Terna Group

Interim Financial Report

30 June 2014

Table of contents

Directors' interim report on operations as at 30 June 2014

10 years of being listed

24 June 2014

10 years of being listed on stock market: for Terna it's a success story, for Italy it's a positive model of how to do business while producing value for shareholders and the country.

- **June 2004: Terna is listed on the stock market, share value is 1 Euro and 70 cents**
- **June 2014: the value of the shares have more than doubled and Terna is one of the best companies in the country in terms of market capitalisation**

A story of successes:

- 10 years ended with profits
- € 8 billion invested
- more than 3 billion in dividends distributed, with a total return for shareholders of over 300%
- after ten years of being listed, the stock value has more than doubled, with capitalisation that exceeds € 8 billion

In May 2014 the Terna Shareholders' Meeting appointed the new board of directors, designating Catia Bastioli as Chairperson; Matteo Del Fante assumes the reins of Terna as its Chief Executive Officer.

In June the stock reached a record high: the shareholders who have held the stock since the listing day have earned more tan 140% of the initial value and, considering also dividends, have achieved a total return of more than 300%.

Terna's great team, with the competence and enthusiasm of its 3500 people, was crucial in this extraordinary success story, having contributed to creating a positive model: from pure spin-off to solid independent industrial group, which with its work has generated savings of € 5.5 billion, for the benefit of Italian families and firms through investments in the grid which have enabled a reduction of energy traffic congestions.

Table of contents

Introduction

The Interim Financial Report of the Terna Group at 30 June 2014 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 (the "Transparency Decree"), as amended by Italian Legislative Decree No. 27 of 27 January 2010.

Organisation, context and business

Organisation and context in which the Group operates

Terna S.p.A. (**Terna** or the **Company**), **a listed company** in the Borsa Italiana electronic market since 2004, operates mainly in the Italian electricity system (more than 96% of consolidated revenue derived from activities monitored by the **AEEGSI** – the Italian Regulatory Authority for Electricity Gas and Water).

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

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

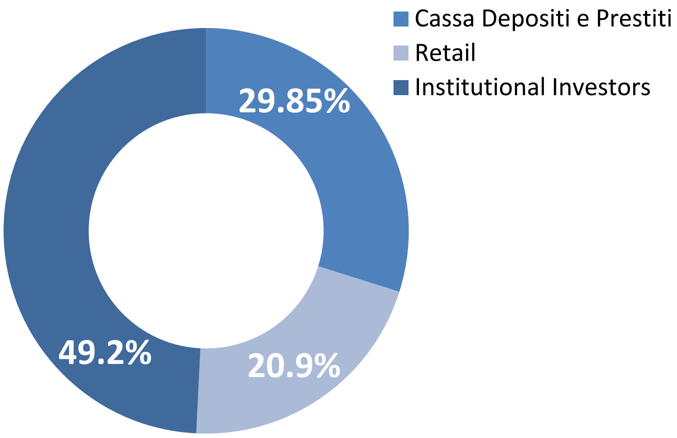
By managing transmission, Terna guarantees the security and quality of the national electricity system, and its cost-effectiveness over time. It ensures equal conditions of access for all grid users; develops market activity and new business opportunities with the experience and technical skills gained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

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

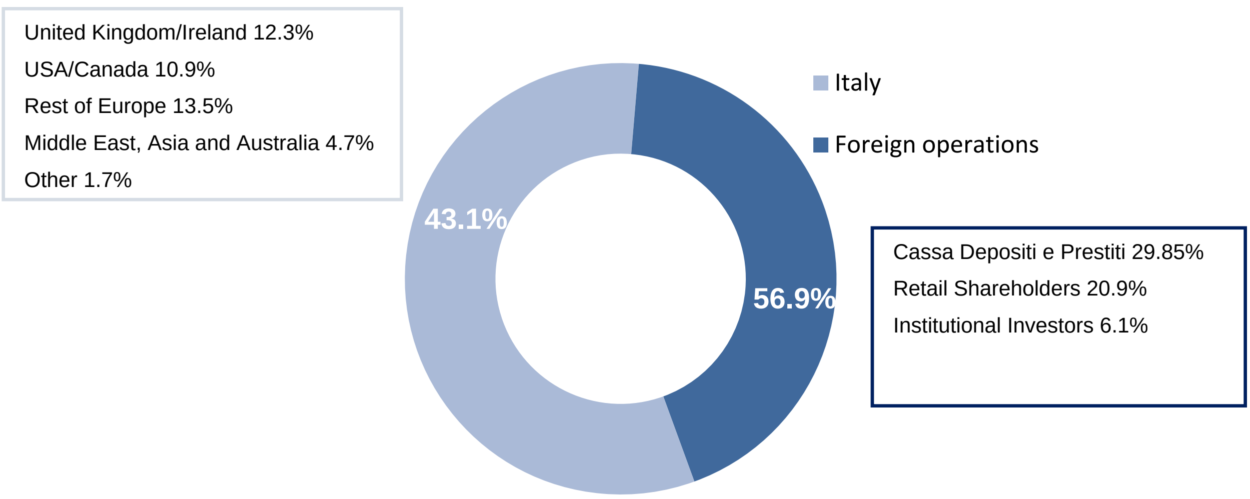
Shareholders

At the date on which the present Report was prepared, Terna's share capital amounted to € 442,198,240 and is represented by 2,009,992,000 ordinary shares with a face value of € 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 is divided as follows:

- Cassa Depositi e Prestiti S.p.A.[1] 29.85%
- Institutional Investors 49.2%
  - of which Assicurazioni Generali 2.44%[1]
- Retail 20.9%



On the basis of the periodic surveys carried out by Terna, it is believed that 56.9% of Terna shares are held by Italian investors (CDP 29.85%; retail investors, 20.9%; and institutional investors, 6.1%), and the remaining 43.1% by foreign institutional investors, primarily American and European.



[1] A shareholder which - based on the information available and notifications received from Consob - holds an interest in Terna over the thresholds specified by Consob Resolution No. 11971/99.

The corporate structure

The corporate structure of the Terna Group at 30 June 2014 is shown below.

Traditional Activities

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

In this context, the Terna Group carries out these regulated activities through the parent company Terna S.p.A. and the following companies that are direct subsidiaries of the latter.

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

Traditional Activities – National Transmission Grid

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

  The company ***is tasked, within the Terna Group, with performing all traditional activities, including operation, ordinary and extraordinary maintenance of the section of the NTG owned, as well as management and performance of work on developing the grid*** as provided for in the Concession for transmission and dispatching, and on the basis of the provisions of the Development Plan of the Parent company. To this end, with effect from 1 April 2012, Terna Rete Italiana S.p.A. signed a *business unit rental contract with the Parent Company* with consequent ad hoc intergroup contracts for regulating business.

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

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

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

  The company is responsible, pursuant to *an ad hoc contract signed with the Parent company*, for ***safeguarding the construction of diffused energy storage systems projects, as well as relative coordination, study and research activities.***

  Also through Terna Storage S.r.l. the parent company has launched a storage-system programme aimed at "*promoting the dispatching of non-programmable plants*", in line with the relative legislation which provides for the possibility of including it among the works for developing the electricity transmission grids and in the extra-incentive mechanisms established by the Italian Regulatory Authority for Electricity Gas and Water (see Resolutions 43/2013 and 66/2013 of the AEEGSI).

Traditional Activities – Foreign Operations

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

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

Non-Traditional Activities

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

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

***

With respect to 31 December 2013, the changes to the Group's corporate structure refer exclusively to Non-Traditional Activities (NTAs) and reflect the closing, on 20 May 2014, of the operation by which Terna Plus S.r.l. acquired the entire capital of **Tamini Trasformatori S.r.l**. and that of the companies controlled by the same, which is commented on in the section of events during the period, to which the reader is referred. The Tamini Group operates in the production and sale of industrial and power electricity transformers and owns 4 manufacturing facilities situated all in Italy in Legnano, Melegnano, Novara and Valdagno.

The Tamini Group includes the subsidiaries V.T.D. Trasformatori S.r.l., Verbano Trasformatori S.r.l. and Tamini Trasformers USA L.L.C..

Summary of results

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

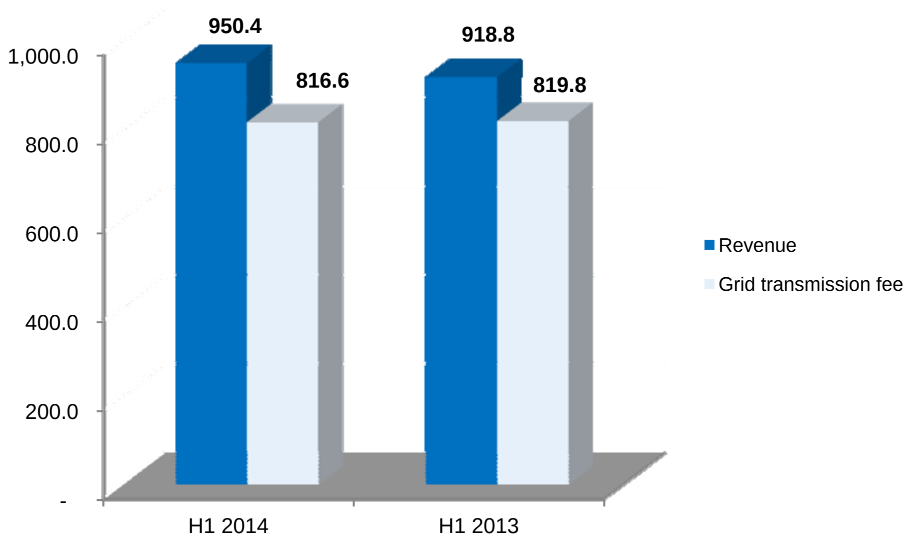
In the first half of 2014, the Terna Group continued its activity in line with the provisions of the **2014-2018 Strategic Plan** approved by the Board of Directors on 25 March 2014, described in the dedicated section in the context of "Strategies and future prospects," to which the reader is referred.
In addition, in this first half, with the completion of the closing of the operation by which Terna Plus S.r.l. acquired the entirety of the capital of Tamini Trasformatori S.r.l. - mentioned and commented on in the context of "Significant events in the first half of 2014" - the process to develop and create non-traditional activities for the Group continued.

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

Comprehensive Group results

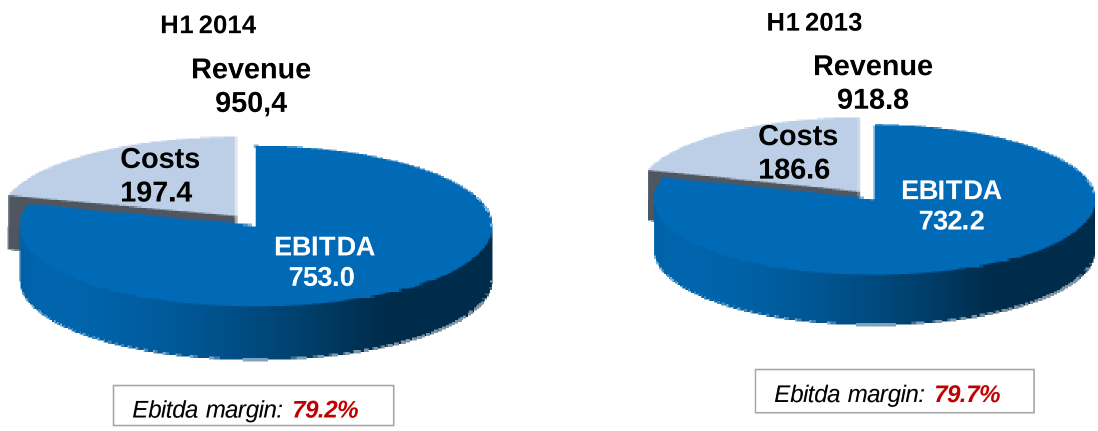
The consolidated P&L at 30 June 2014 shows **Revenue** of **€ 950.4 million**, **up** € 31.6 million with respect to the same period of the previous year (+3.4%), among revenue € 816.6 million was related to the transmission fee, attributable to the Parent Company for € 725.3 million and to the subsidiary Terna Rete Italia S.r.l. for € 91.3 million.

€ million



Operating expenses amounted to € 197.4 million, of which € 107.1 million relating to personnel expenses and € 66.6 million to services, leases and rentals. The increase in revenue combined with the lower increase in operating costs (+10.8 with respect to the first half of 2013) led to **EBITDA** (Gross Operating Profit) of **€ 753.0 million**, 79.2% of revenue, an increase of € 20.8 million compared with € 732.2 million in the first half of 2013 (+2.8%).

€ million



EBIT (Operating Profit) was **€ 517.9 million**, net of **depreciation, amortisation and writedowns** of € 235.1 million, mainly relating to the Parent Company for € 210.9 million and to the subsidiary Terna Rete Italia S.r.l. (for € 23.3 million).

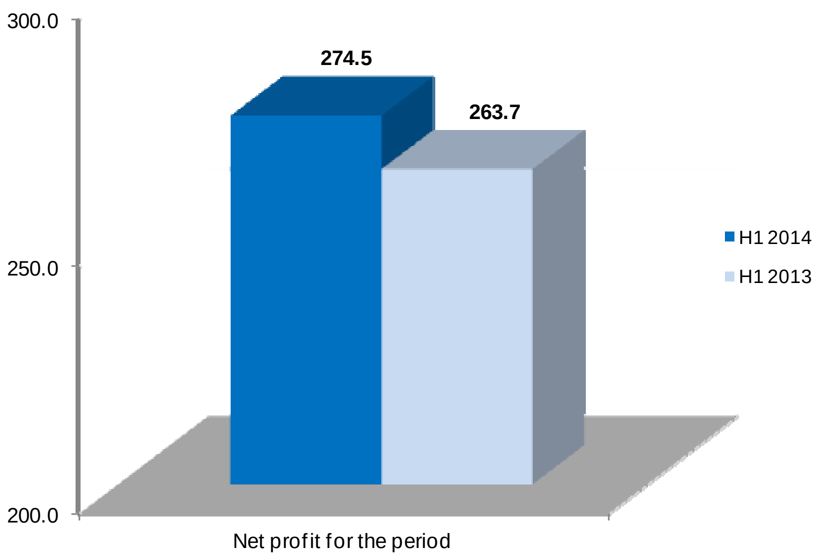
Net financial expense for the period amounted to **€ 64.3 million**, mainly attributable to the parent company (€ 63.2 million), showed an increase of € 21.6 million compared to the same period of 2013.

After deducting net financial expense, **profit before taxes** came out at **€ 453.6 million**, a decrease of Euro 22.2 million with respect to the first half of 2013 (-4.7%).

Income taxes for the period amounted to € 179.1 million, a decrease from the first half of last year of € 33.0 million (-15.6%), owing not only to lower pre-tax profit, but essentially to the effect of IRES (corporate income tax), which went down from 38% to 34%, following the reduction in the so-called Robin Hood Tax.

Net profit for the period therefore came out at **€ 274.5 million**.

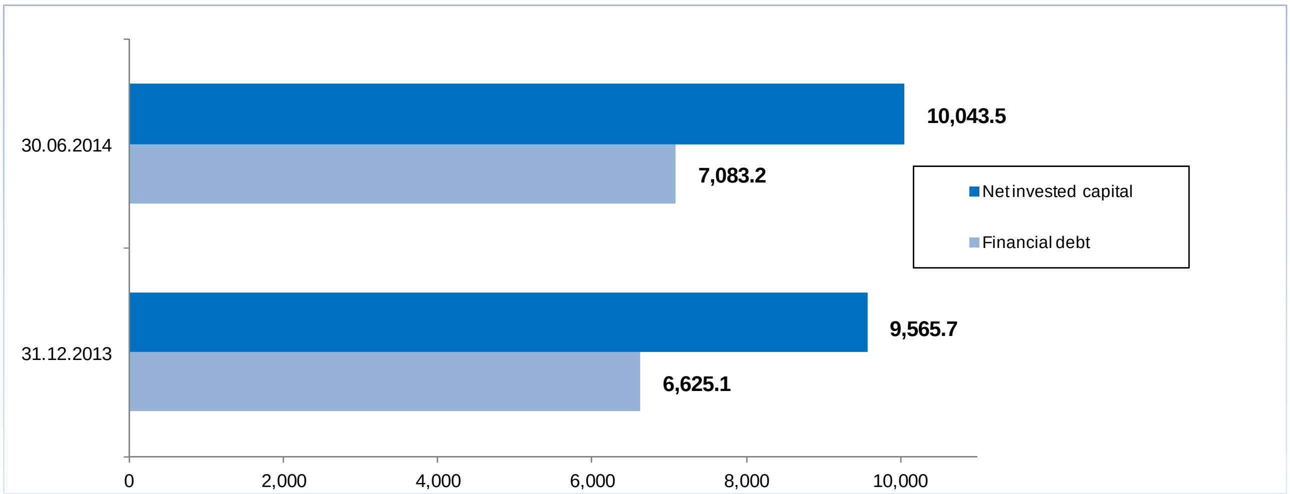
€ million



Total investments made by the Group during the period came to **€ 386.0 million**, down with respect to € 503.9 million in the same period in 2013, due to the decrease in investments planned for 2014.

As regards the financial situation, at 30 June 2014 **net invested capital** amounted to € 10,043.5 million and is financed through **shareholders' equity** in the amount of € 2,960.3 million and through **net financial debt** in the amount of € 7,083.2 million.

€ million



Sustainability performance

Sustainability indexes and recognitions

The continued improvement in 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 2013, in the main international stock exchange sustainability indexes including the Dow Jones Sustainability Indexes (World and Europe) and the STOXX® Global ESG Leaders indexes, being the only Italian utility present in all the related sub-indexes 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 2014 Terna obtained further recognitions of its work, such as:

- inclusion in the Bronze Class of the "SAM Sustainability Yearbook 2014", 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. Membership in the Bronze Class indicates a rating with a difference between 5 and 10% with respect to the leading company in the sector;
- confirmation in the Euronext Vigeo indexes, which bring together the 120 best European companies, in the Eurozone and the world, for sustainability performance, on the basis of the analyses of the Vigeo agency.

Energy Context

Demand for electrical energy in Italy

According to provisional data, the demand for electricity during the first six months of 2014 amounted to 153,237 GWh, down by -3.1% with respect to the same period in 2013.

ELECTRICITY BALANCE SHEET FOR ITALY				
GWh	**H1 2014***	**H1 2013**	**Change**	**%**
Net generation	132,345	138,072	-5,727	-4.1%
From foreign suppliers	23,193	22,501	692	3.1%
Sold to foreign clients	942	1,115	-173	-15.5%
For pumping	1,359	1,376	-17	-1.3%
Total demand in Italy	**153,237**	**158,082**	**-4,845**	**-3.1%**

** Provisional data*

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 2014 with the corresponding period of the previous year. The influence of the calendar is due to two working days less compared with the first half of 2013. Moreover, in terms of weather, in the period particular weather conditions were observed compared with the first half of 2013: as against two months – April and May – in which the average monthly temperatures were the same, in the remaining months of the period higher temperatures were recorded. In particular, January and February 2014, which were particularly warm, had an effect on demand which cannot be ignored, both during those months and on overall demand for the first half.

In conclusion, adjusting for the number of days and the temperature, the estimated change in electricity demand amounts to -2.3%

Electricity generation

According to provisional data, net domestic production during the first half of 2014 was -4.1% lower than in the same period of the previous year. Analysing the various principal energy sources, net of ancillary services, thermal generation showed a -9.9% drop compared with the first half of 2013.

Hydro production increased in the first half of 2014, compared with the same period in 2013, with a rise of +8.2% net of ancillary services. Net production from renewable wind, solar and geothermal energy resources in the first half of 2014 increased by +3.1%, with respect to the corresponding period the previous year.

ELECTRICITY PRODUCTION IN ITALY				
GWh	**H1 2014***	**H1 2013**	**Change**	**%**
Net hydro generation	30,351	28,048	2,303	8.2%
Net thermal production	79,277	87,985	-8,708	-9.9%
Net wind, photovoltaic and geothermal production	22,717	22,039	678	3.1%
Total net production	**132,345**	**138,072**	**-5,727**	**-4.1%**

** Provisional data*

Legislative and regulatory aspects

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

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.

Related party transactions

Taking into account that Cassa Depositi e Prestiti S.p.A. exercises de facto control, as ascertained in 2007, related party transactions undertaken by the Group in the first half of 2014 consisted of intra-group transactions, transactions with employee pension funds (Fondenel and Fopen), and transactions with companies belonging to:

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

and with ANAS S.p.A.

Related party transactions carried out in the first half of 2014 consisted substantially of services under the scope of ordinary business and settled at market terms, as is described in greater detail in the Consolidated and Separate Statements at 31 December 2013. In addition, transactions with members of the Board of Statutory Auditors of the Parent Company, and in particular their fees, are detailed in the comments on the "Services" item in the Notes to the Condensed Consolidated Half-Year Financial Statements at 30 June 2014, to which reference should be made.

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

We can note that, during the first half 2014, no significant transactions, that is to say related party transactions identified in compliance with the provisions of Appendix 3 to the "Regulation containing rules on related-party transactions" (adopted with CONSOB Resolution No. 17221 of 12 March 2010, as amended with CONSOB Resolution No. 17389 of 23 June 2010), were carried out, nor were transactions subject to compulsory disclosures but concluded applying the exclusion established by the Regulation, insofar as they were "*transactions coming under the scope of the ordinary business of the Company's continuing operations or those of its subsidiaries or associates or financial activities related thereto, provided that they were concluded at conditions equivalent to market or standard terms*".

Please note that in accordance with new regulations introduced by CONSOB Resolution No. 18049 of 23 December 2011 published in the Italian Official Journal No. 303 of 30 December 2011 and in force as from 31 December 2011, the disclosure on fees relating to "*members of the administrative and auditing bodies, general managers*" and on the equity interests held by the same, is included in the annual remuneration report published in accordance with the law.

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

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

The business and the Group's capital

The National Transmission Grid (NTG) – The 2014 Development Plan

The NTG must gradually evolve and expand in accordance with developments in the generation and consumption of electricity. Both the supply and demand of electricity evolve at different rates in different areas of Italy. The combination of these elements changes the flows of electricity in the system, causing congestion in the existing grid.

To tackle these issues, Terna prepares annual **grid development investment programmes**, so as to stay up to date with the evolution of production capacity and consumption, and to increase its efficiency and security. The development work that Terna plans and carries out has positive repercussions on society; in fact, the assumption underlying its implementation is that the collective financial benefit that this work generates outweighs its cost.

Every year, Terna prepares a **Transmission Grid Development Plan** (**DP**) containing the **national transmission grid development projects** envisaged for the next ten years and the progress made on development works planned in previous years.

The 2014 Development Plan is concerned with the NTG development investments for 2014-2023; it describes the theoretical framework, the objectives and the criteria used to set out the planning process for the transmission grid, the new development needs identified in 2013, priorities for action and the expected results of the DP. The DP It is accompanied by a closer examination of analyses carried out on the economic sustainability of the main development plans.

Every Development Plan follows a detailed path, in that it is assessed and approved by the Ministry of Economic Development, also following public consultation (pursuant to article 36.13 of Legislative Decree 93/11) by the AEEGSI, and also subjected to evaluation by the Grid User Consultation Committee, according to the provisions of the Terna Grid Code.

Specifically, the consultation phase for the 2013 and 2014 DPs is envisaged from July-October 2014.

In addition, pursuant to Legislative Decree 152/06, as amended, the DP is also subject to the Strategic Environmental Assessment (**SEA**)[2] process carried out by the Ministry for Environment, Land and Sea in collaboration with the Ministry for Heritage, Culture and Tourism.

The 2014 DP foresees investments totalling around € 8.1 billion, thanks to which efficiencies will be achieved for the electricity system of over € 1.4 billion as well as other notable benefits:

- reduction of energy losses of 1.1 billion kilowatt-hours per year;
- reduction of CO_2 emissions of approximately 13 million tonnes/year;
- reduction of congestions for an amount of more than 5,000 MW;
- greater foreign exchange capacity, estimated at more than 6,000 MW;
- greater power capacity generated by renewable sources of around 6,000 MW.

[2] It is also potentially subject to screening to check whether it should undergo SEA pursuant to Legislative Decree No 1 of 24 January 2012.

In addition, implementation of the 2013 DP will lead to an increase in the dimensions of the NTG of around 4,500 km of new power lines and more than 110 new stations for a new transformation capacity of over 17,000 MVA.

Finally, we note that in the European context, under the aegis of ENTSO-E (European Network of Transmission System Operators for Electricity) the Ten-Year Network Development Plan of the European electricity grid 2014 edition is being prepared (TYNDP 2014), on the basis of the provisions of the European Community Regulation regarding the “Third Energy Package”. Terna is directly involved with this plan in the context of the working groups and Regional Forums established: *Continental Central South* and *Continental South East*.

Strategic Environmental Assessment Procedure of the Development Plan

The process for obtaining approval of the 2014 Development Plan 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 (the competent authority), together with the Ministry for Heritage, Culture and Tourism.

The SEA is a procedure instituted specifically, by Community Directive 2001/42/EC, for the strategic environmental assessment of plans or programs that could have significant effects on the environment. This Directive was implemented in Italy through Legislative Decree 152/2006, taking effect on 31 July 2007. Therefore, the first DP to be subjected to the SEA procedure was the 2008 DP. The goal of the SEA is to contribute to integrating environmental considerations into the process of preparing the plan, in order to guarantee environmental sustainability for the plan in question. Over the years, also making good use of the voluntary experiments carried out since 2002, Terna has shared a special methodological/procedural approach for the application of the SEA to the DP with the Ministry for the Environment and Protection of the Territory and the Sea and the other involved institutional subjects. This approach was centred on the importance of preventive consultation with the relevant local administrations (regions, provinces and cities), as an appropriate method for a shared search for local sustainable solutions, in terms of environmental/local corridors, for the projects foreseen in the DP. The method involves the application of a set of localised criteria in the GIS (Geographic Information Systems) environment, known as the ERPA criteria, which make it possible to carry out an objective analysis of the area in which new electricity transmission infrastructure will be placed. In fact, the corridors identified by the ERPA criteria avoid the areas of “**E**xclusion" (where the regulations in effect prohibit the creation of new infrastructure), tend to avoid areas of “**R**epulsion" (classified under the regulations in effect as areas with natural, landscape or cultural assets) and prefer areas of “**A**ttraction" (existing infrastructural corridors). In the context of the cooperation with the Ministry of the Environment and Protection of the Territory and the Sea and the other institutional subjects involved, it became more and more clear that this approach was unbalanced with regard to the assessment dimension for the individual DP projects. An evolution of the approach was therefore agreed so as to further develop everything relating to the plan dimension, which falls under the specific competence of the SEA.

On 21 December 2012, subsequent to the approval of the 2011 DP and implementing the observations in the relative reasoned opinion, Terna published the Environmental Report relative to the 2012 DP, for which the consultation phase for the purposes of the SEA procedure ended on 19 February 2013. We are awaiting the reasoned opinion which, pursuant to the regulations in effect (Legislative Decree 152/2006), the competent authority is required to issue within 90 days of the end of the consultation phase.

In the meantime, on 21 June 2013, Terna sent the aforementioned authority the Preliminary Report, completed to verify whether the 2013 DP required the SEA (pursuant to Legislative Decree 1/2012). The authority then began the procedure on 2 July 2013. With a note dated 2 December 2013, the said authority suspended the procedure to verify whether the 2013 DP required the SEA, while awaiting the conclusion of the SEA procedure relative to the 2012 DP and its subsequent approval.

With reference to the 2014 DP, Terna made itself available for a preliminary comparison with the competent authority during the process of preparing the plan, to allow for integration of environmental considerations during the preparation of the 2014 DP and therefore before its approval. To that end, various meetings were held at the Ministry for the Environment and Protection of the Territory in November 2013 and January and February 2014, after which the preparation of a document was shared, the Guidelines Report for the implementation of the environmental aspects in the 2014 DP, which testifies to the shared path taken with the authority in regard to the objectives of the 2014 DP, integrating those of a technical/functional nature with environmental ones, on the basis of the indications deriving from the European and national environmental sustainability strategies.

Smart Transmission Solutions

One of Terna's main needs is to make the transmission grid dynamic, i.e. capable of evolving rapidly and effectively in response to rapidly changing circumstances, which are difficult to predict beforehand.

For this reason, in the Development Plan Terna plans projects able to guarantee security, reliability and efficiency in the electricity system under various operating conditions, while maximising the timely and flexible use of existing infrastructure and thus facilitating integration of growing production from renewable sources, including those not directly connected to the NTG.

Among these projects we note:

- the installation of electrical equipment (Phase Shifting Transformers - PSTs) for controlling energy flows on the High and Very-High Voltage grid;
- the installation of synchronous compensators for the improved stability and security of system operation;
- installing reactors and condensers for proper management of reactive power flows on the grid, with consequent cost reduction for the Dispatching Market;
- using high-capacity conductors to maximise the transport capacity of the existing lines, also on the basis of the temperature (Dynamic Thermal Rating – DTR). To that end, the testing, about to be completed, will make it possible to define types and standards for applying the method, in order for it to be progressively implemented and diffused, in particular on the critical Central North – North and Central South – South line sections and on renewable collection lines;
- testing of diffused storage systems to maximise the exploitation of power from renewable sources and to improve the regulation of the High and Very-High-Voltage systems;
- initiatives based on smart logic, aimed at improving the forecast and control of distributed generation.

