r.l..

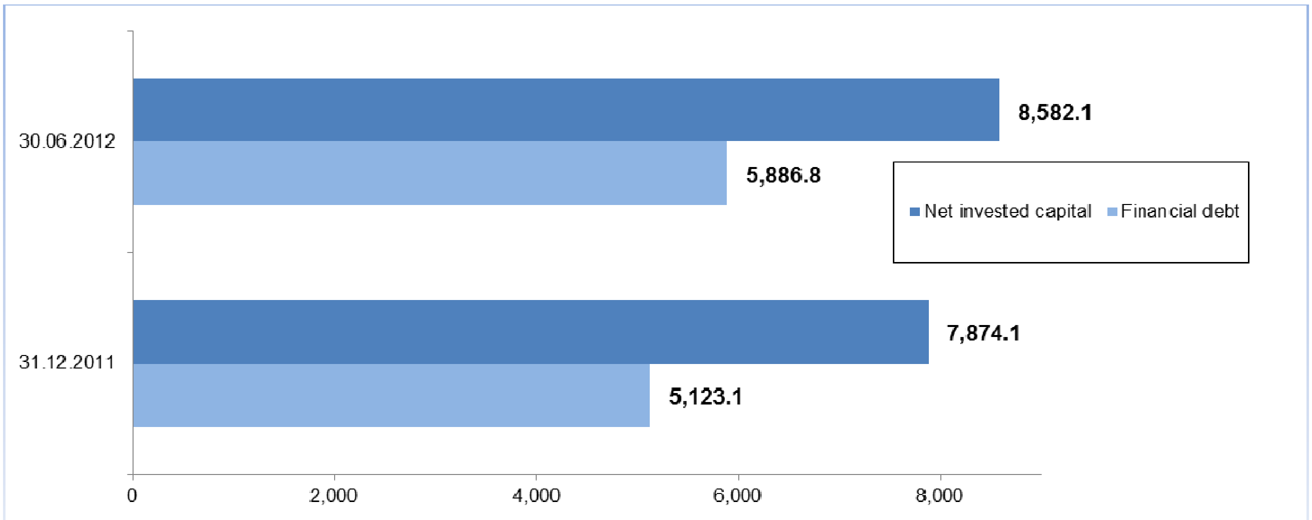
Net financial expenses of the period, 62.1 million euros, increased slightly, by 4 million euros compared with the same period of 2011.

Profit before taxes, after deducting net financial expenses, amounted to 402.3 million euros, up 46.6 million euros from the corresponding period of the previous year (+13.1%).
Income taxes charged to the period were 180.4 million euros, up 58 million euros (+47.4%) compared with the same period of the previous year, owing substantially to the 2^{nd} package of budget adjustment measures (the so-called Robin Hood Tax) as described above.

As a result of this taxation **net profit from continuing operations** amounted to 221.9 million euros, slightly down, by 11.4 million euros (-4.9%) compared with the figure for the first six months of 2011 (-106.4 million euros compared with the 328.3 million of the first half of 2011, if we consider the contribution to net profit for the period of the result referable to discontinued operations, of 95.0 million euros, relating essentially to income accruing from the sale of the equity investment in Rete Rinnovabile S.r.l., of 59.2 million euros and the partial release of 33.8 million euros of the fund relating to bonds reaching maturity deriving from the sale of the equity interest in Terna Partecipações).

Net invested capital of 8,582.1 million euros is financed through **shareholders' equity** in the amount of 2,695.3 million euros and through **net financial debt** in the amount of 5,886.8 million euros.

millions of euros



The **debt/equity** ratio came out at 2.18.

Total investment in the core business made by the Group in the period amounted to 551.1 million euros (of which 532.4 million attributable to property, plant and equipment), up 1.5% from 543.1 million euros recorded in the first half of 2011.

Sustainability performance

Sustainability indexes and recognitions

The continued improvement in its ESG (Environmental, Social, Governance) performance has earned Terna constant growth over time in sustainability ratings, inclusion on the main international stock exchange sustainability indexes and the appreciation of socially responsible investors.

In line with the confirmations, obtained in 2011, in the main international stock exchange sustainability indexes including the Dow Jones Sustainability Indexes (World and Europe) and the new STOXX® Global ESG Leaders indexes being present – the only Italian utility – in all the related subindexes specialised in environmental, social and governance issues (STOXX® Global Environmental Leaders, STOXX® Global Social Leaders and STOXX® Global Governance Leaders), during the first half of 2012 Terna obtained further recognitions of its work.

In particular, we can note:

- inclusion in the Gold Class of the “SAM Sustainability Yearbook 2012”, prepared on the basis of the analysis performed by SAM – Sustainable Asset Management, the sustainability ratings agency that carries out assessments for the Dow Jones Sustainability Indexes. To be included in the Gold Class requires a ratings score that must be within 1% of that of the leading company in the industry;
- confirmation in the FTSE4Good indexes, which bring together the best companies for sustainability performance, on the basis of the analyses of the EIRIS agency.

Comments on the results and significant events

Significant events in the first half of 2012

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

Regulatory

Resolutions published by the AEEG for the new 2012-2015 tariff regulation period

On **2 January 2012** the Authority for Electrical Energy and Gas (AEEG) published Resolutions Nos. 199/11, 204/11 and 197/11 thereby establishing, for the new 2012-2015 regulation period, the remuneration for the supply of electricity transmission, distribution, measurement and dispatching services and regulation of the transmission service quality. The new features introduced by AEEG Resolution 199/11 include taking the weighted average cost of capital (WACC) from the previous 6.9% to 7.4% and establishing a review by November 2013, to apply from the second two-year period of the regulatory period (2014-2015). There will also be a new incentive category (category I4) for extra remuneration of accumulation systems amounting to 2% for a period of 12 years subsequent to the commissioning of the investments. Starting from 2012, the AEEG has recognised a further 1 % on the WACC, aimed at compensating for the effect of the "regulatory lag", i.e. the delay with which the tariff remunerates investments made. Resolution No. 204/11 updates for 2012 the price for the electricity dispatching service, – which also includes other components, among them an advance on the bonus for the reduction of DSM volumes and the operating costs payable in relation to TIMM, Gaudi and CASC – setting it at 0.0526 €/kWh. Resolution No. 197/11 on service quality regulation substantially confirmed the framework of the previous regulatory period and provided for a mechanism of bonuses/penalties which takes into consideration only the Energy Not Delivered indicator. The maximum potential impact for the Terna Group deriving from this incentive mechanism lies within a range of -12/+30 million euros per year.

Finance

5-year bond issue for 1.25 billion euros

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

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

The transaction, intended for institutional investors, was placed by a syndicate of banks made up of BNP Paribas, Credit Suisse, Deutsche Bank, J.P. Morgan, Mediobanca, MPS Capital Services, Natixis and Unicredit Bank AG in their capacity as joint-lead managers and joint-book runners, and was concluded successfully during the same day, recording an over-subscription of approximately four and a half times the offer, for 80% coming from abroad. The bond is intended to finance the grid development investments envisaged in the Company's business plan.

Renewal of the EMTN Programme and increase of the amount to 5 billion euros

On **15 June 2012** Terna renewed its bond issue programme entitled “Euro Medium Term Note Programme” (EMTN) increasing its amount from 4 to 5 billion euros as resolved by the Board of Directors on 15 May 2012. Deutsche Bank and Citigroup were the Joint Arrangers for the programme, which obtained ratings of A- from Standard & Poors, A3 from Moody's and A from Fitch.

Terna rating

On **30 January 2012** Fitch Ratings revised the rating for the senior unsecured debt of Terna S.p.A. from level A+ to A following the downgrading of the Italian Republic from A+ to A- with negative outlook. At the same time, Fitch confirmed both the long-term rating of the issuer as A with negative outlook and the short-term rating at F1. On **22 March 2012** Fitch Ratings confirmed both the issuer's long-term rating (IDR), and the rating of the Company's senior unsecured debt at “A” and the outlook relating to the IDR remains negative. At the same time, the Agency also confirmed the issuer's short-term rating at “F1”. Confirmation of the rating reflects the greater visibility of the financial profile of the Company following presentation by Terna S.p.A. of the new Strategic Plan.

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

On **20 March 2012** Moody’s confirmed its judgement on Terna S.p.A.'s creditworthiness at A3, following presentation by the Company of the new Investment Plan. Nonetheless Terna's rating remains subject to a negative outlook in the light of the Company's exposure to pressures regarding the Italian Republic's sovereign debt.

Corporate

Terna Cnra Gora share capital increase

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

Incorporation of a new Group company

As already mentioned above, as part of the Terna Group reorganisation process, on **23 February 2012** the parent company Terna S.p.A. incorporated the company named Terna Rete Italia S.p.A. with share capital of 120,000 euros; the new company's corporate purpose is to design, create, manage, develop, operate and maintain grid lines and structures and other infrastructures connected with such grids, plant and equipment functional to the said activities in the segments of electricity transmission and dispatching or in analogous, related or connected segments. On **9 May 2012** the parent company Terna S.p.A. paid in 3 million euros, as a capital contribution in order to give the Company the resources necessary to carry on its business.

In addition, on **23 March 2012** the subsidiary Terna Plus S.r.l. incorporated the Company named Terna Storage S.r.l. with share capital of 10,000 euros; the new company's corporate purpose is to design, create, manage, develop and maintain diffused electricity accumulation systems (including batteries) and pumping and/or storage systems.

Terna purchases additional shares in the associate CESI S.p.A.

On **31 May 2012** Terna finalised the purchase of a further equity interest in CESI S.p.A., corresponding to 0.291% of the share capital from Enel S.p.A. Following these transactions, the total equity interest of Terna in the associate stands at 42.698% of the share capital.

Terna Group performance and financial position

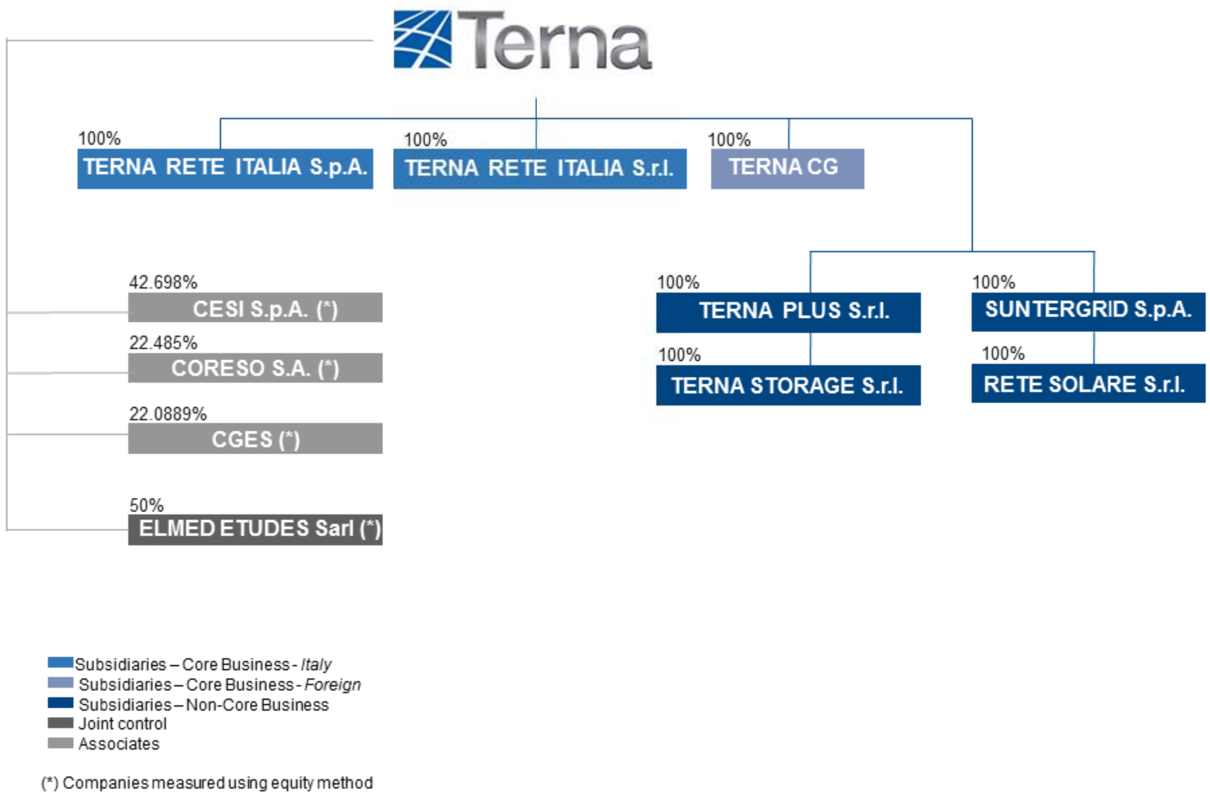
In order to present the performance of the Terna Group and to analyse its financial position, separate reclassified statements have been prepared that differ from those required by the EU-IFRS adopted by the Group and contained in the Condensed consolidated interim financial statements.

These reclassified tables contain alternative performance indicators with respect to those resulting directly from the tables of the Condensed Consolidated Interim Financial Statements, which management considers useful for monitoring Group trends, and representative of the economic and financial results produced by the business.

In line with CESR/05-178b recommendation, the criteria for constructing these indicators are described in the footnotes to the reclassified statements, which reconcile them with the schedules contained in the Condensed consolidated interim financial statements.

Consolidation scope

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



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

Core business

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

Non-core business

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

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

Basis of presentation

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

It is important to note that a number of comparative economic balances of the first half of 2011 were adjusted to take into account the change in the model of accounting for the release[2] of goodwill carried out for tax purposes by the Parent Company in 2009. More specifically, the previous model of accounting for substitute tax (advances on current taxes) was reviewed in line with the different accounting recognition (current taxes and deferred tax assets/liabilities) of the substitute tax paid during financial year 2011 in relation to the release[3] of goodwill resulting from consolidation of the subsidiary Terna Rete Italia.

In particular, this restatement entailed recognition in the first half of 2011 of higher taxes of 0.9 million euros, as the combined effect of the reversal of deferred tax assets of 1.6 million euros and lower current taxes of 0.7 million euros.

In addition, following the sale of the equity in the company Nuova Rete Solare S.r.l. signed on 29 July 2011, and completed on 24 October 2011, the balances of costs and revenue for the first half of the comparative financial year for the above company and its subsidiaries Reno Solar 2 S.r.l., Lira PV S.r.l. and Solar Margherita S.r.l. are reclassified for comparative purposes in the item "Profit for the period from discontinued operations", for an amount of 2.0 million euros.

[2] Italian Law Decree No. 185 of 29 November 2008, converted into Italian Law No. 2 of 28 January 2009.

[3] Italian Law Decree no. 98 of 6 July 2011, converted with amendments by Italian Law no. 111 of 15 July 2011.

Reclassified income statement

The reclassified income statements of the Terna Group for the first six months and the second quarters of 2012 and 2011 are summarised in the statement below, which is obtained reclassifying the data presented in the consolidated income statements.

2nd quarter					1st half 2012			
2012	2011	Changes	%	*In millions of euros*	2012	2011	Changes	%
				Revenue:				
361.9	336.5	25.4	7.5%	- Grid transmission fees (1)	746.2	688.0	58.2	8.5%
48.6	56.2	-7.6	-13.5%	- Other energy items (1)	81.4	75.4	6.0	8.0%
6.6	7.4	-0.8	-10.8%	- Other sales and services (1)	12.7	14.6	-1.9	-13.0%
7.9	9.3	-1.4	-15.1%	- Other revenue and income	16.3	16.1	0.2	1.2%
425.0	**409.4**	**15.6**	**3.8%**	**Total revenue**	**856.6**	**794.1**	**62.5**	**7.9%**
				Operating expenses:				
51.3	52.0	-0.7	-1.3%	- Personnel expenses	103.1	103.7	-0.6	-0.6%
30.6	33.1	-2.5	-7.6%	- Services, leases and rentals	63.6	63.9	-0.3	-0.5%
4.8	6.9	-2.1	-30.4%	- Materials	7.5	10.5	-3.0	-28.6%
9.2	5.6	3.6	64.3%	- Other expenses (2)	13.5	9.5	4.0	42.1%
95.9	**97.6**	**-1.7**	**-1.7%**	**Total operating expenses**	**187.7**	**187.6**	**0.1**	**0.1%**
329.1	**311.8**	**17.3**	**5.5%**	**EBITDA (Gross Operating Profit)**	**668.9**	**606.5**	**62.4**	**10.3%**
103.3	**97.5**	**5.8**	**5.9%**	**Amortisation and depreciation (3)**	**204.5**	**192.7**	**11.8**	**6.1%**
225.8	**214.3**	**11.5**	**5.4%**	**EBIT (OPERATING PROFIT/LOSS)**	**464.4**	**413.8**	**50.6**	**12.2%**
-31.1	-33.0	1.9	-5.8%	- Net financial income (expense) (4)	-62.1	-58.1	-4.0	6.9%
194.7	**181.3**	**13.4**	**7.4%**	**PROFIT/LOSS BEFORE TAXES**	**402.3**	**355.7**	**46.6**	**13.1%**
87.0	62.0	25.0	40.3%	- Income taxes for the period	180.4	122.4	58.0	47.4%
107.7	**119.3**	**-11.6**	**-9.7%**	**NET PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS**	**221.9**	**233.3**	**-11.4**	**-4.9%**
0.0	**35.8**	**-35.8**	**-100.0%**	Net profit for the period from discontinued operations and assets held for sale	**0.0**	**95.0**	**-95.0**	**-100.0%**
107.7	**155.1**	**-47.4**	**-30.6%**	**NET PROFIT FOR THE PERIOD**	**221.9**	**328.3**	**-106.4**	**-32.4%**
107.7	*155.1*	*-47.4*	*-30.6%*	*- Attributable to owners of the Parent*	*221.9*	*328.3*	*-106.4*	*-32.4%*

In the first six months of 2012 **revenue,** amounting to 856.6 million euros, was mainly generated by the Parent Company (766.0 million euros) and by the subsidiary Terna Rete Italia (88.3 million euros).

The increase in the item, of 62.5 million euros compared with the corresponding period of 2011 (+7.9%), derived substantially from the effect of the higher price charged for the transmission service (+58.2 million euros) and for the dispatching service (+6.0 million euros).

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

With reference to ***grid transmission fees (CTR)***, the above increase was essentially due to:

- review of the transmission service tariffs (+56.0 million euros);
- grid transmission fees for the purpose of remunerating the Defence Plan (+2.1 million euros).

In the area of ***dispatching services***, the 6.0 million euro increase was substantially due to the combined effect of:

- revision of the payment system for dispatching activities (27.3 million euros);
- adjustment of the fair value relating to assessment of the performance achieved by Terna on the Dispatching Services Market (DSM) with reference to the incentive mechanism provided for in AEEG Resolution 213/09, of 10 million euros in the first half of 2012 (-25 million euros compared with the 35 millions assessed in the first half of 2011);
- recognition of contingent assets of 4.5 million euros for the effects of AEEG Resolution 50/2012, a measure that closed the proceedings for the year 2010 related to determining the premiums and penalties for the Parent Company Terna, on the subject of transmission service quality (ENSR-NDU).

Finally lower revenue of 1.9 million euros was recognised owing mainly to more unregulated business orders from third parties received in the first half of last year.

In the second quarter of 2012, Group revenue was approximately 15.6 million euros higher than in the corresponding period of 2011, due essentially to the combined effect of the following factors:

- higher transmission revenue of +25.4 million euros, owing essentially to the tariff effects described above;
- lower revenue from other energy-related items (-7.6 million euros) mainly due to the said incentive mechanism for dispatching activities offset by higher remuneration in relation to the dispatching service.

In the first six months of 2012 **operating expenses**, of 187.7 million euros, were substantially in line with the first half of 2011 (+0.1 million euros), owing essentially to the combined effect of recognising as part of other expenses a contingent liability (3 million euros) relating to the refund of the balance of contributions paid for the years from 2002 to 2006 to the Ministry for Economic Development concerning the former telephony for private use concession, in practice offset by lower costs for non-regulated activities compared with the corresponding period of financial year 2011.

Similarly, in the second quarter 2012, the Group's operating expenses showed a balance substantially in line with second quarter 2011.

EBITDA (Gross Operating Margin) for the period came out at 668.9 million euros, an increase of 62.4 million euros compared with the 606.5 million euros of the first six months of 2011 (+10.3%).

The considerable increase in revenue and the substantial stability of costs were reflected in the ***EBITDA margin*** which went up from 76.4% in the first six months of 2011 to 78.1% in the corresponding period of 2012.

Amortisation and depreciation in the period grew by 11.8 million euros compared with the same period of financial year 2011, owing essentially to the commissioning of new plants.
For the same reasons explained above, amortisation and depreciation were higher also in the comparison between the two quarters (+5.8 million euros).

EBIT (Operating Profit), after deducting amortisation and depreciation of 204.5 million euros (of which 181.6 million of the Parent Company and 22.7 million of the subsidiary Terna Rete Italia S.r.l.), came out at approximately 464.4 million euros, up by 50.6 million euros (+12.2%) compared with the first six months of 2011.

Net financial expenses for the period, amounting to 62.1 million euros, relate substantially to the Parent Company and increased by 4.0 million euros, compared with 58.1 million euros in the same period of 2011, mainly due to the combined effect of:

- higher financial expenses relating to medium- and long-term debt and associated hedging (+26.9 million euros, including adjustment to fair value) attributable to an increase in gross indebtedness;
- an increase in financial income (-19.5 million euros) attributable to more cash invested with higher interest rates;
- higher capitalised financial expenses (-3.6 million euros) connected with investments made in the period.

After deducting net financial expenses, **profit before taxes** came out at 402.3 million euros, up by 46.6 million euros compared with the corresponding period of the previous year (+13.1%).

Income taxes charged to the period were 180.4 million euros, up 58.0 million euros (+47.4%) compared with the same period of the previous year, owing essentially to the 2nd package of budget adjustment measures (the so-called Robin Hood Tax) and to the higher pre-tax profit compared with the first six months of 2011.
The tax rate of the period was 44.8% approximately 10 points higher than the figure for the first six months of 2011, substantially as a result of the said Robin Hood Tax.

As a result of this taxation **net profit for the period from continuing operations** came out at 221.9 million euros (-11.4 million compared with the same period of the previous year and -106.4 million euros compared with the **net profit** of the first six months of 2011, which included the result referable to discontinued operations, of 95.0 million euros, basically relating to the portion attributable for the sale of the equity investment in Rete Rinnovabile S.r.l. of 59.2 million euros and the release of provisions for contractual obligations connected with the sale of Terna Participações of 33.8 million euros).
Applying the effects of the 2nd package of budgetary measures also to the 1st half of the previous year, **net profit for the period from continuing operations** increased by +25.8 million euros (+13.2%) compared with the 196.1 million euros of adjusted net profit from continuing operations at 30 June 2011.

Results by geographical area and business segments

Highlights of the Group's results by operating segment are included in the "Segment reporting" section of the Notes to the Condensed Consolidated Interim financial statements, to which you are referred.

Reclassified consolidated statement of financial position

Reclassified consolidated statements of financial position of the Terna Group at 30 June 2012, and 31 December 2011, are presented below.

In millions of euros	at 30.06.2012	at 31.12.2011	Change
Net non-current assets			
- Intangible assets and goodwill	463.6	470.9	-7.3
- Property plant and equipment	8,965.3	8,618.2	347.1
- Financial assets (1)	76.8	74.0	2.8
Total	**9,505.7**	**9,163.1**	**342.6**
Net Working Capital			
- Trade receivables (2)	626.1	612.4	13.7
- Inventories	7.3	16.3	-9.0
- Other assets (3)	43.1	14.9	28.2
- Trade payables (4)	559.5	705.0	-145.5
- Net payables for pass-through energy items (5)	101.2	247.0	-145.8
- Net tax liabilities (6)	86.6	121.5	-34.9
- Other Liabilities (7)	323.0	294.3	28.7
Total	**-393.8**	**-724.2**	**330.4**
Gross Invested Capital	**9,111.9**	**8,438.9**	**673.0**
Sundry provisions (8)	529.8	564.8	-35.0
NET INVESTED CAPITAL	**8,582.1**	**7,874.1**	**708.0**
Equity attributable to owners of the Parent	**2,695.3**	**2,751.0**	**-55.7**
Net financial debt (9)	**5,886.8**	**5,123.1**	**763.7**
TOTAL	**8,582.1**	**7,874.1**	**708.0**

Reported in the consolidated statement of financial position as:

(1) “Equity-accounted investees”, “Other non-current assets” and “Non-current financial assets” for the carrying amount of the other investments (0.6 million euros);
(2) “Trade receivables” net of the receivables for energy-related pass-through revenue (1,229.4 million euros);
(3) “Other current assets” net of other tax assets (8.0 million euros) and “Current financial assets” in relation to the amount of deferred financial assets (18.9 million euros);
(4) “Trade payables” net of the payable for energy-related pass-through costs (1,330.6 million euros);
(5) “Trade receivables” for the value of receivables for pass-through energy revenue (1,229.4 million euros) and “Trade payables” for the value of payables for pass-through energy costs (1,330.6 million euros);
(6) “Income tax assets”, “Other current assets” for the value of other tax receivables (8.0 million euros), “Other current liabilities” for the value of other tax payables (41.7 million euros) and “Tax liabilities”;
(7) “Other non-current liabilities”, “Current financial liabilities” and “Other current liabilities” net of other tax liabilities (41.7 million euros);
(8) “Employee benefits”, “Provisions for risks and charges” and “Deferred tax liabilities”;
(9) “Long-term loans”, “Current portion of long-term loans”, “Non-current financial liabilities”, “Cash and cash equivalents”, “Non-current financial assets” for the value of FVH derivatives (635.9 million euros) and “Current financial assets” for the value of the available for sale securities (1,032.5 million euros)

The increase in **net non-current assets** of 342.6 million euros, compared with the figure at 31 December 2011, is attributable substantially to the Group's total investments in property, plant and equipment (+532.7 million euros) and in intangible assets (+18.7 million euros, +14.3 million euros for Rights on the infrastructure), net of the related depreciation and amortisation accruing to the period (of 178.7 million and 25.8 million euros respectively) and of the related set-up grants (6.9 million euros).

Total investments (in property, plant and equipment and in intangible assets) made by the Group with reference to the **core business** in the first half of 2012 amounted to 551.1 million euros, up by 1.5% compared with the 543.1 million of the corresponding period in 2011.

The increase in **financial assets** of 2.8 million euros was essentially due to adjustment to end-of-period shareholders' equity referable to Terna's equity investment in the associate CESI (+2.6 million euros) - in which during the period the Group acquired a further stake of approximately 0.3% - and in the Montenegrin company CGES (+0.4 million euros).

Net working capital amounted to -393.8 million euros and during the half-year period used cash of 330.4 million euros, owing essentially to the combined effect of:

- a reduction in trade payables of 145.5 million euros, mostly for purchases and services regarding the major investing activities carried out at the end of 2011, and liquidation by the Parent Company of large liability items in existence at the end of 2011 at the very beginning of the current year; it should be noted that in May Terna received from *Cassa Conguaglio per il settore elettrico* (the Electricity Industry Adjustment Fund) an advance as a counterparty in the market coupling mechanism for managing congestion on interconnection with Slovenia (+54 million euros);
- a decrease in net trade payables relating to items originating from the electricity dispatching activities carried out by the Parent Company (145.8 million euros), owing mainly to a reduction in quantities and imbalance assessment prices (114.7 million euros);
- a reduction in net tax payables of 34.9 million euros as a result essentially of payment of the balance of current taxes for financial year 2011 (123.9 million euro) and of tax advances for the current year (131.8 million euros), net of the recognition of taxes accruing to the half-year (196.5 million euros); there were also higher net VAT payables due to the tax authority (19.7 million euros).

Gross invested capital, therefore, amounted to 9,111.9 million euros, recording an increase compared with the previous financial year of 673.0 million euros.

Sundry provisions declined by 35.0 million euros, owing mainly to provision for net deferred tax liabilities which saw the following changes:

- use of amounts set aside previously by the parent company Terna and the subsidiary Terna Rete Italia S.r.l. relating to additional amortisation and depreciation with respect to the assets' estimated useful life (20.4 million and 3.6 million euros respectively);
- release of the portion for the period (4.6 million euros) of provisions for deferred IRAP liabilities governed by Italian Law No. 244 of 24 December 2007 (2008 Budget Law);

- a deferred tax asset effect on recognition of the fair value of securities classified as available for sale (3.4 million euros) and on the change in the fair value associated with cash flow hedging derivatives of 6.6 million euros.

Net invested capital amounted to 8,582.1 million euros, an increase of 708.0 million euros compared with 31 December 2011 and is financed by shareholders' equity for 2,695.3 million euros (compared with 2,751 million euros at 31 December 2011) and by net financial indebtedness for 5,886.8 million euros (+763.7 million euros compared with the 5,123.1 million of 31 December 2011).

At 30 June 2012, the ***debt/equity*** ratio therefore came out at 2.18.

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 is provided below:

In millions of euros	**Net profit H1 2012**	**Shareholders' equity at 30/06/2012**
Financial Statements of the Parent Company	**192.9**	**2,470.7**
Profit/Loss and Equity contributed by the subsidiaries_Core business	26.2	86.0
Profit/Loss and Equity contributed by the subsidiaries_Non-core business	0.1	121.0
Contribution of equity-accounted investees	2.7	17.6
Terna Group Consolidated financial statements	**221.9**	**2,695.3**

Cash flows

Net financial debt

The Group's net financial debt at 30 June 2012 (5,886.8 million euros) is broken down in the table below.

