Terna Group

Interim financial report

31 March 2013

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Foreword

This **Interim financial report of the Terna Group at 31 March 2013**, not submitted for accounting audit, has been prepared in accordance with the provisions of art. 154-*ter* of 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. It does not, therefore, contain the disclosure required in accordance with IAS 34.

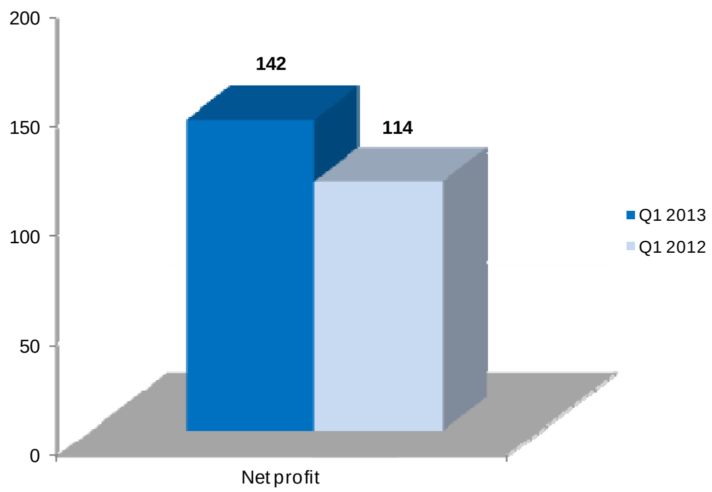
Summary of the first quarter

In the first quarter of 2013, the Terna Group continued its activities in accordance with that defined in the **2013-2017 Strategic Plan** approved by the Board of Directors on 6 February 2013, for which we refer the reader to the press release of the same day, available on the website www.terna.it.

Comprehensive Group results

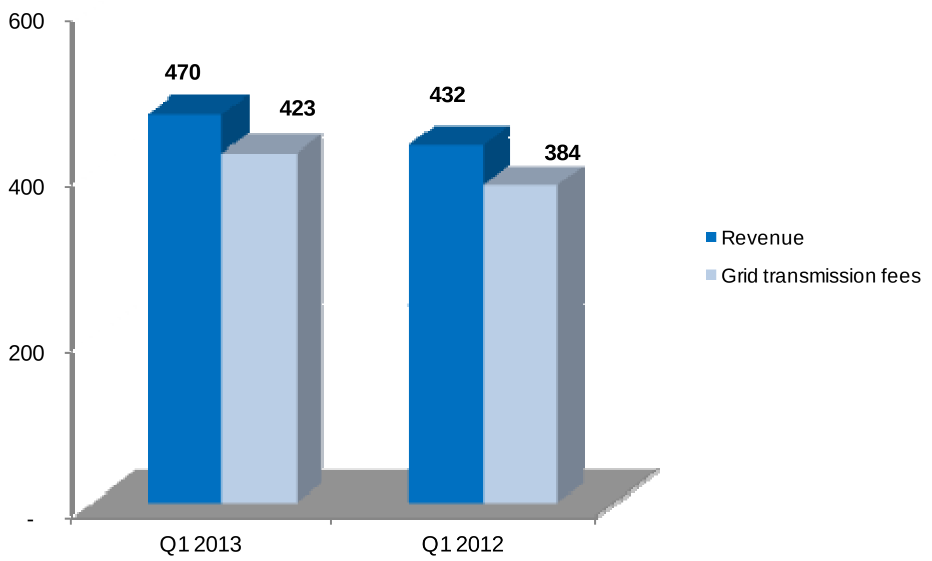
The consolidated economic situation at 31 March 2013 indicates constant growth of **net profit for the period** which settled at Euro 142 million (+24.6%), around ten percentage points above the growth of **EBIT**, which increased by Euro 36 million (+15.1%) with respect to the first quarter of the previous year. The first benefited in particular from the notable decrease in **net financial expense** (-41.9%), which is commented on below.

€ million



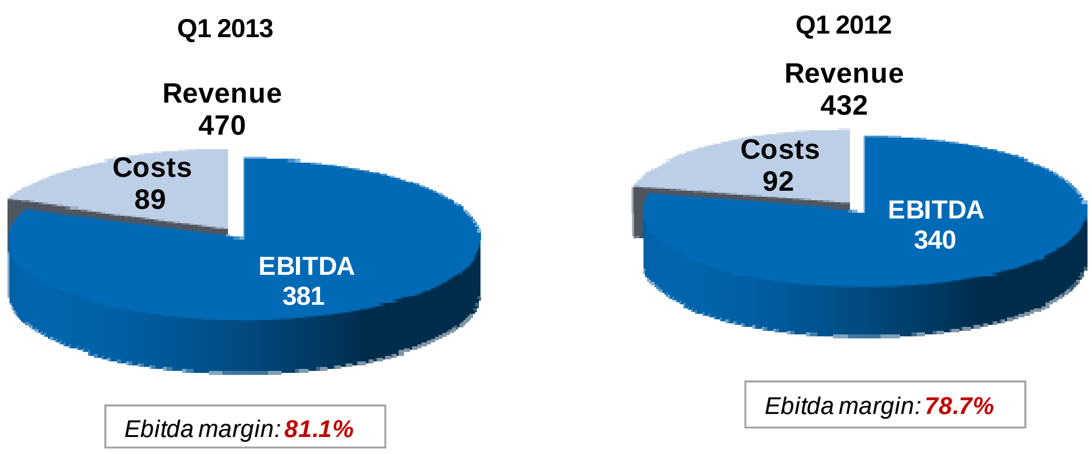
Revenue in the first three months of 2013 totalled Euro 470 million, +38 million with respect to the same period of the previous year (+8.8%), of which Euro 423 million related to the transmission payment (CTR), attributable to the Parent Company for 377 million and the subsidiary Terna Rete Italia S.r.l. for 46 million.

€ million



Operating costs were equal to approximately Euro 89 million, of which Euro 53 million relating to personnel expenses and Euro 28 million to services, leases and rentals. **EBITDA** (Gross Operating Margin) came out at **Euro 381 million**, equal to 81.1% of revenues, up by Euro 41 million from Euro 340 million in the first quarter of 2012 (+12.1%).

€ million



EBIT (Operating Profit) came out at Euro 275 million, after **depreciation and amortisation** charges of Euro 106 million, of which Euro 94 million recognised by the Parent Company and Euro 12 million by the subsidiary Terna Rete Italia S.r.l.