These solutions generally have **reduced environmental impact** (allowing use of existing assets to be maximised), and implementation times and costs which are typically lower than those necessary for the creation of new network infrastructures (High-Voltage lines and stations).

The following innovative solutions are also planned:

- participation in the GREEN-ME project (Grid integration of REnewable Energy sources in the North - Mediterranean): this project was presented to the European Commission, as part of the Connecting Europe Facility by Italian and French TSOs and DSOs (Distribution System Operators). It involves the development of systems to integrate distributed generation from the South of France to the Regions of Northern Italy. The project is on the list of Projects of Common Interest (**PCI**) published in October 2013, as part of the Smart Grids projects. The project is conditional on receiving financing from the European Commission, in advance of the formalisation of the financing request in the context of CEF, to be presented by August 2014, the documentation supporting the project produced by the partners involved will be submitted to the attention of the Italian and French regulators for the relevant areas;
- improving grid identification and control with digital systems: exploiting the potential of digital equipment the aim is to provide measurements directly for the analysis and monitoring of service quality;
- monitoring grids: the growing impact of renewable sources on the distribution grids requires data collection and modelling which will enable a more detailed view of the load/generation on distribution systems that operate with the transmission grid.

The National Transmission Grid – Number of plants

The number of NTG plants belonging to the entire Group at 30 June 2014, and at 31 December 2013, is shown in the following table:

		TERNA GROUP		
		30.06.2014	31.12.2013	Change
Stations	**no.**	478	475	+ 3
Transformers	**no.**	653	651	+ 2
	MVA	139,702	138,719	+ 983
Bays	**no.**	5,123	5,105	+ 18
Lines	**km**	57,648	57,539	+ 109
Three-phase power lines	**no.**	4,114	4,108	+ 6
	km	63,768	63,594	+ 174

Km and MVA are calculated to 3 decimal places and rounded to the unit.

The details by Group company are provided in the table below:

		Terna S.p.A.			Terna Rete Italia S.r.l.		
		30.06.2014	31.12.2013	Change	30.06.2014	31.12.2013	Change
Stations	**no.**	458	456	+ 2	20	19	+ 1
Transformers	**no.**	651	649	+ 2	2	2	-
	MVA	139,382	138,399	+ 983	320	320	-
Bays	**no.**	5,036	5,022	+ 14	87	83	+ 4
Lines	**km**	41,198	41,064	+ 134	16,450	16,476	- 25
Three-phase power lines	**no.**	2,380	2,374	+ 6	1,734	1,734	-
	km	46,243	46,039	+ 204	17,525	17,555	- 30

Km and MVA are calculated to 3 decimal places and rounded to the unit.

Stations

With regard to stations, the following can be noted:

- the activation of the Terna 220 kV stations in Turin and Pisticci (MT) and the 150 kV station in Camerelle (FG);
- disposal of the Terna 220 kV station in Santa Massenza (TN);
- activation of the Terna Rete Italia S.r.l. 150 kV station in Bonorva (SS).

Transformers

With regard to transformers, the following main variations are noted:

- activation of 3 new 380 kV machines in the Terna stations in Baggio (MI), Foggia (FG) and Erchie (BR) for a total 900 MVA;
- activation of 1 new 220 kV machine in the Terna station in Pisticci (MT) for a total of 160 MVA;
- upgrading of 1 existing machine in the Terna 220 kV station in Castelluccia (NA) for a total of 25 MVA;
- upgrading of 2 existing 132 kV machines in the Terna stations in Camporosso (IM) and Leini (TO) for a total of 23 MVA;
- disposal of 1 existing machine in the Terna 220 kV station in Rotonda (PZ) for a total of 100 MVA.

Long-distance power lines

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

- the beginning of operations of the new double three-phase Trino - Lacchiarella connection at 380 kV (Terna) for a total of 188 km;
- the activation of 5 new Terna cable lines for a total of 20.5 km, of which 1 line of 4.3 km at 220 kV, 2 lines of 6.3 km at 150 kV and 2 lines of 9.9 km at 132 kV;
- the declassification to 150 kV from 220 kV for the Terna Pisticci - Rotonda line at 220 kV, equal to 70.5 km.

Planning and development of storage systems

Terna has affirmed its commitment to guaranteeing secure and economical grid management by launching an innovative storage system agenda. The plan is divided into two macro-projects ("**Energy Intensive**" and "**Power Intensive**") which envisage the installation of various types of systems. The two macro-projects were presented to the AEEGSI at the end of 2012, highlighting in particular the value of such proposals for the entire energy industry, insomuch as being not only highly innovative but also unique in kind and purpose. The development of the projects is handled by the company Terna Storage S.r.l., founded for this purpose by the parent company in the financial year 2012.

The "**Energy Intensive**" project, introduced as part of the 2011 Development Plan, envisages the construction of three storage systems in Southern Italy with a total capacity of 34.8 MW. Such systems ensure greater flexibility in the management of renewable energy plants and increase the grid's capacity to feed in green energy. As a result, the introduction of storage systems contributes to reducing energy costs and increasing the security and efficiency of the electricity system.

The cumulative 34.8 MW introduced by the "Energy Intensive" projects will allow for the recuperation of hundreds of GWh of energy produced by wind energy plants, cut off until now. This is quantifiable as savings for the system across the country and as an environmental benefit thanks to the large proportional reduction in CO_2 emissions.

In 2013, the AEEGSI approved Terna's projects and provided extra incentives. The procurement phase has been completed and, in May 2013, the contract was signed with the supplier of the NaS-technology batteries, with subsequent definition of the 34.8MW production plan and the related on-site construction and delivery times. At present, the Ministry of Economic Development has authorised the three sites in Ginestra (BN), Flumeri (AV) and Scampitella (AV). Installation activities have been begun for the Ginestra and Flumeri sites, with the creation of the civil and electromechanical works and preparation for the installation of the storage systems. For the Scampitella site, activities to prepare the worksite are in course.

From the start of the projects, the Group's total investments as of 30 June 2014 in "Energy Intensive" storage systems have come to **€ 65.1 million**, of which **€ 10.8 million** in reference to the first half of 2014, essentially regarding the procurement of the NGK battery modules for the three said sites of Ginestra, Flumeri and Scampitella.

The "**Power Intensive**" project, which had already been approved by the Ministry of Economic Development as part of the 2012 electricity system Defence Plan, provided increased security to the electricity systems on the major Islands by installing a 40 MW storage system. The project is divided into two phases: the first phase, the "Storage Lab", is under construction and will see the installation of two multi-technology plants (different storage technologies and no less than 8 different commercial products) for a total of 16MW, shared between Sicily and Sardinia. Following the completion of the first stage, which also aims to analyse the performance of the different solutions installed, a further 24MW will be achieved by selecting the most promising technologies.

In regard to the installation in Sardinia (the Condrongianos site, which replaces the Ottana site, pursuant to Resolution 227/2014/R/eel), activities preparatory to the on-site civil and electrical works are in course, including the delivery and installation of the Energy Storage Systems.

With regard to the installation in Sicily (the Ciminna and Casuzze sites, which replace the Caltanissetta site, pursuant to Resolution 227/2014/R/eel), the initial activities to prepare for the on-site civil works are in course.

Additionally, the laboratory tests to be carried out on the battery modules for the technology supplied are in progress, in order to better evaluate the performance of the technological solutions and apply them in an appropriate way to achieve the expected performance for the grid. These tests will be carried out in cooperation with the main Italian centres of expertise in the electricity sector.

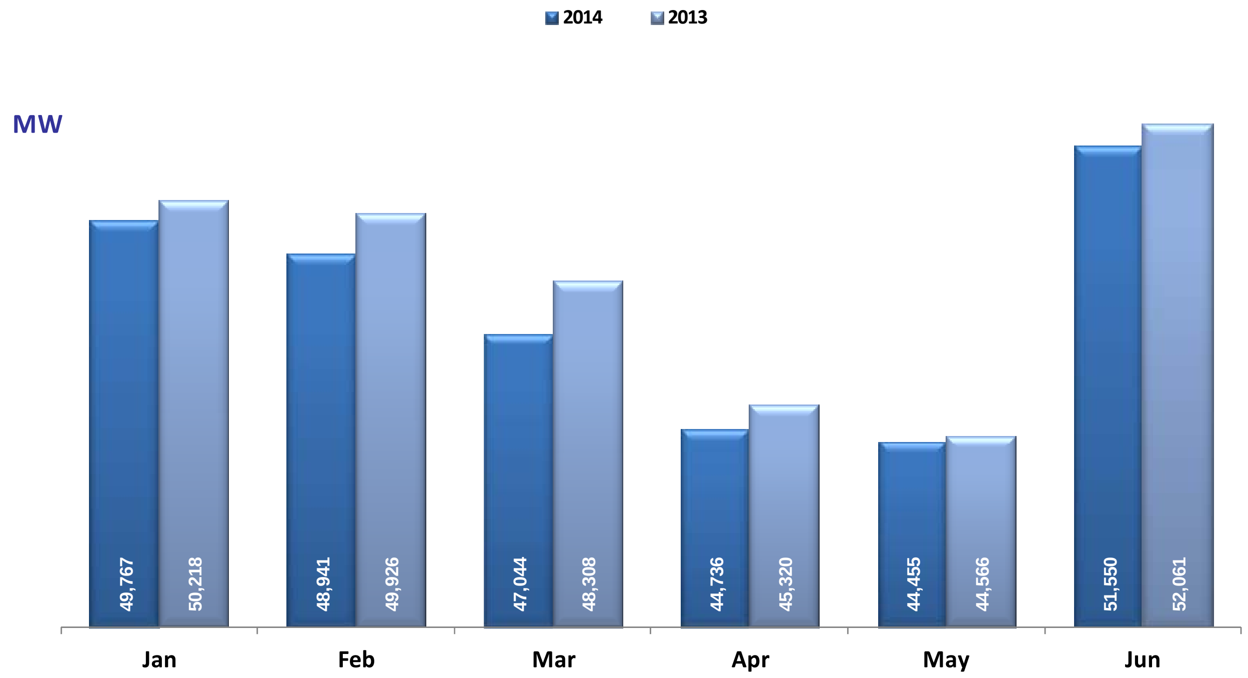
From the start of the projects, the Group's total investments as of 30 June 2014 in the Power Intensive storage systems have come to **€ 13.8 million**, of which **€ 4.7 million** in reference to the first half of 2014, essentially regarding the delivery of the modules to the Codrongianos site in Sardinia.

Electrical energy dispatching

Coverage of demand

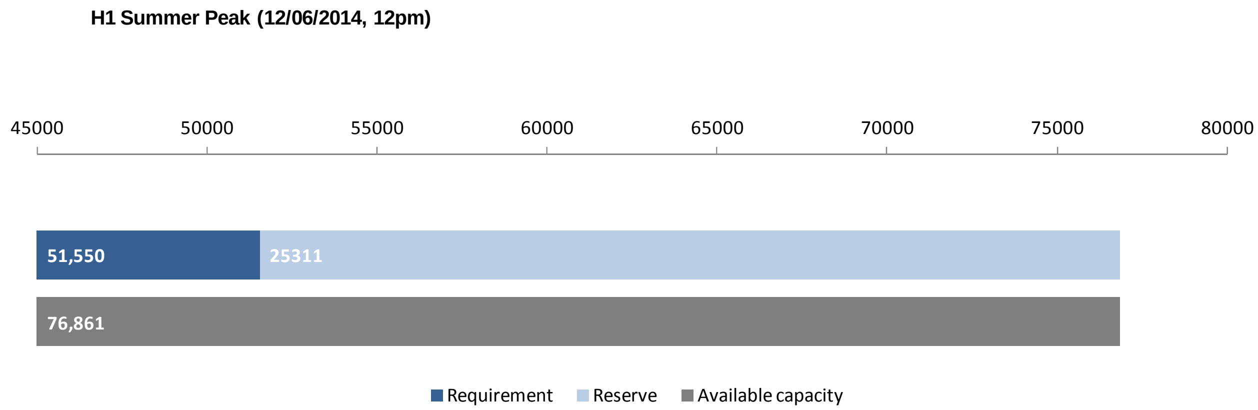
Coverage of demand, the trend of which is described in the section above, "Demand for electrical energy in Italy," is guaranteed by Terna through appropriate production margins as part of the process of planning the non-availability of grid elements in coordination with the non-availability of generation and considering production by plants using renewable sources.

The table below shows the trend in electricity demand (maximum figures for power in MW) in the first six months of 2014, compared with the same period of the previous year:



In the first half of 2014, demand reached a peak of 51,550 MW on 12 June 2014 at 12:00 p.m., 1% below the peak recorded in the first half of 2013.

The table below shows available power and reserves at the highest peak of the first half of 2014:

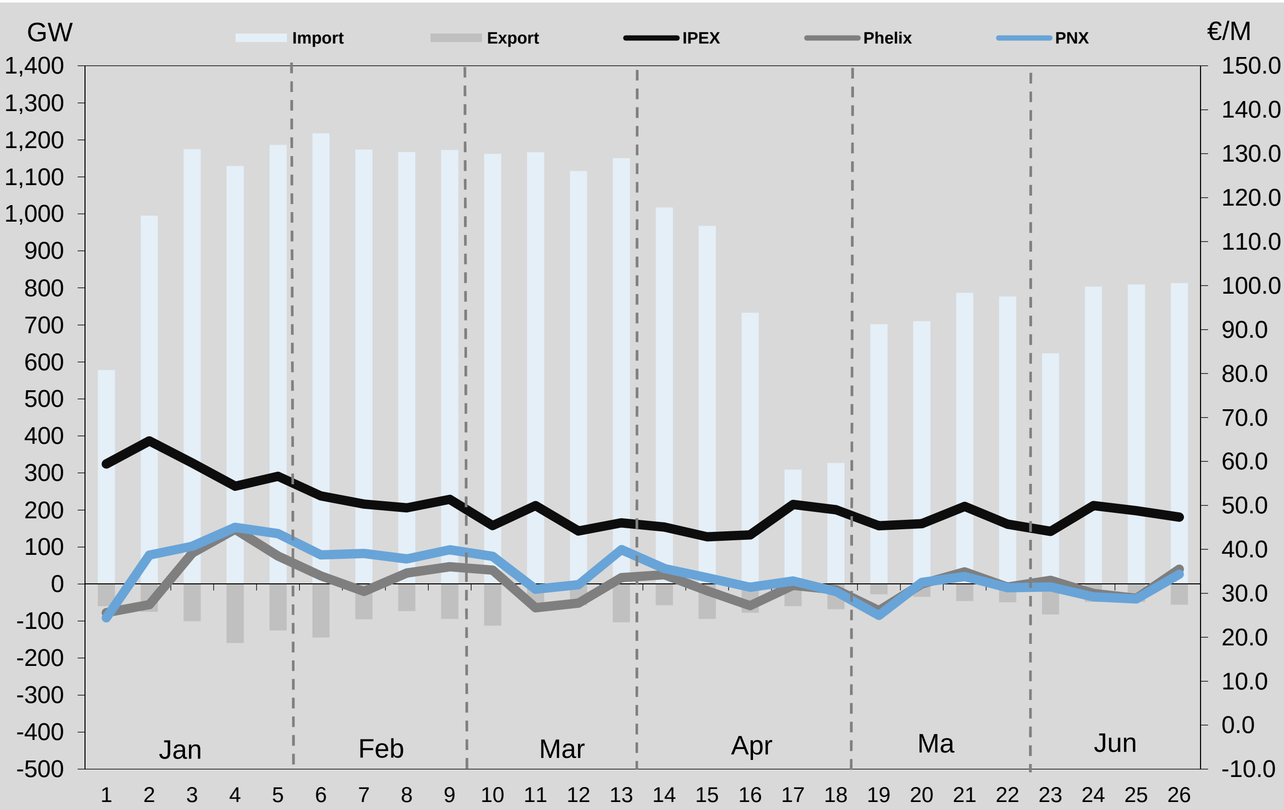


Foreign trade resulting from the energy market recorded net imports of 21.8 TWh in the first half of 2014, up compared with the same period of the previous year (+3.0% YOY).

The Single National Price, recorded on the Italian stock market (IPEX), showed a notable decrease with respect to the first half of 2013. It is still higher than the prices on the foreign French (PNX) and German (EEX) markets, which also dropped, but to a lesser degree than the PUN. As a consequence, the spread between the IPEX and the foreign stock markets decreased:

- IPEX 49.5 €/MWh (-18% YOY);
- PNX: 34.6 €/MWh (-21% YOY);
- EEX/PHELIX: 32.3 €/MWh (-13% YOY);

The trade and the weekly average prices of the first half of 2014 are presented below.

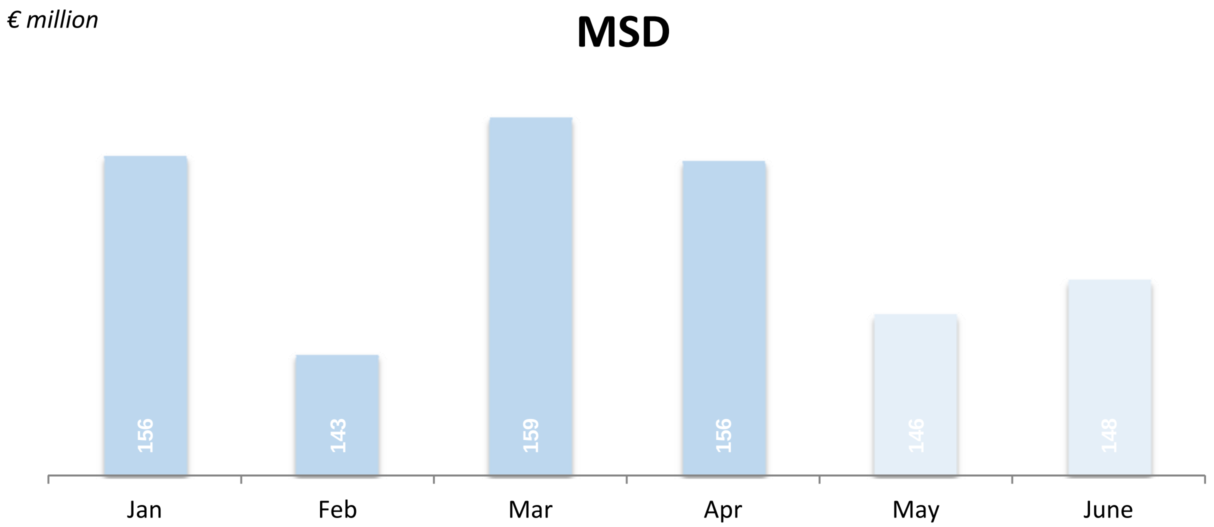


Note. The week start/end on the graph is Mon/Sun

Dispatching Services Market

On the Dispatching Services Market (**DSM**), Terna procures dispatching resources to guarantee the security and adequacy of the system.

In the first half of 2014, the **net expense** for the DSM was **€ 908 million**, substantially in line with the first half of 2013 (+2% yoy). Below we show the trends of the average net expense for the DSM. The figures for June and May should be taken as provisional.



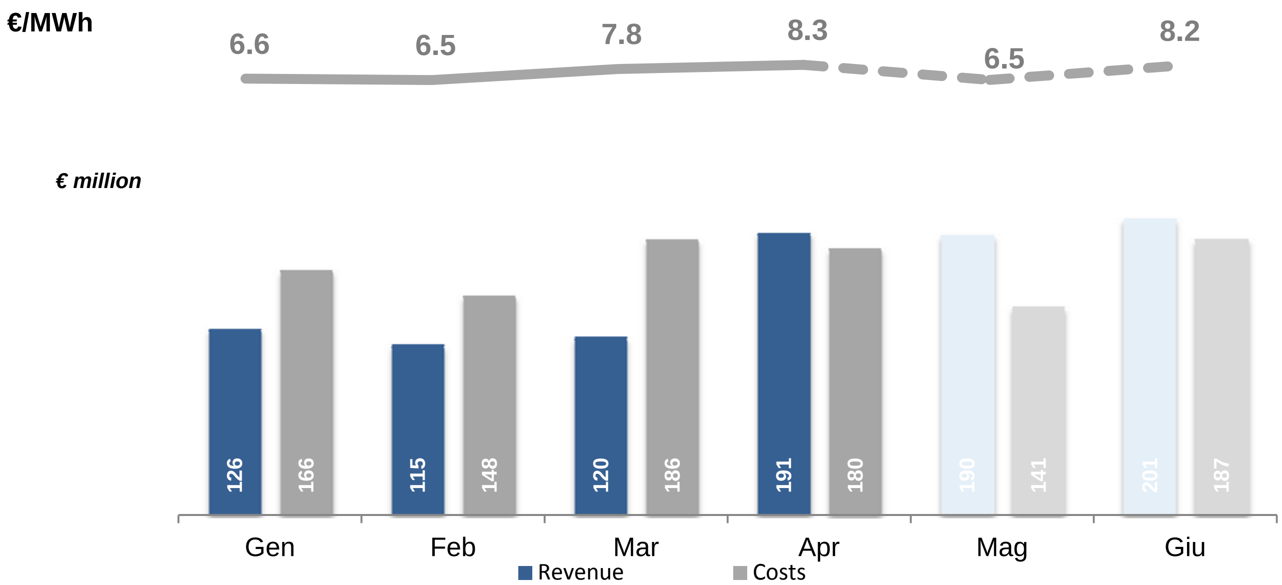
Price for supplying resources on the Dispatching Services Market (uplift)

The price for provisioning of resources on the Dispatching Services Market (known as ***Uplift***), pursuant to AEEGSI Resolution No. 111/06 Art. 44 and subsequent amendments, represents the net expense associated with the following energy-related items: purchases and sales on the MDS, premiums for forward contracts signed as an alternative to declaration of essentiality, remuneration of plant goodwill on the DSM (so-called "goodwill token"), imbalances, congestion earnings and related financial hedges, virtual interconnection service (so-called Interconnector), other smaller items.

This price is invoiced pro-rata to users of the dispatching on the energy withdrawn, to cover the envisaged accruing monthly cost and the prior differences.

In the first half of 2014, the final uplift cost was equal to € 1,009 million, -6% with respect to the first half of the previous year, leading to a unit price that was lower year on year, despite the decrease in withdrawals. Below we show the monthly trends. The figures for June and May should be taken as provisional.

The graph below also shows the revenue from invoicing the uplift ("Turnover") and the related final cost ("Costs") also in terms of a monthly unit price.


€/MWh
6.6
6.5
7.8
8.3
6.5
8.2
€ million
126
166
115
148
120
186
191
180
190
141
201
187
Gen
Feb
Mar
Apr
Mag
Giu
Revenue
Costs

Terna and non-traditional activities

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

A further step towards defining opportunities within the sphere of Non-Traditional Activities in Italy was the signing of the Memorandum of Understanding on 16 December 2013 with several trade federations, in the presence of the Minister for Economic Development and of Confindustria (the Confederation of Italian Industry). The Memorandum of Understanding regards the construction and management of interconnection infrastructure with foreign countries ("Interconnections or Interconnector") pursuant to Article 32 of Italian Law 99/2009 and aimed at providing a basis for negotiation for future agreements with the parties winning the tender procedures held by Terna in 2009 and 2010.

Development of Non-Traditional Activities continued in the first half of 2014 with the closing on 20 May 2014 of the operation for Terna Plus S.r.l. to acquire the entirety of the capital of Tamini Trasformatori S.r.l. and that of the companies controlled by it, operating in the production and sales of industrial and power electricity transformers, commented on in the context of the important events during the half, to which the reader is referred.

In addition, with reference to the competition for privatisation of the Greek electricity grid, Terna presented a manifestation of interest of the Greek operator Admie and has qualified for “Stage B”: due diligence has begun.

Research and development

Terna, in line with its mission, continually searches for innovative technological solutions aimed at:

1. increasing the reliability and security of the grid, improving the quality of service and the security of people and things;
2. optimising usage and maintenance, making management of the grid more intelligent and flexible;
3. reducing grid development times and costs, improving the projects and the creation of new plants or improving existing assets;
4. monitoring high-level innovative technologies and research projects of interest to the transmission sector.

Research at Terna is carried out by technicians who also base their work on careful monitoring and analysis of the behaviour of the equipment, components and systems in operation. Terna maintains a permanent observatory on innovation, working with RSE S.p.A. (Energy System Research), and with universities and polytechnics and participating in specialised technical activities, both in national and international contexts within standardisation and pre-regulation bodies (such as CEI, IEC, CENELEC, CIGRE, EPRI and IEEE). Terna, when held appropriate and without discrimination, works within sharing agreements with suppliers and constructors for the insertion of new products on pilot/experimental plants to qualify and validate them for more widespread use.

Terna uses not only its own labs (chemical labs, automation system labs, "live" work labs, mobile labs to find malfunctions and detect partial discharges, platform for transformer short circuit testing), but also makes use of cooperation with CESI S.p.A. (a specialised service company in which it holds a 42.698% interest), in particular for the execution of tests and specialised design studies and activities.
In particular, in the first half of 2014 the Terna Group incurred costs of € 3.1 million in respect of the associate CESI S.p.A. of which € 2.8 million were capitalised.

Applied research

Studies for innovation and the development of new engineering solutions mainly involve four areas of interest:

1. Line Technology (overhead lines and cable lines);
2. Electrical Station Technology (equipment, machines, automation systems, modelling and measuring and testing systems);
3. Systems (civil works and plants);
4. Maintenance (maintainability of lines and stations, working methods and equipment).

Specifically, research lines relate to the following themes:

- *Optimisation of infrastructure and materials*

In this area, activities continue aimed at designing pylons with less visual impact and which are more easily integrated into the surrounding environment, as well as researching conductors able to boost the transmission capacity of existing overhead lines and developing new technology for High-Voltage cables. Recall that one of the major achievements in 2013 was the installation of "Germoglio" pylons, designed by architect Hugh Dutton, along the 380 kV double three-phase Trino – Lacchiarella power line.

Among the activities in 2014, we note:

- ✓ the continuation of activities to engineer new single-stem supports with a lattice pylon structure in 380 kV double three-phase system;
- ✓ the execution, for the purpose of selecting innovative conductors, of research activities related to HTLS (High Temperature Low Sag) conductors, able to replace existing traditional conductors with materials able to support higher temperatures without leading to mechanical deterioration during their useful life. To this end, conductors with carbon fibre pylons and conductors in thermal aluminium alloy and INVAR pylons were subject to in the field testing;
- ✓ the execution of experimental activities to qualify 150 kV50 kVca submarine cables in cooperation with the supplier and activities aimed at the qualification and validation of assembly equipment, mechanical protection and the definition of testing for 132 kV cables for the Venice lagoon were begun;
- ✓ the creation of a testing protocol, finalised in cooperation with the University of Bologna, for all HT levels (380, 220 and 150 kV), necessary for the verification of ac cables with XLPE (cross linked polyethylene) insulation produced by Borealis, the supplier of the raw material, with a new chemical reactor;
- ✓ the start of research activities in collaboration with other utilities (ENEL Distribuzione and ACEA in particular), aimed at verifying the possibility of using vegetable insulation fluids (organic esters) for transformers as an alternative to insulating oils. The advantage of these vegetable esters is the high biodegradability and the high flashpoint, but their use on an industrial scale must be carefully studied, given that they are still only used on a very limited scale.

An additional area of great interest is on-line sensors to measure the content of gases dissolved in oil, aimed at preventing possible incipient transformer defects. Reliability studies are in course for the various sensors available on the market, which involve the chemical lab in Venice in cooperation with the manufacturers.

- *New equipment and plant configurations*

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

In addition, the specifications for the construction of an armoured plant that can be kept in a container have been prepared. To guarantee both compact size, reliability and redundancy, a ring diagram has been used for the first time.

- *Plant safety and the environment*

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

For the stations in 2014, we note:

- ✓ the start of a research project for the use of devices for the immediate release of any internal overpressure waves, all in order to experiment with and evaluate the efficacy of systems to prevent explosions of power transformers;
- ✓ the completion, in collaboration with the Roma Tre University, of a study on plant seismic vulnerability. It paid particular attention to the most at-risk equipment, and in this context, Terna received seismic qualification AF% for its Wipe-Rope TRI system;
- ✓ the efficacy resulting from laboratory tests of the insulation system using vibration tables. These tests demonstrated, at equal exerting forces, a 50% reduction in structural stresses. This performance made it able to reach and exceed the requested seismic qualification (AF5);
- ✓ the installation during the year, following said results, in stations located at sites with high seismic risk, of experimental devices with certain types of Siemens 380 kV switches. In addition, due to the high level of flexible use and efficacy offered, Terna is evaluating further implementation of these devices also in the context of a widespread program to upgrade the characteristics of its plants for the purposes of resilience in the face of seismic events;
- ✓ the start of specialised studies aimed at analysing an d mitigating sources of noise coming from machinery installed in the electrical stations. These studies involve models to be used in calculating assessments of noise levels generated according to the types of passive barriers found in the Terna unified project, systems with active noise control (ANC) technology, laboratory validation and subsequent field testing.

