Terna Group

Interim Financial Report

30 June 2013

Table of contents

Directors' interim report at 30 June 2013

Table of contents

Introduction

The Interim Financial Report of the Terna Group at 30 June 2013 has been prepared pursuant to Art. 154-*ter* of Italian Legislative Decree 58/98 introduced by Italian Legislative Decree No. 195 of 6 November 2007 (the "Transparency Decree"), as amended by Italian Legislative Decree No. 27 of 27 January 2010.

Terna and the financial markets

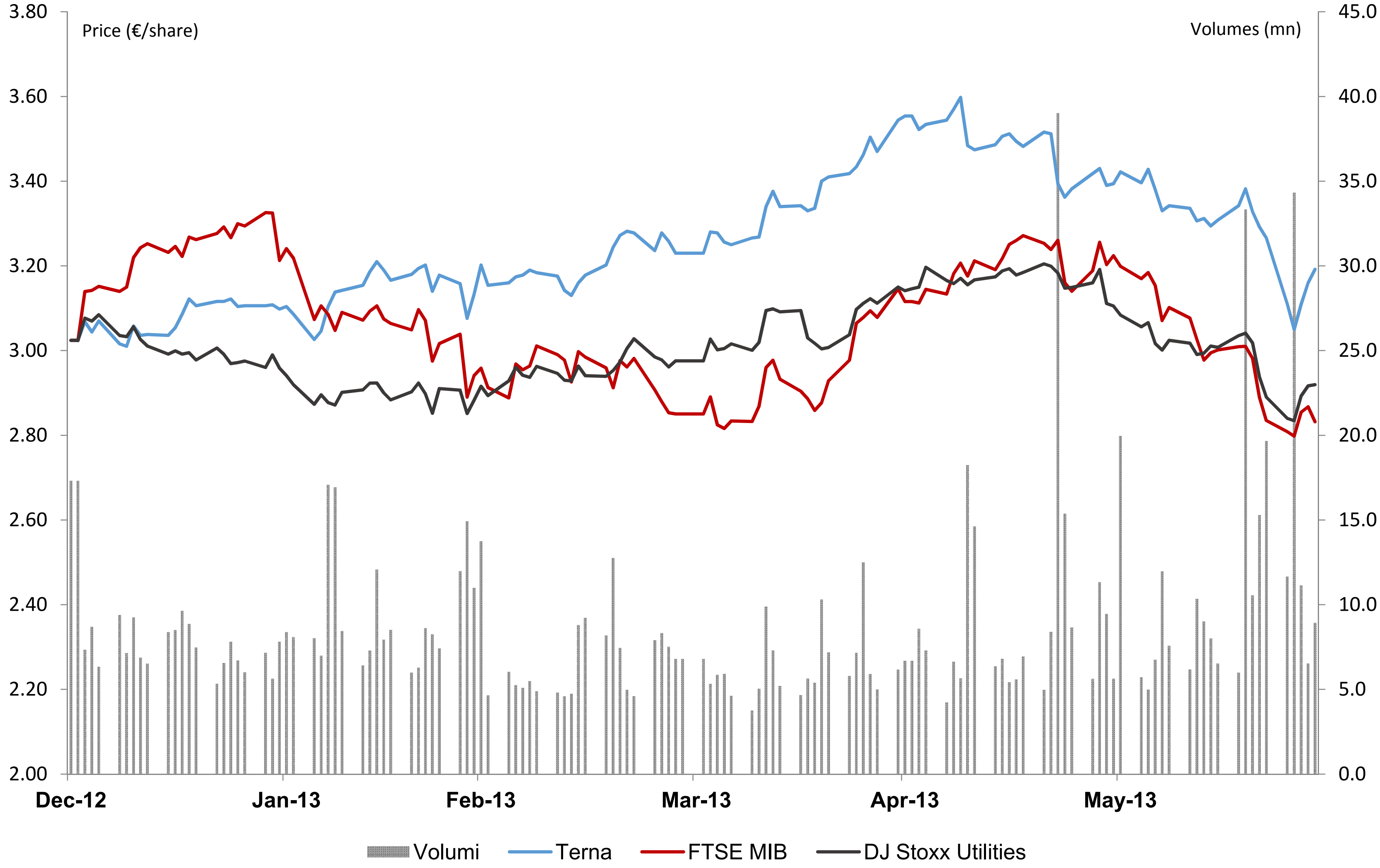
Financial indicators		**30 June 2013**
Proportion of Terna shares[(1)]		
> in the FTSE MIB index		2.56%
>in the FTSE Italia All Share index		2.15%
Ratings		
Standard & Poor's	Outlook	Negative
	M/L term	A-
	Short Term	A-2
Moody's	Outlook	Negative
	M/L term	Baa1
	Short Term	Prime-2
Fitch	Outlook	Negative
	M/L Term[(2)]	A-
	Short Term	F2

(1) Source: Bloomberg. Data at 30 June 2013.
(2) Issuer Default Rating

Performance of Terna stock

The first half of 2013 ended with positive performance for the main American and European stock markets.
In the United States, the agreement reached to avoid the implementation of restrictive measures for the economy and continuation of the Federal Reserve's expansive monetary policy (known as quantitative easing) supported industrial production, with positive impacts on internal consumption and on employment. In this context, the Dow Jones index reached record levels, recording a positive half-yearly performance of 14%.
In Europe, to counter the economic crisis, the European Central Bank lowered the cost of money by a quarter of a point (from 0.75% to 0.5%) and provided indications for maintaining a relaxed monetary policy.
In Italy, the fears of political instability and the difficult economic situation affected the trend of the FTSE-MIB index, which fell by 6.4% in the period. On the contrary, Terna rose 5.6%, and on 8 May reached a new record price of 3.60 €/share. In June, payment of the balance of the dividend accruing in 2012 (€ 13 cents per share), led to a Total Shareholder Return of 10%, better than the Italian market (FTSE-MIB -3.9%) and the European Utilities sector (DJ Utilities +0.9%). Since first listing (23 June 2004), the Terna stock has given its shareholders a gain of 87.8%, higher than that recorded by the FTSE-MIB index (-45.4%) and by the sector (DJ Utilities +1.9%). Total Shareholder Return, 230.6%, is better than the benchmark indexes (FTSE-MIB -20.5%; DJ Utilities +71.2%).

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



Source: Bloomberg. Data at 30 June 2013.

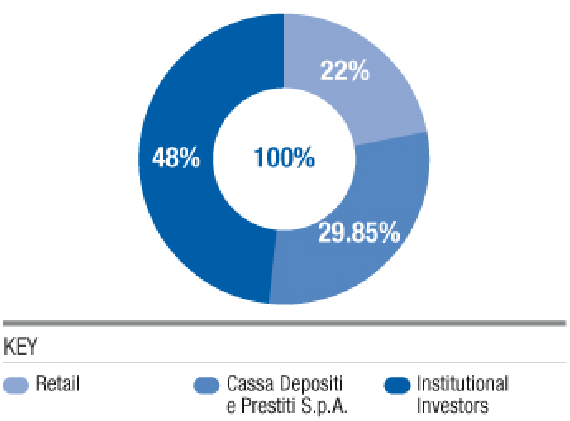
Ownership

At the date on which this report was prepared, the share capital of Terna S.p.A. amounted to € 442,198,240, represented by 2,009,992,000 ordinary shares with a par value € 0.22 each.

Based on the register of shareholders and other information available at the date of preparation of this report, the ownership of Terna S.p.A. is divided as follows:

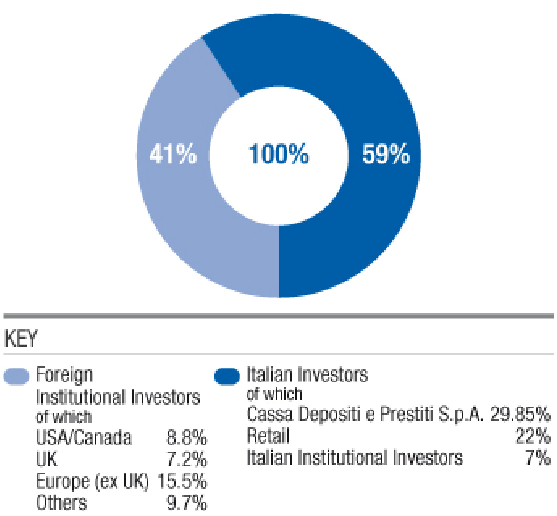
- Cassa Depositi e Prestiti S.p.A. (CdP)[1] 29.85%
- Institutional Investors 48%
- Retail 22%

SHAREHOLDING STRUCTURE BY TIPOLOGY



Based on periodic surveys carried out by the Company, it is believed that 59% of the shares of Terna S.p.A. are held by Italian Investors (CdP 29.85%, Retail Investors 22% and Institutional Investors 7%), with the remaining 41% being held by Foreign Institutional Investors, mainly European and American.

SHAREHOLDING STRUCTURE BY GEOGRAPHIC AREA



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

The Terna Business Model

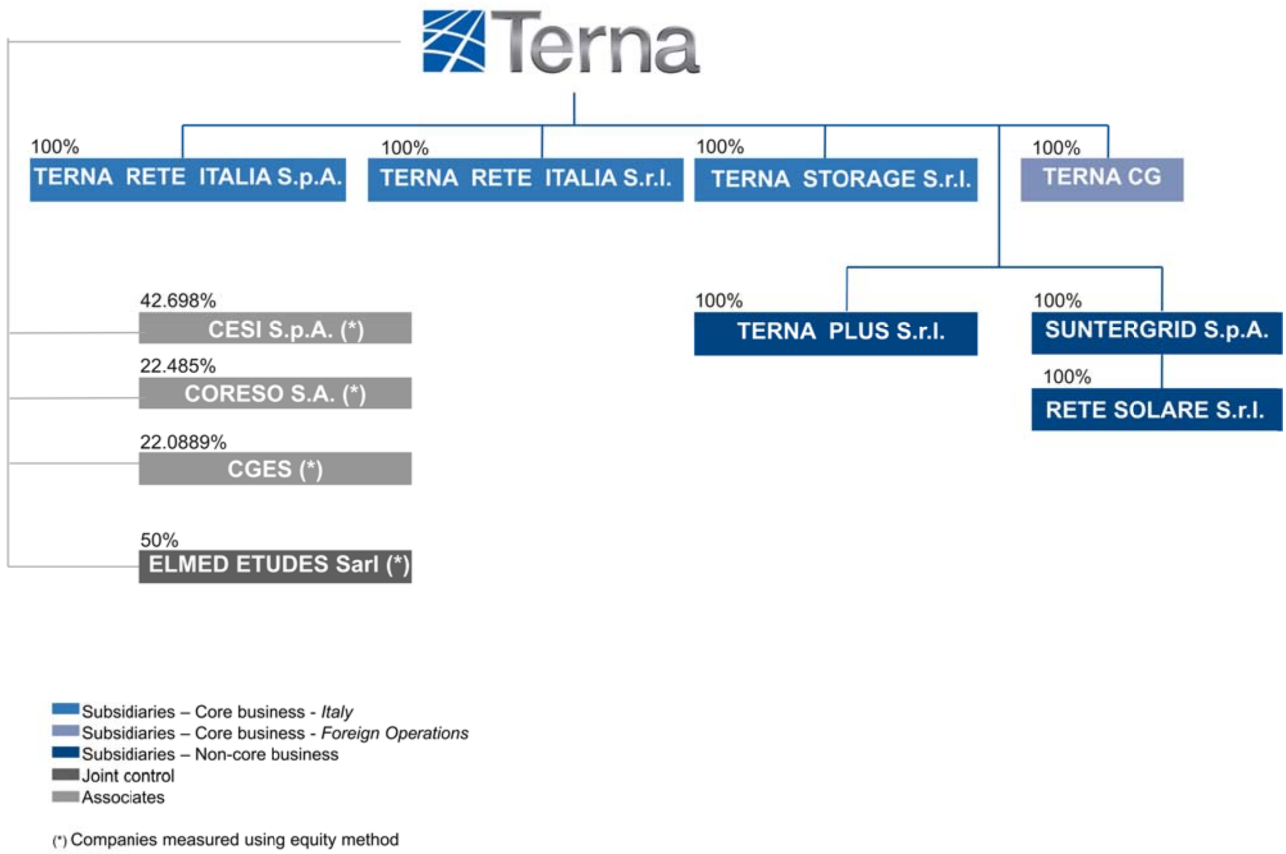
Terna is Europe's largest independent grid operator for electricity transmission (Transmission System Operator - TSO) and is sixth worldwide in terms of kilometres of lines managed.
The Terna Group owns the Italian National Transmission Grid (NTG) with more than 57,400 kilometres of high voltage lines (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.

The fundamental elements of Terna's mission are:

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

The Terna Group

The Group structure at 30 June 2013:



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

Core business: Terna's core business is mainly associated with **Regulated Activities**. Terna receives remuneration based on a tariff system set by the Authority for Electricity and Gas, in relation to the two important regulated activities it conducts in Italy: namely the transmission and dispatching of electricity, both in implementation of the concession granted by the Ministry of Economic Development.

Within this context, the Terna Group carries out these Regulated Activities for the transmission and dispatching of electrical energy (Core Business) on the National Transmission Grid through the Parent Company Terna S.p.A and the companies that are direct subsidiaries of the latter:

Italy

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

Foreign Operations

- Terna Crna Gora d.o.o.

Non-core business: Given its experience and the technical expertise it has acquired, the Terna Group also develops new activities and business opportunities on the free market (**Non-Regulated Activities**) through the companies that are directly and indirectly controlled by the Parent Company Terna S.p.A.:

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

2013-2017 Strategic Plan

On **6 February 2013**, the Board of Directors approved the Terna Group's Strategic Plan for the period 2013-2017; these are the guidelines:

- **core business:** in the next 5 years € 4.1 billion will be invested for the security and modernisation of the electricity grid, 83% of which will be destined for development of the National Transmission Grid;
- **non-core business:** perfection of the business model will continue. The Terna Group's strategy made it possible to consolidate a pipeline of approximately € 400 million, developing activities in the fields of engineering, O&M and fibre optic housing, to which could be added an additional potential 900 million, currently not included in the Plan forecasts;
- **improved margins (EBITDA margin):** the increase in revenues and cost control are expected to enable us to obtain an EBITDA margin at the end of the period of more than 80%;
- **a sound financial structure:** a reduction of 600 million is expected in the increase in financial debt compared with the previous Plan (1 billion v. 1.6 billion) and the ratio between net debt and RAB will remain lower than 60% in all the Plan years;
- **dividends policy confirmed**: over the period of the Plan, a basic dividend will be ensured from the core business amounting to € 19 cents per share, in addition to the contribution of the non-core business (payout of 60% on results).

Economic-financial and sustainability performance

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

In the first half of 2013, the Terna Group continued its activity in line with the provisions of the **2013-2017 Strategic Plan** approved by the Board of Directors on 6 February 2013, already described in the dedicated paragraph above to which you are referred.

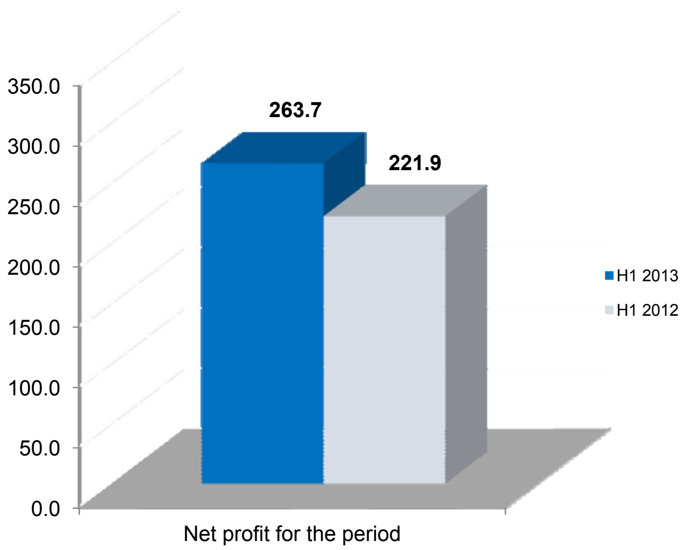
In addition, in this first half of the year, with the approval of the planned merger of SunTergrid S.p.A. into Terna Plus S.r.l. and with the adoption of the new organisational framework of the Operations Divisions of Terna Rete Italia S.p.A. - respectively commented on in the context of the "Significant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

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

Comprehensive Group results

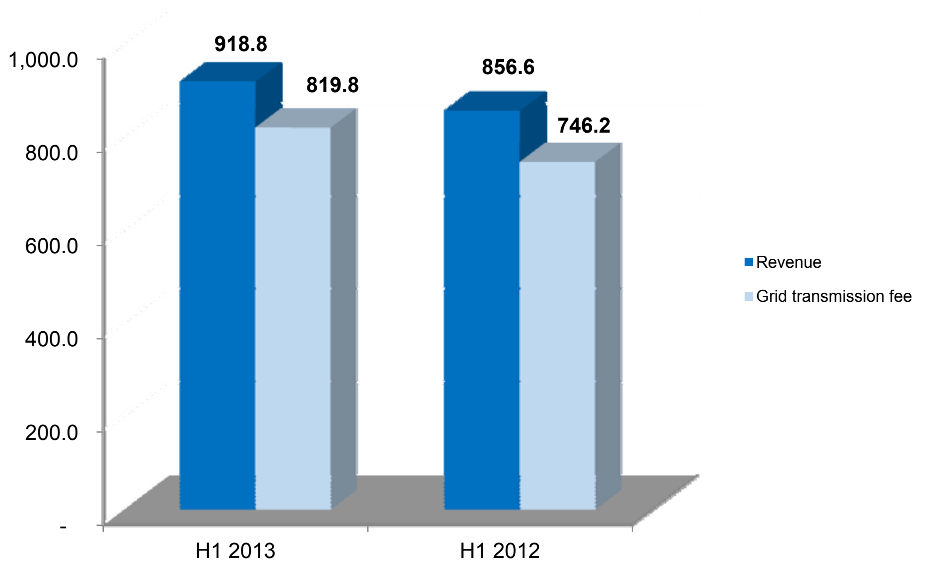
The Consolidated Financial Statements as at 30 June 2013 show considerable growth in the **net profit for the period** which amounted to € 263.7 million (+18.8%), more than seven percentage points above the growth of **EBIT** (Operating Profit), which increased by € 54.1 million (+11.6%) compared with the first half of the previous year, the former benefiting, in particular, from the significant reduction in **net financial expense** (-31.2%), commented on below.

€ million



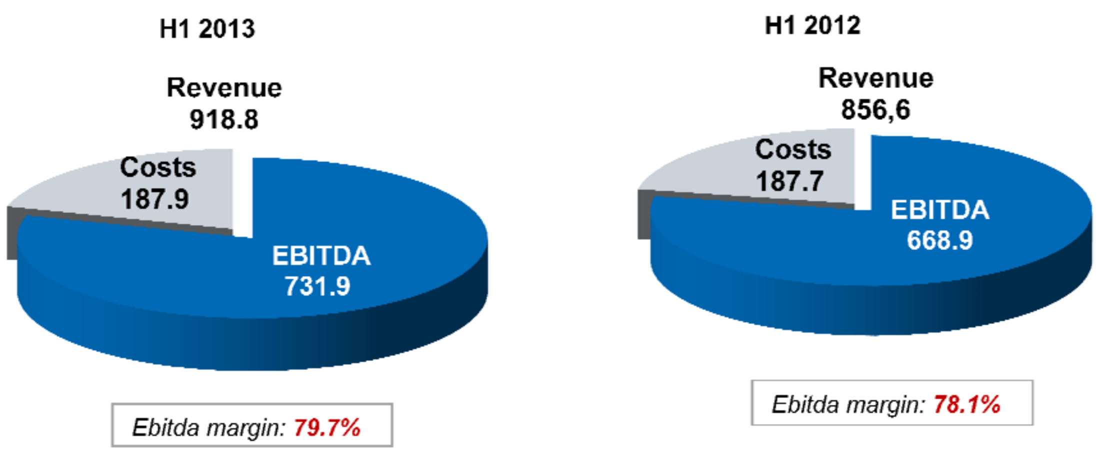
Revenue in the first half of 2013 amounted to **€ 918.8 million**, + € 62.2 million compared with the same period of the previous year (+7.3%), of which € 819.8 million refers to the transmission fee, attributable to the Parent Company for € 735.4 million and to the subsidiary Terna Rete Italia S.r.l. for € 84.4 million.

€ million



Operating expenses were approximately € 186.9 million, of which 103.6 million relating to personnel expenses and 64.7 million to services, leases and rentals. The increase in revenue combined with the constant containment of operating costs led to **EBITDA** (Gross Operating Profit) of **€ 731.9 million**, 79.7% of revenue, with an increase of € 63.0 million compared with € 668.9 million in the first half of 2012 (+9.4%).

€ million



EBIT (Operating Profit) was € 518.5 million (+11.6% compared with the figure of the first half of 2012) after deducting **depreciation and amortisation** of € 213.4 million, mainly relating to the Parent Company for € 189.4 million and to the subsidiary Terna Rete Italia S.r.l. for € 23.4 million.

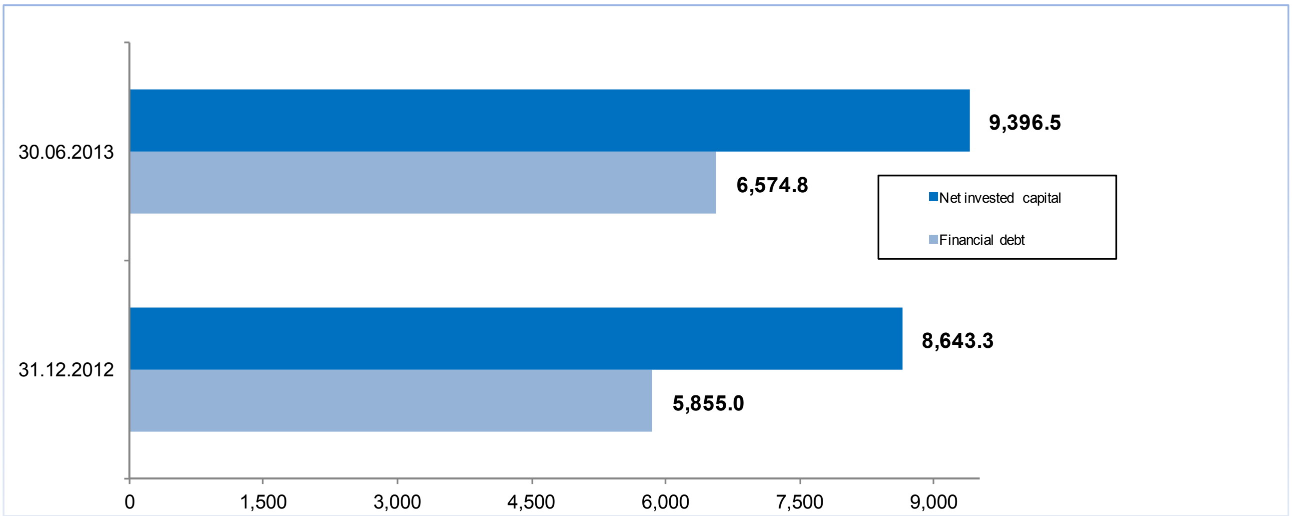
Net financial expense of the period, of € 42.7 million and mainly relating to the Parent Company, led to a **pre-tax profit** of € 475.8 million, up by € 73.5 million compared with the corresponding period of the previous year (+18.3%).

Income tax charged to the period was € 212.1 million and determined a tax rate of 44.6%, substantially in line with the first half of 2012.

Net profit for the period therefore came out at € 263.7 million, up € 41.8 million (+18.8%) compared with the € 221.9 million of the first half of 2012.

Net invested capital, of € 9,396.5 million, is financed through **shareholders' equity** for € 2,821.7 million and through **net financial debt** for € 6,574.8 million.

€ million



The ***debt/equity*** ratio stands at 2.33.

Total investments made by the Group in the period amounted to € 503.9 million, compared with the € 551.4 million of the corresponding period of 2012. The drop (-8.6%) was due in particular to the work done on the Sorgente-Rizziconi in 2012.

Sustainability performance

Sustainability indexes and recognitions

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

In line with the confirmations, obtained in 2012, in the main international stock exchange sustainability indexes including the Dow Jones Sustainability Indexes (World and Europe) and the STOXX® Global ESG Leaders indexes, being present - the only Italian utility - in all the related subindexes specialised in environmental, social and governance issues (STOXX® Global Environmental Leaders, STOXX® Global Social Leaders and STOXX® Global Governance Leaders), during the first half of 2013 Terna obtained further recognitions of its work. In particular, we can note:

- inclusion, for the second consecutive year, in the Gold Class of the "SAM Sustainability Yearbook 2013", prepared on the basis of the analysis performed by SAM (Sustainable Asset Management), the sustainability ratings agency that carries out assessments for the Dow Jones Sustainability Indexes. Inclusion in the Gold Class requires a ratings score that must be within 1% of that of the leading company in the industry;
- confirmation in the FTSE4Good indexes, which bring together the best companies for sustainability performance, on the basis of the analyses of the EIRIS agency.

Comments on the results and significant events

Significant events in the first half of 2013

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

Regulatory

AEEG resolution on pilot projects relating to accumulation systems

On **11 February 2013**, the Authority for Electricity and Gas published Resolution 43/2013, concerning "*Approval of pilot projects relating to accumulation systems to be developed on the national transmission grid, coming under the programme for adjustment of the security and defence systems 2012-2015*".

In supplementing the definitions given in Resolution 288/2012/R/eel, the measure, dividing the pilot projects on the NTG 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 accumulation 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 expansion - the release onto the grid of electricity produced by NPRSs; 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 accumulation systems with power intensive characteristics in Sicily and Sardinia."

has provided for admission of the two power intensive pilot projects to the incentives pursuant to paragraph 22.5, letter d) of the Integrated Transmission Text (ITT). The measure established a two-year experimentation period and set out the conditions for remuneration of the above two projects, confirming also the need to guarantee separate recognition of the economic and financial items relating to each power intensive project admitted to the incentives.

