CONSOLIDATED FINANCIAL STATEMENTS

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260 Auditor's Report **in accordance with Articles 14 and 16 of Legislative Decree no. 39 of 27 January 2010 - Consolidated Financial Statements as of 31 December 2015**

Consolidated financial statements

Consolidated income statement

Group Consolidated Financial Statements - TERNA - INCOME STATEMENT *€ million*	Notes	2015	2014
A - REVENUE			
1. Revenue from sales and services	1	2,011.9	1,922.8
of which: related parties		*1,556.8*	*1,428.8*
2. Other revenue and income	2	70.2	59.8
of which: related parties		*2.9*	*3.4*
Total revenue		**2,082.1**	**1,982.6**
B - OPERATING EXPENSES			
1. Raw materials and consumables	3	95.7	40.1
2. Services	4	160.7	160.8
of which: related parties		*11.3*	*3.9*
3. Personnel expenses	5	231.8	265.0
- gross personnel expenses		*301.2*	*337.2*
- gross personnel expenses, capitalised		*(69.4)*	*(72.2)*
of which: related parties		*2.5*	*4.3*
4. Amortisation, depreciation and impairment	6	516.8	480.6
5. Other operating expenses	7	54.7	39.0
of which: related parties		*-*	*0.3*
Total expenses		**1,059.7**	**985.5**
A-B OPERATING PROFIT		***1,022.4***	***997.1***
C - FINANCIAL INCOME/EXPENSE			
1. Financial income	8	13.1	24.0
2. Financial expense	8	(154.2)	(159.6)
of which: related parties		*(5.2)*	*(6.4)*
3. Share of income/(expenses) from equity-accounted investees	9	-	7.7
D - PROFIT BEFORE TAXES		**881.3**	**869.2**
E - INCOME TAXES OF THE YEAR	**10**	**293.3**	**335.7**
F - PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**588.0**	**533.5**
G - PROFIT FOR THE YEAR FROM DISCONTINUED OPERATIONS	**11**	**7.3**	**11.0**
F - PROFIT FOR THE YEAR		**595.3**	**544.5**
Profit for the year attributable to owners of the Parent		***595.5***	***544.5***
Profit for the year attributable to Non-Controlling Interests		***(0.2)***	***-***
Earnings per share			
Basic earnings per share	12	0.296	0.271
Diluted earnings per share		0.296	0.271
Earnings per share from continuing operations			
Basic earnings per share	12	0.293	0.265
Diluted earnings per share		0.293	0.265

Consolidated statement of comprehensive income

Group Consolidated Financial Statements - TERNA - STATEMENT OF COMPREHENSIVE INCOME *€ million*	Notes	2015	2014
PROFIT FOR THE YEAR		**595.3**	**544.5**
Other comprehensive income for the year which will subsequently be released to the income statement			
- Cash flow hedges net of tax effect	23	20.7	27.3
Other comprehensive income for the year which will not subsequently be released to the income statement			
- Actuarial gains (losses) on employee benefits net of tax effect	23	13.2	(17.5)
COMPREHENSIVE INCOME FOR THE YEAR		**629.2**	**554.3**
NET COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:		**629.2**	**554.3**
Owners of the Parent		629.4	554.3

Consolidated statement of financial position

Group Consolidated Financial Statements - TERNA - STATEMENT OF FINANCIAL POSITION - ASSETS			
€ million	Notes	at 31.12.2015	at 31.12.2014
A - NON-CURRENT ASSETS			
1. Property, plant and equipment	13	12,078.7	10,778.6
of which: related parties		*33.6*	*17.1*
2. Goodwill	14	224.3	190.2
3. Intangible assets	15	295.8	262.3
4. Equity-accounted investees	16	78.2	79.2
5. Non-current financial assets	17	691.8	787.1
6. Other non-current assets	18	11.3	9.8
Total non-current assets		**13,380.1**	**12,107.2**
B - CURRENT ASSETS			
1. Inventories	19	12.4	21.6
2. Trade receivables	20	1,373.4	1,577.8
of which: related parties		*335.2*	*297.6*
3. Current financial assets	17	64.3	63.4
of which: related parties		*0.2*	*0.2*
4. Cash and cash equivalents	21	431.6	1,217.3
5. Income tax assets	22	34.0	25.9
6. Other current assets	18	161.3	46.0
Total current assets		**2,077.0**	**2,952.0**
TOTAL ASSETS		**15,457.1**	**15,059.2**

Consolidated statement of financial position

Group Consolidated Financial Statements - TERNA - STATEMENT OF FINANCIAL POSITION - LIABILITIES *€ million*	Notes	at 31.12.2015	at 31.12.2014
C - EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
1. Share capital		442.2	442.2
2. Other reserves		827.4	793.5
3. Retained earnings		1,596.4	1,453.4
4. Interim dividend		(140.7)	(140.7)
5. Profit for the year		595.5	544.5
Total equity attributable to owners of the Parent	23	**3,320.8**	**3,092.9**
D - EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	23	**25.0**	**-**
Total equity - owners of the Parent and non-controlling interests		**3,345.8**	**3,092.9**
E - NON-CURRENT LIABILITIES			
1. Long-term loans	24	8,516.5	8,085.2
of which: related parties		*500.0*	*500.0*
2. Employee benefits	25	105.5	146.3
3. Provisions for future risks and charges	26	198.8	209.5
4. Deferred tax liabilities	27	73.8	85.1
5. Non-current financial liabilities	24	7.3	29.9
6. Other non-current liabilities	28	124.1	128.7
Total non-current liabilities		**9,026.0**	**8,684.7**
F - CURRENT LIABILITIES			
1. Short-term loans	24	416.6	-
2. Current portion of long-term loans	24	122.9	764.1
3. Trade payables	29	2,170.1	2,103.8
of which: related parties		*41.7*	*27.7*
4. Tax liabilities	29	15.4	1.2
5. Current financial liabilities	24	127.1	154.1
of which: related parties		*0.8*	*0.9*
6. Other current liabilities	29	233.2	258.4
of which: related parties		*44.4*	*66.9*
Total current liabilities		**3,085.3**	**3,281.6**
TOTAL LIABILITIES AND EQUITY		**15,457.1**	**15,059.2**

Statement of changes in consolidated equity

31 DECEMBER 2014–31 DECEMBER 2015

	CONSOLIDATED SHARE CAPITAL AND RESERVES			
€ million	Share capital	Legal reserve	Share premium reserve	Cash-flow-hedge reserve
EQUITY AT 31 DECEMBER 2014	442.2	88.4	20.0	(26.0)
NET PROFIT FOR THE YEAR				
OTHER COMPREHENSIVE INCOME:				
Change in fair value of cash flow hedging derivatives net of tax effect				20.7
Actuarial gains (losses) on Employee Benefits net of tax effect				
Total other comprehensive income	-	-	-	20.7
COMPREHENSIVE INCOME	-	-	-	20.7
TRANSACTIONS WITH EQUITY OWNERS:				
Allocation of 2014 profit				
- *Retained earnings*				
- *Dividends*				
Interim dividend 2015				
Total transactions with equity owners	-	-	-	-
Other changes				
EQUITY AT 31 December 2015	442.2	88.4	20.0	(5.3)

31 DECEMBER 2013–31 DECEMBER 2014

	CONSOLIDATED SHARE CAPITAL AND RESERVES			
€ million	Share capital	Legal reserve	Share premium reserve	Cash-flow-hedge reserve
EQUITY AT 31 December 2013	442.2	88.4	20.0	(53.3)
NET PROFIT FOR THE YEAR				
OTHER COMPREHENSIVE INCOME:				
Change in fair value of cash flow hedging derivatives net of tax effect				27.3
Actuarial gains (losses) on employee benefits net of tax effect				
Total other comprehensive income	-	-	-	27.3
COMPREHENSIVE INCOME	-	-	-	27.3
TRANSACTIONS WITH EQUITY OWNERS:				
Allocation of 2013 profit				
- *Retained earnings*				
- *Dividends*				
Interim dividend 2014				
Total transactions with equity owners	-	-	-	-
Other changes				
EQUITY AT 31 DECEMBER 2014	442.2	88.4	20.0	(26.0)

Other reserves	Retained earnings	Interim dividend	Profit for the year	Equity attributable to the owners of the Parent	Equity attributable to non-controlling interests	Equity - owners of the Parent and Non-Controlling Interests
711.1	1,453.4	(140.7)	544.5	3,092.9	-	3,092.9
			595.5	595.5	(0.2)	595.3
				20.7		20.7
13.2				13.2		13.2
13.2	-	-	-	*33.9*		33.9
13.2	-	-	*595.5*	*629.4*	(0.2)	629.2
	142.5		*(142.5)*	-		-
		140.7	*(402.0)*	*(261.3)*		*(261.3)*
		(140.7)		(140.7)		(140.7)
-	142.5	-	(544.5)	(402.0)	-	(402.0)
	0.5			0.5	25.2	25.7
724.3	1,596.4	(140.7)	595.5	3,320.8	25.0	3,345.8

Other reserves	Retained earnings	Interim dividend	Profit for the year	Equity attributable to the owners of the Parent
728.5	1,341.9	(140.7)	513.6	2,940.6
			544.5	544.5
				27.3
(17.5)				(17.5)
(17.5)	-	-	-	9.8
(17.5)	-	-	544.5	554.3
	111.5		*(111.5)*	-
		140.7	*(402.1)*	*(261.4)*
		(140.7)		(140.7)
-	111.5	-	(513.6)	(402.1)
0.1				0.1
711.1	1,453.4	(140.7)	544.5	3,092.9

Consolidated statement of cash flows*

TERNA GROUP - STATEMENT OF CASH FLOWS *€ million*	2015	2014
NET PROFIT FOR THE YEAR	**595.3**	**544.5**
ADJUSTMENTS FOR:		
Amortisation, depreciation, impairment losses/(reversals of impairment losses) on property, plant and equipment and intangible assets**	500.4	458.4
Provisions (including employee-related provisions) and impairment losses	45.7	94.5
(Gains)/Losses on disposals of property, plant and equipment	(1.7)	(1.8)
Financial (income)/expense	142.8	135.1
Income taxes	293.3	335.7
CASH FLOWS GENERATED BY OPERATING ACTIVITIES, BEFORE CHANGES IN NET WORKING CAPITAL	**1,575.8**	**1,566.4**
Increase/(decrease) in provisions (including employee-related and tax provisions)	(57.8)	(65.3)
(Increase)/decrease in inventories	9.2	(13.6)
(Increase)/decrease in trade receivables and other current assets	75.9	170.7
Increase/(decrease) in trade payables and other current liabilities	47.8	186.3
Increase/(decrease) in other non-current liabilities	1.5	1.8
(Increase)/decrease in other non-current assets	(3.1)	(4.0)
Interest income and other financial income received	134.7	160.2
Interest expense and other financial expense paid	(318.7)	(319.9)
Income taxes paid	(321.5)	(491.4)
CASH FLOWS GENERATED BY OPERATING ACTIVITIES [A]	**1,143.8**	**1,191.2**
Investments in non-current property, plant and equipment, net of grants received	(1,032.1)	(1,031.2)
Recognition of newly-acquired Property, plant and equipment	(727.5)	(40.1)
Revenue from sale of non-current property, plant and equipment and intangible assets and other changes	3.4	12.0
Capitalised borrowing costs	28.7	34.4
Investment in non-current intangible assets, net of grants received	(44.5)	(47.4)
Recognition of intangible assets, new acquisitions	(44.3)	(1.7)
(Increase)/decrease in equity interests in associates	1.0	(5.2)
(Increase)/decrease in other investments	0.3	-
Recognition of Goodwill on new acquisitions	(34.1)	-
CASH FLOWS USED IN INVESTING ACTIVITIES [B]	**(1,849.1)**	**(1,079.2)**
Increase/(decrease) in net income and accumulated losses	0.5	0.1
Dividends paid	(402.0)	(402.0)
Change in short- and medium/long-term financial payables (including short-term portions)***	295.9	(109.9)
Recognition of equity attributable to non-controlling interests	25.2	-
CASH FLOWS GENERATED BY FINANCING ACTIVITIES [C]	**(80.4)**	**(511.8)**
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS [A+B+C]	**(785.7)**	**(399.8)**
Opening cash and cash equivalents	1,217.3	1,617.1
Closing cash and cash equivalents	431.6	1,217.3

(*) For comments on the Consolidated Statement of Cash Flows, please see the section "NOTES TO THE STATEMENT OF CASH FLOWS" in the notes to the financial statements.
(**) Net of set-up grants taken to income statement for the year.
(***) Net of derivatives and of impacts on adjustment to fair value.