For overhead liens, research is mainly focused on mitigating risks coming from extreme weather conditions. In regards to this issue, Terna has established numerous initiatives aimed at guaranteeing the safety and resilience of its grid assets and structures.

For 2014, we note the start:

- ✓ of a massive installation campaign in north Italy of the anti-rotation device for overhead conductors, able to counteract the formation and growth of "sleeves" of wet snow. This device was rendered uniform and made available after an experimental transitional stage in cooperation with RSE, begun in 2009;
- ✓ of the customisation and usage of the "WOLF" (Wet-snow Overload aLert and Forecasting) forecasting, again in cooperation with RSE, able to predict expected overloading of overhead electrical lines and estimate the minimum current necessary for anti-icing;

- ✓ of highly innovative research programs with the Politecnico di Milano regarding thermal anti-icing/de-icing, the development of mechanical systems to remove overloads and testing of new ice resistant coatings;
- ✓ of additional research projects, in cooperation with certain specialised suppliers for the development of trailered de-icing systems for dc electrical lines, able to act locally removing overloads from conductors.

In the context of the mitigation layer for extreme weather condition risks but with a more transversal view, Terna is also internally developing localised generation systems for disaster recovery plans, that are completely transportable and can be inserted in high voltage.

Staff

The Group's organisational structure

Terna employees total **3,837** and include 374 employees coming from the Tamini Group, acquired during the half by the subsidiary Terna Plus S.r.l., as commented on in the context of the important events during the half, to which the reader is referred. These employees are distributed within the Group as follows:

	Terna S.p.A.	Terna Rete Italia S.p.A.	Terna Storage S.r.l.	Terna Plus S.r.l.	Tamini Group	Terna Crna Gora d.o.o.
Number of employees	**384**	**3,062**	**5**	**9**	**374**	**3***

Local employees

The trend in the number of employees at the Terna Group, without taking into account employees of the Tamini Group, to enable uniform comparison, is provided below:

Change in the workforce	30.06.2014	31.12.2013	Change
Senior executives	65	62	+3
Junior executives	523	501	+22
White-collar workers	1,907	1,922	-15
Blue-collar workers	965	957	+8
Total	**3,460**	**3,442**	**+18**

In the first half of 2014, 35 employees joined the company, while 17 left.

The trend for total employees at the Terna Group, including the Tamini Group, is as follows:

Change in the workforce	30.06.2014	31.12.2013	Change
Senior executives	73	62	+11
Junior executives	540	501	+39
White-collar workers	2,029	1,922	+107
Blue-collar workers	1,192	957	+235
Total	**3,834**	**3,442**	**+392**

Below is the breakdown by Group company of the number of employees at 30 June 2014:

At 30.06.2014	Terna S.p.A.	Terna Rete Italia S.p.A.	Terna Plus S.r.l.	Terna Storage S.r.l.	Tamini Group
Senior executives	28	35	2	-	8
Junior executives	144	371	5	3	17
White-collar workers	212	1,691	2	2	122
Blue-collar workers	-	965	-	-	227
Total	**384**	**3,062**	**9**	**5**	**374**

The above figures, for the reference periods, are net of retirements effective as of 31 December and 30 June. As of 30 June 2014, the subsidiary Terna Crna Gora d.o.o. has 3 local employees, whilst the other subsidiaries not shown in the table have no employees.

In the context of the structure of the Group, worth noting is the organisational model of the subsidiary Terna Rete Italia S.p.A., as the largest company in terms of employees - as seen in the table shown above. Specifically, the organisational model of the subsidiary includes three Area Offices (North-West, North-East and Central-South) and is aimed at reinforcing regional supervision of the activities related to operating and maintaining the plants and managing operating processes.

Training

The 2014-15 Terna Group Training Plan is focused on supporting the changes that have involved the Group over the last two years (institutional restructuring and, more recently, the reorganisation of the subsidiary Terna Rete Italia S.p.A. in accordance with the above cited organisational model). With reference to the new roles or professional groups heavily impacted by the change, accompanying the usual themed projects focused on target groups, dedicated paths have been identified with a mix of personalised initiatives and drawn from the general offerings. Some of the initiatives planned in this context will start in the second half of 2014.

During the first half, corporate efforts were concentrated on training to support the development of new professional/multi-skills both for production and office workers. Specifically, a training path of two courses was provided for production workers, the first to provide the "availability multiskill", the second for the full professionalism multiskill. The first course was planned for 2014 and the second for 2015. Each multiskill course for the production workers involved 13 days of classroom/field training and 60 days of structure on the job training. Around 240 workers were involved, half of which have completed the course. The remaining workers have completed the classroom stage and will complete the on the job portion by the end of 2014. As regards white-collar workers, for whom the one-off acquisition of multiskill professionalisms is envisaged, a course divided into 8 classroom days and 60 structured “on the job” days was planned and organised; half of the total target envisaged were involved (approximately 120) and the remainder will be trained starting in September.

All the activities completed up to present have seen the involvement of numerous colleagues at the Faculty Campus, both at the centralised and local level. The commitment requested is notable, both for the number of planning and teaching hours, and for the complexity of classroom management, which involves students with various levels of seniority and at the same time involved with significant changes with regards to their past work experiences. It is also important to note both the great organisational commitment required, considering that, with the central coordination of the Training Unit, many activities were organised at the local level using territorial classrooms and operating sites, and the capacity of the structures to which the participants belong in managing the impact due to involvement at the same time of such a large number of resources in training activities of various kinds and types.

Again in the first half, the notable commitment to Safety training, both for the completion of the basic training according to the roles envisaged in TU 81/08 (Consolidated Safety Law), both for the start of the first stage of a notable training plan, which will extend past 2014 and will be dedicated to climbing and high altitude rescue methods.

During the course of the second half, new initiatives will be started, particularly in the field of Education, foreseen in the Plan which saw notable revisions of the offerings in this area.

Managerial incentives

With regard to managerial incentives, during the course of the first half of 2014, the MBO premiums correlated with the objectives set for the year 2013 were liquidated, as well as the balance of the LTI (Long Term Incentive) premium, relative to the three year period 2011-2013.

Risks and opportunities

The risks and opportunities context for the Terna Group

Compliance with concession requirements is a precondition of Terna's business. For this reason, the operating risks related to management of the grid - risks of disruption - have always been handled with the utmost care and constantly updated methods and techniques are employed. Regarding transmission activities, Terna's monopoly position reduces market risks; the regulatory framework determines the scope of risks and opportunities. Other risks - e.g. financial risks - are identified and continually monitored and managed. The identification of business opportunities in non-traditional spheres is part of the corporate strategy and takes into consideration important trends of the sector, such as the increase in production from renewable sources.

More generally, contextual risks and opportunities emerge from Terna's relations with stakeholders. In this context, respect for the environment and local communities impacts Terna's ability to make the investments provided for in the Development Plan, as detailed below.

Society and discussion with local communities

Society and discussions with local communities are key considerations for Terna, which views the question of acceptance by local communities as central: aside from its relationships with institutions, based on identifying and agreeing on solutions in advance, increasing the degree of acceptance of electricity infrastructures in the communities involved is very important, as can also be seen from the disputes detailed below. With respect to this objective, involvement and communication play an important role, as do local institutions and regional associations representing civil society.

With regard to electromagnetic fields, Terna's commitment is expressed by its scrupulous compliance with Italian law, which is among the strictest internationally. Considering the sensitivity of public opinion surrounding the issue, Terna pays constant attention to advances in scientific research on electromagnetic fields to assess any risks connected with its work and will continue providing the public with accurate information on the matter.

Consultation with local administrations

Terna’s approach to local areas, which is especially important when new lines must be constructed, consists of a voluntary process of prior engagement with local institutions (regional and local administrations, park authorities, etc.). This process involves the sharing of NTG development needs with local institutions, a willingness to listen to stakeholder opinions and the search for a shared solution regarding the positioning of new infrastructures and the reorganisation of existing ones.

To facilitate acceptance of electricity infrastructure by local communities, Terna, in fact, considers it fundamental to hold discussions with local administrations as early as possible, right from the moment in which the need for a new NTG development project is recognised. In this way, the conditions are created in which to develop and “build” the grid together, thus making it more sustainable and acceptable.

Terna's approach to local areas envisages a voluntary pre-authorisation procedure illustrated in detail in the chapter on extending the grid, which should be consulted for further information.

As much as 102 meetings with local Administrations took place in total in the first half of 2014, involving 83 organisations.

Risks and uncertainties facing Terna and the Group

Terna has always paid careful attention to the prevention of risks of all kinds that could affect or limit the company's results in the remaining period of the year. 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, and which, besides, are already known to the market and shareholders, considering their presentation in the financial statements and financial prospectuses previously published.

Regulatory risk

With reference to the first half of 2014, over 96% of the Group's consolidated revenue comes from annual fees and incentive mechanisms paid for the provision of services regulated by the AEEGSI.

With Resolutions 199/11 and 204/11 (as subsequently updated), the AEEGSI set out the tariff framework for transmission and dispatching services for the regulatory period 2012-2015, as well as the rules for the annual update of the relative unit costs (within the same regulatory period).

In 2014, the unit costs of the transmission and dispatching fees were respectively updated by AEEGSI resolutions 607/13 and 636/13.

In resolution 197/11 (and relative subsequent amendments) the AEEGSI also established how the quality of the transmission service should be regulated for the same regulatory period (2012-2015).

With particular reference to RAB (Regulatory Asset Base) remuneration relative to transmission and dispatching activities, resolution 199/11, article 2, provides for the updating by 30 November 2013 of the remuneration rate of invested capital for the period 1 January 2014 - 31 December 2015 on the basis of the average value of 10-year BTPs recorded in the period November 2012 - October 2013.

In implementing such provision, Resolution 607/13 updated the rate of return in question to 6.3% (compared to the previous value of 7.4%) to be applied starting from the 2014 tariffs.

- *Volume effect*

The revenues of Terna and Terna Rete Italia Srl attributable to the management, operation and development of the NTG, and to the management of dispatching activities, are regulated by tariffs set by the AEEGSI.
The unit costs for transmission and dispatching services are determined annually on the basis of the recognised costs of the aforesaid activities and of the respective physical quantities forecast (forecast of electricity transported on the NTG and of electricity dispatched. During the year Terna issues its invoices on the basis of the aforesaid fees and effective volumes of electricity respectively transmitted and dispatched. The effective volumes (and thus the potential difference between the effective volumes and forecast volumes used to calculate the unit tariff) depend on factors outside the Group's control and Group revenue may thus prove higher or lower than expected on account of this "volume effect".
With the Resolutions 199/11, 204/11, 565/2012 and 607/13, the volume mitigation mechanism introduced by the earlier Resolution 188/08 was confirmed for the IV regulatory period (2012-2015). This states that any impact on Group revenues caused by possible variations in CTR and DIS energy volumes would be limited

to a range of +/- 0.5%, based on the estimates taken as reference by the Authority for the definition of the annual unit tariffs.

- *Quality of transmission service*

Premiums and penalties for energy not delivered

Quality regulation of the transmission service provides for a mechanism of bonuses/penalties which takes into consideration solely 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.

Services provided by distribution companies – Mitigation

Some specific types of power outage which affect VHV/MV or HV/MV transformation plants directly connected to the NTG may give rise to mitigation services supplied by the distribution companies, Such services, aimed at providing a continuous electricity supply are provided by means of reverse current feeding from MV grids and/or by adding mobile generator groups, and entitle the distributors to receipt of a fee from Terna calculated on the basis of the electricity fed in reverse current (mitigated).

The amounts relative to mitigation services are subject to a maximum limit per single outage and, in certain circumstances, to specific deduction mechanisms. The annual amount paid by Terna for mitigation is also subject to a maximum limit of 18 million euro (as regards any payments to distribution companies exceeding the annual limit, Terna may make a supplementary request to the Authority using the dedicated "Electricity services quality account").

Sharing of the penalties/refunds paid by the distribution companies to customers connected to the MV and LV distribution grids

The regulation provides mechanisms on the basis of which Terna may be called to "share" the penalties/refunds paid by the distribution companies to end customers connected to their grids (MV/LV) when outages exceeding the specific standards established by the authority are exceeded, up to a maximum annual limit of 70 million euro.

In specific cases or for the portion of refunds exceeding the maximum annual limit, Terna may request the refund of the excess from the "Exceptional Events Fund".

- *Montenegro*

With Resolution 607/13 the Authority recognised the remuneration of Terna's investments relative to the Italy-Balkans interconnection works (so-called Network Interconnection Link – NIL) located outside Italian territory, making this conditional to the opinion expressed by the State Council (on the fact that the Intergovernmental Agreement made between the Italian and Montenegro governments on 6 February 2010 – on the basis of which the works relative to the NIL are to be performed by Terna as part of the NTG - constitutes sufficient grounds for recognising the costs related to performance of the NIL works beyond the national border).

On the basis of the resolution specified, such works are recognised by means of a specific increase of the UC_3 component: the relative sums are paid to Terna at two-month intervals by the Cassa Conguaglio for the

Electricity Sector, and will be subsequently considered for the purposes of application of the revenue guarantee mechanism.

Resolution 607/13 further specifies that investments relative to any works on Montenegro territory other than the NIL, performed by Terna Crna Gora d.o.o. may not be recognised in the tariff.

Domestic and European legislative risk

- *Tax laws*

Tax legislation may affect the Group's economic and financial results.

- *Laws on environmental protection*

The Group's activities are affected by the generation of environmental legislation at the national, European and international levels (e.g. electromagnetic fields, landscape, etc.), and also, in the case of international activities, by laws expressed in the legal systems of foreign countries. The Group may incur additional costs due to the implementation of environmental regulations calling for preventive measures or requirements defined on the basis of regulations established by current legislation. At a European level, amendments to the Environmental Impact Assessment regulations are currently being defined.

- *Laws on energy*

The Group's activities may be affected by changes in national and European legislation governing the electricity market, strategic infrastructures (regarding which the “Golden Power” Decree was recently adopted - Italian Presidential Decree 85/2014, implementing Italian Law Decree 21/12), the iteration of authorisation of National Transmission Grid works, and the sphere of activities that Terna may perform or that impact on relations between the companies of the Group and other stakeholders (producers, distributors, etc.). European measures regarding the energy sector are currently being defined, among which are the Guidelines on State contributions and the energy and climate framework for 2020 to 2030.

- *Employment and contract laws*

As regards electromagnetic fields, Directive 2013/35/EU has been adopted on the exposure of workers to risks from electromagnetic fields, and should transposed by 1 July 2016 into the national legal system. In addition, new European Directives have recently been adopted in regard to tenders (see for the special sectors Directive 2014/25/EU), to which Italy must conform by April 2016. In general, more onerous rules governing contracts and health and safety in the workplace might have an adverse effect on the Group's economic/financial performance.

Operational risks: risks connected with NTG malfunction

In the context of the Terna Group's operations, risks of unexpected service interruptions caused by external events that are beyond Terna's control are calculated. These may include accidents, defects or breakdowns involving control systems or other equipment, deteriorating plant performance, natural disasters, terrorist attacks and other extraordinary events of this kind. Besides the economic risk associated with repairs to the sections of the NTG owned by the Group, possible claims for compensation by third parties as a result of such events could arise if the Group is found to be 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 entities, etc.).

This matter is discussed in more depth in paragraph E. "Commitments and risks" of the Notes to the Condensed Consolidated Interim Financial Statements at 30 June 2014.

Market and financial risks

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

In its financial risk management policies approved by the Board of Directors, the Terna Group has defined responsibilities and operational procedures for financial risk management activities, making specific reference to the tools to be used and setting clear operating limits for their management.

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 activities of the Group.

This matter is discussed in more depth in paragraph E. "Commitments and risks" of the Notes to the Condensed Consolidated Interim Financial Statements at 30 June 2014.

Risks connected with financing needs

Even under current market conditions, the Group expects to maintain sufficient capacity to generate financial resources from its operating activities. However, the plan for future investments is expected to lead to an increase in existing net debt. In relation to the condition of the financial markets, the need to finance and refinance the existing debt could determine, in the medium term, an increase in financial expenses.

Risk of non-traditional activities

A significant component of Non-Traditional Activities is related to market opportunities for the design, implementation and management of high-voltage plants which serve in connecting production from renewable sources in Italy or abroad. Consequently, any changes to the legislative or regulatory framework of reference for non-traditional activities may make investment in this sector less attractive and, consequently, lead to a reduction of market opportunities for Terna's non-traditional activities.
In addition, in the context of Non-Traditional Activities, following acquisition of the Tamini Group, we can note the risk typical of industrial business, with reference in particular to the credibility, solvency and country risk of the counterparties, as well as product warranty risks, although these are estimated with appropriate provisions.

Climate change risks

Terna, as a utility company, transmits electricity as its main task. It is not involved in any way in the generation of electricity and thus is not subject to any obligation to reduce emissions or to any emission-trading schemes.

At present, there are no fiscal (e.g. a carbon tax) or regulatory measures (e.g. emission-reduction targets, inclusion in emission-trading schemes) which have direct consequences on Terna's business and financial performance.

Potential, albeit remote, risks have been identified in connection with global warming and the reactions it might provoke within governments and in consumer habits.

Ares of overlap with Terna's work are as follows:

- the task of maintaining a balance between the input and withdrawal of electricity to/from the grid becomes more difficult when weather conditions are extreme. Examples of this include during water shortages and in extreme heat or freezing conditions. The probability of critical situations increases, which could result in the temporary disconnection of users in some parts of the country and difficulty in works to restore the supply. Such situations consequently cause the public authorities and the mass media to focus their attention on Terna;
- concern over climate change or the increase in the price of energy raw materials could lead to a reduction in the elasticity of energy demand in relation to GDP growth. The trend towards saving energy and research into greater energy efficiency has already altered the traditional relationship

between economic growth and demand for electricity. These trends could also result in lower growth in the demand for electricity than currently seen, under equal conditions;

- the increase in the production of energy from renewable sources poses various challenges for Terna in relation to an increase in the requests for connection to the grid from renewable energy plants, the need to plan and realise investments to resolve the grid congestion problems and the need for an efficient and safe management of non-programmable production. Furthermore, intermittent production (in particular wind production) makes dispatching more difficult, increasing the need for power reserves and regulation.

Risk protection

Terna operates as legal monopoly on the basis of a government concession for the transmission and dispatching activity.
This particular context which transforms some market risks into regulatory risks, influences our approach to risk management.
Terna also performs activities of a general and essential nature for the functioning of the electricity system. For this reason the risks involved are often systemic (e.g. outages, increased costs for the community).
For all these reasons the type of risks managed by Terna is partially defined by the AEEGSI.
With regard to reputational risk, across all of the Group's activities, protection is guaranteed and strengthened by a sustainable approach to business. This begins with the premise that is necessary to adhere to the law and it therefore considers all potential environmental and social consequences in order to prevent and mitigate the effects of such risks.

Lastly, Terna constantly monitors risks associated with aspects of sustainability which may have a negative impact on its reputation and its intangible value, through ratings analyses by the main agencies which periodically produce sustainability assessments (such as RobecoSAM, Vigeo and Eiris).

Risk management systems and instruments

The Terna Group has a Risk Management process, which involves the Company in its entirety, aimed at identifying potential events that could have a more or less significant impact on the company, managing risk and providing reasonable security for the achievement of corporate objectives.
During the course of 2014, Terna maintained a direct relationship with all the risk scenarios, in particular with operating risk in the forms in which it appears most frequently for a company that is also "Critical Infrastructure" for the counter and, obviously, risks related to damages to the health of workers on worksites. Identical objectives are pursued also in the context of the other activities aimed at other disciplines which, while apparently focused on the provision or management of "transversal" Group services, contribute at the same time to reinforcing operating conditions or operating practices traceable to various aspects of security.
Due to their peculiarities, operating risks condition the efficacy of company activities, have a nature that is mainly endogenous and of pure risk (mainly bringing losses and not gains), and are characterised by the heterogeneous nature of the risk factors and the way in which they manifest. In everyday operations, operating risks are significantly greater in relation to various factors (deregulation and globalisation, increase of use and invasiveness of IT technology, financial innovation, surrounding economic and social conditions, interdependence and domino effects, etc.).
Over 96% of the Group's revenues derive from activities recognised and remunerated by the AEEGSI, therefore, the risks arising from changes to the regulatory framework or incentive schemes could have a significant impact on the company's financial statements.
As part of the integrated and systematic risk management which distinguishes it, Terna has introduced structural management tools and prevention measures in line with its own Risk Management rationale. It has a Chief Risk Officer (CRO), appointed by the Chief Executive Officer in his capacity as the Director responsible for the Internal Audit and Risk Management System, after receiving an opinion from the Audit and Risk Committee.

The CRO is tasked with the responsibilities of supporting top management in effectively implementing and managing the Risk Management process at the Group level, with reference to all financial, operating, business and other risks.

The Risk Management function, in the style that distinguishes Terna, working towards the objective of continuous improvement and the desire to assure stakeholders that the activities are carried out in conformance with the mandate, effectively and efficiently, creates added value and improves corporate operations, establishes a Corporate Risk Management project, through Enterprise Risk Management methodology.

The adoption of the ERM framework, also in accordance with the directives of the new Corporate Governance Code for listed companies, guarantees a global view of risks and controls, as well as the diffusion of a language and culture of common risks.

For the real-time monitoring and management of critical issues affecting key infrastructure, Terna also 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 162 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 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.

Electricity system security 2014

Ensuring the security of the National Electricity System interconnected with the European network is a delicate task that Terna implements through a series of actions governed by rigorous assessment of the operational risks.

The objective is to keep within pre-set limits the probability of interruption of service and to minimise the negative consequences of disservices should they occur.

For Terna, preventing and reducing the risk of significant disservice means monitoring and protecting the physical integrity of the plants, arranging defence plans that limit the consequences of possible disservices, carrying out the preventive scheduling of the operation, improving control capacity in real time, training staff, developing new methods of support for the scheduling and control process, enhancing the reliability of the means of support, and coordinating the management of systems interconnected with neighbouring TSOs.

The projects are included in the electricity system Security Plan, prepared by Terna and approved by the Ministry of Economic Development. The Plan, which reached its eleventh edition in 2014, is drawn up every year and has a four-year programming period. The approach to electricity system security has become increasingly structured in successive editions of the Plan.

The current structure of the Security Plan envisages 8 different areas for scheduling, control, regulation and protection, restart and monitoring of the electricity system, and an area for the secure and optimal management of renewable sources.

In the context of the aforementioned areas of intervention, the 2014 Security Plan confirms the short-medium term initiatives already identified in the previous edition, which also include innovative projects (in particular, power intensive electrochemical storage systems for ultra rapid frequency regulation and equipment to compensate for reactive power), aimed securely managing the system, in particular on the larger islands, in the expected operating scenarios characterised by increasing production from non-programmable renewable sources.

In this context, also in consideration of the limited growth of the load and the progressive disposal of obsolete conventional thermal plants, with the consequent decrease of the system regulating capacity, the 2014 Plan also envisaged providing the main interconnection lines on the north Italian border with appropriate phase shifter transformers (PSTs). In fact, these devices are particularly useful for the regulation and balancing of systems in critical situations, in particular under low load conditions or with excess production from non-programmable renewable sources.

In 2013 investments made relative to projects provided for in the Security Plan amounted to € 73 million.

The eleventh edition of the Security Plan for 2014-2017 provides for investments of around € 303 million.

Information and Communication Technology

In the first half of 2014, Information and Communication Technology (ICT) supported the business on numerous key processes:

- in April significant changes were introduced to systems **for the start-up of the new DSM** with the aim of rendering supplying of dispatching resources by Terna more flexible. On one hand, the goal was to improve dispatching of resources to take into account the growing importance of renewable sources, while on the other producers were given the possibility to optimise the resources offered to the market, rendering them more in line with the technical constraints and production costs of their plants;
- significant changes are in course with the **settlement** procedures for the calculation of the energy items involved by regulatory changes, both in regard to the start of the new DSM and the recent changes to the imbalance regulations;
- an initial integration objective for **CRM MyTerna and Gaudì** has been achieved, with respect to the master system of the databases for electricity operators and the single database of production systems, with benefits both for electricity operators and for the company in terms of managing data and alignment of the same;
- with regard to defence systems, a new **remote tripping device in Priolo** became operational in April, able to optimise the insertion of power on the grid from the production sites of Priolo Gargallo and Anapo. The automation introduced foresees the disconnection of one or more groups in case of the loss of one of the controlled lines, in order to minimise dangerous overloads of the 220/150 kV grid in the eastern area of the island;
- reinforcement of the **Disaster Recovery** system is in course, which is tasked with intervening in the case of unavailability of the systems and/or headquarters of the National Control Centre in Via Palmiano. This reinforcement envisages both an extension of the perimeter tests for the IT applications of the electrical market, and an improvement of the system automation and organisational procedures necessary for timely management of the event.

Performance

Economic-financial performance

Significant events in the first half of 2014

Below are the main significant events in the first half of 2014. Please note that **during the year, no significant, non-recurring, atypical or unusual transactions were carried out, either with third parties or with related parties**.

Corporate

Terna: installation of the new Board of Directors, the appointment of Matteo Del Fante as Chief Executive Officer and General Director, granting of powers to the Chairperson and Chief Executive Officer, establishment of board committees.

On **27 May 2014** the new Board of Directors of Terna S.p.A., chaired by Catia Bastioli, met in Rome for the first time. The Board was elected by shareholders in the ordinary session on the same date.
The Board unanimously appointed Matteo Del Fante Chief Executive Officer and General Director of the Company.
The Board then approved the division of powers, giving the Chairperson Catia Bastioli the institutional responsibility of representing the company, guiding and directing the work of the Board and assuming the promotional and advisory role of CSR (corporate social responsibility), as well as overseeing activities related to participation in the company CESI - Centro Elettrotecnico Sperimentale Italiano Giacinto Motta S.p.A., in coordination with the Chief Executive Officer. The Chief Executive Officer has been granted, in line with the previous arrangement, all powers for the administration of the Company, except for those otherwise assigned by applicable law, the Company Bylaws or retained by the Board as part of its powers.
On the basis of the statements made by the Directors, the Board of Directors has determined that all Directors fulfil the independence requirements under the rules for electricity "transmission system operators", as well as the possession of integrity requirements and the absence of grounds for ineligibility and incompatibility, as required by law.
Based on the assessments made by the Board of Directors with reference to the statements made by individual Directors and taking into account all the evaluation parameters provided by the Corporate Governance Code, the independence requirements demanded by law, the Terna Company Bylaws and the Corporate Governance Code of the listed companies are held by the following Board members: Cesare Calari, Carlo Cerami, Fabio Corsico, Luca Dal Fabbro, Gabriella Porcelli and Stefano Saglia.
The Chairperson Catia Bastioli, in possession of the independence requirements provided by law, cannot be declared independent under the provisions of the Corporate Governance Code, by reason of the position held as Chairperson of the Company.
The Board has also ascertained the requirements of professionalism, integrity and independence of the members of the Board of Statutory Auditors in accordance with Italian Ministerial Decree no. 162 of 30

March 2000, referred to by Art. 26 of the Company Bylaws and by Art. 148, paragraphs 3 and 4 quater of the Consolidated Law on Finance.

The Board has therefore reorganised the internal committees already in place and, with a view to continuous improvement of the system of corporate governance, has established an Appointment Committee and expanded the powers of the Control and Risk Committee (now called the "Control, Risk and Corporate Governance Committee"), expanding the latter's existing competences with those inherent in the system of corporate governance and providing for the appointment of Members in accordance with the guidelines of the Corporate Governance Code.

Terna's Board of Directors makes use therefore today of the following Committees made up as indicated:

"Control, Risk and Corporate Governance Committee"

- Cesare Calari (Chairperson, independent)
- Simona Camerano (non-executive)
- Luca Dal Fabbro (independent)

"Compensation Committee"

- Carlo Cerami (Chairperson, independent)
- Fabio Corsico (independent)
- Gabriella Porcelli (independent)

"Appointment Committee"

- Luca Dal Fabbro (Chairperson, independent)
- Carlo Cerami (independent)
- Stefano Saglia (independent)

"Committee on Transactions with Related Parties"

- Stefano Saglia (Chairperson, independent)
- Gabriella Porcelli (independent)
- Fabio Corsico (independent).

Following his appointment as Chief Executive Officer and General Director of Terna, Matteo Del Fante has resigned from the post of General Director of CDP, as announced by the latter on **28 May 2014**.

A summary of the professional profiles of the new Directors and Auditors is available on the company website www.terna.it.

Regulatory

AEEG resolution on the positive ascertainment of milestones for the first half of 2013

On **6 June 2014** the Italian Regulatory Authority for Electricity Gas and Water published Resolution 259/2014/R/eel ascertained the achievement status of the milestones for the strategic NTG development investments in relation to the second half of 2013 (including the milestones relating to subsequent years achieved in advance), on the basis of the documentation submitted by Terna, verifying that the 70% threshold of the total conventional value of these milestones had been passed.

In particular, the Authority has determined a value of 93%, well above the aforesaid 70% threshold, subject to in situ verification of the effective achievement of the milestone, and has therefore granted Terna incentives to accelerate investment on assets under development relating to investments I=3 at 31 December 2013, to be applied to transmission rates for the year 2015.