On **21 February 2013**, the AEEG also published Resolution 66/2013 whereby it approved and admitted to the incentives six energy intensive pilot projects in relation to Accumulation Systems coming under the scope of two critical directives indicated in the 2011 Development Plan approved by the Ministry of Economic Development on 2 October 2012, in accordance with the provisions of Italian Legislative Decree No. 28 of 3 March 2011.

Finance

Terna named 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 the prestigious award for its Total Shareholder Return (TSR) recorded in the three years 2010-2012, which in fact came out at 24%, compared with the decidedly negative average returns of the sector and of the Italian index (DJ STOXX -10%, FTSE MIB -21%).

Renewal of the EMTN Programme and increase of the amount to € 6 billion

On **28 June 2013** Terna renewed its bond issue programme entitled “Euro Medium Term Note Programme” (EMTN) increasing its amount from € 5 to 6 billion as resolved by the Board of Directors on 14 May 2013. Deutsche Bank and Citigroup were the Joint Arrangers for the programme, which obtained ratings of A-/A-2 from Standard & Poors, Baa1/P-2 from Moody's and A- from Fitch.

Corporate

Planned merger of SunTergrid S.p.A. into Terna Plus approved

On **10 June 2013** the planned merger by incorporation of SunTergrid S.p.A. into Terna Plus S.r.l., companies which are both wholly and directly owned by the Parent Company Terna, was approved by the respective shareholders’/quotaholders’ meetings. The aim of the merger transaction is to increase the Group's synergies, by rationalising the non-core business within the scope of Terna Plus - as the SunTergrid company operates in the same sector and does similar and complementary work - so as to pursue greater efficiency in managing the non-core business.

Terna Group performance and financial position

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

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

In line with Recommendation CESR/05-178b, the criteria for constructing these indicators are described in the footnotes to the reclassified statements, which reconcile them with the schedules contained in the Condensed Consolidated Interim Financial Statements.

Scope of consolidation

At 30 June 2013 the Group consolidation scope includes the following companies:

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

During the first half of 2013, no events occurred which would have had effects on the Terna Group's consolidation scope, which therefore reflects the situation at 31 December 2012.

Associates and joint ventures

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

The number of associates and joint ventures, and the interests held in them have not changed since 31 December 2012.

Basis of presentation

The measurement and recognition criteria applied in this Interim financial report are the same as those adopted in the consolidated financial statements at 31 December 2012, except for obligatory application of the new IAS 19 – Employee benefits and of IFRS 13 – Fair value measurement.

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

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

IFRS 13 – Fair Value Measurement, which came into force going forward from 1 January 2013, establishes a new definition of fair value and the minimum necessary content of the disclosure. IFRS 13 defines fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”; the main change for the Group's financial statements is the inclusion of counterparty risk in financial instrument measurement models. Adoption of the new standard entailed, at 30 June 2013, a reduction in the value of fair value hedging derivatives, of € 3.6 million and a reduction in the value of cash flow hedging derivatives of € 0.3 million.

Reclassified income statement

The reclassified income statements of the Terna Group for the first six months and the second quarters of 2013 and 2012 are summarised in the statement below, obtained reclassifying the data presented in the consolidated income statements.

2nd quarter					1st half			
2013	2012	Change	%	*€ million*	2013	2012	Change	%
				Revenues:				
396.8	361.9	34.9	9.6%	- Grid transmission fees (1)	819.8	746.2	73.6	9.9%
33.0	48.6	(15.6)	(32.1%)	- Other energy items (1)	67.0	81.4	(14.4)	(17.7%)
19.0	14.5	4.5	31.0%	- Other operating revenue (2)	32.0	29.0	3.0	10.3%
448.8	**425.0**	**23.8**	**5.6%**	**Total revenue**	**918.8**	**856.6**	**62.2**	**7.3%**
				Operating expenses:				
50.6	51.3	(0.7)	(1.4%)	- Personnel expenses	103.6	103.1	0.5	0.5%
36.7	30.6	6.1	19.9%	- Services, leases and rentals	64.7	63.6	1.1	1.7%
2.6	4.8	(2.2)	(45.8%)	- Materials	5.6	7.5	(1.9)	(25.3%)
8.0	9.2	(1.2)	(13.0%)	- Other expenses (3)	13.0	13.5	(0.5)	(3.7%)
97.9	**95.9**	**2.0**	**2.1%**	**Total operating expenses**	**186.9**	**187.7**	**(0.8)**	**(0.4%)**
350.9	**329.1**	**21.8**	**6.6%**	**EBITDA (Gross Operating Profit)**	**731.9**	**668.9**	**63.0**	**9.4%**
107.4	**103.3**	**4.1**	**4.0%**	**Amortisation and depreciation (4)**	**213.4**	**204.5**	**8.9**	**4.4%**
243.5	**225.8**	**17.7**	**7.8%**	**EBIT (OPERATING PROFIT)**	**518.5**	**464.4**	**54.1**	**11.6%**
(24.7)	(31.1)	6.4	(20.6%)	- Net financial income (expense) (5)	(42.7)	(62.1)	19.4	(31.2%)
218.8	**194.7**	**24.1**	**12.4%**	**PROFIT BEFORE TAXES**	**475.8**	**402.3**	**73.5**	**18.3%**
97.1	87.0	10.1	11.6%	- Income taxes for the period	212.1	180.4	31.7	17.6%
121.7	**107.7**	**14.0**	**13.0%**	**NET PROFIT FOR THE PERIOD**	**263.7**	**221.9**	**41.8**	**18.8%**
121.7	*107.7*	*14.0*	*13.0%*	*- Attributable to owners of the Parent*	*263.7*	*221.9*	*41.8*	*18.8%*

In the first six months of 2013, the Terna Group achieved **revenue** of € 918.8 million, relating to the Parent Company for € 825.9 million and to the subsidiary Terna Rete Italia S.r.l. for € 86.4 million, an increase of € 62.2 million compared with the same period of the previous year (+7.3%), attributable mainly to the trend in the **Grid transmission fees (CTR),** up by € 73,6 million.

This increase, net of contingencies for intercompany adjustments on the grid perimeters, is attributable to the Parent Company for € +69.5 million (mainly as a result of fee revision), and to the subsidiary Terna Rete Italia S.r.l. for € +4.1 million (compared with the € 87.0 million recognised in the first six months of 2012), for

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" (€ 12.0 million) and "Other revenue and income" (€ 20.0 million);

(3) corresponds to "Other operating expenses"" and to "Amortisation, depreciation and impairment" for the amount of impairment of trade receivables (€ 0.3 million);

(4) corresponds to "Amortisation, depreciation and impairment" net of the impairment of trade receivables (€ 0.3 million);

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

the owned portion of the NTG. The growth of the Parent Company's CTR described above also reflects the higher CTR designed to remunerate the Defence Plan (€ +8.3 million).
In the area of “Other energy items” , the reduction of € 14.4 million was largely due to higher income from bonus and penalty mechanisms recognised in the first half of the previous year, referable mainly to the incentives mechanism set out in AEEG Resolution 213/09.

Finally, higher other operating income of € 3.0 million was recognised compared with the first half of the previous year, owing mainly to contingencies on civil litigation, and to adjustment of the estimate of risks on receivables relating to the regulated business.

In the second quarter of 2013, Group revenue was approximately € 23.8 million higher than in the corresponding period of 2012, owing essentially to the combined effect of the factors described above.

In the first six months of 2013 **operating expenses**, amounting to € 186.9 million, mainly related to the Parent Company (€ 55.9 million) and to the subsidiary Terna Rete Italia S.p.A. (€ 125.7 million), were slightly down (- € 0.8 million), compared with the € 187.7 million recognised in the first half of 2012.
Similarly, in the second quarter of 2013, the Group's operating expenses recorded a balance substantially in line with the second quarter of 2012 (+ € 2 million, owing essentially to expenses for services, and leases and rentals of the Parent Company).

EBITDA (Gross Operating Profit) for the period came out at € 731.9 million, an increase of € 63.0 million compared with the € 668.9 million of the first six months of 2012 (+9.4%).
Revenue up and costs in line with the same period of the previous year were reflected in the ***EBITDA margin*** which went up from 78.1% in the first six months of 2012 to 79.7% in the corresponding period of 2013.

Amortisation and depreciation in the period grew by € 8.9 million compared with the same period of financial year 2012, owing essentially to the commissioning of new plants.
For the same reasons explained above, amortisation and depreciation were higher also in the comparison between the two quarters (€ +4.1 million).

EBIT (Operating Profit), after deducting amortisation and depreciation of € 213.4 million (of which 189.4 million of the Parent Company and 23.4 million of the subsidiary Terna Rete Italia S.r.l.), came out at € 518.5 million, up by € 54.1 million (+11.6%) compared with the first six months of 2012.

Net financial expense of the period, € 42.7 million, mainly referable to the Parent Company, fell by € 19.4 million, compared with the 62.1 million of the same period of 2012, owing substantially to the effects of the reduction in interest rates which more than offset net financial expenses related to the higher net debt.

After deducting net financial expenses, **profit before taxes** came out at € 475.8 million, up by € 73.5 million compared with the corresponding period of the previous year (+18.3%).

Income taxes charged to the period were € 212.1 million, up € 31.7 million (+17.6%) compared with the same period of the previous year, owing essentially to the higher pre-tax profit.
The tax rate for the period came out at 44.6% (effective tax rate of 45.7% without net of adjustments relating to previous years) and was substantially in line with the figure for the first six months of 2012.
Net profit for the period therefore came out at € 263.7 million, up € 41.8 million (+18.8%) compared with the € 221.9 million of the first half of 2012.

Results by geographical area and business segments

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

Reclassified statement of financial position

The Statements Of Financial Position of the Terna Group at 30 June 2013 and 31 December 2012 are presented below, reclassifying the figures presented in the Consolidated Statement Of Financial Position.

€ million	at 30.06.2013	at 31.12.2012	Change
Net non-current assets			
- Intangible assets and goodwill	462.8	470.4	(7.6)
- Property, plant and equipment	9,650.3	9,342.0	308.3
- Financial assets (1)	83.0	81.4	1.6
Total	**10,196.1**	**9,893.8**	**302.3**
Net working capital			
- Trade receivables (2)	682.6	744.0	(61.4)
- Inventories	7.2	6.6	0.6
- Other assets (3)	62.4	32.4	30.0
- Trade payables (4)	493.1	712.0	(218.9)
- Net payables for pass-through energy items (5)	158.4	440.0	(281.6)
- Net tax liabilities (6)	78.9	35.9	43.0
- Other liabilities (7)	370.2	365.5	4.7
Total	**(348.4)**	**(770.4)**	**422.0**
Gross invested capital	**9,847.7**	**9,123.4**	**724.3**
Sundry provisions (8)	451.2	480.1	(28.9)
NET INVESTED CAPITAL	**9,396.5**	**8,643.3**	**753.2**
Equity attributable to owners of the Parent	**2,821.7**	**2,788.3**	**33.4**
Net financial debt (9)	**6,574.8**	**5,855.0**	**719.8**
TOTAL	**9,396.5**	**8,643.3**	**753.2**

In the Consolidated Statement of Financial Position they correspond to:

(1) the items "Equity-accounted investees", "Other non-current assets" and "Non-current financial assets" for the carrying amount of the other investments (€ 0.8 million);

(2) the item “Trade receivables” net of pass-through energy revenue receivables (€ 1,439.5 million);

(3) the item "Other current assets" net of other tax assets (€ 9.3 million) and the item "Current financial assets";

(4) the item “Trade payables” net of pass-through energy expense payables (€ 1,597.9 million);

(5) the items “Trade receivables” for pass-through energy revenue receivables (€ 1,493.5 million) and “Trade payables” for pass-through energy expenses payables (€ 1,597.9 million);

(6) the items “Tax assets”, “Other current assets” for the amount of other tax assets (€ 8.8 million), “Other current liabilities” for the amount of other tax liabilities (€ 40.4 million) and “Tax liabilities”;

(7) the items “Other non-current liabilities”, “Current financial liabilities” and “Other current liabilities” net of other tax liabilities (€ 185.6 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” for the value of FVH derivatives (€ 594.0 million).

The increase in **Net non-current assets** of € 302.3 million, compared with the figure of 31 December 2012, is mainly attributable to the item **Property, plant and equipment** (€ +308.3 million) owing essentially to the combined effect of:

- investments of € 485 million, of which 474.7 million in the core business and 10.3 million in non-core business;
- amortisation and depreciation of the period of € 186.9 million.

Intangible assets and goodwill recorded a reduction of € 7.6 million attributable to ordinary movements of intangible assets for investments of € 18.9 million (of which € 11.9 million in dispatching infrastructures), net of the portion of amortisation accruing of € 26.5 million (of which € 15 million relating to amortisation of the dispatching infrastructures and € 2.8 million relating to amortisation of the concession).

Total investments made by the Group in the period amounted to € 503.9 million compared with the € 551.4 million of the corresponding period of 2012. The drop (-8.6%) was due in particular to the work done on the Sorgente-Rizziconi in 2012.

Net working capital amounted to € -348.4 million and during the half-year period used cash of € 422 million, owing essentially to the combined effect of:

- a decrease in net payables for pass-through energy items (€ 281.6 million) originated with the electricity dispatching work done by the Parent Company, mainly deriving from the combined effect of:
  - an increase in net receivables connected to the uplift (€ 368.2 million);
  - higher net payables generated by the increase in energy purchases on the Energy Market (€ 130.7 million);
  - lower net payables deriving from virtual interconnection activities (€ 28.9 million);
- a reduction in trade payables of € 218.9 million, of which € 195.5 million attributable to the subsidiary Terna Rete Italia S.p.A., mostly for purchases and services relating to the greater investment activities carried out at the end of 2012;
- an increase in net tax liabilities of € 43 million, essentially as the combined result of the higher net payable to the tax authorities for VAT (€ +65.7 million compared with the receivable position at the end of 2012) and the reduction in net income tax payables (€ 25.9 million) deriving from payment of the balance of current taxes relating to financial year 2012 (€ 88.6 million), from payment of tax advances for the current year (€ 177.3 million) and net of the recognition of taxes accruing to the period (€ 240.0 million);
- a reduction in trade receivables of € 61.4 million due to lower receivable items (€ 26 million) relating essentially to diversified activities and to collections in the period of the existing receivable related to the incentive mechanism provided for in AEEG Resolution 213/09 (€ 31.4 million).

Gross invested capital, therefore, amounted to € 9,847.7 million, recording an increase compared with the previous financial year of € 724.3 million.

Sundry provisions declined by € 28.9 million, owing mainly to the following changes:

- use of net deferred tax provisions set aside previously by the parent company Terna and the subsidiary Terna Rete Italia S.r.l. relating to additional amortisation and depreciation with respect to the economic-technical rates (€ 20.7 million and € 3.5 million respectively);
- release of the portion accruing (€ 4.9 million) of deferred IRAP tax provisions governed by Italian Law No. 244 of 24 December 2007 (2008 Budget Law);
- use of deferred tax assets related to the change of fair value associated with derivative cash flow hedging instruments for € 14.3 million.
- reduction of the liability relating to employee benefits for the recognition of actuarial gains and losses accruing to the period (€ 7.5 million net of the related deferred tax effect) essentially referable to adjustment of the relevant interest rate.

Net invested capital amounted to € 9,396.5 million, an increase of € 753.2 million compared with 31 December 2012 and is financed by shareholders' equity for € 2,821.7 million (compared with € 2,788.3 million at 31 December 2012) and by net financial debt for € 6,574.8 million (€ +719.8 million compared with the 5,855 million of 31 December 2012).

At 30 June 2013, the ***debt/equity*** ratio therefore came out at 2.33.

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

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

€ million	**Net profit H1 2013**	**Shareholders' Equity at 30.06.2013**
Financial Statements of the Parent Company	**239.5**	**2,601.9**
Results and equity contributed by Terna Rete Italia S.r.l. and Terna Rete Italia S.p.A.	25.2	144.6
Results and equity of the other Group subsidiaries	(1.9)	53.0
Equity-accounted investees	0.9	22.2
Terna Group Consolidated financial statements	**263.7**	**2,821.7**

Cash flows

Net financial debt

The Group's net financial debt at 30 June 2013 (€ 6,574.8 million) is broken down in the table below.

€ million	30.06.2013	31.12.2012	Change
Net financial debt from continuing operations			
A. Medium- and long-term debt			
- Bond (1)	6,384.3	6,543.7	(159.4)
- Floating-rate loans (1)	2,326.3	2,365.7	(39.4)
- Derivative financial instruments (2)	(487.2)	(613.7)	126.5
Total	**8,223.4**	**8,295.7**	**(72.3)**
B. Short-term debt (liquidity):			
- Floating-rate loans (current portions) (3)	79.0	69.4	9.6
- Cash and cash equivalents	(1,727.6)	(2,510.1)	782.5
Total	**(1,648.6)**	**(2,440.7)**	**792.1**
Total net financial debt	**6,574.8**	**5,855.0**	**719.8**

During the first six months of financial year 2013 net financial debt increased by € 719.8 million owing mainly to the combined effect of:

- a decrease in bond loans (€ 159.4 million) as a result of adjusting financial instruments to fair value (€ -162 million, including the amortised cost) and the capitalisation of inflation in the period (€ +2.6 million) associated with the inflation-linked bond;
- repayment of EIB loan instalments due of € 29.8 million;
- a decrease in the positive net balance of derivative financial instruments (€ 126.5 million), mainly due to an increase in the reference interest rate curve compared to December 2012, which was reflected, in particular, in the change in derivatives hedging bonds (fair value hedges) of - € 164.5 million, net of the effect on the change in derivatives hedging floating-rate debt (cash-flow hedges) of + € 38 million;
- a decrease in cash and cash equivalents (€ 782.5 million).

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 (€ 594.0 million);

(3) the balance corresponds to "Current portion of long-term loans";

Statement of Cash Flows

The consolidated statement of cash flows for the first six months of 2013 and 2012 is presented in the table below:

€ million	Cash flow H1 2013	Cash flow H1 2012
Opening cash and cash equivalents	**2,510.1**	**1,114.9**
- Net profit for the period	263.7	221.9
- Amortisation and depreciation	213.4	204.5
- Net change in provisions	(28.9)	-27.3
- Net losses (gains) on asset disposals	(0.6)	-1.6
Self-financing	**447.6**	**397.5**
- Change in net working capital	(422.0)	-330.4
Cash flows from operating activities	**25.6**	**67.1**
Investments		
- Total investments	(503.9)	-551.4
- Other changes in non-current assets	(10.3)	8.9
- Change in equity investments	(0.9)	-3.0
Total cash flows generated by/(used in) investing activities	**(515.1)**	**-545.5**
- Change in loans	(62.7)	361.7
Other changes in equity attributable to owners of the Parent	31.0	-24.0
- Dividends paid to owners of the Parent	(261.3)	-261.3
Total cash flows generated by/(used in) financing activities	**(293.0)**	**76.4**
Total cash flows for the period	**(782.5)**	**(402.0)**
Closing cash and cash equivalents	**1,727.6**	**712.9**

The cash flow generated by operating activities during the period came to approximately € 25.6 million and is related to self-financing (€ 447.6 million) which more than offset the financial resources (€ 422 million) used by net working capital.

As far as **self-financing** is concerned, it is worth noting the effect of the profit for the period of € 263.7 million including amortisation and depreciation for the period of € 213.4 million, after deducting the net decrease in provisions of € 28.9 million, mainly ascribable to the changes in provisions for net deferred tax liabilities and in liabilities relating to employee benefits, described above.

The change in **net working capital**, - € 422 million, is mostly attributable to the reduction in trade payables, and in net payables relating to pass-through energy items, only partially offset by the increase in net tax liabilities.

Investing activities used financial resources of approximately € 515.1 million, mostly referable to investments made during the period in property, plant and equipment (€ 485 million) and intangible assets (€ 18.9 million) – attributable to the Parent Company for a total of € 439.1 million.

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

The other changes in equity attributable to owners of the Parent relate to recognition at fair value of derivatives hedging floating-rate debt (CFHs), net of the related tax effect, of the Parent Company (+ € 23.5

million), and to the recognition of the actuarial gain on employee benefits accruing to the period (+ € 7.5 million, considering also the tax effect) related essentially to adjustment of the relevant interest rate.
Owing to all of the above financial resources used in the period - due substantially to investing activities in the first half of 2013 and to payment of the 2012 dividend balance - were covered essentially by the net use of cash and cash equivalents of the end of the 2012 period.
In line with recommendation CESR/05-178b, the cash flow data are taken from the consolidated accounting statements through specific reconciliation notes illustrated in the table below.

€ million	Cash flow H1 2013	Reconciliation of financial statements	Cash flow H1 2012	Reconciliation of financial statements
Opening cash and cash equivalents	**2,510.1**		**1,114.9**	
- Net Profit for the period	263.7		221.9	
- Amortisation and depreciation	213.4		204.5	
- Net change in provisions	(28.9)		(27.3)	
Employee benefits		*(10.0)*		*12.5*
Provisions for future risks and charges		*(14.1)*		*-*
Deferred tax liabilities		*(4.8)*		*(39.8)*
- Net Losses (Gains) on asset disposals (1)	(0.6)		(1.6)	
Self-financing	**447.6**		**397.5**	
- Change in net working capital:	(422.0)		(330.4)	
Inventories		*(0.6)*		*9.0*
Trade receivables		*(238.0)*		*(165.3)*
Current financial assets		*(19.2)*		*(13.4)*
Income tax assets		*3.2*		*(7.4)*
Other current assets		*28.9*		*(11.7)*
Trade payables		*(201.1)*		*(139.7)*
Tax liabilities		*(32.3)*		*(51.8)*
Current financial liabilities		*(24.0)*		*10.4*
Other liabilities		*61.1*		*39.5*
Cash flows from operating activities	**25.6**		**67.1**	
Investments				
- Total investments	(503.9)		(551.4)	
Property, plant and equipment (2)		*(485.0)*		*(532.7)*
Intangible assets (3)		(18.9)		(18.7)
- Other changes in non-current assets	(11.2)		5.9	
Property, plant and equipment (2)		*(9.6)*		*8.9*
Other non-current assets		*(0.7)*		*-*
Equity-accounted investees		*(0.9)*		*(3.0)*
Total cash flows generated by/(used in) investing activities	**(515.1)**		**(545.5)**	
NIC in discontinued operations and assets held for sale	**0.0**		**0.0**	
- Change in loans	(62.7)		361.7	
Non-current financial assets		*164.5*		*(114.1)*
Current financial assets		*0.0*		*(882.5)*
Non-current financial liabilities		*(38.0)*		*17.5*
Long-term loans		*(198.8)*		*1,340.8*
Current portion of long-term loans		*9.6*	-	-
- Other changes in equity attributable to owners of the Parent (4)	31.0		(24.0)	-
Equity attributable to owners of the Parent - Share capital, other reserves and retained earnings		*31.0*	-	*(24.0)*
- Dividends paid to owners of the Parent	(261.3)		(261.3)	
Total cash flows generated by/(used in) financing activities	**(293.0)**		**76.4**	
Total cash flows for the period	**(782.5)**		**(402.0)**	
Closing cash and cash equivalents	**1,727.6**		**712.9**	

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

(2) see note 12 to the financial statements;

(3) see note 14 to the financial statements;

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

The Terna Group and outlook

Significant events subsequent to 30 June 2013

New loan of € 570 million

On **8 July 2013** Terna signed an agreement with the European Investment Bank (EIB) to obtain a € 570 million loan to be used to expand and strengthen the Italian electricity transport system. The loan will be repaid in six-monthly instalments starting in 2015, with the last repayment date in 2030.
The economic terms envisaged for the new loan are competitive and provide for an annual cost of the loan at the 6-month Euribor rate plus a spread of 79 basis points.

Terna's rating

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

New Italy-France interconnection

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

Outlook

During the second half of the year, the Terna Group will be involved in following up on what was set out in the Strategic Plan for the current year.
The Group will be focused on completing the investments set out in the Development Plan, mainly aimed at developing and constructing the interconnections with foreign countries (Montenegro and France), at reducing grid congestions (Sorgente-Rizziconi and Trino-Lacchiarella) and at continuing the development of accumulation system projects. As regards the core business and in particular to the development and renewal of NTG for 2013 the investments are substantially in line with those of the previous year.
In terms of revenues, also in the second half of the year, there is expected to be an increase in the regulated component compared with 2012 due to the investments made in 2011 which generate revenues with a delay of two years.

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.

The investments will be financed through cash generation produced by the Group which can also count on cash of approximately € 1.7 billion and on the new EIB loan of € 570 million recently agreed.

With reference to non-core business, in the second half of 2013 the Group will continue in the work of scouting and developing new businesses through the subsidiary Terna Plus, a company focused on enhancing the Group's skill in non-regulated activities.

The business

National Transmission Grid

Number of plants

The number of plants belonging to the Terna Group at 30 June 2013, compared with the situation at 31 December 2012, is shown in the following table:

Number and dimensions		TERNA GROUP		
		30.06.2013	31.12.2012	Change
Stations	*no.*	468	468	
Transformers	*no.*	652	650	+ 2
	MVA	137,574	136,809	+ 765
Bays	*no.*	5,059	5,047	+ 12
Lines	*km.*	57,487	57,439	+ 48
3-phase power lines	*no.*	4,088	4,077	+ 11
	Km.	63,492	63,447	+ 45

The breakdown by company of the number and dimensions of plants at 30 June 2013 is presented below:

Number and dimensions		TERNA			TERNA RETE ITALIA S.R.L.		
		30.06.2013	31.12.2012	Change	30.06.2013	31.12.2012	Change
Stations	*no.*	449	449		19	19	
Transformers	*no.*	650	648	+ 2	2	2	
	MVA	137,254	136,489	+ 765	320	320	
Bays	*no.*	4,976	4,964	+ 12	83	83	
Lines	*km.*	40,967	40,931	+ 35	16,521	16,507	+ 14
3-phase power lines	*no.*	2,357	2,347	+ 10	1,731	1,730	+ 1
	km	45,935	45,904	+ 32	17,556	17,543	+ 13

Stations

With regard to stations, the following can be noted:

- activation of the 150 kV station in Arlena (VT);
- deactivation of the Pisticci (MT) station, being rebuilt.

