2012

Annual Report

Terna S.p.A. and the Terna Group

Terna

Terna is a leading grid operator for energy transmission. The Company manages electricity transmission in Italy and guarantees its safety, quality and affordability over time. It ensures equal access conditions for all grid users. It develops market activities and new business opportunities with the experience and technical expertise acquired in managing complex systems. It creates value for shareholders with a strong commitment towards professional excellence and with a responsible approach towards the community, fully respecting the environment it operates in.

2012

Annual Report

Terna S.p.A. and the Terna Group

transmitting ENERGY

Terna

A useful grid for the Country

transmitting VALUE

Terna

A useful grid for the Country

Contents

Chairman’s message

Dear Terna’s Shareholders and Stakeholders,

once again this year we are presenting you a Financial Statement that confirms the capability of this Group to grow and produce excellent results. A capability which we are all the more proud of because it involves, for the role that Terna holds in the electric system, positive effects for the country, tested during a prolonged period of continuing and increased economic, political and social crisis.

Investments exceeded Euro 1,200 million for the second consecutive year, a record level which was achieved partly thanks to the constant, profuse commitment of everyone involved to identify localisation solutions compatible with the requirements of the territory whilst also respecting the environment. The grid development activity, which is carried out with ever closer attention to sustainability, sense of responsibility and respect for the stakeholders, allows us today to achieve several objectives simultaneously: provide the country with efficient transmission infrastructures in line with the requirements of the production system, create employment with over 150 sites open in Italy, and contribute to reducing the CO2 emissions of the electric system. All this with realisation costs systematically lower than the economic benefits generated for the system. The environmental restoration programme carried out in the Gran Sasso Park in Abruzzo, in cooperation with the WWF is just one of many examples.

Responsible behaviour and a relationship of trust with the stakeholders are both the foundation and objectives of our business, as well as a way of taking care of future generations. By no coincidence, the reorganisation of the Group, implemented in 2012, entailed the adoption of the Code of Ethics by all the companies, in order to guarantee the widespread sharing of our principles and values.

Listening to the opinions of our stakeholders also feeds into the production of new proposals, paths to follow and possible improvements and innovations. We believe that listening and dialogue are valuable and irreplaceable instruments. Among the many discussions held last year, those relative to the Grid Development Plan are particularly notable: the presentation organised by the Authority for Electricity and Gas with the sector operators and the meetings with the consumer associations requested by Terna were important opportunities for discussing and understanding the positions of the stakeholders.

On the internal front, we took care as always of the reinforcement of skills through substantial investment in training, only marginally slowed down by the aforementioned organisational changes. In 2012, we inaugurated the new Campus, our company university established in an electricity station at the gates of Rome (in a building originally intended for maintenance), restructured and equipped with the latest technologies, allowing better organisation and use of training courses. The teaching positions are held by expert employees, guaranteeing continuous training oriented at the dissemination of the specific technical knowledge of Terna, fundamental during a phase of generational turnover. This turnover involves the insertion of young employees into the group’s workforce, including a growing component of female workers, with an increasing presence in managerial positions, and contributes to maintaining professional excellence.

2012 was once again a year of successes, which the strategic objectives of the Group project forward into the coming years. Our continuous commitment to process improvement and the capability of creating value for the shareholders and all stakeholders, allow us to confidently face future challenges. Confidence which concerns Terna first of all, and, we hope, the whole country.

The Chairman

LUIGI ROTH

Luigi Roth

Letter to Shareholders

Dear Shareholders,

We close 2012 with important results; the record level of investments and the proposed dividend, which not only testify to the professional excellence of the Terna team but also to a constant attention to the creation of value, which assumes a particular significance in today's challenging economic climate.
This eighth consecutive year of growth is very gratifying for the work performed to the benefit of the electrical system, the country and our shareholders.
Thanks to an **innovative strategic approach** and a **level of competence unique in the sector**, we were able to combine the traditional business, oriented towards producing concrete benefits for the Italian electrical system, with an entrepreneurial spirit which has enabled the development of Non-Traditional Activities that have a positive contribution to the Group's results.

The milestones which were reached also received important recognition abroad. On 11 March, Terna received **the prestigious "International Utility Award 2013"** from the American Edison Electric Institute, a recognition which crowned us the best of the European companies in the sector in terms of Total Shareholder Return in the last three years. This award allows Terna, which already in 2010 had earned the same recognition for the 2007-2009 three-year period, to be **at the top of the European electrical utilities classification during the 2007-2012 period**. This success proves the capacity to create value for the Terna shareholders, in addition to excellence in the management of the Electrical Transmission Grid in Italy.

Electrical infrastructures are a priority for the country, also from the European and Mediterranean standpoint, and constitute a fundamental driving force for growth, development and employment. With 6.5 billion already invested in concrete projects by Terna since 2005, there is tangible proof that we can benefit both the community our own company and shareholders. The **2012 results** are increasing in all the principal indicators.
Consolidated revenues total Euro 1,806 million, representing an increase of 10.4% compared to 2011, partly thanks to the contribution of the Non-Traditional Activities worth Euro 86 million. The Gross Operating Margin reached Euro 1,390 million, of which Euro 64 million referable to Non Traditional Activities, an increase of 13% compared to the preceding financial year. The Group Net Profit came to Euro 464 million, an increase of 5.5% compared to the 2011 result which included Euro 113 million resulting from discontinued operations. Consolidated investments of the Group came to Euro 1,235 million, an increase of 0.5% compared to the 1,229 million in 2011, and set a new record level in the history of Terna.

In line with the dividend policy, and thanks also to the contribution of the Non-Traditional Activities, we propose a total **dividend** for the 2012 financial year of 20 euro cents per share.

We have established ambitious objectives again in the **new 2013-2017 Strategic Plan**, which involve the development of the grid also by introducing new technologies, such as accumulation systems.
In the next 5 years, we anticipate investing Euro 4.1 billion in Traditional Activities, regulated by the Authority for Electricity and Gas, to improve safety and modernise the Electricity Grid, of which about 300 million will be allocated to the construction of accumulation systems.

Looking at the medium-long term future, the 2013 Development of the National Transmission Grid confirms investments of Euro 7.9 billion. The priorities of the Plan are directed at increasing the interconnection capabilities of the foreign electric borders and the reduction of inter zone congestion, between the market zones or resulting from the use of renewable plants.
As regards Non Traditional Activities, we anticipate completing the business model, through the consolidation and the development of service activities in the context of engineering, O&M and fibre optic housing, to which an additional potential could be added, not included in the Plan forecasts.
The objectives of the next five years also anticipate a reinforcement of profitability and maintenance of a solid capital structure, as a guarantee of sustainable growth over time.
The dividend policy has been confirmed in the new Plan, which anticipates a basic coupon resulting from Traditional Activities, amounting to 19 euro cents per share, in addition to the contribution of Non-Traditional Activities (payout of 60% on results).

Completing the renewal and the strengthening of the National Transmission Grid, and exploring new business opportunities in Non-Traditional Activities: **on this double strategic track we will continue to pursue efficiency, safety and lowering the cost of the electricity system, to the benefit of all, businesses and citizens, and the creation of value for our shareholders to whom, we are certain, we will continue to give satisfaction after almost a decade of success.**

The CEO
FLAVIO CATTANEO

Notice of Call
Call of ordinary and extraordinary Shareholders' Meeting

The ordinary Shareholders' Meeting of TERNA S.p.A. has been convened in Rome, at TERNA's Auditorium in Piazza Giuseppe Frua no. 2, for its ordinary session and extraordinary session in a combined session for May 14, 2013 at 4 p.m. to discuss and resolve on the following

Agenda

Ordinary Session

1. Financial Statement as of December 31, 2012. Reports by the Board of Directors, the Board of Statutory Auditors and the Independent Auditors. Related resolutions. Presentation of the Consolidated Financial Statement as of December 31, 2012;
2. Allocation of the net income of the fiscal year;
3. Annual Report on Remuneration: consultation on the Remuneration Policy pursuant to Article 123 *ter*, paragraph 6 of Legislative Decree no. 58/98 (Consolidated Law on Finance).

Extraordinary Session

1. Amendments to Art. 9.1 and 14.3 of the Corporate Bylaws, consequent to the provisions introduced by Italian Legislative Decree no. 91 dated June 18, 2012.

Reports and documentation

The illustrative reports by the Directors on the items on the agenda, required by governing rules will be made available to the public at the Company head office according to the following timetable:
- by April 14, 2013, the report concerning items 1 and 2 of the agenda for the ordinary Shareholders' Meeting;
- by April 23, 2013, the reports concerning item 3 of the agenda for the ordinary Shareholders' Meeting and the only item on the agenda for the extraordinary Shareholders' Meeting.

Documents submitted to the Shareholders' Meeting will be made available to the public at the Company head office in the terms provided for by the rules in force.

The reports and documentation relating to the Shareholders' Meeting will also be published on the Company's website (www.terna.it - "Investor Relations") and made available with the markets' management company Borsa Italiana S.p.A., as required by Consob notice no. DME/12027454 of April 5, 2012, and may also be consulted on Borsa Italiana S.p.A.'s website (www.borsaitaliana.it). Shareholders and non-shareholders entitled to participate in the Shareholders' Meeting have the right to obtain copies.

Right to supplement the agenda and presentation of new resolution proposals

Shareholders who, also as a group, represent at least one fortieth of the share capital with voting rights, may ask, pursuant to and in the modes pursuant to Article126 *bis* of Legislative Decree no. 58 of February 24, 1998 (TUF), within ten days from the publication of this notice (namely by April 22, 2013), to add subjects to be discussed, indicating the additional proposed subjects in the request, or present new resolution proposals on subjects already itemized in the Shareholders' Meeting agenda (without prejudice however to whoever has voting rights to present resolution proposals at the Shareholders' Meeting in an individual capacity).

The request must be submitted in writing and may be in the form of correspondence or by electronic mail, and must be accompanied by information making it possible to identify the party presenting the above, and indicating further, wherever possible, a telephone contact, and must reach TERNA S.p.A. by the deadline set out above (namely April 22, 2013), either by being brought to TERNA S.p.A. at its head office (attention: Legal and Corporate Affairs Management - TERNA S.p.A. Group Corporate Affairs), or sent by mail or fax to +39 06 8313 8218, or by e-mail or certified electronic mail to the following certified e-mail address: Assemblea2013@pec.terna.it.

Within the same deadline and using the same modes indicated to present the question, the Board of Directors of TERNA S.p.A. must also receive a report that indicates the motivation for the resolution proposal on the new subjects that are being proposed to be dealt with, or the motivation relating to the additional resolution proposals presented on matters already itemized on the agenda.

Please remember that pursuant to law, supplements to the agenda are not allowed for subjects, which the Shareholders' Meeting will be resolving upon according to the law and based on Directors' proposals or on the basis of a project or a report prepared by them that is different from the one dealing with the subjects in the agenda.

In the event of supplements to the agenda and/or the presentation of new resolution proposals, notice shall be given with the same modes of publication as this notice, at least fifteen days before the one scheduled for the Shareholders' Meeting (namely by April 29, 2013). At the same time, the additional resolution proposals on subjects already on the agenda and the reports presented by the shareholders shall be made available to the public, using the same modes indicated for the Directors' reports on subjects on the agenda, accompanied by any assessments made by the Board of Directors.

Share capital

Please note that as of the date of this notice, and pursuant to Article 5.1 of the Bylaws published in the website of the Company (www.terna.it - "Investor Relations") (the "Bylaws"), the share capital is of 442,198,240 euros, completely paid-in and divided into 2,009,992,000 ordinary shares having a value of 0.22 euros each, each of which, pursuant to Article 6.1 of the Bylaws, entitles to one vote. The Company does not hold any own shares.

The right to participate in the Shareholders' Meeting and exercising the right to vote

The right to participate in the Shareholders' Meeting and exercise the right to vote, according to the provisions in Article 10.1 of the Bylaws, is governed by applicable regulatory standards in force. Pursuant to governing Article 83 *sexies* of the TUF, such right is demonstrated by notification to the Company by an intermediary, in compliance with its own accounting records, on behalf of the individual who is entitled to the right to vote, based on evidence related to the close of the accounting day of the seventh open-market day prior to the date set for the Shareholders' Meeting in first call (i.e., May 3, 2013), the so-called "record date".

The credit and debit registrations made on accounts subsequent to said term are not material for purposes of legitimizing the exercise of the right to vote in the Shareholders' Meeting. Therefore, those who appear as owners of the Company shares subsequent to said date will not be allowed to participate and vote.

Communications by intermediaries for participation must be received by the Company by the end of the third open-market day prior to the date set for the first call of the Shareholders' Meeting (i.e., May 9, 2013). There is no prejudice to the entitlement to participate and vote if the Company has received the communications after said indicated term, provided that they are received by the time the Meeting begins on single call.

There are no procedures for voting by mail or by electronic means.

Representation at the Shareholders' Meeting

Ordinary proxy

Each party entitled to participate and vote at the Shareholders' Meeting may be represented by means of a proxy conferred in writing or by means of an electronically signed computer document pursuant to article 21, paragraph 2 of Italian Legislative Decree no. 82 of March 7, 2005, as stipulated under Article 11.1 of the Corporate Bylaws pursuant to governing law provisions and regulations applicable at the time. For this purpose, the proxy form issued upon request of the entitled party by the qualified intermediary can be used, or the proxy form available on the Company's website (www.terna.it - "Investor Relations") or at the head office.

The Company can be notified of the proxy by filing it with the head office (Legal and Corporate Affairs Management - TERNA S.p.A. Group Corporate Affairs) or by mail (to the attention of Legal and Corporate Affairs Management - TERNA S.p.A. Group Corporate Affairs – Viale Egidio Galbani, 70 – 00156 Rome), or e-mail or certified electronic mail to the following certified e-mail address: Assemblea2013@pec.terna.it, or using the section of the Company website (www.terna.it - "Investor Relations"), or fax on +39 06 8313 8218 and the proxy must be received by the Company by the time the Meeting begins. Pursuant to the applicable Art. 135 *novies* of the TUF, as a replacement of the original, the representative may deliver or transmit to the Company a copy of the proxy, also by electronic means, stating under his/her own responsibility that the proxy is in compliance with the original, as well as to the identity of the person issuing the proxy.

Designated Representative Proxy

The proxy may also be granted with voting instructions to Servizio Titoli S.p.A., with head office in Via Lorenzo Mascheroni no. 19, Milan, 20145, appointed by the Company for this purpose as "Designated Representative" pursuant to Article 135 *undecies* of the TUF. In this regard, the specific guided web application prepared and managed by Servizio Titoli S.p.A., which can be accessed on the Company's website (www.terna.it - "Investor Relations"), can be used to fill in the proxy form for the designated representative. The Designated Representative proxy form is also available in a printable version from the website, or from the Company's head office. Proxies may not be conferred to Servizio Titoli Sp.A., unless in its capacity as designated representative of the Company. The Designated Representative proxy must contain voting instructions to all or some of the subjects on the agenda and the original must be given to said Designated Representative by the end of the second open-market day prior to the date set for the Shareholders' Meeting on first call (i.e., by May 10, 2013) at the following address: Servizio Titoli S.p.A. (ref. "Terna S.p.A. Shareholders' Meeting proxy."), Via Monte Gilberto no. 29, 00138 Rome. A copy of the proxy, accompanied by a declaration stating that it is in compliance with the original, can be anticipated to the Designated Representative by the same term by fax at: +39 06 4541 7450 or at the certified e-mail address terna@pecserviziotitoli.it.

A "Designated Representative" proxy is valid only for resolutions proposed at the Shareholders' Meeting for which the person issuing the proxy gave voting instructions. The proxy and the voting instructions are revocable within the same term as hereinabove (i.e., by May 10, 2013), with the manner and terms indicated above.

Right to pose questions on items on the agenda

Pursuant to Article 127 *ter* of the TUF, parties entitled to participate in the Shareholders' Meeting may pose questions on subjects on the agenda also before the Shareholders' Meeting. The questions must be posed in writing and sent to TERNA S.p.A. to its head office (to the attention of Legal and Corporate Affairs Management - TERNA S.p.A. Group Corporate Affairs) by fax at the number +39 06 8313 8218, or by e-mail or certified electronic mail at the certified e-mail address: Assemblea2013@pec.terna.it.
Without prejudice to any other provisions in this notice, whoever intends making use of this right, must send his/her questions to the Company at the latest three days prior to the date of the Shareholders' Meeting (namely by May 11, 2013). In this regard, a specific indication must be given as to the item on the agenda that the proposed individual questions refer to. A response will be provided to the questions received prior to the start of the Shareholders' Meeting at the latest during the shareholders' Meeting itself. The Company may provide a single response to questions with the same content. A response is not due, not even during the Shareholders' Meeting, in the event of questions posed prior to the Meeting, where the information required is already available in the "questions and answers" section of the Company's internet site (www.terna.it - "Investor Relations" section), or when the response has already been published in that section of the Company's internet site. The response will be deemed to have been given during the Shareholders' Meeting, when provided in hard-copy format and made available to everyone entitled to vote at the start of the meeting.

Annual Report on Remuneration

Regarding the third item on the agenda for the ordinary session, please remember that the Meeting, pursuant to and in compliance with art. 123 *ter*, paragraph 6, TUF, is called to resolve in favor or against the first section of "Terna's Annual Report on Remuneration"; this report details the Remuneration Policy adopted by TERNA S.p.A. concerning the remuneration of the members of administration bodies, of general directors and of managers holding strategic responsibilities, as well as the procedures used for adopting and implementing such Policy. As established by the abovementioned provisions, the resolution is not binding.

Other Information

Further information concerning the subjects on the agenda is made available to the shareholders in the Directors' report concerning the respective items on the agenda, as well as in the Bylaws and in governing legislation, which shall be specifically referred to for what is not expressly provided for in this notice.
No provision is made for participating by electronic means in this Shareholders' Meeting.

For the purposes of exercising the company rights mentioned in this notice, please remember that pursuant to Articles 22 and 23, paragraph 1, of the Regulation adopted by the Bank of Italy and by Consob with the provision of February 22, 2008 and subsequently amended by deed of the Bank of Italy/Consob dated December 24, 2010 (hereinafter referred to as the "Bank of Italy/Consob Regulation"), the legitimacy of exercising, also jointly, corporate rights such as: participation in and exercising the right to vote in the Shareholders' Meetings, the right to supplement the agenda and to present new resolution proposals, the right to pose questions on subjects on the agenda, is certified by a communication to the issuer made by the intermediary in compliance with his accounting records for holders.
Pursuant to Article 25 of the Bank of Italy/Consob Regulation, legitimization to rights different from those provided for in Articles 22 and 23 is assessed by certification issued by the intermediary in compliance with his own accounting records.

In order to facilitate the verification of their entitlement to participate in the Shareholders' Meeting, the holders of the right to vote may send documentation demonstrating said entitlement to the Company by mail (Legal and Corporate Affairs Management - TERNA S.p.A. Group Corporate Affairs – Viale Egidio Galbani, 70 – 00156 Rome), also a copy of it or by fax to +39 06 8313 8218, at least two days prior to the scheduled date for the Shareholders' Meeting.
Please note that the offices in charge of personal identification and verification of entitlement to participate in the Shareholders' Meeting will be available on the day of the Shareholders' Meeting, two hours before the Meeting begins.
A service dedicated to Meeting assistance is available to give further information at the following numbers: telephone +39 06 4541 7413 - fax +39 06 4541 7450.
For further information, reference is made to the section on the Company's internet site dedicated to this Shareholders' Meeting (www.terna.it - "Investor Relations" section).

Chairman of the Board of Directors
Luigi Roth

This notice has been published on the Company website at www.terna.it on April 12, 2013 and in extract form in the daily newspaper "Il Sole 24 Ore" on April 12, 2013.
TERNA S.p.A. – Head office in Rome – Viale Egidio Galbani, no. 70
Share Capital 442,198,240 euros fully paid-in
Company Register of Rome, Tax ID code and VAT code no. 05779661007
R.E.A. of Rome no. 922416

Summary of the resolutions of the ordinary and extraordinary Shareholders' Meeting

TERNA S.p.A.'s Shareholders' Meeting met on single call on May 14, 2013 for the ordinary and extraordinary session at Terna's Auditorium in Piazza Giuseppe Frua No. 2 in Rome and in the ordinary session it:

- Approved Terna S.p.A.'s Financial Statement as of December 31, 2012;
- Examined the data of the Terna Group's Consolidated Financial Statements also as of December 31, 2012 that closed with the Group's net profits equal to 463.6 million euros;
- Resolved to allocate Terna S.p.A.'s 2012 net profits, equal to 463,233,413.58 euros as follows:
  - 140,699,440.00 euros to cover the interim dividend paid on November 22, 2012;
  - 261,298,960.00 euros as a final dividend to be distributed in the amount of 0.13 euros for each one of the 2,009,992,000 outstanding ordinary shares to be paid – gross of any withholdings according to the law – on June 27, 2013 with "registration date" of coupon No. 18 on June 24, 2013 (record date ex Art.83-*terdecies* of Legislative Decree No. 58 dated February 24, 1998, the so-called "Consolidated Law on Finance": June 26, 2013);
  - 61,235,013.58 euros as Balance Brought Forward.

In its ordinary session, the Meeting also:

- approved, pursuant to and in compliance with Article 123 *ter*, paragraph 6 of the Consolidated Law on Finance – the first section of "Annual Remuneration Report" that – with reference to the members of administration bodies, to general directors and to other executives with strategic responsibilities – illustrates the Remuneration Policy adopted by TERNA S.p.A. as well as the procedures used for adopting and implementing such Policy.

In its extraordinary session, the Meeting approved changes to articles 9.1 and 14.3 of the Company By-laws, as a result of the provisions introduced by Legislative Decree No. 91 dated June 18, 2012 correcting Legislative Decree No. 27 dated January 27, 2010 implementing the so-called Shareholders' Rights Directive (on the subject of exercising certain rights of Shareholders of listed companies) such as those in Articles 2369 of the Italian Civil Code and 147 *ter* of the Consolidated Law on Finance regarding the calling of the Shareholders' Meeting and the methods for filing lists.

Corporate bodies

Board of Directors

Chairman
Luigi Roth

Chief Executive Officer
Flavio Cattaneo

Directors
Fabio Buscarini
Paolo Dal Pino
Matteo Del Fante
Salvatore Machì
Romano Minozzi
Francesco Pensato
Michele Polo

Board Secretary
Ernesto Calaprice

Board of Auditors

Chairman
Luca Aurelio Guarna

Statutory auditors
Alberto Luigi Gusmeroli
Lorenzo Pozza

Alternate auditors
Stefania Bettoni
Flavio Pizzini

Auditing Company
PricewaterhouseCoopers S.p.A.

Powers

Corporate Governance
Terna S.p.A.'s governance structure is based on the traditional administration and management model and is in line with the provisions of Italian legislation on companies with listed shares. Terna adheres to the Governance Code for listed companies published by the Corporate Governance Committee promoted by ABI, Ania, Assonime, Assogestioni, Borsa Italiana and Confindustria, as updated most recently in December 2011 (available on the Borsa Italiana S.p.A website at http://www.borsaitaliana.it) and, in 2012 approved and implemented changes to the Corporate Governance system to meet its commitments provided by the Code as set out in the change implementation timeline provided by the transitory rules. For further details on the governance and powers structure, please see the "Report on corporate governance and ownership structures", published with the Terna and Terna Group Annual Report.

Board of Directors
The Board is vested by the articles of association with the broadest powers for the ordinary and extraordinary management of the Company, and specifically has the power to carry out all the actions it deems advisable to implement and attain the corporate purpose, with the sole exception of those actions that are reserved to the shareholders by law and the articles of association[1].

Committees within the Board
Within the Board of Directors, the **Remuneration Committee** and the **Internal Control Committee** have been set, both with proposal-making and advisory functions, and made up of at least three Directors, the majority of which independent, pursuant to the Governance Code[2]. In implementation of the provisions of the new Governance Code for listed companies published by the Corporate Governance Committee promoted by ABI, Ania, Assonime, Assogestioni, Borsa Italiana and Confindustria, December 2011 edition, the Board of Directors, during the meeting of 19 December 2012, approved the

(1) For further details please see the "Report on corporate governance and ownership structures", published with the Terna and Terna Group Annual Report.
(2) For further details please see sections VI, VIII and X of the "Report on corporate governance and ownership structures", published with the Terna and Terna Group Annual Report.

necessary changes to the scope of the existing Committees; consequently, the Internal Control Committee will now be known as and have the scope of the **Control and Risk Committee** required by the new Corporate Governance Code. Still in the context of the Board of Directors, the **Related Party Transactions Committee** was established, as required by the “Regulations regarding related party transactions” issued by CONSOB in March 2010[3].

Chairman of the Board of Directors

The Chairman is vested by the articles of association with the powers to represent the Company legally and to sign on its behalf, presides over shareholders’ meetings, convenes and presides over the Board of Directors, and ascertains that the Board’s resolutions are carried out; he is also vested with the powers attributed to the Chairman by law and by the Corporate Governance Code the company has adopted[4].

Chief Executive Officer

The Chief Executive Officer is also vested by the articles of association with the powers to represent the Company legally and to sign on its behalf, and in addition is vested by a Board resolution with all powers for managing the Company, with the exception of those that are otherwise assigned by law or the articles of association or reserved for the Board of Directors[4].

(3) For further details please see Section XII of the “Report on corporate governance and ownership structures”, published with the Terna and Terna Group Annual Report.
(4) For further details please see the “Report on corporate governance and ownership structures”, published with the Terna and Terna Group Annual Report.

Terna Group’s management

Giuseppe Saponaro
Finance, Control and M&A Director
Terna

Giuliano Frosini
Public Affairs Director
Terna

Flavio Cattaneo
Chief Executive Officer

Luigi de Francisci
Regulatory Affairs Director Rete
Terna

Giuseppe Lasco
Security and Services Director
Terna

Stefano Conti
Grid Development Director
Terna Rete Italia

Giovanni Buttitta
External Relations and Communication Director
Terna

Elisabetta Colacchia
CEO’s Staff Manager
Terna

Cesare Ranieri
Resources and Organisation Director
Terna

Gianni Armani
Chief Executive Officer
Terna Rete Italia

Luigi
Roth
Chairman

Alessandro
Fiocco
Procurement
Director
Terna

Fulvio
De Luca
Internal Audit
Manager
Terna

Francesco
Del Pizzo
Chief Executive
Officer
Terna Plus

Pier Francesco
Zanuzzi
Dispatching
and Energy
Operation Director
Terna Rete Italia

Filomena
Passeggio
Legal and
Corporate
Affairs Director
Terna

Carlo
Sabelli
Real Time
Manager
Terna Rete Italia

Luciano
Di Bacco
Administration
and Financial
Statements
Director

Evaristo
Di Bartolomeo
Engineering
Director
Terna Rete Italia

2012

Directors’ Report

Contents

Director's Report

Introduction

Terna and the financial markets

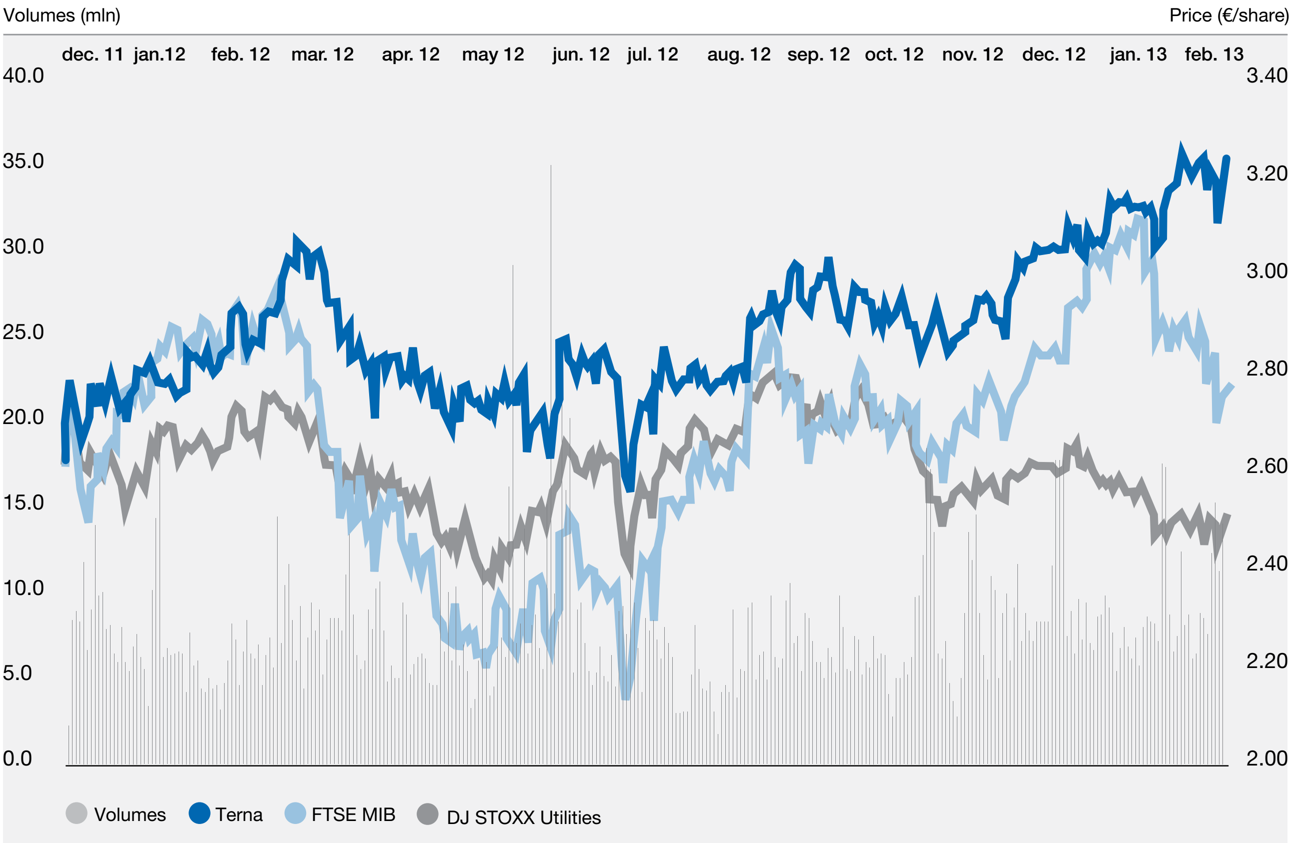
FINANCIAL INDICATORS		31 December 2012
Weight of Terna shares[(1)]		
> in the FTSE MIB index		**2.14%**
> in the FTSE Italy All Share index		**1.78%**
Rating		
Standard & Poor's	*Outlook*	**Negative**
	M/L term	**A-**
	Short-term	**A-2**
Moody's	*Outlook*	**Negative**
	M/L term	**Baa1**
	Short-term	**Prime-2**
Fitch	*Outlook*	**Negative**
	M/L Term [(2)]	**A**
	Short-term	**F1**

(1) Source: Bloomberg. Data at 31 December 2012
(2) Issuer Default Rating

Performance of Terna stock

2012 saw European stock markets influenced by the euro zone crisis and fears of the negative impact on the real economy of restrictive fiscal policies implemented by governments to manage financial commitments. This climate of uncertainty was improved by the ECB's statement in August on the possibility of using non-standard monetary policy measures in order to reduce the yield spread between bonds from peripheral countries and the German ones.
In the US, the signs that the recession was being contained and the agreement reached to avoid the "Fiscal Cliff", which could have had a negative impact on the country's growth, had a positive influence on the annual performance of the Dow Jones (+7.3%). In spite of high volatility, the main European markets ended the year in positive territory, with the exception of Madrid (-4.7%) which suffered the effects of the credit institution crisis. Against this background, the FTSE-Mib index at the Milan Stock Exchange recorded progress of 7.8%. On a sector level, the DJ Utilities index closed almost even (-0.7%), with regulated securities outperforming those linked to generation. In this context, Terna stock (+16.1%) outperformed its main peers and the sector, with a performance double that of the FTSE-Mib. Terna performance also excelled on a TSR (Total Shareholder Return) level, with an overall return per shareholder of 24.9% (over double that of the FTSE-Mib (+12.2%). The average quantity of stock traded amounted to a volume of around 7.5m. Finally, in the first two months of 2013, the stock increased by around 6%, which is better than the market (-2.2%) and the sector (-3.6%).

PERFORMANCE OF TERNA SHARES AND THE FTSE MIB AND DJ STOXX 600 UTILITIES INDEXES



Source: Bloomberg. Data at 28 February 2013.

Ownership

At the date on which these financial statements are prepared, the share capital of Terna S.p.A. amounts to €442,198,240, represented by 2,009,992,000 ordinary shares, with a par value of €0.22 each.

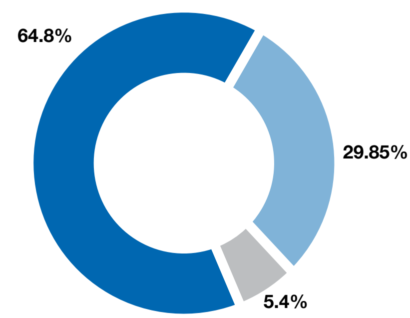
Based on the register of shareholders and other information available at the date of preparation of these financial statements, the ownership of Terna S.p.A. is analysed as follows:

- Cassa Depositi e Prestiti S.p.A. (CdP)[5] 29.85%
- Romano Minozzi[5, 6] 5.4%
- Institutional and Retail Investors 64.8%

SHAREHOLDING STRUCTURE BY TYPE

Cassa Depositi e Prestiti S.p.A.	29.85%
Romano Minozzi	5.4%
Institutional Investors + Retail	64.8%

Total 100%

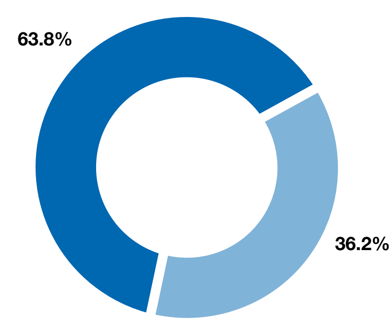


Based on periodic surveys carried out by the Company, it is believed that 64% of the shares of Terna S.p.A. are held by Italian investors (CdP 29.85%, Retail Investors 26.5% and Institutional Investors 7.5%), with the remaining 36% being held by Foreign Institutional Investors, primarily within Europe and America.

SHAREHOLDING STRUCTURE BY GEOGRAPHIC AREA

Italian Investors	
of which Cassa Depositi e Prestiti S.p.A.	29.9%
of which Retail	26.5%
of which Institutional Investors	7.5%
Foreign Institutional Investors	
of which UK	6.0%
of which USA/CANADA	6.2%
of which Europe (ex UK)	15.7%
of which Others	8.2%

Total 100%



Socially Responsible Investors (SRI)

At the end of 2012, 78 investors interested in ethical matters held Terna share capital, holding a total share capital of 11.8%. For comparison, there are 66 SRIs (Socially Responsible Investors) - investors who have invested in Terna as part of a sustainable investment approach based on ESG aspects (Environmental, Social, Governance) - holding a portion significantly up on the same analysis run in December 2010. Today they represent 5.2% of the floating capital and 8.4% of shares held by Institutional Investors (the figures for 2010 were 3.7% and 6.5% respectively).

(5) Shareholders which, based on available information and communications received from CONSOB, hold an interest in the share capital of Terna S.p.A. which is over the relevance thresholds indicated by CONSOB Resolution no. 11971/99

(6) Shares held directly and indirectly

The Terna Business Model

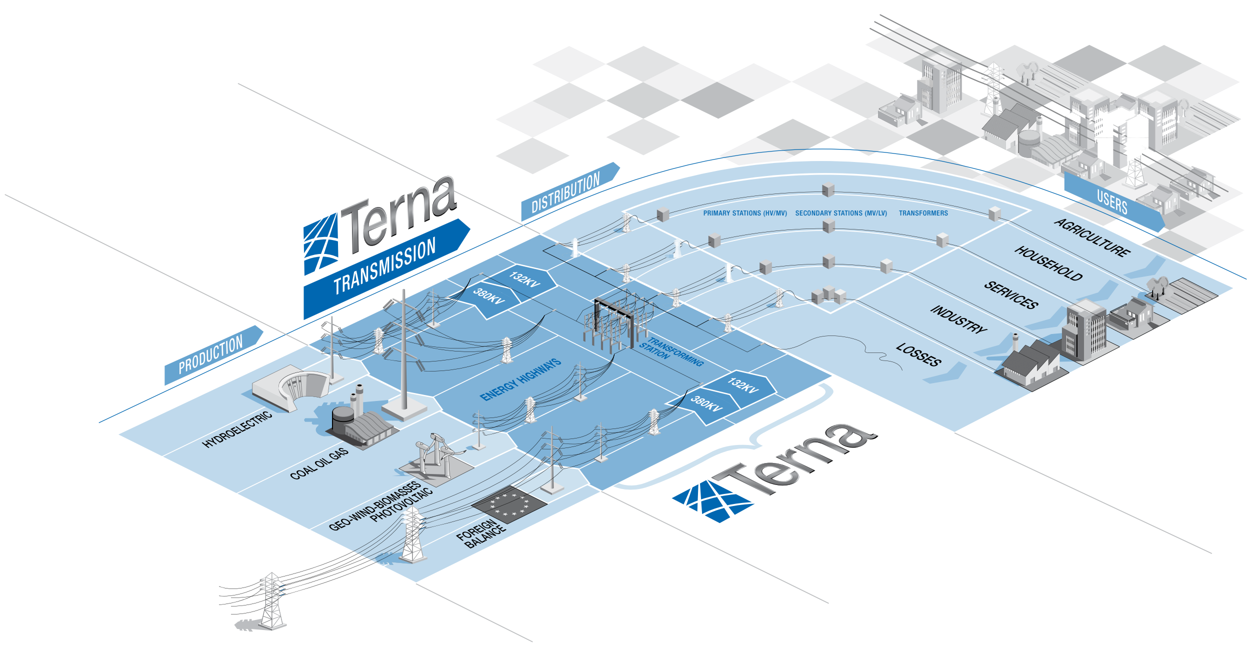
Terna is Europe's largest independent grid operator for the transmission of electricity (Transmission System Operator - TSO) and is sixth worldwide in terms of kilometres of lines managed.
The Terna Group owns the Italian National Transmission Grid (NTG) with more than 57,400 kilometres of high voltage lines (more than 63,400 km of three-phase power lines), 468 transformation stations and 22 interconnection lines with foreign countries.
In Italy, Terna acts as TSO under a government concession. It is responsible for transmitting and dispatching electricity along the high-voltage and very-high-voltage grid throughout the whole of Italy. Terna is also responsible for planning, constructing and maintaining the grid.

Terna's mission is:

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

The Italian electrical system chain consists of four segments: the production, transmission, distribution and sale of electricity.

In this chain, Terna is in charge of managing the electrical system through operating the high voltage grid, maintaining the infrastructure and developing the grid (planning and construction).



The main stages of the transmission service are as follows.

Operation

In grid operation, it is essential to **ensure a balance of deliveries and withdrawals at all times**, i.e. between the supply of energy, produced domestically and imported, and consumption by end users. This function is called dispatching.

Preparation to operation in real time includes the **programming of unavailability** (of the grid or production plants) with different time frames, forecasting domestic electricity demand, comparison in coherence with the programme of production determined as the result of the free energy market (Power Exchange and off-Power Exchange contracts), the acquisition of resources for dispatching and the verification of transits of power for all transmission grid lines.

During the **real time control** stage, the National Control Centre, coordinating other centres on the territory, monitors the electrical system and carries out dispatching, intervening, where differences are seen in the structure forecast for production plant failures or grid elements failures or for a trend in demand that differs from forecasts, with commands to producers and remote operation centres, in order to modulate the supply and grid structure. To avoid the risk of grid degeneration and extensive power failures, it may intervene in an emergency, also to reduce the demand.

Grid development planning

The analysis of electricity flows on the grid and the preparation of demand forecasts enable Terna to **identify the critical issues on the grid and the new works that need to be developed** in order to guarantee the suitability of the system with respect to the coverage of demand, operating security, the reduction of congestion and improved quality and continuity of service.

The new works to be developed are included in the Development Plan of the National Transmission Grid presented every year to the Ministry for Economic Development for approval; Terna then follows the authorisation process, from the prior agreement of local entities through to the authorisation to develop the works.

Finally, Terna develops, by means of an analysis of the grid situation, the **very best transmission grid connection methods** for all operators so requesting for their plants.

Construction

Terna defines the engineering standards for the plants connected to the grid. More specifically, it defines the construction standards and performance required of equipment, machinery and components of long-distance power lines and stations.

In terms of the construction of the plants, **Terna prepares projects for constructing the authorised works**. More specifically, it defines the need for external resources and the budget for the projects, establishing the working methods and technical specifications of components and materials to be used in the construction of new lines or stations, also adopting innovative methods.

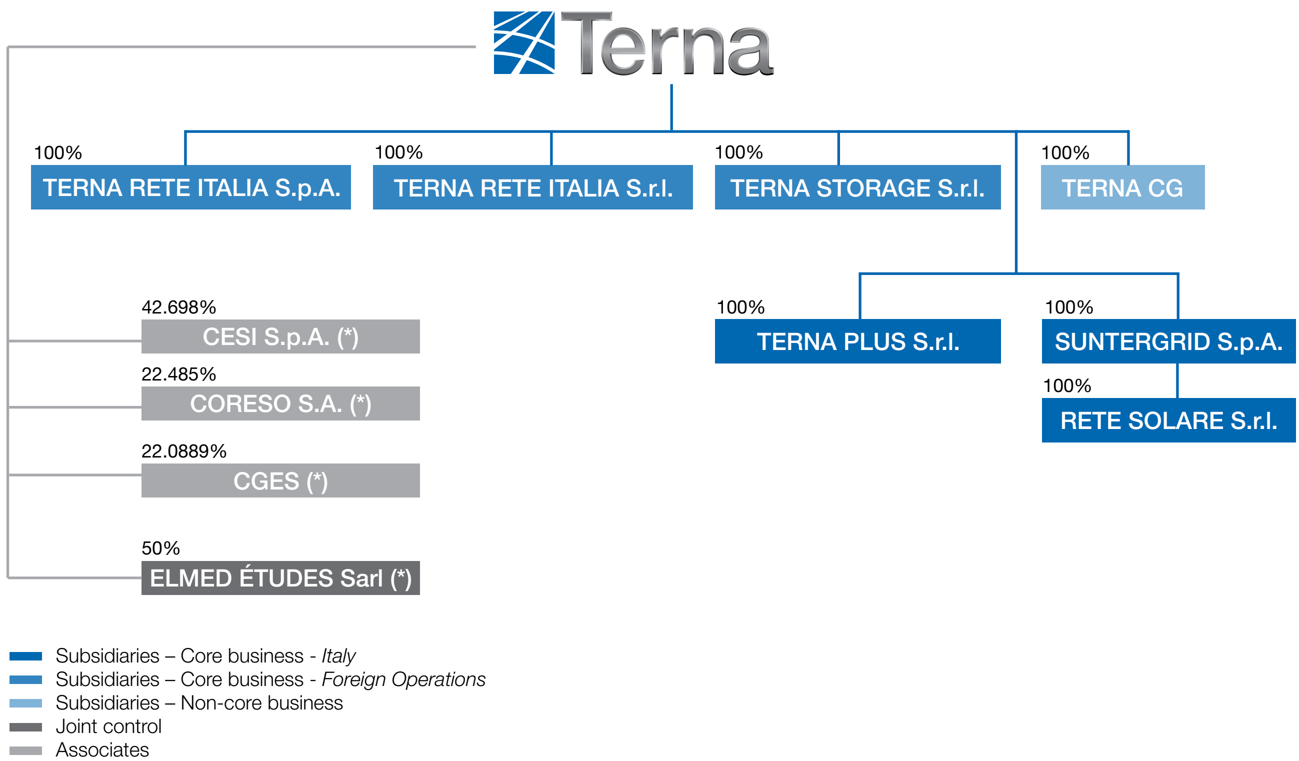
New plant construction is generally outsourced.

Maintenance

Terna **maintains long-distance power lines and stations** through eight Transmission Operative Areas by which most - just under 70% - of the Company's human resources are employed.

The Terna Group

The Group structure at 31 December 2012:



(*) Companies measured using equity method

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

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

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

Foreign Operations
- Terna Crna Gora d.o.o.

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

Reorganisation of the Terna Group

From 1 April 2012, the Terna Group has been using an organisational structure which involves, in implementation of the resolution of the Terna S.p.A. Board of Directors of 9 November 2011 and in line with the strategy presented in the Strategic Plan, the structuring into a guiding and coordinating parent company and the operative companies described above. Of these, we would particularly mention:

- **Terna Rete Italia S.p.A.** (subsidiary established by Terna S.p.A. on 23 February 2012) is delegated, through a business unit rental agreement with a five-year term, to perform all the core businesses of operation, ordinary and extraordinary maintenance of the NTG, management and performance of work on developing the grid, connected with the implementation of the provisions of said Agreement and on the basis of guidelines laid down in the Development Plan;
- **Terna Plus S.r.l.** is the operating company dedicated to activities for carrying out projects which are not core business and which has a streamlined and flexible operating structure.

The Group's new organisational structure set out above allows a greater focus on the core business and new business which may be developed, and a better efficiency and effectiveness of the operating/management processes attributed to the responsibility of the respective subsidiaries, in compliance with the Parent Company's strategic guidelines.

Associates

CESI leads the market of the testing and certification of electromechanical equipment and advisory services on electrical systems; it covers all stages of the life cycle of the electrical system and offers electrical system companies (generation, transmission and distribution), manufacturers of electrical and electronic equipment, major electricity users and local and national public administrations, a full range of services seeking to solve problems connected with the production processes of the whole electrical energy sector.

CORESO is a Belgian service company with its headquarters in Brussels; Terna joined the ownership structure in November 2010 with an equity interest of 22.485%. The ownership structure of the company includes the operators of France (RTE), Belgium (Elia) and Great Britain (National Grid), each holding an equal share to that of Terna, and the German operator, 50Hertz Transmission, with 10%. CORESO prepares daily forecasts of and analyses in real time energy flows in Central-Western Europe, identifying possible critical issues and duly informing the TSOs concerned in a timely manner.

CrnoGorski Elektroprenosni Sistem AD ("CGES") is the Montenegro TSO of which Terna became a shareholder with 22.09% of the capital following the approval by the shareholders' meeting of CGES of the capital increase reserved to Terna. The agreement represents the end point of a process of industrial and country cooperation and is part of the intergovernmental agreements between Italy and Montenegro which were initiated on 19 December 2007 and sanctioned by the signing of a strategic partnership agreement in November 2010, for the construction of a new submarine electrical interconnection and the implementation of partnerships with national transmission operators.

Joint ventures

ELMED ÉTUDES is a special purpose entity, held equally by Terna and by the Tunisian electrical company STEG, which is developing Elmed, an integrated electricity production project in Tunisia, from conventional and renewable sources, and transport towards Italy through an underwater interconnection. Production rights will be assigned by means of an international competition.

Economic-financial performance, sustainability indexes and recognitions

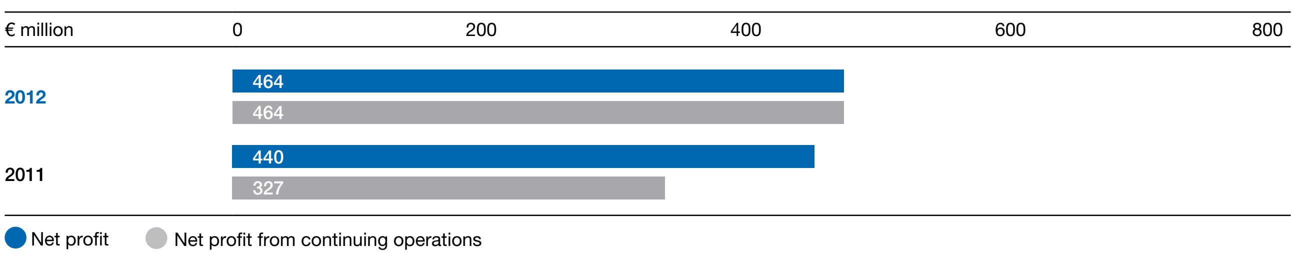
Main 2012 economic-financial results

The 2012 fiscal year, which coincided with the beginning of the new regulation period 2012-2015, saw application of Resolutions 199/11, 204/11 and 197/11 with which the Authority for Electricity and Gas established the remuneration for providing electricity transmission, distribution, metering and dispatching services and the regulation of transmission service quality.
In addition, as described above, the Terna Group corporate/operational reorganisation process stood out in 2012. This was aimed at overseeing in a strategic manner the business opportunities deriving from the business plan and maximising efficiency in managing the business.

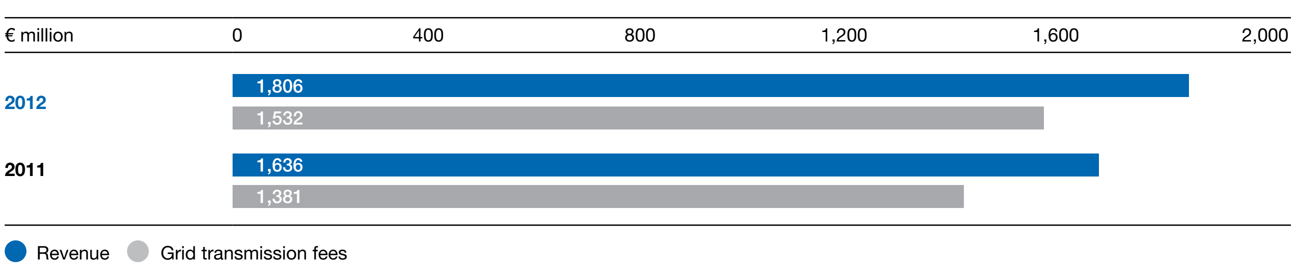
The amounts discussed below have been derived from the reclassified schedules included in the “Terna Group performance and financial position” section of this Directors’ Report. The footnotes to these schedules provide a reconciliation of these amounts with the Consolidated financial statements.

Comprehensive Group results

The Consolidated Financial Statements as at and for the year ended 31 December 2012 show a **net profit** of €464 million, **entirely attributable to the Group and with reference to continuing operations**.



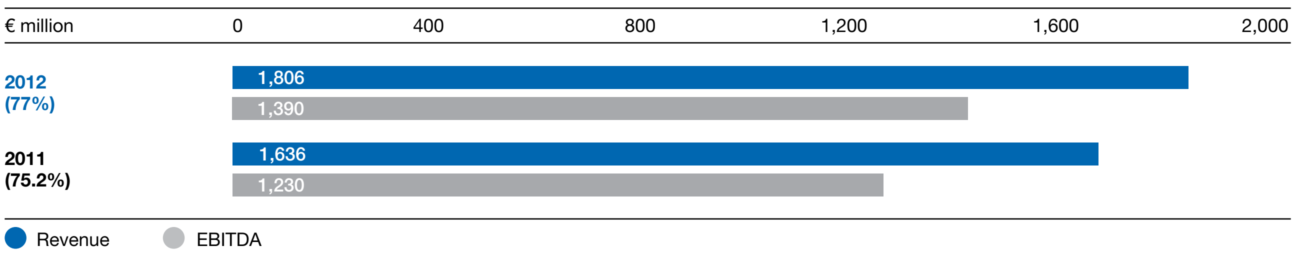
Revenue amounts to approximately €1,806 million, of which €1,532 million refers to the transmission fee with an increase of €170 million (+10.4%) over 2011. More specifically, the transmission fee refers to the Parent Company for approximately €1,344 million and to the subsidiary Terna Rete Italia S.r.l. for approximately €188 million.



Operating expenses amounted to approximately €416 million, of which €197 million relating to personnel expenses and €139 million to services. **EBITDA** (gross operating profit) for the year stands at €1,390 million, rising by €160 million (+13%) over €1,230 million of 2011.

The ***EBITDA margin*** went from 75.2% in 2011 to 77% in financial year 2012.

EBITDA MARGIN

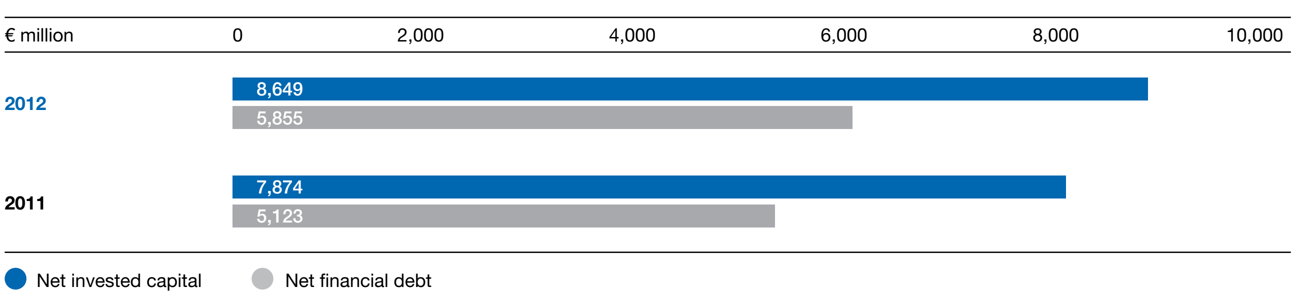


EBIT (Operating Profit) came out at €969 million, after **depreciation and amortisation** charges of €421 million, of which €371 million recognised by the Parent Company and €49 million by the subsidiary Terna Rete Italia S.r.l..
The **financial position** for the financial year, with a negative balance amounting to €93 million, mainly attributable to the Parent Company, for €90 million, posts a decrease amounting to €28 million (-23.1%), mainly traceable to the reduction in interest rates which more than offset the charges relating to the higher level of net debt compared to 2011.

Income tax charged to the year was €412 million, up €24 million (+6.2%) compared with the previous year, owing essentially to the increase in the net profit for the year.

As a result, the **net profit for the year from continuing operations** amounts to €464 million, up €137 million on the *net profit for the year from continuing operations* for 2011 (+41.9%) and also up €24 million (+5.5%) on the previous *net profit for the year*, which includes €113 million of **net profit from discontinued operations and assets held for sale**, relating to extraordinary transactions in the photovoltaic sector and the release of the guarantee connected with the sale of the Brazilian subsidiaries.

Net invested capital of €8,649 million is financed through shareholders' equity for €2,794 million and through **net financial debt** for €5,855 million.



The **debt/equity ratio** stands at 2.10.

Total investments made by the Group in 2012 amounted to €1,235 million (of which 28 million in non-core business) up 0.5% from €1,229 million recorded in 2011.

Sustainability indexes and recognitions

Terna's commitment to improving its ESG (Environmental, Social, Governance) performance was positively acknowledged by its sustainability ratings, inclusion on the main international stock exchange sustainability index and the appreciation of socially responsible investors.
During 2012, Terna was confirmed on all the main international stock exchange sustainability indexes.

In particular, note:
- confirmation in the Dow Jones Sustainability indexes (World and Europe);
- inclusion for the second consecutive year in the Gold Class of the "RobecoSAM Sustainability Yearbook 2013", prepared on the basis of the analysis performed by RobecoSAM – Sustainable Asset Management, the sustainability ratings agency that carries out assessments for the Dow Jones Sustainability Indexes. Inclusion in the Gold Class requires a ratings score that must be less than 1% of that of the leading company in the industry;
- confirmation in the FTSE4Good indexes, which bring together the best companies in terms of sustainability performance, on the basis of the analyses of the EIRIS agency;
- confirmation in the STOXX® Global ESG Leaders indexes where, for the second consecutive year, Terna is the only Italian utility company in the three specialised sub-indexes specialising in environmental, social and governance themes (STOXX® Global Environmental Leaders, STOXX® Global Social Leaders e STOXX® Global Governance Leaders).

The Business Plan

On 6 February 2013, Terna approved the Terna Group's Business Plan for the period 2013-2017.
Below are the guidelines:
- **core business:** over the next five years, €4.1 billion will be invested in safety and to modernise the electricity grid, of which 83% will be destined for the development of the National Transmission Grid. Of the €4.1 billion, around 300 million will be destined for the creation of accumulation systems. The Plan confirms, for the medium and long term, investments of €7.9 billion, focused on increasing the interconnection capacity of electricity borders with foreign countries and reducing intra-zonal congestion between market areas or deriving from the use of renewable plants;
- **non-core business:** the Group's strategy has permitted the consolidation of a €400 million pipeline, developing business in the field of engineering, O&M and fibre optic housing to which a further potential €900 million could be added in the context of the plan;
- **improved margins (*EBITDA* margin)**: increased revenues and cost control will allow for improvement of profitability. *EBITDA* at the end of the period will be over 80%;
- **a sound financial structure:** the plan allows the increase in financial debt to be reduced by €600 million in comparison to the previous plan (1 billion vs 1.6 billion). The capital structure remains solid: during the course of the plan, the ratio between net debt and RAB will remain below 60% in all years of the plan and it is estimated that the ratio of net debt to *EBITDA* will improve and fall below four times at the end of the plan;
- **confirmation of dividends policy:** in line with the announced dividends policy, a basic dividend is envisaged from core business amounting to 19 euro cents per share, in addition to the contribution of non-core business (payout of 60% on results).

Comments on the results and significant events

Significant events

Corporate

Incorporation of new Group companies

As part of the Terna Group reorganisation process, on **23 February 2012**, the Parent Company Terna S.p.A. incorporated the company named Terna Rete Italia S.p.A. with share capital of €120,000; the new company's corporate purpose is to design, create, manage, develop, operate and maintain grid lines and structures and other infrastructures connected with such grids, plant and equipment functional to the said activities in the segments of electricity transmission and dispatching or in analogous, related or connected segments. On the same date, the Parent Company Terna S.p.A. leased to Terna Rete Italia S.p.A. a business unit comprising human resources, goods and relationships related to operation activities, ordinary and extraordinary maintenance and development of the NTG. The contract, four years in length and renewable for a further four years, is effective from 1 April 2012 and has a yearly instalment of 23.7 million.
On **9 May 2012** the Parent Company Terna S.p.A. paid in €3 million, accounted as a capital contribution, in order to give the subsidiary company Terna Rete Italia S.p.A. the resources necessary to carry on its business.
During the 2012 period, therefore, Terna Rete Italia S.p.A. signed a series of contracts with the Parent Company Terna S.p.A. and the affiliated companies Terna Rete Italia S.r.l., Terna Plus S.r.l., Terna Storage S.r.l. and Terna Crna Gora d.o.o., for the regulation of the technical and administrative services.

In addition, on **23 March 2012** the subsidiary Terna Plus S.r.l. incorporated a sole shareholder limited liability company named Terna Storage S.r.l. with share capital of €10,000; the new company's corporate purpose is to design, create, manage, develop and maintain diffused electricity accumulation systems (including batteries) and pumping and/or storage systems. On **13 November 2012** the company Terna Plus S.r.l. paid in €20,000 million, as a capital payment in order to give the company Terna Storage S.r.l. the resources necessary to carry on its business. Following the inclusion of the storage systems under the scope of regulated activities (AEEG Resolutions 228/2012, 43/2013 and 66/2013), on **14 November 2012**, the subsidiary company Terna Plus S.r.l. transferred the stake representing the entire company capital of Terna Storage S.r.l. to the Parent Company Terna S.p.A., against payment of the price of €30,000.
On **31 December 2012** the subsidiary company Terna Storage S.r.l. purchased from associated company Terna Plus S.r.l. for a net amount of €1.1 million, a parcel of projects for the construction of diffused electricity storage systems (batteries), to be constructed in the areas of Benevento and Foggia. These are infrastructures which, connected to renewable source production plants, contribute to obviating the discontinuity issues typical of these sources of energy.

Terna Cnra Gora share capital increase

On **10 February 2012** and on **22 November 2012** the Parent Company Terna S.p.A. subscribed two separate share capital increases of the subsidiary Terna Cnra Gora for €5 million and €29 million respectively in order to provide the company with the resources necessary to develop the business.

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

On **31 May 2012** Terna S.p.A. finalised the purchase of a further equity interest in CESI S.p.A., corresponding to 0.292% of the share capital from Enel S.p.A. Following these transactions, the total equity interest of Terna in the associate stood at 42.698% of the share capital.

Transfer of business unit to Terna Plus

In the context of the reorganisation process of the Terna Group, with deed dated **19 July 2012** (as modified on 31 October 2012), the shareholders' meeting of the subsidiary Terna Plus S.r.l. approved a capital increase of €16 million with a premium of €2.3 million. The capital increase was fully subscribed and paid-up by the Parent Group Terna S.p.A. through the transfer, effective 1 August 2012, of a business unit which constructs temporary connections using rapid installation electricity stations (SCRI) and carries out other services. This transfer - subject to an assessment pursuant to Art. 2465 of the Italian Civil Code by an independent expert - has increased the investment held by Terna S.p.A. in the subsidiary for an amount of €18.3 million.
In order to allow the company Terna Plus S.r.l. to pursue its mission, with effect from **1 May** and **1 November 2012**, the Parent Company Terna transferred to the associated company Terna Rete Italia S.p.A., via transferring the individual contracts, 12 employees with the related equity items.

National Transmission and Regulatory Grid

New 2012-2015 tariff system

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

Approval of the 2011 National Electricity Transmission Grid Development Plan

On **2 October 2012**, the Ministry for Economic Development approved, pursuant to legislative decree 152 of 3 April 2006 as amended, the 2011 Development Plan for the electricity transmission grid submitted by Terna S.p.A..

Finance

5-year bond issue for €1.25 billion

On **13 February 2012** Terna launched a bond issue on the market in euros, at a fixed rate, with expiry in 5 years, for a total of €1.25 billion under the scope of its Euro Medium Term Notes (EMTN) programme. This has been assigned an A- Credit Watch Negative rating by Standard and Poor’s, A3 outlook negative by Moody’s and A by Fitch.
The bond matures on 17 February 2017, has an annual coupon of 4.125% and issue price of 99.809%. The share has thus been priced with a spread of 257 basis points as compared with the mid swap. The bonds are listed on the Luxembourg Stock Exchange.
The transaction, intended for institutional investors, has been placed by a syndicate of banks comprising BNP Paribas, Credit Suisse, Deutsche Bank, J.P. Morgan, Mediobanca, MPS Capital Services, Natixis and Unicredit Bank AG as joint lead managers and joint bookrunners. The bond is intended to finance the grid development investments envisaged in the Company’s business plan.

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

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

Five-year “long” bond issue for €750 million, expiry on 16 February 2018

On **9 October 2012** Terna S.p.A. launched a bond issue on the market in euro, at a fixed rate, with duration in excess of 5 years, for a total of €750 million under the scope of its Euro Medium Term Notes (EMTN) programme. This has been assigned an A- Outlook Negative rating by Standard and Poor’s, Baa1 outlook negative by Moody’s and A outlook negative by Fitch.
The bond matures on 16 February 2018 and has a coupon of 2.875% and issue price of 99.736%. The share has been priced with a spread of 193 basis points as compared with the mid swap. The bonds, which pay an annual coupon, are listed on the Luxembourg Stock Exchange.
The transaction was intended for Institutional Investors and placed by a syndicate of banks made up of Credit Suisse, Deutsche Bank, Mediobanca, Morgan Stanley, Société Générale and Unicredit in their capacity as joint lead managers and joint bookrunners. The bond is intended to finance the grid development investments envisaged in the Company’s business plan.

Terna rating

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

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

On **20 March 2012** Moody's confirmed its judgement on Terna S.p.A.'s creditworthiness at A3, following presentation by the Company of the new Investment Plan. Nonetheless Terna's rating remains subject to a negative outlook in the light of the Company's exposure to pressures regarding the Italian Republic's sovereign debt. On **16 July 2012**, Moody's downgraded the rating of the issuer and the senior non-subordinate debt of Terna S.p.A. from A3 to Baa1. The outlook for both ratings is negative. At the same time, the short-term rating for Terna remained unchanged at Prime-2. This rating change followed the downgrading of Italian Government Bonds from A3 to Baa2, which took place on 13 July 2012, with negative outlook. Following the downgrade, Terna's rating is one notch higher compared to the rating of the Sovereign State.

Sustainability

Terna at the top of the world sustainability classification for the "electricity" segment

For the third year running, the Company has been included in both the "World" and "Europe" baskets of the Dow Jones Sustainability Index, recording the world's highest score together with Iberdrola.
Once again, Terna improved its performance in both economic terms (governance, risk management and supply chain management, code of ethics and anti-corruption) and social ones, with a total score of 87 (8 points more than the 2010 result and 1 more than 2011): confirmation of continuity at the top of the world for the sector business in the final honours list that recognises the commitment made by the company to sustainable operations. This year, the selection identified 340 businesses out of 2,500 on the World index and 166 out of 600 on the Europe index. As in 2011, only 13 Italian companies were admitted to this true elite of world sustainability.
In addition to being on the DJSI, Terna is also on the international indexes FTSE4Good (Global and Europe), Axia (Ethical and CSR), ECPI (Ethical Global, Euro, EMU), MSCI (Global and Europe Sustainability), ASPI Eurozone, Ethibel (Excellence, Sustainability Europe) and on the Italian indexes FTSE, ECPI Italia SRI Benchmark and Italia SRI Leaders, prepared starting from only the companies listed on the Italian Stock Exchange.

Terna Group performance and financial position

Introduction

The 2012 Annual Report of the Terna Group has been prepared in accordance with the provisions of 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.
In implementation of the provision of Italian Legislative Decree no. 38 of 28 February 2005 and EEC Regulation no. 1606/2002, the Terna Group prepares the consolidated financial statements as at and for the year ended 31 December 2012 in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and endorsed by the European Commission (hereinafter "IFRS-EU").
The 2012 annual report has been prepared on a historic cost basis, modified where necessary for certain financial instruments, as well as on a going concern basis.

Scope of consolidation

At the 2012 year-end, the Group consolidation area includes the following companies:

Company	Registered office	Business	Currency	Share/quota capital	% held	Consolidation method
COMPANIES CONTROLLED DIRECTLY BY TERNA S.P.A.						
Terna Rete Italia S.p.A.	Rome	Design, creation, management, development, operation and maintenance of grid lines and structures and other infrastructures connected with such grids, plant and equipment functional to said activities in the segments of electricity transmission and dispatching or in analogous, related or connected segments.	€	120,000	100%	Line-by-line
Terna Rete Italia S.r.l.	Rome	Design, construction, management, development, operation and maintenance of high-voltage power lines.	€	243,577,554	100%	Line-by-line
Terna Crna Gora d.o.o.	Podgorica	Authorisation, construction, and management of transmission infrastructures comprising the Italy-Montenegro electrical interconnection in Montenegro territory.	€	36,000,000	100%	Line-by-line
SunTergrid S.p.A.	Rome	Construction and maintenance of electricity transmission grids and plants for the generation of electricity, including renewables generation, for own use and sale in Italy and abroad.	€	120,000	100%	Line-by-line
Terna Plus S.r.l.	Rome	Design, construction, management, development, operation and maintenance of plants, equipment and infrastructures including grids and systems, including diffused energy storage, pumping and/or storage.	€	16,050,000	100%	Line-by-line
Terna Storage S.r.l.	Rome	Design, construction, management, development and maintenance of systems, including diffused energy storage (included batteries), pumping and/or storage systems, as well as plants, equipment and infrastructures, including grids.	€	10,000	100%	Line-by-line
CONTROLLED THROUGH SUNTERGRID S.P.A.						
Rete Solare S.r.l.	Rome	Construction and maintenance of electricity transmission grids and plants for the generation of electricity, including renewables generation, for own use and sale in Italy and abroad.	€	10,000	100%	Line-by-line

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

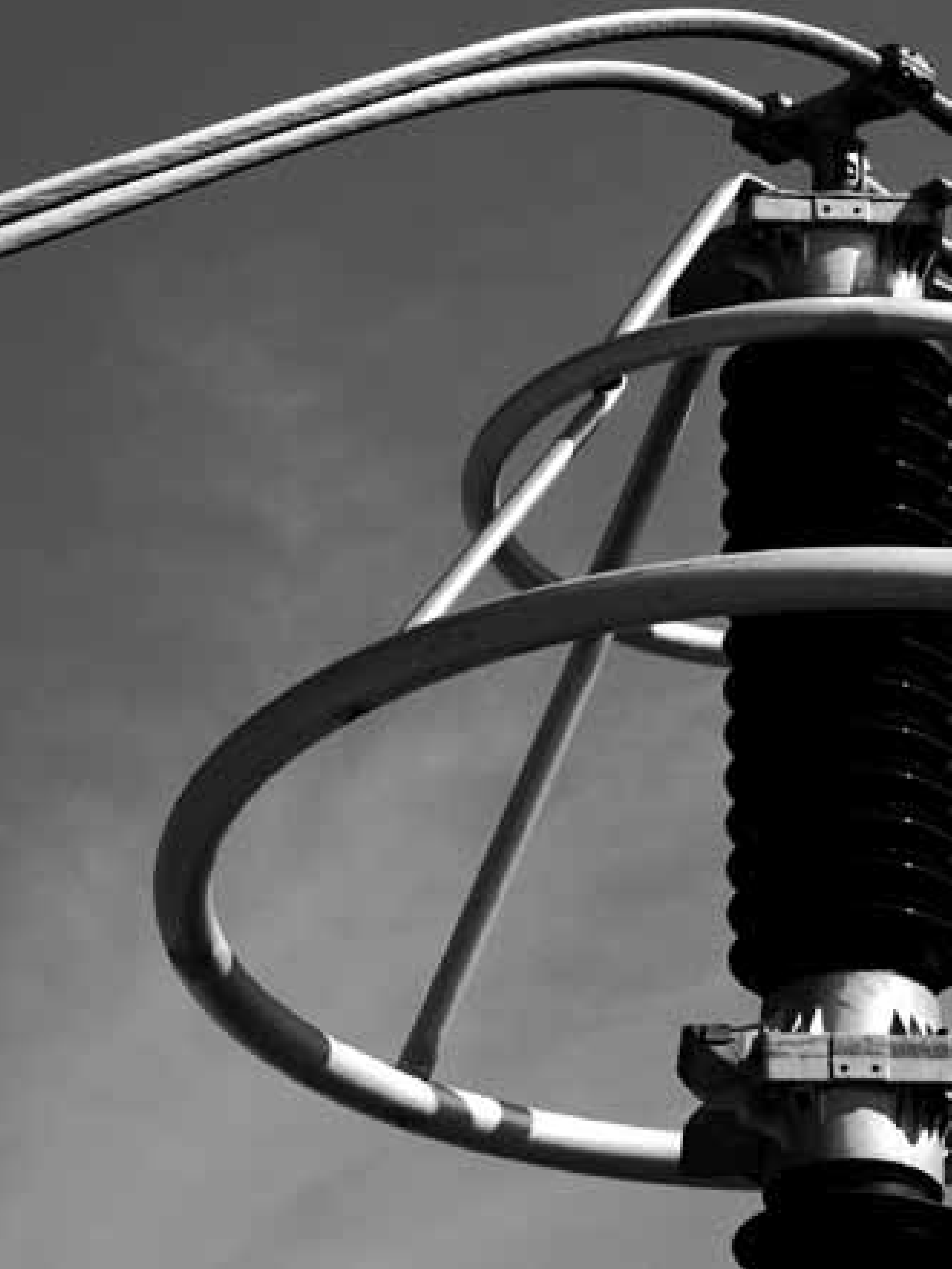
Core business:

- incorporation on 23 February 2012, by Terna S.p.A., of the company named **Terna Rete Italia S.p.A.**;
- incorporation on 23 March 2012, by the subsidiary Terna Plus S.r.l., of the company named **Terna Storage S.r.l.**, and the subsequent acquisition by Terna S.p.A. on 14 November 2012 of the holding representing the entire share capital.

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

Basis of presentation

The measurement and recognition criteria applied in this financial report are consistent with those adopted in the consolidated financial statements at 31 December 2012.



Reclassified consolidated income statement

The reclassified consolidated income statement of the Terna Group for 2012 and 2011 is shown below.

€ million	2012	2011	Change	%
Revenue:				
Grid transmission fees (1)	1,532	1,381	151	10.9%
Other energy items (1)	161	163	(2)	(1.2%)
Other operating revenue (2)	113	92	21	22.8%
Total revenue	**1,806**	**1,636**	**170**	**10.4%**
Operating expenses:				
Personnel expenses	197	211	(14)	(6.6%)
Services and leases and rentals	139	149	(10)	(6.7%)
Materials	30	21	9	42.9%
Other costs (3)	50	25	25	100.0%
Total operating expenses	**416**	**406**	**10**	**2.5%**
EBITDA (gross operating profit)	**1,390**	**1,230**	**160**	**13.0%**
Amortisation and depreciation (4)	**421**	**394**	**27**	**6.9%**
EBIT (operating profit)	**969**	**836**	**133**	**15.9%**
Net financial income (expense) (5)	(93)	(121)	28	(23.1%)
Profit before taxes	**876**	**715**	**161**	**22.5%**
Income taxes	412	388	24	6.2%
Profit for the year from continuing operations	**464**	**327**	**137**	**41.9%**
Profit for the year from discontinued operations and assets held for sale	-	113	(113)	(100.0%)
Profit for the year	**464**	**440**	**24**	**5.5%**
Attributable to owners of the Parent	*464*	*440*	*24*	*5.5%*

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" (€40.2 million) and "Other revenue and income" (€73.1 million);
(3) corresponds to "Other operating expenses" and "Amortisation, depreciation and impairment" for the impairment of trade receivables (€3.0 million) and of fixed assets (€0.1 million);
(4) corresponds to "Amortisation, depreciation and impairment" net of the impairment of trade receivables (€3.0 million) of fixed assets (€0.1 million);
(5) corresponds to the total of the items presented in points 1, 2 and 3 of letter C "Financial income/expense".

In 2012, the Terna Group recorded **revenue** for €1,806 million, relating to the Parent Company for €1,592 million and to the subsidiary Terna Rete Italia S.r.l. for €197 million, up €170 million on the previous financial year (+10.4%), mainly attributable to the trend of the **grid transmission fees (CTR)**, up €151 million and the results from **unregulated activities** carried out by the Group, amounting to €86 million in 2012 and recorded in "Other operating revenue" (of which approximately €12 million is for the review of the previous fees for fibre optic housing).

In particular the CTR indicated for:

- the Parent Company an increase of €106 million, as a result of a combination of:
  - tariff review (+€108 million, including the incentive on the remuneration of strategic works, pursuant to Resolution ARG/elt 199/11);
  - grid transmission fees related to the Defence plan (-€2 million);
- the subsidiary Terna Rete Italia S.r.l., +€45 million (compared to the €143 million recorded in 2011) for the share of NTG it owns.

The trend of revenue deriving from "other energy items" is broadly in line with the previous period (-1.2%, corresponding to -€2 million, compared to the €163 million in 2011) mainly due to the combined effect of:

- the fee review for the dispatching activity, for a total increase of €53 million;
- adjustment of the fair value related to the measurement of Terna's performance in the Dispatching Services Market (DSM) with reference to the incentive mechanism envisaged by AEEG Resolution 213/09, of €23 million (-€44 million compared to the 67 million measured in 2011);
- recognition of -€14 million for the bonuses and penalties mechanism on the subject of transmission service quality (ENSR-NDU);
- increase of €3 million due to the effects of higher investments in the dispatching infrastructures[7] as compared to the previous year.

In 2012, **operating expenses** amounted to €416 million and mainly referred to the Parent Company (€213 million) and the subsidiary Terna Rete Italia S.p.A. (€188 million), recording an increase of €10 million on last year (a positive 2.5%), mainly by virtue of the combined effect of the following phenomena:

- personnel expenses: decrease of €14 million, mainly due to the greater average price per unit in 2011;
- costs for services, leases and rentals: decrease of an overall €10 million, broadly due to lower expenses for dispatching infrastructures[7] (down €3 million), as well as higher costs for research, advertising and consultancy sustained in the previous period;
- costs for materials: the increase of €9 million is mainly due to the use of material from the warehouse for maintaining and running the company's and third-party plants, as well as the adjustment (a positive €3 million) of the net estimated realisable value of some materials;
- other costs: this item registered an increase of €25 million, mostly referable to the Single Municipal Tax (IMU) for the period (approximately a positive €18 million, including the estimated impact of IMU on the stations pursuant to Memorandum 6/2012 from the Agency of the Territory (land registry)). It also records greater contingent liabilities (€3 million) relating to repayment of the balance of grants paid for 2002 to 2006 to the Ministry for Economic Development in relation to the former concession of telephony for private use.

EBITDA (gross operating profit) for the year stands at around €1,390 million, up €160 million on the €1,230 million recorded for 2011 (+13%).
The increase in revenue and costs is reflected in the **EBITDA margin** which went from 75.2% in 2011 to 77% in financial year 2012.

Amortisation and depreciation for the year are up by €27 million on 2011, for €22 million related to the Parent Company, essentially for the start-up of new plants, and for €4 million to the amortisation of the subsidiary Terna Rete Italia S.r.l..

As a result, **EBIT** (operating profit) stands at about €969 million, up by €133 million (+15.9%) compared with 2011.

Net financial expense for the period, amounting to €93 million, relates mainly to the Parent Company (€90 million) and decreased by €28 million compared with the €121 million of 2011, mainly due to the reduction in interest rates which more than offset the charges relating to the higher level of net debt compared with 2011.

After the impact of net financial expense, the **profit before taxes** stands at €876 million, €161 million higher than the previous financial year (+22.5%).
Income taxes for the year were €412 million, up €24 million (+6.2%) compared with the previous year, owing essentially to the increase in the revenue for the financial year.

(7) Pursuant to IFRIC 12.

In fact, the tax rate of 47% is, without considering the one-off elements[8], 46.6% and broadly in line with the previous period (46% net of the one-off[9] effect which was a feature of 2011).

As a result, the **profit from continuing operations** amounts to €464 million, up €137 million on the *profit from continuing operations* for 2011 and also up €24 million on the previous profit for the year, which includes €113 million of **profit from discontinued operations and assets held for sale**, relating to extraordinary transactions in the photovoltaic sector and the release of guarantee connected with the sale of the Brazilian subsidiaries.

Reclassified statement of financial position of the Group

Reclassified consolidated statement of financial position of the Terna Group at 31 December 2012 and 31 December 2011, is presented below.

€ million	at 31.12.2012	at 31.12.2011	Change
Net non-current assets			
Intangible assets and goodwill	471	471	-
Property, plant and equipment	9,342	8,618	724
Financial assets (1)	81	74	7
Total	**9,894**	**9,163**	**731**
Net working capital			
Trade receivables (2)	744*	612	132
Inventories	7	16	(9)
Other assets (3)	32	15	17
Trade payables (4)	**712**	**705**	**7**
Net payables for pass-through energy items, net (5)	**440***	**247**	**193**
Net tax liabilities (6)	**36**	**121**	**(85)**
Other liabilities (7)	**366**	**294**	**72**
Total	**(771)**	**(724)**	**(47)**
Gross invested capital	**9,123**	**8,439**	**684**
Sundry provisions (8)	474	565	(91)
Net invested capital	**8,649**	**7,874**	**775**
Equity attributable to owners of the Parent	2,794	2,751	43
Net financial debt (9)	**5,855**	**5,123**	**732**
Total	**8,649**	**7,874**	**775**

(*) Net of the items used to offset against an operator in the electricity market, paid in January 2013.

Reported in the consolidated statement of financial position as:

(1) "Equity-accounted investees", "Other non-current assets" and "Non-current financial assets" for the carrying amount of the other investments (€0.8 million);
(2) "Trade receivables" net of energy-related pass-through energy revenue (€1,018.1 million) and the items used to offset against an operator in the electricity market, paid in January 2013 (€122.0 million);
(3) the item "Other current assets" net of other tax assets (€48.5 million) and "Current financial assets" (€21.3 million);
(4) the item "Trade payables" net of the energy-related pass-through costs (€1,580.1 million);
(5) the items "Trade receivables" for the value of receivables for pass-through energy revenue (€1,018.1 million) and "Trade payables" for the value of payables for pass-through energy costs (€1,580.1 million), net of the items used to offset against an operator in the electricity market, paid in January 2013 (€122.0 million);
(6) "Income tax assets", "Other current assets" for the amount of other tax receivables (€48.5 million), "Other current liabilities" for the amount of other tax liabilities (€8.0 million) and "Income tax liabilities";
(7) "Other non-current liabilities", "Current financial liabilities" and "Other current liabilities" net of other tax liabilities (€154.8 million);
(8) "Employee benefits", "Provisions for risks and charges" and "Deferred tax liabilities";
(9) "Long-term loans", "Current portion of long-term loans", "Non-current financial liabilities", "Cash and cash equivalents", "Non-current financial assets" for the value of FVH derivatives (€754.9 million).

(8) This is connected with tax risks mainly offset by the recognition of the IRES receivable pursuant to Legislative Decree 16/2012 of 2 March 2012.
(9) Related to the additional IRES (the "Robin Hood Tax"), the additional IRAP, the release of Terna Rete Italia goodwill, and the amendments regarding items of previous financial years.

The increase in **net non-current assets** amounting to €731 million with respect to the figures of 31 December 2011, is mainly due to the item **property, plant and equipment** (amounting to a positive €724 million), as a result of the joint effect of:

- investments for €1,181 million of which €1,153 million in core business and 28 million in non-core business;
- amortisation and depreciation for the year of €366 million;
- impairment of fixed assets for the capitalisations carried out in previous periods due to accruals to the risk provision "Projects for urban and environmental renewal", currently considered unlikely by the Parent Company (for €43 million);
- set-up grants related to plants recorded for €25 million and other changes and disposals for approximately €23 million.

Intangible assets and goodwill show a balance in line with the previous financial year of €54 million (of which €38 million in dispatching infrastructures), entirely set off by the value of the depreciation for the year (€54 million, of which, in particular €29 million relates to the depreciation of the dispatching infrastructures and €6 million to the amortisation of the concession).
The net carrying amount of the infrastructures used by the dispatching service totalled €149 million at 31 December 2012 (compared with €141 million at 31 December 2011).
Total investments made by the Group in 2012 amounted to €1,235 million (of which 28 million in non-core business) up 0.5% from the 1,229 million recorded in 2011.
Financial assets increased by €7 million, essentially due to adjustment to end-of-period shareholders' equity of Terna S.p.A.'s equity interest in the associate CESI (+€6 million) - in which the Group acquired a further stake during 2012, for approximately 0.292%.

Net working capital amounted to -€771 million and during the period generated liquidity of €47 million compared to financial year 2011, mainly owing to the combined effect of:

- an increase in **net payables for pass-through energy items** for electricity dispatching services of the Parent Company, for €193 million; in particular the change is due to:
  - reduction of net receivables connected to Uplift (€117 million);
  - increase in net debt deriving from virtual interconnection activities (€66 million);
  - increase in net debt relating to provisioning of interruptible resources (€23 million);
- an increase in **other liabilities** (€72 million), mainly owing to the higher security deposits received from electricity market operators connected with dispatch contracts (+€36 million) and greater liabilities for unsettled net interest expense for the period (+€35 million) relating mainly to the bond loans issued during the financial year;
- an increase in **trade receivables** of €132 million, mainly referring to the CTR fees (€113 million) generally due to the recognition of the receivable due from CCSE for the revenue for the period deriving from the "mitigation" mechanism pursuant to Resolution 118/08, as well as to orders and other unregulated activities for third parties carried out by the Group in the period (+€51 million, including €17 million from Wind for fibre optic housing);
- a decrease in **net tax liabilities** of €85 million due mainly to lower payables for income taxes (down €28 million, essentially attributable to the lower balance paid in the previous financial year, because that did not take into account, as provided for, the new regulations introduced in the second half of 2011, in line with what is referred to as the "Robin Hood Tax"), to the increase in net receivables from the tax authority for VAT (€48 million) and the recognition of the IRES credit pursuant to Legislative Decree 16/2012 of 2 March 2012 (€8.0 million).

It is specified that the changes in trade receivables and net payables for pass-through energy items referred to above do not take into account the items used to offset against an operator in the electricity market (€122 million), paid in January 2013.

Gross invested capital, therefore, amounted to €9,123 million, recording an increase compared with the previous financial year of €684 million.
Other provisions fell by €91 million, mainly due to:

- a decrease in the risk provision "Projects for urban and environmental renewal" for the release of the earlier accrual currently considered unlikely (€43 million) and for net use for the effective contractual payments (€11 million) by the Parent Company;
- use of amounts set aside previously for deferred tax liabilities by the Parent Company Terna and the subsidiary Terna Rete Italia S.r.l. relating to additional amortisation and depreciation over the assets' estimated useful life (€42 million and €7 million respectively);
- recording of the deferred tax asset on the change in the fair value associated with the derivative cash flow hedging instruments for €11 million;
- accruals made to the provision for risks related to the IMU tax, estimated by applying Memorandum 6/2012 of the Agency of the Territory (land registry) on registering the land of the Parent Company's electrical stations (€16 million).

Net invested capital amounted to €8,649 million, an increase of €775 million compared with 31 December 2011 and is financed through shareholders' equity for €2,794 million (compared with €2,751 million at 31 December 2011) and through net financial debt for €5,855 million (+€732 million compared with the 5,123 million of 31 December 2011).
At 31 December 2012, the **debt/equity** ratio therefore came out at 2.1.

Reconciliation of consolidated profit for the year and equity attributable to the owners of the Parent with the corresponding figures for the Parent Company

A reconciliation of consolidated equity and profit with the amounts reported by the Parent Company is provided below:

€ million	Net profit 2012	Equity at 31.12.2012	Net profit 2011	Equity at 31.12.2011
Financial Statements of the Parent Company	**463.2**	**2,599.2**	**453.6**	**2,555.3**
Results and equity contributed by Terna Rete Italia S.p.A.	3.7	3.7	-	-
Results and equity contributed by Terna Rete Italia S.r.l.*	55.4	115.2	0.6	59.9
Results and equity of the other Group subsidiaries	(5.1)	54.9	78.5	120.8
Reversal of dividends from subsidiaries	(60.0)	-	(100.0)	-
Equity-accounted investees	6.4	21.3	7.3	15.0
Profit from continuing operations	463.6	2,794.3	327.3	
Profit from discontinued operations and assets held for sale			112.7	
Terna Group consolidated financial statements	**463.6**	**2,794.3**	**440.0**	**2,751.0**

(*) Includes for 2011 the one-off effects on the deferred tax liabilities provisions from the beginning of the year of the so-called Robin Hood Tax and the IRAP adjustment in connection with the consolidation of the subsidiary Terna Rete Italia S.r.l. (€22.4 million).

Cash flows
Net financial debt
The Group's net financial debt at 31 December 2012 (€5,855 million) is broken down in the table below.

€ million	31.12.2012	31.12.2011	Change
Net financial debt from continuing operations			
A. Medium- and long-term debt:			
Bond (1)	6,544	4,304	2,240
Floating-rate loans (1)	2,366	2,435	(69)
Derivative financial instruments (2)	(614)	(411)	(203)
Total	**8,296**	**6,328**	**1,968**
B. Short-term debt (liquidity):			
Floating-rate loans (current portions) (3)	69	60	9
Short-term investments	-	(150)	150
Cash and cash equivalents	(2,510)	(1,115)	(1,395)
Total	**(2,441)**	**(1,205)**	**(1,236)**
Total net financial debt	**5,855**	**5,123**	**732**

In the Consolidated Statement of Financial Position:
(1) the balance corresponds to "Long-term loans";
(2) the balance corresponds to "Non-current financial liabilities" and "Non-current financial assets" for the value of FVH derivatives (€754.9 million);
(3) this balance corresponds to "Current portion of long-term loans".

During the year 2012 net financial debt increased by €732 million owing to the combined effect of:

- increase in bond loans (€2,240 million), due essentially to the bonds issued in February and October for a nominal amount of €1,250 and €750 million (€1,991 million at 31 December 2012 net of initial expenses and issue fees) and as a result of adjusting bond loans to fair value (€234 million, including the amortised cost) and the capitalisation of period inflation linked to the IL bond (€15 million);
- repayment of EIB loan instalments due for €60 million;
- increase in the positive net balance of derivative financial instruments (€203 million), mainly due to lowering of the reference interest rate curve compared to the previous financial year. In particular, note the change in fair value hedges of bonds of +€233 million and the change in cash flow hedges of floating-rate debt of -€30 million;
- advance redemption of deposit certificates subscribed in 2011 and due on 14 June 2013 (€150 million);
- increased cash and cash equivalents (€1,395 million) mainly due to the liquidity generated by the issues of the bonds described above and by current Group operations.

Statement of cash flows

€ million	Cash flow 31.12.2012	Reconciliation financial statements	Cash flow 31.12.2011	Reconciliation financial statements
Opening cash and cash equivalents	**1,114.9**		**156.3**	
of which Cash and cash equivalents of discontinued operations		*-*		*6.2*
Profit for the year	463.6		440.0	
Amortisation and depreciation	420.6		394.1	
Net change in provisions	(90.7)		(34.2)	
Employee benefits		*0.2*		*(3.1)*
Provisions for risks and charges		*(26.9)*		*22.2*
Deferred tax liabilities		*(64.0)*		*(53.3)*
Net Losses (gains) on asset disposals (1)	(5.9)		(3.6)	
Self-financing	**787.6**		**796.3**	
Change in net working capital:	46.2		342.9	
Inventories		*9.7*		*(4.9)*
Trade receivables		*(193.9)*		*(194.4)*
Current financial assets		*(15.8)*		*(5.0)*
Income tax receivables		*(14.2)*		*(0.2)*
Other current assets		*(39.1)*		*(0.2)*
Trade payables		*262.3*		*487.6*
Tax liabilities		*(21.5)*		*46.9*
Current financial liabilities		*35.2*		*15.9*
Other liabilities		*23.5*		*(2.8)*
Cash flows from operating activities	**833.8**		**1,139.2**	
Total investments	**(1,235.2)**		**(1,229.2)**	
Property, plant and equipment (2)		(1,181.1)		(1,178.1)
Intangible assets(3)		(54.1)		(51.1)
Other changes in non-current assets	89.8		(20.8)	
Other intangible assets (2)		*0.2*		*-*
Property, plant and equipment (2)		*97.0*		*22.8*
Non-current financial assets		*(0.2)*		*(0.1)*
Other non-current assets		*(0.5)*		*(0.3)*
Equity-accounted investees		*(6.7)*		*(43.2)*
Total cash flows generated by/(used in) investing activities	**(1,145.4)**		**(1,250.0)**	
NIC in discontinued operations and assets held for sale	**-**		**398.8**	
Change in loans	2,127.1		1,133.0	
Non-current financial assets		*(233.1)*		*(321.5)*
Current financial assets		*150.0*		*(150.0)*
Non-current financial liabilities		*29.8*		*64.3*
Long-term loans		*2,170.7*		*1,591.2*
Current portion of long-term loans		*9.7*		*-*
Short-term loans		*-*		*(73.1)*
Discontinued operations and assets held for sale		*-*		*22.1*
Other changes in equity attributable to owners of the Parent (4)	(18.3)		(40.1)	
Equity attributable to owners of the Parent - Share capital, other reserves and retained earnings		*(18.3)*		*(24.1)*
Equity attributable to owners of the Parent - Reserves for assets held for sale		*-*		*(16.0)*
Dividends paid to the owners of the Parent	(402.0)		(422.1)	
Equity attributable to non-controlling interests in discontinued operations and assets held for sale	-		(0.2)	
Total cash flows generated by/(used in) financing activities	**1,706.8**		**670.6**	
Total cash flows for the year	**1,395.2**		**958.6**	
Closing cash and cash equivalents	**2,510.1**		**1,114.9**	

(1) included in the balances of “Other revenue and income” and “Other operating expenses” of the consolidated Income statement;
(2) see note 13 to the financial statements;
(3) see note 15 to the financial statements;
(4) see the statement of changes in consolidated equity.

Change in net financial position

The cash flows for the years 2012 and 2011 are reported in the following statement.

€ million	31.12.2012	31.12.2011
Opening net financial debt	**(5,123)**	**(4,949)**
Self-financing	**787**	**796**
Change in net working capital	**47**	**343**
Cash flows generated from operating activities	**834**	**1,139**
Total investments	(1.235)	(1.229)
Other changes in non-current assets	97	22
Change in equity investments	(7)	(43)
Cash flows used in investing activities	**(1,145)**	**(1,250)**
NIC Assets held for sale	**-**	**399**
Dividends	(402)	(422)
Other changes in equity attributable to the owners of the Parent	(19)	(40)
Self-financing flows	**(421)**	**(462)**
Change in financial debt	(732)	(174)
Closing net financial debt	**(5,855)**	**(5,123)**

The cash flow generated from operating activities during the financial year stands at about €834 million and is related to self-financing (€787 million) and other financial resources generated by net working capital (€47 million).
As far as **self-financing** is concerned, note the profit for the period of €464 million, the amortisation and depreciation for the period of €421 million and a net decrease in provisions of €91 million, which reflects the change in provisions for net deferred tax liabilities and provisions for risks and charges.

The change in **net working capital**, of €47 million, is mostly attributable to the net increase in trade payables (including pass-through energy-related economic items).

Investing activities have used financial resources for approximately €1,145 million, for the most part relating to the investments made during the year in property, plant and machinery (€1,181 million of which €1,153 million relating to investments in core-business) and in intangible assets (€54 million) - attributable to the Group Parent for a total of €1,167 million; other changes are also recorded, mainly relating to the impairment of fixed assets for €43 million for the capitalisations carried out in previous periods due to accruals to the provision for "Projects for urban and environmental renewal", currently considered unlikely, to set-up grants relating to plants for €25 million and other disposals and changes for €23 million.

In this regard also note a change in the value of equity interests (€7 million), mainly due to the adjustment of equity at year-end of the investment held by Terna S.p.A. in the associate CESI, in which during the period the Group purchased a further stake for approximately 0.292%.

Cash flows used in self/financing were mainly used in distributing the 2011 dividend balance to owners of the Parent Company (€261 million) and the interim 2012 dividend (€141 million).
The other changes in equity attributable to owners of the Parent relate to recognition at fair value of the cash flow hedges of the floating-rate debt, net of the related tax effect (-€19 million).

Therefore, financial resources used in investing activities and in equity movements determined in the year a total requirement of €1,566 million funded in part by cash flows provided by operating activities (€834 million) and, for the rest, by increasing net debt (€732 million).

Terna S.p.A. performance and financial position

Introduction

The 2012 annual report of Terna S.p.A. has been prepared in accordance with the provisions of 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.
In implementation of the provision of Italian Legislative Decree no. 38 of 28 February 2005 and EEC Regulation no. 1606/2002, Terna S.p.A. prepares the financial statements as at and for the year ended 31.12.2012 in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and endorsed by the European Commission (hereinafter "IFRS-EU").
The 2012 annual report has been prepared on a historic cost basis, modified where necessary for certain financial instruments, as well as on a going concern basis.
In compliance with the provisions of Art. 2364 of the Italian Civil Code and Art. 9.2 of the company's Articles of Association, the Board of Directors has resolved to call the shareholders to meet within one hundred and eighty days of the financial year end, insofar as Terna S.p.A. is a company required to prepare the consolidated financial statements.

Basis of presentation

The measurement and recognition criteria applied in this annual financial report are consistent with those adopted in the separate financial statements at 31 December 2012.

Note that, as described above, during this financial year, the project for the new organisational structure of Terna Group was launched, in the context of which, on 23 March 2012, the Parent Company Terna leased to Terna Rete Italia S.p.A. a business unit comprising human resources, goods and relationships related to operation activities, ordinary and extraordinary maintenance and development of the NTG. The contract, four years in length and renewable for a further four years, is effective from 1 April 2012 and has a yearly instalment of €23.7 million.
The equity of the business unit on the effective date of the contract is summarised in the following statement:

In thousands of euros	1 April 2012
Assets	
Employee receivables	4,479.4
Deferred tax assets	16,799.8
Total assets for business unit	**21,279.2**
Receivables from Parent Company Terna	100,045.4
Total assets	**121,324.6**
Liabilities	
Termination benefits and other employee benefits	109,902.9
Payables to employees and social security institutions	11,421.7
Total liabilities for business unit	**121,324.6**
Total liabilities for business unit	**121,324.6**

The number of employees included in the business unit on 31 December 2012 amounts to 3,088 units.

In view of the organisational structure described above, a series of new inter-company contracts were signed during the year for the regulation of technical and administrative services within the Terna Group.

It follows that the analysis of the changes in the balances of the company's financial and equity items compared to the previous period has been significantly influenced by this reorganisation.

Reclassified income statement of Terna S.p.A.

The reclassified income statement of Terna S.p.A. for 2012 and 2011 is shown below.

€ million	2012	2011	Change	%
Revenue:				
Grid transmission fees (1)	1,344	1,238	106	8.6%
Other energy items (1)	161	163	(2)	(1.2%)
Other operating revenue (2)	155	153	2	1.3%
Total revenue	**1,660**	**1,554**	**106**	**6.8%**
Operating expenses:				
Personnel expenses	82	214	(132)	(61.7%)
Services and leases and rentals	315	166	149	89.8%
Materials	19	34	(15)	(44.1%)
Other costs (3)	44	18	26	144.4%
Total operating expenses	**460**	**432**	**28**	**6.5%**
EBITDA (Gross Operating Profit)	**1,200**	**1,122**	**78**	**7.0%**
Amortisation and depreciation (4)	**371**	**349**	**22**	**6.3%**
EBIT (Operating Profit)	**829**	**773**	**56**	**7.2%**
Net financial income (expense) (5)	(19)	(9)	(10)	111.1%
Profit before taxes	**810**	**764**	**46**	**6.0%**
Income taxes	347	344	3	0.9%
Profit for the year from continuing operations	**463**	**420**	**43**	**10.2%**
Profit for the year from discontinued operations and assets held for sale	-	34	(34)	(100.0%)
Profit for the year	**463**	**454**	**9**	**2.0%**

In the income statement:
(1) the figure 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” (€66.5 million) and “Other revenue and income” (€88.2 million);
(3) corresponds to “Other operating expenses” and in “Amortisation, depreciation and impairment” for the value of impairment of trade receivables (€3.0 million) and of fixed assets (€0.1 million);
(4) corresponds to “Amortisation, depreciation and impairment” net of the impairment of trade receivables (€3.0 million) and fixed assets (€0.1 million);
(5) corresponds to the balance of the items presented in points 1 and 2 of letter C - “Financial income/expense”.

2012 **revenue**, amounting to €1,660 million, records an increase of €106 million (+6.8% on the €1,554 million of 2011), which mainly derives from the higher **grid transmission fees (CTR)**, amounting to €106 million (+8.6%), as a result of the following phenomena:
- tariff review (+€108 million, including the incentive on the remuneration of strategic works, pursuant to Resolution ARG/elt 199/11);
- grid transmission fees related to the Defence plan (-€2 million).