Non-Traditional Activities (NTAs)

Acquisition of Tamini Trasformatori

As mentioned above, on **20 May 2014,** as part of the implementation of Non-Traditional Activities, the Terna Group concluded the acquisition by Terna Plus S.r.l., a wholly owned subsidiary of the Parent Company, of the entire share capital of Tamini Trasformatori S.r.l. and its subsidiaries.

The agreement - which follows the announcement of the transaction by Terna Plus S.r.l. on **25 February 2014** - envisages a consideration for the shares acquired of € 23.9 million, in addition to the values of the floating assets and the net financial position. As of 30 June 2014, approximately € 49 million had been paid and a price adjustment mechanism is envisaged. This will be defined by the end of the year.

The acquisition of the Tamini Group represents an opportunity to strengthen a historic Italian industrial company, recognised for its excellence in the electrical sector both in Italy and abroad.

The Tamini Group produces and sells industrial electrical and power transformers. It has four production plants all located in Italy in Legnano, Melegnano, Novara and Valdagno and is made up of the subsidiaries V.T.D. Trasformatori S.r.l., Verbano Trasformatori S.r.l. and Tamini Trasformers USA L.L.C..

Finance

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

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

Sustainability

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

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

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

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

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 Recommendation CESR/05-178b, 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.

Scope of consolidation

Compared to the situation at 31 December 2013, the scope of consolidation of the Terna Group also includes the companies of the Tamini Group, acquired during the first half of 2014, as described under the section "Significant events in the first half of 2014" of this section. The income statement of the half-year therefore reflects the results of the Tamini Group's performance starting only from the acquisition date of 20 May 2014.

Basis of presentation

The measurement and recognition criteria applied in this consolidated interim financial report are consistent with those adopted in the consolidated financial statements at 31 December 2013. It should be noted that for the purposes of better comparison some P&L balances have been reclassified, but without changing the values of the result for the first half of 2013.

Reclassified income statement

The reclassified income statements of the Terna Group for the first six months and the second quarters of 2014 and 2013 are summarised in the statement below, obtained reclassifying the data presented in the consolidated income statements.

2nd quarter					1 January - 30 June			
2014	2013	Change	%	*€ million*	2014	2013	Change	%
				Revenues:				
399.4	397.2	2.2	0.6%	- Grid transmission fees (1)	816.6	819.8	(3.2)	(0.4%)
34.8	32.9	1.9	5.8%	- Other energy items (1)	75.6	67.0	8.6	12.8%
38.2	19.2	19.0	99.0%	- Other operating revenue (2)	58.2	32.0	26.2	81.9%
472.4	**449.3**	**23.1**	**5.1%**	**Total revenue**	**950.4**	**918.8**	**31.6**	**3.4%**
				Operating expenses:				
54.0	51.0	3.0	5.9%	- Personnel costs	107.1	103.6	3.5	3.4%
38.9	36.4	2.5	6.9%	- Services, leases and rentals	66.6	64.7	1.9	2.9%
13.0	3.0	10.0	333.3%	- Materials	15.3	5.6	9.7	173.2%
3.7	7.4	(3.7)	(50.0%)	- Other costs	8.4	12.7	(4.3)	(33.9%)
109.6	**97.8**	**11.8**	**12.1%**	**Total operating costs**	**197.4**	**186.6**	**10.8**	**5.8%**
362.8	**351.5**	**11.3**	**3.2%**	**EBITDA (Gross Operating Profit)**	**753.0**	**732.2**	**20.8**	**2.8%**
122.2	**107.8**	**14.4**	**13.4%**	**Amortisation, depreciation and impairment**	**235.1**	**213.7**	**21.4**	**10.0%**
240.6	**243.7**	**(3.1)**	**(1.3%)**	**EBIT (OPERATING PROFIT/LOSS)**	**517.9**	**518.5**	**(0.6)**	**(0.1%)**
(32.9)	(25.2)	(7.7)	30.6%	- Net financial income (expense) (3)	(64.3)	(42.7)	(21.6)	50.6%
207.7	**218.5**	**(10.8)**	**(4.9%)**	**PROFIT/LOSS BEFORE TAXES**	**453.6**	**475.8**	**(22.2)**	**(4.7%)**
78.4	96.4	(18.0)	(18.7%)	- Income taxes for the period	179.1	212.1	(33.0)	(15.6%)
129.3	**122.1**	**7.2**	**5.9%**	**NET PROFIT FOR THE PERIOD**	**274.5**	**263.7**	**10.8**	**4.1%**
129.3	*122.1*	*7.2*	*5.9%*	*- Attributable to owners of the Parent*	*274.5*	*263.7*	*10.8*	*4.1%*

In the first half of 2014, the Terna Group gained **revenues** of **€ 950.4 million**, relating to the Parent Company for € 830.1 million and to the subsidiary Terna Rete Italia S.r.l. for € 95.1 million, an increase of € 31.6 million compared with the same period of the previous year (+3.4%).

This increase is mainly due to **Non-Traditional Activities -** the results of which are presented as part of "Other operating revenue" - essentially for the recognition of set-up grants for the implementation and completion of orders for changes to the NTG (€ +8.9 million, including activities related to Expo 2015), new maintenance contracts on third-party plants, as well as for the recognition of revenue from orders concluded by the Tamini Group after inclusion in the Terna Group (€ +16.3 million).

In the Consolidated Income Statement:

(1) the balance is included in the item "Revenue from sales and services";
(2) corresponds to "Revenue from sales and services" for the value of the "Other Sales and Services" (€ 30.6 million) and "Other revenue and income" (€ 27.6 million);
(3) corresponds to the total of the items presented in points 1, 2 and 3 of letter C - "Financial income/expense".

Within the **Traditional Activities**, the increase in "Other energy items" (€ +8.6 million) mainly due to the bonus added for the 2012 transmission service quality observed on the basis of AEEGSI Resolution 118/2014/R/eel more than offset the decline in "Grid Transmission Fees" (€ -3.2 million), which reflects both the updating of tariffs pursuant to AEEGSI Resolution 607/2013[3] and of contingency assets recognised in the first half of 2013 (€ -2.7 million).

In the second quarter of 2014, Group revenues recorded an increase of approximately € 23.1 million compared to the same period of 2013 mainly due to the combined effect of the factors described above, and taking into account the recognition of contingent assets on the transmission tariff (CTR) in the second quarter of 2014.

In the first six months of 2014 **operating costs**, amounting to € 197.4 million, mainly related to the Parent Company (€ 58.8 million) and to the subsidiary Terna Rete Italia S.p.A. (€ 118.4 million), are **growing** towards the first half of 2013 (€ +10.8 million), mainly due to final operating costs of the management of the Tamini Group, post-acquisition (€ +14.3 million), net of lower charges for the service quality.

Similarly, in the second quarter of 2014, operating costs of the Group recorded the effects of the Tamini acquisition on quality of service.

EBITDA (Gross Operating Margin) for the period came out at **€ 753.0 million**, an increase of € 20.8 million compared with the € 732.2 million of the first six months of 2013 (+2.8%), mainly for greater **EBITDA of non-traditional activities** (around € +15 million).
The **EBITDA margin** went down from 79.7% in the first six months of 2013 to 79.2% in the corresponding period of 2014, owing substantially to the acquisition of the Tamini Group.

The item **Depreciation,amortisation and impairment** for the period, amounting to € 235.1 million (of which € 210.9 million of the parent company and € 23.3 million of the subsidiary Terna Rete Italia S.r.l.), grew by € 21.4 million compared with the same period of 2013 mainly due to the entry into operation of new plants.

For the same reasons as explained above, amortisation/depreciation and impairment were higher also in the comparison between the two quarters (€ +14.4 million).

EBIT (Operating Profit), after deducting amortization/depreciation and impairments, amounted to **€ 517.9 million**, in fact in line with the first six months of 2013 (€ -0.6 million, equal to -0.1%).

Net financial expense for the period, amounting to € 64.3 million, mainly attributable to the parent company (€ 63.2 million), revealed an increase of € 21.6 million, compared to € 42.7 million in the same period of 2013, which was affected by higher financial income due to greater liquidity invested at more favourable rates.

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

After deducting net financial expense, **profit before taxes** came out at **€ 453.6 million**, up by € 22.2 million compared with the corresponding period of the previous year (-4.7%).

Income taxes for the period amounted to € 179.1 million, down € 33.0 million (-15.6%) compared to the same period of the previous year, partly because of the lower pre-tax profit, but mainly due to the reduction of the IRES increase, under Italian Law Decree no. 138 of 13/08/2011 (Robin Hood Tax), which went from 10.5% to 6.5%, bringing the IRES rate to 34% (compared to 38% in 2013).
The tax rate for the period therefore drops from 45% in the first six months of 2013 to 40% in the corresponding period of 2014.

Net profit for the period therefore came out at **€ 274.5 million**, up € 10.8 million (+4.1%) compared with the € 263.7 million of the first half of 2013.

Results by geographical area and business segments

The division of the Group's results by operating segment is detailed in the "Operating segments" section of the Notes to the Consolidated Interim Financial Statements, to which you are referred.

Reclassified statement of financial position

The operating financial position of the Terna Group at 30 June 2014 and 31 December 2013 is summarised in the table below, obtained reclassifying the figures shown in the consolidated statement of financial position.

€ million	at 30.06.2014	at 31.12.2013	Change
Net non-current assets			
- Intangible assets and goodwill	454.6	461.8	(7.2)
- Property plant and equipment	10,287.1	10,119.9	167.2
- Financial assets (1)	86.2	82.8	3.4
Total	**10,827.9**	**10,664.5**	**163.4**
Net working capital			
- Trade receivables (2)	643.8	846.1	(202.3)
- Inventories	18.0	8.0	10.0
- Other assets (3)	121.8	95.5	26.3
- Trade payables (4)	534.3	780.0	(245.7)
- Net payables for pass-through energy items (5)	130.7	407.3	(276.6)
- Net tax liabilities (6)	36.2	(32.9)	69.1
- Other liabilities (7)	416.8	441.3	(24.5)
Total	**(334.4)**	**(646.1)**	**311.7**
Gross invested capital	**10,493.5**	**10,018.4**	**475.1**
Sundry provisions (8)	450.0	452.7	(2.7)
NET INVESTED CAPITAL	**10,043.5**	**9,565.7**	**477.8**
Equity attributable to the owners of the Parent	**2,960.3**	**2,940.6**	**19.7**
Net financial debt (9)	**7,083.2**	**6,625.1**	**458.1**
TOTAL	**10,043.5**	**9,565.7**	**477.8**

In the Consolidated Statement of Financial Position they correspond to:

(1) the items "Equity-accounted investees", "Other non-current assets" and "Non-current financial assets" for the carrying amount of the other investments (€ 1.0 million);

(2) “Trade receivables” net of the receivable for energy-related pass-through revenue (€ 1,238.7 million);

(3) the item "Other current assets" net of other tax assets (€ 18.3 million) and "Current financial assets", net of the FVH derivative value (€ 6.7 million);

(4) “Trade payables” net of the payable for energy-related pass-through costs (€ 1,369.4 million);

(5) the items “Trade receivables” for energy-related pass-through revenue receivable (€ 1,238.7 million) and “Trade payables” for energy-related pass-through costs payable (€ 1,369.4 million);

(6) “Income tax assets”, “Other current assets” for the value of other tax receivables (€ 18.3 million), “Other current liabilities” for the value of other tax payables (€ 47.2 million) and “Income tax liabilities”;

(7) “Other non-current liabilities”, “Current financial liabilities” and “Other current liabilities” net of other tax liabilities (€ 47.2 million);

(8) the items “Employee benefits”, “Provisions for risks and charges” and “Deferred tax liabilities”;

(9) the items "“Long-term loans”, “Current portion of long-term loans”, "Non-current financial liabilities", “Cash and cash equivalents”, “Non-current financial assets” and "Current financial assets" for the value of FVH derivatives (respectively € 690.0 million and € 6.7 million).

The increase in **Net non-current assets** of € 163.4 million, compared with the figure of 31 December 2013, is mainly attributable to the item **Property, plant and equipment**, owing essentially to the combined effect of:

- investments of € 364.6 million, of which € 361.7 million in traditional activities;
- contribution from Tamini acquisition for € 23.9 million
- amortisation and depreciation for the period for € 198.0 million.

Disposals, write-downs and other changes in the period, such as the recognition of set-up grants, leave the balance at € +167.2 million compared to 31 December 2013.

Intangible assets and goodwill recorded a reduction of € 7.2 million attributable to ordinary movements of intangible assets for investments of € 21.4 million (of which € 12.4 million in dispatching infrastructures), net of the portion of amortisation accruing of € 28.9 million (of which € 18.1 million relating to amortisation of the dispatching infrastructures and € 2.8 million relating to amortisation of the concession).

Total investments made by the Group in the first half of 2014 amounted to € 386 million, compared with € 503.9 million in the corresponding period of 2013. The previous half-year was, however, affected by work on the Dolo-Camin power line[4] and the higher investments on the Sorgente - Rizziconi 380 kV power line (€ -34.8 million), progress in the work on the Trino-Lacchiarella 380 kV power line (€ -21.4 million) and the Foggia-Benevento II 380 kV power line – with the latter items coming into operation during the first half of 2014 –, as well as the optical fibre acquisition by Wind Telecomunicazioni (€ 30 million).

Net working capital came to **€ -334.4 million** and during the period used liquidity of € 311.7 million, owing essentially to the combined effect of:

- a reduction in trade payables of € 245.7 million mostly for purchases and services relating inter alia to greater investment activities implemented in the last period of the previous year;
- decrease in trade receivables of € 202.3 million due to collections from Electricity Equalisation Fund in implementation of AEEGSI Resolution 607/2013, relating to the mechanism for integration of revenue related to the transmission service and recognised for the year 2012 (€ 131.5 million), as well as the collection, postponed in January by a market operator, of the portion of the CTR fees of the last part of 2013, the natural deadline of which was the end of the previous year;
- a decrease in net payables for pass-through energy items (€ 276.6 million) originated with the electricity dispatching work done by the Parent Company, mainly deriving from the combined effect of:
  - an increase in net receivables connected to the uplift (€ 207.1 million);
  - lower net payables generated by the increase in energy purchases on the Energy Market (€ 44.8 million);
  - higher net receivables arising from essential units (€ 32.5 million).

[4] Last December, the Council of State confirmed the cancellation of the authorisation order for work on the “Dolo-Camin” NTG (380 kV rationalisation project between Venice and Padua). Therefore a new grid rearrangement study was launched as the basis for a new proposal for authorisation.

Gross invested capital, therefore, amounted to € 10,493.5 million, recording an increase compared with the previous financial year of € 475.1 million.

Sundry provisions declined by € 2.7 million, owing mainly to the following changes:

- net uses relating to voluntary retirement incentives and incentive plans for management personnel (€ -19.4 million - compensation owing and paid to the outgoing CEO);
- contribution of provisions for risks and charges[5] (€ 8.4 million) following the acquisition of the Tamini Group;
- net provision (€ 11.2 million) relating to "Town planning and environmental redevelopment projects" to offset the environmental impact arising mainly from the entering into operation of the Trino-Lacchiarella and Benevento-Foggia, in addition to charges related to compliance and testing;
- increase of the liability relating to employee benefits for the recognition of actuarial gains and losses accruing to the half year (€ 10 million, essentially referable to adjustment of the relevant interest rate);
- use of net deferred tax of € 13.2 million, mainly for the use of previous provisions relating to additional depreciation regarding economic and technical portions and changes in the provisions described above.

Net invested capital amounted to € 10,043.5 million, an increase of € 477.8 million compared with 31 December 2013 and is financed by shareholders' equity for € 2,960.3 million (compared with € 2,940.6 million at 31 December 2013) and by net financial indebtedness for € 7,083.2 million (€ +458.1 million compared with € 6,625.1 million of 31 December 2013).

[5] The provisions of the Tamini Group essentially regard allocations made for guarantees on products sold and allocations of an environmental nature;

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:

€ million	Net profit H1 2014	Equity at 30.06.2014
Financial Statements of the Parent Company	**229.7**	**2,668.0**
Results and equity contributed by the Group companies in traditional business activities	42.0	207.8
Results and equity contributed by the Terna Plus Group	0.5	60.3
Equity-accounted investees	2.3	24.2
Terna Group Consolidated Financial Statements	**274.5**	**2,960.3**

Cash flows

Net financial debt

The Group's net financial debt at 30 June 2014 (€ 7,083.2 million) is broken down in the table below.

€ million	30.06.2014	31.12.2013	Change
Financial debt			
A. Medium- and long-term debt			
- Bond (1)	5,890.9	5,723.0	167.9
- Floating-rate loans (1)	2,800.5	2,286.9	513.6
- Derivative financial instruments (2)	(629.8)	(447.1)	(182.7)
Total	**8,061.6**	**7,562.8**	**498.8**
B. Short-term debt (liquidity):			
- Floating-rate loans (current portions) (3)	95.8	79.0	16.8
- Fixed-rate loans (current portions) (3)	607.1	618.8	(11.7)
- Derivative financial instruments (4)	(6.7)	(18.4)	11.7
- Cash and cash equivalents	(1,674.6)	(1,617.1)	(57.5)
Total	**(978.4)**	**(937.7)**	**(40.7)**
Total net financial debt	**7,083.2**	**6,625.1**	**458.1**

The structure of net financial debt, which increased overall in the first half of financial year 2014 by € 458.1 million, presents the following changes:

- an increase in bond loans (€ 156.2 million) as a result of adjusting financial instruments to fair value (€ +154.7 million, including the amortised cost) and the capitalisation of inflation in the period (€ +1.5 million) associated with the inflation-linked bond;
- an increase in floating-rate loans (€ 530.4 million) due essentially to the combined effect of the following changes:
  – the securing on 25 June 2014 from the European Investment Bank (EIB) of a loan for € 570.0 million maturing in 2030;
  – repayment of EIB loan instalments due of € -39.6 million;
- an increase in the positive net balance of derivative financial instruments (€ 171.0 million), mainly due to an increase in the reference interest rate curve compared to December 2013, which was reflected, in particular, in the change in derivatives hedging bonds (fair value hedges) of € -151.2 million, net of the effect on the change in derivatives hedging floating-rate debt (cash-flow hedges) of € -19.8 million;
- an increase in cash and cash equivalents (€ 57.5 million).

In the Consolidated Statement of Financial Position:

(1) this figure 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 (€ 690.0 million);
(3) this figure corresponds to the item "Current portion of long-term loans";
(4) this figure is included under “Current financial assets”.

Statement of cash flows

The consolidated statement of cash flows for the first half of 2014 compared with that of the same period of 2013 is shown in the table below:

€ million	Cash flow H1 2014	Cash flow H1 2013
Opening cash and cash equivalents	**1,617.1**	**2,510.1**
- Net Profit for the period	274.5	263.7
- Amortisation, depreciation and impairment	235.1	213.7
- Net change in provisions	(2.7)	(28.9)
- Net Losses (Gains) on asset disposals	(0.5)	(0.6)
Self-financing	**506.4**	**447.9**
- Change in net working capital:	(311.7)	(422.3)
Operating cash flow	**194.7**	**25.6**
Investments		
- Total investments	(386.0)	(503.9)
- Other changes in non-current assets	(9.7)	(10.3)
- Change in equity investments	(2.3)	(0.9)
Total cash flows generated by/(used in) investing activities	**(398.0)**	**(515.1)**
- Change in loans	515.6	(62.7)
- Other changes in equity attributable to owners of the Parent	6.5	31.0
- Dividends paid to shareholders of the Parent	(261.3)	(261.3)
Total cash flows generated by/(used in) financing activities	**260.8**	**(293.0)**
Total cash flow for the period	**57.5**	**(782.5)**
Closing cash and cash equivalents	**1,674.6**	**1,727.6**

The **cash flow** generated by operating activities during the period came to approximately € 194.7 million and is related to self-financing (€ 506.4 million) which more than offset the financial resources (€ 311.7 million) used by net working capital.

As far as **self-financing** is concerned, we can note the effect of the profit for the period of € 274.5 million including depreciation and amortisation for the period of € 235.1 million, reduced by the net decrease in provisions of € 2.7 million, mainly ascribable to the changes during the period described above.

The change in **net working capital**, equal to € -311.7 million, is mostly attributable to the reduction in trade payables and also net payables relating to pass-through energy items, only partially offset by the increase in net trade receivables.

Investing activities used financial resources of approximately € 398.0 million, mostly referable to investments made during the six months in property, plant and equipment (€ 364.6 million) and intangible assets (€ 21.4 million) – attributable to the Parent Company for a total of € 361.6 million.

Own capital flows were mainly used in distributing the 2013 dividend balance to the shareholders of the Parent Company (€ 261.3 million).

The other changes in Group equity are due to the fair value valuation of derivatives hedging floating-rate debt (CFHs), net of the related tax effect, of the Parent Company (€ +13.2 million), and to the recognition of the actuarial gains and losses on employee benefits accruing to the half year (€ -6.7 million, considering also the tax effect) related essentially to adjustment of the relevant interest rate.

Therefore, financial resources used in investment activities and in capital flows determined in the year a total requirement of € 652.8 million funded in part by cash flows provided by operating activities (€ 194.7 million) and, for the rest, through increased net debt (€ 458.1 million).
In line with recommendation CESR/05-178b, the cash flow data are taken from the consolidated accounting statements through specific reconciliation notes illustrated in the table below.

€ million	***Cash flow* 30.06.2014**	**Reconciliation financial statements**	***Cash flow* 30.06.2013**	**Reconciliation financial statements**
Opening cash and cash equivalents	**1,617.1**		**2,510.1**	
- Net Profit for the period	274.5		263.7	
- Amortisation, depreciation and impairment	*235.1*		213.7	
- Net change in provisions	(2.7)		(28.9)	
Employee benefits		*13.1*		*(10.0)*
Provisions for future risks and charges		*(2.8)*		*(14.1)*
Deferred tax liabilities		*(13.0)*		*(4.8)*
- Net Losses (Gains) on asset disposals (1)	(0.5)		(0.6)	
Self-financing	**506.4**		**447.9**	
- Change in net working capital:	(311.7)		(422.3)	
Inventories		*(10.0)*		*(0.6)*
Trade receivables		*(161.4)*		*(238.3)*
Current financial assets		*(10.5)*		*(37.2)*
Income tax assets		*2.7*		*3.2*
Other current assets		*28.5*		*28.9*
Trade payables		*(158.6)*		*(200.9)*
Tax liabilities		*(6.1)*		*(32.3)*
Current financial liabilities		*(20.3)*		*(6.0)*
Other liabilities		*24.0*		*60.9*
Operating cash flow	**194.7**		**25.6**	
Investments				
- Total investments	(386.0)		(503.9)	
Property, plant and equipment (2)		*(364.6)*		*(485.0)*
Intangible assets (3)		(21.4)		(18.9)
- Other changes in non-current assets	(12.0)		(11.2)	
Intangible assets (3)		*(0.3)*		*0.0*
Property, plant and equipment (2)		*(8.3)*		*(9.6)*
Non-current financial assets		*0.0*		*0.0*
Other non-current assets		*(1.1)*		*(0.7)*
Equity-accounted investees		*(2.3)*		*(0.9)*
Total cash flows provided by/(used in) investing activities	**(398.0)**		**(515.1)**	
- Change in loans	515.6		(62.7)	
Non-current financial assets		*(162.9)*		*164.5*
Current financial assets		*11.7*		*0.0*
Non-current financial liabilities		*(19.8)*		*(38.0)*
Long-term loans		*681.5*		*(198.8)*
Current portion of long-term loans		*5.1*		*9.6*
- Other changes in equity attributable to owners of the Parent (4)	6.5		31.0	
Equity attributable to owners of the Parent - Share capital, Other reserves and Retained earnings		*6.5*		*31.0*
- Dividends paid to shareholders of the Parent	(261.3)		(261.3)	
Total cash flows provided by/(used in) financing activities	**260.8**		**(293.0)**	
Total cash flow for the period	**57.5**		**(782.5)**	
Closing cash and cash equivalents	**1,674.6**		**1,727.6**	

(1) included in the "Other revenue and income" and "Other operating costs" items of the consolidated financial statements;

(2) see note 12 to the financial statements;

(3) see note 14 to the financial statements;

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

Operative performance

Quality of transmission service

Continuity is the most important measure of the performance of the electricity service. Each stage of the electricity system – generation, transmission, and distribution – contributes to the final result: ensuring the availability of electricity for society, with appropriate standards of technical quality.
Terna monitors the quality of the service provided using different indexes, and identifies annual targets for improvement. The indexes referred to below, where not otherwise specified, are defined by AEEGSI (Resolution 250/04 and 197/11) and by the Terna Grid Code.

Short Average Interruption Frequency Index + Medium Average Interruption Frequency Index (SAIFI+MAIFI)

The interruption frequency index is calculated as the ratio between the number of users involved in short (less than 3 minutes) and long (more than 3 minutes) interruptions, and the number of users of the National Transmission Grid.

SAIFI + MAIFI = 0.07 interruptions/user on the Terna grid; 0.04 interruptions/user on the Telat grid (annual target = 0.22 interruptions/user)

The lower the level of the indicator, the better the service performance. The results recorded on both Terna and Telat grids are lower than the target, even if refocused with reference to the **first half of 2014.**

Average Interruption Time (AIT)

The electricity system average interruption time (RTN) is calculated as the ratio between the energy not supplied over a certain period (ENS value) and the average power absorbed by the electricity system in the period in question. The lower the level of the indicator, the better the service performance.

AIT = 0.12 min on Terna grid (target = 0.85 min/year); 0.09 min on Telat grid (target = 0.58 min/year)

The results of the **first half of 2014** recorded an average interruption time on both the Terna and the Telat grids much lower than the target, refocused also on a half-yearly basis.

Energy Not Supply (ENS and ENSR)

Energy not supplied is equal to the amount of energy not supplied to grid users as a result of poor service. The AEEGSI overall evaluation of these indicators of continuity takes place on an annual basis.

Main grid development work in progress

The major works still in progress in the first half of 2014 aim to reduce grid congestion, increase international connections, connect new power plants (particularly those based on renewable sources) and to make the NTG more reliable with a greater emphasis on the environment and safety. Below is a summary of the main achievements and the main work in progress completed in the first half of 2014:

Completed work

Among the initiatives completed in the first half, particularly noteworthy is the completion of the Trino - Lacchiarella 380 kV power lines, a length of about 100 km between Piedmont and Lombardy, and Foggia - Benevento II, more than 90 km, with an underground section in the Benevento area. Also completed were a series of works for the connection of renewable energy plants with the expansion of the 380/150 kV Foggia power station, the 380/150 kV Tuscania transformer station and the 150 kV Camerelle transmission station. Finally, reactors were installed at the power stations in Udine Ovest, Piossasco and Vignole.

Progress on construction sites

Work continues on the new "Sorgente - Rizziconi" 380 kV submarine cable link, which was completed with the laying of the submarine cables, and the mounting of overhead lines is under way on some tracts in Calabria and Sicily. Additionally, construction works were begun on the Villanova - Gissi 380 kV power line, about 70 km long, on the Cepagatti electricity conversion station - as part of the wider "Italy - Montenegro" interconnection project - and on the Casalnuovo - Acerra 220 kV connection cable, as part of the reorganisation of the Naples area. Finally, work began on the installation of the reactor at the Bovisio station and rationalisation works for the city of Milan area continue - especially in view of the forthcoming "Expo 2015" - as do works in the city of Turin.