Transformers

With regard to transformers the following can be noted:

- activation of 2 new machines in the Sorgente (ME) and Castellaneta (TA) stations, of 220 kV and 150 kV respectively, for a total of 650 MVA;
- upgrading of 2 machines in the Salgareda (TV) and Castelluccia (RM) stations, to 132 kV and 60 kV respectively, for a total of 115 MVA;

Long-distance power lines

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

- activation of the new Montalto - Camposcala 1 and 2 (Terna) and Cuma - Patria 2 (Terna Rete Italia S.r.l.) 150 kV underground cables, for a total of 15.2 km;
- partial rearrangement of the 132 kV Terna grid relating to the Tavarnuzze (FI) station, which entailed a total increase of 26.6 km.

National Transmission Grid Development Plan

Terna's 2013 Development Plan was sent to be assessed for approval purposes to the Ministry for Economic Development (MED) and to the Authority for Electricity and Gas (AEEG) on 29 January 2013, in accordance with the provisions of the Ministerial Decree of 20 April 2005 (Concession, as amended and updated with the decree of the Ministry for Economic Development of 15 December 2010) and by Italian Legislative Decree 93/2011.

The said Plan (2013 DP), approved by Terna's Board of Directors with a resolution dated 19 December 2012, was submitted for consultation procedures to the User Consultation Committee[2] (on 6 December 2012 and 21 February 2013), which expressed a favourable opinion both on the new development work and on the 2013 Plan as a whole.

In accordance with Italian Legislative Decree 93 of 1 June 2011, which provided for two public sessions at the AEEG in 2012 to present the 2012 DP for consultative purposes, on 29 May 2013 a definitive formal opinion was sent by the AEEG to the MED on the 2012 DP. On 19 February 2013 consultation on the Environmental Report related to the 2012 Development Plan was completed. We are awaiting the final reasoned opinion from the Ministry for Economic Development.

The 2013 Development Plan is concerned with the Transmission Grid development investments included in the 2013-2022 time window; this year the 2013 Plan consists of a main document and three further study appendices, in particular:

- the *2013 Development Plan* is the central document which describes the framework of reference, the objectives and the criteria through which the Transmission Grid planning process is organised in the Italian and European context, the forecast scenarios and the new development needs which emerged during 2012, the action priorities and the expected results deriving from implementing the said Development Plan;

[2] 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.

- *Appendix 1 - Details of evolution of the legislative framework of reference* contains details of the recent legislative and regulatory measures in the sector;
- *Appendix 2 - Main features of the electrical system and of the markets* describes the main phenomena and trends which have characterised the Italian electrical system over the last few years;
- *Appendix 3 - Technical and economic assessments* provides further information on the economic sustainability analyses of the main development projects.

The 2013 DP provides for investments of approximately € 7.9[3] billion in the decade 2013-2022, divided into € 3 billion in the first five years and € 4.3 billion in the second five years, thanks to which efficiencies will be achieved for the electrical system of more than € 1.5 billion per year and other great benefits:

- reduction of energy losses of 1.2 billion kilowatt-hours per year;
- reduction of CO2 emissions of approximately 12 million tonnes/year;
- reduction of congestions for an amount of more than 5,000 MW;
- greater import capacity estimated at more than 4,000 MW;
- greater power capacity generated by renewable sources of more than 5,000 MW.

In addition, implementation of the 2013 DP will lead to an increase in the dimensions of the NTG of more than 5,000 km of new power lines and more than 160 new stations for a new transformation capacity of approximately 43,900 MVA.

It should be noted that the Ten-Year Network Development Plan of the European electricity grid 2014 edition is being prepared under the aegis of ENTSO-E (TYNDP 2014), on the basis of the provisions of the European Community Regulation regarding the "Third Energy Package". Terna is directly involved in this Plan in the context of the Regional Forums: Continental Central South and Continental South East of which Terna is a member.

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 (the competent authority), together with the Ministry for Heritage and Culture.

As regards the 2011 DP, on 6 June 2012, on completion of the SEA procedure, 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 at the same time its Summary Declaration, which indicates how the observations made in the reasoned opinion will be acknowledged.

As regards 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, following the approval of the 2011 DP and incorporating the observations

[3] Including the investments envisaged for the installation of diffused accumulation systems.

made in the relative reasoned opionion, Terna published its Environmental Report on the 2012 DP, whose consultation phase for the purposes of the SEA procedure was completed on 19 February 2013. We are awaiting the reasoned opinion that, pursuant to the current regulations (Italian Legislative Decree 152/2006), the competent authority is required to deliver within 90 days of the end of the consultation phase.

Consultation with local administrations

Terna's approach to the territory, expressed above all when there is a 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 infrastructures 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 together with the community, 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;
- agree on a system of criteria for analysing the territory and selecting the location alternatives, in terms of corridors, with lower environmental impact;
- apply the location criteria to the territory and identify the preferred corridor in which to construct 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 2013

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

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

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

The projects are included in the electricity system Security Plan, prepared by Terna and approved by the Ministry of Economic Development. The Plan, which reached its tenth edition in 2013, is drawn up every year

and has a four-year programming period. The approach to electricity system security has become increasingly structured in successive editions of the Plan.
The current structure of the Security Plan envisages 8 different areas for scheduling, control, regulation and protection, restart and monitoring of the electricity system, and an area for the secure and optimal management of renewable sources.
The 2013 Plan also provides for projects aimed at managing the system in expected medium-long term operational scenarios, which contextualises the initiatives to maximise production from renewable sources, the activities of which also include the assessment of further new elements, with a high impact on management of the electricity system (for example energy saving initiatives, demand-side management, and diffusion of electrical vehicles).
In addition, in order to encourage full integration of production plants from renewable sources into the interconnected system and to solve the critical issues for security associated with them, the present Plan confirms the initiative relating to construction and use of unconventional systems for frequency regulation on the major islands based on electrochemical accumulation systems and provides for the new initiative relating to the installation of opportune reactive compensation equipment in western Sicily for the purposes of regulating voltage.
In 2013 investments provided for in the Security Plan amounted to around € 78 million.
The tenth edition of the Security Plan for 2013-2016 provides for investments of around € 320 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 advance.
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 maximising the timely and flexible use of the existing infrastructures and fostering in this way the integration of increased production from renewable sources, including those not directly connected to the NTG.
Among these are the following:

- the installation of electrical equipment (Phase Shifting Transformers - PSTs) for controlling energy flows on the High and Very-High voltage grid;
- the installation of synchronous compensators for the improved stability and security of system operation;
- 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 to maximise the transport capacity of the existing lines also according to the temperature (Dynamic Thermal Rating - DTR). Tests will enable us to define types and standards of application of the method for the purposes of gradual implementation and diffusion along critical lines of high wind production starting in the South and Sicily;

- 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).

Again in the area of innovative solutions, the initiatives presented below are planned.

- Participation in the GREEN-ME project[4](Grid integration of Renewable Energy sources in the North - Mediterranean): the project has been presented to the European Commission in the context of the Connecting Europe Facility by the TSOs and DSOs (Distribution System Operators) of Italy and France and relates to development of systems geared towards the integration of distributed generation in an area extending from the south of France to the regions of northern Italy.
- Improvement of identification and control of the grid with digital systems: taking advantage of the potential of digital equipment to provide measurements directly for the analysis and monitoring of service quality.
- Grid monitoring: the growing impact of renewable sources also on distribution networks entails the need to have a set of data and models for a more detailed view of load/generation on distribution systems which operate with the transmission grid.

[4] The project is conditional on the anticipated financing of the activities by the European Commission.

Work carried out in period

The most important work - still in progress - carried out in the first half of 2013 involved activities to reduce network congestion, increase international interconnections, connect new generating plants (especially those using renewable sources) and make the NTG more reliable with ever-increasing attention to environmental and safety issues.

Below is a summary of the main work in progress and the main work completed in the first half of 2013:

- new 380 kV "Sorgente-Rizziconi" submarine connection: construction began of the second 150 kV section of the Scilla station and power was turned on at the Sorgente (Sicily) station; in addition work on preparing the site of the Villafranca (Sicily) station is continuing. The first and second lines of submarine cables between Villafranca and Favazzina and the fibre optic cables were laid; the work on protecting the marine cables was also completed. The Favazzina tunnel and the well in the area adjacent to Scilla are being excavated. The construction work on the 380 kV aerial line in Calabria, between Rizziconi and Scilla has reached 70%, and construction is in progress on the foundations and supporting supports (almost all tubular) of the power line in Sicily, between Villafranca and Sorgente;
- 380 kV stations to connect renewable energy plants: work is in progress at the Erchie station to arrive at the final arrangement; work is continuing on constructing the Manfredonia station and the related 380 kV connections; preparatory work for opening the Camerelle 150 kV station site is in progress;
- construction work is at an advanced stage 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; in addition laying of the conductors has been completed on more than half the route;
- construction of the "Foggia-Benevento" 380 kV power line (approximately 85 km long) is continuing; for this line work is in progress on constructing the foundations and mounting the support bases;
- construction work is at an advanced stage on the "Feroleto-Maida" 380 kV power line (approximately 13 km long);
- construction work is nearing completion on the various 150 kV underground cable connections of the Aliano (Basilicata) and Lacchiarella (Lombardy) stations and is in progress on those near the Avellino station;
- work is nearing completion on expanding (building a new 150 kV section and installing a new 380/150 kV auto-transformer) the existing Foggia (Puglia) and Scandale (Calabria) stations, in order to connect new producers;
- work is continuing on installing a 285 MVar 380 kV reactor at the Teramo station and one at the Piossasco (Piedmont) station;
- in 2013 the entire 132 kV power line between Biella and Cerreto Castello (Piedmont), approximately 6 km long, was completely rebuilt;
- work is continuing at the Avellino electrical station: the archaeological surveys were completed and the civil works are in progress.

Also in the first half of 2013, the following work sites were opened in relation to:

- installation of 285 MVAr 380 kV reactors at the Vignole (Piedmont), Marginone (Tuscany) and Udine (Friuli) stations, as well as installation of 185 MVAr 220 kV reactors at the Castelluccia (Campania) station;
- construction of the Capri (Campania) station for interconnecting the island to the mainland; in this regard the tender was awarded for on-site supply of the submarine cable;
- the new 1,000 MW Italy-Montenegro submarine direct current connection, 415 km long, between Cepagatti (Pescara) and Tivat (Montenegro): most of the areas have been acquired and the planning is at an advanced stage for both the marine cables and the two conversion stations.

Power generation

Energy demand in Italy

According to provisional data, the demand for electricity during the first six months of 2013 amounted to 157,627 GWh, down by -3.6% with respect to the same period in 2012 (see the table below).

To compare the results for 2013 with the previous year, the number of days and temperature being equal, we must consider two separate factors. The influence relating to calendar days is due to there being one calendar day less in the first half of 2013, more specifically a working day, compared to the same period in 2012, which was a leap year. From a climatic perspective, colder atmospheric conditions were noted during the spring and also in June. During the winter months, temperatures were moderately warmer in January, while the only month that was significantly colder was February. On the whole, the overall effect of climate on electricity demand during the half-year period was modest.

Adjusting, therefore for the number of days and the temperature, the change in electricity demand amounted to -3.1%

ELECTRICITY BALANCE IN ITALY				
GWh	**1H2013***	**1H2012**	**Variations**	**%**
Net generation	137,573	142,930	(5,357)	(3.7%)
Imports from foreign suppliers	22,492	23,247	(755)	(3.2%)
Exports to foreign clients	1,109	1,282	(173)	(13.5%)
Destined for pumping	1,329	1,386	(57)	(4.1%)
Total demand - Italy	**157,627**	**163,509**	**(5,882)**	**(3.6%)**

** Provisional data*

Electricity generation

According to provisional data, net domestic production during the first half of 2013 (see table below) was 3.7% lower than in the same period of the previous year. Analysing the various principal energy sources, net of ancillary services, thermal generation showed a 15.9% drop compared with the first half of 2012.
Hydro production was increased significantly in the first half of 2013, compared with the same period in 2012, with a rise of +37.6% net of ancillary services.
Net production from renewable wind, solar and geothermal energy resources rose sharply also during the first half of 2013, climbing by +20.8% overall compared to the corresponding period the previous year.

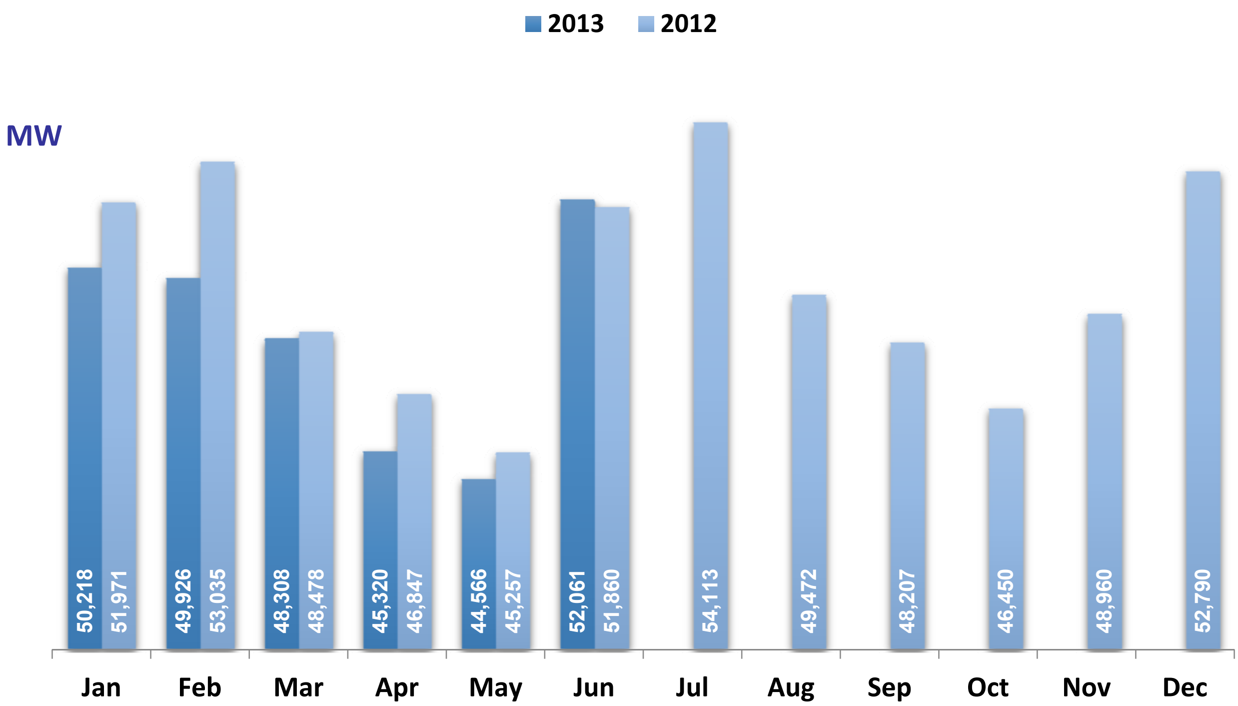
ELECTRICITY PRODUCTION IN ITALY				
GWh	**1H2013***	**1H2012**	**Variations**	**%**
Net hydro generation	27,317	19,852	7,465	37.6%
Net thermal generation	87,868	104,538	-16,670	-15.9%
Wind, photovoltaic and geothermal generation -	22,388	18,540	3,848	20.8%
Total net generation	**137,573**	**142,930**	**-5,357**	**-3.7%**

** Provisional data*

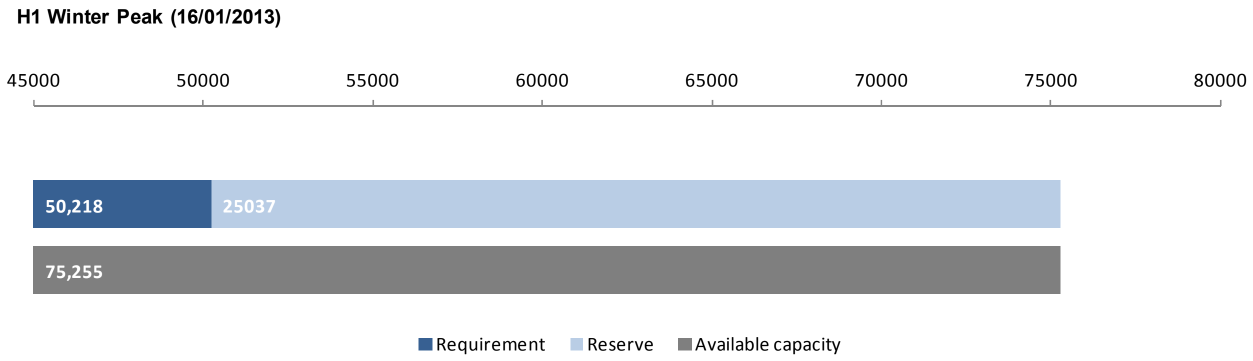
Dispatching

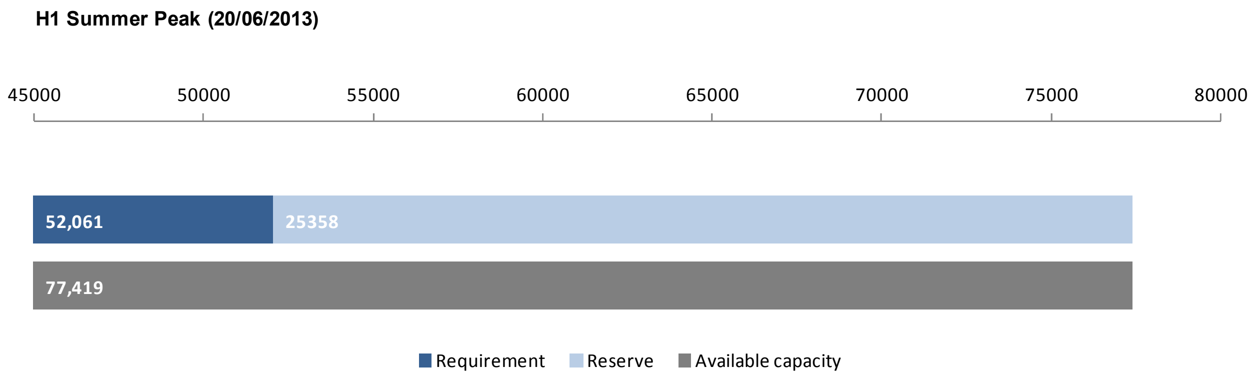
Coverage of demand

The maximum power requirement in the first half of 2013 was 52,061 MW (-1,8% YOY), recorded on 20 June 2013 at 12 a.m.



In the first half of 2013 the demand for power was covered with adequate production margins. The demand coverage margins (so-called reserve) recorded in the winter and summer demand peak times of the first half of 2013 are presented below.





The available power was largely in line with the figure recorded in the winter and summer demand peak times of 2012. This available power is also the result of the process of verifying the adequacy conditions of the system, and of the process of planning the non-availability of grid elements in coordination with the non-availability of generation.

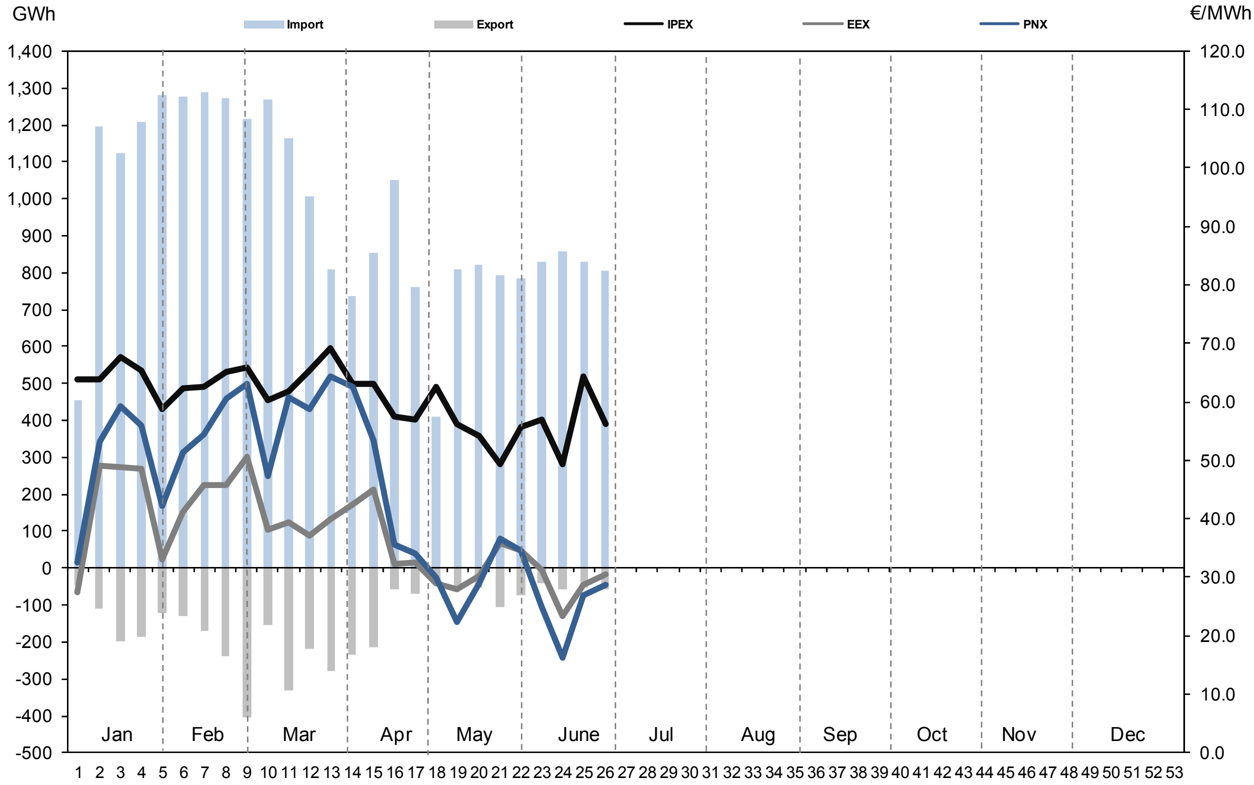
Foreign trade

Foreign trade resulting from the energy market recorded net imports of 21.2 TWh in the first half of 2013, down compared with the same period of the previous year (-2.0% YOY).

The Single National Price recorded on the Italian exchange (IPEX) was on average higher than the prices of the foreign French (PNX) and German (EEX) exchanges, although down compared with the first half of the previous year:

- IPEX 60.7 €/MWh (-21% YOY);
- PNX: 43.8 €/MWh (-8% YOY);
- EEX: 37.2 €/MWh (-12% YOY);

The trade and the weekly average prices of the first half of 2013 are presented below.

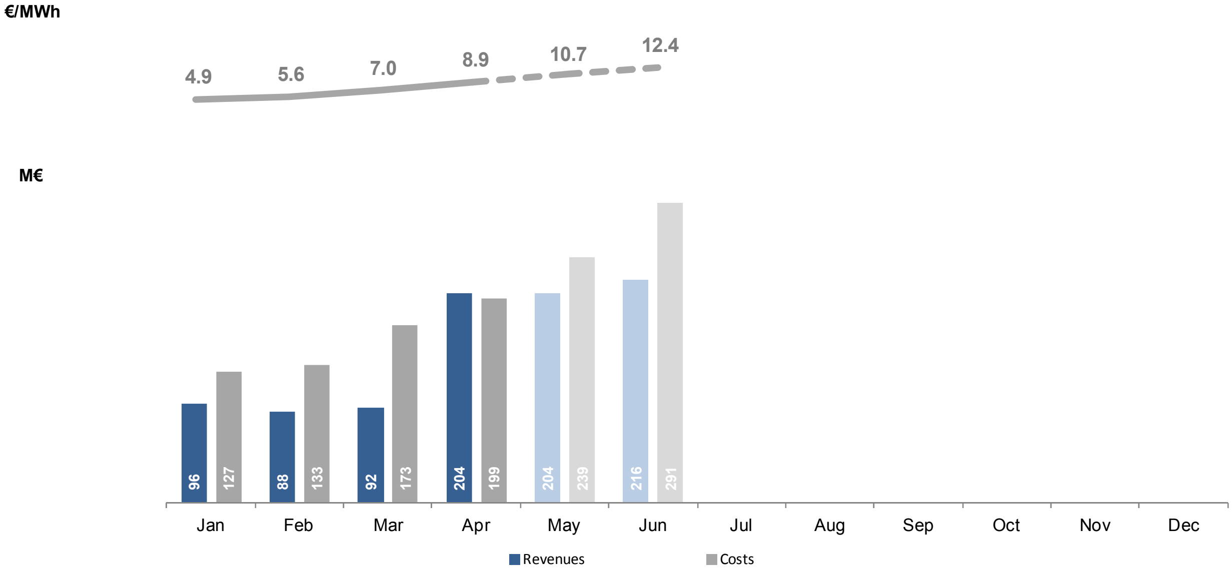


Note. The week start/end on the graph is Mon/Sun

Price for provisioning of resources on the Dispatching Services Market or the uplift

The price for provisioning of resources on the Dispatching Services Market (known as the uplift), pursuant to AEEG Resolution No. 111/06 Art. 44 and subsequent amendments, represents the net expense associated with the following energy items: purchases and sales on the DSM, premiums for temporary contracts signed as an alternative to declaration of essentiality, remuneration of plant goodwill on the DSM (known as the goodwill token), unbalancing, congestion earnings and the related financial coverage, virtual interconnection service (known as the Interconnector), other smaller items.