Notes to the Financial Statements

A. Accounting policies and measurement criteria

Introduction

Terna S.p.A. has registered offices in Viale Egidio Galbani 70, Rome, Italy. The Consolidated Financial Statements at and for the year ended 31 December 2015 include the separate financial statements and those of the subsidiaries (the “Group”), as well as the Group’s shareholding in associates and joint ventures. The subsidiaries included within the scope of consolidation are listed below. These Consolidated Financial Statements were authorised for publication by the Directors on 21 March 2016.
The Consolidated Financial Statements at and for the year ended 31 December 2015 are available upon request at the Terna S.p.A. registered offices in Viale Egidio Galbani 70, Rome, or on the company’s website www.terna.it.
The Board of Directors has also authorised the Chairwoman and Chief Executive Officer to make any formal alterations to the Consolidated Financial Statements and any additions and adjustments to the chapters concerning significant events subsequent to the year-end date, as may be necessary.

Compliance with IAS/IFRS

The consolidated financial statements at 31 December 2015 have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), endorsed by the European Commission (“IFRS-EU”) at that date.
This document has also been prepared taking into account the provisions of Legislative Decree No. 38 of 28 February 2005, the Italian Civil Code and CONSOB Resolutions Nos. 15519 (“Provisions governing financial statements in implementation of Art. 9, paragraph 3, of Legislative Decree No. 38/2005”) and 15520 (“Amendments to the implementing rules for Legislative Decree No. 58/1998”), both of 27 July 2006, as well as CONSOB Communication No. DEM/6064293 of 28 July 2006 (“Disclosure requirements for listed issuers and issuers of financial instruments that are widely held among the public pursuant to Art. 116 of the Consolidated Law on Finance”).

Basis of presentation

The Consolidated Financial Statements are composed of the Statement of Financial Position, the Income Statement, the Statement of Cash Flows, the Statement of Changes in Equity and the Notes thereto.
In the Statement of Financial Position, assets and liabilities are classified on a “current/non-current” basis, with separate reporting of assets and liabilities held for sale. Current assets, which include cash and cash equivalents, are those held for realisation, sale or consumption in the Group’s normal operating cycle; current liabilities are those expected to be settled in the Group’s normal operating cycle or within one year from the close of the financial year.
The Income Statement is classified on the basis of the nature of costs. The Income Statement is presented as two statements, the first of which (Income Statement) presents the components of profit or loss for the year; while the second (Statement of Comprehensive Income) starts with the result for the year and then presents the revenue and expense items (including reclassification adjustments) that are recognised in equity rather than profit or loss for the year. The statement of cash flows has been prepared using the indirect method.

The Consolidated Financial Statements are accompanied by the Directors' Report on Operations for Terna and the Group, which as from financial year 2008 has been prepared as a single document, exercising the option granted by Italian Legislative Decree under Italian Legislative Decree No. 32 of 2 February 2007, which amended Art. 40 (Directors' Report on Operations) of Italian Legislative Decree no. 127 of 9 April 1991. These Consolidated Financial Statements are presented in millions of euro, and all figures are shown in millions of euro, unless otherwise indicated.
We must specify that some balances of the financial statements at 31 December 2014, provided for comparison, have been restated, without, however, altering the equity figures at 31 December 2014 and those of the Income Statement for 2014.

Use of estimates

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

Current taxes and adjustment of deferred tax assets and liabilities

We can note that the Stability Law for 2016 (Italian Law No. 208 of 28 December 2015) provided for a reduction in the IRES rate (Art. 1 paragraphs 61–64), starting from 2017, from 27.5% to 24% for entities not classified as credit or financial institutions.
Based on this regulatory framework, the Terna Group adjusted pre-paid and deferred tax liabilities, at the rate foreseen at the time of the payment (24%, without application of the additional RHT); this adjustment had a positive impact on the Income Statement of around € 8.2 million.

Employee benefits

The liability for employee benefits paid upon or following termination of employment in relation to defined benefit plans or other long-term benefits is recognised net of any plan assets and is measured on the basis of actuarial assumptions, estimating the amount of future benefits that employees have vested at the reporting date. The actuarial valuations used to quantify employee benefits (of all plans except termination benefits) were made on the basis of the "vested benefits" method by means of the "Projected Unit Credit" (PUC) criterion. These valuations are based on economic and demographic assumptions: discount rate (used to determine the current value of the obligation, determined considering the return of high quality bond securities in line with the duration of the group of workers measured), inflation rate, rate at which future salary levels increase, increase rate of average health reimbursement, increase rate of electrical consumer goods prices and demographic techniques, such as, for example, mortality and invalidity, retirement, resignation, advances and family members.

Provisions for risks and charges

Liabilities that can be associated with legal and tax disputes and liabilities associated with town planning and environmental requalification projects are estimated by the company management.
The measurement of provisions for legal disputes is based on the probability of incurring an expense, including the use of external lawyers supporting the Group companies; the estimate of provisions to be set aside for urban planning and environmental requalification projects, the so-called "offsets" aimed at offsetting the environmental impact of the development of power lines, is based on an analysis of the agreements signed with the local authorities involved and the progress of activities on the development of the new lines. Where the time value of money is significant, provisions are discounted, using a rate that company management believes to be appropriate (a pre-tax rate is used, so as to reflect current market values of money and the specific risks connected with the liability). After initial recognition, the value of the risk provision is updated to reflect the passing of time and any changes in the estimate following alterations to the amounts envisaged, the timing and the discount rates used. Any increase in provisions associated with the passage of time is recognised in the Income Statement under "Financial expense".

Impairment losses

Property, plant and equipment and intangible assets with finite useful lives are tested at least once a year to check for evidence of impairment. If there is an indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount of goodwill and intangible assets with indefinite useful lives, where present, as well as intangible assets not yet available for use, is estimated at least annually.
The recoverable amount is equal to the greater of the fair value less costs to sell and value in use. Value in use is measured by discounting estimated future cash flows considering information available at the time of estimate and on the basis of subjective assessments of the performance of future variables, such as prices, costs, demand growth rates, production profiles, and discounted at a pre-tax rate that reflects current market assessment of the time value of money for the investment period and risks specific to the asset. If the intangible asset does not generate cash inflows that are largely independent, the asset's recoverable amount is calculated as part of the "Cash Generating Unit" (henceforth "CGU") CGU to which it belongs. An impairment loss is recognised in the Income Statement when the asset's book value, or the net invested capital of the CGU to which it belongs, is greater than its recoverable amount.
Impairment losses of CGUs are first taken as a reduction in the carrying amount of any allocated goodwill and then as a reduction in other assets of the CGU on a pro rata basis. Except for goodwill, impairment losses may be reversed up to the recoverable amount if there is an indication that the impairment loss no longer exists or when there is a change in the methods used to measure recoverable amount.

Allowance for doubtful accounts

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

Subsidiaries and the consolidation scope

The consolidation scope includes the Parent Company Terna S.p.A. and the companies over which the Parent Company has the power to exercise directly or indirectly, control understood as power, or the ability to guide significant activities (which have a substantial impact on the Parent Company's results), and the exposure, or the right, to the variable returns deriving from the relationship with the subsidiaries, and finally the ability to exercise its power over the subsidiaries in order to influence these returns. The financial statements of subsidiaries are included in the consolidated financial statements on a line-by-line basis from the date when the Parent Company gains control until the date when such control ceases.

The companies included within the consolidation scope are listed below.

Company Name	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
Assets	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 dispatching and transmission and in similar, related or connected segments.				
Terna Rete Italia S.r.l.	Rome	€	243,577,554	100%	Line-by-line
Assets	Design, construction, management, development, operation and maintenance of High-Voltage power lines.				
Terna Storage S.r.l.	Rome	€	10,000	100%	Line-by-line
Assets	Design, construction, management, development and maintenance of diffused energy storage systems (including batteries), pumping and/or storage systems, as well as plants, equipment and infrastructure, including grids.				
Terna Crna Gora d.o.o.	Podgorica	€	56,000,000	100%	Line-by-line
Assets	Authorisation, construction, and management of transmission infrastructures comprising the Italy-Montenegro electrical interconnection in Montenegrin territory.				
Terna Plus S.r.l.	Rome	€	16,050,000	100%	Line-by-line
Assets	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 Interconnector S.r.l.	Rome	€	10,000	65%*	Line-by-line
Assets	Design, construction, management, development, operation and maintenance, also on behalf of third parties, of lines and network structures and other related infrastructures, plants and equipment functional to the said activities in the sector of electricity transmission or in analogous, related or connected sectors.				
Monita Interconnector S.r.l.	Rome	€	10,000	95%**	Line-by-line
Assets	Design, construction, management, development, operation and maintenance, also on behalf of third parties, of lines and network structures and other related infrastructures, plants and equipment functional to the said activities in the sector of electricity transmission or in analogous, related or connected sectors.				
RETE S.r.l.	Rome	€	387,267,082	100%	Line-by-line
Assets	Design, construction, management, development, operation and maintenance of high-voltage power lines.				
COMPANIES CONTROLLED THROUGH TERNA PLUS S.R.L.					
Tamini Trasformatori S.r.l.	Melegnano (MI)	€	3,000,000	70%***	Line-by-line
Assets	Construction, repair and sales of electrical machinery.				
Terna Chile S.p.A.	Santiago del Cile (RCH)	CLP	1,000,000	100%	Line-by-line
Assets	Design, construction, administration, development, operation maintenance of any type of structure, plant, equipment and electrical infrastructure, including those of interconnection; production of all kinds of products and services, constructions, electrical and civil engineering works; research, consulting and assistance on questions related to the core business; conduction of any other activity that can improve the use and development of plants, resources and skills.				

Company Name	Registered office	Currency	Share capital	% held	Consolidation method
COMPANIES CONTROLLED THROUGH TAMINI TRASFORMATORI S.R.L.					
Verbano Trasformatori S.r.l.****	Novara	€	1,500,000	100%	Line-by-line
Assets	Construction, repair and sales of electrical machinery.				
V.T.D. Trasformatori S.r.l.	Valdagno (VI)	€	774,000	100%	Line-by-line
Assets	Production, repair and sales in any form allowed by current laws of electrical and electro-mechanical instruments and machinery.				
Tamini Transformers USA LLC	Oakbrook (Chicago - Illinois)	USD	42,904	100%	Line-by-line
Assets	Sales of industrial and power electrical transformers.				
Transformer Electro Service S.r.l.	Ospitaletto (BS)	€	1,134,000	100%	Line-by-line
Assets	Production of electricity transformers for industrial use and for the sector of electricity production and transmission. It is noted that the company holds 100% of the share capital of the manufacturing company under Indian law known as “Tes Transformer Electro Service Asia Private Limited” (share capital equal to 100,000.00 Indian rupees).				
COMPANIES CONTROLLED THROUGH TERNA INTERCONNECTOR S.R.L.					
Piemonte Savoia S.r.l.	Rome	€	10,000	100%	Line-by-line
Assets	Design, construction, management, development, operation and maintenance, also on behalf of third parties, of lines and network structures and other related infrastructures, plants and equipment functional to the said activities in the sector of electricity transmission or in analogous, related or connected sectors.				

* 5% held by Terna Rete Italia S.p.A. and 30% held by Transenergia S.r.l.
** 5% held by Terna Rete Italia S.p.A.
*** 30% Holdco TES (controlled by the fund Xenon Private Equity V, Riccardo Reboldi and Giorgio Gussago).
**** Incorporated into Tamini Trasformatori S.r.l. with effect from 1 January 2015.

The change in the consolidation scope of the Terna Group with respect to the situation at 31 December 2014 regarded:

- acquisition of Rete S.r.l. on 23 December 2015 (named S.EL.F. – Società Elettrica Ferroviaria S.r.l. up to the date of the Shareholders' Meeting of 23 December 2015) from Ferrovie dello Stato Italiane S.p.A. (henceforth "FSI") 100% controlled by Terna S.p.A.;
- incorporation, on 27 March 2015, of the company Piemonte Savoia S.r.l., 100% controlled by Terna Interconnector S.r.l.;
- incorporation, on 13 April 2015, of the company Monita Interconnector S.r.l., 95% controlled by Terna S.p.A. and 5% by Terna Rete Italia S.p.A.;
- incorporation on 04 June 2015, of the company Terna Chile S.p.A. 100% controlled by Terna Plus S.r.l..