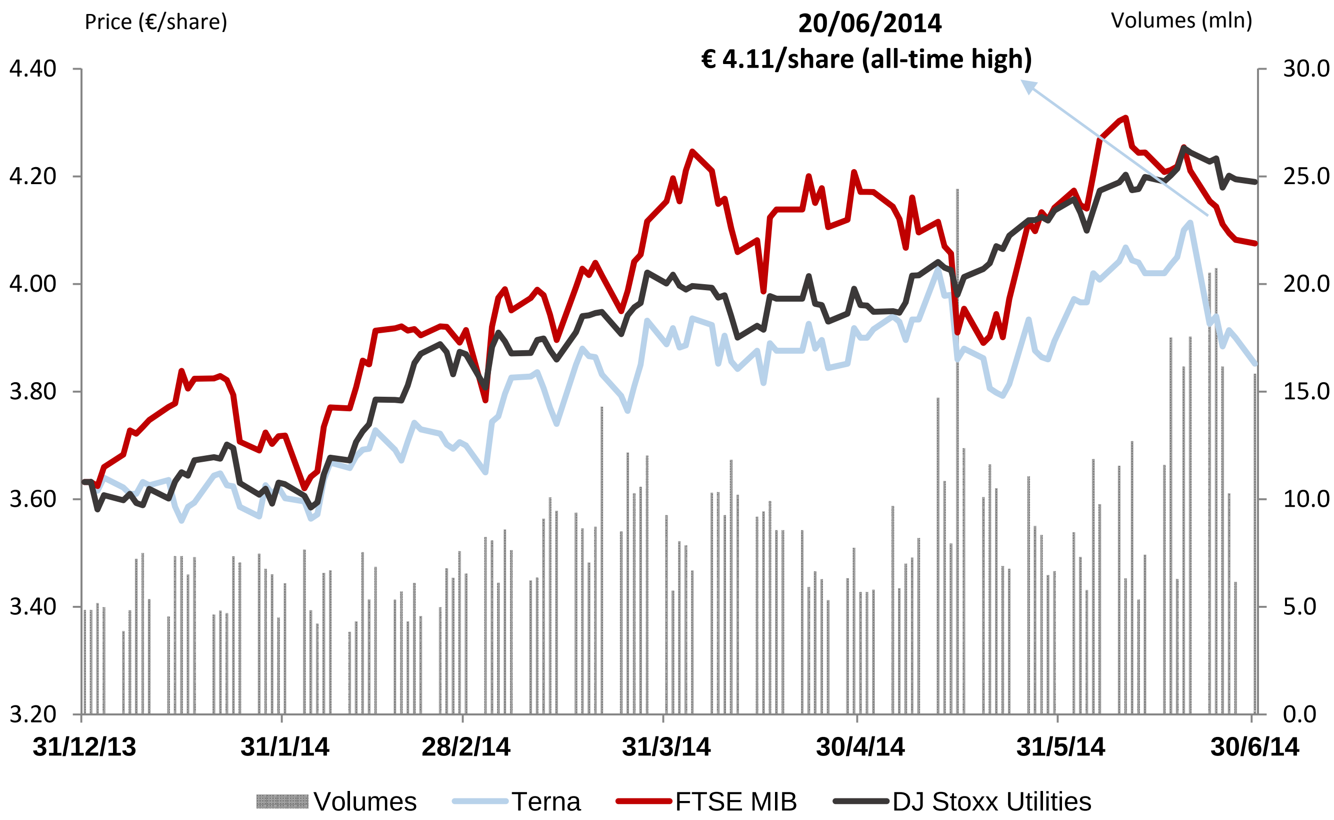
Performance of Terna stock

The first half of 2014 closes with performance at two-speeds for the major European lists. The European Central Bank's commitment to keeping interest rates low and an expansionary monetary policy in the medium to long term has favoured the financial centres of Milan and Madrid, with resulting increases of 12% and 10%. The performance of the other lists has been more modest, with Paris gaining 3% and Frankfurt and London closing the half year on equal terms.

In the first six months of the year, Terna has gained 6% and on 20 June recorded a new record high of € 4.11 per share. Summing up the effect on performance of the dividend balance for 2013 (€ 0.13 per share), separated on 23 June, the total shareholder return (TSR) was equal to about 10%.

In the first 10 years of listing (from 23 June 2004 to 23 June 2014), Terna stock appreciated by 131%, in contrast to the market (FTSE Mib -22) and performed better than the reference sector (DJ Stoxx Utilities +32%). The TSR was equal to 328%, better than the market (FTSE Mib +15%) and the industry (DJ Stoxx Utilities +134%).

Trend of Terna stock and the FTSE MIB and DJ STOXX 600 Utilities indexes



Source: Bloomberg. *Data as at 30 June 2014*

Terna and the financial markets

Financial indicators		**30 June 2014**
Proportion of Terna shares[(1)]		
> in the FTSE MIB index		2.05%
>in the FTSE Italia All Share index		1.75%
Ratings		
Standard & Poor's	Outlook	Negative
	M/L term	BBB+
	Short Term	A-2
Moody's	Outlook	Stable
	M/L term	Baa1
	Short Term	Prime-2
Fitch	Outlook	Stable
	M/L Term[(2)]	BBB+
	Short Term	F2

(1) Source: Borsa Italiana. Data as at 30 June 2014
(2) Issuer Default Rating.

Corporate social responsibility

Terna's **fundamental objective**, in relation to the role played in the Italian electrical system, is to **guarantee a continuous, high quality electricity service at the lowest possible cost**. This objective, which implies medium and long-term considerations, has been pursued according to a sustainability approach, characterised by respect for the environment and the territory, as well as a focus on health and safety in the workplace and staff training. Terna's sustainability path is guided by its Code of Ethics, and is defined by concrete objectives which are first measured and then documented in the annual sustainability report. Terna has further reinforced its corporate sustainability commitment, publicly confirmed by its membership of the United Nations Global Compact network, which supports 10 universal principles in support of human rights, labour, the environment and the fight against corruption.

The Corporate Social Responsibility function collaborates with all the divisions of the company in order to define the company's ethical, social and environmental objectives in line with international best practices. The function constantly monitors risks associated with aspects of sustainability that may have a negative impact on the reputation and intangible value of the Company, through ratings analyses by the main agencies (such as RobecoSAM, Vigeo and Eiris), which periodically conduct sustainability assessments.

In the first half of 2014 Terna has developed various initiatives in several areas of sustainability including, in particular, the approval of the Sustainability Plan 2014-2015 and the publication of the first integrated Report, drawn up in accordance with the principles of the International Integrated Reporting Council. Also worthy of note are:

- in the area of **environmental responsibility:**
  - the annual renewal of the three ISO 9001 Quality certifications for Environmental Management ISO 14001 and for Workplace Health and Safety Management BS OHSAS 18001, of Terna's Integrated Management System;
- in the area of **social responsibility:**
  - the on-line publication of the Sustainability Report 2013, in Italian and English.

Strategies and future prospects

Strategies and future performance in the short, medium and long term

Terna's Strategic Plan which takes a five-year view, defines objectives, priorities and investments helping the Group to identify the instruments for continuing to create value.

To develop the plan it is essential to identify trends that in the medium and long term could become challenges and provide solutions.

This is the case, for instance, of the changing energy scenario and consequent need to adapt the NTG or, the increasing integration of grids at the European level.

In the long term, an increase in the importance of Non-Traditional Activities is expected, including in the creation of value.
Attention to stakeholders and Terna's determination to maintain a relationship of trust with them fuels sustainability policies helping to make the business model more solid in the medium and long term.

2014-2018 Strategic Plan

On **25 March 2014**, Terna approved the Terna Group's Strategic Plan for the period 2014-2018, which is based on the following guidelines.

- **Traditional Activities:** planned € 3.6 billion investment for maintenance and development of the network;
- **Non-Traditional Activities:** increased commitment of up to € 1.3 billion in the time horizon of the Plan (potential 900 million confirmed, to which is added the value of business already announced);
- **Improvement of margins:** the EBITDA margin will amount to over 79% in 2018;
- **A sound financial structure:** net debt/RAB ratio less than 60% in the years of the Plan;
- **Dividend policy:** dividend policy with interim and final balance confirmed. Basic dividend envisaged deriving from Traditional Activities, equal to € 0.19 per share, to which will be added the contribution of Non-Traditional Activities (60% pay out of results).

Significant events subsequent to 30 June 2014

At the reporting date of the present Interim Financial Report we can note no significant events subsequent to 30 June 2014.

Outlook

In the second half of the year the Terna Group will be busy implementing the provisions of the 2014-2018 Strategic Plan approved by the Board of Directors on 25 March 2014.

With reference to its traditional activities, the Group will be focused on making investments for the development and renewal of the NTG and in relation to storage systems.

In terms of revenues, it is envisaged that the reduction deriving from the revision of the RAB remuneration rate from 7.4% in 2013 to 6.3% in 2014 will be compensated for by the increase deriving from the return on the investments made in 2012.

In line with previous years, the Company will continue with the rationalisation of processes and efficiency of operating expenses, while at the same time paying attention to service quality indicators.

With reference to non-traditional activities, the focus on value creation is confirmed, through activities for third-parties in the areas of engineering, the creation and maintenance services mainly for the electric and housing sector in the telecommunications business.

In the second part of 2014, the Group will continue its activities to scout and develop new opportunities in Italy and abroad. In particular, for the second half of the year, we envisage the negotiation of agreements for building the Italy-France interconnection and development of the activities of the Tamini Group, recently acquired, with the objective of replicating the consolidated models of operating and financial efficiency of the Terna Group fully enhancing a historical Italian industrial enterprise, recognised as an excellence in the electrical sector in Italy and abroad.

In addition, among the opportunities for development, we note the participation in the privatisation of the Greek TSO, for which the sales process should be completed by the end of 2014: a strategic growth option and way to valorise the Terna Group's skills.

ANNEX - "Organisation, context and business model" section

Italy's regulatory framework

Regulatory framework

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

Measures issued in 2013 with effect from 2014

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

The law acts on the matter of taxation of capital real estate, providing for the deductibility of 20% of IMU (single municipal tax on property) for the purposes of IRES (at 30% for the taxation period in progress at 31 December 2013 only).
Taxation on property was then widely reviewed with the introduction of a single council tax, replacing TARES (waste and services tax) and consisting of two components, one to cover the operating costs of the urban refuse service (TARI) and one to fund the related indivisible services (TASI).
Parliament made changes to stamp duties, increasing that on periodic statements to customers related to financial products (securities accounts) from 1.5 to 2 thousandths of the market value of the securities, starting from 2014.
Starting from the taxation period in progress at 31 December 2014, firms increasing the number of permanent employees compared to the average number of permanent employees in the previous year may deduct a part of labour costs for three years (the year of hiring and the following two years). The deductible sum may not exceed € 15,000 per year for each new employee hired. Again on the matter of employment, in the case of moving from a fixed-term contract to a permanent contract, starting from 2014 the additional contribution of 1.4 % paid during the fixed-term contract is returned in full to the employer and no longer just for the last six months. The parameters for calculating detractions for employed work for income groups up to € 55,000 were also redetermined. A reduction in premium and contributions is provided for insurance against workplace injuries and occupational disease (reduction then established in the amount of 14.17% for 2014 by the Decree of the Ministry for Labour and Social Policies of 22 April 2014, implementing the provision contained in the Stability Law).

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

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

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

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

Measures issued in 2014

Decree Law no. 4 of 28 January 2014, "Urgent measures for tax and social security contributions and referral of terms related to fulfilment of tax and social security contributions", published in the Italian Official Journal no. 23 of 29 January 2014, converted with Law no. 50 of 28 March 2014, published in the Official Journal no. 74 of 29 March 201,.

The Decree provides for the postponement to 16 May 2014 of the INAIL (National Insurance Institute for Industrial Accidents) payments deadline.

Law no. 23 of 11 March 201, "Subordinated government delegation for the provision of rules for a fairer, more transparent and growth-oriented tax system", published in the Official Journal no. 59 of 12 March 2014.

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

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

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

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

Decree Law no. 34 of 20 March 2014 "Urgent measures to boost employment and to simplify the requirements for businesses," published in the Italian Official Journal no. 66 of 20 March 2014, converted by Conversion Law no. 78 of 16 May 2014 published in the Official Journal no. 114 of 19 May 201,.

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

Presidential Decree No. 85 of 25 March 2014, "Regulations for the identification of assets of strategic relevance in the energy, transport and communications sector, pursuant to article 2, paragraph 1, of Decree Law no. 21 of 15 March 2012," published in the Official Journal of 6 June 2014.

The Regulation identifies the area of application of the regulations on special powers envisaged by Legislative Decree 21/12. The National Transmission Grid and the infrastructure that provides electricity to other countries, the control and dispatching systems and the management activities connected to the usage of the same infrastructure are subject to the so-called "Golden Power" regulations. In regards to these assets, the regulations on special powers provide for an obligation to notify the Council of Ministers beforehand of the deeds, resolutions and operations relevant in regards to their management (for example changes in ownership, control or availability of the same, changes in the use, merger or division transactions, etc.) and veto power or the ability to set conditions on the part of the Government.

The Decree specifies that, with a continuous license, "*without prejudice to the obligation of notification, the special powers are applied to the degree in which the protection of the essential interests of the State..., including those connected to adequate infrastructure development, are not adequately guaranteed by the existence of specific sector regulations, including of a conventional nature*";

Finally, given categories of deeds and infragroup operations indicated by the Decree are excluded from the exercising of the special powers, unless information exists regarding the threat of grave impacts for the public interests related to the security and operation of the grids and the systems and continuity of the supply.

Presidential Decree No. 86 of 25 March 2014, "Regulations for the identification of the procedures for the activation of the special powers for the energy, transport and communications sector, pursuant to article 2, paragraph 9, of Decree Law no. 21 of 15 March 2012," published in the Official Journal of 6 June 2014.

The Regulation establishes the methods by which the requirements are fulfilled and the special powers envisaged in Decree Law 21/12 are exercised.

Italian Law Decree No. 66 of 24 April 2014, "Urgent measures for competition and social justice. Delegations to the Government for the completion of the review of the structure of the budget of the State, the reordering of the regulations for the management of the budget and the strengthening of the cash budget, as well as the adoption of a consolidated law regarding State and treasury accounting," converted by Conversion Law no. 89 of 23 June 2014, published in the Official Journal no. 143 of 23 June 2014.

The Decree envisages the payment of a credit in favour of employees, for 2014, in the annual amount of Euro 640, in the case of total annual income up to Euro 24,000, or for the part corresponding to the ratio between the amount of Euro 26,000, decreased by the total income, and the amount of Euro 2,000, for incomes between Euro 24,000 and Euro 26,000. This credit is paid in monthly instalments and tax substitutes can recover the sums disbursed through the compensation institute.

A gradual reduction in IRAP rates is also envisaged. The ordinary rate is reduced from 3.9% to 3.75% for 2013 and to 3.5% for subsequent years. The rate for licensee companies goes from 4.2 to 4% for 2013 and to 3.8% in subsequent tax periods.

As of 1 July 2014, withholdings and substitute taxes on capital gains deriving from the transfer of financial instruments and income deriving from financial assets other than government securities and supplementary pension funds increased from 20 to 26%.

Again in regards to taxes, for 2014 the substitute tax on income taxes applied to the net results achieved by pension funds increased from 11 to 11.5%. Finally, the deadline for the payment of the first TASI instalment was postponed to 16 October 2014 for those cities that have not yet approved the relative rates.

The decree also establishes rules regarding tenders, abolishing as of 2016 the requirement to publish the tenders and notifications in newspapers and placing the burden of the cost of publishing in the Official Journal on the contractor.

Finally, it is envisaged that the Extraordinary Spending Review Committee establish by 31 October 2014 a program to rationalise special companies, institutions and companies directly or indirectly controlled by local administrations.

Decree Law no. 83 of 31 May 2014, "Urgent provisions to protect cultural heritage, develop culture and relaunch tourism," published in the Official Journal no. 125 of 31 May 2014.

The Decree acts to simplify landscape authorisations.

Decree Law no. 90 of 24 June 2014, "Urgent measures for simplification and administrative transparency and for the efficiency of judicial offices," published in the Official Journal no. 144 of 24 June 2014.

The Decree regards independent authorities, extending the regime of incompatibility and introducing measures aimed at containing and rationalising costs.

The Decree eliminates the Authority for Supervision of Public Contracts, transferring its responsibilities to the National Anti-Corruption Authority. As of 1 January 2015, the Ministry of the Economy will acquire information relative to the equity investments held by the public administrations in joint stock companies through existing databases or by requesting that said administrations send the information.

Finally, the annual fees paid to the Chamber of Commerce are reduced by 50%, starting from the financial year subsequent to 25 June 2014.

Decree Law no. 91 of 24 June 2014, "Urgent provisions for the agricultural sector, environmental protection and energy efficiency for school and university buildings, the recovery and development of companies, containment of costs weighing on electricity tariffs, as well as the immediate definition of requirements deriving from European regulations," published in the Official Journal no. 144 of 24 June 2014.

The Decree governs certain aspects of the Consolidated Law on Finance, for example introducing the increased vote. It introduces a tax credit in the amount of 15% for spending on new capital goods (division 28 of the ATECO table), sustained as of 25 June and through 30 June 2015, which exceed the average of investments during the five preceding tax periods, with the right to exclude the period in which investments were greatest from the calculation of the average. The credit is divided and used in three annual portions of equal amount, starting from the second tax period subsequent to the purchase.

Other measures are aimed at reducing the energy costs sustained by small and medium businesses, through the remodulation of incentives for photovoltaics, the elimination of the subsidised tariffs recognised to employees in the electricity sector, the partial participation in general system charges on the part of the IUGs, EESs, and ESEES, also in relation to the energy consumed and not taken from the grid, the review of the regulations which guarantee coverage of the extra costs sustained in the islands not interconnected to the national electricity grid.

Resolutions of the Italian Regulatory Authority for Electricity, Gas and Water

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

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

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

Resolution 55/2014/R/eel

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

Resolution 65/2014/ R/eel

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

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

Resolution 66/2014/ R/eel

With this measure, the Authority introduced a transitional mechanism, in the context of its full operation, which allows the recognition of the remuneration of the contribution to the primary regulation provided by the production unit as early as 1 April 2014, on the basis of the proposal made by Terna in this regard. The transitional mechanism envisages activation of tests remotely by Terna from the month of July 2014 (rather than from the date of certification of the production unit) and authorisation requirements for the production units similar to those provided by the mechanism in normal operations. There are also measures similar to the operational mechanism, notwithstanding non-recognition of the remuneration of the contribution to the primary regulation from the date of authorisation, in cases of operator failure to start tests remotely and of negative outcome of the first remote test after verification of Terna.

Resolution 90/2014/R/eel

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

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

Resolution 118/2014/R/eel

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

Resolution 176/2014/E/rht

With this provision, the Authority established the review of the criteria and methods used to supervise respect for the prohibition on transfers to consumer prices of the so-called Robin Hood tax increase, effective as of financial year 2013.

Specifically, the provision introduced some simplifications with reference to the information requested and the time allowed to comply with the data gathering established by the Authority, also establishing that subjects for whom revenues are fixed administratively must transmit minimal accounting information. The Authority also made certain changes to the criteria followed by the same for any audits of the supervised subjects.

Resolution 206/2014/R/eel

With this provision, the Authority envisaged the recognition and coverage of final costs for the execution of market monitoring activities, communicated by Terna for the year 2013. Specifically, the Authority quantified the amount of final costs recognised to Terna for the execution of monitoring activities at Euro 834,250 and the income coming from the difference between the final costs recognised and the costs recognised beforehand at Euro 130,280.

Resolution 227/2014/R/eel

With this provision, the Authority accepted the request by which Terna had asked to replace the sites for the construction of the power intensive accumulation systems, originally approved and identified with Resolution 43/2013/R/eel. With the same total installed capacity, the Ottana site is therefore replaced with the Codrongianos site and the name of the project is changed from "Ottana" to "Sardegna" and the site of Caltanissetta is replaced with the sites of Ciminna and Casuzze and the name of the project is changed from "Caltanissetta" to "Sicilia."

Resolution 231/2014/R/com

With this provision, the Authority introduced new provisions regarding the obligations for separate accounts for the electricity and gas sectors. Specifically, with this provision the Authority approved the new "Integrated Accounting Unbundling Rules" (IAUR - Annex A), establishing their efficacy as of financial year 2014 and repealing the accounting separation provisions contained in the "Integrated Unbundling Rules" (IUR - Annex A to provision no. 11/07), which are contrary to the same, while simultaneously giving a mandate to the Infrastructure Unbundling and Authority Certification Direction to establish a technical working group with category operators and associations aimed at preparing a regulatory accounting manual which contains specific detailed techniques for the preparation of separate annual financial statements pursuant to the IAUR. The Authority also postponed to subsequent provisions the review of functional unbundling obligations for the electricity and gas sector.

Resolution 235/2014/A

With this provision, the 2014 contribution rate for operating charges was set for the Authority for electricity, gas and water, owed by subjects operating in the sectors of electricity, gas and water services. Specifically, for subjects operating in Italy in the electricity and gas sectors, including companies operating under foreign law, the resolution establishes the contribution rate in the amount of 0.28 per thousand of income resulting from the financial statements approved relative to financial year 2013 and establishes that this contribution be paid by 31 July 2014.

Resolution 247/2014/R/eel

With this provision, the Authority established determinations regarding the greater charges sustained for the gas emergency relative to 7 - 15 February 2012. Specifically, the provision is aimed at determining the incremental fixed costs and the specific criteria for the calculation of the variable cost recognised for certain Enel Produzione S.p.A. thermoelectric units, affected by the measures adopted at the time of the gas emergency during February 2012.

Resolution 249/2014/R/eel

With this provision, the Authority recognised the costs sustained in 2013 by Terna for the execution of activities regarding the management and development of the Consolidated Records Management System of Production Plants (CRMSPP). Specifically, the Authority quantified the final costs for 2013 recognised for activities to develop and use the CRMSPP system at Euro 851,767 and envisaged that the savings deriving from the difference between the final costs and the portion of costs recognised beforehand for the year 2013, equal to Euro 213,893, be considered with a negative sign for the purposes of the future quantification of the payment for Terna operations relative to the year 2015.

Resolution 256/2014/E/com

With this provision, the Authority began an investigatory review in order to verify the accuracy of the information communicated to it by the companies regulated and to acquire elements useful for evaluating the congruity of the relative investments with the needs of the service in terms of adequacy, efficiency and security of the infrastructure, with reference to their repercussions on tariffs and respect for investment programs. The provision also establishes that the review may be divided into multiple stages and that, during the first stage, to be completed by 15 January 2015, the information sent for the determination of reference tariffs for the distribution service will be investigated, relative to the years 2012, 2013 and 2014.

Resolution 259/2014/R/eel

With this provision, the Authority expressed its opinion regarding the achievement of the milestones for the development projects for the National Transmission Grid envisaged for the second half of 2013. Specifically, the Authority ascertained the achievement status of the milestones for the development projects foreseen for the second half of 2013, including those relative to subsequent years and completed in advance, as well as the reaching of the threshold of 70% of the total conventional value of said milestones, reserving the right to verify the actual achievement of the same *in situ.* Therefore, the Authority established that Terna be granted the incentive for accelerating investments on fixed assets in progress relating to the I=3 investments in existence at 31 December 2013, to be included in the transmission fees related to the year 2015

Resolution 265/2014/R/eel

With this provision, the Authority approved, with amendments, the proposed revision of the Grid Code formulated by Terna for the purposes of the introduction of market coupling.
Specifically, the Authority asked to amend the reference program with respect to which dispatching users must formulate offers valid for the scheduling stage of the Dispatching Services Market; it postponed to 30 September 2014 the deadline for sending the new proposal for subdividing the relevant grid in zones valid for the three year period from 2015-2017 to the Authority; it repealed the regulations resulting from resolution 111/06 that envisaged the possibility for Terna to present sales and purchasing offers on the day ahead market in exceptionally critical situations. The Authority also found it appropriate to accept the proposal to introduce an additional session of the Intraday Energy Market, and consequently the Dispatching Services Market, already subjected to public consultation.

Resolution 278/2014/R/eel

This provision is aimed at the determination of the amounts for the advance of the payment for reintegration of costs in relation to the essential systems for the year 2013 available from Enel Produzione S.p.A. and the approval of the typical technical parameters of the systems under the reintegration regime for 2013 for Edipower S.p.A. and Enel Produzione S.p.A. With this provision, the Authority also integrated the regulations, updating the provision regarding the determination of the economic items relative to the Emissions Trading Scheme.

Resolution 301/2014/R/eel

With this provision, the Authority established the extension for the second half of 2014 of the contracts for the current interruptibility service, without prejudice to the right to withdraw on the part of interruptibility customers, to be exercised by 24 June 2014. The resolution also envisaged that Terna continue to carry out monthly auctions starting from the month of July and continuing through December 2014, pursuant to the regulations in effect.

The resolution also governed the procedures for forward supply contracts by Terna in regards to instant and emergency interruptibility resources, effective as of 1 January 2015, postponing the definition of certain parameters (such as the premium and the maximum quantity of interruptible power that can be supplied) to a later decision of the Authority on the basis of any directions received from Parliament and the Government.

Resolution 316/2014/R/eel

The provision is aimed at determining the amounts to be paid to Enel Produzione S.p.A, as an advance, for the payment for reintegration of the costs for the years 2010 and 2011, in relation to the essential production units, for the availability of Enel Produzione, which operates on electricity grids with the obligation of connection to third parties that are not interconnected with the National Transmission Grid.

Resolution 320/2014/R/eel

With this provision, the Authority presented the Ministry of Economic Development, pursuant to article 1, paragraph 153 of La 147/13, with a proposal to integrate the regulations for the transitional mechanism for remuneration of capacity with respect to the needs for flexibility of the electricity system. Specifically, the provision contains a proposal to restructure the transitional mechanism for forward supplies of production capacity appropriate to provide adequate flexibility services on a three year basis, with reference to 2015-2017.

With regards to the capacity market when fully operational, the Authority also held it appropriate to act as a priority, with the reform of the Dispatching Services Market relative to the flexibility services, so as to envisage at a later time the possible integration of the capacity market with a segment of the market for trading of flexible products.

Condensed consolidated interim financial statements as at 30 June 2014

Table of contents

Consolidated financial statements

Consolidated income statement

Consolidated Group – TERNA INCOME STATEMENT *€ million*	Notes	H1 2014	H1 2013
A REVENUE			
1 Revenue from sales and services	1	922.8	898.8
of which: related parties		*714.5*	*716.1*
2 Other revenue and income	2	27.6	20.0
of which: related parties		*1.0*	*0.0*
Total revenue		**950.4**	**918.8**
B OPERATING EXPENSES			
1 Raw materials and consumables	3	15.3	5.6
2 Services	4	66.6	64.7
of which: related parties		*0.7*	*9.9*
3 Personnel expenses	5	107.1	103.6
- gross personnel expenses		*142.8*	*139.3*
- gross personnel expenses, capitalised		*(35.7)*	*(35.7)*
of which: related parties		*0.2*	*0.2*
4 Amortisation, depreciation and impairment	6	235.1	213.7
5 Other operating expenses	7	8.4	12.7
of which: related parties		*0.1*	*0.2*
Total expenses		**432.5**	**400.3**
A-B Operating profit		**517.9**	**518.5**
C Financial income/expense			
1 Financial income	8	13.6	41.5
2 Financial expense	8	(82.7)	(86.1)
of which: related parties		*(3.2)*	*3.2*
3 Share of profit/(losses) deriving from equity-accounted investees	9	4.8	1.9
D Profit before taxes		**453.6**	**475.8**
E Income taxes	10	179.1	212.1
F Net profit for the period		**274.5**	**263.7**
Profit for the period attributable to the owners of the Parent		***274.5***	***263.7***
Earnings per share			
Basic earnings per share	11	0.137	0.131
Diluted earnings per share		0.137	0.131

Consolidated statement of comprehensive income

Consolidated Group – TERNA STATEMENT OF COMPREHENSIVE INCOME *€ million*	Notes	H1 2014	H1 2013
Net profit for the period		**274.5**	**263.7**
Other comprehensive income for the period which will be subsequently released to the income statement:			
- Cash flow hedges net of tax effect	22	13.2	23.5
Other comprehensive income for the period which will not be subsequently released to the income statement:			
- Actuarial gains (losses) on employee benefits net of tax effect	22	(6.7)	7.5
Net comprehensive income for the period		**281.0**	**294.7**
Net comprehensive income for the period attributable to:		**281.0**	**294.7**
Owners of the Parent		281.0	294.7

Consolidated statement of financial position

Consolidated Group – TERNA STATEMENT OF FINANCIAL POSITION ASSETS *€ million*	Notes	at 30.06.2014	at 31.12.2013
A- Non-current assets			
1 Property, plant and equipment	12	10,287.1	10,119.9
of which: related parties		3.4	21.2
2 Goodwill	13	190.2	190.2
3 Intangible assets	14	264.4	271.6
4 Equity-accounted investees	15	76.3	74.0
5 Non-current financial assets	16	691.0	528.1
6 Other non-current assets	17	8.9	7.8
Total non-current assets		**11,517.9**	**11,191.6**
B- Current assets			
1 Inventories	18	18.0	8.0
2 Trade receivables	19	1,882.5	1,721.1
of which: related parties		*280.7*	*413.6*
3 Current financial assets	16	95.9	97.1
of which: related parties		*0.2*	*0.3*
4 Cash and cash equivalents	20	1,674.6	1,617.1
5 Income Tax assets	21	18.1	20.8
6 Other current assets	17	50.9	79.4
of which: related parties		*1.1*	-
Total current assets		**3,740.0**	**3,543.5**
TOTAL ASSETS		**15,257.9**	**14,735.1**

Consolidated Group – TERNA STATEMENT OF FINANCIAL POSITION LIABILITIES *€ million*	Notes	at 30.06.2014	at 31.12.2013
C- Equity attributable to owners of the Parent			
1 Share capital		442.2	442.2
2 Other reserves		790.1	783.6
3 Retained earnings		1,453.5	1,341.9
4 Interim dividend		-	(140.7)
5 Net profit for the period		274.5	513.6
Total equity attributable to owners of the Parent	22	**2,960.3**	**2,940.6**
D- Non-current liabilities			
1 Long-term loans	23	8,691.4	8,009.9
of which: related parties		*500.0*	*500.0*
2 Employee benefits	24	133.2	120.1
3 Provisions for risks and charges	25	174.2	177.0
4 Deferred tax liabilities	26	142.6	155.6
5 Non-current financial liabilities	23	60.2	80.0
6 Other non-current liabilities	27	131.1	132.9
Total non-current liabilities		**9,332.7**	**8,675.5**
E- Current liabilities			
1 Current portion of long-term loans	23	702.9	697.8
2 Trade payables	28	1,903.7	2,062.3
of which: related parties		*17.9*	*33.6*
3 Tax liabilities	28	25.4	31.5
4 Current financial liabilities	23	131.1	151.4
of which: related parties		*1.2*	*1.1*
5 Other current liabilities	28	201.8	176.0
of which: related parties		*2.1*	*1.3*
Total current liabilities		**2,964.9**	**3,119.0**
TOTAL LIABILITIES AND EQUITY		**15,257.9**	**14,735.1**