The progress of revenue deriving from “other energy items” is broadly in line with the previous period (-1.2%, corresponding to -€2 million, compared to the €163 million in 2011) mainly due to the combined effect of:
- the fee review for the dispatching activity, for a total increase of €53 million;
- adjustment of the fair value related to the measurement of Terna’s performance in the Dispatching Services Market (DSM) with reference to the incentive mechanism envisaged by AEEG Resolution 213/09, of €23 million (-€44 million compared to the 67 million measured in 2011);

- recognition of -€14 million for the bonuses and penalties mechanism on the subject of transmission service quality (ENSR-NDU);
- increase in investments made in dispatching infrastructures[7] compared to the previous period (+€3 million).

In the context of **"Other operating revenue"**, the balance of which is consistent with the previous year (+€2 million, compared to the €153 million of 2011), revenue from non-regulated activities record a result of €61 million, around €12 million of which refers to the review of previous fibre optic housing fees. In reference to the contractual relationship between Terna and its subsidiaries following the reorganisation of the activities within the Group, income for Terna Rete Italia S.p.A. is particularly noteworthy, relating to the fee accrued for leasing the business unit (+€18 million) and the sale of the inventories of the same business unit (+€3 million), whilst the income for technical and administrative services for the subsidiary Terna Rete Italia S.r.l. have decreased. (-€53 million), partly offset by the provision of management fees (+€28 million) to Terna Rete Italia S.p.A. referring to the last nine months of 2012.

Operating costs amount to €460 million and show an increase of €28 million (+6.5%) on the figure for 2011, mainly due to the item **other costs**, which includes the recognition of the Single Municipal Tax (IMU) for the period (around €18 million, including the estimated impact of IMU on the stations pursuant to Memorandum 6/2012 from the Agency of the Territory (land registry)) and larger accruals of about €7 million for disputes and the impairment of a receivable from a dispatching operator.

The overall balance of the other items relating to the company's operating costs is broadly in line with the previous period (+€2 million, attributable in the main to higher costs for the dispatching infrastructures[7]) but distributed amongst them in a different way, as a result of the reorganisation process described above. In particular:
- **personnel expenses**: reduction of -€132 million mainly attributable to the transfer of employees belonging to the business unit leased to Terna Rete Italia S.p.A.;
- costs for **services, leases and rentals**: increase of €149 million mainly due to recording the costs for the period for the execution of specific contracts entered into with the subsidiary Terna Rete Italia S.p.A. (€213 million), referring in the main to technical maintenance and operation services for plants owned (€204 million), partially offset by the decrease in costs for contracts, technical and IT services for third parties, mainly provided by the subsidiary company Terna Rete Italia S.p.A. from Q2 of the financial year;
- **costs for materials**: decrease of €15 million essentially attributable to ordinary plant maintenance activities directly carried out by the subsidiary Terna Rete Italia S.p.A. from Q2 of the financial year, net of the impact of the sale of the inventories of the latter (€3 million).

EBITDA gross operating profit) stands at €1,200 million, representing 72.3% of revenue (compared to the 72.2% of 2011), with an increase of €78 million over the €1,122 million of 2011 (+7%).

Amortisation and depreciation for the year amount to €371 million and are up by €22 million on 2011 (+6.3%), mainly due to the entry into operation of new plants.
EBIT (operating profit) came to €829 million, with an increase of €56 million (+7.2%) on financial year 2011.

Net financial expense for the year is €19 million and is an increase on the €9 million of 2011. This difference (+€10 million) is mainly attributable to the combined effect of the smaller dividends distributed by the associate SunTegrid (€40 million) and the reduction in the interest rate which more than offset the charges for the higher net debt as compared to 2011.

After the impact of net financial expense, the **profit before taxes** stands at €810 million, €46 million higher than the previous financial year (+6%).

(7) Recognised pursuant to IFRIC 12.

Income taxes for the year amount to €347 million, up €3 million (+0.9%) compared with the previous year, owing essentially to the increase in the profit for the financial year.
In fact, the tax rate of 42.8% (42.6% without considering the one-off elements[10]) is slightly higher than the adjusted 40.4%[11] of the previous financial year, mainly due to the higher dividend registered in the previous period.

Profit for the year from continuing operations consequently stands at €463 million, up €43 million on the *profit for the year from continuing operations* for 2011 (+10.2%) and is also up €9 million with respect to the *profit for the previous year* (+2%), which includes €34 million **profit for the year from discontinued operations and assets held for sale**, with reference to the release of guarantees connected with the sale of the Brazilian subsidiaries.

Reclassified statement of financial position of Terna S.p.A.

The reclassified statement of financial position of Terna S.p.A. at 31 December 2012 and 2011 is summarised below. The table is obtained by reclassifying the data stated in the Statement of financial position.

€ million	At 31.12.2012	At 31.12.2011	Change
Net non-current assets			
Intangible assets and goodwill	364	363	1
Property, plant and equipment	8,203	7,514	689
Financial assets (1)	681	629	52
Total	**9,248**	**8,506**	**742**
Net Working Capital			
Trade receivables (2)	722*	606	116
Inventories	-	13	(13)
Other assets (3)	31	17	14
Trade payables (4)	650	723	(73)
Payables for pass-through energy items, net (5)	481*	247	234
Net tax liabilities (6)	(14)	96	(110)
Other Liabilities (7)	399	285	114
Total	**(763)**	**(715)**	**(48)**
Gross Invested Capital	**8,485**	**7,791**	**694**
Sundry provisions (8)	265	431	(166)
Net invested capital	**8,220**	**7,360**	**860**
Equity	2,599	2,555	44
Net financial debt (9)	**5,621**	**4,805**	**816**
TOTAL	**8,220**	**7,360**	**860**

(*) Net of the items used to offset against an operator in the electricity market, paid in January 2013.

Reported in the statement of financial position as:
(1) "Other non-current assets" and "Non-current financial assets" for the value of equity investments (€678.9 million);
(2) "Trade receivables" net receivables for energy-related pass-through revenue (€1,018.1 million) and the items used to offset against an operator in the electricity market, paid in January 2013 (€122.0 million);
(3) "Other current assets" net of other tax assets (€46.2 million) and "Current financial assets";
(4) "Trade payables" net of the payable for energy-related pass-through costs (€1,621.1 million);
(5) "Trade receivables" for the value of pass-through energy revenue (€1,018.1 million) and "Trade payables" for the value of payables for pass-through energy costs (€1,621.1 million), net of the items used to offset against an operator in the electricity market, paid in January 2013 (€122.0 million);
(6) "Income tax assets", "Other current assets" for the value of other tax receivables (€46.2 million), "Other current liabilities" for the value of other tax liabilities (€1.0 million) and "Income tax liabilities";
(7) "Other non-current liabilities", "Current financial liabilities" and "Other current liabilities" net of other tax liabilities (€112.7 million);
(8) "Employee benefits", "Provisions for risks and charges" and "Deferred tax liabilities";
(9) "Long-term loans", "Current portion of long-term loans", "Non-current financial liabilities", "Short-term loans", "Cash and cash equivalents", "Non-current financial assets", for the value of the loan to Terna Rete Italia S.r.l. and the FVH derivatives (€500.0 and €754.9 million, respectively).

(10) In relation to the taxes for the previous years and the provisions for fiscal risks mainly offset by the recognition of the IRES credit pursuant to Legislative Decree 16 of 2 March 2012.
(11) Net of the one-off effects related to the additional IRES (the "Robin Hood Tax"), the additional IRAP, and the change in accounting for goodwill of Terna Rete Italia S.r.l..

The €742 million increase in **net non-current assets** since 31 December 2011, is mainly attributable to:

- **property, plant and equipment**, which increased by €689 million. The following is a breakdown of the changes in property, plant and equipment for the year:

€ million

Investments	
Transmission lines	579
Transformation stations	443
Other	68
Investments in property, plant and equipment - core business	1,090
Investments in property, plant and equipment - non-core business	23
Total investments in property, plant and equipment	**1,113**
Depreciation	(318)
Disposals, impairment losses and other changes	(90)
Intra-group transactions	(16)
Total	**689**

The change (+€689 million) is attributable to the net effect of new investments (€1,113 million, of which €1,090 million in core business), the depreciation for the year (-€318 million), the impairment of the fixed assets related to capitalisations carried out in previous years with accruals made to the risk provision "Projects for urban and environmental renewal" currently considered unlikely (for €43 million) and the other disposals and other changes (-€47 million) occurring during the year. In addition, it reflects the transfer of eight rapid installation electricity stations (SCRI) and one transformer (located in Brindisi) to the subsidiary Terna Plus for a total €16 million which took place upon the transfer of the business unit effective 1 August 2012, falling in the scope of the reorganisation process of the Terna Group's operational activity;

- **financial assets**, which show an increase of €52 million, mainly due to Terna's subscribing on 10 February 2012 (€5 million) and on 22 November (€29 million) two separate capital increases of the subsidiary Terna Cnra Gora d.o.o., in order to provide the subsidiary with the resources necessary to develop the business, and for the transfer of the business unit to the subsidiary Terna Plus S.r.l., with deed dated 19 July 2012 (as modified on 31 October 2012) and with effect from 1 August 2012, which increased Terna S.p.A.'s holding in the subsidiary by €18 million.

Net working capital stands at a negative €763 million and generated €48 million in liquidity during the year essentially deriving from the following:

- **net payables for pass-through energy items:** the increase (€234 million) is largely related to:
  - reduction of the net receivables connected to the Uplift (€117 million);
  - increase in net debt deriving from virtual interconnection activities (€66 million);
  - increase in net debt relating to provisioning of interruptible resources (€23 million);
- **other liabilities:** the increase (+€114 million) chiefly refers to the recognition of the payable due to Terna Rete Italia S.p.A. originating from the transfer of net liabilities included in the business unit (+€87 million), the higher security deposits received from electricity market operators connected with dispatch contracts (+€36 million), the greater liabilities for unsettled net interest expense for the period (+€35 million) relating mainly to the bond loans issued during the financial year. The increase in other liabilities was offset by the lower payables to employees and social security institutions (-€23 million and -€16 million respectively) as a result of transferring human resources as part of the business unit leased to the subsidiary Terna Rete Italia S.p.A.;
- **trade receivables**: the increase of €116 million mainly refers to the CTR fees (+€113 million) chiefly due to the recognition of the receivable due from CCSE for the revenue for the period deriving from the "mitigation" mechanism pursuant to Resolution 118/08, as well as receivables from third party customers for diversified business (+€21 million, including €17 million from Wind for fibre optic housing);
- **trade payables**: the decrease (-€73 million) mainly derives from the considerable payables for the investment activity outstanding at 31 December 2011 which was paid in the first few days of the current financial year. Note that, following the application of the inter-company contracts signed in the context of the new Terna Group organisational structure described above, the significant decrease in payables to third party suppliers (€497 million) is offset by the higher payables to the subsidiary Terna Rete Italia S.p.A. (€454 million) relating mainly to upgrading and development activities (€379 million) and ordinary maintenance and to technical services on the TNG (€73 million);

- **net tax liabilities**: the decrease of €110 million is due mainly to lower payables to the tax authorities for current taxes (-€44 million, essentially attributable to the lower payments made in the previous financial year, because they did not take into account, as provided for, the new regulations introduced in the second half of 2011, in line with what is referred to as the "Robin Hood Tax"), to the increase in net receivables from the tax authority for VAT (€51 million) and for IRES pursuant to Legislative Decree 16/2012 of 2 March 2012 (€8.0 million).

It is specified that the changes in trade receivables and net payables for pass-through energy items referred to above do not take into account the items used to offset against an operator in the electricity market (€122 million), paid in January 2013.

The **gross invested capital** therefore amounts to €8,485 million, recording an increase of €694 million as compared with 31 December 2011.

Sundry provisions, amounting to €265 million, post a decrease of €166 million, mainly due to:
- a decrease in termination benefits and other employee funds (€105 million) mainly attributable to the transfer of the liabilities connected with the employees belonging to the business unit leased to Terna Rete Italia S.p.A. (€104 million);
- a decrease in the risk provision "Projects for urban and environmental renewal" for the release of the earlier allocations currently considered unlikely (€43 million) and for the net use for the current contractual payments (€11 million);
- use of amounts set aside previously for deferred tax liabilities relating to additional amortisation and depreciation over the assets' estimated useful life (€42 million);
- recording of the deferred tax asset on the change of the fair value associated with the derivative cash flow hedging instruments for €11 million;
- accruals made to the provision for risks related to the IMU tax, estimated by applying Memorandum 6/2012 of the Agency of the Territory (land registry) on registering the land of electrical stations (€16 million).

Net invested capital stands at €8,220 million and is financed through equity for €2,599 million (as compared with €2,555 million as of 31 December 2011) and by net financial debt for €5,621 million (+€816 million as compared with 31 December 2011).
The **debt/equity** ratio (net financial debt/equity) stands at 2.16.

The following is a breakdown of net financial debt:

€ million	at 31.12.2012	at 31.12.2011	Change
Long-term debt (inclusive of the short-term portion) and related hedges	8,365	6,388	1,977
Short-term investments	-	(150)	150
Cash and cash equivalents	(2,494)	(1,114)	(1,380)
Financial transactions with subsidiaries			
Loan to Terna Rete Italia S.r.l.	(500)	(500)	-
Net current a/c position of intercompany treasury	250	181	69
Net financial debt from continuing operations	**5,621**	**4,805**	**816**
Total financial debt	**5,621**	**4,805**	**816**

For a breakdown of the individual components of this net debt at 31 December 2012, see "Cash flows" below.

Cash flows
Net financial debt
The Company's net financial debt at 31 December 2012 (€5,621 million) is broken down as follows.

€ million	31.12.2012	31.12.2011	Change
A. Medium- and long-term debt			
Bond [1]	6,544	4,304	2,240
Floating-rate loans [1]	2,366	2,435	(69)
Derivative financial instruments [2]	(614)	(411)	(203)
Loan to Terna Rete Italia S.r.l. [3]	(500)	(500)	-
Total	**7,796**	**5,828**	**1,968**
B. Short-term debt (liquidity):			
Floating-rate loans (current portions) [4]	69	60	9
Short-term investments	-	(150)	150
Net current a/c position of intercompany treasury [5]	250	181	69
Cash and cash equivalents	(2,494)	(1,114)	(1,380)
Total	**(2,175)**	**(1,023)**	**(1,152)**
Total	**5,621**	**4,805**	**816**

In the statement of financial position:
(1) this figure corresponds to the item "Long-term loans";
(2) this figure corresponds to the items "Non-current financial liabilities" and "Non-current financial assets" for the value of FVH derivatives (€754.9 million);
(3) this figure is included under ""Non-current financial assets";
(4) this figure corresponds to the item "Current portion of long-term loans";
(5) this figure corresponds to the item "Short-term loans";

Net financial debt records an increase of €816 million, mainly as a result of the combination of:
- increase in **bond loans** (€2,240 million), due essentially to the bonds issued in February and October for a nominal amount of €1,250 and €750 million (totalling €1,991 million at 31 December 2012 net of initial expenses and issue discounts) and as a result of adjusting bond loans to fair value (€234 million, including the amortised cost) and of capitalising inflation in the period linked to the IL bond (€15 million);
- repayment of EIB loan instalments falling due for €60 million;
- increase in the positive net balance of **derivative financial instruments** (€203 million), mainly due to lowering of the reference interest rate curve compared to the previous financial year. In particular, note the change in fair value hedges of bonds of +€233 million and the change in cash flow hedges of floating-rate debt of -€30 million;
- advance redemption of deposit certificates subscribed in 2011 and due on 14 June 2013 (€150 million);
- increase in the net negative balance of intercompany current accounts held by the Company with its subsidiaries (€69 million);
- increased cash and cash equivalents (€1,380 million) mainly due to the liquidity generated by issuing the bonds described above and by core business.

STATEMENT OF CASH FLOWS

€ million	Cash flow at 31.12.2012	Reconciliation financial statements	Cash flow at 31.12.2011	Reconciliation financial statements
Opening cash and cash equivalents & intercompany current accounts	**1,114.3**		**168.7**	
Profit for the year	463.2		453.6	
Amortisation and depreciation	370.6		348.8	
Net change in provisions	(165.3)		(80.4)	
Employee benefits		*(105.3)*		*(3.0)*
Provision for future risks and charges		*(20.5)*		*(22.8)*
Deferred tax liabilities		*(39.5)*		*(54.6)*
Net losses (gains) on asset disposals (1)	(5.9)		(3.9)	
Self-financing	**662.6**		**718.1**	
Change in net working capital:	47.6		336.5	
Inventories		*12.4*		*(1.0)*
Trade receivables		*(178.3)*		*(188.4)*
Current financial assets		*(15.0)*		*(5.3)*
Income tax assets		*(14.4)*		-
Other current assets		*(36.7)*		*1.5*
Trade payables		*223.0*		*494.9*
Income tax liabilities		*(37.8)*		*19.1*
Current financial liabilities		*35.2*		*15.9*
Other liabilities		*59.2*		*(4.8)*
Discontinued operations and assets held for sale		-		*4.6*
Cash flows from operating activities	**710.2**		**1,054.6**	
Total investments	(1,166.8)		(1,172.4)	
Property, plant and equipment (2)		*(1,113.0)*		*(1,122.7)*
Intangible assets (3)		*(53.8)*		*(49,7)*
Other changes in non-current assets	60.6		(38.2)	
Property, plant and equipment (2)		*112.3*		*1.2*
Non-current financial assets		*(56.1)*		*(39.0)*
Other non-current assets		*4.4*		*(0.4)*
Total cash flows generated by/(used in) investing activities	**(1,106.2)**		**(1,210.6)**	
Change in loans	2,195.5		1,546.8	
Current financial assets		*150.0*		*(150.0)*
Non-current financial assets		*(233.1)*		*(321.5)*
Non-current financial liabilities		*29.8*		*64.3*
Long-term loans		*2,170.7*		*1,591.2*
Current portion of long-term loans		*9.7*		-
Short-term loans		*68.4*		*108.2*
Discontinued operations and assets held for sale		-		*500.0*
Liabilities from discontinued operations and assets held for sale		-		*(245.4)*
Other changes in equity	(17.4)		(23.1)	
Equity - Share capital and other reserves (4)		*(17.4)*		*(23.1)*
Dividends (4)	(402.0)		(422.1)	
Total cash flows generated by/(used in) financing activities	**1,776.1**		**1,101.6**	
Total cash flows for the year	**1,380.1**		**945.6**	
Closing cash and cash equivalents & intercompany current accounts	**2,494.4**		**1,114.3**	

(1) Included in the "Other revenue and income" and "Other operating costs" captions of the income statement;
(2) See note 11 to the financial statements;
(3) See note 13 to the financial statements;
(4) See the Statement of Changes in Equity.

Change in net financial position

€ million	2012	2011
Opening net financial debt	**(4,805)**	**(4,204)**
Self-financing	**662**	**718**
Change in net working capital	**48**	**337**
Cash flows generated from operating activities	**710**	**1,055**
Total investments	(1,167)	(1,173)
Infra-group disposals (acquisitions) of fixed assets	16	(18)
Disposals (acquisitions) of equity investments	(56)	(39)
Other changes in non-current assets	101	19
Cash flows used in investing activities	**(1,106)**	**(1,211)**
Dividends distributed	(402)	(422)
Other changes in equity	(18)	(23)
Equity movements	**(420)**	**(445)**
Change in financial debt	(816)	(601)
Closing net financial debt	**(5,621)**	**(4,805)**

The liquidity generated from operating activities during the financial year, about €710 million, is related to **self-financing** (+€662 million) and the **change in net working capital** (+€48 million). In particular, with regard to self-financing, note the profit for the period of €463 million, the amortisation and depreciation for the period of €371 million and a net decrease in provisions of €166 million, which reflects the change in provisions for employee benefits, for net deferred tax liabilities and for the provisions for risks and charges mentioned above.

The **management of net working capital** has generated net financial resources of €48 million and is mostly attributable to the net increase in trade payables (including pass-through energy-related economic items).

Investing activities led to a net use of cash of about €1,106 million. These resources are for the most part relating to the **investments** during the financial year in **property, plant and machinery** (€1,113 million of which €1,090 million relating to investments in core-business) and in **intangible assets** (€54 million); other changes can be seen in this context, mainly relating to the impairment of fixed assets for €43 million for the capitalisations carried out in previous periods due to allocations to the risk provision "Projects for urban and environmental renewal", currently considered unlikely, to set-up grants relating to plants for €24 million and disposals and other changes for €23 million. The change also reflects the transfer of eight rapid installation electricity stations (SCRI) and one transformer (located in Brindisi) to the subsidiary Terna Plus (€16 million) which took place upon the transfer of the business unit effective 1 August 2012. Of particular note amongst the financial investments is the subscription by Terna of two separate capital increases of the subsidiary Terna Cnra Gora d.o.o. during 2012 (for a total €34 million), in order to provide the subsidiary with the resources necessary to develop the business, and for the transfer of the business unit to the subsidiary Terna Plus S.r.l., with effect from 1 August 2012, which increased Terna S.p.A.'s holding in the subsidiary (by €18 million).

Cash used in relation to **equity movements** is essentially the result of the distribution of the 2011 dividends (€261 million) and the interim dividend for 2012 (€141 million). The other changes in equity attributable to owners of the Parent relate to recognition at fair value of CFH derivative instruments hedging floating-rate debt, net of the related tax effect (-€18 million).

Therefore, cash flows used in investing activities and equity movements for the year resulted in total uses of liquidity of €1,526 million, which was funded in part by cash flows generated from operating activities (€710 million) and the remaining through new debt (€816 million).

The Terna Group and outlook

Subsequent events

Terna the only Italian electricity company in the Gold Class of global sustainability

On **23 January 2013** Terna, Italy's only electricity company, appeared for the second consecutive year in the Gold Class of the RobecoSam – Sustainability Yearbook 2013, the yearbook of the international ratings agency that screens companies and evaluates their capacity for access, presence or exclusion from the prestigious Dow Jones Sustainability Indexes, based on ethical analysis that examines a review of the main controversies, and verification of compliance with strict criteria for economic, environmental and social performance.

AEEG resolutions on pilot projects for accumulation systems

On **11 February 2013** the Electricity and Gas Authority published resolution 43/2013/R/eel, concerning *"Approval of pilot projects relating to accumulation systems to be constructed on the national transmission grid, as part of the upgrade programme for security and defence systems 2012-2015"*.
The measure, integrating the definitions reported in resolution 288/2012/R/eel, divides the NTG pilot project into two types:

- ***energy intensive:***
  "project of limited size, but capable of performing a meaningful experiment involving the implementation of electrical energy accumulation systems with batteries connected to the electricity transmission grid, and which can be repositioned (hereinafter: removable), designed to allow, to the maximum possible degree – pending necessary grid strengthening – the input of electricity produced from non-programmable renewable resources into the grid; these systems must be complementary to a dynamic control system of the grids";
- ***power intensive:***
  "the two projects, each of a maximum size of 8 MW, envisaged under the 2012-2015 Defence Plan approved by the Ministry of Economic Development (MED), referred to in the statement of 21 December 2012, providing for the installation of intensive-power electrochemical accumulation systems in Sicily and Sardinia".

has allowed the two power intensive pilot projects to be admitted for incentive treatment, pursuant to paragraph 22.5, letter d) of the Integrated Transmission Text (TIT, *Testo Integrato di Trasmissione*). The measure envisages a two year trial period and sets the conditions for the remuneration of the above two projects, sanctioning, however, the need to ensure separate accounting evidence of income statement and balance sheet items relating to each power intensive project admitted to incentive treatment.

On **21 February 2013**, the AEEG also published Resolution 66/2013 whereby it arranged for the approval and admission to incentives of six energy intensive pilot projects in relation to Storage Systems coming under the scope of two critical directives indicated in the 2011 Development Plan approved by the Ministry of Economic Development on 02 October 2012, in accordance with that established by Italian Legislative Decree no. 28 of 03 March 2011.

Terna rewarded as the best European utility company in terms of total shareholder return

On **11 March 2013**, Terna was awarded the "International Utility Award 2013" in London by the Edison Electric Institute (EEI) of Washington DC (US). The award named the company the best of European utility companies in terms of total shareholder return (TSR) in the last three years. In the three years 2010-2012, Terna's return has in fact stood at 24% as compared with average returns in the industry and the Italian index that were decidedly negative (DJ Stoxx -10%, Ftse Mib -21%).

Terna's rating

On **13 March 2013**, Fitch Ratings reduced the Long-Term Issuer Default Rating (IDR) and the Senior Unsecured Rating of Terna S.p.A. to "A-" from "A". The outlook assigned to the IDR remains negative.

Outlook

The year 2013 will see the Company committed to the implementation of the 2013-2017 Strategic Plan approved by the board of Directors on 6 February 2013.
In line with the strategy adopted in the previous Strategic Plan, the Group completed a company reorganisation process that provides for a company structure with greater focus on non-core activities, as well as on the consolidation of traditional activities.
With reference to traditional activities and in particular the development and renewal of the NTG, there are planned investments in line with the year just concluded; in particular, the Development Plan envisages that the company will continue to develop and construct interconnections with other countries (Montenegro and France), to reduce congestion in the grid (Sorgente-Rizziconi and Dolo-Camin operations) and to continue the development of accumulation systems projects.
In terms of revenues, there is expected to be an increase in the regulated component, due to investments made in 2011 and the impact of the recent revaluation of the Regulatory Asset Base (RAB).
In line with previous years, the Company will pursue the rationalisation of processes and efficiency of operating expenses, while at the same time ensuring maximum quality of the transmission and dispatching service.
With regard to financial management, the issue of bonds in 2012 will guarantee resources available for business activity until 2015.

The business

National Transmission Grid

Number of plants

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

	31.12.2012 TERNA	31.12.2012 TERNA RETE ITALIA S.r.l.	31.12.2012 TOTAL	31.12.2011 TOTAL	VARIATION 01 ÷ 12.2012
Stations	449	19	468	454	+14
Transformers	648	2	650	638	+12
	136,489 MVA	320 MVA	136,809 MVA	126,623 MVA	+10,187 MVA
Bays	4,964	83	5,047	4,927	+120
Lines	40,931 km	16,507 km	57,438 km	57,649 km	-211 km
3-phase power lines	2,347	1,730	4,077	4,040	+37
	45,904 km	17,543 km	63,448 km	63,625 km	-178 km

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

A further detail of the number of Terna S.p.A. and Terna Rete Italia S.r.l. plants at 31 December 2012 is shown in the following two tables:

ELECTRICAL STATIONS	Units	2011	2012	Variation	%
380 kV					
Stations	No.	147	150	+3	+2.04
Power transformed	MVA	93,448	103,648	+10,200	+10.92
220 kV					
Stations	No.	153	154	+1	+0.65
Power transformed	MVA	30,084	30,227	+143	+0.48
Lower voltages (≤150 kV)					
Stations	No.	154	164	+10	+6.49
Power transformed	MVA	3,092	2,935	-157	-5.08
Total					
Stations	No.	454	468	+14	+3.08
Power transformed	MVA	126,623	136,810	+10,187	+8.04

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

LONG-DISTANCE POWER LINES	Units	2011	2012	Variation	%
380 kV					
Length 3-phase power lines	km	11,808	11,810	+2	+0.01
Length lines	km	10,893	10,894	+1	+0.01
220 kV					
Length 3-phase power lines	km	12,058	11,987	(71)	(0.59)
Length lines	km	9,710	9,638	(72)	(0.75)
Lower voltages (≤150 kV)					
Length 3-phase power lines	km	39,759	39,651	(108)	(0.27)
Length lines	km	37,046	36,907	(140)	(0.38)
Total					
Length 3-phase power lines	km	63,626	63,488	(178)	(0.28)
Underground cable	km	1,327	1,368	+41	+3.09
Submarine cable	km	1,348	1,348	-	-
Direct current (200 - 400 - 500 kV)	km	2,066	2,066	-	-
Length lines	km	57,651	57,440	(211)	(0.37)
Underground cable	km	1,327	1,368	+41	+3.09
Submarine cable	km	1,348	1,348	-	-
Direct current (200 - 400 - 500 kV)	km	1,746	1,746	-	-
Incidence of direct current connections					
3-phase power lines	%	3.25	3.26	+0.01	+0.28
Lines	%	3.03	3.04	+0.01	+0.37

MVA calculated to 3 decimal places and rounded off to the unit. Percentages calculated to 5 decimal places and rounded off to 2 decimal places.

Number of plants – Terna

The number of plants belonging to the company Terna S.p.A. at 31 December 2012, compared with the situation at 31 December 2011, is shown in the following table:

	31.12.2012 TERNA	31.12.2011 TERNA RETE	VARIATION 01 ÷ 12.2012
Stations	449	435	+ 14
Transformers	648 136,489 MVA	636 126,303 MVA	+ 12 + 10,187 MVA
Bays	4,964	4,846	+ 118
Lines	40,931 km	41,121 km	-190 km
3-phase power lines	2,347 45,904 km	2,312 46,069 km	+ 35 -165 km

Stations

With regard to the stations, the following variations are noted:

1. of entire plants:

- activation of 3 new transformer stations: Aliano (5 380 kV bays and 6 150 kV bays), Castellaneta (4 380 kV bays and 6 150 kV bays) and Erchie (2 380 kV bays and 2 150 kV bays);
- activation of 12 new switching stations: Pellerina and Villa Castelli (4 220 kV bays each), Collarmele and Aprilia 150 (6 150 kV bays each), Stornara (4 150 kV bays), Taverna, Terranova, Monte Narbone, Francavilla and Ucrìa (3 150 kV bays each), Melissa and Sortino (2 150 kV bays each);
- activation in provisional configuration (and therefore not counted as a station) of the plant in Tuscania (1 380 kV bay and 1 150 kV bay);
- disposal of the station in Monfalcone Industrial Zone (3 220 kV bays);
- declassification of the Este station from 220 kV to 132 kV.

2. of existing plants:
- activation of the new 220 kV SF6 section in the Piossasco station (4 bays);
- activation of the new 150 kV in air section of the Piossasco station (5 bays);
- activation of the new 150 kV in air sections in the stations of Benevento II and Brindisi Sud (2 bays each);
- activation of the new 132 kV SF6 section in the Piossasco station (6 bays);
- activation of the new 132 kV SF6 section of the San Columbano station (4 bays);
- deactivation of the 220 kV section in the Feroleto station (2 bays);
- deactivation of the 70 kV section in the Taloro station (2 bays);
- activation of 35 new line bays in the stations of Foggia PST (4 380 kV bays), Villanova PST (2 380 kV bays), Villanova (1 380 kV bay), S. Giacomo 380 (2 220 kV bays), Milano Porta Volta (3 220 kV bays), Ponte and Milano Gadio (1 220 kV bay each), Montalto and Deliceto (2 150 kV bays each), Rotello, Bisaccia 380, Brindisi Pignicelle, Castelnuovo, Scandale, Maida, Ginestra, Foggia, Feroleto, Patria, S. Sofia (1 150 kV bay each), Carpi Fossoli (3 132 kV bays), Somplago, S. Alberto and Alfonsine (1 132 kV bay each);
- activation of 25 new machine and/or power factor correction bays in the stations of Brindisi Sud and Deliceto (2 380 kV bays and 2 150 kV bays), Villanova PST and Foggia PST (2 380 kV bays each), Villanova and Benevento II (1 380 kV bay and 1 150 kV bay each), Piossasco (1 380 kV bay and 1 132 kV bay), Montalto, Aurelia, Scandale, S. Sofia and Feroleto (1 380 kV bay each), Camporosso and Maddaloni (1 220 kV bay each);
- activation of 2 new parallel bays in the stations of Lizzana and Alfonsine (1 132 kV bay each);
- deactivation demolition and/or transfer to third parties of 28 bays in the stations of Piossasco (4 220 kV bays and 4 132 kV bays), Camporosso (3 220 kV bays), Cardano (1 220 kV bay), ex-Sezionamento Collarmele (5 150 kV bays), Fratta and Feroleto (1 150 kV bay each), Cedegolo (3 132 kV bays), Martinetto, Stura, S. Rocco al Porto, Carpi Sud, Suvereto SC and Ferrara SC (1 132 kV bay each).

These variations must be reduced by 2 bays, deleted following technical verification of the values previously cited.

Transformers

With regard to transformers, the following variations are noted:
- activation of 4 new 380 kV phase shifting transformers of 1,800 MVA in the plants of Villanova PST and Foggia PST (2 PST each);
- activation of 6 new 380 / 150 kV auto-transformers of 250 MVA in the stations of Villanova and Benevento II (1 ATR each), Brindisi Sud and Deliceto (2 ATR each);
- activation of 1 new 380 / 132 kV auto-transformer of 250 MVA in Piossasco station;
- activation of 4 new 380 / 150 kV auto-transformers of 250 MVA, at the same time as the entry into service of the new stations of Aliano (2 ATR), Castellaneta and Erchie (1 ATR each);
- activation of 1 new 380 / 150 kV auto-transformer of 250 MVA and 1 new 150 / 20 kV transformer of 40 MVA, at the same time as the entry into service of the Tuscania plant;
- activation of 1 new 220 / 20 kV transformer of 63 MVA in the Maddaloni station;
- strengthening of 3 220 / 132 kV auto-transformers in the stations of Pianezza and Cardano (from 160 to 250 MVA) and Chatillon (from 100 to 160 MVA);
- transfer to Edison of 2 132 / 10 kV transformers of 70 MVA in the Cedegolo station;
- transfer to RTR of 2 132 / 20 kV machines of 8 and 16 MVA respectively, at the same time as the transfer of the plants at Suvereto SC and Ferrara SC;
- disposal of 1 220 / 150 kV auto-transformer of 160 MVA in the Feroleto station;
- disposal of 1 150 / 70 kV transformer of 32.5 MVA in the Taloro station.

Long-distance power lines

With regard to long-distance power lines, the following variations are noted:
- entry into service of 9 new lines for a total of 28.2 km; Casoria - Fratta 220 kV (6.6 km); Pellerina - Torino Ovest 220 kV (4.6 km), Milano Gadio - Milano Porta Volta 220 kV (1.6 km), Pellerina - Levanna 220 kV (0.7 km), Pellerina - Martinetto 220 kV (0.6 km), Bussi - Popoli cp 150 kV (3.7 km), Carpi Sud - Carpi Nord 132 kV (9.9 km), Brunico cp - Brunico c.le Hydros 132 kV (0.3 km), Somplago - SIOT Cavazzo 132 kV (0.1 km);
- implementation of 6 short connections between adjacent plants for a total of 1.2 km, of which: 2 are of 220 kV (0.8 km) and 4 are of 132 kV (0.5 km);
- implementation of 22 incoming-outgoing derivations on as many lines in operation with an overall increase to as many three-phase power lines and to + 20.5 km, of which: 2 are of 380 kV connections (+ 0.2 km), 2 are of 220 kV connections (+ 0.1 km), 9 are of 150 kV connections (+ 7.1 km) and 9 are of 132 kV connections (+ 13.0 km);
- disposal of 4 lines in operation for a total of 23.1 km, of which: 3 are of 220 kV (19.1 km) and 1 is of 132 kV (4.0 km);
- acquisition by Terna Rete Italia S.r.l., in view of authorisation requirements, of 5 line sections for a total of 4.3 km, of which: 4 are of 150 kV (2.4 km) and 1 is of 132 kV (1.9 km);

- partial reorganisation of the 132 kV grid north of Milan with an overall increase of 1 three-phase power line, and at the same time a 122.3 km reduction in three-phase circuits in operation;
- implementation of modifications, rigid derivations and/or changes in the line with a total reduction of 1 three-phase power line and 58.4 km, of which: + 1.4 km is of 380 kV, - 2 three-phase power lines and - 66.5 km is of 220 kV, + 2 three-phase power lines and + 20.1 km is of 150 kV, - 1 three-phase power line and - 13.4 km is of 132 kV.

These variations must be reduced by 3 three-phase circuits and around 15.4 km of the same, deleted following technical verification of the values previously cited.

Number of plants - Terna Rete Italia S.r.l.

The number of plants belonging to the company Terna Rete Italia S.r.l. at 31 December 2012, compared with the situation at 31 December 2011, is shown in the following table:

	31.12.2012 TERNA RETE ITALIA S.r.l.	31.12.2011 TERNA RETE ITALIA S.r.l.	VARIATION 01 ÷ 12.2012
Stations	19	19	0
Transformers	2	2	0
	320 MVA	320 MVA	0 MVA
Bays	83	81	+2
Lines	16,507 km	16,528 km	-21 km
3-phase power lines	1,730	1,728	+2
	17,543 km	17,556 km	-13 km

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

Transformers

No change occurred in the year, with regard to transformers.

Long-distance power lines

With regard to long-distance power lines, the following variations are noted:

- implementation of 7 incoming-outgoing derivations on as many lines in operation with a total increase of as many 3-phase power lines and to + 8.2 km, of which: 5 are of 150 kV connections (+ 7.7 km), and 2 are of 132 kV connections (+ 0.6 km);
- implementation of modifications, rigid derivations and/or changes in the line with a total increase of 4.5 km of the three-phase circuit, of which: + 5.8 km is of 150 kV, - 1 three-phase power line and - 1.6 km is of 132 kV, + 1 three-phase power line and + 11.9 km is of 70 kV;
- disposal and/or demolition of lines in operation with an overall reduction of 4 three-phase power lines for a total of 14.9 km, of which: 1 is of 150 kV (3.0 km), 2 are of 132 kV (5.3 km) and 1 is of 60 kV (6.6 km).

These variations must be reduced by 1 three-phase circuit and around 6.6 km of the same, deleted following technical verification of the values previously cited.

National Transmission Grid Development Plan

On 31 January 2012, in accordance with the provisions of the Italian Ministerial Decree of 20 April 2005 (Concession, as amended and updated with the Decree of the Ministry of Economic development of 15 December 2010) and by Italian Legislative Decree 93/2011, the Development Plan 2012 edition was sent to the competent authorities for approval.
The Plan (DP 2012), approved by the Terna BoD, involved consultation procedures with the User Consultation Committee[12] (10 October 2011, 28 November 2011 and 10 February 2012).
In addition, in accordance with Italian Legislative Decree No. 93 of 1 June 2011, two public sessions were held at the AEEG on 28 May 2012 and 18 June 2012 to present the 2012 DP for consultation purposes.
The 2012 DP has the same basic structure of the previous edition, i.e. two sections:

- 2012 Development Plan - Section I which describes the reference situation, the forecast scenarios and the new development needs which became evident during 2011 and a specific section, under the terms of the National Action Plan for renewable energies, regarding development of the NTG for full use of the energy produced by systems using renewable resources;
- Stage of progress of previous plans - Section II which illustrates the state of progress of work provided for in previous Development Plans and which includes the work proposed in the 2011 DP, already subject to the Strategic Environmental Evaluation procedure (Italian Legislative Decree 152/2006).

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

As regards the Strategic Environmental Assessment (SEA) of the Plan, it can be noted that the 2012 DP contains two changes, with respect to the 2011 edition: the environmental characterisation of the new needs (in Section I), and the environmental analyses relating to the actions envisaged in previous Plans (in Section II), with particular reference to those in consultation for which the stage of progress of the activities is presented. In this way we intend to implement the integration of environmental considerations into the process and into the planning document, in accordance with the purposes of Directive 2001/42/EC, establishing the SEA procedure. This change is coordinated with the new philosophy of the 2012 Environmental Report which, with respect to the previous editions, tends to assume the nature of a Plan, typical of the SEA, instead of focusing on assessing the single actions.
The Ten-Year Network Development Plan of the European electricity grid (TYNDP 2012 edition) was prepared under the ENTSO-E with Terna's direct involvement in the context of the Regional Forums: Continental Central South (of which Terna is coordinator and a member) and Continental South East (of which Terna is a member). On 5 July 2012 the TYNDP 2012 edition was published on the Entso-E website, complete with the Regional Investment Plans and the document on the adequacy of the European electricity grid, in addition to the "pilot" edition of the European Network Code, in accordance with the provisions of the European Community Regulation regarding the "Third Energy Package".
The 2012 DP envisages investments of around €4.1 billion (including investments envisaged for the installation of diffused accumulation systems) in the period 2012-2016, and €3.8 billion in the five years thereafter. Implementation of the Development Plan will increase the size of the NTG by adding approximately 5,250 km of new lines and 157 new stations with a transformation capacity of around 44,800 MVA.

Strategic Environmental Assessment Procedure of the DP

The process for obtaining approval from the Ministry for Economic Development (MED) requires the acquisition of a reasoned opinion, on completion of the SEA procedure, expressed by the Ministry for the Environment and Protection of the Territory and the Sea together with the Ministry for Heritage and Culture.
On 6 June 2012 the Ministry for the Environment and Protection of the Territory and the Sea (MEPTS) transmitted to the Ministry for Economic Development (MED) the relevant reasoned opinion on the 2011 DP, requesting activation of discussions to assess the results of the said opinion. Following this discussion, the MED approved the 2011 PD on 2 October 2012 and published its Declaration of Synthesis, which indicates how the observations of the reasoned opinion will be acknowledged.
With regard to the 2012 DP, the related SEA procedure was launched on 31 January 2012 with the publication of the Preliminary Report. On 17 July 2012 the MEPTS transmitted an opinion on the 2012 Preliminary Report. On 21 December 2012 Terna published its Environmental report on the 2012 DP, whose consultation phase for the purposes of the SEA procedure will conclude on 19 February 2013.

Consultation with local administrations

Terna's approach to the territory, expressed on the basis of the need to build new lines consists of **a voluntary process of prior engagement** with local institutions (regional and local administrations, Park Entities, etc.). This process involves the sharing of National Transmission Grid (NTG) development needs with local institutions, a willingness to listen to stakeholder opinions and the search for a shared solution for the positioning of new infrastructure and the reorganisation of existing ones.
To encourage the acceptance of electricity infrastructure by local communities, Terna believes it essential to bring forward as much as possible the discussion with local administrations to the time of planning the need for a new NTG development operation. This will help create the conditions to "build" the development of the grid jointly with them, thus making it more sustainable and acceptable.
The voluntary pre-authorisation process, which last on average from one to three years, envisages several specific activities, in particular meetings to:
- define and formalise cooperation for the sustainable development of the NTG, in harmony with the goals of the Strategic Environmental Assessment;
- share a system of criteria for analysis of the territory and the selection of lower-impact alternatives;
- apply the criteria to the territory and identify the preferred corridor for the location of the work;
- define the feasibility band of the line within the preferred corridor and formalise the related memoranda of understanding.

The voluntary pre-authorisation consultation phase is followed by the authorisation process required by law.

Electricity system security 2012

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 preset 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 ninth edition in 2012, is drawn up every year and has a four-year programming period. The approach to electricity system security becomes increasingly structured in each edition 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. The 2012 Plan also includes projects for system management in expected operational scenarios in the medium-long term, characterised by important new elements, including increased production distributed by renewable sources.
In addition, in order to facilitate the full integration of these plants and resolve security criticalities associated with them, the current Plan envisages new initiatives that provide for the implementation and use of non-conventional systems for frequency regulation on the major islands, based on electrochemical accumulation systems.

In 2012 investment in the Security Plan amounted to €63 million.
The ninth edition of the Security Plan for 2012-2015 provides for investments of around €242 million.

Smart Transmission Solutions

One of Terna's main needs is to make the transmission grid dynamic, capable of evolving rapidly and effectively in the face of scenarios that change unexpectedly and that cannot be easily predicted.
In the Development Plan, Terna has planned interventions that can ensure, in various operating conditions, the security, reliability and efficiency requirements of the electricity system, and at the same time foster the integration of increased production from renewable sources not directly connected to the NTG.
Among these are the following:

- the installation of electricity equipment (PST - Phase Shifting Transformers) 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;
- the installation of reactors and condensers for the correct management of reactive energy flows on the grid and the consequent reduction of costs for the dispatching market;
- the use of high capacity conductors that function in relation to temperature (Dynamic Thermal Rating- DTR) to maximise the transmission capacity of existing lines;
- the testing of diffused accumulation systems to maximise the use of resources from renewable sources and improve the regulation of the high and very-high voltage system;
- initiatives based on smart logic, aimed at improving the forecast and control of distributed generation.

These solutions are generally characterised by reduced environmental impact (as they allow the maximal use of the existing asset) and implementation times and costs normally lower than those required for the implementation of new network infrastructure (high voltage lines and stations).

Work carried out in period

The most important work - still in progress - carried out during 2012 involved activities to reduce network congestion, connect new generating plants (especially those using renewable energy resources) and increase the reliability of the NTG with increased attention to environmental and safety issues.
Below is a summary of the main work in progress and the main work concluded in 2012:

- new 380 kV "Sorgente-Rizziconi" submarine connection: the first phase of works in the station at Scilla (Calabria) was completed, with the operational start-up of the 150 kV section and the 150 kV cables; extension works were completed on the electricity station of Rizziconi (Calabria); works are approaching completion in the electricity station of Sorgente (Sicily); the organisation of the site for the station in Villafranca (Sicily) is underway. The first three-phase line of the underwater cable between Villafranca and Favazzina has been laid, with the first cable in fibre-optic. Construction is underway on the tunnel at Favazzina. Works for the implementation of the 380 kV aerial line in Calabria are 70% completed, and works are underway on the long-distance lines in Sicily, between Villafranca and Sorgente;
- 380 kV stations for the connection of renewable sources plants: expansion of the 380/150 kV electricity stations of Deliceto and Brindisi Sud, implementation of new 380/150 kV stations at Castellaneta and 150 kV station of Stornara; opening of works on the electricity station of Erchie and start-up on 20 December of a bay for the provisional connection of the wind producer;
- construction work in advanced stages on the new 380 kV double three-phase long-distance line joining the 380 kV stations of Trino in the province of Vercelli and Lacchiarella in the province of Milan, for a length of over 100 km;
- installation completed on the two PST (System Phase Shifter) machines, one in the Foggia electricity station and the other in Villanova;
- completion of the 380/150 kV station of Aliano and related connections; implementation of the 150 kV cable connections underway;

- Cassano-Chiari: completion of the adjustment phase of the 220 kV power line interfering with the construction of the new BREBEMI motorway;
- completion of installation of the following 380 kV reactors of 285MVar: Scandale, Aurelia, Montalto, Santa Sofia and Feroleto.

Also in 2012, the following works were started:
- construction of the 380 kV **Foggia-Benevento** power line: length approximately 85 km;
- construction of the 380 kV **Fereleto-Maida** power line: length approximately 13 km;
- construction of the various 150 kV cable connections, at the ES of Aliano (Basilicata), ES of Lacchiarella (Lombardy) and the ES of Villafranca (Sicily);
- expansion with a further 150 kV section and installation of a new ATR for connecting new users at existing electricity stations of Foggia (Puglia) and Scandale (Calabria);
- installation of a new 380 kV reactor of 285MVar at the electricity station of Teramo;
- a new 380/150 kV electricity station at Manfredonia (Puglia).

Power generation

Energy demand in Italy

According to provisional data, the demand for electricity in 2012 amounted to 325,259 GWh, down by 2.8% compared to the same period in 2011 (see the table below).

To compare the results for 2012 with the data for the previous year, the number of days and temperature being equal, we must consider two separate factors. The influence of the calendar is due to the presence of an extra working day in the first half of 2012, a leap year, compared with the days in 2011 (253 days rather than 252). Furthermore, weather conditions were slightly warmer in summer (0.4 degrees Celsius higher) and colder in winter (-0.7 degrees Celsius) compared with the same period in 2011.

Adjusting, therefore for the number of days and the temperature, the change in electricity demand amounted to -3.4%.

ELECTRICITY BALANCE IN ITALY

GWh	2012	2011	Change	%
Net generation	284,798	291,446	(6,648)	(2.3%)
Imports from foreign suppliers	45,369	47,520	(2,151)	(4.5%)
Exports to foreign clients	2,281	1,787	494	27.6%
Destined for pumping	2,627	2,539	88	3.5%
Total demand - Italy	**325,259**	**334,640**	**(9,381)**	**(2.8%)**

Electricity generation

According to provisional data, net domestic production in 2012 (see table below) was -2.3% lower than in the same period of the previous year. Analysing the data for the main sources of energy net of ancillary services, thermal generation showed a 6.3% drop compared with 2011.

Hydro production was significantly lower in 2012 compared with 2011, with a fall of 8.2%, net of ancillary services.

Net production from renewable wind, solar and geothermal energy resources rose sharply also in 2012 compared with 2011, climbing by +42.4% overall.

Net production was achieved through the plant types described below.

ELECTRICITY PRODUCTION IN ITALY

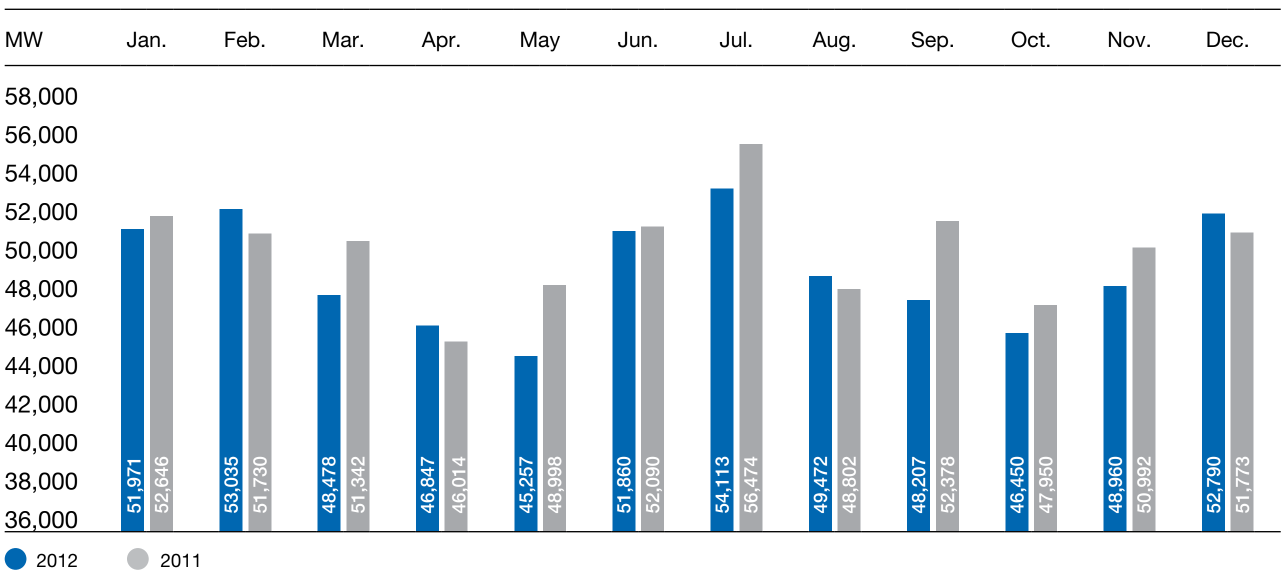
GWh	2012	2011	Change	%
Net hydro generation	43,322	47,202	(3,880)	(8.2%)
Net thermal generation	204,796	218,486	(13,690)	(6.3%)
Wind, photovoltaic and geothermal production - net	36,680	25,758	10,922	42.4%
Total net generation	**284,798**	**291,446**	**(6,648)**	**(2.3%)**

Dispatching

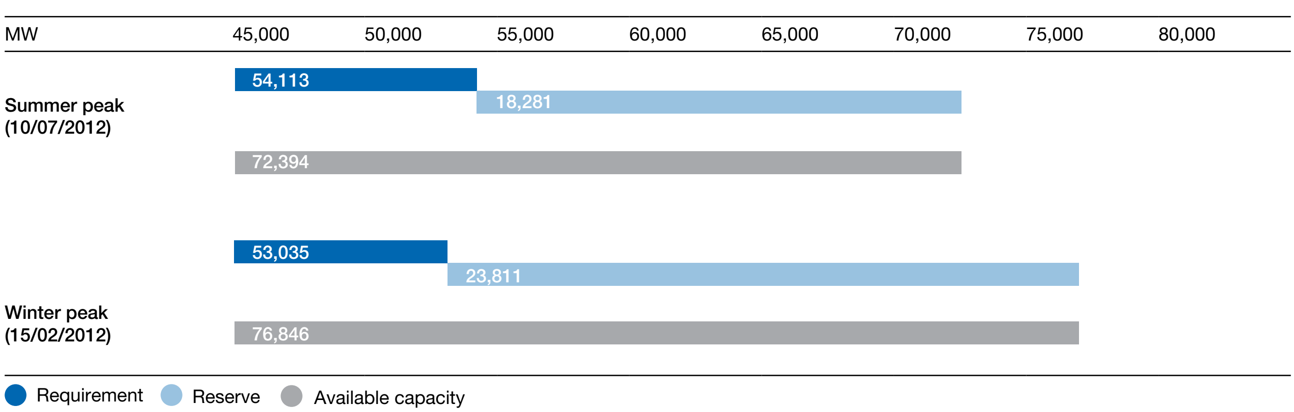
Coverage of demand

The maximum power requirement in 2012 was 54,113 MW (4.2% down on 2012), recorded on 13 July at 6 p.m.

MAXIMUM POWER VALUES

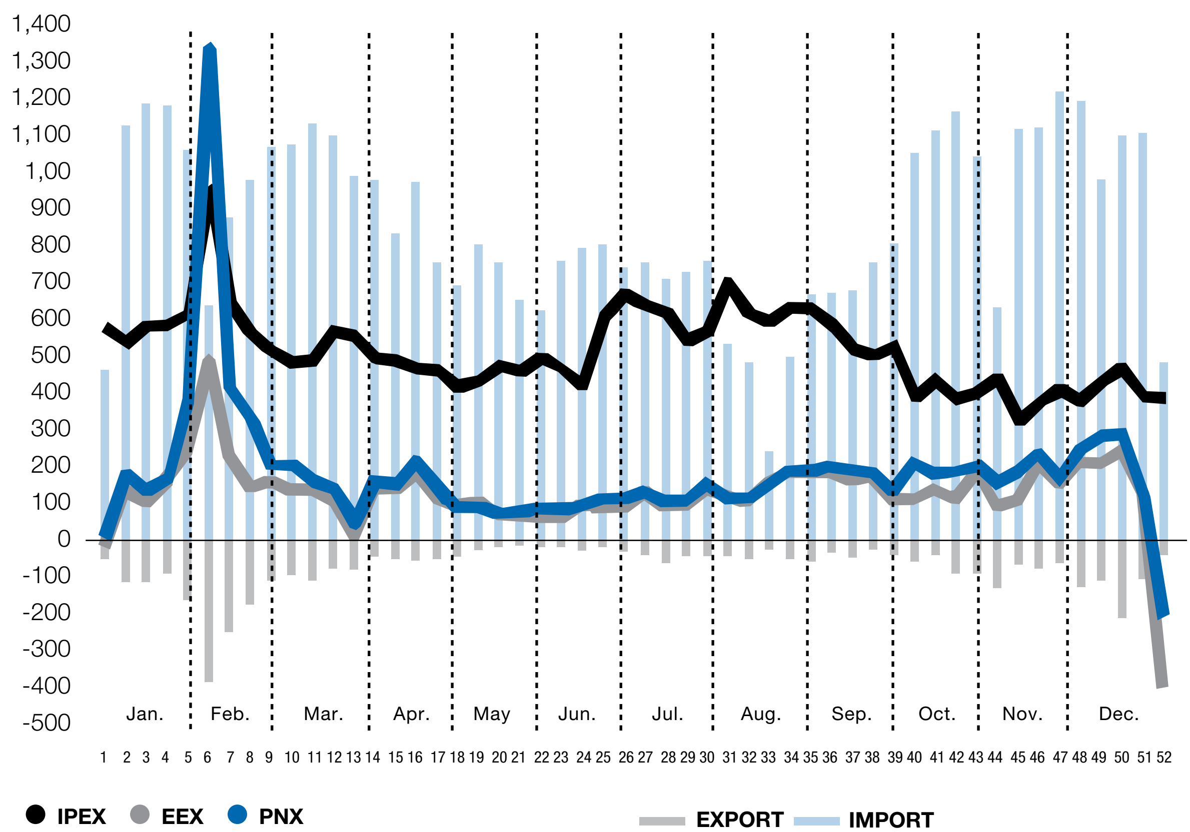


In 2012 the demand for power was covered with adequate production margins. Adequacy of the system is guaranteed by Terna as part of the process of planning the non-availability of grid elements in coordination with the non-availability of generation and considering production by plants using renewable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



Foreign trade recorded net imports down by approximately 2.6 TWh compared with the previous year.
A 41% increase was also recorded in the price spread between the Italian energy market and the cross-border markets with an average 2012 price of:

- 75.3 €/MWh (+4% yoy) on the Italian energy exchange (IPEX);
- 46.0 €/MWh (-6%) on the French exchange (PNX);
- 41.7 €/MWh (-18%) on the German exchange (PNX);
  The difference between the energy price on the Italian Stock Market and that of the European, French and German stock markets, is justified by the different generation fleet, characterised in Italy by greater production costs, hence the prevalence of import trade. The exceeding of the French price and the approach of the German price recorded last February can be attributed to a major increase in the demand and to the harsh temperatures. Vice versa, the distancing of these same prices recorded last December is due to a supply of wind power plants in Germany that for some hours also resulted in negative prices on the German stock exchange (i.e. the wind power manufacturer pays to sell the energy).

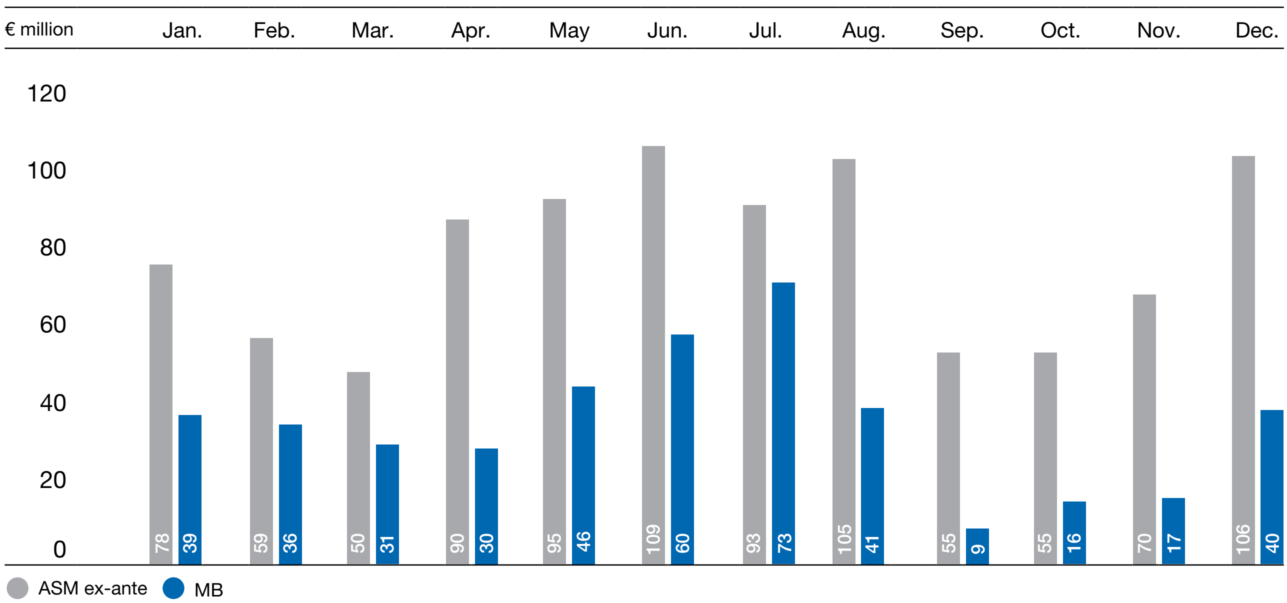


The week start-end on the graph is “Monday to Sunday”.

Provisioning of dispatching resources

In 2012, provisioning of resources for the dispatching service on the DSM amounted to 10.8 TWh purchased (+25% yoy) and 12.8 TWh sold (-26% yoy), for total net expenses of €1,292 million (+54% yoy).
Volumes and expenses were characterised by the following division into stages:

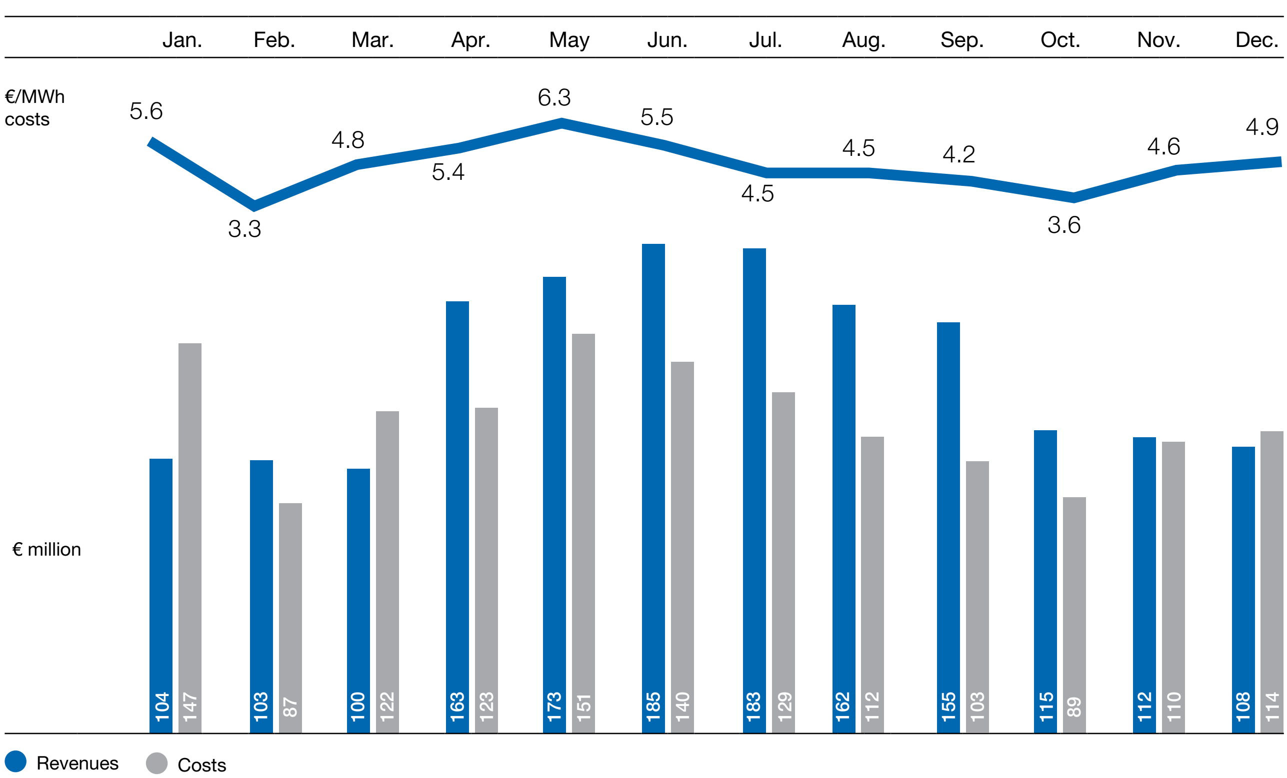
- DSM planning stage (known as ex-ante DSM) 5.8 TWh purchased and 3.4 TWh sold, with associated net expenses of €859 million;
- Balancing Market (BM) 5.0 TWh purchased and 9.3 TWh sold, with associated net expenses of €433 million.



Pursuant to Article 44 of AEEG Resolution No. 111/06 and subsequent amendments, the net expense associated with energy items is charged pro-rata to users of the dispatching on withdrawal by applying the Price for provisioning of resources on the Dispatching Services Market (known as the Uplift).

The main energy items that combine to determine the Uplift are the procurement of services on the DSM and energy purchase/sale to offset imbalances, imbalance prices, congestion rent and related financial coverage (known as CCT, CCC, CCP and DCT), the cost of the virtual interconnection service (known as Interconnector, Shipping).

The chart below shows the revenue from invoicing the Uplift ("Turnover") and the final cost of the energy items on the Uplift ("Costs") also in unitary terms. The invoicing of the Uplift takes place by applying a fee to withdrawals, set by Terna, to cover competence costs in advance and for previous months. The December 2012 figures are based on provisional data for the year.



Quality of service

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

- ASA (Average System Availability of network elements) = 99.317%, performance better than the target (99.050%);
- AIT (Average Interruption Time of the system) = 0.57 min for reasons attributable to Terna S.p.A. or to Terna Rete Italia S.r.l. (target: 1.00 min/year);
- SAIFI + MAIFI (System Average Interruption Frequency Index and Momentary Average Interruption Frequency Index for Users directly connected to the Terna NTG) = 0.23 interruptions/user for reasons attributable to Terna S.p.A. or to Terna Rete Italia S.r.l. (target: 0.22 interruptions/user);
- END (Energy Not Delivered owing to User blackouts) = 355 MWh for reasons attributable to Terna S.p.A. or to Terna Rete Italia S.r.l. (target: 550 MWh/year).

Qualification of plants

The Gaudì system (*Gestione delle Anagrafiche Uniche Degli Impianti di produzione*, Consolidated Records Management System of Production Plants) was established by AEEG with resolution 124 of 2010 and became operational in its first version in January 2011. The objective of the system is to integrate plants and production units, both important and unimportant, in compliance with the provisions of AEEG resolutions 205/08, 124/10 and 125/10.

2012 saw a significant evolution of the Plants Qualification Process, run through the Gaudì platform and in line with the project roadmap set out by AEEG resolution 148 of 2011. The resolution introduced the concepts of qualification and certification of data recorded in the system, imposed by the Active Connections Integrated Text (ACIT), envisaging the direct responsibility of the producer in the recording of data and the direct involvement of the Grid Operator in the validation process. In 2012, the Process underwent the following important revisions: the management and validation of the data, also for the purposes of measurement and reclassification of the commercial categories of GSE, in compliance with resolution 281/12 and the introduction of all the important features required to manage the entire life cycle of the plants in operation.

The next important objectives, set for 2013, are: the total alignment of master data with the Distributors and GSE, the complete integration of the process with company systems that use data of plants and production units in operation, the implementation of proper reporting that, as well as providing information on the status of the data, is capable of illustrating growth trends in the various energy production sectors.

Terna and non-core activities

In order to use and safeguard its resources as far as possible and maximise the profitability of its assets, Terna started during the fiscal year 2012 with the reorganisation of its operating assets, aiming to group non-core businesses into a single entity with a view to taking advantage of development opportunities in the best possible way.

With this goal in mind, Terna S.p.A. incorporated the company Terna Plus S.r.l., endowing it with a corporate organisation that fulfils the requirements of functional and accounting separation from the Parent Company and ensures compatibility with the Articles of Association and with Terna S.p.A.'s concession, and complies with the provisions of Italian Legislative Decree 79/99 (the so-called "Bersani Decree").

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

The results achieved in the first year of operation are particularly encouraging, despite the unfavourable economic climate. Contacts were also made with leading global producers of renewable energy to evaluate co-investments by Terna in stations connected to the network of renewable plants, with a BOO (Build, Own and Operate) business model. Negotiations are underway with some of them.

Among products in the portfolio, the main advances in innovative projects linked to the introduction of accumulation systems into the NES are described below.

Accumulation systems

Italian Legislative Decree No. 28 of 3 March 2011 (Implementation of Directive 2009/28/CE on the promotion of the use of energy from renewable sources) provides that operations planned by Terna in the NTG Development Plan can include electrical energy accumulation systems aimed at "fostering the dispatching of non-programmable plants".

On 02 October 2012 the Ministry of Economic Development approved the 2011 National Transmission Grid Development Plan (DP) with a recommendation to proceed with a trial programme for energy accumulation systems up to 35 MW, aimed at "fostering the input and withdrawal of energy produced from renewable plants". At the same time, it also approved the Programme for the adaptation and improvement of defence systems for the security of the electricity system (Defence Plan) 2012-2015 which, among other things, envisages the implementation of an additional 40 MW of accumulation systems aimed at "strengthening the secure operation of the major islands".

With regard to the actions provided for by the 2011 DP, during 2012 we identified the sites, under the critical guidelines indicated in the plan, suitable for housing the first accumulation systems, and the required documentation was prepared for the start up of the authorisation processes. The related Services Conferences were scheduled for February 2013.

On 19 October 2012 the AEEG published decision 08/12, indicating in detail the necessary elements in Terna's applications for admission to remuneration scheme I4 (a scheme intended specifically for investment in pilot projects for accumulation systems) as indicated in resolution 288/2012. Terna submitted these applications on 03 December 2012, in accordance with the terms indicated, and the AEEG approved the applications from Terna with Resolution 66/2013 of 21 February 2013.

By the end of 2013 we expect to obtain authorisation for the construction of the first accumulation systems and the start of related works.

With regard to interventions provided by the Defence Plan, the accumulation systems suited to this type of use (with performance mainly in power rather than energy) are now in the early stages of marketing, and so, in view of their eventual implementation in the NES, Terna has planned an initial phase of testing of key technologies on the market.

With this premise, in December 2012 the AEEG submitted a proposal for testing solutions based on Lithium and Zebra technologies, aimed at tackling the concerns raised in the 2012 Defence Plan and facilitating the integration of these innovative systems with the current management and dispatching of the electricity system. The AEEG approved the proposal with Resolution 43/2013 of 7 February 2013.

Additionally, sites suitable for the construction of the first accumulation systems were identified, and the technical documentation required for authorisation purposes is also being prepared.

Finally, several Research Institutes and Entities were identified with a view to their involvement in the trials, to assess the application potential of the various systems under analysis.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2
4
6
8
10
12
14
16

Risks and uncertainties, organisation and social responsibility

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. This paragraph aims to provide a clearer, more complete representation of these risks which are summarised along with the uncertainties to which the company is exposed, as indeed known to the market and shareholders, considering their presentation in the financial statements and financial prospectuses published in the past.

Regulatory risk

About 95% of the Group's consolidated revenue comes from annual fees paid for the provision of services regulated by the Italian Energy Authority. With Resolutions 199/11, 204/11 and 197/11 for the regulatory period 2012-2015, the Authority for Electricity and Gas (AEEG) established remuneration for the supply of electricity transmission, distribution and metering services, prices for dispatching and the regulation of the transmission service quality for the fourth regulatory period (2012-2015), in addition to the methods for updating them in subsequent years.
Within the scope of these regulations, there are a number of variables that could impact on the Group's performance, with specific reference to Resolution no. 199/11, where Article 2 provides for the revision of the remuneration rate of net invested capital in connection with the transmission services for the period 01 January 2014 - 31 December 2015.

Volume effect

The revenues of Terna S.p.A. and Terna Rete Italia S.r.l. attributable to the management, operation and development of the National Transmission Grid, and to the management of dispatching activities, are regulated by tariffs set by the AEEG. The unit transmission and dispatching tariffs are applied to the overall volume of energy transmitted and dispatched on the NTG. These volumes depend on factors beyond the control of the Group.
2012 and 2013 saw confirmation of the volume mitigation mechanism introduced by Resolution 188/08, which states that any impact on Company revenues caused by variations in electricity volumes withdrawn from the transmission grid and dispatched, would be limited to +/- 0.5%.
For transmission alone, it is possible that the so called binomial tariff, prefigured by Resolution 199/11, may be introduced from 2014; this mechanism, which would lead to the abolition of the volume mitigation mechanism, should further lessen transmission revenues' exposure to variations in energy transported.

Bonuses and penalties

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

Domestic legislative risk

Tax laws

Tax legislation may affect the tax rate and therefore the economic-financial results of the Group.

Laws on environmental protection

The activities of the Group are affected by the production of environmental legislation at national, European and international level (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.

Laws on energy

The activities of the Group may be affected by changes in the rules governing the electricity market, strategic infrastructure (regarding which the adoption of the “Golden Power” decree is expected, under the implementation of Italian Legislative 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.).

Employment laws

With regard to electromagnetic fields, Directive 2004/40/EC, the application of which has been postponed until 31 October 2013, is undergoing review. In general, more onerous rules governing health and safety in the workplace might have an adverse effect on the economic/financial performance of the Group.

Operational risks: risks connected with NTG malfunction

The Terna Group’s operations are exposed to the risk of unexpected service interruptions caused by external events that are beyond Terna’s control, such as accidents, defects or breakdowns involving control systems or other equipment, deteriorating plant performance, natural disasters, terrorist attacks and other extraordinary events of this kind. Repairs to the sections of the NTG owned by the Group and any claims for compensation by third parties as a result of such events could, in principle, give rise to expenses if the Group is found 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.).
On this matter please see paragraph E. “Commitments and risks” of the Notes to the Financial Statements of Terna S.p.A. and of the Terna Group.

Market and financial risks

In the conduct of its operations, the Group is exposed to various financial risks: market risk (interest-rate risk and inflation risk), liquidity risk and credit risk.
In accordance with the policies approved by the Board of Directors, the Terna Group has defined responsibilities and operational procedures for the management of financial risk, making specific reference to the tools to be adopted and setting clear operating limits for their use.

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

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

Risks connected with financing needs

Even in current market conditions, the Group expects to maintain sufficient capacity to generate financial resources from its operating activities. The investment plan for the future plan is however expected to result in an increase in existing debt despite the foreseen use of cash currently available. Although the Group has been able to finance its debt through access to capital markets under very favourable conditions, it may in the medium term find itself having to seek additional funding that in possibly less favourable market conditions could lead to an increase in its financial costs.

Risk on non-core business

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

Security

Terna has always paid great attention to the various risk factors affecting its resources and the national grid as a whole, by studying and applying up to date solutions to a high technical and organisational level, implemented in the form of Group-wide processes, systems and technologies, but also using procedures and/or guidelines applicable to electricity providers.

To meet the growing demand for safety, Terna implements a broad-based system for identifying, analysing and monitoring Company risks, combined with a major plan of consolidating its technical and organisational security mechanisms.

The initiatives regularly taken are intended to protect the Group's human resources, physical and technological infrastructures, focusing mainly on activities intended to prevent all risks and to manage cases of business fraud. Terna has set up a Security Operations Centre (SOC) with the aim of managing and monitoring critical situations within its operational scope. The SOC can prevent, address and manage safety and fraud-related events, and any emergency situations that may arise.

Terna's security unit adopts the latest best practices in the areas of critical infrastructure protection and security, which are also in line with the current national and European regulatory framework.

Security Operations Centre

In 2012, the number of operative company sites monitored for break-ins and by video-surveillance systems increased significantly, thus now covering most of the most sensitive sites as specified in the agreement with the Ministry of Interior. In addition to these, we also have the areas involved by sites, which are monitored by systems that can be relocated, also referred to as VideoBoxes.

Overall, by the end of 2012 the system managed the video surveillance of 150 company sites across the Group.

With regard to physical safety operations, jointly with the Carabinieri police force, the portal "Terna - Control Centre Carabinieri" is now fully operational, allowing for the complete integration between the Terna control centre and that of the Carabinieri.

Through this portal, information, images and videos can be exchanged in real time between the SOC control room and the Carabinieri patrol, equipped with "EVA" devices, sending the records from the monitoring room of the control centre, or the data collected on field by the patrols, thereby allowing for a rapid exchange of information in the event of a break-in.

With regard to the monitoring of information security, in 2012 company ICT resources were integrated further (servers, management platforms, etc.) onto the Security Information and Event Management system devoted to monitoring and relating security events on ICT resources. 2012 saw the consolidation of the ICT Security Events management system, in line with international standards such as ISO27001 and in particular ISO27035 with regard to incident management.

Risk Management

Electricity market risk management

In order to analyse the main risks relating to the electricity market, Terna uses an application called SIMM (Security Index Market Monitor), which represents the key performance indicators (KPIs) that allow us to have an overview of the high level of the trend of the electricity market and to readily identify any differences from the threshold limits established in order to analyse potential critical issues and risks.

Additionally, with its Resolution no. 115/08 ("TIMM") regarding the monitoring of the Wholesale Energy and Market for Dispatching Services, the Authority for Electricity and Gas defined the general principles and criteria of market monitoring for the companies Terna, GME and GSE, calling for each of these companies to establish a specific monitoring office.

Electricity market risk management is Terna's monitoring unit, which is responsible for the TIMM data warehouse and sees to the acquisition, organisation and storage of data in order to monitor the volumes and indicators related to the Market for Dispatching Services (MDS).

The activity in question is particularly important under the scope of the Terna incentives scheme envisaged by Authority Resolution no. 351/07 in relation to the procurement of resources for the dispatching service.

During 2012 the new requirements of the AEEG were implemented in accordance with the required deadlines, and were agreed with the same authority. Activities were commenced that are expected to be completed during the course of 2013.

For the second year running, ISO/IEC 27001:2005 certification was obtained on the TIMM implementation process. No non-conformity situations were detected.

Electricity system risk management

Terna is responsible for the efficient, effective and coordinated operation of the entire electrical system, even if it only directly manages the National Transmission Grid. It therefore follows that the share of internal vulnerability, mainly a function of the reliability of the systems and components, can be associated with additional threats due to the inadequate function of the plants connected that are not managed by Terna. The action taken to maintain risk levels at acceptable values is therefore twofold and it uses both investigation and diagnostic tools on electrical system equipment, to prevent failures on the basis of plant monitoring and the monitoring of events observed, and the supervision of the onset of any exogenous events such as breach of the Network Code by plants connected to the National Transmission Grid. Recently, the connection of plants with innovative characteristics, such as those with non-programmable renewable sources, not entirely regulated by the Network Code has required: analyses, studies and agreements with constructors, producers and distribution companies to ensure conditions that will result in amendments and supplements to Terna's instructions for the secure connection to the transmission grid.

Fraud Management

In 2012, the Fraud Management Unit continued with its control of company fraud, taking all actions needed to prevent its occurrence. Under this scope, the company has implemented specific procedures for certain critical processes, which are able to define management methods and criteria focussed on maximising efficiency and effectiveness and preventing unlawful conduct. Together with the activities involved in preventing crime, the Fraud Management Unit also carried out:

- activities to support the Company's other units, such as in the analysis and assessment of counterparties, so as to limit the risks deriving from transactions with others;
- compliance activities focusing on cooperating with and supporting the Company's management and its various offices, aimed at ensuring compliance with laws, regulations, procedures, codes of conduct, and best practices, as well as at reducing and/or preventing the risk of sanctions and safeguarding the Company's image.

Supplier qualification

In 2012 the Supplier Qualification Unit carried out a careful analysis of personnel employed by subcontractors and listed on Terna's Supplier Register. Extensive checks were carried out on all personnel declared by subcontractors, when the qualification application was made, in order to verify whether the declared workers had been duly employed for the whole duration of the three-year qualification period. The analysis was intended to lead to a reinforced safety policy, also in the sense of combating the phenomenon of illegal labour, in line with the principles of Terna's General Regulations, which provide that the minimum personnel required for the technical, management and operational divisions are duly and permanently employed as part of the company's workforce, as also mentioned in the Qualification Requirements.

The Supplier Qualification Unit has also carried out a series of increasingly strict controls intended to bring about continuous improvements in overall site safety. These controls include the introduction of a Quality, Safety & Environment Manager for all contract works sectors in which staff training is required, according to Terna specifications. The introduction of the QSA Manager allows the designation of a single contact within the contracting organisation who is responsible for the improvement and correct application of Quality, Safety and Environmental issues, to act as a sole interface in relations with the client company. In connection with the review of qualification requirements in the "Installation of AV cables" sector, training courses have been introduced for workers in the divisions of subcontracting organisations at greatest risk of incident.

During the last quarter of 2012, the project "Review of social and environmental control of the supply chain" was completed in collaboration with the CSR (PA- REC), Planning and financial analysis and Systems procedures and contracts (CA-AA) functions. The aim of the project was to verify the level of coverage offered by the current supplier qualification and procurement procedures of the Terna Group, with regard to the ESG (environmental, social, governance) aspects, and simultaneously identifying room for improvement. The project is part of the priority sustainability objectives for 2012 and responds to the focus on the supply chain. It proposes a series of initiatives intended to reduce the supply chain's ESG risk profile and to improve the quality of procurement.

The new UPQ (Unique Qualification Portal) has now been launched. It integrates the various IT systems involved in the qualification process, such as the AQF portal which handles qualification applications, the PQI application for staff training and equipment, and the section dedicated to contractor monitoring.

Finally, the "Subcontract Management" project has been launched. This is a centralised IT system that enables the management, analysis and continuous monitoring of subcontracts for qualifying sectors, with the aim of reducing the high level of fragmentation of information within the company, in order to organise and consolidate the available data with a view to optimising processes and mitigating employee health and safety risks. On the one hand, the system involves the setting up of a web app on the Qualification Portal, so that data and documents on subcontracts, required by law, can be entered. On the other hand, there will be an analysis dashboard to enable the correlation and comparison of data, which is not usually homogeneous.

Monitoring of the Organisational Model under Legislative Decree 231

During 2012, the Model 231 Control Unit carried out an intensive study of sector regulations and adapted the Organisational Model to the new corporate organisation, by providing, among other things, a dynamic and effective Model able to prevent offences described in Legislative Decree 231.
The Unit has mapped all the risk areas of the Terna Group, and this has enabled not only the updating and adaptation of the parent company's Model, to include the reforms mentioned above (the introduction of Special Section D, governing "Offences against individuals" and the offence of "Employing citizens of third-party countries on irregular work permits") but has also equipped all the subsidiaries with their own Organisational Model tailored to suit their specific requirements.
Finally, in order to ensure that activities conform to laws, regulations and standards, the Model 231 Control Unit continued with the following activities:

- logging all the relevant regulatory changes and obtaining all the legal reforms that may affect the definition of a policy of preventing criminal offences, ensuring periodic follow-ups on the adequacy of the control system;
- day by day monitoring of structural changes that could have an adverse impact on the up-to-dateness and effectiveness of the Model;
- updating of the internal control system to reflect changes that each process owner is required to implement, with the related deadlines;
- support to all divisions to guarantee adequate advice in terms of interpretational and applicational aspects.

Control of Management Systems

During 2012 Terna obtained, following inspections by the certifying body (IMQ), confirmation of the following certifications: UNI EN ISO 9001:2008, UNI EN ISO 14001:2004, BS OHSAS 18001:2007 and ISO/IEC 27001:2005, the latter with regard to the TIMM applications.
During the year, in order to comply with recent legislation on the subject, support was provided in connection with the implementation of a test laboratory management system, for the instruments used in powered works, as required by the standard ISO/IEC 17025.
In the Environmental field, with regard to the rational use of energy for own consumption, the "Initial Energy Analysis" was carried out across the Terna Group. Three detailed analyses were carried out at the following sites: Viale Galbani (Rome), Via Palmiano (Rome) and San Rocco al Porto (Lodi).
The activities will continue into 2013, in order to implement an energy management system in accordance with the UNI CEI EN ISO 50001:2011 standard. The system will allow the company to implement the processes necessary to analyse energy consumption and put in place plans, targets and energy performance indicators in order to reduce consumption and identify the opportunities for improving energy performance. Subsequently the opportunity will be assessed of having an external body certify the energy management system implemented.
The project named "Context analysis and identification of guidelines for safe behaviours in the workplace" has been completed with the aim of carrying out a full-spectrum safety review in order to identify risks attributable to staff behaviours and factors liable to influence it. Interviews were carried out on 319 staff members and the information obtained was used to compile a national report and several individual reports on each site surveyed, leading to national and local improvement measures.
Following the company restructuring, functional specifications were put in place for the new corporate documentation system, to allow for greater ease of reference, research, and updating of company documents and processes.
During 2012 all the internal auditing activities were carried out on the Management Systems, as planned, including the audits of company sites.

Physical security

In 2012, physical security focused on natural and man-made events threatening the company's physical resources and assets, and on putting in place the technical and organisational measures needed to combat those threats.
In this context it was necessary to formulate a strategic emergency management plan, appropriate for, on the one hand, the context of critical infrastructure and civil protection system and, on the other, the increase in critical incidents liable to trigger emergencies in which the physical safety of assets and continuity of business operations must be guaranteed.
About 140 Fraud Events were recorded in 2012. These incidents required close collaboration with the public prosecutors and police, who immediately made available security measures to protect the company's sites and assets in the event of a critical incident.
21 new anti-intrusion and PSIS video surveillance systems were installed during 2012, to protect the new electrical stations. With the "lighter" anti-intrusion systems - known as "Videoboxes" usually installed to prevent theft or for site security, 60 devices were installed across the country.
Particular attention was also paid to the ordinary and extraordinary maintenance of the PSIS systems.

The management of the safety of overseas workers is also a particularly important issue. When Terna personnel are transferred or working abroad, they are provided with important information about services and contacts to use in case of need.
As far as emergency management is concerned, the company played an active part in the National Civil Protection Service, in emergency management operations and drills.
Terna played a pro-active role during the year in stimulating the response of the Civil Protection Service at national and regional level.

Corporate social responsibility and stakeholder involvement

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 CSR 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 department also constantly monitors the risks connected with sustainability aspects, which entail potential negative fallout on the company's reputation and intangible value, through the analysis of the ratings of the main agencies (such as: RobecoSAM, Vigeo and Eiris), which process regular sustainability assessments.

In 2012 Terna reinforced its management systems and carried out initiatives in all areas of sustainability. A Code of Ethics and Model 231 has been adopted in all the companies within the Group's new organisation. Other highlights include:

- in the area of **environmental responsibility**
  - completion of the initial analysis of the energy efficiency of Terna's offices and stations, in line with the criteria of ISO 50001;
  - an environmental accounting review on the guidelines for the recording of expenditure and investments in environmental issues;
  - conclusion of the environmental restoration programme connected to the Terna - WWF agreement in some parts of Abruzzo (Gole di Popoli and Gran Sasso).

- in the area of **social responsibility**
  - in line with the objectives stated in the 2011 Sustainability Report, the analysis of environmental and social control within Terna's supply chain was concluded, with a view to strengthening or updating the supply chain in the light of the Group's new organisational structure, the new business areas, and the recommendations of the Ruggie Report on human rights;
  - application of the monitoring tools according to the methodology of the LBG-The London Benchmarking Group, adapted to the Italian context and the specific organisation of Terna, to measure the impact of community initiatives on the company, and on the final beneficiaries;
  - the survey "L'impegno di Terna per il sociale" [*Terna's commitment to social issues*] was conducted in order to identify areas of intervention considered most significant for the company's future initiatives. The survey was carried out through an online questionnaire sent to 40 qualified external experts, 3 focus groups of employees, and 2 discussion panels chaired by representatives of Terna's middle management;
  - the project "Natale solidale 2012": as in 2011, Terna decided to support a project to help disadvantaged children by giving further support and donations to the Ai.Bi – Amici dei Bambini association. The sponsored projects were related to the family welfare centre "Pan di Zucchero" in Rome, and a new children's home in Lombardy.

Details of Terna's environmental and social performance can be found in the sustainability report published each year, and in the "Sustainability" section of the website www.terna.it.
To provide an increasingly integrated, complete representation of company performance, various sustainability indicators have also been included in this management report. In particular, the following paragraphs provide some information identified in accordance with the indications of the National Council of Accountants and Tax Consultants – CNDCEC - on sustainability in mandatory corporate communications (Report on the compilation of financial statements in the light of the reforms introduced by legislative decree 32/2007, CNDCEC, January 2009).

In particular:

- no fatal accidents were recorded, nor any serious accidents (even in past years) for which the company has been held definitively liable;
- the Terna Group's direct CO_2 emissions were 70,007 tonnes of CO_2 equivalent in 2012 (+ 5,085 compared to 2011). 90% of the total came from emissions of gas SF6 (sulphur hexafluoride - a greenhouse gas used in station equipment due to its high insulating power);
- no allegations were recorded regarding workplace bullying or work-related illness - regarding current or former employees for which Terna was held liable in a final ruling;
- no cases of environmental damage were registered for which Terna was held culpable in a final ruling;
- no final penalties or sanctions were levied against the Parent Company for environmental damage.

Stakeholder involvement

The construction of a trust-based relationship with stakeholders starts with a consideration of their interests, and an analysis of their compatibility with the company's mission and objectives, so that a coherent, transparent line of conduct can be followed.

When defining its Code of Ethics, Terna also identified - with the active participation of top management - eight categories of key stakeholders, in terms of impact and continuity of relations.

The table below illustrates, for each category of stakeholder, the main commitments expressed in the Code of Ethics and the specific tools of engagement such as monitoring and the validation of expectations and opinions. The various tools are used at different times.

Stakeholder	Commitments	Monitoring and validation tools
SHAREHOLDERS AND ANALYSTS FINANCIALS AND FINANCIERS *(Shareholders, financial analysts, financiers, banks, creditors, rating agencies)*	• Balanced management of financial, safety and service-quality objectives. • Creation of value for shareholders over the short and long term. • Corporate governance aligned with best practices. • Adoption of risk anticipation and control systems. • Timely, well-balanced response and information to shareholders. • Commitment to avoiding insider trading.	Road shows, dedicated meetings, website and dedicated emails. Sustainability performance
EMPLOYEES *(Employees, directors, collaborators, employee representatives, trade unions)*	• Protection of employee's physical safety and dignity. • Non-discrimination and equal opportunities. • Investment in professional development. • Recognition of individual capabilities and merits.	Investigation into organisational wellbeing Focus groups on specific issues. Consultations, comparisons and negotiations with trade unions.
SUPPLIERS	• Opportunity to compete on the basis of quality and price. • Transparency and respect for contractual conditions and undertakings. • Transparent purchasing processes. • Qualification of suppliers, also with quality, environmental and social certifications. • Anti-Mafia prevention and anti-money-laundering, with respect to suppliers.	Purchasing portal, direct meetings.
GRID USERS, CUSTOMERS AND BUSINESS PARTNERS *(Private customers, grid users - manufacturers, distributors, traders, interruptibles - users of the electricity grid, owners, other network operators, business partners)*	• Efficient, quality service intended to achieve constant improvement. • No arbitrary discrimination among operators. • Confidentiality of information regarding grid users.	Network Code consulting committee, dedicated meetings. "Operator consulting" section on the Terna website.
AUTHORITIES AND INSTITUTIONS REGULATORS AND AEEG *(AEEG-Authority for Electricity and Gas, other regulatory bodies, government bodies with powers of supervision, Antitrust, CONSOB, stock market regulators, strike guarantee committee)*	• Transparency, completeness and reliability of information. • Respect for deadlines. • Loyal, collaborative approach to facilitate regulatory tasks.	Periodic meetings.
INSTITUTIONS AND ASSOCIATIONS *(European Community, international bodies, national bodies, government agencies, civil protection, national security and police authorities, regional and provincial governments, interest group associations, ETSO, UCTE)*	• Representation of interests and positions in a transparent, rigorous and coherent manner, avoiding collusive attitudes. • Guarantee of total clarity of relations.	Direct participation in technical committees and supervisory bodies.
MEDIA, OPINION GROUPS AND SCIENTIFIC COMMUNITIES *(Media, universities, scientific associations, environmental associations, consumer associations, opinion makers, opinion groups, national and international standardisation bodies, political parties)*	• Uniform, public disclosure of information. • No instrumentalization or manipulation of information for the company's benefit. • Search for areas of cooperation, in the mutual interests of stakeholder associations.	Presentation and diffusion of the Sustainability Report and Development Plan. Organisation of seminars, workshops and targeted inquiries. Collaboration and partnership initiatives.
COMMUNITY AND TERRITORY *(National community, local communities, the environment, end users of electricity services, local authorities directly affected by Terna's activities).*	• Guarantee of safety, continuity, quality and cost-effectiveness of the service over time. • Evaluation of long-term effects of decisions. • Reduction of environmental impact of operations. • Ex ante dialogue with local institutions to ensure that investments take into account environmental and landscape issues, and local interests. • Support for social, humanitarian and cultural initiatives. • Provision of feedback on the implementation of the environmental and social policy.	Concertation process in grid planning. Random surveys of the population.

Information Technology

In 2012, significant benefits were obtained as a result of projects and innovations introduced by IT and attributable to an increase in the safety of the national grid, and to improvements in overall management.

1. **Increase in the safety and efficiency of the National Electricity System (SEN)**
   Significant changes have taken place in the Defence systems, particularly in the South. The need had arisen as a result of the high level of photovoltaic energy generation that took place during 2011, leading to a reduction in load in the South, with a consequent increase of the flows on the 380 kV grid exported from Puglia. In order to limit the impact of grid incidents in the zone, and the economic effects associated with the control of emerging congestion, the local defence systems were reviewed. The "Telescatto Area Sud" perimeter was extended along the Adriatic coast, to the connections between the Adriatic backbone and the Tyrrhenian backbone, to the two new phase shift transformers in Foggia and Villanova.
   In 2012, the new system of control and conduction was also launched, as regards the remote conduction functionalities, on certain Terna installations. This was the first phase in the overall commissioning of the system, which will be completed in 2013. It will bring many benefits in terms of simplifying the architecture for data acquisition and exchange with the 3,600 SEN installations, and therefore an improvement in the quality and reliability of the related flows. It will also lead to the rationalisation and optimisation of the functionalities available to users of the CR, CTI and CNC rooms.

2. **Improvements to overall management**
   In 2012 the GAUDÌ platform was the object of a series of installation qualification measures, which require an increased use of automated procedures and elaborations designed to rationalise and speed up the updating/alignment with external systems, also to support the integration of all the external operators into the qualification process.
   With reference to the market systems, 2012 saw the introduction of new procedures for the calculation of binding programmes, in line with the contents of the A25 annex to the Network Code. The technology platform and infrastructure supporting the supply of Dispatching resources has been further integrated with the Market Operator systems and the IT systems managing the transport capacity to and from foreign TSOs.
   A series of software upgrades have also been implemented, to support the process for the allocation of the shipping service and allocation and contractual management of the interruptibility service.
   The reinforcements to the ICT Governance projects have improved efficiency and effectiveness of operations, by introducing new tools to automate the technological upgrade of the Market area systems in order to safeguard the security of data and the overall infrastructure.

Information Security

2012 saw a further increase, on the quantitative and qualitative level, of cyber threats affecting the IT networks and systems of businesses and organisations, specifically recorded by international institutional or technical-scientific institutions. Like many large companies, for Terna, this scenario deserves great attention considering the growing needs of its business areas to power up its connections and digital exchanges with external stakeholders, particularly with the online community.
In this context, Terna, also because of its status as a critical infrastructure - one of the largest in Italy - has been required to update, Group-wide, all the measures in place to protect tangible and intangible information assets, by means of an articulated programme of controls and improvements to security of information, systems and networks.
The programme, based on the study and knowledge of risks (cyber risks in particular) and on techniques designed to reduce them within levels sustainable for the business objectives, experienced a further phase of growth in 2012, with the growth of the internal model for the governance of security and related processes, in terms of maturity, replicability and efficiency.
Terna's model is structured in such a way that it can adapt over time to various IT threats and cyber crimes, while simultaneously improving compliance with laws and regulations on data protection and computer crime (privacy laws, Legislative Decree 231/01 etc.).
The existence of a comprehensive and detailed internal information security policy complete with methods, procedures and working practices, provides multi-level actions to all Group companies in order to improve the security position and the ability to prevent and limit risks connected to cyber security and other negative, voluntary or involuntary factors that could impact the information assets.
The key initiatives, projects and lines of intervention characterising the 2012 programme, with the contribution of the SOC and Group IT divisions followed three main lines, to reinforce the defences of the network perimeter, the intrinsic security of each new IT application, and finally the scope and effectiveness of the process of maintaining security on operating systems.

The company network, now universally recognised as strategic and even essential for the success of business activities (by virtue of its dual role as a widely-used form of access to company information resources but also a form of protecting those resources) requires the constant reinforcement of defence strategies.
Apart from the work done to reduce the risk of external penetration of the Terna network, in 2012 activities were also implemented in order to improve the segmentation and defences of the internal perimeters. Within the critical infrastructure area, where a growing volume of IT resources are providing fundamental support for operational processes, the network's configuration is even more vital, as it is directly linked to the security and continuity of services. In the current context, another very important issue is the regulation of remote access to resources on the company network by authorised users - including technology suppliers in relation to contractual matters, software and equipment management - with a view to reducing intrusions and documenting activities on the Group's information systems in the specific case of interconnections with third party information networks.
With regard to the correct posture of an ICT system, in 2012 great investments were made in implementing the security plan, which by definition consists of a list of controls or countermeasures considered suitable to protecting the infrastructure components, applications and information, in line with information security and business requirements, by allocating specific responsibilities for implementation. In accordance with the now consolidated policy, in 2012 there was an increase - partly because of the work on the classification of the security of information and the IT systems used to process it (99% of company information is now digital, and cyber security is an essential part of protecting it) - in the number of new projects or major change IT systems and services, with an associated, adequately developed safety plan.
Terna, in line with the new opportunities offered by the market for cloud computing, evaluated the security of Software as a Service (SaaS), in order to address this paradigm shift appropriately, which transfers to a third party the responsibility for several IT functions supporting company processes, overturns the concept of security by transferring it to the third party, and places a focus on legal and contractual aspects, starting with the extensive Service Level Agreement (SLA).
With reference to verification and control, the maturity of internal resources and vulnerability management tools has allowed more complete, effective activities to be carried out. In the second half of 2012, thanks to the extension of the company scanning platform, the verification activities (also carried out entirely in-house) in terms of analysing the technological vulnerability of individual or group ICT assets or security audit sessions resulted in a numerical increase and improvements in quality. A risk level indicator was allocated to each vulnerability, to indicate the real extent to which it could be attacked, with evident advantages for the IT departments who are required to remedy these situations. This type of approach is obviously valid if it is able to set up a remediation circle that increases the level of protection against the most common threats, with particular reference to those from cyberspace. This is why each action is always carried out with a high degree of reporting so that recovery plans can be suggested and recommended.
Finally, specific mention should be given to the value - also in terms of image - coming from the confirmation in July 2012 of the ISO/IEC 27001:2005 certification acquired by Terna in 2011, for the TIMM applications after a procedure approved by the Authority for Electricity and Gas. This confirmation, after a year of work, was an important test that confirms Terna's ability to continue to apply internationally-recognised safety principles and standards, particularly with regard to TIMM systems and processes, but with positive impacts on the management of all the company's IT services.

Managerial information technology and services to people

In the second half of 2012, the software development area of the ICT division completed the application upgrades needed to support company processes in the wake of the organisational restructuring.
The technological infrastructure has not undergone any material perimeter changes in the absence of any significant short to medium term projects agreed by Terna Holding. Work has continued on the technological renewal of the application servers and work stations, according to the renewal plan programmed for the end of life of the ICT assets.
At the end of 2012, the restructuring activities at the AOT plant in Cagliari were complemented by the design and completion of the technology infrastructure, also with a view to the transfer of the Cagliari CR and control room.
With reference to the security of ICT infrastructure, the server and client logics and protection modes were also optimised, with the McAfee anti-virus program, reducing the upgrade deficit on the Terna archive, with regard to the vulnerabilities recognised by McAfee worldwide.