Associates

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

Joint ventures

Investments in jointly-controlled entities, in which the Group exercises joint control of other entities, are recognised initially at cost and subsequently measured using the equity method. The profits or losses attributable to the Group are recognised in the Consolidated Financial Statements when significant influence begins and until that influence ceases.
In assessing the existence of joint control it is ascertained whether the parties are bound by a contractual agreement and whether this agreement attributes to the parties the joint control of the agreement itself. Specifically, joint control is given by the sharing, on a contractual basis, of control over an agreement, which exists only when decisions relating to the relevant activities require the unanimous consent of all parties that share control.

The associates and joint ventures included are listed below.

Company Name	Registered office	Currency	Share capital	% held	Consolidation method
ASSOCIATES					
Cesi S.p.A.	Milan	€	8,550,000	42.698%	Equity Method
Assets	Experimental electro-technical research.				
Coreso S.A.	Brussels (Belgium)	€	1,000,000	20.000%	Equity Method
Assets	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 electricity system in central/western Europe.				
CGES A.D.	Podgorica	€	155,108,283	22.0889%	Equity Method
Assets	Electricity dispatching and transmission operator in Montenegro.				
JOINT CONTROL					
ELMED Etudes S.a.r.l.	Tunis	Tunisian Dinar	2,700,000	50%	Equity Method
Assets	Study activity concerning the connection of the Italian and Tunisian electricity grids.				

Consolidation policies

All separate financial statements of subsidiaries used to prepare the Consolidated Financial Statements were drafted as of 31 December 2015 and have been approved by their respective Boards of Directors and Shareholders' Meetings; they have been adjusted, where necessary, to align them with the Parent Company's accounting policies.
During preparation of the consolidated financial statements, intercompany balances, transactions, revenue and costs are fully eliminated, net of the related tax effect, where material ("consolidation on a line-by-line basis").
Unrealised gains and losses with associates and joint ventures are eliminated in proportion to the Group's holding therein. In both cases, unrealised losses are eliminated, unless they represent impairment.

Translation of foreign currency items

Terna S.p.A. prepares its financial statements in euro, which is also the functional currency. In these financial statements, all transactions in currencies other than the functional currency are recognised at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities in currencies other than the functional currency are subsequently adjusted at the exchange rate prevailing at year end. Any exchange rate differences are taken to the Income Statement.
Non-monetary assets and liabilities in foreign currency stated at historic cost are converted at the exchange rate prevailing when the transaction was initially recognised. Non-monetary assets and liabilities in foreign currency stated at fair value are converted at the exchange rate prevailing when fair value was measured.

Property, plant and equipment

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

DEPRECIATION RATES	
Civil and industrial buildings	2.50%
Transmission lines	2.50%
TRANSFORMER SUBSTATIONS:	
- Electrical machinery	2.38%
- Electrical devices and equipment	3.13%
- Automation and Control systems	6.70%
CENTRAL SYSTEMS FOR REMOTE MANAGEMENT AND CONTROL:	
- Devices, electrical equipment and ancillary plants	5.00%
- Electronic calculation equipment	10.00%

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

Intangible assets

Intangible assets, which all have finite useful lives, are recognised at cost, having obtained, if necessary, the approval of the Board of Statutory Auditors, and shown net of accumulated amortisation and any impairment losses, measured as described below.
Amortisation begins when the asset becomes available for use and is calculated on a straight-line basis over the estimated useful life of the related asset, which is reviewed annually. Any revisions to estimated figures are applied on a prospective basis.
Intangible assets essentially regard the exclusive concession to carry out electricity transmission and dispatching activities and other intangible assets. In particular, the Parent Company Terna S.p.A. obtained the concession for electricity transmission and dispatching activities in Italy on 1 November 2005 when it acquired the TSO business unit. As established in the Decree issued by the Ministry of Productive Activities on 20 April 2005, this concession runs for twenty-five years, renewable for another twenty-five years, from the date of effective transfer of the activities, functions, assets and legal arrangements of the concession from GSE (formerly GRTN) to Terna S.p.A. This intangible asset was initially recognised at cost, which reflected fair value.
Other non-current intangible assets mainly relate to the following:

- the development and innovation of software applications to manage the electricity invoicing process;
- the development and innovation of software applications to protect the electrical system;
- software applications related to the development of the Power Exchange, particularly relating to the registration of operators, consumption units and the development of foreign procedures.

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

Infrastructure rights

These include the property, plant and equipment and intangible assets employed in the dispatching activity, carried out under concession, which fall within the scope of application of IFRIC 12, since the relevant criteria apply: the services provided are regulated and control exists over the residual interest. More specifically, in view of the fee structure for dispatching activities, the Intangible Asset model has been applied, as provided for in the Interpretation.
The revenue and costs relating to investment in dispatching activities are recognised with reference to the contracts concerned on a stage-of-completion basis; revenue recognised during the construction phase is limited to the amount of the internal and external construction costs incurred, considering that the fair value of the construction services is equivalent to the construction cost paid to third-party contractors plus the internal cost of the technical personnel employed on such construction activities. The assets continue to be amortised and depreciated in accordance with the initial schedule.
By contrast, fee revenue continues to be recognised in accordance with IAS 18 and financial expense continues to be capitalised pursuant to IAS 23.
IFRIC 12, instead, is not applicable to the Parent Company’s concession for the part relating to the transmission activities, since neither the concession nor related legislation envisage that the NTG will return to public ownership, either via the payment of an indemnity or otherwise.

Goodwill

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

Inventories

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

Contract work in progress

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

Financial instruments

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

Trade receivables

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

Cash and cash equivalents

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

Trade payables

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

Financial liabilities

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

Derivative financial instruments

Derivatives are recognised at fair value at the trade date and classified as hedges if the relationship between the derivative and the hedged item is formally documented and the hedge is highly effective within a range of 80% to 125%, as initially verified and periodically checked. When derivatives cover the risk of changes in the cash flows of the hedged instruments (cash flow hedges), the part of changes in the fair value qualifying as effective is initially recognised in Other comprehensive income (accumulated in equity) and subsequently in the Income Statement, in line with the economic effects produced by the hedged transaction. The portion of the fair value of the hedging instrument that does not qualify as effective is taken to the Income Statement. When hedging derivatives cover the risk of changes in the fair value of hedged instruments (fair value hedges), they are recognised at fair value in the Income Statement. Accordingly, the hedged items are adjusted to reflect changes in the fair value associated with the hedged risk.
Changes in the fair value of derivatives that do not meet hedge accounting requirements in accordance with the EU IFRSs are recognised in the Income Statement.
Fair value is measured on the basis of official quotations for instruments traded in regulated markets. The fair value of instruments not traded in regulated markets is measured by discounting projected cash flows along a yield curve of interest rates at the reporting date, and by converting amounts in currencies other than the euro at the year-end exchange rate.
Financial and non-financial contracts (which are not already measured at fair value) are also analysed to identify any embedded derivatives, which must be separated and measured at fair value.
This analysis is conducted at the time the entity becomes party to the contract or when the contract is renegotiated in a manner that produces a material change in the original associated cash flows. The measurement techniques used for derivatives existing at year end did not change with respect to the previous year. Accordingly, the effects in the Income Statement and on Equity of these measurements are essentially attributable to normal market developments, as well as new derivative contracts signed during the year.

Employee benefits

The liability in respect of employee benefits payable upon or after termination of employment relates to defined benefit plans (Termination Benefits, additional month's pay[35], indemnity for lack of notice[36], energy discount, ASEM health benefits and other benefits) or other long-term employee benefits (loyalty bonus) and is recognised net of any plan assets. It is measured separately for each plan on the basis of actuarial calculations that estimate the amount of future benefits that employees have accrued at the reporting date. The liability is recognised on an accruals basis over the vesting period. It is measured by independent actuaries.

Provisions for risks and charges

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

Grants

Grants received in relation to specific assets whose value is recognised under property, plant and equipment are recognised under other liabilities and taken to the Income Statement over the depreciation period of the related assets. Grants for operating expenses are expensed in full when the recognition requirements are satisfied.

Revenue

Revenue is recognised when it is probable that the economic benefits deriving from the operation will be used by the enterprise. Depending on the type of transaction, revenue is recognised on the basis of the following specific criteria:

- revenue from the sale of goods is recognised when the material risks and rewards of ownership of the goods have been transferred to the buyer and their total amount can be reliably determined and collected;
- revenue from services rendered is recognised with reference to the stage of completion of the transaction. If revenue cannot be reliably measured, it is recognised to the extent of recoverable costs;

(35) Additional months' pay.
(36) Indemnity for lack of notice.

- revenue accrued during the year in respect of contract work in progress is recognised on the basis of the payments agreed for the progress of works using the cost-to-cost method. In addition to contractual payments, project revenue includes any payments in respect of variations, price revisions and incentives, with the latter recognised where it is probable that they will actually be earned and can be reliably determined. Revenue may also decrease owing, among other things, to penalties for delays attributable to Group companies;
- amounts collected on behalf of third parties, such as the fees paid to non-Terna grid owners, as well as revenue recognised for managing activities related to the balancing of the national electrical system, which do not increase equity, are reported net of the related costs (so-called pass-through energy items). This reporting method, which reflects the substance of transactions by offsetting revenue with the related costs arising from the "same transaction", is however discussed in full in the specific section of the Notes to the Consolidated Financial Statements (*Other energy items – pass-through revenue/costs*).

Financial income and expense

Financial expense directly attributable to the acquisition, construction or production of an asset that qualifies for capitalisation are capitalised as part of the cost of the asset. The property, plant and equipment and intangible assets involved are those that require at least one year before being ready for use. The directly attributable financial expense is that which would not have been incurred if the expenditure for the asset had not been incurred.
Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings. Where funds are raised through general borrowing, the eligible amount is determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate will be the weighted average of the financial expense applicable to the general pool, excluding any specifically borrowed funds. The amount of financial expense capitalised during a year shall in any case not exceed the amount of financial expense incurred during that year.
Capitalisation commences as from the date all the following conditions have been met: (a) expenditures have been incurred for the asset; (b) financial expense have been incurred; and (c) activities to prepare the asset for its intended use or sale are in progress.
Capitalisation ceases when the activities necessary to prepare the asset for its intended use or sale are substantially complete.
The capitalisation rate used for 2015 amounts to 2.05% and that for 2014 amounts to 2.51%.
Financial income and expense other than capitalised amounts are recognised on an accruals basis in respect of the interest on the net value of the related financial assets and liabilities using the effective interest rate.

Dividends

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

Earnings per share

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

Income taxes

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

New standards

International accounting standards taking effect from 1 January 2015

A number of new accounting standards and a number of amendments to the accounting standards already applicable came into force as from 01 January 2015, with these having no impact on the Company. Specifically, we note:

Interpretation IFRIC 21 - Levies

On 14 June 2014, the interpretation IFRIC 21 – Levies was endorsed by the European Commission. This clarifies when to recognise a liability for a levy imposed by a government, with the exclusion of income taxes.

Improvements to IFRSs (2011–2013 Cycle)

On 18 December 2014 the European Commission endorsed the annual Improvements related to the 2011–2013 cycle, which make minor amendments to the standards IFRS 3, IFRS 13 and IAS 40.

International financial reporting standards endorsed but not yet in force

As of the date these financial statements were prepared, the European Commission has endorsed certain some new accounting standards and amendments to existing accounting standards. The possible impact of their application on the financial statements of the Terna Group is being evaluated. These accounting standards are listed below.

Amendment to IAS 19 – Defined Benefit Plan: Employee Contributions

On 17 December 2014 the European Commission endorsed the amendment to IAS 19 which enables recognition of contributions paid by employees to reduce the service costs of a defined benefit plan for employees. The amendment came into effect from 1 January 2016.

Improvements to IFRSs (2010–2012 Cycle)

Endorsed by the European Commission on 17 December 2014, the Annual Improvement was approved relative to the 2010–2012 cycle, incorporating changes to the standards IFRS 2, IFRS 3, IFRS 8, IAS 16, IAS 24, IAS 37, IAS 38 and IAS 39, with effect from 1 January 2016.