Statement of changes in consolidated equity

31 December 2013 – 30 June 2014

€ million	Consolidated share capital and reserves									
	Share capital	Legal reserve	Share premium reserve	Cash-flow-hedge reserve	Securities-available-for-sale reserve	Other reserves	Retained earnings	Interim dividend	Net profit for the period	**Equity attributable to the owners of the Parent**
Equity at 31 December 2013	**442.2**	**88.4**	**20.0**	**(53.3)**	**0.0**	**728.5**	**1,341.9**	**(140.7)**	**513.6**	**2,940.6**
Net profit for the period									**274.5**	**274.5**
Other comprehensive income:										
- Change in fair value of cash flow hedging derivatives net of tax effect				13.2						13.2
- Actuarial gains (losses) on Employee Benefits net of tax effect						(6.7)				(6.7)
Total other comprehensive income	**-**	**-**	**-**	**13.2**	**-**	**(-6.7)**	**-**	**-**	**-**	**6.5**
Net Comprehensive income	**-**	**-**	**-**	**13.2**	**-**	**(-6.7)**	**-**	**-**	**274.5**	**281.0**
Transactions with equity owners:										
- Allocation of 2013 profit										
- Retained earnings							111.6	140.7	(252.3)	-
- Dividends									(261.3)	(261.3)
Total transactions with equity owners	**-**	**-**	**-**	**-**	**-**	**-**	**111.6**	**140.7**	**(513.6)**	**(261.3)**
Equity at 30 June 2014	**442.2**	**88.4**	**20.0**	**(40.1)**	**-**	**721.8**	**1,453.5**	**0.0**	**274.5**	**2,960.3**

31 December 2012 – 30 June 2013

€ million	Share capital	Legal reserve	Share premium reserve	Cash-flow-hedge reserve	Securities-available-for-sale 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 2012	442.2	88.4	20.0	(88.2)	-	728.7	1,280.3	(140.7)	463.6	2,794.3
Adjustment of opening balances	-	-	-	-		(6.0)	-	-	-	(6.0)
Equity at 31 December 2012	**442.2**	**88.4**	**20.0**	**(88.2)**	**-**	**722.7**	**1,280.3**	**(140.7)**	**463.6**	**2,788.3**
Net profit for the period									**263.7**	**263.7**
Other comprehensive income:										
- Change in fair value of cash flow hedging derivatives net of tax effect				23.5						23.5
- Actuarial gains (losses) on Employee Benefits net of tax effect						7.5				7.5
Total other comprehensive income	**-**	**-**	**-**	**23.5**	**-**	**7.5**	**-**	**-**	**-**	**31.0**
Net Comprehensive income	**-**	**-**	**-**	**23.5**	**-**	**7.5**	**-**	**-**	**263.7**	**294.7**
Transactions with equity owners:										
- Allocation of 2012 profit										
- Retained earnings							61.6	140.7	(202.3)	-
- Dividends									(261.3)	(261.3)
Total transactions with equity owners	**-**	**-**	**-**	**-**	**-**	**-**	**61.6**	**140.7**	**(463.6)**	**(261.3)**
Other changes										-
Equity at 30 June 2013	**442.2**	**88.4**	**20.0**	**(64.7)**	**-**	**730.2**	**1,341.9**	**-**	**263.7**	**2,821.7**

Consolidated statement of cash flows*

TERNA GROUP STATEMENT OF CASH FLOWS *€ million*	H1 2014	H1 2013
Net Profit for the period	**274.5**	**263.7**
Adjustments for:		
Amortisation, depreciation, impairment losses/(reversals of impairment losses) on property, plant and equipment and intangible assets**	222.7	210.0
Provisions (including employee-related provisions) and impairment	20.3	10.1
(Gains)/Losses on disposals of property, plant and equipment	(0.5)	(0.6)
Financial (income)/expenses	68.3	45.3
Income taxes	179.1	212.1
Cash flows generated by operating activities, before changes in net working capital	**764.4**	**740.6**
Increase/(Decrease) in provisions (including employee-related and tax provisions)	(26.3)	(24.0)
(Increase)/decrease in inventories	(10.0)	(0.6)
(Increase)/decrease in trade receivables and other current assets	(146.6)	(215.4)
Increase/(decrease) in trade payables and other current liabilities	(123.8)	(137.7)
Increase/(decrease) in other non-current liabilities	1.2	0.9
(Increase)/decrease in other non-current assets	(1.1)	(0.7)
Interest income and other financial income received	79.2	94.6
Dividend received	1.3	0.0
Interest expense and other financial expense paid	(188.8)	(190.5)
Income taxes paid	(178.2)	(255.7)
Cash flows generated by operating activities [a]	**171.3**	**11.5**
Investments in non-current property, plant and equipment, net of grants received	(358.1)	(479.7)
Capitalised financial expense	16.5	11.5
Recognition of property, plant and equipment, new acquisitions	(23.9)	-
Proceeds from sale of non-current property, plant and equipment and intangible assets and other changes	8.9	(14.9)
Investments in intangible assets - non-current	(21.4)	(18.9)
Recognition of intangible assets, new acquisitions	(0.1)	-
(Increase)/decrease in equity interests in associates	(4.8)	(0.9)
Cash flows used in investing activities [b]	**(382.9)**	**(502.9)**
Dividends paid	(261.3)	(261.3)
Change in short- and medium/long-term financial payables (including short-term portions)***	530.4	(29.8)
Cash flows generated by financing activities [c]	**269.1**	**(291.1)**
Increase/(decrease) in cash and cash equivalents [a+b+c]	**57.5**	**(782.5)**
Opening cash and cash equivalents	**1,617.1**	**2,510.1**
Closing cash and cash equivalents	**1,674.6**	**1,727.6**

* For comments on the Consolidated Statement of Cash Flows, please see paragraph "NOTES TO THE STATEMENT OF CASH FLOWS"

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

*** Net of derivatives and of impacts of adjustment to fair value

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 2014 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 2013 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 2014 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 2013.

The Group's Condensed Consolidated Interim Financial Statements for the first half of 2014, 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 2013. 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 specified that some comparative balances of the condensed interim financial statements at 30 June 2013, provided for comparison, have been reclassified, without, however, altering the equity values at 30 June 2013 and those of the income statement for the first half of 2013.

Use of estimates

The preparation of the Condensed Consolidated Interim Financial Statements at 30 June 2014 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	€	120,000	100%	Line-by-line
Business:	design, construction, management, development, operation and maintenance of grid structures and lines and of other infrastructures connected to the said grids, of plants and equipment functional to the said business in the sectors of electricity dispatch and transmission and in similar, related or connected segments.				
Terna Rete Italia S.r.l.	Rome	€	243,577,554	100%	Line-by-line
Business:	design, construction, management, development, operation and maintenance of HV power lines.				
Terna Storage S.r.l.	Rome	€	10,000	100%	Line-by-line
Business:	design, construction, management, development and maintenance of diffused energy accumulation systems (including batteries), pumping and/or storage systems, as well as plants, equipment and infrastructure, including grids.				
Terna Crna Gora d.o.o.	Podgorica	€	36,000,000	100%	Line-by-line
Business:	authorisation, construction, and management of transmission infrastructures comprising the Italy-Montenegro electrical interconnection in Montenegro territory.				
Terna Plus S.r.l.	Rome	€	16,050,000	100%	Line-by-line
Business:	design, construction, management, development, operation and maintenance of plants, equipment and infrastructures including grids and systems, including diffused energy accumulation, pumping and/or storage.				
COMPANIES CONTROLLED THROUGH TERNA PLUS S.r.l.					
Tamini Trasformatori S.r.l.	Melegnano (MI)	€	3,000,000	100%	Line-by-line
Business:	construction, repair and sales of electrical machinery. The Company may carry out, but not in a - prevailing manner with respect to the company purpose, all the commercial, industrial and financial transactions - the latter not in regards to the public - and moveable goods and real estate operations that the Administrative Body will consider necessary and appropriate for the achievement of the company purpose and may also take on indirectly or directly, not for the purposes of placement, interest and equity investments in other companies or businesses having purposes that are analogous, similar or connected to its own.				
COMPANIES CONTROLLED THROUGH TAMINI TRASFORMATORI S.r.l.					
Verbano Trasformatori S.r.l.	Novara	€	1,500,000	100%	Line-by-line
Business:	construction, repair and sales of electrical machinery. The Company may carry out, but not in a prevailing manner with respect to the company purpose, all the commercial, industrial and financial transactions - the latter not in regards to the public - and moveable goods and real estate operations that are held by the administrative body to be necessary and appropriate for the achievement of the company purpose and may also take on indirectly or directly, not for the purposes of placement, interest and equity investments in other companies or businesses having purposes that are analogous, similar or connected to its own.				
V.T.D. Trasformatori S.r.l.	Valdagno (VI)	€	774,000	100%	Line-by-line
Business:	production, repair and sales in any form allowed by the laws in effect of electrical and electro-mechanical instruments and machinery. The Company may carry out, but not in a prevailing manner with respect to the company purpose, all the moveable goods, real estate, commercial and financial transactions, the latter not in regards to the public, held by the administrative body to be necessary or useful to the achievement of the company purpose, including the taking on of equity investments in other companies or businesses, not for the purposes of placement, having purposes analogous or connected to its own. Finally, it may take on mortgages and loans and provide sureties and guarantees, including secured guarantees, in favour of third-parties.				
Tamini Transformers USA LLC	Oakbrook (Chicago - Illinois)	USD	37,770	100%	Line-by-line
Business:	Sales of industrial and power electrical transformers.				

With respect to 31 December 2013, the **change to the scope of consolidation** refers to the completion on 20 May 2014 of the operation by which Terna Plus S.r.l. acquired the entirety of the capital of **Tamini Trasformatori S.r.l**. and that of the companies controlled by the same, which is commented on in the section of events during the period, to which the reader is referred. Tamini is a company that produces and sells industrial electrical and power transformers. It has four production plants all located in Italy in Legnano, Melegnano, Novara and Valdagno.

The Tamini Group includes the subsidiaries V.T.D. Trasformatori S.r.l., Verbano Trasformatori S.r.l. and Tamini Trasformers USA L.L.C.. *The income statement of the half-year therefore reflects the results of the Tamini Group's performance starting only from the acquisition date of 20 May 2014.*

Associates

Company		Registered office	Currency	Share capital	% held	Consolidation method
ASSOCIATES						
Cesi S.p.A.		Milan	€	8,550,000	42.698%	*Equity Method*
	Business:	experimental electro-technical research.				
CORESO S.A.		Brussels (Belgium)	€	1,000,000	22.485%	*Equity Method*
	Business:	technical centre owned by various electrical energy transmission companies which implements joint TSO technical coordination activities in order to improve and strengthen security and coordination of the electrical system in central/western Europe. It prepares daily forecasts and real-time analyses on energy flows in the region, identifying potentially critical areas and promptly informing any affected TSOs.				
CGES A.D.		Podgorica	€	155,108,283	22.0889%	*Equity method*
	Business:	electricity dispatch and transmission operator in Montenegro.				
COMPANY SUBJECT TO JOINT CONTROL						
ELMED Etudes Sarl		Tunis	Tunisian Dinar	2,700,000	50%	*Equity method*
	Business:	analysis and preliminary consulting for preparing documentation on the Tunisian government's tender for construction and management of the electricity generation site in Tunisia involved in the project for the interconnection of Italy and Tunisia.				

The number of associates and the related equity interests have not changed since 31 December 2013.

Joint ventures

The number of joint ventures and the interests held in them have not changed since 31 December 2013. Elmed Etudes Sarl is the only joint venture, in which the Parent holds a 50% interest.

New standards

International accounting standards taking effect from 01 January 2014

Starting from 1 January 2014, the following international reporting standards and their interpretations took effect, as listed below:

New accounting standards on consolidation

As of 1 January 2014, standards IFRS 10, IFRS 11, IFRS 12, IAS 27 *Amended* and IAS 28 *Amended* are in effect. The initial application of these standards did not have any significant impacts upon the Group's consolidated financial statements:

- *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 statutory 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.

- *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 first derive from a non-structured agreement through a separate vehicle by the parties, which determines rights on the assets and obligations from liabilities. For accounting purposes, the controlling share of assets, liabilities and corresponding costs and revenue are recognised. The second, on the other hand, are classified as joint ventures where there are structured agreements through an SPE that is separate 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 provide in financial statements with regard to 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 has the objective of setting standards to be applied in accounting for investments held in subsidiaries, joint ventures and associates when preparing separate (non-consolidated) 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.

- *Amendment to IFRS 10, IFRS 11 and IFRS 12 - Transition guidance*

On 4 April 2013, the European Commission endorsed the amendment to IFRS 10, IFRS 11 and IFRS 12, which contains clarifications on the transition rules to the new principles on consolidated statements, and defines the methods for initial and retrospective application.

- *Amendment to IFRS 10, IFRS 12 and IAS 27 - Investment Entities*

On 31 October 2012, the IASB published an amendment to the new standards IFRS 10, IFRS 12 and IAS 27R, which establishes the introduction of "Investment Entities" as a separate type of entity, which by virtue of the investment business performed, are excluded from the consolidation accounting requirements set out by the new standards.

In addition, on 1 January 2014, the following standards also took effect, governing situations that are currently not relevant in the Group's financial statements:

- amendment to IAS 32 - Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities, on the supplementary information to be supplied in relation to the actual or potential effects of the application of rules of offsetting financial assets and liabilities;
- Amendment to IAS 39 - Novation of Derivates and Continuation of Hedge Accounting: proposes certain exemptions to the requirements of hedge accounting defined by the IAS 39 when an existing derivative must be replaced (novation) with a new derivative which perforce has a central counterparty (Central Counterparty –CCP).
- Amendment to IAS 36 - Recoverable Amount Disclosure for Non-Financial Assets: provides clarifications regarding disclosure in case of impairment of assets, when the recoverable value was determined as fair value less costs to sell and, furthermore, proposes limits on the obligation of indicating in the disclosures the recoverable value of the assets or the cash generating units (CGU).

B. NOTES TO THE CONSOLIDATED INCOME STATEMENT

REVENUE

1. REVENUE FROM SALES AND SERVICES - € 922.8 million

"Revenue from sales and services" for the first six months of 2014 and 2013 is analysed in the following table:

€ million	H1 2014	H1 2013	Change
Grid transmission fees	816.6	819.8	(3.2)
Other energy revenue	75.6	67.0	8.6
Other revenue from sales and services	30.6	12.0	18.6
Total	**922.8**	**898.8**	**24.0**

Grid transmission fees

Grid transmission fee refers to the remuneration paid to the Parent Company for use of the National Transmission Grid – NTG (€ 725.3 million). It also comprises the net revenue from the portion of the NTG pertaining to the subsidiary Terna Rete Italia (€ 91.3 million).

The € 3.2 million decrease in this item is a result of the AEEGSI Resolution 607/2013 which, with the updating of the tariffs for the transmission service envisaged, among other things, a 6.3% reduction in WACC (compared to the previous 7.4%) starting upon introduction of the 2014 tariffs, the effects of which were partially compensated for by the inclusion of the additional remuneration to the LIC category at 31 December 2011 and 2012.

In addition, the change also takes into account the greater contingent assets recognised in the first half of 2013 (€ 2.7 million), in particular following that established by Resolution 565/2012.

Other energy revenue

This refers mainly to the price paid to the Parent Company by the electricity operators for the dispatching service (DIS component, € 57.5 million), to premiums/penalties deriving from the mechanism connected to the quality of the transmission service – ENSR pursuant to AEEGSI Resolution 197/11 (€ 5.7 million); the items also contains revenue from the construction and development of dispatching infrastructures recognised following application of IFRIC 12 (€ 12.4 million).

The increase in Other energy revenues, of € 8.6 million, is mainly due to the effect of the integration of the premium for transmission service quality (ENSR) for the year 2012, on the basis of that established by Resolution 118/2014 (€ +5.7 million) as well as greater revenues for the dispatching service (€ +2.3 million), also due to the contingent liabilities recognised in the first half of 2013.

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.

The other energy items also include the grid transmission fee which Terna pays to other grid owners.

The components of these transactions are detailed below.

€ million	**H1 2014**	**H1 2013**	**Change**
Revenue – Power Exchange	2,042.6	2,338.6	(296.0)
Revenue - non-Power Exchange	895.6	709.8	185.8
Total pass-through energy revenue	**2,938.2**	**3,048.4**	**(110.2)**
Costs - Power Exchange	2,042.6	2,338.6	(296.0)
Costs - non-Power Exchange	895.6	709.8	185.8
Total pass-through energy costs	**2,938.2**	**3,048.4**	**(110.2)**

Other revenue from sales and services

The item "Other revenue from sales and services" amounted to € 30.6 million and mainly includes revenues deriving from non-traditional business for specialist activities provided to third-parties, mainly referring to services and contracts for systems engineering and activities to operate and maintain High and Very High Voltage plants (totalling € 29.5 million).

The significant increase of revenues in the area of other revenue from sales and services (€ +18.6 million) can mainly be traced to the recognition of revenues from the progress and completion of contracts for power transformers by the Tamini Group subsequent to its acquisition by the Terna Group (€ +16.3 million), as well as new maintenance contracts for photovoltaic systems owned by third-parties (€ 2.2 million).

2. OTHER REVENUE AND INCOME - € 27.6 million

"Other revenue and income" for the first six months of 2014 and 2013 is broken down in the following table:

€ million	**H1 2014**	**H1 2013**	**Change**
Rental income	11.7	11.0	0.7
Sundry grants	12.4	3.4	9.0
Contingent assets	1.5	3.4	(1.9)
Gains on the disposal of plant components	0.8	0.7	0.1
Settlements for losses	0.7	0.2	0.5
Sales to third parties	0.3	1.0	(0.7)
Other revenue	0.2	0.3	(0.1)
Total	**27.6**	**20.0**	**7.6**

Other revenue and income, amounting to € 27.6 million, mainly refer to the Parent Company for € 23.3 million and to the subsidiary Terna Rete Italia S.r.l. for € 3.6 million.

The most significant component of the "Rental income" item is the housing of the optic fibre of the Wind Group on the grids (approximately € 10 million), while "sundry grants," refers for the most part to contributions to the plants account regarding the execution and completion of contracts for changes to the NTG (€ 9.4 million).

The € 7.6 million increase in the item can essentially be traced to the recognition during the half of contributions to the above described account (€ +8.9 million) net of the reduction deriving from greater contingent assets recognised during the first half of 2013 (€ -1.9 million), mainly regarding civil cases and disputes, as well as the adjustment in the estimate of risks on receivables relative to the regulated business.

OPERATING EXPENSES

3. RAW MATERIALS AND CONSUMABLES - € 15.3 million

This item (amounting to € 15.3 million) which expresses the value of consumption of materials and miscellaneous equipment used in the ordinary business of operating and maintaining plants, was up by € 9.7 million compared to the figure for the same period of the previous financial year. The change is mainly traceable to the contribution of the Tamini Group in reference to the period from 20 May to 30 June 2014 (€ 9.5 million).

4. SERVICES – € 66.6 million

The cost of “Services” for the first six months of 2014 and 2013 is broken down in the following table:

€ million	H1 2014	H1 2013	Change
Tenders on plants	13.8	13.3	0.5
Maintenance and sundry services	26.7	23.0	3.7
Insurance	4.1	3.8	0.3
Remote transmission and telephone	6.4	7.5	(1.1)
IT services	9.8	9.7	0.1
Leases and rentals	5.8	7.4	(1.6)
Total	**66.6**	**64.7**	**1.9**

The cost of services totalled € 66.6 million, of which € 29.5 million related to the Parent Company and € 31.5 million and € 1.9 million to the subsidiaries Terna Rete Italia S.p.A. and Terna Rete Italia S.r.l. respectively.

The € 1.9 million increase in the item is essentially due to costs for maintenance and various services recognised by the Tamini Group during the period from 20 May to 30 June 2014 (€ 1.7 million). The recognition of costs for services provided during the half-year by the associated company Coreso S.A. (€ 0.8 million) are also relevant to the change and more than compensated for by lower costs for services, leases and rentals (€ -1.6 million) due to the effect of the rationalisation of leases with third parties carried out by the Group during the period.

It is specified that the costs relating to remuneration of the Board of Statutory Auditors for the period amounted to € 0.2 million.

5. PERSONNEL EXPENSES - € 107.1 million

Personnel expenses for the first six months of 2014 and 2013 are broken down in the following table:

€ million	H1 2014	H1 2013	Change
Wages, salaries and other short-term employee benefits	132.9	129.7	3.2
Directors' fees	1.2	1.1	0.1
Post-employment benefits, electricity discount and other employee benefits	8.7	8.5	0.2
Personnel expenses, gross	***142.8***	***139.3***	***3.5***
Capitalised internal work by employees	(35.7)	(35.7)	-
Total	**107.1**	**103.6**	**3.5**

The item, equal to € 107.1 million, shows an increase of € 3.5 million with respect to the same period of the previous year, entirely due to gross personnel expenses, essentially for the portion brought by the Tamini Group in reference to the period from 20 May to 30 June 2014 (€ 2.7 million).

The following table shows the average number of employees of the Group by category for the first half of 2014 and 2013 without taking into account employees of the Tamini Group (a total of 374):

	Average number		
	H1 2014	**H1 2013**	**Change**
Senior management	63	63	-
Junior management	524	509	15
White-collar workers	1,904	1,935	(31)
Blue-collar workers	963	959	4
Total	**3,454**	**3,466**	**(12)**

The net change in the average number of employees of the Group, as described above, was -12 persons during the first half of the year compared with the same period in 2013.

6. AMORTISATION, DEPRECIATION AND IMPAIRMENT – € 235.1 million

Amortisation, depreciation and impairment in the first six months of 2014 and 2013 are broken down below:

€ million	H1 2014	H1 2013	Change
Amortisation of intangible assets	28.9	26.5	2.4
of which: infrastructure rights	*18.1*	*15.0*	*3.1*
Depreciation of property, plant and equipment	198.0	186.9	11.1
Impairment of property, plant and equipment	8.2	-	8.2
Impairment of trade receivables	-	0.3	(0.3)
Total	**235.1**	**213.7**	**21.4**

This item, equal to € 235.1 million, shows an increase with respect to the first half of 2013 (€ 21.4 million, of which € 21.2 million concerning the Parent Company), mainly due to property, plant and equipment for the recognition of greater depreciation (€ +11.1 million, essentially due to the entry of new plants during the year) and of impairment (€ 8.2 million following the accident which occurred during the period at a "PST" transformer located in Foggia[6]).

The item includes € 0.3 million of depreciation on property, plant and equipment related to the Tamini Group, in reference to the period from 20 May to 30 June 2014.

7. OTHER OPERATING EXPENSES – € 8.4 million

Other operating expenses for the first six months of 2014 and 2013 are broken down in the following table:

€ million	H1 2014	H1 2013	Change
Allocations made to Provisions for disputes	-	0.4	(0.4)
Electricity service quality expenses	(1.9)	4.4	(6.3)
Indirect and local taxes and duties	4.7	4.4	0.3
Contingent liabilities	1.1	0.7	0.4
Losses on disposal/decommissioning of plant	0.3	0.1	0.2
Other operating expenses	4.2	2.7	1.5
Total	**8.4**	**12.7**	**(4.3)**

The item, at € 8.4 million, shows a decrease of € 4.3 million, mainly due to the lower expenses related to the quality of the electricity service (€ -6.3 million), and to the increase in other operating expenses (€ +1.5 million) largely with reference to the items recognised by the Tamini Group for the period between 20 May and 30 June 2014 (€ 0.4 million), and also due to the larger annual fees paid to national and international entities and bodies by the Parent Company during the period (€ +0.9 million).

[6] The procedures for the insurance reimbursement have been begun.

FINANCIAL INCOME AND EXPENSE

8. NET FINANCIAL INCOME/(EXPENSE) - € -69.1 million

Below is the breakdown of the item for the first six months of 2014 and 2013:

€ million	H1 2014	H1 2013	Change
Financial income			
Interest income and other financial income	13.6	40.8	(27.2)
Exchange gains	-	0.7	(0.7)
Total income	**13.6**	**41.5**	**(27.9)**
Financial expense			
Financial expense from the Parent	(3.2)	(3.2)	-
Interest expense on medium/long-term loans and related hedges	(92.1)	(92.8)	0.7
Debt adjustment (bonds) and related hedges	(1.6)	(0.1)	(1.5)
Discounting of post-employment benefits and other personnel-related provisions	(1.6)	(1.5)	(0.1)
Exchange losses	(0.8)	-	(0.8)
Capitalised borrowing costs	16.6	11.5	5.1
Total expense	**(82.7)**	**(86.1)**	**3.4**
Total	**(69.1)**	**(44.6)**	**(24.5)**

Net financial expense for the period amounted to € 69.1 million, comprising € 82.7 million of financial expense and € 13.6 million of financial income. The increase of € 24.5 million compared to the same period last year is mainly the result of the following factors:

- lower financial income (€ -27.9 million) which was primarily attributable to the joint effect of:
  - lower liquid fuds invested (€ -9.2 million);
  - a general decrease in the market interest rates at which the cash was invested (€ -16.5 million);
  - recognition of lower net income for uplift (€ -1.5 million);
- the negative net economic effects deriving from the fair value adjustment of bonds and the related hedges (€ -1.5 million);
- exchange rate adjustment (€ -1.5 million) of provisions for probable expenses in relation to tax obligations deriving from the sale of the block of shares of in the Brazilian subsidiaries;
- lower financial expense deriving from medium and long-term debt and the related hedges (€ +0.7 million) essentially due to the reduction in the inflation rate during the period;
- greater financial expense deriving from the discounting of employee benefits and provisions for risks and charges (€ -0.1 million);
- greater capitalised financial expense (€ +5.1 million).

9. SHARE OF PROFIT/(LOSSES) DERIVING FROM EQUITY-ACCOUNTED INVESTEES - € 4.8 million

This item, counting for € 4.8 million, mainly includes the economic effects deriving from the adjustment to the share of shareholders' equity as at 30 June 2014 of the investments in the Group's associates, namely in CESI S.p.A. (€ 3.1 million), in the Montenegrin company CGES (€ 1.6 million) and in the Belgian company Coreso S.A. (€ 0.1 million).

The difference in the item (€ +2.9 million), compared to the figure for the previous year was mainly due to the impact of measuring the aforementioned equity investments at equity (respectively € +1.6 million for CESI S.p.A., € +1.2 million for CGES and € +0.1 for Coreso).

10. INCOME TAXES - € 179.1 million

Income taxes for the period amounted to € 179.1 million, down with respect to the first half of 2013 (€ -33.0 million), not only for the lower pre-tax profit but essentially for the effect of the reduction in the IRES increase provided for by Decree Law no. 138 of 13.08.2011 (Robin Hood Tax), which went from 10.5% to 6.5%, attesting to the IRES rate at 34% (compared to 38% in 2013).

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

€ million	**H1 2014**	**H1 2013**	**Change**
Income taxes			
Current taxes:			
- IRES	167.0	201.7	(34.7)
- IRAP	30.9	38.8	(7.9)
Total current taxes	***197.9***	***240.5***	***(42.6)***
New temporary differences:			
- deferred tax assets	(4.7)	(7.3)	2.6
Reversal of temporary differences:			
- deferred tax assets	15.8	13.5	2.3
- deferred tax liabilities	(22.8)	(29.2)	6.4
Total deferred tax assets and liabilities	***(11.7)***	***(23.0)***	***11.3***
Adjustment of prior-year taxes	***(7.1)***	***(5.4)***	***(1.7)***
Total	**179.1**	**212.1**	**(33.0)**

Current taxes

Current taxes (equal to € 197.9 million) show a decrease of € 42.6 million with respect to the balance in the first half of 2013, due to the effects of both lower profits before taxes and the above described reduction in the additional IRES, as well as the base IRAP rate for licensee companies of 0.4% (article 2, Law Decree no. 66 of 24/04/2014).

Deferred tax assets and liabilities

Deferred tax assets and liabilities, equal to € -11.7 million, show a change of € +11.3 million, essentially due to the lower use of the provision for deferred taxes from the previous allocations calculated on additional amortisation with respect to the fiscally relevant portions, as well as greater net use of deferred tax assets mainly relative to the change in the provision for risks and charges, as described in detail in note 25. “Provisions for risks and charges" and 26 "Deferred tax liabilities" of these Notes.

Adjustment of prior-year taxes

The adjustments of taxes related to previous years, of € -7.1 million, refer to the contingencies resulting from the actual liquidation of the taxes during the tax-return; this item increased by € 1.7 compared to the figure of the first half of 2013.

The tax rate for the half-year (at 39.5%), came out at 41% without taking into account the prior-year adjustments, and decreased by 4.7% with respect to the figure in the first half of 2013.
As noted above, the decrease is due to the lower additional IRES, as well as the reduction in the base IRAP rate for licensee companies.

11. EARNINGS PER SHARE

Basic earnings per share, which corresponds to diluted earnings per share, amounts to € 0.137 (with a numerator of € 274.5 million, and a denominator of 2,009,992.0 thousand shares).