Research and Development

To introduce new technological and systems solutions, new instruments and methods aimed at improving the reliability of plants and, therefore, service quality, Terna mainly uses in-house technicians who base their work on the careful monitoring and analysis of the performance of equipment and plants. Terna also uses the specialised support of manufacturers, collaboration with universities, RSE S.p.A. (Ricerca Sistema Energetico) and CESI S.p.A., a specialised service company in which it has a 42.698% equity interest. In particular, in 2012 the Terna Group incurred costs of €15.6 million in respect of the associate CESI of which €14.2 million were capitalised.
The accounting treatment of Research and Development expenses is discussed in the "Intangible Assets" paragraph of section "A. ACCOUNTING POLICIES AND MEASUREMENT CRITERIA" of the Notes to the Financial Statements of Terna S.p.A. at 31 December 2012.
Studies for innovation and the development of new engineering solutions take place along four main research lines.

PURPOSE	PROJECTS AND STAGE OF PROGRESS 2012
OPTIMISATION OF STRUCTURES AND MATERIALS	
Design of supports with less visual impact and/or improved environmental integration	**International "Pylons of the Future" contest** The tests on actual-size prototypes have been completed, and production has begun on the supports to be installed on the 380 kV line - Trino-Lacchiarella.
Upgrading of transmission capacity of existing lines	**Innovative high-performance conductors** Qualification tests have been concluded on the installation of ACSS-type High Temperature Conductors, characterised by a steel carrier with very high mechanical resistance and annealed aluminium cladding.
New technology for high voltage cables	**Recyclable cables** A primary supplier has made available a cable for High Voltage (a technology already consolidated on Medium Voltage) produced with completely recyclable raw materials. It will enable a reduction in the environmental impact of grids and, at the same time, a rise in their energy transport capacity. The testing of the prototype in the laboratory is about to be launched, after the installation of a pilot on a plant under construction during the first half of the year.
New protocols for tests on HV cables	**Tests for cables and blends** A protocol is being developed, in collaboration with the University of Bologna, for tests which all HV cable suppliers will have to carry out on cables or on the insulating materials used to verify their chemical and physical properties.
Fencing and ATR foundations	**Design and unification - Fencing and foundations** Engineering and unification have been carried out of certain types of: • Station fencing (prefabricated, cast on site, grating). The new designs have been differentiated according to the seismic and wind dimensions, and according to whether or not an anti-collapse perimeter is needed. • ATR foundation. The new designs are differentiated according to the level of transformer voltage, the size of the machine, and the degree of external stress imposed on the foundation. The aim is to provide the company with a catalogue from which the best solution can be chosen.
Station layout	**Updated and new station layouts** • The layouts of the Controls and Ancillary Services buildings have been updated, with reduced plan dimensions and optimised internal layouts. • New layouts have been elaborated for the integrated buildings to be used in small Dispatching and Transformer stations. • New, compact layouts have been prepared with reduced station surface area. Elaboration of the optimised 380 kV section is pending completion. This will be followed by the development of the 220 and 150 kV voltages.

PURPOSE	PROJECTS AND STAGE OF PROGRESS 2012
EQUIPMENT DIAGNOSTICS	
Monitoring of station equipment and machinery	**New sensors on equipment and machinery** In the Lacchiarella station, installation has been completed on the 380 kV section of new types of sensors, positioned on board equipment and machinery. Installation is currently underway of another type on the 132 kV section. These will be observed with a view to potential widespread installation. Once the installation of the 132 kV equipment monitoring system is completed in June 2013, Terna will have its first fully-monitored station.
Analysis and monitoring of line components	**Insulator test laboratory** A project is planned for development of an Experimental Station for the study and monitoring of surface contamination of insulators. At present, the feasibility study has been concluded, which has enabled the most appropriate sites to be identified. Installation is expected to take place in 2013.
Monitoring of partial discharges on High Voltage cable systems	**PDM (Partial Discharge Monitoring)** On a number of cable connections systems have been installed to monitor partial discharge at joints and terminals. Comparative measurements were also carried out with a new instrument which needs no connection to the tested component. Examination of the data collected is aimed at finalising a specific technique for the acquisition of such systems and at defining the criteria for installation and use for testing purposes of first-installation cable systems.
NEW EQUIPMENT	
Compact stations with rapid installation	**SCRI** ***(Stazioni Compatte di Rapida Installazione)*** Given the advantages of this solution, tested with the SCRI 150 kV, the 380 kV station has also been designed. The feasibility of production has been verified with the manufacturers and a number of tests are being carried out in this regard.
PLANT SAFETY	
SicurTrafo Project	**Project for a system of containment barriers to protect ATRs** Development is being completed of the final project for a system of barriers used to contain power transformers (ATRs), on all 4 sides of the machine. The project provides for 3 fixed barriers and one mobile barrier, at the front, to enable the machine to be moved. The project has uniform features so that it can be used all over the country. The functional purpose of the barrier is to screen both flames and impact by flying fragments if the transformer explodes, increasing safety in the plant. Studies were also launched on the applicability of ATRs on a system able to avoid machine fires in the case of serious faults.
Reduction of seismic vulnerability	**Application of earthquake-resistant devices to the most vulnerable equipment** In collaboration with the University Roma Tre, a study on the seismic vulnerability of the plants is being defined with particular attention to the equipment most at risk. The purpose of the study is to define earthquake-resistant devices to be inserted between the foundations and the support of equipment in order to improve response to earthquakes.

Human Resources and Organisation

Organisational structure

As amply commented on in the initial paragraph “Terna’s Business Model”, to which you are referred, during the first half of 2012 the new organisation of the Terna Group was defined.
During the second half of 2012, discussions were also commenced with the national trade union secretaries about the new organisational model of the Operations Divisions of Terna Rete Italia S.p.A..
The project involves the creation of three new Local Divisions, the functional integration of the operational activities currently being carried out in the “Lines” and “Stations”, and the gradual introduction of multi-skilled figures, the centralisation of operational, design and production activities within the Local Divisions, the allocation of the responsibilities of Local Dispatching to the relevant Local Division, the redefinition of the scope of activity of the central and local engineering functions, and the streamlining of the geographical distribution of the operational sites.
The adoption of the new organisational model will strengthen the exercise and maintenance of operational process management and will augment the efficiency of integration between the Maintenance and Dispatching areas at local level, in order to optimise the management of the network. It will also introduce multifunctional roles to support traditional technical skills also in terms of management, as well as creating opportunities for growth and professional development for the new multi-skilled figures who will be able, among other things, to ensure mixed availability at lines and stations.

Human resources

Below is the trend in workforce figures for the Terna Group and its subsidiaries.

TERNA GROUP

CHANGE IN THE WORKFORCE	31.12.2012	31.12.2011	Change
Executives	59	60	(1)
Junior management	502	490	12
Office staff	1,925	1,966	(41)
Production workers	947	977	(30)
Total	**3,433**	**3,493**	**(60)**

WORKFORCE OF GROUP COMPANIES AS AT 31-12-2012

	Terna S.p.A.	Terna Rete Italia S.p.A.	Terna Plus S.r.l.
Executives	23	35	1
Junior management	128	368	6
Office staff	182	1,738	5
Production workers		947	
Total	**333**	**3,088**	**12**

The above figures include staff retirings with effect from 31 December. In 2012, 45 employees joined the company, while 105 left.
As of 31 December 2012, the subsidiary Terna Crna Gora d.o.o. has 3 local employees (as compared with the 2 employees as at 31 December 2011), whilst the other subsidiaries not shown in the table have no employees.

Resource development and manager incentives

Terna’s human resource management and development system is based on performance as an indicator for growth. It revolves around the Global Performance System (GPS), based on a definition of performance that includes two aspects: the first is the actual attainment of the set objectives, and the second relates to the organisational conduct implemented to achieve them. Objectives, actions, evaluations and feedback are incorporated into a tool that can be accessed by all personnel, and guarantees traceability over time. The performance appraisal is repeated in an annual cycle, in order to monitor personal growth and provide guidance. Application of the GPS currently involves a section of employees with managerial and professional duties: all the directors, all the managers (except the foremen of the real time shift workers) and part of the production workers.

For the production workers and other employees not included in the GPS, other forms of appraisal are used, such as periodic discussions with managers and HR representatives. This is because the requirements of their positions, and career pathways, are more closely dictated by the provisions of the national labour collective agreement.
The measurement of performance is also correlated to the payment of variable salary components. For managers holding positions which are significant in terms of the achievement of strategic objectives, there is a long-term cash incentive plan (LTI) 2011-2013 linked to multi-year company targets. For managers with key roles in the company, there is a Fidelity Bonus award.
Other forms of variable pay schemes are based on annual performance targets. MBO (*Management By Objectives*), reserved for Company Management, links the total individual premiums to the reaching of targets at company and individual level. Company activities are also monitored and controlled with the Balanced Scorecard system, which evaluates, at quarterly intervals, the progress of objectives, including sustainability objectives, linked to the Strategic Plan. The Balanced Scorecard system is linked to the MBOs, as the sustainability objectives are linked to the managerial variable pay components.

Training

Training at Terna embraces the whole of an employee's career on a continuous basis. It is intended to create value for people, by improving their skill set and employability, and to create value for the company - by developing human capital in line with the business mission and strategy. The transfer of specialised know-how is assured by a training model based on the willingness of more expert staff to act as trainers and planners at the internal Campus, while deepening their sense of belonging and integration within the company. Collaborations with universities, business schools and external centres of excellence ensures that company knowledge is complemented by ideas from the outside world.
Terna's training model favours active classroom learning and relies on on-the-job shadowing to allow new employees to integrate into the organisation, and also for highly complex roles such as real time shift workers. E-learning is used in the widespread programmes for the transfer of specific knowledge and information, and may be used as a complement or substitute to classroom training.
The results of training activities are systematically evaluated. The evaluation tools range from surveys and questionnaires to tests on the level of learning achieved. Periodically (the last time was 2010), a recognition is carried out among all supervisors, to verify the level of perceived effectiveness of the training courses conducted throughout the year (matching with requirements, contribution to development of human resources etc.).
In June 2012, the new Campus was opened, where most of the training courses will be held. The new campus has a room for teaching staff and eight classrooms, including a 70-seater lecture hall equipped with the latest training facilities, and where up to 200 employees can be trained simultaneously.

The training programmes are grouped by area:
- Context & Business Model relating to knowledge of the internal and external business environment in which Terna operates, and to promote the development of the corporate identity;
- Education, for managerial and staff development;
- Training for the acquisition of technical-professional skills, and transverse skills such as foreign languages, and office automation;
- Courses: short-, medium or long-term courses aimed at specific target groups, consisting of a range of initiatives from the above three areas. The training offer is aimed at new employees and workers from homogeneous professional families (e.g. real time shift workers).

The reduction of 35,000 hours compared to 2011 does not correspond to a fall in the company's commitment to training, but to a period of transition. In the first instance, the result was affected - and has also impacted various other indicators - the lower number of hours provided to new employees (49,000 hours in 2011 to approximately 10,000 hours). During the year there has been a reduced intake of new graduates and school-leavers. Most of the new recruits were taken on at the end of the year and will be trained in 2013. Another factor that has influenced the temporary drop in the number of training hours, particularly as far as directors and managers are concerned, is attributable to organisational aspects. In the first quarter, the changes in the Group's structure - followed by the launch of the Terna Rete Italia S.p.A. restructuring project in the second half of the year - put great demands on the managers and therefore some of their training courses were deferred until 2013. Finally, the transfer of the training operations to the new Campus site also had an impact.
In short, during 2012 86% of staff attended at least one training course, with 143,418 hours being provided, 99% of which were classroom-based. The hours per-capita were 41.
With respect to the Context & Business Model area, 6,352 hours were provided (compared to more than 31,000 in 2011), relating to programmes for new employees and the completion of the Information Security training programme. The usual initiatives dedicated to the electricity market and Model 231 have been put back to 2013, due to the need for updates to content caused by changes in the law.

With regard to the Education area (17,000 hours provided, a slight reduction compared to 21,000 in 2011), the programme on innovation and business development, launched in 2011 and financed by Fondirigenti, was completed. At year-end, a major plan of activities was submitted for Fondimpresa funding. The activities were launched in December and will continue until November 2013. Two training programmes were also submitted to Fondirigenti, and they will begin in January 2013.
The Training area is of central importance, considering the technical nature of Terna's business. It has remained largely stable, with 119,359 hours provided compared to the 125,000 provided in 2011. Within the Training Area, 41,137 hours were provided on Safety. The number is lower due to the reduced new employee intake, and the absence of widespread campaigns such as the ones launched in past years as a result of major legislative reforms. At year-end, a major plan of activities was submitted for Fondimpresa funding. The activities were launched in December and will continue until November 2013.

TRAINING

	Units	2012	2011	Change
Training hours provided	h	143,418	178,734	(35,316)
Training hours per employee	h	41	51	(10)
Training coverage	%	86	97	(11)

Industrial relations

Relations between Terna and the trade unions at company level are governed by the *Protocol on industrial relations* which defines a system of relations based on negotiations, debate, consultation, preventive and/or periodic information.
The industrial relations activity was characterised, in 2012, by discussions with the national trade union Secretariats on the subject of the new corporate framework of the Terna Group which ended - after the procedure provided for in Art. 47 of Italian Law No. 428/90 as regards rental of the business unit by Terna S.p.A. to Terna Rete Italia S.p.A. with the signing of a written agreement.
During the second half of 2012, negotiations began on the renewal of the national collective bargaining agreement (CCNL) for the electricity industry, which expired on 31 December 2012. Discussions were also commenced with the national trade union secretaries of the Operations Divisions of Terna Rete Italia. Finally, on 20 November 2012 an important agreement was signed with the national secretaries of the trade unions in order to consolidate a participatory industrial relations model, involving shared training objectives, and also to implement training plans and obtain funding for these programmes through Fondimpresa.

Equal opportunities

Terna adopts recruitment, staff development and pay policies that reward and recognise personal merit and performance. Any form of discrimination, starting from recruitment to fill vacancies within the Group, is expressly prohibited by the Group's Code of Ethics.
The vast majority of employees are men, due to the traditional lack of availability of female employees in the more technical professions. However, the number of women is rising, partly as a reflection of the general trend on the job market, which is seeing a greater participation by women in the workplace.
At the end of 2012, there were 392 women in the Terna Group. The percentage of women out of the total number of Terna employees in Italy was 9.0% at the end of 2005, and has risen steadily to 11.4% at the end of 2012. This growth also included the higher-qualified positions with more responsibility: women in executive and managerial positions account for 17.3%.
During 2012, the percentage of women hired, out of the total of new employees (net of production workers) was 31.3%, a level far higher than the percentage of women already present in the company (again, net of production workers).

PERCENTAGE FIGURES

	2012	2011	Change
Women out of total no. of employees			
Women out of total	11.4	11.1	0.3
Women out of total, net of production workers	15.8	15.4	0.4
Female executives out of total no. of directors	15.3	16.7	(1.4)
Female executives and managers out of total executives and managers	17.3	17.1	0.2
Managerial positions %			
Female executives out of total no. of women	2.3	2.6	(0.3)
Male executives out of total no. of men (excluding production workers)	2.4	2.4	-

Other information

Related party transactions

Having been determined in 2007 that Cassa Depositi e Prestiti S.p.A. exercises de facto control, related party transactions undertaken by the Group during 2012 consisted of intercompany transactions, transactions with employee pension funds (Fondenel and Fopen), and transactions with companies of:

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

and with ANAS S.p.A.

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

We can note that, during 2012, 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 other "executives with strategic responsibilities" and on the equity interests held by the same, was included in the annual remuneration report published at the same time as the 2012 Financial Report of Terna and of the Terna Group.

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

No significant, non-recurring, atypical or unusual transactions - with the exception of those described above - were carried out during 2012, either with third parties or with related parties.

Other information

Treasury shares

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

Personal data protection code (Legislative Decree no. 196 of 30 June 2003)

The simplifications introduced into the framework laws on data protection (Italian Data Protection Act - Legislative Decree no. 196 of 30 June 2003) for the data subjects entrusting their personal information to Terna, have been evaluated with a view to prompt application. Simultaneously, the adaptations needed to maintain compliance of the new organisational structure were also considered, with a view to continuity, while following-up the initiatives for steady improvement of operations in line with the processes and tools provided for in the information security governance model.
Alongside the current activities to protect the personal information of employees, partners, suppliers and customers in accordance with the latest laws, during the second half of the year Terna also carried out a detailed technical-legal audit in order to identify any areas in which the internal data protection model should be adapted in order to make it appropriate for implementation in all the Group companies.

Information on ownership structures

Information required under Art. 123-*bis*, "Report on Corporate Governance and ownership structures" of the "Consolidated Law on Financial Intermediation" (Italian Legislative Decree no. 58 of 24 February 1998), is presented in a separate report (Annex - Report on corporate governance and ownership structures), approved by the administrative body and published with this Directors' Report, which is available on the website of Terna S.p.A. (www.terna.it in the section "Investor Relations/Corporate Governance/Corporate Governance System/Report on Corporate Governance and Ownership Structures approved by the Terna Board of Directors on 15 March 2013").

Certifications in accordance with Article 2.6.2 of the Borsa Italiana Regulation with regard to the conditions pursuant to Articles 36 and 37 of the CONSOB Market Regulation (no. 16191/2007)

With regard to the provisions of Article 36 of the CONSOB Markets Regulation (no. 16191/2007 as subsequently amended), Terna S.p.A. does not hold any majority shares relevant in accordance with the mentioned legislation in companies incorporated and regulated by the laws of non-member countries of the European Union.
With regard to the provisions of Article 37 of said CONSOB Regulation, Terna S.p.A. is subject to the de facto control of Cassa Depositi e Prestiti S.p.A., which - as of 31 December 2012 - holds an equity interest amounting to 29.851% in the share capital, according to that verified by Cassa Depositi e Prestiti and disclosed on 19 April 2007. At present, no management or coordination has been formalised or exercised; Terna S.p.A. goes about its business directly or through its subsidiaries with independent management and trading.

Adhesion to the legislative simplification process adopted by Consob Resolution no. 18079 of 20 January 2012

In accordance with Art. 3 of Consob Resolution no. 18079 of 20 January 2012, Terna S.p.A. has resolved to adhere to the simplification regime established by Articles 70, paragraph 8, and 71, paragraph 1-bis of Consob Regulation no. 11971 of 14 May 1999 as subsequently amended and supplemented (Consob Issuers' Regulation). It will therefore be applying its right to make an exception to the obligations to publish the informative documents prescribed during major business combinations, spin-offs, capital increases by means of the contributions of assets in kind, acquisitions and disposals.

Attachment

Italy's regulatory framework

Regulatory framework

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

Italian Law no. 10 of 17 February 2012 laying down "Urgent provisions on the settlement of the sovereign debt crisis and regulation of the civil proceedings", published in Italian Official Journal no. 42 of 20 February 2012."
With a change to Article 14 of Italian Law No 183 of 12 November 2011, amending Article 2477 of the Italian Civil Code on the subject of statutory and independent auditors, this Law introduced a transitory measure stating that, for limited liability companies, *"boards of statutory auditors appointed by 31 December 2011 shall remain in office until the natural expiry of the mandate resolved by the shareholders' meeting that appointed them"*.

Italian Law no. 14 of 24 February 2012, "Extension of the terms envisaged by legislative measures", published in the Italian Official Journal of 27 February 2012.
The law contains rules on taxation. It is specified that the single rate of 20% introduced by Italian Law Decree 138/11 applies (Article 29):
- from 1 January 2012 with reference to interest and other income "deriving from current and deposit accounts held at banks or post offices, even if represented by certificates, accruing from that date" and not, therefore, to interest and income which accrued previously and is paid out from 2012;
- from the day after the maturity date of the forward contracts stipulated prior to 1 January 2012 and with a duration of no more than 12 months in relation to capital income, such as income deriving from repurchase and forward contracts on securities and currencies and interest and other income from bonds and similar securities pursuant to Italian Legislative Decree no. 239 of 1996 ("interest, premiums and other income from bonds and similar securities, public and private").

The starting date of the obligation, introduced by the 2008 Budget, for tax substitutes to electronically communicate the salary data and information necessary to calculate tax withholdings and contributions each month, most recently established as January 2012, is postponed to January 2014, after experimentation, from 2013, with methods established jointly by the Tax Authority and the National Social Security Institute.
Finally, the starting date for operation of SISTRI is postponed from 9 February 2012 to 30 June 2012. Under the Conversion Law the date by which the Ministry of Employment, in agreement with the Ministry of the Economy, must define with a decree the implementation methods and the maximum numerical limits of persons granted access to a pension according to the rules in force before the reform of 2011 (Italian Law Decree no. 201 of 2011) was postponed from 28 March to 30 June 2012. Again on the subject of pensions, the scope of application of the requirements in force before Italian Law Decree no. 201 of 2011 was extended to other categories of workers, including workers whose employment terminated before 31 December 2011, "*in application of collective redundancy incentive agreements signed by the unions comparatively most representative at the national level*" and "*workers who as of 31 October 2011 are on leave to assist children with serious disabilities… who acquire, within twenty-four months from the starting date of said leave, the contributory requirement for the right to a pension independently of their age*".

Italian Law Decree no. 1 of 24 January 2012 setting out "Urgent provisions for competition, development of infrastructures and competitiveness", published in the Italian Official Journal no. 19 of 24 January 2012, converted by Italian Law no. 27 of 24 March 2012, published in Italian Official Journal no. 53 of 24 March 2012.
This Law Decree provides that, *"In order to facilitate and accelerate creation of the network infrastructures of national interest, at the reasoned request of the concession holders the Authority for Electricity and Gas shall appraise the application received for identification of the single regulated assets, defining the related remuneration within 90 days from receiving said request"*.
For the gas industry, it refers to a Prime Ministerial Decree, to be adopted by 31 May 2012 for the definition of the *"criteria, terms and methods with which SNAM S.p.A. is to comply in adopting, within 18 months from the date of entry into force of the conversion law, the ownership separation model pursuant to Article 19 of Italian Legislative Decree no. 93 of 2011"*.
Under the same decree, *"full independence of SNAM S.p.A. is ensured in relation to the largest gas production and sale company, and to the vertically integrated natural gas and electricity production and supply companies"*.
The law establishes that without prejudice to the annual nature of the National Transmission Grid Development Plan and of the assessment, public consultation and approval procedures, the plan shall be subjected once a year to verification of whether it is subject to the SEA procedure and, in any case, once every three years, to the SEA procedure. The Law

also contains measures relating to the systems for protection and defence of the grids and security devices that must be installed in production plants. Finally, it is stated that, by 23 May 2012, the Ministry for Economic Development, *"after consulting with the Authority for Electricity and Gas, shall issue guidelines and modify insofar as it is competent the rules for implementation"* of the reform of the electricity market regulations provided for under Italian Law Decree no. 185 of 2008 for the purpose of *"containing costs and guaranteeing the security and quality of electricity supplies, also through recourse to flexibility services, in compliance with market criteria and principles"*. The Conversion law introduced a new rule on bond or debt security issues on the part of operators of the national electricity and gas transport networks, which states that *"Holders of authorisations for the construction of infrastructures which are part of the National Electricity Transmission Grid Development Plan"* and owners of gas transport and storage infrastructures and regasification terminals may *"issue bonds and debt securities, also by way of exception to the limits pursuant to Articles 2412 [bond issue limits] and 2483 [on debt securities] of the Italian Civil Code"*. In particular, Article 2412 of the Italian Civil Code states that *"The company may issue bearer or nominative bonds for a total amount not exceeding twice its share capital, legal reserve and available reserves resulting from the last approved financial statements"*.

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

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

Italian Law Decree no. 5 of 9 February 2012 on "Urgent measures on simplification and development" published in the Italian Official Journal no. 33 of 9 February 2012, converted with amendments by Italian Law no. 35 of 4 April 2012, published in the Italian Official Journal no. 82 of 6 April 2012.

As regards joint stock companies, the Conversion law (Article 35) repeals the provision pursuant to Article 2397 of the Italian Civil Code, already amended by the law decree, which stated that, where not otherwise provided for in the Articles of Association and in any case under certain conditions, the duties of the board of statutory auditors may be performed by a single auditor.

With reference to limited liability companies, it remains possible to provide for a collegial auditing body in the articles of association, as an alternative to a single auditor; in fact, it is stated that the articles of association of such companies *"may provide for the appointment of an auditing body or an auditor, determining their duties and powers, including statutory auditing of the accounts. If the Articles of Association do not state otherwise, the auditing body is made up of a single regular member"*. Paragraph 2 of Article 2477 of the Italian Civil Code has been amended and now states that *"In the case of appointment of an auditing body or a single auditor, the rules applied are those for the board of statutory auditors envisaged for joint stock companies"*.

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

The decree also states (Article 57-*bis*) that a Prime Ministerial Decree, acting on a proposal by the Minister for Economic Development, shall, by the end of July 2012, identify the energy infrastructure located within the country and for interconnection with other countries considered to be priorities, which, implementing Article 3 of Italian Legislative Decree no. 93 of 2011 represent the *"minimum needs of construction or expansion"* for which *"the administrations involved for any reason in procedures to authorise the infrastructures identified … attribute… priority and urgency to the formalities and assessments for which they are responsible"*. Identification of the infrastructures is updated at least every two years.

In an amendment to Article 109 of the Environmental Code (Article 24) it is stated that authorisation for discharge into the sea of excavated materials *"shall be issued by the Region, with the exception of work carried out in national protected areas … for which it shall be issued by the Ministry for the Environment and for Protection of the Territory and the Sea"*.

Finally, the decree provides for the establishment of the National Data Bank of Public Contracts from 1 January 2013 (Article 20): the documentation proving possession of the requisites *"of a general, technical-organisational and economic-financial nature"* for participation in the procedures governed by the Contracts Code will be acquired from 1 January 2013 exclusively by the National Data Bank, established at the Authority for Supervision of Public Contracts for Works, Services and Supplies.

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

Italian Law Decree no. 16 of 2 March 2012 on "Urgent measures for fiscal simplifications, and for making more efficient and strengthening assessment procedures" (known as "Fiscal simplifications") published in the Italian Official Journal no. 52 of 02 March 2012, converted with amendments by Italian Law no. 44 of 26 April 2012, published in the Italian Official Journal no. 85 of 28 April 2012.

Italian Law Decree no. 21 of 15 March 2012, containing "Regulations on the subject of special powers over corporate structures in the defence and national security sectors, and for activities of strategic significance in the energy, transport and communications industries", published in the Italian Official Journal no. 63 of 15 March 2012, converted with Italian Law no. 56 of 11 May 2012, published in the Italian Official Journal no. 111 of 14 May 2012.
The decree contains new rules on the special powers of the State, in order to adapt Italian legislation to the sentences of the Court of Justice of the European Union issued on the subject.
By 12 September 2012, regulations adopted by the Government, shall identify the *"networks and plants, including those necessary to ensure minimum supplies and operation of essential public services, assets and relationships of strategic significance for the national interest in the energy, transport and communications industries"*. The same regulations will indicate the type of actions or operations within a single group to which the rules contained in the decree do not apply. Companies that manage the assets identified by the regulations are obliged to notify the Prime Minister's Office within 10 days and in any case before implementing actions or operations and *Resolutions relating to management of said assets*. Over Resolutions, actions or operations subject to the rules provided for in the decree, within 15 days from notification, the Government may, by decree of the Prime Minister, impose a veto or prescribe conditions to which effectiveness of the action, Resolution or operation is subordinated if they give rise, on the basis of objective criteria (the existence of links with criminal organisations and/or a threat to the security and continuity of supplies and the security and operation of the assets) *"to an exceptional situation, not governed by national and European legislation on the industry, of a threat of serious prejudice to the public interest relating to the security and operation of the networks and plants and to continuity of supplies"*. Until the notification is made and the term for expression of the veto has passed, the effectiveness of the resolution, action or operation is suspended. When said term has passed and no measure has been adopted by the Government, the operation is understood as authorised. With entry into force of the implementing decrees, the legislation previously in force establishing the golden share (Article 2 of Italian Law Decree no. 332 of 1994 and decrees implementing the rules) is to be repealed.

Joint Decree of the Ministry for Economic Development and the Ministry for the Environment of 15 March 2012 on the "Definition and qualification of regional targets on the subject of renewable sources and definition of management methods in cases of failure to achieve the targets by the regions and autonomous provinces" (so-called "Burden Sharing"), published in the Italian Official Journal no. 78 of 2 April 2012.
The measure specifies the targets - intermediate and final, for 2020 - which regions and autonomous provinces must achieve to contribute to the national target of 17% of gross consumption covered by energy produced by renewable sources.
In defining the regional targets, the condition of the electricity grid and the actions planned by Terna were considered. These were judged to be *"adequate to cope with the growth of renewable electricity sources, envisaged by the regional division"* envisaged by the Decree.

Italian Law Decree no. 29 of 24 March 2012 laying down "Urgent measures" to supplement Italian Law Decree no. 1 of 24 January 2012, and Italian Legislative Decree no. 385 of 1 September 1993, and amendments to Italian Law no. 249 of 31 July 1997, converted, with amendments by Italian Law no. 27 of 24 March 2012, published in the Italian Official Journal no. 117 of 21 May 2012.
It amends the rules of Italian Law Decree no. 1 of 2012 on the subject of legality ratings. By 20 August 2012, with a regulation, the Authority for Competition and the Market will outline criteria and methods for awarding ratings. Companies operating in Italy which reach a minimum turnover of €2 million may ask the ACM to award them a legality rating. *"The rating awarded is taken into consideration when public administrations grant loans and when banks grant credit, in accordance with the methods laid down in a decree by the Minister of Economy and Finance and by the Minister for Economic Development, to be issued by 20 August 2012"*.

Italian Law Decree no. 52 of 7 May 2012 containing "Urgent measures to rationalise public spending", published in the Italian Official Journal no. 106 of 8 May 2012, converted with Italian Law no. 94 of 6 July 2012, published in the Italian Official Journal no. 156 of 6 July 2012.
This Law Decree amends the Contracts Regulation (Italian Presidential Decree no. 207 of 2010) establishing that, both in relation to public contracts concerning work, and in relation to public contracts concerning supplies and other services, in the event of an award with the criterion of the most economically advantageous offer, *"The commission shall open in public session the envelopes containing the technical offers in order to check for the presence of the documents produced"*.

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

Italian Law Decree no. 73 of 6 June 2012 containing "Urgent measures on the subject of qualification of companies and overall guarantees of execution", published in the Italian Official Journal no. 131 of 7 June 2012.

Italian Law Decree no. 74 of 6 June 2012 on "Urgent action in favour of the populations affected by the seismic events which involved the territory of the provinces of Bologna, Modena, Ferrara, Mantua, Reggio Emilia and Rovigo, on 20 and 29 May 2012", published in the Italian Official Journal no. 131 of 7 June 2012.
This Law Decree provides for Terna's participation in the temporary Single Commission for authorisations of actions to delocalise and rebuild businesses.

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

Italian Legislative Decree no. 91 of 18 June 2012, containing "Amendments and additions to Italian Legislative Decree no. 27 of 27 January 2010, implementing Directive 2007/36/EC, on the exercise of certain rights of shareholders of listed companies", published in the Italian Official Journal no. 152 of 2 July 2012.
The Legislative Decree amends the rules on the subject of shareholders' rights and in particular:

- clarifies expressly that the shareholders' meeting may be called by the managing director or by the Board of Directors and not by single directors;
- states that, if not otherwise provided for in the By-laws, the shareholders' meetings of companies that have recourse to the risk capital market shall be held in a single call;
- enables shareholders and regulates the possibility, for all those who hold voting rights, to ask questions on the matters on the agenda also before the shareholders' meeting, and to present proposed resolutions on subjects already on the agenda with the procedure provided for in Article 126-bis of the Consolidated Law on Finance;
- states that the bondholders' meeting may be called, as well as by the representative of the bondholders, also by the Board of Directors and by the management committee;
- defers to a Consob regulation the identification of the methods and terms of communication, on request, in the cases and to the subjects identified by the regulation itself, of the data identifying owners of the financial instruments and the intermediaries holding them, subject to the possibility for owners of financial instruments to prohibit expressly the communication of the data identifying them;
- given that: 1) Italian Legislative Decree no. 27 of 2010 stated that the right to take part in the shareholders' meeting and to vote must be attested by a communication to the issuer, made by the intermediary, in favour of the subject holding the right to vote; 2) for meetings of bearers of financial instruments admitted to trading with the issuer's consent on regulated markets or in Italian multilateral trading facilities or in those of other European Union countries, the communication provided for is made with reference to the term of the accounting day on the seventh open-market day prior to the date set for the meeting, the Legislative Decree states that, to this end, "reference shall be made to the date of first call provided that the dates of any subsequent calls are indicated in the single notice of call; otherwise reference shall be made to the date of each call";
- regulates the obligations to publish the documents that will be submitted to the meeting and the information on the amount of the share capital;
- by way of exception to Article 4 of Italian Law 1745 of 1962 which ties the right to dividend payments to possession of shares at the so-called coupon detachment date, gives greater flexibility to the issuer, stating that "the right to payment of profits and of other distributions related to the financial instruments recorded in the accounts indicated in Article 83-quater, paragraph 3, is determined with reference to the evidence of accounts relating to the end of the accounting day identified by the issuer which also establishes the related methods of payment.";
- admits the possibility of stating in By-laws that each share held by the same shareholder for a continuous period indicated in the By-laws, and in any case not less than one year or also "than the shorter period running between two consecutive annual dividend payment dates", shall give the right to a supplement of not more than 10 per cent of the dividend distributed to the other shares.

Italian Law no. 92 of 28 June 2012 "Rules on employment market reform with a view to growth", published in the Italian Official Journal no. 153 of 3 July 2012.
This Law provides for changes to the rules on temporary contracts, project work, self-employment, traineeships, dismissal and redundancy incentives.

Italian Law Decree No. 83 of 22 June 2012 containing “Urgent measures for the growth of the country”, published in the Italian Official Journal no. 147 of 26 June 2012, converted with Italian Law no. 134 of 7 August 2012, published in the Italian Official Journal no. 187 of 11 August 2012.

This Law Decree envisages, for bonds issued by 26 June 2015 by companies pursuant to Article 157 of Italian Legislative Decree no. 163 of 2006, subjection to the same tax regime envisaged for public debt securities, which entails taxation at 12.5% (in place of the current 20%), and elimination of the limits on deductibility, now linked to the effective rate of return, of interest expense.

An amendment to Italian Law no. 239 of 2004, which governs authorisation of the NTG infrastructure, envisages that in proceedings to authorise the national electricity transmission grid, the lack of regional approval, which must be issued within the maximum term of 150 days from the request of the Ministry for Economic Development, can be remedied by the Prime Minister’s Office which shall act in the matter with the participation of the region involved.

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

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

Other provisions, which were introduced in the amending Law, provide for the identification of the power output requirements which need to be satisfied in order to ensure that power from oil-fuelled installations is available to the electricity grid, on the basis of the information highlighted by the Committee for the gas emergency and by Terna.

Italian Legislative Decree no. 123 of 22 June 2012 setting out “Implementation of Directive 2009/109/EC amending Directives 77/91/EC, 78/855/EC and Directive 2005/56/EC with regard to obligations relating to reports and documentation in the event of mergers and spin-offs”, published in the Italian Official Journal no. 180 of 03 August 2012.

Italian Law Decree no. 95 of 6 July 2012 setting out “Urgent measures for the revision of public spending without changing citizen services”, published in the Italian Official Journal no. 156 of 6 July 2012, converted, with amendments, by Italian Law no. 135 of 7 August 2012, published in the Italian Official Journal no. 189 of 14 August 2012.

This Law Decree suspends the increase on VAT, deferring the increase of two percentage points from 1 October 2012 to 30 June 2013, as envisaged by Italian Law Decree no. 98 of 2011. It enables the regions subjected to the financial stabilisation plan to apply the increased IRPEF [personal income tax] rate early, up to a maximum of 1.1%.

It also provides for the reorganisation of the Ministry of Economy and Finance, the absorption of the Agency of the Territory (the land registry) by the Revenue Agency and a right of option for Cassa Depositi e Prestiti (the Deposits and Loans Bank) on equity interests held by the State in Fintecna, Sace and Simest.

Decree of the Ministry for the Economy and Finance of 7 August 2012, published in the Italian Official Journal no. 210 of 08 September 2012.

The Decree implements Article 157, paragraph 3 of Italian Legislative Decree no. 163 of 2006, where it is established that *“Bonds and debt securities, until the start-up of operations of the infrastructure by the concession holder, can be guaranteed by the financial system, by foundations and private funds, according to the methods defined by Decree of the Ministry for the Economy and Finance jointly with the Ministry for Infrastructures and Transport”*.

It identifies the parties who are able to provide guarantees on project obligations and establishes their term and release method.

Decree no. 161 of 10 August 2012, “Regulation setting out the methods for the use of excavation land and rocks”, published in the Italian Official Journal no. 221 of 21 September 2012.

Italian Legislative Decree no. 184 of 11 October 2012 on the “Implementation of Directive 2010/73/EU amending Directives 2003/71/EC on the prospectus to be published when securities are offered to the public or admitted to trading and 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market” published in the Italian Official Journal no. 253 of 29 October 2012.

Italian Law no. 190 of 6 November 2012 laying down Provisions to prevent and punish corruption and illegality in the public administration, published in the Official Journal no. 256 of 13 November 2012.

Italian Law Decree no. 174 of 10 October 2012 "Urgent provisions on finance and the operation of local authorities, and further provisions in favour of the areas affected by the May 2012 earthquake", published in the Official Journal no. 237 of 10 October 2012, converted into Italian Law no. 213 of 7 December 2012, published in the Official Journal no. 286 of 7 December 2012.
The Decree extended the time limit for the presentation of the IMU declaration [single municipal tax on property] relating to properties for which the requirement to file a return arose after 1 January 2012. The time limit, which had already been extended by Italian Law Decree no. 174 of 2012 from 30 September until 30 November, has been extended further to ninety days after publication in the Official Journal of the decree approving the IMU return form and the relative instructions, which was adopted on 5 November 2012. The new time limit has therefore been set for 3 February 2013.

Italian Law Decree no. 179 of 18 October 2012 "Urgent measures for the growth of the country", published in the Italian Official Journal no. 245 of 19 October 2012, converted into Italian Law no. 221 of 17 December 2012, published in the Italian Official Journal no. 294 of 18 December 2012.
All projects relating to the national grid which are to be subject to an Environmental Impact Assessment (EIA) or a control as to whether they are to be subject to an EIA have been placed under the competence of the Ministry of the Environment.
The adoption of legislation on agreements on environmental compensatory measures relating to energy infrastructure by Decree of the Ministry of Economic Development is envisaged, to be issued in concert with the Ministry for the Economy and Finance, after obtaining the opinion of the Joint Assembly.
The entry into force of the rules on the provision of the service in order to ensure the security of the national electricity grid in the major islands ("super-interruptibility" in Sicily and Sardinia) has been extended until 2015.

Italian Law no. 228 of 24 December 2012, the "2013 Stability Law", published in the Italian Official Journal no. 302 of 29 December 2012.
In relation to tax matters, the law provides for an increase from 1 July 2013 of the 21% band only (which has therefore been increased to 22%). Provision has been made for increases in IRPEF deductions for dependent children, and €950 million have been allocated in 2013 for experimental measures in order to increase productivity in employment.
The Law has introduced a tax on financial transactions involving equity instruments and derivatives, as well as high frequency trading.
In cases involving equity instruments, the rate has been set at 0.2 percent on the value of transactions transferring "shares and other equity instruments", including in cases involving shares transferred as a result of their conversion into bonds". For 2013, the tax has been set at 0.22 percent. The rate of the tax has been reduced to one half for transfers occurring on regulated markets and multilateral trading facilities. In those cases, for 2013, the tax has been set at 0.12 percent. The tax will be applied to transactions concluded after 1 March 2013.

Italian Decree of 28 December 2012 on the "Incentivisation of the production of thermal energy from renewable sources and small-scale energy-efficiency interventions", published in the Italian Official Journal no. 1 of 2 January 2013.

Italian Decree of 20 December 2012 on the "Determination of the arrangements and conditions applicable to imports and exports of electricity for 2013", published in the Italian Official Journal no. 2 of 3 January 2013.

Italian Decree of 23 November 2012 laying down "Terms and conditions governing participation of the thermo-electrical industry in emergency situations, and the reduction in gas consumption for thermal year 2012/2013", published in the Italian Official Journal of 13 December 2012.

Resolutions of the Authority for Electricity and Gas

Resolution 5/2012/R/eel

By this measure the Authority approved the proposals presented by Terna to amend Sections 4 and 7 of the Code of Transmission, Dispatching, Development and Security of the Network and Attachment A 25 relating, in particular, to the rules of the Network Code concerning the values of the threshold parameters for calculating the unit price of failure to observe the switch-on order and to the methods of determining binding input or withdrawal programmes.

Resolution 31/2012/R/eel

By this measure the Authority, also following the guideline issued by the Ministry for Economic Development, aimed at reducing natural gas consumption in the thermoelectric sector and at guaranteeing secure supplies to households and businesses, defined the criteria according to which users of the dispatching in possession of the plants involved must formulate offers on the electricity market, also in order to specify the measures adopted by Terna on operation of said market. In particular, the resolution states that a user of the dispatching, in possession of one or more plants involved, shall formulate offers on the Dispatching Service Market, observing the constraints and criteria defined by Terna, in accordance with the Guideline. Movements on the Dispatching Service Market, carried out in accordance with the measure in question are excluded from the movements significant for calculation of the bonuses and penalties, pursuant to Order no. 351 of 2007.

Resolution 36/2012/E/com

By this measure the Authority introduced a number of changes to Attachment A to the order of the Authority no. 11 of 2007 (Integrated Unbundling Rules - IURs), aimed at introducing measures applicable in the event of non-fulfilment of the obligations of functional and accounting separation, in order to orient regulated companies to complying with the obligations provided for in the IURs according to the methods and within the terms provided for in said Integrated Rules. Of particular significance is the provision relating to suspension of contribution payments by the Electricity Industry Adjustment Fund in the event of non-compliance with the rules on the subject of administrative and accounting separation, up to presentation of separate annual accounts, according to the methods laid down in the IURs. The suspension does not apply to payments in relation to which the regulated subject is called upon to perform a role of mere intermediary of amounts not destined for it. There remains, in these cases, the possibility for the Authority to initiate specific sanction proceedings against non-compliant operators, on the basis of Article 2(20)(c) of Italian Law no. 481 of 1995.

Resolution 50/2012/R/eel

By this measure the Authority completed the procedure relating to determination of the bonuses and penalties for Terna for the year 2010, on the subject of transmission service quality. More specifically, the resolution determines:

- the annual values and the effective levels of the transmission service quality indicators;
- the incentives and penalties relating to the electricity transmission service quality for the year 2010, under the terms of Article 8 of Attachment A to Order no. 341 of 2007, taking account of the provisions of Article 9 of said Annex A on the subject of excess and risk limitation mechanisms.

Resolution 66/2012/R/eel

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

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

Resolution 79/2012/R/com

By this resolution the Authority approved the regulations on operation of the "Integrated Information System" prepared by the Single Buyer as manager of said system. In this regard it should be recalled that Italian Law no. 129 of 2010 provided for the establishment, at the Single Buyer, of an Integrated Information System (IIS) to manage the information flows related to the electricity and natural gas markets, based on a database of withdrawal points and data identifying the final customers and that with Order ARG/com 201 of 2010 the Authority had defined the general criteria, the operating model and the organisational model of the IIS and identified the Single Buyer as the IIS Manager.

The categories of subjects identified by the resolution as IIS Users, and therefore obliged to register with the system, are Terna, distributor companies, users of the dispatching and primary providers.
The resolution, in approving the Regulations, defers to a subsequent provision the definition of performance of the further preparatory activities functional to completion of the accreditation and population of the Official Central Register (OCR) of the IIS.

Resolutions 84/2012/R/eel, 165/2012/R/eel, 344/2012/R/eel and 562/2012/R/eel

By these measures, the Authority took urgent action relating to electricity production plants, with particular reference to distributed generation, to guarantee the security of the National Electrical System. In particular, by resolution 84/2012/R/eel – as supplemented by resolution 165/2012/R/eel – the Authority approved the proposals presented by Terna relating to three new Attachments to the Network Code, specifically:
- Attachment A.68, containing "*Photovoltaic production plants. Minimum requirements for connection and operation in parallel with the HV grid*";
- Attachment A.69, containing "*Criteria for connecting production plants to the Terna defence system*";
- Attachment A.70, containing "*Technical Regulations and distributed generation system requirements*", specifying that this attachment must be applied in accordance with the terms and methods provided for in the measure.

As regards this last attachment, the Authority stresses that the most urgent action, for the purposes of the security of the National Electrical System, is to expand the field of operation (in terms of frequency and voltage) of the production plants connected to the LV and MV grids and provides for a gradual approach for complete application of the measure. More precisely, the resolution distinguishes, as regards the scope of application of the document, between new plants (defined as plants connected to the LV and MV grids that come on stream after 31 March 2012) and existing plants (identified as plants connected to or to be connected to the LV and MV grids on stream on 31 March 2012).
On the basis of the provisions of the resolution, Attachment A.70 to the Network Code applies, with certain distinctions, to new plants and existing plants connected in MV and with power of more than 50 kW. Owners of existing plants, which are obliged in any case to comply by 31 March 2013, are paid a fee, in exchange for compliance with the requirements by 30 June 2012, which is set at €2,000 or €5,000; if compliance occurs after 30 June 2012 but before 31 October 2012 they are paid a gradually decreasing bonus, on a monthly basis, compared to that specified above.
By resolution 344/2012/R/eel, the Authority subsequently approved:
- the updated version of Attachment A.70 in order to take account of critical aspects in the application of some of the requirements of the attachment, in particular for conventional rotating plants and wind power plants.
- Appendix A.72 incorporating the Procedure for the Reduction of Distributed Generation in emergency situations of the National Electricity System (RIGEDI) prepared by Terna following the user reference process. Appendix A.72 defines the methods by which the reduction in production by distributed generation plants connected to the medium voltage electricity grids is to be implemented in order to guarantee the safety of the national electricity system where specific critical operating conditions arise.

By resolution 562/2012/R/eel, the Authority amended resolution 84/2012/R/eel with the purpose of specifying the time limits for the application of the parts of the new version of the CEI 0-16 standard (Edition III) which are innovative and have not yet been made mandatory under the aforementioned resolution, further providing for the adoption of two subsequent measures respectively on the procedures for:
- implementation by producers and distribution companies which dispose of one or more primary cabins or systems enabling the transmission of signals for the purposes of remote cut-off, in critical situations for the electrical grid, of production installations with a power output exceeding 100kW which are connected to MV in order to enable the improved application of Attachment A.72 to the Network Code;
- adaptation to certain requirements provided for under Attachment A.70 to the Network Code in cases involving production installations already in operation on 31 March 2012 which are connected to the LV network or connected to the MV network with a power output of up to 50 kW.

Resolution 102/2012/R/eel

By this measure, under the terms of Article 36 of Italian Legislative Decree no. 93 of 2011, the Authority adopted specific rules in relation to the public consultation methods of Terna's Draft Development Plan, providing in particular for:
- publication, after giving notice, of the Draft Development Plan prepared by Terna on the Authority's website;
- the minimum contents of the version of the DP to be submitted for consultation;
- a period of consultation with the subjects involved during which one or more public sessions shall be organised for Terna to present the DP;
- publication of the results of the consultation through publication on the Authority's website of the observations on the draft ten-year Plan received.

Resolution 132/2012/R/com

By this measure, the Authority identified the minimum set of details to be entered and updated in the OCR managed by the Single Buyer. In the initial stage the Authority provides for a simplification in order to establish datasets regarding the withdrawal points served as part of the enhanced protection service, reserving the definition of methods and time-scales for completion for a subsequent measure.

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

Resolution 157/2012/R/eel

By that measure, the Authority approved the reference tariffs for the electricity distribution service for 2012, set the parameters for equalization of measurement revenues, ordered the adjustment of the transmission revenues to be paid for 2012, and corrected some material errors discovered in Attachments A and B to resolution ARG/elt 199/11, (hereafter referred to respectively as TIT and TIME).

As regards the adjustment of transmission revenues to be paid for 2012, for this purpose the resolution takes into account the inclusion in the NTG, during 2010, of networks which were previously within the distribution perimeter, which will be considered for the purposes of determining the transmission tariff starting from the year 2013, while for the year 2012 the related revenues will be paid to Terna in the context of the mechanism guaranteeing the level of revenues to be paid introduced with Order ARG/elt no. 188 of 2008 and extended by Order ARG/elt 199/11.

Resolution 164/2012/R/eel

In this measure the Authority:

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

Resolution 179/2012/R/eel

In this measure the Authority approved the draft *"Rules for Intraday Capacity Allocation by Explicit Auctions on North Italian Borders"*, containing the operating procedures aimed at implementing a mechanism of explicit auctions for intraday transport capacity allocation on the interconnections with Austria, France, Slovenia and Switzerland.

Resolution 180/2012/R/eel

By this measure the Authority intervened in the annual unavailability planning process. In particular:

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

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

Resolution 213/2012/R/eel

By this measure the Authority amended certain provisions of Attachment A to the Resolution of the Authority for Electricity and Gas of 30 July 2009, ARG/elt no. 107 of 2009 (Integrated Settlement Rules - ISRs), with reference to economic settlement of the load profiling adjustment items, the determination of economic items relating to adjusting measurement data and aggregating incentives.

Finally, the Authority states that Terna must supplement and modify the agreement for the measurement aggregation service - Attachment A58 to the Network Code - in accordance with the rules in the resolution.

Resolution 217/2012/R/eel

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

Resolutions 226/2012/R/eel and 328/2012/R/eel

By these resolutions, which lay down rules for connection to production plant networks, the Authority amended the Integrated Text of Network Connections [Testo Integrato delle Connessioni Attive – TICA] set forth in Resolution no. 99 of 2008, following the suspension granted by the Council of State to a number of claimants, in relation to application of the network capacity booking fees.
In particular, in these measures the Authority stipulated that network capacity must be definitively booked at the end of the procedure for authorisation to build and operate a production plant, whilst in any case providing for an initial period, of a different length depending on the voltage level at which the power will be supplied, during which the technical solution for connection remains valid and enables temporary booking of the related network capacity. Moreover:

- certain simplifications of the connection procedure in the case of plants with a power of up to 1 MW are specified;
- the activities and responsibilities of the applicants requesting the connection and grid managers are specified in greater detail, limiting revision of the technical solution for connection;
- provisions have been reintroduced concerning cases where the estimates accepted in relation to failure to comply with timing for the start-up of the authorisation procedure and the start-up of works developing the production plant are forfeited and forfeiture due to failure to update the grid manager on the progress made on proceedings.

The measures will also apply to pending applications.

Resolution 228/2012/R/eel

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

Resolutions 235/2012/R/com, 314/2012/R/com, 250/2012/R/com and 6/2013/R/com

By these measures the Authority adopted urgent provisions in favour of the populations affected by the earthquakes occurring on or after 20 May 2012. In particular, for users located in the Municipalities damaged by the earthquakes, starting from 20 May 2012, the deadlines for payment of invoices issued or to be issued in relation to sectors within the electricity, gas and water industries have been suspended, and provision has been made for beneficial tariff arrangements, payment by instalment and beneficial connection services.

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

By these measures the Authority intervened to govern complaint procedures and sanction proceedings. In particular, by resolution no. 188/2012/E/com, the Authority laid down rules for dealing with complaints presented by operators against grid owners in order to comply with the provisions of Article 44, paragraph 3 of Italian Legislative Decree no. 93 of 2011 which gives the Authority the task of issuing specific directives to govern dispute resolution procedures deriving from complaints presented against Grid Operators.
By Resolution 243/2012/E/com the Authority adopted the new regulations governing sanction proceedings and procedural methods for assessing commitments that the addressees of resolutions launching sanction proceedings may present in order to avoid the sanctions.

Resolution 281/2012/R/efr

By this measure, the Authority defined a first regulation of the electricity dispatching service also for production plants powered by non-programmable renewable sources. More specifically, in promoting a greater assumption of responsibility for producers in relation to the efficient provision of electricity released to the grid and a regulation of the most cost reflective imbalances, it foresees, as from 2013, the extension of the application of imbalance fees to include production plants using non-programmable renewable sources. In order to guarantee a gradual application of the measure, the provision defines a transition period with the application of allowances within which the imbalances continue to be valued at the area price.

Resolution 283/2012/R/eel

By this measure, the Authority adopted urgent provisions in relation to the procedure initiated by it regarding the containment of gas consumption in the thermo-electric sector during the gas emergency. The resolution seeks to clarify the criteria for measuring offers accepted on the market for dispatching services, with reference to the thermoelectric plants affected by the gas emergency of February 2012, recognising users of the dispatching owners of these plants, in order to make financial exposure less burdensome, an advance on the economic items relating to movements connected with the emergency.
By this provision, the Authority also took action in relation to the fees to cover the costs of essential units.

Resolution 288/2012/R/eel

By this resolution, the Authority laid down the procedure and selection criteria of pilot projects in relation to the storage systems admitted to the incentives envisaged by Article 22.5 of TIT. The resolution specified the minimum selection requirements and optional requirements over and above the minimums that will constitute a preferential requirement for admission to the incentives and defined the various steps of the admission procedure.

The resolution also regulated the appointment, duties and fees of the independent commission of experts in charge of assessing and selecting the individual pilot projects on the transmission grid, according to the criteria identified by the resolution.

Resolution 298/2012/R/eel

By this measure, the Authority set out a series of determinations on the requests for an advance payment on the replenishment price, in relation to the essential systems for 2011. The resolution also contains some changes in relation to the variable cost items recognised for 2011 and 2012.

The Resolution also envisages the institution of a conformity control in relation to the amount of the contribution margin relating to the unit under the regime of the replenishment of costs and makes such changes to the regulation on the maximum number of the most significant functioning structures, for the identification of groupings of essential plants by Terna.

Resolution 299/2012/R/eel

By this measure, the Authority altered the method used to calculate the compensation mechanism of the average expense for the price for the assignment of rights to use the transport capacity on the previous day's market (CCT), within the ambit of the electricity dispatching service, in accordance with the Council of State judgement no. 1212 of 2010. More specifically, at the request of the parties concerned, the Authority has ordered Terna to make the calculations and settle the economic items in relation to this provision.

Resolution 339/2012/R/eel

By this measure, the Authority adopted urgent measures on the adaptation of services measuring electricity produced and released to the grid. More specifically, some changes have been made to TIME (the Consolidated Law on Metering) in terms of the responsibility for installation and maintenance and collection, validation, registration and making available of meter data for plants started-up as from 27 August 2012 in order to implement the provisions of the Fifth Energy Account.

Resolutions 342/2012/R/eel and 401/2012/R/eel

By resolution no. 342/2012/R/eel, the Authority defined urgent measures to regulate the imbalance of electricity and launched a fact-finding investigation on the trend in the electricity market in Sardinia. More specifically, the Authority has ordered Terna:

- to exclude the quantities and prices relating to the use of the secondary reserve from the calculation of imbalance prices and to redefine the price of failure to comply with dispatching orders in order to prevent enabled units from gaining advantage from failing to disburse the secondary reserve;
- to review Chapter 7 of the Grid Code, specifying in detail exactly what formulas are used to calculate each dispatching price, including that for imbalances;
- to prepare and send the Authority a new proposal for settling effective imbalances.

The Authority has also launched a fact-finding investigation aimed both at ascertaining any speculation by one or more dispatching users and at identifying a more efficient, effective method for regulating effective imbalances. The time limit for the conclusion of these investigations has been set at 31 December 2012.

By Resolution 401/2012/R/eel, the Authority subsequently launched a fact-finding investigation aimed at identifying the technical causes underlying the critical issues characterising the Sardinian electrical system. To carry out the investigation, the Authority will use a specific technical consultancy of an external party. The time limit for the conclusion of the investigation has been set at 31 March 2013.

Resolution 354/2012/R/eel

By this measure, the Authority ordered the dismissal of Terna's request for the definition of a specific remuneration for all its plants coming under the scope of the National Transmission Grid, in accordance with Article 21(6) of Italian Law Decree no. 1 of 2012.

Resolution 389/2012/R/eel

By this measure, the Authority asked Terna to extend the convention with the company Idroelettrica Valcanale for the supply of dispatching resources provided by the Company to assure continuity of electrical service in the territorial area assigned. The new expiry date has been established as 31 December 2014 without prejudice to the early termination of the effects of the agreement, if, prior to expiry, the conditions set out therein for the termination should be met.

Resolution 400/2012/R/eel
With this provision, the Authority has passed resolutions on essential plants and defined changes and supplements to the reference regulations, pursuant to Resolution 111 of 2006.
More specifically, for 2013, it has established the values of technical-economic parameters relevant to the application of the regulations of alternative remuneration to typical regimes (i.e. the stipulation of contracts) and has notified Terna of these and all operators concerned.

Resolution 435/2012/R/eel
By this measure, according to the provisions of Article 6 of resolution ARG/elt 197/11 on the quality of the transmission service, the Authority set the starting levels and target levels of certain quality indicators for the transmission service (ENSR-TERNA and ENSR-TERNA RETE ITALIA S.R.L.) for the period 2012-2015.

Resolution 439/2012/R/eel
By this measure, the Authority set forth the criteria for determining the fee due as remuneration for thermo-electrical units which have been subject to measures adopted during the gas emergency of February 2012.

Resolution 454/2012/R/eel
By this measure, the Authority approved the proposal by Terna regarding the implementation of the allocation procedures for hedging instruments used against the volatility risk of the fee for assignment of the rights of use of transmission capacity (CCC) and in transmission from limited production sites and nearby areas (CCP) for 2013.
In confirming the mechanism from the previous year, the proposal introduced the possibility for operators holding production capacity at a limited production site to hedge against the risk of price volatility not only between the site and the adjacent area, but also between the adjacent area and the Uniform National Price.
In fact, for areas adjacent to limited production sites, the maximum quantity of CCC which may be allocated on a monthly basis will be increased by an amount equal to the annual CCPs for the relative limited production sites owned by the operator as a result of the annual allocation and any purchases or sales of CCP concluded with other operators.

Resolution 482/2012/R/eel
By this measure, the Authority approved the documents relating to the introduction of a capacity market drawn up and submitted by Terna pursuant to resolution ARG/elt/98/11.
In particular, the Authority approved the Draft Rules, the relative Attachments, the Technical Report and the starting points for consultation included in the Report and requested Terna to supplement the Starting Points for Consideration by inserting three further proposals relating to the ability to register as a relevant production unit installations with a rated output not exceeding 10 MVA, the elimination of the reduction of dedicated capacity in line with the load factor of the system and direct participation of demand in the market for capacity.

Resolution 505/2012/R/eel
By this measure, the Authority granted Terna €929,243 to cover the costs estimated for 2013 of carrying on activities necessary for the conduct of the monitoring function for wholesale electricity markets.

Resolution 507/2012/R/eel
By this measure, the Authority decided, in relation to the reintegration of costs pertaining to essential installations, to extend the deadline after which the proposals sent by Terna to the Authority for 2013 on the values of the standard parameters for determining the variable cost accepted and requests to amend those parameters submitted by users of the dispatching units concerned will be deemed to have been approved.

Resolution 530/2012/R/eel
By this measure, the Authority approved the updated versions of attachments A.54 – Classification and registration of user interruptions related directly or indirectly to the national transmission grid – and A.66 – Procedure for determining the mitigation services provided to distributor companies – to the Network Code which were drawn up by Terna.

Resolution 531/2012/R/eel
By that measure, the Authority decided to grant preliminary certification to Terna as an operator of the electricity transmission grid under separate ownership. The measure also specified several requirements regarding in particular certain amendments to the Articles of Association and existing agreements with the owners of portions of the transmission grid.

Resolution 557/2012/R/eel
By this measure, the Authority altered the mechanism for awarding operating costs relating to the Consolidated Records Management System of Production Plants (known as GAUDÌ system), providing in advance for the remuneration forecast for the regulatory period 2013-2015.

The new mechanism provides for the identification of two different types of operating cost: ordinary operating costs and other operating costs.
The GAUDÌ quota of the DIS fee to be paid for 2013 was set at €512,846, corresponding to the difference between the costs estimated for 2013 and the saving obtained from the difference between the costs reported in the closing accounts and those estimated for 2011, as quantified under resolution 506/2012/R/eel.

The GAUDÌ quota of the DIS fee (i.e. the fee covering costs to operate Terna) to be paid for 2014 and 2015 has been set at €1,065,660 for each year, which must be increased (or reduced) by the excess cost (or saving) resulting from the difference between the operating costs reported in the closing accounts and those forecast, which will be determined respectively with reference to 2012 and 2013.

Resolution 564/2012/R/eel
By this measure, the Authority altered the algorithm used for calculating the further fee to remunerate electricity generating capacity starting from 2010, without prejudice however to any additional fee payments recognised to date under the terms of applicable legislation relating to 2010 and 2011.

Resolution 565/2012/R/eel
By this measure, the Authority updated the tariffs for transmission services (deferring the adoption, if applicable, of the binomial tariff until 2014),the distribution and metering of electricity and the financial terms under which the connection service will be provided in 2013. The resolution also provides for certain amendments to the integrated text of metering services (TIME) and the integrated text on financial terms for the provision of the connection service (TIC).

Resolution 570/2012/R/efr
By this measure, the Authority specified the arrangements and financial terms for 2013 applicable to the provision of the *in situ* exchange service with the goal of reviewing the procedures applicable to the reimbursement of general system charges and of simplifying their usage also for installations that have already entered into service, thereby implementing the provisions laid down under the Ministerial Decree of 6 July 2012.

Resolution 576/2012/R/eel
By this measure, the Authority updated, in relation to 2013, the dispatching fees, amended and supplemented certain provisions of the TIS and of resolution no. 111 of 2006 and set the fees to cover the costs for remunerating available capacity, the interruptibility service, the essential units eligible for cost reimbursement and the ITC fee.

Resolution 581/2012/R/com
By that measure the Authority:
- updated the rate pursuant to Article 4, paragraph 1-*bis*, of Italian Law no. 368 of 2003 for 2013 (compensatory measures for locations hosting nuclear power stations and installations from the nuclear fuel cycle);
- updated the values of certain tariff elements relating to the gas and electricity sectors;
- updated the compensation values for the cost incurred to supply electricity to customers from the electrical industry suffering hardship during 2013;
- updated the compensation values for the cost incurred to supply gas to domestic customers suffering economic hardship during 2013;
- altered the rate used for calculating default interest, to be applied in the Authority's measures starting from 1 January 2013.

Resolution 582/2012/R/eel
By this measure the Authority specified the essential units which are to be eligible for cost reimbursement for 2013.

Resolution 583/2012/R/EEL
By this measure the Authority updated certain components of the "marketing and sale price" to be charged to non-domestic end customers receiving the enhanced protection service, with regard to the marketing costs incurred by an operator on the open market.

Consolidated financial statements

at 31 December 2012

Terna

Contents

Consolidated financial statements at 31 December 2012

Consolidated financial statements

Consolidated income statement*

€ million	Notes	2012	2011
A. Revenue			
1. Revenue from sales and services	1	1,732.8	1,591.3
of which: related parties		*1,287.1*	*1,436.7*
2. Other revenue and income	2	73.1	44.3
of which: related parties		*0.2*	*0.8*
Total revenue		**1,805.9**	**1,635.6**
B. Operating expenses			
1. Raw materials and consumables	3	29.7	20.7
2. Services	4	139.5	149.0
of which: related parties		*3.0*	*4.2*
3. Personnel expenses	5	196.7	211.0
- gross personnel expenses		*270.9*	*278.6*
- personnel expenses, capitalised		*(74.2)*	*(67.6)*
of which: related parties		*1.5*	*2.8*
4. Amortisation, depreciation and impairment	6	423.7	396.3
5. Other operating expenses	7	46.8	23.0
of which: related parties		-	*0.3*
Total operating expenses		**836.4**	**800.0**
A-B Operating profit (EBIT)		**969.5**	**835.6**
C. Financial income/expense			
1. Financial income	8	89.5	37.0
2. Financial expense	8	(189.9)	(165.4)
of which: related parties		*(10.4)*	*(9.8)*
3. Share of profit/(losses) of equity-accounted investees	9	7.2	7.4
D. Profit before taxes		**876.3**	**714.6**
E. Income taxes	10	**412.7**	**387.3**
F. Profit for the year from continuing operations		**463.6**	**327.3**
G. Profit for the year from discontinued operations	11	-	**112.7**
H. Profit for the year		**463.6**	**440.0**
Profit for the year attributable to the owners of the Parent		***463.6***	***440.0***
Earnings per share			
Basic earnings per share	12	0.231	0.219
Diluted earnings per share		0.231	0.219
Earnings per share from continuing operations			
Basic earnings per share	12	0.231	0.163
Diluted earnings per share		0.231	0.163

(*) For FY2011, the amounts include all related party transactions; for FY 2012, as envisaged by IAS 24R, the amounts connected with related parties, as concerns transactions between "government related entities" refer to the relations that have a significant impact on the Group results; differently to that stated in the disclosure as at 31 December 2011, no information is therefore given in connection with insignificant operations over and above "pass-through items".

Consolidated statement of comprehensive income

€ million	Notes	2012	2011
Profit for the year		**463.6**	**440.0**
Other comprehensive income for the year			
- Cash flow hedges, net of tax effect of continuing operations	23	(18.2)	(34.7)
- Cash flow hedges, net of tax effect of discontinued operations	23	-	(16.0)
Comprehensive income for the year		**445.4**	**389.3**
Comprehensive income for the year attributable to:		**445.4**	**389.3**
Owners of the Parent		*445.4*	*389.3*

Consolidated statement of financial position
Assets*

€ million	Notes	At 31.12.2012	At 31.12.2011
A. Non-current assets			
1. Property, plant and equipment	13	9,342.0	8,618.2
of which: related parties		*18.5*	*24.3*
2. Goodwill	14	190.2	190.2
3. Intangible assets	15	280.2	280.7
4. Equity-accounted investees	16	73.5	66.8
5. Non-current financial assets	17	755.7	522.4
6. Other non-current assets	18	7.1	6.6
Total non-current assets		**10,648.7**	**9,684.9**
B. Current assets			
1. Inventories	19	6.6	16.3
2. Trade receivables	20	1,884.1	1,690.2
of which: related parties		*424.9*	*122.5*
3. Current financial assets	17	21.3	155.5
of which: related parties		*0.3*	*0.4*
4. Cash and cash equivalents	21	2,510.1	1,114.9
5. Income tax assets	22	18.6	4.4
6. Other current assets	18	59.6	20.5
Total current assets		**4,500.3**	**3,001.8**
Total assets		**15,149.0**	**12,686.7**

Consolidated statement of financial position
Liabilities*

€ million	Notes	At 31.12.2012	At 31.12.2011
C. Equity attributable to the owners of the Parent			
1. Share capital		442.2	442.2
2. Other reserves		748.9	766.9
3. Retained earnings		1,280.3	1,262.7
4. Interim dividend		(140.7)	(160.8)
5. Profit for the year		463.6	440.0
Total equity attributable to owners of the Parent	23	**2,794.3**	**2,751.0**
D. Non-current liabilities			
1. Long-term loans	24	8,909.4	6,738.7
of which: related parties		*500.0*	*500.0*
2. Employee benefits	25	119.4	119.2
3. Provisions for risks and charges	26	166.9	193.8
4. Deferred tax liabilities	27	187.8	251.8
5. Non-current financial liabilities	24	141.2	111.4
6. Other non-current liabilities	28	135.4	137.1
Total non-current liabilities		**9,660.1**	**7,552.0**
E. Current liabilities			
1. Current portion of long-term loans	24	69.4	59.7
2. Trade payables	29	2,292.1	2,029.8
of which: related parties		*15.6*	*44.9*
3. Tax liabilities	29	95.0	116.5
4. Current financial liabilities	24	75.3	40.1
of which: related parties		*1.1*	*2.4*
5. Other current liabilities	29	162.8	137.6
of which: related parties		*4.9*	*7.3*
Total current liabilities		**2,694.6**	**2,383.7**
Total liabilities and equity		**15,149.0**	**12,686.7**

(*) For FY2011, the amounts include all related party transactions; for FY 2012, as envisaged in IAS 24R, the amounts relating to related parties as regards transactions between "government-related entities" refer to relations that have a significant impact on the Group's results.

Statement of changes in consolidated equity

31 DECEMBER 2012 - 31 DECEMBER 2011	CONSOLIDATED SHARE CAPITAL AND RESERVES			
€ million	Share/quota capital	Legal reserve	Share premium reserve	CFH reserve
Equity at 31 December 2011	**442.2**	**88.2**	**20.0**	**(70.0)**
Profit for the year				
Other comprehensive income:				
Change in **fair value** of derivatives and cash flow hedges, net of tax effect				(18.2)
Total other comprehensive income	-	-	-	**(18.2)**
Comprehensive income	-	-	-	**(18.2)**
Transactions with equity owners:				
Allocation of 2011 profit				
- *Retained earnings and reserves*		*0.2*		
- *Dividends*				
Exercise of stock options				
2012 interim dividend				
Total transactions with equity owners	-	**0.2**	-	-
Other changes				
Equity at 31 December 2012	**442.2**	**88.4**	**20.0**	**(88.2)**

31 DECEMBER 2011 - 31 DECEMBER 2010	CONSOLIDATED SHARE CAPITAL AND RESERVES			
€ million	Share/quota capital	Legal reserve	Share premium reserve	CFH reserve
Equity at 31 December 2010	**441.0**	**88.0**	**8.6**	**(35.3)**
Profit for the year				
Other comprehensive income:				
Change in **fair value** of derivatives and cash flow hedges, net of tax effect				(34.7)
Total other comprehensive income	-	-	-	**(34.7)**
Comprehensive income	-	-	-	**(34.7)**
Transactions with equity owners:				
Allocation of 2010 profit				
- *Retained earnings*		*0.2*		
- *Dividends*				
Exercise of stock options	1.2		11.4	
2011 interim dividend				
Total transactions with equity owners	**1.2**	**0.2**	**11.4**	-
Other changes				
Equity at 31 December 2011	**442.2**	**88.2**	**20.0**	**(70.0)**

	Other reserves	Retained earnings	Interim dividend	Profit for the year	Equity attributable to the owners of the Parent
	728.7	**1,262.7**	**(160.8)**	**440.0**	**2,751.0**
				463.6	**463.6**
					(18.2)
	-	**-**	**-**	**-**	**(18.2)**
	-	**-**	**-**	**463.6**	**445.4**
		17.7		*(17.9)*	*-*
			160.8	*(422.1)*	*(261.3)*
					-
			(140.7)		(140.7)
	-	**17.7**	**20.1**	**(440.0)**	**(402.0)**
		(0.1)			(0.1)
	728.7	**1,280.3**	**(140.7)**	**463.6**	**2,794.3**

	AFS reserve	Other reserves	Retained earnings	Interim dividend	Profit for the year	Equity attributable to the owners of the Parent	Equity attributable to non-controlling interests	Total equity
	16.0	**729.7**	**1,073.6**	**(160.4)**	**612.0**	**2,773.2**	**0.2**	**2,773.4**
					440.0	**440.0**		**440.0**
	(16.0)					(50.7)		(50.7)
	(16.0)	**-**	**-**	**-**	**-**	**(50.7)**		**(50.7)**
	(16.0)	**-**	**-**	**-**	**440.0**	**389.3**	**-**	**389.3**
			190.1	*160.4*	*(350.7)*	*-*		*-*
					(261.3)	*(261.3)*		*(261.3)*
		(1.0)				11.6		11.6
				(160.8)		(160.8)		(160.8)
	-	**(1.0)**	**190.1**	**(0.4)**	**(612.0)**	**(410.5)**	**-**	**(410.5)**
			(1.0)			**(1.0)**	**(0.2)**	**(1.2)**
	-	**728.7**	**1,262.7**	**(160.8)**	**440.0**	**2,751.0**	**-**	**2,751.0**

Consolidated statement of cash flows*

€ million	2012	2011
Profit for the year	**463.6**	**440.0**
of which from discontinued operations and assets held for sale - Rete Rinnovabile	-	***50.6***
of which from discontinued operations and assets held for sale – NRTS	-	***28.3***
Adjustments for:		
Amortisation, depreciation, impairment losses/(reversals of impairment losses) on property, plant and equipment and intangible assets**	403.2	385.5
Provisions (including employee-related provisions) and impairment losses	68.1	94.1
(Gains)/Losses on disposals of property, plant and equipment	(5.9)	(3.6)
Financial (income)/expenses	101.8	129.6
Income taxes	408.0	388.3
Cash flows generated by operating activities, before changes in net working capital	**1,438.8**	**1,433.9**
Increase/(Decrease) in provisions (including employee-related and tax provisions)	(92.8)	(91.1)
(Increase)/decrease in inventories	9.7	(4.9)
(Increase)/decrease in trade receivables and other current assets	(266.1)	(168.2)
Increase/(decrease) in other non-current liabilities	210.4	6.0
(Increase)/decrease in other non-current assets	(452.9)	(413.2)
Increase/(Decrease) in trade payables and other current liabilities	347.5	568.5
Interest income and other financial income received	305.1	91.3
Interest expense and other financial expense paid	(398.5)	(218.5)
Income taxes paid	(489.3)	(354.7)
Cash flows generated by operating activities [a]	**611.9**	**849.1**
Investments in property, plant and equipment, net of grants received	(1,156.3)	(1,166.0)
Revenue from sale of property, plant and equipment and intangible assets and other changes	72.3	8.6
Investment in intangible assets, net of grants received	(54.1)	(51.1)
Net deconsolidation of discontinued operations and assets held for sale - Rete Rinnovabile	-	404.9
Increase in equity interests in associates	(6.7)	(43.2)
Acquisition of equity investments	(0.2)	(0.1)
Cash flows used in investing activities [b]	**(1,145.0)**	**(846.9)**
Capital increase	-	1.2
Increase of reserves	-	10.4
Increase/(decrease) in net income and accumulated losses	(0.1)	(1.0)
Dividends paid	(402.0)	(422.1)
Equity attributable to non-controlling interests in discontinued operations and assets held for sale - Rete Rinnovabile	-	(0.2)
Change in short- and medium/long-term financial payables (including short-term portions)***	2,180.4	1,772.7
Change in short-term financial investments	150.0	(150.0)
Deconsolidation of financial debt of discontinued operations and assets held for sale - Rete Rinnovabile	-	(254.6)
Cash flows generated by financing activities [c]	**1,928.3**	**956.4**
Increase/(Decrease) in cash and cash equivalents [a+b+c]	**1,395.2**	**958.6**
of which change in cash and cash equivalents for discontinued operations and assets held for sale - Rete Rinnovabile	-	***(6.2)***
Opening cash and cash equivalents	1,114.9	156.3
Closing cash and cash equivalents	2,510.1	1,114.9

(*) For comments on the Consolidated Statement of Cash Flows, please see the section "Notes to the Statement of Cash Flows" in the "NOTES TO THE FINANCIAL STATEMENTS".
(**) Net of set-up grants taken to income statement for the year.
(***) Net of FVH derivatives.

Notes to the Consolidated Financial Statements

A. Accounting policies and measurement criteria

Introduction

Terna S.p.A. has registered offices in Viale Egidio Galbani 70, Rome, Italy. Its consolidated financial statements at and for the year ended 31 December 2012 include its separate financial statements and those of its subsidiaries (the “Group”), as well as the Group’s shareholding in associates and joint ventures. The subsidiaries included within the scope of consolidation are listed below.
These Consolidated Financial Statements were authorised for publication by the Directors on 15 March 2013.
The Consolidated Financial Statements for the year ended 31 December 2012 are available on demand at Terna S.p.A.’s offices at Viale Egidio Galbani, 70 Rome or on the website www.terna.it.

Compliance with IAS/IFRS

The consolidated financial statements as of 31 December 2012 have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) 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.
This document has also been prepared by taking into account the provisions of Legislative Decree no. 38 of 28 February 2005, the Italian Civil Code and CONSOB Resolutions nos. 15519 (*“Provisions governing financial statements in implementation of Art. 9, paragraph 3, of Legislative Decree no. 38/2005*”) and 15520 (*“Amendments to the implementing rules for Legislative Decree no. 58/1998”*), both of 27 July 2006, as well as CONSOB Communication no. DEM/6064293 of 28 July 2006 (*“Disclosure requirements for listed issuers and issuers of financial instruments that are widely held among the public and pursuant to Art. 116 of the Consolidated Financial Act”*).
The consolidated financial statements have been prepared on a historic cost basis, modified where necessary for certain financial instruments, as well as on a going concern basis. The Group has determined that, despite the challenging economic and financial environment, it does not face material uncertainties (as defined in paragraph 25 of IAS 1R) that might cast doubt on its ability to continue as a going concern.

Basis of presentation

The consolidated financial statements are composed of the statement of financial position, the income statement, the statement of cash flows, the statement of changes in equity and the notes thereto.
In the statement of financial position, assets and liabilities are classified on a “current/non-current” basis, with separate reporting of assets and liabilities held for sale. Current assets, which include cash and cash equivalents, are those held for realisation, sale or consumption in the Group’s normal operating cycle; current liabilities are those expected to be settled in the Group’s normal operating cycle or within one year from the close of the financial year.
The income statement is classified on the basis of the nature of costs. The income statement is presented as two statements, the first of which (income statement) presents the components of profit or loss for the year; while the second (statement of comprehensive income) starts with the result for the year and then presents the revenue and expense items (including reclassification adjustments) that are recognised in equity rather than profit or loss for the year.
The statement of cash flows has been prepared using the indirect method.
The consolidated financial statements are accompanied by the Directors’ Report on Operations for Terna and the Group, which as from the 2008 financial year has been prepared as a single document, exercising the option granted under Legislative Decree no. 32 of 2 February 2007, which amended Art. 40 (Directors’ Report on Operations) of Legislative Decree no. 127 of 9 April 1991.
In the balance sheet, assets and liabilities are classified on a “current/non-current” basis, with specific mention of assets and liabilities held for sale. Current assets, which include cash and cash equivalents, are those held for realisation, sale or consumption in the Group’s normal operating cycle. Current liabilities are those expected to be settled in the Group’s normal operating cycle or within one year from the close of the financial year.
These consolidated financial statements are presented in millions of euros, and all figures are shown in millions of euros, unless otherwise indicated.
The consolidated financial statements have been prepared using the historic cost method, with the exception of captions that are recognised at fair value in accordance with IFRS-EU, as indicated in the accounting policies for each caption.
It is specified that some comparative balances of the financial statements at 31 December 2011, provided for comparison, have been reclassified, without, however, altering the equity values at 31 December 2011 and those of the income statement for 2011.

Use of estimates

The preparation of the consolidated financial statements requires the use of estimates and assumptions that affect the book values of assets and liabilities and related disclosures, in addition to contingent assets and liabilities at the reporting date. The estimates and associated assumptions are based on previous experience and various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed periodically and the effects of any changes are recognised in the income statement for the year, if they relate solely to that period. In the case that the review affects both current and future years, the change is recorded in the year in which the estimate is reviewed as well as in the relative future years.
The critical areas for key estimates and assumptions used by management in applying the IFRS endorsed by the European Commission that could have significant effects on the consolidated financial statements or that could give rise to risks that would entail significant adjustments to the book values of assets and liabilities in subsequent years are summarised below.

Employee benefits

The liability for employee benefits paid upon or following termination of employment in relation to defined benefit plans or other long-term benefits is recognised net of any plan assets and is measured on the basis of actuarial assumptions, estimating the amount of future benefits that employees have vested at the reporting date. The main actuarial standards used to quantify employee benefits are based on economic and demographic assumptions: discount rate (used to determine the current value of the obligation, determined considering the return of high quality bond securities in line with the duration of the group of workers measured), inflation rate, rate at which future salary levels increase, rate of increase of average health reimbursement, rate of increase of electric consumer goods prices and demographic techniques, such as, for example, mortality and invalidity, retirement, resignation, advances and family members.
Actuarial gains and losses in excess of 10% of the greater of the present value of the defined benefit plan obligation and the fair value of plan assets are booked to the income statement for the average expected term of service of employees participating in the plan. Otherwise, actuarial gains and losses are not recognised.

Provisions for future risks and charges

The liabilities that can be associated with legal and tax disputes and the liabilities associated with projects for urban and environmental renewal are estimated by company management. The measurement of allocations for disputes is based on the probability of incurring an expense, including the use of external lawyers supporting the Group; the estimate of allocations to be made for projects for urban and environmental renewal, the so-called “compensation” aimed at offsetting the environmental impact of the development of electrical lines, is based on an analysis of the agreements signed with local entities involved and the progress of activities on the development of the new lines. Where the financial component related to the passing of time is significant, allocations are discounted, using a rate that company management believes to be appropriate (a rate is used gross of tax and such as to reflect current market values of money and the specific risks connected with the liability). After the initial booking, the value of the risk provision is updated to reflect the passing of time and any changes in the estimate following alterations to the amounts envisaged, the timing and the discount rates used. Any increase in provisions associated with the passage of time is recognised in the income statement under “Financial expense”.

Impairment losses

Property, plant and equipment and intangible assets with finite useful lives are tested at least once a year to check for evidence of impairment. If there is an indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount of goodwill and intangible assets with indefinite useful lives, where present, as well as intangible assets not yet available for use, is estimated at least annually.
The recoverable amount is equal to the greater of fair value less costs to sell and value in use. Value in use is measured by discounting estimated future cash flows considering available information at the time of estimate and on the basis of subjective assessments of the performance of future variables, such as prices, costs, demand growth rates, production profiles, and discounted at a pre-tax rate that reflects current market assessment of the time value of money for the investment period and risks specific to the asset. If the intangible asset does not generate cash inflows that are largely independent, the asset’s recoverable amount is calculated as part of the CGU to which it belongs.
An impairment loss is recognised in the income statement when the asset’s book value, or the net invested capital of the CGU to which it belongs, is greater than its recoverable amount.

Impairment losses of CGUs are first taken as a reduction in the carrying amount of any allocated goodwill and then as a reduction in other assets of the CGU on a pro rata basis. Except for goodwill, impairment losses may be reversed up to the recoverable amount if there is an indication that the impairment loss no longer exists or when there is a change in the methods used to measure recoverable amount.

Allowance for impairment accounts

Trade receivables are initially recognised at fair value net of any impairment losses relating to sums considered non recoverable, which are taken to the specific allowance for impairment. Impairment losses are measured on the basis of the present value of estimated future cash flows, discounted at the original effective interest rate.

Subsidiaries and the scope of consolidation

The scope of consolidation includes the Parent Company Terna S.p.A. and the companies over which the Parent Company has the power to directly or indirectly govern financial and operating policies so as to obtain benefits from their activities, regardless of the type of ownership. In assessing whether or not the Parent Company has control, potential voting rights that are presently exercisable or convertible are also considered.
The financial statements of subsidiaries are included in the consolidated financial statements on a line-by-line basis from the date when the Parent Company gains control until the date when such control ceases.
The companies included within the scope of consolidation are listed below:

Company	Registered office	Business	Currency	Share/quota capital	% held	Consolidation method
COMPANIES CONTROLLED DIRECTLY BY TERNA S.P.A.						
Terna Rete Italia S.p.A.	Rome	Design, realisation, management, development, operation and maintenance of grid structures and lines and of other infrastructures connected to said grids, of plants and equipment functional to said business in the sectors of electricity dispatch and transmission and in similar, related or connected segments.	€	120,000	100%	Line-by-line
Terna Rete Italia S.r.l.	Rome	Design, construction, management, development, operation and maintenance of high-voltage power lines.	€	243,577,554	100%	Line-by-line
Terna Crna Gora d.o.o.	Podgorica	Authorisation, construction, and management of transmission infrastructures comprising the Italy-Montenegro electrical interconnection in Montenegro territory.	€	36,000,000	100%	Line-by-line
SunTergrid S.p.A.	Rome	Construction and maintenance of electricity transmission grids and plants for the generation of electricity, including renewables generation, for own use and sale in Italy and abroad.	€	120,000	100%	Line-by-line
Terna Plus S.r.l.	Rome	Design, construction, management, development, operation and maintenance of plants, equipment and infrastructures including grids and systems, including diffused energy storage, pumping and/or storage.	€	16,050,000	100%	Line-by-line
Terna Storage S.r.l.	Rome	Design, construction, management, development and maintenance of systems, including diffused energy storage (including batteries), pumping and/or storage systems, and plants, equipment and infrastructures including grids.	€	10,000	100%	Line-by-line
COMPANIES CONTROLLED THROUGH SUNTERGRID S.P.A.						
Rete Solare S.r.l.	Rome	Construction and maintenance of electricity transmission grids and plants for the generation of electricity, including renewables generation, for own use and sale in Italy and abroad.	€	10,000	100%	Line-by-line

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

- incorporation on 23 February 2012, by Terna S.p.A., of the company named **Terna Rete Italia S.p.A.**;
- incorporation on 23 March 2012 by the subsidiary Terna Plus S.r.l., of the company named **Terna Storage S.r.l.** and the subsequent acquisition by Terna S.p.A. on 14 November 2012 of the portion representing the entire share capital.

Associates

Investments in associates are those over which the Terna Group has significant influence but which are neither subsidiaries nor joint ventures. In assessing whether or not Terna has a significant influence, potential voting rights that are presently exercisable or convertible are also considered.
These investments are initially recognised at acquisition cost and subsequently measured using the equity method. The profits or the losses pertaining to the Group are recognised within the consolidated financial statements when it begins to exercise significant influence and until that influence ceases.
In the event that the loss pertaining to the Group exceeds the equity interest's book value, the latter is written off and any excess is recognised in a specific provision in the case that the Parent Company is required to meet the legal or constructive obligations of the subsidiary or, in any case, to cover its losses.

Joint ventures

Investments in jointly-controlled entities, in which the Group exercises joint control of other entities, are recognised initially at cost and subsequently measured using the equity method. The profits or the losses pertaining to the Group are recognised within the consolidated financial statements when it begins to exercise significant influence and until that influence ceases.
In assessing whether or not the Parent Company has a joint interest, potential voting rights that are presently exercisable or convertible are also considered.

Company	Registered office	Business	Currency	Share/quota capital	% held	Consolidation method
ASSOCIATES						
Cesi S.p.A.	Milan	Experimental electro-technical research.	€	8,550,000	42.698%	Equity Method
Coreso S.A.	Brussels (Belgium)	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 analyses in real time on energy flows in the region, identifying potentially critical areas and promptly informing any affected TSOs.	€	1,000,000	22.485%	Equity Method
CGES A.D.	Podgorica	Electricity dispatch and transmission operator in Montenegro.	€	155,108,283	22.0889%	Equity Method
JOINT VENTURES						
ELMED Etudes Sarl	Tunis	Analysis and preliminary consulting for the preparation of tender documentation of the Tunisian government for construction tenders and the management of the electricity generation site in Tunisia involved in the project for the interconnection of Italy and Tunisia.	Tunisian Dinar	2,700,000	50%	Equity Method

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

Consolidation policies

All financial statements of subsidiaries used to prepare the consolidated financial statements were drafted as of 31 December 2012, with the exception of the subsidiary SunTergrid, which closed the financial year as of 31 October 2012, and have been approved by their respective assemblies; they have been adjusted, where necessary, to align them with the Parent Company's accounting policies.
During the preparation of the consolidated financial statements, intercompany balances, transactions, revenue and costs are fully eliminated, net of the related tax effect, where material (so-called "consolidation on a line-by-line basis").
Unrealised gains and losses with associates and joint ventures are eliminated in proportion to the Group's holding therein. In both cases, unrealised losses are eliminated, unless they represent impairment.

Translation of foreign currency items

The financial statements of each consolidated company are prepared using the functional currency for the economic environment in which each company operates.
In these financial statements, all transactions in currencies other than the functional currency are recognised at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities in currencies other than the functional currency are subsequently adjusted at the exchange rate prevailing at year end. Any exchange rate differences are taken to profit or loss.
Non-monetary assets and liabilities in foreign currency stated at historic cost are converted at the exchange rate prevailing when the transaction was initially recognised. Non-monetary assets and liabilities in foreign currency stated at fair value are converted at the exchange rate prevailing when fair value was measured.

Translation of financial statements of foreign operations

For the purposes of the consolidated financial statements, profits and losses, assets and liabilities are expressed in euros, which is the Parent Company Terna S.p.A.'s functional currency.
For the purposes of drafting the consolidated financial statements, the financial statements of subsidiaries with a functional currency other than the euros, including goodwill and consolidation adjustments, are converted into euros at the exchange rate prevailing at the reporting date. Income statement figures included in these financial statements are converted at the average exchange rate of the year. The relevant exchange differences are noted directly under shareholders' equity and stated separately in a specific reserve. This reserve is then released to the income statement when the equity investment is sold.

Property, plant and equipment

Property, plant and equipment are recognised at historic cost, including costs directly attributable to putting the asset in the condition necessary for it to be capable of operating in the manner for which it was acquired. In the event of legal or constructive obligations, cost also includes the present value of the estimated cost of disposal or removal of the asset. The corresponding liability is recognised in the provisions for risks and charges. Borrowing costs directly attributable to the acquisition, construction or production of an asset that qualify for capitalisation pursuant to IAS 23R are capitalised as part of the cost of the asset. For more information, please see the section "Financial income and expense" below. Costs incurred after purchase are recognised as an increase in the carrying amount of the asset to which they relate if it is probable that the future benefits of that cost will flow to the Company and if the cost can be reliably measured. All other costs are recognised in profit or loss when incurred.
Each element of an item of property, plant and equipment of material value, with respect to the total value of the item to which it belongs, is recognised and depreciated separately.
Certain assets that were revalued at 1 January 2005 (transition date) or previously are recognised at the revalued amount, which is considered deemed cost at the date of the revaluation. Certain assets that were revalued at 1 January 2005 (transition date) or previously are recognised at the revalued amount, which is considered deemed cost at the date of the revaluation.
Property, plant and equipment are shown net of accumulated depreciation and any impairment losses, which are measured as described below. Depreciation is calculated on a straight-line basis over the estimated useful economic life of the asset, which is reviewed annually, with revisions applied on a prospective basis. The depreciation of assets begins when the assets become available for use.
Liabilities associated with items of property, plant and equipment are taken to a specific provision as a balancing entry to the related asset. The amount is taken to profit or loss through the depreciation of the asset.

The main depreciation rates calculated on the basis of the related asset's useful life are as follows:

DEPRECIATION RATES

Civil and industrial buildings	2.50%
Transmission lines	2.50%
Transformer stations:	
- Electrical machinery	2.38%
- Electrical devices and equipment	3.13%
- Automation and control systems	6.70%
Central systems for remote management and control:	
- Devices, electrical equipment and ancillary plants	5.00%
- Electronic calculation equipment	10.00%

Land, regardless of whether it is free of construction or related to civil and industrial buildings, is not depreciated, since it has an indefinite useful life.
Property, plant and equipment acquired under finance leases - and through which the Group has substantially acquired all the risks and rewards of ownership - are recognised as Group assets at the lower of fair value and the present value of minimum lease payments due, including any amounts to be paid to exercise the purchasing option. The corresponding liability to the lessor is recognised under financial payables. Assets are depreciated using the criteria and rates described above. If the company is not reasonably certain that it will acquire ownership at the end of the lease, the asset is depreciated over the shorter of the term of the lease and the asset's useful life.
Leases in which the lessor maintains substantially all the risks and rewards of ownership are classified as operating leases. Costs related to operating leases are taken in full to profits or losses over the term of the lease.

Intangible assets

Intangible assets, which all have finite useful lives, are recognised at cost, having obtained, if necessary, the approval of the Board of Statutory Auditors, and shown net of accumulated amortisation and any impairment losses, measured as described below.
Amortisation begins when the asset becomes available for use and is calculated on a straight-line basis over the estimated useful life of the related asset, which is reviewed annually. Any revisions to estimated figures are applied on a prospective basis.

Intangible assets essentially regard the exclusive license to carry out electricity transmission and dispatching activities and other intangible assets. In particular, Terna S.p.A. obtained the license for electricity transmission and dispatching activities in Italy on 1 November 2005 when it acquired the TSO business unit. As established in the Decree issued by the Ministry of Productive Activities on 20 April 2005, this license runs for twenty-five years, renewable for another twenty-five years, from the date of effective transfer of the activities, functions, assets and legal arrangements of the concession from GSE (formerly GRTN) to Terna S.p.A.. This intangible asset was initially recognised at cost, which reflected fair value.

Other intangible assets mainly relate to the following:
- the development and innovation of application software to manage the electricity invoicing process;
- the development and innovation of application software to protect the electrical system;
- software applications related to the development of the Power Exchange, particularly relating to the registration of operators, consumption units and the development of foreign procedures.

Development costs are capitalised by the Group only if all following conditions are met: costs can be reliably estimated and there are technical possibilities and intent to complete the intangible asset so as for it to be available after use; the asset can be used and it is possible to demonstrate that it will generate probable future economic benefits.
Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset pursuant to IAS 23R are capitalised as part of the cost of the asset. For more information, please see the section "Financial income and expense" below.
All other development costs and research expenses are recognised in profit or loss when incurred.
These intangible assets are amortised over their estimated residual useful life, which is normally three years, given their rapid obsolescence.

Rights on the infrastructure

IFRIC 12 - Service Concession Arrangements (also "Interpretation") came into force on 1 January 2010. IFRIC 12 specifies the accounting treatment of service concession arrangements, not expressly governed by any specific accounting standard, in order to ensure the consistency and comparability of the financial statements of companies that hold concessions for the delivery of public services. More specifically, the interpretation sets out rules for accounting for the infrastructure used to provide the services under concession, for the costs associated with developing and maintaining such infrastructure, and for the revenue generated by the overall provision of the services. IFRIC 12 does not apply to all arrangements. Its scope is limited to service concession arrangements between public bodies and private operators in which the granter: (1) controls the use of the infrastructure and governs which services are to be provided, the manner in which they are to be provided and the prices of such services and (2) controls any residual interest in the infrastructure at the end of the concession period. The interpretation also applies to infrastructure constructed by or obtained from third parties for the provision of services under the concession, and to existing infrastructure that the granter makes available to the operator in order to provide such services. It does not apply to infrastructure owned and accounted for as property, plant and equipment by the operator prior to entering into the service concession arrangement.

Assisted by external consultants, the parent company has performed a detailed study of the applicability of IFRIC 12 and the effects of its adoption on the financial statements, identifying that this interpretation does not apply to the transmission activities aspect of Terna's concession. In particular, neither the concession nor related legislation envisage the NTG's return to public ownership, either via the payment of an indemnity or otherwise. Accordingly, the public sector does not control, whether as owner or as holder of beneficial interests or other rights, any significant residual interest in the NTG's infrastructure at the end of the concession period.

By contrast, the Ministry is entitled to reclaim the operating assets employed directly in dispatching activities at the end of the concession. As such, the Group considers that IFRIC 12 does apply to its dispatching infrastructure since the relevant criteria apply: the services provided are regulated and control exists over the residual interest. More specifically, in view of the rate system for dispatching activities, the intangible asset model has been applied. Consequently, the property, plant and equipment and intangible assets employed in the dispatching activities, carried out under concession, are classified as "Intangible assets", in the "Infrastructure rights" caption, with application of the original amortisation schedule.

The revenue and costs relating to the investment in dispatching activities are recognised with reference to the contracts concerned on a stage-of-completion basis; revenue recognised during the construction phase is limited to the amount of the internal and external construction costs incurred, considering that the fair value of the construction services is equivalent to the construction cost recognised to third-party contractors plus the internal cost of the technical personnel employed on such construction activities.

By contrast, tariff revenue continues to be recognised in accordance with IAS 18 and borrowing costs continue to be capitalised pursuant to IAS 23R.

Goodwill

Goodwill arising from the acquisition of subsidiaries is allocated to each of the identified Cash Generating Units (CGU). The CGUs identified coincide with the Group companies that own electricity transmission grids. Goodwill is not amortised after initial recognition. It is adjusted to reflect impairment losses, measured as described below. Goodwill relating to investments in associates and joint ventures is included in the carrying amount of those companies. Where negative goodwill arises, it is booked within the income statement at the time of the acquisition.
In the adoption of the IFRS endorsed by the European Commission, the Group decided to restate only those business combinations that occurred after the transition date (1 January 2004). Goodwill arising on acquisitions before that date corresponds to the amount recognised using the previous accounting policies.

Inventories

Inventories are recognised and measured at the lower of purchase cost and net estimated realisable value. Cost is calculated as the weighted average cost, including related charges. Net estimated realisable value stands for the estimated price of sale under normal conditions net of completion costs and the estimated costs to sell.

Contract work in progress

When the profit or loss on a contract can be reliably estimated, the related contract costs and revenue are recognised separately in the income statement on a percentage of completion basis. Progress is measured based on the work carried out and measured proportionally to the ratio of costs for the works carried out up to reporting date and total cost of the contract (cost-to-cost). Differences between the value of completed contracts and payments on account received are recognised under statement of financial position assets or liabilities, considering any impairment losses on the work carried out so as to take into account the risks of customers' refusal to recognise the work performed. Expected contract losses are immediately taken to profit or loss.
Contract costs include all those costs that relate directly to the specific contract, as well as fixed and variable costs incurred by the Group companies as part of normal operations.

Financial instruments

Financial assets

Any financial assets other than financial derivatives that the Company has the positive intention and ability to hold to maturity are recognised at cost at the "settlement date" and is the fair value of the initial consideration given in exchange, including transaction costs. They are subsequently measured at amortised cost, using the effective interest method, net of any impairment losses, which are determined as the lower of the asset's carrying amount and the present value of estimated future cash flows, discounted using the original interest rate. Financial assets are derecognised when, following their transfer or settlement, the Group companies are no longer involved in their management and no longer hold the risks and rewards of the transferred or settled instruments.

Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method, and net of any impairment losses due to sums considered non-recoverable, which are taken to the specific allowance for impairment. Impairment losses are measured on the basis of the present value of estimated future cash flows, discounted at the original effective interest rate.
Receivables with due dates that fall under normal commercial terms are not discounted.

Cash and cash equivalents

Cash and cash equivalents are stated at nominal value. They include monetary items, i.e. amounts that are available on demand or with a very short maturity, subject to an insignificant risk and without collection costs.

Trade payables

Trade payables are initially recognised at fair value and subsequently stated at amortised cost. If their due date falls under normal commercial terms, they are not discounted.

Financial liabilities

Financial liabilities other than financial derivatives are recognised at the settlement date and measured at fair value, net of directly related transaction costs. Subsequently, financial liabilities are measured at amortised cost, using the original effective interest method. If the liabilities are covered by fair value hedges, they are adjusted to reflect changes in fair value with respect to the hedged risk.