Amendments to IFRS 11 – Accounting for Acquisition of Interests in Joint Operations

On 24 November 2015 the European Commission endorsed the amendment to IFRS 11 that clarifies the accounting treatment in the event of acquisitions of interests in a joint operation the activities of which represent a business under the terms of IFRS 3; for the criteria for recognising assets/liabilities reference is made to the provisions of the said IFRS 3. The amendment came into effect from 1 January 2016.

Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

An amendment to the standards IAS 16 and IAS 38 was endorsed on 2 December 2015 by the European Commission. This defines as the only acceptable method of depreciation and amortisation the one that reflects the expected ways of consuming the future economic benefits generated by an asset, excluding revenue-based amortisations methods, that is those based on revenue generated by an asset.

Improvements to IFRSs (2012–2014 Cycle)

The Annual Improvement related to the 2012–2014 cycle was endorsed on 15 December 2015. This contained minor amendments to a number of standards: IFRS 5, IFRS 7, IAS 19, IAS 34, with effect from 01 January 2016.

Amendments to IAS 27 – Equity Method in Separate Financial Statements

On 18 December 2015 an amendment to IAS 27 was endorsed; this extends to the separate financial statements, starting from financial year 2016, the option to apply the equity method in accounting for equity investments in subsidiaries, joint ventures and associates.

Amendments to IAS 1 – Disclosure Initiative

As part of the “Disclosure Initiative” project, on 18 December 2015 an amendment to IAS 1 was endorsed; this provides some clarifications on the disclosure obligation provided for in the amended standard. In the short term the project provides for limited changes to aspects regarding materiality, disaggregation of accounting items, structure of the Notes to the Financial Statements and disclosure on debt, the Income Statement, OCI and accounting policies. In the medium term the Board’s intention is to arrive at a new IFRS to replace IAS 1 (Presentation of Financial Statements), IAS 7 (Statement of Cash Flows) and IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors). The amendment came into effect from 1 January 2016.

International financial reporting standards not yet endorsed

For newly-issued amendments, 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. In particular, among these, standards and interpretations that could have an impact on the Company’s financial statements are listed below.

IFRS 15 – Revenue from Contracts with Customers

New standard on accounting for revenue, published by the IASB on 28 May 2014, which replaces IAS 11 and IAS 18. The new standard is valid for all transactions in all sectors and is based on a five-step model: identify the contract with the customer, identify the performance obligations provided for in the contract, determine the transaction price, allocate the transaction price and finally recognise revenue when the performance obligations are satisfied. Performance occurs when control over goods or services underlying the performance obligation is passed to the customer. Control is defined as “the ability to direct the use of and obtain substantially all of the remaining benefits from the asset”. The amendment to the new standard was published on 11 September 2015, which postpones the date the principles comes into effect to 01 January 2018.

IFRS 9 - Financial Instruments:

On 24 July 2014 the IASB published the final version of the standard IFRS 9 - Financial Instruments. The new standard derives from a complex and articulated process and incorporates the results of the IASB project to replace IAS 39, broken down into the following stages: classification and measurement, derecognition, impairment and hedge accounting. The document published, which supersedes all previous versions of IFRS 9, is to be considered complete and establishes first adoption in financial statements that begin on 1 January 2018 or later. The main changes in the new standard provide, among other things, for a single classification criterion for all types of financial assets, including those that contain embedded derivatives; financial assets will therefore be classified in their entirety and will not be subject to complex separation rules. The new classification criterion for financial instruments is based on the management model adopted by the company to manage financial assets with reference to the collection of cash flows and on the characteristics of the contractual cash flows of the said financial assets. As regards impairment, the model provided for in IAS 39 based on the criterion of incurred loss, which postponed the recognition of losses on receivables to the moment of occurrence of the trigger event, was superseded, as it was considered a weak point.

The new IFRS 9 provides for a model characterised by a prospective view, which requires the immediate recognition of losses on receivables expected over the life of the financial instrument, as a trigger event no longer needs to occur for recognition of losses on receivables. The new standard completed, in addition, the stage of the hedge accounting project, except for the rules on macro hedge accounting which will be published later and provides, among the other changes, substantial revision of hedge accounting so as to better reflect risk management activities in the financial statements.

IFRS 16 - Leases

On 13 January 2016 the IASB published the new standard IFRS 16 which governs the accounting for leasing contracts, replacing the previous IAS 17. Among the changes the new standard, overcoming the distinction between operating and financial leasing, bases the accounting presentation on the so-called *"right of use"* approach, which for the lessee makes the accounting uniform for any type of leasing. At the moment of initial measurement, that is at the date on which the lessor makes the asset available to the lessee, the latter must recognise two asset items with opposite signs: the right to use the asset, among the assets and the payable for the leasing, among the liabilities. IFRS 16 is applicable as from 01 January 2019, but early application is permitted for companies that adopt IFRS 15 (Revenue from contracts with customers).

Amendment to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

On 19 January 2016 the IASB published an amendment to IAS 12 that intends to clarify the recognition of deferred tax assets for losses not recognised in the income statement on financial instruments carried at fair value.

Amendment to IAS 7: Disclosure Initiative

As part of the “Disclosure Initiative” project, on 29 January 2016 an amendment to IAS 7 was published, providing a number of clarifications on the disclosure obligations provided for in preparing the Statement of Cash Flows.

B. Notes to the consolidated income statement

Revenue

1. Revenue from sales and services – € 2,011.9 million

"Revenue from sales and services" for the years 2015 and 2014 is analysed in the following table.

€ million	2015	2014	Δ
CTR grid transmission fees	1,706.6	1,643.9	62.7
Adjustments for prior year grid transmission fees	(0.2)	6.8	(7.0)
Service quality	(4.7)	33.9	(38.6)
Other energy revenue	151.4	147.7	3.7
Other revenue from sales and services	158.8	90.5	68.3
TOTAL	**2,011.9**	**1,922.8**	**89.1**

Grid transmission fees and related adjustment

Grid transmission fees refer to the remuneration paid to the Parent Company for use of the National Transmission Grid – NTG (€ 1,519.7 million). It also comprises the net revenue from the portion of the NTG pertaining to the subsidiaries Terna Rete Italia (€ 186.5 million) and Rete S.r.l. from the acquisition date (€ 0.2 million). Specifically, the grid transmission fee for Terna S.p.A. reflects the adjustment made for the risks associated with the legal dispute in progress with an operator regarding the tariff regulating mechanism with the Republic of San Marino (€ 10.7 million).

The increase in revenue for transmission services (€ +55.7 million) reflects the updated tariff for 2015 and the positive impact of the mechanism neutralising the volume effect (pursuant to Art. 16 of the Integrated Transmission Text (ITT) 2012–2015), in relation to the reference value set by the Authority for the year 2015, as well as the provision referred to previously regarding the risks associated with a legal dispute in respect of an operator in the electricity market.

Service quality

The item (€ -4.7 million) includes the measurement for the negative performance in the year 2015 calculated on the basis of the RENS service quality regulatory mechanism (€ 6.5 million)[37], as well as the integration of the 2014 RENS premium recorded as a result of Resolution AEEGSI 552/2015/R/eel (€ 1.8 million). The comparative figure (€ 33.9 million) reflected the positive result associated with service quality for financial year 2014 (€ 17.5 million) and the adjustment of the figure for the RENS bonus recognised in 2013 (€ 16.4 million).

Other energy revenue

This refers to the price paid to the Parent Company by the electricity operators for the dispatching service (DIS component, € 125.2 million) and revenue from the construction and development of dispatching infrastructures recognised following application of IFRIC 12 (€ 26.2 million). We should note that, as specified in the section "A. Accounting policies and measurement criteria", this last revenue corresponds to the costs incurred during the period to purchase raw materials and consumables, and for services and staff which are included in operating expenses.

The increase in Other energy revenue for € 3.7 million is mainly attributable to the updated tariff for 2015 relating to the price to cover the costs recognised for Terna operations (€ +7.9 million), mitigated by the effect of lower investments in dispatching infrastructure (revenue down by € 4.2 million).

(37) In 2015, operation of the system was affected by a number of meteorological events with a high impact in terms of electricity system management and service continuity. In particular on 6 February, on the occasion of heavy snowfalls, there were widespread user blackouts in certain provinces of Lombardy and Emilia Romagna. In March, heavy snowfalls again affected the Abruzzo region, in particular on 5 and 6 March.

Other revenue from sales and services

The item "Other revenue from sales and services" amounted to € 158.8 million and for the most part refers to revenue from:

- orders and other activities in the field of Non-Regulated Activities, in particular related to the Tamini Group (€ 105.6 million), the subsidiary Terna Chile S.p.A. for the construction of a high-voltage line and of two related substations in the Antofagasta region in Chile (€ 14.2 million) and to the company Terna Plus S.r.l. (€ 8.4 million);
- diversified specialised activities in the field of High- and Very-High Voltage provided Terna S.p.A. and Terna Italia S.p.A. to third-party customers (€ 24.5 million);
- activities to design international interconnection lines (€ 4.6 million).

The difference in the item (+€ 68.3 million) is mainly due to the higher revenue from orders carried out by the Tamini Group (€ 54.4 million), which in the previous year contributed to the Group's results starting only from the acquisition date of 20 May 2014 and to the revenue associated with the Chilean order (14.2 million) made by the subsidiary Terna Chile S.p.A., set up during the year.

Pass-through revenue/costs

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

The item also includes the grid transmission fee which the Parent Company pays to other owners of the grid, not included in the consolidation scope.

The components of these transactions are detailed below.

€ million	2015	2014	Δ
REVENUE - POWER EXCHANGE:			
- Foreign market - exports	1.7	0.5	*1.2*
- Sale of energy on the Day Ahead Market, Adjustment Market, Market for Dispatching Services and others	358.0	336.8	21.2
- Imbalances and other minor items	795.5	769.6	25.9
- Resources procurement for the Market for Dispatching Services	1,400.6	1,962.8	(562.2)
- Congestion revenue - Rights for use of Transportation Capacity (RTC), Res. 288/06	511.2	811.3	(300.1)
- Other items - Power Exchange	57.1	60.9	(3.8)
- Interconnector/shipper	72.9	72.8	0.1
- Market coupling Res. 143/10	137.3	20.5	116.8
Total revenue - Power Exchange	***3,334.3***	***4,035.2***	***(700.9)***
Revenue components under Res. Nos 168/04–237/04 and others	1,612.6	1,447.2	165.4
Other items	97.4	384.1	(286.7)
Revenue from grid transmission fees of other owners and GRTN share CIP/6	14.8	15.7	(0.9)
Total revenue from outside the Power Exchange	***1,724.8***	***1,847.0***	***(122.2)***
TOTAL PASS-THROUGH ENERGY REVENUE	**5,059.1**	**5,882.2**	**(823.1)**
ENERGY PURCHASES:			
- on Day Ahead Market and Adjustment Market	138.1	261.9	(123.8)
- To provide the dispatching service	1,476.0	1,839.7	(363.7)
- For unbalancing	928.1	831.0	97.1
- On the foreign market - imports	1.4	0.5	0.9
- Electricity Market Operator fees	-	0.1	(0.1)
- congestion revenue - rights for use of transportation capacity (RTC), Res. No. 288/06	355.9	486.4	(130.5)
- Other items - Power Exchange	45.6	53.3	(7.7)
- *Interconnector/shipper*	379.1	560.9	(181.8)
- *Market coupling* Res. 143/10	10.1	1.4	8.7
Total costs - Power Exchange	***3,334.3***	***4,035.2***	***(700.9)***
Purchase of electricity market related services	1,612.6	1,447.2	165.4
Other items	97.4	384.1	(286.7)
Fees to be paid to NTG owners, GRTN and others	14.8	15.7	(0.9)
Total services and fees	***1,724.8***	***1,847.0***	***(122.2)***
TOTAL PASS-THROUGH ENERGY COSTS	**5,059.1**	**5,882.2**	**(823.1)**

2. Other revenue and income – € 70.2 million

The item “Other revenue and income” for the years 2015 and 2014 is broken down in the following table.