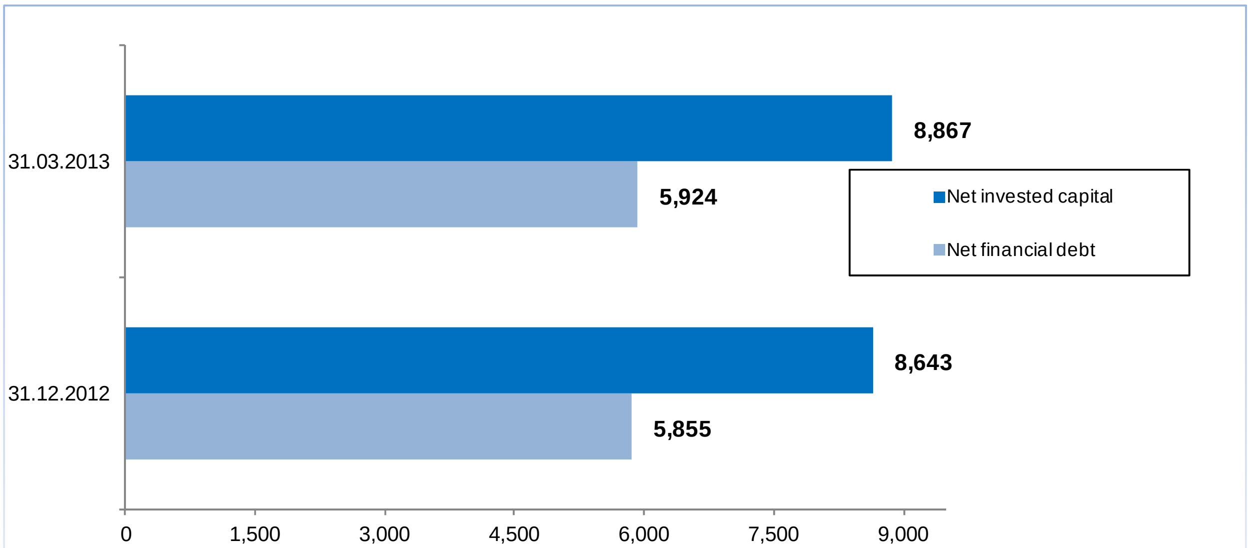
Net financial expense for the period, equal to Euro 18 million and mainly attributable to the Parent Company, brought **profits before taxes** to Euro 257 million, an increase of Euro 49 million with respect to the corresponding period in the previous year (+23.6%).

Income taxes for the period came to Euro 115 million, for a tax rate of 45%, in line with the first quarter of 2013.

Hence, **net profit for the period** came to Euro 142 million, an increase of Euro 28 million (+24.6%), with respect to the 114 million seen in the first quarter of 2012.

Net invested capital of Euro 8,867 million is financed through **shareholders' equity** in the amount of Euro 2,943 million and through **net financial debt** in the amount of Euro 5,924 million.

€ million



The ***debt/equity*** ratio came out at 2.01.

Total investment by the Group for the period totalled Euro 206 million, a 16% decrease with respect to the Euro 246 million of the first quarter of 2012.

Significant events in the first quarter of 2013

Below are the main significant events of the first quarter 2013.

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 annual 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 controversies and the verification of conformity with severe economic, environmental and social performance criteria.

The 2013-2017 Strategic Plan for the Terna Group Approved

On **6 February 2013** the Board of Directors approved the Terna Group's Strategic Plan for the period 2013-2017. The guidelines include:

in the area of **core business**, Euro 4.1 billion will be invested in security and modernisation of the electrical grid over the next 5 years, 83% of which will be destined for the development of the National Transmission Grid; the increase in revenues and cost control will bring the EBITDA margin to exceed 80% at the end of the period. In addition a **solid financial structure** is confirmed: over the course of the Plan, the ratio between net debt and RAB will remain below 60%, for all years of the Plan. In reference to **non-core business,** the completion of the business model is envisaged. The Terna Group's strategy has allowed it to consolidate a pipeline of around Euro 400 million, developing activities in the areas of engineering, O&M and optic fibre housing, to which an additional potential 900 million may be added, which are currently not included in the plan forecast.

Finally, the new **dividends policy was confirmed:** a basic dividend for core business amounting to 19 Euro cents per share, in addition to the contribution of non-core business (payout of 60% on results and/or gains).

AEEG resolutions on pilot projects relating to storage systems

On **11 February 2013** the 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 (Ministry of Economic Development), 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 TIT. 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 Company received a prestigious award for the total shareholder return (TSR) that it achieved over 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

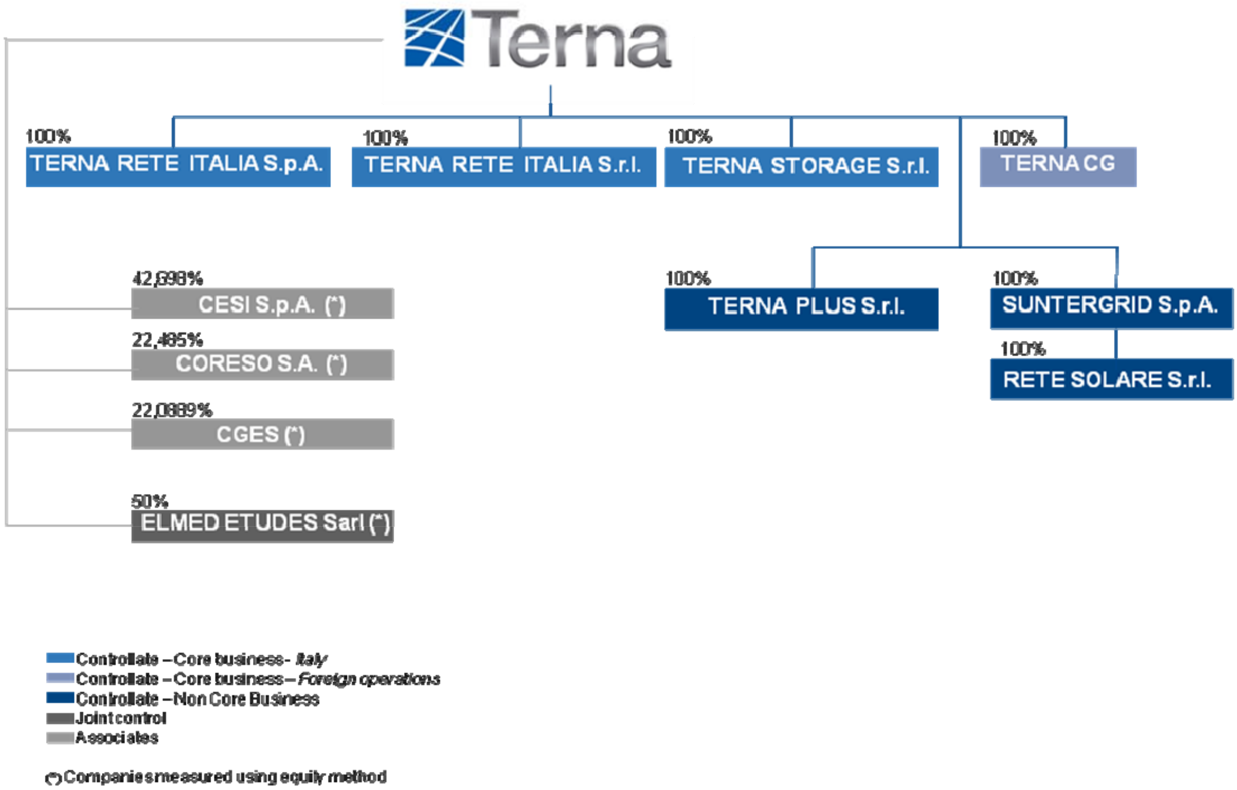
On **13 March 2013**, Fitch Ratings reduced the Long-Term Issuer Default Rating (IDR) and the Senior Unsecured Rating of Terna S.p.A. from "A" to"A-". The outlook assigned to the IDR remains negative.