In millions of euros	30.06.2012	31.12.2011	Change
Financial debt of continuing operations			
A. Medium- and long-term debt			
- Bond loan [1]	5,674.4	4,303.9	1,370.5
- Floating-rate loans [1]	2,405.1	2,434.8	-29.7
- Derivative financial instruments [2]	-507.0	-410.4	-96.6
Total	**7,572.5**	**6,328.3**	**1,244.2**
B. Short-term debt (cash and cash equivalents):			
- Floating-rate loans (current portions) [3]	59.7	59.7	0.0
- Short-term investments [4]	-1,032.5	-150.0	-882.5
- Cash and cash equivalents	-712.9	-1,114.9	402.0
Total	**-1,685.7**	**-1,205.2**	**-480.5**
Total net financial debt	**5,886.8**	**5,123.1**	**763.7**

During the first six months of financial year 2012 net financial debt increased by 763.7 million euros owing mainly to the combined effect of:

- an increase in bond loans (1,370.5 million euros), due essentially to the bond issued on 13 February 2012 for a total amount of 1,250.0 million euros (1,245.2 million net of expenses and the issue discount), as a result of adjusting financial instruments to fair value (114.2 million euros, including the amortised cost) and of capitalising inflation in the period (11.1 million euros);
- repayment of EIB loan instalments falling due of 29.7 million euros;
- an increase in the positive net balance of derivative financial instruments (96.6 million euros), mainly due to lowering of the reference interest rate curve compared to the previous financial year. In particular, we can note the change in fair value hedges of bonds of 114.1 million euros and the change in cash flow hedges of floating-rate debt of -17.5 million euros;
- advance redemption of certificates of deposit subscribed in 2011 with maturity 14 June 2013 (150 million euros) and recognition of the fair value of securities acquired for a face value of 1,000 million euros in April 2012 and classified as held for sale (1,032.5 million euros);
- a decrease in cash and cash equivalents (402 million euros) mainly due to the Group's current operations.

In the Consolidated Statement of Financial Position:
1) the balance corresponds to the item "Long-term loans";
2) the balance corresponds to the items “Non-current financial liabilities” and “Non-current financial assets” for the value of FVH derivatives (635.9 million euros);
3) this figure corresponds to the item "Current portion of long-term loans";
4) this balance is included in the “Current financial assets” caption.

Consolidated statement of cash flows

The consolidated statement of cash flows for the first six months of 2012 and 2011 is presented in the statement below:

In millions of euro	Cash flow H1 2012	Cash flow H1 2011
Opening cash and cash equivalents	**1,114.9**	**156.3**
of which cash and cash equivalents of discontinued operations	***0.0***	***6.2***
- Net profit for the period	221.9	328.3
of which attributable to continuing operations	*221.9*	*233.3*
- Amortisation and depreciation	204.5	192.7
- Net change in provisions	-35.0	-43.6
- Net losses (gains) on asset disposals	-1.6	-0.9
Self-financing	**389.8**	**476.5**
- Change in net working capital	-330.4	-42.5
Cash flows from operating activities	**59.4**	**434.0**
Investments		
- Property plant and equipment	-532.7	-521.9
of which attributable to continuing operations - core business investments	*-532.4*	*-521.9*
- Intangible assets	-18.7	-21.2
- Other changes in non-current assets	8.9	9.1
- Change in equity investments	-3.0	-38.4
Total cash flows provided by/(used in) investing activities	**-545.5**	**-572.4**
NIC Discontinued operations	**0.0**	**368.8**
- Change in loans	361.7	146.6
of which attributable to continuing operations	*361.7*	*380.2**
Other changes in equity attributable to owners of the Parent	-16.3	7.2
of which attributable to continuing operations	*-16.3*	*22.4*
- Dividends paid to shareholders of the Parent	-261.3	-261.3
- Equity attributable to non-controlling interests in discontinued operations	0.0	-0.2
Total cash flows provided by/(used in) financing activities	**84.1**	**-107.7**
Total cash flows for the period	**-402.0**	**122.7**
of which attributable to continuing operations	*-402.0*	*127.8*
Closing cash and cash equivalents	**712.9**	**279.0**

** The figures have been recalculated to take into account the change in accounting for the Group's release of goodwill for tax purposes;*
***The change takes into account the positive net financial position in relation to RTR (254.6 million euros) at 31.12.2010.*

The cash flow provided by operating activities during the first half of the year came to approximately 59.4 million euros and can be attributed to self-financing (389.8 million euros) and to the financial resources (330.4 million euros) used by net working capital.

As far as **self-financing** is concerned, we can note the profit for the half-year of 221.9 million euros, the amortisation and depreciation for the period of 204.5 million euros and a net decrease in provisions of 35 million euros, ascribable mainly to the change in provisions for net deferred tax liabilities.

The change in **net working capital**, of -330.4 million euros, is mostly attributable to the reduction in net trade payables (including pass-through energy-related economic items) and in net tax liabilities.

Investing activities used financial resources of 545.5 million euros, mostly referable to investments made during the half-year in property, plant and equipment (532.7 million euros) and intangible assets (18.7 million euros) – attributable to the Parent Company for a total of 535.3 million euros - net of the related contributions. In this regard we can also note an increase in equity investments in the associates CESI (+2.6 million euros) and CGES (+0.4 million euros).

Own capital flows were mainly used in distributing the 2011 dividend balance to shareholders of the Parent Company (261.3 million euros).
The other changes in equity attributable to owners of the Parent relate essentially to recognition at fair value of securities classified as assets available for sale and to measurement of derivative instruments hedging CFH floating-rate debt, net of the related tax effect (respectively 5.5 and 10.7 million euros).

Therefore, cash flows used in investing activities and in equity movements determined in the period a total requirement of 823.1 million euros funded in part by cash flows provided by operating activities (59.4 million euros) and, for the rest, by increasing net debt (763.7 million euros).

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

In millions of euro	Cash flow H1 2012	Reconciliation financial statements	Cash flow H1 2011	Reconciliation financial statements
Opening cash and cash equivalents	**1,114.9**		**156.3**	
of which cash and cash equivalents of discontinued operations		*0.0*		*6.2*
- Net profit for the period	221.9		328.3	
of which attributable to continuing operations		*221.9*		*233.3*
- Amortisation and depreciation	204.5		192.7	
- Net change in provisions	-35.0		-43.6	
Employee benefits		*0.8*		*-0.8*
Provisions for future risks and charges		*0.0*		*-30.0*
Deferred tax liabilities		*-35.8*		*-12.8*
- Net Losses (Gains) on asset disposals (1)	-1.6		-0.9	
Self-financing	**389.8**		**476.5**	
- Change in net working capital:	-330.4		-42.5	
Inventories		*9.0*		*-52.7*
Trade receivables		*-165.3*		*120.1*
Current financial assets		*-13.4*		*-1.8*
Income tax assets		*-7.4*		*-115.5*
Other current assets		*-11.7*		*-5.6*
Trade payables		*-139.7*		*-83.3*
Tax liabilities		*-51.8*		*74.5*
Current financial liabilities		*10.4*		*13.0*
Other liabilities		*39.5*		*8.8*
Cash flows from operating activities	**59.4**		**434.0**	
Investments				
- Property, plant and equipment (2)	-532.7		-521.9	
of which attributable to continuing operations - core business investments		*-532.4*		*-521.9*
- Intangible assets (3)	-18.7		-21.2	
- Other changes in non-current assets	5.9		-29.3	
Goodwill		*0.0*		*0.0*
Property, plant and equipment (2)		*8.9*		*9.2*
Other non-current assets		*0.0*		*-0.1*
Equity-accounted investees		*-3.0*		*-38.4*
Total cash flows provided by/(used in) investing activities	**-545.5**		**-572.4**	
NIC in discontinued operations and assets held for sale	**0.0**		**368.8**	
- Change in loans	361.7		146.6	
Non-current financial assets		*-114.1*		*5.2*
Current financial assets		*-882.5*		*-750.0*
Non-current financial liabilities		*17.5*		*-15.4*
Long-term loans		*1,340.8*		*958.9*
Short-term loans		*0.0*		*-73.1*
Discontinued operations and assets held for sale		*0.0*		*21.0*
- Other changes in equity attributable to owners of the Parent (4)	-16.3		7.2	
Equity attributable to owners of the Parent - share capital, other reserves and Retained earnings		*-16.3*		*22.4*
Equity attributable to owners of the Parent - reserves for assets held for sale		*0.0*		*-15.2*
- Dividends paid to shareholders of the Parent	-261.3		-261.3	
- Equity attributable to non-controlling interests in discontinued operations and assets held for sale	0.0		-0.2	
Total cash flows provided by/(used in) financing activities	**84.1**		**-107.7**	
Total cash flows for the period	**-402.0**		**122.7**	
of which attributable to continuing operations		*-402.0*		*127.8*
Closing cash and cash equivalents	**712.9**		**279.0**	

(1) included in the balances of "Other revenue and income"" and "Other operating expenses" of the Consolidated Income Statement;

(2) see note 13 to the financial statements;

(3) see note 15 to the financial statements;

(4) see the Statement of Changes in Consolidated Equity.

The Terna Group and outlook

Significant events subsequent to 30 June 2012

Terna's rating

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

Business outlook

In the second half of the year the Terna Group will be busy implementing the provisions of the 2012-2016 Strategic Plan approved by the Board of Directors on 20 March 2012.

With reference to the external context, the electricity requirement in Italy, in particular, is expected to drop compared with the previous year in view also of the slowdown in demand for electricity recorded in the first half of the year. On this point it should be recalled that also for 2012 the revenue supplement mechanism provided for in Resolution 188/08 will be applied, mitigating the volume risk for the Company's revenues.

The Group will be focused on making the investments provided for in the Development Plan with the main aim of developing cross-border interconnections, reducing congestions on the grid (Trino-Lacchiarella power line), guaranteeing connection with renewable-source generation plants and completing the work on preparing for implementation of the “accumulation system” projects.

The investments will be financed through cash generation produced by the Group which can also count on cash of approximately 1.7 billion euros thanks to the recent bond issue (1.25 billion euros with maturity at 2017).

In continuity with previous years, the Group will pursue the rationalisation of processes and efficiency of operating expenses, at the same time ensuring maximum quality of the dispatching and transmission service.

With reference to non-core business, in the second half of 2012 the Group will continue in the work of scouting and developing new businesses through the subsidiary Terna Plus, a company recently incorporated to focus on and enhance the Group's skill in non-regulated activities.

The business

National Transmission Grid

Number and dimensions of plants

The number and dimensions of plants belonging to the entire Group at 30 June 2012, and at 31 December 2011, is shown in the following table:

Number and dimensions	TERNA			TERNA RETE ITALIA		
	30.06.2012	31.12.2011	Change	30.06.2012	31.12.2011	Change
Stations *no.*	440	435	+ 5	19	19	
Transformers *no.*	639	636	+ 3	2	2	
MVA	127,270	126,303	+ 967	320	320	
Bays *no.*	4,890	4.846	+ 44	83	81	+ 2
Lines *km*	40,996	41,121	- 125	16,507	16,528	- 21
3-phase power lines *no*	2,327	2,312	+ 15	1,729	1,728	+ 1
km	45,951	46,069	- 118	17,539	17,556	- 17

Number and dimensions	TERNA GROUP		
	30.06.2012	31.12.2011	Change
Stations *no.*	459	454	+ 5
Transformers *no.*	646	643	+ 3
MVA	126,733	126,766	+ 968
Bays *no.*	4,982	4,936	+ 46
Lines *km*	57,504	57,651	- 146
3-phase power lines *no*	4,059	4,043	+ 16
km	63,492	63,626	- 135

Stations

The main changes consisted in the activation of 5 new stations, including:

- 1 of 380 kV: Castellaneta (TA);
- 4 of 150 kV: Collarmele (AQ), Aprilia 150 (LT), Stornara (FG), Melissa (KR).

Transformers

With regard to transformers:

- activation of 4 new 380/150 kV machines (for a total of 1,000 MVA) in the stations of Castellaneta, Benevento II and South Brindisi;
- decommissioning of 1 150/70 kV machine (of 32.5 MVA) in the Taloro station.

Long-distance power lines

As regards long-distance power lines the main changes consisted of:

- activation of the new TERNA three-phase lines: Milano Gadio - Milano Porta Volta 220 kV, Casoria - Fratta 220 kV, Bussi - cp Popoli 150 kV, Somplago - SIOT Cavazzo for a total of approximately 12 km of three-phase lines in operation;
- partial reorganisation of the 132 kV TERNA three-phase grid north of Milan which entailed a reduction of approximately 122 km of three-phase lines in operation;

The number and dimensions of the assets of the subsidiary SUNTERGRID did not change in the six-month period.

National Transmission Grid Development Plan

On 31 January 2012, in accordance with the provisions of the Italian Ministerial Decree of 20 April 2005 (Concession, as amended and updated with the decree of the Ministry for Economic Development of 15 December 2010) and with Italian Legislative Decree No. 93/2011, the Development Plan 2012 edition was sent to the competent Authorities for approval.

The said Plan (DP 2012), approved by the Terna BoD, involved consultation procedures with the User Consultation Committee[7] (10 October 2011, 28 November 2011, 10 February 2012).

In addition this year in accordance with Italian Legislative Decree No. 93 of 1 June 2011 two public sessions were held to present the 2012 DP for consultation purposes at the AEEG on 28 May 2012 and 18 June 2012.

The 2012 DP again has the basic structure of the previous edition, that is two sections

- section I which describes the reference situation, the forecast scenarios and the new development needs which became evident during 2011 and a specific section, under the terms of the National Action Plan for renewable energies, regarding development of the NTG for full use of the energy produced by systems using renewable resources;
- stage of progress of previous plans – Section II which illustrates the stage of progress of work provided for in previous Development Plans and which includes the work proposed in the 2011 DP and already subject to the Strategic Environmental Assessment procedure (Italian Legislative Decree 152/2006).

As regards the Strategic Environmental Assessment (SEA) of the Plan, it can be noted that the 2012 DP contains two changes, with respect to the 2011 edition: the environmental characterisation of the new needs (in Section I), and the environmental analyses relating to the actions envisaged in previous Plans (in Section II), with particular reference to concerted actions for which the stage of progress of the activities is presented. In this way we intend to implement integration of environmental considerations into the process and into the planning document, in accordance with the purposes of Directive 2001/42/EC, establishing the SEA procedure. This change is coordinated with the new philosophy of the 2012 Environmental Report which, with

[7] The User Consultation Committee, established by the Italian Prime Ministerial Decree of 11 May 2004, expresses a non-binding opinion on the Development Plan as required by the Competition and the Market Authority Decision No. 14542 of 4 August 2005.

respect to the previous editions, tends to assume the nature of a Plan, typical of the SEA, instead of focusing on assessing the single actions.

The Ten-Year Network Development Plan of the European electricity Grid (TYNDP 2012 edition) was prepared by ENTSO-E with Terna's direct involvement in the context of the Regional Forums: Continental Central South (of which Terna is coordinator and a member) and Continental South East (of which Terna is a member). On 5 July 2012 the TYNDP, 2012 edition, was published on the Entso-E website, complete with the Regional Investment Plan and the document on the adequacy of the European electricity grid, in addition to the "pilot" edition of the European Network Code, in accordance with the provisions of the European Community Regulation in relation to the "Third Energy Package”.

The 2012 DP envisages investments of around 4.1 billion euros (including investments envisaged for the installation of diffused accumulation systems) in the period 2012-2016 and 3.8 billion euros in the five years thereafter. Implementation of the Development Plan will increase the size of the NTG by adding approximately 5,250 km of new lines and 157 new stations with a transformation capacity of around 44,800 MVA.

- *DP SEA procedure*

The process for obtaining approval from the Ministry for Economic Development (MED) requires the acquisition of a reasoned opinion, on completion of the SEA procedure, expressed by the Ministry for the Environment and Protection of the Territory and the Sea together with the Ministry for Cultural Assets and Activities. As regards the 2011 DP, on 6 June 2012 the Ministry for the Environment and Protection of the Territory and the Sea transmitted to the Ministry for Economic Development the relevant reasoned opinion, requesting activation of discussions to assess the results of the said opinion. After these discussions and at the same time as the final decision to approve the Plan, the Ministry for Economic Development will prepare a Summary Declaration, in which it will explain how it has decided to respond to the observations contained in the reasoned opinion.

As far as the 2012 DP is concerned, the relevant SEA procedure was launched on 31 January 2012 with publication of the Preliminary Report, consultations on which were completed on 30 April 2012; and the final stage of preparing the Environmental Report is in progress.

Work carried out in period

The most important work - still in progress - carried out during 2011 involved activities to reduce network congestion, connect new generating plants (especially those using renewable energy resources) and increase the reliability of the NTG with ever greater attention to environmental and safety issues.

Below is a summary of the main work in progress and the main work concluded in 2011:

- new 380 kV "Sorgente-Rizziconi" underwater connection: work sites have been opened and the civil works involved for the stations of Scilla (Calabria) and Sorgente (Sicily) are at an advanced stage; site work has begun and the site is being organised for the station of Villafranca (Sicily). The work relating to the three 380 kV stations specified above is at an advanced stage. For Scilla in particular, electro-mechanical and electrical assembly are at an advanced stage, whilst at the Rizziconi 380 kV electrical substation expansion works are underway. The first of the six underwater cables between Villafranca and Favazzina has been installed for the construction of the 380 kV connection with a double three-phase line. Preliminary works have been completed on the construction of the Favazzina tunnel. Construction of the 380 kV long distance power lines (overhead part), Calabria side, are at an advanced stage;

- 380 kV stations to connect renewable-source plants: from 2009 to 2010, sites were opened in relation to 380 kV stations functional to reducing congestion and the connection of new renewable-source production plants in the areas of Maida, Bisaccia, Deliceto, Troia, Brindisi South, Castellaneta, Tuscania and Rotello. In 2010, work was completed in the stations of Maida and Bisaccia. In 2011, work was completed in the stations of Deliceto and Troia and the second stage of the Brindisi South station was activated;
- 380 kV rationalisation in the province of Lodi: two new 380 kV electrical stations were started up in Chignolo Po and Maleo and the new double three-phase line connection between the stations was constructed;
- Val D'Ossola South - Borgomanero cables: microtunnelling work and installation of cables and accessories for both lines were completed;
- construction work has begun on the new 380 kV double three-phase electricity main joining the 380 kV stations of Trino in the province of Vercelli and Lacchiarella in the province of Milan, measuring more than 100 km in length.

Installation is currently underway of two PST (System Phase Shifter) machines, one in the Foggia Electrical Station and the other in Villanova.

Power generation

Energy demand in Italy

According to provisional data, the demand for electricity during the first half of 2012 amounted to 162,044 GWh, down by -2.1% with respect to the same period in 2011 (see the table below).

With the number of days and the temperature unchanged, a number of factors are to be considered when comparing the results for the first half of 2012 with the corresponding prior year period. The influence of the calendar is due to the presence of an extra working day in the first half of 2012 compared with the days present in 2011, 126 days compared with 125. Instead, the weather conditions observed were substantially identical, except for a difference between the average temperatures in 2012 and 2011 of one tenth of a degree Celsius, over the whole of the period.

Adjusting, therefore for the number of days and the temperature, the change in electricity demand amounted to -2.8%.

ELECTRICITY BALANCE IN ITALY				
	Balance Sheet		Changes	
GWh	Jan-Jun 2012 (*)	Jan-Jun 2011 (*)		%
Net generation	141,465	143,997	-2,532	-1.8%
Imports from foreign suppliers	23,212	23,681	-469	-2.0%
Exports to foreign clients	1,280	929	351	37.8%
Destined for pumping	1,353	1,231	122	9.9%
Total Demand - Italy	162,044	165,518	-3,474	-2.1%

(*) Provisional data at 19/07/2012

Electricity generation

According to provisional data, net domestic production during the first half of 2012 (see table below) was 1.8% lower than in the same period of the previous year. Analysing the various main sources of energy, net of ancillary services, thermal generation showed a -4.5% drop compared with the first half of 2011.

Hydro production was significantly lower in the first half of 2012, compared with the same period in 2011, with a fall of -20.5% net of ancillary services.

Net production from renewable wind, solar and geothermal energy resources rose sharply also in the first half of 2012 compared with 2011, climbing by 66.5% overall.

DOMESTIC POWER GENERATION

DOMESTIC POWER GENERATION				
	Generation		Changes	
GWh	Jan-Jun 2012 (*)	Jan-Jun 2011 (*)		%
Net hydro generation	19,811	24,929	-5,118	*-20.5%*
Net thermal generation	103,085	107,913	-4,828	*-4.5%*
Wind, photovoltaic, geothermal production - net	18,569	11,155	7,414	*66.5%*
Total net generation	**141,465**	**143,997**	-2,532	*-1.8%*

(*) Provisional data at 19/07/2012

Dispatching and trade

Electricity business [8]

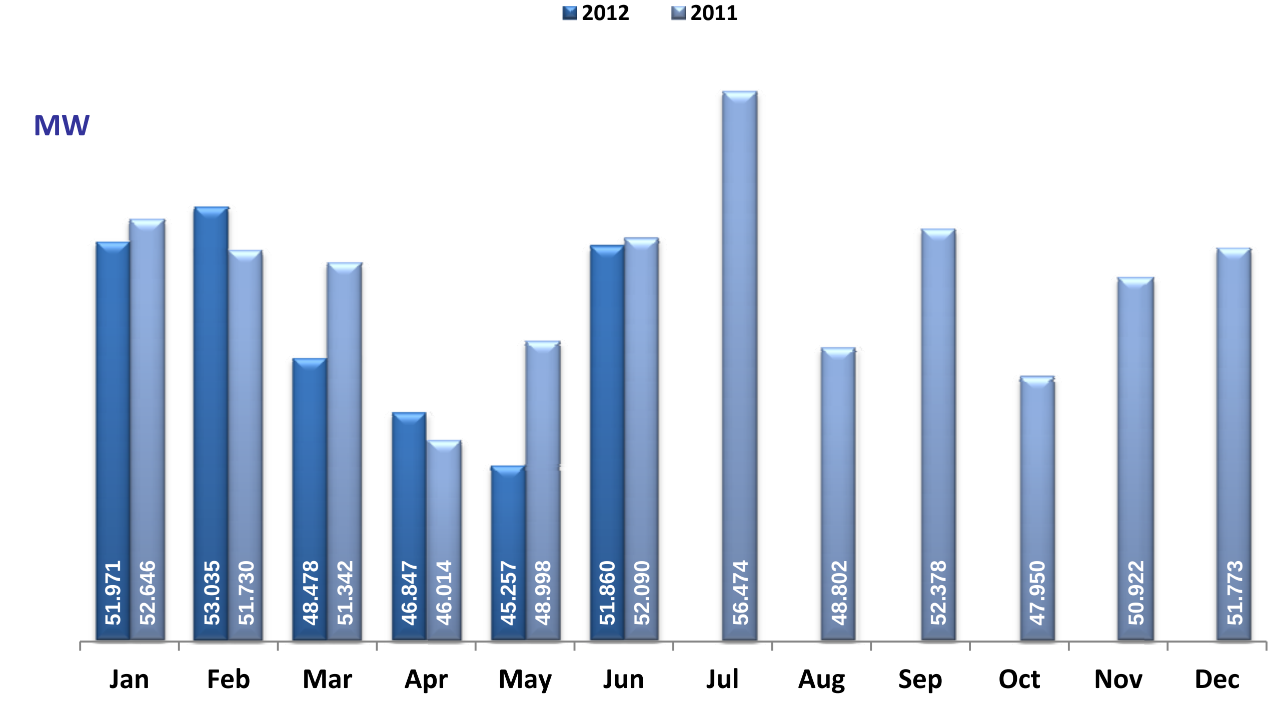
The demand for electricity in Italy in the first half of 2012 was 162,044GWh (-2.1% yoy).

The demand for electricity was met:

- 86.5% from domestic production net of consumption of auxiliary services and pumping;
- 13.5% from foreign trade, the balance between electricity received from foreign suppliers and electricity sold to foreign clients. Foreign trade involved 21,931 GWh (-3.6% yoy).

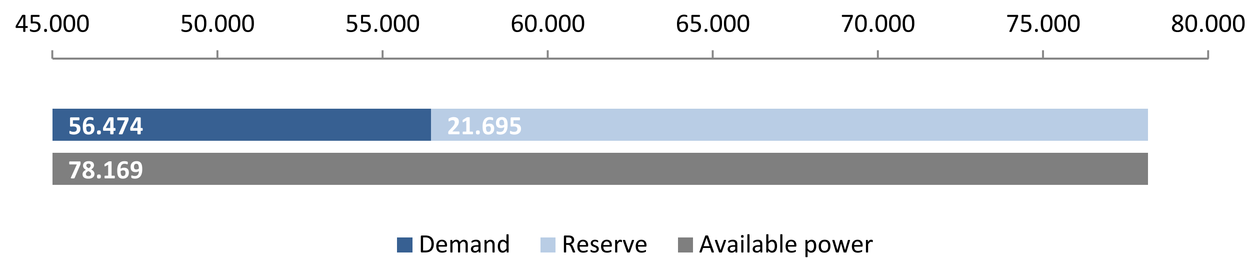
The maximum power requirement in the first half of 2012 was 53,035 MW, recorded on 15 February 2012 at 12 noon, at a time of adverse weather conditions due to snowfalls over most of the country (+0.7% yoy), with a peak in the first half of 2011 of 52,646 MW recorded on 25 January 2011 at 7 p.m..

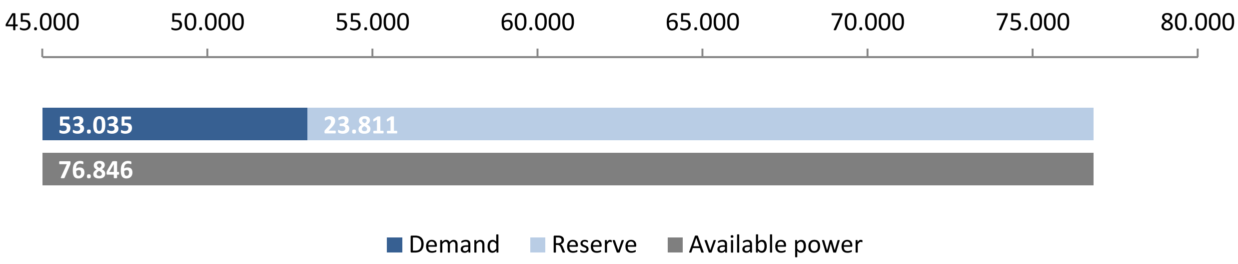
[8] The data presented in the present section are provisional operating data.



Coverage of demand

In 2012 the demand for power was covered with adequate production margins. Adequacy of the system is guaranteed by Terna as part of the process of planning the non-availability of grid elements in coordination with the non-availability of generation and considering production by plants using renewable sources and distributed generation.

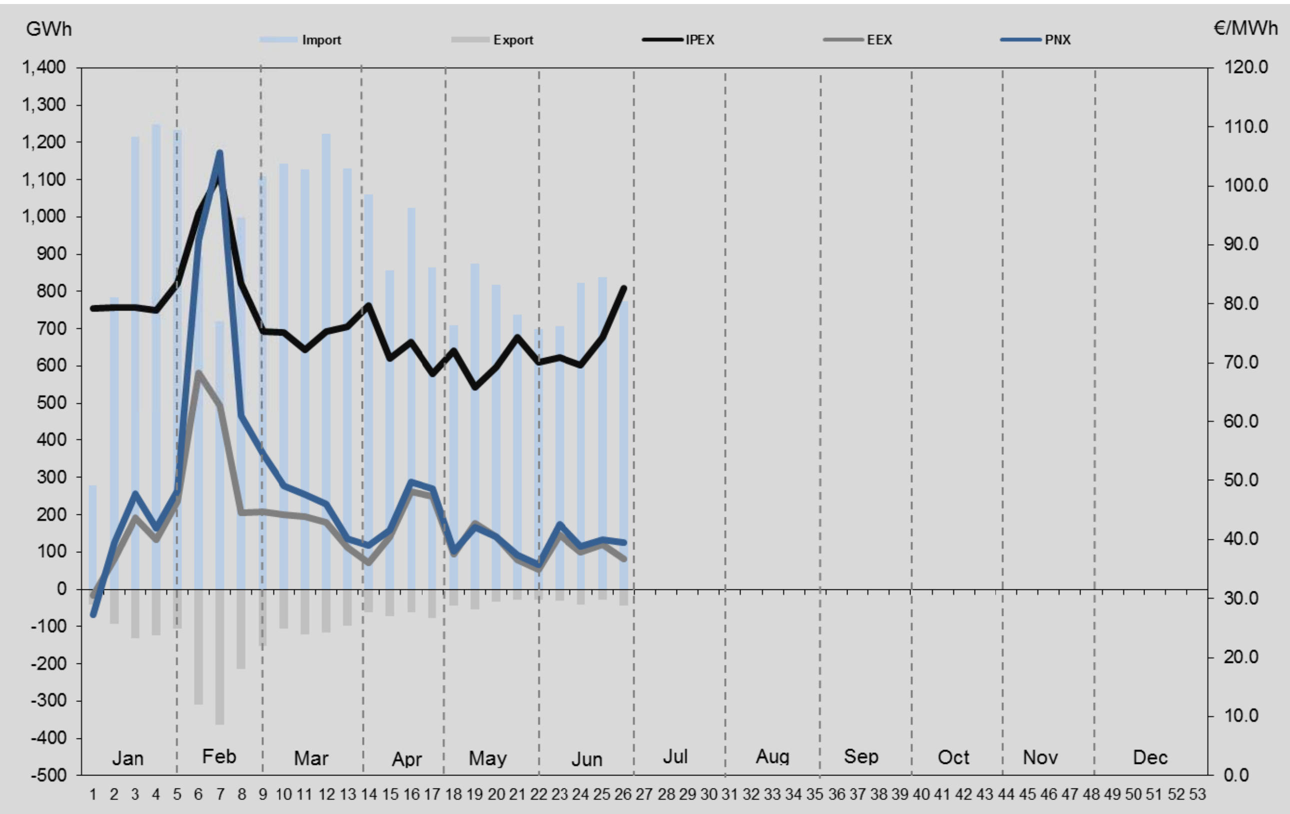




Foreign trade recorded net imports down by approximately 0.8 TWh compared with the first six months of the previous year.