€ million	2015	2014	Δ
Rental income	22.8	23.0	(0.2)
Sundry grants	12.7	19.7	(7.0)
Contingent assets	10.7	8.3	2.4
Insurance settlements for losses	8.4	3.9	4.5
Gains on the disposal of plant components	1.9	3.2	(1.3)
Sales to third parties	6.7	1.0	5.7
Other revenue	7.0	0.7	6.3
TOTAL	**70.2**	**59.8**	**10.4**

The “Other revenue and income”, of € 70.2 million, related mainly to the Parent Company for € 46.5 million, to the Tamini Group (€ 10.4 million), to the Company Terna Rete Italia S.r.l. (€ 7 million) and to the subsidiary Terna Plus S.r.l. (€ 5.9 million).
The significant items refer mainly to Rental incomes (€ 22.8 million) associated largely with the housing of the optic fibre of the Wind Group on the proprietary grids, to “Sundry grants” (€ 12.7 million), contingent assets (€ 10.7 million), insurance settlements for damages (€ 8.4 million) and sales to third parties (€ 6.7 million).
The increase in the item of € 10.4 million is essentially due to the combined effect of:

- increase in the Sales to third parties (€ 5.7 million), as a result of the revenue realised from the sale of the copper recovered in implementing the “Copper Plan”;
- recognition of the adjustment of the purchase price of the subsidiary Tamini Trasformatori S.r.l. (€ 5.9 million) resulting from the supplementary agreement between the parties defined during 2015;
- higher revenue for insurance settlements (€ 4.5 million) which reflect also the coverage of the cost of rebuilding a transformer that had suffered damage in 2014;
- lower revenue from activities related to orders for changes to the NTG (€ 7 million); financial year 2014 included more activities linked mainly to the Expo.

Operating expenses:

3. Raw materials and consumables - € 95.7 million

This item, amounting to € 95.7 million, expresses the value of consumption of materials and miscellaneous equipment and materials used in the ordinary work of operating and maintaining plants of the Group and of third parties, and consumption of materials for fulfilling the Tamini Group’s and the Chilean subsidiary’s orders.
The increase of € 55.6 million compared to the previous year (€ 40.1 million in 2014), derives essentially from the costs incurred by the Tamini Group during the year (+€ 39.3 million compared to € 25.3 million of costs incurred in the seven months of 2014 of operating activity as part of the Terna Group), as well as the costs recognised by the NewCo Terna Chile S.p.A. in the context of the order in progress in Chile, begun in 2015 (+€ 13.4 million). It also recognises the higher costs recorded with the application of IFRIC 12 for the construction and development of dispatching infrastructure (€ 2.8 million).

4. Services - € 160.7 million

Costs for services, amounting to a total of € 160.7 million, are attributable mainly to the subsidiary Terna Rete Italia S.p.A. for € 76.2 million and to the Parent Company for € 49.9 million, as well as to the Tamini Group (€ 25.1 million). Costs for services are broken down in the table below. In order to provide precise comments on the trend of these costs during 2015, the proportion of the difference contributed by the Tamini Group is shown; this is attributable substantially to the different period of contribution to the consolidation in the two years being compared.

€ million	2015	2014	Δ	Δ without Tamini	Δ Tamini
Maintenance and sundry services	81.7	71.2	10.5	1.2	9.3
Tenders on plants	25.2	30.6	(5.4)	(5.4)	-
IT services	18.0	21.6	(3.6)	(3.7)	0.1
Leases and rentals	13.0	12.2	0.8	0.6	0.2
Remote transmission and telephone	12.1	14.5	(2.4)	(2.4)	-
Insurance	10.7	10.7	-	(1.7)	1.7
TOTAL	**160.7**	**160.8**	**(0.1)**	**(11.4)**	**11.3**

Significant in the context of the Tamini costs are the costs for services related to the orders for the construction of transformers. Net of the contribution from the Tamini Group, costs of services came own compared to the previous year by € 11.4 million, and for € 5.6 million if the higher costs for implementing IFRIC 12 are not taken into consideration.

€ million	Δ without Tamini	Δ IFRIC 12	Δ without Tamini/IFRIC 12
Maintenance and sundry services	1.2	(1.7)	2.9
Tenders on plants	(5.4)	(0.7)	(4.7)
IT services	(3.7)	(3.4)	(0.3)
Leases and rentals	0.6	-	0.6
Remote transmission and telephone	(2.4)	-	(2.4)
Insurance	(1.7)	-	(1.7)
TOTAL	(11.4)	(5.8)	(5.6)

This reduction is attributable to the improvement in operating efficiency achieved through insourcing of activities and a reduction in spending volumes and unit costs of contracts entrusted to external suppliers.

5. Personnel expenses – € 231.8 million

"Personnel expenses" for the years 2015 and 2014 are analysed in the following table.

€ million	2015	2014	Δ
Wages, salaries and other short-term employee benefits	279.2	272.0	7.2
Directors' fees	2.6	2.1	0.5
Severance indemnities, electricity discount and other post-employment benefits	17.3	17.2	0.1
Early retirement incentives	2.1	45.9	(43.8)
Personnel expenses, gross	***301.2***	***337.2***	***(36.0)***
Personnel expenses, capitalised	(69.4)	(72.2)	2.8
TOTAL	231.8	265.0	(33.2)

This item includes the cost of wages and salaries, social security contributions and other costs incurred by the Parent Company for redundancy incentives, as well as benefits paid to employees who stay with the company and termination indemnities provided for by the current National Collective Employment Contract for the electricity sector. This item includes the cost of personnel employed by Tamini Group companies for € 21 million, an increase of € 8.5 million compared to the figure for 2014, representing the cost starting from the acquisition date.

€ million	2015	2014	Δ	Δ without Tamini	Δ IFRIC 12	Δ without Tamini/IFRIC 12
Personnel expenses, gross	***301.2***	***337.2***	***(36.0)***	***8.7***	***-***	***(44.7)***
Personnel expenses, capitalised	(69.4)	(72.2)	2.8	(0.2)	(1.2)	4.2
TOTAL	231.8	265.0	(33.2)	8.5	(1.2)	(40.5)

Personnel expenses, net of the Tamini contribution and of the costs recognised in application of IFRIC 12, recorded a reduction of € 40.5 million essentially attributable to the effect of the provisions for early retirement incentives of € 36.6 million recognised in the previous year, in support of the generational turnover project carried out in 2015. This project produced cost savings that kept in line the costs for wages and salaries, offsetting the increase associated with the contractual renewal and the lower capitalisations attributable substantially to the different stages of progress of the main projects in the two years being compared.

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

	Average number		Final number	
	2015	2014	31.12.2015	31.12.2014
Executives	74	68	76	68
Junior executives	545	536	514	557
Office staff	2,010	1,977	1,971	2,007
Blue-collar workers	1,172	1,098	1,206	1,165
TOTAL	**3,801**	**3,679**	**3,767**	**3,797**

The net change in the average number of employees at the end of 2014 was -122 units.
Please note that at 31 December 2015, the workforce of the Terna Group was as follows.

	Terna S.p.A.	Terna Rete Italia S.p.A.	Terna Storage S.r.l.	Terna Crna Gora d.o.o.	Terna Plus S.r.l.	Tamini Group
Units	427	2,893	1	3*	12	431

(*) Local employees.

For the reconciliation of the opening and closing balances of the present value of the liability for employee benefits and the main assumptions used in the actuarial estimate, see section “25. Employee benefits”.

6. Amortisation, depreciation and impairment – € 516.8 million

These relate to accruals during the year calculated on the basis of amortisation and depreciation rates that reflect the useful lives of the Group companies’ plant, property and equipment and intangible assets (€ 490.2 million), the value of the impairment of property, plant and equipment and tangible assets recognised (€ 22.9 million) and the writedowns of trade receivables, which are considered unlikely to be collected (€ 3.7 million).
The following table details the amortisation, depreciation and impairment for the years 2015 and 2014.

€ million	2015	2014	Δ
Amortisation of intangible assets	55.3	58.6	(3.3)
- of which: infrastructure rights	*34.6*	*36.4*	*(1.8)*
Depreciation of property, plant and equipment	434.9	419.5	15.4
Impairment of property, plant and equipment and tangible assets	22.9	-	22.9
Impairment of trade receivables	3.7	2.5	1.2
TOTAL	**516.8**	**480.6**	**36.2**

The increase in the item of € 36.2 million is ascribable mainly to:
- growth in depreciation and amortisation compared to 2014 (+€ 12.1 million) substantially as a result of more property, plant and equipment and intangible assets coming into service during the year and of new disposal programmes defined at the end of the year;
- Impairments for the year of tangible assets of € 22.9 million, of which € 14.3 million attributable to the cancellation of the authorisation for the project to build the Dolo-Camin line, for which we are studying a new grid scheme to be presented for authorisation and for € 7 million as a consequence of the analysis of the effective recoverability of the book value of certain specific plants (Rapid Installation Connection Stations – SCRIs) of Terna Plus S.r.l..

7. Other operating expenses - € 54.7 million

"Other operating expenses" for the years 2015 and 2014 are broken down in the following table.

€ million	2014	2013	Δ
Power failure charges	7.9	(2.2)	10.1
of which estimated costs of Mitigation and Sharing	*2.2*	*(1.6)*	*3.8*
of which contributions to the Exceptional Events Fund	*5.7*	*(0.6)*	*6.3*
Indirect and local taxes, duties and other charges	29.4	20.0	9.4
Provisions for risks	6.6	1.9	4.7
Contingent liabilities	2.0	11.2	(9.2)
Losses on disposal/decommissioning of plant	0.2	0.6	(0.4)
Other operating expenses	8.6	7.5	1.1
TOTAL	**54.7**	**39.0**	**15.7**

The Group's other operating expenses, of € 54.7 million, are mainly attributable to the Parent Company (€ 45.5 million) and to the Tamini Group (€ 5 million).
The "Indirect and local taxes, duties and other charges" component consists mostly of the tax and other charges related to the acquisition of the company Rete S.r.l. (€ 13.1 million), Council Tax (Imposta Municipale Unica, IMU - € 11 million) and TOSAP and TARES taxes (€ 3.6 million). The increase in the item of € 15.7 million derives mostly from the combined effect of the following events:

- registration taxes and other ancillary charges (total of € 13.1 million) associated with the acquisition transaction for the entire shareholding in Rete S.r.l. (formerly S.EL.F. S.r.l.) from Ferrovie dello Stato Italiano S.p.A. on 23 December 2015;
- the measurement of the net expenses resulting from the Service quality regulation (sharing mechanisms and contributions to the exceptional events provision), which increased by € 10.1 million compared to the previous year due to the interruption events that occurred in 2015 following the meteorological events with a high impact in terms of electricity system management and service continuity;
- contingent liabilities recognised in 2014 (€ 8.6 million) mainly pertinent to a 2012 supply contract.

8. Net financial income/(expense) - (141.1) million euro

This item is analysed below.

€ million	2015	2014	Changes
FINANCIAL INCOME			
Interest income and other financial income	10.4	21.8	(11.4)
Debt adjustment (bonds) and related hedges	1.0	2.0	(1.0)
Exchange gains	1.7	*0.2*	1.5
Total income	**13.1**	**24.0**	**(10.9)**
FINANCIAL EXPENSE			
Financial expense from the Parent	(5.2)	(6.4)	1.2
Other financial expense	(1.2)	(0.3)	(0.9)
Interest expense on medium/long-term loans and related hedges	(174.6)	(183.4)	8.8
Discounting of post-employment benefits and other personnel-related provisions	(1.9)	(3.2)	1.3
Capitalised borrowing costs	28.7	34.4	(5.7)
Impairment of equity investments	-	(0.7)	0.7
Total expense	**(154.2)**	**(159.6)**	**5.4**
TOTAL	**(141.1)**	**(135.6)**	**(5.5)**

Net financial expense amounted to € 141.1 million, essentially attributable to the Parent Company, comprising € 154.2 million of financial expense and € 13.1 million of financial income. The increase of € 5.5 million with respect to the previous financial year is mainly the result of the following factors:

- lower financial income (-€ 11.4 million) attributable essentially to the general decrease in the market rates at which the cash was invested;
- higher positive exchange differences (+€ 1.5 million);
- negative net economic effects deriving from the fair value adjustment of bonds and the related hedges (-€ 1.0 million);
- decrease in financial expense related to medium- and long-term debt and the related hedging (+€ 8.8 million) attributable mainly to the general decrease in marker rates during 2015 which more than offset the costs connected with the Liability Management operation carried out on 20 July 2015 (€ 32.3 million);
- lower financial expense deriving from the discounting of employee benefits and provisions for risks and charges (+€ 1.3 million);
- lower capitalised financial expense (-€ 5.7 million) due mainly to the lower cost of net debt in 2015 compared with that recognised in 2014;
- recognition, in financial year 2014, of expenses for impairment related to other investments in the portfolio (-€ 0,7 million).