Terna Group performance and financial position

In order to present the performance of the Terna Group and to analyse its financial position, financial schedules have been prepared, obtained by reclassifying the consolidated data of the income statement and statement of financial position (Appendix II). These reclassified tables, which are not audited by the auditing company, contain alternative performance indicators, which management considers useful for monitoring Group trends, and representative of the economic and financial results produced by the business. In line with CESR/05-178b recommendation, the criteria for constructing these indicators are described in the footnotes to the reclassified statements, which reconcile them with the schedules contained in the reclassified statements themselves.

Scope of consolidation

The structure of the Group at 31 March 2013 is as follows:



During the course of the first quarter of 2013, no events occurred which affected the Terna Group's consolidation area, which therefore mirrors the situation as at 31 December 2012.

Basis of presentation

The recording and measurement criteria applied in this Interim Financial Report are in compliance with those adopted for the Consolidated Financial Statements at 31 December 2012, with the exception of the obligatory application of new IAS 19 "*Employee benefits*".

Specifically, starting on 1 January 2013, the Terna Group has applied, retrospectively, the new *IAS 19 – Employee benefits*, which introduces changes to the recording and measurement of costs related to employee benefits and the associated disclosure requirements. The most important changes made in the new version of the principle to the Group's financial statements involve the elimination of the possibility to defer recognition of actuarial gains and losses by using the corridor approach, leading to the recording of the same in "Other components of comprehensive income."

Following this, some comparative balances for the year 2012 were adjusted to take into account the change in the accounting model described above. In particular, this restatement involved the booking at 31 December 2012 of greater liabilities for employee benefits of around Euro 9 million, greater assets for prepaid taxes of around Euro 3 million, and a decrease in equity of around Euro 6 million. The impact on the income statement for the first quarter of 2012 is, on the other hand, completely negligible.

Economic results

The reclassified income statements of the Terna Group for the first three months of years 2013 and 2012 are summarised in the statement below, obtained reclassifying the data presented in the consolidated income statements (Appendix II).

	1 January - 31 March			
€ million	2013	2012	Change	%
Revenue:				
- Grid transmission fees (1)	423	384	39	10.2%
- Other energy items (1)	34	33	1	3.0%
- Other operating revenue (2)	13	15	-2	-13.3%
Total revenue	**470**	**432**	**38**	**8.8%**
Operating costs:				
- Personnel expenses	53	52	1	1.9%
- Services and leases and rentals	28	33	-5	-15.2%
- Materials	3	3	0	0.0%
- Other costs	5	4	1	25.0%
Total operating costs	**89**	**92**	**-3**	**-3.3%**
EBITDA (gross operating profit)	**381**	**340**	**41**	**12.1%**
Amortisation and depreciation	**106**	**101**	**5**	**5.0%**
EBIT (operating profit)	**275**	**239**	**36**	**15.1%**
- Net financial income (expense) (3)	-18	-31	13	-41.9%
PROFIT BEFORE TAXES	**257**	**208**	**49**	**23.6%**
- Income taxes for the period	115	94	21	22.3%
NET PROFIT FOR THE PERIOD	**142**	**114**	**28**	**24.6%**
- Attributable to the owners of the Parent	*142*	*114*	*28*	*24.6%*

In the first three months of 2013, the Terna Group recorded **revenue** for Euro 470 million, attributable to the Parent Company for Euro 420 million and to the subsidiary Terna Rete Italia S.r.l. for Euro 47 million, an increase of Euro 38 million with respect to the previous year (+8.8%), mainly attributable to the performance of the **grid transmission fees (CTR),** which grew by Euro 39 million. This increase is attributable to the Parent Company for Euro +37 million (mainly due to the effects of the tariff review) and for Euro +2 million to the subsidiary Terna Rete Italia S.r.l. (compared to Euro 44 million recorded in the first three months of 2012) for the units of NTG owned.

The CTR aimed at the remuneration of the Defence Plan recorded an increase of Euro 4 million with respect to the same period of the previous year.

The results seen in the first quarter of 2013 for **non-regulated activities** carried out by the Group, equal to Euro 9 million, fell within the category of "Other operating revenue."

In the consolidated income statement (Appendix II):

(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" (€ 5 million) and "Other revenue and income" (€ 8 million);

(3) corresponds to the total of the items presented in points 1, 2 and 3 of letter C - “Financial income/expense”.

In the first three months of 2013 **operating costs**, amounting to Euro 89 million, were mainly generated by the Parent Company (Euro 26 million) and by the subsidiary Terna Rete Italia S.p.A. (Euro 61 million), recorded a decline of Euro 3 million, mainly due to decreased costs for external resources.

EBITDA (gross operating margin) for the period came out at Euro 381 million, an increase of Euro 41 million compared with the Euro 340 million of the first three months of 2012 (+12.1%).

The increase in revenue and the modest reduction in costs were reflected in the ***EBITDA margin*** which went from 78.7% in the first three months of 2012 to 81.1% in the corresponding period of 2013.

Amortisation and depreciation in the period grew by Euro 5.0 million compared with the same period of financial year 2012, owing essentially to the commissioning of new plants.

EBIT (operating profit), after deducting amortisation and depreciation of Euro 106 million (of which 94 million of the Parent Company and 12 million of the subsidiary Terna Rete Italia S.r.l.), came out at Euro 275 million, up by Euro 36 million (+15.1%) compared with the first three months of 2012.