This price is invoiced pro-rata to users of the dispatching on the energy withdrawn, to cover the envisaged accruing monthly cost and the prior differences. The chart below shows the revenue from invoicing the uplift ("Turnover") and the related final cost ("Costs") also in terms of a unit price.

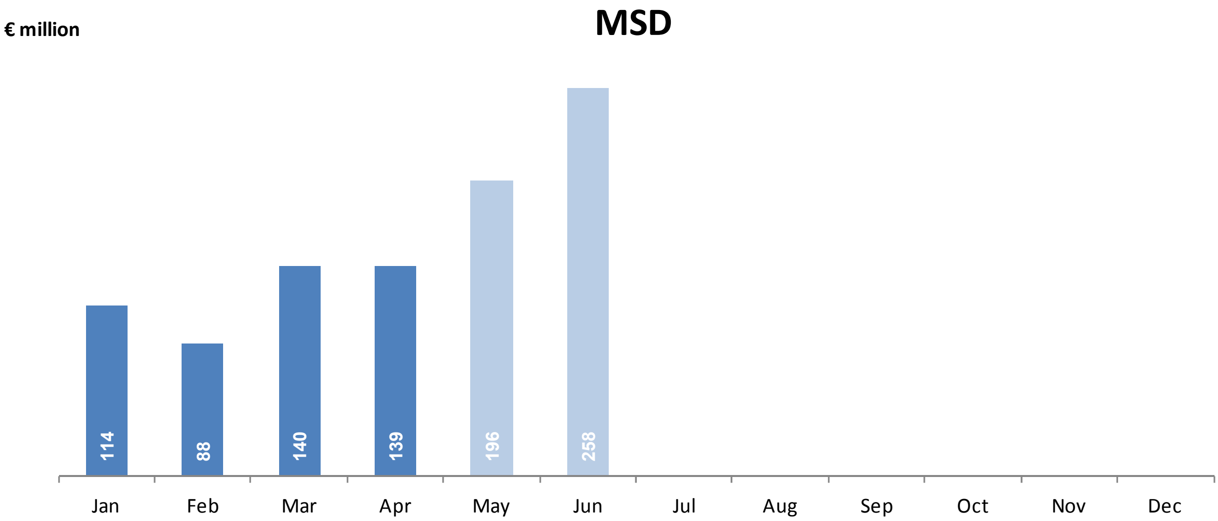


Note. Final data Jan-Apr 13, forecast data May-Jun 13.

The increase in the unit price recorded in the first half of 2013 is attributable both to the higher cost and to the lower withdrawals on which the said cost is distributed. The increase in the cost is in particular attributable to seasonal phenomena, and to the need for greater resources to manage the system in conditions of low load and high renewable production.

Dispatching Services Market

On the Dispatching Services Market (DSM) Terna procures the resources to guarantee the conditions of security and adequacy of the system. In the first half of 2013 purchases of 7.5 TWh (+16% YOY) and sales of 8.4 TWh (+25% YOY) were recorded, with an associated net expense of € 816 million (+22% YOY).



Transmission service quality[5]

In the first half of 2013 Terna's service quality and NTG plant performance indicators, pursuant to AEEG Resolution No. 250/04 and to the Terna Network Code (Chapter 11), recorded the performance listed below:

- ASA (Average System Availability of network elements) = 99.68% (target = 99,05%);
- AIT (Average Interruption Time of the system) = 0.43 min on the Terna grid; 0.59 min on the Terna Rete Italia S.r.l. grid (annual target = 1.00 min/year, for each indicator);
- SAIFI + MAIFI (System Average Interruption Frequency Index and Momentary Average Interruption Frequency Index for users directly connected to the Terna NTG) = 0.07 interruptions/user on the Terna grid; 0.07 interruptions/user on the Telat grid (annual target = 0.22 interruptions/user, for each indicator);
- ENS (Energy Not Delivered owing to user blackouts)= 310 MWh on the Terna grid; 313 MWh on the Telat grid (annual target = 550 MWh/year, for each indicator).

Qualification of plants

The GAUDÌ system (*Gestione delle Anagrafiche Uniche Degli Impianti di produzione* "Consolidated Records Management System of Production Plants") was established by the AEEG with Resolution 124/2010 and became operational in its first version in January 2011 and in its final version in March 2012. 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.

After consolidation of the qualification process, in the first half of 2013, the post-operation functions went live. These are: expansions, structural changes to plants, commercial changes (switches and dispatching contract revocations, changes of commercial regime), ownership changes and decommissioned plants. Through these functions, the system is able to follow the entire lifecycle of the plants and their respective production units.

As regards integrating GAUDÌ with the other corporate systems, the integrations with MeTer and MyTerna are nearing completion, while the requirements are being specified for integrations with other systems such as the New Unavailability Management Platform and a number of market applications.

As regards aligning the databases with GSE and the distributors, these activities are in the final stage. The data exchange flows with GSE have been completely re-engineered and several distributors have opted for massive data exchange among interoperable systems.

A reporting system has been created. As well as providing information on the status of the database, this is capable of illustrating the growth trends of the various energy production sectors.

The next objectives for 2013 are: complete integration of the process with company systems that use the database of plants and production units in operation, the re-engineering of the management system of the significant PUs and total alignment of the databases with the distributors and GSE.

[5] The data presented in the present paragraph are preliminary final figures

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 2 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, the Ministry 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 in 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 began in February 2013 and will be completed by the end of August 2013.

By the end of 2013 we expect to obtain the authorisations needed to build the first accumulation systems and start up the relevant construction sites.

In May 2013, the contract was signed with the supplier of the NaS-technology batteries and subsequently the Activation Letter was issued, defining the 34.8 MW production plan and the related on-site delivery times.

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 3 December 2012 - in accordance with the terms indicated - and the AEEG approved them with Resolution 66/2013 of 21 February 2013.

As regards the actions provided for in the Defence Plan - with output mainly in power rather than in energy - Terna planned an initial stage of testing the main technologies present on the market.

With this premise, in December 2012 a proposal for testing solutions based on Lithium and Zebra technologies was submitted to the AEEG. This is 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 said 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.

Several Research Institutes and Entities, finally, were identified with a view to their involvement in the trials, to assess the application potential of the various systems under analysis.

The projects - which are particularly innovative - aimed at introducing accumulation systems into the National Electrical System are being developed by the company Terna Storage, set up for the purpose by the Parent Company in financial year 2012.

Terna and non-core activities

During financial year 2012 Terna had begun a reorganisation operation which led to combining into a single subject, Terna Plus S.r.l., of the non-core activities in order to better exploit the development opportunities in the field.

The reorganisation of non-core activities was further continued in 2013 with approval by the respective Shareholders' Meetings of the planned merger by incorporation of the company SunTergrid S.p.A. into Terna Plus S.r.l.. This operation has the aim of improving the operations of the Terna Group companies, increasing their synergies and rationalising the development of the Group's non-core activities within the company Terna Plus. The merger will also make it possible to generate savings and rationalise activities and costs, as Terna Plus and SunTergrid operate in the same sector and have similar and/or complementary businesses.

During the second half of 2013 the company will continue the process of enhancing the assets held and the Group's distinctive skills in the implementation and management of infrastructures, in particular at High Voltage, in Italy and abroad. The results being achieved are encouraging despite the non-optimal national and international economic context.

Risks, organisation and corporate 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 in the remaining period of the year. This paragraph aims to provide a clearer, more complete representation of these risks which are summarised along with the uncertainties to which the Company is exposed, and which, besides, are already known to the market and shareholders, considering their presentation in the financial statements and financial prospectuses published previously.

Regulatory risk

About 97% of the Group's consolidated revenue comes from annual fees paid for the provision of services regulated by the Italian Energy Authority. With Resolutions 199/11, 204/11 and 197/11 for the regulatory period 2012-2015, the Authority for Electricity and Gas (AEEG) established the remuneration for the supply of electricity transmission, distribution and metering services, prices for dispatching and regulating 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, Article 2 provides for the revision of the remuneration rate of net invested capital related to transmission services for the period 1 January 2014 - 31 December 2015 on the basis of the average value of 10-year BTPs in the period November 2012 - October 2013.

- *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 Authority for Electricity and Gas. 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.
2013 also 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%.

- *Bonuses and penalties*

Resolution No. 197/11 on service quality regulation provides 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.
Resolution 40/13 identifies the strategic projects for development of the National Transmission Grid. For the main works in these projects an extra remuneration of 2% is envisaged for 12 years from the date of entry into operation, the possibility – on exceeding an annual threshold of completion of the milestones provided

for – of extra remuneration of the same amount also in the period prior to entry into service and possible penalties in the event of completing the main works of each project with a delay of more than a year with respect to the target date. The risk for Terna is associated with these potential penalties, commensurate with the length of any delays and to the net invested capital related to each project.

Foreign Operations

Resolution No. 565/12, which as provided for in Resolution 199/11 updated the transmission tariff for the year 2013, in noting that the information available on the investments made by the company Terna Crna Gora d.o.o., did not permit, at the publication date, to verify the pertinence of the same to the transmission service and to the related admissibility to the tariff remuneration, gave a mandate to the Manager of the Authority's Infrastructures Department to proceed with opportune studies on the subject.

Domestic legislative risk

- *Tax laws*

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

- *Laws on environmental protection*

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

- *Laws on energy*

The Group's activities may be affected by changes in the rules governing the electricity market, strategic infrastructure (regarding which we await adoption of the “Golden Power” decree, implementing Italian Legislative Decree 21/12), the authorisation process for National Transmission Grid works, and the sphere of activities that Terna may perform or that impact on relations between the Group companies and other stakeholders (producers, distributors, etc.).

- *Employment and contract laws*

With regard to electromagnetic fields, Directive 2013/35/EU, on the exposure of workers to risks from electromagnetic fields, was recently adopted and must be transposed by 1 July 2016 into the national legal system. In general, more onerous rules governing contracts and health and safety in the workplace might have an adverse effect on the Group's economic/financial performance.

Operational risks: risks connected with NTG malfunction

In the context of the Terna Group's operations risks of unexpected service interruptions caused by external events that are beyond Terna's control are calculated. These may include accidents, defects or breakdowns involving control systems or other equipment, deteriorating plant performance, natural disasters, terrorist attacks and other extraordinary events of this kind. Besides the economic risk associated with repairs to the sections of the NTG owned by the Group, possible claims for compensation by third parties as a result of such events could arise if the Group is found 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 its financial risk management policies approved by the Board of Directors, the Terna Group has defined responsibilities and operational procedures for financial risk management activities, making specific reference to the tools to be used and setting clear operating limits for managing them.

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

This matter is discussed in more depth in paragraph E. "Commitments and risks" of the Notes to the Condensed Consolidated Interim Financial Statements at 30 June 2013.

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 is however expected to result in an increase in existing net debt despite foreseeing the use of currently available cash. In relation to the condition of the financial markets, the needs to finance and refinance the existing debt could determine, in the medium term, an increase in financial expenses.

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 in Italy or abroad. Possible changes to the legislative or regulatory framework of reference may, however, make investment in this sector less attractive and, consequently, lead to a drop in market opportunities for Terna's non-core business.

Business security

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

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

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

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

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

Information and Communication Technology

In the first half of 2013, Information and Communication Technology (ICT) supported the business on numerous key processes:

- continuation of the activity, launched at the end of 2012, of releasing operation plants remotely managed with the new Control and Management System. Over the next few months and up to the end of the year their operation is expected to be completed and the main control functions launched, for both the 380 kV grid and lower-voltage levels;
- further investments regarded systems in support of settlement and market operations, pursuant to the changes in the dispatching rules (for example AEEG Resolution No. 239/13 modifying the zonal aggregate unbalancing signal, Appendix A71 to the Network Code for management of corporate

rearrangements, AEEG Resolution No. 211/10 for the portion of the changes to be implemented in DSM 2013). In the second half of the year we expect new important initiatives under the terms of the applicable rules, such as integration of a number of business processes with the Integrated Information System managed by the Single Buyer (AEEG Resolution No. 57/13 and No. 166/13), and further changes to the dispatching rules related also to primary frequency regulation (AEEG Resolution No. 46/13 and No. 231/13);

- widening of the perimeter of the Metering system was also finalised; this was to include management of non-significant production units. This integration will make it possible to improve the production from non-programmable renewable sources, by simplifying the data entry and control processes;
- with reference to the national electrical system Defence Plan the systems characterised by automatic corrective actions in the face of events were optimised with the aim of increasing the security level in terms of triggering cascading processes. An analysis was begun aimed at optimising the effectiveness of the EMB system, with the objective of rationalising the criteria for selecting primary sub-stations to be switched off, in a reference scenario in which distributed generation has altered significantly the power transits compared with the figures of a few years ago.

Corporate social responsibility

Terna's fundamental objective, in relation to the role played in the Italian electrical system, is to guarantee a continuous, high quality electricity service at the lowest possible cost. This objective, which implies medium and long-term considerations, has been pursued according to a sustainability approach, characterised by respect for the environment and the territory, as well as a focus on health and safety in the workplace and staff training. Terna's sustainability path is guided by its Code of Ethics, and is defined by concrete objectives which are first measured and then documented in the annual sustainability report. Terna has further reinforced its corporate sustainability commitment, publicly confirmed by its membership of the United Nations Global Compact network, which supports 10 universal principles in support of human rights, labour, the environment and the fight against corruption.
The 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 factors, which entail potential negative fallout, impacting 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 the first half of 2013, Terna created various initiatives in different sustainability areas among which we can note, in particular:

- in the area of **environmental responsibility**
  - the three-year renewal of the three certifications for Quality ISO 9001, for Environmental Management ISO 14001 and for Workplace Health and Safety Management OHSAS 18001, of Terna's Integrated Management System;

- presentation to the local stakeholders of the project to restore vegetation in the Gran Sasso Park in Abruzzo, provided for in the Terna – WWF partnership agreement, and launch of work in the Pollino Park, in Basilicata, for environmental monitoring of a number of species of birds of prey.

- in the area of **social responsibility**
  - definition, and subsequent approval, of Terna's “2013-2014 Action Plan on Social Commitment”, created on the basis of the results of the survey “Terna's Commitment to Social Welfare”, carried out at the end of 2012, in order to identify action areas considered most significant to guide the company's social initiatives;
  - formal establishment of the Global Compact Network Italia Foundation, the mission of which is to promote the Global Compact of the United Nations all over Italy. Terna is one of the founder companies and has a representative on the Management Committee;
  - on-line publication of the 2012 Sustainability Report, in Italian and English, in both static and interactive versions.

Research and Development

To introduce new technological and systems solutions, new instruments and methods aimed at improving the reliability of plants and, therefore, service quality, Terna mainly uses in-house technicians who base their work on the careful monitoring and analysis of the performance of equipment and plants. Terna also uses the specialised support of manufacturers, collaboration with universities, RSE S.p.A. (Ricerca Sistema Energetico) and CESI S.p.A., a specialised service company in which it has a 42.698% equity interest. In particular, in the first half of 2013 the Terna Group incurred costs of € 5.4 million in respect of the associate CESI of which € 5 million were capitalised.

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

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

PURPOSE	PROJECTS AND STAGE OF PROGRESS 30 JUNE 2013
OPTIMISATION OF STRUCTURES AND MATERIALS	
Design of supports with less visual impact and/or improved environmental integration	**International "Pylons of the Future" contest** Completed testing on actual size prototypes, as well as testing on clamps and insulators. In addition, construction and installation of two of the six supports on the 380 kV Trino-Lacchiarella line was completed.
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 on two 150 kV lines, characterised by a steel carrier with very high mechanical resistance and annealed aluminium cladding. Experiments on the ACCC conductor are nearing conclusion, with a carbon carrier on a 132 kV line. In addition, the installation on 380 kV lines is being studied.
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. A section of the new cable type has been installed as planned on the Lacchiarella-Vernate line. Entry into service is planned as of autumn of this year. Type tests on the cable/accessory system were carried out positively, and long-term testing is underway.
New protocols for tests on HV cables	**Tests for cables and blends** The new technical specifications relative to the 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 were published together and presented to the testing and inspection teams.
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. Development of the optimised 380 kV section is pending completion. This will be followed by the development of the 220 and 150 kV voltages.
EQUIPMENT DIAGNOSTICS	
Monitoring of station equipment and machinery	**New sensors on equipment and machinery** In the Lacchiarella station (380 kV section), installation has been completed of new types of sensors, positioned on board equipment and machinery. In the period, installation of another type on the 132 kV section was begun and completed in June, while data transmission tests on the central monitoring system (PSE) started. The positive results of this installation, which constitute the initial experience with a fully monitored Terna station, establish the foundation for possible extension to other systems.
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. The measurement campaign on the Prysmian terminals installed in the SEs is currently being evaluated and the usage procedures for the new instrument are currently being defined.

NEW EQUIPMENT	
Compact stations with rapid installation	**SCRI (*Stazioni Compatte di Rapida Installazione*)** The 380 kV station was designed considering the advantages of this solution, already tested with the SCRI 150 kV. In addition, 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. The structural designs for the barriers and the usage methods are currently being validated. 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** Following the study, carried out in cooperation with the Università di Roma Tre, on the seismic vulnerability of the systems, with particular attention paid to the equipment most at risk, qualification of the Wipe-Rope TRI system was achieved. T*he laboratory tests carried out on a vibration table demonstrate the efficacy of the insulation system highlighting a 50% reduction in structural stresses at equal exciting force.* ***Objectives achieved****: the insulation system makes it possible to meet and possibly exceed the requested seismic qualification (AF5).*

Human resources and organisation

Organisational structure

Upon completion of the meetings with the union organisations (see below), preparatory activities were begun to create the new organisational structure for the Operations Divisions of Terna Rete Italia S.p.A. The new structure, effective as of 1 July 2013, 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 multiskilled 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 also strengthen the exercise and maintenance of operational process management and will increase the efficiency of integration between the Maintenance and Dispatching Areas at local level, in order to optimise the management of the network.

Human resources

Below are the changes in the number of Terna Group employees:

Change in the workforce	30.06.2013	31.12.2012	Change
Senior management	65	59	+6
Junior management	509	502	+7
Office staff	1,936	1,925	+11
Production workers	964	947	+17
Total	**3,474**	**3,433**	**+41**

Below is the breakdown by company of the number of employees at 30 June 2013:

At 30.06.2013	Terna S.p.A.	Terna Rete Italia S.p.A.	Terna Plus S.r.l.
Senior management	25	38	2
Junior management	134	369	6
Office staff	185	1,746	5
Production workers	-	964	-
Total	**344**	**3,117**	**13**

The above figures, for the reference periods, are net of retirements effective as of 31 December and 30 June. In the first half of 2013, 57 employees joined the company, while 16 left.
As of 30 June 2013, the subsidiary Terna Crna Gora d.o.o. has 4 local employees (compared to 3 employees at 31 December 2012), whilst the other subsidiaries not shown in the table have no employees.

Training

In the first half of 2013, at the new offices dedicated to training at the Marcigliana site in Rome, two important initiatives were completed for senior management of the Terna Group, as well as a selection of middle managers. The first "Managerial Metaphors" training plan was aimed at strengthening/developing management's leadership skills. The need for this training was due to changes in the company's institutional and organisational structure, which had already begun in 2012 and are also expected in the second half of this year. The initiative involved three training events, each one focussed on a *guiding metaphor* inherent to management's role in supporting change processes through a focus on participative leadership - supporting individuals and teams in understanding changes and guiding them towards motivated and trusting cooperation in a new method of acting and working, ensuring the achievement of objectives and performance excellence. The second training initiative focused on sustainability, aiming at generating reflection on an additional evolution of the approach already present and well-grounded at Terna. Both initiatives received

Fondirigenti funding. In regards to Education - which was also subject to a sizeable plan that obtained Fondimpresa funding - a selection of junior managers, office staff and production workers from the company were involved in training initiatives focused on economics, project management, communication, innovation, organisational integration and team-building. The plan will be completed in November 2013.

In regards to the Training section - which was also subject to a sizeable plan funded by Fondimpresa that will be completed in November 2013 - among various initiatives, ten new courses developed by internal experts (Faculty Campus Terna) were begun which focussed on technical/professional development and, in preparation for the changes planned for the second half, aimed at aligning skills transversally with organisational placement.

Finally, the activation of multiple working groups to determine needs connected to the reorganisation of Terna Rete Italia S.p.A. planned for the second half should be noted. This activity will lead to a reformulation of the training offerings to be implemented during the final part of the second half of 2013 and in 2014.

Industrial relations

Industrial relations activities featured, in first place, the final stage of negotiations to renew the 5 March 2010 National Collective Employment Contract for electricity-sector workers, which expired on 31 December 2012. The relative agreement - signed on 18 February 2013 by Assoelettrica, Federutility, Enel, GSE, SOGIN and Terna - took effect on 1 January 2013 and expires on 31 December 2015.
With regards to the economic part, the average increase in contractual minimums when fully operational was equal to € 160, with the disbursement of a one-time amount of € 75 to cover the period from 1 January to 31 March 2013, an additional disbursement of one time amounts equal to € 120 and € 340 for the years 2014 and 2015, respectively, and the inclusion of amounts to be used for productivity at the company level equal to € 120, 260 and 420 for the years 2013, 2014, and 2015, respectively.

At the same time the National Collective Employment Contract was stipulated, the agreement which governs exercising the right to strike in the electricity sector was signed, which replaced the previous regulations.

At the company level, the conclusion in February of the preventive discussions with the national union secretariats should be noted, which regarded the new organisational and regional structure of the company Terna Rete Italia S.p.A.. In the subsequent months, the relative consultations to examine the opinions of personnel with regional union secretariats were begun and completed.

Other information

Related party transactions

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

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

and with ANAS S.p.A.

Related party transactions carried out in the first half of 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 Condensed Consolidated Financial Statements at 30 June 2013, 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 Annual Report, to which you are referred, lay down the conditions for ensuring that related party transactions be carried out observing the criteria of procedural and substantial correctness and at the same terms that would apply to independent counterparties and the rules on the transparency of disclosures to the market.

We can note that, during the first half of 2013, no significant transactions, that is to say related party transactions identified in compliance with the provisions of Appendix 3 to the "Regulation containing rules on related-party transactions" (adopted with Consob Resolution No. 17221 of 12 March 2010, as amended with Consob Resolution No. 17389 of 23 June 2010), were carried out, 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 Annual Report of Terna and of the Terna Group.

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

No significant, non-recurring, atypical or unusual transactions were carried out during the first half of 2013, either with third parties or with related parties.

Other information

Treasury shares

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

Italy's regulatory framework

Regulatory framework

Below is a brief description of the main regulatory measures issued in the first half 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, no. 2.

The Decree regards transport capacity that can be assigned for the year 2013, taking into account international agreements, and confirming the methods to divide the proceeds from the assignment of transport capacity on interconnections with respect to the previous year. It also envisages that "*Terna promotes agreements with managers of foreign grids for shared investment programs able to, over the medium-term, overcome current border congestion and, in the absence of said programs, act to make agreements with the managers of foreign grids",* in relation to the assignment of interconnection transport capacity.

In regards to equal opportunity: **Italian Presidential Decree no. 251 of 30 November 2012, "Regulations regarding equal access to administration and control bodies of companies, established in Italy, 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 no. 120 of 12 July 2011", published in the Italian Official Journal of 28 January 2013, no. 23.**

The Decree implements article 3 of Italian Law 120/11 regarding equal access for the genders to corporate administration and control bodies, dictating the regulations to apply to non-listed companies that are directly or indirectly under public control. Said companies are held to include in their articles of association that the assignment of the administration and control bodies "*is carried out using methods that guarantee that the less represented gender obtains at least a third of the components of each body*".
Companies must ensure respect for the composition of the company bodies, if constituted in committee form, in accordance with the criteria described above, including in the case of replacement, for three consecutive terms starting from the first renewal subsequent to the date the regulations take effect. Only for the first term, the quota reserved for the less-represented gender is equal to at least one fifth of the number of components of the body.

Italian Decree of 9 November 2012 "Approval of the 2012-2014 three-year national electricity grid research plan and the 2012 annual operational plan," published in the Italian Official Journal of 30 January 2013, no. 35.

With reference to the 2012-2014 three year plan, the Decree identifies the priority areas of intervention and the associated resources, for a total of € 221 million.
With reference to the 2012 annual operational plan, an amount equal to € 62 million was set aside for the execution of the research activities envisaged through the program agreements with ENEA, CNR and RSE.

Italian Law no. 10 of 14 January 2013 "Regulations for the development of urban green space," published in the Italian Official Journal of 1 February 2013, no. 27.

Italian Decree of 8 March 2013, containing approval of the National Energy Strategy, published in the Italian Official Journal of 27 March 2013, no. 73.

With the inter-ministerial decree of the Ministry of Economic Development and the Ministry for the Environment and Protection of the Territory and the Sea of 8 March 2013, the National Energy Strategy was approved. The document establishes energy policy objectives, such as the alignment of energy costs with those of Europe by 2020. In that light, it affirms that one of the priorities is the development of infrastructure and the electricity market.

Italian Legislative Decree no. 33 of 14 March 2013, containing "Reorganisation of the regulations governing publicity, transparency and information-disclosure obligations on the part of public administrations," published in the Italian Official Journal of 5 April 2013, no. 80.

The Decree was prepared in implementation of that envisaged in Italian Law 190/12 in regards to preventing corruption and includes obligations related to transparency and publicity assigned to public administrations, investee companies of the same, and their subsidiaries. Said companies, limited to activities of public interest governed by national or community law, are required to publish a certified email address on their institutional websites which citizens can use to send requests, as well as information related to administrative procedures, authorisations and concessions, the selection of contractors for the assignment of work, supplies and services, the disbursement of subsidies, and production costs for services provided to citizens.

Italian Legislative Decree no. 39 of 8 April 2013, regarding "Provisions on the subject of the non-conferrable nature and incompatibility of roles with public administrations and private bodies under public control, pursuant to article 1, paragraphs 49 and 50, of Law no. 190 of 6 November 2012," published in the Italian Official Journal of 19 April 2013, no. 92.