A 107% increase was also recorded in the price spread between the Italian energy market and the cross-border markets with an average price in the first half of the year of:

- 76.8 €/MWh (+14% yoy) on the Italian energy exchange (IPEX);
- 47.4 €/MWh (-7%) for the French exchange (PNX);
- 42.5 €/MWh (-19%) for the German exchange (PNX);

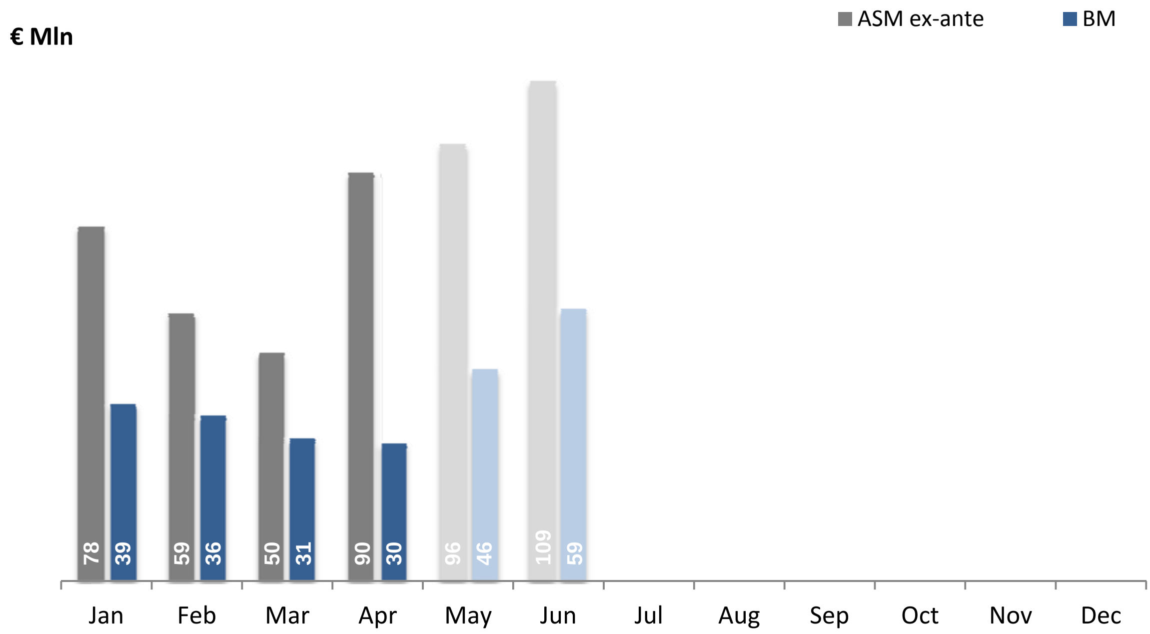


Provisioning of dispatching resources

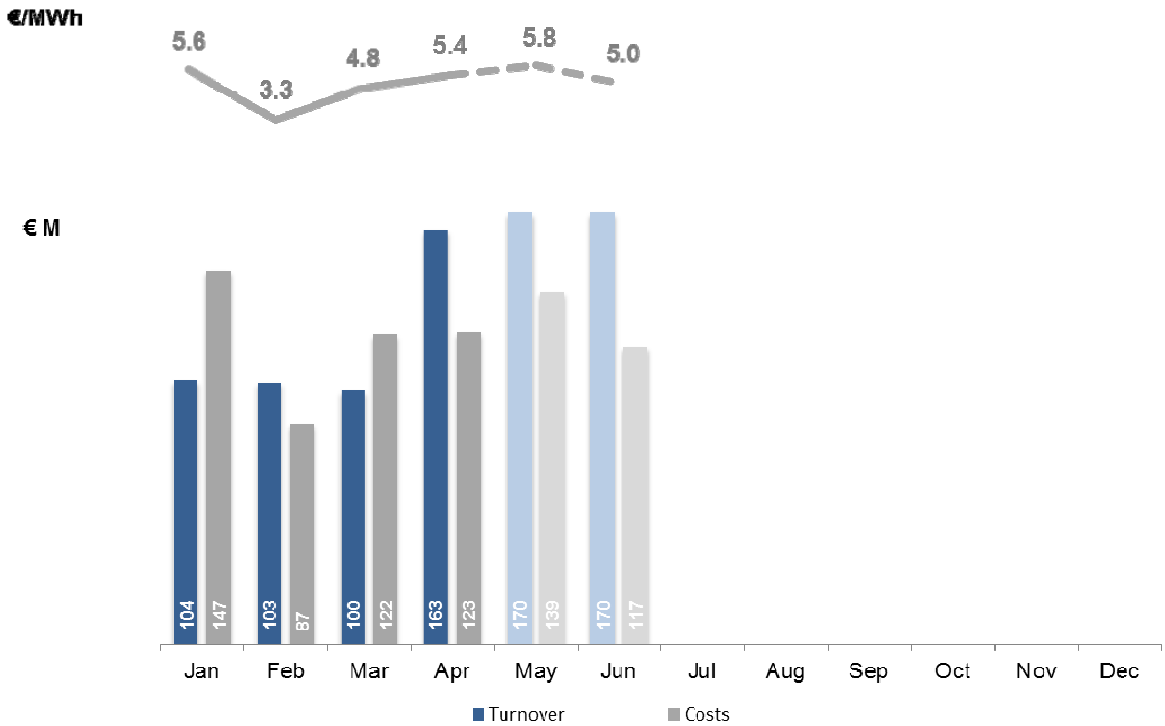
In order to provide electricity market operators with further elements of flexibility, in keeping with the community regulations aimed at creating a single European market, a scheme has been put in place for intraday allocation of the interconnection capacity (the so-called Intraday Cross Border mechanism).
To the day-ahead transport capacity allocation auction have been added further auctions held by the company CASC for the borders with France, Switzerland and Slovenia, the day ahead prior to the opening of the second session of the Intraday Energy Market (known as MI2) and the day of flow prior to the fourth session of the same market (known as MI4). The intraday auctions are held observing the safe management of interconnection criteria defined in advance by Terna and by the TSO partners through determining the interconnection capacity up for auction (known as the Available Transfer Capacity).
The further sessions for negotiating capacity and cross-border energy give market operators the chance to modify their positions in proximity to delivery, with a consequent need for continual checks on the adequacy and safety conditions of the electrical system in holding the sessions of the Dispatching Services Market (DSM) close to real time.

In the first half of 2012 supplies of resources for the dispatching service on the DSM amounted to 5.9 TWh purchased (+41% yoy) and 7.4 TWh sold (-10% yoy), for total net expense of 723 million euro (-27% yoy).
Volumes and expenses were characterised by the following division into stages:

- DSM planning stage (known as ex-ante DSM) 3.2 TWh purchased and 2.1 TWh sold, with associated net expense of 481 million euro;
- Balancing Market (BM) 2.7 TWh purchased and 5.3 TWh sold, with associated net expense of 242 million euro;



Pursuant to AEEG Resolution No. 111/06 and subsequent amendments, Art. 44, the net expense associated with energy items is charged pro-rata to users of the dispatching on withdrawal by applying the Price for procurement of resources on the Dispatching Services Market (known as the Uplift).
The main energy items that combine to determine the Uplift are purchases and sales on the DSM, imbalances, congestion fees and related financial coverage (known as CCT, CCC, DCT), the cost of the virtual interconnection service (known as the Interconnector).
The chart below shows the revenue from invoicing the Uplift ("Turnover") and the final cost of the energy items on the Uplift ("Costs") also in unitary terms. The Uplift is invoiced applying to the withdrawals a unit price set by Terna, therefore between Cost and Turnover a difference is generated which is recovered in the subsequent invoicing quarter. The figures presented below show final data for the months from January to April 2012, and forecast data for the months from May to June 2012. Costs are shown net of any adjustments.



Transmission service quality [9]

The transmission service quality indicator Regulated Energy Not Delivered (REND), pursuant to Resolution ARG/elt No. 197/11, recorded a performance in the first half of 2012 of 765 MWh.
The events that led to user blackouts mainly occurred in February, in adverse weather conditions owing to snowfalls over the entire country, which also meant that the design limits of the grid infrastructure were exceeded.

[9] The data presented in the present section are preliminary final figures.

Terna's service quality and NTG plant performance indicators, pursuant to Resolution No. 250/04 and to the Terna Network Code, recorded performance better than or comparable with the respective targets in the first half of 2012.

- ASA (Average System Availability of network elements) = 99.69%, performance better than the target (99.05%);
- AIT (Average Interruption Time of the system) = 0.15 min for reasons attributable to Terna and 0.07 min for reasons attributable to Telat, (target: 1.00 min/year);
- SAIFI + MAIFI (System Average Interruption Frequency Index and Momentary Average Interruption Frequency Index for Users directly connected to the Terna NTG) = 0.05 interruptions/user for reasons attributable to Terna and 0.04 interruptions/user for reasons attributable to Telat (target: 0.22 interruptions/user);
- END (Energy Not Delivered owing to User blackouts) = 158 MWh for reasons attributable to Terna or to Telat (target: 550 MWh/year).

Interruptibility service

Implementing Resolution ARG/elt No. 187/10 (subsequently amended by Resolution ARG/elt 212/10) and the "Regulations for Management of Allocation of the Interruptibility Service" prepared with reference to the three-year period 2011-2013, Terna allocates the interruptibility service by means of tenders:

- on a quarterly basis, for the instantaneous and emergency interruptibility service and for any non-allocated power. The interruptibility service allocated runs from the first day of the month after that of allocation, up to 31 December 2013;
- on a monthly basis, for the instantaneous and emergency interruptibility service and for any available power on a monthly basis, following the release of power by assignees or following the termination of contracts. The duration of the allocation is one month. Allocations are made the month prior to the starting date of the allocation.

As of June 2012, Terna has contracts for:

- 3,698 MW of power for the instantaneous interruptibility service (of which 50 MW allocated on a monthly basis) with an annual price amounting to 150,000 euro per MW;
- 21 MW of power for the emergency interruptibility service with an annual price amounting to 100,000 euro per MW;

	Interruptible customers at 01.01.2012	Interruptible customers at 30.06.2012	Contractualised power at 01.01.2012 (MW)	Contractualised power at 30.06.2012 (MW)
Instantaneous	161	171	3,617	3,698
Emergency	5	4	19	21
Total	**166**	**175**	**3,636**	**3,719**

Instant reduction service in withdrawals on the main islands

In application of Resolution ARG/elt No. 15/10 (subsequently amended by Resolution ARG/elt No. 75/10) and the "Regulations for Management of Allocation of the Instantaneous Withdrawal Reduction Service on the Main Islands" prepared for the three-year period 2010-2012, Terna allocates, on a quarterly basis, the interruptibility service in Sardinia and in Sicily for power of up to 500 MW for each island. The service allocated runs from the first day of the month after that of allocation, up to 31 December 2012.

In the first half of 2012, Terna allocated:

- 5 MW in Sardinia and 44 MW in Sicily.

The table below shows the movement in the contractualised power during the first half of 2012 for the instantaneous withdrawal reduction service.

	Customers of the instantaneous withdrawal reduction service at 01.01.2012	Customers of the instantaneous withdrawal reduction service at 30.06.2012	Contractualised power at 01.01.2012 (MW)	Contractualised power at 30.06.2012 (MW)
Sardinia	9	9	473	478
Sicily	10	14	77	121
Total	**16 (*)**	**20 (*)**	**550**	**599**

(*) Three customers have contracts with reference to both the main islands.

Terna and new businesses

In order to use and safeguard its resources as far as possible and maximise the profitability of its assets, towards the end of 2011, Terna started a reorganisation of its operating assets with the aim of grouping non-core businesses into a single entity with a view to taking advantage of development opportunities in the best possible way.
With this goal in mind, Terna incorporated the company Terna Plus, endowing it with a corporate organisation which meets the needs of functional and accounting separation from the Parent Company and ensures compatibility with the Articles of Association and with Terna S.p.A.'s concession, and complies with the provisions of Italian Legislative Decree 79/99 (the so-called “Bersani Decree”).
The development of non-core business will pursue the objective of enhancing further the assets held and Terna's distinctive skills in the construction and management of infrastructures, in particular at High Voltage, in Italy and abroad.
Among products in the portfolio the main advances in relation to projects linked to the introduction of accumulation systems into the NES are described below.

Accumulation systems

Italian Legislative Decree no. 28 of 3 March 2011, (Implementation of Directive 2009/28/EC on the promotion of the use of energy from renewable sources, amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC) in Article 17, paragraph 3, states that the actions envisaged by Terna in the NTG Development Plan can include electricity accumulation systems aimed at “facilitating the dispatching of non-programmable plants”, as these are actions considered necessary to ensure input and full withdrawal of energy produced by renewable source plants.

The accumulation plants will be located along the 150 kV grid portions in which, owing to network congestion, production by renewable sources is reduced significantly (in the South and Sicily).

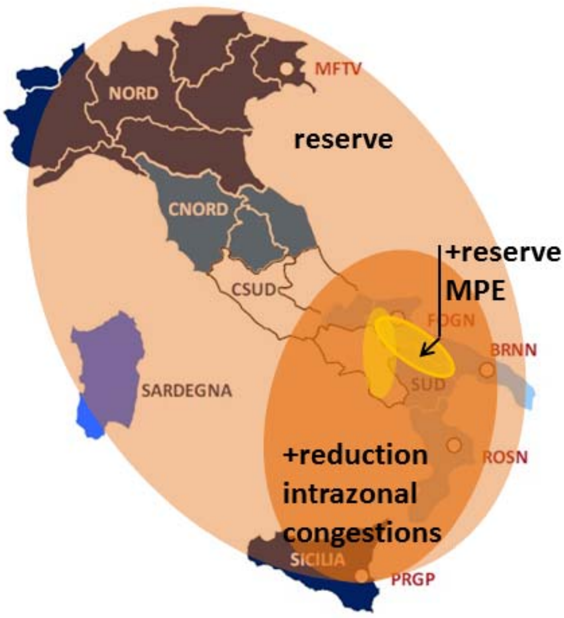


Figure 1 – Areas benefiting from installation of diffused accumulation systems

Considering together with wind generation also photovoltaic generation which occurs along the same portions of 150 kV grid, the optimal size of the accumulation systems has been found to be a total of 240 MW in the areas of the South and Sicily.

This figure helps to reduce congestions on the HV grid connected with generation by non-programmable renewable sources (NPRS), anticipating the effect of the development work expected in the medium/long-term, representing the best compromise for the system in terms of both marginal benefits and safety margins, re-establishing the safety standards that such rapid development of NPRSs has put in jeopardy.
The work plan to achieve this investment provides for the start of authorisation procedures by the end of the year so as to be able to guarantee commissioning of the first 65 MW of accumulation systems by the end of 2014.

Storage Lab

In May 2012, on the basis of Resolution 199/11, Terna Plus presented to the AEEG the proposal for the Storage Lab project aimed at identifying the possible technical solutions capable of optimising integration of NPRSs into the Italian electricity grid.
While awaiting approval of the project by the Authority a first review was carried out of the main electrochemical accumulation system solutions, followed by a series of preliminary meetings with the leading suppliers so as to enable an initial data schedule to be compiled (i.e. dimensions, materials, chemistry, auxiliary services, etc.) useful for the purposes of selecting and possibly fitting out sites.
Suitable sites were identified for the creation of the accumulation systems involved in the initial stage of the project.
The first two tender competitions were published for Lithium-based and ZEBRA technologies. The first call for tenders envisages a minimum of 5 accumulation systems with total installed capacity of a maximum 10 MW, the second call instead envisages a minimum of 2 systems with total capacity of a minimum 1 MW.
Meetings were held, finally, with several Research Bodies and Institutes to involve in technical/scientific working parties to assess the potential application of the various systems being analysed.

Risks, organisation and corporate social responsibility

Risks and uncertainties to which Terna and the Group are exposed

Terna has always paid careful attention to the prevention of risks of all kinds that could affect or limit the company's results. This paragraph aims to provide a clearer, more complete representation of these risks which are summarised along with the uncertainties to which the company is exposed, as indeed known to the market and shareholders, considering their presentation in the financial statements and financial prospectuses published in the past.

Regulatory risk

About 97% of the Group's consolidated revenue comes from annual fees paid for the provision of services regulated by the Italian Energy Authority. With Resolutions 199/11, 204/11 and 197/11 for the regulatory period 2012-2015, the Authority for Electricity and Gas (AEEG) has established remuneration for the supply of electricity transmission, distribution and metering services, prices for dispatching and the regulation of the transmission service quality for the fourth regulatory period (2012-2015), in addition to the ways in which they are to be updated in subsequent years.
Within the scope of such regulations, there are a number of variables that could have an impact on the Group's performance.

- *Volume effect*

The revenues of Terna and Terna Rete Italia S.r.l. attributable to the management, operation and development of the National Transmission Grid, and to the management of dispatching activities, are regulated by tariffs set by the AEEG. The unit tariffs are applied to the overall volume of energy transmitted using the NTG. These volumes depend on factors that are beyond the control of the Group.
For 2012, the volume mitigation mechanism was confirmed; according to this mechanism no impact is expected from the trend in electricity demand on the Company's revenue within a tolerance of +/-0.5%."

- *Bonuses and penalties*

The three-year incentive mechanism associated with the reduction in quantities procured for services on the Dispatching Services Market was amply commented on in the 2010 Financial Report, to which you are referred.
Resolution No. 197/11 on service quality regulation substantially confirmed the framework of the previous regulatory period, providing for a mechanism of bonuses/penalties which takes into consideration only the Energy Not Delivered indicator. The maximum potential impact for the Terna Group deriving from this incentive mechanism lies within a range of -12/+30 million euro per year.
Resolution 199/11, finally, makes eligibility for investments under category I3, for which an extra remuneration of 2% is envisaged for 12 years, conditional on Terna accepting the incentive system to accelerate development of investments and the related bonus/penalty mechanism. The risk for Terna deriving from said acceptance is linked to the potential penalties deriving from delays in the date of entry into operation of I3 investments with respect to the planned date.

Domestic legislative risk

- *Laws on environmental protection*

The activities of the Group are affected by Italian and European environmental legislation also governing electromagnetic fields. As regards creation of the Italy-Montenegro interconnection on Montenegrin territory, the activities are also affected by the local legislation on environmental matters.
The Group may incur additional costs to implement environmental regulations requiring preventive measures to be taken or reparations to be made on the basis of the definition of the regulations established by current legislation.

- *Employment laws*

More onerous regulations governing health and safety in the workplace might have an adverse effect on the economic/financial performance of the Group. While revision of the Directive on workers' exposure to electromagnetic fields (2004/40/EC) has begun as planned, the term of 30 April 2012 initially envisaged for the said Directive to come into force has been postponed to 31 October 2013 by Directive 11/2012, published in the Official Journal of the European Union of 24 April 2012.

- *Measures on energy*

Single Market: as of today the implementing decrees provided for by Art. 36 of Italian Legislative Decree No. 93/11 have still not been issued. These concern the methods for performing competitive procedures for awarding pumping contracts and criteria for certifying the transmission system manager if an entity of an non-European Union country were to acquire control over Terna S.p.A..

Special Powers of the State: Italian Law Decree 21/2012 provided for the introduction of rules for special powers of the State in relation to strategic assets in significant sectors, such as the energy industry. These assets will be identified with regulations adopted by the Government, expected in September 2012.

Operational risks: risks connected with NTG malfunction

The Terna Group's operations are exposed to the risk of unexpected service interruptions caused by external events that are beyond Terna's control, such as accidents, defects or breakdowns involving control systems or other equipment, deteriorating plant performance, natural disasters, terrorist attacks and other extraordinary events of this kind. Repairs to the sections of the NTG owned by the Group and any claims for compensation by third parties as a result of such events could, in principle, give rise to expenses if the Group is found responsible. Specific insurance cover has been arranged to mitigate the effect of operational risks.

Litigation risk: legal disputes

The Terna Group is involved, as both plaintiff and defendant, in a number of legal proceedings involving contracts, employees, the environment, regulatory matters, and public safety issues arising from normal business operations.

In addition, the Group may be involved in new litigation and/or out-of-court disputes raised by interested/entitled parties of various kinds (by way of example and not exhaustively: suppliers, public bodies etc.).

On this matter please see paragraph E. "Commitments and risks" of the Notes to the Financial Statements of Terna S.p.A. and of the Terna Group.

Market and financial risks

In the conduct of its operations, the Group is exposed to various financial risks: market risk (interest-rate risk and inflation risk), liquidity risk and credit risk.

In accordance with the policies approved by the Board of Directors, the Terna Group has defined responsibilities and operational procedures for the management of financial risk, making specific reference to the tools considered acceptable and setting clear operating limits for their use.

Terna's risk management policies seek to identify and analyse the risks the Company is exposed to, establishing appropriate limits and controls and monitoring risks and compliance with such limits. These policies and related systems are reviewed on a regular basis in order to reflect any changes in market conditions and the Group' business.

This matter is discussed in more depth in paragraph E. "Commitments and risks" of the Notes to the Financial Statements of Terna S.p.A. and of the Terna Group.

Risks connected with financing needs

Even in current market conditions, the Group expects to maintain sufficient capacity to generate financial resources from its operating activities. Implementation of the future investment plan is however expected to result in greater borrowing as a result of using the cash currently available. Although the Group continues to enjoy the support of its banking partners in financing its debt, it may become necessary in the medium term to arrange additional loans that, under less favourable market conditions, could result in an increase in financial expense.

With a view to the second half of the year, we can note however that the debt is expected to be substantially in line with that of the first half of 2012.

Risk on non-core business

A significant part of non-core business is connected with opportunities offered on the market of the design, construction and management of high voltage plants functional to connecting production from renewable sources. Possible changes to the legislative or regulatory framework of reference may, however, make investment in this sector less attractive and, consequently, lead to a drop in market opportunities for Terna's non-core business.

Business security

Terna has always tackled the vulnerabilities of the electrical system and critical infrastructure by applying the latest solutions and a high level of technical and organisational skill, which are reflected in the internal processes and systems, as well as in the procedures and instructions applicable to all operators participating in Italy's national electrical system.

In particular, security efforts are designed to protect the Company's physical and logical infrastructure, in part through efforts aimed at preventing and dealing with corporate fraud. For the real-time monitoring and management of critical issues affecting key infrastructure, Terna has created a Security Operations Centre (SOC) capable of tackling and managing escalation risks.

In this regard, a recent agreement signed with the Ministry of the Interior seeks:

- to increase the level of physical security at electrical stations, using innovative, targeted IT solutions that maintain constant contact with law enforcement authorities throughout the country. To achieve this, the Ministry of the Interior and Terna have developed a system for protecting the Company's critical sites that ensures 24h monitoring through the territorially-competent local units of the Carabinieri, the State Police and the Postal Police. As of today 115 sites are monitored and the company's objective is to extend this perimeter to take in the remaining plants.
- to prevent and counter IT attacks and damage to Terna's information and communications systems and networks.

In addition, in order to prevent the danger of criminal infiltration of the management of strategic sectors, such as the electricity market and the sources of renewable energy, an Understanding has been signed between Terna and the Guardia di Finanza (Tax Police), which will monitor companies participating in tenders and the award of contracts for the country's electrical infrastructure. Synergy between the institutions ensures that the contracting process is conducted within a legal framework in a harmonious and fair manner, thus representing an intrinsic deterrent to participation by criminal elements in the procedures arranged by Terna for the provision of services, works and supplies.

Corporate social responsibility

A sustainable approach to the business attentive to stakeholders' needs is a characteristic feature of Terna. Corporate social responsibility is overseen by a specific corporate unit which enhances and increases the stock of management best practices achieved overtime and helps to define the Company's strategic guidelines and targets on the ethical, environmental and social levels.

Terna recognises four areas of responsibility: besides the three traditional areas of corporate social responsibility (economic, environmental and social), it identifies as specific to its business also responsibility for the electricity service. The results achieved and the targets for the next year are illustrated in the Sustainability Report.

The main developments in the first half of 2012 involving previously-identified sustainability issues included:

- annual renewal of certification of the Integrated System for Management of Quality (ISO 9001), the environment (ISO 14001) and workplace safety (OHSAS 18001);
- creation of the first prototype in 1:10 scale of the Dutton – Rosental support, the project which won the Terna "Pylons of the Future" Competition with lower visual impact on the surrounding environment. This action precedes the performance of tests on life-size supports and the subsequent commissioning;
- signing of a Memorandum of Understanding with 18 Consumer Associations to discuss proposals and actions on subjects of mutual interest, for the benefit of users of the electricity service. The agreement also provides for the establishment of a Permanent Consultation Committee between Terna and the Associations to assess the implications and benefits deriving from activities of the National Power Transmission Grid (NTG) Development Plan for users of the electricity service;
- establishment at Terna's headquarters of Med-TSO, the association of Transmission System Operators of the Mediterranean to facilitate joint action with a view to integrating and developing the electricity system of the Mediterranean. This initiative strengthens Terna's commitment in the Mediterranean area which involves the Company's presence in, among other things, also the Desertec and Medgrid initiatives;
- participation in the Pilot Programme of the IIRC – International Integrated Reporting Council, the international organisation involved in researching and testing a framework for integrating financial, environmental, social and governance information. The 2011 Annual Financial Report adopted some of the first indications of the IIRC, which were further developed in the navigable versions of the same Financial Report and of the Sustainability Report published on the Terna website;
- inauguration of the new headquarters of "Campus", the corporate structure devoted entirely to training for development of the soft and technical-professional skills of Terna's human resources.

The results achieved last year and the 2012 performance objectives are discussed in the 2011 Sustainability Report approved by the Board of Directors on 15 May 2012, which is available on the Terna website.

This Report, prepared in accordance with the "Sustainability Reporting Guidelines & Electric Utilities Sector Supplement (EUSS)", achieved an A+ rating for the third consecutive year, recognising the maximum level of application of the GRI - Reporting Guidelines. The report was subjected to specific auditing procedures by the external company PricewaterhouseCoopers.

Information Technology

In the first half of 2012 the development and implementation of important planning initiatives confirmed the strategic significance of Information and Communication Technology (ICT) in value creation for the company.

In particular the initiatives were aimed at achieving significant objectives, namely:

- reinforcement of the ICT infrastructure overseeing the NTG extending the perimeter of the control and defence systems;
- ability to follow legislative developments as regards both settlement of economic items and the monitoring and strengthening of crucial assets for the National Electrical System (i.e. GAUDÌ);
- expansion of countermeasures aimed at guaranteeing the security of the company's data and main systems;
- achievement of benefits in terms of efficiency and effectiveness in the management of operating activities.

Managerial information technology and services to people

In the first six months of 2012 following Terna's recent organisational restructuring important updates were introduced to the applications and infrastructures of the SAP, Hyperion and Primavera systems needed for the launch of the businesses of the new companies Terna Rete Italia and Terna Plus.

The complex review of the applications and the delicacy of the business processes involved determined the definition of different workgroups focused on the purchase cycle and sale cycle processes, on redefining application users, and on rechecking the invoicing involved.

A new SAP system dedicated to Terna Gora was also prepared; in particular the new underlying technological infrastructures were prepared together with the related application customisations for the specific tax regulations in Montenegro.

Two new institutional websites relating to Terna Rete Italia and Terna Plus were developed and became operational at the beginning of April.

In the corporate Intranet 2 new portals were created: one devoted to HR activities and the other devoted to the typical activities of the ICT Security and Services Department.

ISO270001 certification was again obtained for the TIMM project in the complete Internal Client chain (AR), Electrical Market Risk (SA-RME), Power Exchange legacy systems development (DSC-TSP) and SAP systems development (SA-ISP).

In the TLC infrastructures area all the part relating to the new Campus headquarters in Marcigliana was brought into operation, IT systems in support of the multimedia rooms were activated, and the conference hall was set up with projection and video-conference equipment.

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 half of 2012 the Terna Group incurred costs of 5.8 million euros in respect of the associate CESI of which 5.7 million euros were capitalised.

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

Studies for innovation and the development of new engineering solutions take place along four main research lines.

Purpose	Projects and stage of progress 2012
OPTIMISATION OF STRUCTURES AND MATERIALS	
Design of supports with less visual impact and/or improved environmental integration	**High-performance single-stem tubular supports** 380 kV tubular support for entry into Stations designed. **International "Pylons of the Future" contest** The prototype of the award-winning Dutton-Rosental support is being constructed, with the aim of carrying out load tests on the 1:1 scale model.
Upgrading of transmission capacity of existing lines	**Innovative high-performance conductors** Qualification tests are currently in progress for the installation of ACSS-type High Temperature Conductors, characterised by a steel carrier with very high mechanical resistance and annealed aluminium cladding.
New technology for high voltage cables	**P-Laser** The new cable developed by Prysmian for High Voltage (a technology already consolidated on Medium Voltage), is produced with completely recyclable raw materials. It will enable a reduction in the environmental impact of grids and, at the same time, a rise in their energy transport capacity. The launch stage involves work on testing the prototype in the laboratory and installing a pilot on a plant under construction.
EQUIPMENT DIAGNOSTICS	
Advance signalling of anomalies	**New sensors on equipment and machinery** In the Lacchiarella station, installation has been completed on the 380 kV section of new types of sensors positioned on board equipment and machinery. Installation is currently underway of another type on the 132 kV section. These will be observed with a view to potential widespread installation.
Analysis and monitoring of line components	**Insulator test laboratory** A project is planned for development of an Experimental Station for the study and monitoring of surface contamination of insulators. At present, the feasibility study has been concluded, which has enabled the most appropriate sites to be identified and outline planning is in progress for the work on the related authorisations.
Temperature monitoring on high voltage cables	**DTS (*Distributed Temperature Sensing*)** On a number of cable connections, in order to monitor the operating temperature of the cables in place and make the most of the transport capacities, Distributed Temperature Sensing (DTS) systems have been installed. Data is being gathered and examined with the aim of defining a specific technique for the acquisition of this technology and the installation criteria.
Monitoring of partial discharges on High Voltage cable systems	**PDM (Partial Discharge Monitoring)** On a number of cable connections systems have been installed to monitor partial discharge at joints and terminals. Examination of the data collected and of the technologies available on the market, and in a period of rapid evolution, is aimed at finalising a specific technique for the acquisition of such systems and at defining the installation criteria.