Net financial expense for the period, equal to Euro 18 million, mainly attributable to the Parent Company (Euro 17 million), shows a reduction of Euro 13 million, with respect to the Euro 31 million for the same period in 2012, mainly due to the effects of the reduction in interest rates which more than compensated for expense related to greater net debt. In this area, the positive effect deriving from the equity valuation of the associates was also seen (Euro +2 million).

After deducting net financial expenses, **profit before taxes** came out at Euro 257 million, up by Euro 49 million compared with the corresponding period of the previous year (+23.6%).

Income taxes charged to the period were Euro 115 million, up Euro 21 million (+22.3%) compared with the same period of the previous year, essentially due to the effects of the greater before tax profit.

The tax rate for the period is equal to 45.0%, in line with the figure for the first three months of 2012.

Hence, **net profit for the period** came to Euro 142 million, an increase of Euro 28 million (+24.6%), with respect to the 114 million seen in the first quarter of 2012.

Equity results

Reclassified consolidated statements of financial position of the Terna Group at 31 March 2013, and 31 December 2012, are presented below. They have been obtained by reclassifying the data given on the Consolidated equity-financial position (Appendix II).

€ million	at 31.03.2013	at 31.12.2012	Change
Net non-current assets			
- Intangible assets and goodwill	464	471	(7)
- Property, plant and equipment	9,448	9,342	106
- Financial assets (1)	84	81	3
Total	**9,996**	**9,894**	**102**
Net working capital			
- Trade receivables (2)	729	744	(15)
- Inventories	7	7	-
- Other assets (3)	51	32	19
- Trade payables (4)	575	712	(137)
- Payables for pass-through energy items, net (5)	273	440	(167)
- Net tax liabilities (6)	237	36	201
- Other liabilities (7)	356	366	(10)
Total	**(654)**	**(771)**	**117**
Gross invested capital	**9,342**	**9,123**	**219**
Sundry provisions (8)	475	480	-5
NET INVESTED CAPITAL	**8,867**	**8,643**	**224**
Equity attributable to owners of the Parent	**2,943**	**2,788**	**155**
Net financial debt (9)	**5,924**	**5,855**	**69**
TOTAL	**8,867**	**8,643**	**224**

In the Consolidated Statement of Financial Position (Appendix II) they correspond to:

(1) the items "Equity-accounted investees" and "Other non-current assets":
(2) the item "Trade receivables" net of the receivables for energy-related pass-through revenues (Euro 928 million);
(3) the item "Other current assets" net of other tax assets (Euro 15 million) and the item "Current financial assets";
(4) the item “Trade payables” net of the payable for energy-related pass-through costs (Euro 1,201 million);
(5) the items “Trade receivables” for energy-related pass-through revenue receivable (Euro 928 million) and “Trade payables” for energy-related pass-through costs payable (Euro 1,201 million);
(6) the items “Income tax assets”, “Other current assets” for the value of other tax receivables (Euro 15 million), “Other current liabilities” for the value of other tax payables (Euro 47 million) and “Income tax liabilities”;
(7) the items “Other non-current liabilities”, “Current financial liabilities” and “Other current liabilities” net of other tax liabilities (Euro 185 million);
(8) the items “Employee benefits”, “Provisions for risks and charges” and “Deferred tax liabilities”;
(9) the items “Long-term loans”, “Current portion of long-term loans”, "Non-current financial liabilities", “Cash and cash equivalents”, “Non-current financial assets”.

The increase in **net non-current assets** equal to Euro 102 million with respect to the figures at 31 December 2012, is mainly attributable to the item **property, plant and equipment** (equal to Euro +106 million) due to the joint effect of:

- investments of Euro 199 million, of which 195 million for core business and 4 million for non-core business;
- amortisation for the year equal to Euro 92 million.

Intangible assets and goodwill recorded a reduction of Euro 7 million attributable to ordinary changes in intangible assets for investments equal to Euro 7 million (of which Euro 5 million in dispatching infrastructure), net of the depreciation and amortisation for the period of Euro 14 million (of which Euro 8 million relative to the depreciation and amortisation of the dispatching infrastructure and Euro 1 million relative to the depreciation and amortisation of the concession).

Total investment made by the Group in the first quarter of 2013 totalled Euro 206 million, a decrease of 16% with respect to the 246 million of the corresponding period in 2012, which was particularly affected by the activities carried out for Sorgente-Rizziconi.

Financial assets recorded an increase of Euro 3 million, essentially attributable to the change in Terna S.p.A.'s stake in the associates CESI and CGES seen in equity as of 31 March 2013.

Net working capital amounted to Euro -654 million and during the course of the quarter generated lower liquidity to the amount of Euro 117 million, owing essentially to the combined effect of:

- the reduction in trade payables totalling Euro 137 million, of which Euro 131 million attributable to the subsidiary Terna Rete Italia S.p.A., mainly due to the acquisitions and services related to the greater investment activity which was established in the last period of 2012;
- the decrease in net pass-through energy payables (Euro 167 million), originating with the electricity dispatching activities carried out by the Parent Company, mainly deriving from the joint effects of:
  - minor net debts generated from the reduction in quantities and imbalance assessment prices (Euro -128 million);
  - decrease in net debt deriving from virtual interconnection activities (Euro -40 million);
- increase in net tax debts (Euro 201 million) mainly attributable to the recording of income taxes for the period (Euro 128 million), as well as the greater net debt for VAT (Euro 75 million).

Gross invested capital therefore amounts to Euro 9,342 million, with an increase of Euro 219 million with respect to the previous year.

Sundry provisions record a decrease of Euro 5 million, mainly attributable to the Net deferred tax provision for the use of previous provisions by the parent company Terna and the subsidiary Terna Rete Italia S.r.l. in reference to additional amortisation and depreciation with respect to the economic/technical rates (Euro 10 million and Euro 2 million, respectively) and for the use of prepaid taxes for Euro 7 million, relative to the fair value valuation associated with the Parent Company's cash flow hedge.

Net invested capital amounted to Euro 8,867 million, an increase of Euro 224 million compared with 31 December 2012 and is financed by Group equity for Euro 2,943 million (compared with Euro 2,788 million at 31 December 2012) and by *net financial indebtedness* for Euro 5,924 million (Euro +69 million, with respect to 5,855 million in net financial indebtedness at 31 December 2012).

At 31 March 2013, the ***debt/equity*** ratio therefore came out at 2.01.