C. OPERATING SEGMENTS

Consistent with the 2014-2018 Strategic Plan, the following are the operating segments identified within the Terna Group:

- **Traditional Activities**
- **Non-Traditional Activities**

Traditional Activities include the development, operation and maintenance of the National Transmission Grid in addition to dispatching. These activities are represented in a single operating segment, as activities regulated by the AEEGSI with similar characteristics in terms of the remuneration model and the tariff determination methods.

The operating segment of Non-Traditional Activities instead includes specialised services provided to third parties mainly relating to systems engineering services, the operation and maintenance of high and very high voltage plants and the housing of telecommunications equipment and optic fibre grid maintenance services. These activities are provided in a free market context by means of specific commercial initiatives. Note that the operating segment of Non-Traditional Activities also includes the results of the management of the Tamini Group as of the acquisition date, essentially in reference to the construction and sales of electrical machinery, in particular power transformers.

Below are the results of the operating segments of the Terna Group in the first half of 2014 and the first half of 2013, in line with the evidence of the Group management control system and the reconciliation with the Group's pre-tax result.

€ million	**H1 2014**	**H1 2013**
Total revenue from Traditional Activities	899.0	898.3
Total revenue from Non-Traditional Activities	51.4	20.5
Total revenue	950.4	**918.8**
EBITDA	**753.0**	**732.2**
of which EBITDA for Traditional Activities*	724.5	718.9
of which EBITDA for Non-Traditional Activities**	28.5	13.3
EBITDA margin	*79.2%*	*79.7%*
*EBITDA margin on Traditional Activities**	*80.6%*	*80.0%*
*EBITDA margin on Non-Traditional Activities***	*55.4%*	*64.9%*

Reconciliation of segment result with pre-tax company result	**H1 2014**	**H1 2013**
EBITDA	***753.0***	***732.2***
Amortisation, depreciation and impairment	235.1	213.7
EBIT	***517.9***	***518.5***
Financial income/(expense)	(69.1)	(44.6)
Share of profit/(loss) of holding valued at equity	4.8	1.9
Profit before taxes	***453.6***	***475.8***

** EBITDA including indirect costs*

*** EBITDA not including indirect costs*

The Group's revenue amounted to € 950.4 million recording growth of 31.6 million (+3.4%) with respect to 30 June 2013.

EBITDA (Gross Operating Margin) came out at € 753 million, an increase of 20.8 million (+2.8%) compared with the € 732.2 million at 30 June 2013.

The increase in **EBITDA on Traditional Activities** is mainly due to lower expenses related to the quality of electricity service recognised in the first half of 2014.

The increase in **EBITDA on Non-Traditional Activities** benefited from greater revenues connected to the execution and completion of work orders for changes on the NTG for third-parties, the new maintenance contracts for photovoltaic systems owned by third-parties, and the revenues from work orders completed by the Tamini Group subsequent to its acquisition by the Terna Group.

The Group's **EBITDA margin** went down from 79.7% in the first six months of 2013 to 79.2% in the corresponding period of 2014.

The financial information regularly reported to senior management does not make direct reference to segment activities but rather to the measurement and presentation of gross invested capital. The following table reports that indicator at 30 June 2014 and for the 2013 financial year:

€ million	**30.06.2014**	**31.12.2013**
Net non-current assets (1)	10,827.9	10,664.5
NWC (2)	(334.4)	(646.1)
Gross invested capital (3)	10,493.5	10,018.4
Investments in associates and joint ventures	76.3	74.3

(1) 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 (€ 1.0 million).

(2) 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 loans and other non-current liabilities.

(3) The gross invested capital is equal to the sum of net non-current assets and the Net working capital.

D. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

12. PROPERTY, PLANT AND EQUIPMENT - € 10,287.1 million

Property, plant and equipment amount to € 10,287.1 million (€ 10,119.9 million at 31 December 2013). The amount and changes for each category are reported in the following table:

€ million	**Land**	**Buildings**	**Plant and machinery**	**Industrial and commercial equipment**	**Other assets**	**Assets under construction and payments on account**	**Total**
Cost at 01.01.2014	**100.5**	**1,311.8**	**12,989.6**	**79.1**	**116.8**	**1,861.9**	**16,459.7**
Investments	-	-	-	0.9	1.2	362.5	364.6
Entry into use	-	28.5	348.3	-	2.0	(378.8)	-
Contribution of newly acquired companies	-	17.3	5.5	0.8	0.3	-	23.9
Disposals and impairment	-	(0.1)	(16.6)	-	(0.4)	(0.5)	(17.6)
Other changes	-	-	(8.5)	-	-	(5.2)	(13.7)
Reclassifications	-	(0.5)	(0.2)	-	0.5	-	(0.2)
Cost at 30.06.2014	**100.5**	**1,357.0**	**13,318.1**	**80.8**	**120.4**	**1,839.9**	**16,816.7**
Accumulated depreciation and impairment at 01.01.2014	**-**	**(368.1)**	**(5,840.1)**	**(52.8)**	**(78.8)**	**-**	**(6,339.8)**
Depreciation charge for the period	-	(16.0)	(172.0)	(2.3)	(7.7)	-	(198.0)
Disposals			8.1		0.1		8.2
Reclassifications							-
Accumulated depreciation and impairment at 30.06.2014	**-**	**(384.1)**	**(6,004.0)**	**(55.1)**	**(86.4)**	**-**	**(6,529.6)**
Carrying amount							
At 30 June 2014	**100.5**	**972.9**	**7,314.1**	**25.7**	**34.0**	**1,839.9**	**10,287.1**
At 31 December 2013	**100.5**	**943.7**	**7,149.5**	**26.3**	**38.0**	**1,861.9**	**10,119.9**

“Plant and machinery", at 30 June 2014, essentially includes the energy transportation network as well as the transformation stations in Italy.

The item "Property, plant and equipment" shows an increase on the previous financial year amounting to € 167.2 million, as a result of ordinary transactions made during the period, relating to:

- investments for € 364.6 million, of which € 361.7 million made under the scope of the Group’s traditional activities (and relating to the parent company Terna for € 337.7 million, to the subsidiaries Terna Rete Italia S.r.l. for € 20.5 million, and Terna Cnra Gora, for € 3.5 million) and € 2.9 million within the scope of non-core activities mainly due to changes made for third parties essentially covered by the related contributions (referring to the parent company for € 2.5 million and to the subsidiary Terna Rete Italia S.r.l. for € 0.4 million);
- the change in the scope of consolidation following the acquisition of Tamini Trasformatori S.r.l. and its subsidiaries (€ 23.9 million);
- Depreciation of the period (€ -198.0 million) and disposals and other changes (€ -23.3 million).

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

€ million

Investments	
- Transmission lines	195.5
- Transformation stations	134.5
- Storage systems	15.3
- Other	16.4
Total investments in property, plant and equipment – traditional activities	***361.7***
Investments in property, plant and equipment – non-traditional activities	***2.9***
Total investments in property, plant and equipment	**364.6**
Contribution of newly acquired companies	23.9
Depreciation	(198.0)
Disposals and other changes	(23.3)
TOTAL	**167.2**

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

- 380 kV Sorgente - Rizziconi power line (€ 44.0 million):
  - relative to the power liens/cables: in Calabria the construction of the foundations and the installations of the pylons for the Rizziconi – Scilla line were completed, while stringing work is at an advanced stage; in addition, excavation works in the Favazzina tunnel are continuing. As regards to Sicily, the construction of the foundations and assembly of the pylons for the Villafranca - Sorgente power lines are at an advanced stage, as well as stringing activities. Activities to create the underground cable section continue;
  - relative to the electrical stations in Calabria, in Scilla the new armoured 380 kV section was completed and tested and the activities to construct the second 150kV section have begun; in Sicily in Villafranca, the construction of the retaining walls and prefabricated buildings is complete while assembly of the armoured 380 kV line and the machinery has begun.
- 380 kV Foggia-Benevento II power line (€ 19.6 million): the 380 kV Foggia - Benevento II power line was completed, of over 90 km.
- Restructuring of the 220 kV City of Naples grid (€ 18.2 million): relative to the power lines/cables, the operations to lay the Fratta-Gricignano cable were completed; the completion of the joints is under way; the executive project for the Poggioreale-Secondigliano connection is under way as well as the preparation of the preliminary design aimed at obtaining authorisation for the Castelluccia-San Sebastiano cable connection; the activities to create the Casalnuovo - Acerra cable connection continue. With reference to the electrical stations, the installation of a reactor at the Castelluccia electrical station is complete, as well as the activation work for the S. Maria Capua a Vetere ATR 380/220 kV.
- 380 kV Trino-Lacchiarella power line (€ 12.4 million): the main power line works were completed (approximately 100 km between Piedmont and Lombardy).
- Codrongianos Electrical Station Synchronous Condenser (€ 12.1 million): the construction of civil works and prefabricated buildings was completed; the assembly of the initial condenser and the relative step-up transformer is nearing completion.

- 380 kV Udine Ovest-Redipuglia power line (€ 10.9 million): relative to the electrical stations, repairs to the site were completed and the construction of the civil work and prefabricated buildings are nearing completion, while electromechanical assembly is under way. Relative to the power lines/cables, the tenders have been assigned and activities prior to the opening of the work sites are under way.
- Italy-Montenegro interconnection (€ 8.5 million): the executive design activities for the cable connection and electrical conversion stations continue: the activities to repair the site of the Cepagatti conversion station are nearing completion.

We also note, in addition to projects to acquire and/or remodel locations (€ 4.0 million), investments in storage systems (€ 15.3 million), essentially relative to the supplies of NGK battery modules for the three sites of Ginestra, Flumeri (with the work sites open) and Scampitella and the delivery of the modules to the Codrongianos site.

The main actions relative to non-traditional activities regard changes for third-parties.

In terms of assets under construction at the end of the period, below we provide information about the main projects to develop and strengthen the grid:

€ million	
Main projects - Lines and Stations	**125.6**
of which transport lines	***89.7***
of which transformer stations	***35.9***
380kV Sorgente - Rizziconi power line	**44.0**
of which transport lines	*34.0*
of which transformer stations	*10.0*
380kV Foggia - Benevento II power line	**19.6**
of which transport lines	*19.6*
of which transformer stations	-
Restructuring of the 220kV City of Naples grid	**18.2**
of which transport lines	*17.4*
of which transformer stations	*0.8*
380kV Trino - Lacchiarella power line	**12.4**
of which transport lines	*12.1*
of which transformer stations	*0.3*
Codrongianos Electrical Station Synchronous Condenser	**12.1**
of which transport lines	-
of which transformer stations	*12.1*
380kV Udine Ovest-Redipuglia power line	**10.9**
of which transport lines	*2.7*
of which transformer stations	*8.2*
Italy-Montenegro Interconnection	**8.5**
of which transport lines	*3.9*
of which transformer stations	*4.6*

13. GOODWILL – € 190.2 million

Goodwill amounted to € 190.2 million and it is unchanged from the balance of the previous year.

14. INTANGIBLE ASSETS – € 264.4 million

Changes in intangible assets during the period are detailed below:

€ million	Infrastructure rights	Concessions	Other assets	Assets under development and payments on account	Total
Balance at 31.12.2013	**131.0**	**89.7**	**29.2**	**21.7**	**271.6**
Investments	-	-	0.1	21.3	21.4
Entry into use	7.6	-	2.5	(10.1)	-
Contribution of newly acquired companies	-	-	0.1	-	0.1
Amortisation	(18.1)	(2.8)	(8.0)	-	(28.9)
Reclassifications	-	-	0.2	-	0.2
Balance at 30.06.2014	**120.5**	**86.9**	**24.1**	**32.9**	**264.4**
Cost	359.3	135.4	162.8	32.9	690.4
Accumulated amortisation	(238.8)	(48.5)	(138.7)	-	(426.0)
Balance at 30.06.2014	**120.5**	**86.9**	**24.1**	**32.9**	**264.4**

Intangible assets amount to € 264.4 million (€ 271.6 million at 31 December 2013). This item, in particular, includes:

- the infrastructures used for the dispatching services, carried out under concession and booked as set out by IFRIC 12 - Service Concession Arrangements, for a net book value at 30 June 2014 of € 120.5 million for the infrastructures which went into operation and € 20.8 million for the infrastructures under construction included in the category "Assets under development and payments on account" (€ 131.0 million and € 16.0 million respectively at 31 December 2013);
- the licensing for the provision of electricity transmission and dispatching services in Italy (with net carrying amount of € 86.9 million at 30 June 2014), 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 (€ 7.2 million) is due to routine movements during the period, relating mainly to investments (€ 21.4 million) – mainly in application software – and amortisation (€ 28.9 million, of which € 18.1 million relate to dispatching infrastructure and € 2.8 million to the concession).
Among the investments for the period in intangible assets (€ 21.4 million, entirely pertaining to traditional activities of the Parent Company) note in particular those related to the remote management system for dispatching (€ 4.4 million), for the Power Exchange (€ 4.4 million) and for the protection of the electrical system (€ 0.4 million), as well as software applications and licenses (€ 8.5 million).

15. EQUITY-ACCOUNTED INVESTEE - € 76.3 million

This item, amounting to € 76.3 million, increased by € 2.3 million on 31 December 2013, due to:

- the adjustment of the equity investment in the associated company CESI to the equity at 30 June 2014 attributable to the stake owned by the Parent Company in the same company (€ 2.0 million).
- the adjustment of the equity investment in the associated company CGES to the equity at 30 June 2014 attributable to the stake owned by the Parent Company in the same company (€ 0.2 million) and
- the adjustment of the equity investment in the associated company Coreso to the equity at 30 June 2014 attributable to the stake owned by the Parent Company in the same company (€ 0.1 million).

16. FINANCIAL ASSETS

The following table details financial assets recognised in the Consolidated Financial Statements:

	Book value		
€ million	**30.06.2014**	**31.12.2013**	**Change**
FVH derivatives	690.0	527.1	162.9
Equity interests	1.0	1.0	-
Non-current financial assets	**691.0**	**528.1**	**162.9**
FVH derivatives	6.7	18.4	(11.7)
Deferred assets on FVH derivatives contracts	79.0	62.9	16.1
Other current financial assets	10.2	15.8	(5.6)
Current financial assets	**95.9**	**97.1**	**(1.2)**
Total	**786.9**	**625.2**	**161.7**

At 30 June 2014, "Non-current financial assets", amounting to € 691.0 million, reported the measurement of fair value hedging derivatives hedging bonds as well as the value of other investments held by the Parent Company.

The increase in the fair value of derivatives (€ 162.9 million) with respect to 31 December 2013 is due to the decrease in the interest rate curve at the end of June.

The increase in the fair value of the derivatives referable to the interest rates is offset by the increase in the fair value components of the bonds recorded in financial liabilities.

"Other investments" (€ 1.0 million) refers to:

- the 5.6% interest held in the share capital of Desertec Industrial Initiative ("DII") (€ 0.1 million) acquired in September 2010;
- the 8.3% interest held in the share capital of CASC CWE S.A. (€ 0.3 million) acquired in November 2010;
- the 5.45% interest held in the share capital of Medgrid S.A.S. (€ 0.6 million).

The item “Current financial assets” showed a balance of € 95.9 million (€ 97.1 million at 31 December 2013) and decreased compared to the previous year of € -1.2 million due to:

- the decrease in the fair value of the FVH derivatives stipulated to cover the € 600 million bond maturing on 28 October 2014 (€ -11.7 million);

- the amount of net financial income matured on the related financial instruments, but not yet paid (€ +16.0 million);
- interest matured and not yet collected at the reporting date relating to short-term cash investments (€ -5.5 million).

17. OTHER ASSETS

Other assets are broken down below:

€ million	**30.06.2014**	**31.12.2013**	**Change**
Receivables due from others:			
- loans and advances to employees	8.0	7.2	0.8
- deposits with third parties	0.9	0.6	0.3
Other non-current assets	**8.9**	**7.8**	**1.1**
Other tax assets	18.4	62.6	(44.2)
Receivables due from others:	32.5	16.8	15.7
Other current assets	**50.9**	**79.4**	**(28.5)**

Other non-current assets (€ 8.9 million) increased by € 1.1 million with respect to 31 December 2013, essentially due to the greater loans and advances provided to employees of Terna Rete Italia S.p.A. and the Parent Company (€ 0.6 million and € 0.2 million, respectively).

The item "Other current assets", equal to € 50.9 million and whose composition is reported in the previous statement, decreased by € 28.5 million compared to 31 December 2013 attributable to the net effect of:

- lower other tax receivables (€ -44.2 million), referable mainly to the VAT receivable of the Group due from tax authorities (€ -37.7 million) and the lower balance of the receivables due from tax authorities and the withholdings on interest income accrued on the financial assets of the Parent Company (€ -9.5 million);
- greater receivables due from third parties (€ +15.7 million) mainly relating to greater shares of costs already paid but pertaining to subsequent years, attributable to personnel (€ +6.3 million) and local taxes and insurance premiums (€ 3.0 million).

18. INVENTORIES – € 18.0 million

Current inventories show a balance of € 18.0 million at 30 June 2014, which increased by € 10.0 million with respect to the previous year, essentially due to the inclusion in the balance of inventories of Tamini Trasformatori S.r.l. and its subsidiaries as at the acquisition date (€ 11.2 million), net of changes during the month of June 2014 (€ 0.9 million).

19. TRADE RECEIVABLES – € 1,882.5 million

Trade receivables are analysed as follows:

€ million	30.06.2014	31.12.2013	Change
Energy-related receivables	1,306.3	991.2	315.1
Grid transmission fee receivables	436.9	652.2	(215.3)
Other trade receivables	139.3	77.7	61.6
Trade receivables	**1,882.5**	**1,721.1**	**161.4**

Trade receivables amount to € 1,882.5 million and increased by € 161.4 million with respect to the previous year. Receivables are measured net of impairment losses on items considered non-collectable that are covered by allowances for doubtful accounts (€ 23.0 million for energy items and € 8.3 million for other items at 30 June 2014, as compared with € 23.2 million for energy items and € 8.8 million for other items at 31 December 2013.

Energy-related receivables - € 1,306.3 million

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. 111/06 and its subsequent amendments and additions).

The increase in this item of € 315.1 million from the previous year was mainly due to the combined effect of:

- higher receivables from the sale of electrical energy within the Power Exchange (€ 305.1 million), mainly deriving from increased receivables for the uplift component (€ 205.5 million), from the higher credit items generated by the increase in the imbalance measurement quantity and prices (€ 142.7 million) and in part offset by the lower receivables deriving from the reduction in resources procurement on the Energy Market (€ 37.3 million) and the decrease in receivables relative to the market coupling mechanism for the management of congestion on the interconnection with Slovenia (€ 4.5 million);
- higher receivables from sales of electricity outside of the Power Exchange (€ 58.3 million), essentially referring to the increase in receivables generated by the UESS (Essential Units for Electricity System Security) (€ 43.7 million);
- lower receivables to the recognition during the six-month period of the income (€ 31.5 million), relative to the incentive mechanism for reducing the volumes procured on the Dispatching Services Market (DSM) of the incentive accrued in previous years as provided for in Resolution 213/09.

Grid transmission fees receivable - € 436.9 million

The receivable relating to grid transmission fees, equal to € 436.9 million, refers to compensation due to the Parent company and other owners for utilisation of the National Transmission Grid from electrical energy distributors; 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 2014. The above mentioned receivable shows a negative change, of € 215.3 million, with respect to the previous year, mainly due to the effect of collections from

CCSE (Electricity Equalisation Fund) in implementation of AEEGSI Resolution 607/2013, relating to the mechanism for integration of revenue related to the transmission service and recognised for the year 2012 (€ 131.5 million), as well as the collection of the amount due from a market operator that had been postponed in January, of the portion of the grid transmission fees of the last part of 2013, the natural deadline of which was the end of the previous year;

Other trade receivables - € 139.3 million

Other trade receivables mainly refer to receivables due from diversified business customers and show an increase of € 61.6 million with respect to the previous year, essentially due to the inclusion of the trade receivables of Tamini Trasformatori S.r.l. and its subsidiaries within the Group's scope of consolidation (€ 58.8 million).

The amount of the guarantees issued to third parties by the parent company Terna, at 30 June 2014 came to € 22.5 million, of which € 19.3 million for sureties issued to secure the contractual obligations arising under the scope of operations and € 3.2 million as detailed below:

- € 1.0 million in guarantees issued on behalf of the subsidiary Terna Rete Italia S.r.l.;
- € 2.1 million on behalf of the subsidiary Terna Rete Italia S.p.A..;
- € 0.1 million on behalf of the subsidiary Terna Plus S.r.l.;

all issued on the lines of credit of TERNA S.p.A.

20. CASH AND CASH EQUIVALENTS – € 1,674.6 million

Cash and cash equivalents at 30 June 2014 amount to € 1,674.6 million of which € 900.0 million are liquid funds invested in short-term deposits, € 774.3 million as positive net liquid funds on bank current accounts and € 0.3 million as cash on hand held by the Territorial Operational Units of the Group.

21. INCOME TAX ASSETS - € 18.1 million

The item shows a decrease compared with the figure of the previous year (€ 20.8 million at 31 December 2013) of € 2.7 million, mainly attributable to higher tax advances recognised in the previous year (€ 7.7 million) partially offset by IRES and IRAP credits for the period (€ 4.9 million).

LIABILITIES

22. EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT – € 2,960.3 million

Share capital - € 442.2 million

The share capital of the Parent is represented by 2,009,992,000 ordinary shares with a par value of € 0.22 each; this has not changed since 31 December 2013.

Legal reserve - € 88.4 million

The legal reserve amounts to 20% of the share capital of the Parent Company.

Other reserves - € 701.7 million

Other reserves had a net increase of € 6.5 million, 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 (€ 13.2 million), net of the related tax effect (€ -6.7 million);
- recognition of the actuarial gains and losses on employees benefits (€ -6.7 million, net of the relative tax effect of € 3.4 million).

Retained earnings and losses - € 1,453.5 million

Retained earnings increased by € 111.6 million following allocation of the Group's profit for 2013.

Payment of final dividend

On 27 May 2014, the Shareholders' Meeting resolved a total dividend for the entire 2013 year, equal to € 0.20 per share, and authorised the distribution – gross of any withholding taxes – of a final dividend, net of the advance paid previously of € 261.3 million, equal to € 0.13 per share; this amount was made payable as of 26 June 2014, following detachment of coupon no. 20 on 23 June 2014.

23. 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 2014:

	Book value		
€ million	**30.06.2014**	**31.12.2013**	**Change**
Bonds	5,890.9	5,723.0	167.9
Bank loans	2,800.5	2,286.9	513.6
Long-term loans	**8,691.4**	**8,009.9**	**681.5**
CFH derivatives	60.2	80.0	(19.8)
Non-current financial liabilities	**60.2**	**80.0**	**(19.8)**
Bonds	607.1	618.8	(11.7)
Current portion of long-term loans	95.8	79.0	16.8
Short-term loans and current portion of medium/long-term loans	**702.9**	**697.8**	**5.1**
Total	**9,454.5**	**8,787.7**	**666.8**

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 € +666.8 million to € 9,454.5 million. The increase in the value of the bonds (€ +156.2 million) is related for € +154.7 million to changes in the fair value of the risk hedged and for € 1.5 million to the capitalisation of the inflation for the period tied to the inflation linked bond, net of the amortised cost. The change linked to the hedging of interest-rate risk comprises € 32.2 million related to the inflation-linked bond, € 47.0 million regarding the 2014-2024 bonds, € 17.7 million for the private placement and € 57.0 million relating to the 2021 bond; and it is offset by the increase in the fair value of derivatives recognised as financial assets (€ 151.2 million).

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

- bond maturing 2024, price at 30 June 2014: 124.85 and price at 31 December 2013: 114.28;
- bond maturing 2014, price at 30 June 2014: 101.20 and price at 31 December 2013: 102.82;
- bond maturing 2023, price at 30 June 2014:[7] 120.11 and price at 31 December 2013: 109.90;
- bond maturing 2019, price at 30 June 2014: 118.23 and price at 31 December 2013: 114.60;
- bond maturing 2021, price at 30 June 2014: 119.56 and price at 31 December 2013: 112.74;
- bond maturing 2017, price at 30 June 2014: 108.26 and price at 31 December 2013: 108.27;
- bond maturing 2018, price at 30 June 2014: 106.75 and price at 31 December 2013: 104.20.

The debt which was originally floating rate, shows an increase of € 530.4 million, due to:

- the drawing down, in June, of an EIB loan for € +570.0 million;
- decrease in mortgages and loans from the EIB (European Investment Bank) for € -39.6 million, due to the reimbursement of the instalments coming due for the existing loans.

[7] Source: bank; in the absence of up-to-date prices, source: Reuters and Bloomberg.

Long-term loans

The total amount of the Group borrowing at 30 June 2014, entirely referring to the Parent, was equal to € 9,394.2 million, of which € 8,691.2 million due after more than 12 months.

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

€ million	Maturity	Original currency	30.06.2014	Due within 12 months	Due beyond 12 months	Average interest rate as of 30.06.2014
Bonds	**2014-2024**	€	1,643.1	607.1	1,036.0	**4.62%**
Bonds IL	**2023**	€	710.7	-	710.7	**2.75%**
Bonds PP	**2019**	€	690.1	-	690.1	**4.87%**
Bonds 1250	**2021**	€	1,459.6	-	1,459.6	**4.75%**
Bonds 1250	**2017**	€	1,247.3	-	1,247.3	**4.12%**
Bonds 750	**2018**	€	747.1	-	747.1	**2.87%**
Fixed rate			**6,497.9**	**607.1**	**5,890.8**	
EIB	**2014-2030**	€	1,746.5	95.9	1,650.6	**0.72%**
Club Deal	**2015**	€	649.8	-	649.8	**0.88%**
CDP	**2019**	€	500.0	-	500.0	**1.27%**
Floating rate			**2,896.3**	**95.9**	**2,800.4**	
Total			**9,394.2**	**703.0**	**8,691.2**	

On maturity, on 15 September 2023, the Inflation Linked Bond provides for repayment of the face value revalued to inflation, while repayment of the face value of the other Bonds, of € 5,250.0 million, provides for repayment of € 600 million on 28 October 2014, for € 1,250 million on 17 February 2017, for € 750 million on 16 February 2018, for € 600 million on 3 October 2019, for € 1,250 million on 15 March 2021 and for € 800 million on 28 October 2024.

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

As regards the 2014-2024 bonds, with an average coupon of 4.62%, if fair value hedging operations are taken into account, the average interest rate is equal to 0.77%.

For the inflation-linked bonds - and taking hedges into account - and assuming a 0.55% inflation rate, the average interest rate paid in the year was -0.43%.

The fixed-rate Private Placement was synthetically transformed to a floating rate by means of derivative contracts with the same maturity. Consequently, the average interest rate paid in the year was 1.64%.

The average coupon of the 2021 bond is 4.75%; if we consider FVH operations, the average interest rate amounts to 1.49%."

For the two bond issues made in 2012 maturing in 2017 and 2018, no hedges have been implemented and the average interest rate is 4.12% and 2.87% respectively.

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 2.93 % is reported for

EIB financing while for the Club Deal financing totalling € 650 million, the average rate was 3.40% and for the CDP financing the average rate was 3.94%.

The following table reports the changes in long-term debt during the first half of 2014:

							balance at 30.06.2014		
Type of loan	**Nominal debt at 31.12.2013**	**Book value at 31.12.2013**	**Market value at 31.12.2013**	**Repayments and capitalisation**	**Delta Fair Value 30.06.2014 31.12.2013**	**Change in book value**	**Notional debt**	**Book value**	**Market value**
2014-2024 Bonds	1,400.0	1,596.2	1,531.1	-	47.0	47.0	1,400.0	1,643.2	1,615.7
Listed IL bond	565.4	677.0	621.4	1.5	32.2	33.7	566.9	710.7	621.4
Private Placement	600.0	672.4	687.6	-	17.7	17.7	600.0	690.1	687.6
2021 Bond	1,250.0	1,402.6	1,409.2	-	57.0	57.0	1,250.0	1,459.6	1,409.2
2017 Bond	1,250.0	1,246.9	1,353.4	-	0.4	0.4	1,250.0	1,247.3	1,353.4
2018 Bond	750.0	746.7	781.5	-	0.4	0.4	750.0	747.1	781.5
Total bonds	**5,815.4**	**6,341.8**	**6,384.2**	**1.5**	**154.7**	**156.2**	**5,816.9**	**6,498.0**	**6,468.8**
Bank loans	2,366.3	2,365.9	2,366.3	530.3	0.1	530.4	2,896.6	2,896.3	2,896.6
Total bank loans	**2,366.3**	**2,365.9**	**2,366.3**	**530.3**	**0.1**	**530.4**	**2,896.6**	**2,896.3**	**2,896.6**
Total Financial debt	**8,181.7**	**8,707.7**	**8,750.5**	**531.8**	**154.8**	**686.6**	**8,713.5**	**9,394.3**	**9,365.4**

At 30 June 2014, the Parent also has unused "*uncommitted*" credit lines.