Derivative financial instruments

Derivatives are recognised at fair value at the trade date and classified as hedges if the relationship between the derivative and the hedged item is formally documented and the hedge is highly effective within a range of 80% to 125%, as initially verified and periodically checked. When derivatives cover the risk of changes in the cash flows of the hedged instruments (cash flow hedges), the part of changes in the fair value qualifying as effective is initially taken to equity and subsequently to the income statement, in line with the effects of the hedged transaction. The portion of the fair value of the hedging instrument that does not qualify as effective is taken to the income statement.

When hedging derivatives cover the risk of changes in the fair value of hedged instruments (fair value hedges), they are recognised at fair value in the income statement. Accordingly, the hedged items are adjusted to reflect changes in the fair value associated with the hedged risk.

Changes in the fair value of derivatives that do not meet hedge accounting requirements in accordance with the IFRS-EU are recognised in profit or loss.

Fair value is measured on the basis of official quotations for instruments traded in regulated markets. The fair value of instruments not traded in regulated markets is measured by discounting projected cash flows along a yield curve of interest rates at the reporting date, and by converting amounts in currency other than the euro at the year-end exchange rate.

Financial and non-financial contracts (which are not already measured at fair value) are also analysed to identify any "embedded" derivatives, which must be separated and measured at fair value. This analysis is conducted at the time the entity becomes party to the contract or when the contract is renegotiated in a manner that produces a material change in the original associated cash flows.

The measurement techniques used for derivatives existing at year end did not change with respect to the previous year. Accordingly, the effects in the income statement and to shareholders' equity of these measurements are essentially attributable to normal market developments, as well as new derivative contracts signed during the year.

Employee benefits

The liability in respect of employee benefits payable upon or after termination of employment relates to defined benefit plans (termination benefits, additional month's pay, indemnity for lack of notice, energy discount, ASEM health benefits and other benefits) or other long-term employee benefits (loyalty bonus) and is recognised net of any plan assets. It is measured separately for each plan on the basis of actuarial calculations that estimate the amount of future benefits that employees have accrued at the reporting date. The liability is recognised on an accruals basis over the vesting period. It is measured by independent actuaries.

Actuarial gains and losses at 1 January 2004 (date of transition to IFRS-EU) were recognised in equity. After that date, unrecognised actuarial gains and losses in excess of 10% of the greater of the present value of the defined benefit plan obligation and the fair value of plan assets are taken to profit or loss for the average expected term of service of employees participating in the plan. Otherwise, actuarial gains and losses are not recognised.

Provisions for risks and charges

Accruals to the provisions for risks and charges are recognised when, at the reporting date, the Company has a legal or constructive obligation towards others as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, accruals are measured by discounting estimated future cash flows using a pre-tax discount rate that reflects current market assessment of the time value of money and those risks specific to the liability, if present. Where discounting is used, the increase in the provision due to the passage of time is recognised in the income statement as interest expense. If the liability relates to property, plant and equipment (site disposal and restoration, for example), the provision is recognised as a balancing entry to the asset to which it relates. The expense is recognised in profit or loss through depreciation of the item of property, plant and equipment to which it relates.
Changes in the estimate are recognised within the income statement for the year in which the change happens, except for those costs expected for dismantling, removal and reclamation, which come as a result of changes in the timing and use of economic resources necessary to extinguish the obligation or attributable to a material change in the discount rate, which are recognised as an increase or reduction of the related assets and recognised in profit or loss through depreciation.

Grants

Revenue is recognised when it is probable that the economic benefits deriving from the operation will be used by the enterprise. However, when there is uncertainty concerning the recovery of an amount already recognised in revenue, the non-recoverable value or the amount whose recovery is no longer probable is recorded as a cost.
Grants received in relation to specific assets whose value is recognised under non-current assets are, for plants operating before 31 December 2002, recognised under other liabilities and taken to profit or loss over the depreciation period of the related assets. As of 2003, grants for new plants that have entered operation are recognised as a direct reduction in the value of the related asset.
Grants for operating expenses are expensed in full when the recognition requirements are satisfied.

Revenue

Revenue is recognised when it is probable that the economic benefits deriving from the operation will be used by the enterprise. Depending on the type of transaction, revenue is recognised on the basis of the following specific criteria:
- revenue from the sale of goods is recognised when the material risks and rewards of ownership of the goods have been transferred to the buyer and their total amount can be reliably determined and collected;
- revenue from services rendered is recognised with reference to the stage of completion of the transaction. If revenue cannot be reliably measured, it is recognised to the extent of recoverable costs;
- revenue accrued during the year in respect of contract work in progress is recognised on the basis of the payments agreed for the progress of works using the cost-to-cost method. In addition to contractual payments, project revenue includes any payments in respect of variations, price revisions and incentives, with the latter recognised where it is probable that they will actually be earned and can be reliably determined. Revenue is also adjusted for any penalties for delays attributable to Group companies;
- when the recovery of an amount already recognised in revenue is uncertain, the non-recoverable value or the amount whose recovery is no longer probable is recorded as a cost, with recognition of a balancing entry in provisions for risks and charges;
- amounts collected on behalf of third parties, such as the fees paid to non-Terna grid owners, as well as revenue recognised for managing activities related to the balancing of the national electrical system, which do not increase equity, are reported net of the related costs (so-called pass-through items). This reporting method, which reflects the substance of transactions by offsetting revenue with the related costs arising from the “same transaction”, is discussed in full in the specific section *1 – Revenue from sales and services* of the explanatory notes *(Other energy items – pass-through revenue/costs*).

Financial income and expense

Borrowing costs directly attributable to the acquisition, construction or production of an asset that qualify for capitalisation are capitalised as part of the cost of the asset. The qualifying assets (property, plant and equipment and intangible assets) involved are those that require at least one year before being ready for use. The directly attributable borrowing cost is that which would not have been incurred if the expenditure for the asset had not been incurred.
Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings. Where funds are raised through general borrowing, the eligible amount is determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate will be the weighted average of the borrowing costs applicable to the general pool, excluding any specifically borrowed funds. The amount of borrowing costs capitalised during a year does not, in any case, exceed the amount of borrowing costs incurred during that year.
Capitalisation commences as from the date all the following conditions have been met: (a) expenditures have been incurred for the asset; (b) borrowing costs are being incurred; and (c) activities to prepare the asset for its intended use or sale are in progress. Capitalisation ceases when the activities necessary to prepare the asset for its intended use or sale are substantially complete.
The capitalisation rate used for 2012 amounts to 2.60% and that for 2011 amounts to 3.08%.

Financial income and expense other than capitalised amounts are recognised on an accruals basis in respect of the interest on the net value of the related financial assets and liabilities using the effective interest rate.

Dividends

Dividends from investee companies are recognised when the shareholders' right to receive payment is established.
Dividends and interim dividends payable to shareholders are shown as changes in equity at the date in which they are approved by the Shareholders' Meeting and the Board of Directors, respectively.

Earnings per share

Basic earnings per share are calculated by dividing the profit or loss for the year attributable to holders of ordinary shares by the weighted average of outstanding ordinary shares during the year.
Diluted earnings per share are calculated by dividing the profit for the year attributable to holders of ordinary shares by the weighted average of outstanding shares, adjusted to consider the effects of all potential ordinary shares that could have a diluting effect.

Income taxes

Current income taxes are recognised as tax liabilities, net of advances paid, or tax assets where the net balance of the captions is positive. They are based on the estimated taxable income and in accordance with current legislation, taking account of applicable exemptions.
Deferred tax assets and liabilities are calculated on the temporary differences between the carrying amounts of assets and liabilities recognised in the financial statements and the corresponding amounts recognised for tax purposes, using current tax rates or the rates expected to be in effect when the temporary differences reverse, based on current rates or those that are substantially approved at the reporting date.
Deferred tax assets are recognised when their recovery is considered probable, i.e. when future taxable income will be available against which the asset can be used. The recoverability of deferred tax assets is reviewed at each year end.
Deferred tax liabilities are recognised in any case if they exist. Taxes relating to items recognised directly in equity are also recognised in equity.

Discontinued operations and non-current assets held for sale

Non-current assets (or disposal groups) whose carrying amount will be recovered principally through a sale rather than through continuing use are classified as held for sale and reported separated from other assets and liabilities in the statement of financial position. Non-current assets (or disposal groups) classified as held for sale are first measured in conformity with the IFRS/IAS applicable to each asset and liability and subsequently are measured at the lower of their carrying amount and fair value less costs to sell. The carrying amounts of each asset and liability that are not governed by the measurement rules set out in IFRS 5, but are held for sale, are remeasured on the basis of the applicable IFRS before the fair value less costs to sell is redetermined. The individual assets of the companies classified as held for sale are not amortised, whereas financial expense and other expenses attributable to liabilities held for sale continue to be recognised. Any subsequent impairment losses are recognised directly as an adjustment to the carrying amount of the non-current assets (or disposal groups) classified as held for sale through profit or loss. The corresponding statement of financial position values for the previous year are not reclassified. A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is an operation acquired exclusively with a view to resale.

New standards

International Financial Reporting Standards taking effect from 1 January 2012

The following international financial reporting standards and related interpretations took effect from 1 January 2012:

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

The amendment will allow users of financial statements to better evaluate exposure to risk connected with the transfer of financial assets and the effects of said risks on the entity's financial position. According to the provisions of the new Regulations, the entity must provide a disclosure that enables users of the financial statements to understand: the relationship between the financial assets transferred and not fully derecognised and the associated liabilities; to assess the nature and related risks of the residual involvement of the entity in the financial assets derecognised. This standard has not had a significant impact on the separate financial statements at 31 December 2012.

Amendment to IAS 12 - Income tax - deferred tax: recovery of underlying assets

The amendment affects all the entities that adopt "IAS 40 - Investment property" using the fair value method and that have recognised assets under property, plant and equipment which are not depreciated and which are recorded using the revaluation model established by IAS 16. The amendment introduces an exception to the measurement standard envisaged in IAS 12, in the form of an presumption on the basis of which the book value of the real estate investment measured according to the fair value model would be recovered through sale and an entity would need to apply the tax rate applicable to the sale of the underlying asset. The amendment does not cover situations presented in our financial statements.

Amendment to IFRS 1 - Severe hyperinflation and removal of fixed dates for first-time adopters

Two amendments to IFRS 1 were approved: the first one replaces references to the fixed transition date of 1 January 2004 "as the date of transition to IFRSs". As a result, entities adopting IFRSs for the first time would not have to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides specifications on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs since its functional currency was subject to severe hyperinflation. These amendments had no significant impact on the financial statements at 31 December 2012.

International financial reporting standards endorsed but not yet in force

As at the reporting date, the European Commission had approved some accounting standards for which the potential impacts of their application on the financial statements of the Terna Group are currently being assessed. These accounting standards are listed below:

Amendment to IAS 19

On 5 June 2012, the European Union endorsed the amendment to "IAS 19 - Employee benefits", which introduces changes to the recognition and measurement of costs relating to employee benefits, such as the severance indemnities, and the disclosure requirements of all employee benefits. The amendment eliminated the option to defer the recognition of actuarial gains and losses using the corridor approach and provided for the recognition of the cost connected with services rendered and net financial expenses on the income statement, and the recognition of actuarial gains and losses deriving from remeasurements of assets and liabilities to be presented in "Other Comprehensive Income" (OCI). Additionally, the return on assets included amongst net financial expenses must be calculated according to the liability discount rate and no longer on the forecast return on the assets. Finally, the amendment also introduces new additional information to be provided in the notes to the financial statements. The amendment applies retrospectively from the financial year beginning on 1 January 2013.

Amendment to IAS 1

On 05 June 2012, the amendment to "IAS 1 - Presentation of Financial Statements" was endorsed. This requires, among other things, that all comprehensive income items presented in "Other Comprehensive Income" (OCI) be grouped together according to whether they may or may not be reclassified to profit or loss. First adoption is scheduled for 1 January 2013.

New accounting standards on consolidation

On 11 December 2012 the European Commission endorsed the following 5 standards (IFRS 10, IFRS 11, IFRS 12, IAS 27 *Amended*, and IAS 28 *Amended*), the first application of which is established for 1 January 2014, specifically:

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. First adoption of the standard will be retrospective.

IFRS 11 – Joint Arrangements

The new standard introduces important simplifications as it supersedes the classification into three types envisaged by IAS 31. The new classification is based on analysing the rights and obligations arising from the agreement and establishes only two types: joint operations and joint ventures. The former derive from a non-structured agreement through an SPE that is separated from the parties, which determines rights over the assets and obligations for the liabilities, in accounting terms 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 be made in the financial statements with regard to the equity interests held in subsidiaries, associates and joint ventures in addition to structured entities, in lieu of the requirements previously included in IAS 27 and IAS 28. The objective of the new standard is to require additional information in the financial statements in relation to the basis for measuring control, any limits on 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 separate 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.

IFRS 13 – Fair Value Measurement

On 11 December 2012, the European Commission approved standard IFRS 13, which seeks to increase consistency and comparability in fair value measurements and related disclosures through a "fair value hierarchy". The hierarchy categorises the inputs used in measurement techniques into three levels. The hierarchy gives the highest priority to prices quoted in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. First adoption is scheduled for 1 January 2013.

During the period, the following standards were also approved, governing situations that are currently not relevant in the Group's financial statements:

- amendment to "IFRS 7 Financial Instruments: Disclosures" - Offsetting Financial Assets and Financial Liabilities, on additional disclosures to present in relation to the actual or potential effects of the application of rules of offsetting financial assets and liabilities; the amendment will come into force on 1 January 2013;
- amendment to "IAS 32: Financial instruments: Presentation on the financial statements" - Offsetting Financial Assets and Financial Liabilities, provides clarifications on the presentation of the offsetting of financial instruments on the financial statements and which will come into force on 1 January 2014;
- "IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine" – accounting treatment of the costs of stripping a surface mine, to be recognised during production.

International financial reporting standards not yet endorsed

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

IFRS 9 - Financial Instruments

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

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

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 distinct type of entity and which by virtue of the investment business performed are excluded from the consolidation accounting requirements set out by the new standards.

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

On 28 June 2012, the IASB published an amendment containing clarifications of the rules of transition to the new standards on consolidated accounts (IFRS 10, IFRS 11, and IFRS 12), defining the methods for their first and retrospective application.

Improvement to IFRSs (2009-2011 Cycle)

On 17 May 2012, the IASB published its annual Improvement relative to the 2009-2011 cycle, incorporating changes to the standards (IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34) under the scope of the annual improvement process for the international accounting standards, focusing on amendments considered to be necessary but not urgent; of these, we note the following as relevant to the Group:

- “IAS 1 - Presentation of financial statements” - Comparative information: this clarifies that, where additional comparative information is provided, it must be presented in accordance with the previous comparative period. Moreover, it is also clarified that in the event that an entity should amend an accounting standard or carry out a rectification/reclassification retrospectively with a significant (material) effect on the information given in the financial-equity position at the start of the previous period, this same entity must present a third statement/column on the opening balance sheet (relative to the start of the previous period), whilst it will not be necessary to present the explanatory notes in the opening column;
- “IAS 16 Property, plant and equipment” – Classification of servicing equipment to Property, plant and machinery if used for more than one financial year or to inventories of used for just one year;
- “IAS 34 Interim Financial Reporting” - Clarifies that all assets of a specific “operating segment” must only be stated when the amounts are regularly supplied to the highest operative decision-making level and there have been significant (material) changes in all assets with respect to the previous annual financial statements for the segment subject to disclosure.

The effective date of the changes proposed is envisaged for the financial years as from 1 January 2013, with early application permitted.

The following amendment has also been published to regulate a situation that is currently not relevant to the Group’s financial statements:

Amendment to IFRS 1- Government Loans relative to the booking of public grants (IAS 20) for entities that apply the IFRS for the first time.

B. Operating segments

In line with the business reorganisation process completed in 2012, which saw the establishment of Terna Plus to guarantee a greater focus on non-core business, below are the operative segments identified in the Terna Group:

- **core business;**
- **non-core business.**

Core business includes 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 granted under concession and regulated by AEEG with similar characteristics in terms of the regulated remuneration model and the tariff determination methods.

The operating segment of **non-core business** 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 commercial initiatives not regulated by AEEG.

Below are the results of the operating segments of the Terna Group in FY 2012 and FY 2011, in line with the evidence of the Group management control system and the reconciliation with the Group's pre-tax result.

	Italy	
€ million	2012	2011
Total core business revenue	1,719.6	1,568.5
Total non-core business revenue	86.3	67.1
Total revenue	**1,805.9**	**1,635.6**
EBITDA - continuing operations	**1,390.1**	**1,229.7**
*of which adjusted EBITDA core business**	*1,326.2*	*1,189.1*
*of which adjusted** EBITDA non-core business*	*63.9*	*40.6*
EBITDA margin	**77.0%**	**75.2%**
EBITDA margin – core business	77.1%	75.8%
adjusted** EBITDA margin - non-core business	74.0%***	60.5%

Reconciliation of segment result with pre-tax company result	2012	2011
EBITDA - continuing operations	**1,390.1**	**1,229.7**
Depreciation and amortisation	420.6	394.1
EBIT - continuing operations	**969.5**	**835.6**
Financial income/(expense)	-100.4	-128.4
Share of profit/(loss) of equity-accounted investees	7.2	7.4
Pre-tax profit from continuing operations	**876.3**	**714.6**

(*) EBITDA including indirect costs.
(**) Comprehensive product/order EBITDA not including indirect costs.
(***) The 2012 value includes the one-off contribution of the renegotiation of the optic fibre support contract with Wind.

The 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 for the years 2012 and 2011:

	Italy	
	2012	2011
€ million	Continuing operations	Continuing operations
Net non-current assets [13]	9,893.8	9,163.1
NWC [14]	(770.4)	(724.2)
Gross invested capital [15]	9,123.4	8,438.9
Investments in associates and joint ventures	73.5	66.8

As regards the dependence of Terna Group customers on external customers, in 2012 transactions that generated revenue from individual customers or companies under common control equal to more than 10% of consolidated revenue were represented by transactions with related parties in respect of regulated activities; for more information, please see the section on “Related party transactions”.

(13) Net fixed assets include the value of the items “Property, plants and equipment”, “Goodwill”, “Intangible assets”, “Equity-accounted investees”, “Other non-current assets” and “Non-current financial assets” for the value of the other equity investments (€0.8 million).
(14) NWC (Net Working Capital) is equal to the difference between current assets, net of liquid funds, and current liabilities net of the short-term portion of long-term financing and other non-current liabilities.
(15) Gross invested capital is equal to the sum of net non-current assets and NWC (Net Working Capital).

C. Notes to the consolidated income statement

Revenue

1. Revenue from sales and services – €1,732.8 million

“Revenue from sales and services” for the years 2012 and 2011 is analysed in the following table:

€ million	2012	2011	Change
Grid transmission fees	1,522.2	1,380.8	141.4
Adjustments for prior year grid transmission fees	9.1	0.1	9.0
Other energy revenue	161.3	163.4	(2.1)
Other revenue from sales and services	40.2	47.0	(6.8)
Total	**1,732.8**	**1,591.3**	**141.5**

Grid transmission fees and related adjustment

Grid transmission fees refer to the remuneration paid to the Parent Company for use of the National Transmission Grid (€1,343.8 million). It also comprises the net revenue from the portion of the NTG pertaining to the subsidiary Terna Rete Italia S.r.l. (€187.5 million).

The increase in this caption by €150.4 million mainly derives from the following factors:

- greater income of the parent company for €106.2 million, mainly attributable to:
  - effects of AEEG Resolution no. 199/11 which, in addition to redetermining the tariff rules for the period 2012-2015, also updated the grid transmission fees for 2012 and confirmed the application of the mechanism that neutralises the reduction of energy volumes (totalling +€108.7 million, including the incentive on the remuneration of strategic works);
  - grid transmission fees related to the Defence plan (-€1.7 million);
- remuneration of the interest of the national transmission grid owned by Terna Rete Italia S.r.l. (€44.2 million), mainly by virtue of the above tariff review (€34.4 million) and for the positive impact of the general equalisation results pursuant to Res. 348/07 as subsequently amended, with reference to 2011 (€4.7 million) and issue of the related previously allocated provision (+€4.9 million).

Other energy revenue

This mainly refers to the price paid to the parent company by electricity companies for the dispatching service (DIS component €123.8 million) and the revenues from the construction and development of dispatching infrastructures recorded against the application of IFRIC 12 (€37.4 million); please remember that, as specified in section “A. Accounting policies and measurement criteria”, such revenue corresponds to the costs incurred during the same period to purchase raw materials and consumables, services, and other costs, as well as personnel which are included in operating expenses.

The reduction in the item amounts to €2.1 million. The increase in revenue deriving from period investments in dispatch infrastructures (€3.3 million) is more than offset by the reduction of the DIS component that reflects the economic effects linked to:

- revision of the price for dispatch activities (totalling €52.7 million);
- adaptation of the measurement of the incentives mechanism associated with the reduction in volumes procured from the Market for Dispatching Services made available under AEEG Resolution 213/09 (€22.6 million, -€43.9 million compared with €66.5 million incentives reported in 2011). More specifically, recall that the result achieved is recognised in terms of fair value in consideration of the three-year nature (2010/2012) of the incentive mechanism, as extensively commented in the 2010 financial report, to which the reader is referred;
- premium and penalty mechanism on the quality of the transmission service (ENSR-NDU - -€13.6 million).

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 the Parent Company Terna on the Market for Dispatching Services are billed on a pro rata basis to each consumer with the uplift fee.

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

The components of these transactions are detailed below.

€ million	2012	2011	Change
Revenue – Power Exchange			
- foreign market - exports	0.8	0.8	-
- sale of energy on the Day Ahead Market, Adjustment Market, Market for Dispatching Service and others	408.1	594.7	(186.6)
- imbalances and other minor items	1,323.6	1,003.4	320.2
- resources procurement for the Market for Dispatching Services	1,528.9	1,261.4	267.5
- congestion rent income - DCT Res. 288/06	930.6	693.7	236.9
- other items - Power Exchange	67.6	65.2	2.4
- interconnector/shipper	73.1	79.0	(5.9)
- market coupling Res. 143/10	268.3	79.6	188.7
Total revenue - Power Exchange	***4,601.0***	***3,777.8***	***823.2***
Revenue components under Res. nos. 168/04 - 237/04 and others	1,330.4	1,109.6	220.8
Other items	378.8	122.0	256.8
Revenue from grid transmission fees of other owners and GRTN share CIP/6	16.6	16.1	0.5
Total revenue from outside the Power Exchange	***1,725.8***	***1,247.7***	***478.1***
Total pass-through energy revenue	**6,326.8**	**5,025.5**	**1,301.3**
Energy purchases			
- on Day Ahead Market and Adjustment Market	131.2	98.5	32.7
- to provide the dispatching service	1,667.1	1,433.8	233.3
- for unbalancing	1,314.3	1,270.5	43.8
- on the foreign market - imports	3.1	2.7	0.4
- electricity Market Operator fees	0.6	0.8	(0.2)
- congestion revenue - rights for use of transportation capacity (RTC), Res. no. 288/06	618.3	420.1	198.2
- other items - Power Exchange	61.7	60.9	0.8
- interconnector/shipper	567.9	417.0	150.9
- market coupling Res. 143/10	236.8	73.5	163.3
Total costs - Power Exchange	**4,601.0**	**3,777.8**	**823.2**
Purchase of electricity market related services	1,330.4	1,109.6	220.8
Other items	378.8	122.0	256.8
Fees to be paid to NTG owners, GRTN and other	16.6	16.1	0.5
Total services and fees	**1,725.8**	**1,247.7**	**478.1**
Total pass-through energy costs	**6,326.8**	**5,025.5**	**1,301.3**

Other revenue from sales and services

"Other revenue from sales and services" amounted to €40.2 million and mainly relates to revenue from a variety of specialised high and very high voltage services provided to third party customers (€35.2 million). The amount reflects revenue from:

- NTG connection services of production plants and property of end users (€3.7 million);
- line design for interconnection with abroad (€1.2 million).

The reduction of €6.8 million is mainly due to the 2011 recording of revenue (€1.9 million) for services and provisions given by the parent company to the companies sold (Rete Rinnovabile and NRTS) and the greater income from plant connection services (€2.1 million). It is specified that as from 2012, with the new regulatory period, the expense incurred by the Group for the energy discount of its employees, for which coverage had been noted in 2011 in the form of the contribution of €1.5 million, is remunerated through payment of grid transmission fees.

2. Other revenue and income – €73.1 million

“Other revenue and income” for the years 2012 and 2011 are analysed in the following table:

€ million	2012	2011	Change
Rental income	35.0	18.4	16.6
Sundry grants	17.5	10.7	6.8
Contractual penalties at suppliers' expense	9.0	1.8	7.2
Gains on the disposal of plant components	6.2	4.4	1.8
Sales to third parties	1.9	3.1	(1.2)
Contingent assets	1.6	1.2	0.4
Insurance settlements for losses	1.4	3.7	(2.3)
Other revenue	0.5	1.0	(0.5)
Total	**73.1**	**44.3**	**28.8**

“Other revenue and income”, amounting to €73.1 million, mainly refer to the Parent Company for €64.4 million and to the subsidiary Terna Rete Italia S.r.l. for €8.5 million.
Rental income mainly includes the housing of the optic fibre of the Wind Group on the grids (approximately €33.6 million) and use by Enel Distribuzione of the Parent Company’s infrastructures for power line communication (€1.3 million).
The increase in “Other revenue and income” (€28.8 million) is essentially attributable to:

- the review of the fees relating to the optic fibre housing following the stipulation of the settlement deed with Wind Telecomunicazioni S.p.A. (+€16.6 million of which €12.1 million relative to previous years 2009/2011);
- greater penalties debited to third party suppliers (+€7.2 million) for breach of contract basically in relation to works/supplies for the SA.PE.I. underwater cable;
- the positive effect deriving from the value on the income statement of the excess contributions received with respect to that of the related plants (+€6.7 million), net of the greater insurance reimbursements noted in 2011 for damages caused to primary plants (-€2.3 million).

Operating expenses

3. Raw materials and consumables – €29.7 million

This item, amounting to €29.7 million, expresses the value of the consumption of materials and miscellaneous equipment used for the core business of operating and maintaining Group and third party plants, in addition to costs for materials recognised in pursuance of IFRIC 12 and with reference to investments in dispatching infrastructures. The €9 million increase on last year (€20.7 million in 2011) is mainly due to the greater consumption for maintenance work on Group and third party plants, for investment in and the development of the dispatch infrastructures to ensure optimisation on the Dispatch Service Market (+€5.5 million) and the adjustment of the photovoltaic modules to the presumed realisation value and the write-down of photovoltaic plants under construction, renounced during the year (in all +€2.6 million).

4. Services – €139.5 million

The cost of services totalled €139.5 million, of which €75.1 million related to the Parent Company and €58.2 million relative to the subsidiary Terna Rete Italia S.p.A..

The cost of “Services” for the years 2012 and 2011 is analysed in the following table:

€ million	2012	2011	Change
Tenders on plants	31.1	33.1	(2.0)
Maintenance and sundry services	52.2	58.8	(6.6)
IT services	20.8	24.3	(3.5)
Remote transmission and telephone	15.6	13.7	1.9
Insurance	7.8	6.6	1.2
Leases and rentals	12.0	12.5	(0.5)
Total	**139.5**	**149.0**	**(9.5)**

The item “Services” refers to costs for tenders and services for routine maintenance operations and Group and third party plant maintenance (€31.1 million) and costs for maintenance, professional services and general services (€52.2 million). It also includes costs for IT services (€20.8 million) remote transmission and telephone services (€15.6 million), leases and rentals (€12 million), and insurance (€7.8 million). Note that the costs relating to remuneration relating to the Board of Statutory Auditors amount to €0.3 million.
The reduction (€9.5 million) mainly refers to the lesser expenses relating to dispatch infrastructures, pursuant to IFRIC 12 (-€3 million) and to greater costs for research, advertising and consulting incurred the previous year.

5. Personnel expenses – €196.7 million

“Personnel expenses” for the years 2012 and 2011 are analysed in the following table:

€ million	2012	2011	Change
Wages, salaries and other short-term employee benefits	253.3	250.4	2.9
Directors' fees	2.2	2.0	0.2
Termination benefits, electricity discount and other post-employment benefits	15.9	16.1	(0.2)
Early retirement incentives	(0.5)	10.1	(10.6)
Personnel expenses, gross	**270.9**	**278.6**	**(7.7)**
Personnel expenses, capitalised	(74.2)	(67.6)	(6.6)
Total	**196.7**	**211.0**	**(14.3)**

This caption includes the cost of wages and salaries, social security contributions and other costs incurred by the Parent Company for early retirement incentives, as well as benefits paid to employees who stay with the company and termination benefits provided for by the current national collective employment contract for the electricity sector.
Total personnel expenses are down €14.3 million, mainly as a consequence of the greater capitalisations (€6.6 million) and the recording last year of greater costs offered to staff as incentives to take early retirement (€10.6 million).

The following table shows the number of Group employees by category at year end and the average number for the financial year:

	Average number		Final number	
	2012	2011	31.12.2012	31.12.2011
Senior management	61	60	59	60
Junior management	501	504	502	490
Office staff	1,953	1,949	1,928	1,968
Production workers	974	1,005	947	977
Total	**3,489**	**3,518**	**3,436**	**3,495**

The net change in the average number of employees at the end of 2011 was a decrease of -29 units.

Please note that as at 31 December 2012, the staff of the Terna Group was as follows:

	Terna S.p.A.	Terna Rete Italia S.p.A.	Terna Plus S.r.l.	Terna Crna Gora d.o.o.
Units	333	3,088	12	3*

(*) Local employees.

For the reconciliation of the opening and closing present value of the liability for employee benefits and the main assumptions used in the actuarial estimate, please refer to section "25. Employee benefits".

6. Amortisation, depreciation and impairment – €423.7 million

These relate to accruals during the year calculated on the basis of amortisation and depreciation rates that reflect the useful lives of the Group companies' plant, property and equipment and intangible assets (€420.6 million), and related write-downs (€0.1 million), in addition to the write-downs of trade receivables, which are considered unlikely to be collected (€3 million).
The following table details the amortisation, depreciation and impairment for the years 2012 and 2011:

€ million	2012	2011	Change
Amortisation of intangible fixed assets	54.4	50.8	3.6
- of which: infrastructure rights	*29.5*	*25.1*	*4.4*
Depreciation of property, plant and equipment	366.2	343.3	22.9
Impairment of property, plant and equipment and intangible assets	0.1	2.1	(2.0)
Impairment of trade receivables	3.0	0.1	2.9
Total	**423.7**	**396.3**	**27.4**

The increase in the item, totalling €27.4 million, primarily reflects the growth in depreciation/amortisation (€26.5 million) with respect to 2011, mainly due to:

- the Parent Company, in the amount of +€21.8 million, mainly by virtue of the greater property, plant and equipment and intangible assets which came into use during the year (higher amortisation/depreciation for +€18.7 and 3.1 million, respectively);
- the subsidiary Terna Rete Italia S.r.l. for +€4 million, of which +€3.5 million due to greater property, plant and equipment and +€0.5 million due to intangible assets.
  Please note that in 2011, Terna Rete Italia S.r.l., following technical verification and rationalisation of the plants acquired from Enel Distribuzione, carried out write-downs on its tangible fixed assets for approximately €2 million.

The change also suffers the net allocation made during the year for €3 million for receivables considered unlikely to be to be collected, to a large extent relating to an operator on the electricity market.

7. Other operating expenses – €46.8 million

"Other operating expenses" for the years 2012 and 2011 are analysed in the following table:

€ million	2012	2011	Change
Indirect and local taxes and duties	24.7	6.1	18.6
Allocations made to Provisions for disputes	3.9	0.2	3.7
Contingent liabilities	5.3	2.1	3.2
Power failure charges	5.3	6.4	(1.1)
Other operating expenses	7.6	8.2	(0.6)
Total	**46.8**	**23.0**	**23.8**

Other operating expenses are mainly attributable to the Parent Company (€41.3 million) and the subsidiary Terna Rete Italia S.p.A. (€4 million).

The increase in this caption by €23.8 million derives to a large extent from the following events:
- greater tax, duties and local taxes (+€18.6 million), mainly relating to IMU (single municipal tax) (+€17.7 million), which also reflects the allocation made to the Provision for risks for the probable tax deriving from the application of Circular 6/2012 of the Territorial Agency on the registration of power stations (+€15.6 million);
- greater allocations made to the Provision for disputes (+€3.7 million), intended to cover liabilities that can reasonably be quantified and which are in place at year end and may derive from legal and other disputes relating to the Parent's activities;
- contingency liabilities (€3 million) relating to the repayment of the balance of contributions paid for the years from 2002 to 2006 to the Ministry of Economic Development relating to the ex concession for private use telephone services;
- lower expenses relating to the quality of the electricity service (-€1.1 million).

Financial income and expense

8. Net financial income/(expense) – -€100.4 million

This caption is analysed below:

€ million	2012	2011	Change
Financial income			
Other financial income	-	5.4	(5.4)
Interest income and other financial income	85.7	30.4	55.3
Debt adjustment (bonds) and related hedges	2.4	-	2.4
Exchange gains	1.4	1.2	0.2
Total income	**89.5**	**37.0**	**52.5**
Financial expense			
Financial expense from the Parent	(10.4)	(9.8)	(0.6)
Other financial expense	-	(4.1)	4.1
Interest expense on medium/long-term loans and related hedges	(201.1)	(172.7)	(28.4)
Debt adjustment (bonds) and related hedges	-	(0.2)	0.2
Discounting of termination benefits and other personnel-related provisions	(4.9)	(4.5)	(0.4)
Capitalised borrowing costs	26.5	25.9	0.6
Total expense	**(189.9)**	**(165.4)**	**(24.5)**
Total	**(100.4)**	**(128.4)**	**28.0**

Net financial expense amounted to €100.4 million, entirely attributable to the Parent Company, comprising €189.9 million in financial expense and €89.5 million in financial income. The decrease of €28.0 million with respect to the previous financial year is the net result of the following main factors:
- increased financial income (+€55.3 million) which were primarily attributable to the joint effect of:
  - greater liquid funds invested (+€53.4 million);
  - recording of greater net income for uplift (+€1.6 million);
  - higher late payment interest for the late payment of receivables in respect of dispatching activities (+€0.3 million);
- the net economic gain deriving from the fair value adjustment of bonds and the related hedges (+€2.6 million);
- decreased net financial income (-€1.4 million) relating to the companies sold during 2011;
- adjustment to the currency exchange of the provision for probable expenses relating to the tax obligations deriving from the sale of the equity interest held in the Brazilian subsidiaries (+€0.2 million);
- greater financial expense to the parent CDP (-€0.6 million) deriving from the use of the loan of €500 million on 8 April 2011;
- greater financial expense deriving from medium and long-term debt and the related hedges (-€ 28.4 million) due to the increased gross debt, offset by the drop in interest rates in 2012;
- greater financial expense deriving from the discounting of employee benefits (-€0.4 million);
- greater capitalised financial expense (+€0.6 million) as a result of greater capital expenditure during 2012 compared with the previous financial year.

9. Share of profit/(losses) from equity-accounted investees – €7.2 million

This item, which mainly sets out the economic effects deriving from the adjustment to the share of shareholders' equity as at 31 December 2012 of the investments in the associates CESI S.p.A. (€6.2 million) and in the Monte Negro company CGES (€1.1 million) is mainly in line with the 2011 figure (-€0.2 million).

10. Income taxes – €412.7 million

Income tax for the financial year amounts to €412.7 million, up by €25.4 million on the previous financial year, which suffered the one-off effects deriving from the first-time application of the "corrective manoeuvre-*bis*" (the "Robin Hood Tax")[16], net of the comprehensive tax deriving from the release of goodwill in connection with Terna Rete Italia S.r.l., pursuant to Italian Law Decree no. 98 of 06/07/2011[17].
The following table reports changes in taxes with respect to 2011:

€ million	2012	2011	Change
Income taxes of the year			
Current taxes:			
- IRES	390.4	334.4	56.0
- IRAP	74.2	66.1	8.1
Total current taxes	***464.6***	***400.5***	***64.1***
New temporary differences:			
- deferred tax assets	(16.3)	(56.3)	40.0
Reversal of temporary differences:			
- deferred tax assets	18.8	17.8	1.0
- deferred tax liabilities	(59.1)	(56.6)	(2.5)
Adjustment - tax restatement of IRES pursuant to Italian Law Decree no. 138 of 13/08/2011 (Robin Hood Tax)	-	77.6	(77.6)
Adjustment - restatement of IRAP (pursuant to Art. 23, paragraph 5 of Italian Law Decree no. 98 of 06/07/2011)	-	5.3	(5.3)
Total change in deferred tax assets and liabilities	***(56.6)***	***(12.2)***	***(44.4)***
Adjustment of prior-year taxes	(1.1)	(1.0)	(0.1)
Other one-off changes	5.8	-	5.8
Total	**412.7**	**387.3**	**25.4**

Current taxes
Current tax increased by €64.1 million with respect to the previous financial year, mainly due to the greater pre-tax profit.

Deferred tax assets and liabilities
Deferred tax assets and liabilities (-€56.6 million) change by -€44.4 on 2011, mainly due to the 2011 inclusion of one-off tax effects - the recalculation of deferred tax liabilities at the start of the year (€82.9, equal to €77.6 million by virtue of the Robin Hood Tax and €5.3 million for the additional IRAP) and recording of prepaid tax (€39.8 million) for the release of goodwill recorded on the consolidated financial statements following the acquisition of Terna Rete Italia S.r.l..

Adjustment of prior-year taxes and other one-off changes
The tax adjustments for previous years (-€1.1 million) refer to the greater current taxes paid during previous years while other one-off changes, totalling +€5.8 million, refer to allocations relating to tax risks offset by the recording of the tax receivable for IRES pursuant to Italian Law Decree no. 16/2012 of 02 March 2012.

(16) The first application of the Robin Hood tax entailed the noting of the one-off tax effect (€77.6 million), deriving from the adjustment of the net deferred tax provision, in place at the start of FY 2011.
(17) Comprehensive positive effect equal to €23.5 million.

The effective rate of income tax for the year before taxes is 47.1% (€412.7 million).
The 2012 tax rate stands at 46.6%, without considering adjustments from previous years and other one-off items; it is 0.6 percentage points higher than the adjusted tax rate of 2011, which was 46%[18].
For a clearer presentation of the differences between the theoretical and actual tax rates, the table below reconciles the profit before taxes with taxable income for IRES (corporate income tax) purposes:

€ million	2012	2011
Profit before taxes	876.3	714.6
Theoretical tax	**333.0**	**196.5**
IRAP	74.2	66.1
Permanent differences	0.8	66.3
Actual tax charge	**408.0**	**328.9**
Effective rate (net of adjustments of prior-year taxes and one-off variations)	**46.6%**	**46.0%**
Adjustment of prior-year taxes	(1.1)	(1.0)
Other one-off changes	5.8	59.4
Actual tax net of prior year adjustments	**412.7**	**387.3**

11. Profit for the year from discontinued operations and assets held for sale

This item was not measured in FY 2012. During the previous financial year, the balance was €112.7 million and in accordance with the provisions of "IFRS 5 - Non-current assets held for sale and discontinued operations", included:

- relevant proceeds, equal to €50.6 million, recognised upon conclusion of the sale of the investment in Rete Rinnovabile S.r.l. during the first quarter of 2011;
- net income arising from the sale of Nuova Rete Solare, formalised on 24 October 2011, equal to €28.3 million;
- the partial release of the provision allocated in 2009 for €33.8 million, inclusive of the related exchange gains or losses, with reference to contractual obligations, which expired during the financial year, deriving from the sale of the majority share package in Terna Participações.

12. Earnings per share

Basic earnings per share, which corresponds to diluted earnings per share, amounts to €0.231 (with a numerator of €463.6 million, corresponding to the profits for the year, and a denominator of 2,009,992.0 thousand shares).

(18) It does not consider the adjustment of net deferred tax at the start of FY 2011 (totalling €82.9 million) deriving from the new IRES and IRAP rates established by Italian Law Decree no. 138 of 13.08.2011 (the "Robin Hood Tax") and from Italian Law Decree no. 98 of 06.07.2011, Art. 23, paragraph 5 (economic budget for concession holders - IRAP adjustment), as well as of the adjustments relative to previous years (-€1.0 million) and net of the comprehensive tax effect deriving from the release of goodwill in connection with Terna Rete Italia S.r.l., pursuant to Italian Law Decree no. 98 of 06/07/2011 (-€23.5 million).

D. Notes to the consolidated statement of financial position

Assets

13. Property, plant and equipment – €9,342.0 million

Property, plant and equipment amounts to €9,342.0 million (€8,618.2 million at 31 December 2011). The amount and changes for each category are reported in the following table:

€ million	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Total
Cost at 01.01.2012	**93.7**	**1,116.7**	**11,770.4**	**67.3**	**106.2**	**1,167.6**	**14,321.9**
Investments	-	18.1	0.2	2.7	3.1	1,157.0	1,181.1
Entry into use	3.4	99.8	710.3	3.6	12.8	(829.9)	-
Disposals and impairment	-	(0.7)	(49.7)	(0.1)	(9.7)	(43.4)	(103.6)
Other changes	-	(0.5)	(25.9)	-	-	(14.4)	(40.8)
Reclassifications	-	(1.0)	0.9	0.1	-	-	-
Cost at 31.12.2012	**97.1**	**1,232.4**	**12,406.2**	**73.6**	**112.4**	**1,436.9**	**15,358.6**
Accumulated depreciation and impairment at 01.01.2012	**-**	**(310.5)**	**(5,290.9)**	**(44.8)**	**(57.5)**	**-**	**(5,703.7)**
Depreciation charge for the year		(28.1)	(318.4)	(3.8)	(15.9)	-	(366.2)
Disposals and impairment	-	0.7	44.4	0.1	8.1	-	53.3
Accumulated depreciation and impairment at 31.12.2012	**-**	**(337.9)**	**(5,564.9)**	**(48.5)**	**(65.3)**	**-**	**(6,016.6)**
Carrying amount							
At 31 December 2012	**97.1**	**894.5**	**6,841.3**	**25.1**	**47.1**	**1,436.9**	**9,342.0**
At 31 December 2011	**93.7**	**806.2**	**6,479.5**	**22.5**	**48.7**	**1,167.6**	**8,618.2**

"Plant and equipment", at 31 December 2012, includes the energy transportation network as well as the transformation stations in Italy.

The item shows an increase on the previous financial year amounting to €723.8 million, as a result of ordinary transactions made during the financial year, relating to:

- period investments for +€1,181.1 million, of which €1,152.6 million made under the scope of the Group's core business (and mainly relating to the parent company Terna for €1,089.7 million, to the subsidiaries Terna Rete Italia S.r.l. and Terna Cnra Gora, respectively for €43.1 million and €18.7 million); under the scope of non-core business, we note investments for €28.5 million, mainly due to changes made for third parties essentially covered by the related contributions (referring to the parent company for €23.3 million and to the subsidiary Terna Rete Italia S.r.l. for €4.9 million);
- depreciation for the year (-€366.2 million);
- disposals and impairment (€-50.3 million), of which €43 million for the write-down of fixed assets relating to the capitalisations made during previous years against allocations made to the risk provision "Projects for urban and environmental renewal" currently considered unlikely by the Parent Company – contributions that directly reduce the value of operating plants and plants under construction and other changes (€-40.8 million).

A summary of changes in property, plant and equipment during the year is provided in the table below:

€ million	
Investments	
- Transmission lines	637.2
- Transformation stations	445.9
- Other	69.5
Total investments in property, plant and equipment - core business	**1,152.6**
Investments in property, plant and equipment - non-core business	28.5
Total investments in property, plant and equipment	**1,181.1**
Depreciation	(366.2)
Disposals, impairment and other changes	(91.1)
Total	**723.8**

With reference to investments made during the financial year in core business (€1,152.6 million), please note, in particular, those of the Parent Company, mainly in relation to the progress of works in relation to Sorgente-Rizziconi (€213.9 million), with the conclusion of the laying of the first submarine cables between Villafranca and Favazzina, with the first cable in optic fibre, the completion of works in the power plant of Sorgente (Sicily) and the arrangement of the site of the station of Villafranca (Sicily), the excavation of the tunnel and sub-horizontal tunnel in Favazzina and the development of works on the 380 kV overhead line in Calabria and those of the long-distance power line in Sicily, between Villafranca and Sorgente; development of the new long-distance power line Trino - Lacchiarella (€80.1 million) a 380 kV double three-phase line reaching the stations at 380 kV of Trino in the province of Vercelli and Lacchiarella in the province of Milan, stretching for more than 100 km; the development of the submarine connection Italy - Montenegro (€45.4 million); completion of the works on the 380/150 kV station of Aliano and the related connections for the restructuring of the North Calabria grid (€39.4 million); the development of the stations of Foggia and Villanova (€30.9 million); conclusion of the works developing the station of Pellerina with the main connections in 220 kV cable of the city of Turin (€22.0 million); start-up of works for the development of the connection between Dolo and Camin (€21.9 million); development of the works in the station of Piossasco in armoured works connecting Italy and France (€20.5 million).
In terms of assets under construction at the end of the year, the main Parent Company grid development and upgrading projects worth more than €5 million are listed below.

Transport lines	€ million
Sorgente – Rizziconi 380 kV power line	172.5
380KV Trino – Lacchiarella power line	79.7
Italy-Montenegro interconnection	42.6
Restructuring of the North Calabria grid	18.7
380 kV Foggia-Benevento II power line	18.6
Capri - Continent interconnection	18.3
220 KV city of Turin rationalisation	14.2
CP Tarsia connection	14.0
Valcamonica rationalisation	12.5
Camin – Dolo power line	12.5
SAPEI power line	10.0
380 kV Rationalisation in province of Lodi	8.8
Transforming stations	
Villanova station	22.2
380 kV Villafranca station	22.0
380/220/132 kV SF6 in Piossasco station	17.7
380 kV Aliano station	12.8
380/150 kV Castellaneta station	12.7
380 kV Foggia station	10.4
380/150 kV Montesano station	8.9
220 kV Musocco station	8.8
Scilla – Villafranca tunnel	8.7
Foggia station	8.7

14. Goodwill – €190.2 million

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

Impairment testing

Cash Generating Unit – NTG

The recoverable amount of the goodwill arising from the acquisition of Terna Rete Italia S.r.l., recognised in the accounts in the amount of €101.6 million, and of the goodwill deriving from the acquisition of RTL (incorporated by the Parent Company in 2008), recognized in the accounts in the amount of €88.6 million, was first estimated by determining the fair value of the Cash Generating Unit (CGU) NTG, less the costs of the sale. The fair value of the CGU, calculated considering the stock exchange listing of the Terna security, was found to exceed the book value, for an amount of € 2,874 million.

The potential value that can be recovered from goodwill was also estimated, on the basis of the value of use criteria applying the unlevered version of the discounted cash flow method to the RTN cash generating unit (CGU). In line with the provisions of IAS 36, the cash flow forecasts have been prepared for the time frame 2013-2017, taking the estimates given in the last Business Plan approved by the Board of Directors on 06 February 2013. This Business Plan has been developed considering the latest estimates of the electricity sector and the latest macroeconomic forecasting in addition to the current regulatory (IV regulatory period) and tax provisions (Robin Hood Tax with additional IRES of +10.5% in 2013 and +6.5% from 2014). The final value was assumed to be equal to the RAB (Regulatory Asset Base) at the end of 2017 and the adopted discount rate was equal to 5.02%.

The value in use of the CGU determined as indicated above was €3,372 million higher than the carrying amount. The excess value in use of the CGU comes to zero, if WACC increases up to 12.2%.

15. Intangible assets – €280.2 million

Changes during the year in intangible assets are detailed below:

€ million	Infrastructure rights	Concessions	Other assets	Assets under development and payments on account	Total
Balance at 31.12.2011	**117.8**	**100.9**	**34.9**	**27.1**	**280.7**
Investments	-	-	-	54.1	54.1
Entry into use	33.3	-	16.9	(50.2)	-
Amortisation	(29.5)	(5.6)	(19.3)	-	(54.4)
Other changes (grants)	-	-	-	-	-
Disposals	-	-	-	(0.2)	(0.2)
Balance at 31.12.2012	**121.6**	**95.3**	**32.5**	**30.8**	**280.2**
Cost	309.4	135.4	145.8	30.8	621.4
Accumulated amortisation	(187.8)	(40.1)	(113.3)	-	(341.2)
Balance at 31.12.2012	**121.6**	**95.3**	**32.5**	**30.8**	**280.2**

Intangible assets amount to €280.2 million (€280.7 million at 31 December 2011). This item, in particular, includes:

- the infrastructure used for the dispatching service, as from 1 January 2010, booked in accordance with the provisions of “IFRIC 12 - *Service concession arrangements*”, with a net carrying amount at 31 December 2012, of €121.6 million for infrastructure already in use and €27.4 million for the infrastructure under construction classified in the “Assets under construction and payments on account” caption (at 31 December 2011 €117.8 million and €23.1 million respectively);
- the licensing for the provision of electricity transmission and dispatching services in Italy (with net carrying amount of €95.3 million at 31 December 2012), recognised initially during 2005 at fair value and subsequently measured at cost.

Other intangible assets comprise application software developed internally or purchased when implementing systems development projects. Related investments (€16.4 million) are made essentially through internal development.

The difference, which is not significant with respect to the previous financial year (-€0.5 million) is due to the combined effect of routine movements during the period, regarding mainly to investments (€54.1 million, including €37.7 million in infrastructure rights) - mainly in application software - and amortisation (€54.4 million, of which €29.5 million in relation to dispatching infrastructures and €5.6 million relative to licensing).

Investments for the year in intangible assets (€54.1 million, of which €53.8 million refer to the Parent Company and €0.3 million to the subsidiary Terna Rete Italia S.r.l.) included expenditure on the development and evolution of software for the remote management system for dispatching (€11.6 million), for the Power Exchange (€7.6 million) and for the protection of the electrical system (€1.0 million), as well as software applications and licenses (€15.4 million).

16. Equity-accounted investees - €73.5 million

This item amounts to €73.5 million and relates to the shareholdings of the Parent Company Terna S.p.A.:
- in the associate CESI S.p.A. (€36.8 million), representing a stake of 42.698%;
- in the associate CORESO S.A. (€0.4 million), which was acquired in November 2010, representing a stake of 22.485%;
- in the associate CGES - CrnoGorski Elektroprenosni Sistem AD (€36.3 million), which was acquired in January 2011, representing a stake of 22.0889%.

CESI S.p.A. operates in 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 in that area. The value of the equity interest increased by €6.4 million on previous year as a result of the recognition of the cost incurred for the acquisition (completed by the Parent Company in May 2012), of additional interests in Enel S.p.A. for approximately 0.292% of the share capital (€0.2 million) and the adjustment of the equity investment in the shareholders' equity held by the Group at the end of the year (€6.2 million).
CORESO S.A. is the first 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 analyses in real time of energy flows in the region, identifying potentially critical areas and promptly notifying the TSOs which are affected.
CGES is the electricity dispatch and transmission operator in Montenegro. The financial investment of Terna in CGES, which was made following an industrial cooperation and country system and included as part of inter-governmental understandings reached by Italy and Montenegro, sanctions the institutional commitment to the development of a new submarine electrical interconnection and the implementation of the partnership between national transmission operators. The value of the investment share has increased with respect to the previous financial year by €0.3 million by virtue of the adjustment of the investment to the shareholders' equity at year end with reference to the share held by the Group in said company, considering the dividend collected during the year (€0.8 million).

17. Financial assets

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

	Carrying amount		
€ million	31.12.2012	31.12.2011	Change
FVH derivatives	754.9	521.8	233.1
Other investments	0.8	0.6	0.2
Non-current financial assets	**755.7**	**522.4**	**233.3**
Other current financial assets	21.3	155.5	(134.2)
Current financial assets	**21.3**	**155.5**	**(134.2)**

At 31 December 2012, "Non-current financial assets", amounting to €755.7 million, reported the value of fair value hedge derivatives hedging against of bonds as well as the value of other equity interests held by the Parent Company.
The increase in the fair value of derivatives (€233.1 million) with respect to 31 December 2011 is due to the reduction of the interest rate curve in 2012. "Other investments" (€0.8 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% interest held in the share capital of Medgrid SAS (€0.4 million, which has increased by +€0.2 million following subscription of the capital increase of the subsidiary).

"Current financial assets" of €21.3 million (€155.5 million at 31 December 2011) dropped from the previous year by €134.2 million mainly due to the extinguishing of deposit certificates held in the portfolio at 31 December 2011 (-€150 million) and to interest accrued and not yet collected at the reporting date concerning short-term liquidity investments (+€15.8 million).

18. Other assets

"Other assets" are broken down below:

€ million	31.12.2012	31.12.2011	Change
Receivables due from others:			
- loans and advances to employees	6.5	6.1	0.4
- deposits with third parties	0.6	0.5	0.1
Other non-current assets	**7.1**	**6.6**	**0.5**
Other tax assets	48.5	11.1	37.4
Receivables due from others:			
- advances to employees	0.2	0.2	-
- others	10.9	9.2	1.7
Other current assets	**59.6**	**20.5**	**39.1**

"Other non-current assets" (€7.1 million) - which are reported in the table above - are essentially unchanged since the end of last year (€6.6 million) and mainly comprise loans and advances paid to employees by the parent company and subsidiaries Terna Rete Italia S.p.A. and Terna Plus (€6.5 million).

The item "Other current assets" equal to €59.6 million, a breakdown of which is given in the table above, notes an increase (+€39.1 million) with respect to the balance at 31 December 2011, mainly due to other tax assets (+€37.4 million), substantially with reference to the greater Group VAT credit due from the authorities (+€35.6 million) and the greater net balance of amounts receivable from the tax authorities and withholdings on interest income accrued on the financial assets of the parent company (€2.1 million).

19. Inventories – €6.6 million

Current inventories (€6.6 million; €16.3 million as at 31 December 2011) consist of materials and equipment intended for operating assets, maintenance and construction of plants; the reduction of €9.7 million is mainly due to ordinary maintenance needs of plants in Italy.

20. Trade receivables – €1,884.1 million

Trade receivables are analysed as follows:

€ million	31.12.2012	31.12.2011	Change
Energy-related receivables	1,165.7	1,258.0	(92.3)
Grid transmission fee receivables	592.1	356.7	235.4
Other trade receivables	126.3	75.5	50.8
Trade receivables	**1,884.1**	**1,690.2**	**193.9**

Trade receivables amount to €1,884.1 million and record an increase (€193.9 million) with respect to last year, mainly due to the receivable relating to the grid transmission fees in relation to the remuneration recognised to the parent company and other owners for the use of the national transmission grid by electricity distributors.
Receivables are measured net of impairment losses on items considered non-collectable and booked, after adjustment, to allowances for doubtful accounts (€20.6 million for energy items and €5.9 million for other items in 2012, as compared with €16.9 million for energy items and €6.7 million for other items in 2011).

Energy-related receivables - €1,165.7 million

They mainly include receivables in relation to "pass-through" energy items arising in respect of dispatching activities carried out by the parent company. This item also includes receivables for fees payable by market operators for dispatching activities (DIS fee as per AEEG Resolution no. 237/04 and its subsequent amendments and additions).
The decrease in this item of €92.3 million from the previous year was mainly due to the combined effect of:

- lesser receivables for the sale of electricity on the Power Exchange, mainly deriving from the lesser credits for the uplift component (€116.4 million), lesser receivables generated by the reduction of the quantities and prices for optimising the offsetting and the advanced billing times of balances as envisaged by AEEG Resolution no. 34/09 (€23.9 million) and the reduction of resource procurement volumes on the Power Market (€22.7 million); partly offset by the increase in receivables relative to the market coupling mechanisms for the management of congestion on the interconnection with Slovenia (€28.3 million) and receivables for the virtual interconnection business (€6.4 million);
- greater receivables for the sale of electricity off the Power Exchange, mainly for credit items generated by the return on congestion (€41.4 million) and relating to the procurement of interruptible resources (€22.4 million);
- lesser receivables relative to incentive mechanisms on the reduction of volumes procured on the Market for Dispatching Services due to the net effect of the noting of the share pertaining to the year (+€22.6 million) and the collection of receivables connected with the premium recognised according to this incentive accrued in 2010 (approximately-€58 million).

Grid transmission fees receivable - €592.1 million

The grid transmission fees receivable, €592.1 million, reflect the remuneration paid to the Parent Company and other owners for the use of the National Transmission Grid by distributors of electricity. This receivable shows a positive change (€235.4 million) with respect to the previous financial year, as a result of the tariff adjustments envisaged by the ex Resolution ARG/elt no. 199/11 (€138.7 million) and for the recording of the receivable due from CCSE for the optional adhesion to the "mitigation" mechanism established by Resolution ARG/elt 188/08 to hedge the risk connected with the reduction in consumption (€96.7 million net of period collections) and the receivable recognised to the parent company for the grid transmission fees balance of previous years.

Other trade receivables - €126.3 million

Other trade receivables mainly regard receivables due from clients of the diversified businesses; they increased by €50.8 million with respect to the previous year and primarily due to:

- greater receivables due from third parties to the Group for invoices to be issued (+€28.7 million), mainly relating to the receivable as a consequence of the stipulation of the settlement deed between the parent company, the subsidiary Terna Rete Italia S.r.l. and the client Wind Telecomunicazioni S.p.A. for the redetermination with retroactive effect to 2009 of the fee due from Wind for the housing of the optic fibre on the owned grids (€16.6 million) and penalties debited to third party suppliers (+€8.6 million) for contractual breach mainly relative to works/supplies for the submarine cable SA.PE.I.;
- greater receivables due from third party clients of the subsidiary Terna Plus S.r.l. (+€10.9 million), mainly relating to orders connected with the development/extension of utility power stations for photovoltaic plants and wind power plants to be connected to the NTG (€8.6 million) and the installation and hire service of the Quick-Installation Electrical Stations ("QIES") (€2.0 million);
- greater receivables due from third party clients of the Group (€+3.8 million) mainly relating to diversified activities, for the most part for maintenance and engineering, substantially with regard to companies of the electricity sector on the basis of specific contracts;

- greater receivables due from third party clients of the subsidiary Terna Rete Italia S.r.l. (+€5.8 million) mainly as a result of the greater contributions made to the plant account invoiced during the last period of the year.

This item also includes receivables for contract work in progress (€2.4 million) relative to works of multi-year duration, shown in the table below, which the Group has been implementing with third party customers and which increased with respect to the previous year by €0.7 million:

€ million	Payments on account	Contract value	Balance at 31.12.2012	Payments on account	Contract value	Balance at 31.12.2011
Others	(15.4)	17.8	2.4	(13.5)	15.2	1.7

The amount of the guarantees issued to third parties by the Parent Company Terna at 31 December 2012 comes to €42.8 million and refers for €21.3 million to sureties issued to secure the contractual obligations arising under the scope of operations and for €21.5 million to guarantees issued on Terna credit lines but in the interest of the subsidiaries, of which in particular €20.0 million in the interests of the subsidiaries SunTergrid S.p.A. for commitments made under the scope of the sale of Nuova Rete Solare S.r.l.

21. Cash and cash equivalents – €2,510.1 million

Cash and cash equivalents at 31 December 2012 amount to €2,510.1 million of which €1,650.0 million are liquid funds invested in term deposits, €860.0 million as net liquidity on bank current accounts and €0.1 million as cash on hand held by the Territorial Operational Units of the subsidiary Terna Rete S.p.A..

22. Income tax assets – €18.6 million

Income tax assets amount to €18.6 million and record an increase of €14.2 million with respect to the previous year, mainly relating to the parent company for the recording during the year of the receivable due from the tax authorities for greater IRES advances paid in 2011 (€6.4 million) and to note the IRES receivable pursuant to Italian Law Decree no. 16/2012 of 02 March 2012 (€8.0 million).

Liabilities

23. Equity attributable to the owners of the parent – €2,794.3 million

Share capital – €442.2 million
The share capital of the Parent Company is represented by 2,009,992,000 ordinary shares, par value €0.22 each.

Legal reserve – €88.4 million
The legal reserve amounts to 20% of the share capital of the Parent Company. The increase of €0.2 million from last year, which restored this ratio between legal reserve and share capital, was resolved by the Shareholders' Meeting of Terna on 16 May 2012, as they met to approve the Statutory financial statements and to allocate the profit for the year 2011.

Other reserves – €660.5 million
Other reserves have reduced by €18.2 million, as a result of the adjustment to fair value of derivatives hedging variable rate loans of the parent company (cash flow hedges €29.5 million) to fair value, net of the related tax effect (€11.3 million) recorded amongst other comprehensive income.

Retained earnings and losses carried forward – €1,280.3 million
The increase in the year in the item "Retained Earnings/Losses carried forward" of €17.6 million essentially refers to the allocation of the residual profit of the Group in 2011 compared to the distribution of the 2011 dividend on the part of the Parent Company (€422.1 million) and the mentioned increase of the legal reserve.

2012 interim dividend
After receiving the report of the independent auditors required by Art. 2433-*bis* of the Italian Civil Code, on 08 November 2012 the Parent Company's Board of Directors approved the distribution of an interim dividend amounting to €140.7 million, equal to €0.07 per share, which is payable on 22 November 2012, with an ex dividend date (coupon 17) of 19 November 2012.

24. Loans and financial liabilities

The following table details loans and financial liabilities recognised in the consolidated financial statements at 31 December 2012:

	Carrying amount		
€ million	31.12.2012	31.12.2011	Change
Bonds	6,543.7	4,303.9	2,239.8
Bank loans	2,365.7	2,434.8	(69.1)
Long-term loans	**8,909.4**	**6,738.7**	**2,170.7**
CFH derivatives	141.2	111.4	29.8
Non-current financial liabilities	**141.2**	**111.4**	**29.8**
Current portion of long-term loans	69.4	59.7	9.7
Short-term loans and current portion of medium/long-term loans	**69.4**	**59.7**	**9.7**
Total	**9,120.0**	**6,909.8**	**2,210.2**

Gross debt for the year increased with respect to the previous year by €2,210.2 million to €9,120.0 million.
The increase in the value in bonds (€2,239.8 million) is due for €1,991.0 million to the new bond issue realised in 2012 net of the costs and issue discounts, for €230.7 million to the change in the fair value of the risk hedged and for €3.3 million to the amortised cost and for €14.8 million to the capitalisation of year inflation.
The change linked to the hedging of the interest rate risk comprises €40.8 million in relation to the inflation-linked bond issue, €64.7 million associated to the bonds 2014-2024, €36.8 million for the private placement and €88.4 million relating to the bond issued in 2011.

The latest official prices for the bonds listed on the Luxembourg Stock Exchange are detailed below:

- bond maturing 2024, 2012 price: 112.88, 2011 price: 93.85;
- bond maturing 2014, 2012 price: 105.89, 2011 price: 102.42;
- bond maturing 2023, 2012 price*: 105.82, 2011 price: 82.00;
- bond maturing 2019, 2012 price: 114.72, 2011 price: 96.86;
- bond maturing 2021, 2012 price: 113.55;
- bond maturing 2017, 2012 price: 108.51;
- bond maturing 2018, 2012 price: 102.73.

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

The debt which was originally at floating-rate, shows a decrease of €59.4 million mainly due to the reduction in EIB (European Investment Bank) loans (€59.7 million) and other financing following repayments made on outstanding loans.

Long-term loans

The following table reports the book values of long-term debt and the repayment plan as of 31 December 2012, broken down by loan type, including amounts falling due within one year and average interest rate at year-end:

€ million	Maturity	31.12.2011	31.12.2012	Due within one year	Due beyond one year	2014	2015	2016	2017	After	Average interest rate as of 31.12.2012
Bonds	2014-2024	1,611.0	1,676.1	-	1,676.1	637.1	-	-	-	1,039.0	4.62%
Bonds IL	2023	654.8	710.5	-	710.5	-	-	-	-	710.5	2.75%
Bonds PP	2019	662.0	699.4	-	699.4	-	-	-	-	699.4	4.87%
Bonds 1250	2021	1,376.1	1,465.7	-	1,465.7	-	-	-	-	1,465.7	4.75%
Bonds 1250	2017	-	1,246.0	-	1,246.0	-	-	-	1,246.0	-	4.12%
Bonds 750	2018	-	746.0	-	746.0	-	-	-	-	746.0	2.87%
Total fixed rate		**4,303.9**	**6,543.7**	**-**	**6,543.7**	**637.1**	**-**	**-**	**1,246.0**	**4,660.6**	
EIB	2014-2030	1,345.4	1,285.7	69.4	1,216.3	79.1	77.0	85.1	96.9	878.2	1.33%
Club Deal	2015	649.1	649.4	-	649.4	-	649.4	-	-	-	1.25%
CDP	2019	500.0	500.0	-	500.0	-	-	-	-	500.0	2.07%
Total floating rate		**2,494.5**	**2,435.1**	**69.4**	**2,365.7**	**79.1**	**726.4**	**85.1**	**96.9**	**1,378.2**	
Total		**6,798.4**	**8,978.8**	**69.4**	**8,909.4**	**716.2**	**726.4**	**85.1**	**1,342.9**	**6,038.8**	

To repay the nominal value of the bonds, amounting to €5,250.0 million, €600 million will be repaid on 28 October 2014, €1,250 million on 17 February 2017, €750 million on 16 February 2018, €600 million on 03 October 2019, €1,250 million on 15 March 2021 and €800 million on 28 October 2024; whilst the inflation-linked bond will be repaid at maturity on 15 September 2023 with the nominal amount adjusted to reflect inflation.
For all other financial debt items the table above shows the related repayment plan.
The total amount of the Terna Group's borrowings at 31 December 2012 is equal to €8,978.8 million, of which €6,038.8 million is due after more than five years.
The previous table shows the average interest rate for each type of financial liability. Below we also comment on the Group's hedging operations against interest rate fluctuations.
As regards the 2014-2024 bonds, with an average coupon of 4.62%, if fair value hedging operations are taken into account, the average interest rate is equal to 1.56%.
For the inflation-linked bonds - and taking hedges into account - and assuming a 2.72% inflation rate, the average interest rate paid in the year was 2.27%.
The fixed-rate private placement was synthetically transformed to a floating rate security by means of derivative contracts with the same maturity. Consequently, the average interest rate paid in the year was 2.41%.
The average coupon of the 2021 bond is 4.75%; if we consider FVH operations, the average interest rate amounts to 2.21%.
For the two bond issues made in 2012 maturing in 2017 and 2018, no hedges have been implemented and the average interest rates are 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 2.85% is reported for EIB financing while for the Club Deal financing totalling €650 million the average rate was 3.50% and for the CDP financing the average rate was 4.06%.

The following table reports changes in long-term debt for the year:

Type of loan € million	Nominal debt at 31.12.11	Carrying amount at 31.12.11	Repayment and capitalisation	New issues	Delta Fair Value 31.12.2011 31.12.2012	Change in carrying amount	Nominal debt at 31.12.2012	Carrying amount at 31.12.2012
Bonds 2014-2024	1,400.0	1,611.0	-	-	65.1	65.1	1,400.0	1,676.1
Listed IL bond	546.9	654.8	14.8	-	40.9	55.7	561.7	710.5
Private Placement	600.0	662.0	-	-	37.4	37.4	600.0	699.4
2021 Bond	1,250.0	1,376.1	-	-	89.6	89.6	1,250.0	1,465.7
2017 Bond	-	-	-	1,245.1	0.9	1,246.0	1,250.0	1,246.0
2018 Bond	-	-	-	745.9	0.1	746.0	750.0	746.0
Total bonds	**3,796.9**	**4,303.9**	**14.8**	**1,991.0**	**234.0**	**2,239.8**	**5,811.7**	**6,543.7**
Bank loans	2,495.4	2,494.5	(59.7)	-	0.3	(59.4)	2,435.7	2,435.1
Total bank loans	**2,495.4**	**2,494.5**	**(59.7)**	**-**	**0.3**	**(59.4)**	**2,435.7**	**2,435.1**
Total financial debt	**6,292.3**	**6,798.4**	**(44.9)**	**1,991.0**	**234.3**	**2,180.4**	**8,247.4**	**8,978.8**

As compared with 31 December 2011, long-term debt shows an overall increase of €2,180.4 million, due for €1,991.0 million to the issue of two new bond loans maturing in 2017 and 2018, net of expenses and issue discounts, for €14.8 million to the capitalisation of year inflation linked to the IL bond, for €234.3 million to the increase in the fair value of bonds, also considering the amortised cost and for €59.7 million to the repayment of instalments on the EIB loans.
At 31 December 2012, Terna had unused credit lines exceeding €1,185.9 million, of which more than €685.9 million in short-term credit lines and €500.0 million in a medium-term credit line.

Non-current financial liabilities

The table below reports the amount and changes in non-current financial liabilities with respect to value at the end of 2011:

€ million	31.12.2012	31.12.2011	Change
CFH derivatives	141.2	111.4	29.8
Total	**141.2**	**111.4**	**29.8**

“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. The change in the interest rate curve since 31 December 2011 resulted in a change amounting to €29.8 million.

Current financial liabilities

Current financial liabilities, due to the net interest expense accrued on financial instruments but not yet settled, have increased by €35.2 million since the end of last year.
The following table details deferred liabilities on the basis of the financial liabilities to which they relate:

€ million	31.12.2012	31.12.2011	Change
Deferred liabilities on:			
Derivatives			
- *hedging*	*(49.6)*	*(43.2)*	*(6.4)*
Bond			
- *inflation linked*	*4.6*	*4.4*	*0.2*
- *Private Placement*	*7.2*	*7.2*	*-*
- *5-year (2017)*	*45.0*	*-*	*45.0*
- *10-year (2014)*	*4.5*	*4.5*	*-*
- *20-year (2024)*	*7.0*	*7.0*	*-*
- *10-year (2021)*	*47.5*	*47.4*	*0.1*
- *5-year (2018)*	*4.6*	*-*	*4.6*
Total	**120.4**	**70.5**	**49.9**
Loans	4.5	12.8	(8.3)
Total	**75.3**	**40.1**	**35.2**

Net financial position

Pursuant to CONSOB Communication of 28 July 2006 and in compliance with Recommendation ESMA/2011/81 of 23 March 2011, the net financial position of the Group is as follows:

€ million	Carrying amount 31.12.2012
A. Cash	860.1
B. Short-term deposits	1,650.0
C. Liquidity (A) + (B)	**2,510.1**
D. Current portion of long-term debt	69.4
E. Current financial debt (D)	**69.4**
F. Net current financial debt (E) - (C)	**(2,440.7)**
G. Non-current bank payables	2,365.7
H. Bonds issued	6,543.7
I. Derivative financial instruments in portfolio	(613.7)
J. Net non-current financial debt (G) + (H) + (I)	**8,295.7**
K. Net financial debt (J) + (F)	**5,855.0**

The debt/equity ratio of the Group stood at 2.10 in 2012.
For more details on the composition of the items in this table, please see Notes 17 and 21, as well as the information presented here in Note 24.
For more information on the contractual provisions of outstanding loans at 31 December 2012, please see the Notes to the financial statements of Terna S.p.A..

25. Employee benefits – €119.4 million

The Group provides benefits to its employees during their period of employment (loyalty bonus), at the termination of their employment (termination benefits, additional month's pay and indemnity for lack of notice), and in the period after the termination of employment (electricity discount and the ASEM health plan).
The loyalty bonus is awarded to employees and managers of the Group when they reach certain seniority levels (25 and 35 years of service).
The benefits granted at the termination of employment are recognised for all employees (termination indemnities), managers hired or appointed before 28 February 1999 (indemnity for lack of notice), and employees (production workers, office staff and junior managers) hired before 24 July 2001 (additional month's pay indemnity).
Post-employment benefits consist of the following:

- discount on electrical energy consumed for domestic use. This benefit is offered to all employees hired before 30 June 1996 (electricity discount);
- a healthcare plan complementing the national health service, as agreed under the terms of the national contract for industrial managers (the ASEM health plan).

The composition of termination benefits and other employee-related provisions at 31 December 2012 is detailed below along with changes in the year:

€ million	31.12.2011	Provision	Interest cost	Utilisations and other changes	31.12.2012
Benefits payable to employees					
Loyalty bonus	3.8	1.1	0.2	(0.5)	4.6
Total	**3.8**	**1.1**	**0.2**	**(0.5)**	**4.6**
Benefits payable upon termination of employment					
Termination benefits	64.4	-	2.7	(4.1)	63.0
Additional months' pay	6.5	0.2	0.4	(0.8)	6.3
Indemnities for lack of notice and similar	2.7	-	-	(0.3)	2.4
Total	**73.6**	**0.2**	**3.1**	**(5.2)**	**71.7**
Post-employment benefits					
Energy discount	30.9	0.6	1.3	(0.4)	32.4
ASEM	10.9	-	0.3	(0.5)	10.7
Total	**41.8**	**0.6**	**1.6**	**(0.9)**	**43.1**
Total	**119.2**	**1.9**	**4.9**	**(6.6)**	**119.4**

The item, equal to €119.4 million at 31 December 2012 (€119.2 at 31 December 2011), shows an increase on the previous financial year of €0.2 million, attributable to the year allocations and the recording of the period discounting expense (totalling €6.8 million) offset by period uses (€6.6 million).
Below is the reconciliation of the current value of the obligation for employee benefits with respect to the assets and liabilities recognised on the financial statements:

€ million	Termination benefits	Indemnities for lack of notice and similar	Additional months' pay	Loyalty bonus	ASEM	Energy discount	Total
Current value of obligation	66.4	1.0	9.3	4.7	8.0	39.2	128.6
Net actuarial gains/losses not recognised	(3.4)	1.4	(3.0)	(0.1)	2.7	(6.8)	(9.2)
Net liabilities recognized	**63.0**	**2.4**	**6.3**	**4.6**	**10.7**	**32.4**	**119.4**

Costs for liabilities in respect of employee benefits recognised in the income statement break down as follows:

€ million	Termination benefits	Indemnities for lack of notice and similar	Additional months' pay	Loyalty bonus	ASEM	Energy discount	Total
Service cost	-	-	0.2	0.2	0.2	0.6	1.2
Financial expense	2.7	-	0.4	0.2	0.3	1.3	4.9
Amortisation of actuarial gains/losses	(0.1)	(0.4)	-	0.5	(0.5)	-	(0.5)
Total	**2.6**	**(0.4)**	**0.6**	**0.9**	**-**	**1.9**	**5.6**

The main assumptions made in the actuarial estimate of employee benefit obligations are as follows:

Percentage figures	2012	2011
Discount rate	2.05%	4.10%
Salary increase rate	2.0% - 4.0%	2.0% - 4.0%
Rate of increase in healthcare costs	3.00%	3.00%

26. Provisions for risks and charges – €166.9 million

The breakdown of the Provisions for risks and charges at 31 December 2012 is detailed below together with the changes in the period:

€ million	Provision for disputes and litigation	Provisions for other risks and charges	Provision for early retirement incentives	Total
Balance at 31.12.2011	**16.8**	**156.9**	**20.1**	**193.8**
Provision	3.9	57.6	1.7	63.2
Utilisations and other changes	(0.9)	(86.0)	(3.2)	(90.1)
Balance at 31.12.2012	**19.8**	**128.5**	**18.6**	**166.9**

Provision for disputes and litigation - €19.8 million

The provision is accrued to cover the liabilities at year end that may arise from lawsuits and out-of-court disputes relating to Company activities. The amount accrued takes into account the opinions both of internal and external legal counsel and shows a net change of €3.0 million with respect to the previous year, due to the period accruals.
Litigation for which no potential charge can reasonably be calculated are described under "Off-balance sheet commitments and risks".

Provision for other risks and charges - €128.5 million

The provision reported a net decrease of €28.4 million with respect to the previous year, ascribable to accruals of €57.6 million and utilisations of a negative €86.0 million in the course of the year. More specifically:

- reduction of the risk provision "Projects for urban and environmental renewal" for a total of €53.4 million, due to the release of previous accruals made and currently considered unlikely (€45.6 million) and the net use deriving from accruals and disbursements (€7.8 million, considering the effect of the passage of time on money, equal to €0.6 million) by the parent company;
- accruals for the Single Municipal Tax (IMU) considered probable, as a consequence of the application of Circular 6/2012 of the Territorial Authority on the registration of power stations (€15.6 million) of the parent company;
- accruals relating to tax risks, €5.8 million;
- exchange rate adjustment (€-1,4 million) of the provision for probable expenses relating to tax obligations deriving from the sale of Terna Participações by the Parent Company;
- net accruals referring to management incentive plans for €6.2 million;
- a net accrual of €2.1 million for the charges due to distributing companies for power failures of the transformation plants linked to the NTG (in accordance with Resolution 341/07 by the parent company and the subsidiaries Terna Rete Italia S.p.A. and Terna Rete Italia S.r.l.;
- net use of accruals made in 2011 for probable expenses in connection with the sale of Nuova Rete Solare S.r.l. and Rete Rinnovabile by Suntergrid S.p.A. for a total of €8.9 million.

Provision for early retirement incentives – €18.6 million
This provision reflects the estimated extraordinary charges related to the voluntary early termination of the working relationship of employees of the Parent Company who are eligible for retirement. The item reflects a decrease of €1.5 million for net uses made during the financial year.

27. Deferred tax liabilities – €187.8 million

The changes in this provision are analysed below:

€ million	31.12.2011	Impact recognised in profit or loss		Impact recorded in equity and other changes	31.12.2012
		Provisions	Utilisations		
Deferred tax liabilities					
Property, plant and equipment	426.9	-	(59.1)	-	367.8
Employee benefits and financial instruments	4.3	-	-	-	4.3
Total deferred tax liabilities	**431.2**	**-**	**(59.1)**	**-**	**372.1**
Deferred tax assets					
Provisions for risks and charges	39.0	6.8	(9.8)	(0.5)	35.5
Allowance for doubtful accounts	3.6	-	-	-	3.6
Employee benefits	27.0	9.4	(8.6)	-	27.8
Fvh - chf derivatives	42.3	-	-	11.3	53.6
Release of goodwill	67.5	-	(3.8)	-	63.7
Other	-	0.1	-	-	0.1
Total deferred tax assets	**179.4**	**16.3**	**(22.2)**	**10.8**	**184.3**
Net deferred tax liabilities	**251.8**	**(16.3)**	**(36.9)**	**(10.8)**	**187.8**

This balance, equal to €187.8 million, reflects the net movements in the Group's deferred tax assets and liabilities.

Deferred tax liabilities totalled €372.1 million, down €59.1 million, essentially due to:
- utilisation of prior period accruals covering the accelerated depreciation recorded by the Parent Company Terna and the subsidiary Terna Rete Italia S.r.l. in excess of the tax-allowable amounts (€42.0 million and €3.1 million, respectively), including the amount released in relation to the depreciation charge for the period associated with merger differences allocated to property, plant and equipment at the time of the mergers carried out in prior years (totalling €3.1 million);
- release of the charge for year (€9.7 million) of the provision for deferred IRAP liabilities governed by Law no. 244 dated 24/12/2007 (the 2008 Finance Law), recorded in prior years in relation to economic/technical rates;
- release of the charge for the year of the deferred taxes calculated on the additional cost paid for the acquisition of Terna Rete Italia S.r.l. following its allocation to the transmission plant and to intangible assets (totalling €4.3 million).

Deferred tax assets (€184.3 million) show an increase of €4.9 million, mainly related to the following changes:
- accrual of €11.3 million, attributable to the tax effect, which has no impact on the income statement, in respect of changes in cash flow hedge instruments of the Parent Company;
- release of the relevant share of deferred tax assets allocated for the release of goodwill recorded following the merger of RTL into the Parent Company (€3.8 million);
- net use for €3.5 million in relation to uses during the year of the provisions for risks and charges. More specifically, these include the tax effects of the net uses of the provisions of the parent company (€1.5 million), of Terna Rete Italia S.p.A. (€1.5 million), of Terna Rete Italia S.r.l. (-€2.5 million) and Suntergrid (-€4.0 million).

28. Other non-current liabilities – €135.4 million

This item, amounting to €135.4 million at 31 December 2012 encompasses the deferred positions of set-up grants of the Parent Company (€123.5 million) and of Terna Rete Italia S.r.l. (€11.9 million).
The reduction in this item with respect to the previous financial year, of €1.7 million, essentially derives from the release of the share of the contributions in relation to amortisation of plants in the year for which they were recorded, net of new contributions received from Terna Rete Italia S.r.l.

29. Current liabilities

Current liabilities at 31 December 2012 break down as follows:

€ million	31.12.2012	31.12.2011	Change
Current portion of long-term loans (*)	69.4	59.7	9.7
Trade payables	2,292.1	2,029.8	262.3
Tax liabilities	95.0	116.5	(21.5)
Current financial liabilities (*)	75.3	40.1	35.2
Other current liabilities	162.8	137.6	25.2
Total	**2,694.6**	**2,383.7**	**310.9**

(*) See the comments in Note 24, Loans and financial liabilities.

Trade payables – €2,292.1 million

Trade payables at 31 December 2012 break down as follows:

€ million	31.12.2012	31.12.2011	Change
Suppliers:			
- Energy-related payables	1,596.6	1,334.8	261.8
- Non energy-related payables	679.3	684.8	(5.5)
Payables due to associates	10.3	7.1	3.2
Payables for contract work in progress	5.9	3.1	2.8
Total trade payables	**2,292.1**	**2,029.8**	**262.3**

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 €261.8 million compared with the previous year is essentially attributed to:

- increased payables (€255.4 million) relative to “pass-through items” which are mainly ascribable to the joint effect of:
  - the increase in payables for the purchase of electricity on the Power Exchange (€188.0 million) mainly deriving from the greater debt items generated by the increased procurement volumes of resources on the Power Exchange (€191.2 million) and the greater debt deriving from the virtual interconnection business (€72.1 million); partially offset by the reduction of the quantities and prices valuing the difference (€65.2 million), as described in “Trade receivables”, and the reduction of the debt items relating to the market coupling mechanism for the management of congestion on the interconnection with Slovenia (€10.4 million);
  - the increased payables for the purchase of electricity outside the Power Exchange (€67.4 million) mainly deriving from the greater debt relating to the procurement of interruptible resources (€45.7 million) and the increased payables for the safety of the electrical system (EUSES) (€40.5 million, of which €20.1 million paid the first few days of the following year);
- greater payables not ascribable to the Parent Company (€6.4 million) due to the Electricity Industry Adjustment Fund, due to the net effect of greater debt in relation to the premium and penalty mechanism on the quality of the transmission service - RENS (€10.2 million), partially offset by the reduction in net expense to be paid to the Provision for exceptional events for power failures during previous years and this year (€2.8 million) in accordance with Resolution 341/07 as subsequently updated, and the receivable recognised to the parent company for the grid transmission fees relative to previous years (€1.0 million), as commented on in the paragraph on “Grid transmission fees receivable” of Trade receivables.

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 reduction on last year (€5.5 million) is mainly a consequence of the lesser purchases and provisions totalled during the last quarter of 2012 with respect to the same period of FY 2011.

Payables due to associates

This item amounts to €10.3 million and mainly includes payables to the associate CESI for services provided to the Parent Company (€0.8 million) and the subsidiary Terna Rete Italia S.p.A. (€9.4 million) in the construction and management of laboratories and plants for tests, inspections, studies and experimental research in the general field of electricity technology and scientific and technical progress. The increase (€3.2 million) compared with 31 December 2011 is the result of an increase in services delivered in the final part of the year.

Group commitments with suppliers amounted to about €2,464.6 million and refer to purchase commitments relating to normal "operating activities" for the period 2013-2017.

Payables for contract work in progress

Payables for contract work in progress (€5.9 million as at 31 December 2012) have increased with respect to 31 December 2011 (+€2.8 million) essentially as a result of the greater advances received on orders of the subsidiary Terna Plus and consist of the following:

€ million	Payments on account	Contract value	Balance at 31.12.2012	Payments on account	Contract value	Balance at 31.12.2011
Other	(21.9)	16.0	(5.9)	(15.5)	12.4	(3.1)

Tax liabilities – €95.0 million

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

- the Parent Company Terna in the amount of €50.4 million;
- the subsidiary Terna Rete Italia S.p.A. in the amount of €25.7 million;
- the subsidiary Terna Rete Italia S.r.l. in the amount of €18.1 million;
- the subsidiary Terna Plus S.r.l. in the amount of €0.8 million.

This records a reduction of €21.5 million from last year, substantially as a result of the lesser advances paid during the previous year, which did not include the new legislation introduced during the second half of 2011, pursuant to the "Robin Hood Tax".

Other current liabilities – €162.8 million

Other current liabilities break down as follows:

€ million	31.12.2012	Due within one year	Due beyond one year	31.12.2011	Change
Payments on account	39.4	18.9	20.5	38.8	0.6
Other tax liabilities	8.0	8.0	-	20.5	(12.5)
Payables to social security institutions	22.4	22.4	-	22.3	0.1
Payables to employees	32.1	32.1	-	31.2	0.9
Other payables to third parties	60.9	4.7	56.2	24.8	36.1
Total	**162.8**	**86.1**	**76.7**	**137.6**	**25.2**

Payments on account

The item (€39.4 million) reports set-up grants related to plants received by the Group (€36.5 million for the Parent Company and €2.9 million for Terna Rete Italia S.r.l.) for assets under construction at 31 December 2012.

Compared to the 2011 book value (€38.8 million), there was an increase of €0.6 million, mainly due to the net effect of new payments on account received from third parties for €25.4 million and a decrease of €24.8 million in the grants reducing the book values of assets entered into operation during the financial year; in particular there are payments on account received in accordance with the mandate contract for the design of the "Interconnector" interconnection infrastructure with other countries (€17.5 million, in accordance with Resolution ARG/elt 179/09 and its subsequent amendments).

Other tax liabilities

Other tax liabilities (€8.0 million) mainly include the recording of amounts payable for IRPEF withholdings on salaries and are down by €12.5 million with respect to last year, mainly due to the liquidation of the VAT payable pertinent to the year (-€12.3 million).

Payables to social security institutions

Amounts payable to social security institutions, mainly relating to payables due to INPS by the Parent and the subsidiary Terna Rete Italia S.p.A., amount to €22.4 million (€22.3 million at 31 December 2011), basically in line with last year. The item also includes the payable due to Fondo Previdenziale Elettrici – F.P.E. (security fund for electricians) (€4.5 million).

Payables to employees

Amounts payable to employees, which came to €32.1 million (€31.2 million at 31 December 2011), pertain to the Parent Company and the subsidiary Terna Rete Italia S.p.A. and mainly regard:

- accruals made for staff incentives to be paid the following year (€17.5 million);
- payments due to employees for unused, accrued and abolished public holidays (€9.9 million);
- termination benefits due to employees whose employment was terminated before 31 December 2012 (€1.9 million).

Other payables to third parties

Other payables, equal to €60.9 million (€24.8 million at 31 December 2011), mainly regard security deposits (€56.2 million) received from electricity market operators securing their contractual obligations. The item shows an increase of €36.1 million mainly attributable to security deposits securing their obligations in respect of dispatching and virtual interconnection contracts.

E. Commitments and risks

Risk management

Market and financial risks

During the financial year, in going about its business, the Terna Group is exposed to various different financial risks: market risk (namely exchange rate risk, interest rate risk and inflation risk), liquidity risk and credit risk.
This section provides information regarding the Terna Group's exposure to all the above risks, along with a presentation of the objectives, policies and processes for managing those risks and the methods used to measure them, with further quantitative disclosures concerning the 2012 financial statements.
The Group'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 the related systems are reviewed on a regular basis in order to take account of any changes in market conditions or in the operations of the companies.
The exposure of the Terna Group to the aforementioned risks is substantially represented by the exposure of the Parent Company. As a part of the financial risk management policies approved by the Board of Directors, Terna has established the responsibilities and operating procedures for financial risk management, specifically as concerns the instruments to be used and the precise operating limits in managing them.

	31.12.2012				31.12.2011			
€ million	Receivables	Receivables at fair value	Hedging derivatives	Total	Receivables	Receivables at fair value	Hedging derivatives	Total
Assets								
Derivative financial instruments	-	-	754.9	754.9	-	-	521.8	521.8
Cash, short-term deposits and inter-company loans	2,510.1	-	-	2,510.1	1,264.9	-	-	1,264.9
Total	**2,510.1**	**-**	**754.9**	**3,265.0**	**1,264.9**		**521.8**	**1,786.7**

	31.12.2012				31.12.2011			
€ million	Payables	Loans at fair value	Hedging derivatives	Total	Payables	Loans at fair value	Hedging derivatives	Total
Liabilities								
Long-term debt	2,435.1	6,543.7	-	8,978.8	2,675.8	4,303.9	-	6,979.7
Derivative financial instruments	-	-	141.2	141.2	-	-	111.4	111.4
Total	**2,435.1**	**6,543.7**	**141.2**	**9,120.0**	**2,675.8**	**4,303.9**	**111.4**	**7,091.1**

Market risks

Market risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of changes in financial market conditions. Market risks include three types of risks: exchange rate risk, interest rate risk and inflation risk. Risk management must be performed with the objective of maximising financial income and minimising the related risks by selecting counterparties and instruments compatible with the corporate risk management policy. Speculative activity is not envisaged in the corporate mission.
Terna Group seeks to adopt a dynamic approach to financial risk management. This approach is characterised by risk aversion, aiming at minimising risk through continuous monitoring of financial markets in order to plan hedging transactions in favourable market conditions. The dynamic approach makes it possible to take action to improve existing hedges where changes in market conditions or in the hedged item make the latter unsuitable or excessively expensive. The concept of hedging transaction is not restricted to those hedges that qualify for hedge accounting, but rather encompasses the objective of total or partial hedging of the income statement or statement of financial position item from interest rate risk.
All derivative contracts have a notional amount and maturity date less than or equal to that of the underlying financial liability, so that any change in the fair value and/or estimated cash flows of the contracts is offset by a corresponding change in the fair value and/or estimated cash flows of the underlying position. The fair value of financial derivatives reflects the estimated amount that Terna S.p.A. would pay or receive in order to extinguish contracts at the closing date.
The fair value of 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 as at the closing date (such as interest rates, exchange rates, and volatility) and discounting projected cash flows on the basis of the market yield curve and inflation at the reporting date.

The financial assets and liabilities in respect of derivative instruments in place during the year can be classified as:

- cash flow hedge derivatives, related to hedging the risk of changes in cash flows associated with long-term floating-rate loans;
- fair value hedging derivatives, 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).

Below are the notional amounts and fair values of the derivative financial instruments subscribed by the Terna Group:

	31.12.2012		31.12.2011		Change	
€ million	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
FVH derivatives	3,750.0	754.9	3,750.0	521.8	-	233.1
CFH derivatives	2,435.7	(141.2)	3,418.4	(111.4)	(982.7)	(29.8)

Interest rate risk

Interest rate risk is represented by the uncertainty associated with interest rate fluctuations. This is the risk that a change in market rates may produce effects on the fair value or future cash flows of financial instruments.
In conducting its operations, Terna is exposed to the risk of fluctuations in interest rates. Its main source of interest rate risk is associated with items of net financial debt and the related hedging positions in derivative instruments that generate financial expense. Terna's borrowing strategy focuses on long-term loans whose term reflects the useful life of company assets. It pursues an interest rate risk hedging policy that aims to reconcile this approach with the regulatory framework, which every four years establishes the cost of debt as part of the formula to set the return on the Regulatory Asset Base (RAB).
Accordingly, the hedging instruments used, at various maturity dates, include both derivatives that transform fixed rates into floating rates and derivatives that transform floating rates into fixed rates.
In order to reduce the amount of financial debt exposed to the risk of fluctuations in interest rates and to optimise the temporal correlation between average cost of debt and regulatory rate used in the WACC formula, various types of plain vanilla derivatives are used, such as interest rate swaps.
Interest rate swaps are used in order to reduce the volume of debt exposed to fluctuations in interest rates and to reduce the volatility of borrowing costs. With an interest rate swap, Terna agrees with a counterparty to exchange, at specific intervals, the floating-rate cash flows on a specified notional amount against the fixed-rate (agreed between the parties) cash flows, or vice versa.

The following table shows the financial instruments entered into by Terna, classified according to the type of interest rate (fixed or floating):

	Carrying amount		
€ million	31.12.2012	31.12.2011	Change
Fixed-rate financial instruments:			
- assets	-	-	-
- liabilities	6,684.9	4,415.3	2,269.6
Floating-rate financial instruments:			
- assets	3,265.0	1,786.7	1,478.3
- liabilities	2,435.1	2,494.5	(59.4)
Total	**5,855.0**	**5,123.1**	**731.9**

Sensitivity to interest-rate risk

As regards the management of interest rate risk, Terna has, on the one hand, entered into fixed-to-floating interest rate swaps (FVH) to hedge the fair value of the fixed-rate risk bonds and, on the other, floating-to-fixed interest rate swaps (CFH) to hedge the expected cash flows in respect of all other floating-rate debt.

Since the hedging relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge, as verified initially and periodically over its life, is high (between 80% and 125%), the Company has elected to use hedge accounting to ensure the perfect temporal matching of the hedge and the hedged item. The aim of hedge accounting is to recognise the effects of the hedges and the hedged items in the income statement at the same time. Accordingly, for FVH derivatives, any changes in the fair value of the hedged item attributable to the risk being hedged must be booked in the income statement, thereby offsetting the changes in the fair value of the derivative booked in the income statement. For CFH derivatives, the changes in the fair value of the derivative must be booked in "Other comprehensive income" (recognising any ineffective portion of the hedge directly in the income statement) and then reversed through the income statement in the same period in which the cash flows of the hedged instrument materialise. The characteristics of the CFH derivatives mirror those of the underlying hedged asset so the related cash flows will materialise at the same maturities as the interest on the debt, with no impact of the changes in fair value on the income statement.

The following table reports the amounts booked in the income statement and in "Other comprehensive income" 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 booked in the income statement and in "Other comprehensive income" 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			Other comprehensive income		
€ million	Current rates +10%	Current rates	Current rates -10%	Current rates +10%	Current rates	Current rates -10%
31.12.2012						
Positions sensitive to interest rate variations (FVH, bonds,CFH)	2.5	2.4	2.3	(138.7)	(141.2)	(143.7)
Hypothetical change	0.1	-	(0.1)	2.5	-	(2.5)
31.12.2011						
Positions sensitive to interest rate variations (FVH, bonds)	1.0	(0.2)	(1.4)	(100.0)	(111.4)	(122.9)
Hypothetical change	1.2	-	1.2	11.4	-	(11.5)

Inflation risk

As regards inflation rate risk, the rates established by Regulators to remunerate Terna S.p.A.'s activities are determined so as to allow coverage of the sector's recognised costs. Such cost components are updated on an annual basis to consider the accrued impact of inflation. In 2007, the Company used an inflation-linked bond issue to obtain an effective hedge of profit for the year; any decrease in expected revenue due to a decrease in the inflation rate would be offset by lower financial expense.

Exchange rate risk

Generally Terna hedges exchange rate risk through the forward sale or purchase of currencies (forward contracts) or the use of options. Currency options give Terna the right or the obligation to buy or sell predetermined amounts of a currency at a specific exchange rate at the end of a specific period of time. Normally, both forward contracts and options have maturities of no more than 12 months.

Such contracts have a notional amount and maturity date less than or equal to that of the underlying financial liability, or the expected cash flows, so that any change in the fair value and/or estimated cash flows deriving from an appreciation or depreciation of the euro against other currencies is fully offset by a corresponding change in the fair value and/or estimated cash flows of the underlying position.

At 31 December 2012 (as at 31 December 2011), no financial instruments exposed to exchange rate risk were present.

Liquidity risk

The liquidity risk is the risk Terna might encounter difficulty in discharging its obligations in respect of its financial liabilities and operational cycle. Liquidity risk management seeks to ensure adequate coverage of financial needs by obtaining adequate lines of credit and appropriate management of any surplus liquidity. As of 31 December 2012 Terna had €500 million in medium-term credit lines and €685.9 million in short-term credit lines. The table below shows the repayment plan at 31 December 2012 of the nominal long-term debt:

€ million	Maturity	31.12.2012	Maturity within 12 months	Maturity beyond 12 months	2014	2015	2016	2017	After
Bonds	2014-2024	1,400.0	-	1,400.0	400.0	-	-	-	1,000.0
Bonds IL	2023	561.7	-	561.7	-	-	-	-	561.7
Bonds PP	2019	600.0	-	600.0	-	-	-	-	600.0
Bonds 1250	2021	1,250.0	-	1,250.0	-	-	-	-	1,250.0
Bonds 1250	2017	1,250.0	-	1,250.0	-	-	-	1,250.0	-
Bonds 750	2018	750.0	-	750.0	-	-	-	-	750.0
Total fixed rate		**5,811.7**	**-**	**5,811.7**	**400.0**	**-**	**-**	**1,250.0**	**4,161.7**
EIB	2014-2030	1,285.7	69.4	1,216.3	79.1	77.0	85.1	96.9	878.2
Club Deal	2015	650.0	-	650.0	-	650.0	-	-	-
CDP	2019	500.0	-	500.0	-	-	-	-	500.0
Total floating rate		**2,435.7**	**69.4**	**2,366.3**	**79.1**	**727.0**	**85.1**	**96.9**	**1,378.2**
Total		**8,247.4**	**69.4**	**8,178.0**	**479.1**	**727.0**	**85.1**	**1,346.9**	**5,539.9**

Credit risk

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

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

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

Credit risk management is guided by the provisions of AEEG Resolution no. 111/06, which, in Art. 49, introduced instruments for the limitation of risks related to the insolvency of dispatching customers, both on a preventive basis and in the event of actual insolvency. In particular, the Resolution establishes three instruments to safeguard the electricity market: a guarantee system (bank guarantees provided by individual dispatching customers, based on their sales revenue), the option of terminating dispatching contracts (in the event of insolvency or failure to replace enforced guarantees) and, finally, the possibility of recovering uncollected receivables, after having taken all other possible collection actions, through a specific fee defined by the Authority.

The following table summarises the exposure to such risk as at the reporting date:

	Carrying amount		
€ million	31.12.2012	31.12.2011	Change
FVH derivatives	754.9	521.8	233.1
Deposit certificates	-	150.0	(150.0)
Cash and cash equivalents	2,510.1	1,114.9	1,395.2
Trade receivables	1,884.1	1,684.0*	200.1
Total	**5,149.1**	**3,470.7**	**1,678.4**

(*) In FY 2011, the balance of trade receivables of the Parent Company Terna S.p.A. is stated, as this is most representative of exposure to the credit risk.

The total value of the exposure to credit rate risk at 31 December 2012 is represented by the carrying amount of financial assets (current and non-current), trade receivables and cash and cash equivalents.