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

The reconciliation of consolidated equity and profit for the period and the corresponding figures for the Parent Company for the first quarter of 2013 is shown in the following table:

€ million	**Net profit Q1 2013**	**Equity at 31.03.2013**
Financial Statements of the Parent Company	**125**	**2,735**
Results and equity contributed by Terna Rete Italia S.r.l. and Terna Rete Italia S.p.A.	15	130
Results and equity of the other Group subsidiaries	(1)	54
Equity-accounted investees	3	24
Terna Group Consolidated financial statements	**142**	**2,943**

Cash flows

Net financial debt

The Group's net financial debt at 31 March 2013 (Euro 5,924 million) is broken down in the table below. The figures given are taken from the consolidated statement of financial position (Appendix II) through specific reconciliation notes at the foot of the table.

€ million	31.03.2013	31.12.2012	Change
Net financial debt from continuing operations			
A. Medium- and long-term debt			
- Bond (1)	6,494	6,544	(50)
- Floating-rate loans (1)	2,348	2,366	(18)
- Derivative financial instruments (2)	(584)	(614)	30
Total	**8,258**	**8,296**	**(38)**
B. Short-term debt (liquidity):			
- Floating-rate loans (current portions) (3)	79	69	10
- Cash and cash equivalents	(2,413)	(2,510)	97
Total	**(2,334)**	**(2,441)**	**107**
Total net financial debt	**5,924**	**5,855**	**69**

During the first quarter of financial year 2013 net financial debt increased by Euro 69 million owing mainly to the combined effect of:

- decrease in bonds (Euro 50 million) due to the effect of the adjusting financial instruments to fair value (Euro -52 million, including the issue discount) and capitalising inflation for the period (Euro +2 million);
- repayment of EIB loan instalments due for Euro 8 million;
- decrease of the net balance of derivative financial instruments (Euro 30 million), mainly due to the increase in the reference interest rate curve compared to December 2012, which is reflected, in particular, in the change in the fair value hedges of bonds in the amount of Euro -48 million, net of the effect of the change in cash flow hedges of floating rate debt for Euro +18 million;
- decrease in cash and cash equivalents (Euro 97 million).

In the Consolidated Statement of Financial Position (Appendix II):
(1) the balance corresponds to the item "Long-term loans";
(2) the balance corresponds to the item "Non-current financial liabilities" and the item "Non-current financial assets";
(3) the balance corresponds to the item "Current portion of long-term loans".

Statement of cash flow

The consolidated *cash flow* for the first quarter of 2012 and 2011 is presented in the statement below:

€ million	*Cash flow* first 3 months 2013	*Cash flow* first 3 months 2012
Opening cash and cash equivalents	**2,510**	**1,115**
- Net profit for the period	142	114
- Amortisation and depreciation	106	101
- Net change in provisions	(5)	(14)
- Net losses (gains) on asset disposals	-	(1)
Operating Cash flow	**243**	**200**
- Change in net working capital	(117)	(103)
Cash flow from operating activities	**126**	**97**
Investments		
- Total investments	(206)	(246)
- Other changes in non-current assets	1	2
- Change in equity investments	(3)	(1)
Total cash flow generated by/(used in) investing activities	**(208)**	**(245)**
- Change in loans	(28)	1,395
- Other changes in equity attributable to owners of the Parent	13	(2)
Total cash flow generated by/(used in) financing activities	**(15)**	**1,393**
Total cash flow for the period	**(97)**	**1,245**
Closing cash and cash equivalents	**2,413**	**2,360**

The cash flow provided by operating activities during the period came to approximately Euro 126 millions and can be attributed to operating cash flow (Euro 243 million), which more than compensated for the financial resources (Euro 117 million) used by net working capital.

As far as **operating cash flow** is concerned, note the effect of the profit for the period of Euro 142 million, before amortisation and depreciation for the period of Euro 106 million, reduced by the net decrease in provisions of Euro 5 million, ascribable mainly to the change in provisions for net deferred tax liabilities, described previously.

The change in **net working capital**, of Euro -117 million, is mostly attributable to the reduction in net trade payables and net debts regarding pass-through energy-related economic items, compensated for by the increase in net tax liabilities.

Investing activities used financial resources of approximately Euro 206 million, mostly referable to investments made during the quarter in property, plant and equipment (Euro 199 million) and intangible assets (Euro 7 million) attributable to the Parent Company for a total of Euro 187 million. In this context, note also the adjustment of the stake of equity at 31 March 2013 of the investments in Group associates (Euro 3 million).

The **changes in equity** of the Group refer to the fair value valuation of the derivative instruments hedging CFH floating-rate debt, net of the relative tax effect, for the Parent Company (Euro +12 million), as well as the booking of the actuarial profit for employee benefits accruing to the quarter (Euro +1 million).

Taking into account the changes in equity described above, during the course of the quarter the financial demands needed for investment activity were covered in part by liquidity generated by operating activities

(Euro 126 million) and, for the rest, through net use of cash and cash equivalents at the end of 2012 (net financial debt equal to Euro +69 million).

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

€ million	***Cash flow* 31.03.2013**	**Reconciliation of financial statements**	***Cash flow* 31.03.2012**	**Reconciliation of financial statements**
Opening cash and cash equivalents	**2,510**		**1,115**	
- Net profit for the period	142		114	
- Amortisation and depreciation	106		101	
- Net change in provisions	(5)		(14)	
Employee benefits		*-*		*1*
Provisions for risks and charges		*-*		*(2)*
Deferred tax liabilities		*(5)*		*(13)*
- Net losses (gains) on asset disposals	-		(1)	
Operating Cash flow	**243**		**200**	
- Change in net working capital:	(117)		(103)	
Inventories		*-*		*9*
Trade receivables		*227*		*(43)*
Current financial assets		*(12)*		*-*
Other current assets		*27*		*(7)*
Trade payables		*(516)*		*(235)*
Tax liabilities		*128*		*105*
Current financial liabilities		*(39)*		*11*
Other liabilities		*68*		*57*
Cash flow from operating activities	**126**		**97**	
Investments				
- Total investments	(206)		(246)	
Property, plant and equipment		*(199)*		*(238)*
Intangible assets		*(7)*		*(8)*
- Other changes in non-current assets	(2)		1	
Property, plant and equipment		*1*		*2*
Equity-accounted investees		*(3)*		*(1)*
Total cash flow generated by/(used in) investing activities	**(208)**		**(245)**	
- Change in loans	(28)		1,395	
Non-current financial assets		*48*		*(25)*
Current financial assets		*-*		*150*
Non-current financial liabilities		*(18)*		*4*
Long-term loans		*(68)*		*1,266*
Current portion of long-term loans		*10*		*-*
- Other changes in equity attributable to owners of the Parent	13		(2)	
Equity attributable to owners of the Parent - Share capital, Other reserves and retained earnings		*13*		*(2)*
Total cash flow generated by/(used in) financing activities	**(15)**		**1,393**	
Total cash flow for the period	**(97)**		**1,245**	
Closing cash and cash equivalents	**2,413**		**2,360**	

Related party transactions

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

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

and with ANAS S.p.A.