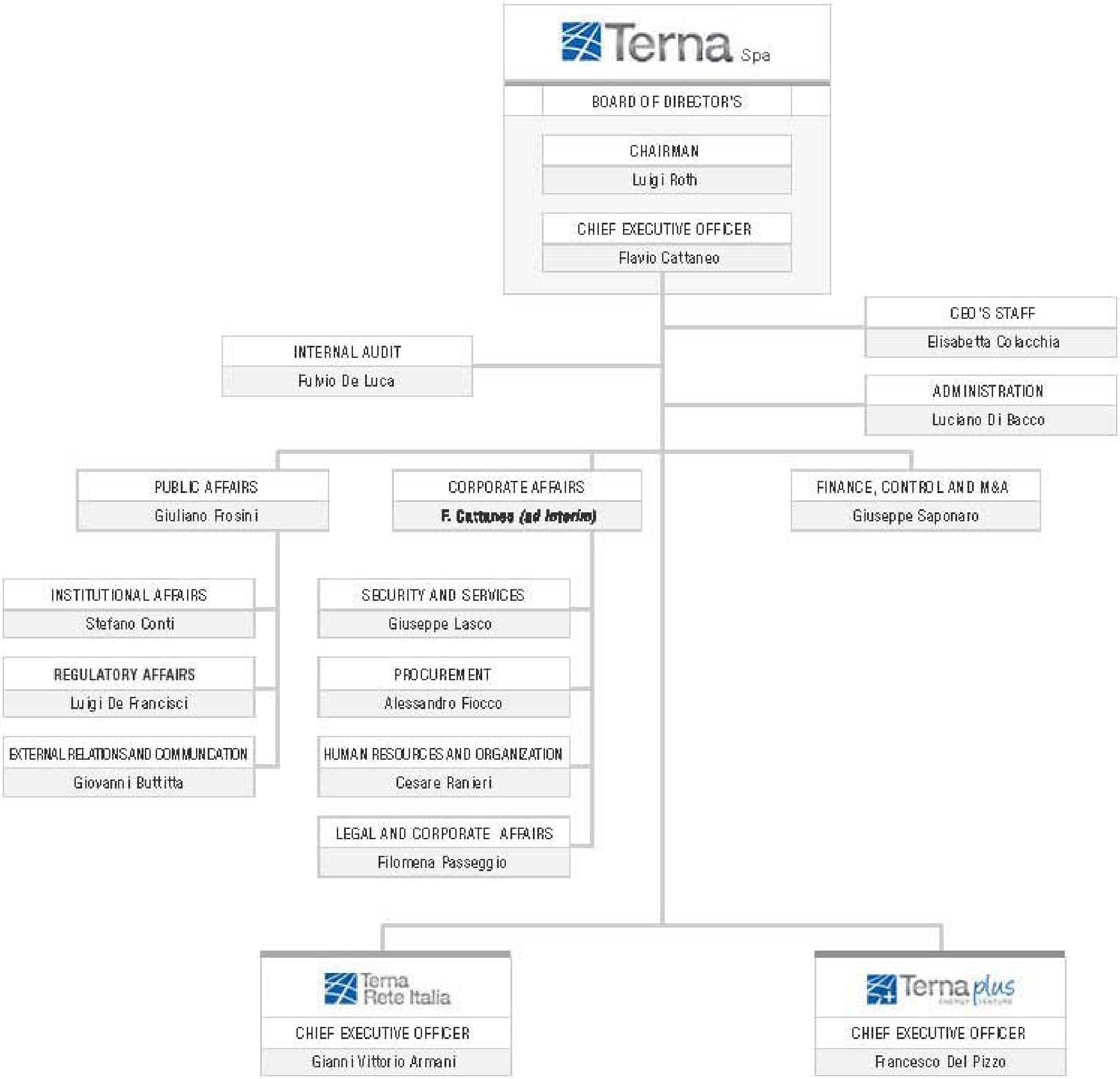
NEW EQUIPMENT	
Compact stations with rapid installation	**SCRI** Given the advantages of this solution, tested with the SCRI 150 kV, the 380 kV mobile station has also been designed. The feasibility of production has been verified with the manufacturers and a number of companies are currently carrying out tests in this regard.
PLANT SAFETY	
Transformer safety	**New power transformer project** Owing to serious faults on power transformers, a series of improvements have been introduced to increase their safety: short circuit tests need to be repeated, on all types. During the first half of the year the first machine with these characteristics was commissioned.
SicurTrafo Project	**Project for a system of containment barriers to protect ATRs** Development is being completed of the final project for a system of barriers used to contain power transformers (ATRs), on all 4 sides of the machine. The project provides for 3 fixed barriers and one mobile barrier, at the front, to enable the machine to be moved. The project has uniform features so that it can be used all over the country. The functional purpose of the barrier will be to screen both flames and impact by flying fragments if the transformer explodes, increasing safety in the plant.
Reduction of seismic vulnerability	**Application of earthquake-resistant devices to the most vulnerable equipment** A study on the seismic vulnerability of the plants is being defined with particular attention to the equipment most at risk. The purpose of the study is to define earthquake-resistant devices to be inserted between the foundations and the support of equipment in order to improve response to earthquakes. The testing will end with a pilot application and preparation of a guideline for future installations.

Human Resources and Organisation

Organisational structure

As amply commented on in the initial paragraph “Terna's Business Model”, to which you are referred, during the first half of 2012 the new organisation of the Terna Group was defined.

The figure below shows the Group's new macro-structure.



(source: website www.terna.it)

In defining the organisational framework of Terna Rete Italia S.p.A. the activities and related structures of the existing ‘Plant Maintenance’, ‘Grid Development and Engineering’ and ‘Dispatching and Operations’ Departments were all confirmed *(for this last with the exception of the activities relating to Settlement, Contracts and Defence Plan, responsibility for which was assigned to Terna S.p.A.).*

Human resources

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

Change in the workforce	at 30.06.2012	at 31.12.2011	Changes
Executives	61	60	1
Junior management	501	490	11
Office staff	1,958	1,968	-10
Production workers	976	977	-1
Total	**3,496**	**3,495**	**1**

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

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

The breakdown by company of the number of employees at 30.6.2012 is presented below:

At 30.6.2012	*Terna S.p.A.*	*Terna Rete Italia S.p.A.*	*Terna Plus S.r.l.*	*Terna Crna Gora d.o.o.*	*Group Total*
Executives	31	29	1		**61**
Junior management	139	357	5		**501**
Office staff	204	1,746	5	3*	**1,958**
Production workers	-	976	-		**976**
TOTAL	**374**	**3,108**	**11**	**3***	**3,496**

* *Employees with local contract (Montenegro).*

Industrial relations

The industrial relations activity was characterised, in the first half of 2012, by discussions with the national trade union Secretariats on the subject of the new corporate framework of the Terna Group which ended - after the procedure provided for in Art. 47 of Italian Law No. 428/90 as regards rental of the business unit by Terna S.p.A. to Terna Rete Italia S.p.A. – with the signing of a written agreement.

Other information

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 half of 2012 consisted of intra-group transactions, transactions with employee pension funds (Fondenel and Fopen), and transactions with companies belonging to:

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

and with ANAS S.p.A.

Related party transactions carried out in the first half of 2012 consisted substantially of services under the scope of ordinary business and settled at market terms, as is described in greater detail in the Consolidated and Separate Statements at 31 December 2011. In addition, transactions with members of the Board of Statutory Auditors of the Parent Company, and in particular their fees, are detailed in the comments on the "Services" item in the Notes to the Condensed Consolidated Financial Statements at 30 June 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 produced, detailed in the specific Report published together with the 2011 Annual Report, to which you are referred, lay down the conditions for ensuring that related party transactions be carried out observing the criteria of procedural and substantial correctness and at the same terms that would apply to independent counterparties and rules on the transparency of disclosures to the market.

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

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

Significant non-recurring events and transactions, and atypical or unusual transactions

No significant, non-recurring, atypical or unusual transactions were carried out during the first half of 2012, either with third parties or with related parties.

Other information

Treasury shares

The Parent Company does not hold any treasury shares or shares in Cassa Depositi e Prestiti S.p.A., nor did it acquire or sell any during the period, either directly or indirectly.

Appendix

Italy's Regulatory Framework

Regulatory framework

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

Italian Law No. 10 of 17 February 2012, "Urgent provisions on the settlement of crises of over-indebtedness and rules on civil proceedings", published in the Italian Official Journal No. 42 of 20 February 2012.

With a change to Article 14 of Italian Law No 183 of 12 November 2011, amending Article 2477 of the Italian Civil Code on the subject of statutory and independent auditors, this Law introduced a transitory measure stating that, for limited liability companies, "*boards of statutory auditors appointed by 31 December 2011 shall remain in office until the natural expiry of the mandate resolved by the shareholders' meeting that appointed them*".

Italian Law No. 14 of 24 February 2012, "Extension of the terms envisaged by legislative measures", published in the Italian Official Journal of 27 February 2012.

The law contains rules on taxation. It is specified that the single rate of 20% introduced by Italian Law Decree 138/11 applies (Art. 29):

- from 1 January 2012 with reference to interest and other income "deriving from current and deposit accounts held at banks or post offices, even if represented by certificates, accruing from that date" and not, therefore, to interest and income which accrued previously and is paid out from 2012;
- from the day after the maturity date of repurchase agreements signed prior to 1 January 2012 with a duration of no more than 12 months in relation to capital income, namely income deriving from contangoes and repurchase agreements on securities and currencies and interest and other income from bonds and similar securities pursuant to Italian Legislative Decree 239/1996 ("interest, premiums and other income from bonds and similar securities, public and private").

The starting date of the obligation, introduced by the 2008 Budget Law, for tax substitutes to electronically communicate the salary data and information necessary to calculate tax withholdings and contributions each month, most recently established as January 2012, is postponed to January 2014, after experimentation, from 2013, with methods established jointly by the Tax Authority and the National Social Security Institute.

Finally, the starting date for operation of SISTRI is postponed from 9 February 2012 to 30 June 2012. With the Conversion Law the date by which the Ministry of Employment, in agreement with the Ministry of the Economy, must define with a decree the implementation methods and the maximum numerical limits of persons granted access to a pension according to the rules in force before the reform of 2011 (Italian Legislative Decree 201/11) was postponed from 28 March to 30 June 2012. Again on the subject of pensions, the scope of application of the requirements in force before Italian Law Decree 201/11 was extended to other categories of workers, including workers whose employment terminated before 31 December 2011, "in application of collective redundancy incentive agreements signed by the unions comparatively most representative at the national level" and "workers who as of 31 October 2011 are on leave to assist children with serious disabilities… who acquire, within twenty-four months from the starting date of the said leave, the contributive requirement for the right to a pension independently of their age".

Italian Law Decree No. 1 of 24-1-2012 containing Urgent measures for competition, development of infrastructures and competitiveness, published in Italian Official Journal No. 19 of 24 January 2012, converted with Italian Law No. 27 of 24 March 2012, published in Italian Official Journal No. 53 of 24 March 2012.

This states that, "*In order to facilitate and accelerate creation of the network infrastructures of national interest, at the reasoned request of the concession holders the Authority for Electricity and Gas shall appraise the application received for identification of the single regulated assets, defining the related remuneration within 90 days from receiving the said request*".

For the gas industry, a Prime Ministerial decree, to be adopted by 31 May 2012 was to define the "*criteria, terms and methods with which SNAM S.p.A. is to comply in adopting, within 18 months from the date of entry into force of the conversion law, the ownership separation model pursuant to Art. 19 of Italian Legislative Decree No. 93/11*". With the same decree "*full independence of SNAM S.p.A. is ensured in relation to the largest gas production and sale company, and to the vertically integrated natural gas and electricity production and supply companies*".

The law establishes that without prejudice to the annual nature of the National Transmission Grid Development Plan and of the assessment, public consultation and approval procedures, the plan shall be subjected once a year to verification of whether it is subject to the SEA procedure and, in any case, once every three years, to the SEA procedure. The Law also contains measures relating to the systems for protection and defence of the grids and security devices that must be installed in production plants. Finally, it is stated that, by 23 May 2012, the Ministry for Economic Development, "*after consulting with the Authority for Electricity and Gas, shall issue guidelines and modify insofar as it is competent the rules for implementation*" of the reform of the electricity market regulations provided for in Italian Law Decree No. 185/08 for the purpose of "*containing costs and guaranteeing the security and quality of electricity supplies, also through recourse to flexibility services, in compliance with market criteria and principles*". The Conversion Law introduced a new rule on bond or debt security issues on the part of operators of the national electricity and gas transport networks, which states that "*Holders of authorisations for the construction of infrastructures which are part of the National Electricity Transmission Grid Development Plan*" and owners of gas transport and storage infrastructures and regasification terminals may "*issue bonds and debt securities, also by way of exception to the limits pursuant to Articles 2412* [bond issue limits] *and 2483* [on debt securities] *of the Civil Code*". In particular, Article 2412 of the Italian Civil Code states that "*The company may issue bearer or nominative bonds for a total amount not exceeding twice its share capital, legal reserve and available reserves resulting from the last approved financial statements*".

Decree of the Ministry for Employment and Social Policy of 20 January 2012 "Deferment of entry into force of the Decree of 11 April 2011, containing: "Regulation of the method by which regular checks are performed pursuant to Annex VII to Italian Legislative Decree no. 81 of 9 April 2008 and criteria for qualifying subjects pursuant to Art. 71, paragraph 13 of the same Legislative Decree", published in Italian Official Journal No. 19 of 24 January 2012.

Italian Law Decree No. 2 of 25 January 2012, containing: "Extraordinary and urgent measures regarding the environment", published in Italian Official Journal No. 20 of 25 January 2012, converted with amendments by Italian Law No. 28 of 24 March 2012, converting the Italian Law Decree "Extraordinary and urgent measures regarding the environment", published in Italian Official Journal No. 71 of 24 March 2012.

Italian Law Decree No 5 of 9 February 2012, "Urgent measures for simplification and development" published in Italian Official Journal No. 33 of 9 February 2012, converted with amendments by Italian Law No. 35 of 4 April 2012, published in Italian Official Journal No. 82 of 06 April 2012. As regards joint-stock companies, the Conversion Law (Art. 35) repeals the rule pursuant to Article 2397 of the Italian Civil Code, already amended by the Law Decree, which stated that, where not otherwise provided for in the Bylaws and in any case at certain conditions, the duties of the board of statutory auditors could be performed by a single auditor.

With reference to limited liability companies, it remains possible to provide for a collegial auditing body in the articles of association, as an alternative to a single auditor; in fact, it is stated that the articles of association of such companies "*may provide for the appointment of an auditing body or an auditor, determining their duties and powers, including independent auditing of the accounts. If the Bylaws do not state otherwise, the auditing body is made up of a single regular member*".

Paragraph 2 of Art. 2477 I.C.C. is amended and now states that "*In the case of appointment of an auditing body or a single auditor, the rules applied are those for the board of statutory auditors envisaged for joint-stock companies*".

The Decree introduces new rules on the subject of failure to complete proceedings within the terms (Art. 1): on the basis of which each administration identifies from among its top management a person to be given the power of substitution, to be exercised in the case of inertia of the said administration in issuing the measure. When, in fact, the term for conclusion of the proceeding provided for by law has passed, private individuals or bodies may apply to the manager identified "*so that, within a term equal to half that originally provided for, he or she may complete the proceeding through the competent structures or by appointing a commissioner*".

The Decree also states (Art. 57-*bis*) that a Prime Ministerial Decree, at the proposal of the Minister for Economic Development, by the end of July 2012, shall identify the energy infrastructures located within the country and for interconnection with other countries considered as priorities, which, implementing Article 3 of Legislative Decree No. 93/11, represent the "*minimum needs of construction or expansion*" for which "*the administrations involved for any reason in procedures to authorise the infrastructures identified … attribute… priority and urgency to the formalities and assessments for which they are responsible*". Identification of the infrastructures is updated at least every two years.

In an amendment to Art. 109 of the Environmental Code (Art. 24) it is stated that authorisation for discharge into the sea of excavated materials "*shall be issued by the Region, with the exception of work carried out in national protected areas … for which it shall be issued by the Ministry for the Environment and for Protection of the Territory and the Sea*".
Finally, the decree provides for the establishment of the National Data Bank of Public Contracts from 1 January 2013 (Art. 20): the documentation proving possession of the requisites "*of a general, technical-organisational and economic-financial nature*" for participation in the procedures governed by the Contracts Code will be acquired from 1 January 2013 exclusively by the National Data Bank, established at the Authority for Supervision of Public Contracts for Works, Services and Supplies.

Italian Legislative Decree no. 24 of 2 March 2012, *"*Implementation of Directive 2008/104/EC, on work through temporary agencies", published in Italian Official Journal No. 69 of 22 March 2012.

Italian Law Decree No. 16 of 2 March 2012, containing: "Urgent measures for fiscal simplifications, and for making more efficient and strengthening assessment procedures" (known as "Fiscal simplifications"), published in Italian Official Journal No. 52 of 2 March 2012, converted with amendments by Italian Law No. 44 of 26 April 2012, published in Italian Official Journal No. 85 of 28 April 2012.

Italian Law Decree No. 21 of 15 March 2012, containing "Regulations on the subject of special powers over corporate structures in the defence and national security sectors, and for activities of strategic significance in the energy, transport and communications industries", published in Italian Official Journal No. 63 of 15 March 2012, converted with Italian Law No. 56 of 11 May 2012. Published in Italian Official Journal No. 111 of 14 May 2012.
The Decree contains new rules on the special powers of the State, in order to adapt Italian legislation to the sentences of the Court of Justice of the European Union issued on the subject.
By 12 September 2012, regulations adopted by the Government shall identify the *"networks and plants, including those necessary to ensure minimum supplies and operation of essential public services, assets and relationships of strategic significance for the national interest in the energy, transport and communications industries*". The same regulations will indicate the type of actions or operations within a single group to which the rules contained in the decree do not apply. Companies that manage the assets identified by the regulations are obliged to notify the Prime Minister's Office within 10 days and at least before implementing actions or operations and Resolutions relating to management of the said assets. Over Resolutions, actions or operations subject to the rules provided for in the decree, within 15 days from notification, the Government may, with a Prime Ministerial decree, place a veto or prescribe conditions to which effectiveness of the action, Resolution or operation is subordinated if they give rise, on the basis of objective criteria (the existence of links with criminal organisations and/or a threat to the security and continuity of supplies and the security and operation of the assets), and only in cases in which they give rise, *"to an exceptional situation, not governed by national and European legislation on the industry, of a threat of serious prejudice to the public interest relating to the security and operation of the networks and plants and to continuity of supplies".*
Until the notification is made and the term for expression of the veto has passed, the effectiveness of the resolution, action or operation is suspended. When the said term has passed and no measure has been

adopted by the Government, the operation is understood as authorised. With entry into force of the implementing decrees, the legislation previously in force establishing the golden share (Article 2 of Italian Law Decree No. 332/94 and decrees implementing the rules) is to be repealed.

Decree of the Ministry for Economic Development jointly with the Ministry for the Environment of 15 March 2012 “Definition and qualification of regional targets on the subject of renewable sources and definition of management methods in cases of failure to achieve the targets by the regions and autonomous provinces” (so-called "Burden Sharing"), published in Italian Official Journal No. 78 of 02 April 2012.

The measure defines the targets - intermediate and final, at 2020 - that regions and autonomous provinces must achieve to contribute to the national target of 17% of gross consumption covered by energy produced by renewable sources.

In defining the regional targets, the condition of the electricity grid and the actions planned by Terna were considered. These were judged to be “*adequate to cope with the growth of renewable electricity sources, envisaged by the regional division*” envisaged by the Decree.

Italian Law Decree No. 29 of 24 March 2012, containing Urgent measures containing additions to Law Decree No. 1 of 24 January 2012, and to Legislative Decree No. 385 of 1 September 1993, and 249 of 31 July 1997, converted, with amendments by Law No. 27 of 24 March 2012, published in Italian Official Journal No. 117 of 21 May 2012.

This changes the rules of Italian Law Decree No. 1/12 on the subject of legality ratings. By 20 August 2012, with a regulation, the Authority for Competition and the Market will outline criteria and methods for awarding ratings. Companies operating in Italy which reach a minimum turnover of 2 million euros may ask the ACM to award them a legality rating. “*The rating awarded is taken into consideration when public administrations grant loans and when banks grant credit, in accordance with the methods laid down in a decree by the Minister of Economy and Finance and by the Minister for Economic Development, to be issued by 20 August 2012”*.

Italian Law Decree No. 52 of 7 May 2012 “Urgent measures to rationalise public spending”, published in Italian Official Journal No. 106 of 8 May 2012, converted with Italian Law No. 94 of 6 July 2012, published in Italian Official Journal No. 156 of 06 July 2012.

This amends the Contracts Regulation (Italian Presidential Decree No. 207/10) establishing that, both in relation to public contracts concerning work, and in relation to public contracts concerning supplies and other services, in the event of an award with the criterion of the most economically advantageous offer, “*The commission shall open in public session the envelopes containing the technical offers in order to check for the presence of the documents produced*”.

Italian Law Decree No. 59 of 15 May 2012 "Urgent measures to reorganise civil protection", published in Italian Official Journal No. 113 of 16 May 2012.

Italian Law Decree No. 73 of 6 June 2012 containing "Urgent measures on the subject of qualification of companies and overall guarantees of execution", published in Italian Official Journal No. 131 of 07 June 2012.

Italian Law Decree No. 74 of 6 June 2012 "Urgent action in favour of the populations affected by the seismic events which involved the territory of the provinces of Bologna, Modena, Ferrara, Mantua, Reggio Emilia and Rovigo, on 20 and 29 May 2012", published in Italian Official Journal No. 131 of 07 June 2012.

This provides for Terna's participation in the temporary Single Commission for authorisations of actions to delocalise and rebuild businesses.

Italian Legislative Decree No. 78 of 12 June 2012 Implementation of Directive 2010/35/EU, on transportable pressure equipment which repeals Directives 76/767/EEC, 84/525/EEC, 84/526/EEC, 84/527/EEC and 1999/36/EC, published in Italian Official Journal No. 138 of 15 June 2012.

Italian Legislative Decree No. 91 of 18 June 2012, containing amendments and additions to Italian Legislative Decree No. 27 of 27 January 2010, implementing Directive 2007/36/EC, on the exercise of certain rights of shareholders of listed companies. Published in Italian Official Journal No. 152 of 02 July 2012.

The legislative decree amends the rules on the subject of shareholders' rights and in particular:

- it clarifies expressly that the shareholders' meeting may be called by the sole director or by the board of directors and not by single directors;
- it states that, if not otherwise provided for in the Bylaws, the shareholders' meetings of companies that have recourse to the risk capital market shall be held in a single call;
- it enables shareholders and regulates the possibility, for all those who hold voting rights, to ask questions on the matters on the agenda also before the shareholders' meeting, and to present proposed resolutions on subjects already on the agenda with the procedure provided for in Article 126-bis of the Consolidated Law on Finance;
- it states that the bondholders' meeting may be called, as well as by the representative of the bondholders, instead of by the directors, by the Board of Directors and by the management committee;
- it defers to a Consob regulation the identification of the methods and terms of communication, on request, in the cases and to the subjects identified by the regulation itself, of the data identifying owners of the financial instruments and the intermediaries holding them, subject to the possibility for owners of financial instruments to prohibit expressly the communication of the data identifying them;
- given that: 1) Italian Legislative Decree No. 27/10 stated that the right to take part in the shareholders' meeting and to vote must be attested by a communication to the issuer, made by the intermediary, in favour of the subject holding the right to vote; 2) for meetings of bearers of financial instruments admitted to trading with the issuer's consent on regulated markets or in Italian

multilateral trading systems or in those of other European Union countries, the communication provided for is made making reference to the term of the accounting day on the seventh open-market day prior to the date set for the meeting, the legislative decree states that, to this end, "reference shall be made to the date of first call provided that the dates of any subsequent calls are indicated in the single notice of call; otherwise reference shall be made to the date of each call";

- it regulates the obligations to publish the documents that will be submitted to the meeting and the information on the amount of the share capital;
- by way of exception to Article 4 of Law 1745/62 which ties the right to dividend payments to possession of shares at the so-called coupon detachment date, it gives greater flexibility to the issuer, stating that "the right to payment of profits and of other distributions related to the financial instruments recorded in the accounts indicated in Article 83-quater, paragraph 3, is determined with reference to the evidence of accounts relating to the end of the accounting day identified by the issuer which also establishes the related methods of payment.";
- it admits the possibility of stating in bylaws that each share held by the same shareholder for a continuous period indicated in the bylaws, and in any case not less than one year or also "than the shorter period running between two consecutive annual dividend payment dates", shall give the right to a supplement of not more than 10 per cent of the dividend distributed to the other shares.

Italian Law Decree No. 83 of 22 June "2012 Urgent measures for growth of the country", published in Italian Official Journal No. 147 of 26 June 2012.

This envisages, for bonds issued by 26 June 2015 by companies pursuant to Article 157 of Italian Legislative Decree No. 163/06, subjection to the same tax regime envisaged for public debt securities, which entails taxation at 12.5% (in place of the current 20%), and elimination of the limits on deductibility, now linked to the effective rate of return, of interest expense.

An amendment to Italian Law No. 239/04, which governs authorisation of the NTG infrastructures, envisages that in proceedings to authorise the national electricity transmission grid, the lack of regional approval, which must be issued within the maximum term of 150 days from the request of the Ministry for Economic Development, can be remedied by the Prime Minister's Office which shall act in the matter with the participation of the region involved.

It suspends the term for entry into operation of the System, already set at 30 June 2012, "*until […] checks have been completed and in any case not later than 30 June 2013".* A decree of the Ministry for the Environment will set the new term for entry into operation of the SISTRI System and, until that term, payment of the contributions payable by users for the year 2012 is suspended.

Finally, it envisages, starting from 26 June 2012, for all businesses, a contribution, in the form of a tax credit of 35%, with a maximum limit of 200 thousand euros per business, of the corporate cost incurred for taking on in permanent employment persons in possession of a university research doctorate or a degree in a technical or scientific discipline engaged in Research and Development work.

Italian Law Decree No. 87 of 27 June 2012 containing "Urgent measures on making more efficient, enhancing and disposing of public assets, rationalising the economic-financial administration, and measures to strengthen the capital of companies in the banking industry", published in Italian Official Journal 27 June 2012.

This provides for the reorganisation of the Ministry of Economy and Finance, the absorption of the Agency of the Territory (the land registry) by the Revenues Agency and an option right for Cassa Depositi e Prestiti (the Deposits and Loans Bank) on equity interests held by the State in Fintecna, Sace and Simest, exercisable, also separately, by 25 October 2012.

Italian Law No. 92 of 28 June 2012 "Rules on employment market reform with a view to growth", published in Italian Official Journal No. 153 of 03 July 2012.

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

Resolutions of the Authority for Electricity and Gas

Resolution 5/2012/R/eel

With this measure the Authority approved the proposals presented by Terna to amend Sections 4 and 7 of the Code of Transmission, Dispatching, Development and Security of the Network and Annex A25 relating, in particular, to the rules of the Network Code concerning the values of the threshold parameters for calculating the unit price of failure to observe the switch-on order and to the methods of determining binding input or withdrawal programmes.

Resolution 31/2012/R/eel

With this measure the Authority, also following the guideline issued by the Ministry for Economic Development, aimed at reducing natural gas consumption in the thermoelectric sector and at guaranteeing secure supplies to households and businesses, defined the criteria according to which users of the dispatching in possession of the plants involved must formulate offers on the electricity market, also in order to specify the measures adopted by Terna on operation of the said market. In particular, the Resolution states that a user of the dispatching, in possession of one or more plants involved, shall formulate offers on the Dispatching Service Market, observing the constraints and criteria defined by Terna, in compliance with the Guideline. Movements on the Dispatching Service Market, carried out in accordance with the measure in question, are excluded from the movements significant for calculation of the bonuses and penalties, pursuant to Order No. 351/07.

Resolution 36/2012/E/com

With this measure the Authority introduced a number of changes to Annex A to the order of the Authority for Electricity and Gas No. 11/07 of 18 January 2007, (Integrated Unbundling Rules - IURs), aimed at introducing measures applicable in the event of non-fulfilment of the obligations of functional and accounting separation, in order to orient regulated companies to complying with the obligations provided for in the IURs according to the methods and within the terms provided for in the said Integrated Rules. Of particular significance is the provision relating to suspension of contribution payments by the Electricity Industry Adjustment Fund in the event of non-compliance with the rules on the subject of administrative and accounting separation, up to presentation of separate annual accounts, according to the methods laid down in the IURs. The suspension does not regard payments in relation to which the regulated subject is called upon to perform a role of mere intermediary of amounts not destined for it (that is to say items of a passing nature). There remains, in these cases, the possibility, for the Authority, to initiate specific sanction proceedings against non-compliant operators, on the basis of Art. 2, paragraph 20, letter c) of Italian Law No. 481/95.

Resolution 50/2012/R/eel

With this measure the Authority completed the procedure for the year 2010 relating to determination of the bonuses and penalties for the company Terna S.p.A., on the subject of transmission service quality. More specifically, the Resolution determines:

- the annual values and the effective levels of the transmission service quality indicators;
- the incentives and penalties relating to the electricity transmission service quality for the year 2010, under the terms of Article 8 of Annex A to Order No. 341/07, taking account of the provisions of Article 9, of the said Annex A, on the subject of excess and risk limitation mechanisms.