The Legislative Decree was issued in implementation of Italian Law 190/12, regarding the prevention of corruption, and dictates regulations regarding the non-conferrable nature and ineligibility of roles in public administration and controlled bodies.

Italian Decree Law no. 35 of 8 April 2013, published in the Italian Official Journal of 8 April 2013, no. 82, regarding payment of the debt of public administration and local waste, converted with Italian Law no. 64 of 6 June 2013, published in the Italian Official Journal of 7 June 2013, no. 132.

The Decree Law acts in regards to IMU property tax [single municipal tax on property], redetermining the expiries and methods of payment. Payment of the first instalment is carried out on the basis of the percentage and deductions in reference to the twelve months of the previous year. Payment of the second instalment, which is the balance of the tax due for the entire year, with possible adjustment of the first instalment paid, is on the basis of the acts published on the above-mentioned site as of 28 October of each tax year.

Italian Decree Law no. 43 of 26 April 2013 on "Urgent measures on environmental emergencies" published in the Italian Official Journal of 26 April 2013, no. 97, converted with Italian Law no. 71 of 24 June 2013, published in the Italian Official Journal of 24 June 2013, no. 147.

This law introduces provisions regarding excavated dirt and rock and increases of the set stamp duty as of 25 June 2013.

Italian Decree Law no. 54 of 21 May 2013, "Urgent measures regarding the suspension of the municipal tax, refinancing of social programmes in derogation, extension regarding non-permanent work at public administrations, and elimination of salaries of members of parliament of the Government," published in the Italian Official Journal of 21 May 2013, no. 117.

The Decree establishes the suspension of the deadline to pay the first instalment of the municipal tax on main residences to 16 September 2013 and envisages that a general reform of property tax be implemented, to be completed by 31 August. In the context of the reform, it is envisaged that the deductibility of the municipal tax relative to the properties used for production activities relative to company income be reviewed.

AVCP Determination no. 3 of 23 April 2013, relative to "Participation in company networks in tender procedures to award public contracts, pursuant to articles 34 and 37 of Italian Legislative Decree no. 163 of 12 April 2006," published in the Italian Official Journal of 24 May 2013, no. 120.

The Determination contains indications regarding the concrete methods for company networks to participate in tender procedures, in order to overcome certain application problems.

Italian Law Decree no. 69 of 21 June 2013 containing "Urgent measures to revive the economy", published in the Italian Official Journal no. 144 of 21 June 2013.

In regards to taxes, it envisages the extension of the application of the additional IRES, known as "Robin Tax," also for companies with revenue volumes exceeding € 3 million (in place of the previous € 10 million) and with taxable income greater than € 300 thousand (previously € 1 million).
In regards to the Tobin Tax, the tax on financial operations, introduced by Italian Law 228/12 for transactions related to derivative instruments and high-frequency trading relative to derivative financial instruments and securities, application is postponed to 1 September 2013, in place of 1 July.

Italian Decree Law no. 76 of 28 June 2013, regarding VAT and youth employment, "First urgent measures to promote employment, specifically youth, social cohesion, and in regards to value added tax (VAT) and other urgent financial measures," published in the Italian Official Journal of 28 June 2013, no. 150.

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

For the 2013 tax period, the measurement of IRPEF advances is increased (from 99 to 100%), as well as IRAP (from 100 to 110%) and IRES (from 100 to 101%). The changes will take effect as of the second prepayment instalment envisaged for November.

In addition, the regions with special status and the autonomous provinces of Trento and Bolzano, as of 2014, may increase the rate of the additional regional IRPEF by a maximum of one percentage point with an appropriate provision.

An employer who hires workers for a full-time permanent position, who make use of Social Security/Unemployment, is allowed, for each monthly payment, a monthly contribution equal to 50% of the residual monthly indemnity that would be paid to the worker.

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

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

Resolutions of the Authority for Electricity and Gas

Resolution 28/2013/R/eel

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

Resolution 34/2013/R/eel

With this provision, containing *“Updates to the Integrated Settlement Rules (ISRs)”*, the Authority restored the transitory provisions pursuant to paragraphs 72.3 and 72.4 of resolution 111/06, regarding the time frames for regulation of dispatching payments pursuant to articles 38 and 44 of the same resolution, for all of 2013. In addition, the resolution made some formal amendments to implement the amendments already envisaged in other resolutions regarding, among other things, the payment of adjustment compensation, and rationalisation and standardisation of informational flows between distributors and sellers of electricity regarding measurement figures taken at the withdrawal points.

Resolution 40/2013/R/eel

The resolution involves the development projects on the National Transmission Grid to be included in type I=3 pursuant to paragraph 22.5, letter c) of the ITT, as well as the objective dates and milestones for each project for the application of the incentive mechanism to accelerate investments for the 2012-2015 period. In addition, the resolution amends the conditions that allow postponing of the milestones and the objective dates for not yet authorised projects - envisaging that said postponing is allowed when the delay is consequent to an extension of the authorisation process or provisions not foreseeable deriving from the same and when the same delay is due to causes that are objectively outside of Terna's control - and envisages the establishment of a mechanism to monitor progress status for NTG development projects, achievement of the associated milestones, and the associated costs suffered.

Resolution 43/2013/R/eel and Resolution 66/2013/R/eel

In the context of the regulations for accumulation systems, with Resolution 43/2013/R/eel, the Authority admitted two accumulation-system pilot projects to the incentive treatment pursuant to paragraph 22.5 of the ITT, known as "power intensive", inserted in the Terna 2012-2015 Defence Plan approved by the Ministry of Economic Development. To that end, the provision distinguishes between pilot projects on the National

Transmission Grid in the two types: “energy intensive” (limited-size project, but in any case sufficient to allow a significant experiment to be carried out, which involves the creation of electricity accumulation systems using batteries connected to the electricity transmission grid, aimed at achieving insertion into the grid of electricity produced through non-programmable renewable sources to the greatest extent possible) and “power intensive” (the two large experiments, equal to 8 MW each, envisaged in the 2012-2015 Defence Plan, which envisage the installation of electrochemical accumulation systems with power intensive features in Sicily and Sardinia).

The measure established a two-year experimentation period and set out the conditions for remuneration of the above two projects, confirming also the need to guarantee separate recognition of the economic and financial items relating to each power intensive project admitted to the incentives.

With Resolution 66/2013/R/eel, the Authority subsequently provided for the approval and admission to incentive treatment of six energy intensive pilot projects relative to accumulation systems falling under two critical directives indicated in the 2011 Development Plan, approved by the Ministry of Economic Development on 2 October 2012.

Resolution 46/2013/R/eel

With this provision, the Authority positively verified the changes to the Grid Code proposed by Terna regarding the structure of offers on the DSM, including the extension of the offer to switch on the turbo gas systems, introduction of the structure change offer and of certain technical data, and the change in the algorithm used to calculate the payment for a lack of respect of switch-on orders. The Authority also established that Terna act to change the Grid Code, so as to allow for the definition of the technical data for the enabled units and management of changes in said data.

Resolution 69/2013/ R/eel

With this provision, the Authority modified the regulations on the instantaneous withdrawal-reduction service for the three-year period 2013-2015 (known as "super-interruptibility), so as to take into account the changes made to article 34, paragraph 1 at the time Italian Decree Law 179/10 was converted to law. On the basis of this, the Authority established that Terna shall act to assign, on a monthly basis, rather than on a quarterly basis as currently envisaged, the power that is not contracted in any way for the entire period falling between the first useful month after the assignment and 31 December 2015. In the light of this change, Terna is held to send the Authority a new proposed Standard Regulations and Contract.

Resolution 96/2013/A

With this provision, the Authority established the adoption of specific measures to simplify and rationalise the disclosure obligations envisaged in the Authority's regulation and the start of a procedure to adopt the guidelines necessary to measure administrative expenses suffered by regulated parties.

Resolution 129/2013/I/eel

With this provision, regarding “*Monitoring the development of distributed generation systems in Italy for the year 2011”*, the annual report on monitoring the development of distributed generation systems for 2011 was approved, on the basis of the information provided by Terna. Specifically, the report highlighted the spread of distributed generation (DG) and small generation (SG) 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 DG systems into the electricity system, so that they can increase their penetration in a sustainable way over time, guaranteeing the security of said electricity system. Finally, the Authority repeats the importance of the issue in relation to rationalisation of informational flows to the GAUDÌ system.

Resolutions 531/2012/R/eel and 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 system under separate ownership, following the opinion of the European Commission of 11 February 2013 C(2013) 810 final*", the Authority completed the procedure to certify Terna, adopting a final certification decision in accordance with the separate ownership-grid-manager model ("ownership unbundling"), pursuant to article 9, paragraph 1, Directive 2009/72/EC and article 36 of Italian Legislative Decree 93/11. In addition, the provision also envisages certain stipulations regarding Terna, already partially identified in the preliminary certification decision pursuant to Resolution 531/2012/R/eel, relative, specifically, to certain changes in the articles of association and the agreements in existence with the owners of portions of the National Transmission Grid.

Resolution 165/2013/R/eel

With this resolution, the Authority began activities to recognise "Other private grids," or private grids other than:

- internal user grids (IUGs), identified by the same Authority with Resolution ARG/elt 52/10,
- historic cooperatives for which the Authority, with Resolution ARG/elt 113/10 (TICOOP), had already defined the regulation of methods to disburse electricity connection, measurement, transmission, dispatch and sales services, as well as
- other cases traceable to a simplified system featuring a single connection point, a single producer, and a single end customer.

Specifically, on the basis of the information provided by the managers of said grids, each distributing company is held to identify all the "Other private grids" that impact all or part of their concession area providing, in reference to the same, certain information. Similar information must also be provided by Terna, within 150 days of the date the provision is published.

Resolution 166/2013/R/eel

This provision, regarding "*Provisions regarding the accreditation of operators for the Integrated Information System - IIS - and additions to resolution 42/08*" relates to the process of centralising, through the ISS, management of information flows relative to the electricity and natural gas markets. This provision establishes methods and time frames for the exchange of information regarding the stipulation of dispatch and transport contracts by new operators between Terna, the distribution companies and the IIS, and brings the consequent changes and additions to Authority Resolution 42/08.

Resolution 182/2013/R/eel

With this resolution, the Authority:

- quantified the final costs recognised to Terna for carrying out activities necessary to the conduct of the monitoring function for electricity markets as € 920,200;
- quantified the income deriving from the difference from the final costs recognised and the estimated costs as € 122,974;
- established that the income as per the previous point is to be recovered through the fee for Terna's operations for the year 2014.

Resolution 197/2013/E/eel

With this provision, *“Closure of the fact-finding investigation relative to the dynamics of the electricity market in Sardinia*” the Authority:

- closed the investigation begun with Resolution 342/2012/R/EEL, through the acquisition, as the final action, of the document "Technical report on the results of the fact-finding investigation regarding the dynamics of the electricity market in Sardinia";
- mandated the offices to carry out further research as assigned in regards to reviewing the regulation of the effective imbalances and revising the TIMM, in order to establish that Terna create a market simulator that makes it possible to simulate all stages of the DSM.

Resolution 204/2013/R/eel

With this provision, the Authority began procedures to reform the tariffs for grid services (transmission and distribution) and for measurement of electricity, as well as the tariff components that cover general system charges for low voltage domestic usage, aimed at reforming tariffs for the disbursement of electricity transmission, distribution and measurement services for low voltage domestic use, as well as the review of the structure of the tariff components intended to cover general charges for the electricity system.

Said procedure will be completed together with other procedures that will be started to define the tariff regulations for the fifth regulation period (2016-19), with the exception of early activation of certain specific measures starting in 2014.

Resolution 206/2013/R/eel

With this resolution, the Authority:

- recognised as completed, in respect of the agreed-upon time frames, the activities to implement operations of the Gaudì system envisaged in the project plans prepared by Terna and approved by the Authority;
- quantified the amount of the final costs recognised to Terna for 2012 for the execution of activities aimed at developing and rendering operational the Gaudì system, as € 785,957;

- established the use of the savings, quantified as € 171,043, deriving from the difference between final costs pursuant to the point above and the percentage of costs estimated for 2012 (€ 957,000) for the purposes of quantifying the payment for Terna's operations relative to 2014.

Resolution 208/2013/R/eel

In this measure the Authority:

- determined the advance payment on the reimbursement price for the years 2010 and 2011, with reference to the essential Montemartini production plant;
- made an addition to the regulations regarding remuneration of productive capacity availability. In particular:
  - introduced the concept of virtual market operators for each essential unit eligible for reimbursement of costs and eligible for remuneration of production capacity, in order to identify the amount of the additional payment to be accounted for among the revenues of the operator who has the costs of the essential units reimbursed;
  - changed the algorithm used to calculate the additional payment and in particular the formula used to determine the effective revenues of each market operator.

Resolution 231/2013/R/eel

With this provision, regarding "*Economic treatment of energy disbursed from production units for primary frequency regulation"* the Authority:

- introduced a mechanism, based on a proposal sent by Terna, that allows the contribution to primary regulation provided by production units to be excluded from unbalancing, through measurement of the same and subsequent inclusion in the input program;
- set out that Terna send the Authority, to verify compliance, the Grid Code and relative technical annexes, amended and consulted in order to implement said mechanism, by 1 October 2013;
- envisaged the implementation of the mechanism, which the production units can make use of on a voluntary basis through by paying the connected charges (installation of equipment and certification), by 1 April 2014.

Resolution 239/2013/R/eel and Resolution 285/2013/R/eel

With subsequent provisions, the Authority took action, in the context of the completion of the procedure to organically amend the unbalance regulations (begun with Resolution 197/2013/R/eel), to define urgent measures regarding containment of unbalancing charges.
In particular, it determined that:

- as of 1 July 2013, and limited to the macrozones of Sicily and Sardinia, Terna shall calculate the direction of the macrozone unbalance, excluding the ex ante changes made in the DSM;
- the algorithm for remuneration of switch-on orders be modified so as to not pay the switch-on fee in the cases in which, in any sub-stage of the ex ante DSM, a switch on already scheduled by the user of the energy market dispatching is confirmed or moved. To that end, the resolution requires Terna to request the Authority, by approval, for an updated version of Annex A.23 to the Grid Code (which

defines the rules for remuneration of switch-on orders) that takes into account that envisaged in the resolution.

Resolution 242/2013/R/eel

With this provision, the Authority made decisions regarding the production plants of San Filippo del Mela 220 kV, San Filippo del Mela 150 kV and Centro Energia Ferrara, as essential plants for the year 2012.

Resolution 243/2013/R/eel

With this provision, the Authority continued its actions to adjust distributed generation systems already operational as of 31 March 2012 to the provisions contained in annex A.70, extending the retrofit effects also to plants with power up to 50 kW connected in medium voltage and to production plants connected in low voltage.

Specifically, the resolution envisages that producers must comply with the provision that requires plants to remain connected to the grid within the frequency interval of 49 Hz - 51 Hz:

- by 30 June 2014, for plants with power over 20 kW already connected at low voltage as of 31 March 2012 and for plants with power up to 50 kW already connected at medium voltage as of the same date;
- by 30 April 2015, for plants connected at low voltage with power over 6 kW and under 20 kW.

Additionally:

- In the case of a lack of compliance with the terms, suspension of the disbursement of the incentive by GSE is confirmed, also for these plants. To that end, the Authority asks GSE, in reference to the in situ exchange and dedicated withdrawal services, to apply the associated agreements to the clauses which envisage the suspension of the efficacy of said agreements in the case of non-fulfilment, until the plants are compliant;
- finally, the possibility is envisaged that distributors, in the case of appropriately documented special situations, may ask Terna, under their responsibility, for temporary derogations in the application of the provision in the case of given conditions specified in the provision and on the basis of the same principles as those already adopted as per Resolution 84/2012.

Resolution 262/2013/R/eel

With this provision, the Authority amended Resolution ARG/elt 48/04, regarding transitory remuneration of production-capacity availability, establishing:

- the criteria by which Terna must determine the value of parameter G_{CAP1} for the year 2012 in order to make the specific 2012 payment by 30 June 2013;
- the criteria by which Terna must determine the value of parameter G_{CAP1} for the year 2013 in order to make the specific 2013 payment by 30 November 2013.

With the same provision, the Authority also defined the table that specifies the time slots with reference to the year 2012, establishing that Terna, within 30 days of the resolution taking effect, must send a proposal for the table of time slots, in reference to the year 2013, for approval by the Authority.

Condensed consolidated interim financial statements as at 30 June 2013

Consolidated financial statements

Consolidated income statement

Consolidated Group - TERNA INCOME STATEMENT *€ million*	Notes	H1 2013	H1 2012
A REVENUE			
1 Revenue from sales and services	1	898.8	840.3
of which: related parties		*716.1*	*640.9*
2 Other revenue and income	2	20.0	16.3
Total revenue		**918.8**	**856.6**
B OPERATING EXPENSES			
1 Raw materials and consumables	3	5.6	7.5
2 Services	4	64.7	63.6
of which: related parties		*9.9*	*0.5*
3 Personnel expenses	5	103.6	103.1
- gross personnel expenses		*139.3*	*137.5*
- gross personnel expenses, capitalised		*(35.7)*	*(34.4)*
of which: related parties		*0.2*	*0.9*
4 Amortisation, depreciation and impairment	6	213.7	204.6
5 Other operating expenses	7	12.7	13.4
of which: related parties		*0.2*	*0.2*
Total expenses		**400.3**	**392.2**
A-B Operating profit		**518.5**	**464.4**
C Financial income/expense			
1 Financial income	8	41.5	33.2
2 Financial expense	8	(86.1)	(98.0)
of which: related parties		*3.2*	*(6.1)*
3 Share of profits/(losses) of equity-accounted investees	9	1.9	2.7
D Profit before taxes		**475.8**	**402.3**
E Income taxes	10	212.1	180.4
H Net profit for the period		**263.7**	**221.9**
Profit for the period attributable to the owners of the Parent		***263.7***	***221.9***
Earnings per share			
Basic earnings per share	11	0.131	0.110
Diluted earnings per share		0.131	0.110

Consolidated statement of comprehensive income

Consolidated Group - TERNA STATEMENT OF COMPREHENSIVE INCOME *€ million*	Notes	H1 2013	H1 2012
Net profit for the period		**263.7**	**221.9**
Other components of comprehensive income for the period which will be subsequently released to the income statement.			
- Cash flow hedge net of tax effect	22	23.5	(10.7)
- Securities available for sale net of the tax effect	22	-	(5.5)
Other components of comprehensive income for the period which will not be subsequently released to the income statement.			
- Actuarial gains (losses) on Employee Benefits net of the tax effect	22	7.5	7.7
Net comprehensive income for the period		**294.7**	**198.0**
Net comprehensive income for the period attributable to:		**294.7**	**198.0**
Owners of the Parent		294.7	198.0

Consolidated statement of financial position

Consolidated Group - TERNA STATEMENT OF FINANCIAL POSITION ASSETS *€ million*	Notes	at 30.06.2013	at 31.12.2012	at 01.01.2012
A- Non-current assets				
1 Property, plant and equipment	12	9,650.3	9,342.0	8,618.2
of which: related parties		*6.4*	*18.5*	*24.3*
2 Goodwill	13	190.2	190.2	190.2
3 Intangible assets	14	272.6	280.2	280.7
4 Equity-accounted investees	15	74.4	73.5	66.8
5 Non-current financial assets	16	591.2	755.7	522.4
6 Other non-current assets	17	7.8	7.1	6.6
Total non-current assets		**10,786.5**	**10,648.7**	**9,684.9**
B- Current assets				
1 Inventories	18	7.2	6.6	16.3
2 Trade receivables	19	2,122.1	1,884.1	1,690.2
of which: related parties		*268.8*	*424.9*	*122.5*
3 Current financial assets	16	40.5	21.3	155.5
of which: related parties		*0.3*	*0.3*	*0.4*
4 Cash and cash equivalents	20	1,727.6	2,510.1	1,114.9
5 Income tax assets	21	15.4	18.6	4.4
6 Other current assets	17	30.7	59.6	20.5
of which: related parties		*1.1*	-	-
Total current assets		**3,943.5**	**4,500.3**	**3,001.8**
TOTAL ASSETS		**14,730.0**	**15,149.0**	**12,686.7**

Consolidated Group - TERNA STATEMENT OF FINANCIAL POSITION LIABILITIES *€ million*	Notes	at 30.06.2013	at 31.12.2012	at 01.01.2012
C- Equity attributable to owners of the Parent				
1 Share capital		442.2	442.2	442.2
2 Other reserves		773.9	742.9	776.4
3 Retained earnings		1,341.9	1,280.3	1,262.7
4 Interim dividend		-	(140.7)	(160.8)
5 Net profit for the period		263.7	463.6	440.0
Total equity attributable to owners of the Parent	22	**2,821.7**	**2,788.3**	**2,760.5**
D- Non-current liabilities				
1 Long-term loans	23	8,710.6	8,909.4	6,738.7
of which: related parties		*500.0*	*500.0*	*500.0*
2 Employee benefits	24	118.4	128.4	104.8
3 Provisions for risks and charges	25	152.8	166.9	193.8
4 Deferred tax liabilities	26	180.0	184.8	256.7
5 Non-current financial liabilities	23	103.2	141.2	111.4
6 Other non-current liabilities	27	133.3	135.4	137.1
Total non-current liabilities		**9,398.3**	**9,666.1**	**7,542.5**
E- Current liabilities				
1 Current portion of long-term loans	23	79.0	69.4	59.7
2 Trade payables	28	2,091.0	2,292.1	2,029.8
of which: related parties		*29.5*	*15.6*	*44.9*
3 Tax liabilities	28	62.7	95.0	116.5
4 Current financial liabilities	23	51.3	75.3	40.1
of which: related parties		*1.0*	*1.1*	*2.4*
5 Other current liabilities	28	226.0	162.8	137.6
of which: related parties		*0.4*	*4.9*	*7.3*
Total current liabilities		**2,510.0**	**2,694.6**	**2,383.7**
TOTAL LIABILITIES AND EQUITY		**14,730.0**	**15,149.0**	**12,686.7**

Statement of changes in consolidated equity

31 December 2012 – 30 June 2013

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

31 December 2011 – 30 June 2012

	Consolidated share capital and reserves									
€ million	Share capital	Legal reserve	Share premium reserve	Cash-flow-hedge reserve	Securities-available-for-sale reserve	Other reserves	Retained earnings	Interim dividend	Net profit for the period	**Equity attributable to the owners of the Parent**
Equity at 31 December 2011	442.2	88.2	20.0	(70.0)	-	728.7	1,262.7	(160.8)	440.0	2,751.0
Adjustment of opening balances	-	-	-	-		9.5	-	-	-	9.5
Equity at 31 December 2011	**442.2**	**88.2**	**20.0**	**(70.0)**	**-**	**738.2**	**1,262.7**	**(160.8)**	**440.0**	**2,760.5**
Net profit for the period									**221.9**	**221.9**
Other comprehensive income:										
- Change in fair value of cash flow hedging derivatives net of tax effect				(10.7)						(10.7)
- Change in fair value of securities available for sale net of tax effect					(5.5)					(5.5)
- Actuarial gains (losses) on Employee Benefits net of tax effect						(7.7)				(7.7)
Total other comprehensive income	**-**	**-**	**-**	**(10.7)**	**(5.5)**	**(7.7)**	**-**	**-**	**-**	**(23.9)**
Net comprehensive income	**-**	**-**	**-**	**(10.7)**	**(5.5)**	**(7.7)**	**-**	**-**	**221.9**	**198.0**
Transactions with equity owners:										
- Allocation of 2011 profit										
- Retained earnings		0.2					17.7		(17.9)	0.0
- Dividends								160.8	(422.1)	(261.3)
Total transactions with equity owners	**-**	**0.2**	**-**	**-**	**-**	**-**	**17.7**	**160.8**	**(440.0)**	**(261.3)**
Other changes							(0.1)			(0.1)
Equity at 30 June 2012	**442.2**	**88.4**	**20.0**	**(80.7)**	**(5.5)**	**730.5**	**1,280.3**	**-**	**221.9**	**2,697.1**

Consolidated statement of cash flows*

TERNA GROUP STATEMENT OF CASH FLOWS € million	H1 2013	H1 2012
Net profit for the period	**263.7**	**221.9**
Adjustments for:		
Amortisation, depreciation, impairment losses/(reversals of impairment losses) on property, plant and equipment and intangible assets**	210.0	200.7
Provisions (including employee-related provisions) and impairment	10.1	9.5
(Gains)/Losses on disposals of property, plant and equipment	(0.6)	(1.6)
Financial (income)/expense	45.3	65.6
Income taxes	217.5	181.5
Cash flows generated by operating activities, before changes in net working capital	**746.0**	**677.6**
Increase/(Decrease) in provisions (including employee-related and tax provisions)	(31.5)	(3.3)
(Increase)/decrease in inventories	(0.6)	9.0
(Increase)/decrease in trade receivables and other current assets	(203.8)	(190.8)
Increase/(decrease) in other non-current liabilities	137.4	78.2
(Increase)/decrease in other non-current assets	163.8	(171.6)
Increase/(Decrease) in trade payables and other current liabilities	(284.8)	(194.2)
Interest income and other financial income received	94.6	88.3
Interest expense and other financial expense paid	(190.5)	(81.1)
Income taxes paid	(255.7)	(257.8)
Cash flows generated by operating activities [a]	**174.9**	**(45.7)**
Investments in property, plant and equipment, net of grants received	(479.7)	(525.8)
Proceeds from sale of property, plant and equipment and intangible assets and other changes	(14.9)	2.0
Investment in intangible assets, net of grants received	(18.9)	(18.7)
Increase in equity investments in associates	-	(0.3)
Equity-accounted investee in associates	(0.9)	(2.7)
Cash flows used in investing activities [b]	**(514.4)**	**(545.5)**
Increase in reserves	7.5	-
Increase/(decrease) in net income and accumulated losses	-	(7.7)
Dividends paid	(261.3)	(261.3)
Change in short- and medium/long-term financial payables (including short-term portions)***	(189.2)	1,340.8
Change in short-term financial investments	-	(882.5)
Cash flows generated by financing activities [c]	**(443.0)**	**189.2**
Increase/(Decrease) in cash and cash equivalents [a+b+c]	**(782.5)**	**(402.0)**
Opening cash and cash equivalents	**2,510.1**	**1,114.9**
Closing cash and cash equivalents	**1,727.6**	**712.9**

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

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

*** Net of FVH derivatives.

Notes to the Condensed Consolidated Interim Financial Statements

A. ACCOUNTING POLICIES AND MEASUREMENT CRITERIA

Introduction

Terna S.p.A. has registered offices in Viale Galbani 70, Rome, Italy. The Condensed Consolidated Interim Financial Statements for the first six months of 2013 comprise the interim financial statements of the Company and those of its subsidiaries (the "Group"), as well as the Group's investments in associates and joint ventures. The subsidiaries included within the scope of consolidation are listed below.
The Consolidated Financial Statements at and for the year ended 31 December 2012 are available upon request at the Terna S.p.A. registered offices in Via Galbani 70, Rome, or on the company's website www.terna.it.