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

GEOGRAPHICAL DISTRIBUTION

	Carrying amount	
€ million	31.12.2012	31.12.2011
Italy	1,854.6	1,654.2
Euro-area countries	4.5	27.2
Other countries	25.0	2.6
Total	**1,884.1**	**1,684.0**

CUSTOMER TYPOLOGY

	Carrying amount	
€ million	31.12. 2012	31.12. 2011
Distributors (*)	380.9	243.4
Electricity Equalisation Fund (**)	216.0	131.3
Input dispatching contractors	227.9	229.4
Withdrawal dispatching contractors (non distributors)	917.1	1,000.2
Parties which have virtual import contracts and virtual import services (interconnectors and shippers)	18.9	12.5
Receivables from unregulated activities	123.3	67.2
Total	**1,884.1**	**1,684.0**

(*) Includes receivable accrued in respect of Terna Rete Italia S.r.l. grid transmission fees.
(**) Of which €212.9 million from volume effect on grid transmission fees.

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

	31.12.2012		31.12.2011	
€ million	Allowance for impairment accounts	Gross	Allowance for impairment accounts	Gross
Not yet past due	-	1,491.5	-	1,560.0
0-30 days past due	-	321.0	-	50.0
31-120 days past due	(3.7)	36.2	-	37.9
More than 120 days past due	(22.8)	61.9	(23.6)	59.7
Total	**(26.5)**	**1,910.6**	**(23.6)**	**1,707.6**

Changes in the provision for bad debts in the course of the year were as follows:

€ million	2012	2011
Balance at 1 January	(23.6)	(23.5)
Reversal of provision	0.8	-
Impairment for the year	(3.7)	(0.1)
Balance at 31 December	**(26.5)**	**(23.6)**

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

€ million	2012	2011
Input dispatching activity	240.9	254.6
Withdrawal dispatching activity	897.0	763.0
Grid transmission fees - distributors	169.7	174.8
Virtual importing	99.5	280.2
Balance at 31 December	**1,407.1**	**1,472.6**

Default risk and debt covenants

This risk is associated with the possibility that the loan contracts or bond rules to which the Company is party may contain provisions authorising counterparties to call in such loans immediately upon the occurrence of certain events, thereby generating liquidity risk. For more information on the contractual provisions of outstanding loans at 31 December 2012, please see the section “Loans and financial liabilities” in the notes of Terna S.p.A..

Legal disputes

The main unrecognised commitments and risks of the Parent Company Terna and the subsidiaries Terna Rete Italia S.p.A. and Terna Rete Italia S.r.l. at 31 December 2012 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 suits requesting the transfer or change in operations of allegedly-harmful power lines, even though they were installed in full compliance with applicable legislation (Italian Law no. 36 of 22 February 2001 and Prime Minister’s Decree 8 July 2003). Only a very small number of cases include claims for damages for harm to health caused by electromagnetic fields.
Only in a few cases have adverse judgements been issued against the Parent Company. These have been appealed and the appeals are still pending, 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 risks”. In a limited number of cases, the possibility of an adverse outcome cannot be entirely ruled out. The possible consequences could, in addition to the award of damages, include, inter alia, the costs of modifying lines and the temporary suspension of their use. In any case, any unfavourable outcome would not jeopardise line operations.
Examination of the above litigation, having regard for the information provided by the external legal consultants, suggests that the likelihood of adverse outcomes is remote.

Litigation concerning concession activities

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

Tax Authority

On 27 March 2012 Terna, as jointly and severally responsible with Enel Distribuzione S.p.A. (“Enel Distribution”), received a notice for the payment of greater taxes due as a result of the sale transaction of the holding owned by Enel Distribuzione in Elat S.r.l. (later Telat S.r.l., today Terna Rete Italia S.r.l.) to Terna S.p.A. (for the amount of approximately €38 million, including interest). According to the provisions of the investment sale contract, Enel Distribuzione S.p.A. must release Terna of obligations regarding all costs, liabilities and any damages resulting from the aforementioned notice and the points contested therein. Enel Distribuzione, acting in agreement with Terna, intends on taking the necessary steps to safeguard its own claim, holding Terna exempt from all payments/advances. Therefore, on the basis of the contractual agreements, confirmed by Enel Distribuzione in a letter dated 17 April 2012, Terna does not believe that any financial expenditure will result from the notice in question.
In addition, on 17 May 2012, the Provincial Tax Commission of Rome ordered the temporary suspension of the aforementioned payment notice until the result of the appeal hearing. On 03 December 2012, the hearing was duly held in relation to the dispute underway before Chambers I of the Rome Provincial Tax Commission, which has now adjourned to decide on another date.

F. Business combinations

There were no business combinations during 2012.

G. Related-party transactions

The Terna Group's transactions with related parties during the year, taking account of the de facto control exercised by Cassa Depositi e Prestiti S.p.A. ascertained in 2007, regarded the associate company Cesi S.p.A., the employee pension funds (Fondenel and Fopen), with said Cassa Depositi e Prestiti, as well as companies belonging to:

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

and with ANAS S.p.A..

Given that Terna S.p.A. and the aforementioned subsidiaries directly or indirectly controlled by the Ministry for the Economy and Finance fall within the definition of Government-related entities as per IAS 24 - Related party disclosures, the Group adopts the exemption provided by the same standard, which establishes a partial exemption from the disclosure requirements of transactions with other companies controlled, connected or under joint control of the same government body; in particular, the qualitative and quantitative indications of transactions with Government-related entities which have a significant impact on the Group's results are reported below; under this scope, the amounts relating to "pass-through items" are not represented.
Related party transactions in 2012 are mainly services that are part of core business and regulated by market conditions.

Below is an explanation of the nature of the transactions implemented by the Terna Group with related parties and the respective income and expense totalled during the year, in addition to the respective receivables and payables in place as of 31 December 2012:

Related party	Revenue transactions	Cost transactions
Cassa Depositi e Prestiti S.p.A.		**Non energy-related items** Credit line
Cesi S.p.A.	**Non-energy-related items** Lease of laboratories and similar structures for specific purposes	**Non-energy-related items** Technical consultancy, studies and research, projects and experimentation
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	**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** Line moving	**Energy-related items** NTG remuneration **Non-energy-related items** Right-of-way fees
Anas S.p.A.	**Non-energy-related items** Line moving/variants	**Non-energy-related items** Right-of-way fees
Fondenel and Fopen		**Non-energy-related items** Pension contributions borne by the Terna Group

Company € million	Income statement – Income items – Grid transmission fees and other energy-related items	Income statement – Income items – Non energy-related items	Income statement – Income items – Dividends	Income statement – Expenses – Grid transmission fees and other energy-related items	Income statement – Expenses – Non energy-related items
De facto parent company					
Cassa Depositi e Prestiti S.p.A.	-	-	-	-	10.4
Total de facto parent company	**-**	**-**	**-**	**-**	**10.4**
Associates:					
Cesi S.p.A.	-	0.2	-	-	1.4
Total associates	**-**	**0.2**	**-**	**-**	**1.4**
Other related companies:					
GSE Group	41.2	0.4	-	-	-
Enel Group	1,240.7	1.0	-	-	2.2
Eni Group	7.2	0.4	-	-	-
Ferrovie Group	2.7	-	-	6.6	-
ANAS S.p.A.	-	0.1	-	-	-
Total other related companies	**1,291.8**	**1.9**	**-**	**6.6**	**2.2**
Pension funds:					
Fondenel					0.3
Fopen	-	-	-	-	0.6
Total pension funds	**-**	**-**	**-**	**-**	**0.9**
Total	**1,291.8**	**2.1**	**-**	**6.6**	**14.9**

Company € million	Statement of financial position – Property plant and equipment – Capitalised costs	Receivables and other assets – Other	Receivables and other assets – Financial	Payables and other liabilities – Other	Payables and other liabilities – Financial	Guarantees*
De facto parent company:						
Cassa Depositi e Prestiti S.p.A.	-	-	0.3	-	501.1	-
Total de facto parent company	**-**	**-**	**0.3**	**-**	**501.1**	**-**
Associates:						
Cesi S.p.A.	14.2	0.2	-	10.2	-	3.2
Total associates	**14.2**	**0.2**	**-**	**10.2**	**-**	**3.2**
Other related companies:						
GSE Group	-	6.9	-	-	-	-
Enel Group	4.2	413.0	-	6.5	-	365.0
Eni Group	-	1.6	-	-	-	19.3
Ferrovie Group	0.1	0.9	-	1.5	-	22.0
ANAS S.p.A.	-	2.3	-	2.1	-	-
Total other related companies	**4.3**	**424.7**	**-**	**10.1**	**-**	**406.3**
Pension funds:						
Fopen	-	-	-	0.2	-	-
Total pension funds	-	-		**0.2**	-	-
Total	**18.5**	**424.9**	**0.3**	**20.5**	**501.1**	**409.5**

(*) 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 - with the exception of those described above - were carried out during 2012, either with third parties or with related parties.

I. Notes to the statement of cash flows

The cash flow generated from **continuing operations** in the year amounted to around €611.9 million, which reflects around €1,438.8 million in cash from operating activities (self-financing) and around €826.9 million in financial resources generated by the management of net working capital.

Investing activities used net financial resources of around €1,145.0 million, and included €1,156.3 million of investment in property, plant and machinery (€1,181.1 million net of plant grants totalling €24.8 million) and €54.1 million of investment in intangible assets. The following is also noted in this context:

- other changes to property, plant and machinery mainly referring to the impairment of tangible fixed assets in the amount of €43 million in connection with the capitalisation carried out during previous years against allocations made to the risk provision "Projects for urban and environmental renewal" currently deemed unlikely;
- increase of investments in the associate CESI (€6.4 million, which also considers the purchase in May 2012 of additional shares from Enel S.p.A. for approximately 0.292% of the share capital) and CGES (€0.3 million).

The net change in **loan flows** mainly derives from the net increase in borrowings (€2,330.4 million), net of the disbursement of the 2011 dividend balance (€261.3 million) and the 2012 interim dividend (€140.7 million). More specifically, with reference to effective financial debt, we note the increased medium/long-term payables (€2,180.4 million, including the short-term share and net of FVH derivatives) mainly for the bonds issued in February and October for nominal values of €1,250 and €750 million (totalling €1,991 million at 31 December 2012 net of initial expenses and issue discounts) and by virtue of the adjustment to fair value of the bond loans (€234.0 million, including the amortised cost) and the capitalisation of period inflation connected with the IL bond (€14.8 million).

Therefore, considering the financial resources used in for investing activities and the remuneration of equity, total financial requirements came to €1,547.1 million in the year, part of which (€611.9 million) was covered by the cash flows generated by operating activities, and remainder through new borrowings.

L. Subsequent events

Terna, the only Italian electric company to be in the world Gold Class of sustainability

On **23 January 2013**, Terna is the only Italian electric company, for the second year running, to be in the Gold Class of RobecoSam - Sustainability Yearbook 2013, the yearbook of the international ratings agency that screens companies, assessing their possible access, continuation in or exclusion from the prestigious Dow Jones Sustainability indexes according to an ethical analysis that involves a review of the main disputes and the verification of compliance with severe economic, environmental and social performance criteria.

AEEG resolutions on pilot projects relating to storage systems

On **11 February 2013**, AEEG (the Italian Regulatory Authority for Electricity and Gas) published resolution 43/2013, concerning the "*Approval of the pilot projects relating to storage systems to be developed on the national transmission grid, coming under the programme for the adjustment of the safety and defence systems 2012-2015*".
In supplementing the definitions given in Resolution no. 288/2012/R/eel, the provision distinguishes between the pilot projects on the NTG, dividing them into two types:

- ***energy intensive:***
  "*project of limited size but in any case suited to being able to carry out significant experiments, which entails the development of electricity storage systems using batteries connected to the electricity transmission grid, which can be relocated (hereinafter: portable), intended to ensure, as far as possible - whilst awaiting the necessary grid strengthening - the release onto the grid of electricity produced by NPRS; said systems must be complementary to a dynamic grid control system*"
- ***power intensive:***
  "*the two projects of a maximum size of 8 MW each, envisaged as part of the 2012-2015 Defence Plan approved by the MED, as per the Communication of 21 December 2012, which entail the installation of electrochemical type storage systems with power intensive characteristics in Sicily and Sardinia*"
  has established the admission of the two power intensive pilot projects for the incentive treatment pursuant to paragraph 22.5, letter d) of the Integrated Transmission Text. The provision has established a two-year experimentation period and has set out the conditions for the remuneration of the two projects mentioned, moreover sanctioning the need to guarantee separate booking of the economic and equity items relative to each power intensive project admitted to the incentives.

On **21 February 2013**, the AEEG also published Resolution 66/2013 whereby it arranged for the approval and admission to incentives of six energy intensive pilot projects in relation to Storage Systems coming under the scope of two critical directives indicated in the 2011 Development Plan approved by the Ministry of Economic Development on 02 October 2012, in accordance with that established by Italian Legislative Decree no. 28 of 03 March 2011.

Terna rewarded as the best European utility company in terms of total shareholder return

On **11 March 2013**, Terna was awarded the "International Utility Award 2013" in London by the Edison Electric Institute (EEI) of Washington DC (US). The award named the company the best of European utility companies in terms of total shareholder return (TSR) in the last three years. In the three years 2010-2012, Terna's return has in fact stood at 24% as compared with average returns in the industry and the Italian index that were decidedly negative (DJ Stoxx -10%, Ftse Mib -21%).

Terna's rating

On **13 March 2013**, Fitch Ratings reduced the Long-Term Issuer Default Rating (IDR) and the Senior Unsecured Rating of Terna S.p.A. to "A-" from "A". The outlook assigned to the IDR remains negative.

Disclosure pursuant to art. 149-*duodecies* of the CONSOB Issuers Regulation

The following table, prepared in accordance with Art. 149-*duodecies* of the CONSOB Issuers Regulations, reports the fees for 2012 for the audit and non-audit services provided to the Terna Group by the same auditing company.

In euros	Entity providing service	Fees due for the year
Statutory audit	PWC	345,922.00
Attestation services	PWC*	157,800.00
Total		**503,722.00**

* includes services provided by other entities of the PWC network.

Certification of the consolidated financial statements pursuant to Art. 81 ter of CONSOB Regulation no. 11971 dated 14 May 1999 and subsequent amendments and additions

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

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

2. The assessment of the suitability of the administrative and accounting procedures for the preparation of the consolidated financial statements as at 31 December 2012, is based on a set of standards and methodologies defined by Terna S.p.A. in line with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, which represents a set of reference standards for the internal control and risk management system, generally accepted worldwide.

3. It is also specified that:

   3.1. the consolidated financial statements at 31 December 2012:

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

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

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

   3.2. the report on operations includes a reliable analysis of the trend and operating result, in addition to the position of the issuer and all businesses included in the scope of consolidation and a description of the main risks and uncertainties to which they are exposed.

Rome, 15 March 2013

Delegated administrative bodies
(Falvio Cattaneo)

Executive in Charge of the preparation of
the Company's accounting documents
(Luciano Di Bacco)

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

Report

Auditors' Report in accordance
with Articles 14 and 16 of Legislative Decree no. 39 of 27 January 2010
Consolidated Financial Statements as of 31 December 2012

pwc

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010

To the Shareholders of
Terna SpA

1. We have audited the consolidated financial statements of Terna SpA and its subsidiaries ("Terna Group") as of 31 December 2012 which comprise the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related notes. The directors of Terna SpA are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards, as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree No. 38/2005. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for listed Companies and Stock Exchange. Those standards require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference is made to our report dated 18 April 2012.

3. In our opinion, the consolidated financial statements of Terna Group as of 31 December 2012 comply with the International Financial Reporting Standards, as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree No. 38/2005; accordingly, they have been prepared clearly and give a true and fair view of the financial position, result of operations and cash flows of Terna Group for the year then ended.

4. The directors of Terna SpA are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the information referred to in paragraph 1, letters c), d), f), l), m),

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.812.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70124 Via Don Luigi Guanella 17 Tel. 0805640211 - **Bologna** Zola Predosa 40069 Via Tevere 18 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Dante 7 Tel. 01029041 - **Napoli** 80121 Piazza dei Martiri 58 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 0498733481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Via Grazioli 73 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Verona** 37135 Via Francia 21/C Tel.0458263001

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and paragraph 2, letter b), of article 123-bis of Legislative Decree No. 58/98 presented in the report on corporate governance and ownership structure, with the financial statements, as required by law. For this purpose, we have performed the procedures required under Italian Auditing Standard 1 issued by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili) and recommended by Consob. In our opinion, the report on operations and the information referred to in paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), of article 123-bis of Legislative Decree No. 58/98 presented in the report on corporate governance and ownership structure are consistent with the consolidated financial statements of Terna Group as of 31 December 2012.

Rome, 16 April 2013

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

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

Separate financial statements

at 31 December 2012

Terna

Contents

Separate financial statements at 31 December 2012

Separate financial statements

Terna S.p.A. Income Statement*

In euros	Notes	2012	2011
A. Revenue			
1. Revenue from sales and services	1	1,571,587,371	1,515,963,890
of which: related parties		*1,329,485,410*	*1,505,504,944*
2. Other revenue and income	2	88,232,458	37,957,250
of which: related parties		*23,943,015*	*1,138,348*
Total revenue		**1,659,819,829**	**1,553,921,140**
B. Operating expenses			
1. Raw materials and consumables	3	19,158,663	34,095,767
of which: related parties		-	*2,713*
2. Services	4	314,702,350	165,829,664
of which: related parties		*236,957,848*	*4,156,148*
3. Personnel expenses	5	81,864,726	214,240,270
- gross personnel expenses		*100,406,161*	*278,496,018*
- personnel expenses, capitalised		*(18,541,435)*	*(64,255,748)*
of which: related parties		*1,133,842*	*2,754,498*
4. Amortisation, depreciation and impairment	6	373,657,290	348,882,118
5. Other operating expenses	7	41,297,358	18,078,990
of which: related parties		-	*329,064*
Total operating expenses		**830,680,387**	**781,126,809**
A-B Operating profit (EBIT)		**829,139,442**	**772,794,331**
C. Financial income/expense			
1. Financial income	8	168,958,289	157,668,834
of which: related parties		*19,576,720*	*20,693,596*
2. Financial expense	8	(188,308,377)	(166,480,603)
of which: related parties		*(12,046,393)*	*(10,898,440)*
D. Profit before taxes		**809,789,354**	**763,982,562**
E. Income taxes	9	**346,555,940**	**344,213,830**
F. Profit for the year from continuing operations		**463,233,414**	**419,768,732**
G. Profit for the year from discontinued operations and assets held for sale	10	**-**	**33,818,822**
H. Profit for the year		**463,233,414**	**453,587,554**

(*) For FY 2011, the amounts include all related party transactions; for FY 2012, as envisaged by IAS 24R, the amounts connected with related parties, as concerns operations between "government related entities" refer to the relations that have a significant impact on the results of Terna S.p.A.; differently to that stated in the disclosure as at 31 December 2011, no information is therefore given in connection with insignificant operations over and above "pass-through items".

Terna S.p.A. statement of comprehensive income

In euros	Notes	2012	2011
Profit for the year		**463,233,414**	**453,587,554**
Other comprehensive income for the year			
- Cash flow hedges net of tax effect	20	(18,228,099)	(34,685,551)
Comprehensive income for the year		**445,005,315**	**418,902,003**

Terna S.p.A. statement of financial position
Assets*

In euros	Notes	at 31.12.2012	at 31.12.2011
A. Non-current assets			
1. Property, plant and equipment	11	8,202,762,360	7,514,015,690
of which: related parties		*60,665,688*	*37,215,423*
2. Goodwill	12	88,577,142	88,577,142
3. Intangible assets	13	275,009,001	273,976,474
4. Non-current financial assets	14	1,933,752,467	1,644,659,308
of which: related parties		*500,000,000*	*500,000,000*
5. Other non-current assets	15	2,270,927	6,556,985
Total non-current assets		**10,502,371,897**	**9,527,785,599**
B. Current assets			
1. Inventories	16	-	12,385,102
2. Trade receivables	17	1,862,343,604	1,684,024,162
of which: related parties		*439,636,382*	*125,827,102*
3. Current financial assets	14	23,159,655	158,185,137
of which: related parties		*2,130,298*	*3,028,213*
4. Cash and cash equivalents	18	2,494,454,606	1,114,355,077
5. Income tax assets	19	18,550,327	4,200,000
6. Other current assets	15	53,793,739	17,039,991
of which: related parties		-	*3,894*
Total current assets		**4,452,301,931**	**2,990,189,469**
Total assets		**14,954,673,828**	**12,517,975,068**

Terna S.p.A. statement of financial position
Liabilities*

In euros	Notes	at 31.12.2012	at 31.12.2011
C. Equity			
1. Share capital		442,198,240	442,198,240
2. Other reserves		749,712,904	766,874,399
3. Retained earnings		1,084,725,786	1,053,482,789
4. Interim dividend		(140,699,440)	(160,799,360)
5. Profit for the year		463,233,414	453,587,554
Total Equity	20	**2,599,170,904**	**2,555,343,622**
D. Non-current liabilities			
1. Long-term loans	21	8,909,431,457	6,738,696,429
of which: related parties		*500,000,000*	*500,000,000*
2. Employee benefits	22	13,852,246	119,228,211
3. Provisions for risks and charges	23	121,777,188	142,222,950
4. Deferred tax liabilities	24	129,607,404	169,082,674
5. Non-current financial liabilities	21	141,201,714	111,425,992
6. Other non-current liabilities	25	210,527,428	129,109,886
of which: related parties		*87,011,273*	-
Total non-current liabilities		**9,526,397,437**	**7,409,766,142**
E. Current liabilities			
1. Short-term loans	21	249,742,964	181,311,199
of which: related parties		*249,742,964*	*181,311,199*
2. Current portion of long-term loans	21	69,366,487	59,689,067
3. Trade payables	26	2,270,679,950	2,047,720,626
of which: related parties		*497,940,249*	*65,596,362*
4. Tax liabilities	26	50,348,616	88,143,944
5. Current financial liabilities	21	75,281,960	40,114,622
of which: related parties		*1,136,889*	*2,406,806*
6. Other current liabilities	26	113,685,510	135,885,846
of which: related parties		*2,498,985*	*3,962,547*
Total current liabilities		**2,829,105,487**	**2,552,865,304**
Total liabilities and equity		**14,954,673,828**	**12,517,975,068**

(*) For FY 2011, the amounts include all related party transactions; for FY 2012, as envisaged in IAS 24R, the amounts relating to related parties as regards transactions between "government-related entities" refer to relations that have a significant impact on the results of Terna S.p.A..

Statement of changes in equity

31 DECEMBER 2011 - 31 DECEMBER 2012 SHARE CAPITAL AND RESERVES TERNA S.P.A.

€ million	Share/quota capital	Legal reserve	Share premium reserve	Hedging reserve	Other reserves	Retained earnings	Interim dividend	Profit for the year	Equity
Equity 31 December 2011	**442.2**	**88.2**	**20.0**	**(70.0)**	**728.7**	**1,053.4**	**(160.8)**	**453.6**	**2,555.3**
Profit for the year								**463.2**	**463.2**
Other comprehensive income:									
Change in fair value of derivatives and cash flow hedges, net of tax effect				(18.2)					(18.2)
Total other comprehensive income	**-**	**-**	**-**	**(18.2)**	**-**	**-**	**-**	**-**	**(18.2)**
Comprehensive income	**-**	**-**	**-**	**(18.2)**	**-**	**-**	**-**	**463.2**	**445.0**
Transactions with equity owners:									
Allocation of 2011 profit									
- *Dividends*							*160.8*	*(422.1)*	*(261.3)*
- *Retained earnings*		*0.2*				*31.3*		*(31.5)*	-
2012 interim dividend							(140.7)		(140.7)
Transfer to Terna Plus					0.8				0.8
Total transactions with equity owners and other transactions	**-**	**0.2**	**-**	**-**	**0.8**	**31.3**	**20.1**	**(453.6)**	**(401.2)**
Equity at 31 December 2012	**442.2**	**88.4**	**20.0**	**(88.2)**	**729.5**	**1,084.7**	**(140.7)**	**463.2**	**2,599.1**

31 DECEMBER 2010 - 31 DECEMBER 2011 SHARE CAPITAL AND RESERVES TERNA S.P.A.

€ million	Share/quota capital	Legal reserve	Share premium reserve	Hedging reserve	Other reserves	Retained earnings	Interim dividend	Profit for the year	Equity
Equity 31 December 2010	**441.0**	**88.0**	**8.6**	**(35.3)**	**729.7**	**1,043.2**	**(160.4)**	**432.1**	**2,546.9**
Profit for the year								**453.6**	**453.6**
Other comprehensive income:									
Change in fair value of derivatives and cash flow hedges, net of tax effect				(34.7)					(34.7)
Total other comprehensive income	**-**	**-**	**-**	**(34.7)**	**-**	**-**	**-**	**-**	**(34.7)**
Comprehensive income	**-**	**-**	**-**	**(34.7)**	**-**	**-**	**-**	**453.6**	**418.9**
Transactions with equity owners:									
Allocation of 2010 profit									
- *2010 dividend*							*160.4*	*(421.7)*	*(261.3)*
- *2010 retained earnings*		*0.2*				*10.2*		*(10.4)*	-
Exercise of stock options	1.2		11.4		(1.0)				11.6
2011 interim dividend							(160.8)		(160.8)
Total transactions with equity owners	**1.2**	**0.2**	**11.4**	**-**	**(1.0)**	**10.2**	**(0.4)**	**(432.1)**	**(410.5)**
Equity at 31 December 2011	**442.2**	**88.2**	**20.0**	**(70.0)**	**728.7**	**1,053.4**	**(160.8)**	**453.6**	**2,555.3**

Statement of cash flows*

€ million	2012	2011
Profit for the year	**463.2**	**453.6**
Adjustments for:		
Amortisation, depreciation, impairment losses/(reversals of impairment losses) on property, plant and equipment and intangible assets**	355.7	340.2
Provisions (including employee-related provisions) and impairment losses	49.2	49.2
(Gains)/Losses on disposals of property, plant and equipment	(5.9)	(3.9)
Financial (income)/expenses	20.7	10.0
Income taxes	345.2	345.3
Cash flows generated by operating activities, before changes in net working capital	**1,228.1**	**1,194.4**
Increase/(Decrease) in provisions (including employee-related and tax provisions)	(156.8)	(79.4)
(Increase)/decrease in inventories	12.4	(1.0)
(Increase)/decrease in trade receivables and other current assets	(229.0)	(36.4)
Increase/(decrease) in other non-current liabilities	291.0	1.1
(Increase)/decrease in other non-current assets	(448.0)	(533.8)
Increase/(Decrease) in trade payables and other current liabilities	261.0	572.2
Interest income and other financial income received	305.3	111.9
Dividend received	60.7	100.0
Interest expense and other financial expense paid	(400.1)	(219.6)
Income taxes paid	(431.4)	(347.1)
Cash flows generated by operating activities [a]	**493.2**	**762.3**
Investments in property, plant and equipment, net of recognised grants	(1,088.6)	(1,110.9)
Revenue from sale of property, plant and equipment and other changes	71.7	7.4
Investments in intangible assets, net of grants received	(53.8)	(49.7)
Intra-group transactions	16.1	(18.0)
(Increase)/decrease in equity interests	(56.1)	(39.0)
Cash flows used in investing activities [b]	**(1,110.7)**	**(1,210.2)**
Changes in share capital	-	1.2
Changes in reserves	0.8	10.4
Dividends paid	(402.0)	(422.1)
Change in medium/long-term financial payables (including short-term portions)***	2,180.4	1,518.1
Changes in short-term financial investments and the net financial position of the intercompany current a/c	218.4	31.3
Assets held for sale	-	254.6
Cash flows generated by financing activities [c]	**1,997.6**	**1,393.5**
Increase/(Decrease) in cash and cash equivalents [a+b+c]	**1,380.1**	**945.6**
Opening cash and cash equivalents	1,114.3	168.7
Closing cash and cash equivalents	2,494.4	1,114.3

(*) For comments on the Statement of Cash Flows, please see the section “Notes to the Statement of Cash Flows” in the “NOTES TO THE FINANCIAL STATEMENTS”.
(**) Net of set-up grants taken to income statement for the year.
(***) Net of FVH derivatives.

Notes to the Separate Financial Statements

A. Accounting policies and measurement criteria

Introduction

Terna S.p.A., which operates in the electrical energy transmission and dispatching sector, is a public limited company headquartered in Viale Egidio Galbani 70, Rome, Italy.
These Separate Financial Statements were authorised for publication by the Directors on 15 March 2013.

The Separate Financial Statements for the year ended 31 December 2012 are available on demand at Terna S.p.A.'s offices at Viale Egidio Galbani, 70 Rome or on the website www.terna.it.

Compliance with IAS/IFRS

The separate financial statements have been prepared in accordance with 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.
This document has also been prepared by taking into account the provisions of Legislative Decree no. 38 of 28 February 2005, the Italian Civil Code and CONSOB Resolutions nos. 15519 (*"Provisions governing financial statements in implementation of Art. 9, paragraph 3, of Legislative Decree no. 38/2005"*) and 15520 (*"Amendments to the implementing rules for Legislative Decree no. 58/1998"*), both of 27 July 2006, as well as CONSOB Communication no. DEM/6064293 of 28 July 2006 (*"Disclosure requirements for listed issuers and issuers of financial instruments that are widely held among the public and pursuant to Art. 116 of the Consolidated Financial Act"*).

The separate financial statements have been prepared on a historic cost basis, modified where necessary for certain financial instruments, as well as on a going concern basis. The Company has determined that, despite the challenging economic and financial environment, it does not face material uncertainties (as defined in paragraph 25 of IAS 1R) that might cast doubt on its ability to continue as a going concern.

Basis of presentation

The separate financial statements consist of the statement of financial position, the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity and the notes thereto.
In the statement of financial position, assets and liabilities are classified on a "current/non-current" basis, with separate reporting of assets and liabilities held for sale. Current assets, which include cash and cash equivalents, are those held for realisation, sale or consumption in the Company's normal operating cycle. Current liabilities are those expected to be settled in the Company's normal operating cycle or within one year from the reporting date.
The income statement is classified on the basis of the nature of costs. The income statement is presented as two statements, the first of which (income statement) presents the components of profit or loss for the year; while the second (statement of comprehensive income) starts with the result for the year and then presents the revenue and expense items (including reclassification adjustments) that are recognised in equity rather than profit or loss for the year.
The statement of cash flows has been prepared using the indirect method.
The separate financial statements are accompanied by the Directors' Report on Operations for the company and Group, which as from the 2008 financial year has been prepared as a single document, exercising the option granted under Legislative Decree no. 32 of 2 February 2007, which amended Art. 40 (Directors' Report on Operations) of Legislative Decree no. 127 of 9 April 1991.
The financial statements have been prepared in euros, while the figures in the notes are given in millions of euros, unless otherwise specified.
The financial statements have been prepared using the historic cost method, with the exception of captions that are recognised at fair value in accordance with IFRS-EU, as indicated in the accounting policies for each caption.
It is specified that some comparative balances of the financial statements at 31 December 2011, provided for comparison, have been reclassified, without, however, altering the equity values at 31 December 2011 and those of the income statement for 2011.

Use of estimates

The preparation of the statement of financial position and income statement in accordance with the IFRS-EU requires the use of estimates and assumptions that affect the carrying amounts of assets and liabilities and related disclosures, in addition to 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 other objective sources. Actual results may differ from these estimates. 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 year and future years, the change is recorded in the year in which the estimate is reviewed as well as in the relative future years.
The critical areas for key estimates and assumptions used by management in applying the IFRS endorsed by the European Commission that could have significant effects on the separate financial statements or that could give rise to risks that would entail significant adjustments to the carrying amounts of assets and liabilities in subsequent years are summarised below.

Employee benefits

The liability for employee benefits paid upon or following termination of employment in relation to defined benefit plans or other long-term benefits is recognised net of any plan assets and is measured on the basis of actuarial assumptions, estimating the amount of future benefits that employees have vested at the reporting date. The main actuarial standards used to quantify employee benefits are based on economic and demographic assumptions: discounting rate (used to determine the current value of the obligation, determined considering the return of high quality bond securities in line with the duration of the group of workers measured), inflation rate, rate at which future salary levels increase, increase rate of average health reimbursement, increase rate of electric consumer goods prices and demographic techniques, such as, for example, mortality and invalidity, retirement, resignation, advances and family members.
Actuarial gains and losses in excess of 10% of the greater of the present value of the defined benefit plan obligation and the fair value of plan assets are taken to the income statements for the average expected term of service of employees participating in the plan. Otherwise, actuarial gains and losses are not recognised.

Provisions for risks and charges

The liabilities that can be associated with legal and tax disputes and the liabilities associated with urban and environmental renewal are estimated by the company management. The measurement of allocations for disputes is based on the probability of incurring an expense, including the use of external lawyers supporting the company; the estimate of allocations to be made for urban and environmental renewal, the so-called compensation aimed at offsetting the environmental impact of the development of electrical lines, is based on an analysis of the agreements signed with local entities involved and the progress of activities on the development of the new lines. Where a financial component related to the passing of time is significant, allocations are discounted, using a rate that company management believes to be appropriate (a rate is used gross of tax, so as to reflect current market values of money and the specific risks connected with the liability). After the initial booking, the value of the risk provision is updated to reflect the passing of time and any changes in the estimate following alterations to the amounts envisaged, the timing and the discounting rates used. Any increase in provisions associated with the passage of time is taken to the income statement under “Financial expense”.

Impairment losses

Property, plant and equipment and intangible assets with finite useful lives are tested at least once a year to check for evidence of impairment. If there is an indication that an asset may be impaired, its recoverable amount is estimated.
The recoverable amount of goodwill and intangible assets with indefinite useful lives, where present, as well as intangible assets not yet available for use, is estimated at least annually.
The recoverable amount is equal to the greater of fair value less costs to sell and value in use. Value in use is measured by discounting estimated future cash flows considering information available at the time of estimate and on the basis of subjective assessments of the performance of future variables, such as prices, costs, demand growth rates, production profiles, and discounted at a pre-tax rate that reflects current market assessment of the time value of money for the investment period and risks specific to the asset. If the intangible asset does not generate cash inflows that are largely independent, the asset’s recoverable amount is calculated as part of the CGU to which it belongs.
An impairment loss is recognised in the income statement when the asset’s book value, or the net invested capital of the CGU to which it belongs, is greater than its recoverable amount.
Impairment losses of CGUs are first taken as a reduction in the carrying amount of any allocated goodwill and then as a reduction in other assets of the CGU on a pro rata basis. Except for goodwill, impairment losses may be reversed up to the recoverable amount if there is an indication that the impairment loss no longer exists or when there is a change in the methods used to measure recoverable amount.

Allowance for impairment accounts

Trade receivables are initially recognised at fair value net of any impairment losses relating to sums considered non recoverable, which are taken to the specific allowance for impairment accounts. Impairment losses are measured on the basis of the present value of estimated future cash flows, discounted at the original effective interest rate.

Investments in subsidiaries and associates

Investments in subsidiaries are those in entities over which Terna has the power to directly or indirectly govern financial and operating policies so as to obtain benefits from their activities. Investments in associates are those in entities over which Terna has significant influence.

In assessing whether or not the Company has control or significant influence, potential voting rights that are presently exercisable or convertible are considered.

Investments in subsidiaries and associates are measured at cost, reduced to reflect impairment losses. If the reasons for the impairment losses no longer exist, the carrying amount of the investment is reinstated within the limits of the impairment losses, and the reversal is taken to profit or loss.

In the event that an investee's losses attributable to the shareholders of the Parent Company exceed that investments' carrying amount, any excess is recognised in a specific provision, where the Parent Company is required to meet the legal or construction obligations of the investee or, in any case, to cover its losses.

Translation of foreign currency items

Terna S.p.A. prepares its financial statements in euros, which is also the functional currency. In these financial statements, all transactions in currencies other than the functional currency are recognised at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities in currencies other than the functional currency are subsequently adjusted at the exchange rate prevailing at year end. Any exchange rate differences are taken to profit or loss.

Non-monetary assets and liabilities in foreign currency stated at historic cost are converted at the exchange rate prevailing when the transaction was initially recognised. Non-monetary assets and liabilities in foreign currency stated at fair value are converted at the exchange rate prevailing when fair value was measured.

Property plant and equipment

Property, plant and equipment are recognised at historic cost, including costs directly attributable to putting the asset in the condition necessary for it to be capable of operating in the manner for which it was acquired. In the event of legal or constructive obligations, cost also includes the present value of the estimated cost of disposal or removal of the asset. The corresponding liability is recognised in the provisions for risks and charges. Borrowing costs directly attributable to the acquisition, construction or production of an asset that qualify for capitalisation pursuant to IAS 23R are capitalised as part of the cost of the asset. For more information, please see the section "Financial income and expense" below.

Costs incurred after purchase are recognised as an increase in the carrying amount of the asset to which they relate if it is probable that the future benefits of that cost will flow to the Company and if the cost can be reliably measured. All other costs are recognised in profit or loss when incurred.

Each element of an item of property, plant and equipment of material value, with respect to the total value of the item to which it belongs, is recognised and depreciated separately.

Certain assets that were revalued at 1 January 2005 (transition date) or previously are recognised at the revalued amount, which is considered deemed cost at the date of the revaluation. Certain assets that were revalued at 1 January 2005 (transition date) or previously are recognised at the revalued amount, which is considered deemed cost at the date of the revaluation.

Property, plant and equipment are shown net of accumulated depreciation and any impairment losses, which are measured as described below. Depreciation is calculated on a straight-line basis over the estimated useful economic life of the asset, which is reviewed annually, with revisions applied on a prospective basis. The depreciation of assets begins when the assets become available for use.

Liabilities associated with items of property, plant and equipment are taken to a specific provision as a balancing entry to the related asset. The amount is taken to profit or loss through the depreciation of the asset.

The main depreciation rates calculated on the basis of the related asset's useful life are as follows:

DEPRECIATION RATES

Civil and industrial buildings	2.50%
Transmission lines	2.50%
Transformer stations:	
- Electrical machinery	2.38%
- Electrical equipment and devices	3.13%
- Automation and control systems	6.70%
Central systems for remote management and control:	
- Devices, electrical equipment and ancillary plants	5.00%
- Electronic calculation equipment	10.00%

Land, regardless of whether it is free of construction or related to civil and industrial buildings, is not depreciated, since it has an indefinite useful life.
Property, plant and equipment acquired under finance leases, through which the Company has acquired substantially all the risks and rewards of ownership, are recognised as Company assets at the lower of fair value and the present value of minimum lease payments due, including any amounts to be paid to purchase the asset at the end of the lease. The corresponding liability to the lessor is recognised under financial payables. Assets are depreciated using the criteria and rates described above. If the company is not reasonably certain that it will acquire ownership at the end of the lease, the asset is depreciated over the shorter of the term of the lease and the asset's useful life.
Leases in which the lessor maintains substantially all the risks and rewards of ownership are classified as operating leases. Costs related to operating leases are taken in full to profits or losses over the term of the lease.

Intangible assets

Intangible assets, which all have finite useful lives, are recognised at cost, having obtained, if necessary, the approval of the Board of Statutory Auditors, and shown net of accumulated amortisation and any impairment losses, measured as described below.
Amortisation begins when the asset becomes available for use and is calculated on a straight-line basis over the estimated useful life of the related asset, which is reviewed annually. Any revisions to estimated figures are applied on a prospective basis.

Intangible assets essentially regard the exclusive license to carry out electricity transmission and dispatching activities and other intangible assets. In particular, Terna S.p.A. obtained the license for electricity transmission and dispatching activities in Italy on 1 November 2005 when it acquired the TSO business unit. As established in the Decree issued by the Ministry of Productive Activities on 20 April 2005, this license runs for twenty-five years, renewable for another twenty-five years, from the date of effective transfer of the activities, functions, assets and legal arrangements of the concession from GSE (formerly GRTN) to Terna S.p.A.. This intangible asset was initially recognised at cost, which reflected fair value.

Other intangible assets mainly relate to the following:
- the development and innovation of application software to manage the electricity invoicing process;
- the development and innovation of application software to protect the electrical system;
- software applications related to the development of the Power Exchange, particularly relating to the registration of operators, consumption units and the development of foreign procedures.

Development costs are capitalised by the Company only if all following conditions are met: costs can be reliably estimated and there are technical possibilities and intent to complete the intangible asset so as for it to be available after use; the asset can be used and it is possible to demonstrate that it will generate probable future economic benefits.
Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset pursuant to IAS 23R are capitalised as part of the cost of the asset. For more information, please see the section "Financial income and expense" below.
These intangible assets are amortised over their estimated residual useful life, which is normally three years, given their rapid obsolescence.

Rights on the infrastructure

IFRIC 12 - Service Concession Arrangements (also "Interpretation") came into force on 1 January 2010. IFRIC 12 specifies the accounting treatment of service concession arrangements, not expressly governed by any specific accounting standard, in order to ensure the consistency and comparability of the financial statements of companies that hold concessions for the delivery of public services. More specifically, the interpretation sets out rules for accounting for the infrastructure used to provide the services under concession, for the costs associated with developing and maintaining such infrastructure, and for the revenue generated by the overall provision of the services. IFRIC 12 does not apply to all arrangements. Its scope is limited to service concession arrangements between public bodies and private operators in which the granter: (1) controls the use of the infrastructure and governs which services are to be provided, the manner in which they are to be provided and the prices of such services and (2) controls any residual interest in the infrastructure at the end of the concession period. The interpretation also applies to infrastructure constructed by or obtained from third parties for the provision of services under the concession, and to existing infrastructure that the granter makes available to the operator in order to provide such services. It does not apply to infrastructure owned and accounted for as property, plant and equipment by the operator prior to entering into the service concession arrangement.

Assisted by external consultants, Terna has performed a detailed study of the applicability of IFRIC 12 and the effects of its adoption on the financial statements, identifying that this interpretation does not apply to the transmission activities aspect of Terna's concession. In particular, neither the concession nor related legislation envisage the NTG's return to public ownership, either via the payment of an indemnity or otherwise. Accordingly, the public sector does not control, whether as owner or as holder of beneficial interests or other rights, any significant residual interest in the NTG's infrastructure at the end of the concession period.

By contrast, the Ministry is entitled to reclaim the operating assets employed directly in dispatching activities at the end of the concession. As such, the Group considers that IFRIC 12 does apply to its dispatching infrastructure since the relevant criteria apply: the services provided are regulated and control exists over the residual interest. More specifically, in view of the rate system for dispatching activities, the intangible asset model has been applied. Consequently, the property, plant and equipment and intangible assets employed in the dispatching activities, carried out under concession, are classified as "Intangible assets", in the "Infrastructure rights" caption, with application of the original amortisation schedule.

The revenue and costs relating to the investment in dispatching activities are recognised with reference to the contracts concerned on a stage-of-completion basis; revenue recognised during the construction phase is limited to the amount of the internal and external construction costs incurred, considering that the fair value of the construction services is equivalent to the construction cost recognised to third-party contractors plus the internal cost of the technical personnel employed on such construction activities.

By contrast, tariff revenue continues to be recognised in accordance with IAS 18 and borrowing costs continue to be capitalised pursuant to IAS 23R.

Inventories

Inventories are recognised and measured at the lower of purchase cost and net estimated realisable value. Cost is calculated as the weighted average cost, including related charges. Net estimated realisable value stands for the estimated price of sale under normal conditions net of completion costs and the estimated costs to sell.

Contract work in progress

When the profit or loss on a contract can be reliably estimated, the related contract costs and revenue are recognised separately in the income statement on a percentage of completion basis. Progress is measured based on the work carried out and measured proportionally to the ratio of costs for the works carried out up to reporting date and total cost of the contract (cost-to-cost). Differences between the value of completed contracts and payments on account received are recognised under statement of financial position assets or liabilities, considering any impairment losses on the work carried out so as to take into account the risks of customers' refusal to recognise the work performed. Expected contract losses are immediately taken to profit or loss.

Contract costs include all those costs that relate directly to the specific contract, as well as fixed and variable costs incurred by the Company as part of normal operations.

Financial instruments

Financial assets

Any financial assets other than financial derivatives that the Company has the positive intention and ability to hold to maturity are recognised at cost at the "settlement date" and which is the fair value of the initial consideration given in exchange, including transaction costs. They are subsequently measured at amortised cost, using the effective interest method, net of any impairment losses, which are determined as the lower of the asset's carrying amount and the present value of estimated future cash flows, discounted using the original interest rate. Financial assets are derecognised when, following their transfer or settlement, the Company is no longer involved in their management and no longer holds the risks and rewards of the transferred or settled instruments.

Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method, and net of any impairment losses due to sums considered non-recoverable, which are taken to the specific allowance for impairment. Impairment losses are measured on the basis of the present value of estimated future cash flows, discounted at the original effective interest rate.
Receivables with due dates that fall under normal commercial terms are not discounted.

Cash and cash equivalents

Cash and cash equivalents are stated at nominal value. They include monetary items, i.e. amounts that are available on demand or with a very short maturity, subject to an insignificant risk and without collection costs.

Trade payables

Trade payables are initially recognised at fair value and subsequently stated at amortised cost. If their due date falls under normal commercial terms, they are not discounted.

Financial liabilities

Financial liabilities other than financial derivatives are recognised at the "settlement date" and measured at fair value, net of directly related transaction costs.
Subsequently, financial liabilities are measured at amortised cost, using the original effective interest method. If the liabilities are covered by fair value hedges, they are adjusted to reflect changes in fair value with respect to the hedged risk.

Derivative financial instruments

Derivatives are recognised at fair value at the trade date and classified as hedges if the relationship between the derivative and the hedged item is formally documented and the hedge is highly effective within a range of 80% to 125%, as initially verified and periodically checked. When derivatives cover the risk of changes in the cash flows of the hedged instruments (cash flow hedges), the part of changes in the fair value qualifying as effective is initially taken to equity and subsequently to profit or loss, in line with the effects of the hedged transaction. The portion of the fair value of the hedging instrument that does not qualify as effective is taken to profit or loss.
When hedging derivatives cover the risk of changes in the fair value of hedged instruments (fair value hedges), they are recognised at fair value in the income statement. Accordingly, the hedged items are adjusted to reflect changes in the fair value associated with the hedged risk.
Changes in the fair value of derivatives that do not meet hedge accounting requirements in accordance with the IFRS-EU are recognised in profit or loss.
Fair value is measured on the basis of official quotations for instruments traded in regulated markets. The fair value of instruments not traded in regulated markets is measured by discounting projected cash flows along a yield curve of interest rates at the reporting date, and by converting amounts in currency other than the euro at the year-end exchange rate.
Financial and non-financial contracts (which are not already measured at fair value) are also analysed to identify any "embedded" derivatives, which must be separated and measured at fair value. This analysis is conducted at the time the entity becomes party to the contract or when the contract is renegotiated in a manner that produces a material change in the original associated cash flows.
The measurement techniques used for derivatives existing at year end did not change with respect to the previous year. Accordingly, the effects in profit or loss and to shareholders' equity of these measurements are essentially attributable to normal market developments, as well as new derivative contracts signed during the year.

Employee benefits

The liability in respect of employee benefits payable upon or after termination of employment relates to defined benefit plans (termination benefits, additional month's pay, indemnity for lack of notice, energy discount, ASEM health benefits and other benefits) or other long-term employee benefits (loyalty bonus) and is recognised net of any plan assets. It is measured separately for each plan on the basis of actuarial calculations that estimate the amount of future benefits that employees have accrued at the reporting date. The liability is recognised on an accruals basis over the vesting period. It is measured by independent actuaries.

Actuarial gains and losses at 1st January 2005 (date of transition to IFRS-EU) were recognised in equity. After that date, unrecognised actuarial gains and losses in excess of 10% of the greater of the present value of the defined benefit plan obligation and the fair value of plan assets are taken to profit or loss for the average expected term of service of employees participating in the plan. Otherwise, actuarial gains and losses are not recognised.

Provisions for risks and charges

Accruals to the provisions for risks and charges are recognised when, at the reporting date, the Company has a legal or constructive obligation towards others as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, accruals are measured by discounting estimated future cash flows using a pre-tax discount rate that reflects current market assessment of the time value of money and those risks specific to the liability, if present. Where discounting is used, the increase in the provision due to the passage of time is recognised in the income statement as interest expense. If the liability relates to property, plant and equipment (site disposal and restoration, for example), the provision is recognised as a balancing entry to the asset to which it relates. The expense is recognised in profit or loss through depreciation of the item of property, plant and equipment to which it relates.

Changes in the estimate are recognised within the income statement for the year in which the change happens, except for those costs expected for dismantling, removal and reclamation, which come as a result of changes in the timing and use of economic resources necessary to extinguish the obligation or attributable to a material change in the discount rate, which are recognised as an increase or reduction of the related assets and recognised in profit or loss through depreciation.

Grants

Grants received in relation to specific assets whose value is recognised under non-current assets are, for plants operating before 31 December 2002, recognised under other liabilities and taken to profit or loss over the depreciation period of the related assets. As of 2003, grants for new plants that have entered operation are recognised as a direct reduction in the value of the related asset.

Grants for operating expenses are expensed in full when the recognition requirements are satisfied.

Revenue

Revenue is recognised when it is probable that the economic benefits deriving from the operation will be used by the enterprise. Depending on the type of transaction, revenue is recognised on the basis of the following specific criteria:

- revenue from the sale of goods is recognised when the material risks and rewards of ownership of the goods have been transferred to the buyer and their total amount can be reliably determined and collected;
- revenue from services rendered is recognised with reference to the stage of completion of the transaction. If revenue cannot be reliably measured, it is recognised to the extent of recoverable costs;
- revenue accrued during the year in respect of contract work in progress is recognised on the basis of the payments agreed for the progress of works using the cost-to-cost method. In addition to contractual payments, project revenue includes any payments in respect of variations, price revisions and incentives, with the latter recognised where it is probable that they will actually be earned and can be reliably determined. Revenue is also adjusted for any penalties for delays attributable to the Company;
- when the recovery of an amount already recognised in revenue is uncertain, the non-recoverable value or the amount whose recovery is no longer probable is recorded as a cost, with recognition of a balancing entry in provisions for risks and charges;
- amounts collected on behalf of third parties, such as the fees paid to non-Terna grid owners, as well as revenue recognised for managing activities related to the balancing of the National Electrical System, which do not increase equity, are reported net of the related costs. This reporting method, which reflects the substance of transactions by offsetting revenue with the related costs arising from the "same transaction", is discussed in full in a specific section of the explanatory notes.

Financial income and expense

Borrowing costs directly attributable to the acquisition, construction or production of an asset that qualify for capitalisation are capitalised as part of the cost of the asset. The qualifying assets (property, plant and equipment and intangible assets) involved are those that require at least one year before being ready for use. The directly attributable borrowing cost is that which would not have been incurred if the expenditure for the asset had not been incurred.
Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings. Where funds are raised through general borrowing, the eligible amount is determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate will be the weighted average of the borrowing costs applicable to the general pool, excluding any specifically borrowed funds. The amount of borrowing costs capitalised during a year shall in any case not exceed the amount of borrowing costs incurred during that year.
Capitalisation commences as from the date all the following conditions have been met: (a) expenditures have been incurred for the asset; (b) borrowing costs are being incurred; and (c) activities to prepare the asset for its intended use or sale are in progress. Capitalisation ceases when the activities necessary to prepare the asset for its intended use or sale are substantially complete. The capitalisation rate used for 2012 amounts to 2.60% and that for 2011 amounts to 3.08%.
Financial income and expense other than capitalised amounts are recognised on an accruals basis in respect of the interest on the net value of the related financial assets and liabilities using the effective interest rate.

Dividends

The dividends of associates are booked when it is established that shareholders have the right to receive payment. This generally coincides with the date of the meeting resolution.
Dividends and interim dividends payable to shareholders are shown as changes in equity at the date in which they are approved by the Shareholders' Meeting and the Board of Directors, respectively.

Income taxes

Current income taxes, recognised under "tax liabilities" net of prepayments, or under "tax assets" when there is a net credit balance, are recognised on the basis of estimated taxable income and in accordance with current legislation, taking account of any applicable exemptions.
Deferred tax assets and liabilities are calculated on the temporary differences between the carrying amounts of assets and liabilities recognised in the financial statements and the corresponding amounts recognised for tax purposes, using current tax rates or the rates expected to be in effect when the temporary differences reverse, based on current rates or those that are substantially approved at the reporting date.
Deferred tax assets are recognised when their recovery is considered probable, i.e. when future taxable income will be available against which the asset can be used. The recoverability of deferred tax assets is reviewed at each year end.
Deferred tax liabilities are recognised in any case if they exist.
The tax relating to items noted directly as equity are also allocated to equity.

Discontinued operations and non-current assets held for sale

Non-current assets (or disposal groups) whose carrying amount will be recovered principally through a sale rather than through continuing use are classified as held for sale and reported separated from other assets and liabilities in the statement of financial position. Non-current assets (or disposal groups) classified as held for sale are first measured in conformity with the IFRS/IAS applicable to each asset and liability and subsequently are measured at the lower of their carrying amount and fair value less costs to sell. The carrying amounts of each asset and liability that are not governed by the measurement rules set out in IFRS 5, but are held for sale, are remeasured on the basis of the applicable IFRS before the fair value less costs to sell is redetermined. The individual assets of the companies classified as held for sale are not amortised, whereas financial expense and other expenses attributable to liabilities held for sale continue to be recognised. Any subsequent impairment losses are recognised directly as an adjustment to the carrying amount of the non-current assets (or disposal groups) classified as held for sale through profit or loss. The corresponding statement of financial position values for the previous year are not reclassified. A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is an operation acquired exclusively with a view to resale.

New standards

International Financial Reporting Standards taking effect from 1 January 2012

The following international financial reporting standards and related interpretations took effect from 1 January 2012:

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

The amendment will allow users of financial statements to better evaluate exposure to risk connected with the transfer of financial assets and the effects of said risks on the entity's financial position. According to the provisions of the new Regulations, the entity must provide a disclosure that enables users of the financial statements to understand: the relationship between the financial assets transferred and not fully derecognised and the associated liabilities; to assess the nature and related risks, of the residual involvement of the entity in the financial assets derecognised. This standard has not had a significant impact on the separate financial statements at 31 December 2012.

Amendment to IAS 12 - Income tax - deferred tax: recovery of underlying assets

The amendment affects all the entities that apply "IAS 40 - Investment property" using the fair value method and that have recognised assets under property, plant and equipment which are not depreciated and which are recorded using the revaluation model established by IAS 16. The amendment introduces an exception to the measurement standard envisaged in IAS 12, in the form of an assessment in relation to which the book value of the real estate investment measured according to the fair value model would be recovered through sale and an entity would need to apply the tax rate applicable to the sale of the underlying asset. The amendment does not cover situations presented in our financial statements.

Amendment to IFRS 1 - Severe hyperinflation and removal of fixed dates for first-time adopters

Two amendments to IFRS 1 were approved: the first one replaces references to fixed transition date of 1 January 2004 with "the date of transition to IFRSs". As a result, entities adopting IFRSs for the first time would not have to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides specifications on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs since its functional currency was subject to severe hyperinflation. These amendments had no significant impact on the separate financial statements at 31 December 2012.

International financial reporting standards endorsed but not yet in force

As at the reporting date, the European Commission had approved some accounting standards for which the potential impacts of their application on the financial statements of the Terna Group are currently being assessed. These accounting standards are listed below:

Amendment to IAS 19

On 05 June 2012, the European Union endorsed the amendment to "IAS 19 - Employee benefits", which introduces changes to the recognition and measurement of costs relating to employee benefits, such as the severance indemnities, and the disclosure requirements of all employee benefits. The amendment eliminated the option to defer the recognition of actuarial gains and losses using the corridor approach and provided for the recognition of the cost connected with services rendered and net financial expenses on the income statement, and the recognition of actuarial gains and losses deriving from remeasurements of assets and liabilities to be presented in "Other Comprehensive Income" (OCI). Additionally, the return on assets included amongst net financial expenses must be calculated according to the liability discount rate and no longer on the forecast return on the assets. Finally, the amendment also introduces new additional information to be provided in the notes to the financial statements. The amendment applies retrospectively from the financial year beginning on 1 January 2013.

Amendment to IAS 1

On 05 June 2012, the amendment to "IAS 1 - Presentation of Financial Statements" was endorsed. This requires, among other things, that all comprehensive income items presented in "Other Comprehensive Income" (OCI) be grouped together according to whether they may or may not be reclassified to profit or loss. First adoption is scheduled for 1 January 2013.

New accounting standards on consolidation

On 11 December 2012 the European Commission endorsed the following 5 standards (IFRS 10, IFRS 11, IFRS 12, IAS 27 *Amended* and IAS 28 *Amended*), the first application of which is established for 1 January 2014, specifically:

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. First adoption of the standard will be retrospective.

IFRS 11 – Joint Arrangements

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

IFRS 12 – Disclosure of interests in other entities

The standard governs the disclosure to be made in the financial statements with regard to the equity interests held in subsidiaries, associates and joint ventures in addition to structured entities, in lieu of the requirements previously included in IAS 27 and IAS 28. The purpose of the new standard is to require additional 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 separate 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.

IFRS 13 – Fair Value Measurement

On 11 December 2012, the European Commission approved standard IFRS 13, which seeks to increase consistency and comparability in fair value measurements and related disclosures through a "fair value hierarchy". The hierarchy categorises the inputs used in measurement techniques into three levels. The hierarchy gives the highest priority to prices quoted in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. First adoption is scheduled for 1 January 2013.

During the period, the following standards were also approved, governing situations that are currently not relevant in the financial statements of Terna S.p.A.:

- Amendment to "IFRS 7 Financial Instruments: Disclosures" - Offsetting Financial Assets and Financial Liabilities, on the additional disclosures to present in relation to the actual or potential effects of the application of rules of offsetting financial assets and liabilities; the amendment will come into force on 1 January 2013;
- Amendment to "IAS 32: Financial instruments: Presentation on the financial statements" - Offsetting Financial Assets and Financial Liabilities, provides clarifications on the presentation of the offsetting of financial instruments on the financial statements and which will come into force on 1 January 2014;
- "IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine" - accounting treatment of the costs of stripping a surface mine, to be recognised during production.

International financial reporting standards not yet endorsed

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

IFRS 9 - Financial Instruments

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

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 and which by virtue of the investment business performed, are excluded from the consolidation accounting requirements set out by the new standards.

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

On 28 June 2012, the IASB published an amendment containing clarifications of the rules of transition to the new standards on consolidated accounts (IFRS 10, IFRS 11, and IFRS 12), defining the methods for their first and retrospective application.

Improvement to IFRSs (2009-2011 Cycle)

On 17 May 2012, the IASB published its annual Improvement relative to the 2009-2011 cycle, incorporating changes to the standards (IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34) under the scope of the annual improvement of the international accounting standards, focusing on amendments considered to be necessary but not urgent; of these, we note the following as relevant to the company:

- "IAS 1 - Presentation of financial statements" - Comparative information: this clarifies that, where additional comparative information is provided, it must be presented in accordance with the previous comparative period. Moreover, it is also clarified that in the event that an entity should amend an accounting standard or carry out a rectification/reclassification retrospectively with a significant (material) effect on the information given in the financial position at the start of the previous period, this same entity must present a third statement/column on the opening balance sheet (relative to the start of the previous period), whilst it will not be necessary to present the explanatory notes to the opening column;
- "IAS 16 Property, plant and equipment" – Classification of servicing equipment to Property, plant and machinery if used for more than one financial year or to inventories of used for just one year;
- "IAS 34 Interim Financial Reporting" - Clarifies that all assets of a specific "operating segment" must only be stated when the amounts are regularly supplied to the highest operative decision-making level and there have been significant (material) changes in all assets with respect to the previous annual financial statements for the segment subject to disclosure.

The date of effect of the changes proposed is envisaged for the financial years as from 1 January 2013, with early application permitted.

The following amendment has also been published to regulate a situation that is currently not relevant to the financial statements of Terna S.p.A.:
Amendment to IFRS 1- Government Loans relative to the booking of public grants (IAS 20) for entities that apply the IFRS for the first time.

B. Operating segments

Consistent with the provisions of "IFRS 8 - Operating segments" concerning companies that publish the consolidated financial statements of a parent company in the same document as the financial statements of that parent company, operating segment disclosures are provided for the consolidated financial statements only. Accordingly, please see the analogous section of the notes to the financial statements of the Terna Group.

C. Notes to the income statement

Revenue

1. Revenue from sales and services – €1,571.6 million

The table below details "Revenue from sales and services" for 2012 and 2011:

€ million	2012	2011	Change
Grid transmission fees	1,344.5	1,237.5	107.0
Adjustments for prior year grid transmission fees	(0.7)	0.1	(0.8)
Other energy revenue	161.3	163.4	(2.1)
Other revenue from sales and services	66.5	115.0	(48.5)
Total	**1,571.6**	**1,516.0**	**55.6**

Grid transmission fees and related adjustment

This caption reports revenue from the Company's "core business", comprising fees paid to it for use of the National Transmission Grid.

The item amounted to €1,343.8 million in 2012, showing an increase of €106.2 million on the previous financial year, attributable to:

- effects of AEEG Resolution no. 199/11 which, in addition to redetermining the tariff rules for the period 2012-2015, also updated the grid transmission fees for 2012 and confirmed the application of the mechanism that neutralises the reduction of energy volumes (totalling +€108.7 million, including the incentive on the remuneration of strategic works);
- grid transmission fees related to the Defence plan (-€1.7 million);
- negative impact of the grid transmission fees adjustments for previous years (-€0.7 million).

Other energy revenue

This mainly refers to the price paid to the parent company by electric operators for the dispatching service (DIS component €123.8 million) and the revenues from the construction and development of dispatching infrastructures recorded against the application of IFRIC 12 (€37.4 million); please remember that, as specified in section "A. Accounting policies and measurement criteria", such revenue corresponds to the costs incurred during the same period to purchase raw materials and consumables, services and staff which are included in operating expenses.

The reduction in the item amounts to €2.1 million. The increase in revenue deriving from period investments in dispatch infrastructures (€3.3 million) is more than offset by the reduction of the DIS component that reflects the economic effects linked to:

- revision of the fees for dispatch activities (totalling €52.7 million);
- adaptation of the measurement of the incentives mechanism associated with the reduction in volumes procured from the Market for Dispatching Services made available under AEEG Resolution 213/09 (€22.6 million, being -€43.9 million compared with €66.5 million incentives reported in 2011). More specifically, we would recall that the result achieved is recognised in terms of fair value in consideration of the three-year nature (2010/2012) of the incentive mechanism, as extensively commented in the 2010 financial report, to which we would refer;
- premium and penalty mechanism on the quality of the transmission service (ENSR-NDU – -€13.6 million).

Other energy items – pass-through revenue/costs

This caption includes revenue and costs of a "pass-through" nature (whose balance is therefore nil). They arise in respect of daily purchases and sales with operators on the electricity market to carry out dispatching activities. To this end, the measurements at each point of input and withdrawal are taken and the differences from the energy market schedules are calculated. These differences (called imbalances) are measured using algorithms established by the regulatory framework. The net charge resulting from the measurement of these imbalances and of the buying and selling transactions executed by Terna on the DSM are billed on a pro rata basis to each consumer with an uplift fee.

It also includes the remuneration paid by Terna to the other owners of the grid.

The components of these transactions are detailed below.

€ million	2012	2011	Change
Revenue – Power Exchange:			
Foreign market - exports	0.8	0.8	-
Sale of energy on the Day Ahead Market, Adjustment Market, Market for Dispatching Service and others	408.1	594.7	(186.6)
Umbalancing and other minor items	1,323.6	1,003.4	320.2
Resources procurement for the Market for Dispatching Services	1,528.9	1,261.4	267.5
Congestion rent - DCT Res. no. 288/06	930.6	693.7	236.9
Other items - Power Exchange	67.6	65.2	2.4
Interconnector/shipper	73.1	79.0	(5.9)
Market coupling Res.143/10	268.3	79.6	188.7
Total revenue - Power Exchange	**4,601.0**	**3,777.8**	**823.2**
Revenue components under Res. nos. 168/04 - 237/04 and others	1,330.4	1,109.6	281.5
Other items	378.8	122.0	196.1
Revenue from grid transmission fees of other owners and GRTN share CIP/6	194.5	157.5	37.0
Total revenue from outside the Power Exchange	**1,903.7**	**1,389.1**	**514.6**
Total pass-through energy revenue	**6,504.7**	**5,166.9**	**1,337.8**
Energy purchases:			
On Day Ahead Market and Adjustment Market	131.2	98.5	32.7
To provide the dispatching service	1,667.1	1,433.8	233.3
For unbalancing	1,314.3	1,270.5	43.8
Foreign market - imports	3.1	2.7	0.4
Electricity Market Operator fees	0.6	0.8	(0.2)
Congestion rent - RTC, Res. no. 288/06	618.3	420.1	198.2
Other items - Power Exchange	61.7	60.9	0.8
Interconnector/shipper	567.9	417.0	150.9
Market coupling Res. 143/10	236.8	73.5	163.3
Total costs - Power Exchange	**4,601.0**	**3,777.8**	**823.2**
Purchase of electricity market related services	1,330.4	1,109.6	281.5
Other items	378.8	122.0	196.1
Fees to be paid to NTG owners, GRTN and other	194.5	157.5	37.0
Total services and fees	**1,903.7**	**1,389.1**	**514.6**
Total pass-through energy costs	**6,504.7**	**5,166.9**	**1,337.8**

Other revenue from sales and services

The item “Other revenue from sales and services” amounts to €66.5 million and for the most part refers to revenue from:

- diversified specialised activities in the field of high and very high voltage, which the company provides third parties clients (€17.8 million);
- technical services in favour of the subsidiary Terna Rete Italia S.r.l. during the first three months of 2012 (€12.1 million) carried out by Terna Rete Italia S.p.A. as from the second quarter;
- administrative services and consulting and assistance services provided to subsidiaries (€30.6 million, of which €27.7 million related to services provided by Terna Rete Italia S.p.A. as from 1 April);
- NTG connection services of production plants and property of end users (€3.7 million);
- line design for interconnection with abroad (€1.2 million).

The change in the item (-€48.5 million) is strongly influenced by the new organisational structure of the Terna Group, which came to a close during the year, in the context of which the subsidiary Terna Rete Italia S.p.A., through the contract for the business unit rental, formalised with Terna on 23 March 2012, it acquired the exclusive availability of resources, assets and know-how as necessary to go about the management, scheduled and unscheduled maintenance of the NTG and the technical dispatch and operating services; consequently, plant maintenance within the Group and other technical and engineering activities on third party plants are essentially dealt with by the company Terna Rete Italia S.p.A. as from the second quarter of 2012. In this context, we note the reduction in revenue for Terna for diversified activities towards third parties (€17.7 million), for technical services towards the subsidiary Terna Rete Italia S.r.l. (€47.6 million), partially offset by greater administrative services and management fee provisions (€23.3 million) in enforcement of specific inter-company contracts in place with the subsidiaries.

The difference also suffers the 2011 recording of income (€1.7 million) for services and provisions given by Terna to the companies sold (Rete Rinnovabile and NRTS) and the greater income from plant connection services (€2.1 million). It is also specified that as from 2012, with the new regulatory period, the expense incurred by the company for the energy discount of its employees, for which coverage had been noted in 2011 in the form of the contribution of €1.5 million, is remunerated through payment of grid transmission fees.

2. Other revenue and income – €88.2 million

“Other revenue and income” for the years 2012 and 2011 are analysed in the following table:

€ million	2012	2011	Change
Rental income	31.2	16.2	15.0
Business unit rent	17.7	-	17.7
Sundry grants	15.0	8.6	6.4
Contractual penalties at suppliers' expense	9.0	1.8	7.2
Gains on the disposal of plant components	6.0	4.0	2.0
Sales to third parties	4.8	3.1	1.7
Contingent assets	1.5	0.6	0.9
Insurance settlements for losses	1.4	2.2	(0.8)
Other revenue	1.6	1.4	0.2
Total	**88.2**	**37.9**	**50.3**

“Other revenue and income” include some significant items deriving from intercompany transactions as a consequence of the new organisational structure of the Terna Group; more specifically, revenue of the subsidiary Terna Rete Italia S.p.A., deriving from the rental income connected with the last nine months of the year (€17.7 million) and the sale of inventories relating to the business unit (€3.2 million).
We also note that Rental income mainly refers to the housing of the optic fibre of the Wind Group on the grids (approximately €28 million), the use by Enel Distribuzione of company infrastructures for power line communication (€1.3 million) and revenue for the subsidiaries Terna Rete Italia S.p.A. and Terna Plus S.r.l. for making available areas that can be equipped in order to position employee workstations (€1.7 million).

The significant increase in the item (€50.3 million) is mainly due to:
- the recording of the fees deriving from the business unit rental contract signed late March with the subsidiary Terna Rete Italia S.p.A. (+€17.7 million) and the sale of the inventories relating to the unit (€3.2 million);
- the review of the fees relating to the optic fibre housing following the stipulation of the settlement deed with Wind Telecomunicazioni S.p.A. (+€13.4 million of which €9.8 million relative to previous years 2009/2011);
- greater penalties debited to third party suppliers (+€7.2 million) for breach of contract basically in relation to works/supplies for the SA.PE.I. submarine cable;
- the positive effect deriving from the income statement value of the excess contributions received with respect to that of the related plants (+€6.3 million).

Operating expenses

3. Raw materials and consumables – €19.1 million

This item, equal to €19.1 million, states the value of the consumption of materials and miscellaneous equipment used for core business and the maintenance of Group plants, mainly relating to the first quarter of 2012 and to sundry supplies. The reduction of €15 million with respect to last year (€34.1 million in 2011) is mainly due to the ordinary maintenance work carried out on plants directly by the subsidiary Terna Rete Italia S.p.A. as from the second quarter of the year, net of the impact of inventory sales to the latter (€3.2 million).

4. Services – €314.7 million

The table below details "Services" for 2012 and 2011:

€ million	2012	2011	Change
Services, technical and administrative intercompany services	236.4	-	236.4
Tenders on plants	11.5	52.0	(40.5)
Maintenance and sundry services	31.3	59.0	(27.7)
Remote transmission and telephone	12.9	13.7	(0.8)
IT services	7.2	24.3	(17.1)
Insurance	6.7	5.7	1.0
Leases and rentals	8.7	11.1	(2.4)
Total	**314.7**	**165.8**	**148.9**

The breakdown of the balance and differences with respect to the previous year of "Services" is particularly influenced by the reorganisation of operative activities within the Terna Group during the year.
The main contribution is, in fact, made by costs applicable to the enforcement of specific contracts stipulated with the subsidiary Terna Rete Italia S.p.A. (€236.4 million), for the most part relating to technical maintenance and operating services on its plants (€204.1 million) to investments in developing dispatching infrastructures - pursuant to IFRIC 12 (€23.7 million), to activities and services provided for third party plants (€4.5 million) and by way of remuneration of investing activities on plant development (€3.1 million); costs are also included regarding third parties for tenders and provisions of ordinary maintenance works and for keeping plants efficient (€11.5 million) for other maintenance works, for professional provisions and for general service expenses (€31.3 million), for remote transmission and telephones (€12.9 million), for IT services (€7.2 million), for hires and rental (€8.7 million) and insurance (€6.7 million). It is specified that the costs relating to remuneration relating to the Board of Statutory Auditors amount to €0.2 million.
The increase in the item (€148.9 million) is mainly due to the recording of pertinent costs in enforcing specific contracts stipulated with the subsidiary Terna Rete Italia S.p.A. (€236.4), for the most part relating to technical maintenance and operating services provided for owned plants, partially offset by the reduction in tender costs, other technical services, professional provisions and IT services for third parties, basically carried out by the subsidiary Terna Rete Italia S.p.A. as from the second quarter of the year.
As described, with the new organisational structure of the Terna Group, as from the second quarter of 2012, investing activities for the development and renewal of the dispatching infrastructures have been carried out by the subsidiary Terna Rete Italia S.p.A.: the related cost is debited in full to "Services", as provisions/services received by the subsidiary. Therefore, the difference in the balance of the greater costs pursuant to IFRIC 12, with respect to FY 2011, is therefore accordingly influenced as shown in the table below:

€ million	2012	2011	Change
IT services	3	18.1	(15.1)
Tenders on plants	1.7	2.4	(0.7)
Maintenance and sundry services	0.5	1.4	(0.9)
Remote transmission	0	0.1	(0.1)
Costs for services from investments in dispatching infrastructures pursuant to IFRIC 12 - Q1 2012	***5.2***	***22.0***	***(16.8)***
Costs for services pursuant to IFRIC 12 - Services from Terna Rete Italia S.p.A.	23.7	-	23.7
Total costs for services from investments in dispatching infrastructures pursuant to IFRIC 12	**28.9**	**22.0**	**6.9**

5. Personnel expenses – €81.9 million

Personnel expenses break down as follows:

€ million	2012	2011	Change
Wages, salaries and other short-term employee benefits	93.3	250.4	(157.1)
Directors' fees	1.9	1.9	-
Termination benefits, electricity discount and other post-employment benefits	5.9	16.1	(10.2)
Early retirement incentives	(0.7)	10.1	(10.8)
Personnel expenses, gross	***100.4***	***278.5***	***(178.1)***
Personnel expenses, capitalised	(18.5)	(64.3)	45.8
Total	**81.9**	**214.2**	**(132.3)**

This caption includes the cost of wages and salaries, social security contributions and other costs incurred by the Company for voluntary early retirement incentives, as well as benefits paid to employees who stay with the Company and termination benefit provided for by the current national collective employment contract for the electricity sector.
The reduction in personnel expenses (€132.3 million) is mainly due to the transfer of employees to the company Terna Rete Italia S.p.A. and the noting during the previous year of greater costs to provide incentives to staff to take early retirement (€10.8 million).

The following table shows the number of employees by category at year end and the average number for the year:

	Average number		Final number	
	2012	2011	31.12.2012	31.12.2011
Senior management	37	60	23	60
Junior management	227	504	128	490
Office staff	637	1,949	182	1,966
Production workers	245	1,005		977
Total	**1,146**	**3,518**	**333**	**3,493**

Following the transfer of employees to the subsidiary Terna Rete Italia S.p.A., the net change in the average number of employees recorded with respect to FY 2011 is -2,372 units.

For the reconciliation of the opening and closing present value of the liability for employee benefits and the main assumptions used in the actuarial estimate, we would refer you to section “22. Employee benefits”.

6. Amortisation, depreciation and impairment – €373.7 million

These relate to accruals during the year calculated on the basis of amortisation and depreciation rates that reflect the useful lives of the company's plant, property and equipment and intangible assets (€370.6 million), and related write-downs (€0.1 million) in addition to the write-downs of trade receivables, which are considered unlikely to be collected (€3 million). The composition of and changes in the item during the year are reported in the following table:

€ million	2012	2011	Change
Amortisation of intangible fixed assets	52.8	49.7	3.1
- *of which: infrastructure rights*	*29.5*	*25.1*	*4.4*
Depreciation of property, plant and equipment	317.8	299.1	18.7
Impairment of property, plant and equipment	0.1	-	0.1
Impairment of trade receivables	3.0	0.1	2.9
Total	**373.7**	**348.9**	**24.8**

The increase of the item, in the amount of €24.8 million, particularly shows the growth of amortisation/depreciation, mainly by virtue of the greater property, plant and machinery and intangible assets which came into use during the year (greater amortisation/depreciation for +€18.7 and +3.1 million, respectively). The change also suffers the net allocation made during the year for €3 million for receivables considered to be unlikely to be collected, to a large extent relating to an operator on the electricity market.

7. Other operating expenses – €41.3 million

Other operating expenses break down as follows:

€ million	2012	2011	Change
Indirect and local taxes and duties	23.5	5.2	18.3
Contingent liabilities	5.0	1.8	3.2
Accruals to Provisions for disputes	3.9	0.2	3.7
Service quality expenses	2.2	3.6	(1.4)
Other operating expenses	6.7	7.3	(0.6)
Total	**41.3**	**18.1**	**23.2**

The most significant component of the item is costs for taxes, duties and local tax (23.5 million), mainly due to IMU (single municipal tax) (€20.4 million), which also reflects the accrual made to the Provision for risks for the probable tax deriving from the application of Circular 6/2012 of the Territorial Agency on the registration of power stations (€15.6 million); expenses relating to the quality of the electrical service (€2.2 million) refer to the accruals made to the provisions for risks and future charges for expenses to be paid to the distributing companies for power failures of transformation plants connected to the NTG (€1.7 million) and to the contribution for power failures (pursuant to Resolution 333/07 - €0.5 million). Please note that the expenses of the quality of the electrical service, following the definition of the organisational restructuring of the Terna Group and the related intercompany contracts, are configured as from this year, as expenses/premiums connected with the work of the subsidiary Terna Rete Italia S.p.A..
The increase in this caption by €23.2 million derives to a large extent from the following events:

- greater tax, duties and local taxes (+€18.3 million), mainly relating to IMU (+€17.7 million), which includes, as described, an estimate of the tax deriving from the application of legislation on the registration of power stations (+€15.6 million);
- greater allocations made to the Provision for disputes (+€3.7 million), intended to cover liabilities that can reasonably be quantified and which are in place at year end and may derive from legal and other disputes relating to the Company's activities;
- contingency liabilities (€3 million) relating to the repayment of the balance of contributions paid for the years from 2002 to 2006 to the Ministry of Economic Development relating to the ex concession for private use telephone services;
- lower expenses relating to the quality of the electricity service (-€1.4 million).

Financial income and expense

8. Net financial income/(expense) – -€19.3 million

This caption is analysed below:

€ million	2012	2011	Change
Financial income			
Dividends from subsidiaries and associates	60.8	100.0	(39.2)
Financial income from subsidiaries	18.8	20.7	(1.9)
Other financial income	-	5.4	(5.4)
Interest income and other financial income	85.6	30.4	55.2
Debt adjustment (bonds) and related hedges	2.4	-	2.4
Exchange gains	1.4	1.2	0.2
Total income	**169.0**	**157.7**	**11.3**
Financial expense			
Financial expense from the Parent	(10.4)	(9.8)	(0.6)
Financial expense to subsidiaries	(1.7)	(1.1)	(0.6)
Interest expense on medium/long-term loans and related hedges	(201.1)	(172.7)	(28.4)
Debt adjustment (bonds) and related hedges	-	(0.2)	0.2
Other financial expense	-	(4.1)	4.1
Discounting of post-employment benefits and other personnel-related provisions	(1.6)	(4.5)	2.9
Capitalised borrowing costs	26.5	25.9	0.6
Total expense	**(188.3)**	**(166.5)**	**(21.8)**
Total	**(19.3)**	**(8.8)**	**(10.5)**

Net financial expense amounted to €19.3 million for the year, comprising €188.3 million in financial expense and €169.0 million in financial income. The increase of €10.5 million with respect to the previous financial year is the net result of the following main factors:

- lesser dividends distributed (-€40.0) of the subsidiary Suntergrid and dividends distributed by the associate CGES AD for €0.8 million;
- lesser financial income from subsidiaries (-€1.9 million), mainly due to the impact of the reduced short-term interest rate on the loan granted to the subsidiary Terna Rete Italia S.r.l.;
- increased financial proceeds (+€55.2 million) which were primarily attributable to the joint effect of:
  - greater liquid funds invested (+€53.3 million);
  - recording of greater net income for uplift (+€1.6 million);
  - lower late payment interest for the late payment of receivables in respect of dispatching activities (+€0.3 million);
- the net economic gain deriving from the fair value adjustment of bonds and the related hedges (+€2.6 million);
- decreased net financial income (-€1.4 million) relating to the companies sold during 2011;
- adjustment to the currency exchange of the provision for probable expenses relating to the tax obligations deriving from the sale of the equity interest held in the Brazilian subsidiaries (+€0.2 million);
- greater financial expense to the parent CDP (-€0.6 million) deriving from the use of the loan of €500 million on 8 April 2011;
- greater financial expense with regard to subsidiaries mainly in relation to interest accrued on correspondent accounts with the subsidiaries Terna Rete Italia S.p.A. and Terna Rete Italia S.r.l. (-€0.6 million);
- greater financial expense deriving from medium and long-term debt and the related hedges (-€28.4 million) due to the increased gross debt, offset by the drop in interest rates in 2012;
- lesser financial expense deriving from the discounting of the benefits due to employees following the transfer of employees to Terna Rete Italia S.p.A. (+€2.9 million);
- greater capitalised financial expense (+€0.6 million) as a result of greater capital expenditure during 2012 compared with the previous financial year.

9. Income taxes – €346.6 million

Income tax for the financial year amount to €346.6 million, up by €2.4 million on the previous financial year, which suffered the one-off effects deriving from the first-time application of the "corrective manoeuvre-*bis*" (the "Robin Hood Tax")[19], net of the comprehensive tax deriving from the release of goodwill in connection with Terna Rete Italia S.r.l., pursuant to Italian Law Decree no. 98 of 06/07/2011[20].

The following table reports changes in taxes with respect to 2011:

€ million	2012	2011	Change
Income taxes of the year			
Current taxes:			
- IRES	331.4	308.6	22.8
- IRAP	58.8	61.9	(3.1)
Total current taxes	***390.2***	***370.5***	***19.7***
New temporary differences:			
- deferred tax assets	(9.1)	(55.3)	46.2
Reversal of temporary differences:			
- deferred tax assets	15.8	17.8	(2.0)
- deferred tax liabilities	(51.7)	(48.2)	(3.5)
Adjustment - restatement pursuant to Italian Law Decree no. 138 of 13/08/2011 (Robin Hood Tax)	-	57.8	(57.8)
Adjustment - restatement for the adjustment of IRAP (pursuant to paragraph 5 of Art. 23 of Italian Law Decree no. 98 of 06/07/2011)	-	2.7	(2.7)
Total change in deferred tax assets and liabilities	***(45.0)***	***(25.2)***	***(19.8)***
Adjustment of prior-year taxes	(1.0)	(1.1)	0.1
Other one-off changes	2.4	-	2.4
Total	**346.6**	**344.2**	**2.4**

Current taxes

Current tax have increased by €19.7 million with respect to the previous financial year, mainly due to the greater pre-tax profit.

Deferred tax assets and liabilities

Deferred tax assets and liabilities (-€45 million) change by -€19.8 on 2011, mainly due to the 2011 inclusion of one-off tax effects or the recalculation of deferred tax liabilities at the start of the year (€60.5, equal to €57.8 million by virtue of the Robin Hood Tax and €2.7 million for the additional IRAP) and recording of prepaid tax (€39.8 million) for the release of goodwill recorded on the company's consolidated financial statements following the acquisition of Terna Rete Italia S.r.l..

(19) The first application of the Robin Hood tax has entailed the recognition of the one-off tax effect (€57.8 million), deriving from the adjustment of the net deferred tax provision, in place at the start of FY 2011.

(20) Comprehensive positive effect equal to €23.5 million.

Adjustment of prior-year taxes and other one-off changes

The tax adjustments for previous years and other one off changes refer to the greater current taxes paid during previous years (-€1 million) and to allocations relating to tax risks offset by the recording of the tax receivable for IRES pursuant to Italian Law Decree no. 16/2012 of 2 March 2012 (totalling +€2.4 million).

The effective incidence of the period tax (€346.6 million) on the profit before taxes is 42.8%.

The 2012 tax rate stands at 42.6%, without considering adjustments from previous years and other one-off tax items; it is 2.2 percentage points higher than the adjusted tax rate of 2011, which was 40.4%[21]. This increase is mainly due to the tax benefit deriving from the deductibility of the greater dividends disbursed by the subsidiary Suntergrid in 2011 with respect to 2012.

For a clearer presentation of the differences between the theoretical and actual tax rates, the table below reconciles the theoretical tax rate with the effective tax rate for the year:

€ million	Taxable income	Tax	% change
Profit before taxes	809.8		
IRES - theoretical tax charge (38%)		307.7	
IRAP - theoretical tax charge (5.03% on operating profit of €829.1 million)		41.7	
Total		**349.4**	
Theoretical tax rate			**43.1%**
Permanent IRES differences			
Employee benefits		2.1	0.3%
Contingencies		1.9	0.2%
Local property tax (including estimate pursuant to Circular 6/2012 of the Territorial Agency)		7.8	1.0%
Other increases/decreases		2.8	0.3%
IRAP - Art. 6 Law 28/01/2009		(2.4)	(0.3%)
IRAP on personnel expenses pursuant to Italian Law Decree no. 201/2011		(1.8)	(0.2%)
Dividends		(21.9)	(2.7%)
Permanent IRAP differences			
Personnel expense		5.1	0.6%
Capitalised borrowing costs		1.3	0.2%
Other increases/decreases		0.9	0.1%
Actual tax rate net of adjustments to income taxes of previous years			**42.6%**
Prior year taxes		(1.0)	(0.1%)
Other one-off changes		2.4	0.3%
Total taxes for the year		**346.6**	
Actual tax rate			**42.8%**

10. Profit for the year from discontinued operations and assets held for sale

This item was not counted in 2012. The 2011 balance (€33.8 million) in accordance with the provisions of accounting standard IFRS 5 - Non-current assets held for sale and discontinued operations, the item includes the partial release of the provision set aside in 2009 relating to the contractual obligations that have matured during the financial year, deriving from the sale of the majority share package in Terna Participações.

(21) It does not consider the adjustment of net deferred tax at the start of FY 2011 (totalling 60.5 million) deriving from the new IRES and IRAP rates established by Italian Law Decree no. 138 of 13.08.2011 (the "Robin Hood Tax") and Italian Law Decree no. 98 of 06.07.2011, Art. 23, paragraph 5 (economic manoeuvre for concession holders - IRAP adjustment) of the adjustments relative to previous years (-€1.1 million) and net of the comprehensive tax effect deriving from the release of goodwill in connection with Terna Rete Italia, pursuant to Italian Law Decree no. 98 of 06/07/2011 (-€23.5 million).

D. Notes to the statement of financial position

Assets

11. Property, plant and equipment – €8,202.8 million

Property, plant and equipment amount to €8,202.8 million (€7,514.0 million at 31 December 2011). The amount and changes for each category are reported in the following table:

€ million	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Total
Cost at 01.01.2012	**93.5**	**1,112.5**	**10,055.3**	**67.1**	**106.1**	**1,129.0**	**12,563.5**
Investments	-	18.1	0.2	2.7	3.1	1,088.9	1,113.0
Entry into use	3.4	99.8	669.6	3.6	12.8	(789.2)	-
Infra-group sales	-	-	(12.9)	-	-	(4.3)	(17.2)
Disposals and impairment	-	(0.7)	(38.5)	(0.1)	(9.7)	(43.4)	(92.4)
Other changes	-	(0.5)	(25.9)	-	-	(14.0)	(40.4)
Reclassifications	-	(1.0)	0.9	0.1	-	-	-
Cost at 31.12.2012	**96.9**	**1,228.2**	**10,648.7**	**73.4**	**112.3**	**1,367.0**	**13,526.5**
Accumulated depreciation and impairment at 01.01.2012	**-**	**(310.6)**	**(4,636.7)**	**(44.8)**	**(57.4)**	**-**	**(5,049.5)**
Depreciation charge for the year	-	(27.9)	(270.2)	(3.8)	(15.9)	-	(317.8)
Infra-group sales	-	-	1.1	-	-	-	1.1
Disposals and impairment	-	0.7	33.6	0.1	8.1	-	42.5
Accumulated depreciation and impairment at 31.12.2012	**-**	**(337.8)**	**(4,872.2)**	**(48.5)**	**(65.2)**	**-**	**(5,323.7)**
Carrying amount							
At 31 December 2012	**96.9**	**890.4**	**5,776.5**	**24.9**	**47.1**	**1,367.0**	**8,202.8**
At 31 December 2011	**93.5**	**801.9**	**5,418.6**	**22.3**	**48.7**	**1,129.0**	**7,514.0**

The category “Plant and equipment” includes the energy transportation network as well as the transformation stations. The item shows an increase on the previous financial year amounting to €688.8 million, as a result of ordinary transactions made during the financial year, relating to:

- investments for the financial year (+€1,113.0 million, of which €26.5 million for capitalised financial expense);
- depreciation for the year (-€317.8 million);
- divestments and impairment (-€49.9 million), of which €43 million for the write-down of fixed assets relating to the capitalisations made during previous years against allocations made to the risk provision “Projects for urban and environmental renewal” currently considered unlikely and contributions that directly reduce the value of operating plants and plants under construction and other changes (-€40.4 million);
- infra-group transactions: during transfer to the subsidiary Terna Plus of the business unit with effect as from 1 August 2012, which took place as part of the reorganisation of the operations of the Terna Plus, the Company sold eight Quick-Installation Connection Stations (QICS) and one transformer (located in Brindisi), for a total of €16.1 million.

A summary of changes in property, plant and equipment during the year is provided in the table below:

€ million	2012
Investments	
- Transmission lines	578.9
- Transformation stations	442.5
- Other	68.3
Investments in property, plant and equipment - core business	1,089.7
Investments in property, plant and equipment - non-core business	23.3
Total investments in property, plant and equipment	**1,113.0**
Depreciation and amortisation	(317.8)
Disposals, impairment losses and other changes	(90.3)
Intra-group transactions	(16.1)
Total	**688.8**

With reference to investments made during the financial year (€1,113.0 million), please note, in particular, the progress of works in relation to Sorgente-Rizziconi (€213.9 million), with the conclusion of the installation of the first submarine cables between Villafranca and Favazzina, with the first cable in optic fibre, the completion of works in the power plant of Sorgente (Sicily) and the arrangement of the site of the station of Villafranca (Sicily), the excavation of the tunnel and sub-horizontal tunnel in Favazzina and the development of works on the 380 kV overhead line in Calabria and those of the long-distance power line in Sicily, between Villafranca and Sorgente; development of the new long-distance power line Trino - Lacchiarella (€80.1 million) as a 380 kV double three-phase line reaching the stations at 380 kV of Trino in the province of Vercelli and Lacchiarella in the province of Milan, stretching for more than 100 km; the development of the submarine connection Italy - Montenegro (€45.4 million); completion of the works on the 380/150 kV station of Aliano and the related connections for the restructuring of the North Calabria grid (€39.4 million); the development of the stations of Foggia and Villanova (€30.9 million); conclusion of the works developing the station of Pellerina with the main connections in 220 kV cable of the city of Turin (€22.0 million); start-up of works for the development of the connection between Dolo and Camin (€21.9 million); development of the works in the station of Piossasco in armoured works connecting Italy and France (€20.5 million).

In terms of assets under construction at the end of the year, the main grid development and re-powering projects worth more than €5 million are listed below:

Transport lines	€ million
Sorgente – Rizziconi 380 kV power line	172.5
380 kV Trino – Lacchiarella power line	79.7
Italy-Montenegro interconnection	42.6
Restructuring of the North Calabria grid	18.7
380 kV Foggia-Benevento II power line	18.6
Capri - Continent interconnection	18.3
220 KV city of Turin rationalisation	14.2
CP Tarsia connection	14.0
Valcamonica rationalisation	12.5
Camin – Dolo power line	12.5
SAPEI power line	10.0
380 kV Rationalisation in province of Lodi	8.8
Transforming stations	
Villanova station	22.2
380 kV Villafranca station	22.0
380/220/132 kV SF6 in Piossasco station	17.7
380 kV Aliano station	12.8
380/150 kV Castellaneta station	12.7
380 kV Foggia station	10.4
380/150 kV Montesano station	8.9
220 kV Musocco station	8.8
Scilla – Villafranca tunnel	8.7
Foggia station	8.7

12. Goodwill – €88.6 million

Goodwill amounted to €88.6 million and it is unchanged as compared to the balance of the previous year.

Impairment testing

Cash Generating Unit – Terna

The recoverable amount of the goodwill arising from the acquisition of RTL (incorporated by Terna in 2008), recognized in the accounts in the amount of €88.6 million, was first estimated by determining the fair value of the Cash Generating Unit (CGU) NTG, less the costs of the sale. The fair value of the CGU, calculated considering the stock exchange listing of the Terna security, was found to exceed the book value, for an amount of € 1,680 million.

The potential value that can be recovered from goodwill was also estimated, on the basis of the value of use criteria applying the unlevered version of the discounted cash flow method to the RTN cash generating unit (CGU). In line with the provisions of IAS 36, the cash flow forecasts have been prepared for the time frame 2013-2017, taking the estimates given in the last Business Plan approved by the Board of Directors on 06 February 2013. This Business Plan has been developed considering the latest estimates of the electricity sector and the latest macroeconomic forecasting in addition to the current regulatory (IV regulatory period) and tax provisions (Robin Hood Tax with additional IRES of +10.5% in 2013 and +6.5% from 2014). The final value was assumed to be equal to the RAB (Regulatory Asset Base) at the end of 2017 and the adopted discount rate was equal to 5.02%.

The value in use of the CGU determined as indicated above was €2,326 million higher than the carrying amount. The excess value in use of the CGU comes to zero, if WACC increases up to 10.4%.

13. Intangible assets – €275.0 million

Changes during the year in intangible assets are detailed below:

€ million	Infrastructure rights	Concessions	Other assets	Assets under development and payments on account	Total
Balance at 31.12.2011	**117.8**	**100.9**	**28.3**	**27.0**	**274.0**
Investments	-	-	-	53.8	53.8
Entry into use	33.3	-	16.7	(50.0)	-
Amortisation	(29.5)	(5.6)	(17.7)	-	(52.8)
Balance at 31.12.2012	**121.6**	**95.3**	**27.3**	**30.8**	**275.0**
Cost	309.4	135.4	136.6	30.8	612.2
Accumulated amortisation	(187.8)	(40.1)	(109.3)	-	(337.2)
Balance at 31.12.2012	**121.6**	**95.3**	**27.3**	**30.8**	**275.0**

Intangible fixed assets amount to €275.0 million and in particular, include:

- the infrastructure used for the dispatching service, as from 1 January 2010, booked in accordance with the provisions of IFRIC 12 (for more details, we refer you to the paragraph of Note "A. Accounting policies and measurement criteria"), with a net carrying amount at 31 December 2012, of €121.6 million for infrastructure already in use and €27.4 million for the infrastructure under construction classified in the "Assets under construction and payments on account" caption, and a net carrying amount at 31 December 2011, of €117.8 million for infrastructure already in use and €23.1 million for the infrastructure under construction classified in the "Assets under construction and advances";
- the licensing for the provision of electricity transmission and dispatching services in Italy (with net carrying amount of €95.3 million at 31 December 2012), recognised initially during 2005 at fair value and subsequently measured at cost.

Other intangible assets comprise application software developed internally or purchased when implementing systems development projects. Related investments (€16.1 million) are made essentially through internal development.

The difference, which is not significant with respect to the previous financial year (+€1 million) is due to the combined effect of routine movements during the period, regarding mainly to investments (€53.8 million, including €37.7 million in infrastructure rights) - mainly in application software - and amortisation (€52.8 million, of which €29.5 million in relation to dispatching infrastructures.

Among the investments for the year note in particular those related to the development and evolution of application software, the remote management system for dispatching (€11.6 million), for the Power Exchange (€7.6 million) and for the protection of the electrical system (€1.0 million), as well as software applications and licenses (€15.4 million).

14. Financial assets

The following table details financial assets recognised by Terna S.p.A.:

	Carrying amount		
€ million	31.12.2012	31.12.2011	Change
Investments in subsidiaries	626.0	570.4	55.6
Investments in associates	52.1	51.8	0.3
Other investments	0.8	0.6	0.2
Loan to Terna Rete Italia S.r.l.	500.0	500.0	-
FVH derivatives	754.9	521.8	233.1
Non-current financial assets	**1,933.8**	**1,644.6**	**289.2**
Other current financial assets	23.2	158.2	(135.0)
Current financial assets	**23.2**	**158.2**	**(135.0)**

"Non-current financial assets", equal to €1,933.8 million, reported the value at 31 December 2012 of equity investments, the intercompany loan to Terna Rete Italia S.r.l. and the measurement of fair value hedge derivatives for bond loans.

"Investments in subsidiaries" (€626.0 million) refer to investments in subsidiaries held directly by Terna S.p.A. and summarised below. The increase of €55.6 million derives from:
- subscription on 10 February 2012 (€5.0 million) and on 22 November 2012 (€29.0 million) of two separate capital increases of the subscribers Terna Cnra Gora d.o.o. in order to provide it with the resources needed to allow for the development of its business;
- incorporation, on 23 February 2012, of the company named Terna Rete Italia S.p.A. with share capital of €120,000; the new company's corporate purpose is to design, create, manage, develop, operate and maintain grid lines and structures and other infrastructures connected with such grids, plant and equipment functional to the said activities in the segments of electricity transmission and dispatching or in analogous, related or connected segments;
- payment on 09 May 2012 of a total of €3.1 million, by way of disbursement on capital account, to the subsidiaries Terna Rete Italia S.p.A. (€3 million) and Terna Plus S.r.l. (€0.1 million), in order to provide them with the resources necessary to their business;
- transfer to the subsidiary Terna Plus S.r.l., with deed dated 19 July 2012 (as amended on 31 October 2012), and with effect as from 1 August 2012, of an operating business unit involved in the development of temporary connections using quick-installation electrical stations and in providing other services, to Terna Plus S.r.l., with effect as from 1 August 2012. This transfer - subject to measurement pursuant to Art. 2465 of the Italian Civil Code by an independent expert - has increased the investment held by Terna S.p.A. in the subsidiary for an amount of €18.3 million;
- acquisition on 14 November 2012 from the subsidiary Terna Plus S.r.l. of the share representing the entire share capital of the company named Terna Storage S.r.l., in exchange for payment of a price of €30,000. The company Terna Storage was established on 23 March 2012 by the subsidiary Terna Plus S.r.l. and has the following object: design, realisation, management, development and maintenance of energy diffused storage systems (including batteries) for pumping and/or storage systems.

"Investments in associates" (€52.1 million) refers to:
- the interest held of 42.698% in the share capital of CESI S.p.A. (€17.6 million), which has increased with respect to 2011 by €0.3 million, following the acquisition during the year of a further share from Enel S.p.A. for 0.292% of the share capital;
- the interest held of 22.485% in the share capital of CORESO S.A. (€0.3 million) acquired in November 2010;
- the value of the equity interest in the associate CGES - CrnoGorski Elektroprenosni Sistem AD (€34.2 million), which was acquired in January 2011, representing a equity investment of 22.0889%.

CESI S.p.A. operates in 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 in that area.
The company CORESO S.A. is the first 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 analyses in real time of energy flows in the region, identifying potentially critical areas and promptly notifying the TSOs which are affected. For more information, please see the section "Significant events".
CGES is the electricity dispatch and transmission operator in Montenegro. The financial investment of Terna in CGES, which was made following an industrial cooperation and country system and included as part of inter-governmental understandings reached by Italy and Montenegro, sanctions the institutional commitment to the development of a new submarine electrical interconnection and the implementation of the partnership between national transmission operators.

"Other investments" (€0.8 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% interest held in the share capital of Medgrid SAS (€0.4 million, which has increased by +€0.2 million following subscription of the capital increase of the subsidiary).