Non-current financial liabilities

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

€ million	**30.06.2014**	**31.12.2013**	**Change**
CFH derivatives	60.2	80.0	(19.8)
Total	**60.2**	**80.0**	**(19.8)**

"Non-current financial liabilities" includes the fair value measurement of cash-flow hedges. Fair value was measured by discounting the expected cash flows using the market yield curve at the reporting date. With respect to 31 December 2013, there was a change in derivatives of € -19.8 million.

Current financial liabilities

Current financial liabilities, due to the interest expense accrued on financial instruments but not yet settled, decreased by € -20.3 million since the end of last year.

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

	€ million	**Book value at 30.06.2014**
A.	Cash	774.6
B.	Short-term deposits	900.0
C.	**Liquidity (A) + (B)**	**1,674.6**
D.	Current portion of long-term debt and associated derivatives	696.2
E.	**Current financial debt (D)**	**696.2**
F.	**Net current financial debt (E) - (C)**	**(978.4)**
G.	Non-current bank payables	2,800.5
H.	Bonds issued	5,890.9
I.	Derivative financial instruments in portfolio	(629.8)
J.	**Net non-current financial debt (G) + (H) + (I)**	**8,061.6**
K.	**Net financial debt (J) + (F)**	**7,083.2**

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.

24. EMPLOYEE BENEFITS - € 133.2 million

The main assumptions made in the actuarial estimate of employee benefit obligations are substantially in line with those used for the 2013 financial statements; the interest rate was updated to 1.25% for schemes with a duration of between 5 and 7 years, to 1.63% for those with a duration of between 7 and 10 and to 2.29% for schemes of more than 10 years

The composition and changes for termination benefits and other employee-related provisions at 30 June 2014 is detailed in the table below:

€ million	31.12.2013	Change in the scope of consolidation	Provision	Interest cost	Utilisations and other changes	Actuarial gains/losses	30.06.2014
Termination benefits	63.0	2.6	-	0.8	(0.6)	3.9	69.7
Energy discount	35.0	-	0.4	0.5	(0.3)	4.7	40.3
Other employee benefits	22.1	-	0.7	0.3	(1.3)	1.4	23.2
Total	**120.1**	**2.6**	**1.1**	**1.6**	**(2.2)**	**10.0**	**133.2**

The item, equal to € 133.2 million at 30 June 2014 (€ 120.1 at 31 December 2013), shows an increase on the previous financial year of € 13.1 million, attributable mainly to the actuarial gains and losses pertaining to the period (€ 10.0 million) and the increase in Group employees following the acquisition of Tamini Trasformatori S.r.l. and its subsidiaries (€ 2.6 million).

25. PROVISION FOR RISKS AND CHARGES – € 174.2 million

The breakdown of and changes in provisions for risks and charges at 30 June 2014 is detailed below:

€ million	Provision for disputes and litigation	Provisions for other risks and charges	Provision for early retirement	Total
Balance at 31.12.2013	**16.6**	**138.4**	**22.0**	**177.0**
Change in the scope of consolidation	-	8.4	-	8.4
Provisions	-	19.2	-	19.2
Utilisations and other changes	(0.2)	(27.1)	(3.1)	(30.4)
Balance at 30.06.2014	**16.4**	**138.9**	**18.9**	**174.2**

The Provision for Risks and Charges shows a decrease of € 2.8 million compared to the 31 December 2013 figure, mainly due to the combined effect of the following movements:

- increase in the initial stock of the provisions for other risks and charges, for € 8.4 million, following the inclusion of Tamini Trasformatori S.r.l. and its subsidiaries within the scope of consolidation. The provisions of the Tamini Group essentially regards allocations made for guarantees on products sold and allocations of an environmental nature;
- net provision (€ 11.2 million) for "Projects for urban and environmental renewal", the aim of which is to offset the construction of long-distance power lines, in addition to expenses related to provisions and testing;
- exchange rate adjustment (€ 0.8 million) of provisions for probable expenses relating to tax obligations deriving from the sale of Terna Participações;

- net uses regarding management incentive plans (€ -16.3 million);
- a net use of € 3.5 million for the charges due to distributing companies for power failures of the transformation plants connected to the NTG (in accordance with Resolution 341/07);
- net utilisation (€ 3.1 million) of the redundancy provision covering the estimated extraordinary cost of the mutually agreed early termination of those employees who are eligible for pension.

26. DEFERRED TAX LIABILITIES – € 142.6 million

The changes in this provision are analysed below:

€ million	31.12.2013	Change in the scope of consolidation	Impacts recognised in the Income Statement: Provisions	Impacts recognised in the Income Statement: Uses and other changes	Impact recognised in equity	30.06.2014
Deferred tax liabilities	314.7	0.2	-	(22.8)	-	292.1
Deferred tax assets	(159.1)	(4.8)	(4.7)	15.8	3.3	(149.5)
Net deferred tax liabilities	**155.6**	**(4.6)**	**(4.7)**	**(7.0)**	**3.3**	**142.6**

This balance, equal to € 142.6 million, reflects the net movements in the Group's deferred tax assets and liabilities.

Deferred tax liabilities totalled € 292.1 million, down € 22.6 million, due to the joint effect of:

- utilisation of prior period provisions covering the accelerated depreciation recording by the parent company Terna and the subsidiary Terna Rete Italia S.r.l. in excess of the tax allowable amounts. (€ 19.7 million and € 1.4 million respectively), including the amounts released in relation to the depreciation charge for the period attributable to the difference from eliminations allocated to property, plant and equipment following mergers carried out in previous years (€ 1.5 million);
- release of the charge for the six-month 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 € 1.7 million).

Prepaid tax assets (€ 149.5 million) show a decrease of € 9.6 million, mainly due to:

- net uses during the period (€ 10.9 million), mainly attributable to the tax effects of the changes in the provisions for risks and charges (€ 6.9 million) and the release of the portion accruing of deferred tax assets allocated for the release of goodwill recognised following the incorporation of RTL by the Parent Company (€ -2.4 million);
- the contribution of Tamini Trasformatori S.r.l., acquired during the half-year (€ 4.8 million, used for € 0.2 million during the course of June 2014)
- the tax effect recognised for the changes of cash flow hedge financial instruments and actuarial gains and losses on employee benefits (€ 6.7 million and € -3.4 million, respectively), which did not have an impact on the Income Statement.

27. OTHER NON-CURRENT LIABILITIES – € 131.1 million

This item (€ 131.1 million) decreased compared to 31 December 2013 (€ 132.9 million), by € 1.8 million due to the release of set-up grants in relation with the depreciation for the period of plants for which grants were recognised;

28. CURRENT LIABILITIES

Current liabilities at 30 June 2014 break down as follows:

€ million	**30.06.2014**	**31.12.2013**	**Change**
Current portion of long-term loans *	702.9	697.8	5.1
Trade payables	1,903.7	2,062.3	(158.6)
Tax liabilities	25.4	31.5	(6.1)
Current financial liabilities*	131.1	151.4	(20.3)
Other current liabilities	201.8	176.0	25.8
Total	**2,964.9**	**3,119.0**	**(154.1)**

(*) For these items, see the comments under note 23. LOANS AND FINANCIAL LIABILITIES

Trade payables – € 1,903.7 million

Trade payables at 30 June 2014 break down as follows:

€ million	**30.06.2014**	**31.12.2013**	**Change**
Suppliers:			
- Energy-related payables	1,387.7	1,304.9	82.8
- Non energy-related payables	494.2	744.5	(250.3)
Payables due to associates	3.5	9.5	(6.0)
Payables for contract work in progress	18.3	3.4	14.9
Total trade payables	**1,903.7**	**2,062.3**	**(158.6)**

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 € 82.8 million compared with the previous year is essentially attributed to:

- increased payables (€ 87.1 million) relative to "pass-through items" which are mainly ascribable to the joint effect of:
  - the decrease in payables for the purchase of electrical energy within the Power Exchange (€ 73.8 million), deriving mainly from the net effect of the lower payables generated by the decrease in the volumes of procurement of resources on the Energy Market (€ 191.8 million), as already described in the "Trade Receivables" section, the decrease in payables deriving from virtual interconnection

activities (€ 12.7 million), partially offset by the increase in quantities and imbalance assessment prices (€ 132.3 million);

  - the increase in payables for the purchase of electrical energy outside the Power Exchange (€ 160.8 million), mainly deriving from the increase in payables for capacity payment (€ 71.2 million) and for the UESS (essential units for the security of the electricity system) (€ 140.9 million), partially offset by the decrease in payables related to the provision of interruptible resources (€ 32.0 million) and congestion rent income (€ 9.5 million);

- lower margin payables (€ 4.3 million) to the Electricity Industry Clearing House, mainly attributable to the payment of debts related to net charges to be paid to the provision for exceptional events for interruption events occurring in 2013, pursuant to Resolution 197/11.

\- *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 downward change with respect to the previous year (€ 250.3 million) is essentially due to the purchases and services for greater investment activities carried out in the last period of 2013. Tamini Trasformatori S.r.l. and its subsidiaries contribute € 25.9 million to the balance of non energy-related payables.

Payables due to associates

The item, € 3.5 million, basically shows payables to the associate CESI, for services received by the Parent Company (€ 0.1 million) and the subsidiary Terna Rete Italia S.p.A. (€ 3.3 million) relative to the construction and management of laboratories and plants for tests, inspections, studies and experimental research relating to the electro-technical field in general and to the technical and scientific developments. The decrease (€ 6.0 million) from 31 December 2013, is due to lower performance of the associate CESI during the first half of 2014.

Group commitments with suppliers amounted to about € 2,820.9 million and refer to purchase commitments relating to normal "operating activities" for the period 2015-2020.

Payables for contract work in progress

Payables for contract work in progress relative to advance payments received from customers, of € 18.3 million as at 30 June 2014 increased by € 14.9 million with respect to 31 December 2013, essentially for the acquisition of Tamini Trasformatori Srl and its subsidiaries:

€ million	**Payments on account**	**Contract value**	**Balance at 30.06.2014**	**Payments on account**	**Contract value**	**Balance at 31.12.2013**
Other	(35.0)	16.7	(18.3)	(16.3)	12.9	(3.4)

Tax liabilities - € 25.4 million

The item refers to the Group's tax liabilities for the financial year and refers mainly to the parent company, Terna S.p.A. (€ 21.5 million) and to the subsidiary Terna Rete Italia S.r.l. (€ 3.7 million).

It shows a decrease of € 6.1 million with respect to the previous year, essentially due to the recognition of taxes pertaining to the half-year (€ 197.5 million), the payment of the balance of current taxes for the previous year (€ 31.5 million) and advances paid for the current year(€ 172.1 million).

Other current liabilities – € 201.8 million

Other current liabilities break down as follows:

	30.06.2014	Due within one year	Due beyond one year	31.12.2013	Change
Payments on account	19.3	0.3	19.0	23.0	(3.7)
Other tax liabilities	47.2	47.2	-	19.0	28.2
Payables to social security institutions	25.6	25.6	-	22.8	2.8
Payables to employees	28.4	28.4	-	32.8	(4.4)
Other payables to third parties	81.3	39.0	42.3	78.4	2.9
Total	**201.8**	**140.5**	**61.3**	**176.0**	**25.8**

Payments on account

The item (€ 19.3 million) includes set-up grants related to plants collected by the Group (€ 17.5 million for the Parent Company and € 1.8 million for Terna Rete Italia S.r.l.) for assets under construction at 30 June 2014. With respect to 31 December 2013 (€ 23.0 million), it shows a decrease of € 3.7 million, essentially due to grants recognised directly to reduce the carrying value of assets which came into operation during the course of the period (€ 2.1 million).

Other tax liabilities

Other tax liabilities, amounting to € 47.2 million, show an increase of € 28.2 million with respect to the previous financial year, mainly as a result of the recognition of the VAT payable (€ 25.6 million) for the period.

Payables to social security institutions

Payables to social security institutions, mainly relating to payables due to INPS by the Parent and the subsidiary Terna Rete Italia S.p.A., amounting to € 25.6 million (€ 22.8 million at 31 December 2013). The item also includes the payable due to Fondo Previdenziale Elettrici – F.P.E. (pension fund for electricians) (€ 6.1 million).

Payables to employees

Payables to employees, amounting to € 28.4 million (€ 32.8 million at 31 December 2013), 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 (€ 13.8 million), payables to employees for unused holiday time and abolished public holidays to be paid (€ 11.4 million).

Other payables to third parties

Other payables to third parties, of € 81.3 million (€ 78.4 million at 31 December 2013), mainly regard security deposits (€ 42.3 million) received from electricity market operators securing their obligations in respect of dispatching contracts, to other payables (€ 19.7 million) and the recognition of costs with deferred liquidation and deferred income (€ 17.4 million).

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, exchange 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 for the management of financial risks, 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, with the exception of exchange risk relative to the recently acquired subsidiary Tamini Trasformatori S.r.l., is essentially represented by the exposure of the Parent. Accordingly, this section provides comprehensive information about the Terna Group'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 2014.

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 which Terna S.p.A. had 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 bonds).

See also the discussion in the “Market and financial risks” section of the Notes to the 2013 Annual report of the Terna Group.

The following paragraphs provide information, updated to the date of this report, concerning interest-rate risk, exchange 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 2013.

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**		
€ million	**Current rates +10%**	**Rates at 30.06.2014**	**Current rates - 10%**	**Current rates +10%**	**Rates at 30.06.2014**	**Current rates -10%**
30.06.2014						
Positions sensitive to interest rate variations (FVH, bonds, CFH)	(2.4)	(1.6)	(2.6)	(59.6)	(60.2)	(60.8)
Hypothetical change	(0.9)	-	(1.0)	0.6	-	(0.6)
31/12/2013						
Positions sensitive to interest rate variations (FVH, bonds)	2.5	2.4	2.3	(138.7)	(141.2)	(143.7)
Hypothetical change	0.1	-	(0.1)	2.5	-	(2.5)

Exchange rate risk

At 30 June 2014, the Terna Group is exposed, through the subsidiary Tamini Trasformatori S.r.l., to the following exchange risks:

€ million	**Notional amount in foreign currency**	**To Euro exchange rate**	**Notional amount in Euro**
no. 1 sales contract in Czech koruna	727.6	27,453	26.5
no. 2 sales contracts in pounds	3.3	0.8015	4.1
no. 2 sales contracts in Canadian dollars	2.5	1.4589	1.7

Liquidity risk

At 30 June 2014, Terna has liquidity of € 1,674.6 million as well as unused short-term uncommitted credit lines.

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. In application of that envisaged in IFRS 13, the fair value of the derivative financial instruments is adjusted to take into account the counterparty's credit risk.

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

Credit risk management is guided by the provisions of the AEEGSI 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 2014 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.

The Group's exposure to financial credit risk at the end of the six-month period is as follows:

	Carrying amount		
€ million	**30.06.2014**	**31.12.2013**	**Change**
FVH derivatives	696.7	545.5	151.2
Cash and cash equivalents	1,674.6	1,617.1	57.5
Trade receivables	1,882.5	1,721.1	161.4
Total	**4,253.80**	**3,883.7**	**370.1**

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

Geographical distribution

	Carrying amount	
€ million	**30.06.2014**	**31.12.2013**
Italy	1,823.5	1,676.0
Euro-area countries	36.2	35.4
Other countries	22.8	9.7
Total	**1,882.5**	**1,721.1**

Customer typology

€ million	Carrying amount 30.06.2014	31.12.2013
Distributors (*)	295.6	430.0
Electricity Equalisation Fund (**)	143.0	238.3
Input dispatching contractors	235.4	216.3
Withdrawal dispatching contractors (non distributors)	1,056.9	745.2
Parties which have undersigned virtual-import contracts and virtual-import services (interconnectors and shippers)	13.1	15.7
Receivables for sundry activities	138.4	75.6
Total	**1,882.5**	**1,721.1**

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

(**) of which € 223 million from volume effect on grid transmission fees.

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

€ million	Impairment 30.06.2014	Gross 30.06.2014	Impairment 31.12.2013	Gross 31.12.2013
Not yet past due	-	1,740.4	-	1,429.3
0-30 days past due	-	67.9	-	216.8
31-120 days past due	-	12.5	(0.6)	22.6
More than 120 days past due	(31.3)	93.1	(31.4)	84.4
Total	**(31.3)**	**1,913.8**	**(32.0)**	**1,753.1**

Changes in provisions for bad debts in the course of the period were as follows:

€ million	30.06.2014	31.12.2013
Balance at 1 January	(32.0)	(26.5)
Reversal of provision	0.6	1.5
Impairment for the year	-	(7.0)
Total	**(31.3)**	**(32.0)**

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

€ million	30.06.2014	31.12.2013
Input dispatching activity	231.7	258.1
Withdrawal dispatching activity	919.7	843.1
Grid transmission fees - distributors	260.5	174.8
Virtual importing	85.4	171.2
Total	**1,497.2**	**1,447.2**

In addition, Non-Traditional Activities are exposed to "counterparty risk," in particular with subjects with which active contracts are signed, in consideration of the credibility and solvency of the parties in question and the impact that their possible insolvency could have on the financial balance of the business. Counterparty risk is mitigated through the implementation of special procedures to assess counterparties, which measure economic, financial and reputational aspects of the subjects in question.

Default risk and debt covenants

This risk is associated with the possibility that the loan contracts or bond 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 and € 800 million in 2004, and five issues of € 6 billion (€ 6,000,000,000 Medium-Term Notes Programme), one of € 500 million in 2007 and one in the form of a Private Placement, of € 600 million in 2009, one of € 1,250 million executed in March 2011, one of € 1,250 million in February 2012 and one of € 750 million in October 2012;
- bank payables, consisting in a "Club Deal" syndicated loan of € 650 million, and a loan from Cassa Depositi e Prestiti (CDP) of € 500 million that draws on EIB funds;
- loan granted to the Company by the European Investment Bank (EIB) through a series of loans originally totalling € 1,623 million.

The principal covenants relating to the issue of bonds and the € 6 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 or revenue in order to secure listed bonds, unless these guarantees are extended on the same basis to the bonds concerned. There are certain exceptions (so-called "permitted guarantees" such as, for example, guarantees required by law, guarantees in place prior to the date of issue of the bonds, 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 obligations;
- "*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 "Club Deal" syndicated loan and the € 500 million 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 or maintain guarantees on all or part of their assets, 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 loans, 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 financial borrowings whose amount does not exceed 10% of total assets of the Borrower, 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, serious inaccuracies in the documentation and/or the 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 below a certain threshold), 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, except for those obligations assumed within the context of ordinary activity which enjoy, by law, rights of pre-emption;
- clauses regarding "termination/early repayment/withdrawal" on which basis, where certain events occur (such as, for example, failure to pay, serious inaccuracies in the documentation and/or statements presented, insolvency, events resulting in negative consequences on the financial commitments made by the Company, special administration, liquidation, significant detrimental change, 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;
- periodic or occasional reporting requirements on the occurrence of specified events concerning both the projects being financed and the Company itself;
- clauses of obligatory early repayment, based on which the Company will be required to repay the Loan early should specific events occur (such as for example, change in the control of the Company, loss of the concession, etc.) and, as a result of these, an agreement cannot be reached between the Company and the Bank regarding the changes to be made to the contract.

None of the covenants have been infringed to date.

Legal disputes

The main unrecognised commitments and risks of the Parent Company Terna and the subsidiaries Terna Rete Italia S.r.l. and Terna Rete Italia S.p.A. at 30 June 2014 are discussed below. The other subsidiaries had no unrecognised commitments and contingencies 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 S.r.l. are involved in various civil and administrative lawsuits requesting the transfer or change in operations of allegedly harmful power lines, despite their being installed in full compliance with the applicable legislation (Italian Law No. 36 of 22 February 2001 and the Prime Minister's Decree of 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, and 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 contingencies".

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 AEEGSI, Ministry of Economic Development 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 AEEGSI 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, the parent company Terna, as jointly and severally responsible with Enel Distribuzione S.p.A. ("Enel Distribuzione"), 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, including interest). According to the provisions of the investment sale contract, Enel Distribuzione S.p.A. must release the parent company, 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, we do not believe that any financial expenditure will result from the notice in question**.** On 1 April 2014, the Provincial Tax Commission of Rome issued its judgment accepting Terna's appeal. The Tax Authority may appeal this decision.

F. BUSINESS COMBINATIONS

Tamini Group acquisition

On 20 May 2014, in implementation of the preliminary sales contract signed on 25 February 2014, the Terna Group completed the closing of the acquisition by Terna Plus S.r.l, a company fully controlled by the Parent Company, for the entire capital of Tamini Trasformatori S.r.l. and its subsidiaries ("Tamini Group").
The Tamini Group, in addition to Tamini Trasformatori S.r.l., includes the subsidiaries V.T.D. Trasformatori S.r.l., Verbano Trasformatori S.r.l. and Tamini Trasformers USA L.L.C. and produces and sells industrial and power electrical transformers. It has four production plants all located in Italy in Legnano, Melegnano, Novara and Valdagno.
The acquisition of the Tamini Group represents an opportunity to strengthen a historic Italian industrial company, recognised for its excellence in the electrical sector both in Italy and abroad.
The payment was initially set at € 23.9 million, in addition to the value of the current assets and the net financial position. The price will be determined definitively during the course of the year in accordance with the contractual terms, including any price adjustments deriving from the results of the checks carried out on the company in reference to its accounting situation as of the closing date.

At the time this Interim Financial Report was prepared by the Terna Group, initial accounting of the merger was to be considered incomplete, therefore the amounts shown are provisional. As envisaged in *IFRS 3 - Business combinations*, the accounting of the acquisition of the Tamini Group will be completed at the latest within a year of the completion of the operation.

Provisionally, accounting of the assets and liabilities, with particular reference to real estate property, plants and machinery, was determined using the discounted cash flow method (DCF). Activities related to the definitive allocation of the price paid with the net assets acquired are currently under way.

Accessory costs for the merger operation, as of the date of this report, were € 0.5 million, recognised under operating costs for the period.

The table below summarises the payment made to acquire Tamini Trasformatori S.r.l. and the amount of the assets and liabilities acquired recognised on the acquisition date:

€ million	***Provisional fair value pursuant to IFRS3 20.05.2014***
ASSETS	
Non-current assets	
Property, plant and equipment	0.1
Tangible	23.9
Financial	0.2
Total Non-current Assets	24.2
Current assets	
Inventories	11.2
Receivables	67.4
Other receivables and other assets	0.9
Net deferred tax assets	4.6
Total Working Capital	84.1
Cash and cash equivalents	12.2
TOTAL ASSETS	**120.5**
LIABILITIES	
Provisions for other risks and charges	8.4
Provision for termination benefits	2.6
Payables	48.0
Other liabilities	2.4
TOTAL LIABILITIES	**61.4**
Net assets acquired	**59.1**

The price paid as of 30 June 2014 was approximately € 49 million, while the further portion of deferred price currently estimated is approximately € 10 million.

Revenues and the result (loss) achieved during the first six months of 2014 by the Tamini Group came to € 54.9 million and approx € 1 million, respectively.

The amount included in the consolidated EBITDA for the first half of 2014 as of the acquisition date was € 2.1 million.

G. RELATED-PARTY TRANSACTIONS

Considering that the Parent has been subject to de facto control by Cassa Depositi e Prestiti S.p.A. since 2007, the related-party transactions carried out by the Terna Group during the period included not only those with the associate Cesi S.p.A. and Coreso S.A. 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 partial exemption provided by the same standard, which dispenses with the required disclosures of 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 in this section; no amounts relating to "pass-through items" are given here.

Related-party transactions during the first half of 2014 are mainly services that are part of ordinary management and regulated by market conditions.

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 on the equity interests held by the same, is included in the annual remuneration report published in accordance with the law.

Below is an explanation of the nature of the transactions implemented by the Terna Group with related parties and the relative income and expenses totalled during the period, in addition to the relative receivables and payables in place as of 30 June 2014.

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* Dividends distributed to the Parent Company Terna, lease of laboratories and similar structures	*non energy-related items* Technical consultancy, studies and research, projects and experimentation
CORESO S.A.	-	*non energy-related items* Technical TSO coordination services
GSE Group	*energy-related items* MIS component, dispatching fees *non energy-related items* Specialist services, leases, IT services	- -
Enel Group	*energy-related items* NTG remuneration and measurement aggregation, dispatching fees *non energy-related items* Lease and rent, line maintenance, works to move/vary lines, maintenance of power line communication on company-owned power 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
ENI Group	*energy-related items* Dispatching fees *non energy-related items* Line maintenance	- -
Ferrovie Group	*energy-related items* Dispatching fees *non energy-related items* Dispatching fees, energy sale	*energy-related items* NTG Remuneration *non energy-related items* Right-of-way fees
Anas S.p.A.	*non energy-related items* work on line moving/variants	-
Fondenel and Fopen	-	*non energy-related items* Pension contributions borne by the Terna Group

Company	Income statement				
	Income items		Operating expenses		
€ million	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.	-	-	-	-	3.2
Total de facto parent company	***-***	***-***	***-***	***-***	***3.2***
Associates:					
Cesi S.p.A.	-	0.1	-	0.3	-
Total associates	***-***	***0.1***	***-***	***0.3***	***-***
Other related companies:					
GSE Group	22.1	0.2	-	-	-
Enel Group	689.9	1.2	-	0.3	-
Eni Group	3.8	0.1	-	0.1	-
Ferrovie Group	1.7	-	3.6	0.1	-
Total other related companies	***717.5***	***1.5***	***3.6***	***0.5***	***-***
Pension funds:					
Fondenel	-	-	-	0.1	-
Fopen	-	-	-	0.1	-
Total pension funds	***-***	***-***	***-***	***0.2***	***-***
Total	***717.5***	***1.6***	***3.6***	***1.0***	***3.2***

Company	Statement of financial position					Guarantees*
	Property, plant and equipment	Receivables and other assets		Payables and other liabilities		
€ million	Capitalised costs	Other	Financial	Other	Financial	
De facto parent company	-					
Cassa Depositi e Prestiti S.p.A.	-	-	0.2	-	501.2	-
Total de facto parent company	***-***	***-***	***0.2***	***-***	***501.2***	***-***
Associates:	-					
Cesi S.p.A.	2.8	1.4	-	3.4	-	5.0
CORESO S.A.	-	-	-	0.1	-	-
Total associates	***2.8***	***1.4***	***-***	***3.4***	***-***	***5.0***
Other related companies:						
GSE Group	-	7.6	-	-	-	-
Enel Group	0.6	270.3	-	15.0	-	443.7
Eni Group	-	1.4	-	0.1	-	25.9
Ferrovie Group	-	0.6	-	1.1	-	22.0
ANAS S.p.A.	-	0.5	-	0.2	-	-
Total other related companies	***0.6***	***280.4***	***-***	***16.4***	***-***	***491.6***
Pension funds:						
Fondenel	-	-	-	-	-	-
Fopen	-	-	-	0.2	-	-
Total pension funds	***-***	***-***	***-***	***0.2***	***-***	***-***
Total	***3.4***	***281.8***	***0.2***	***20.0***	***501.2***	***496.6***

* 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 2014, either with third parties or with related parties.

I. NOTES TO THE STATEMENT OF CASH FLOWS

The cash flow generated from **operating activities** in the period amounted to € 171.3 million, which reflects € 764.4 million in cash from operations(self-financing) and € 593.1 million in financial resources generated by the management of net working capital.

Investing activity used net financial resources of € 382.9 million and related mainly for € 365.5 million to investments in property, plant and equipment net of set-up grants received in the period (considering the contribution of the property, plant and equipment of Tamini Trasformatori S.r.l. and subsidiaries, of € 23.9 million net of capitalised borrowing costs of € 16.5 million) and for € 21.5 million to investments in intangible assets.

The net change in cash flows from financing activities relating to shareholders' equity decreased of € 261.3 million due to the payment of the balance on the 2013 dividend to the shareholders of the Parent. Consequently, the financial resources used in investing activities and the remuneration of equity led to total financial requirements of € 644.2 million in the period, part of which was covered by the cash flows generated by operating activities (€ 171.3 million) and the remainder by recourse to new debt (€ 530.4 million) deriving mainly from drawing down an EIB loan of € 570.0 million in June.

L. SIGNIFICANT EVENTS SUBSEQUENT TO 30 JUNE 2014

At the reporting date of the present Interim Financial Report we can note no significant events subsequent to 30 June 2014.

Certification of the consolidated interim financial statements under the terms of Art. 81-ter Consob Regulation No. 11971 of 14 May 1999, and subsequent amendments and additions

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 Matteo del Fante, 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 2014.

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 scope of consolidation.

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

Rome, 24 July 2014

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

Report of the Independent Auditors

INDEPENDENT AUDITORS' REPORT ON THE REVIEW OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2014

To the Shareholders of
Terna SpA

1 We have reviewed the condensed consolidated interim financial statements of Terna SpA and its subsidiaries (Terna Group) as of and for the six months period ended 30 June 2014 comprising the statement of financial position, the income statement, the statement of comprehensive income, the statements of changes in shareholders' equity, the statement of 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 applicable to interim financial reporting (IAS 34), 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 no. 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 the 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 derived from 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 16 April 2014 and 30 July 2013, respectively.

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 as of and for the six months period ended 30 June 2014 have not been prepared, in all material respects, in accordance with the international accounting standard applicable to interim financial reporting (IAS 34), as adopted by the European Union.

Rome, 31 July 2014

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

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