Compliance with IAS/IFRS and basis of presentation

The Condensed Consolidated Interim Financial Statements at and for the six months ended 30 June 2013 have been prepared in accordance with the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), endorsed by the European Commission ("IFRS-EU") at that date and used in preparing the Consolidated Financial Statements at and for the year ended 31 December 2012.
The Group's Condensed Consolidated Interim Financial Statements for the first half of 2013, prepared in conformity with IAS 34, do not contain all of the information required for Annual Financial Statements and must be read together with the Consolidated Financial Statements at and for the year ended 31 December 2012. In particular, these Condensed Consolidated Interim Financial Statements present summary financial information, while the formats of the principal schedules are consistent with those presented in the annual report.
It is worth noting that, starting from 1 January 2013, the new version of IAS 19 - Employee Benefits came into effect, the main innovation for the Group being the accounting of the actuarial gains and losses in the other items of the comprehensive income statement. The first application is retroactive and determined a restatement on comparative equity balances at 31 December 2012, an increase in the liabilities for employee benefits of € 9.0 million, larger deferred tax assets (recognised under net deferred taxes) for € 3.0 million, and lower equity reserves of € 6.0 million. With regard to the comparative equity balances at 1 January 2012 and at 30 June 2012 liabilities for employee benefits decreased respectively by € 14.4 million and increased by € 11.7 million; consequently equity at 1 January 2012 went up by € 9.5 million (net of the tax effect), and came down by € 7.7 million at 30 June 2012 (net of the tax effect).
Starting from the same date, with non-retrospective application, the new principle IFRS 13 - Fair Value Measurement, also came into effect which, in addition to identifying a univocal definition of fair value, also identifies the general guidelines for the valuations in the financial statements. The adoption of the measurement models has entailed a reduction in the value of the derivatives of fair value hedge, classified in assets of € 3.6 million and a reduction in the value of the cash flow hedge derivatives, classified in liabilities of € 0.3 million.
It is specified that some comparative balances of the condensed consolidated interim financial statements at 30 June 2012, provided for comparison, have been reclassified, without, however, altering the equity values at 30 June 2012 and those of the income statement for the first half of 2012.

Use of estimates

The preparation of the Condensed Consolidated Interim Financial Statements at 30 June 2013, required management to make estimates and assumptions that affect the carrying amounts of assets and liabilities and the related disclosures, as well as the amounts of contingent assets and liabilities at the reporting date. The estimates and the associated assumptions were based on previous experience and various other factors considered reasonable under the circumstances, and were applied to measure the carrying amounts of assets and liabilities not readily determinable from objective sources. Actual results may differ from these estimates.

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

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

The aforementioned first application of IFRS 13 involves a change in the estimate of the mark to market (mtm) of the positions in derivatives: the fair value of the portfolio is adjusted for the CVA (Credit Valuation Adjustment) components, which measures the credit risk of the counterparties, and that of DVA (Debit Valuation Adjustment) which instead measures the credit risk of Terna. The method of calculation used consists in the weighting of the mtm expected monthly until maturity for the corresponding default probability during the period of the counterpart, as expressed in the following formula:

$$CVA/DVA = \sum PDxEADxLGD$$

with Pd= probability of default, EAD= Exposure at default and LGD= Loss Given Default, considered to be 60%* (1 - recovery rate) according to market practice;

**Source: Reuters, Bloomberg, Moody's, S&P, Fitch*

Once the default probabilities have been calculated from the annual Credit Default Swap (CDS) for the bank counterparts and from the levels on the secondary market for Terna of their own bonds, then the marginal default probabilities are calculated and applied to the individual mtm expected on the various dates. The sum of the marginal default probabilities applied to the various values of mtm expected and corrected by the LGD component provides the value of the CVA/DVA related to the derivative.

The mtm values expected have been calculated with the internal pricing system based on the forward market rates at the valuation date and the expected loss has been instead assumed as being 60% following the market practice.

Scope of consolidation

Subsidiaries

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

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

During the first half of 2013, no events occurred which would have had effects on the Terna Group's consolidation scope, which therefore reflects the situation at 31 December 2012.

Associates

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

The number of associates and the related equity investments have not changed since 31 December 2012.

Joint ventures

The number of joint ventures and the interests held in them have not changed since 31 December 2012. Elmed Etudes Sarl is the only joint venture, in which the Parent holds a 50% interest.

New standards

International Financial Reporting Standards taking effect from 1 January 2013

The following international financial reporting standards and related interpretations took effect from 1 January 2013:

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 termination benefits and the requirements for disclosure of all employee benefits. Among the most significant changes, 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). Finally, the amendment also introduces new additional information to be provided in the notes to the financial statements.
For more details on the application methods and on the relative effects on the data presented for comparative purposes, please refer to the paragraph "Compliance with IAS/IFRS and basis of presentation" of the Interim Financial Report at 30 June 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. The amendment primarily impacted on the disclosure of this Interim Financial Report at 30 June 2013.

IFRS 13 – Fair Value Measurement

On 11 December 2012, the standard IFRS 13 was approved by the European Commission which combines the provisions on fair value measurement and the related disclosure into a single accounting standard. The standard 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 valuation 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. The new standard does not include conditions detailing when the measurement of an item at fair value is required (this aspect is dealt with by the individual Standards), and only identifies the guidelines for its measurement. For more detail on the application effects, please refer to the paragraph "Compliance with IAS/IFRS and basis of presentation" of this Interim Financial Report as at 30 June 2013.

Improvement to IFRSs (2009-2011 Cycle)

On 27 March 2013, the Annual Improvement was approved 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 should additional comparative information be 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 beginning of the previous period, this same entity must present a third statement/column on the opening balance sheet (related to the beginning 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 as Property, Plant and Equipment if used for more than one financial year or to inventories if 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 provided to the chief operating decision-maker 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 amendments are applicable retrospectively from the financial year which started 1 January 2013 and did not have any impact on the Interim Financial Report at 30 June 2013.

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

- Amendment to IFRS 7 - Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities, requires additional disclosures regarding the actual or potential effects of the application of the rules of offsetting financial assets and liabilities;
- "IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine" - accounting treatment of the costs of stripping a surface mine, to be recognised during production.
- Amendment to IFRS 1 - Government Loan related to the booking of government grants (IAS 20) for entities that apply the IFRS for the first time.

International financial reporting standards endorsed but not yet in force

At the date these financial statements were prepared, the European Commission endorsed certain accounting principles. The possible impact of their application on the financial statements of the Terna Group is being evaluated. These accounting principles are listed below.

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 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 its involvement in the investee and has the possibility of affecting these returns through its power over the investee. Additionally, in identifying the investor it is essential to consider both potential but substantive voting rights, where the holder has the real possibility of exercising these rights, and actual control, understood as the possibility of unilaterally guiding activities. The first adoption of the standard will be retrospective.

- **IFRS 11 – Joint Arrangements**

The new standard introduces important simplifications as it supersedes the classification into three types envisaged by IAS 31. The new classification is based on analysing the rights and obligations arising from the agreement and establishes only two types: Joint Operations and Joint Ventures. The first derive from a non-structured arrangement through a separate vehicle by the parties, which determines rights on the assets and obligations from liabilities. For accounting purposes, the controlling share of assets, liabilities and corresponding costs and revenue are recognised. The second, on the other hand, are classified as joint ventures where there are structured arrangements 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 provide in the financial statements with regard to interests in subsidiaries, associates and joint ventures in addition to structured entities, in lieu of the requirements previously included in IAS 27 and IAS 28. The purpose of the new standard is to provide more information on the financial statements in relation to the basis for measuring control, any limits to consolidated assets and liabilities and risk exposure deriving from involvement with the entity.

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

The amendment to IAS 27 aims to provide the rules to be applied in 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 new IFRS 10, to which reference should be made for further details.

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

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

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

On 04 April 2013, the European Commission endorsed the amendment to IFRS 10, IFRS 11 and IFRS 12, which contains clarifications on the transition rules to the new principles on consolidated financial statements, and defines the methods for the first and retrospective application.

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

- Amendment to IAS 32 - Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities, provides clarifications on the presentation of the offsetting of financial instruments on the financial statements, and will come into force on 1 January 2014.

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.
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 27*R*, which establishes the introduction of "Investment Entities" as a separate type of entity, which by virtue of the investment business performed, are excluded from the consolidation accounting requirements set out by the new standards.

Amendment to IAS 36 - Recoverable amount disclosure for non-financial assets

On 29 May 2013, the IASB published the amendment to the standard IAS 36 - Impairment of Assets, which provides clarifications regarding disclosure to be provided in case of impairment of assets, when the recoverable value was determined as fair value less costs to sell and, furthermore, sets out limits on the obligation of indicating in the disclosures the recoverable value of the assets or the cash generating units (CGU).

Amendment to IAS 39 – Novation of derivatives and continuation of hedge accounting

Published on 27 June 2013 by the IASB, the amendment to IAS 39 sets out certain exemptions to the requirements of hedge accounting defined by the IAS 39 when an existing derivative must be replaced (novation) with a new derivative which perforce has a central counterparty (Central Counterparty –CCP).

Interpretation IFRIC 21 - Levies

On 20 May 2013, the IASB published the interpretation IFRIC 21 - Levies in order to clarify when to provide for liabilities in case of levies imposed by governments.

B. NOTES TO THE CONSOLIDATED INCOME STATEMENT

REVENUE

1. REVENUE FROM SALES AND SERVICES - € 898.8 million

“Revenue from sales and services” for the first six months of 2013 and 2012 is analysed in the following table:

€ million	H1 2013	H1 2012	Change
Grid transmission fees	819.8	746.2	73.6
Other energy revenue	67.0	81.4	(14.4)
Other revenue from sales and services	12.0	12.7	(0.7)
Total	**898.8**	**840.3**	**58.5**

Grid transmission fees

In consideration of the contingencies for intercompany adjustments caused by the review of the perimeters of the NTG of the grid owners, the increase in the item, € 73.6 million, refers for the most part to:

- the Parent Company for € 69.5 million, for the greater revenue attributable to:
  - effects of the AEEG Resolution 565/2012 which updated among other things the fees for the disbursement of the transmission services (+ € 61.2 million).
  - higher grid transmission fees related to the Defence plan (+€ 8.3 million).
- the subsidiary Terna Rete Italia S.r.l., +€ 4.1 million, for the units of the national transmission grid owned.

Other energy revenue

This item comprises the fees paid to the Parent by electricity companies for dispatching services (DIS component, € 55.3 million), together with revenue from the construction and development of dispatching infrastructures recognised pursuant to IFRIC 12 (€ 11.7 million).

The decrease of € 14.4 million in comparison with the first half of 2012 was mainly due to the combined effect of the following factors:

- update of the payment system for dispatching activities (+€ 4.1 million);
- adjustment of the fair value recorded in the first half of 2012, of € 10 million, related to the measurement of the performance achieved by Terna on the Dispatching Services Market (DSM) related to the incentive mechanism provided by the AEEG Resolution 213/09;
- recognition in the first half of 2012 of contingent assets of € 4.5 million for the effects of the former AEEG Resolution 50/2012, which closed the procedure for the year 2010 related to establishing the premiums and penalties for the company Terna S.p.A., on the subject of transmission service quality (NDU/ENSR).
- reduction in revenue through application of the IFRIC 12 because of lower investments in the dispatching infrastructures (-€2.4 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 Terna on the DSM are billed on a pro rata basis to each consumer with an uplift fee.

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

The components of these transactions are detailed below.

€ million	**H1 2013**	**H1 2012**	**Change**
Revenue – Electricity Market	2,338.6	2,236.9	101.7
Revenue – non-Electricity Market	709.8	689.3	20.5
Total pass-through energy revenue	**3,048.4**	**2,926.2**	**122.2**
Costs – Electricity Market	2,338.6	2,236.9	101.7
Costs – non-Electricity Market	709.8	689.3	20.5
Total pass-through energy costs	**3,048.4**	**2,926.2**	**122.2**

Other sales and services

The item "Other sales and services" comes to € 12.0 million and shows a slight decrease of € 0.7 million compared to the first half of 2012, referable mainly to more systems engineering activities conducted in the first half of the preceding financial year.

2. OTHER REVENUE AND INCOME - € 20.0 million

“Other revenue and income” for the first six months of 2013 and 2012 is broken down in the following table:

€ million	**H1 2013**	**H1 2012**	**Change**
Rental income	11.0	8.7	2.3
Sundry grants	3.4	3.6	(0.2)
Sales to third parties	1.0	0.7	0.3
Gains on the disposal of plant components	0.7	1.7	(1.0)
Contingent assets	3.4	0.8	2.6
Other revenue	0.5	0.8	(0.3)
Total	**20.0**	**16.3**	**3.7**

Other revenue and income, of € 20 million, € 17.3 million attributable to the Parent Company, show an increase of € 3.7 million referable, for the most part, to:

- greater contingent assets (+€ 2.6 million) mainly attributable to statutory disputes, as well as the adjustment of the estimate of the risks on receivables related to the core business;

- greater revenue for rental income (+€2.3 million) as a result of the review of the fees pertaining to the fibre-optic housing;
- higher capital gains recorded in the first half of 2012 (+€ 1 million) basically on the disposal of a part of the car park.

OPERATING EXPENSES

3. RAW MATERIALS AND CONSUMABLES - € 5.6 million

This item (amounting to € 5.6 million) which expresses the value of consumption of materials and miscellaneous equipment used in the ordinary activities of operating and maintaining plants, was down by € 1.9 million compared to the figure for the same period of the previous financial year. This was mainly due to the greater costs recorded in the first half of 2012 on application of IFRIC 12.

4. SERVICES - € 64.7 million

The item shows a change compared to the first half of 2012 of +€ 1.1 million as detailed in the following table:

€ million	**H1 2013**	**H1 2012**	**Change**
Tenders on plants	13.3	14.9	(1.6)
Maintenance and sundry services	23.0	23.4	(0.4)
Insurance	3.8	3.8	0.0
Remote transmission and telephony	7.5	6.2	1.3
IT services	9.7	10.3	(0.6)
Leases and rentals	7.4	5.0	2.4
Total	**64.7**	**63.6**	**1.1**

The cost of services totalled € 64.7 million, of which € 26.3 million related to the Parent Company and € 35.0 million and € 1.9 million to the subsidiaries Terna Rete Italia S.p.A. and Terna Rete Italia S.r.l. respectively. It is specified that the costs relating to remuneration to the Board of Statutory Auditors for the period amount to € 0.2 million.

5. PERSONNEL EXPENSES - € 103.6 million

Personnel expenses for the first six months of 2013 and 2012 are broken down in the following table:

€ million	H1 2013	H1 2012	Change
Wages, salaries and other short-term employee benefits	129.7	128.4	1.3
Directors' fees	1.1	1.1	0.0
Post-employment benefits, electricity discount and other employee benefits	8.5	8.0	0.5
Personnel expenses, gross	***139.3***	***137.5***	***1.8***
Capitalised internal work by employees	(35.7)	(34.4)	(1.3)
Total	**103.6**	**103.1**	**0.5**

The item is essentially in line with data of the same period of the previous financial year (+€0.5 million), thanks to the greater capitalisations of the personnel expenses (+€1.3 million) which partially offset the increase in the gross personnel expenses (€ +1.8 million), attributable to the higher salary and social security costs and other benefits due the employees.

The following table shows the average number of employees of the Group by category for the first half of 2013 and 2012:

	Average number		
	H1 2013	H1 2012	Change
Senior management	63	61	2
Junior management	509	500	9
Office staff	1,935	1,956	(21)
Production workers	959	981	(22)
Total	**3,466**	**3,498**	**(32)**

The net change in the average number of employees of the Group was -32 persons during the first half of the year compared with the same period in 2012.

6. AMORTISATION, DEPRECIATION AND IMPAIRMENT - € 213.7 million

Amortisation, depreciation and impairment in the first six months of 2013 and 2012 are broken down below:

€ million	H1 2013	H1 2012	Change
Amortisation of intangible assets	26.5	25.8	0.7
of which: infrastructure rights	*15.0*	*13.6*	*1.4*
Depreciation of property, plant and equipment	186.9	178.7	8.2
Impairment of property, plant and equipment	0.0	0.1	(0.1)
Impairment of trade receivables	0.3	0.0	0.3
Total	**213.7**	**204.6**	**9.1**

Under this item, amortisation and depreciation for the first half-year increased compared to the same period of 2012 (+€ 9.1 million, of which +€ 8.0 concerning the Parent Company), in the main due to the greater depreciation of property, plant and equipment for +€ 8.2 million mainly for new plants which entered into service during the half-year period.

7. OTHER OPERATING EXPENSES - € 12.7 million

“Other operating expenses” for the first six months of 2013 and 2012 are broken down in the following table:

€ million	H1 2013	H1 2012	Change
Allocations made to Provisions for disputes	0.4	0.7	(0.3)
Electricity service quality expenses	4.4	2.0	2.4
Indirect and local taxes and duties	4.4	3.9	0.5
Contingent liabilities	0.7	4.0	(3.3)
Losses on disposal/decommissioning of plant	0.1	0.1	0.0
Other operating expenses	2.7	2.7	0.0
Total	**12.7**	**13.4**	**(0.7)**

The item, equal to € 12.7 million, shows an decrease basically in line with the preceding financial year, € 0.7 million, mainly attributable to the net effect of:

- higher expenses relating to the quality of the electricity service (€ 2.4 million).
- lower contingent liabilities (€ 3.3 million) mainly due to the repayment of the balance of grants paid from 2002 to 2006 to the Ministry for Economic Development in relation to the former concession for private use (€ 3.0 million) recorded during the first half of 2012.

FINANCIAL INCOME AND EXPENSE

8. NET FINANCIAL INCOME/(EXPENSE) – - € 44.6 million

The cost for the first six months of 2013 and 2012 is broken down in the following table:

€ million	H1 2013	H1 2012	Change
Financial income			
Interest income and other financial income	40.8	30.9	9.9
Debt adjustment (bonds) and related hedges	-	1.5	(1.5)
exchange gains	0.7	0.8	(0.1)
Total income	**41.5**	**33.2**	**8.3**
Financial expense			
Financial expense from the Parent	(3.2)	(6.1)	2.9
Interest expense on medium/long-term loans and related hedges	(92.8)	(105.1)	12.3
Debt adjustment (bonds) and related hedges	(0.1)	-	(0.1)
Discounting of post-employment benefits,other personnel-related provisions and provisions for risks and charges	(1.5)	(2.4)	0.9
Capitalised borrowing costs	11.5	15.6	(4.1)
Total expense	**(86.1)**	**(98.0)**	**11.9**
Total	**(44.6)**	**(64.8)**	**20.2**

Net financial expense amounted to € 44.6 million, comprising financial expense for € 86.1 million and financial income for € 41.5 million . The decrease of € 20.2 million compared to the same period of the prior year is mainly attributable to the following factors:

- increased financial income (+€9.9 million) which were primarily attributable to the joint effect of:
  - greater liquidity invested (+€10.4 million);
  - recording of lower net income for uplift (-€0.5 million);
- the net economic loss deriving from the adjustment to fair value of bonds and related hedges (-€1.6 million);
- exchange rate adjustment (-€0.1 million) of provisions for probable expenses in relation to tax obligations deriving from the sale of the block of shares of the Brazilian subsidiaries;
- recognition of lower financial expense to the parent CDP (+€2.9 million) following the reduction in the curve of the interest rates which occurred during the first part of the first half of 2013;
- lower financial expense deriving from medium and long-term debt and the related hedges (+ €12.3 million) due to the reduction in the interest rates and the inflation rate during the period;
- lower financial expense deriving from the discounting of employee benefits and provisions for risks and charges (€ 0.9 million);
- lower capitalised financial expense (-€4.1 million).

9. SHARE OF PROFITS/(LOSSES) OF EQUITY-ACCOUNTED INVESTEES - € 1.9 million

This item, mainly in line with the same period of the preceding financial year (-€0.8 million), essentially reflects the adjustment of shares in CGES (€ 0.5 million) and CESI (€ 1.4 million).

10. INCOME TAXES - € 212.1 million

The income taxes for the period, € 212.1 million, increased compared to the first half of 2012 (+€31.7 million), basically due to the higher pre-tax results.

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

€ million	**H1 2013**	**H1 2012**	**Change**
Income taxes			
Current taxes:			
- IRES	201.7	172.9	28.8
- IRAP	38.8	34.4	4.4
Total current taxes	***240.5***	***207.3***	***33.2***
New temporary differences:			
- deferred tax assets	(7.3)	(6.3)	(1.0)
- deferred tax liabilities	0.0	0.0	0.0
Reversal of temporary differences:			
- deferred tax assets	13.5	9.1	4.4
- deferred tax liabilities	(29.2)	(28.6)	(0.6)
Total change in deferred tax assets and liabilities	***(23.0)***	***(25.8)***	***2.8***
Adjustment of prior-year taxes	***(5.4)***	***(1.1)***	***(4.3)***
Total	**212.1**	**180.4**	**31.7**

The tax rate for the half-year comes to 44.6% (equal to 45.7% without taking into account the adjustments related to previous years) and are basically in line with the figure of the first six months of 2012.

Current taxes

Current taxes increased by € 33.2 million in comparison with the first six months of 2012, mainly due to the greater pre-tax profit.

Deferred tax assets and liabilities

Deferred tax assets and liabilities,-€ 23.0 million, show a change of +€ 2.8 million, mainly attributable to the changes in provisions for risks and charges.

Adjustment of prior-year taxes

The adjustments to taxes related to previous years, of -€ 5.4 million, refer to the contingencies resulting from the actual liquidation of the taxes during the tax-return; this item increased by € 4.3 compared to the figure of the first half of 2012.

11. EARNINGS PER SHARE

Basic earnings per share, which corresponds to diluted earnings per share, amounts to € 0.131 (with a numerator equal to € 263.7 million, and a denominator of 2,009,992.0 thousand).

C. OPERATING SEGMENTS

Consistent with the 2103-2017 Strategic Plan submitted last 6 February, following are the operating segments identified within 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 regulated by AEEG with similar characteristics in terms of the 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 specific commercial initiatives.

Below are the results of the operating segments of the Terna Group in the first half of 2013 and the first half of 2012, in line with the evidence of the Group management control system and the reconciliation with the Group's pre-tax result.

	Italy	
€ million	**H1 2013**	**H1 2012**
Total core business revenue	898.3	834.3
Total non-core business revenue	20.5	22.3
Total revenue	**918.8**	**856.6**
EBITDA	**731.9**	**668.9**
of which EBITDA core business*	718.6	653.2
of which adjusted** EBITDA – non-core business	13.3	15.7
EBITDA margin	*79.7%*	*78.1%*
*EBITDA margin core business**	*80.0%*	*78.3%*
*non-core business adjusted** EBITDA margin*	*64.9%*	*70.4%*

** EBITDA including indirect costs*

*** Comprehensive EBITDA of product/orders, not including indirect costs*

Reconciliation of segment result with pre-tax company result

	H1 2013	**H1 2012**
EBITDA	***731.9***	***668.9***
Depreciation and amortisation	213.4	204.5
EBIT	***518.5***	***464.4***
Financial income/(expense)	(44.6)	(64.8)
Share of profit/(loss) of holding valued at equity	1.9	2.7
Profit before taxes	***475.8***	***402.3***

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 at 30 June 2013 and for the 2012 financial year:

	Italy	
€ million	**30.06.2013**	**31.12.2012**
Net non-current assets[6]	10,196.1	9,893.8
NWC[7]	(348.4)	(770.4)
Gross invested capital[8]	9,847.7	9,123.4
Investments in associates and joint ventures	74.4	73.5

[6] 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).

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

[8] The gross invested capital is equal to the sum of net non-current assets and the NWC (Net Working Capital).

D. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

12. PROPERTY, PLANT AND EQUIPMENT - € 9,650.3 million

Property, plant and equipment amount to € 9,650.3 million (€ 9,342.0 million at 31 December 2012). The amount and changes for each category are reported in the following table:

€ million	Land	Buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Total
Cost at 01.01.2013	**97.1**	**1,232.4**	**12,406.2**	**73.6**	**112.4**	**1,436.9**	**15,358.6**
Investments	0.1	0.6	32.1	0.8	1.9	449.5	485.0
Entry into use	0.3	33.1	161.1	2.4	1.1	(198.0)	-
Disposals	(0.1)	(0.1)	(13.6)	-	(0.6)	-	(14.4)
Other changes	-	-	(1.9)	-	-	12.6	10.7
Cost at 30.06.2013	**97.4**	**1,266.0**	**12,583.9**	**76.8**	**114.8**	**1,701.0**	**15,839.9**
Accumulated depreciation and impairment at 01.01.2013	**-**	**(337.9)**	**(5,564.9)**	**(48.5)**	**(65.3)**	**-**	**(6,016.6)**
Depreciation charge for the period	-	(15.0)	(161.8)	(2.2)	(7.9)	-	(186.9)
Disposals	-	0.1	13.2	-	0.6	-	13.9
Accumulated depreciation and impairment at 30.06.2013	**-**	**(352.8)**	**(5,713.5)**	**(50.7)**	**(72.6)**	**-**	**(6,189.6)**
Carrying amount							
at 30 June 2013	**97.4**	**913.2**	**6,870.4**	**26.1**	**42.2**	**1,701.0**	**9,650.3**
at 31 December 2012	**97.1**	**894.5**	**6,841.3**	**25.1**	**47.1**	**1,436.9**	**9,342.0**

“Plant and machinery", at 30 June 2013, includes the energy transportation network as well as the transformation stations in Italy.