Resolution 66/2012/R/eel

With this measure the Authority updated the transitory rules on remuneration of electricity generation capacity, for the year 2011, and made changes and additions to the integrated rules on monitoring of the wholesale electricity market, as regards delegated powers to offer on the day-ahead market. More specifically, the Resolution:

- places on the delegating user of the dispatching, instead of on the delegated market operators, the obligation to declare to GME (the energy markets manager) the portions of hourly available capacity of each unit with respect to which the user of the dispatching has delegated power to offer on the day-ahead market;
- modifies the criteria with which Terna must determine the value of the parameters for determining the unit price for the year 2011, specifying that the remaining available amounts of 2010 must all be destined to cover the expenses deriving from payment of the prices for each market operator for the year 2012;
- states that Terna must update the band division table so as to take account of the necessary calendar adjustments and must send a proposal to the Authority.

Resolution 79/2012/R/com

With this Resolution the Authority approved the regulations on operation of the “Integrated Information System” prepared by the Single Buyer as manager of the said system. In this regard it should be recalled that Italian Law No. 129/10 provided for the establishment, at the Single Buyer, of an Integrated Information System (IIS) to manage the information flows related to the electricity and natural gas markets, based on a database of withdrawal points and data identifying the final customers and that with Order ARG/com 201/10 the Authority had defined the general criteria, the operating model and the organisational model of the IIS and identified the Single Buyer as the IIS Manager.

The categories of subjects identified by the Resolution as IIS Users, and therefore obliged to register with the system, are Terna, distributor companies, users of the dispatching and primary providers.

The Resolution, in approving the Regulations, defers to a subsequent measure the definition of performance of the further preparatory activities functional to completion of the accreditation and population of the Official Central Register (OCR) of the IIS.

Resolutions 84/2012/R/eel and 165/2012/R/eel

With this measure the Authority introduces urgent actions relating to electricity production plants, with particular reference to distributed generation, to guarantee the security of the National Electrical System. In particular, the Resolution approves the proposals presented by Terna relating to three new Annexes to the Network Code and, precisely:

- Annex A.68, containing “Photovoltaic production plants. Minimum requirements for connection and operation in parallel with the HV grid”
- Annex A.69, containing “Criteria for connecting production plants to the Terna defence system”
- Annex A.70, containing “Technical Regulations and distributed generation system requirements”, specifying that this annex must be applied in accordance with the terms and methods provided for in the measure.

As regards this last annex, the Authority stresses that the most urgent action, for the purposes of security of the National Electrical System, is to expand the field of operation (in terms of frequency and voltage) of the production plants connected to the LV and MV grids and provides for a gradual approach for complete application of the measure. More precisely, the Resolution distinguishes, as regards the scope of application of the document, between new plants (defined as plants connected to the LV and MV grids that come on stream after 31 March 2012) and existing plants (identified as plants connected to or to be connected to the LV and MV grids already on stream or that come on stream by 31 March 2012).

On the basis of the provisions of the resolution, Annex A.70 to the Network Code applies, with certain distinctions, to new plants and existing plants connected in MV and with power of more than 50 kW. Owners of existing plants, obliged in any case to update by 31 March 2013, are paid a fee, in exchange for updating to the prescriptions by 30 June 2012, quantified at 2,000 euros or 5,000 euros (depending on whether the plant has been built respectively before or after entry into force of the CEI 82-25 Guide); in the case of updating after 30 June 2012 and in any case by 31 October 2012 they are paid a gradually decreasing bonus, on a monthly basis, with respect to that indicated above.

Resolution 102/2012/R/eel

With this measure, under the terms of Art. 36 of Italian Legislative Decree No. 93/11, the Authority adopted specific rules in relation to the public consultation methods of Terna's Draft Development Plan, providing in particular for:

- publication, after giving notice, of the Draft Development Plan prepared by Terna on the Authority's website;
- the minimum contents of the version of the DP to be submitted for consultation;
- a period of consultation with the subjects involved during which one or more public sessions shall be organised for Terna to present the DP;
- publication of the results of the consultation through publication on the Authority's website of the observations on the draft ten-year Plan received.

Resolution 132/2012/R/com

With the order “Rules on population of the Official Central Register of the Integrated Information System” the Authority identifies the minimum set of details to be entered and updated in the OCR managed by the Single Buyer. In the initial stage the Authority provides for a simplification for population with the details regarding the withdrawal points served as part of the primary provider service deferring to a subsequent measure the definition of methods and timing for completion.

The measure also states that, until the processes that enable constant updating of the data constituting the OCR come into operation, the work of periodically updating the data will be carried out monthly.

Resolution 157/2012/R/eel

With the order “Approval of reference tariffs for the electricity distribution service and other rules on tariffs for electricity transmission, distribution and measurement services”, the Authority approves the reference tariffs for the electricity distribution service for the year 2012, determines the parameters for equalization of measurement revenues, orders adjustment of the transmission revenues to be paid for 2012, and integrates the ITRs (Integrated Transmission Rules) and the IMRs (Integrated Measurement Rules), correcting a number of material errors found in the said documents.

As regards adjustment of transmission revenues to be paid for 2012, for this purpose the order states that it is essential to take into account the inclusion in the NTG, during 2010, of networks which were previously within the distribution perimeter, which will be considered for the purposes of determining the transmission tariff starting from the year 2013, while for the year 2012 the related revenues will be paid to Terna in the context of the mechanism guaranteeing the level of revenues to be paid introduced with Order ARG/elt 188/08 and extended by Order ARG/elt 199/11.

Resolution 164/2012/R/eel

With Order 164/2012/R/EEL “Payment and coverage of final costs for the year 2011, communicated by Terna S.p.A., for performance of the activities enabling the Authority for Electricity and Gas to fulfil its function of monitoring the markets”, the Authority:

- quantified the amount of final cost to be paid to Terna for performing the monitoring activity;
- quantified the income deriving from the difference between final costs to be paid to Terna and the costs estimated in the budget for the same year 2011;
- established that the income as per the previous point is to be recovered through the fee for Terna's operations for the year 2013.

Resolution 179/2012/R/eel

With the Order “Approval of the draft "*Rules for Intraday Capacity Allocation by Explicit Auctions on North Italian Borders*", containing the operating procedures aimed at implementing a mechanism of explicit auctions for intraday transport capacity allocation on the interconnections with Austria, France, Slovenia and Switzerland”, the Authority:

- approves the Intraday Access Rules prepared by Terna together with the other network operators;
- permits Terna to adopt transitory measures for a period of not more than six months, after which the standard measures will be applied, and modified if necessary to take into account objections received during the public consultation which it is not possible to incorporate into the first draft of the rules;
- confirms that the auction revenues due to Terna must be used to reduce the price for procurement of resources in the dispatching service market pursuant to Art. 44 of Resolution 111/06, keeping separate account of the different economic items that combine to determine it;
- states that Terna, together with the network operators of the other States belonging to the Central South Region, shall send to the Authority, by the end of November 2012, an agreed work schedule illustrating the steps necessary to adopt allocation rules in the Central South Region on an intraday basis in line with the principles illustrated in ACER's Capacity Calculation and Congestion Management Framework Guidelines.

Resolution 180/2012/R/eel

With this order the Authority intervened in the annual unavailability planning process. In particular:

- for the year 2012 it brought forward a number of deadlines in relation to transmission of unavailability requests by National Transmission Grid owners, grid operators with obligations to connect third parties and dispatching users and to the adoption by Terna of the provisional annual unavailability resolution;
- states that by 31 January 2013, Terna must send, after specific consultation, a proposal to amend the Network Code regarding the chronology of activities connected with unavailability planning, to be applied starting from 2013.

The resolution also changes some of the timing relating to the process of identifying units essential for system security and on the subject of preparing forecast data for wholesale market monitoring.

Resolution 213/2012/R/eel

With this measure containing "Changes to the rules, pursuant to Annex A, of the Authority for Electricity and Gas Order of 30 July 2009, ARG/elt 107/09 (Integrated Settlement Rules - ISRs), with reference to economic settlement of the load profiling adjustment items, determination of economic items relating to adjusting measurement data and aggregating incentives", the Authority:

- modifies the fees to be considered for the purpose of determining the load profiling adjustment price;
- states that Terna must proceed also to adjust the fee relating to transitory safeguarding pursuant to Article 25-*bis* following adjustments of significant data in the same way as decided for the fee pursuant to Article 25 of the ISRs.

The Resolution also contains certain specifications needed for the purpose of calculating the QTRAS and QRETT parameters relating to incentives for the measurement aggregation activity carried out by distributors. Finally, the Authority states that Terna must supplement and modify the agreement for the measurement aggregation service - Annex A58 to the Network Code- in accordance with the rules in the Resolution.

Resolution 217/2012/R/eel

With this measure the Authority approved the drafts of the Pentalateral Agreement and the Bilateral Agreement containing operating procedures of the Market Coupling mechanism on the Italy-Slovenia interconnection, for the period from 1 June 2012 to 31 December 2012, provided that GME does not apply any fee on transactions carried out by Terna in its role as Shipping Agent on the Italy-Slovenia interconnection in order to indemnify Terna effectively for the costs incurred in performing the said role. The Resolution also lays down a number of specific rules in order to guarantee Terna the liquidity necessary to manage the system of payments connected with the market coupling and on the subject of the flows between the subjects involved.

Resolution 226/2012/R/eel

On the subject of rules for connection to generation plant networks, with this measure the Authority, following the suspension granted by the Council of State to a number of plaintiffs, in relation to application of the network capacity booking fees, stated that network capacity must be definitively booked at the end of the procedure for authorisation to build and operate a production plant. An initial period is however provided for, of a different length depending on the voltage level at which the power will be supplied, during which the technical solution for connection remains valid and enables temporary booking of the related network capacity. The Order applies also in the case of connection requests already sent to the network operator.

Resolution 228/2012/R/eel

With this measure the Authority ascertained achievement by Terna of the milestones in the work of developing the National Transmission Grid envisaged for 2011 in the context of the incentive mechanism to accelerate investments under the terms of Resolution ARG/elt 130/10, in order to confirm the higher remuneration of investments in progress belonging to the category I=3 at 31 December 2010. This higher remuneration is already awarded in the 2012 transmission tariffs.

Resolution 235/2012/R/com

With this measure "*Urgent rules for suspension of the payment terms of supplies relating to water, electricity and gas services, for the populations affected by the seismic events that occurred on 20 May 2012 and later dates*" the Authority suspends, starting from 20 May 2012, the deadlines for payment of invoices issued or to be issued in relation to, among other things, the supply of electricity for users located in the Municipalities damaged by the earthquakes, as subsequently identified by the measures of the competent authorities.

Resolutions 188/2012/E/com and 243/2012/E/com

With these measures the Authority intervened to govern complaints procedures and sanction proceedings. In particular with Resolution 188/2012/E/com the Authority laid down rules for dealing with complaints presented by operators against grid owners in order to comply with the provisions of Article 44, paragraph 3, of Italian Legislative Decree No. 93/11, which gives the Authority the task of issuing specific directives to govern dispute resolution procedures deriving from complaints presented against Grid Operators.

With Resolution 243/2012/E/com the Authority adopted the new regulations governing sanction proceedings and procedural methods for assessing commitments that the addressees of the resolutions launching sanction proceedings may present in order to avoid the sanctions.

Resolution 283/2012/R/eel

With this measure the Authority defined, in the context of the proceedings initiated on the subject of limiting gas consumption in the thermoelectric sector during the gas emergency, the methods of measuring sale and purchase offers accepted on the DSM corresponding to movements connected with the gas emergency and the methods and timing of paying users of the dispatching the related economic items.

The Resolution also acts to supplement and amend Resolution No. 111/06 in the part in which it establishes the unit price to cover the costs of the essential units for system security pursuant to Art. 45 of the same and the methods for recovering the costs connected with remunerating the essential units.

Terna

Condensed consolidated interim financial statements as at 30 June 2012

Consolidated financial statements

Consolidated income statement

TERNA GROUP INCOME STATEMENT* *In millions of euros*	Notes	H1 2012	H1 2011
A REVENUE			
1 Revenue from sales and services	1	840.3	778.0
of which: related parties		*640.9*	*1,031.6*
2 Other revenue and income	2	16.3	16.1
of which: related parties		*0.0*	*0.9*
Total revenue		**856.6**	**794.1**
B OPERATING EXPENSES			
1 Raw materials and consumables	3	7.5	10.5
2 Services	4	63.6	63.9
of which: related parties		*0.5*	*1.6*
3 Personnel expenses	5	103.1	103.7
- gross personnel expenses		*137.5*	*136.3*
- gross personnel expenses, capitalised		*-34.4*	*-32.6*
of which: related parties		*0.9*	*1.5*
4 Amortisation, depreciation and impairment	6	204.6	192.9
5 Other operating expenses	7	13.4	9.3
of which: related parties		*0.2*	*0.0*
Total expenses		**392.2**	**380.3**
A-B Operating profit		**464.4**	**413.8**
C Financial income/expense			
1 Financial income	8	33.2	15.8
2 Financial expense	8	-98.0	-77.1
of which: related parties		*-6.1*	*-0.4*
3 Share of profits/(losses) of equity-accounted investees	9	2.7	3.2
D Profit before taxes		**402.3**	**355.7**
E Income taxes	10	180.4	122.4
F Net profit for the period from continuing operations		**221.9**	**233.3**
G Net profit for the period from discontinued operations	11	**0.0**	**95.0**
H Net profit for the period		**221.9**	**328.3**
Profit for the period attributable to the owners of the Parent		***221.9***	***328.3***
Earnings per share			
Basic earnings per share	12	0.110	0.164
Diluted earnings per share		0.110	0.163
Earnings per share from continuing operations			
Basic earnings per share	12	0.110	0.116
Diluted earnings per share		0.110	0.116

* For the first half of 2011, the amounts include all transactions with related parties, while for the first half of 2012, as provided for in IAS 24R, the amounts relating to related parties as regards transactions between "government-related entities" refer to relations that have a significant impact on the Group's results. Unlike figures at 30 June 2011, no information has been provided in relation to non significant transactions in addition to that of pass-through items.

Consolidated statement of comprehensive income

TERNA GROUP STATEMENT OF COMPREHENSIVE INCOME *In millions of euros*	Notes	H1 2012	H1 2011
Net profit for the period		**221.9**	**328.3**
Other components of comprehensive income			
- Cash flow hedges, net of tax effect of continuing operations	23	-10.7	12.1
- Cash flow hedges, net of tax effect of discontinued operations	23	0.0	-16.0
- Securities available for sale net of the tax effect	23	-5.5	0.0
Net comprehensive income for the period		**205.7**	**324.4**
Net comprehensive income for the period attributable to:		**205.7**	**324.4**
Owners of the Parent		205.7	324.4

Consolidated statement of financial position*

TERNA GROUP STATEMENT OF FINANCIAL POSITION ASSETS *In millions of euros*	Notes	at 30.06.2012	at 31.12.2011
A- Non-current assets			
1 Property, plant and equipment	13	8,965.3	8,618.2
of which: related parties		*6.1*	*24.3*
2 Goodwill	14	190.2	190.2
3 Intangible assets	15	273.4	280.7
4Equity-accounted investees	16	69.8	66.8
5 Non-current financial assets	17	636.5	522.4
6 Other non-current assets	18	6.4	6.6
Total non-current assets		**10,141.6**	**9,684.9**
B- Current assets			
1 Inventories	19	7.3	16.3
2 Trade receivables	20	1,855.5	1,690.2
of which: related parties		*229.8*	*122.5*
3 Current financial assets	17	1,051.4	155.5
of which: related parties		*0.3*	*0.4*
4 Cash and cash equivalents	21	712.9	1,114.9
5 Income tax assets	22	11.8	4.4
6 Other current assets	18	32.2	20.5
Total current assets		**3,671.1**	**3,001.8**
TOTAL ASSETS		**13,812.7**	**12,686.7**

TERNA GROUP STATEMENT OF FINANCIAL POSITION LIABILITIES* *In millions of euros*	Notes	at 30.06.2012	at 31.12.2011
D- Equity attributable to owners of the Parent			
1 Share capital		442.2	442.2
2 Other reserves		750.9	766.9
3 Retained earnings		1,280.3	1,262.7
4 Interim dividend		0.0	-160.8
5 Net profit for the period		221.9	440.0
Total equity attributable to owners of the Parent	23	**2,695.3**	**2,751.0**
F- Non-current liabilities			
1 Long-term loans	24	8,079.5	6,738.7
of which: related parties		*500.0*	*500.0*
2 Employee benefits	25	120.0	119.2
3 Provisions for risks and charges	26	193.8	193.8
4 Deferred tax liabilities	27	216.0	251.8
5 Non-current financial liabilities	24	128.9	111.4
6 Other non-current liabilities	28	134.4	137.1
Total non-current liabilities		**8,872.6**	**7,552.0**
G- Current liabilities			
1 Current portion of long-term loans	24	59.7	59.7
2 Trade payables	29	1,890.1	2,029.8
of which: related parties		*15.6*	*44.9*
3 Tax liabilities	29	64.7	116.5
4 Current financial liabilities	24	50.5	40.1
of which: related parties		*1.6*	*2.4*
5 Other current liabilities	29	179.8	137.6
of which: related parties		*1.4*	*7.3*
Total current liabilities		**2,244.8**	**2,383.7**
TOTAL LIABILITIES AND EQUITY		**13,812.7**	**12,686.7**

* For the year 2011, the amounts include all transactions with related parties, while for the first half of 2012, as provided for in IAS 24R, the amounts relating to related parties as regards transactions between "government-related entities" refer to relations that have a significant impact on the Group's results..

Statement of changes in consolidated equity

31 December 2011 – 30 June 2012

In millions of euro	Share capital	Legal reserve	Share premium reserve	CFH reserve	AFS reserve	Other reserves	Retained earnings	Interim dividend	Net profit for the period	**Equity attributable to the owners of the Parent**
	Consolidated share capital and reserves									
Equity at 31 December 2011	**442.2**	**88.2**	**20.0**	**-70.0**	**0.0**	**728.7**	**1,262.7**	**-160.8**	**440.0**	**2,751.0**
Net profit for the period									**221.9**	**221.9**
Other comprehensive income: - Change in fair value of cash flow hedging derivatives net of tax effect				-10.7						-10.7
- Change in fair value of securities available for sale net of tax effect					-5.5					-5.5
Total other comprehensive income	**0.0**	**0.0**	**0.0**	**-10.7**	**-5.5**	**0.0**	**0.0**	**0.0**	**0.0**	**-16.2**
Net comprehensive income	**0.0**	**0.0**	**0.0**	**-10.7**	**-5.5**	**0.0**	**0.0**	**0.0**	**221.9**	**205.7**
Transactions with equity owners:										
- Allocation of 2011 profit										
- *Retained earnings*		0.2					17.7		-17.9	0.0
- *Dividends*								160.8	-422.1	-261.3
Total transactions with equity owners	**0.0**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**17.7**	**160.8**	**-440.0**	**-261.3**
Other changes							-0.1			-0.1
Equity at 30 June 2012	**442.2**	**88.4**	**20.0**	**-80.7**	**-5.5**	**728.7**	**1,280.3**	**0.0**	**221.9**	**2,695.3**

31 December 2010 – 30 June 2011

In millions of euros	Share capital	Legal reserve	Share premium reserve	CFH reserve	AFS reserve	Other reserves	Retained earnings	Interim dividend	Net profit for the period	Equity attributable to the owners of the Parent	Equity attributable to non-controlling interests	Total equity
	Consolidated share capital and reserves											
Equity at 31 December 2010	441.0	88.0	8.6	-35.3	16.0	729.7	1,059.4	-160.4	613.6	2,760.6	0.0	2,760.6
Adjustment of opening balances*	-	-	-	-		-	-	-	-1.6	-1.6	-	-1.6
Equity at 31 December 2010	**441.0**	**88.0**	**8.6**	**-35.3**	**16.0**	**729.7**	**1,059.4**	**-160.4**	**612.0**	**2,759.0**	**0.2**	**2,759.2**
Net profit for the period									**328.3**	**328.3**		328.3
Other comprehensive income:												
- Change in fair value of cash flow hedging derivatives, net of tax effect				12.1	-16.0					-3.9		-3.9
Total other comprehensive income	**0.0**	**0.0**	**0.0**	**12.1**	**-16.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-3.9**		-3.9
Net comprehensive income	**0.0**	**0.0**	**0.0**	**12.1**	**-16.0**	**0.0**	**0.0**	**0.0**	**328.3**	**324.4**	**0.0**	**324.4**
Transactions with equity owners:												
- Allocation of 2010 profit												
- Retained earnings		0.2					190.1		-190.3	0.0		0.0
- Dividends								160.4	-421.7	-261.3		-261.3
- Exercise of stock options	1.2		11.0			-0.7				11.5		11.5
Total transactions with equity owners	**1.2**	**0.2**	**11.0**	**0.0**	**0.0**	**-0.7**	**190.1**	**160.4**	**-612.0**	**-249.8**	**0.0**	**-249.8**
Other changes							-0.4			-0.4	-0.2	-0.6
Equity at 30 June 2011	**442.2**	**88.2**	**19.6**	**-23.2**	**0.0**	**729.0**	**1,249.1**	**0.0**	**328.3**	**2,833.2**	**0.0**	**2,833.2**

* The adjustment is caused by recalculating the 2010 results to take into account the change in accounting for the Group's release of goodwill.

Consolidated statement of cash flows*

TERNA GROUP STATEMENT OF CASH FLOWS *in millions of euros*	H1 2012	H1 2011****
Profit for the period	**221.9**	**328.3**
of which from discontinued operations and assets held for sale – RTR		***59.2***
Adjustments for: Amortisation, depreciation, impairment /(reversals of impairment) on property, plant and equipment and intangible assets**	200.7	189.4
Provisions (including employee-related provisions) and impairment	9.5	23.7
(Gains)/Losses on disposals of property, plant and equipment	-1.6	-0.9
Financial (income)/expense	65.6	61.3
Income taxes	181.5	123.3
Cash flows generated by operating activities, before changes in net working capital	**677.6**	**725.1**
Increase/(Decrease) in provisions (including employee-related and tax provisions)	-11.0	-55.2
(Increase)/decrease in inventories	9.0	-52.7
(Increase)/decrease in trade receivables and other current assets	-190.8	1.9
Increase/(decrease) in other non-current liabilities	78.2	85.9
(Increase)/decrease in other non-current assets	-171.6	-17.1
Increase/(Decrease) in trade payables and other current liabilities	-194.2	-19.3
Interest income and other financial income received	88.3	29.1
Interest expense and other financial expense paid	-81.1	-82.8
Income taxes paid	-257.8	-179.7
Net working capital of discontinued operations and assets held for sale – NRTS	0.0	-25.7
Cash flows generated by operating activities [a]	**-53.4**	**409.5**
Investments in property, plant and equipment, net of grants received	-525.8	-515.4
Proceeds from sale of property, plant and equipment and intangible assets	2.0	2.5
Investment in intangible assets, net of grants received	-18.7	-21.2
Property, plant and equipment and goodwill of discontinued operations and assets held for sale - NRTS	0.0	-4.6
Net deconsolidation of discontinued operations and assets held for sale – RTR	0.0	404.9
Increase in equity investments in associates	-0.3	-35.7
Equity-accounted investee in associates	-2.7	-2.7
Cash flows used in investing activities [b]	**-545.5**	**-172.2**
Capital increase	0.0	1.2
Increase in reserves	0.0	10.3
Increase/(decrease) in net income and accumulated losses	-0.1	-0.4
Dividends paid	-261.3	-261.3
Equity attributable to non-controlling interests in discontinued operations and assets held for sale - RTR	0.0	-0.2
Change in short- and medium/long-term financial payables (including short-term portions)***	1,340.8	1,140.4
Change in short-term financial investments	-882.5	-750.0
Deconsolidation of financial debt of discontinued operations and assets held for sale - RTR	0.0	-254.6
Cash flows generated by financing activities [c]	**196.9**	**-114.6**
Increase/(Decrease) in cash and cash equivalents [a+b+c]	**-402.0**	**122.7**
of which change in cash and cash equivalents of discontinued operations and assets held for sale - RTR	*0.0*	*-6.2*
of which change in cash and cash equivalents of discontinued operations and assets held for sale - NRTS	*0.0*	*1.1*
Opening cash and cash equivalents	**1,114.9**	**156.3**
Closing cash and cash equivalents	**712.9**	**279.0**
of which Cash and cash equivalents of discontinued operations and assets held for sale - NRTS	*0.0*	*1.1*

* For comments on the Consolidated Statement of Cash Flows, please see the section "Notes to the Statement of Cash Flows" in the "NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS"

** Net of set-up grants recognised in the income statement for the period;

*** Net of FVH derivatives;

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

Notes to the Condensed Consolidated Interim Financial Statements

A. ACCOUNTING POLICIES AND MEASUREMENT CRITERIA

Introduction

Terna S.p.A. has registered offices in Viale Galbani 70, Rome, Italy. The Condensed Consolidated Interim Financial Statements for the first six months of 2012 comprise the interim financial statements of the Company and those of its subsidiaries (the "Group"), as well as the Group's investments in associates and joint ventures. The subsidiaries included within the scope of consolidation are listed below.

The Consolidated Financial Statements at and for the year ended 31 December 2011 are available upon request at the Terna S.p.A. registered offices in Viale Egidio Galbani 70, Rome, or on the company's website www.terna.it.

Compliance with IAS/IFRS and basis of presentation

The Condensed Consolidated Interim Financial Statements at and for the six months ended 30 June 2012 have been prepared in accordance with the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), endorsed by the European Commission ("IFRS-EU") at that date and used in preparing the Consolidated Financial Statements at and for the year ended 31 December 2011. The Group's Condensed Consolidated Interim Financial Statements for the first half of 2012, prepared in conformity with IAS 34, do not contain all of the information required for Annual Financial Statements and must be read together with the Consolidated Financial Statements at and for the year ended 31 December 2011. In particular, these Condensed Consolidated Interim Financial Statements present summary financial information, while the formats of the principal schedules are consistent with those presented in the annual report.

It is worth noting that some comparative financial and economic balances of the first half of 2011 have been adjusted to consider the change in accounting for the release[10] of goodwill made for tax reasons by the Parent Company in 2009. More specifically, the previous model of accounting for substitute tax (advances on current taxes) was reviewed in line with the different accounting recognition (prepaid and current taxes) of the substitute tax paid during financial year 2011 in relation to the release[11] of goodwill resulting from consolidation of the subsidiary Terna Rete Italia.

In particular this restatement entailed recognition in the first half of 2011 of higher taxes of 0.9 million euros, as the combined effect of the reversal of prepaid taxes of 1.6 million euros and lower current taxes of 0.7 million euros.

In addition, following the sale of the equity in the company Nuova Rete Solare S.r.l. signed on 29 July 2011, and completed on 24 October 2011, the balances of costs and revenue for the first half of the comparative financial year for the above company and its subsidiaries Reno Solar 2 S.r.l., Lira PV S.r.l. and Solar Margherita S.r.l. are reclassified for comparative reasons in the item "Net profit for the period from discontinued operations", for an amount of 2.0 million euros.

---

[10] Italian Law Decree No. 185 of 29 November 2008, converted into Italian Law No. 2 of 28 January 2009.

[11] Italian Law Decree No. 98 of 6 July 2011, converted with amendments by Italian Law No. 111 of 15 July 2011.

Use of estimates

The preparation of the Condensed Consolidated Interim Financial Statements at 30 June 2012, required management to make estimates and assumptions that affect the carrying amounts of assets and liabilities and the related disclosures, as well as the amounts of contingent assets and liabilities at the reporting date. The estimates and the associated assumptions were based on previous experience and various other factors considered reasonable under the circumstances, and were applied to measure the carrying amounts of assets and liabilities not readily determinable from objective sources. Actual results may differ from these estimates.

Certain measurement processes, especially more complex ones such as the determination of impairment losses on non-current assets, are generally performed in full during the preparation of the Annual Financial Statements, when all the necessary information is available, except in cases where evidence of impairment requires the immediate assessment of any impairment losses. Similarly, the actuarial valuations needed to calculate the provisions for employee benefits are normally carried out during preparation of the Annual Financial Statements.

The estimates and underlying assumptions are reviewed periodically and the effects of any changes are recognised in the income statement for the period, if they relate solely to that period. If changes affect both that period and future periods, the related effects are recognised over time, commencing from the accounting period in which the estimate is revised.

Scope of consolidation

Subsidiaries

The companies included within the scope of consolidation are listed below:

Company	Registered office	Currency	Share capital	% held	Consolidation method
COMPANIES CONTROLLED DIRECTLY BY TERNA S.P.A.					
TERNA RETE ITALIA S.p.A.	Rome	Euro	120,000	100%	Line-by-line
TERNA RETE ITALIA S.p.A. (formerly TELAT)	Rome	Euro	243,577,554	100%	Line-by-line
TERNA Crna Gora d.o.o.	Podgorica	Euro	7,000,000	100%	Line-by-line
SunTergrid S.p.A.	Rome	Euro	120,000	100%	Line-by-line
TERNA PLUS S.r.l.	Rome	Euro	50,000	100%	Line-by-line
COMPANIES CONTROLLED THROUGH SUNTERGRID S.P.A.					
Rete Solare S.r.l. (RTS)	Rome	Euro	10,000	100%	Line-by-line
COMPANIES CONTROLLED THROUGH TERNA PLUS S.r.l.					
Terna Storage S.r.l.	Rome	Euro	10,000	100%	Line-by-line

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

- establishment on 23 February 2012, by Terna S.p.A., of the company **Terna Rete Italia S.p.A** delegated to carry out all the traditional operating, ordinary and extraordinary maintenance activities of the NTG, manage and carry out works for the development of the grid, related to implementing the provisions of the above mentioned Concession and based on the provisions of the Development Plan. In addition, all the related management and technical responsibilities connected to safeguarding the health and safety of the environment, workers and third parties are attributed to Terna Rete Italia;

- the incorporation by the subsidiary Terna Plus S.r.l., on 23 March 2012, of a company named **Terna Storage S.r.l.**; the corporate purpose is the design, construction, management, development and maintenance of diffused electricity storage systems (including batteries) and pumping and/or storage systems.