The following table summarises Terna S.p.A.'s direct investments in subsidiaries and associates at 31 December 2012, with data related to the last approved financial statements:

Company	Registered office	Business	Currency	Share/capital	% held	Book value
COMPANIES CONTROLLED DIRECTLY BY TERNA S.P.A.						
Terna Rete Italia S.p.A.	Rome	Design, realisation, management, development, operation and maintenance of grid structures and lines and of other infrastructures connected to said grids, of plants and equipment functional to said business in the sectors of electricity dispatch and transmission and in similar, related or connected segments.	€	120,000	100%	3,120,000
Terna Rete Italia S.r.l.	Rome	Design, construction, management, development, operation and maintenance of high-voltage power lines.	€	243,577,554	100%	557,666,437
Terna Crna Gora d.o.o.	Podgorica	Authorisation, construction, and management of transmission infrastructures comprising the Italy-Montenegro electrical interconnection in Montenegro territory.	€	36,000,000	100%	36,000,000
SunTergrid S.p.A.	Rome	Construction and maintenance of electricity transmission grids and plants for the generation of electricity, including renewables generation, for own use and sale in Italy and abroad.	€	120,000	100%	10,672,709
Terna Plus S.r.l.	Rome	Design, construction, management, development, operation and maintenance of plants, equipment and infrastructures including grids and systems, including diffused energy storage, pumping and/or storage.	€	16,050,000	100%	18,471,000
Terna Storage S.r.l.	Rome	Design, realisation, management, development and maintenance of energy diffused storage systems (including batteries), pumping and/or storage systems, as well as plants, equipment and infrastructure, including grids.	€	10,000	100%	30,000

Company	Registered office	Business	Currency	Share/capital	% held	Book value
ASSOCIATES						
Cesi S.p.A.	Milan	Experimental electro-technical research.	€	8,550,000	42.698%	17,563,381
Coreso S.A.	Brussels (Belgium)	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 analyses in real time on energy flows in the region, identifying potentially critical areas and promptly informing any affected TSOs.	€	1,000,000	22.485%	281,082
CGES A.D.	Podgorica	Electricity dispatch and transmission operator in Montenegro.	€	155,108,283	22.0889%	34,285,811
JOINT CONTROL						
ELMED Etudes Sarl *	Tunis	analysis and preliminary consulting for the preparation of tender documentation of the Tunisian government for construction tenders and the management of the electricity generation site in Tunisia involved in the project for the interconnection of Italy and Tunisia.	Tunisian Dinar	2,700,000	50%	

(*) The value of the equity interest was brought to zero in 2010 (€0.7 million) as a result of the impairment of the Terna investment in ELMED Etudes Sarl, consequent to the altered political situation seen in Tunisia, which currently makes its recovery difficult.

The fair value of the FVH derivatives hedging the Company's bonds, equal to €754.9 million, is calculated by discounting forecast cash flow with the market interest rate curve at the date of reference. The increase in the fair value of derivatives (€233.1 million) with respect to 31 December 2011 is due to the reduction of the interest rate curve in 2012.
"Current financial assets" of €23.2 million (€158.2 million at 31 December 2011) dropped from the previous year by €135.0 million mainly due to the extinguishing of deposit certificates held in the portfolio at 31 December 2011 (-€150 million) and to interest accrued and not yet collected at the reporting date concerning short-term liquidity investments (+€15.0 million).

15. Other assets

"Other assets" are analysed below:

€ million	31.12.2012	31.12.2011	Change
Receivables due from others:			
- loans and advances to employees	1.7	6.1	(4.4)
- deposits with third parties	0.5	0.5	-
Other non-current assets	**2.2**	**6.6**	**(4.4)**
Other tax assets	46.2	7.9	38.3
Receivables due from others:			
- advances to employees	-	0.2	(0.2)
- other	7.6	9.0	(1.4)
Other current assets	**53.8**	**17.1**	**36.7**

"Other non-current assets" (€2.2 million), a breakdown of which is given in the table above, notes a reduction of €4.4 million with respect to last year, relating to the lesser loans and advances given to employees.

The item "Other current assets", equal to €53.8 million and whose composition is reported in the previous statement, increased by €36.7 million compared to 31 December 2011 and is essentially due to the combined effect of:

- greater other tax assets (€38.3 million), mainly relating to the recording of the VAT credit deriving from the liquidation of December (€36.5 million) and the increase of withholdings and amounts receivable from the tax authorities on interest income accrued on financial assets (+€2.1 million);
- lower receivables from others (€1.4 million), mainly regarding:
  - the booking of revenue during the previous year, not yet collected by the end of 2011 (-€3.2 million) and relating to the rentals for the use by Enel Distribuzione of the Company's infrastructures, aiming to ensure power line communication;
  - greater advances to INAIL (National Insurance Institute for Industrial Accidents) for insurance premiums (+€1.8 million).

16. Inventories

Inventories of current assets record a balance of zero. With respect to last year's figures (€12.4 million) the reduction is mainly due to the sale of the inventories to the subsidiary Terna Rete Italia S.p.A. relating to the transfer of the business unit and ordinary plant maintenance demands.

17. Trade receivables – €1,862.3 million

Trade receivables are analysed as follows:

€ million	31.12.2012	31.12.2011	Change
Energy-related receivables	1,165.7	1,257.1	(91.4)
Grid transmission fee receivables	592.1	356.7	235.4
Other trade receivables	85.2	64.4	20.8
Receivables from subsidiaries	19.3	5.8	13.5
Trade receivables	**1,862.3**	**1,684.0**	**178.3**

Trade receivables amount to €1,862.3 million and record an increase (€178.3 million) with respect to last year, mainly due to the receivable relating to the grid transmission fees in relation to the remuneration recognised to the company and to other owners for the use of the national transmission grid by electricity distributors.
Receivables are measured net of impairment losses on items considered non-collectable that are covered by allowances for doubtful accounts (€20.6 million for energy items and €5.9 million for other items in 2012, as compared with €16.9 million for energy items and €6.7 million for other items in 2011).

Energy-related receivables – €1,165.7 million

They mainly include receivables in relation to the "pass-through" energy items arising in respect of dispatching activities. This item also includes receivables for fees payable by market operators for dispatching activities (DIS fee as per AEEG Resolution no. 237/04 and its subsequent amendments and supplements).
The decrease in this item of €91.4 million from the previous year was mainly due to the combined effect of:

- lower receivables for the sale of electricity on the Power Exchange, mainly deriving from the lower credits for the uplift component (€116.4 million), lesser receivables generated by the reduction of the quantities and prices for optimising the offsetting and the advanced billing times of balances as envisaged by AEEG Resolution no. 34/09 (€23.9 million) and the reduction of resource procurement volumes on the Power Market (€22.7 million); partly offset by the increase in receivables relative to the market coupling mechanisms for the management of congestion on the interconnection with Slovenia (€28.3 million) and receivables for the virtual interconnection business (€6.4 million);
- greater receivables for the sale of electricity off the Power Exchange, mainly for credit items generated by the return on congestion (€41.4 million) and relating to the procurement of interruptible resources (€22.4 million);
- lesser receivables relative to incentive mechanisms on the reduction of volumes procured on the Market for Dispatching Services due to the net effect of the recognition of the share pertaining to the year (+€22.6 million) and the collection of receivables connected with the premium recognised according to this incentive accrued in 2010 (approximately -€58 million).

Grid transmission fees receivable – €592.1 million

The grid transmission fees receivable, €592.1 million, refer to the remuneration paid to the Company and other owners for the use of the National Transmission Grid by distributors of electricity. This receivable notes a positive change (€235.4 million) with respect to the previous financial year, as a result of the tariff adjustments envisaged by the ex Resolution ARG/elt no. 199/11 (€138.7 million) and for the recording of the receivable due from CCSE for the optional adhesion to the "mitigation" mechanism established by Resolution ARG/elt 188/08 to hedge the risk connected with the reduction in consumption (€96.7 million net of period collections) and the receivable recognised to the company for the grid transmission fees balance of previous years.

Other trade receivables – €85.2 million

Other trade receivables mainly regard receivables due from third party clients of the Company for the diversified business; they reported an increase of €20.8 million with respect to the previous year and primarily due to the net effect of:

- higher receivables due for diversified business for invoices to be issued (+€27.0 million), mainly relating to the receivable as a consequence of the stipulation of the settlement deed between the company, the subsidiary Terna Rete Italia S.r.l. and the client Wind Telecomunicazioni S.p.A. for the redetermination with retroactive effect to 2009 of the fee due from Wind for the housing of the optic fibre on the owned grids (€13.4 million) and penalties debited to third party suppliers (+€8.6 million) for contractual breach mainly relative to works/supplies for the underwater cable SA.PE.I.;
- lesser receivables due from third party customers (-€6.8 million) and which are primarily derived from orders under way in relation to stations and connections.

This item also includes net receivables for contract work in progress (€0.7 million), highlighted in the table below, relative to works of multi-year duration which the Company has been implementing with third party customers and which decreased with respect to the previous year by €1 million:

€ million	Payments on account	Contract value	Balance at 31.12.2012	Payments on account	Contract value	Balance at 31.12.2011
Others	(12.5)	13.2	0.7	(13.5)	15.2	1.7
Total	**(12.5)**	**13.2**	**0.7**	**(13.5)**	**15.2**	**1.7**

Receivables from subsidiaries – €19.3 million

These total €19.3 million and mainly relate to the amount receivable from the subsidiary Terna Rete Italia S.p.A. with reference to the contracts for the provision of technical and administrative services in its favour (€10.3 million) and to the fees for the rent of the business unit in relation to the months of November and December 2012 (€4.4 million). It is also noted the receivable due with regard to the subsidiary Terna Plus S.r.l. with reference to the service agreement in place (€0.7 million).

The amount of the guarantees issued to third parties by the Company at 31 December 2012 comes to €42.8 million and refers for €21.3 million to sureties issued to secure the contractual obligations arising under the scope of operations and for €21.5 million to guarantees issued on Terna credit lines but in the interest of the subsidiaries, of which in particular €20.0 million in the interests of the subsidiaries SunTergrid S.p.A. for commitments made under the scope of the sale of Nuova Rete Solare S.r.l.

18. Cash and cash equivalents – €2,494.4 million

Cash and cash equivalents at 31 December 2012 amount to €2,494.4 million of which €1,650.0 million are liquid funds invested in term deposits and €844.4 million as net liquidity on bank current accounts.

19. Income tax assets – €18.6 million

Income tax assets amount to €18.6 million and record an increase of €14.4 million with respect to the previous year, relating to the recording during the year of the receivable due from the tax authorities for greater IRES advances paid in 2011 (€6.4 million) and to note the IRES receivable pursuant to Italian Law Decree no. 16/2012 of 02 March 2012 (€8.0 million).

Liabilities

20. Equity – €2,599.1 million

Share capital – €442.2 million

The share capital of Terna is represented by 2,009,992,000 ordinary shares, par value €0.22 each.

Legal reserve – €88.4 million

The legal reserve amounts to 20% of the share capital of the Company. The increase of €0.2 million on last year, which restored this ratio between legal reserve and share capital, was resolved by the Shareholders' Meeting on 16 May 2012, as they met to approve the separate financial statements and to allocate the profit for the year 2011.

Other reserves – €661.3 million

Other reserves have decreased by €17.4 million due to:

- Other comprehensive income (€18.2 million): adjustment to fair value of derivatives hedging floating-rate loans of the Company (cash flow hedges), of €29.5 million, net of the related tax effect (€11.3 million);
- the recognition of the reserve (€0.8 million) resulting from the transfer of the business unit operating in the development of temporary connections by means of the use of quick-installation connection power stations and in providing other services in the subsidiary Terna Plus S.r.l., with effect as from 1 August 2012. This transfer - submitted for assessment pursuant to Art. 2465 of the Italian Civil Code by an independent expert - has been carried out with continuity of values.

Retained earnings and losses carried forward - €1,084.7 million

The increase of €31.3 million of the item "Retained earnings/Losses carried forward" regarded the allocation of the residual profit for 2011, compared to the distribution of the dividend in the same year (€422.1 million).

Interim dividend 2012

After receiving the report of the independent auditors required by Art. 2433-*bis* of the Italian Civil Code, on 08 November 2012 the Board of Directors approved the distribution of an interim dividend amounting to €140.7 million, equal to €0.07 per share, which is payable on 22 November 2012, with an ex dividend date (coupon 17) of 19 November 2012.

The following table reports the origin, availability and possibility of distribution of the components of equity:

€ million	31.12.2012	Possibility of use	Available portion
Share/quota capital	442.2	-	-
Legal reserve	88.4	B	88.4
Other reserves			
- equity-related	416.1	A, B, C	416.1
- income-related (*)	245.2	A, B, C	245.2
Retained earnings	1,084.7	A, B, C	1084.7
Interim dividend	(140.7)	A, B, C	-
Total	**2,135.9**		**1,834.4**

Key:
A - for share capital increase
B - to cover losses
C - for distribution to shareholders

(*) Includes the negative reserve for the effective portion of changes in the fair value of cash flow hedges, amounting to, net of the tax effect, €88.2 million.

Of the total available portion, €593.6 million refers to untaxed income-related reserves.

21. Loans and financial liabilities

The following table details loans and financial liabilities recognised in the separate financial statements of Terna at 31 December 2012:

	Carrying amount		
€ million	31.12.12	31.12.11	Change
Bonds	6,543.7	4,303.9	2,239.8
Bank loans	2,365.7	2,434.8	(69.1)
Long-term loans	**8,909.4**	**6,738.7**	**2,170.7**
CFH derivatives	141.2	111.4	29.8
Non-current financial liabilities	**141.2**	**111.4**	**29.8**
Short-term loans	249.7	181.3	68.4
Current portion of long-term loans	69.4	59.7	9.7
Short-term loans and current portion of medium/long-term loans	**319.1**	**241.0**	**78.1**
Total	**9,369.7**	**7,091.1**	**2,278.6**

Gross debt for the year increased with respect to the previous year by €2,278.6 million to €9,369.7 million.
The increase in the value in bonds (€2,239.8 million) is due for €1,991.0 million to the new bond issue realised in 2012 net of the costs and issue discounts, for €230.7 million to the change in the fair value of the risk hedged and for €3.3 million to the amortised cost and for €14.8 million to the capitalisation of year inflation.

The change linked to the hedging of the interest rate risk comprises €40.8 million in relation to the inflation-linked bond issue, €64.7 million associated to the bonds 2014-2024, €36.8 million for the private placement and €88.4 million relating to the bond issued in 2011.

The latest official prices for the bonds listed on the Luxembourg Stock Exchange are detailed below:

- bond maturing 2024, price at 2012: 112.88 and price at 2011: 93.85;
- bond maturing 2014, price at 2012: 105.89 and price at 2011: 102.42;
- bond maturing 2023, price at 2012(*): 105.82 and price at 2011: 82.00;
- bond maturing 2019, price at 2012: 114.72 and price at 2011: 96.86;
- bond maturing 2021, price at 2012: 113.55;
- bond maturing 2017, price at 2012: 108.51;
- bond maturing 2018, price at 2012: 102.73.

(*) Source: bank, in the absence of up-to-date price source: Reuters and Bloomberg.

The debt which was originally floating-rate, shows a decrease of €59.4 million mainly due to the reduction in EIB (European Investment Bank) loans (€59.7 million) and other financing following repayments made on outstanding loans.
"Short-term loans" (€249.7) includes the balance of intercompany current accounts held by Terna S.p.A. with its Italian subsidiaries.

Long-term loans

The following table reports the book values of long-term debt and the repayment plan as of 31 December 2012, broken down by loan type, including amounts falling due within one year and average interest rate at year-end:

€ million	Maturity	31.12.2011	31.12.2012	Due within one year	Due beyond one year	2014	2015	2016	2017	After	Average interest rate as of 31.12.2012
Bond	2014-2024	1,611.0	1,676.1	-	1,676.1	637.1	-	-	-	1,039.0	4.62%
Bonds IL	2023	654.8	710.5	-	710.5	-	-	-	-	710.5	2.75%
Bond PP	2019	662.0	699.4	-	699.4	-	-	-	-	699.4	4.87%
Bonds 1250	2021	1,376.1	1,465.7	-	1,465.7	-	-	-	-	1,465.7	4.75%
Bonds 1250	2017	-	1,246.0	-	1,246.0	-	-	-	1,246.0	-	4.12%
Bonds 750	2018	-	746.0	-	746.0	-	-	-	-	746.0	2.87%
Total fixed rate		**4,303.9**	**6,543.7**	**-**	**6,543.7**	**637.1**	**-**	**-**	**1,246.0**	**4,660.6**	
EIB	2014-2030	1,345.4	1,285.7	69.4	1,216.3	79.1	77.0	85.1	96.9	878.2	1.33%
Club Deal	2015	649.1	649.4	-	649.4	-	649.4	-	-	-	1.25%
CDP	2019	500.0	500.0	-	500.0	-	-	-	-	500.0	2.07%
Total floating rate		**2,494.5**	**2,435.1**	**69.4**	**2,365.7**	**79.1**	**726.4**	**85.1**	**96.9**	**1,378.2**	
Total		**6,798.4**	**8,978.8**	**69.4**	**8,909.4**	**716.2**	**726.4**	**85.1**	**1,342.9**	**6,038.8**	

To repay the nominal value of the bonds, amounting to €5,250.0 million, €600 million will be repaid on 28 October 2014, €1,250 million on 17 February 2017, €750 million on 16 February 2018, €600 million on 03 October 2019, €1,250 million on 15 March 2021 and €800 million on 28 October 2024; whilst the inflation-linked bond will be repaid at maturity on 15 September 2023 with the nominal amount adjusted to reflect inflation.
For all other financial debt items the table above shows the related repayment plan.

The total amount of Terna's borrowings at 31 December 2012 is equal to €8,978.8 million, of which €6,038.8 million is due after more than five years.
The previous table shows the average interest rate for each type of financial liability. Below we also comment on the 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 1.56%.

For the inflation-linked bonds - and taking hedges into account - and assuming a 2.72% inflation rate, the average interest rate paid in the year was 2.27%.
The fixed-rate private placement was synthetically transformed to a floating rate security by means of derivative contracts with the same maturity. Consequently, the average interest rate paid in the year was 2.41%.

The average coupon of the 2021 bond is 4.75%; if we consider FVH operations, the average interest rate amounts to 2.21%. For the two bond issues made in 2012 maturing in 2017 and 2018, no hedges have been implemented and the average interest rate is respectively 4.12% and 2.87%.

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 2.85 % is reported for EIB financing while for the Club Deal financing totalling €650 million the average rate was 3.50% and for the CDP financing the average rate was 4.06%.

The following table reports changes in long-term debt for the year:

Type of loan	Nominal debt at 31.12.11	Carrying amount at 31.12.11	Repayment and capitalisation	New issues	Delta Fair Value 31.12.2011 31.12.2012	Change in carrying amount	Nominal debt at 31.12.2012	Carrying amount at 31.12.2012
Bonds 2014-2024	1,400.0	1,611.0	-	-	65.1	65.1	1,400.0	1,676.1
Listed IL Bond	546.9	654.8	14.8	-	40.9	55.7	561.7	710.5
Private Placement	600.0	662.0	-	-	37.4	37.4	600.0	699.4
2021 Bond	1,250.0	1,376.1	-	-	89.6	89.6	1,250.0	1,465.7
2017 Bond	-	-	-	1,245.1	0.9	1,246.0	1,250.0	1,246.0
2018 Bond	-	-	-	745.9	0.1	746.0	750.0	746.0
Total bonds	**3,796.9**	**4,303.9**	**14.8**	**1,991.0**	**234.0**	**2,239.8**	**5,811.7**	**6,543.7**
Bank loans	2,495.4	2,494.5	(59.7)	-	0.3	(59.4)	2,435.7	2,435.1
Total bank loans	**2,495.4**	**2,494.5**	**(59.7)**	**-**	**0.3**	**(59.4)**	**2,435.7**	**2,435.1**
Total financial debt	**6,292.3**	**6,798.4**	**(44.9)**	**1,991.0**	**234.3**	**2,180.4**	**8,247.4**	**8,978.8**

As compared with 31 December 2011, long-term debt shows an overall increase of €2,180.4 million, due for €1,991.0 million to the issue of two new bond loans maturing in 2017 and 2018, net of expenses and issue discounts, for €14.8 million to the capitalisation of year inflation linked to the IL bond, for €234.3 million to the increase in the fair value of bonds, also considering the amortised cost and for €59.7 million to the repayment of instalments on the EIB loans.
At 31 December 2012, Terna had unused credit lines exceeding €1,185.9 million, of which more than €685.9 million in short-term credit lines and €500.0 million in a medium-term credit line.

Non-current financial liabilities

The table below reports the amount and changes in non-current financial liabilities with respect to value at the end of 2011:

€ million	31.12.12	31.12.11	Change
CFH derivatives	141.2	111.4	29.8
Total	**141.2**	**111.4**	**29.8**

"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. The change in the interest rate curve since 31 December 2011 resulted in a change amounting to €29.8 million.

Current financial liabilities

Current financial liabilities, due to the net interest expense accrued on financial instruments but not yet settled, have increased by €35.2 million since the end of last year.

The following table details deferred liabilities on the basis of the financial liabilities to which they relate:

€ million	31.12.2012	31.12.2011	Change
Deferred liabilities on:			
Derivatives			
- hedging	*(49.6)*	*(43.2)*	*(6.4)*
Bonds			
- inflation linked	*4.6*	*4.4*	*0.2*
- Private Placement	*7.2*	*7.2*	*-*
- 5-year (2017)	*45.0*	*-*	*45.0*
- 10-year (2014)	*4.5*	*4.5*	*-*
- 20-year (2024)	*7.0*	*7.0*	*-*
- 10-year (2021)	*47.5*	*47.4*	*0.1*
- 5-year (2018)	*4.6*	*-*	*4.6*
Total	**120.4**	**70.5**	**49.9**
Loans	4.5	12.8	(8.3)
Total	**75.3**	**40.1**	**35.2**

Net financial position

Pursuant to CONSOB Communication of 28 July 2006 and in compliance with Recommendation ESMA/2011/81 of 23 March 2011, the net financial position of the Company is as follows:

		Carrying amount
€ million		31.12.2012
A.	Cash	844.4
B.	Term deposits	1,650.0
C.	Inter-company loan to Terna Rete Italia S.r.l.	500.0
D.	**Cash and cash equivalents (A) + (B) + (C)**	**2,994.4**
E.	Current portion of long-term payables	69.4
F.	Net current a/c position of intercompany treasury	249.7
G.	**Current financial debt (E)+(F)**	**319.1**
H.	**Net current financial debt (G) - (D)**	**(2,675.3)**
I.	Non-current bank debt	2,365.7
J.	Bonds issued	6,543.7
K.	Derivative financial instruments in portfolio	(613.7)
L.	**Net non-current financial debt (I) + (J) + (K)**	**8,295.7**
M.	**Net financial debt (L) + (H)**	**5,620.4**

The **debt/equity** ratio of Terna stood at 2.16 in 2012.
For more details on the composition of the items in this table, please see Notes 14 and 18, as well as the information presented here in Note 21.

Default risk and covenants on the debt

This risk is associated with the possibility that the loan contracts or bond rules to which the Parent is a party may contain provisions that, where certain events occur, authorise counterparties to call in such loans immediately, 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:

1. the Company's bonds, comprising two issues of €600 million and €800 million in 2004, and five issues under the €5 billion (€5,000,000,000 Medium-Term Notes Programme, hereinafter the "EMTN 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 realised in March 2011, one of €1,250 million in February 2012 in addition to one of €750 in October 2012;
2. bank payables, consisting of a revolving line of credit of €500, 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;
3. loans to the Company from the European Investment Bank (EIB) totalling €1,623 million.

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

- "negative pledge" clauses, under which the issuer or significant subsidiaries (consolidated companies whose total assets represent at least 10% of total statutory assets and, solely for the EMTN programme, whose registered offices are in an OECD country) may not establish or maintain mortgages, liens or other encumbrances on all or part of its assets in order to secure listed bonds, unless these guarantees are extended on the same basis to the bonds concerned. A number of exceptions apply (guarantees required by law, guarantees in place prior to the date of the loan, guarantees on new assets that only secure the payable arranged to acquire them etc.), in relation to which the Company is not bound by the above pledges;
- "pari passu" clauses under which the securities constitute a direct, unconditional and unsecured obligation of the issuer and are issued without preferential rights among them and have at least the same seniority as other present and future unsecured and unsubordinated borrowing of the issuer;
- "event of default" clauses, under which certain events (e.g. failure to pay, initiation of liquidation proceedings of the issuer, breach of contractual obligations etc.) are considered to represent potential default; in addition, under the "cross default" clauses, the occurrence of a default event in respect of any financial debt (above a threshold level) issued by the issuer also constitutes a default in respect of the loan concerned, which becomes immediately repayable;
- periodic or occasional reporting requirements on the occurrence of specified events.

The principal covenants for the revolving line of credit, the "Club Deal" syndicated loan and the €500 million 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 statutory assets) agree not to establish new guarantees securing any type of financial debt, with the exception of permitted guarantees (guarantees required by law, guarantees in place prior to the date of the loan, guarantees on new assets that only secure the payable arranged to acquire them, guarantees given to governmental or international entities, including the EIB, guarantees on borrowing whose amount does not exceed 10% of total assets etc.);
- "pari passu" clauses under which the payment undertakings of the borrower in respect of loans are not subordinate to any obligation in respect of other unsecured and unsubordinated creditors, except in the case of statutory preferential rights;
- "event of default" clauses linked to the occurrence of specified events (such as, for example, failure to pay, false declarations, insolvency, termination of activities, seriously prejudicial events, breach of contractual obligations, including the equality of the conditions applied by lenders etc.) are considered to represent potential default; in addition, under the "cross default" clauses, the occurrence of a default event in respect of any financial debt (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 consequently, the rating is lower than: A- by Standard & Poor's or A3 by Moody's or A- by Fitch), the Bank is entitled to require the Company to provide it with additional guarantees that are considered satisfactory at the sole discretion of the Bank, exercised on a reasonable basis;

- "pari passu" clauses, under which for the entire period of the loans the Company will ensure that the payment obligations have the same seniority as those relating to all other unsecured and unsubordinated creditors;
- periodic or occasional reporting requirements on the occurrence of specified events concerning both the projects being financed and the Company itself;
- clauses regarding early repayment/application of the acceleration clause/withdrawal/termination of the contract on which basis, where certain events occur (such as, for example, failure to pay, serious inaccuracies in documentation presented, insolvency, events resulting in negative consequences on the financial commitments made by the company, special administration, liquidation, etc.), the loan in question becomes immediately due; additionally, where the Company is required upon default to discharge in advance any other financial obligation deriving from loans, credit facilities, bank advances, discounting, the issue or subscription of any form of bond or security, such default shall also constitute default on the loan in question, triggering immediate repayment.

22. Employee benefits – €13.9 million

Terna provides benefits to its employees during their period of employment (loyalty bonus), at the termination of their employment (termination benefits, additional month's pay and indemnity for lack of notice), and in the period after the termination of employment (electricity discount and the ASEM health plan).
The loyalty bonus is awarded to employees and managers of the Company when they reach certain seniority levels (25 and 35 years of service).
The benefits granted at the termination of employment are recognised for all employees (termination benefits), managers hired or appointed before 28 February 1999 (indemnity for lack of notice), and employees (production workers, office staff and junior managers) hired before 24 July 2001 (additional month's pay indemnity).
Post-employment benefits consist of the following:

- discount on electrical energy consumed for domestic use. This benefit is offered to all employees hired before 30 June 1996 (electricity discount);
- a healthcare plan complementing the national health service, as agreed under the terms of the national contract for industrial managers (the ASEM health plan).

The composition of termination benefits and other employee-related provisions at 31 December 2012 is detailed below along with changes in the period:

€ million	31.12.2011	Intragroup allocation and conferrals	Provision	Interest cost	Utilisations and other changes	31.12.2012
Benefits payable to employees						
Loyalty bonus	3.8	(3.4)	0.2	0.1	(0.3)	0.4
Total	**3.8**	**(3.4)**	**0.2**	**0.1**	**(0.3)**	**0.4**
Benefits payable upon termination of employment						
Termination benefits	64.4	(60.0)	-	0.8	(1.1)	4.1
Additional months' pay	6.5	(6.3)	-	0.1	(0.2)	0.1
Indemnities for lack of notice and similar	2.7	(1.2)	-	-	(0.2)	1.3
Total	**73.6**	**(67.5)**	**-**	**0.9**	**(1.5)**	**5.5**
Post-employment benefits						
Energy discount	30.9	(28.1)	0.2	0.4	(0.9)	2.5
ASEM	10.9	(5.2)	-	0.2	(0.4)	5.5
Total	**41.8**	**(33.3)**	**0.2**	**0.6**	**(1.3)**	**8.0**
Total	**119.2**	**(104.2)**	**0.4**	**1.6**	**(3.1)**	**13.9**

The item (€13.9 million at 31 December 2012; €119.2 million at 31 December 2011) records a reduction with respect to the previous year of €105.3 million, attributable for €104.2 million to infragroup transfers and, in particular, to the transfer of liabilities associated with employees included in the business unit sold to Terna Rete Italia S.p.A. (€104.1 million). They also include net uses during the period (€2.7 million) and the period discounting expense (€1.6 million).

Below is the reconciliation of the current value of the obligation for employee benefits with respect to the assets and liabilities recognised on the financial statements:

€ million	Termination benefits	Indemnities for lack of notice and similar	Additional months' pay	Loyalty bonus	ASEM	Energy discount	Total
Current value of obligation	3.9	0.4	0.4	0.4	5.5	14.0	24.6
Net actuarial gains/losses not recognised	0.2	0.9	(0.3)	-	-	(11.5)	(10.7)
Net liabilities recognised	**4.1**	**1.3**	**0.1**	**0.4**	**5.5**	**2.5**	**13.9**

Costs for liabilities in respect of employee benefits recognised in the income statement break down as follows:

€ million	Termination benefits	Indemnities for lack of notice and similar	Additional months' pay	Loyalty bonus	ASEM	Energy discount	Total
Service cost	-	-	0.1	-	0.1	0.2	0.4
Financial expense	0.8	-	0.1	0.1	0.2	0.4	1.6
Amortisation of actuarial gains/losses	-	(0.2)	-	(0.2)	(0.3)	-	(0.7)
Total	**0.8**	**(0.2)**	**0.2**	**(0.1)**	**-**	**0.6**	**1.3**

The main assumptions made in the actuarial estimate of employee benefit obligations are as follows:

Percentage figures	2012	2011
Discount rate	2.05%	4.10%
Rate of increase in personnel salary	2.0% - 4.0%	2.0% - 4.0%
Rate of increase in healthcare costs	3.00%	3.00%

23. Provisions for risks and charges – €121.8 million

The items and changes of the provisions for risks and charges at 31 December 2012 are set out below:

€ million	Provision for disputes and litigation	Provisions for other risks and charges	Provision for early retirement	Total
31.12.2011	**15.4**	**106.8**	**20.1**	**142.3**
Intragroup transfers	-	(2.3)	-	(2.3)
Provision	3.9	40.2	1.7	45.8
Utilisations and other changes	(0.9)	(59.9)	(3.2)	(64.0)
31.12.2012	**18.4**	**84.8**	**18.6**	**121.8**

Provision for disputes and litigation – €18.4 million

The provision is accrued to cover the liabilities at year end that may arise from lawsuits and out-of-court disputes relating to Company activities. The amount accrued takes into account the opinions both of internal and external legal counsel and changed by €3.0 million with respect to the previous year, due to the net period accruals.
Litigation for which no potential charge can reasonably be calculated are described under "Off-balance sheet commitments and risks".

Provision for other risks and charges – €84.8 million

With respect to last year, the provision shows a net reduction of €22.0 million due to the transfer of funds included in the business unit rented out to Terna Rete Italia S.p.A. (-€2.3 million), to accruals (€40.2 million) and uses (-€59.9 million) of the year, including, specifically:

- reduction of the risk provision "Projects for urban and environmental renewal" for a total of €53.4 million, due to the release of previous accruals made and currently considered unlikely (€45.6 million) and the net use deriving from accruals and disbursements (€7.8 million, considering the effect of the passage of time on money on previous accruals, equal to €0.6 million);
- accruals for the Single Municipal Tax (IMU) considered probable, as a consequence of the application of Circular 6/2012 of the Territorial Authority on the registration of power stations (€15.6 million);
- accruals relating to tax risks, €5.8 million;
- net accruals referring to management incentive plans for €4.7 million;
- exchange rate adjustment (-€1.4 million) of the provision for probable expenses relating to tax obligations deriving from the sale of Terna Participações;
- a net accrual of €0.3 million for the charges due to distributing companies for power failures of the transformation plants linked to the NTG (in accordance with Resolution 341/07 - €0.9 million) as well as for the sharing of indemnities due to final users (-€0.6 million).

Provision for early retirement incentives – €18.6 million

This provision reflects the estimated non-recurring charges related to the voluntary early termination of the working relationship of employees who are eligible for retirement. The item reflects a decrease of €1.5 million for net uses made during the financial year.

24. Deferred tax liabilities – €129.6 million

The changes in this provision are analysed below:

€ million	31.12.2011	Intragroup allocation and conferrals	Impact recognised in profit or loss		Impact recognised in equity	31.12.2012
			Provisions	Utilisations		
Deferred tax liabilities						
Property plant and equipment	328.7			(51.7)		277.0
Employee benefits and financial instruments	4.3					4.3
Total deferred tax liabilities	**333.0**	**-**	**-**	**(51.7)**		**281.3**
Deferred tax assets						
Provisions for risks and charges	23.5	(0.8)	5.3	(3.8)		24.2
Allowance for doubtful accounts	3.6					3.6
Employee benefits	26.9	(16.0)	3.8	(8.2)		6.5
FVH - CHF derivatives	42.3				11.3	53.6
Release of goodwill	67.6			(3.8)		63.8
Total deferred tax assets	**163.9**	**(16.8)**	**9.1**	**(15.8)**	**11.3**	**151.7**
Net deferred tax liabilities	**169.1**	**16.8**	**(9.1)**	**(35.9)**	**(11.3)**	**129.6**

This balance, equal to €129.6 million, reflects the net movements in the Company's deferred tax assets and liabilities.
Deferred tax liabilities totalled €281.3 million, down €51.7 million, essentially due to:

- the use of previous provisions to cover the difference between additional depreciation and amortisation calculated using ordinary technical rates (€42.0 million), including the reversal in respect of the amortisation/depreciation charge for the period attributable to the difference from merger eliminations allocated to property, plant and equipment following mergers carried out in previous years (€2.9 million);
- release of the charge for year (€9.7 million) of the provision for deferred IRAP liabilities governed by Law no. 244 dated 24/12/2007 (the 2008 Finance Law), recorded in prior years in relation to economic/technical rates.

Prepaid tax assets (€151.7 million) show a decrease of €12.2 million, mainly related to the following changes:

- transfer of deferred taxation on provisions for risks and charges and employee benefits in relation to the business unit rented to Terna Rete Italia S.p.A. (€16.8 million);
- accrual of €11.3 million, attributable to the tax effect, which has no impact on the income statement, in respect of changes in cash flow hedge instruments;
- use, amounting to €3.8 million, of the share for the year of deferred tax assets allocated for the release of goodwill recorded following the merger of RTL;
- net use of €4.4 million relative to movements in provisions for employee benefits;
- net accrual for €1.5 million in relation to uses during the year of the provisions for risks and charges.

25. Other non-current liabilities – €210.5 million

The item (€210.5 million at 31 December 2012) includes the amount payable to Terna Rete Italia S.p.A. arising through the transfer of net liabilities included in the business unit (€87.0 million) and deferred positions relating to set-up grants (€123.5 million).
The increase in the item (€81.4 million) on last year, derives from said recording of the amount payable to the subsidiary Terna Rete Italia S.p.A. and the release of the shares of set-up grant portions (€5.6 million).

26. Current liabilities

Current liabilities at 31 December 2012 break down as follows:

€ million	31.12.2012	31.12.2011	Change
Short-term loans *	249.7	181.3	68.4
Current portion of long-term loans *	69.4	59.7	9.7
Trade payables	2,270.7	2,047.7	223.0
Tax liabilities	50.4	88.2	(37.8)
Current financial liabilities *	75.3	40.1	35.2
Other current liabilities	113.7	135.9	(22.2)
Total	**2,829.2**	**2,552.9**	**276.3**

(*) See the comments in Note 21. LOANS AND FINANCIAL LIABILITIES.

Trade payables – €2,270.7 million

Trade payables at 31 December 2012 break down as follows:

€ million	31.12.2012	31.12.2011	Change
Suppliers:			
- Energy-related payables	1,637.4	1,334.4	303.0
- Non energy-related payables	176.0	673.2	(497.2)
Payables due to associates	0.9	7.1	(6.2)
Payables due to subsidiaries	454.0	29.9	424.1
Payables for contract work in progress	2.4	3.1	(0.7)
Total trade payables	**2,270.7**	**2,047.7**	**223.0**

Suppliers

Energy-related payables

This item reports the effects on the balance sheet of payables for "pass-through" costs not ascribable to the 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 €303.0 million compared with the previous year is essentially attributed to the net effect of:

- increased payables (€296.4 million) relative to "pass-through items" which are mainly ascribable to the joint effect of:
  - the increase in payables for the purchase of electricity on the Power Exchange (€188.0 million) mainly deriving from the net effect of most of the debt items generated by the increased procurement volumes of resources on the Power Exchange (€191.2 million), the greater debt deriving from the virtual interconnection business (€72.1 million); partially offset by the reduction of the quantities and prices valuing the difference (€65.2 million), as described in "Trade receivables", and the reduction of the debt items relating to the market coupling mechanism for the management of congestion on the interconnection with Slovenia (€10.4 million);
  - the increased payables for the purchase of electricity outside the Power Exchange (€108.4 million) mainly deriving from the greater debt relating to the procurement of interruptible resources (€45.7 million) and the increased payables for the safety of the electrical system (EUSES) (€40.5 million, of which €20.1 million paid the first few days of the following year) and the increase of the debt items generated from the income from congestion (€40.1 million);
- greater margin payables (€6.6 million) due to the Electricity Industry Adjustment Fund, due to the net effect of greater debt in relation to the premium and penalty mechanism on the quality of the transmission service (RENS) (€10.2 million), partially offset by the reduction in net expense to be paid to the Provision for exceptional events for power failures during previous years and this year (€2.6 million) in accordance with Resolution 341/07 as subsequently amended, and the receivable recognised to the parent company for the grid transmission fees relative to previous years (€1.0 million), as commented on in the paragraph on "Grid transmission fees receivable" under "Trade receivables".

Non energy-related payables

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

The decrease on last year (€497.2 million) is mainly due to the significant debt items for investing activities in place as at 31 December 2011, liquidated during the first few days of this year and following the application of intercompany contracts signed as part of the new organisational structure of the Terna Group, as described above. This significant reduction in the item is offset by the greater payables due to the subsidiary Terna Rete Italia S.p.A. as a result of the rent granted during the year to the subsidiary Terna Rete Italia S.p.A. of the business unit including the maintenance, operation, renewal and development on the NTG owned; for more details, please refer to "Amounts payable to subsidiaries".

Payables to subsidiaries

The increase in the item (€424.1 million) is mainly due to greater amounts payable for invoices to be received and received from the subsidiary Terna Rete Italia S.p.a. in relation to services provided in the last quarter of 2012 in enforcement of active contracts in place, mainly relating to renewal and development (€378.6 million) and ordinary maintenance and technical services on the NTG (€73 million).

Associates

This item amounts to €0.9 million and mainly includes payables to the associate CESI for services provided to Parent Company in the construction and management of laboratories and plants for tests, inspections, studies and experimental research in the general field of electricity technology and scientific and technical progress. The reduction (€6.2 million) with respect to 31 December 2011 is due to the lesser services booked by the company following the rent of the business unit to Terna Rete Italia S.p.A. during the year.

Company commitments with suppliers amounted to about €286.7 million and refer to purchase commitments relating to normal "operating activities" for the period 2013-2017.

Payables for contract work in progress

Payables for contract work in progress, totalling €2.4 million at 31 December 2012, are down by €0.7 million, mainly in line with 31 December 2011 and consist of the following:

€ million	Payments on account	Contract value	Balance at 31.12.2012	Payments on account	Contract value	Balance at 31.12.2011
Other	(15.8)	13.4	(2.4)	(15.5)	12.4	(3.1)

Tax liabilities – €50.4 million

The caption refers to the Company's liabilities for IRES and IRAP taxes for the financial year. This shows a net reduction of €37.8 million on last year, substantially as a result of the lesser advances paid during the previous year, which did not include the new legislation introduced during the second half of 2011, pursuant to the "Robin Hood Tax".

Other current liabilities – €113.7 million

Other current liabilities break down as follows:

€ million	31.12.2012	Due within one year	Due beyond one year	31.12.2011	Change
Payments on account	37.6	18.9	18.7	37.1	0.5
Other tax liabilities	1.0	1.0	-	20.5	(19.5)
Payables to social security institutions	6.6	6.6	-	22.3	(15.7)
Payables to employees	8.6	8.6	-	31.2	(22.6)
Other payables to third parties	59.9	3.7	56.2	24.8	35.1
Total	**113.7**	**38.8**	**74.9**	**135.9**	**(22.2)**

Payments on account

This caption (€37.6 million) includes the set-up grants related to assets collected by the Company in relation to assets under construction at 31 December 2012.

Compared to the 2011 book value (€37.1 million), there is an increase of €0.5 million, mainly due to the net effect of new payments on account received from third parties for €24.9 million and a decrease of €24.4 million in the grants reducing the book values of assets entered into operation during the financial year; in particular there are payments on account received in accordance with the mandate contract for the design of the "Interconnector" interconnection infrastructure with other countries (€17.5 million, in accordance with Resolution ARG/elt 179/09 and its subsequent amendments).

Other tax liabilities

Other tax liabilities (€1.0 million) mainly include the recording of amounts payable for IRPEF withholdings on salaries and are down by €19.5 million with respect to last year, mainly due to the liquidation of the VAT payable pertinent to the year.

Payables to social security institutions

Payables to social security institutions, mainly relating to amounts payable to INPS, come to €6.6 million (€22.3 million at 31 December 2011), thereby decreasing by €15.7 million, mainly due to the rent of the business unit, including human resources, to the subsidiary Terna Rete Italia S.p.A., during the year.

Payables to employees

Payables to employees (€8.6 million; €31.2 million at 31 December 2011) reduce by €22.6 million, mainly as a result of the rent to the subsidiary Terna Rete Italia S.p.A. of the business unit including human resources and mainly refer to:

- accruals made for staff incentives to be paid the following year (€5.3 million);
- payments due to employees for unused holiday time and abolished public holidays (€1.9 million);
- termination benefits due to employees whose employment was terminated before 31 December 2011 (€0.3 million).

Other payables to third parties

Other payables, equal to €59.9 million (€24.8 million at 31 December 2011), mainly regard security deposits (€56.2 million) received from electricity market operators securing their obligations in respect of dispatching contracts. The item shows an increase of €35.1 million mainly attributable to security deposits received securing their obligations in respect of dispatching and virtual interconnection contracts.

E. Commitments and risks

Risk management

Market and financial risks

During the financial year, in going about its business, Terna is exposed to various different financial risks: market risk (namely interest rate risk and inflation risk), liquidity risk and credit risk.
This section provides comprehensive information regarding Terna's exposure to all the above risks, along with a presentation of the objectives, policies and processes for managing those risks and the methods used to measure them, with further quantitative disclosures concerning the 2012 financial statements.
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 revised on a regular basis in order to reflect any changes in market conditions and the Company's activities.
As a part of the financial risk management policies approved by the Board of Directors, Terna has established the responsibilities and operating procedures for financial risk management, specifically as concerns the instruments to be used and the precise operating limits in managing them.

	31.12.2012					31.12.2011				
€ million	Receivables	Receivables at fair value	Hedging derivatives	Assets available for sale	Total	Receivables	Receivables at fair value	Hedging derivatives	Assets available for sale	Total
Assets										
Derivative financial instruments	-	-	754.9	-	754.9	-	-	521.8	-	521.8
Cash, short-term deposits and inter-company loans	2,994.4	-	-	-	2,994.4	1,583	-	-	-	1,583
Total	**2,994.4**	**-**	**754.9**	**-**	**3,749.3**	**1,583**		**521.8**	**-**	**2,104.8**

	31.12.2012				31.12.2011			
€ million	Payables	Loans at fair value	Hedging derivatives	Total	Payables	Loans at fair value	Hedging derivatives	Total
Payables								
Long-term debt	2,684.8	6,543.7	-	9,228.5	2,676.0	4,303.9	-	6,979.9
Derivative financial instruments	-	-	141.2	141.2	-	-	111.4	111.4
Total	**2,684.8**	**6,543.7**	**141.2**	**9,369.7**	**2,676.0**	**4,303.9**	**111.4**	**7,091.3**

Market risks

Market risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of changes in financial market conditions. Market risks include three types of risks: exchange rate risk, interest rate risk and inflation risk. Risk management must be performed with the objective of maximising financial income and minimising the related risks by selecting counterparties and instruments compatible with the corporate risk management policy. Speculative activity is not envisaged in the corporate mission.
Terna S.p.A. seeks to adopt a dynamic approach to financial risk management. This approach is characterised by risk aversion, aiming at minimising risk through continuous monitoring of financial markets in order to plan hedging transactions in favourable market conditions. The dynamic approach makes it possible to take action to improve existing hedges where changes in market conditions or in the hedged item make the latter unsuitable or excessively expensive. The concept of hedging transaction is not restricted to those hedges that qualify for hedge accounting, but rather encompasses the objective of total or partial hedging of the income statement or statement of financial position item from interest rate risk.

All derivative contracts have a notional amount and maturity date less than or equal to that of the underlying financial liability, so that any change in the fair value and/or estimated cash flows of the contracts is offset by a corresponding change in the fair value and/or estimated cash flows of the underlying position. The fair value of financial derivatives reflects the estimated amount that Terna would pay or receive in order to extinguish contracts at the closing date.
The fair value of 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 as at the closing date (such as interest rates, exchange rates, and volatility) and discounting projected cash flows on the basis of the market yield curve and inflation at the reporting date.
The financial assets and liabilities in respect of derivative instruments in place during the year 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).

Below are the notional amounts and fair values of the derivative financial instruments subscribed by Terna:

	31.12.2012		31.12.2011		Change	
€ million	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
FVH derivatives	3,750.0	754.9	3,750.0	521.8	-	233.1
CFH derivatives	2,435.7	(141.2)	3,418.4	(111.4)	(982.7)	(29.8)

Interest rate risk

Interest rate risk is represented by the uncertainty associated with interest rate fluctuations. This is the risk that a change in market rates may produce effects on the fair value or future cash flows of financial instruments.
In conducting its operations, Terna is exposed to the risk of fluctuations in interest rates. Its main source of interest rate risk is associated with items of net financial debt and the related hedging positions in derivative instruments that generate financial expense. Terna's borrowing strategy focuses on long-term loans whose term reflects the useful life of company assets. It pursues an interest rate risk hedging policy that aims to reconcile this approach with the regulatory framework, which every four years establishes the cost of debt as part of the formula to set the return on the Regulatory Asset Base (RAB).
Accordingly, the hedging instruments used, at various maturity dates, include both derivatives that transform fixed rates into floating rates and derivatives that transform floating rates into fixed rates.
In order to reduce the amount of financial debt exposed to the risk of fluctuations in interest rates and to optimise the temporal correlation between average cost of debt and regulatory rate used in the WACC formula, various types of plain vanilla derivatives are used, such as interest rate swaps.
Interest rate swaps are used in order to reduce the volume of debt exposed to fluctuations in interest rates and to reduce the volatility of borrowing costs. With an interest rate swap, Terna agrees with a counterparty to exchange, at specific intervals, the floating-rate cash flows on a specified notional amount against the fixed-rate (agreed between the parties) cash flows, or vice versa.
The following table shows the financial instruments entered into by Terna, classified according to the type of interest rate (fixed or floating):

	Carrying amount		
€ million	31.12.2012	31.12.2011	Change
Fixed-rate financial instruments:			
- assets	-	-	-
- liabilities	6,684.9	4,415.3	2,269.6
Floating-rate financial instruments:			
- assets	3,749.3	2,286.1	1,463.2
- liabilities	2,684.8	2,675.8	9.0
Total	**5,620.4**	**4,805.0**	**815.4**

Sensitivity to interest-rate risk

As regards the management of interest rate risk, Terna has, on the one hand, entered into fixed-to-floating interest rate swaps (FVH) to hedge the fair value of the fixed-rate risk bonds and, on the other, floating-to-fixed interest rate swaps (CFH) to hedge the expected cash flows in respect of all other floating-rate debt.

Since the hedging relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge, as verified initially and periodically over its life, is high (between 80% and 125%), the Company has elected to use hedge accounting to ensure the perfect temporal matching of the hedge and the hedged item. The aim of hedge accounting is to recognise the effects of the hedges and the hedged items in the income statement at the same time. Accordingly, for FVH derivatives, any changes in the fair value of the hedged item attributable to the risk being hedged must be booked in the income statement, thereby offsetting the changes in the fair value of the derivative booked in the income statement. For CFH derivatives, the changes in the fair value of the derivative must be booked in "Other comprehensive income" (recognising any ineffective portion of the hedge directly in the income statement) and then reversed through the income statement in the same period in which the cash flows of the hedged instrument materialise. The characteristics of the CFH derivatives mirror those of the underlying hedged asset so the related cash flows will materialise at the same maturities as the interest on the debt, with no impact of the changes in fair value on the income statement.

The following table reports the amounts booked in the income statement and in "Other comprehensive income" 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 booked in the income statement and in "Other comprehensive income" 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			Other comprehensive income		
€ million	Current rates +10%	Current rates	Current rates -10%	Current rates +10%	Current rates	Current rates -10%
31.12.2012						
Positions sensitive to interest rate variations (FVH, bonds,CFH)	2.5	2.4	2.3	(138.7)	(141.2)	(143.7)
Hypothetical change	*0.1*	-	*(0.1)*	*2.5*	-	*(2.5)*
31.12.2011						
Positions sensitive to interest rate variations (FVH, bonds)	1.0	(0.2)	(1.4)	(100.0)	(111.4)	(122.9)
Hypothetical change	*1.2*	-	*1.2*	*11.4*	-	*(11.5)*

Inflation risk

As regards inflation rate risk, the rates established by Regulators to remunerate Terna S.p.A.'s activities are determined so as to allow coverage of the sector's recognised costs. Such cost components are updated on an annual basis to consider the accrued impact of inflation. In 2007, the Company used an inflation-linked bond issue to obtain an effective hedge of profit for the year; any decrease in expected revenue due to a decrease in the inflation rate would be offset by lower financial expense.

Exchange rate risk

Generally Terna hedges exchange rate risk through the forward sale or purchase of currencies (forward contracts) or the use of options. Currency options give Terna the right or the obligation to buy or sell predetermined amounts of a currency at a specific exchange rate at the end of a specific period of time. Normally, both forward contracts and options have maturities of no more than 12 months.

Such contracts have a notional amount and maturity date less than or equal to that of the underlying financial liability, or the expected cash flows, so that any change in the fair value and/or estimated cash flows deriving from an appreciation or depreciation of the euro against other currencies is fully offset by a corresponding change in the fair value and/or estimated cash flows of the underlying position.

At 31 December 2012 (as at 31 December 2011), no financial instruments exposed to exchange rate risk were present.

Liquidity risk

The liquidity risk is the risk Terna might encounter difficulty in discharging its obligations in respect of its financial liabilities and operational cycle. Liquidity risk management seeks to ensure adequate coverage of financial needs by obtaining adequate lines of credit and appropriate management of any surplus liquidity. As of 31 December 2012 Terna had €500 million in medium-term credit lines and €685.9 million in short-term credit lines. The table below shows the repayment plan at 31 December 2012 of the nominal long-term debt.

€ million	Maturity	31.12.2012	Maturity within 12 months	Maturity beyond 12 months	2014	2015	2016	2017	After
Bond loans	2014-2024	1,400.0	-	1,400.0	400.0	-	-	-	1,000.0
Bonds IL	2023	561.7	-	561.7	-	-	-	-	561.7
Bonds PP	2019	600.0	-	600.0	-	-	-	-	600.0
Bonds 1250	2021	1,250.0	-	1,250.0	-	-	-	-	1,250.0
Bonds 1250	2017	1,250.0	-	1,250.0	-	-	-	1,250.0	-
Bonds 750	2018	750.0	-	750.0	-	-	-	-	750.0
Total fixed rate		**5,811.7**	**-**	**5,811.7**	**400.0**	**-**	**-**	**1,250.0**	**4,161.7**
EIB	2014-2030	1,285.7	69.4	1,216.3	79.1	77.0	85.1	96.9	878.2
Club Deal	2015	650.0	-	650.0	-	650.0	-	-	-
CDP	2019	500.0	-	500.0	-	-	-	-	500.0
Total floating rate		**2,435.7**	**69.4**	**2,366.3**	**79.1**	**727.0**	**85.1**	**96.9**	**1,378.2**
Total		**8,247.4**	**69.4**	**8,178.0**	**479.1**	**727.0**	**85.1**	**1,346.9**	**5,539.9**

Credit risk

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

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

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

Credit risk management is guided by the provisions of AEEG Resolution no. 111/06, which, in Art. 49, introduced instruments for the limitation of risks related to the insolvency of dispatching customers, both on a preventive basis and in the event of actual insolvency. In particular, the Resolution establishes three instruments to safeguard the electricity market: a guarantee system (bank guarantees provided by individual dispatching customers, based on their sales revenue), the option of terminating dispatching contracts (in the event of insolvency or failure to replace enforced guarantees) and, finally, the possibility of recovering uncollected receivables, after having taken all other possible collection actions, through a specific fee defined by the Authority.

The following table summarises the exposure to such risk as at the reporting date:

	Carrying amount		
€ million	31.12.2012	31.12.2011	Change
FVH derivatives	754.9	521.8	233.1
Deposit certificates	-	150.0	(150.0)
Inter-company loan to Terna Rete Italia S.r.l.	500.0	500.0	-
Cash and cash equivalents	2,494.4	1,114.3	1,380.1
Trade receivables	1,862.3	1,684.0	178.3
Total	**5,611.6**	**3,970.1**	**1,641.5**

The total value of the exposure to credit rate risk at 31 December 2012 is represented by the carrying amount of financial assets (current and non-current), trade receivables and cash and cash equivalents.

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

GEOGRAPHICAL DISTRIBUTION

	Carrying amount	
€ million	**31.12.2012**	**31.12.2011**
Italy	1,832.8	1,654.2
Euro-area countries	4.5	27.2
Other countries	25.0	2.6
Total	**1,862.3**	**1,684.0**

CUSTOMER TYPOLOGY

	Carrying amount	
€ million	**31.12.2012**	**31.12.2011**
Distributors (*)	380.9	243.4
Electricity Equalisation Fund (**)	216.0	131.3
Input dispatching contractors	227.9	229.4
Withdrawal dispatching contractors (non distributors)	917.1	1,000.2
Parties which have undersigned virtual import contracts and virtual import services (interconnectors and shippers)	18.9	12.5
Receivables from unregulated activities	101.5	67.2
Total	**1,862.3**	**1,684.0**

(*) Includes receivable accrued in respect of Terna Rete Italia S.r.l. grid transmission fees.
(**) Of which €212.9 million from volume effect on grid transmission fees.

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

	31.12.2012		31.12.2011	
€ million	**Allowance for impairment accounts**	**Gross**	**Allowance for impairment accounts**	**Gross**
Not yet past due	-	1,488.4	-	1,560.0
0-30 days past due	-	315.5	-	50.0
31-120 days past due	(3.7)	25.0	-	37.9
More than 120 days past due	(22.8)	59.9	(23.6)	59.7
Total	**(26.5)**	**1,888.8**	**(23.6)**	**1,707.6**

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

€ million	**2012**	**2011**
Balance at 1 January	(23.6)	(23.5)
Reversal of provision	0.8	-
Impairment for the year	(3.7)	(0.1)
Balance at 31 December	**(26.5)**	**(23.6)**

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

€ million	**2012**	**2011**
Input dispatching activity	240.9	254.6
Withdrawal dispatching activity	897.0	763.0
Grid transmission fees - distributors	169.7	174.8
Virtual importing	99.5	280.2
Balance at 31 December	**1,407.1**	**1,472.6**

Default risk and debt covenants

This risk is associated with the possibility that the loan contracts or bond rules to which the Company is party may contain provisions authorising counterparties to call in such loans immediately upon the occurrence of certain events, thereby generating liquidity risk. For more information on the contractual provisions of outstanding loans at 31 December 2012, please see the section "Loans and financial liabilities" in the notes of Terna S.p.A..

Legal disputes

The main off-balance sheet commitments and risks of the company at 31 December 2012 are as follows.

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. Terna is involved in various civil and administrative suits requesting the transfer or change in operations of allegedly-harmful long-distance power lines, even though they were installed in full compliance with applicable legislation (Italian Law no. 36 of 22 February 2001 and Prime Ministerial 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 Company. These have been appealed and the appeals are still pending, although adverse rulings are considered unlikely.
In addition, a number of cases relating to urban planning and environmental issues are pending in respect of the construction and operation of certain transmission lines. The possible effects of any unfavourable outcome to these cases are unpredictable and, accordingly, have not been considered when determining the "Provisions for disputes and other risks". In a limited number of cases, the possibility of an adverse outcome cannot be entirely ruled out. The possible consequences could, in addition to the award of damages, include, inter alia, the costs of modifying lines and the temporary suspension of their use. In any case, any unfavourable outcome would not jeopardise line operations.
Examination of the above litigation, having regard for the information provided by the external legal consultants, suggests that the likelihood of adverse outcomes is remote.

Litigation concerning concession activities

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

Tax Authority

On 27 March 2012 Terna, as jointly and severally responsible with Enel Distribuzione S.p.A. ("Enel Distribution"), received a notice for the payment of greater taxes due as a result of the sale transaction of the holding owned by Enel Distribuzione in Elat S.r.l. (later Telat S.r.l., today Terna Rete Italia S.r.l.) to Terna S.p.A. (for the amount of approximately €38 million, including interest). According to the provisions of the investment sale contract, Enel Distribuzione S.p.A. must release Terna of obligations regarding all costs, liabilities and any damages resulting from the aforementioned notice and the points contested therein. Enel Distribuzione, acting in agreement with Terna, intends on taking the necessary steps to safeguard its own claim, holding Terna exempt from all payments/advances. Therefore, on the basis of the contractual agreements, confirmed by Enel Distribuzione in a letter dated 17 April 2012, Terna does not believe that any financial expenditure will result from the notice in question.
In addition, on 17 May 2012, the Provincial Tax Commission of Rome ordered the temporary suspension of the aforementioned payment notice until the result of the appeal hearing. On 03 December 2012, the hearing was duly held in relation to the dispute underway before Chambers I of the Rome Provincial Tax Commission, which has now adjourned to decide on another date.

F. Business combinations

There were no business combinations during 2012.

G. Related-party transactions

Terna's transactions with related parties during the year, taking account of the de facto control exercised over the Company by Cassa Depositi e Prestiti S.p.A. ascertained in 2007, regarded - in addition to the subsidiaries (Terna Rete Italia S.p.A., Terna Rete Italia S.r.l., SunTergrid S.p.A., RTS S.r.l., Terna Crna Gora d.o.o., Terna Plus S.r.l. and Terna Storage S.r.l.) - the associate companies (Cesi S.p.A. and CrnoGorski Elektroprenosni Sistem AD -"CGES"), the employee pension funds (Fondenel and Fopen), Cassa Depositi e Prestiti as well as companies belonging to:
- the GSE Group;
- the Enel Group;
- the Eni Group;
- the Ferrovie dello Stato Group;

and with ANAS S.p.A..

Given that Terna S.p.A. and the aforementioned subsidiaries directly or indirectly controlled by the Ministry for the Economy and Finance fall within the definition of Government-related entities as per IAS 24 - *Related party disclosures*, the Group adopts the exemption provided by the same standard, which establishes a partial exemption from the disclosure requirements of transactions with other companies controlled, connected or under joint control of the same government body; in particular, the qualitative and quantitative indications of transactions with Government-related entities which have a significant impact on the Group's results are reported below; under this scope, the amounts relating to "pass-through items" are not represented.
Related party transactions in 2012 are mainly services that are part of core business and regulated by market conditions.
In view of the new organisational structure of the Group, in which context Terna S.p.A. has rented to the subsidiary Terna Rete Italia S.p.A., a business unit comprising human resources, assets and contracts relating to the exercise, scheduled and unscheduled maintenance and development of the NTG, during the year a four-year contract was signed regulating the technical and administrative services provided by the subsidiary; equally, a new contract has been stipulated with the subsidiary Terna Rete Italia S.r.l. for institutional consulting services provided by Terna, the price of which considers the reduction in the scope of action in compliance with the current market situation.
Terna also provides the operative management of all subsidiaries, including Terna Storage S.r.l, established in FY 2012, by means of specific service agreements that not only assure the administrative and financial coordination and the coordination of institutional relations, but also enable it to act on behalf of the subsidiaries, or for an on their behalf.
Terna is also involved in the management of cash demands of subsidiaries through specific Treasury contracts that ensure the guidance and coordination of all transactions in relation to financial resource and needs management and treasury services, as well as the implementation of all related transactions. Under the scope of the centralised treasury management of financial resources, we recall the loan of €500.0 million supplied by Terna to the subsidiary Terna Rete Italia S.r.l. in November 2009.

Below is a summary of the main intercompany contracts in place at 31 December 2012:

Counterparty	Type	Annual price
Terna Rete Italia S.p.A.	**Service agreement:**	
	Operation & Maintenance	€274.7* thousand
	Renewal and development	equal to costs incurred + 5.82% on the personnel expenses incurred
	Administrative, assistance and consulting services	
	- from Terna S.p.A. to Terna Rete Italia S.p.A (assets)	€37.0 million
	- from Terna Rete Italia S.p.A. to Terna S.p.A. (liabilities)	€1.3 million
Terna Rete Italia S.r.l.	**Administrative service agreement**	€0.3 million

(*) Price updated by agreement of the parties in accordance with Art. 9.6-*bis* and 7.1 of the service agreement.

The table below also sets out the contractual terms and conditions of the financial contracts in place with the subsidiaries:

	Contractual conditions - interest rates		
		Intercompany current a/c	
	Loan	Inventories	Utilisations
Terna Rete Italia S.r.l.	Euribor 6 months +2.50%	Euribor monthly average 1 month -1.50%	Euribor monthly average 1 month + 2.00%
Terna Rete Italia S.p.A.	-	Euribor monthly average 1 month -1.50%	Euribor monthly average 1 month + 2.00%
SunTergrid S.p.A.	-	Euribor monthly average 1 month -1.50%	Euribor monthly average 1 month + 2.00%
RTS S.r.l.	-	Euribor monthly average 1 month -1.50%	Euribor monthly average 1 month + 2.00%
Terna Plus S.r.l.	-	Euribor monthly average 1 month -1.50%	Euribor monthly average 1 month + 2.00%
Terna Storage S.r.l.	-	Euribor monthly average 1 month -1.50%	Euribor monthly average 1 month + 2.00%
Terna Crna Gora d.o.o.	-	Euribor monthly average 1 month -1.50%	Euribor monthly average 1 month + 2.00%

The tables on the next page instead specify the nature of the transactions implemented by the Company with related parties and the respective income and expense totalled during the year, in addition to the respective receivables and payables in place as of 31 December 2012:

Related party	Revenue transactions	Cost transactions
Terna Rete Italia S.p.A.	**Non energy-related items** Rental charges, sale of inventories relating to the business unit rented, technical and administrative services, lease of spaces and workstations	**Non energy-related items** Maintenance and other technical services, grid renewal and development, administrative services, centralised treasury management
Terna Rete Italia S.r.l.	**NTG transmission fees** **NTG transmission fees** **Non energy-related items** Management fee activities, technical services and plant maintenance*, loan in place	**NTG transmission fees** **Grid remuneration** **Non energy-related items** Centralised treasury management, mitigation mechanism Res. 188/08
SunTergrid and RTS	**Non energy-related items** Management fee provisions, centralised treasury management	**Non energy-related items** treasury services, centralised treasury management
Terna Plus	**Non energy-related items** Technical and administrative services, space and workstation lease	**Non energy-related items** Sale of business unit, centralised treasury management
Terna Storage	**Non energy-related items** Technical and administrative services	**Non energy-related items** Centralised treasury management
Terna Crna Gora d.o.o.	**Non energy-related items** Administrative services, provisions of seconded and transferred staff	
Cassa Depositi e Prestiti S.p.A.		**Non energy-related items** Credit line
Cesi S.p.A.	**Non energy-related items** Lease of laboratories and similar structures for specific purposes	**Non energy-related items** Technical consultancy, studies and research, projects and experimentation
CGES AD	**Non energy-related items** Dividends distributed to the parent company Terna	
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, collection rights, dispatching fees **Non energy-related items** Lease and rent, line maintenance, works to move/vary lines	**Non energy-related items** Return of electricity discount, staff administration, building services, supply of MV power to new stations, specialised services for connection to Terna control and protection systems
ENI Group	**Energy-related items** Dispatching fees **Non energy-related items** Line maintenance	
Ferrovie Group	**Energy-related items** Dispatching fees	**Energy-related items** NTG remuneration

Related party	Revenue transactions	Cost transactions
	Non energy-related items Line moving	**Non energy-related items** Right-of-way fees
Anas S.p.A.	**Non energy-related items** Line moving/variants	**Non energy-related items** Right-of-way fees
Fondenel and Fopen		**Non energy-related items** Pension contributions borne by the Terna Group

(*) with reference to the "electrical services relative to electrical lines" contract no longer in place following the restructuring of the Terna Group

	Income statement				
	Income items			Expenses	
Company € million	Grid transmission fees and other energy-related items	Non energy-related items	Dividends	Grid transmission fees and other energy-related items	Non energy-related items
Subsidiaries:					
Terna Rete Italia S.p.A.	-	50.7	-	-	236.9
Terna Rete Italia S.r.l.	-	33.4	-	-	0.5
SunTergrid S.p.A.	-	0.2	60.0	-	0.9
RTS S.r.l.	-	0.1	-	-	-
Terna Crna Gora d.o.o.	-	0.9	-	-	-
Terna Plus S.r.l.	-	0.7	-	-	-
Terna Storage S.r.l.	-	0.1	-	-	-
Total subsidiaries	**-**	**86.1**	**60.0**	**-**	**238.3**
De facto parent company:					
Cassa Depositi e Prestiti S.p.A.	-	-	-	-	10.4
Total de facto parent company	**-**	**-**	**-**	**-**	**10.4**
Associates:					
Cesi S.p.A.	-	0.2	-	-	0.2
CrnoGorski Elektroprenosni Sistem AD ("CGES")	-	0.8	-	-	-
Total associates	**-**	**1.0**	**-**	**-**	**0.2**
Other related companies:					
GSE Group	41.2	0.4	-	-	-
Enel Group	1,240.7	0.2	-	-	0.3
Eni Group	7.2	0.1	-	-	-
Ferrovie Group	2.7	-	-	6.6	-
Total other related companies	**1,291.8**	**0.7**	**-**	**6.6**	**0.3**
Pension funds:					
Fondenel	-	-	-	-	0.3
Fopen	-	-	-	-	0.6
Total pension funds	**-**	**-**	**-**	**-**	**0.9**
Total	**1,291.8**	**87.8**	**60.0**	**6.6**	**250.1**

Company € million	Statement of financial position Property, plant and equipment Capitalised costs	Receivables and other assets Other	Receivables and other assets Financial	Payables and other liabilities Other	Payables and other liabilities Financial and position of inter-company current account	Guarantees(*)
Subsidiaries:						
Terna Rete Italia S.p.A.	53.3	17.2	-	454.0	87.6	-
Terna Rete Italia S.r.l.	6.6	1.1	501.8	41.0	76.2	-
SunTergrid S.p.A.	-	-	-	-	84.9	-
RTS S.r.l.	-	-	-	-	(0.3)	-
Terna Crna Gora d.o.o.	-	0.2	-	-	-	-
Terna Plus S.r.l.	-	0.7	-	-	1.3	-
Terna Storage S.r.l.	-	0.1	-	-	-	-
Total subsidiaries	**59.9**	**19.3**	**501.8**	**495.0**	**249.7**	**-**
De facto parent company:						
Cassa Depositi e Prestiti S.p.A.	-	-	0.3	-	501.1	
Total de facto parent company	**-**	**-**	**0.3**	**-**	**501.1**	**-**
Associates:						
Cesi S.p.A.	0.8	0.2	-	0.8	-	3.2
Total associates	**0.8**	**0.2**	**-**	**0.8**	**-**	**3.2**
Other related companies:						
GSE Group	-	6.9	-	-	-	-
Enel Group	-	409.3	-	1.3	-	365.0
Eni Group	-	1.3	-	-	-	19.3
Ferrovie Group	-	0.8	-	1.4	-	22.0
ANAS S.p.A.	-	1.8	-	1.7	-	-
Total other related companies	**-**	**420.1**	**-**	**4.4**	**-**	**406.3**
Pension funds:						
Fopen	-	-	-	0.2	-	-
Total pension funds	**-**	**-**	**-**	**0.2**	**-**	**-**
Total	**60.7**	**439.6**	**502.1**	**500.4**	**750.8**	**409.5**

(*) 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 - with the exception of those described above - were carried out during 2012, either with third parties or with related parties.

I. Notes to the statement of cash flows

The cash flow generated from **continuing operations** in the year amounted to around €493.2 million, which reflects around €1,228.1 million in cash from operating activities (self-financing) and around €734.9 million in financial resources generated by the management of net working capital.

Investing activities used net financial resources of around €1,110.7 million, and mainly included €1,088.6 million of investment in property, plant and equipment (€1,113.0 million net of plant grants totalling €24.4 million) and €53.8 million of investment in intangible assets.

Cash flow for investing activities also reflects:

- other changes to property, plant and machinery mainly referring to the impairment of tangible fixed assets in the amount of €43 million in connection with the capitalisation carried out during previous years against allocations made to the risk provision "Projects for urban and environmental renewal" currently deemed unlikely;
- subscription by Terna on 10 February 2012 (€5 million) and on 22 November 2012 (€29 million) of two separate capital increases of the subscribers Terna Cnra Gora d.o.o. in order to equip the subsidiary with the resources needed to allow for the development of its business;
- during transfer to the subsidiary Terna Plus of the business unit with effect as from 1 August 2012, which took place as part of the reorganisation of the operations of the Terna Plus, the Company increased its holding in the subsidiary by €18.3 million and sold eight Quick-Installation Connection Stations (QICS) and one transformer (located in Brindisi), for a total of €16.1 million.

The net change in loan flows amounts to +€1,997.6 million and mainly derives from the net increase in financial debt (€2,180.4 million), net of the disbursement of the 2011 dividend balance (€261.3 million) and the 2012 interim dividend (€140.7 million). More specifically, with reference to financial debt, we note the increased medium/long-term payables (€2,180.4 million, including the short-term portion and net of FVH derivatives), amongst others mainly reflecting the bonds issued in February and October for a nominal value of €1,250 and €750 million (totalling €1,991 million at 31 December 2012 net of initial expenses and issue discounts) and by virtue of the adjustment to fair value of the bond loans (€234.0 million, including the amortised cost) and the capitalisation of period inflation connected with the IL bond (€14.8 million). Consequently, the financial resources used in investing activities and the remuneration of equity led to total financial requirements of €1,511.9 million in the year, part of which (€493.2 million) was covered by the cash flows generated by operating activities and the remainder through new borrowings.

L. Subsequent events

Terna, the only Italian electric company to be in the world Gold Class of sustainability

On **23 January 2013**, Terna is the only Italian electric company, for the second year running, to be in the Gold Class of RobecoSam - Sustainability Yearbook 2013, the yearbook of the international ratings agency that screens companies, assessing their possible access, continuation in or exclusion from the prestigious Dow Jones Sustainability indexes according to an ethical analysis that examines a review of the main disputes and to the verification of compliance with severe economic, environmental and social performance criteria.

AEEG resolutions on pilot projects relating to storage systems

On **11 February 2013**, the AEEG (the Italian Regulatory Authority for Electricity and Gas) published resolution 43/2013, concerning the "*Approval of the pilot projects relating to storage systems to be developed on the national transmission grid, coming under the programme for the adjustment of the safety and defence systems 2012-2015*".
In supplementing the definitions given in Resolution no. 288/2012/R/eel, the provision distinguishes between the pilot projects on the NTG, dividing them into two types:

- *energy intensive*:
  "project of limited size but in any case suited to being able to carry out significant experiments, which entails the development of electricity storage systems using batteries connected to the electricity transmission grid, which can be relocated (hereinafter: portable), intended to ensure, as far as possible - whilst awaiting the necessary grid strengthening - the release onto the grid of electricity produced by NPRS; said systems must be complementary to a dynamic grid control system"
- *power intensive*:
  "the two projects of a maximum size of 8 MW each, envisaged as part of the 2012-2015 Defence Plan approved by the MED, as per the Communication of 21 December 2012, which entail the installation of electrochemical type storage systems with power intensive characteristics in Sicily and Sardinia".

has established the admission of the two power intensive pilot projects for the incentive treatment pursuant to paragraph 22.5, letter d) of the Integrated Transmission Text. The provision has established a two-year experimentation period and has set out the conditions for the remuneration of the two projects mentioned, moreover sanctioning the need to guarantee separate booking of the economic and equity items relative to each power intensive project admitted to the incentives.
On **21 February 2013**, the AEEG also published Resolution 66/2013 whereby it arranged for the approval and admission to incentives of six energy intensive pilot projects in relation to Storage Systems coming under the scope of two critical directives indicated in the 2011 Development Plan approved by the Ministry of Economic Development on 02 October 2012, in accordance with that established by Italian Legislative Decree no. 28 of 03 March 2011.

Terna rewarded as the best European utility company in terms of total shareholder return

On **11 March 2013**, Terna was awarded the "International Utility Award 2013" in London by the Edison Electric Institute (EEI) of Washington DC (US). The award named the company the best of European utility companies in terms of total shareholder return (TSR) in the last three years. In the three years 2010-2012, Terna's return has in fact stood at 24% as compared with average returns in the industry and the Italian index that were decidedly negative (DJ Stoxx -10%, Ftse Mib -21%).

Terna's rating

On **13 March 2013**, Fitch Ratings reduced the Long-Term Issuer Default Rating (IDR) and the Senior Unsecured Rating of Terna S.p.A. to "A-" from "A". The outlook assigned to the IDR remains negative.

Disclosure pursuant to art. 149-*duodecies* of the CONSOB Issuers Regulation

The following table, prepared in accordance with Art. 149-*duodecies* of the CONSOB Issuers Regulations, reports the fees for 2012 for the audit and non-audit services provided to Terna S.p.A. by the same auditing company.

In euros	Entity providing service	Fees due for the year
Statutory Audit	PWC	225,228.00
Attestation services	PWC*	157,800.00
Total		**383,028.00**

(*) includes services provided by other entities of the PWC network

Certification of the separate financial statements pursuant to Art. 81 ter of CONSOB Regulation no. 11971 dated 14 May 1999 and subsequent amendments and additions

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

   - the suitability in relation to the business characteristics; and
   - the effective application of the administrative and accounting procedures for the preparation of the separate financial statements during financial year 2012.

2. The assessment of the suitability of the administrative and accounting procedures for the preparation of the separate financial statements as at 31 December 2012, is based on a set of standards and methodologies defined by Terna S.p.A. in line with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, which represents a set of reference standards for the internal control and risk management system, generally accepted worldwide.

3. It is also specified that:

   3.1. the separate financial statements at 31 December 2012:

   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;

   3.2. the report on operations includes a reliable analysis of the trend and operating result, in addition to the position of the issuer and a description of the main risks and uncertainties to which it is exposed.

Rome, 15 March 2013

Delegated administrative bodies
(Flavio Cattaneo)

Executive in Charge of the preparation of
the Company's accounting documents
(Luciano Di Bacco)

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

Reports

Report by the Board of Statutory Auditors to the shareholders' meeting of Terna S.p.A.

Auditors' Report in accordance
with articles 14 and 16 of Legislative Decree no. 39 of 27 January 2010
Financial Statements as of 31 December 2012

REPORT BY THE BOARD OF STATUTORY AUDITORS TO TERNA S.p.A.'S SHAREHOLDERS MEETING
(pursuant to Art. 153 of Legislative Decree no. 58/98)

Shareholders,

During the year that ended on December 31, 2012, we performed the supervisory activity required by the Law (Legislative Decree no. 58 dated February 24, 1998 – "Consolidated text for the provisions regarding financial brokerage activity " and Legislative Decree dated January 27, 2010 no. 39 "Implementation of Directive 2006/43/CE related to the legal auditing of annual accounts and consolidated accounts, modifying Directives 78/660/CEE and 83/349/CEE and abrogating Directive 84/253/CEE"), adapting our activity to the code of practice of the Boards of Statutory Auditors of capital-based companies with shares listed in regulated markets as recommended by National Board of Chartered Accountants and by CONSOB provisions regarding company auditing and activities conducted by the Boards of Statutory Auditors.

The auditing activity, pursuant to Legislative Decree 39/2010, was assigned and carried out by the PriceWaterHouse Coopers S.p.A. Auditing firm whose reports are referred to.

The Board of Statutory Auditors presently in office was appointed by the Shareholders Meeting on 13 May 2011 based on the provisions of the By-laws.

Also in compliance with the provisions issued by CONSOB with Notice DEM/125564 dated April 6, 2001 and subsequent updates, the following was carried out:

- We monitored that the Law and the By-laws were complied with.
- We attended the meetings of the Board of Directors and specific preparatory meetings regarding the items on its agenda, including the meetings of the Risk Control and Corporate Governance Committee and of the Remuneration Committee and were regularly informed by the Directors about the activities carried out, expected outlook and the most significant economic, financial and equity transactions of the Company, and we were satisfied that the resolutions adopted and implemented were in compliance with Law provisions and the By-laws and were not manifestly imprudent, risky, representing a potential conflict of interests, in contrast with the resolutions passed by the shareholders meeting or capable of compromising the Company's assets. During the assessments, no atypical and/or unusual operation emerged.
- The Board of Directors on its meeting on 15 March 2013, with the favorable opinion of the Human Resource and Remuneration Committee, has proceeded to approve the "*Terna's Annual Report on Remuneration*" prepared, in accordance with Article 123-*ter* of Italian Legislative Decree no. 58/1998 and in compliance with the provisions of art. 7 of the Self-Regulatory Code of Borsa Italiana.

- During the meeting held on 19 December 2012, the Board of Directors adopted a new Governance Code with the aim of enacting the updates made to the Borsa Italiana Governance Code in November 2011.
- The shareholders' meeting of 16 May 2012 amended the By-laws to adjust them to comply with Italian Law no. 120/2011 setting out "Amendments to the consolidated act of provisions on financial intermediation, pursuant to Italian Legislative Decree no. 58/1998, concerning equal access to the administrative and auditing bodies of companies listed on regulated markets".
- In the chapter "Related-party transactions" included into the Notes to the Consolidated and Separate financial statement, the directors highlighted the principal transactions that were conducted with related parties, identified on the basis of the international accounting standards and on the provisions issued on the matter by CONSOB. This chapter can be referred to, to identify the type of transactions and relative economic, financial and equity effects. The Board has also monitored the application of the "*Related party transactions procedure*", pursuant to art. 4 of the Regulation adopted by CONSOB with Resolution no. 17221 of March 12, 2010 as subsequently amended and integrated and adopted by the Board of Directors on 12 November 2010.
- The Company drew up the 2012 Separate financial statement according to the International Accounting Standards (IAS/IFRS), as was also done for the previous one in 2011. The Notes include the accounting standards and the evaluation criteria adopted. Terna S.p.A.'s 2012 Separate financial statement was submitted to the evaluation of the PriceWaterhouseCoopers S.p.A. auditing firm, appointed by the Shareholders' Meeting of May 13, 2011 for the financial years running from 2011 to 2019 in lieu of the previous appointment made to the auditing firm KPMG S.p.A., which had expired with no possibility of further renewal or extension in accordance with art. 17 of Italian Legislative Decree no. 39 of January 27, 2010, which issued its auditing report on April 16, 2013 without anything significant to report. Significant events that occurred during 2012 are included in the Directors' Report and can be examined more in detail:
    - In financial year 2012, a major Group reorganization process was begun, in line with the provisions of the Industrial Plan, aimed at structuring the company into a parent company and two operative companies as full subsidiaries of the parent company Terna S.p.A. More specifically, Terna Rete Italia S.p.A., established on 23 February 2012, was appointed, by means of a business unit rent contract with a term of four years, to carry out all traditional operating activities, ordinary and

extraordinary maintenance of the NTG, management and development of works performed to develop the grid, in connection with the implementation of the provision of said Concession and on the basis of that established by the Development Plan. Terna Plus S.r.l., on the other hand, is devoted to work involved in developing non-traditional business projects. The reorganization process, also in managerial and operative terms, successfully concluded during FY 2012.

- On 13 February 2012, Terna launched a euro bond issue on the market at a fixed rate and with maturity at 5 years, for a total of 1.25 billion euros as part of its Euro Medium Term Notes (EMTN) programme. The bond, which is listed on the Luxembourg Stock Exchange, matures on 17 February 2017, has an annual coupon equal to 4.125% and an issue price of 99.809%; it was priced with a spread of 257 basis points with respect to the midswap.

➢ The Company drew up the 2012 Consolidated financial statement applying the International Accounting Standards (IFRS/IAS) as it did for the previous year; the Terna Group's Consolidated Financial Statement was submitted to the evaluation of the PriceWaterHouse Coopers S.p.A. Auditing firm that issued its auditing report on April 16, 2013 without anything significant to report.

➢ We collected information and monitored, as far as our authority allowed, the adequacy of the Company's organizational structure, compliance with the principles of proper management and the adequacy of the provisions issued by the Company to the subsidiaries pursuant to art. 114, paragraph 2 of Legislative Decree 58/59 by acquiring information from the Heads of the designated company departments, through meetings held with the Auditing firm and through meetings held with the control bodies of subsidiaries in order to mutually exchange data and significant information.

➢ We monitored the administrative and accounting system, assessing the reliability of the latter in providing a true and fair view of operations; this activity was carried out by obtaining information from the heads of the various departments, by examining company documents and analyzing results of the work carried out by the PriceWaterHouse Coopers S.p.A. auditing firm. The Board of Directors appointed the Executive in charge of "preparing the Company's accounting documents" also verifying for him the existence of the necessary professional requirements. The CEO and the Executive in charge of preparing the Company's accounting documents certified with a specific report (attached to the Company's 2011 Financial Statement) a) compliance and effective application of administrative and accounting procedures; b) compliance of the contents of the accounting documents with the international accounting standards IFRS /IAS approved by the European Commission, as well as with the provisions issued by CONSOB implementing Legislative Decree no. 38/2005; c) compliance of the documents with the data included in the books and the accounting records and their reliability in correctly representing the Company's economic, financial and equity situation. The same type of Certification Report is attached to the Terna Group's Consolidated financial statement.

- We monitored the adequacy of the internal control system also through a) the examination of the report by the Executive in charge of Terna's internal control system; b) the examination of the *Internal Audit* reports, as well as the informative report on the outcomes of the monitoring activity; c) the relationships with the Supervisory Bodies of the subsidiaries pursuant to of par. 1 and 2 of art. 151 of Legislative Decree 58/98; d) the participation in all the Risk Control and Corporate Governance Committee meetings and acquisition of related documentation. The participation to the Risk Control and Corporate Governance Committee has also allowed the Board to coordinate with the activities of the same Committee, the exercise of its functions of "Committee for internal control and auditing of accounts" pursuant to art. 19 of Legislative Decree 39/2010 and to proceed, in particular, to supervise i) the process of financial information reporting ii) the effectiveness of the internal control, auditing and risk management systems iii) on the legal auditing of the annual and consolidated accounts iv) on the aspects related to the independence of the Auditing firm. On the basis of the activity carried out, considering the evolutionary nature of the Internal Control System, the Board expresses an evaluation of adequacy of it and acknowledges, in quality of Committee for internal control and auditing of accounts, that there are no observations to report to the Shareholders Meeting. With reference to the provisions of par. 9, point a) of Art. 17 of Legislative Decree 39/2010, the Auditing firm has notified total fees for the Auditing of the Terna S.p.A.'s Separate and Consolidated financial statement as at 31 December 2011, besides the limited auditing of the Interim financial statement, for the activities of assessment of regular accounting activities, and for the other assignments; the fees for those assignments are shown in the table below:

Client Company	Service description	Amount
Terna S.p.A.	2012 Audit of Unbundling for AEEG (including expenses)	35,200
	2012 Audit of reporting packages (including expenses)	17,600
	2012 Opinion for interim dividend (including expenses)	35,200
	Certification of 2012 Sustainability Report	46,897
	Issue of EMTN comfort letter 2012	78.903
	Total	**213.800**

Moreover, PriceWaterHouse Coopers has notified that, based on the best information available, taken into account prescribed and professional requirements that discipline the auditing activity, has maintained in the reference period its position of independence and objectivity towards Terna S.p.A. and that there have been no variations in the inexistence of incompatibility causes with reference to the situations and the subjects provided for by art. 17 of the Legislative Decree 39/2010 and of the articles of which to par. I-bis (Incompatibility) of Title VI of Issuers Regulation.

➢ We held periodic meetings with the representatives of the PriceWaterHouse Coopers S.p.A. Auditing firm, pursuant to art. 150, paragraph 3 of Legislative Decree 58/59 and no facts worthy to be mentioned in this Report emerged. We also give notice that on April 16, 2013 the Auditing firm has submitted its report, pursuant to the third paragraph of art. 19 of Legislative Decree 39/2010, reporting that on the occasion of the auditing activities, neither fundamental issues or meaningful deficiencies in the internal control system, with reference to the process of financial information reporting, have emerged.

➢ We have monitored the actual implementation of Terna S.p.A.'s Code of Conduct adopted by the Board of Directors without noticing anything significant to be mentioned in this report. Moreover, with reference to the provisions established by the Code of Conduct which refer to the tasks of the Board of Statutory Auditors, the following should be pointed out:

- we verified the correct application of the criteria and procedures for assessing independence, adopted by the Board of Directors, with nothing significant to report;
- with regard to the "self-evaluation" of the independence requirement of its members, the Board of Statutory Auditors verified its existence during the meeting held on February 3, 2013, in methods that comply with those adopted by the directors;
- we complied with the provisions of the regulation for managing and handling confidential and privileged company information;

Furthermore, it should be pointed out that the Auditing firm expressed its opinion regarding coherence of information pursuant to paragraph 1) letters c), d), f), l), m) and to paragraph 2, letter b), of Art. 123-*bis* of Legislative Decree 58/98 as indicated by the amendments introduced by Article 5, paragraph 4, of Legislative Decree 173/2008.

- With reference to Legislative Decree n. 231/2001, the Company adopted an organizational and management model whose contents were in compliance with the best international practices. Furthermore, we met the Supervisory Board for the mutual exchange of information.
- During the year, no legal actions pursuant to Art. 2408 of the Civil Code were filed and received.
- We do not have the knowledge of any other facts or reports to be mentioned to the Meeting.
- We have verified compliance with the laws regarding the drawing up of the draft Separate financial statement and of the Group's draft Consolidated financial statement, of the respective Illustrative Notes and the Directors' Report, directly and with the collaboration of the Heads of departments and through information obtained by the Auditing firm, and we have nothing significant to report.
- We have issued our opinions pursuant to art. 2389, paragraph 3 and art. 2386, paragraph one of the Civil Code; the Auditing firm issued its opinion pursuant the provisions of paragraph 5 of Art. 2433-*bis* of the Civil Code (interim dividends).
- The members of the Board of Statutory Auditors have complied with the obligation to notify administration and control assignments in Italian companies within deadlines and by means provided for by art. 148-*bis* of Legislative Decree of February 24, 1998 no.58 and by art. 144-*duodecies* and following of the so-called Issuers Regulation adopted by CONSOB with Resolution no. 11971 of May 14, 1999.
- In carrying out the above-mentioned monitoring activity, during 2011, the Board of Statutory Auditors met 9 times, attended the 7 meetings of the Board of Directors and participated in the 6 meetings of the Risk Control and Corporate Governance Committee and in the 4 meetings of the Remuneration Committee.

During the above-mentioned activity, as well as on the basis of the information periodically exchanged with the PriceWaterHouse Coopers S.p.A. Auditing firm, no omissions and/or reproachable facts and/or irregularities were found that required reporting to the control bodies or that were worthy to be mentioned in this Report.

The Board of Statutory Auditors, following the monitoring activity carried out, requests your approval of the financial statement as of December 31, 2012 in compliance with the proposal of the Board of Directors.

Rome, April 16, 2013

THE STATUTORY AUDITORS

Luca A. Guarna

Lorenzo Pozza

Alberto Gusmeroli

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

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AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010

To the Shareholders of
Terna SpA

1. We have audited the separate financial statements of Terna SpA as of 31 December 2012 which comprise the statement of financial position, the separate income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related notes. The directors of Terna SpA are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards, as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree No. 38/2005. Our responsibility is to express an opinion on these separate financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for listed Companies and Stock Exchange. Those standards require that we plan and perform the audit to obtain the necessary assurance about whether the separate financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the separate financial statements of the prior year, which are presented for comparative purposes, reference is made to our report dated 18 April 2012.

3. In our opinion, the separate financial statements of Terna SpA as of 31 December 2012 comply with the International Financial Reporting Standards, as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree No. 38/2005; accordingly, they have been prepared clearly and give a true and fair view of the financial position, result of operations and cash flows of Terna SpA for the year then ended.

4. The directors of Terna SpA are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the information referred to in paragraph 1, letters c), d), f), l), m), and paragraph 2, letter b), of article 123-bis of Legislative Decree No. 58/98 presented in the

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.812.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70124 Via Don Luigi Guanella 17 Tel. 0805640211 - **Bologna** Zola Predosa 40069 Via Tevere 18 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Dante 7 Tel. 01029041 - **Napoli** 80121 Piazza dei Martiri 58 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Via Grazioli 73 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Verona** 37135 Via Francia 21/C Tel.0458263001

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report on corporate governance and ownership structure, with the financial statements, as required by law. For this purpose, we have performed the procedures required under Italian Auditing Standard 1 issued by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili) and recommended by Consob. In our opinion, the report on operations and the information referred to in paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), of article 123-bis of Legislative Decree No. 58/98 presented in the report on corporate governance and ownership structure are consistent with the separate financial statements of Terna SpA as of 31 December 2012.

Rome, 16 April 2013

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

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

Report on corporate governance and ownership structures

(traditional administration and management model)

Issuer: «Terna - Rete Elettrica Nazionale Società per Azioni» (in brief Terna S.p.A.)

Website: www.terna.it

Reporting period: 2012

Date of approval: March 15, 2013

(Translation from the Italian original which remains the definitive version)

Terna

Contents

Report on corporate governance and ownership structures

TABLES

ATTACHMENT

2012 Report on corporate governance and ownership structures

Foreword

Following the start-up of the trading of shares on the MTA stock market organised and managed by Borsa Italiana S.p.A. in June 2004, Terna adopted a corporate governance system that is compliant with the standards set out in the Governance Code prepared by the Corporate Governance Committee of listed companies promoted by Borsa Italiana and has progressively approved adjustments of the system as required by the further editions of the Governance Code - of which the latest was in December 2011 - implementing them in order to ensure compliance with the commitments made up until the date of approval of the draft financial statements for FY 2012 according to that set out below.
Therefore, the Corporate Governance system in place at Terna is in line with the principles of the December 2011 edition of the Governance Code (hereinafter the "Governance Code"), with CONSOB recommendations in this respect and, more generally, with international best practices.
This corporate governance system is essentially focused on the objective of creating value for shareholders, aware of the corporate relevance of the activities in which the Group is involved and the consequent need to suitably consider, in the related implementation, all interests involved and which - as noted by CONSOB - "good corporate governance can create a virtuous cycle in terms of efficiency and business integrity, such as to also have a positive impact on the other stakeholders".
Since 2004, Terna has used this annual report to provide information on the evolution of its corporate governance system with reference to the recommendations contained in the different subsequent editions of the Governance Code and the conduct effectively adopted.
This Report on Corporate Governance and Ownership Structures - prepared in consideration of the instructions given by Borsa Italiana - in a specific section provides the information required by Article 123-*bis* of Italian Legislative Decree no. 58/98 (the Consolidated Law on Finance) and by Article 144-*decies* of the "Regulation enacting Italian Legislative Decree no. 58 of February 24, 1998, concerning issuer regulations" adopted by CONSOB (Issuers Regulation) and is complete with a specific attachment that explains the main characteristics of the internal control and risk management systems existing in relation to the financial disclosure process.
Failure to comply with certain provisions of the Governance Code is explained in the section of the report that concerns the relative practice of governance otherwise applied by the Company.
All the information included in the report, unless otherwise specified, was updated on the basis of information available as of the date of the Report's approval.
With reference to the new features introduced by the Governance Code in its December 2011 edition, this Report summarises the information on conduct adopted with regard to the provisions of the Governance Code that have already come into force according to the terms required for adjustment as established by transitional legislation. Therefore, it is otherwise specified where the disclosure refers to the recommendations of the previous edition of the Governance Code of listed company published by Borsa Italiana in 2006, as amended in March 2010.

Section I **Issuer's Profile - Corporate Structure**

Issuer's profile

Mission

"Terna is a leading grid operator for energy transmission. The Company manages electricity transmission in Italy and guarantees its safety, quality and affordability over time. It ensures equal access conditions for all grid users. It develops market activities and new business opportunities with the experience and technical skills gained in the management of complex systems. It creates value for the shareholders with a strong commitment to professional best practices and with a responsible approach to the community, respecting the environment in which it operates".

Social Responsibility

Terna manages all its activities focusing on their possible economic, social and environmental consequences and in adopting a sustainable approach to business, has identified a method for creating, maintaining and consolidating a relationship of mutual trust with its stakeholders, that is useful for the creation of value for the Company, society and the environment.

Terna's main orientation for Social Responsibility can be found in the Code of Ethics and in the Company's mission, and entail defining its concrete and measurable responsibilities and objectives in economic, environmental and social areas, in addition to the one specific to Terna, that of responsibility for the electricity service.
From the point of view of sustainability, respect for the environment is particularly important. The physical presence of pylons, electricity lines and stations which interact with the landscape and biodiversity represent indeed the most significant impact of Terna's activities. That is why Terna has chosen the approach of negotiation and coordination with Local Authorities, also involving potentially significant stakeholders such as the main environmentalist associations to take environmental needs into consideration from the early stages of planning new lines. Terna has also developed a management system to control and limit the environmental impact of its activities. Thus, consideration of environmental issues matches the Company's interest in implementing grid development investments and in the more general interest of community for a reliable, inexpensive and environmentally safe electricity system.
The results of this management approach, oriented towards continuous improvement through the definition of economic, social and environmental responsibility objectives are presented in the Sustainability Report, indicated by the Code of Ethics as an instrument to give the stakeholders an account of the degree of implementation of its undertakings, and published yearly since 2006.
For its Sustainability Report, Terna adopts the international standard *G3.1-Sustainability Reporting Guidelines of the Global Reporting Initiative* (GRI), a leading global organization that develops guidelines on reporting sustainability, and then submits it for analysis to an external auditor and to the Board of Directors for approval.
Since the 2009 edition, the Sustainability Report has obtained an A+, the highest level provided for by the GRI standard, for transparency and completeness of information.
Among the main 2012 results for CSR it is worth mentioning:
- the revision of the ethical measures and environmental and social responsibilities in relation to the reorganisation of the Group and the strategic objectives that, in particular, establish the adoption of the Code of Ethics and the Organisational Model pursuant to Italian Legislative Decree no. 231/2001 by new Group companies and the revision, update and, if necessary, strengthening of such measures in the supply chain;
- the continuation of the activities for the set-up of a management system inspired by energy efficiency, in line with the criteria set forth by ISO 50001;
- the signing of a Memorandum of Understanding with the 18 main consumer associations aimed at sharing proposals and actions on subjects of shared interest, relating to the national electricity transmission grid, in favour of users of the electricity service;
- the active participation in the pilot programme of the International Integrated Reporting Council (IIRC) with the study and implementation of a greater integration of the financial and sustainability information in the Report on Operations and on Terna's official website;
- the implementation of a survey on Terna's commitment to social aspects in order to get to know the opinions of selected stakeholders with regard to their initiatives in the social field in order to assess the level of knowledge and obtain information on an effective, coherent organisation of future initiatives.

Terna's commitment to improving its ESG (Environmental, Social Governance) performance has been considered positively in sustainability ratings, in the inclusion of the main international sustainability stock exchange indexes and in the appreciation of socially responsible investors.
In 2012, Terna was confirmed on all main international sustainability stock market indexes and was included in the new range of Vigeo ESG indexes.
In January 2013, Terna, the only Italian electrical company, was confirmed for the second year running as part of the Gold Class of the "RobecoSAM Sustainability Yearbook 2013", which this year includes only 67 companies in the world. The fact of belonging to the Gold Class requires a ratings score that must be less than 1% from that of the sector leader.

Company organization

In compliance with the provisions of the Italian legislation concerning listed companies, the Company's organization - based on the traditional administration and management model - includes the following:
- a Board of Directors responsible for the Company management. To such aim, the Board is entrusted with the widest powers so as to complete all the actions that deems appropriate for the performance and the attainment of the Corporate purpose, excluding only the action that the Law and the Bylaws reserve to the Shareholders' Meeting;
- a Board of Statutory Auditors responsible for monitoring: (I) that the Company complies with the Law, the Bylaws and the principles of correct administration in performing Company activities, (II) the adequacy of the Company's organisational structure, Internal Control System and administrative/accounting system as well as those of the foreign subsidiaries outside of the EU. It is also responsible for carrying out all duties assigned to the Board of Statutory Auditors by Law and by the Corporate Governance Code for listed companies. Pursuant to the provisions of article 19 of Italian Legislative Decree 39/2010, it is the responsibility of the Board of Statutory Auditors to supervise the financial information process, the efficiency of the internal control systems, of internal reviews and risk management, the auditing of annual and consolidated results and the independence of the auditing company;

- the Shareholders' Meeting - ordinary and extraordinary - that resolves upon, inter alia, (i) the appointment and revocation of members of the Boards of Directors and of Statutory Auditors and their fees and duties, (ii) the approval of the Financial statements and allocation of the profits for the year, (iii) the purchase and sale of treasury shares, (iv) amendments to the Bylaws, and (v) the issuance of convertible bonds; (vi) authorizations for actions carried out by Directors concerning Transactions with Related Parties for which there was no favourable opinion by the competent independent body, in compliance with governing regulations and based on procedures adopted by the Board of Directors as well as on urgent transactions submitted by the Directors to an advisory vote of the Shareholders' Meeting (Article 13.3 of the Bylaws), and (vii) during consultations pursuant to Article 123-*ter*, paragraph 6 of the Consolidated Law on Finance, on Company Policy on matters of remuneration of members of administration bodies, of general directors and of executives with strategic responsibilities;
- an Executive in Charge of the preparation of the Company's accounting records, who is given all assignments and responsibilities provided by the Law and regulations as well as those provided for by the Governance Code (Article 7.C.2).