The item “Property, plant and equipment” shows an increase on the previous financial year amounting to € 308.3 million, as a result of ordinary transactions made during the period, relating to:

- investments for € 485.0 million, of which € 474.7 million made under the scope of the core business of the Group (and relating to the parent company Terna for € 420.5 million, to the subsidiaries Terna Rete Italia S.r.l. for € 20.9 million, Terna Storage for € 21.7 million and Terna Cnra Gora, for € 11.6 million) and € 10.3 million within the scope of non-core activities mainly due to changes made for third parties essentially covered by the related contributions (referring to the parent company for € 6.4 million and to the subsidiary Terna Rete Italia S.r.l. for € 2.3 million);
- Depreciation of the period (-€186.9 million) and disposals and other changes (+€10.2 million).

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

€ million	
Investments	
- Transmission lines	278.8
- Transformation stations	126.3
- Other	69.6
Total investments in property, plant and equipment - core business	***474.7***
Investments in property, plant and equipment - non-core business	***10.3***
Total investments in property, plant and equipment	**485.0**
Depreciation	(186.9)
Disposals and other changes	10.2
TOTAL	**308.3**

As for the investments of the period in core activities (€ 474.7 million), particularly noteworthy, are those on the Italian Transmission Grid owned by the Parent Company, relative mainly to the progress made on the work on the 380 kV power line Sorgente - Rizziconi (€ 78.7 million). This includes the conclusion of the installation of both the submarine three-phase power lines and the relative protection activities, with the excavation activities of the well on the Scilla side and the tunnel of the sea side of Favazzina. Moreover, as regards the power stations: in Calabria the works at Scilla are almost to be completed as well as the second phase activities regarding the 150 kV section, while in Sicily the work at Sorgente is under completion. Meanwhile, in the Villafranca station the civilian work is under way. The construction of the Trino-Lacchiarella (€ 33.8 million) project is in progress with the completion in the first half of the year of four of the changes on existing interfering power lines and the assembly of the first Rosental supports, as per schedule (€ 22.6 million) located in the municipality of Ascoli-Satriano; realization of the Dolo-Carmin project (€ 20.4 million) with the executive design and procurement of the equipment for the power stations of Fusina, Malcontenta and Romea and the acquisition of the areas in order to open the sites by the end of the year. The site of Romea, some cables of the Moranzani corridor and the Dolo-Camin power line have been opened. It is specified that for this intervention on the NTG called Dolo-Camin (380 kV Rationalisation between Venice and Padua) the Parent Company is checking with the Ministries involved (Ministry for Economic Development, Ministry for the Environment and Protection of the Territory and the Sea and Ministry for Cultural Heritage and Activities) the methods for reopening the authorisation process recently invalidated by the Council of State and has started the activities for securing and preserving the projects already constructed; execution of the Foggia-Benevento II project (€ 9.1 million) in which the construction of the foundations, the assembly of the bases and the top parts of the supports are in progress.

In addition, please note the acquisition of the fibre optic system from Wind (€ 30.0 million) and the purchase and restructuring of the offices of Rome, Florence, Cagliari and Chiuro (€ 8.0 million), included in the item "Other" as per the above table.

In terms of assets under construction at the end of the period, the main grid development and re-powering projects worth more than € 3 million are listed below:

	€ million
Transmission lines	
Sorgente - Rizziconi 380 kV power line	70.9
Trino - Lacchiarella 380 kV power line	33.6
Camerelle Station connection	21.6
Dolo - Camin 380 kV power line	16.8
Foggia - Benevento II 380 kV power line	9.2
Musco - Ospiate 220 kV power line	6.5
Calabria transversal 380 kV power line	5.9
Reorganisation of Rome metropolitan area	5.3
Re-powering of Novara-Biella power line	5.3
Foggia - Villanova 380 kV power line	4.9
Reorganisation of Northern-Calabria grid	4.6
Transformer stations:	
380 kV Manfredonia station	8.1
380/150 kV Villafranca station	5.1
380/150 kV Erchie station	4.9
150 kV Capri station	4.0
380 kV Scandale station - 150 kV sec.	3.7
380 kV Foggia station	3.5
380 kV Villanova station	3.1

13. GOODWILL - € 190.2 million

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

14. INTANGIBLE ASSETS - € 272.6 million

Changes in intangible assets during the period are detailed below:

€ million	Infrastructure rights	Concessions	Other assets	Assets under development and payments on account	Total
Balance at 31.12.2012	**121.6**	**95.3**	**32.5**	**30.8**	**280.2**
Investments	-	-	0.3	18.6	18.9
Entry into use	6.5	-	2.6	(9.1)	-
Amortisation	(15.0)	(2.8)	(8.7)	-	(26.5)
Balance at 30.06.2013	**113.1**	**92.5**	**26.7**	**40.3**	**272.6**
Cost	315.9	135.4	148.8	40.3	640.4
Accumulated amortisation	(202.8)	(42.9)	(122.1)		(367.8)
Balance at 30.06.2013	**113.1**	**92.5**	**26.7**	**40.3**	**272.6**

Intangible assets amount to € 272.6 million (€ 280.2 million at 31 December 2012). This item, in particular, includes:

- the infrastructures used for the dispatching services, carried out under concession and booked in accordance with IFRIC 12 - Service Concession Arrangements, for a net book value at 30 June 2013 of € 113.1 million for the infrastructures which went into operation and € 32.8 million for the infrastructures under construction included in the category "Assets under development and payments on account" (€ 121.6 million and € 27.4 million respectively at 31 December 2012).
- the licensing for the provision of electricity transmission and dispatching services in Italy (with net carrying amount of € 92.5 million at 30 June 2013), recognised initially during 2005 at fair value and subsequently measured at cost.

Other intangible assets comprise application software developed internally or purchased when implementing systems development projects.
The decrease with respect to the prior year (€ 7.6 million) is due to routine movements during the period, relating mainly to investments (€ 18.9 million) – mainly in application software – and amortisation (€ 26.5 million, of which € 15.0 million relate to dispatching infrastructure and € 2.8 million to the concession).
Among the investments for the period in intangible assets (€ 18.9 million, of which € 18.6 million in core activities pertaining to the Parent Company) note in particular those related to the remote management system for dispatching (€ 4.8 million), for the Power Exchange (€ 3.5 million) and for the protection of the electrical system (€ 0.3 million), as well as software applications and licenses (€ 6.4 million).

15. EQUITY ACCOUNTED INVESTEE - € 74.4 million

This item, amounting to € 74.4 million,increased by € 0.9 million in comparison with 31 December 2012, due to:

- the adjustment of the equity investment in the associated company CESI at 30 June 2013 attributable to the stake owned by the Parent Company in the same company (€ 0.4 million).
- the adjustment of the equity investment in the associated company CGES at 30 June 2013 attributable to the stake owned by the Parent Company in the same company (€ 0.5 million).

16. FINANCIAL ASSETS

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

€ million	book value 30.06.2013	31.12.2012	Change
FVH derivatives	590.4	754.9	(164.5)
Other investments	0.8	0.8	-
Non-current financial assets	**591.2**	**755.7**	**(164.5)**
Other current financial assets	40.5	21.3	19.2
Current financial assets	**40.5**	**21.3**	**19.2**

At 30 June 2013 "Non-current financial assets" of € 591.2 million includes at 30 June 2013 the measurement of fair value hedging derivatives taken out to hedge the Parent's bonds, determined by discounting the expected cash flows using the market interest rate curve at the reporting date and the value of the other investments of the Parent Company. The decrease in the fair value of the derivatives (-€164.5) compared to 31 December 2012 is basically attributable to the increase in the market interest rate curve which occurred in the second part of the first half of 2013 and the valuation of the credit risk as a result of the application of the IFRS13. The decrease in the fair value of the derivatives referable to the interest rates is offset by the decrease in the fair value components of the bonds recorded in financial liabilities.

"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 S.A.S. (€ 0.4 million).

The item "Current Financial Assets" shows a balance of € 40.5 and an increase compared to the preceding financial year of € 19.2 million, related to the interest accrued and not yet collected concerning short term investments, at the reporting date.

17. OTHER ASSETS

“Other assets” are broken down below:

€ million	30.06.2013	31.12.2012	Change
Receivables due from others:			
- loans and advances to employees	7.2	6.5	0.7
- deposits with third parties	0.6	0.6	-
Other non-current assets	**7.8**	**7.1**	**0.7**
Other tax receivables	8.8	48.5	(39.7)
Receivables due from others:			
- advances to employees	0.2	0.2	-
- other	21.7	10.9	10.8
Other current assets	**30.7**	**59.6**	**(28.9)**

The item "Other non-current assets" (€ 7.8 million) was essentially in line with the previous year (€ 7.1 million) and mainly comprised loans and advances paid to employees by the subsidiary Terna Rete Italia S.p.A. (€ 5.3 million) and by the Parent Company (€ 1.7 million).

The item "Other current assets", equal to € 30.7 million and whose composition is reported in the previous statement, decreased by € 28.9 million compared to 31 December 2012 attributable to the net effect of:

- lower other tax receivables (-€39.7 million), mainly referable to the Group VAT credit due from the tax authorities (€ 35.2 million) and the lower balance of the receivables due from the tax authorities and the withholdings on interest income accrued on the financial assets of the Parent Company (€ 4.5 million);
- greater receivables due from others (€ 10.8 million) mainly relating to greater shares of costs already paid but pertaining to subsequent years, attributable to personnel (€ 6.5 million) and local taxes (€ 1.8 million).

18. INVENTORIES - € 7.2 million

Current inventories show a balance of € 7.2 million at 30 June 2013, mainly in line with the preceding financial year (+€0.6 million).

19. TRADE RECEIVABLES - € 2,122.1 million

Trade receivables are analysed as follows:

€ million	**30.06.2013**	**31.12.2012**	**Change**
Energy-related receivables	1,557.3	1,165.7	391.6
Grid transmission fee receivables	465.0	592.1	(127.1)
Other trade receivables	99.8	126.3	(26.5)
Trade receivables	**2,122.1**	**1,884.1**	**238.0**

Trade receivables amounted to € 2,122.1 million. The increase (€ 238.0 million) from the previous year mainly comprises pass-through amounts deriving from the electricity dispatching activities carried out by the Parent Company.

Receivables are measured net of impairment losses on items considered non-collectable that are covered by allowances for doubtful accounts (€ 19.4 million for energy items and € 5.9 million for other items at 30 June 2013, as compared with € 20.6 million for energy items and € 5.9 million for other items at 31 December 2012.

Energy-related receivables - € 1,557.3 million

They mainly include receivables in relation to the so-called "pass-through" energy items arising in respect of dispatching activities. This item also includes receivables for fees payable by market operators for dispatching activities (DIS fee as per AEEG Resolution no. 111/06 and its subsequent amendments and supplements).

The increase in this item of € 391.6 million from the previous year was mainly due to the combined effect of:

- higher receivables from the sale of electrical energy within the Electricity Market (€ 464.8 million), mainly deriving from increased receivables for the uplift component (€ 367.2 million), from the higher credit items generated by the increase in the quantities and prices valuing the difference (+€ 166.0 million) and in part offset by the decrease in the receivables related to the market coupling mechanism for the management of the congestion on the interconnection with Slovenia (€ 39.7 million) and the lower receivables resulting from the reduction in the procurement volumes of the resources on the Energy Market (€ 24.3 million);
- lower receivables from sales of electricity outside of the Electricity Market (€ 44.6 million), mainly referring to the reduction in the receivables generated by the congestion rent (€ 43.2 million);
- lower receivables as a result of the recognition during the six month period of the income (€ 31.4 million), related to the incentive mechanism for reducing the volumes procured on the Dispatching Services Market (DSM) of the incentive accrued in previous years as provided by Resolution 213/09.

Grid transmission fees receivable - € 465.0 million

The receivable relating to grid transmission fees, equal to € 465.0 million, refers to compensation due to the Parent company and other owners for utilisation of the National Transmission Grid from electrical energy distributors; it primarily refers to the fee accrued in the last two months of the period, with a normal expiration date in the months of July and August 2013. The aforementioned receivable shows a negative change of € 127.1, compared to the preceding financial year, mainly as a result of the tariff adjustments and the recording of the 2011 collection (€ 75.3 million) by CCSE, related to the "mitigation" mechanism of the revenue established by Resolution ARG/elt 188.08 to hedge the risk connected with the reduction in energy consumption.

Other trade receivables - € 99.8 million

The other trade receivables refer mainly to receivables due from customers of the diversified businesses and show a decrease of € 26.5 million compared to the preceding financial year, basically referable to lower receivables of the Group for invoices to be issued (€ 22.1 million) essentially for the invoicing of the amount due from the customer, Wind, for the housing of the fibre optics on the grid owned for the previous years (€ 13.4 million for Terna S.p.A. and € 3.2 million for Terna Rete Italia S.r.l.), resulting from the stipulation of the settlement deed, as well as the invoicing to Enel Distribuzione (€ 4.2 million) of the amount for the use of the Terna S.p.A. infrastructures for power line communications. This item also includes receivables for contract work in progress (€ 1.5 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 decreased with respect to the previous year by € 0.8 million:

The amount of the guarantees issued to third parties by the parent company, Terna S.p.A., at 30 June 2013 came to € 21.8 million, of which € 19.9 million for sureties issued to secure the contractual obligations arising under the scope of operations and € 1.9 million as itemized below:

- € 1.1 million in guarantees issued on behalf of the subsidiary Terna Rete Italia S.r.l.;
- € 0.2 million guarantee issued on behalf of the subsidiary Rete Solare S.r.l.;
- € 0.6 million on behalf of the subsidiary Terna Rete Italia S.r.l.;

all issued on the credit lines of the Parent Company.

20. CASH AND CASH EQUIVALENTS - € 1,727.6 million

Cash and cash equivalents at 30 June 2013 amount to € 1,727.6 million of which € 1,500.0 million are liquid funds invested in short-term deposits, € 227.5 million as positive net liquid funds on bank current accounts and € 0.1 million as cash on hand held by the Territorial Operational Units of the Group.

21. INCOME TAX ASSETS - € 15.4 million

The decrease in the item of € 3.2 million, compared to the previous financial year, is due to the net effect of lower receivables from the tax authorities for IRES (€ 6.4 million) and greater receivables for IRAP (€ 3.2 million), at the time of the 2013 tax-return.

LIABILITIES

22. EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT - € 2,821.7 million

Share capital - € 442.2 million

The share capital of the Parent is represented by 2,009,992,000 ordinary shares with a par value € 0.22 each; this has not changed since 31 December 2012.

Legal reserve - € 88.4 million

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

Other reserves - € 685.5 million

Other reserves increased of € 31.0 million net, due to Other comprehensive income, in particular:

- fair value adjustment of the derivative instruments hedging the floating-rate loans of the Parent - cash-flow hedges (€ 23.5 million), net of the related tax effect (-€14.3 million);
- recognition of the actuarial gains and losses on employees benefits (€ 7.5 million, net of the relative tax effect -€3.9 million).

Retained earnings and losses - € 1,341.9 million

Retained earnings increased by € 61.6 million following allocation of the Group's profit for 2012.

Payment of final dividend

On 14 May 2013, the Shareholders' Meeting resolved a total dividend of € 402.0 million for 2012, equal to € 0.20 per share, and authorised the payment – gross of any withholding taxes – of a final dividend, net of the interim dividend previously paid of € 261.3 million, equal to € 0.13 per share; this amount was paid on 27 June 2013, following detachment of coupon no. 18 on 24 June 2013.

23. LOANS AND FINANCIAL LIABILITIES

The following table details the loans and financial liabilities recognised in the Condensed Consolidated Interim Financial Statements of the Terna Group at 30 June 2013:

€ million	book value 30.06.2013	31.12.2012	Change
Bonds	6,384.3	6,543.7	(159.4)
Bank loans	2,326.3	2,365.7	(39.4)
Long-term loans	**8,710.6**	**8,909.4**	**(198.8)**
CFH derivatives	103.2	141.2	(38.0)
Non-current financial liabilities	**103.2**	**141.2**	**(38.0)**
Current portion of long-term loans	79.0	69.4	9.6
Short-term loans and current portion of medium/long-term loans	**79.0**	**69.4**	**9.6**
Total	**8,892.8**	**9,120.0**	**(227.2)**

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

Gross debt for the period of € 8,892.8 million decreased with respect to the previous year by -€ 227.2 million . The decrease in the value of the bonds (-€159.4 million) is related for -€ 162.0 million to changes in the fair value of the risk hedged and for € 2.6 million to the capitalisation of the inflation for the period tied to the inflation linked bond, net of the amortised cost. The change linked to the hedging of interest-rate risk comprises € 28.6 million related to the inflation-linked bond, € 57.8 million regarding the 2014-2024 bonds, € 23.3 million for the private placement and € 53.1 million relating to the 2021 bond; and it is offset by the decrease in the fair value of derivatives recognised as financial assets (€ 164.5 million).

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

- bond maturing 2024, price at 30 June 2013: 114.45 and price at 31 December 2012: 112.88;
- bond maturing 2014, price at 30 June 2013: 104.37 and price at 31 December 2012: 105.89;
- bond maturing 2023, price at 30 June 2013*: 104.81 and price at 31 December 2012: 105.82;
- bond maturing 2019, price at 30 June 2013: 112.47 and price at 31 December 2012: 114.72;
- bond maturing 2021, price at 30 June 2013: 113.11 and price at 31 December 2012: 113.55;
- bond maturing 2017, price at 30 June 2013: 107.41 and price at 31 December 2012: 108.51;
- bond maturing 2018, price at 30 June 2013: 102.98 and price at 31 December 2012: 102.73.

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

The debt which was originally floating-rate, shows a decrease of € 29.8 million mainly due to the reduction in EIB (European Investment Bank) loans and other financing following repayments made on outstanding loans.

Long-term loans

The total amount of the Group borrowing at 30 June 2013, entirely referring to the Parent, was equal to € 8,789.6 million, of which € 8,710.6 million due after more than 12 months.

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

€ million	Maturity	Original currency	30.06.2013	Due within 12 months	Due beyond 12 months	Average interest rate as of 30.06.2013
Bonds	2014-2024	Euro	1,618.2	-	1,618.2	4.62%
Bonds IL	2023	Euro	684.5	-	684.5	2.75%
Bonds PP	2019	Euro	676.1	-	676.1	4.87%
Bonds 1250	2021	Euro	1,412.7	-	1,412.7	4.75%
Bonds 1250	2017	Euro	1,246.4	-	1,246.4	4.12%
Bonds 750	2018	Euro	746.4	-	746.4	2.87%
Fixed rate			**6,384.3**	**-**	**6,384.3**	
BEI	2014-2030	Euro	1,255.8	79.0	1,176.8	0.65%
Club Deal	2015	Euro	649.5	-	649.5	0.72%
CDP	2019	Euro	500.0	-	500.0	1.06%
Floating rate			**2,405.3**	**79.0**	**2,326.3**	
Total			**8,789.6**	**79.0**	**8,710.6**	

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.

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 0.72%.

For the inflation-linked bonds, taking hedges into account and assuming a 0.95% inflation rate, the average interest rate paid in the year was 0.08%.

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 1.59%.

The average coupon of the 2021 bond is 4.75%; if we consider FVH operations, the average interest rate amounts to 1.46%.

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

With regard to floating-rate loans covered by fluctuations in interest rates - and taking into account the effect of derivative financial instruments booked as cash-flow hedges - an average rate of 2.89 % is reported for EIB financing while for the Club Deal financing totalling € 650 million, the average rate was 3.24% and for the CDP financing the average rate was 3.72%.

The following table reports the changes in long-term debt during the first half of 2013:

Type of loan	Nominal debt at 31.12.2012	Book value at 31.12.2012	Repayment and capitalisation	Delta Fair Value 31.12.2012 30.06.2013	Change in book value	Nominal debt at 30.06.2013	Book value at 30.06.2013
Bonds 2014-2024	1,400.0	1,676.1	-	(57.8)	(57.8)	1,400.0	1,618.3
Listed IL bond	561.7	710.5	2.6	(28.6)	(26.0)	564.3	684.5
Private Placement	600.0	699.4	-	(23.3)	(23.3)	600.0	676.1
2021 bond	1,250.0	1,465.7	-	(53.1)	(53.1)	1,250.0	1,412.6
2017 bond	1,250.0	1,246.0	-	0.4	0.4	1,250.0	1,246.4
2018 bond	750.0	746.0	-	0.4	0.4	750.0	746.4
Total bonds	**5,811.7**	**6,543.7**	**2.6**	**(162.0)**	**(159.4)**	**5,814.3**	**6,384.3**
Bank loans	2,435.7	2,435.1	(29.8)	-	(29.8)	2,405.9	2,405.3
Total bank loans	**2,435.7**	**2,435.1**	**(29.8)**	**-**	**(29.8)**	**2,405.9**	**2,405.3**
Total financial debt	**8,247.4**	**8,978.8**	**(27.2)**	**(162.0)**	**(189.2)**	**8,220.2**	**8,789.6**

At 30 June 2013, the Parent Company has an additional debt capacity of about € 856 million for short-term lines of credit.

Non-current financial liabilities

The following table reports the amount and changes in non-current financial liabilities with respect to the end of the year.

€ million	**30.06.2013**	**31.12.2012**	**Change**
CFH derivatives	103.2	141.2	(38.0)
Total	**103.2**	**141.2**	**(38.0)**

"Non-current financial liabilities" includes the fair value measurement of cash-flow hedges derivatives. Fair value was measured by discounting the expected cash flows using the market interest rate curve at the reporting date. The change in the interest rate curve compared to 31 December 2012 resulted in a change in the derivatives amounting to -€ 38.0 million.

Current financial liabilities

Current financial liabilities, due to the interest expense accrued on financial instruments but not yet settled, decreased by -€ 24.0 million compared to the prior year.

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

	€ million	**Book value 30.06.2013**
A.	Cash	227.6
B.	Term deposits	1,500.0
C.	**Liquidity (A) + (B)**	**1,727.6**
D.	Current portion of long-term debt	79.0
E.	**Current financial debt (D)**	**79.0**
F.	**Net current financial debt (E) - (C)**	**(1,648.6)**
G.	Non-current bank payables	2,326.3
H.	Bonds issued	6,384.3
I.	Derivative financial instruments in portfolio	(487.2)
J.	**Net non-current financial debt (G) + (H) + (I)**	**8,223.4**
K.	**Net financial debt (J) + (F)**	**6,574.8**

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

24. EMPLOYEE BENEFITS - € 118.4 million

As reported in the Basis of Presentation, on 1 January 2013 the new version of the IAS 19 - Employee Benefits came into effect which entailed, for the Group, an adjustment of the opening balance of the item of € 9.0 million.

For the rest, the principal assumptions made in the actuarial estimate of the liabilities for employee benefits are the same ones used for the 2012 Financial Statements, except for the update of the interest rate.

The composition of termination benefits and other employee-related provisions at 30 June 2013 is detailed below along with changes in the period:

€ million	31.12.2012 restated	Provision	*Interest cost*	Utilisations and other changes	Actuarial gains/losses	30.06.2013
Benefits payable to employees						
Loyalty bonus and other incentives	4.5	1.0	-	(0.2)	(0.3)	5.0
Total	**4.5**	**1.0**	**-**	**(0.2)**	**(0.3)**	**5.0**
Benefits payable upon termination of employment						
Termination benefits	66.5	-	0.7	(0.8)	(4.2)	62.2
Additional months' pay	9.3	0.1	0.1	(0.1)	(0.7)	8.7
Indemnities for lack of notice and similar	0.9	-	-	-	-	0.9
Total	**76.7**	**0.1**	**0.8**	**(0.9)**	**(4.9)**	**71.8**
Post-employment benefits						
Energy discount	39.2	0.4	0.4	(0.3)	(5.2)	34.5
ASEM	8.0	0.1	0.1	(0.1)	(1.0)	7.1
Total	**47.2**	**0.5**	**0.5**	**(0.4)**	**(6.2)**	**41.6**
Total	**128.4**	**1.6**	**1.3**	**(1.5)**	**(11.4)**	**118.4**

The item, equal to € 118.4 million at 30 June 2013 (€ 128.4 at 31 December 2012), shows a decrease on the previous financial year of € 10.0 million, attributable mainly to the actuarial gains and losses pertaining to the period (€ 11.4 million) partially offset by the period discounting expense (€ 1.3 million).

25. PROVISION FOR RISKS AND CHARGES - € 152.8 million

The breakdown of the Provisions for risks and charges at 30 June 2013 is detailed below:

€ million	Provision for disputes and litigation	Provisions for other risks and charges	Provision for early retirement incentives	Total
Balance at 31.12.2012	**19.8**	**128.5**	**18.6**	**166.9**
Provision	0.3	7.9	-	8.2
Utilisations and other changes	(3.2)	(17.5)	(1.6)	(22.3)
Balance at 30.06.2013	**16.9**	**118.9**	**17.0**	**152.8**

The Provision for Risks and Charges shows a decrease of € 14.1 million compared to the 31 December 2012 figure, mainly due to the following changes:

- net use (€ 2.9 million) for liabilities which may result from lawsuits and out-of-court disputes relating to the Group's activities;
- net use (-€2.1 million) for "Projects for urban and environmental renewal", the aim of which is to offset the construction of long-distance power lines;
- exchange rate adjustment (-€ 0.7 million) of the provision for probable expenses relating to tax obligations deriving from the sale of Terna Participações;
- net uses regarding management incentive plans (-€ 6.4 million);
- a net accrual of € 2.0 million for the charges due to distributing companies for power failures of the transformation plants connected to the NTG (in accordance with Resolution 341/07);

- net utilisation (€ 1.6 million) of the provision for early retirement incentives covering the estimated extraordinary cost of the mutually agreed early termination of those employees who are eligible for pension.