Associates

Company	Registered office	Currency	Share capital	% held	Consolidation method
ASSOCIATED COMPANIES					
CESI S.p.A.	Milan	Euro	8,550,000	42.698%	Equity Method
CORESO S.A.	Brussels	Euro	1,000,000	22.490%	Equity Method
CGES A.D.	Podgorica	Euro	155,108,283	22.089%	Equity Method
JOINT VENTURES					
ELMED Etudes S.a.r.l.	Tunis	Dinaro	2,700,000	50%	Equity Method

The number of associates has not changed since 31 December 2011. The only change related to the associate CESI S.p.A., in which the Parent Company has increased its equity interest from 42.406% to 42.698%.

Joint ventures

The number of joint ventures and the interests held in them have not changed since 31 December 2011. Elmed Etudes Sarl is the only joint venture, in which the Parent holds a 50% interest.

New standards

International Financial Reporting Standards taking effect from 1 January 2012

Amendment of IFRS 7 - Financial instruments: Disclosures - Transfers of Financial Assets

With European Commission Regulation no. 1205/2011 issued on 22 November 2011, the disclosure required on financial instruments in the financial statements is extended. The amendment will allow users of financial statements to better evaluate exposure to risks connected with the transfer of financial assets and the effects of said risks on the entity's financial position. According to the provisions of the new Regulations, the entity must provide a disclosure that enables users of the financial statements to understand: the relationship between the financial assets transferred and not fully derecognised and the associated liabilities; to assess the nature, and related risks, of the residual involvement of the entity in the financial assets derecognised.
This standard, which has been in effect for the Terna Group since 1 January 2012, did not have a significant impact on the Interim financial report at 30 June 2012.

International financial reporting standards endorsed but not yet in force

From 1 January 2012, the following international accounting standards have been endorsed by the European Commission but are not yet in force:

Amendment to IAS 19

On 6 June 2012, the European Union endorsed the amendment to IAS 19 "Employee Benefits", which introduces changes to the recognition and measurement of costs relating to employee benefits and severance indemnities and the disclosure of all employee benefits. The amendment eliminated the option to defer the recognition of actuarial gains and losses using the corridor method and provided for the recognition of the cost connected with services rendered and net financial expenses on the income statement, and the recognition of actuarial gains and losses deriving from remeasurements of assets and liabilities to be presented in "Other Comprehensive Income" (OCI). Additionally, the return on assets included amongst net financial expenses must be calculated according to the liability discount rate and no longer on the forecast return on the assets. Finally, the amendment also introduces new additional information to be provided in the notes to the financial statements. The new standard, if confirmed by endorsement, will be applicable retroactively from 1 January 2013. The Group is assessing the impact of applying the new provisions.

Amendment to IAS 1

On 6 June 2012, the European Commission endorsed the amendment to IAS 1 - Presentation of Financial Statements. This requires, among other things, that all comprehensive income items presented in "Other Comprehensive Income" (OCI) be grouped together according to whether they may or may not be reclassified to profit or loss. First adoption is scheduled for 1 January 2013. No significant impacts on the Group's financial statements are anticipated.

International financial reporting standards not yet endorsed

For amendments, new standards and interpretations that have not yet been endorsed by the EU, but which address issues that affect or could affect the Group, analyses are currently being conducted of the possible impact of their application on its financial statements, taking account of the date on which they take effect. This assessment covers the standards and interpretations listed below.

IFRS 9 - Financial Instruments:

On 12 November 2009, the IASB published standard IFRS 9 - Financial Instruments on the classification and measurement of financial assets applicable no longer as from 1 January 2013 but from 1 January 2015, as proposed by the IASB amendment (currently being endorsed), which postpones entry into force. The new standard arises from a complex procedure, divided into various different stages that aims to entirely replace IAS 39; for the stages currently published by the IASB, the new standard defines the criteria for classification of financial assets and liabilities and for derecognition of financial assets from the financial statements. More specifically, to determine the measurement criteria of financial assets, it introduces a unique approach that, replacing the many different methods in IAS 39, is based on the methods by which financial instruments are managed and on the characteristics of the contractual cash flows of the financial assets themselves. On the contrary, for financial liabilities, the main change concerns the presentation in "Other Comprehensive Income" (OCI) of the effects of changes in the fair value assigned to the credit risk of liabilities measured at fair value, which will no longer be recognised in profit or loss.

Finally, we must stress that the IFRS 9 adoption process is currently suspended in the EU, given that the European Commission intends to proceed with approval of the standard only upon conclusion of the definitive standard publication process by the IASB, when replacement of IAS 39 has been completed.

New accounting standards on consolidation

On 12 May 2011, the IASB completed the draft concerning consolidation with publication of the following 5 standards (IFRS 10, IFRS 11, IFRS 12, IAS 27 Amended, IAS 28 Amended), first adoption of which is scheduled for 1 January 2013, with a probable postponement of one year as requested by EFRAG. In particular:

- **IFRS 10 – Consolidated Financial Statements**

The standard introduces a single control model that is valid for all types of entity, superseding SIC 12 - Consolidation of SPEs (Special Purpose Entities) and removing from IAS 27 the part relating to control and consolidation. In particular, the standard introduces a new definition of control, based on the figures of the investee (a company actually or potentially controlled) and the investor (the Parent Company drawing up the consolidated financial statements), which has control if it is exposed, or has variable returns with respect to its involvement in the investee and has the possibility of affecting these returns through its power over the investee. Additionally, in identifying the investor it is essential to consider both potential but substantive voting rights, where the holder has the real possibility of exercising these rights, and actual control, understood as the possibility of unilaterally guiding activities. The first adoption of the standard will be retrospective.

- **IFRS 11 – Joint Arrangements**

The new standard introduces important simplifications as it supersedes the classification into three types envisaged by IAS 31. The new classification is based on analysing the rights and obligations arising from the agreement and establishes only two types: Joint Operations and Joint Ventures. The former derive from a non-structured agreement through an SPE that is separated from the parties, which determines rights over the assets and obligations of the liabilities, in accounting terms the controlling share of assets, liabilities and corresponding costs and revenue is recognised. The second, on the other hand, are classified as joint ventures where there are structured agreements through an SPE that is separated from the parties. In this case, the entity must carry out assessments based on the legal form of the "SPE", the contractual terms and the other facts and circumstances from which the rights over the net assets of the agreement derive. For joint ventures, the standard provides for the elimination of the proportional consolidation method, replaced by the equity method only. The new standard therefore replaces IAS 31 and SIC 13.

IFRS 12 – Disclosure of interests in other entities

The standard governs the disclosure to be made in the financial statements with regard to the equity interests held in subsidiaries, associates and joint ventures in addition to structured entities, in lieu of the requirements previously included in IAS 27 and IAS 28. The purpose of the new standard is to provide more information on the financial statements in relation to the basis for measuring control, any limits to consolidated assets and liabilities and risk exposure deriving from involvement with the entity.

- **Amendment to IAS 27 – Separate Financial Statements**

The amendment to IAS 27 aims to provide the rules to be applied in recognising equity investments held in subsidiaries, joint ventures and associates in preparing Separate (Unconsolidated) Financial Statements. The amendment therefore leaves unchanged the provisions for Separate Financial Statements, and replaces the parts relating to the Consolidated financial statements with the prescriptions of the new IFRS 10, to which reference should be made for further details.

- **Amendment to IAS 28 – Investments in Associates and Joint Ventures**

The amendment to IAS 28 (as amended in 2011) sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)

In addition, on 28 June 2012 an amendment clarifying the transitional rules for the new consolidation standards was published.

IFRS 13 – Fair Value Measurement

On 12 May 2011, the IASB published IFRS 13, which seeks to increase consistency and comparability in fair value measurements and related notes through a "fair value hierarchy". The hierarchy categorises the inputs used in measurement techniques into three levels. The hierarchy gives the highest priority to prices quoted in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. First adoption is scheduled for 1 January 2013.

Amendments to IFRS 7 and IAS 32: Financial instruments:- Offsetting Financial Assets and Financial Liabilities

They require supplementary information regarding the actual or potential effects of applying the rules of offsetting financial assets and liabilities and provide clarifications in relation to the offsetting rules.

Improvements to IFRS (2009-2011):

Periodic update containing non-significant amendments to certain accounting standards; in particular, it modifies IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34.

The following standards and interpretations have also been published, governing circumstances currently not relevant to the financial statements of the Company:

- Amendment to IAS 12 - Deferred Tax: Recovery of Underlying Assets applies to all entities that apply IAS 40 "Investment Property" using the fair value method and that have recognised assets under property, plant and equipment which are not depreciated and which are recorded using the revaluation model established by IAS 16.
- Amendment to IFRS 1 - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters of the standard: aimed at companies which adopt the IFRSs for the first time;
- IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine - accounting treatment of the costs of stripping a surface mine, to be recognised during production.
- Amendment to IFRS 1: Government Loans: governs accounting treatment for companies which are first-time adopters of the IFRSs for public financing obtained at a lower than market rate.

B. OPERATING SEGMENTS

In view of the characteristics of the Terna Group's business, the following operating segments have been identified:

- **regulated activities;**
- **unregulated activities.**

The **regulated activities** segment comprises electricity transmission and dispatching, as well as the measurement, validation and registration activities associated with metering.

These activities form part of a single operating segment since they meet the relevant aggregation criteria based on similar economic characteristics, such as the common economic/regulatory context in which the services are provided, the type of tariffs and the way they are determined, and the public-interest nature of the activities concerned.

The **unregulated activities** mainly regard the management (operation and maintenance) of high-voltage plant owned by other entities, plant engineering services, maintenance of the third-party fibre optic network and housing of TLC equipment. In essence, this segment comprises the specialist services provided by the Terna Group to third-party customers.

These activities are pursued as commercial initiatives that are not regulated by the AEEG: they are pursued in a free market in which the Group leverages its skills and resources to offer specialised services to other companies mainly in the high- and very-high voltage sector and in telecommunications.

The Terna Group's operating sectors were identified consistently with the internal management control system adopted by the Parent Company; in particular in the internal reports periodically presented and reviewed by senior management (management control reports) we used the adjusted EBITDA[12] indicator for unregulated activities.

Below we report the results of the Terna Group's operating segments in the first half of 2012 and 2011, as well as the reconciliation with the Group's profit before tax and discontinued operations and assets held for sale.

[12] EBITDA (gross operating profit): represents an indicator of operating performance; it is calculated by adding depreciation and amortisation to the operating profit (EBIT).

In millions of euros	**H1 2012**	**H1 2011**
Revenue from regulated activities	834.4	771,6
Revenue from unregulated activities	22.3	22.5
Total continuing operations revenue	**856.7**	**794.1**
Regulated activities adjusted EBITDA	699.8	639.1
Unregulated activities adjusted EBITDA	15.6	11.8
Continuing operations: adjusted EBITDA	**715.4**	**650.9**
regulated activities adjusted EBITDA margin (%)	*83.9%*	*82.8%*
unregulated activities adjusted EBITDA margin (%)	*70.0%*	*52.4%*

Continuing operations total reconciliation	**H1 2012**	**H1 2011**
Continuing operations: adjusted EBITDA	715.5	650.9
Unallocated costs	46.6	44.4
EBITDA - continuing operations	***668.9***	***606.5***
Depreciation and amortisation	204.5	192.7
EBIT - continuing operations	***464.4***	***413.8***
Financial income/(expense)	-64.8	-61.3
Share of profit/(loss) of equity-accounted investees	2.7	3.2
Pre-tax profit from continuing operations	***402.3***	***355.7***

The information regularly reported to senior management does not make direct reference to segment activities but rather to the overall measurement and presentation of gross invested capital. The following table reports that indicator for the years 2012 and 2011:

	30.06.2012	**31.12.2011**
In millions of euros	**Continuing operations**	
Net non-current assets[13]	9,505.7	9,163.1
NWC[14]	-393.8	-724.2
Gross invested capital	9,111.9	8,438.9

13 Net fixed assets include the value of the items "Property, plant and equipment", "Goodwill", "Intangible assets", "Equity-accounted investees", "Other non-current assets" and "Non-current financial assets" for the value of the other equity investments (0.6 million euro).

14 NWC (Net Working Capital) is equal to the difference between current assets, net of liquid funds, and current liabilities net of the short-term portion of long-term financing and other non-current liabilities.

C. NOTES TO THE CONSOLIDATED INCOME STATEMENT

REVENUE

1. REVENUE FROM SALES AND SERVICES – 840.3 million euros

“Revenue from sales and services” for the first six months of 2012 and 2011 is analysed in the following table:

In millions of euros	**H1 2012**	**H1 2011**	**Change**
Grid transmission fees	746.2	688.0	58.2
Other energy revenue	81.4	75.4	6.0
Other revenue from sales and services	12.7	14.6	-1.9
Total	**840.3**	**778.0**	**62.3**

Grid transmission fees

The increase of 58.2 million euros relates to:

- the Parent Company (42.9 million euros) for greater revenue attributable to:
  - the effects of AEEG Resolution 199/11 which, for the regulation period 2012-2015, has established amongst other things the fees for the provision of transmission services (40.8 million euros);
  - increased grid transmission fees related to the Defence Plan (2.1 million euros);
- the subsidiary Terna Rete Italia S.r.l. (15.3 million euros) for the same effects as described for the Parent Company.

Other energy revenue

This item comprises the fees paid to the Parent by electricity companies for dispatching services (DIS component, 67.3 million euros), together with revenue from the construction and development of dispatching infrastructure recognised pursuant to IFRIC 12 (14.1 million euros).The decrease of 6.0 million euros as compared with the first half of 2011 was mainly due to the combined effect of the following factors:

- update of the payment system for dispatching activities (27.3 million euros);
- adjustment of the fair value related to the measurement of Terna's performance in the Dispatching Services Market (DSM) with reference to the incentive mechanism envisaged by AEEG Resolution 213/09, of 10 million euros in the first half of 2012 (-25 million euros compared to the 35 million measured in the first half of 2011);
- Resolution 50/2012 which closed the procedure for the year 2010 related to establishing the premiums and penalties for the company Terna S.p.A., for the transmission service quality (NSFU/REND 4.5 million euros).

Other energy items – pass-through revenue/costs

This item includes the revenue and costs "passed-through" by the Group (whose net balance is therefore nil), which relate entirely to the Parent. These flows arise with operators active in the electricity market, and involve the daily purchase and sale of energy in order to carry out dispatching activities. To this end, the measurements at each point of input and withdrawal are taken and the differences from the energy market schedules are calculated. These differences (called imbalances) are measured using algorithms established by the regulatory framework. The net charge resulting from the measurement of these imbalances and of the buying and selling transactions executed by Terna on the DSM are billed on a pro rata basis to each consumer with an uplift fee.

It also includes the grid transmission fee which Terna pays to other owners of the grid.

The components of these transactions are detailed below.

In millions of euros	**H1 2012**	**H1 2011**	**Change**
Revenue – Electricity Market	2,236.9	1,666.3	570.6
Revenue - non-Electricity Market	689.3	608.7	80.6
Total pass-through energy revenue	**2,926.2**	**2,275.0**	**651.2**
Costs - Electricity Market	2,236.9	1,666.3	570.6
Costs - non-Electricity Market	689.3	608.7	80.6
Total pass-through energy costs	**2,926.2**	**2,275.0**	**651.2**

Other revenue from sales and services

The item "Other revenue from sales and services" amounted to 17.6 million euros (14.6 million euros in the first half of 2011), a decrease of 1.9 million euros, entirely attributable to the increased revenue from orders for diversified activities posted in the first half of 2011.

2. OTHER REVENUE AND INCOME – 16.3 million euros

"Other revenue and income" for the first six months of 2012 and 2011 is broken down in the following table:

In millions of euros	**H1 2012**	**H1 2011**	**Change**
Rental income	8.7	9.2	-0.5
Sundry grants	3.6	3.5	0.1
Sales to third parties	0.7	1.9	-1.2
Gains on the disposal of plant components	1.7	1.1	0.6
Contingent assets	0.8	0.1	0.7
Other revenue	0.8	0.3	0.5
Total	**16.3**	**16.1**	**0.2**

The other revenue and income, amounting to 16.3 million euros, of which 14.6 million euros was attributable to the Parent Company, was substantially in line with the corresponding period of the previous financial year (up 0.2 million euros).

OPERATING EXPENSES

3. RAW MATERIALS AND CONSUMABLES – 7.5 million euros

This item (amounting to 7.5 million euros) which expresses the value of consumption of materials and miscellaneous equipment used for ordinary business and plant maintenance, was down by 3 million euros compared to the figure for the same period of the previous financial year. This was mainly due to the greater costs recorded in the first half of 2011 on application of IFRIC 12 (2.1 million euros) and the greater capitalisation for the current period.

4. SERVICES – 63.6 million euros

The cost of "Services" for the first six months of 2012 and 2011 is broken down in the following table:

In millions of euros	**H1 2012**	**H1 2011**	**Change**
Tenders on plants	14.9	13.4	1.5
Maintenance and sundry services	23.4	26.0	-2.6
Insurance	3.8	3.1	0.7
Remote transmission and telephony	6.2	6.0	0.2
IT services	10.3	9.6	0.7
Leases and rentals	5.0	5.8	-0.8
Total	**63.6**	**63.9**	**-0.3**

The cost of services totalled 63.6 million euros, which is broadly in line with the first half of 2011 (-0.3 million euros). 44.1 million euros are related to the Parent Company and 17.6 million euros and 1.8 million euros to Terna Rete Italia S.p.A. and Terna Rete Italia S.r.l. respectively.
It is specified that the costs relating to remuneration relating to the Board of Statutory Auditors amount to 0.2 million euros.

5. PERSONNEL EXPENSES – 103.1 million euros

"Personnel expenses" for the first six months of 2012 and 2011 are broken down in the following table:

In millions of euros	**H1 2012**	**H1 2011**	**Change**
Wages, salaries and other short-term employee benefits	128.4	125.5	2.9
Directors' fees	1.1	0.8	0.3
Post-employment benefits, electricity discount and other employee benefits	8.0	8.0	0.0
Redundancy incentives	0.0	2.0	-2.0
Personnel expenses, gross	***137.5***	***136.3***	***1.2***
Capitalised internal work by employees	-34.4	-32.6	-1.8
Total	**103.1**	**103.7**	**-0.6**

This item decreased by 0.6 million euros on the previous year, mainly due to greater capitalisation of personnel expenses (up 1.8 million euros) which more than offset the increase in gross personnel expense (1.2 million euros). The latter was due to higher salary and social security costs and other short-term benefits net of the reduction of voluntary redundancy incentive costs.

The following table shows the average number of employees of the Parent by category for the first half of 2012 and 2011:

	Average number		Change
	H1 2012	**H1 2011**	
Senior management	61	60	1
Junior management	500	507	-7
Office staff	1,956	1,934	22
Production workers	981	1,015	-34
Total	**3,498**	**3,516**	**-18**

The net change in the average number of employees was -18 persons during the first half of the year compared with the same period in 2011.

6. AMORTISATION, DEPRECIATION AND IMPAIRMENT – 204.6 million euros

Amortisation, depreciation and impairment in the first six months of 2012 and 2011 are broken down below:

In millions of euros	**H1 2012**	**H1 2011**	**Change**
Amortisation of intangible assets	25.8	25.4	0.4
of which: infrastructure rights	*13.6*	*12.7*	*0.9*
Depreciation of property, plant and equipment	178.7	167.3	11.4
Impairment losses	0.1	0.2	-0.1
Total	**204.6**	**192.9**	**11.7**

Under this item, amortisation and depreciation for the first half-year was 11.7 million euros higher than in the same period of 2011 (of which 11.1 million euros is due to the Parent Company), in the main due to the greater depreciation of property, plant and equipment at 11.4 million euros mainly for new plants which entered into service during the half-year period.

7. OTHER OPERATING EXPENSES – 13.4 million euros

"Other operating expenses" for the first six months of 2012 and 2011 are broken down in the following table:

In millions of euros	H1 2012	H1 2011	Change
Provisions for risks and charges	1.9	2.6	-0.7
Power failure charges	0.8	0.1	0.7
Indirect and local taxes and duties	3.9	2.8	1.1
Contingent liabilities	4	0.8	3.2
Losses on disposal/decommissioning of plant	0.1	0.2	-0.1
Other operating expenses	2.7	2.8	-0.1
Total	**13.4**	**9.3**	**4.1**

The item, which comes to 13.4 million euros, increased by 4.1 million euros, mainly due to:

- greater contingent liabilities (3.2 million euros) mainly due to repayment of the balance of grants paid for 2002 to 2006 to the Ministry for Economic Development in relation to the former concession for private use (3.0 million euros);
- greater tax and local taxation for the financial year (1.1 million euros) in particular, local property tax - ICI (0.7 million euros) and urban and solid waste disposal tax - TARSU (0.3 million euros).

FINANCIAL INCOME AND EXPENSE

8. NET FINANCIAL INCOME/(EXPENSE) – -64.8 million euros

The cost for the first six months of 2012 and 2011 is broken down in the following table:

In millions of euros	Jun-12	Jun-11	Change
Financial income			
Interest income and other financial income	30.9	11.4	19.5
Debt adjustment (bonds) and related hedges	1.5	2.6	-1.1
Exchange gains	0.8	0.3	0.5
Total income	**33.2**	**14.3**	**18.9**
Financial expense			
Financial expense from the Parent	-6.1	-3.3	-2.8
Interest expense on medium/long-term loans and related hedges	-105.1	-82.1	-23.0
Discounting of post-employment benefits and other personnel-related provisions	-2.4	-2.2	-0.2
Capitalised borrowing costs	15.6	12.0	3.6
Total expense	**-98.0**	**-75.6**	**-22.4**
Total	**-64.8**	**-61.3**	**-3.5**

Net financial expense amounted to 64.8 million euros, comprising 98.0 million euros in financial expense and 33.2 million euros in financial income. The increase of 3.5 million euros with respect to the same period last year is principally attributable to the following factors:

- increased financial proceeds (19.5 million euros) which were primarily attributable to the joint effect of:
  - greater liquidity invested (19.0 million euros);

- increased interest on arrears recorded as a result of the delayed payment of receivables deriving from dispatching activities (0.2 million euros);
- recording of greater net income for uplift (2.2 million euros);
- decreased net financial income (-1.9 million euros) relating to the company sold during 2011;

- the net economic loss deriving from the adjustment to fair value of bonds and related hedges (-1.1 million euros);
- exchange rate adjustment (0.5 million euros) of the tax provision relating to the sale of the block of shares of the Brazilian subsidiaries;
- recognition of greater financial expense to the controlling shareholder CDP (-2.8 million euros) deriving from the use of the 500 million euro loan on 8 April 2011;
- higher financial expense deriving from medium and long-term debt and the related hedges (-23.0 million euros) due mainly to the increase in gross borrowing;
- greater financial expense deriving from the discounting of employee benefits (-0.2 million euros);
- increased capitalisation of financial expenses (3.6 million euros) as a result of greater capital expenditure during the period compared with the same period of last year.

9. SHARE OF PROFITS/(LOSSES) OF EQUITY-ACCOUNTED INVESTEES – 2.7 million euros

This item, mainly in line with the same period of last year (-0.5 million euros), shows the adjustment of equity investments held in CGES (0.4 million euros) and CESI (2.4 million euros) respectively.

10. INCOME TAXES – 180.4 million euros

The income tax charge for the period, 180.4 million euros, was 58.0 million euros higher than in the first half of 2011 due, in the main, to the "2nd package of budget adjustment measures" (the so called Robin Hood Tax) and the higher profit before taxes.

Income taxes for the period can be broken down as follows:

In millions of euro	H1 2012	H1 2011	Change
Income taxes			
Current taxes:			
- IRES	172.9	111.7	61.2
- IRAP	34.4	29.4	5.0
Total current taxes	***207.3***	***141.1***	***66.2***
New temporary differences:			
- deferred tax assets	-6.3	-4.5	-1.8
- deferred tax liabilities	0.0	0.1	-0.1
Reversal of temporary differences:			
- deferred tax assets	9.1	9.4	-0.3
- deferred tax liabilities	-28.6	-21.9	-6.7
Total change in deferred tax assets and liabilities	***-25.8***	***-16.9***	***-8.9***
Adjustment of prior-year taxes	***-1.1***	***-1.8***	***0.7***
Total	**180.4**	**122.4**	**58.0**

The tax rate for the half-year was 44.8% (45.1% without considering the corrections for previous periods), an increase of approximately 10 points over the same date of the first six months of 2011. This is mainly due to the effect of the so-called Robin Hood Tax.

Current taxes

Current taxes increased by 66.2 million euros compared with the first half of 2011 for the reasons described above.

Deferred tax assets and liabilities

Considering the additional IRES also in the first half of 2011, deferred tax assets and liabilities, which show a net benefit of -8.9 million euros, would have changed by approximately 3.5 million euros due mainly to the increased utilisations of deferred tax assets connected to personnel incentive schemes.

Adjustment of prior-year taxes

Adjustments made to tax in relation to previous years, for -1.1 million euros, refer to the greater taxes booked for 2011 with respect to the amounts paid to the tax authorities; the item fell by 0.7 million euros from the figure for the first half of 2011.

11. NET PROFIT FOR THE PERIOD FROM DISCONTINUED OPERATIONS

This item was not measured in the first half of 2012. In the first half of 2011, it amounted to 95 million euros and included:

- the income for the period, amounting to 59.2 million euros, relating to the charge for the period for the sale of the equity investment in Rete Rinnovabile S.r.l. on concluding the extraordinary transaction in the first quarter of 2011;
- the partial release of the provision allocated in 2009 for 33.8 million euros, inclusive of the related exchange effect, with reference to contractual obligations, which expired during the half-year, deriving from the sale of the majority holding in Terna Participações:
- the impact of reclassifying the NRTS Group's financial balances (2 million euros) as per IFRS 5.

12. EARNINGS PER SHARE

Basic earnings per share, which corresponds to diluted earnings per share, amounts to 0.110 euro (with a numerator of 221.9 million euros and a denominator of 2,009,992.0 thousand).

D. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

13. PROPERTY, PLANT AND EQUIPMENT– 8,965.3 million euros

Property, plant and equipment amounted to 8,965.3 million euros (8,618.2 million euros at 31 December 2011). The amount and changes for each category are reported in the following table:

In millions of euros	Land	Buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Total
Cost at 01.01.2012	**93.7**	**1,116.7**	**11,770.4**	**67.3**	**106.2**	**1,167.6**	**14,321.9**
Investments	0.0	18.1	0.0	0.8	0.9	512.9	532.7
Entry into use	0.4	30.3	191.3	0.0	5.2	-227.2	0.0
Disposals and impairment	-	-0.2	-8.3	-0.1	-6.2	-0.1	-14.9
Other changes (grants)	-	-	-1.5	-	-	-5.1	-6.6
Reclassifications	0.0	-1.4	1.30	0.10	-	-	0.0
Cost at 30.06.2012	**94.1**	**1,163.5**	**11,953.2**	**68.1**	**106.1**	**1,448.1**	**14,833.1**
Accumulated depreciation and impairment at 01.01.2012	**0.0**	**-310.5**	**-5,290.9**	**-44.8**	**-57.5**	**0.0**	**-5,703.7**
Depreciation charge for the period	-	-13.5	-156.1	-1.8	-7.3	-	-178.7
Disposals	-	0.2	8.1	0.0	6.3	-	14.6
Accumulated depreciation and impairment at 30.06.2012	**0.0**	**-323.8**	**-5,438.9**	**-46.6**	**-58.5**	**0.0**	**-5,867.8**
Carrying amount							
at 30 June 2012	**94.1**	**839.7**	**6,514.3**	**21.5**	**47.6**	**1,448.1**	**8,965.3**
at 31 December 2011	**93.7**	**806.2**	**6,479.5**	**22.5**	**48.7**	**1,167.6**	**8,618.2**

“Plant and machinery", at 30 June 2012, includes the energy transportation network as well as the transformation stations in Italy.

This item includes the ordinary changes of the period referring to investments (532.7 million euros, of which 15.6 million euros for capitalised financial expenses), disposals and other changes (6.9 million euros) and depreciation (178.7 million euros).

Below is a brief summary of the changes in property, plant and equipment that occurred during the period:

In millions of euros

Investments	
- Transmission lines	294.6
- Transformation stations	208.0
- Other	29.8
Total investments in property, plant and equipment - core business	***532.4***
Investments in property, plant and equipment - non-core business (Suntergrid)	*0.3*
Total investments in property, plant and equipment	**532.7**
Depreciation	-178.7
Disposals and other changes	-6.9
TOTAL	**347.1**

Among the investments in core business for the period (532.7 million euros, of which 516.8 million euros for the Parent Company and 15.4 million euros for the subsidiary Terna Rete Italia S.r.l.), please note those related to the Italian transmission grid, owned by the Parent Company, mainly related to the progress of works in relation to Sorgente - Rizziconi (120 million euros) with the conclusion of laying the first submarine three-phase power lines and the first fibre optic cable; the works to protect the cables are in progress. In addition, the well excavation works in Favazzina have begun, works on developing long-distance overhead 380 kV power lines in Calabria are continuing. With regard to developing the new stations in Scilla (Sicily), the assembly of the buildings, reactors and armoured equipment has been completed. In Sorgente (Calabria) the reactors are being assembled, the auto-transformers have been tested and the electro-mechanical of auxiliary and general services assembly is at an advanced stage, as is the finishing of the civil works inside the station and the access road.

The development works for Trino-Lacchiarella are continuing (54 million euros) with the foundations being laid and the supports, both traditional and tubular pylons, being assembled.

The development works and connection of the Aliano Power Station continue, work included in the restructuring of the North Calabria grid works (16 million euros); works to install an SPS (System Phase Shifter) in the Villanova power station (9 million euros) and the Foggia station (7 million euros) also continue. The works at the power stations in Castellaneta (380/150 kV) and Stornara (150 kV) have been completed with the related connections to the NTG, in order to connect two wind power plants to the national transmission grid (15 million euros). Worth noting is the purchase of Palermo offices (20 million euros).