9. Share of income/(expenses) from equity-accounted investees

At 31 December 2015, this item stood at zero; the positive impact resulting from the equity adjustment at the end of the year for the holding in Associates of the Cesi S.p.A. Group (€ 3.4 million) was totally offset by the expenses resulting from impairment of the equity investment in the associate CGES. The comparative figure was € 7.7 million.

10. Income taxes of the year – € 293.3 million

Income taxes chargeable to the year amounted to € 293.3 million, down by € 42.4 million compared with the previous year owing essentially to the reduction in the IRES rate to 27.5% from 2015, following the declaration of unconstitutionality of the surcharge introduced by Italian Law Decree No. 112/2008 (so-called Robin Hood Tax) and of the deductibility of permanent personnel expenses for IRAP purposes introduced by the 2015 Stability Law starting from the current year. The following table shows changes in taxes with respect to 2014.

€ million	2015	2014	Δ
INCOME TAXES OF THE YEAR			
Current taxes:			
- IRES	286.1	350.0	(63.9)
- IRAP	57.0	69.5	(12.5)
Total current taxes	***343.1***	***419.5***	***(76.4)***
New temporary differences:			
- deferred tax assets	(21.8)	(24.1)	2.3
- deferred tax liabilities	-	-	-
Reversal of temporary differences:			
- deferred tax assets	22.8	25.2	(2.4)
- deferred tax liabilities	(36.3)	(48.4)	12.1
IRES tax rate adjustment	(8.2)	(31.5)	23.3
Total change in deferred tax assets and liabilities	***(43.5)***	***(78.8)***	***35.3***
Adjustment of prior-year taxes	(6.3)	(7.1)	0.8
Other one-off changes	-	*2.1*	(2.1)
TOTAL	**293.3**	**335.7**	**(42.4)**

Current taxes

Current taxes, of € 343.1 million, fell compared to the previous year by € 76.4 million, essentially as a result of the reductions in the IRES rate described above and also the deductibility for IRAP purposes of expenses for personnel with permanent contracts.

Deferred tax assets and liabilities

In 2015, as a result of the provisions of the Stability Law for 2016 (Italian Law No. 208 of 28 December 2015), which introduced the reduction of the IRES rate (Art. 1 paragraphs 61–64), starting from 2017, from 27.5% to 24% for entities not classified as credit or financial institutions, the net deferred tax liabilities in the balance sheet were adjusted with a positive impact of € 8.2 million. The higher positive impact noted in 2014 deriving from the adjustment of the IRES rate from 34% to 27.5% (an impact of € 31.5 million) consequent to the judgement of unconstitutionality of the so-called "Robin Hood Tax" and by the recognition of payments of deferred tax liabilities at 34% (compared to 27.5% in the current year) determined an increase in the balance of net deferred taxes of € 35.3 million compared to the figure for the previous year.

Adjustment of prior-year taxes and other one-off changes

Adjustment of prior-year taxes, of -€ 6.3 million, are related to the higher current taxes paid in previous years. The item is substantially in line with the figure for the previous year. The effective proportion of income taxes (€ 293.3 million) to the profit before taxes was 33.3% compared with 38.6% in 2014 owing substantially to the effects described above. For a clearer presentation of the differences between the theoretical and actual tax rates, the table below reconciles the profit before taxes with taxable income for IRES (corporate income tax) purposes.

€ million	2015	2014
Profit/(loss) before taxes	881.3	869.2
THEORETICAL TAX	**242.4**	**295.5**
IRAP	57.0	69.5
Permanent differences	8.4	7.2
TAX (NET OF ADJUSTMENTS OF PRIOR-YEAR TAXES AND ONE-OFF VARIATIONS)	**307.8**	**372.2**
RATE	**34.9%**	**42.8%**
Tax rate adjustment	(8.2)	(31.5)
Adjustment of prior-year taxes	(6.3)	(7.1)
Other one-off changes	-	2.1
INCOME TAXES OF THE YEAR	**293.3**	**335.7**
ACTUAL TAX RATE	**33.3%**	**38.6%**

11. Profit for the year from discontinued operations – € 7.3 million

The item recognises the effects of the release of provisions set aside for probable expenses related to tax obligations deriving from the sale of Terna Participações by the Parent Company (for € 7.3 million), which are considered extinguished owing to expiry of the period of collection by the Brazilian local authority. The previous year showed the effects of the release of the provision established by Suntergrid S.p.A., incorporated in Terna Plus in 2013, to adjust the estimate of probable charges connected to operations completed in 2011 in the photovoltaic sector (€ 11 million).

12. Earnings per share

Basic earnings per share, which corresponds to diluted earnings per share, amounts to € 0.296 (numerator of € 595.3 million, corresponding to the profit for the year, and denominator of 2,009,992.0 thousand shares). Basic earnings per share from continuing operations, which corresponds to diluted earnings per share, amounts to € 0.293 (numerator of € 588.0 million, corresponding to the profit for the year from continuing operations, and denominator of 2,009,992.0 thousand shares).

C. Operating segments

Consistent with the 2016–2019 Strategic Plan, the following are the operating segments identified within the Terna Group:

- **Regulated Activities**
- **Non-Regulated Activities**

Regulated Activities include the development, operation and maintenance of the National Transmission Grid in addition to dispatching and measuring and activities related to the creation of storage systems. These activities are represented in a single operating segment, as activities regulated by the AEEGSI with similar characteristics in terms of the remuneration model and the tariff determination methods.
The operating segment of non-regulated activities instead includes specialised services provided to third parties mainly relating to systems engineering services, the operation and maintenance of high and very-high voltage plants and the housing of telecommunications equipment and optical fibre network maintenance services. These activities are provided in a free market context by means of specific commercial initiatives.
We must specify that the operating segment of Non-Regulated Activities includes also the operating result of the Tamini Group, referable essentially to the construction and sale of electrical machinery, in particular power transformers, and the results of the companies set up to develop interconnection projects with other countries in an "interconnector" arrangement, that is Terna Interconnector S.r.l., Piemonte Savoia S.r.l. and Monita Interconnector S.r.l., and the company Terna Chile S.p.A. set up to develop EPC projects in the LATAM market.
Below are the results of the operating segments of the Terna Group in the year 2015 and the year 2014, in line with the evidence of the Group management control system and the reconciliation with the Group's profit before taxes.

€ million	2015	2014	Δ	Δ %
TOTAL REVENUE FROM REGULATED ACTIVITIES	1,849.7	1,822.9	26.8	1.5%
TOTAL REVENUE FROM NON-REGULATED ACTIVITIES	206.2	143.1**	63.1	44.1%
Revenue from construction of assets in concession (pursuant to IFRIC 12)	26.2	30.4	(4.2)	(13.8%)
TOTAL REVENUE	**2,082.1**	**1,996.4**	**85.7**	**4.3%**
EBITDA	**1,539.2**	**1,491.5**	**47.7**	**3.2%**
of which EBITDA on regulated activities*	1,485.9	1,423.0	62.9	4.4%
of which EBITDA on non-regulated activities	53.3	68.5	(15.2)	(22.2%)
EBITDA MARGIN	***73.9%***	***74.7%***		
*EBITDA margin on regulated activities**	80.3%	78.1%		
EBITDA margin on non-regulated activities	25.9%	47.9%		
Reconciliation of segment result with pre-tax company result				
EBITDA	**1,539.2**	**1,491.5**		
Amortisation, depreciation and impairment	516.8	480.6		
EBIT	**1,022.4**	**1,010.9**		
Financial income/(expense)	(141.1)	(135.6)		
Share of profit/(loss) of holding valued at equity	-	7.7		
Profit/(loss) before taxes	**881.3**	**883.0**		

* EBITDA including indirect costs.
** The contribution of the Tamini Group refers to the period from 20 May (acquisition date) to 31 December 2014.

The Group's revenue for financial year 2015 amounted to € 2,082.1 million recording growth of € 85.7 million (+4.3%) with respect to financial year 2014.
EBITDA (Gross Operating Margin) came out at € 1,539.2 million, an increase of € 47.7 million (+3.2%) compared with the € 1,491.5 million of 2014.

The increase in **EBITDA of Regulated Activities** of € 62.9 million was mainly due to higher revenue from CTR transmission fees (up by € 55.7 million as a result of investments in 2013 and of more energy withdrawn from the NTG) and higher DIS (up by € 7.9 million), as well as lower personnel expenses (down by € 41.1 million owing to higher early retirement incentives in 2014) only partially offset by the higher costs related to service quality (in particular owing to the negative performance of RENS 2015 compared to positive performance and one-offs in 2014).

The drop in **Non-Regulated Activities EBITDA** for € 15.2 million reflects the one-off effect in 2014 of releasing the photovoltaic provision for € 13.8 million and the reduction in orders for changes to the NTG for third-parties compared with 2014 that included increased activity related to Expo and the TEEM, which was only partially offset by the positive effect of the price adjustment relating to the acquisition of the Tamini Group.
The Group's **EBITDA margin** went down from 74.7% in 2014 to 73.9% of 2015 owing mainly to the lower contribution of Non-Regulated Activities.

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, given the non-material contribution of Non-Regulated Activities. The following table reports that indicator at 31 December 2015 and 31 December 2014.

	Italy	
€ million	31.12.2015	31.12.2014
Net non-current assets*	12,688.3	11,320.4
of which Investments in associates and joint ventures	*78.2*	*79.2*
Net working capital (NWC)**	(961.7)	(820.8)
Gross invested capital***	11,726.6	10,499.6

* Net non-current assets include the value of the items "Property, plant and equipment", "Goodwill", "Intangible assets", "Equity-accounted investees", "Other non-current assets".
** NWC (Net Working Capital) is equal to the difference between total current assets, net of cash and cash equivalents and of the item "Current financial assets" and total current liabilities and the item "Other non-current liabilities" net of the short-term portion of long-term financing and net of the item "Current financial liabilities".
*** The gross invested capital is equal to the sum of net non-current assets and the NWC (Net Working Capital).

As regards the dependence of Terna Group companies on external customers, in 2015 transactions that generated revenue from individual customers or companies under common control equal to more than 10% of consolidated revenue were represented by transactions with related parties in respect of regulated activities; for more information, please see the section on "Related party transactions".

D. Notes to the consolidated statement of financial position

Receivable

13. Property, plant and equipment – € 12,078.7 million

Property, plant and equipment amounted to € 12,078.7 million (€ 10,778.6 million at 31 December 2014). The amount and changes for each category are reported in the following table.

€ million	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Assets under development and payments on account	Total
COST AT 01.01.2015	**107.2**	**1,444.8**	**13,904.6**	**88.7**	**132.9**	**1,834.6**	**17,512.8**
Investments	0.2	-	0.4	2.9	1.5	1,053.6	1,058.6
Entry into use	21.9	99.3	780.8	-	7.5	(909.5)	-
Contribution of newly acquired companies	56.1	3.4	699.3	2.0	1.2	0.4	762.4
Disposals and impairment	(0.2)	(0.7)	(48.7)	-	(2.0)	(15.9)	(67.5)
Other changes	-	-	(13.5)	-	-	(13.0)	(26.5)
Reclassifications	-	-	(0.1)	1.0	(0.9)	-	-
COST AT 31.12.2015	**185.2**	**1,546.8**	**15,322.8**	**94.6**	**140.2**	**1,950.2**	**19,239.8**
ACCUMULATED DEPRECIATION AND IMPAIRMENT AT 01.01.2015	***(406.1)***	**(6,166.6)**	**(64.3)**	**(97.2)**	**-**	**-**	**(6,734.2)**
Depreciation charge for the year	(35.8)	(382.0)	(4.9)	(12.2)	-	-	(434.9)
Contribution of newly acquired companies	(0.2)	(32.4)	(1.8)	(0.5)	-	-	(34.9)
Disposals	0.7	40.2	-	2.0	-	-	42.9
Reclassifications	-	-	(0.9)	0.9	-	-	-
ACCUMULATED DEPRECIATION AND IMPAIRMENT AT 31.12.2015	***(441.4)***	**(6,540.8)**	**(71.9)**	**(107.0)**	**-**	**-**	**(7,161.1)**
CARRYING AMOUNT							
AT 31 DECEMBER 2015	**185.2**	**1,105.4**	**8,782.0**	**22.7**	**33.2**	**1,950.2**	**12,078.7**
AT 31 December 2014	**107.2**	**1,038.7**	**7,738.0**	**24.4**	**35.7**	**1,834.6**	**10,778.6**

"Plant and equipment", at 31 December 2015, includes in particular the energy transportation network as well as the transformation stations in Italy.