26. DEFERRED TAX LIABILITIES - € 180.0 million

The changes in this provision are analysed below:

€ million	31.12.2012 restated	Impact recognised in profit or loss		Impact recognised in equity and other changes	30.06.2013
		Provisions	**Utilisations**		
DEFERRED TAX LIABILITIES					
Property plant and equipment	367.8	-	(29.2)	-	338.6
Employee benefits and financial instruments	4.3	-	-	-	4.3
Total deferred tax liabilities	**372.1**	**-**	**(29.2)**	**-**	**342.9**
DEFERRED TAX ASSETS					
Provisions for risks and charges	35.5	2.6	(5.9)	-	32.2
Allowance for doubtful accounts	3.6	-	-	-	3.6
Employee benefits	30.8	4.7	(5.7)	(3.9)	25.9
FVH - CFH derivatives	53.6	-	-	(14.3)	39.3
Release of goodwill	63.7	-	(1.9)	-	61.8
Other	0.1	-	-	-	0.1
Total deferred tax assets	**187.3**	**7.3**	**(13.5)**	**(18.2)**	**162.9**
NET DEFERRED TAX LIABILITIES	**184.8**	**(7.3)**	**(15.7)**	**18.2**	**180.0**

This balance, equal to € 180.0 million, reflects the net movements in the Group's deferred tax assets and liabilities.

Deferred tax liabilities totalled € 342.9 million, down € 29.2 million, essentially due to the combined effect of:

- utilisation of prior period provisions covering the accelerated depreciation recording by the parent company Terna and the subsidiary Terna Rete Italia S.r.l. in excess of the tax allowable amounts. (€ 20.7 million and € 1.6 million respectively), including the amount released in relation to depreciation for the period attributable to the difference from eliminations allocated to property, plant and equipment following mergers carried out in previous years (€ 1.4 million);
- release of the share for the period (€ 4.9 million) of the Provision for deferred IRAP taxes governed by Law no. 244 dated 24 December 2007 (the 2008 Finance Law), recorded in prior years in relation to economic/technical rates;
- release of the charge for the half-year of the deferred taxes calculated on the excess cost paid for the acquisition of Terna Rete Italia S.r.l. following its allocation to the transmission plant and to intangible assets (totalling € 1.9 million).

Deferred tax assets (€ 162.9 million) decreased by € 24.4 million, mainly due to the tax effects of changes in cash-flow hedges and on the actuarial gains and losses on the employee benefits (-€14.3 million and -€3.9

million respectively) without impacting on the Income statement, and the release of the portion for the period of deferred tax assets allocated for the release of goodwill recognised following the acquisition by the Parent of Terna Rete Italia S.r.l. and the merger of RTL into the Parent (€ 1.9 million); and also the net use deriving from changes in provisions for risks and charges (€ 3.3 million).

27. OTHER NON-CURRENT LIABILITIES – € 133.3 million

This item (€ 133.3 million) decreased in comparison with 31 December 2012 (€ 135.4 million), by € 2.1 million due to the release of set-up grants in relation to the depreciation for the period of plants for which grants were recognised;

28. CURRENT LIABILITIES

Current liabilities at 30 June 2013 break down as follows:

€ million	30.06.2013	31.12.2012	Change
Current portion of long-term loans *	79.0	69.4	9.6
Trade payables	2,091.0	2,292.1	(201.1)
Tax liabilities	62.7	95.0	(32.3)
Current financial liabilities*	51.3	75.3	(24.0)
Other current liabilities	226.0	162.8	63.2
Total	**2,510.0**	**2,694.6**	**(184.6)**

(*) See the comments in Note 23. LOANS AND FINANCIAL LIABILITIES

Trade payables - € 2,091.0 million

Trade payables at 30 June 2013 break down as follows:

€ million	30.06.2013	31.12.2012	Change
Suppliers:			
- Energy-related payables	1,618.4	1,596.6	21.8
- Non energy-related payables	460.2	679.3	(219.1)
Payables due to associates	5.3	10.3	(5.0)
Payables for contract work in progress	7.1	5.9	1.2
Total trade payables	**2,091.0**	**2,292.1**	**(201.1)**

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 related to dispatching activities and the transport fee due to the owners of other sections of the NTG.

The increase of € 21.8 million compared with the previous year is essentially attributed to:

- increased payables (€ 17.7 million) related to "pass-through items" which are mainly ascribable to the joint effect of:
  - the increase in payables for the purchase of electrical energy within the Electricity Market (€ 120.7 million), deriving mainly from the net effect of the greater payables generated by the increase in the volumes of procurement of resources on the Energy Market (€ 106.4 million), as already described in the "Trade Receivables" section, the increase in the quantities and imbalance assessment prices (€ 48.7 million), partly offset by lower debts resulting from the virtual interconnection business (€ 35.1 million);
  - the decrease in the payables for the purchase of electricity outside the Electricity Market (€ 103.0 million) deriving mainly from the reduction of the payables pertaining to the procurement of interruptible resources (€ 55.9 million) and from the lower payables generated by the congestion rent (€ 46.7 million);
- greater margin payables (€ 4.0 million) due to the Electricity Adjustment Fund, caused by the increase in the payables to the Parent Company for the grid transmission fees related to previous years (€ 2.5 million), as commented on in the paragraph "Grid transmission fees receivable" of "Trade Receivables", and the greater payables regarding the net charges to be paid to the Provision for Exceptional Events for power failures which occurred during previous years and during the half-year (€ 1.5 million), in accordance with Resolution 197/11.

- *- Non energy-related payables*

Amounts due to suppliers refer to invoices both already received and yet to be received for tenders, services and the purchase of materials and equipment.
The decrease on last year (€ 219.2 million) is mainly a result of the purchases and services for the increased investment activities booked in the last half of 2012, and also the effect of the liquidation which occurred during the first six months by the subsidiary Terna Rete Italia S.p.A. of considerable payables outstanding at the end of 2012.

Payables due to associates

The item, € 5.3 million, shows payables to the associate CESI for services received by the Parent Company (€ 0.2 million) and the subsidiary Terna Rete Italia S.p.A. (€ 5.1 million) related to the construction and management of laboratories and plants for tests, inspections, studies and experimental research relating to the electro-technical field in general and to the technical and scientific developments. The decrease (€ 5.0 million) from 31 December 2012, is due to lower performance of the associate CESI during the 2013 half-year.

Group commitments with suppliers amounted to about € 2,667.5 million and refer to purchase commitments relating to normal "operating activities" for the period 2014-2019.

Payables for contract work in progress

Payables for contract work in progress related to advance payments received from customers, of € 7.1 million as at 30 June 2013 increased € 1.2 million with respect to 31 December 2012, essentially as a result of the greater advances received on orders of the subsidiary Terna Plus S.r.l, and consist of the following:

€ million	Payments on account	Contract value	Balance at 30.06.2013	Payments on account	Contract value	Balance at 31.12.2012
Other	(21.0)	13.9	(7.1)	(21.9)	16.0	(5.9)

Tax liabilities - € 62.7 million

The item refers to the Group's tax liabilities for the financial year and refers mainly to the parent company, Terna S.p.A. (€ 60.9 million) and to the subsidiary Terna Rete Italia S.r.l. (€ 3.1 million).
It shows a decrease of € 32.3 million compared to the previous year, mainly due to payment of the balance of current taxes relating to 2012 (€ 95.0 million), the advance payment of taxes for this financial year (€ 177.3 million), net of the recognition of the taxes for the half-year (€ 240.1 million).

Other current liabilities - € 226.0 million

Other current liabilities break down as follows:

€ million	30.06.2013	Due within one year	Due beyond one year	31.12.2012	Change
Payments on account	48.8	19.2	29.6	39.4	9.4
Other tax liabilities	40.4	40.4	-	8.0	32.4
Payables to social security institutions	25.7	25.7	-	22.4	3.3
Payables to employees	36.6	36.6	-	32.1	4.5
Other payables to third parties	74.5	18.1	56.4	60.9	13.6
Total	**226.0**	**140.0**	**86.0**	**162.8**	**63.2**

Payments on account

The item (€ 48.8 million) reports set-up grants related to plants received by the Group (€ 44.7 million for the Parent Company and € 4.1 million for Terna Rete Italia S.r.l.) for assets under construction at 30 June 2013.
Compared to the 31 December 2012 book value (€ 39.4 million), there is an increase of € 9.4 million, mainly due to the net effect of new payments on account received from third parties for € 14.7 million and a decrease of € 5.3 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 infrastructures with other countries of € 17.5 million (in accordance with Resolution ARG/elt 179/09 and its subsequent amendments).

Other tax liabilities

Other tax liabilities, amounting to € 40.4 million, show an increase of € 32.4 million with respect to the previous financial year, mainly as a result of the recognition of the VAT payable (€ 30.5 million) for the period.

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 € 25.7 million (€ 22.4 million at 31 December 2012). The item also includes the payable due to Fondo Previdenziale Elettrici – F.P.E. (security fund for electricians) (€ 5.5 million).

Payables to employees

Amounts payable to employees, which came to € 36.6 million (€ 32.1 million at 31 December 2012), 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 (€ 16.8 million);
- payments due to employees for unused holiday time and abolished public holidays (€ 11.5 million); and
- the recording of the portion for the period of salary costs payable to employees (€ 4.9 million).

Other payables to third parties

Other payables, equal to € 74.5 million (€ 60.9 million at 31 December 2012), mainly regard security deposits (€ 56.4 million) received from electricity market operators securing their obligations in respect of dispatching contracts. The item shows an increase of € 13.6 million mainly attributable to the deferred portions-not pertaining to the period (€ 11.2 million in total, of which € 9.0 million are attributable to the Parent Company and € 2.2 million to the subsidiary Terna Rete Italia S.r.l.) of rentals receivable from Wind for the housing of fibre optics on the proprietary grid.

E. COMMITMENTS AND RISKS

Risk management

Market and financial risks

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

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

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

The exposure of the Terna Group to the above risks is essentially represented by the exposure of the Parent. Accordingly, this section provides comprehensive information about Terna's exposure to each of the above risks, along with a presentation of the objectives, policies and processes for managing such risks and the methods used to measure them, as well as further quantitative disclosures drawn from the Parent's Financial Statements at 30 June 2013.

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

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

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

See also the discussion in the "Risk Management – Terna Group" section of the Notes to the 2012 Annual report of the Terna Group.

The following paragraphs provide information, updated to the date of this report, concerning interest-rate risk, credit risk and liquidity risk; market risk and inflation risk, on the other hand, are discussed in the Risk Management section of the Notes to the Annual report at 31 December 2012.

Sensitivity to interest-rate risk

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

	Profit or loss			Equity		
€ million	**Current rates +10%**	**Rates at 30.06.2013**	**Current rates (10%)**	**Current rates +10%**	**Rates at 30.06.2013**	**Current rates (10%)**
30.06.2013						
Positions sensitive to changes in interest rates (FVH, bonds, CFH)	6.8	6.5	6.1	(100.5)	(103.5)	(106.1)
Hypothetical change	0.3	-	(0.4)	3.0	-	(2.6)
31.12.2012						
Positions sensitive to interest rate variations (FVH, bonds)	2.5	2.4	2.3	(138.7)	(141.2)	(143.7)
Hypothetical change	0.1	-	(0.1)	2.5	-	(2.5)

Liquidity risk

As of 30 June 2013 Terna had € 856.4 million in unused short-term credit lines. This amount is sufficient to refinance the debt due as discussed in the section on long-term loans (€ 79 million).

Credit risk

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

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

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

Credit risk management is guided by the provisions of AEEG Resolution no. 111/06, which, in Art. 49, introduced instruments for the limitation of risks related to the insolvency of dispatching customers, both on a preventive basis and in the event of actual insolvency. In particular, the Resolution establishes three instruments to safeguard the electricity market: a guarantee system (bank guarantees provided by individual dispatching customers, based on their turnover), the option of terminating dispatching contracts (in the event of insolvency or failure to replace enforced guarantees) and, finally, the possibility of recovering uncollected debts, after having taken all other possible collection actions, through a specific fee defined by the Authority.

The exposure to credit risk at 30 June 2013 is represented by the total carrying amount of (current and non-current) financial assets and trade receivables.

With regard to financial assets, it is noted that Terna provides its services mainly to counterparties considered solvent by the market, which therefore have high credit standings.

The Group's exposure to financial credit risk at the end of the half-year is as follows:

€ million	**Book value 30.06.2013**	**Book value 31.12.2012**	**Change**
FVH derivatives	590.4	754.9	(164.5)
Cash and cash equivalents	1,727.6	2,510.1	(782.5)
Trade receivables	2,122.1	1,884.1	238.0
Total	**4,440.1**	**5,149.1**	**(709.0)**

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

Geographical distribution

	Book value	
€ million	**30.06.2013**	**31.12.2012**
Italy	2,068.2	1,854.6
Euro-area countries	50.50	4.5
Other countries	3.46	25.0
Total	**2,122.1**	**1,884.1**

Customer typology

	Book value	
€ million	**30.06.2013**	**31.12.2012**
Distributors (*)	276.2	380.9
Electricity Equalisation Fund (**)	195.6	216.0
Input dispatching contractors	310.1	227.9
Withdrawal dispatching contractors (non distributors)	1,232.5	917.1
Parties which have undersigned virtual-import contracts and virtual-import services (interconnectors and shippers)	12.7	18.9
Receivables from non-core activities	95.0	123.3
Total	**2,122.1**	**1,884.1**

(*) includes receivable accrued in respect of Terna Rete Italia Srl 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:

€ million	Impairment	Gross	Impairment	Gross
	30.06.2013		31.12.2012	
Not yet past due		1,975.1	-	1,491.5
0-30 days past due		69.6	-	321.0
31-120 days past due		25.9	(3.7)	36.2
More than 120 days past due	(25.3)	76.8	(22.8)	61.9
Total	**(25.3)**	**2,147.4**	**(26.5)**	**1,910.6**

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

€ million	30.06.2013	31.12.2012
Balance at 1 January	(26.5)	(23.6)
Reversal of provision	1.2	0.8
Impairment for the year	-	(3.7)
Total	**(25.3)**	**(26.5)**

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

€ million	30.06.2013	31.12.2012
Input dispatching activity	233.1	240.9
Withdrawal dispatching activity	904.4	897.0
Grid transmission fees - distributors	175.1	169.7
Virtual importing	138.9	99.5
Total	**1,451.5**	**1,407.1**

Default risk and debt covenants

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

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

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

The principal covenants relating to the issue of bonds and the € 6 billion EMTN programme are summarised below:

- "negative pledge" clauses, under which the Issuer or significant subsidiaries (consolidated companies whose total assets represent at least 10% of total consolidated assets and, solely for the EMTN programme, whose registered offices are in an OECD country) may not establish or maintain mortgages, liens or other encumbrances on all or part of its assets or revenue in order to secure listed bonds, unless these guarantees are extended on the same basis to the bonds concerned. There are certain exceptions (so-called "permitted guarantees" such as, for example, guarantees required by law, guarantees in place prior to the date of issue of the bonds, guarantees on new assets that only secure the payable arranged to acquire them etc.), in relation to which the Company is not bound by the above obligations;
- "*pari passu*" clauses under which the securities constitute a direct, unconditional and unsecured obligation of the issuer and are issued without preferential rights among them and have at least the same "seniority" as other present and future unsecured and unsubordinated borrowing of the issuer;
- "event of default" clauses, under which certain events (e.g. failure to pay, initiation of liquidation proceedings of the issuer, breach of contractual obligations etc.) are considered to represent potential default; in addition, under the "cross default" clauses, the occurrence of a default event in respect of any financial debt (above a threshold level) issued by the issuer also constitutes a default in respect of the loan concerned, which becomes immediately repayable;
- periodic or occasional reporting requirements on the occurrence of specified events.

The principal covenants for the "Club Deal" syndicated loan and the € 500 million loan from CDP are summarised below:

- "negative pledge" clauses, under which the Company and each significant subsidiary (consolidated companies whose total assets represent at least 10% of total consolidated assets) agree not to establish or maintain guarantees on all or part of their assets, securing any type of financial liability, with the exception of "permitted guarantees" (guarantees required by law, guarantees in place prior to the date of the loans, guarantees on new assets that only secure the debt arranged to acquire them, guarantees given to governmental or international entities, including the EIB, guarantees on financial borrowings whose amount does not exceed 10% of total assets of the Borrower, etc.);
- "*pari passu*" clauses under which the payment undertakings of the Borrower in respect of loans are not subordinate to any obligation in respect of other unsecured and unsubordinated creditors, except in the case of statutory preferential rights;
- "event of default" clauses linked to the occurrence of specified events (such as, for example, failure to pay, serious inaccuracies in the documentation and/or the declarations, insolvency, termination of activities, seriously prejudicial events, breach of contractual obligations, including the equality of the conditions applied by lenders etc.) are considered to represent potential default; in addition, under the "cross default" clauses the occurrence of a default event in respect of any financial liability (above a

threshold level), also constitutes a default in respect of the loan concerned, which becomes immediately repayable;

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

The principal covenants concerning the EIB loans are summarised below:

- "negative pledge" clauses, under which if the Company establishes, agrees, provides or decides to maintain restrictions in favour, whether directly or indirectly, of third parties (such as unsecured or secured guarantees, liens, encumbrances, charges or other rights), it must also extend equivalent guarantees to the Bank, upon simple request from the latter, except in the case of restrictions granted in relation to borrowing below a threshold level;
- clauses requiring the delivery of additional guarantees to the Bank in the event of a reduction in the Company's rating under which, if the credit rating of the medium and long-term unsecured and unsubordinated debt is lowered (and is therefore below a certain threshold), the Bank is entitled to require the Company to provide it with additional guarantees that are considered satisfactory at the sole discretion of the Bank, exercised on a reasonable basis;
- "*pari passu*" clauses, under which, for the entire period of the loans, the Company will ensure that the payment obligations have the same seniority as those relating to all other unsecured and unsubordinated creditors, except for those obligations assumed within the context of ordinary activity which enjoy, by law, rights of pre-emption;
- clauses regarding "termination/early repayment/withdrawal" on which basis, where certain events occur (such as, for example, failure to pay, serious inaccuracies in the documentation and/or statements presented, insolvency, events resulting in negative consequences on the financial commitments made by the Company, special administration, liquidation, significant detrimental change, etc.) constitutes default, triggering immediate repayment; in addition, where the Company is required upon default to discharge in advance any other financial obligation in respect of loans, credit facilities, bank advances, discounting, the issue or subscription of any form of bond or security, except where certain thresholds are exceeded, such default shall also constitute default on the loan in question, triggering immediate repayment.
- periodic or occasional reporting requirements on the occurrence of specified events concerning both the projects being financed and the Company itself;
- clauses of obligatory early repayment, based on which the Company will be required to repay the Loan early should specific events occur (such as for example, change in the control of the Company, loss of the concession, etc.) and, as a result of these, an agreement cannot be reached between the Company and the Bank regarding the changes to be made to the contract.

None of the covenants have been infringed to date.

Legal disputes

The main unrecognised commitments and risks of the Parent Company Terna and the subsidiaries Terna Rete Italia S.r.l. and Terna Rete Italia S.p.A. at 30 June 2013 are discussed below. The other subsidiaries had no unrecognised commitments and risks at that date.

Environmental and urban planning litigation

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

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

Tax Authority

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

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 the first half of 2013.

G. RELATED-PARTY TRANSACTIONS

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

Related party transactions during the first half of 2013 are mainly services that are part of ordinary operations and were settled on an arm’s length basis.

Below is an explanation of the nature of the transactions implemented by the Terna Group with related parties and the relative income and expenses totalled during the period, in addition to the relative receivables and payables in place as of 30 June 2013.

Related party	Revenue transactions	Cost transactions
Cassa Depositi e Prestiti SpA	-	*non energy-related items* Credit line
Cesi SpA	*non energy-related items* Dividends distributed to the Parent Company Terna, 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 prices *non energy-related items* Specialist services, leases, IT services	- -
Enel Group	*energy-related items* NTG remuneration and measurement aggregation, dispatching prices *non energy-related items* Lease and rent, line maintenance, works to move/vary lines	- *non energy-related items* Return of electricity discount, staff administration, building services, supply of MV power to new stations, specialised services for connection to Terna control and protection systems
ENI Group	*energy-related items* Dispatch fees *non energy-related items* Line maintenance	- -
Ferrovie Group	*energy-related items* Dispatch fees *non energy-related items* line moving	*energy-related items* NTG remuneration *non energy-related items* Right of way fees
Anas SpA	*non energy-related items* line moving/variants	-
Fondenel and Fopen	-	*non energy-related items* Pension contributions borne by the Terna Group

Company	Income statement				
	Income items		Expenses		
€ million	Grid transmission fees and other energy-related items	Non energy-related items	Grid transmission fees and other energy-related items	Non energy-related items	Financial items
<u>De facto parent company</u>					
Cassa Depositi e Prestiti SpA	-	-	-	-	3.2
Total de facto parent company	***-***	***-***	***-***	***-***	***3.2***
<u>Associates:</u>					
Cesi SpA	-	0.1	-	0.4	-
Total associates	***-***	***0.1***	***-***	***0.4***	***-***
<u>Other related companies:</u>					
GSE Group	22.9	0.2	-	-	-
Enel Group	686.9	5.2	-	9.7	-
Eni Group	3.7	0.2	-	-	-
Ferrovie Group	1.6	-	4.7	-	-
Total other related companies	***715.1***	***5.6***	***4.7***	***9.7***	***-***
<u>Pension funds:</u>					
Fondenel	-	-	-	0.1	-
Fopen	-	-	-	0.1	-
Total pension funds	***-***	***-***	***-***	***0.2***	***-***
Total	***715.1***	***5.7***	***4.7***	***10.3***	***3.2***

Company	Statement of financial position					Guarantees*
	Property plant and equipment	Receivables and other assets		Payables and other liabilities		
€ million	Capitalised costs	Other	Financial	Other	Financial	
<u>De facto parent company</u>						
Cassa Depositi e Prestiti SpA	-	-	0.3	-	501.0	-
Total de facto parent company	***-***	***-***	***0.3***	***-***	***501.0***	***-***
<u>Associates:</u>						
Cesi SpA	5.0	1.3	-	5.3	-	3.2
Total associates	***5.0***	***1.3***	***-***	***5.3***	***-***	***3.2***
<u>Other related companies:</u>						
GSE Group	-	7.7	-	-	-	-
Enel Group	1.3	257.4	-	23.2	-	355.1
Eni Group	-	1.6	-	-	-	4.2
Ferrovie Group	0.1	0.6	-	1.2	-	22.0
ANAS S.p.A.	-	1.3	-	-	-	-
Total other related companies	***1.4***	***268.6***	***-***	***24.4***	***-***	***381.3***
<u>Pension funds:</u>						
Fopen	-	-	-	0.2	-	-
Total pension funds	***-***	***-***	***-***	***0.2***	***-***	***-***
Total	***6.4***	***269.9***	***0.3***	***29.9***	***501.0***	***384.5***

*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 were carried out during the first half of 2013, 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 period amounted to around € 174.9 million, which reflects around € 746.0 million in cash from operating activities (self-financing) and around € 571.1 million in financial resources generated by the management of net working capital.

Investment activities used net financial resources for around € 514.4 million, and included € 479.7 million of investment in property, plant and machinery (€ 485.0 million net without taking into account the grants for plants collected during the period totalling € 5.3 million) and € 18.9 million of investment in intangible assets.

The net change in the **financing flows** relative to equity shows a decrease of € 253.8 million mainly attributable to the disbursement of the 2012 final dividend to the shareholders of the Parent company (€ 261.3 million), offset by the recording of the actuarial gain on employee benefits pertaining to the half-year (+€7.5 million, also considering the tax impact) referable mainly to the adjustment of the interest rate.

Therefore, the financial resources necessary for the investment activity and the remuneration of equity determined an overall need for the period of € 768.2 million covered mainly through the net use of liquid assets and equivalent means at the end of the 2012 period.

L. SIGNIFICANT EVENTS SUBSEQUENT TO 30 JUNE 2013

Agreement with the EIB for a new € 570 million loan

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

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

Terna's rating

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

New Italy-France interconnection

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

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

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

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

- the suitability in relation to the business characteristics; and
- the effective application of the administrative and accounting procedures for the preparation of the Condensed consolidated interim financial statements during the 1st half of 2013.

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

3.1 The Condensed consolidated interim financial statements:

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

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

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

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

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

Rome, 25 July 2013

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

Report of the Independent Auditors

TERNA SPA

INDEPENDENT AUDITORS' REPORT ON THE REVIEW OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2013

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INDEPENDENT AUDITORS' REPORT ON THE REVIEW OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2013

To the Shareholders of
Terna SpA

1 We have reviewed the condensed consolidated interim financial statements of Terna SpA and its subsidiaries (Terna Group) as of and for the six months period ended 30 June 2013 comprising the statement of financial position, the income statement, the statement of comprehensive income, the statements of changes in shareholders equity, the statement of cash flows and related notes. Terna SpA directors are responsible for the preparation of the condensed consolidated interim financial statements in accordance with the international accounting standard applicable to interim financial reporting (IAS 34), as adopted by the European Union. Our responsibility is to issue this report based on our review.

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

Regarding the amounts derived from the consolidated financial statements and the condensed consolidated interim financial statements of the prior year presented for comparative purposes, reference should be made to our reports dated 16 April 2013 and 30 July 2012, respectively.

3 Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of Terna Group as of and for the six months period ended 30 June 2013 have not been prepared, in all material respects, in accordance with the international accounting standard applicable to interim financial reporting (IAS 34), as adopted by the European Union.

Rome, 30 July 2013

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

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