14. GOODWILL – 190.2 million euros

Goodwill amounted to 190.2 million euros and is unchanged as compared to the balance of the previous year.

15. INTANGIBLE ASSETS – 273.4 million euros

Changes in intangible assets during the period are detailed below:

In millions of euros	Infrastructure rights	Concessions	Other assets	Assets under development and payments on account	Total
Balance at 31.12.2011	**117.8**	**100.9**	**34.9**	**27.1**	**280.7**
Investments	-	-	-	18.7	18.7
Entry into use	5.9	-	0.9	-6.8	-
Amortisation	-13.6	-2.8	-9.4	-	-25.8
Disposals	-	-	-	-0.2	-0.2
Balance at 30.06.2012	**110.1**	**98.1**	**26.4**	**38.8**	**273.4**
Cost	282.0	135.4	129.8	38.8	586.0
Accumulated amortisation	-171.9	-37.3	-103.4	-	-312.6
Balance at 30.06.2012	**110.1**	**98.1**	**26.4**	**38.8**	**273.4**

Intangible assets amounted to 273.4 million euros (280.7 million euros at 31 December 2011). This item, in particular, includes:

- infrastructure used for the dispatching service, carried out under concession and recognised in accordance with the provisions of IFRIC 12 - Service Concession Arrangements, with net carrying amount at 30 June 2012 of 110.1 million euros for infrastructure already in use and 31.4 million euros for infrastructure under construction classified under "assets under development and payments on account" (117.8 million euros and 23.1 million euros respectively at 31 December 2011);
- the licensing for the provision of electricity transmission and dispatching services in Italy (with net carrying amount of 98.1 million euros at 30 June 2012), recognised initially during 2005 at fair value and subsequently measured at cost.

Other intangible assets comprise application software developed internally or purchased when implementing systems development projects.

The decrease with respect to the prior year (7.3 million euros) is due to routine movements during the period, relating mainly to investments (18.7 million euros) – mainly in application software – and amortisation (25.8 million euros, of which 13.6 million euros relate to dispatching infrastructure and 2.8 million euros to the concession).

Investments for the period in intangible assets (18.7 million euros, of which 18.5 million euros refer to the Parent Company and 0.2 million euros to the subsidiary Terna Rete Italia) including expenditure on the development and evolution of software for the remote management system for dispatching (4.8 million euros), for the Power Exchange (3.4 million euros) and for protection of the Electrical System (0.2 million euros), as well as software applications and general licenses (4.0 million euros).

16. EQUITY-ACCOUNTED INVESTEES – 69.8 million euros

This item, amounting to 69.8 million euros, has increased by 3.0 million euros on 31 December 2011, due to:

- the recognition of the cost incurred for the acquisition (completed by the Parent in May 2012) of additional interests in the associate CESI (0.2 million euros) by Enel S.p.A. for approximately 0.3% of the share capital and the adjustment of the investment to the share of equity held by the Parent in the same company (2.4 million euros) at 30 June 2012;
- the adjustment of the equity investment in the associated company CGES at 30 June 2012 attributable to the stake owned by the Parent Company in the same company (0.4 million euros).

17. FINANCIAL ASSETS

The following table details financial assets recognised in the Consolidated financial statements:

	Carrying amount		Change
In millions of euros	**30.06.12**	**31.12.11**	
FVH derivatives	635.9	521.8	114.1
Other investments	0.6	0.6	0.0
Non-current financial assets	**636.5**	**522.4**	**114.1**
Other current financial assets	1,051.4	155.5	895.9
Current financial assets	**1,051.4**	**155.5**	**895.9**
Total	**1,687.9**	**677.9**	**1,010.0**

At 30 June 2012 "Non-current financial assets" of 636.5 million euros basically includes the measurement of fair value hedging derivatives taken out to hedge the Parent's debenture loans, determined by discounting the expected cash flows using the market interest rate curve at the reporting date and the value of the other investments of the Parent Company. The increase in the fair value (114.1 million euros) as compared with 31 December 2011 is essentially due to the fall in the market interest rate curve seen during the first half of 2012. This increase in the fair value of derivatives was offset by the decrease in fair value attributable to interest rates on Debenture Loans recorded amongst financial liabilities.

"Other investments" (0.6 million euros) refers to:

- the 5.6% interest held in the share capital of Desertec Industrial Initiative ("DII") (0.1 million euros) acquired in September 2010;
- the 8.3% interest held in the share capital of CASC CWE S.A. (0.3 million euros) acquired in November 2010;
- the 5% interest held in the share capital of Medgrid SAS (0.2 million euros, which has increased by 0.1 million euros following subscription of the capital increase of the subsidiary).

"Current financial assets" of 1,051.4 million euros rose from the prior year by 895.9 million euros mainly due to the combined effect of early reimbursement of the deposit certificates subscribed to in 2011 (150 million euros), the subscription of new securities maturing between April 2014 and November 2014 (1,032.5 million euros) and to interest accrued and not yet collected at the reporting date concerning short-term investments (13.4 million euros).

18. OTHER ASSETS

“Other assets” are broken down below:

In millions of euros	30.06.2012	31.12.2011	Change
Receivables due from others:			
- loans and advances to employees	5.9	6.1	-0.2
- deposits with third parties	0.5	0.4	0.1
Other non-current assets	**6.4**	**6.5**	**-0.1**
Other tax receivables	8.0	11.1	-3.1
Receivables due from others:			
- advances to employees	0.2	0.2	0.0
- other	24.0	9.2	14.8
Other current assets	**32.2**	**20.5**	**11.7**

The item "Other non-current assets" (6.4 million euros) was essentially unchanged from the end of the previous year (6.5 million euros) and mainly comprised loans and advances paid to employees of the Parent (5.9 million euros).

“Other current assets" of 32.2 million euros, broken down in the table above, increased by 11.7 million euros compared with 31 December 2011 owing to:

- lower other tax receivables (-3.1 million euros) mainly due to use of these to pay taxes (June 2012) and to amounts accumulated in the first half of the year;
- greater receivables due from others (14.8 million euros) mainly relating to greater shares of costs already paid but pertaining to subsequent years, attributable to personnel (6.1 million euros) and insurance premiums (3.0 million euros).

19. INVENTORIES – 7.3 million euros

Current inventories amount to 7.3 million euros and show a decrease on last year of 9.0 million euros, this is mainly attributable to the routine maintenance needs of the plants in Italy.

20. TRADE RECEIVABLES – 1,855.5 million euros

Trade receivables are analysed as follows:

In millions of euros	30.06.2012	31.12.2011	Change
Energy-related receivables	1,399.0	1,258.0	141.0
Grid transmission fee receivables	385.9	356.7	29.2
Other trade receivables	70.6	75.5	-4.9
Trade receivables	**1,855.5**	**1,690.2**	**165.3**

Trade receivables amounted to 1,855.5 million euros. The increase (165.3 million euros) from the previous year mainly comprises pass-through amounts deriving from the electricity dispatching activities carried out by the Parent Company.

Receivables are measured net of impairment losses on items considered uncollectible that are covered by allowances for doubtful accounts (16.8 million euros for energy items and 6.7 million euros for other items, both at 30 June 2012 and at 31 December 2011).

Energy-related receivables – 1,399.0 million euros

They mainly include receivables in relation to the so-called "pass-through" energy items arising in respect of dispatching activities. This item also includes receivables for fees payable by market operators for dispatching activities (DIS fee as per AEEG Resolution no. 237/04 and its subsequent amendments and supplements).

The increase in this item of 141.0 million euros from the previous year was mainly due to the combined effect of:

- increased receivables from the sale of electrical energy within the Electricity Market (107.2 million euros), mainly deriving from decreased receivables due to the reduction in resources procurement volumes on the Energy Market (13.8 million euros), greater ITC receivables for price per unit compared to the corresponding cost (6.0 million euros), increased receivables for the uplift component (81.2 million euros) and for the interconnection activity with Slovenia (29.8 million euros);
- higher receivables from the sale of electrical energy outside the Electricity Market (44.5 million euros) mainly referring to higher receivables from the Adjustment Fund.
- decreased receivables mainly duty the recognition during the half year of income related to 2010 transmission incentives (10.5 million euros).

Grid transmission fees receivable – 385.9 million euros

The receivable relating to grid transmission fees, equal to 385.9 million euros, refers to compensation due to the Parent and other owners for utilisation of the National Transmission Grid from distributors of electrical energy; it primarily refers to the fee which accrued in the last two months of the period, with a normal expiration date in the months of July and August 2012. The aforementioned receivable recorded a positive change of 29.2 million euros compared with the previous year; this was primarily due to the effect of rate adjustments.

Other trade receivables – 70.6 million euros

Other trade receivables refers mainly to receivables from clients of diversified business and show a decrease of 4.9 million euros compared to last year; this is mainly due to the increased receivables for orders in progress from third-party clients which mainly occurred in the latter part of last year and for which collection was made during the first half of 2012. This item also includes receivables for contract work in progress (0.5 million euros) relating to works of multi-year duration which the Parent Company has been implementing with third-party customers and which decreased with respect to the previous year by 1.2 million euros.

The amount of the guarantees issued to third parties by Terna at 30 June 2012 comes to 43.21 million euros and refers for 23.21 million euros to sureties issued to secure the contractual obligations arising under the scope of operations and for 20.00 million euros relating to a guarantee issued on Terna credit lines but in the interest of the subsidiary Suntergrid S.p.A. for commitments made at the moment of sale of Nuova Rete Solare S.r.l..

21. CASH AND CASH EQUIVALENTS – 712.9 million euros

Cash and cash equivalents at 30 June 2012 amount to 712.9 million euros of which 500.0 million euros are liquid funds invested in short-term deposits, 212.7 million euros as positive net liquid funds on bank current accounts and 0.2 million euros as cash on hand held by the Territorial Operational Units of the Group.

22. INCOME TAX ASSETS – 11.8 million euros

The increase of this item (7.4 million euros) on last year is due to the increased advance payment of IRES taxes paid in 2011.

LIABILITIES

23. EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT – 2,695.3 million euros

Share capital – 442.2 million euros

The share capital of the Parent is represented by 2,009,992,000 ordinary shares with a par value 0.22 euros each; this has not changed since 31 December 2011.

Legal reserve – 88.4 million euros

The legal reserve amounts to 20% of the share capital of the Parent Company at 31 December 2011. The increase of 0.2 million euros on last year, which restored this ratio between legal reserve and share capital, was resolved by the Shareholders' Meeting of Terna S.p.A. on second call on 16 May 2012, as they met to approve the Statutory financial statements of Terna and to allocate the net profit for the year 2011.

Other reserves – 662.5 million euros

Other reserves has decreased by a net amount of 16.2 million euros, due to Other comprehensive income, in particular:

- fair value adjustment of the derivative instruments hedging the floating-rate loans of the Parent - cash flow hedges (17.4 million euros), net of the related tax effect (-6.7 million euros);
- fair value recording of the securities classed as available for sale (8.9 million euros) net of the related tax effect (-3.4 million euros).

Retained earnings – 1,280.3 million euros

Retained earnings have increased by 17.6 million euros following allocation of the Group's profit for 2011.

Payment of final dividend

On 16 May 2011, the aforementioned Shareholders' Meeting resolved, in addition, a total dividend of 422.1 million euros for 2011, equal 0.21 euros per share, and authorised the payment – gross of any withholding taxes – of a final dividend, net of the interim dividend paid previously of 261.3 million euros, equal to 13.0 euros per share; this amount was paid on 21 June 2011, following detachment of coupon no. 16 on 18 June 2011.

24. LOANS AND FINANCIAL LIABILITIES

The following table details the loans and financial liabilities recognised in the Condensed Consolidated Interim Financial Statements of the Terna Group at 30 June 2012:

	Carrying amount		Change
In millions of euros	30.06.2012	31.12.2011	
Bonds	5,674.4	4,303.9	1,370.5
Bank loans	2,405.1	2,434.8	-29.7
Long-term loans	**8,079.5**	**6,738.7**	**1,340.8**
CFH derivatives	128.9	111.4	17.5
Non-current financial liabilities	**128.9**	**111.4**	**17.5**
Current portion of long-term loans	59.7	59.7	0.0
Current portion of medium/long-term loans	**59.7**	**59.7**	**0.0**
Total	**8,268.1**	**6,909.8**	**1,358.3**

The book value of loans is calculated by discounting the expected cash flows using the market interest rate curve at the reporting date.

Gross debt for the period increased with respect to the previous year by 1,358.3 million euros to 8,268.1 million euros. The increase in the value in bond loans (1,370.5 million euros) was due for 1,245.6 million euros to the new bond issue realised by the Parent in 2012 net of the costs and issue discount, for 113.9 million euros to the change in the fair value of the risk hedged and for 11.0 million euros to the capitalisation of period inflation net of the amortised cost effect. The change linked to the hedging of interest-rate risk comprises 20.2 million euros in relation to the inflation-linked bond, 35.0 million euros associated to the bond loans of 2014-2024, 17.3 million euros for the private placement and 41.4 million euros relating to the bond loan 2021; also it offsets the increase in the fair value of derivatives recognised as financial assets (114.1 million euros).

Instead, in considering the market listings (source Reuters), bond loans recorded on the Luxembourg Stock Exchange have the following prices:

- bond maturing 2024, price at 30 June 2012: 96.83 and 31 December 2011: 93.85;
- bond maturing 2014, price at 30 June 2012: 103.99 and 31 December 2011: 102.42;
- bond maturing 2023*, price at 30 June 2012: 97 and price at 31 December 2011: 82;
- bond maturing 2019, price at 30 June 2012: 102.88 and price at 31 December 2011: 96.86;
- bond maturing 2021, price at 30 June 2012: 97.92 and price at 31 December 2011: 92.35;
- bond maturing 2017, price at 30 June 2012: 99.92.

* Source: bank; in the absence of up-to-date prices source: Reuters and Bloomberg.

The debt which was originally floating-rate, shows a decrease of -29.7 million euros mainly due to the reduction in EIB (European Investment Bank) loans and other financing following repayments made in the period on outstanding loans.

Long-term loans

The total amount of the Group borrowing at 30 June 2012, entirely referring to the Parent, was equal to 8,139.1 million euros, of which 8,079.4 million euros due after more than 12 months.

The following table breaks down long-term debt by average interest rate, including amounts falling due within one year. It also shows the average interest rate for each type of financial debt.

In millions of euros	Maturity	Original currency	30.06.2012	Due within 12 months	Due beyond 12 months	Average interest rate as of 30.06.2012
Listed fixed rate 10 y-20 y bond	**2014-2024**	**Euro**	**1,646.0**	**0.0**	**1,646.0**	**4.62%**
Listed IL bond	**2023**	**Euro**	**686.0**	**0.0**	**686.0**	**2.76%**
Private Placement bond	**2019**	**Euro**	**679.3**	**0.0**	**679.3**	**4.88%**
Listed fixed rate 10 y bond	**2021**	**Euro**	**1,417.5**	**0.0**	**1,417.5**	**4.76%**
Listed fixed rate 5 y bond	**2017**	**Euro**	**1,245.6**	**0.0**	**1,245.6**	**4.13%**
Fixed rate			**5,674.4**	**0.0**	**5,674.4**	
EIB	**2014-2030**	**Euro**	**1,315.5**	**59.7**	**1,255.8**	**1.65%**
Club Deal	**2015**	**Euro**	**649.3**	**0.0**	**649.3**	**1.60%**
CDP	**2019**	**Euro**	**500.0**	**0.0**	**500.0**	**2.44%**
Floating rate			**2,464.8**	**59.7**	**2,405.1**	
Total			**8,139.2**	**59.7**	**8,079.5**	

To repay the nominal value of the bond loans, amounting to 4,500.0 million euros, 600.0 million euros will be repaid on 28 October 2014, 600 million euros on 3 October 2019, 1,250 million euros on 15 March 2021, 1,250 million euros on 17 February 2017 and 800.0 million euros on 28 October 2024; whilst the inflation-linked bond loan will be repaid at maturity on 15 September 2023 with the nominal amount adjusted to reflect inflation.

The previous table shows the average interest rate for each type of financial liability. Below we also comment on the Group's hedging operations against interest rate fluctuations.

As regards the 2014-2024 bond loans, if fair value hedging operations are taken into account, the average interest rate is equal to 1.93%.

For inflation-linked bond loan - and taking hedges into account - and considering the inflation rate, the average interest rate paid in the year was 3.91%.

The fixed-rate private placement was synthetically transformed to a floating rate security by means of derivative contracts with the same maturity. Consequently, the average interest rate paid in the year was 2.72%.
As regards the 2021 bond loan, if fair value hedging operations are taken into account, the average interest rate is equal to 2.53%.
With regard to floating rate loans covered by fluctuations in interest rates - and taking into account the effect of derivative financial instruments booked as cash flow hedges - an average rate of 2.81 % is reported for EIB financing while for the Club Deal financing totalling 650 million euros, the average rate was 3.99% and for the CDP financing the average rate was 4.16%.

The following table reports the changes in long-term debt during the first half of 2012:

Type of loan	Nominal debt at 31.12.2011	Carrying amount at 31.12.2011	Repayment and capitalisation	New issues	Delta Fair Value 31.12.2011 30.06.2012	Change in carrying amount	Nominal debt at 30.06.2012	Carrying amount at 30.06.2012
Listed fixed rate 10 y-20 y bond	1,400.0	1,611.0	0.0	0.0	35.0	35.0	1,400.0	1,646.0
Listed IL bond	546.9	654.8	11.0	0.0	20.2	31.2	557.9	686.0
Private Placement	600.0	662.0	0.0	0.0	17.3	17.3	600.0	679.3
Listed fixed rate 10 y bond	1,250.0	1,376.1	0.0	0.0	41.4	41.4	1,250.0	1,417.5
Listed fixed rate 5 y bond	0.0	0.0	0.0	1,245.6	0.0	1,245.6	1,250.0	1,245.6
Total bonds	**3,796.9**	**4,303.9**	**11.0**	**1,245.6**	**113.9**	**1,370.5**	**5,057.9**	**5,674.4**
Bank loans	2,495.4	2,494.5	(29.7)	0.0	0.0	(29.7)	2,465.5	2,464.8
Total bank loans	**2,495.4**	**2,494.5**	**(29.7)**	**0.0**	**0.0**	**(29.7)**	**2,465.5**	**2,464.8**
Total financial debt	**6,292.3**	**6,798.4**	**(18.7)**	**1,245.6**	**113.9**	**1,340.8**	**7,523.4**	**8,139.2**

As compared with 31 December 2011, long-term debt as a whole rose by 1,340.8 million euros, due to 1,245.6 million euros of the issue of a new bond loan maturing in 2017, net of costs and issue discount, 11 million euros of the capitalisation of the period inflation linked to the inflation linked bond, 113.9 million euros of the increase in the fair value of the bond loans determined by the decrease in interest rates and 29.7 million euros of the repayment of the share of the EIB loans.
At 30 June 2012, the Parent has unused lines of credit exceeding 1,217.9 million euros, of which more than 717.9 million euros in short-term credit lines and 500.0 million euros in a medium-term credit line.

Non-current financial liabilities

The following table reports the amount and changes in non-current financial liabilities since the end of the year:

In millions of euros	30.06.2012	31.12.2011	Change
CFH derivatives	128.9	111.4	17.5
Total	**128.9**	**111.4**	**17.5**

“Non-current financial liabilities” includes the fair value measurement of cash flow hedge derivatives. Fair value was measured by discounting the expected cash flows using the market yield curve at the reporting date. The change in the rate curve since 31 December 2011 resulted in the increase in the fair value of these derivatives by 17.5 million euros.

Current financial liabilities

Current financial liabilities, comprising the interest expense accrued on financial instruments but not yet settled, have increased by 10.4 million euros since the end of last year.

The following table analyses the main elements of the net financial position:

	In millions of euros	Carrying amount 30.06.2012
A.	Cash	212.9
B.	Cash on hand (breakdown)	500.0
C.	Securities	1,032.5
D.	**Cash and cash equivalents (A) + (B) + (C)**	**1,745.4**
E.	Current portion of long-term payables	59.7
F.	**Current financial debt (E)**	**59.7**
G.	**Net current financial debt (F) - (D)**	**-1,685.7**
H.	Non-current bank payables	2,405.1
I.	Bonds issued	5,674.4
L.	Derivative financial instruments in portfolio	-507.0
M.	**Net non-current financial debt (H) + (I) + (L)**	**7,572.5**
N.	**Net financial debt (G) + (M)**	**5,886.8**

Certain long-term loans obtained by Terna S.p.A. are subject to covenants that are typical of international practice. For a breakdown of these covenants, reference should be made to the section "Commitments and risks" below.

25. EMPLOYEE BENEFITS – 120.0 million euros

The main assumptions underlying the actuarial estimate of employee benefit obligations are the same as those used for the 2011 Financial statements. The composition of termination benefits provision and other employee-related provisions at 30 June 2012 is detailed below along with changes in the period:

In millions of euros	31.12.2011	Provision	Interest cost	Utilisations and other changes	30.06.2012
Benefits payable to employees					
Loyalty bonus	3.8	0.1	0.1	-0.2	3.8
Total	**3.8**	**0.1**	**0.1**	**-0.2**	**3.8**
Benefits payable upon termination of employment					
Post-employment benefits	64.4	0.0	1.3	-1.1	64.6
Additional months' pay	6.5	0.1	0.2	-0.2	6.6
Substitute indemnities and similar	2.7	0.0	0.0	-0.2	2.5
Total	**73.6**	**0.1**	**1.5**	**-1.5**	**73.7**
Post-employment benefits					
Energy discount	30.9	0.3	0.7	-0.2	31.7
ASEM	10.9	0.0	0.1	-0.2	10.8
Total	**41.8**	**0.3**	**0.8**	**-0.4**	**42.5**
Total	**119.2**	**0.5**	**2.4**	**-2.1**	**120.0**

This caption, amounting to 120.0 million euros at 30 June 2012 (119.2 million euros at 31 December 2011), increased by 0.8 million euros during the period as a result of the accruals and the recognition of the discounting charge for the period (2.9 million euros), partially offset by the utilisations of the half-year (2.1 million euros).

26. PROVISIONS FOR RISKS AND CHARGES – 193.8 million euros

The breakdown of the Provisions for risks and charges at 30 June 2012 is detailed below together with the changes in the period:

In millions of euros	Provision for disputes	Provisions for other risks and charges	Provision for early retirement incentives	Total
Balance at 31.12.2011	**16.8**	**156.9**	**20.1**	**193.8**
Provision	0.8	8.2	0.0	9.0
Utilisations and other changes	-0.4	-7.7	-0.9	-9.0
Balance at 30.06.2012	**17.2**	**157.4**	**19.2**	**193.8**

The Provisions for risks and charges are in line with the figures of 31 December 2011, mainly as a result of the following movements of the Parent:

- a net accrual of 0.4 million euros for liabilities which may result from lawsuits and out-of-court disputes relating to the Group's activities:
- a net utilisation (3.7 million euros) for "Projects for urban and environmental renewal", the aim of which is to offset the construction of long-distance power lines;
- exchange rate adjustment (-0.8 million euros) of the provision for probable expenses relating to tax obligations deriving from the sale of Terna Participagoes;
- net accrual in relation to the incentive plans arranged for senior management (3.4 million euros);

- net allocation of 1.2 million euros for the charges due to distributing companies for power failures of the transformation plants linked to the NTG (in accordance with Resolution 341/07, 1.5 million euros in total) as well as for the sharing of indemnities due to final users (-0.3 million euros);
- net utilisation (0.9 million euros) of the redundancy provision covering the estimated extraordinary cost of the mutually agreed early termination of those employees who are eligible for pension.

27. DEFERRED TAX LIABILITIES – 216.0 million euros

The changes in this provision are analysed below:

In millions of euros	31.12.2011	Impact recognised in profit or loss		Impact recognised in equity	30.06.2012
		Provisions	Utilisations		
DEFERRED TAX LIABILITIES					
Property plant and equipment	426.9	-	-28.6	-	398.3
Employee benefits and financial instruments	4.3	-	-	-	4.3
Total deferred tax liabilities	**431.2**	**-**	**-28.6**	**-**	**402.6**
DEFERRED TAX ASSETS					
Provisions for risks and charges	39.0	2.1	-1.5	-	39.6
Allowance for doubtful accounts	3.6	-	-	-	3.6
Employee benefits	27.0	4.1	-5.7	-	25.4
CFH derivatives and securities available for sale	42.3	-	-	10.0	52.3
Release of goodwill	67.5	-	-1.9	-	65.6
Other	0.0	0.1	-	-	0.1
Total deferred tax assets	**179.4**	**6.3**	**-9.1**	**10.0**	**186.6**
NET DEFERRED TAX LIABILITIES	**251.8**	**-6.3**	**-19.5**	**-10.0**	**216.0**

This balance, 216.0 million euros, reflects the net movements in the Group's deferred tax assets and liabilities.

Deferred tax liabilities totalled 402.6 million euros, decreased by 28.6 million euros, essentially due to:

- utilisation of prior period provisions covering the accelerated depreciation recorded by the parent Terna and the subsidiary Terna Rete Italia S.r.l. in excess of the tax-allowable amounts (20.4 million euros and 1.7 million euros respectively), including the amount released in relation to the depreciation for the period associated with merger differences allocated to property, plant and equipment following the business combinations carried out in prior years (1.5 million euros);
- release of the charge for period (4.6 million euros) of the provision for deferred IRAP liabilities governed by Law no. 244 dated 24 December 2007 (the 2008 Finance Law), recorded in prior years in relation to economic/technical rates;
- release of the charge for the period of the deferred taxes calculated on the excess cost paid for the acquisition of Terna Rete Italia S.r.l. following its allocation to the transmission plants and to intangible assets (totalling 1.9 million euros);

Deferred tax assets (186.6 million euros) increased by 7.2 million euros, mainly due to the tax effects of changes in cash flow hedges and securities available for sale of the Parent (10.0 million euros), without impacting on the Income statement, and the release of the portion for the period of deferred tax assets allocated for the release of goodwill recorded following the acquisition of Terna Rete Italia S.r.l. and the merger of RTL by the Parent (1.9 million euros); and also the net release deriving from changes in provisions for employee benefits (-1.6 million euros) and provisions for risks and charges (0.6 million euros).

28. OTHER NON-CURRENT LIABILITIES – 134.4 million euros

This item (134.4 million euros) has decreased since 31 December 2011 (137.1 million euros), by 2.7 million euro due to the release of set-up grants in relation with the depreciation for the period of plants for which grants were recognised;

29. CURRENT LIABILITIES

Current liabilities at 30 June 2012 break down as follows:

In millions of euros	**30.06.2012**	**31.12.2011**	**Change**
Current portion of long-term loans *	59.7	59.7	0.0
Trade payables	1,890.1	2,029.8	-139.7
Tax liabilities	64.7	116.5	-51.8
Current financial liabilities*	50.5	40.1	10.4
Other current liabilities	179.8	137.6	42.2
Total current liabilities	**2,244.8**	**2,383.7**	**-138.9**

(*) See the comments in Note 24. LOANS AND FINANCIAL LIABILITIES

Trade payables - 1,890.1 million euros

Trade payables at 30 June 2012 break down as follows:

In millions of euros	**30.06.2012**	**31.12.2011**	**Change**
Suppliers:			
- Energy-related payables	1,392.0	1,334.8	57.2
- Non energy-related payables	490.8	684.8	-194.0
Payables due to associates	4.3	7.1	-2.8
Payables for contract work in progress	3.0	3.1	-0.1
Total trade payables	**1,890.1**	**2,029.8**	**-139.7**

Suppliers:

- Energy-related payables

This item reports the effects on the balance sheet of payables for "pass-through" costs not ascribable to the Parent Company, and refers mainly to purchase of energy relative to dispatching activities and the transport fee due to the owners of other sections of the NTG.

The increase of 57.2 million euros compared with the previous year is essentially attributed to:

- increased payables (5.8 million euros) relative to "pass-through items" which are mainly ascribable to the joint effect of:
  - the increase in payables due for the purchase of electricity outside the Electricity Market (63.7 million euros) mainly deriving from the net effect of the greater payables due for the Essential Units for the Safety of the Electrical System (EUSES) (102.8 million euros) and the increase in the payables generated by the congestion rent (41.9 million euros), partially offset by the decrease in the capacity payment payables (88.4 million euros);
  - the decrease in payables due for the purchase of electricity inside the Electricity Market (57.9 million euros) mainly deriving from the net effect of the lesser payables caused by the reduction in the quantity and price of the measurement of the imbalance (113.8 million euros), as already described in the "Trade Receivables" section, partially offset by the increase in supply volumes of resources from the Electricity Market (18.9 million euros), greater payables for the virtual interconnection activities (24.1 million euros), as well as the increase in payables related to the payment mechanism for the charges related to transits on foreign electricity grids attributable to cross-border exchanges of electricity (15.5 million euros)
- greater payables not ascribable to the Parent Company (51.4 million euros), mainly attributable to the advance (54 million euros) received from the Adjustment Fund for the electricity sector as counterpart in the market coupling mechanism for managing congestion on the interconnection with Slovenia.

\- *Non energy-related payables*

Amounts due to suppliers refer to invoices both already received and yet to be received for tenders, services and the purchase of materials and equipment.

The decrease on last year (194.0 million euros) is mainly a result of the purchases and services for the increased investment activity over the last half of 2011, and also the effect of the payment by the Parent of considerable payables outstanding at the end of 2011 at the beginning of this financial year.

Payables to associates

This item amounts to 4.3 million euros and includes payables to the associate CESI for services provided to the Parent Company in the construction and management of laboratories and plants for tests, inspections, studies and experimental research in the general field of electricity technology and scientific and technical progress. The decrease (2.8 million euros) from 31 December 2011 is due to lower performance of the associate CESI during the half-year.