The item "Property, plant and equipment" recorded an increase compared to the previous year, of € 1,300.1 million, as a result of the following changes that occurred in the year referred to:

- investments in the year of +€ 1,058.6 million, of which € 1,018.8 million made in the context of the Group's Regulated Activities (referred essentially to the Parent Company Terna for € 950.9 million and the subsidiaries Terna Rete Italia S.r.l. and Terna Crna Gora d.o.o. respectively for € 44.5 million and € 23.4 million); in the context of Non-Regulated Activities we can note investments of € 39.8 million, mainly for the transfer of the authorisation for construction of the "Italy-France" private interconnection line (€ 10.9 million), and for actions for changes made by third parties;
- contribution of the assets of Rete S.r.l., the company acquired in the field of the Regulated Activities by Terna S.p.A. on 23 December 2015, recognised at a total amount of € 719.0 million, corresponding to the amount recognised by the AEEGSI on the new portion of the NTG, as well as redetermining the value attributed to the portions of lines and already included in the perimeter of Rete S.r.l., as better described in the paragraph "Business combinations" to which you are referred;

- contribution of the assets of the company TES – Transformer Electro Service (of € 8.5 million) acquired in the context of the Tamini Group on 30 October 2015;
- Depreciation and amortisation accruing (-€ 434.9 million);
- disposals and impairments (-€ 24.6 million) referring mainly to impairments of € 22.9 million, which comprise: the value of the cancellation of the authorisation of the Dolo-Camin line (€ 14.3 million), for which a new grid plan is being studied to be presented for approval; the impairment value of certain plants (Rapid Installation Substations - SCRI) of Terna Plus S.r.l following the analysis of the effective recoverability of their carrying amount (€ 7.0 million) and other assets, particularly in the ICT sector;
- other changes (-€ 26.5 million);

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

€ million	
Investments	
- Transmission lines	651.1
Transformer substations:	322.3
- Storage systems	39.9
- Other	45.3
TOTAL INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT	**1,058.6**
Contribution of newly acquired companies	727.5
Depreciation and Amortisation	(434.9)
Impairment	(22.9)
Disposals and other changes	(28.2)
TOTAL	**1,300.1**

As regards investments during the year in **Regulated Activities** (€ 1,018.8 million), we can note, in particular, those of the Parent Company, related mainly to:

Italy-Montenegro interconnection (€ 171.5 million):

- Cable connection: the production of both submarine and underground cables is continuing.
- Conversion stations: at the Cepagatti substation the foundations are being laid and the prefabricated buildings being put up while at the Kotor site the station area is being prepared.

380 kV Foggia-Villanova power line (€ 64.9 million):

- Villanova-Gissi power line: by the end of the year the creation of the foundation and pylons were completed and almost all the conductors were tested.
- Electrical stations:
  - At the Villanova substations two 380/120 kV transformers and one 380/150 kV transformer that came into operation to complete the expansion programme.
  - At the Gissi substation the two new 380 kV line bays necessary for the new Villanova – Gissi power line were completed.
- Downstream of the 2015 activities and after closure of the financial statements, the entire connection came into operation on 31 January 2016.

380 kV power line Sorgente - Rizziconi (€ 69.2 million):

- After the resumption of the activities of creating the entire Sorgente – Rizziconi connection, which had been stopped owing to sequestration of Pylon No. 40, some days ago Terna S.p.A. was notified of the sequestration of Pylon No. 45 by the Messina Public Prosecutor’s Office. Terna S.p.A., in collaboration with the authorities responsible, is carrying out all the opportune actions to observe the times for entry into operation of the project, planned for June 2016.

380 kV Udine Ovest-Redipuglia power line (€ 46.1 million):

- The construction work has been suspended after Council of State Judgement No. 03652/2015, filed on 23 July 2014 which cancelled the Environmental Impact Assessment measure and the Single Authorisation Decree covering the work. The authorisation process began again at the beginning of October when the documentation necessary to remedy the disputed error of form was sent to the bodies involved. Before the interruption of the work 80% of the project had been completed:
  - Power lines: construction of the foundations was completed, assembly of the pylons is at an advanced stage and the stringing work was in progress.
  - Udine Sud electrical substation: all the construction work was completed and on-site testing of the equipment installed was finished.

Synchronous condensers in Sicily (€ 30.8 million):

- The construction work has been completed and testing on the condensers at the Favara and Partinico substations is currently underway, with these becoming operational during the first quarter of 2016.

Upgrades of power line capacities (€ 21.8 million):

- The work on replacing the conductors and guard wires of the 380 kV “La Spezia-Vignole” power line were completed for a total length of 113 km with a type of conductors of a new generation.
- Preparatory work is in progress for upgrading the capacity of the 380 kV “Rondissone-Trino” power line.

Storage systems (€ 39.9 million):

- “Energy Intensive” Projects (33.8 M€): the Flumeri plant has come into operation for a further 6 MW and the Scampitella plant for 10.8 MW for a total at the three sites built of 34.8 MW installed.
- “Power Intensive” Projects (6.1 M€): in operation 12.5 MW distributed on two sites: Codrongianos (7.4 MW) and Ciminna (5.1 MW).

Italy-France interconnection (€ 16.5 million):

- Cable connection: supply of the cable and the substation has begun.

The investments also include the actions to purchase and/or renovate offices (€ 22.8 million).

14. Goodwill – € 224.3 million

Goodwill, of € 224.3 million, recorded an increase compared to the previous year of € 34.1 million deriving from the acquisition of the company TES – Transformer Electro Service S.r.l. (of € 17.2 million) in the context of the Tamini Group on 30 October 2015 and of the company Rete S.r.l. (€ 16.9 million) by Terna S.p.A. on 23 December 2015; for more details on this subject please see the paragraph “F. Business combinations”.

Impairment testing

***Cash Generating Unit* – Perimeter of the Group’s transmission activities**

The goodwill shown above includes, besides the business combinations carried out in 2015, the goodwill deriving from the acquisition of Terna Rete Italia S.r.l., recognised in the accounts for a value of € 101.6 million, and the goodwill deriving from the acquisition of RTL (incorporated by the Parent Company in 2008), recognised in the accounts for a value of € 88.6 million.

At the end of the year the impairment, in particular for the estimate on the recoverable value from the Goodwill, was taken for the Cash Generating Unit (CGU) referring to the perimeter of the Group’s transmission activities, including the Grid acquired from Ferrovie dello Stato.

The fair value of the CGU, of approximately € 14.8 million, calculated taking into consideration the average Stock Exchange quotation of the Terna stock in 2015, was found to be higher than the carrying amount, for a difference of approximately € 3.6 million.

In addition, as further support of the assessment of impairment, the estimate of the recoverable value of goodwill was also determined on the basis of the criterion of value in use applying the "Discounted Cash Flow" method (unlevered version) to the same CGU. In line with the provisions of IAS 36, the cash flow forecasts have been prepared for the time frame 2016–2019, taking the estimates given in the last Industrial Plan approved by the Board of Directors on 17 February 2016. The above Industrial Plan was developed taking into account the new regulatory framework, the recent estimates for the electrical sector and the most up-to-date macroeconomic and fiscal forecasts. The exercise was carried out considering a terminal value equal to the calendary RAB (Regulatory Asset Base) at the end of 2019.
Using discount rates in the range of 4% - 6% the value in use of the CGU was always higher than that recognised in the accounts.

15. Intangible assets – € 295.8 million

Changes during the year in intangible assets are detailed below.

€ million	Rights on infrastructure	Concessions	Other assets	Assets under development and payments on account	Total
BALANCE AT 31.12.2014	**119.0**	**84.1**	**31.3**	**27.9**	**262.3**
Investments	-	-	0.5	44.0	44.5
Entry into use	30.9	-	7.8	(38.7)	-
Contribution of newly acquired companies	-	-	44.3	-	44.3
Depreciation charge for the year	(34.6)	(5.6)	(15.1)	-	(55.3)
BALANCE AT 31.12.2015	**115.3**	**78.5**	**68.8**	**33.2**	**295.8**
Cost	371.2	135.9	232.1	33.2	772.4
Accumulated amortisation	(255.9)	(57.4)	(163.3)	-	(476.6)
BALANCE AT 31.12.2015	**115.3**	**78.5**	**68.8**	**33.2**	**295.8**

Intangible assets amounted to € 295.8 million (€ 262.3 million at 31 December 2014). This item, in particular, includes:

- the infrastructures used for the dispatching services, carried out under concession and booked as set out by the "IFRIC 12 - Service Concession Arrangements", for a net book value at 31 December 2015 of € 115.3 million for infrastructures which came into operation and € € 17.6 million for infrastructures under construction included in the category "Assets under development and payments on account" (€ 119.0 million and € 22.2 million respectively at 31 December 2014);
- the concession for the provision of electricity transmission and dispatching services in Italy (with net carrying amount of € 78.5 million at 31 December 2015), with a term of twenty-five years, recognised initially during 2005 at fair value and subsequently measured at cost.

Other intangible assets manly comprise application software developed internally or purchased when implementing systems development projects. The investments related to them, referred mainly to the Parent Company (€ 17.9 million), were made essentially through internal development. The difference in the item with respect to the previous year (+€ 33.5 million) is attributable, as well as to the combined effect of the ordinary movements in the year referred mainly to amortisation (€ 55.3 million, of which € 34.6 million related to dispatching infrastructures and € 5.6 million related to the concession), to investments (€ 44.5 million, of which € 26.3 million for Infrastructure rights) mainly in application software, to recognition of the receivable contract for the support of optical fibre acquired with the company Rete S.r.l. (€ 38 million), counted in the process of allocation of the higher price paid by the Terna Group and to the contribution deriving from the acquisition of TES (€ 6.3 million). Investments for the year in intangible assets (€ 44.5 million, of which in Regulated Activities € 44.2 million referred entirely to the Parent Company), we can note in particular those for the development and evolution of software for the Remote Management System for Dispatching (€ 10.7 million), for the Power Exchange (€ 4.5 million) and for the protection of the Electricity System (€ 1.0 million), as well as software applications and general use licenses (€ 16.7 million).

16. Equity-accounted investee - € 78.2 million

This item amounts to € 78.2 million and relates to the shareholdings of the Parent Company Terna S.p.A.:

- in the associate CESI S.p.A. (€ 42.8 million), representing a stake in the share capital of 42.698%;
- in the associate CORESO S.A. (€ 0.4 million), acquired in November 2010, representing a stake in the share capital which went down from 22.485% to 20% during November 2015;
- in the associate CGES - CrnoGorski Elektroprenosni Sistem AD (€ 35.0 million), which was acquired in January 2011, representing a stake of 22.0889%.

CESI S.p.A. operates in the construction and management of laboratories and plants for tests, inspections, studies and experimental research relating to the electro-technical field in general and to the technical and scientific developments in that area. The value of the equity investment increased by € 2.3 million compared to the previous year, as a result of the adjustment of the equity investment to the equity at the end of the year referable to the stake held by the Group in the same company (€ 3.4 million), taking into account the dividend received during the year (-€ 1.1 million).

The company CORESO S.A. is the first technical centre owned by various Electricity Transmission System Operators which carries out joint TSO technical coordination activities in order to improve and strengthen security and coordination of the Electrical System in central/western Europe; it prepares daily forecasts and analyses in real time of energy flows in the region, identifying potentially critical areas and promptly notifying the TSOs which are affected. The value of the equity investment was unchanged from the balance of the previous year.