Statutory auditing activities are entrusted to a specialized company enrolled in the specific register of legal auditors, which is appointed by the Shareholders' Meeting on proposal by the Board of Statutory Auditors.
Terna's independent legal auditors also have similar engagements with the Company's main subsidiaries.
It has been some time since the Organizational Model adopted by the Company pursuant to Legislative Decree no. 231/01 - which was recently updated based on the provisions of Legislative Decree 39/2010 - has provided that the auditing of the Company's Financial statements and that of any company of the Group and of the Consolidated financial statements is not compatible with consultancy activities for Terna or any company of the Group, extending to all network of the audit company as well as to shareholders, Directors, members of control bodies and employees of the audit company and of the other companies belonging to the same network. The assignments to the audit company are submitted to Terna's Internal Control Committee (now the "Control and Risk Committee") for any assignment other than the one given under Law provisions, in any event related to auditing activities. In order to ensure independence of the company and of the officer in charge of auditing, the assignment for the legal auditing of the Company's financial statements and that of any company of the Group and of the consolidated financial statements is not in any case given to audit companies that fall within one of the incompatibility situations pursuant to Article 17 of Italian Legislative Decree no. 39/2010 and Part III, Title VI, paragraph I *bis* of the Issuers Regulation.

The Shareholders' Meeting held on May 16, 2012 approved changes to Articles 14.3, 14.5, 26.1 and 26.2 of the Company Bylaws and the introduction of new Article 31 ("Transitional Clause") with new numbers 31.1 and 31.2 for the paragraphs forming this Article, aiming at ensuring, for three consecutive terms and without prejudice to any additional extensions as provided for by the law, gender balance in the composition of the Board of Directors and of the Board of Statutory Auditors of companies with listed shares, implementing the provisions introduced by Law No. 120 dated July 12, 2011, by Articles 147-*ter*, paragraph 1-*ter*, and 148, paragraph 1-*bis* of the Consolidated Law on Finance. The main changes concern: (i) the methods used for coordinating observance of gender quotas with the slate vote procedure, with the sole exception for lists containing less than three candidates; (ii) the mechanisms used to ensure observance of gender quotas should there be substitutions during the course of a mandate; and (iii) methods to ensure that exercising the right of appointment, when provided for, does not contrast with the regulatory provisions of the Consolidated Law on Finance on the matter.

Section II **Information on shareholding structure (pursuant to Article 123-*bis*, paragraph 1 of the Consolidated Law on Finance)**

Share capital structure (pursuant to Article 123-*bis*, paragraph 1, letter a) of the Consolidated Law on Finance)

The Company's share capital as of March 15, 2013 amounts to € 442,198,240.00 and comprises exclusively nominal ordinary shares, for a total of 2,009,992,000 ordinary Terna's shares with a nominal value of € 0.22 each. They are fully paid-up and bear voting rights at both the ordinary and extraordinary Shareholders' Meetings. Ordinary shares grant further administrative and financial rights provided for by the Law regulating the shares with right to vote.
Since June 23, 2004, Terna shares have been listed on the Italian stock exchange organised and managed by Borsa Italiana S.p.A., in the *Mercato Telematico Azionario* ("MTA") - Large Cap (or Blue Chip) segment comprising the 40 businesses that are most capitalised with the greatest level of liquidity and belong to the Financial Times Stock Exchange - *Milano Indice di Borsa* (FTSE MIB).
Pursuant to Article 5.2 of the Company Bylaws, the Shareholders' Meeting can approve capital increases through share issuance, also belonging to special categories, to be assigned free of charge pursuant to Article 2349 of the Italian Civil Code for employees, or rather as payment, and with the exclusion of the option right under Article 2441 of the Civil Code, in favour of subjects identified by shareholders.

In compliance with this provision of the Company Bylaws, the Shareholders' Meeting held on April 1, 2005 resolved only one share-based incentive plan that was utilized in full in 2011 and that included increasing the share capital according to g. the provisions in the subsequent paragraph "Powers to increase the share capital and authorizations for the purchase of treasury shares".
The Company did not issue other financial tools granting the right to subscribe newly issued shares.
Terna did not issue shares that were not negotiated on regulated markets of a country in the EU.

Significant participating interests in share capital and shareholders agreements (pursuant to Article 123-*bis*, paragraph 1, letters c) and g) of the Consolidated Law on Finance)

On the basis of the shareholders' book, communications received pursuant to CONSOB Resolution no. 11971/99 and available information, and with reference to the Company's share capital as of March 15, 2013, equal to € 442,198,240.00 for a total of 2,009,992,000 ordinary Terna shares with a nominal value of € 0.22 each, the following investors hold a share of the capital in excess of the thresholds of relevance specified by Consob:

- Cassa Depositi e Prestiti S.p.A. (public limited company in which the Italian Ministry for the Economy and Finance of the Italian Republic owns 70%), with 29.851% of the share capital;
- Romano Minozzi (directly and indirectly) with 5.351% of the share capital.

BlackRock Inc. (with reference to the shares held through the management company of the BlackRock Group, by way of asset management), declared that it is applying the exemption established under Article 119-*bis*, paragraphs 7 and 8 of the Issuers Regulation, as amended by Consob Regulation no. 18214, which came into force on June 6, 2012. Therefore, as from June 6, 2012, BlackRock Inc.: (i) has asked that the investments declared previously in Terna, in excess of 2% and less than 5%, not be considered significant in terms of the disclosure obligations considered; (ii) has declared that it be kept beneath the new *medio tempore* threshold of relevance established by the coming into force of Consob changes; and (iii) holds (through the management company of the BlackRock Group, by way of asset management), as of November 8, 2012, a shareholding equal to 2.73% of the capital.
No other investors own more than the threshold of relevance indicated by Consob of Terna S.p.A.'s share capital and the Company is not aware of the existence of any shareholders' agreement relating to the Company shares.

Powers to increase share capital and authorization for the purchase of treasury shares (pursuant to Article 123-*bis*, paragraph 1, letter m) of the Consolidated Law on Finance)

The power granted to the Board of Directors to increase the share capital resolved by the extraordinary Shareholders' Meeting held on April 1, 2005 was exercised through the adoption of a share-based incentive plan aimed at Terna Group's executives and in force from 2006 up to its complete exhaustion, which took place in 2011, with the exercising of all the Stock Options still in circulation.
The above-mentioned Stock Option plan brought about an increase in the share capital of € 2,198,240.00 through the issuance of 9,992,000 new ordinary Terna's shares, each with a nominal value of € 0.22.
It should be remembered that the extraordinary Shareholders' Meeting of April 1, 2005 had resolved the assignment of a five-year proxy to the Board of Directors for a share capital increase for maximum € 2,200,000 through the issuance of maximum 10,000,000 ordinary shares with a nominal value of € 0.22 each, on a dividend-right basis, to be offered for subscription to Terna Group's managers as payment with exclusion of the option right under the combined provisions of Article 2441, last paragraph, of the Civil Code and Article 134, paragraph 2 of the Consolidated Law on Finance, as provided for by Article 5.3 of the Company Bylaws.
Pursuant to the Shareholders' Meeting resolution of April 1, 2005, on December 21, 2005, Terna's Board of Directors adopted a share-based incentive plan. With reference to the adopted plan, the Board of Directors of March 21, 2007 partially exercised the above mentioned proxy, approving a share capital increase regarding the 2006 stock option plan up to maximum € 2,198,240.00 through the issuance of maximum 9,992,000 new ordinary Terna's shares with a nominal value of € 0.22 each, at € 2.072 each, to be implemented in compliance with Article 5.4 of the Bylaws. Based on Meeting resolution dated April 22, 2009, the maximum date for the total subscription of the increase is March 31, 2013.
No other proxies to increase capital have been assigned, pursuant to Article 2443 of the Civil Code.
No resolution authorizing the purchase of treasury shares under Article 2357 and following of the Civil Code has been submitted to Terna's Shareholders' Meeting.
Terna does not own, nor has purchased or sold during the year, not even indirectly, treasury shares or shares of its parent company.

Employees' shareholdings: system to express the right to vote (pursuant to Article 123-*bis*, paragraph 1, letter e) of the Consolidated Law on Finance)

The system for expressing the right to vote during the Shareholders' Meeting through shareholding associations, including employees shareholding groups, is regulated based on the existing specific legal provisions on the subject.
Based on the provisions regarding the special legislation on listed companies, Terna's Bylaws introduced a special pro-

vision aimed at facilitating collecting voting proxies with its employees' shareholding groups as well as of its subsidiaries, encouraging in this way the relative involvement in the meeting decision-making processes (Article 11.1 of the Bylaws).
As of March 15, 2013 the Company had not received any notification of the establishment of employees' shareholding groups.

Change of control clauses (pursuant to Article 123-*bis*, paragraph 1, letter h) of the Consolidated Law on Finance) and statutory provisions in takeover bid matters (*ex* Article 104, paragraph 1-*ter*, and 104-*bis*, paragraph 1 of the Consolidated Law on Finance)

As regards significant agreements Terna or any of its subsidiaries are parties of and that come into effect, are amended or expire in the event of shareholding change within Terna, the following should be noted.
The loan contracts stipulated with the European Investment Bank (EIB) include mandatory advance repayment clauses in the event the Company proceeds to or is involved in a merger, a split or transfer of a Company branch. Should such events occur, the EIB will have the power of requesting, and the Company will have the obligation to inform the Bank, any information that the latter may reasonably require regarding the Company situation, in order to understand any changes and relative consequences in the Company's commitments towards the Bank. In such cases, should the EIB deem, according to its indisputable judgement, that these transactions may have negative consequences on the commitments undertaken by the Company, the bank itself will have the power to request the necessary changes in the loan contracts or alternative solutions that satisfy the Bank itself, such as early reimbursement of the loan.

With regard to takeover bids and public tender offers to exchange, the Company Bylaws do not provide for any derogation of the provisions in the Consolidated Law on Finance on the so-called passivity rule provided for by Article 104, paragraphs 1 and 1-*bis* of the Consolidated Law on Finance, nor are there neutralization rules as established Article 104-*bis*, of the Consolidated Law on Finance, without prejudice to - pursuant to Article 104-*bis*, paragraph 7 of the Consolidated Law on Finance - law and statutory provisions regarding special powers as provided for in Article 2 of Law Decree no. 332 dated May 31, 1994 converted with amendments by Law no. 474 dated July 30, 1994, with subsequent modifications and amendments - the so-called "Law on Privatisation", and concerning limits on share possession and the right to vote pursuant to Article 3 of the same Law Decree.

Restrictions in share transfer and shares granting special powers (pursuant to Article 123-*bis*, paragraph 1, letters b) and d), of the Consolidated Law on Finance)

No limitations exist in the Company Bylaws to the availability of shares, except for the provisions stated by the Bylaws regarding rules for privatization based on the Law Decree no. 332 dated May 31, 1994 converted with amendments by Law no. 474 dated July 30, 1994 and subsequent changes - the so called "Privatisation Law".
In particular, pursuant to Italian regulations concerning privatizations, Terna's Bylaws provide for the possibility for the Government to exercise certain "special powers" and establishes a "maximum limit of shareholding" - equal to a direct and/or indirect ownership of Terna's shares for more than 5% of the share capital - for subjects other than the Italian Government, state-controlled companies and entities subject to either control: the implementation of those provisions, in some circumstances as indicated by the Bylaws, has effects also on the voting right.

"Special powers" (indicated by Article 6.3 of the Bylaws, in enactment of Article 2, paragraph 1 of the "Privatisation Law") can be exercised by the Italian Government, represented in this case by the Ministry for the Economy and Finance, notwithstanding the number of Terna shares potentially owned by the Ministry itself.
In particular, in implementation of the "Privatisation Law", the Ministry for the Economy and Finance, as agreed with the Ministry of Productive Activities (now called Ministry for Economic Development), is assigned the following "special powers":

a) opposition to relevant ownership (that is equal or higher than 1/20th of Terna's share capital formed by shares bearing right to vote in Shareholders' Meetings) by entities subject to the ownership restriction presented above. The opposition must be expressed within 10 days from the date of the communication, which must be made by Directors at the request of subscription in the shareholders' book, only when this may jeopardize the vital public interest. In the meantime, the right to vote and non-financial rights related to shares representing the relevant ownership, are suspended;
b) opposition to shareholder agreements under the Consolidated Law on Finance, in case at least 1/20th of Terna's share capital, including shares bearing right to vote at Shareholders' Meetings, is thereby represented. Opposition must be expressed within 10 days from the date of communication that must be made by CONSOB. In the meantime, the right to vote and non-financial rights related to shares of shareholders that are parties of the agreements, are suspended;
c) veto, dutifully motivated, in relation to concrete jeopardy of the vital public interest, to the adoption of provisions for the winding-up of the Company, of transfer, merger, division, moving abroad of the registered offices, of Company Corporate purpose change, of amendments to the Bylaws suppressing or modifying powers indicated by the same Article 6.3 of the Bylaws;
d) appointment of one director with no right to vote. In case of termination of the assignment of the appointed Director, the Ministry for the Economy and Finance, in agreement with the Ministry for Productive Activities (now called Ministry for Economic Development), will appoint the substitute.

The power of opposition pursuant to letters a) and b), in accordance with the provisions of Article 4, paragraph 228 of Italian Law no. 350 of December 24, 2003, can be exercised with reference to the individual operation. It can also be exercised when ownership, also through single purchase acts, records an increase which is equal or higher than expectations. Such power can also be exercised every time the need to protect mandatory public interest arises, within ten days from their actual occurrence. In this case, the act of exercising the State power must include explicit and motivated reference to the date such causes arose.
The special powers under letters a), b), c) and d) are exercised with respect of the criteria provided for by the Prime Minister's Decree of June 10, 2004.

The "maximum limit of shareholding" (provided for by Article 6.4 of the Bylaws and pursuant to Article 3 of the "Privatisation Law") is calculated also considering total share ownership related to the Parent Company, natural person or legal entity or company; to all direct and indirect subsidiaries as well as the subsidiaries under the same controlling subject; to all associated subject as well as to natural persons bound by parental or affinity relationships up to second grade and by marriage, in the event that husband/wife are not legally separated. Control occurs, also with reference to subjects other than companies, in cases provided for by Article 2359, paragraphs 1 and 2, of the Italian Civil Code. Association occurs in cases under Article 2359, paragraph 3, of the Civil Code, as well as between subjects who, directly and indirectly, through subsidiaries other than those managing common investment funds, join, also with third parties, agreements related to the exercise of the right to vote or to the transfer of shares or portions of third companies or, anyway, to agreements or pacts as per Article 122 of the Consolidated Law on Finance, with reference to other companies, if these agreements or pacts refer to at least 10% of the share capital with right to vote, in case of listed companies, or 20% in case of non-listed companies. With reference to the calculation of the above-mentioned limit of share ownership (5%), shares owned through trustees and/or through a third person and, generally, through an intermediary person are also considered.
This limit established to share ownership in any case fails to apply where it is exceeded as a result of a public takeover bid, as long as the bidder, following the offer, holds a stake of at least seventy-five percent of the capital with voting rights in the resolutions regarding the appointment or revocation of directors.
The right to vote related to share ownership exceeding the above-mentioned maximum limit cannot be exercised and proportionally reduces the right to vote of each subject to whom the limit in share ownership refers to, except in the event of joint communications by the involved shareholders. In case of non-compliance, decision can be appealed under Article 2377 of the Civil Code if the requested majority would not be achieved without the votes exceeding the above-mentioned limit. Shares for which the right to vote cannot be exercised are calculated anyhow for the regular formation of the Shareholders' Meeting.

The described provisions on special powers, set out in the "Privatisation Law" have recently been subjected to a legislative change that is not yet in force, as it is awaiting enactment provisions currently being issued.
More specifically, with Italian Law Decree No. 21 of March 15, 2012, converted with amendments by Italian Law No. 56 of May 11, 2012 (the so-called "Golden Power Decree"), the legislator dictated new provisions on the special powers of the government "*in relation to strategic activities in the energy, transport and communications industries*", in order to standardise national legislation with the legislation of the European Union, assigning the Government powers of intervention to protect the lawful, essential and strategic interests of the country.
These provisions, set out under Articles 2 and 3 of the "Golden Power Decree" basically state:

- the issue of specific regulations, to be updated at least once every three years, aimed at identifying *"the grids and systems, including those needed to ensure the minimum provisioning and operations of essential public services, assets and reports of strategic relevance for the national interests in the fields of energy, transport and communication and the type of acts or operations within a single group to which the regulations of this Article do not apply"*;
- the obligation to notify the Prime Minister's Office - within 10 days and in any case before implementation - of resolutions, acts and operations adopted by a company holding one or more of the assets as identified above, which result in:
  - changes to the ownership, control or availability of the assets;
  - the change in their purpose, including resolutions of the Shareholders' Meeting or administrative bodies concerning the merger or spin-off of the company;
  - the transfer of the company offices abroad;
  - a change to the company object;
  - the company wind-up;
  - the amendment of any statutory clauses adopted in accordance with Article 2351, third paragraph of the Italian Civil Code, or introduced in accordance with Article 3, paragraph 1 of the "Privatisation Law", as most recently amended by Article 3 of the same Decree;
  - the transfer of the business or a business unit encompassing these assets;
  - the assignment of them by way of guarantee;

  and the obligation to notify resolutions passed by the Shareholders' Meeting or administrative bodies concerning the transfer of subsidiaries holding said assets;

- the Prime Minister's power to veto adopted - on the proposal of the Ministry for the Economy and Finance and on compliant resolution of the Council of Ministers - on resolutions, acts or operations notified that give rise *"to an exceptional situation, not regulated by national and European segment legislation, of a threat for serious damages to the public interests concerning the safety and operation of the grids and systems and the continuity of provisioning"*. The power to veto can also be exercised in the form of the imposition of specific provisions or conditions where such suffices to ensure the protection of the public interests in relation to the safety and operation of the grids and plants and the continuity of provisions. The veto is notified within 15 days of communication; said terms may be suspended once only for a request for information and until receipt of such, which must be within 10 days. The resolutions, acts or operations adopted or implemented in breach of the obligations to notify the information or in breach of the conditions, provisions or veto established by the Government are null. The Government may also demand that the company and any counterparty restore the previous situation at its own expense. Anyone not complying with the provisions relating to notification and veto, without prejudice to where the fact is a crime, is subject to the administrative sanctions specified in the "Golden Power Decree";
- the obligation to notify the Prime Minister's Office - within 10 days - of the acquisitions by any title, by a subject, whether natural person or legal entity, external to the European Union, or *"which does not have residence, usual place of domicile, registered office or administration or main centre of business in a European Union Member State or of the European Economic Area or which is not in any case established therein"* of majority shareholdings in companies holding the assets identified as strategic *"of relevance such as to determine the permanent establishment of the buyer by virtue of the assumption of control of the company whose investment has been acquired"*. The notice is accompanied *"by all information useful to providing a general description of the acquisition project, the buyer and its scope of operations"*. In calculating the significant shareholding, consideration is also taken of the investment held by third parties with which the buyer has stipulated shareholders' agreements;
- the power of the Prime Minister, within 15 days from the notification of said acquisitions and to be exercised, at the request of the Ministry for the Economy and Finance, in accordance with paragraph 8 of said Article, and by compliant resolution of the Council of Ministers, sent at the same time to the appointed parliamentary commissions, to:
  - subject the effect of the acquisition to the assumption by the buyer of commitments intended to guarantee the protection of the essential interests of the Government *"in relation to the safety and functioning of the grids and plants and the continuity of provisions"* where the acquisition entails a threat of serious prejudice to said interests, or
  - oppose the acquisition, in exceptional cases of risk to the protection of the mentioned essential interests of the Government, which cannot be eliminated through the assumption of the above commitments.

  Once these terms have expired, the operation can be implemented.

  Until notification and expiry of the terms for the potential exercise of the special powers relating to the indicated acquisitions, voting rights and other non-capital rights connected with the shares representing the significant investment are suspended, just as such rights are suspended in the event of failure to comply with the commitments said as a condition of the admissibility of the acquisition, for the entire period for which the breach continues. Any resolutions passed with the determining vote of said shares or in any case resolutions or acts adopted in breach or infringement of the conditions set, are null. Any buyer failing to comply with the commitments required is also subject, without prejudice to where the facts constitute a crime, to the administrative sanctions specified in said "Golden Power Decree".

  In the event that the power of opposition is exercised, the buyer may not exercise voting rights and in any case those rights with a different content to that of the capital rights connected with shares, which represent the significant shareholding. Any meeting resolutions adopted with the determining vote of said shares are null. Shares must be sold within 1 year and, in the event of failure to comply, at the request of the Government, the court orders the sale of said shares.

  Without prejudice to the provisions commented on above, the acquisition, by any title, by a party outside the European Union is permitted at mutual conditions, in compliance with the international agreements signed by Italy or by the European Union;
- the special powers of veto and opposition to acquisitions are exercised on the basis of objective criteria, such as:
  - the existence of connections between the operators involved and: (a) third party countries that do not recognise principles of democracy or a state of law, which do not comply with rules of international law, or which have behaved riskily with regard to the international community, given the nature of their alliances; or (b) criminal organisations or with subjects or entities in any case connected to them;
  - the suitability of the structure resulting from the legal act or the operation to guarantee: (a) the safety and continuity of provisions; (b) the maintenance, safety and operations of the grids and systems.

Until adoption of the provisions, which must specify the organisational methods by which to carry out the activities required prior to the exercise of special powers, the competences relating to the proposals for the exercise of special powers set out above are instead assigned to the Ministry for the Economy and Finance for the companies in which it holds an interest.

By virtue of the specified provisions of the "Golden Power Decree" and with regard to Terna, the following shall in any case therefore cease to have any effect as from the date on which the regulations for the identification of strategic assets come into effect:

- the current legislation on special powers established by Article 2 of the "Privatisation Law" and the Prime Minister's Decree of June 10, 2004 *("Definition of the criteria for the operation of special powers, pursuant to Article 2 of Italian Law Decree no. 332 of May 31, 1994, converted, with amendments, by Italian Law no. 474 of July 30, 1994"* as subsequently amended and supplemented), the provisions of which are in any case abrogated as from the date on which the last of the regulations that will complete the identification of the energy, transport and communication industries, comes into effect;
- the provisions assigning special powers contained in the Prime Minister's Decree of September 17, 1999 (*"Provisions for the assignment of special powers to the Ministry for the Treasury, Budgets and Economic planning on the disposal of shareholdings of ENEL S.p.a."*), in the Decree by the Ministry for the Treasury, Budgets and Economic planning of September 17, 1999 (*"Identification of the contents of statutory clauses to be included in the bylaws of ENEL S.p.a., ENEL Produzione S.p.a., Terna S.p.a. and ENEL Distribuzione S.p.a., which assign the Ministry for the Treasury, Budgets and Economic planning title of special powers in accordance with Article 2 of Italian Law Decree no. 332 of May, 31 1994, converted into Italian Law no. 474 of July 30, 1994"*) and in the decree of the Ministry for the Economy and Finance no. 32578 of April 1, 2005, which, by virtue of the changes made to the "Privatisation Law" by Article 4 of the Law no. 350 of December 24, 2003 had updated the content of the statutory clause on special powers already contained in Terna's Bylaws;
- the current clauses on special powers in Terna's Bylaws, without prejudice to the provisions on the maximum limit of shareholding.

Voting Restrictions (pursuant to Article 123-*bis*, paragraph 1, letter f) of the Consolidated Law on Finance)

Pursuant to privatization regulations, restrictions exist (under Articles 6.3 and 6.4 of the Bylaws) to the right to vote related to the exercise of "special rights" of the Italian State and to the limits of share ownership as mentioned earlier.
Further restrictions are applied to operators of the electricity sector (as provided for by Article 3 of the Prime Minister's Decree dated May 11, 2004 as regards *"criteria, modalities and conditions for the unification of ownership and management of the National Transmission Grid"*) for which a limit equal to 5% of the share capital was established for exercising the right to vote in case of Directors' appointment (Article 14.3 letter e) of Company Bylaws).
From the date on which the regulations identifying the strategic assets came into force, pursuant to the provisions of the "Golden Power Decree" currently being issued - as already described in the previous title *sub* "Restrictions in share transfer and shares granting special powers" - restrictions to voting rights connected to the exercise of "special powers" of the Italian State shall cease all effect, as envisaged by the "Privatisation Law" and the Terna's Bylaws, whereas those envisaged on the matter by the "Golden Power Decree", in any case without prejudice to the provisions and restrictions to voting rights established by Terna's Bylaws, connected to the provisions on the maximum limit of shareholding.

Appointment and substitution of Directors and amendments to the Bylaws (pursuant to Article 123-*bis*, paragraph 1, letter l) of the Consolidated Law on Finance)

Appointment, requirements and term of office of Directors

The terms for appointing the members of the Board of Directors are ruled by article 14 of the Bylaws.
As resolved upon by the Meeting, the Board of Directors is made up of seven to thirteen members who are appointed for a period not longer than three years (Article 14.1 of the Bylaws) and they may be reappointed at the end of their term (Article 14.2 of the Bylaws). In addition to this, there may be a Director without voting rights, whose potential appointment is reserved to the Italian government (Article 6.3, letter d) of the Bylaws) by virtue of the legislation on privatisation; up until now, this power of appointment has not been exercised by the Italian government and the provisions on the matter shall cease from the date on which the regulations for the identification of strategic assets come into force pursuant to the regulations of the "Golden Power Decree", currently being issued, as already described in the previous title *sub* "Restrictions in share transfer and shares granting special powers".
The Chairman is appointed by the Shareholders' Meeting among the members of the Board (Article 16.1 of Bylaws and Article 2380-*bis*, paragraph 5 of the Civil Code): in case of impossibility, by the Board itself. The Board can appoint a Deputy Chairman. In no case such positions can be held by the Director appointed by the Italian Government under said privatisation law (Article 16.1 of the Company Bylaws).
The appointment of the entire Board of Directors takes place – in compliance with the privatisation regulation, under Prime Minister's Decree of May 11, 2004 and in compliance with the provisions of the Italian Law for listed companies – according to the mechanism of the "list voting", governed by Article 14.3 of the Bylaws, aiming at guaranteeing the presence in the management body of members designated by minority shareholders equal to 3/10 of the Directors to be appointed with rounding, in case of lower fractional number to the unit, to the following unit.
In accordance with the provisions of Articles 4, paragraph 1-*bis* of the "Privatisation Law", of Article 147-*ter* of the Consolidated Law on Finance and the implementing regulations of the above-mentioned law provisions included in Articles 144-*ter* and following of the Issuer Regulations - establishes that the lists of candidates can be submitted by the outgoing

Board of Directors or by shareholders who, alone or with other shareholders, represent at least 1 % of the share capital as provided for by the law - or a lower amount, as established by the law, of the shares with voting right in the Meeting. For this purpose CONSOB, implementing the provisions of Article 147-*ter* of the Consolidated Law on Finance and Article 144-*septies* of the Issuers Regulation, has established - with Resolution no. 18452 dated January 30, 2013 and for the year that ended on December 31, 2012 - the participation stake required for submitting candidate lists to be appointed in Terna's administration and control bodies at 1% of the share capital, taking into account the Company's capitalization, floating capital and owned assets and without prejudice to the lower stake included in the Bylaws.
The presentation, filing and publication of the lists are regulated by specific referral of the Bylaws, by applicable legislation and regulations.
More specifically, the presentation and filing of the lists must take place - in accordance with Article 147-*ter*, paragraph 1-*bis* of the Consolidated Law on Finance, at least 25 days prior to the date scheduled for the Shareholders' Meeting called to resolve on the appointment of the members of the Board of Directors.
Ownership of the minimum stake required to submit lists shall be determined - in accordance with the provisions of Article 147-*ter*, paragraph 1-*bis* of the Consolidated Law on Finance - by taking into account the shares that are registered in the name of the Shareholder(s) on the day in which the lists are filed with the Company. In order to prove ownership of the number of shares necessary for presenting the lists, shareholders with rights must present and/or deliver the related certification or communication issued in accordance with Articles 144-*sexies*, paragraph 4-*quater* of the Issuers Regulation and 23 of the "Regulation enacting the regulation of the centralised management services, liquidation, guarantee systems and related management companies" (adopted by the Bank of Italy and Consob on February 22, 2008 and subsequently amended by deed of the Bank of Italy/Consob of December 24, 2010), also subsequently to filing the list, as long as, within the terms envisaged for the publication of the lists (i.e. at least 21 days prior to the date scheduled for the Shareholders' Meeting called to resolve on the appointment of the administrative body).
Each Shareholder may present or assist in the presentation of one single list and each candidate may be on one list only or he will be considered ineligible.
The lists shall list candidates according to a progressive number (Article 14.3 of the Bylaws) and must specify which candidates meet the requirements of independence envisaged by the law and the Bylaws (Article 147-*ter* of the Consolidated Law on Finance) and all other information or declaration required by the regulations and legislation, applicable, and by the Bylaws for the respective offices.
Lists with three or more candidates must also include candidates of different gender, in accordance with the provisions of the notice convening the meeting, in order to enable a Board of Directors to be formed in compliance with current legislation on the balance of gender in the administrative and auditing bodies of companies with listed shares pursuant to Italian Law no. 120 of July 12, 2011 and Articles 147-*ter*, paragraph 1-*ter* and 148, paragraph 1-*bis* of the Consolidated Law on Finance. If, upon completion of voting, the legislation on gender balance is not respected, Article 14.3, letter c-*bis*) of the Bylaws establishes the formation of a new decreasing hierarchy of all candidates who would be elected and the replacement of the candidate of the most represented gender coming lowest down in the hierarchy, with the first of the candidates of the least represented gender not elected, belonging to the same list as the candidate replaced; this is without prejudice to respect of the minimum number of independent directors established by the Bylaws. If ratios are equal, the replacement is taken from the list that has obtained the most votes, without prejudice to compliance with the minimum number of independent directors established by the Bylaws. If there is a lack of candidates from that list, we proceed with the legal majorities, respecting a proportional representation of the minorities in the Board of Directors. If it should be necessary to appoint more than one candidate of a gender different to that of the other candidates elected, the replacement procedure specified is carried out moving up the hierarchy from the bottom until the criteria laid down by the legislation is met.
Statutory provisions - introduced by the resolution of the Shareholders' Meeting passed on May 16, 2012 - aimed at guaranteeing compliance with current legislation on gender balance, shall apply, in accordance with the provisions of Article 31.1 of the Bylaws, to the first three renewals of the Board of Directors subsequent to the coming into force and acquisition of efficacy of the provisions of Article 1 of Italian Law no. 120 of July 12, 2011, published in the Official Journal no. 174 of July 28, 2011 and in force as from August 12, 2011 without prejudice to any extensions envisaged by the law. Therefore, they shall first apply when renewing the company bodies expiring with the approval of the 2013 financial statements.
According to the provisions of Article 147-*ter*, paragraph 3 of the Consolidated Law on Finance, at least one of the members of the Board of Directors should be appointed by the minority list that has obtained the highest number of votes and is not connected in any way, not even indirectly, with the members who have submitted or voted the list that won for a number of votes. In this regard, please remember that if, upon completion of voting, the number of directors reserved to the minority lists has not been elected, and the minority director as established by Article 147-*ter*, paragraph 3 of the Consolidated Law on Finance, and the minimum number of independent directors in accordance with the Bylaws, Article 14.3 of the Bylaws, respectively letters b) and c), set outs:

- that only seven tenths of the directors to be elected by rounding-down, in the case of a partial number of less than one, to the unit below;
- that the candidate elected with the lowest ratio will be replaced, in progressive order, by the candidate meeting the requirements set out by the same list as the candidate replaced.

The lists must include declarations with which each candidate accepts his own candidacy and states, under his own responsibility, the non existence of ineligibility and incompatibility causes, and the information required by Article 144-*octies*, paragraph 1 of the Issuers Regulation and all other information required by applicable law and regulations, and by the Bylaws. Shareholders presenting a “minority list” are addressees of the CONSOB communication no. DEM/9017893 of February 26, 2009 (concerning the “Appointment of the members of the administrative and auditing bodies”), which recommends that they file, together with the list, a declaration certifying the lack of any connection pursuant to Article 147-*ter*, paragraph 3 of the Consolidated Law on Finance, setting out the information listed in said Communication with regard to the election of the administrative body.
On the basis of a clause in the notice of call for the Meeting and considering the provisions of the Governance Code (Article 2 and Comment to Article 5), which Terna has explicitly adhered to, together with the lists, a detailed description of the candidates’ personal and professional characteristics must be filed, accompanied by a statement indicating as to whether or not the candidates qualify as independent according to Article 3 of the Governance Code.
The lists, complete with information on the specific characteristics of the candidates and the additional declarations and information envisaged by Article 144-*octies*, paragraph 1 of the Issuers Regulation and CONSOB Communication no. DEM/9017893 of February 26, 2009 are made available to the public - in accordance with Article 147-*ter*, paragraph 1-*bis* of the Consolidated Law on Finance - at the company’s headquarters, on the company’s website and according to the methods set out by CONSOB, at least 21 days prior to the date of the Shareholders’ Meeting called to resolve on the appointment of the members of the Board of Directors, thereby guaranteeing a transparent procedure for the appointment of the Board of Directors.

Finally, the Bylaws establish - in accordance with the requirements of Prime Ministerial Decree of May 11, 2004, the Bylaws envisages for operators of the electricity sector a limit equal to 5% of the share capital as regards the exercise of the voting right during the appointment of the Directors according to the abovementioned rules.
Any replacement of Directors will be carried out pursuant to Article 2386 of the Civil Code.
In any case, the replacement of Directors whose office has ended will be carried out by the Board of Directors guaranteeing the presence of the necessary number of directors in possession of the requirements of independence established by the Law and by Article 15.4 of the Bylaws and compliance with current legislation on gender balance.
If the majority of the Directors appointed by the Shareholders’ Meeting is not reached, the entire Board of Directors is considered as having resigned and the Shareholders’ Meeting must be called without delay by the Directors still in office for appointing a new Board.
The Director must meet the requirements of integrity, professionalism and independence.
The Company’s Directors must meet certain integrity and professionalism requirements, similar to those required by the Statutory Auditors of listed companies (Article 15.2 of the Bylaws). The appointed Directors must communicate without hesitation the loss of requirement as per current regulations and according to the Bylaws to the Board of Directors, as well as any possible cause of ineligibility or incompatibility (Article 14.3 of the Bylaws).
As regards the requirements of professionalism, the Bylaws (Article 15.3) provide that those who have not accrued experience of at least three years cannot be appointed as Director and, if so, they must resign:
- activities of administration, control or management in companies having a share capital not lower than € 2 million; or
- professional activities or university teaching in legal, economic, financial and technical scientific subjects and closely related to the activities of the Company as defined in Article 26.1 of the Bylaws; or
- managing roles in public bodies or public authorities in the finance and insurance fields or, however, in fields closely related to that of the Company, as defined by the Article 26.1 of the Bylaws (subjects such as business law, tax law, business economy and finance, as well as subjects linked to energy in general, the network communications and structures, are to be considered as closely related to the Company’s scope of activities).

With stricter application compared to the provisions of Article 147-*ter* paragraph 4 of the Consolidated Law on Finance, at least 1/3 of the Directors in force must also be in possession of specific requirements of independence under Article 15.4 of the Bylaws that recalls the requirements of the Statutory Auditors indicated by Article 148, paragraph 3 of the Consolidated Law on Finance; furthermore, in line with the provisions of Article 3 of Prime Minister’s Decree dated May 11, 2004, Executive Directors, taking into account the specific activity carried out by the Company, can be applied the independence requirements established by Article 10 of Directive 2003/54/EC as stemming from Article 15.5 of the Bylaws.

The presence of “Independent” Directors as provided for by the Governance Code becomes important in the composition of the Board Committees, as provided for by the Code itself and by the Committee for Related Party Transactions established within Terna for implementing the provisions of CONSOB Regulations that include provisions regarding related party transactions issued with Resolution no. 17221 dated March 12, 2010 and subsequently amended with Resolution no. 17389 dated June 23, 2010.
The Board of Directors assesses the presence of integrity, professionalism and independence requirements, for every one of its members and periodically assesses the presence of requirements of independence for every one of its non-executive members, on the basis of the information supplied by each member.

The Company is equipped with a specific internal procedure that defines the criteria for the assessment of independence of the non-executive members and for the assessment of the requirements necessary according to the Bylaws and the Corporate Governance Code ("Criteria of application and procedure for the assessment of independence of the directors pursuant to Article 3 of the Corporate Governance Code"). Such procedure, recently updated with the resolution of December 19, 2012, coherently with the new provisions of the Governance Code, provides for the assessment of requirements following the appointment, that is every time events take place that can interfere with the independence of a Director and however at least once a year (generally in the 30 days before the approval of the draft financial statements). To this end, Directors are asked for the information necessary to allow the Board to make its assessment. Additionally, considering that established by Article 5 of the Governance Code, it is established that non-executive directors who have declared their independence, undertake to maintain that requirement for the entire duration of the appointment, submitting the verification that the requirements remain met to a new appraisal by the Board of Directors that, if applicable, can also be carried out with reference to criteria that differs partially from that identified and disclosed in accordance with the requirements of the Governance Code (Article 3.C.4).

Succession Plans

Considering the ownership structures of Terna and the concentration of shareholders, the Board of Directors considered on March 20, 2012 - with reference to the provisions of paragraph VIII of the "Guidelines and transitional regime" which brought forward for issuers belonging to the FTSE-MIB index, to last year, the disclosure obligations with regard to the provisions of today's Article 5.C.2 of the Governance Code - not to proceed with an assessment of succession plans for the executive directors.

Bylaws Amendments

With regard to regulations applicable to the amendments to the Bylaws, the extraordinary Shareholders' Meeting resolves on the matter with the majority envisaged by the Law.
The Bylaws (Article 21.2), according to Law provisions, attributes the Board of Directors the power to adopt any resolutions pertaining to the Shareholders' Meeting that can determine amendments to the Bylaws such as:
a) the merger and the split, in cases envisaged by the Law;
b) the establishment or elimination of other offices;
c) stating which of the directors represent the Company;
d) the reduction of the share capital in case one or more members withdraws;
e) the amendment of the Bylaws according to regulations;
f) the transfer of the Company headquarters in the national territory.
Article 6.3 of the Bylaws, in compliance with the regulations on privatization, attributes to the Italian Government, represented for this purpose by the Ministry for the Economy and Finance, the "special power" to veto, duly motivated with reference to effective detriment of the Government's vital interests, on the adoption of a series of resolutions adopted by the Shareholders' Meeting of significant impact on the Company, capable of amending the Bylaws, as previously described in "Restrictions in share transfer and shares bearing special powers".
From the date on which the regulations identifying the strategic assets came into force, pursuant to the provisions of the "Golden Power Decree" currently being issued - as already described in the previous title sub "Restrictions in share transfer and shares bearing special powers" - the provisions regarding the "special power" of veto shall cease all effect, as envisaged by the "Privatisation Law" and in Terna's Bylaws, instead applying those envisaged on the matter by the "Golden Power Decree".
Furthermore, as provided for by Article 3 paragraph 3 of the "Privatisation Law" and Article 3, paragraph 2, letter c) of the Prime Minister's Decree dated May 11, 2004, Terna's Bylaws provides that the measures as per Article 6.4 of the Company Bylaws relative to the above-mentioned "maximum limit of shareholding" and in the previous title "restrictions in share transfer and shares granting special powers" and those included in the Bylaws that have the purpose to ensure protection of the share minorities, cannot be modified for a period of three years from the date of effectiveness of the transfer to Terna of the activities, functions, assets and obligations relative to the management of the National Transmission Grid as per Article 1, paragraph 1 of the Prime Minister's Decree dated May 11, 2004 (November 1, 2005).

Indemnities for Directors in case of resignation, discharge or cessation of relation following a public take-over bid (pursuant to Article 123-*bis*, paragraph 1, letter i) of the Consolidated Law on Finance)

The information required by Article 123-*bis*, paragraph 1, letter i) of the Consolidated Law on Finance on the agreements between the Company and the Directors, which envisage indemnity in the case of redundancies or termination/revocation without just cause or if their employment ceases following a public take-over bid, are reported within the "Terna's Annual Report on Remuneration", published by Terna in compliance with the provisions of Art. 123-*ter* of the Consolidated Law on Finance and CONSOB Resolution no. 18049 of December 23, 2011 (published in the Official Journal no. 303 of December 30, 2011) which, amongst others, introduced Article 84-*quater* of the Issuers Regulation.

Management and coordination

Terna is subject to the de-facto control of Cassa Depositi e Prestiti S.p.A. with 29.851% of the share capital. The assessment, from which the existence of such control emerged, has been carried out by Cassa Depositi e Prestiti S.p.A. itself and made public on April 19, 2007. As of today, no managing and coordination activity has been officialized nor exercised; Terna carries out its activity either directly or through its subsidiaries under management and negotiation independence.

It is specified that the additional information on the Company's Corporate Governance envisaged in Article 123-*bis*, paragraph 2 of the Consolidated Law on Finance and Article 144-*decies* of the Issuers Regulation, with regard to:

- compliance, (pursuant to Article 123-*bis*, paragraph 2, letter a) of the Consolidated Law on Finance) are illustrated in the section of the Report specifically devoted thereto (section III);
- the principal characteristics of existing risk management and existing internal control systems in relation to the financial informative note, also consolidated (pursuant to Article 123-*bis*, paragraph 2, letter b) of the Consolidated Law on Finance), and further relevant Corporate Governance practices (pursuant to Article 123-*bis*, paragraph 2, letter a) of the Consolidated Law on Finance) are illustrated in the section of the Report devoted to internal control and risk management system (section XI) and in Attachment 1 therein;
- the Shareholders' Meeting activity (pursuant to Article 123-*bis*, paragraph 2, letter c), of the Consolidated Law on Finance) in the section of the report devoted to the Shareholders' Meeting (section XVI);
- the composition and the role of the Board Members as well as those relative to the appointment and composition of the control body (pursuant to Article 123-*bis*, paragraph 2, letter d) of the Consolidated Law on Finance and 144-*decies* of the Issuers Regulations), are illustrated in the Report respectively in the section devoted to the Board of Directors (section IV) and in subsequent sections devoted to the Board Internal Committees (sections VI, VII, VIII and X) and in the sections devoted to the appointment and composition of the Board of Statutory Auditors (sections XIII and XIV).

Section III **Compliance**

The Corporate Governance system in place in the Company is substantially in line with the principles included in the Governance Code of listed companies published by the corporate governance committee promoted by Abi, Ania, Assonime, Assogestioni, Borsa Italiana and Confindustria, as most recently updated in December 2011 (accessible on the Borsa Italiana S.p.A. website *sub* http://www.borsaitaliana.it) that Terna has adopted, as illustrated before, with resolution by the Board of Directors of July 24, 2012, also proceeding to adjust the procedures in place and impacted by the new provisions of the Governance Code by subsequent resolution of the Board of Directors of December 19, 2012.
Further actions aimed at improving the Group's governance system are being carried out and others will be taken into consideration for the constant update of Terna's governance system to comply with the best practices and for the adhesion of the company to the provisions of the new Governance Code that will come into force at the next renewal of the company bodies expiring with the approval of the 2013 statutory financial statements, as indicated by the timing for the adjustment envisaged by the transitional regulations.
The Company is not subject to non-Italian laws that influence its Corporate Governance structure.

Section IV **Board of Directors**

Composition

In compliance with the shareholders' resolution passed during the ordinary meeting held on May 13, 2011, the Board of Directors numbers nine members, whose term will expire with the approval of the financial statements as of 2013.
The members of the Board of Directors, in accordance with that resolved by the Shareholders' Meeting of May 13, 2011 are: Luigi Roth, Flavio Cattaneo, Paolo Dal Pino, Matteo Del Fante and Michele Polo (Directors appointed within the majority list formulated by Cassa Depositi e Prestiti S.p.A.), Fabio Buscarini, Salvatore Machì and Romano Minozzi (Directors appointed from the minority list submitted by shareholder Romano Minozzi and companies he controls).
The Directors appointed represent two of the three lists submitted for the indicated Shareholders' Meeting. Further information regarding the submitted lists of candidates and on the results of the voting is available on the Company's website at www.terna.it in the section "Investor Relations/Corporate Governance/Company bodies/Shareholders' Meetings/Shareholders' Meeting of May 13, 2011".
Following the resignation of Director Andrea Camporese (appointed by the abovementioned Shareholders' Meeting from the majority list), the Board of Directors in its meeting on July 29, 2011, resolved to appoint by co-optation Francesco Pensato (subject to indications from the same majority shareholder Cassa Depositi e Prestiti S.p.A. that had expressed the resigning Director). This appointment was confirmed by the Shareholders' Meeting of May 16, 2012.
On the basis of the statements made for the appointment, of the vote count and of the end of voting, the appointed Board of Directors, also following appointment by appointment of Director Pensato, largely meets the requirements envisaged by Article 147-*ter*, paragraph 3 of the Consolidated Law on Finance and three members of the Board of Directors appointed by the Meeting on May 13, 2011 were taken by the minority list that has obtained the highest number of votes and is not connected in any way, not even indirectly, with the members who have submitted or voted the list that won for a number of votes.
The Board of Directors consists of executive and non-executive directors and provides for the presence of a Chairman, appointed by resolution of the Shareholders' Meeting of May 13, 2011, in accordance with Article 16 of the Bylaws, and a single executive director, the Chief Executive Officer, appointed by the Board of Directors in accordance with Article 22 of the Bylaws, in accordance with that specified in the following title of this section "Appointed bodies and other executive directors" with suitable competence and professionalism (Articles 2.P.1 and 2.P.4 of the Governance Code).
Terna's Directors are suitably competent and professional (Article 2.P.1 of the Governance Code). A brief description of the Board members' professional background is provided:

- **Luigi Piergiuseppe Ferdinando Roth, 72 years old - Chairman**
  [born in Milan on November 1, 1940]

With a degree in Business Administration from the "Luigi Bocconi" University, Milan, he is a registered auditor. He was appointed Chairman of Terna S.p.A. in November 2005; he was appointed Chairman of Terna Rete Italia S.r.l. in November 2009 (formerly TELAT S.r.l.) and in February 2012, Chairman of Terna Rete Italia S.p.A., a subsidiary of Terna S.p.A. He has also been Chairman of Alba Leasing S.p.A. since May 2012 and independent director on the board of Pirelli & C. S.p.A. and Autostrada Torino Milano S.p.A. since April 2007.
Mr. Roth began his career as a business manager with the Pirelli Group, handling activities in Italy and abroad. He then joined Metropolitana Milanese as Director of Planning. Since 1980, he has managed mid-sized companies both in the manufacturing and real estate sectors, in the positions of General Manager and CEO. From 1986 to 1993 he was Managing Director of Ernesto Breda S.p.A..
From 1993 to 2001 he was Chairman and Managing Director of Breda Costruzioni Ferroviarie S.p.A.. From April 1996 to January 1998, he was Chairman of Società Ferrovie Nord Milano S.p.A. of which he was CEO from December 1996 to January 1998. From December 1996 to January 1998 he was Chairman and CEO of Società Ferrovie Nord Milano Esercizio S.p.A. From May 1998 to December 2000 he was CEO of Ansaldo Trasporti S.p.A. and transmission agent for Finmeccanica S.p.A. From 2002 to 2006, he was Board Member at the Luigi Bocconi University.
From January 2004 to April 2007 he was Deputy Chairman at Cassa Depositi e Prestiti S.p.A. From May 2004 to April 2007 he was Board Member at TELECOM Italia S.p.A. and from 2001 to 2009 he was President of the Fondazione Fiera Milano. From May 2006 to November 2009, he was Deputy Chairman of Terna Participações S.A., a subsidiary of Terna S.p.A., from April 2009 to April 2012, Chairman of Banca Popolare di Roma and from 2009 to 2010, Director on the Board of Cassa di Risparmio di Ferrara.

- **Flavio Cattaneo, 49 years old – CEO**
  [born in Rho (Milan) on June 27, 1963]

With a degree in Architecture from the Milan Politecnico, Mr. Cattaneo has also received specialized training in business management. Since November 2005, Flavio Cattaneo has been CEO of Terna S.p.A.. Since January 2008 he has been Independent Director in Cementir Holding S.p.A. Since October 2008, he has been Deputy Chairman in Charge of Energy and Environmental Policies at UIR, Union of Industrialists and Companies in Rome.
He has held important managerial and administrative positions in various Italian companies in the building, radio and television, service, new technologies, public service and facilities sectors. He became head of the former Ente Autonomo Fiera Internazionale di Milano as Extraordinary Commissioner in 1999 and went on to oversee its stock market listing as Fiera di Milano S.p.A., serving as Chairman and CEO until 2003.
Flavio Cattaneo has been Director of many energy companies (from 1999 to 2001), including: AEM S.p.A. of Milan (as Deputy Chairman), Serenissima Gas S.p.A., Triveneta Gas S.p.A., Seneca S.r.l. and Malpensa Energia S.r.l.. From April 2003, he was appointed at the top of the public TV R.A.I. S.p.A. as General Manager until August 2005, also dealing with the merger with Rai Holding and the separation of the accounts. From May 2006 to November 2009 he was Chairman of Terna Participações S.A., a subsidiary of Terna S.p.A..

- **Fabio Buscarini, 65 years old - Director**
  [born in Ancona on February 6, 1948]

He has a degree in Sociology from the University of Trento. Since January 1, 2007 he has been the Managing Director and General Manager of INA Assitalia S.p.A., positions individually held from the previous year in both companies before their merger. From 1969 he was with Assicurazioni Generali, where he held various positions, including General Manager in April 2005. He currently also holds an important corporate role in a company of the Generali Group, namely Generali Business Solutions S.p.A. and is also a Director on the Board of Burgo Group S.p.A.
Since May 2011 he has been a member of the Board of Directors of Terna S.p.A..
He is a representative for ANIA at the CONSULTA for Rome Businesses Association.
He has also held the following offices: Deputy Chairman and Director in ImpreBanca Finanziaria d'Impresa S.p.A. (May 2008 - April 2012), Director on the Board of Compass S.p.A. (October 2010 - April 2012), in Banca Generali S.p.A. (April 2009 - May 2011) in FATA Assicurazioni Vita e Danni S.p.A. (December 2006 - April 2009) and at Banca di Credito dei Farmacisti (February 2006 - July 2008); Italian Member of the International Management Board - sponsor of Operational Excellence (2005 - 2006); President of Risparmio Assicurazioni (December 2004 - August 2006); Member of the Board at Generali Vita (April 2003 - April 2006), Europ Assistance (March 2003 - April 2004) and Finagen (March 2003 - April 2004).

- **Paolo Carlo Renato Dal Pino, 50 years old - Director**
  [born in Milan on June 26, 1962]

He has a degree in Economics from the University of Pavia. He is presently the Executive President of Pirelli Latin America. Since April 2008, he has been Director on the Board of Terna S.p.A. and, as part of this office, Chairman of the Control and Risk Committee, Coordinator of the Related Party Transactions Committee and member of the Remunerations Committee.
He previously held the following offices: Managing Director of Wind Telecomunicazioni S.p.A. (2006 - 2007); Chairman of Telecom Italia Latin America and of Tim Brasil (2004 - 2005); Managing Director of SEAT S.p.A. (2001 to 2004); General Manager of Gruppo Editoriale L'Espresso (1995 – 2001); Chief Financial Officer of Editoriale la Repubblica S.p.A. and has also been Managing Director of Kataweb S.p.A. and Director and member of the Executive Committee of ANSA.
In 1986, he began his career in the Fininvest Group and from 1987, until 1990, he joined the Mondadori Group where he was CFO of the Verkerke Group in The Netherlands.

- **Matteo Del Fante, 45 years old - Director**
  [born in Florence on May 27, 1967]

He has a degree in Economic Policy from the "Luigi Bocconi" University in Milan. He began his career with J.P. Morgan in 1991 holding positions of increasing responsibility for Italy and for foreign countries in the sector of fixed income markets. From 1999 to 2003, as Managing Director in London, he managed significant financial and strategic operations in Europe. Since June 2010 he has been General Director at Cassa Depositi e Prestiti S.p.A., where he previously was Head of the Financial Department and of the Real Estate Department.
Since July 2010, leaving the position of CEO, he took on the position of chairman of the Board of Directors of "CDP Investimenti SGR", a savings management company which founded and manages the "Fondo Investimenti per l'Abitare" operating in the private social construction sector. Since May 2007, he has been a Board member of the consulting firm SINLOC, a subsidiary of bank-based Foundations. Since April 2008, he has been a Director on the Board of Terna S.p.A. and, as part of this appointment, member of the Control and Risk Committee. Since July 2011, he has been a member of the Supervisory Board of "EEFF - European Energy Efficiency Fund S.A." fund for energy efficiency promoted by Cassa Despositi e Prestiti, the European Commission, European Investment Bank (EIB) and Deutsche Bank.

- **Salvatore Machì, 75 years old - Director**
  [born in Palermo on May 28, 1937]

He holds a degree in Electronic Engineering and has received specialized training at the Istituto Superiore di Telecomunicazioni, in addition to his professional experience with Esso and IBM, he joined Enel in 1965 and held various positions up to 1999, including Manager of the Transmission Department, National Manager of Thermoelectrical Energy Generation and Purchase and Tender Manager.
He was CEO (from July 1999 to April 2000) and, then, Chairman (up to July 2003) of the Gestore della Rete di Trasmissione Nazionale S.p.A., and Director of Gestore del Mercato Elettrico S.p.A. during that time. He has been Chairman of the Board of Directors of CESI S.p.A. since March 2003, where he previously (from July 1999 to October 2001) served as CEO. He has been a Director on the Board of Terna S.p.A. since September 2004 and, as part of this appointment, Chairman of the Remunerations Committee and Coordinator of the Related Party Transactions Committee.

- **Romano Minozzi, 78 years old - Director**
  [born in Castelnuovo Rangone (Modena) on March 6, 1935]

He has a degree in Business and Economics from the University of Bologna. He began his career at the Banca Commerciale Italiana. In 1961 he was one of the founders of Iris Ceramica, where he holds the position of President and is still the principal reference person.
He is currently not only Chairman of Iris Ceramica S.p.A. but also Director of Castellarano Fiandre S.p.A. and, since January 7, 2013, Chairman of GranitiFiandre S.p.A.. He has been a Director on the Board of Terna S.p.A. since May 2011 and, as part of this appointment, member of the Remunerations Committee and of the Related Party Transactions Committee.
Romano Minozzi has received recognition for his activities, including the "Innovazione 2000" award by the Academy of Ceramics. In the past, he held various roles: for 10 years, Director of Banco S. Geminiano e S. Prospero, subsequently merged into Banco Popolare; from July 2002 to May 2005, Independent Director of Ferrari Automobili S.p.A. Maranello (MO) on the appointment of Mediobanca and member of the syndicate agreement of Mediobanca since its constitution; Director of GranitiFiandre S.p.A. from April 2004 and Chairman of Fincea S.p.A. and Domfin S.p.A., Sole Director of IRIS Due S.p.A., Sole Director of R.M. Finanziaria S.p.A. and Canalfin S.p.A. (the latter incorporated by merger of October 31, 2012 into Iris Ceramica S.p.A.).

- **Francesco Pensato, 66 years old - Director**
  [born in Casalpusterlengo (LO) on February 17, 1947]

He holds a Law Degree from the University of Milan. He is a professional Supreme Court of Cassation lawyer and, since 2001, has been Senior Partner at the Associated Legal Office "Franzosi-Dal Negro-Pensato-Setti", as head of the department of corporate law and bankruptcy procedures and is presently owner of the "Pensato & Partners Avvocati" associated law firm. Since July 2011, he has been a Director on the Board of Terna S.p.A. and, as part of this appointment, member of the Control and Risk Committee. Since 2010 he has also been Board Member at Mediocredito Italiano S.p.A. His professional experience in the field of legal consulting and assistance in corporate and commercial matters for medium and large Italian and foreign companies also includes various legal corporate appointments such as Chairman of Arbitration tribunals, as well as Adjuster and Extraordinary Commissioner with management functions upon appointment by the Ministry for Economic Development. As a legal appointment, he is currently the Common Representative of Telecom Italia S.p.A.'s bondholders.
He has been a member of the Commission for Reforming Bankruptcy Procedures on appointment of the Ministry of Justice and has been a member of the Commission for reforming the extraordinary administration of the large groups facing critical situations formed by the Ministry for Economic Development. From 2001 to 2004, he was Vice President of the Organismo Unitario dell'Avvocatura Italiana (OUA) and, from 1998 to 2001, joint Chairman with the Chairman of the Court of Appeal of Milan of the Joint Commission for relations between the Magistracy and the Bar in Milan.

- **Michele Polo, 55 years old - Director**
  [born in Milan on August 7, 1957]

He has a degree in Business and Economics from the "Luigi Bocconi" University in Milan, and graduated in Economic Policy with a Masters in Economic Sciences from the *London School of Economics*. From 2003 he has been Ordinary Professor of Economic Policy and from 2007, Vice-Chancellor at the "Luigi Bocconi" University. Since April 2008, he has been a Director on the Board of Terna S.p.A. and, as part of this appointment, member of the Internal Control Committee (now the Control and Risk Committee). He is Director of the Institute for Economics and Policy of Energy and the Environment (IEFE) of the Bocconi University and carries out other scientific and academic activities: he is Director of the Journal of Economists and member of the Editors Committee of Economy of Energy Sources and the Environment and of the Editor's Committee of Market, Competition, and Regulations.
He is scientific advisor of the publishing house "Il Mulino", in Bologna. From 2003 to 2006 he was *Economic Advisor* of the General Management of Competition of the European Commission. Since April 2008 he has been a member of the Board of Directors of Terna S.p.A.. He is also the author of numerous essays and monographs on themes such as antitrust, liberalisation and energy sectors.

During its term, the Board of Directors has confirmed the existence of the requirements of honour and professionalism held by each of its members (Article 2.P.1 of the Governance Code).
The evaluation regarding the existence of the requirements of independence for each of the non-executive members was made, taking into account the information provided by each person, during the appointment and during the meeting held on March 15, 2013 according to the terms stated in the following paragraph "Independent Directors".
Table 1 attached gives information on the members of the Board of Directors as at March 15, 2013 (Articles 1.C.1 letter i)-(1) of the Governance Code and 123-*bis*, paragraph 2, letter d) of the Consolidated Law on Finance).

Maximum number of positions in other companies

All the Directors accept their appointment to office when they believe they can devote the necessary time to the diligent performance of their duties – also considering the number and type positions they hold outside the Company in other companies listed on regulated markets (also abroad), financial companies, banks, insurance companies and significantly large companies, and the work required of additional working and professional activities carried out and the association offices held – and to devote the necessary time to the diligent performance of their duties, as they are well aware of the responsibilities of the office held.
To this end, since February 2007, in compliance with Article 1.C.3 of the Governance Code, Terna's Board of Directors approved its own guidelines regarding the maximum number of positions as Director or Statutory Auditor in significantly large companies that can be held still enabling the efficient performance of the duties as Director of Terna S.p.A. included in the internal document "Orientations concerning the maximum number of positions that can be held by Directors of Terna S.p.A." requiring the Directors of Terna consider the acceptance of the office. 4 years after adoption, following the constant monitoring of the governance choices made by the company and in line with the practice seen in similar companies, in the meeting of October 7, 2011, the Board of Directors proceeded to review said guidelines, which, in order to consider the clarifications provided by the Governance Code in the December 2011 edition, were further updated by the resolution of December 19, 2012.
To this purpose, "significantly large companies" were defined as:
a) companies with shares listed on regulated markets, in Italy or abroad;
b) Italian or foreign companies with shares not listed on regulated markets, and operating in the insurance, banking, brokerage, asset management or financial sectors;
c) other Italian or foreign companies with shares not listed on regulated markets, not operating in the sectors listed in letter b), having net assets exceeding € 1 billion.

The Board has identified different general criteria for the commitments required of each role (CEO, Executive Director - for example Executive Chairman, Managing Director, i.e. with special proxy - Non-executive and/or Independent Director and Standing Statutory Auditor), considering the nature and size of the Company in which the positions are held and whether they are part of the Terna Group or are Terna's investees (which, originating from the assignment itself, are not calculated in the total number). It is specified that the attribution of deputy powers or for urgent cases only to directors without management powers of attorney does not, in itself, make them executive directors, except where such powers are, in actual fact, used significantly frequently. A "weight" was assigned to each type of position for the purposes of assessing the commitment required, and the Directors also established that the role of CEO at Terna is incompatible with the same role in other significantly large companies. When more assignments are held within the same Group, also for a work relation with a company belonging to the Group itself, only the most important assignment is considered.
All the Directors in office that were appointed by the Meeting on May 13, 2011 informed about the positions they held at the time the lists were submitted and subsequently when they accepted their appointment. Likewise, the Director that was confirmed by the Shareholders' Meeting on May 16, 2012 at the time of appointment. Based on the updated information delivered to the Company in compliance with the approved guidelines, as of March 15, 2013, all Directors held a number of positions that is compatible with the guidelines set by the Board.
In the summaries of each Director's personal characteristics, all the positions held by them are indicated. The total number of positions held as Directors or Statutory Auditors in other significantly large companies is provided in the attached table 1.
There have not been exceptions, issued by Terna's Shareholders' Meeting, to the prohibition of competition by the Directors provided for by Article 2390 of the Civil Code (Article 1.C.4 of the Governance Code).

Induction Programme

Terna has considered the organisation of initiatives appropriate, which now constitute an at least annual tradition, aimed at providing Directors and Statutory Auditors with suitable knowledge of the segment of business in which the company operates, business dynamics and their evolution and the reference legislative framework, as established by Article 2.C.2 of the Governance Code.
At the initiative of the Chairman, by agreement with the Chief Executive Officer, subsequent to appointment and during FY 2012, the Directors of Terna were involved in meetings with the company management, also attended by the members of the Board of Statutory Auditors, in relation to the core business, with specific reference to the preparation of the National Transmission Grid development plan.

Moreover, during the Board meetings of the committees, at the request of the Chairman and in line with the provisions of Article 1.C.6 of the Governance Code, executives of the company attended the meeting, whose presence was considered helpful to ensuring the best possible information on the items on the agenda and, where required by the specific subject, to explain the reference legislative framework.
In addition, the Directors are kept constantly informed by competent departments on the main legislative and regulatory innovations concerning the Company and the exercise of own functions. On occasion of the appointment, they are adequately informed about the existing Corporate Governance system and the fundamental lines of governance.

Role of the Board of Directors

The Company's Board of Directors holds a crucial role in its organization. It has strategic and organizational functions and responsibilities with respect to the Company and the Group. It is also responsible for verifying that the necessary controls are in place to monitor the performance of the Company and its subsidiaries.
In addition to exercising the powers that are attributed to it by the Law, the Company's Bylaws (Article 21.1), according to the law, attributes the Board the competence to resolve on issues pertaining to the Shareholders' Meeting that can determine amendments to the Bylaws as previously described in "amendments to the Bylaws".
Within the limits as per Article 2381 of the Italian Civil Code, the Board of Directors may delegate its tasks to an executive committee and/or to one or more of its members (Article 22.1 of the Bylaws).
In this context and in compliance with the Law and the provisions of specific resolutions, and considering the provisions of Article 1 of the Governance Code, the Board of Directors carries out the following:

- examines and approves the strategic, industrial and financial plans of the company and the Group it heads, regularly monitoring implementation. In this respect, the current structure of Company powers provides that, in particular, the Board of Directors approves the Company's annual budget and long-term plans updated on an annual basis (which include the combined annual budgets and long-term plans of the subsidiaries) (Article 1.C.1, letter a) of the Governance Code); Monitoring is carried out through the regular assessment of the trend of operations and specific Company Performance Management tools (BSC). In 2012, the Board of Directors examined and approved the strategic, industrial and financial plan of Terna and the Terna Group, presented to the market on March 20, 2012 (the 2012 - 2016 Strategic Plan), most recently updated on February 6, 2013 (2013 - 2017 Strategic Plan), thereby pursuing the creation of value for shareholders in the medium/long-term. With regard to the action planned, the Board provides specific guidelines, a description of the objectives, characteristics and application methods of the activity monitoring the business processes and risk analysis, and defines the nature and level of accounting risk with the strategic objectives relating to the implementation of the mission assigned to the company (Articles 1.P.2 and 1.C.1, letter b) of the Governance Code). With regard to this matter, reference should be made to section XI;
- defines the corporate governance system under the scope of the company and provides for the appointment, definition of functions and regulations of the internal committees of the board, as established by the current structure of powers in the company and presented in this report (Articles 1.C.1, letter a); 7.P.3 and 7.C.1, letter d) of the Governance Code);
- resolves, with regard to the Group structure and regarding the establishment of new companies, the purchase and transfer of shares in companies, namely in companies or company branches with a value exceeding € 30 million, as envisaged by the current structure of powers in the company (Article 1.C.1, letter a) of the Governance Code);
- on the basis of the proposals by the specific Committee, approves Company Policy concerning remuneration of members of administration bodies, general directors and executives with strategic responsibilities, which is then submitted to the Shareholders' Meeting for an advisory vote, and after having heard the Board of Statutory Auditors, determines the remuneration of the CEO and of other Directors covering special offices (Article 6.P.4 of the Governance Code) which it indicates annually in a specific report; With regard to this matter, reference should be made to section IX;
- constantly evaluates the suitability of the organisational, administrative and accounting structure of the company, defined by the CEO according to the proxies received, and its subsidiaries of strategic relevance (thereby meaning, in accordance with that resolved by the company's Board of Directors on February 22, 2007: a) subsidiaries listed on regulated markets and b) subsidiaries which abroad have a significant share of the segment of core business of the Group) and during the examination of internal procedures on the matter submitted to the Board and the resolutions passed that, in FY 2012, also regarded the reorganisation of the Group and adjustments to meet the new provisions of the Governance Code. With specific reference to the internal control and risk management system, it defines the relevant guidelines, at the proposal of the Director appointed by the Internal Control and Risk Management System and, upon seeking the opinion of the specific Committee (Articles 1.C.1, letter c) and 7.C.1, letter a) and b) of the Governance Code). The evaluation of the suitability of the Internal Control and Risk Management System of the Terna Group with respect to the characteristics of the business and the risk profile assumed, and its efficiency is carried out at least once a year, upon seeking the opinion of the Control and Risk Committee (Article 7.C.1, letter b) of the Governance Code). With regard to this matter, reference should be made to section XI;

- examines and approves transactions with a significant impact on the Company's financial position and results, especially if they are related party transactions or could otherwise give rise to a potential conflict of interest. This is without prejudice to the powers assigned to the CEO for particularly urgent cases. In particular, in addition to that specifically envisaged by a specific procedure on related party transactions and the steps taken to identify and manage situations where a Director holds his own interest or an interest of third parties regarding a transaction that he should evaluate (for which we would refer you to the specific section XII sub "Interests of Directors and related party transactions") are subjected to the prior approval or preventive examination (in the case of operations for which the companies directly and/or indirectly controlled by Terna are competent) of the Board of Directors, "significant operations" concluded also by means of subsidiaries identified under the scope of a specific internal procedure of the Board ("Approval of significant operations and management of situations of interest", most recently updated on March 31, 2011). These are identified as: i) transactions that have as their object, amount and terms/time frames of implementation an impact on safeguarding the company assets or the completeness and correctness of Terna's information also of accounting information and that as such create an obligation for Terna to make available to the public an informative document in compliance with provisions by supervisory authorities of financial markets and/or (ii) financial transactions whose value exceeds 50 million euros with the exception for transactions included in the budget and in approved financial plans as well as those regarding dispatching activity and all related services (Article 1.C.1, letter f) of the Governance Code). In this regard, it is specifically envisaged that the Board of Directors shall receive a suitable disclosure on the executive methods of significant operations, on timing and economic conditions for the implementation of such operations, on the evaluation procedure, the interests and reasoning underlying them and on any risks for Terna and its subsidiaries connected with said operations and, moreover, that can use the assistance of one or more independent experts for an opinion on the economic conditions and/or the executive and technical methods of the operation. Board resolutions taken in relation to infra-group operations are suitably grounded with regard to the reasons and convenience of the operation. According to the current structure of powers in the company, the Board of Directors is also entitled to pass resolutions on: the reduction of loans, assets and liabilities, in any form, in the medium/long-term, of a value in excess of € 100 million not envisaged by the budget and financial plans approved and not aimed at developing interventions that have already been approved by the Board in the National Transmission Grid Development Plan and/or the Strategic Plan;
- receives, as does the Board of Statutory Auditors and in accordance with the provisions of Article 21.3 of the Bylaws, constant, complete information from the Chief Executive Officer on the activities carried out in the exercise of the proxies received and in relation to the trend of operations of the company, its foreseeable outlook and the most important operations, summarised on a quarterly basis in a specific report (Article 1.C.1, letter d) of the Governance Code). In particular, with respect to all significant transactions carried out by the Company and its subsidiaries (including any related party transactions of lesser importance as identified in the specific Procedure adopted by Terna, and which are not exempt from application of the same, which do not require approval by the Board of Directors) the CEO reports to the Board of Directors on the (i) characteristics of the transactions, (ii) the parties involved and their relationship with the Company or its subsidiaries;
- assesses the general performance of Company operations, with specific reference to situations of conflict of interest, on the basis of the information received from the CEO and the Control and Risk Committee, periodically checking that planned results have been achieved (Article 1.C.1, letter e) of the Corporate Governance Code);
- carries out, at least once a year, an assessment on the operation of the Board and its committees and on the dimension and composition. In this respect, we refer you to the details given in the title below "Assessment of the operation of the Board of Directors" (Article 1.C.1, letter g) of the Governance Code);
- assesses, having consulted with the Board of Statutory Auditors and received the opinion of the Control and Risk Committee, the results given by the legal auditor in any letter of suggestions and in the report on the essential issues that have emerged during the legal audit (Article 7.C.1, letter e) of the Governance Code);
- reports to the shareholders in the meeting, in accordance with the provisions of current legislation. With regard to this matter, reference should be made to section XVI.

Board of Directors Meetings and the role of the Chairman

The Directors gather regularly and carry out tasks based on their full knowledge and in autonomy, pursuing the objective of creating value for shareholders, taking into account the social aspects of the Group's activities and the resulting need to adequately consider all stakeholders in the performance of those activities (Articles 1.P.1 and 1.P.2 of the Governance Code).

During FY 2012, the Board of Directors held 7 meetings, each lasting an average of 1 hour and 20 minutes, which saw the regular participation of the Directors and the attendance of the Board of Statutory Auditors and which also was the attendance, by invitation of the Chairman and in line with the provisions of Article 1.C.6 of the Governance Code, executives of the Company, whose presence was considered an assistance in ensuring a better disclosure on the items on the agenda. The percentage participation of each Director in the meetings held during FY 2012 is indicated in table 1 attached (Article 1.C.1, letter i)-(2) of the Governance Code and Article 123-*bis*, paragraph 2, letter d) of the Consolidated Law on Finance). For 2013, a Board meeting is expected every month and all the meetings have been scheduled relative to the examination

of the economic and financial data by the Board of Directors according to what officially communicated to the market on January 18 and 24, 2013. In the current year and as of the date of approval of the present Report, the Board of Directors met two times.
The activities of the Board of Directors are coordinated by the Chairman. In accordance with the Bylaws, the latter has the legal power of representation of the company and the company signature, chairs the Shareholders' Meeting, shares the Board of Directors, convenes board meetings, establishes the agenda on the request of the CEO and guides the related events; it also verifies implementation of board resolutions (Article 25 of the Bylaws) and is assigned the tasks attributed to the Chairman by the law or Governance Code. More specifically, with regard to the duties involved in organising the Board works, the Chairman ensures that suitable documentation and information is given to enable the Board to rule knowledgeably on the matters submitted for its examination (Article 1.C.5 and Comment to Article 2 of the Governance Code).
To this end, during the meeting held on December 19, 2012 - considering the provisions of the Governance Code and the set of governance rules of the company with regard to the meetings of the Board of Directors and the committees established within the board - the Board of Directors defined a disclosure prior to the board meeting and for the committees that is at least coherent with the terms envisaged for convening the meetings of these organisations, without prejudice to the fact that, where the subject so requires, the information given can be supplemented, including subsequently, by the presentation provided orally by the Chairman, the Chief Executive Officer or members of the Group management and/or consultants suitably authorised and invited during the meetings of said organisations, or the meetings of the Board of Statutory Auditors, or during specific informal meetings open to the participation of Directors and/or Statutory Auditors organised to further investigate matters of interest with reference to business management.
Subsequently to that resolved and until the date of approval of this Report, the disclosure made has been coherent with that specified by the Board.

Assessment of the Board of Directors activity

In compliance with the Governance Code, Terna's Board of Directors also for 2012 assessed the Board operation, its committees and their size and composition. The Board conducted such assessment, drawing on the assistance of the company Egon Zehnder International S.p.A. as an external consultant to ensure the utmost objectivity of its evaluations. This initiative follows on from others run by the Board of Directors of Terna since 2006, which, amongst other matters, have highlighted how the suitability of the members of the Board of Terna and the specificity of the members have helped ensure that aware decisions were taken (Articles 2.P.1, 2.P.2, 2.P.3, and 2.P.4 of the Governance Code).
It is specified that, in accordance with Article 1.C.1, letter g) of the Governance Code, Egon Zehnder International S.p.A. has specifically declared the lack of other consulting and/or other professional appointments between Egon Zehnder and Cassa Depositi e Prestiti S.p.A. and/or some of the subsidiaries of Terna S.p.A..
The analysis of the consulting firm, initiated during the first quarter of 2013, was carried out using qualitative questionnaires and in-depth individual interviews with individual Directors expressing both the majority and minority shareholders and with the subsequent examination of the data collected (Article 1.C.1, letter i)-(3) of the Governance Code). More specifically, the analysis focused on numerous aspects relating to: a) the heterogeneous, balanced composition of the members of the Board and Committees, considering the professional characteristics, experience (including managerial and in the office), with reference to the provisions of the company Bylaws and Governance Code with regard to the members of the Board and Committees that have already come into force on the basis of the respective adjustment time indicated by the transitional regulations; b) the decision-making process; c) the flow of information and presentation; d) the participation in the definition of the strategic guidance and e) the climate within the Board and relations with the Chairman and CEO. Such analysis highlighted how Terna's Board of Directors is totally in line with the Governance Code to the point that it fully represents a best practice both at the Italian and international level, confirming the positive judgement that there was compliance with said requirements.
On the basis of the results of the analysis carried out, on March 15, 2013, the Board of Directors passed an overall positive evaluation on the size, composition and performance of the Board and its Committees having positively evaluated all the principal profiles examined and committed to exercising their role as best as possible.
In particular, the Board, considering that the operation of the board in 2012 has confirmed the high level of efficiency and the general tendency towards continuous improvement of some organisational subjects that constitute the excellences of the Board, has seen improvements on: internal cohesion and independence of the Board; greater support of the Board to the Senior Management and attention to the company risks; optimisation of the committees internal to the Board; efficiency of the information process between Chairman, CEO and Directors.
With reference to the requirements of Article 1.C.1, letter h) of the Governance Code, the Board has also pointed out that thus far no situations of difficulty have arisen by the shareholders in preparing suitable candidates, such as to enable a composition of the Board aligned with that recommended by the Governance Code.

Delegated bodies and other Executive Directors

CEOs

On May 13, 2011 the current structure of the Board of Directors provides for only one CEO, to which the Board has attributed powers, defining their content, limits and any exercise modalities; no executive committee was established.
The CEO has powers of legal representation of the Company and is entrusted with the widest powers for the administration of the Company, pursuant to Board Resolution, with exception of those differently attributed by the Law, by the Bylaws or reserved for the Board of Directors, as described in this section under the "Role of the Board of Directors" (Article 2.C.1 of the Governance Code).
The CEO informs the Board of Directors and the Board of Statutory Auditors of the activities and of the management of the Company as well as of the resolutions passed in exercising his powers pursuant to Article 21.3 of the Bylaws, at least on a quarterly basis and on occasion of Board meetings.
On a quarterly basis, specific reports are prepared in order to inform the Board on major action and activities.
As at the date of this Report and in accordance with 2.C.5 of the Governance Code, it is specified that there are no situations referred to as "cross directorship": in actual fact the Chief Executive Officer of Terna does not hold any offices of Director in companies outside the Terna Group, of which another Director of Terna is Chief Executive Officer.
Exception made for the CEO Flavio Cattaneo, the other 8 members of the Board of Directors (Luigi Roth, Fabio Buscarini, Paolo Dal Pino, Matteo Del Fante, Salvatore Machì, Romano Minozzi, Francesco Pensato and Michele Polo) must all be considered as non-executive. In actual fact, we note, in this regard, that the Chairman Luigi Roth does not hold an executive role, insofar as he has not been assigned individual management powers, nor does he have a specific role in preparing business strategies (Articles 2.P.1 and 2.C.1 of the Governance Code).
As already explained in the previous title "Board Meetings and role of the Chairman", the Bylaws assign the Chairman powers of legal representation of the Company and the company signature, the chair of the Shareholders' Meetings and the power to convene and chair the Board of Directors and verify the implementation of the Board's resolutions (Article 25 of the Bylaws); he is also assigned the duties assigned to the Chairman by law and by the Governance Code.
In this context, the separation of roles between the Chairman and CEO in Terna strengthens the characteristics of impartiality and balance required of the Chairman of the Board of Directors as envisaged by the Governance Code (Comment to Article 2 of the Governance Code).
Non-executive directors (insofar as they do not have any operative powers of attorney and/or management functions within the company):

- enrich with their specific competences the Board's discussions, so as to favour the examination of the subjects according to various perspectives and subsequently pass deeply analysed, conscious and respectful resolutions in line with social interests (Article 2.P.2 of the Governance Code) and
- for their number, competence, authority and availability of time, they are capable of guaranteeing that their judgement can have a significant weight in Board's decisions in line with what provided for by the Governance Code (Article 2.P.3 of the Governance Code).

The suitability of the dimension, composition and function of Terna's Board and its committees, in this regard is certified by the results of the annual board reviews, as illustrated in the previous title "Assessment of the function of the Board of Directors".

Independent Directors

A suitable number, also for competence, of Non-executive Directors is independent.
Although independence characterises the activity of all the Directors, executives and non-, the presence of Directors that can be qualified as "independent" in compliance with the independence requirements set out by the law, the Bylaws and the Governance Code adopted by Terna, and whose role is significant both within the Board and its committees, suitably ensures adequate consideration of all shareholding members' interests.
Since February 2007, therefore the Company has been equipped with a specific internal procedure that defines the criteria for the assessment of independence of the non-executive members and for the assessment of the requirements necessary according to the Bylaws and the Corporate Governance Code ("Criteria of application and procedure for the assessment of independence of the directors pursuant to Article 3 of the Governance Code"), in coherence with the provisions of the Governance Code, according to the already explained in the previous section II under "Appointment, requirements and term of office of Directors".
With reference to this criteria, and on the basis of the information supplied by the individual parties concerned, the Board of Directors has assessed the existence of the requirements of independence set out by the law, the Bylaws and the Governance Code with each Director at the first opportunity following appointment (Articles 3.P.2 of the Governance Code and 144-*novies*, paragraph 1-*bis* of the Issuers Regulation) and, subsequently, once a year at the board review (Articles 3.P.2 and 3.C.4 of the Governance Code).
More specifically, in the meeting of March 15, 2013, the Board of Directors assessed, on the basis of the information provided by the individual parties concerned, any commercial, financial and professional relations entertained, directly

or indirectly, by the Directors with TERNA, and which may be or appear to be such as to affect the independence of a Director by virtue of their significance both in absolute terms and with reference to the economic-financial position of the party concerned and certified the existence of the requirements of independence with the following 6 non-executive directors: Fabio Buscarini, Paolo Dal Pino, Salvatore Machì, Romano Minozzi, Francesco Pensato, Michele Polo (Articles 3.C.1, 3.C.2, and 3.C.4 of the Governance Code).
At the same time, the correct application of the defined criteria and the procedures adopted by the Board of Directors was verified by the Board of Statutory Auditors (Article 3.C.5 of the Governance Code).
Among the assessments carried out by the Board, with reference to the 6 Directors, the existence is proven of the requirement of independence envisaged for in Article 15.4 of the Bylaws that requires that at least 1/3rd of the Directors in force - with rounding, in case of fractional number lower than the unit, to the following unit - meets the requirements of independence established for Statutory Auditors by Article 148, paragraph 3, of the Consolidated Law on Finance.
The number of independent directors is therefore already in line with the requirements for the members of the board as set out in the Governance Code for issuers belonging to the FTSE-MIB index, which applies as from the forthcoming renewal of the body (Article 3.C.3 of the Governance Code).
The number and competences of the independent directors have also guaranteed a suitable membership of the committees indicated by the Governance Code and instituted in Terna in accordance with the provisions of current transitional regulations of said Code (paragraph VIII of the “Guidelines and transitional regime” and 3.C.3, first sentence, of the Governance Code).
Following the composition and the work method of the Board of Directors, as well as the presence of Independent Directors in the composition of the Committees, in the operating system a constant exchange of information between the same Independent Directors has been taking place, both at meetings of the Internal Committees and at the Board meetings, which has not required a specific meeting to be held for them (Article 3.C.6 of the Governance Code).

Lead Independent Director

The work method and composition of the Board of Directors has assured the suitable coordination of the contributions and the requests of the Non-executive Directors and, in particular, of the Independent Directors; it also guaranteed a preventive exchange of information that rendered the work of the Board productive and focused on the true requirements of the Company. On the basis of these assumptions, confirmed by the results of the board review to which the Board is subjected, and without the criteria being met as specified in the provisions of the 2006 edition of the Governance Code, updated in 2010 or the new provisions of the Governance Code (Article 2.C.3 of the Governance Code), which are intended to be applied as from the next renewal of the body, in Terna the figure of Lead Independent Director has not yet been instituted (Article 2.C.4 of the Governance Code).

Section V **Management of company information**

In April 2004, in accordance with the provisions of the Governance Code in force at the time, the company’s Board of Directors adopted a specific regulation for the internal management and processing of confidential information, also setting out procedures for the external communication of documents and information concerning the company and its subsidiaries, aimed at preserving the confidentiality of confidential information, whilst also assuring that the market disclosure in relation to company data is correct, complete, suitable, timely and not selective.
This regulation - which also provides guidance for the subsidiaries, to assure that they provide Terna with all information necessary to fulfil the communication obligations set out by the law - was then supplemented in December 2006, with specific reference to the inside information pursuant to Article 114, paragraph 1 of the Consolidated Law on Finance, aimed at preventing insider training and, most recently, updated on December 19, 2012 by the CEO according to the proxies received from the Board to consider the applicable regulatory innovation and the new organisational and document structure of the Group (Article 1.C.1, letter j) of the Governance Code).
The Directors and Statutory Auditors of Terna and its subsidiaries are required to comply with the provisions of this regulation and, in any case, keep all documents and information acquired in the performance of their duties, as well as the content of any discussions during Board meetings, confidential.
The regulation - available on the company’s website www.terna.it under the section *“Investor Relations/Corporate Governance/Regulations and Procedures/Information Management Regulations”* - assigns, on a general basis, the CEO of the company and the respective company heads (sole director, executive chairman, chief executive officers and/or general managers, as applicable) of the subsidiaries, the management of the relevant confidential information, establishing that disclosure of the information relating to the individual subsidiaries must in any case take place with the authorisation of the company’s CEO.
Moreover, the regulation establishes specific procedures to be followed when disclosing Company documents and information outside the Company, with particular focus on the disclosure of privileged information. It also scrupulously governs the way in which members of the Company should deal with the press and other mass communication means

(i.e. financial analysts and institutional investors) (Comment to Article 1 of the Governance Code).
Lastly, specific “Measures for persons committing violations” are also envisaged in the regulation’s provisions.
Moreover, in the more general interests of protecting information and to guarantee the security of information within the Group, in 2012, Terna also gave specific guidelines for subsidiaries too, contained in the document “Information Security Policy - Strategic Guidelines”, adopting a security governance model inspired by the strictest standards of *Information Security Management Systems* (ISMS).

In compliance with the provisions of Article 115-*bis* of the Consolidated Law on Finance and with the regulatory measures issued by CONSOB, Terna’s Board of Directors created a specific list of people with access to privileged information within Terna. It also prepared a specific regulation to govern how the list should be held and updated. The same regulation requires that subsidiaries also create their own Registers.
As of April 2004, the Company’s Board of Directors also approved the internal dealing Corporate Governance Code, in compliance with the regulatory measures laid down by Borsa Italiana S.p.A., establishing the market transparency requirement for listed companies with respect to significant transactions, involving the financial instruments of the Company or its subsidiaries, carried out by people with significant decision-making powers in the Company and with access to price sensitive information (so called “relevant persons”).
Following the entrance into force of the new internal dealing regulations that were introduced by Law no. 62 dated April 18, 2005 (“2004 Community Law” that integrated the provisions of Article 114 of the Consolidated Law on Finance) and of the relative implementing provisions (Articles from 152-*sexies* to 152-*octies* and Attachment 6 of the Issuers Regulations), starting from 2006 Terna adopted a specific internal Procedure to identify Terna’s “relevant persons” and to manage, handle e disseminate to the market information regarding financial instruments of the Company.
Within this Procedure - subsequently updated based on CONSOB explanations and on the structural asset of the Company - Terna deemed appropriate to maintain, for the “relevant persons” identified, the obligation to refrain - either directly or indirectly - from carrying out transactions that are subject to internal dealing regulations during two blocking periods in concomitance with the approval of the draft financial statement and of the half-year report by Terna’s Board of Directors.
The transparency obligations are governed by legislative and/or regulatory provisions of reference, as in force at the time (Article 114, paragraph 7 of the Consolidated Law on Finance and Article 152-*sexies et seq.* of the Issuers Regulation, as resulting following the simplifications made by CONSOB Resolution no. 18079 of January 20, 2012 published in the Official Journal of February 7, 2012, aimed at combining the competitiveness of the market with the necessary investor protection and the related thresholds for the disclosure of operations subsequent to those already disclosed).

This procedure is available in the Company’s website www.terna.it in the *“Investor Relations/Corporate Governance/Regulations and Procedures/Internal Dealing”* section. The procedure includes the following qualifying elements, which are considered adequate in heightening its qualitative content:
- application of internal dealing transparency obligations towards “relevant persons” within the Company and its subsidiaries as identified in the procedure (in addition to Terna’s actual Directors and Statutory Auditors, the list of which is updated in line with the organisational changes made to the company);
- “relevant persons” are not allowed to carry out transactions (other than the exercise of options) during the 30 days before the approval of the draft financial statements and half year report by Terna’s Board of Directors. Moreover, the Board can establish additional blocking periods during the year, following specific events;
- an adequate penalty system was created for “relevant persons” identified as violating the measures of this procedure.

Section VI Committees within the Board

Within the Board of Directors, according to the provisions of previous edition of the Governance Code, the Remuneration Committee and the Internal Control Committee have been set, both with proposal-making and advisory functions, and made up of at least three Directors, the majority of which independent, pursuant to the Governance Code. The criteria for the composition, the tasks and the responsibilities attributed to said committees in compliance with the Governance Code and the modalities of carrying out the meetings have been ruled through proper internal organizational Regulations adopted by the Board of Directors as of January 24, 2007.

In the meeting held on December 19, 2012, the Board of Directors resolved the necessary adjustments of the competences of the committees in place to the new provisions of the Governance Code, approving the modifications to the related organisational regulations, without changing the members (Article 4.C.1, letters a) and b) of the Governance Code). Consequently, the “Internal Control Committee”, already instituted, took on the name of the “Control and Risk Committee” and the related competences as indicated by the new provisions of the Code (Article 4.P.1 of the Governance Code).

At least one member of the “Remuneration Committee” possesses adequate knowledge and experience in financial matters, and at least one member of the Control and Risk Committee possesses adequate knowledge in accounting and finance matters. The composition of these committees is therefore in line with the provisions of the current transitional provisions of the Governance Code (paragraph VIII of the “Guidelines and transitional regime” and Article 3.C.3, first sentence, of the Governance Code), finding the new provisions on the members of the committees as from the next renewal of the Board of Directors.

The information given under the scope of this Report on the activities carried out during the year, on the number and average duration of the meetings held and the related percentage participation of each member of the instituted committees is given with the support of the Chairman or other members, as respectively competent (Article 4.C.1, letter g) of the Governance Code).

Within the Board of Directors another Committee was set up (“Transactions with Related Parties Committee”) as the body that plays the role required by “Regulation containing provisions concerning transactions with related parties” issued by CONSOB in March 2010 and subsequently amended and on the basis of the provisions in “Procedure for Transactions with Related Parties” adopted by the Company and illustrated in the special Section XII of this Report. The Committee is assigned preliminary, proactive and advisory duties and powers in evaluations and decisions concerning the above mentioned Transactions with Related Parties both for the approval of greater importance transactions and of those of lesser importance indicated in Terna’s procedure, as well as in relation to possible proposals for amendments to the same procedure adopted by Terna. Said Committee is composed of at least three Directors, all independent, according to the provisions of the Governance Code.

Minutes are taken of committee meetings (Article 4.C.1, letter d) of the Governance Code). Each committee has also the faculty to access the information and the necessary departments to carry out its tasks and can use possible external advisors in the limits provided for by the Board of Directors (Article 4.C.1, letter e) of the Governance Code).

Within the Company budget, adequate financial resources are allocated for the implementation of the tasks of each committee (Article 4.C.1, letter e) of the Governance Code). At the invitation of the Chairman/Coordinator of each committee, other members of the Board of Directors can attend or other people whose presence may prove helpful to ensuring the best possible fulfilment of the functions of the committee with reference to the items on the agenda and in accordance with that detailed below with reference to each of the committees established (Article 4.C.1, letter f) of the Governance Code).

Section VII **Appointment Committee**

Currently, Terna has not set up, within the Board of Directors, a specific Appointment Committee, since up to now shareholders have not met difficulties in presenting adequate candidacies, such as to allow a composition of the Board in line with the provisions of the Governance Code.
In this regard, we would remind you that, in accordance with the provisions of current transitional regulations of the Governance Code (paragraph VIII of the "Guidelines and transitional regime" of the Governance Code) on the appointment of Directors, the provisions recommending the institution of said Committee only apply as from the next renewal of the Board of Directors. Moreover, with reference to the specific competences in terms of making proposals and providing consultation assigned to said Governance Code Committee on the dimension and members of the Board of Directors and to those on the replacement and appointment by co-optation of an independent director (Article 5.C.1, letter a) and b) of the Governance Code), we would remind you (as already explained in Section IV above, under "Assessment of the function of the Board of Directors") that the board of Directors has in any case assessed the dimension and composition if it during its annual board review, using a specialised external consultant and that, in the event of the co-optation of an independent director, guaranteeing maximum impartiality of the decision, it has proceeded, at the indication of the shareholder, who had expressed the candidate to be replaced (as was the case most recently at the time of appointment of the Director Francesco Pensato in the session held on July 29, 2011, an appointment subsequently confirmed by the Shareholders' Meeting of May 16, 2012).

Section VIII **Remuneration Committee**

Functions of the Remuneration Committee

In 2004, a specific Remuneration Committee was established within the Board of Directors, whose duties were identified in compliance with the provisions of the Governance Code of reference and the methods by which the meetings are held, governed by a specific internal organisational regulation adopted by the Board of Directors since January 24, 2007 ("Organisational Regulation of the Remuneration Committee of TERNA S.p.A.") subsequently updated on November 9, 2011, in order to assure full coherence with the indications of Article 7 of the 2010 edition of the Governance Code.
During the meeting of December 19, 2012, in making some changes to the specified Organisational Regulation, the Board of Directors resolved further adjustments in relation to the competences and composition of the Committee in order to bring it perfectly into line with the new provisions of the Governance Code (Article 6).
More specifically, the following are the competences of the Committee: (i) on the remuneration policy of the Directors and Executives with strategic responsibilities (Articles 6.P.4 and 6.C.5 of the Governance Code); (ii) on the proposals and opinions for the remuneration of executive directors and other directors holding specific roles; (iii) on the fixing of performance objectives linked to the variable part of that remuneration; (iv) monitoring the application of the decisions taken by the Board; and (v) verification of the effective achievement of performance objectives (Article 6.C.5 of the Governance Code).
With regard to the new provisions on the composition of the Committee, we note that, as envisaged by the transitional provisions of the Governance Code (paragraph VIII of the "Guidelines and transitional regime"), they are to be applied during the next renewal of the Board of Directors.
The current composition of the Committee in any case is more than appropriate for the provisions of the previous Governance Code as, following the renewal of the Board of Directors during the meeting of May 13, 2011, three directors were appointed, all non-executive and independent: Salvatore Machì (to act as Chairman), Romano Minozzi and Paolo Carlo Renato Dal Pino. At least one member is in possession of sufficient financial knowledge and experience.
The Chairman of the Committee or other member of the Committee reports to shareholders on how duties are exercised. To this end, it is envisaged that the Chairman of the Committee or another member of the Committee shall attend the Annual Shareholders' Meeting (Comment to Article 6 of the Governance Code). The Chairman of the Committee attended the Shareholders' Meeting of May 16, 2012, making a speech.
No Director takes part in Remuneration Committee meetings where proposals intended for the Board are formulated on matters concerning its own remuneration, unless proposals are presented that regard general Committee members as established within the Board (Article 6.C.6 of the Governance Code).
At the request of the Chairman of the Committee, members of the Control and Risk Committee and/or other members of the Board of Directors can attend the meetings, the Chairman of the Board of Statutory Auditors or another Statutory Auditor appointed by him and other TERNA's executives or other people whose presence may prove helpful to the best fulfilment of the Committee functions (Article 4.C.1, letter f) and Comment to Article 6 of the Governance Code).
In 2012, the Remuneration Committee held 4 meetings, with the regular participation of all members and the Chairman of the Board of Statutory Auditors. The meetings lasted an average of about 40 minutes each. None of the Directors

participated in the Committee meetings in which proposals regarding their remuneration were submitted to the Board of Directors. Upon the Committee's request, the meetings were also attended by Directors of the Company whose presence was deemed helpful for the best information regarding the items on the agenda.
Minutes were duly taken of all committee meetings and the committee had the chance to access the information and business functions necessary to go about its duties and to use external consultants in accordance with the terms established by the Board (Article 4.C.1, letter e) of the Governance Code). In this latter regard, the Committee verified the existence of the requirement of independence of the consultants used (Article 6.C.7 of the Governance Code).
In 2013, the Committee will hold as many meetings as are sufficient for carrying out the duties assigned.
During the year up to the date of approval of this Report, the Committee has held two meetings.
The percentage participation of each member of the committee in the meetings held during FY 2012 is indicated in table 1 attached (Article 123-*bis*, paragraph 2, letter d) of the Consolidated Law on Finance).
As part of its duties, and with respect to the remuneration of the CEO and other Directors covering particular offices, during 2012 the Remuneration Committee made specific proposals to the Board of Directors, with the support of a consultancy company that set the remuneration benchmark, that provided for a portion of the Executive Director's compensation to be based on the Company's results and the achievement of specific objectives indicated in advance by the Board. Moreover, using the support of a consulting firm, it prepared the specific proposal for the "Remunerations Policy" adopted by Terna for the remuneration of executive directors, other directors assigned specific duties, statutory auditors, general managers and executives with strategic responsibilities, submitted to the annual Shareholders' Meeting in accordance with Article 123-*ter*, paragraph 6 of the Consolidated Law on Finance and, on that occasion, positively considered, in accordance with the reference provisions of the Governance Code, the overall coherence and concrete application of the policy adopted by the company. In addition, during the meetings held in 2012, the Remuneration Committee examined the incentive plans for the Company's top management. In 2013, the Committee also formulated proposals for the "Remuneration Policy" for at least the following year, approved by the Board and to be submitted to the Shareholders' Meeting called to approve the financial statements for FY 2012 pursuant to Article 123-*ter*, paragraph 6 of the Consolidated Law on Finance.
During the meeting of March 15, 2013, the Board of Directors evaluated the duties and performance of the Committee. The generally positive evaluation of the composition, size and responsibilities of the committee, was confirmed by the Board of Directors within the yearly review of the Board itself and of the committees.
The Committee has been granted adequate financial resources.

Section IX **Remuneration of Directors**

With regard to FY 2012, we would remind you that in December 2011, Terna's Board of Directors adopted the "Remuneration Policy" in implementation of the provisions of the Governance Code of reference, in force at the time, at the proposal of the "Remuneration Committee".
Following the coming into force of the regulatory provisions enacting Article 123-*ter* of the Consolidated Law on Finance, issued by Consob Resolution no. 18049 of December 23, 2011 (published in the Official Journal no. 303 of December 30, 2011), which, amongst other aspects, introduced Article 84-*quater* to the Issuers Regulation, in the meeting held on March 20, 2012 of Terna's Board of Directors, on the proposal of the Remunerations Committee, approved the update to the policy adopted. This policy – as summarised in the "Terna's Annual Report on Remuneration" filed and made available to the public at the company offices and published on the company's website (www.terna.it) and the market management company Borsa Italiana S.p.A. (www.borsaitaliana.it) – has been submitted to the consulting, non-binding vote of the Shareholders' Meeting of May 16, 2012, in accordance with Article 123-*ter*, paragraph 6 of the Consolidated Law on Finance, which ruled in favour.
All additional information and/or updates of the remuneration policy of the company approved by the Board of Directors on the proposal of the Remuneration Committee on the remuneration of members of the administrative bodies, the general directors and the executives with strategic responsibilities, with reference at least to the following year, and the activities carried out by the Committee and the procedures used to adopt and implement this policy and the information required by Article 6 of the Governance Code to which Terna has adhered are summarised in the Terna's Annual Report on Remuneration, which will be published by Terna and submitted to the next annual Shareholders' Meeting called to approve the financial statements for the year ended on December 31, 2012, in compliance with the provisions of Article 123-*ter* of the Consolidated Law on Finance and the mentioned Consob Resolution.
This Report was approved by the Board of Directors on March 15, 2013.
With regard to the compensation of the Directors, please remember that this is established by the Shareholders' Meeting for each Director (Article 24.1 of the Bylaws).
Extra compensation for the members of the Committees formed within the Board of Directors in compliance with the Governance Code was resolved, following the evaluation by the Board of Statutory Auditors, in compliance with Article 2389, paragraph 3, of the Civil Code and with Article 24.2 of the Bylaws, by the Board itself; the overall compensation for the

Chairman and the CEO is also identified by the Board of Directors based on the proposal submitted by the Remuneration Committee and following the evaluation by the Board of Statutory Auditors.
The total emoluments received by the members of the Board of Directors during the year are indicated in the note to the financial statements.
For a suitable representation of the fees paid during the year of reference, by any title and in any way by the company and subsidiaries or related parties to the administrative body of Terna and executives with strategic responsibilities for FY 2012, including the representation of each of the items comprising the remuneration and treatments established in the event of cessation of office or termination of employment and a judgement of the coherence with the Company's Remuneration Policy approved the previous year, we would refer you to the specified "Terna's Annual Report on Remuneration" which will be published and submitted to the forthcoming annual Shareholders' Meeting called to approve the financial statements for the financial year ended on December 31, 2012 in compliance with the provisions of Article 123-*ter* of the Consolidated Law on Finance and the mentioned Consob Resolution.
Finally, based on the provisions of Article 84-*quater*, paragraph 4, of the Issuers Regulations, the Annual Report on Remuneration shall include information concerning compensation plans provided for by Article 114-*bis* and information on shareholdings in Terna and in subsidiaries held by members of the administration and control bodies, by general directors, and by other executives with strategic responsibilities, as well as by spouses not legally separated and by minor children, directly or through subsidiaries, trust companies or through a third parties.