Group commitments with suppliers amounted to about 1,650.7 million euros and refer to purchase commitments relating to normal "operating activities" for the period 2013-2018.

Payables for contract work in progress

The payables for contract work in progress concerning advances from customers amounted to 3.0 million euros at 30 June 2012, for the Parent and the subsidiary Terna Rete Italia S.p.A., and is substantially in line with the balance at 31 December 2010. It is made up as follows:

In millions of euros	Payments on account	Contract value	Balance at 30.06.2012	Payments on account	Contract value	Balance at 31.12.2011
Other	-16.8	13.8	-3.0	-15.5	12.4	-3.1

Tax liabilities - 64.7 million euros

The item refers to the Group's tax liabilities for the financial year and refers to:

- the Parent Company Terna in the amount of 46.6 million euros;
- the subsidiary Terna Rete Italia S.r.l. in the amount of 10.7 million euros;
- the subsidiary Terna Rete Italia S.p.A. in the amount of 7.4 million euros;
- the subsidiary SunTergrid in the amount of 0.1 million euros;

It shows a decrease of 51.8 million euros on the previous year, mainly due to payment of the balance of current taxes relating to 2011 (116.5 euros) and the advance payment of taxes for this financial year (131.8 million euros), net of the recognition of the taxes for the half year (196.5 million euros).

Other current liabilities - 179.8 million euros

Other current liabilities break down as follows:

In millions of euros	30.06.2012	Due within one year	Due beyond one year	31.12.2011	Change
Payments on account	43.3	18.9	24.4	38.8	4.5
Other tax liabilities	41.7	41.7		20.5	21.2
Payables to social security institutions	24.8	24.8		22.3	2.5
Payables to employees	32.0	32.0		31.2	0.8
Other payables to third parties	38.0	5.4	32.6	24.8	13.2
Total	**179.8**	**122.8**	**57.0**	**137.6**	**42.2**

Payments on account

The item (43.3 million euros) reports set-up grants related to plants received by the Group (40.7 million euros for the Parent Company and 2.6 million euros for Terna Rete Italia S.r.l.) for assets under construction at 30 June 2012.

Compared to the book value at 31 December 2011 (38.8 million euros), there is an increase of 4.5 million euros, mainly due to the net effect of new payments on account received from third parties for 11.4 million euros and a decrease of 6.9 million euros in the grants reducing the book values of assets entered into operation during the financial year; in particular there are payments on account received in accordance with the mandate contract for the design of the "Interconnector" interconnection infrastructure with other countries (18.1 million euros, in accordance with Resolution ARG/elt 179/09 and its subsequent amendments).

Other tax liabilities

Other tax liabilities, amounting to 41.7 million euros, show an increase of 21.2 million euros with respect to the previous financial year, mainly as a result of the recognition of the VAT payable (18.9 million euros) for the year.

Payables to social security institutions

Amounts payable to social security institutions, mainly relating to payables due to INPS by the Parent and the subsidiary Terna Rete Italia S.p.A., amount to 24.8 million euros (22.3 million euros at 31 December 2011). The item also includes the payable due to Fondo Previdenziale Elettrici – F.P.E. (security fund for electricians) (5.8 million euros).

Payables to employees

Payables to employees, amounting to 32.0 million euros (31.2 million euros at 31 December 2011), related mainly to the Parent and the subsidiary Terna Rete Italia S.p.A. and are mainly for amounts related to staff incentives to be paid the following year (13.5 million euros), payables to employees for unused holiday time and abolished public holidays to be paid (10.7 million euros) and the recognition of the portion for the period of salary costs payable to employees (4.8 million euros).

Other payables to third parties

Other payables to third parties, equal to 38.0 million euros (24.8 million euros at 31 December 2011), mainly regard security deposits (32.6 million euros) received from electricity market operators securing their obligations in respect of dispatching contracts. The item shows an increase of 13.2 million euros mainly attributable to security deposits securing their obligations in respect of dispatching and virtual interconnection contracts (12.6 million euros).

E. COMMITMENTS AND RISKS

Risk management

Market and financial risks

In the conduct of its operations, the Terna Group is exposed to various financial risks: market risk (interest-rate risk and inflation risk), liquidity risk and credit risk.

The risk management policies adopted seek to identify, analyse and monitor the risks to which the Group is exposed, to establish appropriate limits and controls, and to check compliance with such limits. These policies and related systems are reviewed on a regular basis in order to reflect any changes in market conditions and the activities of the Group.

As part of the policies approved by the Board of Directors, the Terna Group has defined responsibilities and operational procedures for the management of financial risk, making specific reference to the tools considered acceptable and setting clear operating limits for their use.

The exposure of the Terna Group to the above risks is essentially represented by the exposure of the Parent. Accordingly, this section provides comprehensive information about Terna's exposure to each of the above risks, along with a presentation of the objectives, policies and processes for managing such risks and the methods used to measure them, as well as further quantitative disclosures drawn from the Parent's Financial Statements at 30 June 2012.

The fair value of financial instruments is determined in accordance with the fair value hierarchy envisaged under IFRS 7 (Level 2) by means of appropriate valuation techniques for each category of financial instrument, using market data at the closing date and discounting projected cash flows on the basis of the market yield curve and inflation at the reporting date.

Financial assets and liabilities in respect of derivative instruments in place during the period can be classified as:

- cash flow hedge derivatives, essentially related to hedging the risk of changes in cash flows associated with long-term floating-rate loans;
- fair value hedging derivatives, essentially related to hedging the exposure to changes in the fair value of a financial asset or liability associated with fluctuations in interest rates (fixed-rate bond loans).

See also the discussion in the “Risk Management – Terna Group” section of the Notes to the 2011 Annual report of the Terna Group.

The following paragraphs provide information, updated to the date of this report, concerning interest-rate risk, credit risk and liquidity risk; market risk and inflation risk, on the other hand, are discussed in the Risk Management section of the Notes to the Annual report at 31 December 2011.

Sensitivity to interest-rate risk

The following table reports the amounts recognised in the Income statement and shareholders' equity for positions that are sensitive to changes in interest rates, the theoretical value of the positions following a positive or negative shift in the yield curve and the differential impact recognised in the Income statement and shareholders' equity of such changes. A hypothetical 10% variation in interest rates with respect to market interest rates at the reporting date was assumed:

	Profit or loss			Equity		
In millions of euros	**Current rates +10%**	**Current rates**	**current rates -10%**	**Current rates +10%**	**Current rates**	**current rates -10%**
30.06.2012						
Positions sensitive to changes in interest rates (FVH, bond loans,CFH)	2.2	1.5	0.8	-122.3	-128.9	-135.8
Hypothetical change	0.7	-	-0.7	6.6	-	-6.9
31.12.2011						
Positions sensitive to changes in interest rates (FVH, bond loans,CFH)	1.0	-0.2	-1.4	-100.0	-111.4	-122.9
Hypothetical change	1.2	-	-1.2	11.4	-	-11.5

Liquidity risk

At 30 June 2012 Terna had 500.0 million euros unused in medium-term credit lines and 717.9 million euro in short-term credit lines. The company also holds shares for 1,032.5 million euros and cash and equivalent funds for 712.9 million euros. This amount is sufficient to refinance the debt falling due as discussed in the section on long-term loans (59.7 million euros).

Credit risk

Credit risk is the risk a customer or one of the counterparties to a transaction in financial instruments could cause a financial loss by failing to discharge an obligation. It is mainly generated by trade receivables and the financial investments of the Company.

The credit risk originated by open positions on transactions in financial derivatives is considered to be marginal since the counterparties, in compliance with financial risk management policies, are leading international credit institutions with high ratings and such transactions are diversified in compliance with specific concentration limits.

Terna provides its services to counterparties considered solvent by the market, who therefore have a high credit standing, and does not have highly concentrated credit risk.

Credit risk management is guided by the provisions of AEEG Resolution no. 111/06, which, in Art. 49, introduced instruments for the limitation of risks related to the insolvency of dispatching customers, both on a preventive basis and in the event of actual insolvency. In particular, the Resolution establishes three instruments to safeguard the electricity market: a guarantee system (bank guarantees provided by individual dispatching customers, based on their turnover), the option of terminating dispatching contracts (in the event

of insolvency or failure to replace enforced guarantees) and, finally, the possibility of recovering uncollected debts, after having taken all other possible collection actions, through a specific fee defined by the Authority.
The exposure to credit risk at 30 June 2012 is represented by the total carrying amount of (current and non-current) financial assets and trade receivables.
With regard to financial assets, it is noted that Terna provides its services mainly to counterparties considered solvent by the market, which therefore have high credit standing.
Terna exposure to financial credit risk at period end is as follows:

In millions of euros	**Carrying amount 30.06.2012**	**Carrying amount 31.12.2011**	**Change**
FVH derivatives	635.9	521.8	114.1
Securities	1,032.5	150.0	882.5
Cash and cash equivalents	712.9	1,114.9	-402.0
Trade receivables	1,862.4	1,684.0	178.4
Total	**4,243.7**	**3,470.7**	**773.0**

The following tables provide qualitative information on receivables from customers that are not past due and have not been impaired:

Geographical distribution

	Carrying amount	
In millions of euros	**30.06.2012**	**31.12.2011**
Italy	1,780.2	1,654.2
Other Euro zone countries	80.8	27.2
Other countries	1.4	2.6
Total	**1,862.4**	**1,684.0**

Customer typology

In millions of euros	Carrying amount 30.06.2012	31.12.2011
Distributors (*)	256.5	243.4
Electricity Equalisation Fund (**)	141.9	131.3
Input dispatching contractors	252.3	229.4
Withdrawal dispatching contractors (non distributors)	1,118.5	1,000.2
Holders of virtual import contracts and virtual import services (interconnectors and shippers)	15.6	12.5
Receivables from unregulated activities	77.6	67.2
Total	**1,862.4**	**1,684.0**

(*) Includes receivable accrued in respect of Terna Rete Italia S.r.l. grid transmission fees;

(**) Of which 131.2 million euros from volume effect on grid transmission fees.

The following table breaks down customer receivables by due date, reporting any potential impairment:

	Impairment	Gross	Impairment	Gross
In millions of euros	30.06.2012		31.12.2011	
Not yet past due	-	1,715.6	-	1,560.0
0-30 days past due	-	86.5	-	50.0
31-120 days past due	-	8.6	-	37.9
More than 120 days past due	-23.6	75.3	-23.6	59.7
Total	**-23.6**	**1,886.0**	**-23.6**	**1,707.6**

Changes in allowance for doubtful accounts in the course of the period were as follows:

In millions of euros	2012	2011
Balance at 1 January	-23.6	-23.5
Reversal of provision	-	-
Impairment for the year	-	-0.1
Balance at 30 June	**-23.6**	**-23.6**

The value of guarantees received from eligible electricity market customers is illustrated below:

In millions of euros	**30.06.2012**	**31.12.2011**
Dispatching - input	258.1	254.6
Dispatching - withdrawal	843.1	762.9
Grid transmission fees - distributors	174.8	174.8
Virtual importing	171.2	280.2
Total	**1,447.2**	**1,472.5**

Default risk and covenants on the debt

This risk is associated with the possibility that the loan contracts or bond loans rules to which the Parent is a party may contain provisions authorising counterparties to call in such loans immediately upon the occurrence of certain events, thereby generating liquidity risk.

Certain long-term loans obtained by Terna S.p.A. contain covenants that are typical of international practice. The principal covenants relate to:

- the Company's bonds, comprising two issues of 600 million euros and 800 million euros in 2004, and four issues under the 5 billion euros (5,000,000,000) Medium-Term Notes Programme, one of 500 million euros in 2007 and one, in the form of a Private Placement, of 600 million euros in 2009, an issue of 1,250 million euros in March 2011 in addition to an issue of 1,250 million euros in February 2012;
- bank debt, consisting of a revolving line of credit of 500 million euros, a “Club Deal” syndicated loan of 650 million euros, and a loan from Cassa Depositi e Prestiti (CDP) of 500 million euros that draws on EIB funds;
- loans to the Company from the European Investment Bank (EIB) totalling an initial 1,623 million euros.

The principal covenants relating to the issue of bonds and the 5 billion EMTN programme are summarised below:

- "negative pledge" clauses, under which the issuer or significant subsidiaries (consolidated companies whose total assets represent at least 10% of total consolidated assets and, solely for the EMTN programme, whose registered offices are in an OECD country) may not establish or maintain mortgages, liens or other encumbrances on all or part of its assets in order to secure listed bonds, unless these guarantees are extended on the same basis to the bonds concerned. A number of exceptions apply (guarantees required by law, guarantees in place prior to the date of the loan, guarantees on new assets that only secure the payable arranged to acquire them etc.), in relation to which the Company is not bound by the above pledges;

- "pari passu" clauses under which the securities constitute a direct, unconditional and unsecured obligation of the issuer and are issued without preferential rights among them and have at least the same seniority as other present and future unsecured and unsubordinated borrowing of the issuer;

- "event of default" clauses, under which certain events (e.g. failure to pay, initiation of liquidation proceedings of the issuer, breach of contractual obligations etc.) are considered to represent potential default; in addition, under the "cross default" clauses, the occurrence of a default event in respect of any financial debt (above a threshold level) issued by the issuer also constitutes a default in respect of the loan concerned, which becomes immediately repayable;

- periodic or occasional reporting requirements on the occurrence of specified events.

The principal covenants for the revolving line of credit, the "Club Deal" syndicated loan and the 500 million euro loan from CDP are summarised below:

- "negative pledge" clauses, under which the Company and each significant subsidiary (consolidated companies whose total assets represent at least 10% of total consolidated assets) agree not to establish new guarantees securing any type of financial liability, with the exception of permitted guarantees (guarantees required by law, guarantees in place prior to the date of the loan, guarantees on new assets that only secure the debt arranged to acquire them, guarantees given to governmental or international entities, including the EIB, guarantees on borrowing whose amount does not exceed 10% of total assets etc.);

- "pari passu" clauses under which the payment undertakings of the borrower in respect of loans are not subordinate to any obligation in respect of other unsecured and unsubordinated creditors, except in the case of statutory preferential rights;

- "event of default" clauses linked to the occurrence of specified events (such as, for example, failure to pay, false declarations, insolvency, termination of activities, seriously prejudicial events, breach of contractual obligations, including the equality of the conditions applied by lenders etc.) are considered to represent potential default; in addition, under the "cross default" clauses the occurrence of a default event in respect of any financial liability (above a threshold level), also constitutes a default in respect of the loan concerned, which becomes immediately repayable;

- periodic or occasional reporting requirements on the occurrence of specified events.

- compulsory early redemption clauses under which the Company is required to repay the loan early if its long-term credit rating is reduced below investment grade (BBB-) by a majority of the rating agencies that monitor the Company, if the Company ceases to be monitored by one or more rating agencies.

The principal covenants governing the EIB loans are summarised below:

- "negative pledge" clauses, under which if the Company establishes, agrees, provides or decides to maintain restrictions in favour, whether directly or indirectly, of third parties (such as unsecured or secured guarantees, liens, encumbrances, charges or other rights), it must also extend equivalent guarantees to the Bank, upon simple request from the latter, except in the case of restrictions granted in relation to borrowing below a threshold level;

- clauses requiring the delivery of additional guarantees to the Bank in the event of a reduction in the Company's rating under which, if the credit rating of the medium and long-term unsecured and unsubordinated debt is lowered (and is therefore classed lower than A- by Standard &Poor’s or A3 by Moody’s or A- by Fitch), the Bank is entitled to require the Company to provide it with additional guarantees that are considered satisfactory at the sole discretion of the Bank, exercised on a reasonable basis;

- "pari passu" clauses, under which for the entire period of the loans the Company will ensure that the payment obligations have the same seniority as those relating to all other unsecured and unsubordinated creditors;

- periodic or occasional reporting requirements on the occurrence of specified events concerning both the projects being financed and the Company itself;

- clauses regarding "termination/early repayment/withdrawal" on which basis, where certain events occur (such as, for example, failure to pay, serious inaccuracies in documentation presented, insolvency, events resulting in negative consequences on the financial commitments made by the company, special administration, liquidation, etc.) constitutes default, triggering immediate repayment; in addition, where the Company is required upon default to discharge in advance any other financial obligation in respect of loans, credit facilities, bank advances, discounting, the issue or subscription of any form of bond or security, except where certain thresholds are exceeded, such default shall also constitute default on the loan in question, triggering immediate repayment.

None of the covenants have been infringed to date.

Legal disputes

The main unrecognised commitments and risks of the Parent Company Terna and the subsidiary Terna Rete Italia at 30 June 2012 are discussed below. The other subsidiaries had no unrecognised commitments and risks at that date.

Environmental and urban planning litigation

Environmental litigation originates from the installation and operation of electrical plants and primarily involves damages which could be derived from exposure to electrical and magnetic fields that are generated by long-distance power lines. The Parent Company and the subsidiary Terna Rete Italia are involved in various civil and administrative suits requesting the transfer or change in operations of allegedly-harmful power lines, even though they were installed in full compliance with applicable legislation (Italian Law no. 36 of 22 February 2001 and Prime Minister's Decree 8 July 2003). Only a very small number of cases include claims for damages for harm to health caused by electromagnetic fields.

Only in a few cases have adverse judgements been issued against the Parent Company. These have been appealed and the appeals are still pending, although adverse rulings are considered unlikely.

In addition, a number of cases relating to urban planning and environmental issues are pending in respect of the construction and operation of certain transmission lines. The possible effects of any unfavourable outcome to these cases are unpredictable and, accordingly, have not been considered when determining the "Provisions for disputes and other risks".

In a limited number of cases, the possibility of an adverse outcome cannot be entirely ruled out. The possible consequences could, in addition to the award of damages, include, inter alia, the costs of modifying lines and the temporary suspension of their use. In any case, any unfavourable outcome would not jeopardise line operations.

Examination of the above litigation, having regard for the information provided by the external legal consultants, suggests that the likelihood of adverse outcomes is remote.

Litigation concerning concession activities

Given that it has been the licensee for transmission and dispatching activities since 1 November 2005, the Parent has been involved in a number of cases appealing AEEG, MAP and/or Terna measures relating to activities operated under the license. Only in those cases in which the plaintiffs not only claim defects in the measures, but also allege that Terna violated the rules established by such authorities has the Company appeared in court. Within the scope of this litigation, although a number of cases have seen the AEEG Resolutions struck down in the first and/or second-level court, together with the consequent measures adopted by Terna, it is felt that there is little risk of adverse outcomes for Terna, since the matters generally regard pass-through items. This position is supported by the information provided by the external legal counsel representing the Company in the cases involved. As the licensee for transmission and dispatching activities, the measures taken by the Parent Company Terna when applying the Resolutions adopted by the Authority are sometimes the subject of challenges. In appropriate circumstances, the economic costs of such challenges may be borne by the Authority.

Tax Authority

On 27 March 2012 Terna, as jointly and severally responsible with Enel Distribuzione S.p.A. ("Enel Distribution"), received a notice for the payment of greater taxes due as a result of the sale transaction of the holding owned by Enel Distribuzione in Elat S.r.l. (later Telat S.r.l., today Terna Rete Italia S.r.l.) to Terna S.p.A. (for the amount of approximately 38 million euros, including interest). According to the provisions of the investment sale contract, Enel Distribuzione S.p.A. must release Terna of obligations regarding all costs, liabilities and any damages resulting from the aforementioned notice and the points contested therein. Enel Distribuzione, acting in agreement with Terna, intends on taking the necessary steps to safeguard its own claim, holding Terna exempt from all payments/advances. Therefore, on the basis of the contractual agreements, confirmed by Enel Distribuzione in a letter dated 17 April 2012, Terna does not believe that any financial expenditure will result from the notice in question.

In addition, on 17 May 2012, the Provincial Tax Commission of Rome ordered the temporary suspension of the aforementioned payment notice until the result of the appeal hearing fixed for 25 June 2012 and postponed to 17 September 2012.

F. BUSINESS COMBINATIONS

There were no business combinations during the first half of 2012.

G. RELATED-PARTY TRANSACTIONS

Considering that the Parent has been subject to de facto control by Cassa Depositi e Prestiti S.p.A. (directly controlled by the Ministry for the Economy and Finance) since 2007, the related-party transactions carried out by the Terna Group during the period included not only those with the associate CESI and the employee pension funds (Fondenel and Fopen), but also those with Cassa Depositi e Prestiti and the companies directly or indirectly controlled by the Ministry for the Economy and Finance.

Given that the companies of the Terna Group and the aforementioned subsidiaries directly or indirectly controlled by the Ministry for the Economy and Finance fall within the definition of government-related entities as per IAS 24 - Related party disclosures, the Group adopts the exemption provided by the same standard, which provides for a partial exemption from disclosure requirements for relationships with other companies controlled, connected or under joint control of the same government body; in particular, the qualitative and quantitative indications of relationships with government-related entities which have a significant impact on the Group's results are reported below: GSE Group and Enel Group. No amounts are recorded in relation to the so-called “pass-through” items.

Related party transactions during the first half of 2012 essentially regarded services rendered as part of ordinary operations that were settled on an arm's-length basis. The following table sets out the nature of the Group's transactions with related parties, as well as the respective revenue and costs for the period and the receivables and payables outstanding at 30 June 2012.

Related party	Revenue transactions	Cost transactions
Cassa Depositi e Prestiti S.p.A.	-	*non energy-related items* Credit line
Cesi S.p.A.	-	*non energy-related items* Technical consultancy, studies and research, projects and experimentation
GSE Group	*energy-related items* MIS component, dispatching prices *non energy-related items* Specialist services, leases, IT services	- -
Enel Group	*energy-related items* NTG remuneration and measurement aggregation, dispatching prices *non energy-related items* Lease and rent, line maintenance, works to move/vary lines	- *non energy-related items* Return of electricity discount, staff administration, building services, supply of MV power to new stations, specialised services for connection to Terna control and protection systems
Fondenel and Fopen		*non energy-related items* Pension contributions borne by the Terna Group

Company	Income statement				
	Income items		Expenses		
In millions of euros	Grid transmission fees and other energy-related items	Non energy-related items	Grid transmission fees and other energy-related items	Non energy-related items	Financial items
De facto parent company					
Cassa Depositi e Prestiti S.p.A.	-	-	-	-	6.1
Total de facto parent company	***-***	***-***	***-***	***-***	***6.1***
Associates:					
Cesi S.p.A.	-	-	-	0.1	-
Total associates	***-***	***-***	***-***	***0.1***	***-***
Other related companies:					
GSE Group	21.6	0.2	-	-	-
Enel Group	618.7	0.4	-	0.7	-
Total other related companies	***640.3***	***0.6***	***-***	***0.7***	***-***
Pension funds:					
Fondenel				0.2	-
Fopen	-	-	-	0.5	-
Total pension funds	***-***	***-***	***-***	***0.7***	***-***
Total	***640.3***	***0.6***	***0.0***	***1.5***	***6.1***

Company *In millions of euros*	Statement of financial position					Guarantees*
	Property plant and equipment	Receivables and other assets		Payables and other liabilities		
	Capitalised costs	Other	Financial	Other	Financial	
<u>*De facto parent company*</u>	-					
Cassa Depositi e Prestiti S.p.A.	-	-	0.3	-	501.6	-
Total de facto parent company	**-**	**-**	***0.3***	**-**	***501.6***	**-**
<u>*Associates:*</u>	-					
Cesi S.p.A.	5.7	-	-	4.3	-	3.2
Total associates	***5.7***	**-**	**-**	***4.3***	**-**	***3.2***
<u>*Other related companies:*</u>						
GSE Group	-	7.4	-	-	-	-
Enel Group	0.4	222.4	-	12.6	-	350.5
Total other related companies	***0.4***	***229.8***	**-**	***12.6***	**-**	***350.5***
<u>*Pension funds:*</u>						
Fondenel						
Fopen	-	-	-	0.1	-	-
Total pension funds	**-**	**-**	**-**	***0.1***	**-**	**-**
Total	***6.1***	***229.8***	***0.3***	***17.0***	***501.6***	***353.7***

*The guarantees refer to the bank guarantees received on contracts.

H. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS, AND ATYPICAL OR UNUSUAL TRANSACTIONS

No significant, non-recurring, atypical or unusual transactions were carried out during the first half of 2012, either with third parties or with related parties.

I. NOTES TO THE STATEMENT OF CASH FLOWS

The cash flow used by **operating activities** during the period amounts to 53.4 million euros and is attributable to financial resources included in managing net working capital (731 million euros) net of that generated by operating activities (self-financing) of 677.6 million euros.

Investing activities also used net financial resources of 545.5 million euros, of which 525.8 million euros is attributable to investment in property, plant and machinery, (532.7 million euros net of plant grants totalling 6.9 million euros) and 18.7 million euros of investment in intangible assets. In this context, the increased equity investment in associated companies CESI (up 2.6 million euros, which includes the purchase during the half-year period of a further holding of approximately 0.3%) and CGES (up 0.4 million euros) should also be noted.

The net change in **cash flows** relating to the equity reveals a decrease of 261.4 million euros mainly due to the payment of the balance on the 2011 dividend to the shareholders of the Parent (261.3 million euros).

Consequently, the financial resources required for operating activities, investing activities and the remuneration of equity amounted to 860.3 million euros in the period.

The total change in borrowing together with the use of cash and cash equivalents (1,742.8 million euros) helped hedge the above financial demands and the remaining short-term investment made during April 2012 in government bonds (valued on 30 June 2012 at a fair value of 1,032.5 million euros), including the repayment of the deposit certificates outstanding at the end of 2011 (150.0 million euros).

L. SIGNIFICANT EVENTS SUBSEQUENT TO 30 JUNE 2012

Terna rating

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

Certification of the Condensed consolidated interim financial statements pursuant to art. 81-ter of Consob Regulation no. 11971 dated 14 May 1999 as subsequently amended and supplemented

The CEO

Certification of the condensed consolidated interim financial statements pursuant to art. 81-ter of Consob Regulation no. 11971 dated 14 May 1999 as subsequently amended and supplemented

1. The undersigned Flavio Cattaneo, as CEO, and Luciano Di Bacco, as Executive in Charge of the preparation of accounting documents for TERNA S.p.A., also considering that established by art. 154-*bis*, paragraphs 3 and 4 of Italian Legislative Decree no. 58 of 24 February 1998, certify:

- the suitability in relation to the business characteristics; and
- the effective application of the administrative and accounting procedures for the preparation of the Condensed consolidated interim financial statements during the 1st half of 2012.

2. On this regard, no significant aspects emerged.
3. It is also specified that:

3.1 The Condensed consolidated interim financial statements:

a) are prepared in compliance with the applicable international accounting standards recognised in the European Community in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and Council of 19 July 2002 and the provisions issued in implementation of art. 9 of Italian Legislative Decree no. 38/2005;

b) comply with the results of the accounts and accounting entries;

c) are suitable to providing a truthful, correct representation of the equity, economic and financial position of the issuer and all companies included in the consolidation.

3.2 The interim directors' report includes a reliable analysis of the references to important events that occurred during the first six months of the year and their effect on the Condensed consolidated interim financial statements, together with the description of the main risks and uncertainties to which the issuer is exposed during the remaining six months of the year.

The interim directors' report also includes a reliable analysis of the information on significant related party transactions.

Rome, 24 July 2012

Appointed administrative bodies	Executive in Charge of the preparation of accounting documents
[*signature*]	[*signature*]

Report of the Independent Auditors

TERNA SPA

AUDITORS' REPORT ON THE REVIEW OF THE
CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
AT 30 JUNE 2012

pwc

AUDITORS' REPORT ON THE REVIEW OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2012

To the Shareholders of
Terna SpA

1 We have reviewed the condensed consolidated interim financial statements of Terna SpA and its subsidiaries (Terna Group) at 30 June 2012 comprising the statement of financial position, the income statement, the statement of comprehensive income, the statements of changes in shareholders' equity and cash flows and related notes. Terna SpA directors are responsible for the preparation of the condensed consolidated interim financial statements in accordance with the international accounting standard (IAS 34), applicable to interim financial reporting, as adopted by the European Union. Our responsibility is to issue this report based on our review.

2 Our work was conducted in accordance with the criteria for a review recommended by the National Commission for Companies and Stock Exchange (CONSOB) with Resolution 10867 of 31 July 1997. The review consisted principally of inquiries of company personnel about the information reported in the condensed consolidated interim financial statements and about the consistency of the accounting principles utilised therein as well as the application of analytical review procedures on the information contained in the above mentioned consolidated financial statements. The review excluded certain auditing procedures such as compliance, verification and validation tests of assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, unlike an audit on the annual consolidated financial statements, we do not express an audit opinion on the condensed consolidated interim financial statements.

Regarding the amounts of the consolidated financial statements and the condensed consolidated interim financial statements of the prior year presented for comparative purposes, reference should be made to our reports dated 18 April 2012 and 3 August 2011, respectively.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. 3.754.400,00 Euro i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n. 43 dell'Albo Consob - Altri Uffici: **Bari** 70124 Via Don Luigi Guanella 17 Tel. 0805640211 – **Bologna** Zola Predosa 40069 Via Tevere 18 Tel. 0516186211 – **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 – **Catania** 95129 Corso Italia 302 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 – **Genova** 16121 Piazza Dante 7 Tel. 01029041 – **Napoli** 80121 Piazza dei Martiri 58 Tel. 08136181 – **Padova** 35138 Via Vicenza 4 Tel. 049873481 – **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 – **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 – **Roma** 00154 Largo Fochetti 29 Tel. 06570251 – **Torino** 10122 Corso Palestro 10 Tel. 011556771 – **Trento** 38122 Via Grazioli 73 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 – **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 – **Verona** 37135 Via Francia 21/C Tel.0458263001

www.pwc.com/it

3 Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of Terna Group at 30 June 2012 have not been prepared, in all material respects, in accordance with the international accounting standard (IAS 34), applicable to interim financial reporting, as adopted by the European Union.

Rome, 30 July 2012

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

This report is an English translation of the original audit report, which was issued in Italian. This report has been prepared solely for the convenience of international readers.