Related party transactions carried out in the first quarter of 2013 consisted substantially of services under the scope of ordinary business and settled at market terms, as is described in greater detail in the Consolidated and Separate 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.

Remember that, in the context of the Corporate Governance rules which the Parent Company established for itself and detailed in the specific report published jointly in the 2012 Financial Report, to which the reader is referred, the conditions to ensure that related party transactions are carried out in respect of the criteria of procedural and substantial correctness and under the same conditions that would be applied to independent counterparties were envisaged, above all in the light of the new "Procedure for Related Party Transactions" adopted at the end of 2010 by the Parent Company, in execution of CONSOB Resolution 17221 of 12 March 2010, subsequently amended with Resolution 17389 of 23 June 2010, which issued "Regulations on related party transactions."

We can note that, during the first quarter of 2013, no significant transactions, that is to say related party transactions identified in compliance with the provisions of Annex 3 to the Regulation, 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 also note that in accordance with new regulations introduced by CONSOB Resolution No. 18049 of 23 December 2011 published in the Italian Official Journal No. 303 of 30 December 2011 and in force as from 31 December 2011, the disclosure on fees relating to “members of the administrative and auditing bodies, general managers” and other “executives with strategic responsibilities” and on the equity interests held by the same, was included in the annual remuneration report published at the same time as the 2012 Financial Report of Terna and of the Terna Group.

National Transmission Grid

Number of plants

The number of plants of the parent company Terna with respect to the situation at 31 December 2012 increased as a whole during the course of the first quarter 2013 by 1 station, 7 bays and 2 three-phase circuits for a total of 1.5 km. Below are the main changes:

Stations

- activation of the new Arlena station (4 150 kV bays);
- activation of 3 bays in the stations of Ponte (1 220 kV bay), Castelnuovo (1 150 kV bay) and Cardano (1 132 kV bay);
- upgrading of 1 220/132 kV transformer from 160 to 250 MVA, in the Salgareda station.

Long-distance power lines

- activation of 2 short connections between Terna stations and RFI lines;
- execution of 2 incoming/outgoing derivations on the same number of 132 kV lines, operating with a total increase equal to the same number of three-phase circuits and at 0.3 km;
- implementation of modifications, rigid derivations and/or changes in the line with a total increase of 1.0 km of the three-phase circuit.

The number and dimensions of the assets of the subsidiary Terna Rete Italia S.r.l. at 31 March 2013 reduced by one three-phase circuit compared with the situation at 31 December 2012, for a total of 1.4 km.

Investments

During the first quarter of 2013 the Terna Group carried out the following investments:

Terna Group investments	*€ million*
Investments	
- Transmission lines	104
- Transformation stations	52
- Other	43
Total investments in property, plant and equipment	***199***
Total investments in intangible assets	***7***
Total investment	**206**

Among the main achievements seen in January-March 2013, note the following:

- the progress of the work related to Sorgente-Rizziconi (Euro 24 million): the laying of both the submarine cables and optic fibre cables was completed; the works to protect the second group of cables is under way, while the excavation activities for the Scilla side well and the gallery on the sea side of Favazzina are continuing. Specifically, relative to the power stations, at Scilla (Calabria) the work and activities of the second stage regarding the 150 kV section are almost complete. At Sorgente (Sicily), the installation of the ATR, the reactors and the new armoured 380 kV is complete, while the remote assembly of the equipment is under way; slowing was seen for the work at the Villafranca station due to issues with landslides and mudslides which led to a technical review of the project, while activities to set up and arrange the site continue and materials have been acquired and the tenders for the work completed;

- the continuation of the work to complete the Trino-Lacchiarella project (Euro 16 million): in this first quarter two of the changes to the existing interfering power lines were completed and the foundations of the six "Rosental" supports that will be installed on the power line were completed;
- the completion of the new Foggia-Benevento power line (Euro 16 million): the establishment of the foundations is under way, as well as the bases and upper parts of the supports;
- the continuation of the work to complete the new connection between Dolo and Camin (Euro 7 million): executive design and materials acquisition activities are under way for the power stations of Fusina, Malcontenta and Romea and the acquisition of areas so as to be able to open the worksites within the year.

The item "Other" also includes the acquisition of optic fibre from Wind (Euro 30 million) and the completion of the restructuring of the sites in Cagliari and Florence (Euro 1 million).

Energy trend in Italy

Electricity demand in the first quarter 2013

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

	1 January - 31 March (*)			
	2013	**2012**	**Change**	**%**
Production				
Hydroelectric	9,714	6,863	2,851	41.5%
Thermoelectric	49,444	57,406	(7,962)	(13.9%)
Geothermoelectric	1,273	1,305	(32)	(2.5%)
Wind and photovoltaic	8,419	7,150	1,269	17.7%
Net generation	**68,850**	**72,724**	**(3,874)**	**(5.3%)**
Imported	12,458	12,384	74	0.6%
Exported	373	696	(323)	(46.4%)
Export balance	**12,085**	**11,688**	**397**	**3.4%**
Pumping consumption	511	681	(170)	(25.0%)
Electricity demand	**80,424**	**83,731**	**(3,307)**	**(3.9%)**

** Provisional data*

In the first three months of 2013, net production (68,850 GWh) was 5.3% lower than the same period in 2012: the foreign balance saw an increase of 3.4%. Demand for electricity during the period slowed by 3.9%. Adjusting for calendar and temperature effects, the variation in demand becomes -2.9%.

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, and RSE S.p.A. (Ricerca Sistema Energetico) and CESI S.p.A., a specialised service company in which it has a 42.698% equity interest. In particular, in the first quarter of 2013 the Terna Group incurred costs of Euro 2 million in respect of the associate CESI, entirely 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.

Research for innovation and development of new engineering solutions can be divided into four main areas, described in detail in the context of the report on operations found in the 2012 annual report of Terna and the Terna Group to which the reader is referred:

- optimisation of structures and materials;
- equipment diagnostics;
- new equipment;
- plant safety.