Section X **Control and Risk Committee**

Functions of the Control and Risk Committee

In 2004, within the Board of Directors, a specific Internal Control Committee was established, with the task of providing instructions, in the form of advice and suggestions, and, in particular, supporting the Board in its assessments and decisions relating to the "Internal Control System" and regularly monitoring its suitability, as well as in connection with specific aspects relating to the identification of the main business risks (such as, for example, operational risk, financial risk, market risk, and compliance risk (in addition to auditing compliance)), regularly reporting back to the Board on the suitability of the system and the work performed. The duties of the Committee have been identified in compliance with the Governance Code and the modalities of carrying out the meetings have been ruled through proper internal organizational Regulations adopted by the Board of Directors as of January 24, 2007.
In the meeting held on December 19, 2012, the Board of Directors resolved the necessary adjustments in relation to the members and competences of the committee in place in order to ensure that it was perfectly in line with the new provisions of the Governance Code on the internal control and risk management system (Articles 7.P.3, letter a-ii), 7.C.1 and 7.C.2 of the Governance Code) making some changes to the indicated Organisational Regulation (now named the "Organisational Regulation for the Control and Risk Committee of Terna S.p.A."). Consequently, the "Internal Control Committee", already established in Terna, took on the name of "Control and Risk Committee" with no change made to its members.
More specifically, the "Control and Risk Committee" has the task of supporting the Board of Directors, with suitable guidance, in the assessments and decisions relating to the "Internal Control and Risk Management System" (the "System"), to approval of the annual financial report and the half-yearly financial report and relations between the company and the external auditor (Article 7.P.3, letter a-ii) of the Governance Code). Under this scope, the Committee is specifically assigned the following tasks:

- supporting the Board of Directors in fulfilling the duties assigned it by the Governance Code on internal control and risk management, preparing specific opinions in this regard:
  i. the definition of the System guidelines and level of compatibility of these risks with business management that is coherent with the strategic objectives identified by the Board of Directors (Article 7.C.1, letter b) of the Governance Code);
  ii. the regular verification of the suitability of the System with respect to the business characteristics of the business and the risk profile assumed and its effectiveness (Article 7.C.1 letter a) of the Governance Code);
  iii. the approval of the plan of works prepared by the Internal Audit Department Manager (Article 7.C.1, letter c) of the Governance Code);
  iv. in the description of the main characteristics of the system in the Annual Report on Corporate Governance and Ownership Structures and in the assessment of the suitability of the system (Article 7.C.1, letter d) of the Governance Code);
  v. in the assessment of the results presented by the legal auditor and in the report on the essential issues that emerged during the legal audit;
- assessing, together with the executive in charge of the preparation of accounting documents and the legal auditor and the Board of Statutory Auditors, the correct application of accounting principles and their uniformity for the preparation of the consolidated financial statement (Article 7.C.2, letter a) of the Corporate Governance Code);

- expressing opinions on request of the CEO, on specific aspects concerning identification of main Company risks (Article 7.C.2, letter b) of the Corporate Governance Code);
- examine the regular reports concerning the assessment of the system and those of particular relevance prepared by the Audit Department (Article 7.C.2, letter c) of the Governance Code);
- monitor the independence, suitability, efficacy and efficiency of the Audit Department (Article 7.C.2, letter d) of the Governance Code). In this respect, we would refer you to the title below "Internal Audit Department Manager";
- report at least once every six months to the Board of Directors during approval of the annual financial report and half-yearly financial report, on the activities carried out and on the suitability of the system (Article 7.C.2, letter f) of the Governance Code);
- carry out the additional duties as may be assigned to the Board of Directors.

Additional specific duties are assigned to the Committee based on the Organisational Model adopted by Terna in compliance with Legislative Decree no. 231/01 and with Terna's Code of Ethics.

The Committee can ask the Internal Audit Department to carry out checks on specific operative areas, simultaneously informing the Chairman of the Board of Statutory Auditors (Article 7.C.2, letter e) of the Governance Code).

The Chairman of the Board of Statutory Auditors (or another auditor appointed by him) shall attend the meetings of the Committee, and in any case, all other auditors can also attend (Article 7.C.3, letter e) of the Governance Code). At the invitation of the Committee Chairman, the Internal Audit Department Manager can attend the meetings and, with reference to the individual items on the agenda, the CEO (in his capacity as Director appointed to oversee the functions of the Internal Control and Risk Management System), the members of the Remuneration Committee and/or other members of the Board of Directors or other people whose presence may be useful to ensure the best possible operation of the Committee (Article 4.C.1, letter f) of the Governance Code).

With regard to the new provisions on the composition of the Committee, we note that, as envisaged by the transitional provisions of the Governance Code (paragraph VIII of the "Guidelines and transitional regime"), they are to be applied during the next renewal of the Board of Directors. The current members of the Committee are therefore in line with the applicable provisions of the previous Governance Code. In actual fact, following the renewal of the Board of Directors and subsequent appointment of the Director Pensato in lieu of a Director who was standing down, by resolutions passed on May 13, 2011 and November 9, 2011, four directors were appointed, all non-executive, and the majority of whom are independent: Paolo Carlo Renato Dal Pino (acting as Chairman), Matteo Del Fante, Francesco Pensato and Michele Polo. At least one member is in possession of sufficient accounting and financial experience.

Information on the number of meetings and the percentage attendance, as set out below, refers to the total activities of the Committee in FY 2012.

More specifically, during FY 2012, the Committee held 6 meetings, characterised by the regular participation of its members and the Board of Statutory Auditors, in view of the specific supervisory duties over the system that are assigned to the Board by current legislation on listed companies and by the Governance Code (Articles 7.P.3, letter d) and 7.C.3 of the Governance Code). The average duration was approximately 1 hour and 15 minutes each. By invitation of the Committee Chairman, the Internal Audit Department Manager attended the meetings.

Upon the Committee's request, the meetings were also attended by Directors of the Company whose presence was deemed helpful for the best information regarding the items on the agenda (Article 4.C.1, letter f) of the Governance Code).

More specifically, during FY 2012, in accordance with the provisions of the Governance Code in force at the time, the Committee has:

- assessed the implications for Terna with regard to the adhesion to the new provisions on the Internal Control and Risk Management System envisaged by the Governance Code, to this end initiating a plan to carry out all consequent activities and providing support to the Board, which saw the involvement of the various entities and organisations involved;
- carried out a preliminary examination of the adjustments by the Company on the Internal Control and Risk Management System to meet the new requirements of the Governance Code, also by virtue of the new Group organisational structure and the reference policies in place with the Company and the guidelines of the "Internal Control and Risk Management System";
- given a positive opinion on the determination by the Board of the level of compatibility of the main risks relating to Terna and its subsidiaries with business management in line with the strategic objectives identified;
- in connection and with the involvement of various entities and organisations involved, given its positive opinion on the suitability of the Internal Control and Risk Management System with respect to the business characteristics and risk profile assumed, and its effectiveness;
- positively examined the structure of the Terna Audit, the plan of work prepared by the Internal Audit Department Manager, the activities relating to the Quality Assurance Plan and the methods for carrying out the tests and support for the Supervisory Body pursuant to Italian Legislative Decree no. 231/01 and examined and monitored the 2012 audit activities, noting elements for the assessment of the state of the risk management and control system also in relation to the Group reorganisation;
- met the independent auditing firm to assess the auditing activities with particular regard to the methods by which they were carried out and the results.

Furthermore, it examined the progress of financial risk management. Pursuant to what provided for by the Governance Code, the committee assessed, together with the Executive in Charge and having consulted with the legal auditor and the Board of Statutory Auditors, the correct use of the accounting standards and received information on control activities implemented for compliance with the provisions of law 262/05 and subsequent amendments. The Committee also received the required disclosure from the Supervisory Body pursuant to Italian Legislative Decree no. 231/01 on the suitability and development of the Model and activities carried out by said organisation and reported to the board at the time of approval of the annual and half-yearly financial reports on the activities carried out and the suitability of the Internal Control and Risk Management System (Articles 7.C.2, letter c) and f) of the Governance Code).
Minutes were duly taken of all committee meetings and the committee had the chance to access the information and business functions necessary to go about its duties and to use external consultants in accordance with the terms established by the Board (Article 4.C.1, letter e) of the Governance Code).
In 2013, the Committee will hold as many meetings as are sufficient for carrying out the duties assigned.
During the current year, up to the date of approval of this Report, the Committee has held one meeting.
The percentage participation of each member of the committee in the meetings held during FY 2012 is indicated in table 1 attached (Article 123-*bis*, paragraph 2, letter d) of the Consolidated Law on Finance).
During the meeting of March 15, 2013, the Board of Directors evaluated the duties and performance of the Committee. The generally positive evaluation of the composition, size and responsibilities of the committee, was confirmed by the Board of Directors within the yearly review of the Board itself and of the committees.
The Committee has been granted adequate financial resources.

Section XI **Internal Control System and Risk Management**

With regard to internal controls, since December 2006, on the basis of the preventive instructions given by the Internal Control Committee (now the Control and Risk Committee), the Board of Directors has:

- defined the “Terna Group Internal Control System” (now the “Internal Control and Risk Management System of the Terna Group” or the “ICRMS”), taking its inspiration from national and international best practices such as the set of rules, procedures and organisational structures, which, through a suitable identification, measurement, management and monitoring process of the main risks, enable correct, coherent business management with the objectives established by the Company;
- established the guidelines for the Internal Control and Risk Management System of the Terna Group, describing the rules, procedures and organisational structures prepared in such a way that the main risks relating to Terna and its subsidiaries are correctly identified and suitably measured, managed and monitored according to criteria of compatibility with a healthy, correct management, coherent with the strategic objectives identified (Articles 7.P.1, 7.P.2, and 7.C.1, letter a) of the Governance Code).
  More specifically, these guidelines were updated by the Board of Directors - also considering the new provisions of the Governance Code - by resolution of December 19, 2012 and upon seeking an opinion of the Control and Risk Committee. At the same time and in accordance with the provisions of the mentioned guidelines, upon seeking the opinion of the Control and Risk Committee, the board defined the nature and level of risk compatible with the strategic objectives of Terna and its subsidiaries.

The “Internal Control and Risk Management System of the Terna Group” helps, with reasonable certainty, to guarantee the achievement of strategic objectives, the safeguarding of the company assets, the efficiency and effectiveness of the business processes, the reliability of the financial operations, compliance with the law, regulations, Bylaws and internal procedures and the reliability of the company reports and financial disclosure. Moreover, it is constructed considering the specific nature and type of activities carried out and the connected risks and corporate interest of the activities carried out with special attention paid to the part of the ICRMS that has the objective of safeguarding continuity of the electrical service and the guarantee of impartial behaviour in carrying out the activities granted under concession.
The ICRMS is based on the following elements: control environment; risk management system; control activities; information, communication and monitoring. The coordinated implementation of these elements makes the ICRMS effective overall.

- “The control environment”, the basis of all other elements, consists of the set of ethical and cultural values, the governance and organisational model, the leadership style exercised by the company’s senior management and by the management and staff management policies.
- The “risk management system” implemented by the company senior management and management starts from the definition of the business objectives (strategic plans, budget, key performance indicators, risk appetite) and enables the various levels of the organisation to identify the main risks of the individual processes to which the plans of action are related for the prevention and management of risk in order to keep it within acceptable limits, monitoring the results over time. The risk management models adopted, the roles and responsibilities within the organisation are defined in specific business procedures and policies. In order to implement an integrated “risk management system”, in 2007

Terna created a Corporate Security Department significantly integrating its security tools and defining a transversal system for identifying, analysing and controlling Corporate risks. Moreover, in accordance with the provisions of the guidelines of the "Internal Control and Risk Management System of the Terna Group", the figure of the Chief Risk Officer (CRO) has been envisaged (Comment to Article 7 of the Governance Code), to whom the main responsibility is assigned for supporting company management in the effective implementation and management of the risk management process on a Group level, with reference to all financial, operational, business and sundry risks. In addition to ensuring absolute compliance with legal provisions, this integrated model allows reaching corporate security levels that exceed the regular standards attainable through a sectoral and fragmented security management.

- The "control activities" are carried out by management and employees to achieve specific objectives on the basis of principles, such as self-control, hierarchical control, accountability, opposing interests and segregation of duties.
- The "communications and information processes" ensure that the Company's expected objectives, culture, values, roles, responsibilities and conduct are clearly disclosed internally, while guaranteeing that disclosures to stakeholders outside the Company are correct and transparent.
- "Monitoring" aims at constantly verifying the effectiveness of the "Internal Control and Risk Management System of the Terna Group" through continuous activities carried out by personnel in the performance of their work, and through separate assessments that are regular, but not continuous, and typical, but not exclusive, of the Audit Department.

Terna has indeed an appropriate structure dedicated to preventing and managing Corporate fraud activities also aimed at spreading the culture of legality and respecting Corporate regulations. Continuously monitoring processes, verifying and managing reports of illegalities have led to introducing specific controls aimed at reducing such risks and at defining, for certain critical processes, specific procedures aimed at preventing illegal conduct.

Upon completion of the resolutions passed on the ICRMS as described above and on the basis of the positive opinion of the Control and Risk Committee, during the meeting of December 19, 2012, the Board of Directors expressed a positive opinion on the suitability of the Internal Control and Risk Management System with respect to the characteristics of the business and the risk profile assumed, as well as its effectiveness.
Terna's Board of Directors' meeting of March 15, 2013, in compliance with the opinion rendered by the Internal Control Committee on the basis of the analyses made during 2012 and when approving the draft financial statements for FY 2012, confirmed the positive assessment given and judged the Terna Group's Internal Control System suitable to achieve an acceptable risk profile, in consideration of the field in which Terna operates, of its size, organizational and Corporate structure (Article 1.C.1, letter c) and 7.C.1 letter b) of the Governance Code).
In its report, the Control and Risk Committee also reported on the report of the Supervisory Body appointed in accordance with Italian Legislative Decree no. 231/01 on the implementation of the Organisational Model in place at Terna and at the other Group companies.
Attachment 1 to this report includes the principal characteristics of existing risk management and internal control systems with respect to the financial information note, also consolidated (ex Article 123-*bis*, paragraph 2, letter b) of the Consolidated Law on Finance).

Executive Director in charge of the Internal Control and Risk Management System

The CEO of Terna, as the "Director in Charge of the Internal Control and Risk Management System" identified by the Board of Directors by resolution of December 19, 2012, is responsible for establishing and maintaining the "Internal Control and Risk Management System of the Terna Group". More specifically, he implements the guidelines defined by the Board of Directors, ensuring the design, development and management of it and constantly verifying the suitability and effectiveness and the identification of the main business risks, considering the characteristics of the company's business and that of its subsidiaries, submitted regularly to the Board of Directors (Articles 7.P.3, letter a)-(i) and 7.C.4, letter a) and b) of the Governance Code). He carries out the duties assigned by the Governance Code (Article 7.C.4, letters c), d) and e) of the Governance Code). He also appoints and revokes the Chief Risk Officer (CRO) having first sought the opinion of the Control and Risk Committee.
In carrying out its business in FY 2012, the CEO specifically ensured the adaptation of the "Internal Control and Risk Management System of the Terna Group" to the legislative and regulatory context and the dynamics of the operative conditions of the company also consequent to the reorganisation of the Group, to this end - and through the appointed company structures - reporting to the Control and Risk Committee.

Internal Audit Department Manager

The “Internal Control and Risk Management System of the Terna Group” - according to the provisions of the guideline “Internal Control and Risk Management System of the Terna Group”, as most recently updated on December 19, 2012 and already presented in this section - provides for an Audit Department and the figure of the Internal Audit Department Manager appointed by the Board of Directors on the appointment of the “Director in Charge of the Internal Control and Risk Management System” upon first seeking the favourable opinion of the Control and Risk Committee and having consulted with the Board of Statutory Auditors (Article 7.C.1 of the Governance Code). This is also assigned the tasks set out in the Governance Code (Article 7.C.5 of the Governance Code) and is not assigned any operative area; it depends on the Board of Directors and also reports to the CEO as “Director in Charge of the Internal Control and Risk Management System” (Article 7.C.5, letter b) of the Governance Code).

Terna’s organisation instituted a specific Internal Audit Department some time ago and assigned its responsibility to a company executive with suitable requirements of professionalism without any operative responsibilities or appointments, who reports to the “Director in Charge of the Internal Control and Risk Management System” and who answers in his work to the Board of Directors, assigning him resources and means for overseeing the suitability, operations and function of the ICRMS and remuneration coherent with business policies (Article 7.C.1 of the Governance Code). This structure has guaranteed the efficiency of the audit in pursuing its mission and the conformity of the activities carried out with the Standard for the practice of Internal Auditing issued by the IIA and consequently, the Board of Terna has maintained its current structure and the figure of the Internal Audit Department Manager already in place in Terna and held by engineer Fulvio De Luca.

Terna’s Internal Audit Department Manager:

- checks, both continuously and in relation to specific needs and in compliance with international standards, the operations and suitability of the Internal Control and Risk Management System through the audit plan based on a structured process analysing and prioritising the main risks (Article 7.C.1, letter a) of the Governance Code);
- has direct access to all information useful to fulfilling the appointment. More specifically, in order to go about its duties, the Audit Department may access all company information systems freely and all acts and information in the company (Article 7.C.1, letter c) of the Governance Code);
- prepares regular reports containing suitable information on his work, on the way in which risks are managed and on compliance of the plans defined to limit them. The regular reports contain an assessment of the suitability of the Internal Control and Risk Management System (Article 7.C.1, letter d) of the Governance Code);
- prepares prompt reports on particularly important events (Article 7.C.1, letter e) of the Governance Code);
- sends the reports pursuant to the above points to the Chairs of the Board of Statutory Auditors, the Control and Risk Committee, the Board of Directors and the Director in Charge of the Internal Control and Risk Management System (Article 7.C.1, letter f) of the Governance Code);
- checks, as part of the audit plan, the reliability of the information systems including the accounting systems (Article 7.C.1, letter g) of the Governance Code).

The plan of works prepared by the Internal Audit Department Manager is approved by the Board of Directors at least once a year and having first sought the opinion of the Control and Risk Committee, having consulted with the Board of Statutory Auditors and the Director in Charge of the Internal Control and Risk Management System (Article 7.C.1, letter c) of the Governance Code). For FY 2012, the plan of works was examined first by the Internal Control Committee on the basis of the provisions of the Governance Code of reference as in force at the time. The new plan of works was then approved by the Board in the meeting of March 15, 2013, having first obtained the opinion of the Control and Risk Committee and consulted with the Board of Statutory Auditors and the “Director in Charge of the Internal Control and Risk Management System”.

The Internal Audit Department Manager operates through audits, the scope of application of which is extended to Terna and its subsidiaries. Audit activities can be carried out in connection with the departments carrying out audits in the companies and are carried out according to the annual plan of action or prepared each time by the company senior management (such as the “Director in Charge of the Internal Control and Risk Management System”) in relation to specific facts or following specific events, simultaneously informing the Chairman of the Board of Directors, the Chairman of the Control and Risk Committee and the Chairman of the Board of Statutory Auditors (Article 7.C.4, letter d) of the Governance Code).

The Control and Risk Committee can ask the Audit Department to carry out audits on specific operative areas, simultaneously notifying the Chairman of the Board of Statutory Auditors (Article 7.C.1, letter e) of the Governance Code) and the “Director in Charge of the Internal Control and Risk Management System”.

The Board of Statutory Auditors, within its own activities, can request the Audit department to carry out assessments on specific operating areas or Company operations (Article 8.C.4 of the Governance Code).

The Internal Audit Department Manager informs the “Director in Charge of the Internal Control and Risk Management System” of the requests for audit received from the Control and Risk Committee and the Board of Statutory Auditors.

The Board of Statutory Auditors and the Control and Risk Committee exchange significant information to fulfil their tasks (Article 8.C.5 of the Governance Code).

During FY 2012, numerous significant company scopes were audited, relating to: the management of the electrical system and its safety, impartiality with regard to grid users, design and development activities, group reorganisation and information management.

Code of Ethics

In May 2002, aware of the moral aspects involved in its core activities, Terna's Board of Directors resolved to adopt its Code of Ethics (that was updated in March 2004) to allow employees and all those having relations with Terna, to operate in the right way in order to establish trust, strengthen the Company's positive reputation and create value.
In 2006, the Code of Ethics underwent an updating process to provide Terna, following the change that rendered it an independent operator in the electricity transmission market, with a set of rules and principles to follow on the basis of its new context of reference.
The new Code of Ethics, which was approved by the Board of Directors on December 21, 2006, explains also in ethical terms, Terna's uniqueness. It underlines the need to respect universal ethical principles, that can be immediately recognized by everybody, and that should be fully adopted by companies. It is by no coincidence that the Code of Ethics specifically recalls the 10 Global Compact standards, the most prestigious expression of this vision.
Terna's Code of Ethics is broken down into five sections, which discuss, in this order:

- Terna's fundamental ethical principles, which are organized into general ethical principles (legality, honesty and accountability), that are universal and therefore to be recognized and shared by all, and into four main principles that Terna believes are particularly important, given its activities and nature (good management, respect, fairness and transparency);
- the conduct required, especially from employees, based on three important elements: loyalty to the Company, conflicts of interest and the integrity of Company assets;
- general instructions for the conduct to follow in relations with stakeholders, broken down into eight groups in which Terna requires consistent conduct;
- Terna's commitment to comply with the Code and the conduct required in relation to certain stakeholders;
- the rules implementing the Code and the relevant people responsible for updating it and gathering reports, who should be contacted for any clarifications.

The Code of Ethics was approved in December 2006. It applies to all of Terna Group's subsidiaries for sections 1 (Principles), 2 (Conflicts of interest, Company loyalty and the integrity of Company assets) and for section 3 (Relations with stakeholders) limited to the initial guidelines for the conduct to be followed with the individual categories of stakeholders.
On December 16, 2009 Terna's Board of Directors, based on sustainability, undertook an additional and coherent step resolving to officially join the Global Compact, the multi-stakeholder network promoted by the UN Organization that joins governments, companies, UN agencies, trade union organizations, non-profit organizations and the civil society with the aim of globally promoting the 10 universal principles of human rights, employment, environmental protection and anti-corruption measures.
The establishment of the Ethical Committee between the end of 2009 and the beginning of 2010, was another occasion to focus the contents and give new impulse to the complete implementation of the Code of Ethics by means of a dissemination campaign involving the entire Company.
The Code of Ethics represents the Charter in which Terna sets out the ethical commitments it makes with regard to its stakeholders. These commitments translate into concrete and measurable objectives, which Terna reports on once a year in its Sustainability report.

Organizational Model under Legislative Decree no. 231/2001

Since December 2002, Terna's Board of Directors has resolved to adopt an Organizational and Management Model that met the requirements of Legislative Decree no. 231 of June 8, 2001, which introduced into the Italian Law a system of administrative (and criminal) liability for companies with respect to certain types of offences committed by their Directors, managers or employees in the Company's interest or to its benefit. The Model was updated in June 2004, after the Company's shares were listed.
During 2010, the Model was amended following changes in law provisions as per Article 24-*ter* regarding "organized crime offences" and Article 25-*bis*, 25-*novies* and 25-*novies-(bis)* regarding, respectively, "offences against industry and trade", "crimes related to the violation of copyright" and "crime of incitement to refrain from issuing statements or to issue false statements", introducing the new Special Section I, relative to organized crime offences and updating the "General Section" and the "Special Sections" "A", "B", "G" and "H" for the other types of offences.
In addition to identifying areas deemed to be mostly at-risk for committing offences (so called "At-risk Areas"), the activity also involved defining conduct principles which all company representatives must comply with in order to prevent such offences, in addition to the provisions already included in the existing procedures within the Company.
This project went hand-in-hand with the Code of Ethics, as the Company believes that the adoption of this Model - regardless of the regulations that made it optional rather than mandatory - is a valid tool in increasing the awareness of those operating in the name and on behalf of Terna and its Group, so that their conduct be correct and transparent in the performance of their activities, to prevent the risk of the offences provided for by the Decree from being committed.
In 2011, due to the extension of the predicate offences category to environmental crimes, pursuant to Article 25-*undecies* of Legislative Decree no. 231/2001, an assessment was carried out, as well as the mapping of company areas, the roles is and responsibilities, identifying the so-called "At-Risk Areas" and the definition of principles of conduct which company representati-

ves must comply with in order to prevent the occurrence of new predicate offences. Therefore, following said activity, the Model 231 was further broadened through the introduction of the Special Section "L" in connection with "Environmental Offences".
In 2012, by virtue of the business reorganisation of the Terna Group, the Model of the parent company Terna S.p.A. was completely reviewed and updated and specific Organisational Models were prepared for the subsidiaries to consider their specific business.
Under the scope of the new special part "D", the new Model also considers the extension of the list of crimes established under Article 25-*duodecies* of Italian Legislative Decree no. 109 of July 16, 2012, which establishes the extension of the administrative liability to include entities where the minimum rules relating to the employment of citizens of third party countries with invalid permits to stay are exceeded, as established in Italian Legislative Decree no. 286 of July 25, 1998 (the Consolidated Law on Immigration).
The Model is currently organized into eleven sections:

- a "general section" which describes, inter alia, the content of Legislative Decree no. 231/2001, the objectives of the Model and its implementation, the duties of the supervisory board – structured as a collective body – required to monitor the implementation and compliance of the Model, information flows and the penalty system; In this regard, in the meeting of December 19, 2012 and considering the current legislative and regulatory structure concerning the appointments and competences of the Board of Statutory Auditors, the Board of Directors chose not to transfer the functions of supervisory body to this organisation (Comment to Article 7 of the Governance Code);
- a "special section A" concerning the crimes committed in transactions with the public administration and crime of leading someone not to make a declaration or to make untruthful declarations to the legal authorities;
- a "special section B", which discusses Corporate offences;
- a "special section C", which deals with offences of terrorism or subversion of the democratic order;
- a "special section D" in relation to crimes against the individual personality and the employment of citizens from third party countries with invalid residence permits;
- a "special section E", concerning market abuse offences, with the addition of specific "Compliance regulations for the prevention of offences and administrative market abuse offences";
- a "special section F" regarding dealing in stolen goods, money laundering and use of money or assets coming from illegal sources as introduced in Decree no. 231/01 consequent to Legislative Decree no. 231/07 becoming effective;
- a "special section G", regarding manslaughter and serious or very serious injuries committed in violation of the rules on occupational health and safety;
- a "special section H", regarding computer-related offences;
- a "special section I" relative to organized crime offences;
- a "special section L", concerning environmental offences.

The content of this Model is consistent with the guidelines prepared for this purpose by trade associations. It is also in line with the best practices, and represents the final step towards complete accuracy, transparency and accountability in internal and external relations, while offering shareholders a guarantee of efficient and correct management.
As a supplement to the Model, already in 2008, Terna also approved a specific "Compliance Regulation for preventing offences and administrative illegalities of market abuse", most recently updated in July 2012, aimed at providing the recipients of the Model an additional operational tool for evaluating their conduct for integrating offences and administrative illegalities of market abuse and consequently for preventing conduct potentially representing a source of administrative responsibility for the Company.
In order to guarantee wider diffusion of the knowledge of the adopted Model, the same is published in the Company's website (www.terna.it) under the Investor Relations section and, since 2010, a widespread training and customized campaign has been carried out involving all employees. In particular, in 2012 an awareness raising campaign based on "At-risk areas" for crimes where everyone operates, and other activities were undertaken aimed at ensuring an effective process-modulated awareness of regulations and conduct to be followed by all company representatives. Moreover, a manual was drafted and distributed throughout the territory on the "Model for Organization and Management of Procedures" - intended for Terna's personnel called on to implement Model 231 - in order to facilitate a simple reading of the Model but complete in its fundamental elements by clearly indicating proper conduct and conduct to be avoided so as not to incur liability.

Independent Auditors

The assignment of auditing the annual report and the consolidated financial statements was entrusted, pursuant to the resolution passed by the Shareholders' Meeting of May 13, 2011 on proposal of the Board of Statutory Auditors, to the audit company PricewaterhouseCoopers S.p.A. for the 2011-2019 period in replacement of the company KPMG S.p.A., whose appointment expired with no possibility for renewal or extension pursuant to Article 17 of Legislative Decree no. 39 of January 27, 2010.
In drafting the auditing assignment proposal submitted to the Meeting of May 13, 2011, the Board of Statutory Auditors preliminarily assessed the independence requirements of such company with reference to Terna and the Group. This company confirms its independence to the Board of Statutory Auditors once a year, in accordance with Article 17, paragraph 9 of Italian Legislative Decree no. 39 of January 27, 2010.

Executive in Charge of the preparation of the company's accounting documents and other company roles and departments

In implementation of Article 154-*bis* of the Consolidated Law on Finance - introduced by Law no. 262 of December 28, 2005 and subsequently modified by Legislative Decree no. 303 of December 29, 2006 - Terna's Shareholders' Meeting of May 24, 2007 provided for in the Bylaws (Article 21.4) the position of the Executive in Charge of the preparation of the company's accounting documents (Executive in Charge), delegating his appointment to the Board of Directors, following the indication by the Board of Statutory Auditors, based on specific requirements of professionalism.
The choice to reserve the appointment and revoking of the Executive in Charge to the Board of Directors was carried out in line with Law provisions that directly acknowledge the Board of Directors a specific task of supervision (Article 154-*bis*, paragraph 4 of the Consolidated Law on Finance).
In this regard - under the scope of the guideline "Internal Control and Risk Management System of the Terna Group", as most recently updated on December 19, 2012 and already presented in this section - the Board has specifically assigned the figure of the "Internal Control and Risk Management System Director", regulated by the Governance Code, the task of making the proposal for appointment.
The Executive must also be in possession of requirements of honour indicated by Law and of professionalism indicated in the Bylaws (Article 21.4).
In particular, the Executive in Charge of the preparation of accounting documents must have a total experience of at least three years in:

a) administration activities, finance and control and/or managing functions inherent to the activity of preparation and/or analysis and/or evaluation and/or verification of company documents whose complexity is comparable to accounting documents of the Company; or
b) activity of legal control of the accounts in companies listed in Italian regulated markets or in those of other countries of the European Union; or
c) professional activities or university teaching in financial or accounting subjects.

The Board of Directors, in compliance with the regulations, has immediately appointed as Executive in Charge Luciano Di Bacco, after verification of the requirements of honour and professionalism. Such appointment has also involved the adjustment of the organisational structure of the Company attributing to the Executive autonomy and authority with the institution of a specific Senior Manager reporting directly to the CEO.
The Executive carries out all the activities necessary to give the Board of Directors the possibility to comply with its supervision tasks as per Article 154-*bis*, paragraph 4 of the Consolidated Law on Finance.
The Executive in Charge issues a declaration on the compliance, under Article 154-*bis*, paragraph 2 of the Consolidated Law on Finance, with the action and communications of the Company provided for by Law or communicated to the market, with reference to the report, even half-year, of the Company, to documents, and the accounting books and records. These declarations have been made since the half-yearly report of 2007.
In accordance with Article 154-*bis*, paragraph 3 of the Consolidated Law on Finance, the Executive in Charge prepares suitable administrative and accounting procedures to prepare the statutory financial statements and consolidated financial statements and any other financial communication requiring his issue of a certificate. In this regard, the Executive in Charge certifies, together with the appointed administrative bodies, with a specific report on the statutory financial statements, the abridged interim financial statements and the consolidated financial statements, their suitability and effective application, in accordance with paragraph 5 of the same Article, according to the model established in the Issuers Regulation. These declarations have been made since the financial statements as at December 31, 2007.
In 2012, following the reorganisation of the Terna Group, by agreement with the CEO also in his capacity as "Director in charge of the Internal Control and Risk Management System", the Director in Charge has updated the administrative and accounting procedures on the basis of the new organisation, and:

- the financial disclosure control system, also referred to as the "Model 262";
- the Regulation of the Executive in Charge;
- the Administrative and Accounting procedures;
- the Analysis of the Internal Control and Risk Management System at an entity level.

Testing operations were also conducted for verifying the implementation of the actual control.
In accordance with the provisions of the Governance Code, the Executive in Charge has, together with the Control and Risk Committee, evaluated the correct use of the accounting standards (Article 7.C.2, letter a) of the Governance Code).

Coordination of the parties involved in the Internal Control and Risk Management System

The Terna Group "Internal Control and Risk Management System" involves, each insofar as they are competent, the Board of Directors, the CEO identified by the Board as the "Director in charge of the Internal Control and Risk Management System", the Control and Risks Committee, the Board of Statutory Auditors, the Audit Department and its Manager, the Supervisory Body (SB) instituted in accordance with Italian Legislative Decree no. 231 of June 8, 2001, the CEO (Executive in Charge) instituted in accordance with Article 154-*bis* of the Consolidated Law on Finance, the Chief Risk Officer (CRO) and provides for the ways in which they shall liaise, describing roles and competences on the Internal Control and Risk Management System, in order to maximise the overall efficiency of the ICRMS and reduce duplication of activities.
In order to guarantee suitable coordination between the parties involved in the ICRMS, Terna implements:
- suitable, continuous flows of information between the parties involved in the ICRMS;
- specific meetings for the management of specific situations or events, needed to ensure prompt control of exposure to risks and the recognition of operative anomalies;
- regular meetings to notify the status of the risk management system and plan tests;
- systematic forecasting reporting and reports on the summary of exposure to risk, with different information levels according to the addressee.

Section XII **Directors' interests and related party transactions**

Even before listing its shares in the stock market, Terna and its subsidiaries decided to lay the foundation for ensuring that related party transactions were carried out in compliance with the principles of procedural and substantial correctness, in its own interest, and as a duty to the market.
As of February 22, 2007, in implementing the provisions of the 2006 edition of the Governance Code, Terna defined these conditions as part of specific internal procedures submitted in advance to the Internal Control Committee and approved by the Board of Directors. Among other things, these procedures established for the entire 2011 a specific reporting to the Board of Directors and Board of Statutory Auditors that was periodically implemented.
Following the publication of "Regulations regarding related party transactions" issued by CONSOB with resolution no. 17221 dated March 12, 2010, subsequently amended with resolution no. 17389 dated June 23, 2010 ("CONSOB Related Party Regulations"), Terna's Board of Directors - as announced to the market on November 12, 2010 - defined these conditions within a new Procedure ("Procedure for Related Party Transactions"), effective as of January 1, 2011, taking into account the new regulations regarding the provisions of the Civil Code and those of the Governance Code of listed companies. The resolution was approved unanimously following the positive opinion of the Committee established for this purpose and formed by independent Directors only (as established by Article 4, paragraph 3, of CONSOB Related Parties Regulations) whose members were identified among the Remuneration Committee. The new Procedure was published, as of November 12, 2010, on the Company's website (www.terna.it, under the Investor Relations/Corporate Governance/Regulations and Procedures section).
Within the new Procedure and pursuant to Article 4 of CONSOB Related Party Regulations, the following was implemented:
- Related Parties were identified, Related Party Transactions were defined and the new terms for identifying, approving and implementing the various categories of Related Party Transactions were ruled;
- lower amount Transactions were identified as well as those cases in which the provisions of the Procedure should not be applied (in line with the provisions of Articles 13 and 14 of CONSOB Related Party Regulations) having taken into account the size of the Company and the sector it operates in, as well as the ownership structure;
- the terms for forming the Director Committee were identified called upon to express its opinion on the single Transactions of greater or lesser importance, as well as the contents of such opinion and the independence requirements of the Committee member. Furthermore, specific measures were identified should at least 3 independent, non related Directors not be present;
- the rules were established regarding cases in which Terna shall examine or approve transactions of Italian or foreign subsidiaries;
- the terms and time frames were established with which Directors and the Committee for Related Party Transactions it should be provided with information on Related Party Transactions and relative documentation;
- the choices were identified as made by the Company with reference to the possibilities included in CONSOB Related Party Regulations.

Compared to previous conduct principles regarding Related Party Transactions adopted by Terna, the new Procedure envisaged lowering the relevance thresholds regarding certain types of Transactions which should be reported to the Board of Directors, so that an enlargement of entitled Related Party Transactions could be obtained – according to the definition indicated by CONSOB in the above-mentioned resolution – as transactions of lesser importance.
The statutory changes required by the Procedure were approved by the resolution passed by the Shareholders' Meeting of May 13, 2011.
Since 2011, the annual census has been carried out of the related parties as envisaged by Article 4.
According to the provisions of the document, as a first application, the "Procedure for Related Party Transactions" was submitted for verification of possible amendments to the Board of Directors of Terna, which, on the basis of the opinion provided by the special Committee and taking into account that no critical issues have arisen, did not deem it necessary to change it. Further verifications of the "Procedure for Related Party Transactions" are envisaged, based on such procedure, where deemed necessary, and at least every three months also considering the organizational structure of the Company and of the Group, the assets owned and the effectiveness of the Procedure in its application.
The Related Party Transaction Committee, following the renewal of the outgoing Board of Directors, is presently composed of Salvatore Machì (acting as Coordinator), Romano Minozzi and Paolo Dal Pino, all non-executive and independent Directors; at least one member is also in possession of adequate experience in accounting and finance matters.
The Board identified such Committee as the body in charge of carrying out the role required by "Regulations on Related Party Transactions" issued by CONSOB with resolution no. 17221 of March 12, 2010, subsequently amended with resolution no. 17389 of June 23, 2010, both for the approval of greater importance transactions and for those of lesser importance in the Terna Procedure. The Committee is assigned preliminary duties and powers, proactive and advisory, in evaluations and decisions regarding the aforesaid Related Party Transactions, as well as in relation to possible amendment proposals by the Procedure adopted by Terna. A special "Organizational Regulation of the Related Party Transaction Committee of Terna S.p.A." approved by resolution on December 12, 2010 and in force since January 1, 2011, governs the composition, the duties and the operation of the Committee.
The Company's budget provides for adequate financial resources for carrying out the duties of the Related Party Transactions Committee. Moreover, for purposes of its own evaluation, said Committee may require the Company to utilize specialized, independent experts external to the Company, who are designated by this committee; costs for services rendered by consultants are shouldered by the Company. The methods for holding meetings are governed by the internal ad hoc Organizational Regulations adopted by the Board of Directors on November 12, 2010 and in force since January 1, 2011. Upon invitation by the Coordinator, other people whose presence could be helpful for the smooth performance of the Committee's functions may participate in the meetings of the Related Party Transactions Committee.

During 2012, the Related Party Transactions Committee held 1 meeting for a duration of approximately 20 minutes, in which Company executives were in attendance, whose presence was considered helpful for the best information on the issues on the agenda.
More specifically, during FY 2012, the Related party transactions Committee provided the Board of Directors and the Departments of the companies appointed to examine the specific operations envisaged by the Procedure with preliminary support.
During the current year, up to the date of approval of this Report, the Committee has held one meeting.
The percentage participation of each member of the committee in the meetings held during FY 2012 is indicated in table 1 attached (Article 123-*bis*, paragraph 2, letter d) of the Consolidated Law on Finance).

Terna has also identified specific methods for the approval of the significant operations concluded by the Company, also through subsidiaries (Article 1.C.1, letter f) of the Governance Code) - explained in section IV under "Role of the Board of Directors" - and for the identification and management of situations in which a Director holds his own interest or an interest of third parties regarding a transaction that he should evaluate, in compliance with the regulations of the previous edition of the Governance Code and according to the provisions of Article 2391 of the Italian Civil Code under the scope of a specific internal procedure adopted in 2007 and subsequently updated (most recently on March 31, 2011: "Approval of significant operations and management of situations of interest"), thereby ensuring procedural monitoring that also applies where the provisions on related party transactions do not apply. In this regard, Directors who have an interest (including potential or indirect interests) in the transaction:

- are required to inform the Board of Directors and Board of Statutory Auditors in due time of the existence of the interest, specifying its nature, terms, origin and scope;
- are required to leave the Board meeting or refrain from voting at the time of resolving, unless the Board specifically authorizes participation in the related discussions and/or vote;
- are required to inform the Board of their positions at the time of their appointment and regularly update the Board on them.

Section XIII **Appointment of the Statutory Auditors**

Appointment and requirements of Statutory Auditors

The terms for appointing the members of the Board of Directors are ruled by Article 26 of the Bylaws.
In compliance with the provisions of the Company's Bylaws, the Board of Statutory Auditors is comprised of three Standing Auditors and two Alternate Statutory Auditors, who are appointed by the Shareholders' Meeting for a period of three years and may be re-appointed at the end of their term.
All members of the Board of Statutory Auditors must meet the integrity and professionalism requirements as per the special legislation for Statutory Auditors of listed companies (Article 148, paragraph 4 of the Consolidated Law on Finance) now under Ministry for Justice Decree no. 162 of March 30, 2000, as integrated by appropriate Bylaws provisions (Article 26.1 of Bylaws).
Each Statutory Auditor may not be Statutory Auditor of five or more companies that have issued securities and can hold other assignments of administration and control in share capital companies according to Book V, Title V, Chapters V, VI and VII of the Civil Code within the limits established by the Article 144-*terdecies* of the Issuers Regulations implementing the provisions of Article 148-*bis* of the Consolidated Law on Finance.
All the members of the Board of Statutory Auditors must also possess provided requirements of independence under Article 148, paragraph 3 of the Consolidated Law on Finance.
The appointment of the entire Board of Statutory Auditors takes place, in application of the provisions on privatisation and in compliance with the provisions of Italian legislation on companies with listed shares, according to the "list voting" mechanism governed by Article 26.2 of the Bylaws, aimed at guaranteeing the presence in the auditing body of a statutory auditor and an alternate statutory auditor appointed by the minority shareholders, also regulating - according to the provisions of Article 144-*sexies*, paragraph 9 of the Issuers Regulation - the criteria for the identification of the candidate to be elected if lists are equal, by referral to the provisions on the appointment of the Board of Directors.

On the basis of this referral and in accordance with the provisions of Articles 4, paragraph 1-*bis*, of the Privatisation Law and modified by Legislative Decree no. 27 of January 27, 2010, by Article 148 of the Consolidated Law on Finance and by the implementing rules for the above mentioned provisions included in Articles 144-*ter* and following of the Issuers Regulations, that the lists of candidates can be presented by shareholders that, alone or jointly with other shareholders, hold at least 1% of the share capital or a lower amount as envisaged by the law - of shares with voting rights in the meeting. For this purpose CONSOB, implementing the provisions of Article 148 of the Consolidated Law on Finance and Articles 144-*septies* of the Issuers Regulations, has established - with Resolution no. 18452 dated January 30, 2013 and for the year that ended on December 31, 2012 - the participation stake required for submitting candidate lists to be appointed in Terna's administration and control bodies at 1% of the share capital, taking into account the Company's capitalization, floating capital and owned assets and without prejudice to the lower stake included in the Bylaws.
The presentation, filing and publication of the lists, by specific referral of the Bylaws, are regulated in a similar fashion as arranged for the appointment of the entire Board of Directors, where compatible with the legislation and regulations applicable and with that specifically established by Article 26 of the Bylaws for the appointment of the Board of Statutory Auditors.
More specifically, the presentation and filing of the lists must take place - in accordance with Article 148, paragraph 2 and 147-*ter*, paragraph 1-*bis* of the Consolidated Law on Finance, at least 25 days prior to the date scheduled for the Shareholders' Meeting called to resolve on the appointment of the members of the Board of Statutory Auditors.
Ownership of the minimum stake required to submit lists shall be determined - in accordance with the provisions of Article 147-*ter*, paragraph 1-*bis* of the Consolidated Law on Finance - by taking into account the shares that are registered in the name of the Shareholder(s) on the day in which the lists are filed with the Company. In order to prove ownership of the number of shares necessary for presenting the lists, shareholders with rights must present and/or deliver the related certification or communication issued in accordance with Articles 144-*sexies*, paragraph 4-*quater* of the Issuers Regulation and 23 of the "Regulation enacting the regulation of the centralised management services, liquidation, guarantee systems and related management companies" (adopted by the Bank of Italy and Consob on February 22, 2008 and subsequently amended by deed of the Bank of Italy/Consob of December 24, 2010), also subsequently to filing the list, as long as, within the terms envisaged for the publication of the lists (i.e. at least 21 days prior to the date scheduled for the Shareholders' Meeting called to resolve on the appointment of the administrative body).
Pursuant to Article 144-*sexies*, paragraph 5, of the Issuers Regulations, in the event that on the date due for the submission of the lists for the Board of Statutory Auditors only one list has been filed, that is only lists submitted by members who are connected to each other pursuant to applicable law provisions, lists may be submitted up to the third day following said date; In this case, the thresholds set forth above shall be reduced by half.
Each Shareholder may present or assist in the presentation of one single list and each candidate may be on one list only or he will be considered ineligible. The lists must include the candidates according to a progressive number (Article 26.2 of the

Bylaws) and are divided into two sections, one for the candidates for statutory auditors, and the other for the candidates to alternate statutory auditors. The first one of the candidates of each section of the lists must be registered in the register of statutory auditors and must have exercised the activity of legal control of the accounts for a period of at least three years. In this regard, lists considering both sections, have three or more candidates must include, both the first two of the section of the list relating to statutory auditors and with regard to the first two on the list relating to alternate statutory auditors, candidates of different genders, in order to enable a Board of Statutory Auditors to be formed in compliance with current legislation on the balance of gender in the administrative and auditing bodies of companies with listed shares pursuant to Italian Law no. 120 of July 12, 2011 and Articles 147-*ter*, paragraph 1-*ter* and 148, paragraph 1-*bis* of the Consolidated Law on Finance. These statutory provisions aimed at guaranteeing compliance with current legislation on gender balance - introduced by the resolution of the Shareholders' Meeting passed on May 16, 2012 - aimed at guaranteeing compliance with current legislation on gender balance, shall apply, in accordance with the provisions of Article 31.1 of the Bylaws, to the first three renewals of the Board of Statutory Auditors subsequent to the coming into force and acquisition of efficacy of the provisions of Article 1 of Italian Law no. 120 of July 12, 2011, published in the Official Journal no. 174 of July 28, 2011 and in force as from August 12, 2011 without prejudice to any extensions envisaged by the law. Therefore, they shall first apply when renewing the company bodies expiring with the approval of the 2013 financial statements. At the same time, in accordance with the provisions of Article 31.2 of the Bylaws, the new provisions of the Bylaws apply, which - for the same purpose and for the first three renewals, save any additional extensions provided for by the law - have extended the members of the Board of Statutory Auditors, which will number three standing auditors and three alternates. Up until that time, the Board of Statutory Auditors shall number three standing auditors and two alternates.
The presentation and filing of the lists must take place - in accordance with Article 148, paragraph 2 and 144-*sexies,* paragraph 4 of the Issuers Regulation, at least 25 days prior to the date scheduled for the Shareholders' Meeting called to resolve on the appointment of the members of the Board of Statutory Auditors.
In order to ensure a transparent procedure for the appointment of the Board of Statutory Auditors, the lists are filed complete, in accordance with Article 144-*sexies*, paragraph 4 of the Issuers Regulation:

a) information on the identity of the shareholders who have submitted the lists, indicating the total percentage of the shares held;
b) a declaration by shareholders other than those who hold, also as a group, a controlling interest or relative majority, indicating the absence of relationships as set forth in Article 144-*quinquies* of the Issuers Regulations with them. In this regard, Consob, with Communication no. DEM/9017893 of February 26, 2009 (concerning the "Appointment of the members of the administrative and auditing bodies") recommends that shareholders presenting a "minority list" provide the information required with regard to the election of the auditing bodies in this declaration;
c) an accurate description of the personal and professional characteristics of the candidates, accompanied – pursuant to Article 2400, last paragraph of the Civil Code – by a list of administration and control positions held within other companies as well as a statement by the candidates certifying possession of the requirements set by the law (including possession of independence requirements pursuant to Article 148, paragraph 3 of the Consolidated Law on Finance) and their acceptance of the candidacy.

The lists - complete with the information envisaged by Article 144-*octies*, paragraph 1, Issuers Regulation and CONSOB communication no. DEM/9017893 of February 26, 2009 - are therefore made available to the public - in accordance with Article 148, paragraph 2 of the Consolidated Law on Finance - at the company's offices, on the company's website and according to the ways established by Consob at least 21 days prior to the date of the specified Shareholders' Meeting.
Pursuant to Article 148, paragraph 2 of the Consolidated Law on Finance, at least one effective member is appointed by the minority shareholders who are not connected, not even indirectly, with the shareholders who have introduced or voted the list winning for a number of votes.
In compliance with the Italian legislation for listed companies, the Bylaws (Article 26.2) attribute the chairmanship of the Board of Statutory Auditors to the Statutory Auditor appointed by the minority list.
For any replacement of the Statutory Auditors, the terms of Article 26.2 of the Bylaws will be applied. If one of the Statutory Auditors is replaced, without prejudice to the possession of the legal requirements, the first of the alternate statutory auditors taken from the same list shall take his place. If the take-over carried out in this way, does not enable the reconstruction of a Board of Statutory Auditors compliant with current legislation on gender balance, the second of the alternate statutory auditors on the same list shall be appointed. If, subsequently, it should be necessary to replace the other statutory auditor taken from the same list that has obtained the greatest number of votes, in any case the additional alternate statutory auditor taken from the same list shall be appointed. If the Chairman of the Board of Statutory Auditors is replaced, this position will be taken by the Alternate Auditor taken from the same list.
For the appointment of the Statutory Auditors occurring outside the provisions for renewing the entire Board of Statutory Auditors, the Shareholders' Meeting resolves based on the majority envisaged by the Law and without respecting the above mentioned procedure, but nonetheless so as to ensure a composition of the Board of Statutory Auditors in compliance with the requirements of integrity and professionalism established by the Law, and compliance with current legislation on gender balance.

Section XIV **Composition and operation of the Board of Statutory Auditors**

The Board of Statutory Auditors currently in office, appointed by the ordinary Shareholders' Meeting of May 13, 2011, will be in office until the approval of the 2013 financial statements.
According to that resolved by the Shareholders' Meeting on May 13, 2011, the following comprise the Board of Statutory Auditors: Luca Aurelio Guarna (Chairman of the Board of Statutory Auditors appointed by the minority list submitted by shareholder Romano Minozzi and by his subsidiaries), Alberto Luigi Gusmeroli and Lorenzo Pozza (Statutory Auditors appointed by the majority list submitted by Cassa Depositi e Prestiti S.p.A.).
Alternate Statutory Auditors were also appointed: Stefania Bettoni (included in the minority list submitted by the shareholder Romano Minozzi and by his subsidiaries), and Flavio Pizzini (included in the majority list submitted by Cassa Depositi e Prestiti S.p.A.).
The Statutory Auditors appointed represent both lists submitted for said meeting. Further information regarding the submitted lists of candidates and on the results of the voting is available on the Company's website at www.terna.it in the section "Investor Relations/Corporate Governance/Company bodies/Shareholders' Meetings/Shareholders' Meeting of May 13, 2011". Following the statements made for the appointment, the vote count and after the voting, a standing member was appointed by the minority members that are not connected, not even indirectly, with the members who have submitted or voted the list that won for a number of votes.
From its appointment, the Board of Statutory Auditors is unchanged.
A summary of the professional background of the Statutory Auditors is provided below.

- **Luca Aurelio Guarna, 40 years old - Chairman of the Board of Statutory Auditors**
  [born in Milan on December 20, 1972]

He has a degree in Business Administration from the "Luigi Bocconi" University; he qualified for the title of Tax Consultant in 2000 and since 2002, he has been enrolled as Auditor. He has been Chairman of the Board of Auditors of Terna S.p.A. since April 2008 and Chairman of the Board of Auditors of Terna Rete Italia S.p.A., a subsidiary of Terna S.p.A., since February 2012.
He has carried out professional activity with prestigious legal and tax offices and since 2001 he has been a member of the administrative, tax and corporate consulting Spadaccini office in Milan.
He is presently the Chairman of the Board of Statutory Auditors at Gemina S.p.A. and Standing Auditor in other companies such as: Aeroporti di Roma S.p.A., Eagle Pictures S.p.A. and Silvano Toti Holding S.p.A..

- **Alberto Luigi Gusmeroli, 52 years old - Standing Auditor**
  [born in Varese on February 27, 1961]

He has a degree in Economics from the University of Pavia, School of Economics, with a focus on company finance and credit, enrolled as a tax consultant in the Auditors Register. He has been a standing auditor for Terna S.p.A. since May 2011. He is Chairman of the Board of Auditors of the publishing house Editoriale Nord Soc. Coop since 1997 and of Comecor coop a.r.l. since 1990, as well as member of the Board of Auditors of Bancoposta Fondi S.p.A. Sgr (Poste Italiane Group) since 2002 and of Enel Green Power Strambino Solar s.r.l.. He is also a member of the Board of Società Italiana per Azioni per il Traforo del Monte Bianco. Since 2000 he has also been member of the Board of Fondazione Salina, and since 2005 of the Centro Studi sulle Lingue Parlate Locali ed i Dialetti. He is a member of the Commission for study on local bodies of the National Council of Tax Consultants in Rome and general partner of the auditing company Fiduciaria Di Revisione Sas. He was a member of the Board of the Hotel Company 3S from 2000 to 2006, Chairman of the Board of Auditors of Frigorcoop from 1992 to 2000 and Auditor in Enel Energia S.p.A. from 2005 to 2007. In the municipalized company Aspem S.p.A. in Varese he was first Board member with powers, from 1998 to 2002, and then member of the Board of Auditors from 2003 to 2009. He has held many positions as consultant, including in Aero Club d'Italia, and he was an auditor in various local bodies as well as Member of the Inspection Committee of the Regional Council of the Region of Lombardy.

- **Lorenzo Pozza, 46 years old - Standing Auditor**
  [born in Milan on October 11, 1966]

He has a degree in Business Administration from the "Luigi Bocconi" University, tax consultant and auditor. He has been a standing auditor for Terna S.p.A. since April 2008.
Since 2001, he has been Associate Professor of Business Administration at the "Luigi Bocconi" University and Professor of Methodology and Quantitative Standards for Companies after having held various positions as a Professor in International Accounting and Accounting and Budget since 1991 at the same university, and since 1992 at the Corporate Management School (SDA), and since 1996 at the University of Italian Switzerland.
He has been Director and Auditor in various different listed and unlisted companies operating in the industrial, financial, real estate and insurance sectors. These include: Telecom Italia S.p.A., Gas Plus S.p.A., Bracco Imaging S.p.A., Leonardo & Co S.p.A. and Merloni Invest S.p.A..

He also carries out professional activity since 1990 and has been a founding member of the Partners S.p.A. consulting firm. He is the author of three books on budget and company evaluation as well as of numerous other publications, and has also written articles and essays on this subject for national and international magazines.

During the appointment and taking account of the information provided by the individuals involved, the Board of Directors, based on the envisaged terms, has confirmed and verified the existence of the requirements of integrity, professionalism and independence of the members of the Board of Statutory Auditors appointed by the Shareholders' Meeting held on May 13, 2011.

In the attached table 2, information is included regarding the composition of the Board of Statutory Auditors as of March 15, 2013.

No Statutory Auditor holds five assignments in other Italian companies issuing stocks listed in the Italian regulated markets or in other countries of the European Union and in companies issuing financial instruments available to the public in significant amounts pursuant to Article 116 of the Consolidated Law on Finance as defined by Article 2-*bis* of the Issuers Regulations.

The total number of assignments as Director or Statutory Auditor in other companies according to Book V, Title V, Chapters V (S.p.A.), VI (S.A.p.A.) and VII (S.r.l.) of the Civil Code, relevant according to Article 148-*bis* of the Consolidated Law on Finance, is indicated in the attached Table 2. The total number of assignments according to Article 144-*quinquiesdecies* of the above mentioned Issuers Regulations based on CONSOB resolution no. 17326 dated Mary 13, 2010, is published by CONSOB and is available on its website (www.consob.it). In this regard, it should be remembered that following the amendments to Articles 144-*terdecies* and 144-*quaterdecies* of the Issuers Regulations as per the CONSOB resolution no. 18079 of January 20, 2012 (published in the Official Journal on February 7, 2012), the limits on the total number of assignments and the consequent obligation to notify CONSOB are not applicable to standing members of the control body who hold the position of standing member of the control body "in one issuer only".

During 2012, the Board of Statutory Auditors held 9 meetings which lasted in average approximately 2 hours each, with the regular participation of the Statutory Auditors.

In 2013, all the preliminary meetings are scheduled for reviewing the economic-financial data on the part of the Board of Directors. During the year in progress up to the date of approval of this Report, the Board of Statutory Auditors held 3 meetings.

The Board of Statutory Auditors, on the basis of the criteria envisaged for the evaluation of the independence of the non-executive members of the Board of Directors in accordance with Article 3 of the Governance Code and in ways that comply with those envisaged for the directors - with reference to the information supplied by the individual parties concerned - has certified that the independence requirements remain met by all statutory auditors (Article 8.C.1 of the Governance Code).

Terna's Board of Statutory Auditors, already from March 16, 2007, decided to voluntarily adapt to a system of transparency analogous to that of the Directors (explained in section XII) in case of operations in which they bear an interest for themselves or third parties (Article 8.C.3 of the Governance Code). This orientation was also confirmed by the Board of Statutory Auditors in office.

In 2012, the Board carried out its typical supervisory duties as established by the national order on: (i) the observance of the Law and of the founding deed, including the respect of principles of proper administration in carrying out Corporate activities, (ii) the adequacy of the organizational structure, (iii) the adequacy and effectiveness of the Internal Control and Risk Management System and (iv) the suitability of the company's administrative-accounting system; (v) on the methods of concrete implementation of the rules of corporate governance set out by the code of conduct to which the Company has declared it complies; and (vi) on the financial disclosure process and legal auditing of the annual and consolidated accounts (Article 7.P.3 and Comment to Article 8 of the Governance Code). It has also verified the implementation of the provisions pursuant to Article 114, paragraph 2 of the Consolidated Law on Finance relative to communication obligations. The Board of Statutory Auditors also monitored the independence of the auditing company verifying both the respect of the provisions applicable on the matter, and the nature and entity of the services different from the accounting and auditing provided to Terna and to its subsidiaries by PricewaterhouseCoopers S.p.A. and the bodies belonging to its network.

The Board of Statutory Auditors verified the proper application of criteria and of procedures adopted by the Board of Directors for evaluating the independence of its members and also analysed the implementation of the regulations pursuant to Legislative Decree no. 231/01 and of the Regulations for the Executive in Charge of the preparation of financial documents pursuant to Law no. 262/05.

In FY 2012, the Board of Statutory Auditors, through its Chairman, was the addressee of the results of the audits performed by the Internal Audit Department Manager and the Statutory Auditors regularly attended meetings of the Board of Directors and the Control and Risk Committee and - the Chairman - at the meetings of the Remuneration Committee has guaranteed suitable involvement of the Board of Statutory Auditors in a great many internal procedures.

In carrying out its activity, the Board of Statutory Auditors was coordinated with the audit department and with the Control and Risk Committee according to the terms included in the previous "Section XI: Internal Control System" (Articles 8.C.4 and 8.C.5 of the Governance Code), with the Control Body pursuant to Legislative Decree no. 231/01, with the Executive in Charge pursuant to Law no. 262/05, as well as with the Boards of Statutory Auditors of the holding company and with the auditing company, exchanging relevant information to go about the respective duties.

Section XV **Investor Relations**

Since its listing on the stock exchange, the Company has believed that is both in its best interest and a duty to the market establishing a constant dialogue, based on the mutual understanding or roles, with all of shareholders and institutional investors: this dialogue is to be carried out in compliance with both the procedure for the disclosure of documents and information outside the Company and the principles included in the “Guide for market disclosures” and in recent regulatory measures and regulations on market disclosure.
To this regard, and also considering the Company’s size, it was decided that this dialogue should be facilitated by the creation of specific Company structures.
Accordingly, the Company has set up the (I) Investor Relations Department, which currently reports to the CEO and has the task of keeping contacts with institutional investors under the responsibility of Antonio Colombi (Viale Egidio Galbani, 70, 00156 Rome - tel. 06 8313 9041 - fax 06 8313 9312 - e-mail: investor.relations@terna.it) - and (II) a department for relations with general shareholders within the Corporate and Legal Affairs Department under the direction of Attorney Filomena Passeggio (Viale Egidio Galbani, 70 - tel. 06 8313 8136 – fax 06 8313 8218 e-mail: azionisti.retail@terna.it) – (Articles 9.P.1, 9.P.2, and 9.C.1 of the Governance Code).
Furthermore, the Company has further encouraged dialogue with investors by creating a specific section in its website (www.terna.it), where they can find both financial information (financial statements, half year and quarterly reports and presentations to the financial community) and updated information and documents of interest to general shareholders (press releases, the Company structure, the Bylaws and regulations for Shareholders’ Meetings, Corporate Governance information and documents, the Code of Ethics and the Organizational and Management Model pursuant to Legislative Decree no. 231/2001, distributed dividends, etc.

Section XVI **Shareholders’ Meetings**

The Governance Code establishes that the Shareholders’ Meetings should be considered as special occasions to initiate fruitful dialogue between shareholders and the Board of Directors (despite the wide-ranging diversification of the communications methods used by listed companies with their shareholders, institutional investors and the market). This was carefully evaluated and fully approved by the Company, which believed it necessary to adopt specific measures to adequately improve the meetings, in addition to guaranteeing the participation of its Directors (Article 9.C.2 of the Governance Code).
Also on the basis of special legislation enacted as expected in relation to listed companies, Terna introduced into its Bylaws a specific regulation aimed at facilitating the gathering of voting proxies for shareholders who are employees of the Company and its subsidiaries, so as to involve them in the decision-making process at the Shareholders’ Meetings.
Pursuant to Article 11.1 of the Bylaws, every shareholder that has the right to attend the Shareholders’ Meeting can be represented according to the Law, through a proxy.
In order to facilitate the notification of proxies to the Company, with resolution of October 18, 2010, Terna’s Board of Directors approved the amendments to the Bylaws necessary for adjusting the Company Bylaws to the novelties introduced by law provisions regarding shareholders’ rights of listed companies aiming at favouring the participation of shareholders in the life of the Company (Directive 2007/36/EC and relative implementing Legislative Decree no. 27 dated January 27, 2010) including notification of proxies by electronic means and, according to Article 125-*bis* of the Consolidated Law on Finance, mentioning such terms from time to time in the notice of call. On that occasion, the Board of Directors deemed appropriate to allow shareholders the possibility to grant proxies together with specific voting instructions to a Designated Company Representative according to Article 135-*undecies* of the Consolidated Law on Finance without exercising the so-called opt out possibility set by the Consolidated Law on Finance (Article 9.P.1 of the Governance Code). Additionally, by resolution of the Shareholders’ Meeting held on May 13, 2011 and with reference to current legislation looking to encourage the participation of shareholders in the company’s life, the possibility of using the single convening of the Shareholders’ Meeting has been envisaged, with a view to providing shareholders and the market with a single indication of the real date on which the meeting is held.
In order to facilitate the collection of proxies with the shareholders’ employed with the Company and its subsidiaries associated with shareholders’ associations that meet the requirements envisaged by the existing laws, according to the terms and modalities agreed upon each time with their legal representatives, these associations have made spaces available to be used for communication and for carrying out activities for collecting proxies.
With regard to the right to attend a Shareholders’ Meeting, the Bylaws (Article 10.1) – as modified by the Board of Directors on October 18, 2010 implementing the Legislative Decree no. 27 dated January 27, 2010 – envisages that attendance in the Shareholders’ Meeting is allowed only to those who have the right to participate in the Meeting and to exercise the voting right pursuant to law provisions in force.

On the basis of this provision and according to existing Article 83-*sexies* of the Consolidated Law on Finance, eligibility to participate in the Meeting and exercising the voting right is certified by a notice to the Company, made by an intermediary, in compliance with own accounting books, in favour of the person entitled to voting right on the basis of evidence of the accounts specified by Article 83-*quater*, paragraph 3 of the Consolidated Law on Finance related to the close of the accounting day of the seventh open-market day prior to the date set for the Shareholders' Meeting in first call, the so-called "record date".
These provisions do not entail any obstacles to the subsequent negotiations of shares. The credit and debit registrations made on accounts subsequent to said term are not material for purposes of legitimizing the exercise of the right to vote in the Shareholders' Meeting. Therefore, those who appear as owners of the Company shares subsequent to said date will not be allowed to participate and vote in the Meeting.
Communications by intermediaries for participation must be received by the Company by the end of the third open-market day prior to the date set for the first (or only) call of the Shareholders' Meeting. There is no prejudice to the entitlement to participate and vote if the Company has received the communications after said indicated term, provided that they are received by the time the Meeting begins on single call (Article 83-*sexies*, paragraph 4 of the Consolidated Law on Finance).
The Bylaws do not envisage attendance to the Shareholders' Meeting through telecommunications means or through the expression of the right to vote by correspondence or by electronic means.
The right for integration of the agenda and the presentation of new proposed resolutions on the part of the shareholders', by virtue of the postponement of general nature pursuant to Article 30 of the Bylaws, is held by the shareholders that, also jointly, represent at least one fortieth of the share capital according to the direct provisions of the Law (Article 126-*bis* of the Consolidated Law on Finance). On the basis of this provision, shareholders can present a written application, also be correspondence or electronically, in compliance with any requirements strictly necessary to identify the applicants and as indicated by the company, within ten days of the publication of the notice convening the meeting, to supplement the agenda with additional items, specifying in the application what additional items are proposed, or presenting proposed resolutions on items already on the agenda, filing a report within these same terms, giving the reasoning for the proposed resolutions on the new items up for discussion or the reasoning in relation to the additional proposed resolutions presented on items already on the agenda and certification showing ownership of the shares.
Those with voting rights can individually present proposed resolutions to the Shareholders' Meetings.
The integration of the list of items to be discussed is allowed only for those topics on which the Shareholders' Meeting is authorized to resolve pursuant to the Law. These topics exclude those for which the Law itself envisages that a resolution is made on the proposal by the Directors or on the basis of one of their projects or of a report they have prepared.
In case of an integration to the agenda or the presentation of additional proposals, the modified list of subjects to be discussed during the Meeting and the new proposals must be published according to the same terms as for the notice of call, at least fifteen days prior to the day scheduled for the Meeting. At the same time - in the same ways as envisaged for the Directors' Report on the items on the agenda - the report presented by the shareholders is made available to the public, accompanied by any considerations of the administrative body.
In accordance with Article 127-*ter* of the Consolidated Law on Finance, those with voting rights in the Shareholders' Meeting can ask questions on the items on the agenda, even before the meeting. The notice convening the meeting specifies the terms and conditions in compliance with which any questions raised prior to the meeting must reach the company.
Starting March 3, 2004, with a special shareholders' resolution, the Company implemented a specific regulation aimed at ensuring the exact and functional running of Shareholders' Meetings, with detailed rules for the various sectors, in compliance with each shareholders' fundamental right to request clarifications on the various issues being discussed, express an opinion and submit proposals (Article 9.C.3 of the Governance Code). With the shareholders' resolution of May 13, 2011, the text of the adopted "Regulations for Terna S.p.A.'s Shareholders' Meetings" was adjusted to be in line with the provisions of Legislative Decree no. 27, dated January 27, 2010 with regard to the exercising of some rights of shareholders of listed companies. On that occasion, some further adjustments were made in order to better define the scope of some provisions of the Regulations in light of the acquired enforcement practice and to ensure smoother running of the Shareholders' Meetings. The main amendments made, which were illustrated in detail to the shareholders with an ad hoc report to the Shareholders' Meeting, regarded provisions concerning governing the right to participate and vote in a Shareholders' Meeting and provisions concerning the right to pose questions on the items on the agenda, also before the Shareholders' Meeting.
In particular, with regard to the right of each shareholder to take the floor regarding the items on the agenda, Article 6 of the Regulations envisages that those entitled to exercising the right to vote can ask for the floor only once regarding the topics being discussed, presenting observations, requesting information and formulating proposals. The request to have the floor can be submitted at the time the Shareholders' Meeting is held and - unless otherwise stated by the Chairman - until the Chairman himself has not declared the discussion on the topic closed. The terms for such request, for taking the floor and relative order, are established by the Chairman. Considering the topic and the importance of each item discussed, as well as of the number of those requesting the floor and possible questions posed by shareholders before the Shareholders' Meeting which were not answered by the Company, the Chairman predetermines the duration of the reports and the responses - usually not to exceed ten minutes for reports and five minutes for the responses - in order to guarantee that the Shareholders' Meeting can end its activity in a single session. The Chairman and, by his invitation, all

those who assist him, respond to the speakers at the conclusion of all the reports, or after each report, taking into consideration also possible questions posed by shareholders before the Shareholders' Meeting which were not answered by the Company. Those that have requested the floor may reply briefly.
Although said Regulation is not included in the Bylaws, it is approved by ordinary meetings under the specific power given to the shareholders by the Bylaws (Article 11.2). The contents of the Regulation have been aligned to the most sophisticated models prepared by trade associations (Assonime and ABI), for listed companies. The "Regulations for Terna S.p.A.'s Shareholders' Meetings" can be found in the Company's website under the section: "Investor Relations/ Corporate Governance/Corporate bodies/Shareholders' Meetings".
The Board of Directors reports to the Shareholders' Meeting on the activities carried out and planned during the financial statements approval and regarding the report on management and, with specific reports, provides the shareholders with adequate information in a timely manner, so that they may pass resolutions with full knowledge of the facts; further clarifications, where required, are also provided in response to queries raised by shareholders during the meeting (Article 9.C.2 of the Governance Code). In this regard, the annual Shareholders' Meeting held in FY 2012, called to approve the financial statements for FY 2011, saw the attendance of 6 directors out of 9 and the entire Board of Statutory Auditors. On this occasion, the Chairman of the Remuneration Committee also attended, making a speech (comments to Article 6 of the Governance Code).
As from the date on which the new provisions of the Governance Code come into force, all resolutions passed by the Shareholders' Meeting regarded proposals of the board of directors. Therefore, the basis hoped for under the comment to Article 9 of the Governance Code on the preventive publishing of the proposals to be submitted to the Shareholders' Meeting by the controlling shareholders, has not been seen.
The Shareholders' Meeting is chaired by the Chairman of the Board of Directors, or, in case of his absence or impossibility, by the Deputy Chairman, if appointed, or, in the absence of both, by another person designated by the Board of Directors; should all the above conditions not apply, the Shareholders' Meeting appoints its own Chairman (Article 12.1 of the Bylaws).
The Chairman of the Shareholders' Meeting is assisted by a secretary, even if not a shareholder, designated by those o present upon the request of the Chairman, and can appoint one or more vote counters (Article 12.2 of the Bylaws and Article 4 of the Regulations for Terna S.p.A.'s Shareholders' Meetings). The assistance of the secretary, according to the terms envisaged by the Law, is not necessary if the Chairman waives said assistance or when the minutes of the Shareholders' Meeting are prepared by a notary public, even outside cases in which it is mandatory by law (Article 4 of the Regulations for Terna S.p.A.'s Shareholders' Meetings).
The Shareholders' Meeting, unless otherwise stated by the terms envisaged by Article 21.2 of the Bylaws, assigns to the Board of Directors, according to the terms established by the Law, the power to adopt certain resolutions that fall under the Shareholders' Meetings duties that can determine amendments to the Bylaws and resolves on all the topics as established by the Law or the Bylaws (Article 13.1 of the Company Bylaws) according to the indications in the foregoing Section I under the heading: "Company organization".
The resolutions adopted by the Shareholders' Meeting of significant impact on the Company, capable of amending the Bylaws indicated in Article 6.3 of the Company Bylaws are subject to the "special power" of veto by the Ministry of Economics and Finance as mentioned above in Section II "Information on Ownership Structure" in paragraphs "Restrictions in share transfer and shares bearing special powers" and "Bylaws Amendments".
Where not otherwise established by the Bylaws, resolutions for both the ordinary and extraordinary Shareholders' Meetings, are passed with the majorities required by the law in the individual cases (Article 13.2 of the Bylaws). In particular, the Bylaws provide that: (i) for transactions with related parties that have not received a favourable opinion from the competent body, the Shareholders' Meeting resolves, in addition to the majority provided for by law, in the presence of unrelated shareholders, as defined by governing regulations, who represent at least 10% of the share capital with voting rights and with a favourable vote by the majority of said unrelated shareholders; (ii) for urgent transactions with related parties that have been submitted by the Directors for an advisory vote, the Shareholders' Meeting adopts resolutions with the majority provided for by law (Article 13.3 of the Bylaws).
During 2012 – with reference to the regulations for minority rights and compatibly with the regulations and rules for the Company mentioned above – no significant changes were made in market capitalisation of the Company's shares or in the composition of its corporate bodies for which the Board of Directors had to evaluate the opportunity of proposing to the Shareholders' Meeting any amendments to the Bylaws regarding the percentages established for exercising shares and of the prerogatives set for minority protection (Article 9.C.4 of the Governance Code).

The hereby attached two tables summarise some of the most significant information included in the fourth, eighth, tenth, twelfth and fourteenth sections of the document. An "Attachment 1" is also enclosed that includes the description of the "Principal characteristics of existing risk management systems with regard to the financial informative note" (pursuant to Article 123-*bis*, paragraph 2, letter b) of the Consolidated Law on Finance).

Table 1

COMPOSITION OF TERNA'S BOARD OF DIRECTORS AND OF THE COMMITTEES

	BoD										C.R.C.		R.C.		R.P.T. Committee	
Position	Name (Last name and first name)	Appointed since	In office until	List	Exec.	Non exec.	Indep. based on Code	Indep. based on Cons. Law on Fin.	%	Other assign-ments	X	%	X	%	X	%
Chairman	Roth Luigi	02.11.05	Financial statements 31.12.2013	M		•			100%	3	-	-	-	-	-	-
CEO	Cattaneo Flavio	02.11.05	Financial statements 31.12.2013	M	•				100%	1	-	-	-	-	-	-
Director	Buscarini Fabio	13.05.11	Financial statements 31.12.2013	m		•	•	•	71.43%	2	-	-	-	-	-	-
Director	Dal Pino Paolo	28.04.08	Financial statements 31.12.2013	M		•	•	•	85.71%	0	X	100%	X	100%	X	100%
Director	Del Fante Matteo	28.04.08	Financial statements 31.12.2013	M		•			100%	2	X	100%	-	-	-	-
Director	Machì Salvatore	16.09.04	Financial statements 31.12.2013	m		•	•	•	100%	0	-	-	X	100%	X	100%
Director	Minozzi Romano	13.05.11	Financial statements 31.12.2013	m		•	•	•	85.71%	1	-	-	X	75%	X	0%
Director	Francesco Pensato	29.07.11	Financial statements 31.12.2013	M		•	•	•	100%	1	X	100%	-	-	-	-
Director	Polo Michele	28.04.08	Financial statements 31.12.2013	M		•	•	•	85.71%	0	X	83.33%	-	-	-	-

DIRECTORS WHO RESIGNED FROM THEIR POSITION DURING THE YEAR UNDER CONSIDERATION

LEGAL NUMBER NECESSARY FOR SUBMITTING THE LISTS DURING THE LAST APPOINTMENT: 1%

NUMBER OF MEETINGS HELD DURING THE YEAR UNDER CONSIDERATION:

BoD	C.R.C.	R.C.	A.C.	E.C.	RPT Committee
7	6	4	-	-	1

Key

BoD Int. Contr.: Board of Directors.

EC: Executive Committee.

AC: Appointment Committee.

R.C.: Remuneration Committee.

C.R.C.: Control and Risk Committee In implementation of the provisions of the new Governance Code of listed companies published by the Corporate Governance Committee promoted by Abi, Ania, Assonime, Assogestioni, Borsa Italiana and Confindustria in the December 2011 edition, the Board of Directors, in the meeting held on December 19, 2012, resolved the necessary adaptations to the competences of the current committees in place; consequently, the Internal Control Committee, already instituted in Terna in accordance with the provisions of the previous editions of the Governance Code, took on the name of the "Control and Risk Committee" and the related competences indicated by the new provisions of the Code, making no change to the composition. Information on the composition, number of meetings and the percentage attendance, as set sub C.R.C., refers to the total activities of the Committee in FY 2012.

RPT Committee: Related Party Transaction Committee established for approving the Procedure for Related Party Transactions as indicated by the "Regulations regarding related party transactions" issued by CONSOB with Resolution no. 17221 dated March 12, 2010, as subsequently modified by Resolution no. 17389 dated June 23, 2010 ("CONSOB Regulations for Related Parties").

Position: indicates whether is Chairman, Deputy Chairman, CEO, etc.

List: indicates M/m whether the Director was appointed from the majority list (M) or from the minority list (m).

Exec.: it is ticked if the Director can be qualified as an executive.

Non Exec.: it is ticked if the Director can be qualified as a non executive.

Indep. based on Code: it is ticked if the Director can be qualified as independent according to the criteria of the Governance Code.

Indep. based on Cons. Law on Fin.: It is ticked if the director has the independence requirements as per Article 148, paragraph 3 of the Consolidated Law on Finance as indicated by Article 147-*ter*, paragraph 4 of the same Law.

%: indicates the attendance in percentage terms of Directors at the meetings of, respectively, the Board of Directors and of the Committees (in calculating this percentage the number of meetings was considered which the Director attended compared to the number of meetings of the Board or of the Committee that were held during the year under consideration or after his appointment).

Other assignments: indicates the total number stated of assignments as Directors or Statutory Auditors in other companies listed in regulated markets (also foreign markets), in financial, banking and insurance companies or in large companies, identified on the basis of criteria defined by the Board. In calculating the indicated assignments, those held in subsidiaries, either directly or indirectly controlled, namely Terna's subsidiaries, were not included. When more assignments are held within the same Group, also for a work relation with a company belonging to the Group itself, only the most important assignment is considered. For the list of assignments held by each Director, please see the brief professional resumes included in this Report.

X: "X" indicates that the Board Director belongs to the Committee.

Table 2

COMPOSITION OF THE BOARD OF STATUTORY AUDITORS

Board of Statutory Auditors

Position	Members (Last name and first name)	In office since	In office until	List	Indep. based on Code	%	Number other assignments:	Number assignments in issuers
Chairman	Guarna Luca Aurelio	28.4.2008	Financial statements 31.12.2013	m	•	100%	27	2
Statutory Auditor	Gusmeroli Alberto Luigi	13.5.2011	Financial statements 31.12.2013	M	•	100%	0	1
Statutory Auditor	Pozza Lorenzo	28.4.2008	Financial statements 31.12.2013	M	•	100%	8	2
Alternate Statutory Auditor	Bettoni Stefania	28.4.2008	Financial statements 31.12.2013	m	-	-	-	-
Alternate Statutory Auditor	Pizzini Flavio	13.5.2011	Financial statements 31.12.2013	M	-	-	-	-

STATUTORY AUDITORS WHO RESIGNED FROM THEIR POSITION DURING THE YEAR UNDER CONSIDERATION

LEGAL NUMBER NECESSARY FOR SUBMITTING THE LISTS DURING THE LAST APPOINTMENT: 1%

NUMBER OF MEETINGS HELD DURING THE YEAR UNDER CONSIDERATION: 9

Key

Position: indicates whether is Chairman, Statutory Auditor, Alternate Statutory Auditor.

In office since: Indicates the date when the person was first appointed as a member of Terna's Board of Statutory Auditors. All members specified were appointed by the Shareholders' Meeting of May 13, 2011.

List: Indicates M/m whether the statutory auditor was appointed from the majority list (M) or from the minority list (m).

Indep. based on Code: it indicates "•" if the statutory auditor can be qualified as independent according to the criteria of the Code.

%: indicates the attendance in percentage terms of the Statutory Auditor at the meetings of the Board of Statutory Auditors (in calculating this percentage the number of meetings was considered which the Statutory Auditor attended compared to the number of meetings of the Board that were held during the year under consideration or after his appointment).

Number other assignments: indicates the total number of assignments as directors or statutory auditors in companies as per Book V, Title V, Chapters V (S.p.A.), VI (S.A.p.A.) and VII (S.r.l.) of the civil code that are important according to Article 148-*bis* of the Consolidated Law on Finance. The total number of assignments according to Article 144-*quinquiesdecies* of the above mentioned Issuers Regulations based on CONSOB resolution no. 17326 dated Mary 13, 2010, is published by CONSOB and is available on its website www.consob.it).

Number assignments in issuers: indicates the total number of assignments in issuers, taking into account that, following the amendments to Articles 144-*terdecies* and 144-*quaterdecies* of the Issuers Regulations made based on CONSOB Resolution no. 18079 dated January 20, 2012, (published in the Official Journal dated February 7, 2012), the limitations to the total number of assignments and the consequent information obligations to CONSOB shall not be applied for the standing members of the control body holding the position of standing members in the control body of "only one issuer". "Issuers" are defined by Article 144-*duodecies*, paragraph 1, letter d) of the Issuers Regulation as Italian companies issuing stocks listed in the Italian regulated markets or in other countries of the European Union and in companies issuing financial instruments available to the public in significant amounts pursuant to Article 116 of the Consolidated Law on Finance as defined by Article 2-*bis* of the Issuers Regulation.

Attachment 1

Principal characteristics of existing risk management and internal control systems with regard to the financial informative process (pursuant to Article 123-*bis*, paragraph 2, letter b) of the Consolidated Law on Finance)

Foreword

The Terna Group drafted the "262 Control Model" with the objective of defining operational modalities for assessing the "Internal Control and Risk Management System" hereinafter referred to as ICRMS that oversees the drafting of the financial statements in order to issue the certification required as per paragraphs 2 and 5 of Article 154-*bis* of the Consolidated Law on Finance.
The ICRMS, which oversees the preparation of the financial statements, must be considered together with the internal control and risk management system, insofar as they are elements of the same "system" described in the guidelines "Internal Control and Risk Management System of the Terna Group" approved by the Board of Directors (last update December 19, 2012). In these guidelines, the ICRMS is recognised as the "set of rules, procedures and organisational structures aimed at enabling the identification, measurement, management and monitoring of the main risks for the running of a business coherently with the business objectives defined by the Board of Directors and encouraging the taking of aware decisions".
The provisions of Law no. 262 (dated December 28, 2005 subsequently modified by Legislative Decree no. 303 dated December 29, 2006) relative to the ICRMS that oversees the drafting of the financial statement have the principal objective of ensuring that the financial informative note provides a truthful and proper representation of the company's shareholders' equity as well as its economic and financial position in compliance with the commonly accepted accounting principles.
On the basis of the provisions envisaged by Article 154-*bis* of the Consolidated Law on Finance, the ICRMS that oversees the drafting of the financial statements, actively involving all the corporate departments, is focused on the reliability objectives pursued by establishing adequate "accounting administrative procedures" and by verifying their actual implementation.
Definitions of the field of activity (scoping) and of the processes to be analysed are updated by the Executive in Charge (hereinafter referred to as "EIC") at least once a year in order to analyse, identify and consider the variations that have impacted the ICRMS and integrate/modify accordingly the administrative and accounting procedures.
This update is substantiated in order to guarantee the traceability of activities.

Description of the principal characteristics of the existing risk management and internal control systems with respect to the financial informative process

The analysis approach of the ICRMS that oversees drafting the financial statements adopted by Terna is based on a twofold method of analysis:

Individual Company Analysis

Overall analysis (brief) on the individual companies of the Group with reference to the 5 elements that form the CoSO Report, specifically focusing on the adequacy of financial disclosure. This is mainly an analysis of the infrastructural components of the ICRMS (the supervisory activities carried out by the Board of Directors, by the Control and Risk Committee, by the Board of Statutory Auditors, as well as the Corporate policies and general group policies etc.) conducted in general terms but with a particular focus on the consequences of the quality of the economic and financial information.
The establishment, management and assessment of the ICRMS at the individual company level is to be carried out by those in charge of the various company departments (management) with regard to their respective duties, in line with the structure of the "individual company" being analysed.
The objective of the individual company analysis is to identify any shortcomings in the general control of the individual company that would potentially render ineffective even the best structure of controls overseeing the processes.
The assessment is expressed with a "benchmarking" activity with respect to the reference procedures defined or referred to by official bodies or with the international best-practices adopted by companies similar to the Terna Group. This method is applied by filling out a check list based on the five components of the control system (Control Environment, Risk Assessment, Control Activity, Information System and Communication Flows, Monitoring), developed in specific control objectives.

Controls are assessed on the basis of the following requirements, where applicable:
- existence of the control tool (organizational structure, legal structure, process);
- adequate communication regarding the existence of the control tool identified for all the bodies referred to;
- understanding on the part of the company's employees of their role and responsibility in implementing the identified control tool;
- appropriate and effective monitoring of the control tool;
- management support in implementing the control tool;
- application, or action undertaken by the management aimed at ensuring compliance with the implemented control tool.

Individual Process Analysis

Analysis of relevant processes by establishing guidelines that define the principal risks on the financial informative note and relative controls aimed at mitigating them.
The individual process analysis allows assessing the action plan and operational level of the controls on Corporate processes and sub-processes on which the financial informative note is based.
The terms for carrying out this analysis are the establishment of administrative and accounting procedures for preparing the financial statement/consolidated financial statements/abridged interim financial statements that include the execution of specific control activities aimed at preventing the occurrence of risks of significant errors in financial statements during the development of the processes.
The process analysis and the subsequent establishment of administrative and accounting procedures requires the selection of "significant processes". For this purpose, it is necessary to carry out specific "scoping" in order to identify both the significant items in the financial statements/financial informative note as well as associate the significant information to the processes.
The relevance of the financial informative note is assessed with reference to the possible consequence that its omission or misrepresentation could determine in decisions made by the individuals who are notified about the note through the financial statements.
With regard to the above, quantity parameters are identified, that are normally defined in terms of percentages compared to income before taxes, as well as quality parameters capable of rendering an information relevant, even if the amount is lower than the level of relevance identified.
Identifying significant information is carried out through the combination of quantitative parameters, linked to the level of significance defined for the Terna Group and quality parameters linked to the specific risk for financial statement sections or informative notes.
Identifying quality parameters consists in considering possible "factors" that render significant various calculations, even if these do not exceed the threshold of materiality, by themselves. Investors could demonstrate a certain interest in various calculations in the financial statement that represent an important performance indicator or an important indicator for the sector they belong to. The association of the information identified as being significant for the relative processes they are based on allows concentrating identification activities on those processes that can determine significant errors regarding the financial information. Each selected significant information/item in the financial statements must be associated with the processes that contribute to its elaboration, in order to determine the significant processes.
On the basis of quality and quantity parameters, after having defined the significant information and having selected the relevant processes, the EIC establishes the guidelines for "risk activities and controls" that represent administrative and accounting procedures and assesses their adequacy and effective implementing (assessment of their operational level).
For this purpose, the analysis of significant processes occurs through the following operational steps:
- defining and analysing activities that form the processes ("mapping");
- identifying and assessing risks for each activity and their being associated with the control objectives;
- identifying and assessing existing controls;
- assessing the operational level of existing controls.

Analysing activities that form the processes ("mapping") is aimed at clearly identifying the process that creates the data or the comment to be represented in the financial statements, from identifying the initial event that originates it up to its being included in the accounting prospects or in the notes.
Mapping activities that form the processes are functional to the final objective of applying controls along the entire process of data creation or for the notes commenting the financial statements and should be capable of ensuring that the information having an administrative impact is collected, processed and sent correctly and in a timely fashion.
For every process, for mapping purposes and the subsequent association of the risks and controls, the "key" elements must be identified that are useful in identifying existing risks and controls.
Verifying the effectiveness of the action plan and the actual operational level of the "key" controls is carried out through a testing activity that is conducted by a dedicated structure, using sampling techniques that are recognised by the international best practices. Control assessment, where deemed necessary, can involve identifying compensatory controls, corrective measures and improvement plans. The results of these activities are submitted to the evaluation of the Executive in Charge who in turn notifies the company executives.

Roles and Departments involved

The Executive in Charge ("EIC")

In relation to the responsibilities assigned him:

- annually updates the field of activity and the significant processes considering the factors of change/risk communicated by the Directors of Terna S.p.A. and by the management of the companies that are individually significant;
- prepares the updates to the "Model 262" and the "Regulation of the Executive in Charge";
- establishing and updating adequate administrative and accounting procedures for drafting the financial statements, the consolidated financial statements and the abridged interim financial statements;
- providing, with the collaboration of the Human Resource and Organization Department, to disseminate administrative and accounting procedures and action plans;
- supporting the Directors and the management of the companies that are individually significant in executing operational, control and reporting activities that are part of their specific duties.

The EIC can rely on the assistance of qualified external companies with specialized professional staff for carrying out plan assessment activities and the assessment of the operational levels of controls over administrative and accounting procedures.

The Internal Audit and Risk Management

Are responsible for:

- sending the Executive in Charge the regular reports prepared and the reports prepared against specific needs, regarding the operations and suitability of the ICRMS and to support the Executive in Charge in assessing the correct function of the internal control system and the related risk governance mechanisms, including any IT implementations;
- coordinating with the Executive in Charge in defining the annual audit plan, for the part regarding administrative-accounting processes;
- providing the Executive in Charge with a suitable information flow in relation to the results of the activities connected with the respective audit plans relating to the responsibilities of the Executive in Charge in the shared methods;
- in case of involvement in specific testing activities, ensuring the necessary collaboration and changes in the audit plan and in defining priorities also, if necessary, with the assistance of the administrative body in charge.

Terna S.p.A.'s Directors

Are responsible for:

- coordinating those in charge of individual controls, including of subsidiaries, in executing the controls they are responsible for;
- coordinating individual controls, including of subsidiaries, in establishing and implementing the Action Plan;
- supporting the activities carried out by the EIC and ensure access to all documents/information useful in carrying out his activities;
- preparing and forwarding in the time frames established by the reporting calendar the certifications regarding the control activities and their operational level.

Human Resources and Organisation Director

Is responsible for:

- supporting the EIC in preparing and updating the administrative-accounting procedures;
- supporting the EIC and the Management/Departments of the Terna Group in the correct implementation of the action plans that can give rise to organisational changes. To this end, the EIC is informed in advance in any case on any organisational changes.

Management of the companies that are individually significant

Is responsible for:

- coordinating those in charge of individual controls in executing the controls they are responsible for;
- assessing, in collaboration with the EIC, the ICRMS on the financial disclosure of the company that is individually significant;
- preparing and forwarding, in the time frame established by the reporting calendar, the certifications regarding the ICRMS of the company that is individually significant.

To enable the EIC and the administrative bodies in charge to issue the certificates in compliance with Article 154-*bis* of the Consolidated Law on Finance, it was necessary to define a system of "chain" certificates with the objective of ensuring the adequacy and actual implementation of administrative and accounting procedures drafted as part of the "Model 262", of preparing and disseminating the Plan for corrective measures, where necessary, and to update such procedures.
The certification, issued to the market with the CONSOB form, is based on a complex evaluation process that includes:

- collecting internal "chain" certificates issued both by the Directors of Terna S.p.A. and by the management of the companies that are individually significant. The existence of a periodic reporting flow allows carrying out the following:

    - periodic assessment of the plan for existing controls and consequent updating of administrative and accounting procedures;
    - assessment of the operational level of existing controls and the subsequent certification of the actual implementation of administrative and accounting procedures;
    - assessment of the shortcomings (absence of control or failure to execute controls) that emerge with reference to their impact on the informative note on the financial statements;
- the assessment of the actual operational level of administrative and accounting procedures carried out by the EIC;
- the final assessment of the adequacy and effective application of administrative and accounting procedures by the CEO and the EIC. This activity is supported by the assessment of the plan for specific controls as well as by that for their operational level as mentioned above. It is therefore carried out overall with reference to the probability that following one or more significant shortcomings an error in the financial statements could occur and with reference to the risk that this error may have been significant. To support the CEO and the EIC in their final assessments concerning the concrete possibility that there is significant error in the financial statements, where one or more significant deficiencies are seen, offset controls and audits can be envisaged, which, if successful, despite the presence of one or more significant deficiencies identified specifically by the lines, enable the CEO and EIC to issue their report without findings; any significant deficiencies highlighted by the assessment process must be notified promptly, together with the results of the offset controls performed by the CEO and the EIC to the Control and Risk Committee, the Supervisory Body and the Board of Statutory Auditors of Terna S.p.A..

Glossary

Connection
Set of grid elements consisting of the transmission line and the stalls at the ends of the same, including the relative circuit sectioning devices. Classification of connections by voltage level is carried out with reference to the nominal voltage. The length of the connection is normally the length of the line constituting the actual link.
Connection line
Any power line that links the power distribution plant with the user's plant, or the power distribution plant with the connection station.
Development
Intervention within the electricity grid involving an adaptation or expansion of the transport, transformation, connection and interconnection capacity, an increase in operating flexibility of the grid or a disposal of grid elements.
Dispatching
Electricity cannot be stored. It is therefore necessary to continuously produce the quantity of energy requested by consumers and deliver it to the National Transmission Grid in such a way as to keep electricity supply and demand in equilibrium, thereby ensuring continuing and security in supplying this service. Management of these flows of electricity along the grid is known as "dispatching".
Frequency
Represents the number of oscillations per second, during which the value of an alternating quantity, such as voltage, varies from positive polarity to negative polarity. It is measured in Hertz (Hz).
Generator
Electrical machine that transforms a source of primary energy into electricity.
Gigawatt (GW)
Unit of measurement equal to one billion watts (1,000 megawatts).
Grid management
The set of activities and procedures that bring about operation and the operating plan, under every condition, of an electrical network. Said activities and procedures include the management of electricity flows, interconnection devices and the necessary auxiliary services, as well as the decisions for maintenance and development measures.
Gross production of electricity
Sum of the quantities of electrical energy produced, measured at the electrical generator terminals.
High voltage
Nominal voltage greater than 35 kV and less than or equal to 220 kV.
High-voltage electricity line
An electricity line is a system that connects two power stations, or a power station and an energy input or withdrawal point. The length of an electricity line (km/line) is expressed as the length of the circuits projection over the ground (geographical length).
High-voltage power station
A transfer power station is the part of the grid used both for dividing electricity among the grid's lines and for transferring electricity among grids with different voltages.
Interconnection line
High-voltage power line in alternating current (a.c.) or direct current (d.c.) which links two different electrical transmission or distribution grids or even two generation plants.
Interconnection of electricity grids
Connection between electricity grids required for the transfer of electricity.
Interoperability of electricity grids
Operating method for the completion of management, operation, maintenance and development activities for two or more interconnected grids, in order to ensure simultaneous and coordinated functioning of the same.
kilowatt-hour (kWh)
Unit of measurement that expresses the quantity of electricity equal to 1,000 watts provided or requested in one hour.
kW
Unit of measurement of power (1 kW=1000 J/sec).
kWh
Unit of measurement of energy.
Maintenance
Measures and intervention aimed at the maintenance or restoration of efficiency and proper functioning of electricity plants, taking into account any declines in performance.
Maximum total transport capacity on interconnection with foreign countries
Maximum transport capacity for importing along the lines of the interconnection grid with the electricity plants of neighbouring countries.
Medium voltage
Nominal voltage greater than 1 kV and less than or equal to 35 kV.

Megavolt-ampere (MVA)
Unit of measurement of the apparent electrical power.
Megawatt (MW)
Unit of measurement equal to one million watts.
National Transmission Grid (NTG)
National electricity transmission grid as defined by the Decree of the Ministry of Industry of 25 June 1999 and subsequent amendments and additions.
Net production of electricity
Sum of the quantities of electrical energy produced, measured at the outgoing points of the production plants.
Operations planning
Preparation of plans and schedules for operation of the electricity system.
Peak power
The highest value of electrical power supplied or absorbed at any point of the system during a specific time interval.
Planning
Definition of the usage plans, for a specific period of time, for the available means of production and transmission, in order to satisfy the energy requirements with respect to quality and continuity of service.
Power station
Part of a grid, concentrated and closed within a specific site, used to distribute electricity among the lines of a grid, transfer electricity among grids at different voltages and transform electricity into the lowest voltage for the user.
Producer
Natural or legal person that produces electricity, regardless of ownership of the generation plant.
Production
Generation of electrical energy, in any way.
RAB (Regulatory Asset Base)
Value of the net capital invested, as recognised by the Italian Authority for Electricity and Gas for transport and distribution companies for the purposes of determining the applicable tariffs.
Requirement
Demand for electrical energy to be satisfied by the national electricity system. It shows a variable trend throughout the day, month and year.
Stall
Set of power plants and accessory systems linked to a power line or transformer that links said elements to the grid with the busbars of a power station.
Switch
Sectioning and manoeuvring device able to carry and interrupt current under normal operating conditions, as well as during specific exceptional operating conditions, such as in the case of short circuits.
Switching station
Part of a grid consisting of the set of equipment used to distribute the electricity among the lines of a grid at the same level of voltage.
Transformation station
Part of a grid consisting of the set of equipment used to transfer electricity between grids with different voltages.
Transformer
Electrical machine used for the connection and transfer of energy between grids at different voltage levels.
Transmission
Electricity transport and transformation activities along the interconnected high- and very-high-voltage grid for the purposes of delivery to clients, distributors and recipients of self-produced energy.
Transmission activity
The activity of transporting and transformation electricity across the grid.
Transmission line
High- and very-high-voltage power line, overhead or cable, used for the transport of electricity from the production plants to the distribution systems or to users.
Unified management of the grid
Coordinated management of all portions of the Grid.
Very-high voltage
Nominal voltage over 220 kV.
Volt
Unit of measurement of voltage.
Watt
Unit of measurement of electric power.

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