Human resources

At the end of the period, Group employees numbered 3,468, up 32 compared with 31 December 2012. Details of the changes in the number of Terna Group employees at 31 March 2013 are shown below:

Change in the workforce	at 31.03.2013	at 31.12.2012	Change
Executives	61	59	2
Junior management	509	502	7
Office staff**	1,941	1,928	13
Production workers	957	947	10
Total	**3,468**	**3,436**	**32**

** The figures, for both periods of reference, do not include retirements with effect from 31 March 2013 and 31 December 2012, respectively.*
*** Includes the office staff of Terna Crna Gora with local contracts (Montenegro).*

The table below provides details for the company regarding the number of staff at the end of the quarter:

At 31.03.2013	Terna S.p.A.	Terna Rete Italia S.p.A.	Terna Plus S.r.l.	Terna Crna Gora d.o.o.	Total Group
Executives	23	36	2	–	61
Junior management	133	370	6	–	509
Office staff	183	1,749	5	4*	1,941
Production workers	–	957	–	–	957
TOTAL	**339**	**3,112**	**13**	**4**	**3,468**

**Local employees*

Significant events subsequent to 31 March 2013

At the reference date of the present Interim Financial Report we can note no significant events subsequent to 31 March 2013.

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

The executive in charge of the preparation of the company's accounting documents, Luciano di Bacco, in accordance with Art. 154-*bis*, paragraph 2 of the Consolidated Law on Finance, declares that the accounting disclosure given in this Consolidated Interim Report on Operations at 31 March 2013 is coherent with the documents, books and accounts.

Appendix I

Italy's Regulatory Framework

Regulatory framework

Below is a brief description of the main regulatory measures issued in the first quarter of 2013 that affect the Company.

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 of 3 January 2013.

The decree makes provisions regarding the transport capacity that can be assigned for 2013, taking into account international agreements, confirming the methods of dividing profits from the assignment of transport capacity on interconnections. It also envisages that “*Terna promotes agreements with the managers of foreign grids for shared investment programs able, over the medium term, to overcome current border congestion and, in the lack of said programs, acts to complete agreements with the managers of foreign grids”,* in relation to the assignment of transport capacity on interconnections.

Italian Decree of 9 November 2012 "Approval of the three-year research plan for the national electrical system for 2012-2014 and the 2012 Annual operating plan," published in the Official Journal of 30 January 2013.

The decree identifies the areas of priority for actions for the 2012-2014 Three-year plan and the associated resources, for a total of Euro 221 million. In application of the Annual operating plan, research activities in the amount of Euro 62 million are entrusted through the instrument of program agreements.

Italian Law no. 10 of 14 January 2013, “Regulations for the development of green urban areas," published in the Italian Official Journal of 1 February 2013.

The law establishes regulations to protect arboreal assets and governs the methods for signing sponsorship contracts and cooperative agreements for initiatives aimed at favouring the absorption of carbon dioxide emissions.

Italian Decree of 8 March 2013, containing the approval of the National Energy Strategy.

With this inter-ministerial decree of 8 March 2013, the Ministry of economic development and the Ministry of the environment and protection of the territory and the sea approved the National Energy Strategy. The document establishes some energy policy objectives, such as aligning energy costs to European ones by 2020. In this light, it is affirmed that one of the priorities is the development of infrastructure and the electricity market.

In regards to equal opportunity: **Italian Presidential Decree 251 of 30 November 2012, "Regulations concerning equal access to corporate administrative and control bodies, controlled by public administrations, pursuant to article 2359, first and second paragraphs, of the Civil Code, not listed**

on regulated markets, in implementation of article 3, paragraph 2, of Law 120 of 12 July 2011," published in the Italian Official Journal of 28 January 2013.

The Decree implements article 3 of Law 120/11 on equal access between the genders to corporate administrative and control bodies, dictating the regulations to be applied to non-listed companies that are under direct or indirect public control. Said companies are held to envisage in their articles of association that the appointment of administration and control bodies "*is carried out using methods so as to guarantee that the less-represented gender represents at least a third of the components of each body*".

The companies must ensure respect for the composition of the corporate bodies, if established in a collegial form, in accordance with the criteria described above, also in the case of replacement, for three consecutive terms starting from the first renewal following the date the regulation entered into effect. Solely for the first term, the percentage reserved for the less-represented gender is equal to a fifth of the number of components of the body.

Resolutions of the Authority for Electricity and Gas

Resolution 28/2013/R/eel

With this provision, which updates Title 6 of Attachment A to Resolution ARG/elt 197/11 regarding service quality ("*Availability of the elements constituting the NTG*") which follows the consultation document 256/2012/R/eel, the Authority introduced some indicators aimed at providing information about Terna's efficiency and effectiveness in scheduling maintenance activities and its speed in repairing the elements which constitute the MTG, in order to reflect the effective status of the transmission service's reliability and security.
With this provision, the Authority envisages that, as of 1 January 2014, Terna establish records of the indicators relative to the unavailability/availability of the elements which constitute the NTG, the average repair time for serious malfunctions/anomalies of the same elements, and the radial structures following serious malfunctions/anomalies. In addition, to that end specific disclosure obligations are established in regards to the Authority, as well as obligations to publish on Terna's website.

Resolution 34/2013 R/EEL

With this provision, containing *"Updates to the Integrated Settlement Rules (TIS)"*, the Authority restored the transitional provisions pursuant to paragraphs 72.3 and 72.4 of Resolution 111/06, regarding the time frames for the regulation of the dispatching payments pursuant to articles 38 and 44 of the same Resolution, for the entire 2013 year. In addition, the provision makes some formal changes to implement the changes already envisaged in other resolutions regarding, among other things, the compensatory adjustment payments and the rationalisation and standardisation of informational flows between electricity distributors and sellers regarding measurement figures at withdrawal points.

Resolution 40/2013/R/eel

The provision determines the development projects for the National Transmission Grid to be included in the I=3 type pursuant to paragraph 22.5, letter c) of the TIT, as well as the objectives and milestones given relative to each project for the application of the acceleration incentive mechanism for investments in the 2012-2015 period. In addition, the Resolution amends the conditions that allow postponing of milestones and objectives given for projects not yet authorised - envisaged that said postponing is allowed when the delay is the consequence of a lengthening of the authorisation process or due to provisions that could not be foreseen deriving from the same, and when this delay is due to causes which are objectively outside of Terna's control - and envisages the establishment of a mechanism to monitor the progress of development projects on the NTG, the achievement of the associated milestones, and the associated costs suffered.

Resolution 46/2013/R/EEL

With this provision, the Authority positively verified the changes to the Grid Code proposed by Terna regarding the articulation of offers in the Market for Dispatching Services, including the extension of the turbogas plant switch-on offer, the introduction of structure change offers and some technical figures and the change in the algorithm used to calculate the payment for not respecting switch-on orders. In addition, the Authority established that Terna act to amend the Grid Code, in order to allow for the definition of technical figures for enabled units and the management of changes in said figures.

Resolution 69/2013/ R/eel

With this provision, the Authority amended the regulations for the instantaneous withdrawal reduction service for the 2013-2015 three year period (known as "super-interruptibility"), in order to take into account the changes made to article 34, paragraph 1 at the time that Decree Law 179/10 was converted to law. On the basis of this provision, the Authority established that Terna act to assign the power that is found to not be contracted for any reason on a monthly basis, rather than the currently envisaged quarterly basis, for the entire period from the first useful month following the assignment to 31 December 2015. In the light of said change, Terna is required to send the Authority a new Regulation and Standard Contract proposal.

Resolution 96/2013/A

With this provision, the Authority established the adoption of specific measures to simplify and rationalise the informational obligations envisaged in the Authority's regulations and the beginning of a procedure to adopt the guidelines necessary to measure the administrative burdens under the responsibility of the subjects regulated.

Resolution 129/2013/I/eel

With this provision, containing "*Monitoring the development of distributed generation systems in Italy for the year 2011*", the annual report on the monitoring of the development of distributed generation systems for the year 2011 was approved, on the basis of the information sent by Terna. Specifically, the report highlights the extension status of distributed generation (GD) and small generation (PG) in Italy relative to the year 2011. In addition, the report indicates the regulatory framework of interest for distributed generation. The Authority notes that new projects are necessary in order to promote the integration of GD plants into the electrical system, so that their penetration can grow in a sustainable way over time, guaranteeing the security of the same electrical system. Finally, the Authority confirms the importance of the issue connected to the rationalisation of information flows through the Gaudì system.

Resolution 531/2012/R/eel and Resolution 142/2013 /R/eel – Terna certification

With Resolution 142/2013 /R/eel, containing "*Certification of Terna S.p.A. as the manager of the electricity transmission grid under separate ownership, following the opinion from the European Commission of 11 February 2013 C(2013) 810 final*", the Authority completed the process to certify Terna, adopting a final certification decision according to the ownership unbundling grid manager model, pursuant to article 9, paragraph 1, of Directive 2009/72/EC and article 36 of Legislative Decree 93/11. In addition, in the provision other provisions regarding Terna are envisaged, already partially noted in the preliminary certification decision pursuant to Resolution 531/2012/R/eel, relative, in particular, to certain changes in the articles of association and the agreements in existence with the owners of portions of the national transmission grid.

Appendix II

Consolidated financial statements

This Appendix gives the accounting statements at 31 March 2013 of the Terna Group, prepared in accordance with IFRS-EU. These statements are not intended to represent the disclosure of the economic, equity and financial position of the Group in compliance with IAS 34.

Consolidated Group - TERNA INCOME STATEMENT *€ million*	First 3 months 2013	First 3 months 2012
A REVENUE		
1 Revenue from sales and services	462	423
2 Other revenue and income	8	9
Total revenue	**470**	**432**
B OPERATING COSTS		
1 Raw materials and consumables	3	3
2 Services	28	33
3 Personnel expenses	53	52
- gross personnel expenses	*69*	*69*
- gross personnel expenses, capitalised	*-16*	*-17*
4 Amortisation, depreciation and impairment	106	101
5 Other operating costs	5	4
Total costs	**195**	**193**
A-B Operating profit (EBIT)	**275**	**239**
C Financial income/expense		
1 Financial income	23	15
2 Financial expense	-44	-47
3 Share of profit/(losses) of equity-accounted investees	3	1
D Profit before taxes	**257**	**208**
E Income taxes	115	94
F Profit for the period	**142**	**114**
Profit for the period attributable to the owners of the Parent	***142***	***114***
Earnings per share		
Basic earnings per share	0.071	0.057
Diluted earnings per share	0.071	0.057

Consolidated Group - TERNA STATEMENT OF COMPREHENSIVE INCOME *€ million*	First 3 months 2013	First 3 months 2012
Profit for the period	**142**	**114**
Other comprehensive income for the period		
- Cash flow hedges, net of tax effect	12	-2
- Actuarial gains (losses) for employee benefits	1	0
Comprehensive income for the period	**155**	**112**
Comprehensive income for the period attributable to:	**155**	**112**
Owners of the Parent	155	112

Consolidated Group - TERNA STATEMENT OF FINANCIAL POSITION ASSETS *€ million*	at 31.03.2013	at 31.12.2012	at 01.01.2012
A- Non-current assets			
1 Property, plant and equipment	9,448	9,342	8,618
2 Goodwill	190	190	190
3 Intangible assets	274	281	281
4 Equity-accounted investees	76	73	67
5 Non-current financial assets	707	755	522
6 Other non-current assets	8	8	7
Total non-current assets	**10,703**	**10,649**	**9,685**
B- Current assets			
1 Inventories	7	7	16
2 Trade receivables	1,657	1,884	1,690
3 Current financial assets	33	21	156
4 Cash and cash equivalents	2,413	2,510	1,115
5 Income tax assets	18	18	4
6 Other current assets	33	60	21
Total current assets	**4,161**	**4,500**	**3,002**
TOTAL ASSETS	**14,864**	**15,149**	**12,687**

Consolidated Group - TERNA STATEMENT OF FINANCIAL POSITION LIABILITIES *€ million*	at 31.03.2013	at 31.12.2012	at 01.01.2012
C- Equity attributable to the owners of the Parent			
1 Share capital	442	442	442
2 Other reserves	756	743	761
3 Retained earnings	1,281	1,280	1,263
4 Profits to be assigned	463	-	-
5 Interim dividend	-141	-141	-161
6 Profit for the period	142	464	440
Total equity attributable to the owners of the Parent	**2,943**	**2,788**	**2,745**
D- Non-current liabilities			
1 Long-term loans	8,842	8,910	6,739
2 Employee benefits	128	128	128
3 Provisions for risks and charges	167	167	194
4 Deferred tax liabilities	180	185	249
5 Non-current financial liabilities	123	141	111
6 Other non-current liabilities	134	135	137
Total non-current liabilities	**9,574**	**9,666**	**7,558**
E- Current liabilities			
1 Current portion of long-term loans	79	69	60
2 Trade payables	1,776	2,292	2,030
3 Tax liabilities	223	95	116
4 Current financial liabilities	37	76	40
5 Other current liabilities	232	163	138
Total current liabilities	**2,347**	**2,695**	**2,384**
TOTAL LIABILITIES AND EQUITY	**14,864**	**15,149**	**12,687**