CGES is the operator responsible for electricity dispatch and transmission in Montenegro. The financial investment of Terna in CGES, which was made following an industrial cooperation and country system and included as part of inter-governmental understandings reached by Italy and Montenegro, sanctions the institutional commitment to the development of a new submarine electrical interconnection and the implementation of the partnership between national transmission operators. The value of the equity investment decreased by € 3.3 million with respect to the previous year, as a result of the impairment of the value of the investment recognised in the consolidated financial statements (-€ 3.5 million), offset by the adjustment of the investment to the equity at the end of the year referable to the Group's stake in the same company (+€ 0.2 million).

17. Financial assets

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

	Carrying amount		
€ million	31.12.2015	31.12.2014	Δ
FVH derivatives	688.2	784.8	(96.6)
RCF commissions	3.6	2.0	1.6
Equity investments	-	0.3	(0.3)
NON-CURRENT FINANCIAL ASSETS	**691.8**	**787.1**	**(95.3)**
Deferred assets on FVH derivatives contracts	61.5	60.4	1.1
Other current financial assets	2.8	3.0	(0.2)
CURRENT FINANCIAL ASSETS	**64.3**	**63.4**	**0.9**
TOTAL	**756.1**	**850.5**	**(94.4)**

At 31 December 2015, the item "Non-current financial assets", of € 691.8 million, included the value of fair value hedging derivatives hedging bonds (€ 688.2 million) and fees paid on the Revolving Credit Facility (€ 3.6 million).
The fair value of the FVH derivatives hedging the Parent Company's bonds, equal to € 688.2 million, is calculated by discounting forecast cash flow with the market interest rate curve at the reporting date. The decrease in the fair value of derivatives (€ 96.6 million) with respect to 31 December 2014 is due to the decrease of the interest rate curve at the end of 2015.
The item "Current financial assets" showed a balance of € 64.3 million (€ 63.4 million at 31 December 2014) and recorded an increase compared to the previous year of +€ 0.9 million due essentially to the amount of net financial income accrued on the related financial instruments, but not yet paid (+€ 1.1 million).

18. Other assets

"Other assets" are broken down below.

€ million	31.12.2015	31.12.2014	Δ
Receivables due from others:			
- loans and advances to employees	9.1	8.8	0.3
- deposits with third parties	2.2	1.0	1.2
OTHER NON-CURRENT ASSETS	**11.3**	**9.8**	**1.5**
Other tax assets	121.3	21.6	99.7
Receivables due from others:			
- advances to employees	0.1	0.2	*(0.1)*
- others	39.9	24.2	15.7
OTHER CURRENT ASSETS	**161.3**	**46.0**	**115.3**

"Other non-current assets" (€ 11.3 million) - which are presented in the table above - are essentially unchanged since the end of last year (€ 9.8 million) and mainly comprise loans and advances paid to employees by the parent company and the subsidiary Terna Rete Italia S.p.A. (€ 9.1 million).
The item "Other current assets", equal to € 161.3 million, the composition of which is presented in the previous statement, showed an increase (+€ 115.3 million) compared to the balance at 31 December 2014 owing mainly to:

- other tax assets (+€ 99.7 million) substantially referable to the higher VAT credit with the tax authorities (+€ 103.6 million) mainly of the Parent Company compared to the debit situation at the end of 2014 and to the lower balance of advance withholdings on interest income accrued on the Parent Company's financial assets (-€ 4.2 million);
- to receivables due from others (+€ 15.7 million) referable, in particular, to the Parent Company's receivables.

19. Inventories – € 12.4 million

Inventories under working assets, of € 12.4 million, consist mainly of materials and equipment destined for the work of operating, maintaining and building plants.
The item showed a decrease of -€ 9.2 million compared to the figure for the previous year (€ 21.6 million), owing to a reduction in the balance of the inventories of Tamini Trasformatori S.r.l. and of its subsidiaries.

20. Trade receivables – € 1,373.4 million

Trade receivables can be broken down as follows.

€ million	31.12.2015	31.12.2014	Δ
Energy-related receivables	826.0	956.7	(130.7)
Grid transmission fee receivables	400.0	514.2	(114.2)
Other trade receivables	147.4	106.9	40.5
TRADE RECEIVABLES	**1,373.4**	**1,577.8**	**(204.4)**

Trade receivables amounted to € 1,373.4 million and show a decrease (€ 204.4 million) compared with the previous year, essentially attributable to the grid transmission fees receivable in relation to the remuneration paid to the Parent Company and to other owners for the use of the National Transmission Grid by electricity distributors (-€ 114.2 million) and to pass-through amounts deriving from the electricity dispatching activities (-€ 130.7 million).

They are recognised net of impairment losses, referred to items considered non-collectable, recognised in allowances for doubtful accounts (€ 25.5 million for energy items and € 10.8 million for other items in 2015, compared with € 24.0 million for energy items and € 9.6 million for other items in 2014); the carrying amount shown approximates substantially to the fair value.

Energy-related receivables – € 826.0 million

The item included receivables for the so-called "pass-through items" related to energy dispatching activities carried out by the Parent Company (€ 805.1 million) and, also, receivables from market operators for the for margin fees (€ 20.9 million) destined, in particular, to cover the costs recognised for the functioning of Terna related to the dispatching activity (DIS fee – Resolution 111/06 and subsequent amendments and additions).

The balance records an overall decrease of € 130.7 million compared with the previous year attributable, generally, to:

- Receivables for pass-through energy items: down by € 101.9 million owing substantially to the reduction of the receivable (€ 97 million) referred to the so-called Uplift Fee for procurement of resources in the Dispatching Services Market (DSM) owing mainly to lower prices related to energy transactions in the same market and to the lower cost referred to non-penalised unbalancing;
- Receivables for the IDIV component: down by € 11.4 million, mainly due to the lower unit price set for 2015 with Resolution 658/2014/R/eel.

The difference in the item also reflects the recognition at the end of 2014 of the receivable from Cassa per i Servizi Energetici e Ambientali (CSEA) referred to the estimate of the positive performance (negative in 2015) related to the RENS mechanism regulating the transmission service quality (€ 17.5 million).

Grid transmission fee receivables – € 400.0 million

Grid transmission fee receivables, of € 400 million, is related to the remuneration awarded to the Parent Company and to the other owners for the use of the National Transmission Grid by electricity distributors. The above receivables showed a decrease, of € 114.2 million, compared to the previous year, mainly attributable to receiving from Cassa per i Servizi Energetici e Ambientali (CSEA) the receivable for the supplement to the CTR (grid transmission fee) of Terna S.p.A. related to 2013 (€ 91.2 million) and to recognition of the payable position (€ 24.7 million) for higher revenue invoiced compared to the maximum volumes of energy of reference established by the Authority for the year 2015 (mechanism to neutralise the volume effect).

Other trade receivables – € 147.4 million

Other trade receivables refer mainly to receivables from diversified business customers, for specialised services provided to third parties mainly in the context of systems engineering services, the operation and maintenance of High- and Very-High Voltage plants and the housing of telecommunications equipment and optical fibre grid maintenance services.

The item showed an increase of € 40.5 million compared to the previous year, substantially deriving from the higher receivables for contract work in progress (+€ 31.5 million) commented on below, from the other receivables from third parties of the Tamini Group (+€ 7.0 million) and for diversified businesses (+€ 3.8 million).

This item also includes receivables for contract work in progress (€ 47.3 million) related to works of multi-year duration which the Group has been implementing with third party customers, shown in the table below.

€ million	Payments on account	Contract value	Balance at 31.12.2015	Payments on account	Contract value	Balance at 31.12.2014
Others	(25.6)	72.9	47.3	(17.9)	33.7	15.8

The Group's contract work in progress showed an increase compared to the previous year of € 31.5 million, owing substantially to the change in the Tamini Group's orders (+€ 24.5 million) and to the recognition of the order of the subsidiary Terna Chile (€ 4.7 million).

The amount of the guarantees issued to third parties by the Parent Company at 31 December 2015 came to € 108.7 million, of which € 79.4 million for sureties issued to secure the contractual obligations arising under the scope of operations and € 29.3 million as itemized below:

- € 0.5 million in guarantees issued on behalf of the subsidiary Terna Rete Italia S.r.l.;
- € 21.8 million in guarantees issued on behalf of the subsidiary Terna Rete Italia S.p.A.;
- € 7.0 million in the interest of the subsidiary Terna Plus S.r.l.;

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

21. Cash and cash equivalents – € 431.6 million

Cash and cash equivalents at 31 December 2015 amounted to € 431.6 million, of which € 400.0 million liquid funds invested in short-term, highly-liquid deposits and € 31.6 million net positive liquidity on bank current accounts.

22. Income tax assets – € 34.0 million

Receivables on Income tax assets amounted to € 34.0 million and recorded an increase of € 8.1 million compared to the previous year owing mainly to higher receivables for IRES and IRAP recognised on filing the 2014 tax return (€ 23.3 million), and the advances on IRES and IRAP paid in 2014 compared to the tax burden for the previous year (€ -15.2 million).

Liabilities

23. Equity attributable to the owners of the Parent – € 3,320.8 million

Share capital – € 442.2 million

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

Legal reserve – € 88.4 million

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

Other reserves – € 739.0 million

Other reserves increased by € 33.9 million, due substantially to Other Comprehensive Income, in particular owing to:

- adjustment to fair value of derivative instruments hedging the Parent Company's floating-rate loans - cash-flow hedges (€ 20.7 million, considering the related tax effect of € 7.8 million);
- recognition of the actuarial gains and losses on employee benefits (€ 13.2 million, considering the related tax effect of € 5.3 million).

Retained earnings and losses – € 1,596.4 million

The increase in the year of the item "Retained earnings and losses" of € 143.0 million mainly refers to allocation of the residual profit achieved by the Group in 2014 compared to the distribution of the 2014 dividend on the part of the Parent Company (a total of € 402.0 million).

Interim dividend 2015

After receiving the report of the Independent Auditors required by Art. 2433-*bis* of the Italian Civil Code, on 11 November 2015 the Parent Company's Board of Directors approved the distribution of an interim dividend amounting to € 140.7 million, equal to € 0.07 per share, which is payable from 25 November 2015, with an ex dividend date (coupon 23) of 23 November 2015.

Equity attributable to non-controlling interests

Equity attributable to non-controlling interests, related to the Tamini Group, was € 25.0 million.

24. Loans and financial liabilities

The following table details loans and financial liabilities recognised in the consolidated financial statements at 31 December 2015 and at 31 December 2014.

	Carrying amount		
€ million	31.12.2015	31.12.2014	Δ
Bonds	6,406.1	5,983.6	422.5
Bank loans	2,110.4	2,101.6	8.8
LONG-TERM LOANS	**8,516.5**	**8,085.2**	**431.3**
CFH derivatives	7.3	29.9	(22.6)
NON-CURRENT FINANCIAL LIABILITIES	**7.3**	**29.9**	**(22.6)**
Short-term loans	416.6	-	416.6
Current portion of long-term loans	122.9	764.1	(641.2)
SHORT-TERM LOANS AND CURRENT PORTION OF MEDIUM/ LONG-TERM LOANS	**539.5**	**764.1**	**(224.6)**
TOTAL	**9,063.3**	**8,879.2**	**184.1**

Gross debt for the year increased with respect to the previous year by € 184,1 million to € 9,063.3 million.
The increase in the value of bonds (+€ 422.5 million) is attributable for € 1 billion to the bond issue of 2 February 2015, for -€ 480 million to the operation to buy back the 2017 Bond carried out on 21 July 2015, for -€ 95.0 million to changes in the fair value of the hedged risk net of the amortised cost effect.
The change associated with the hedging of interest rate risk comprises € -18.8 million in relation to the Inflation-Linked bond issue, € -31.8 million associated to the 2024 Bond, € -14.7 million for the Private Placement and € -29.7 million relating to the Bond issued in 2011.

The latest official prices at 31 December 2015 for the bonds listed on the Luxembourg Stock Exchange are detailed below:

- bond maturity 2024: 2015 price € 127.94 and 2014 price € 131.29;
- bond maturity 2023: 2015* price € 124.45 and 2014 price € 121.14;
- bond maturity 2019: 2015 price € 115.86 and 2014 price € 119.03;
- bond maturity 2021: 2015 price € 119.08 and 2014 price € 122.80;
- bond maturity 2017: 2015 price € 104.32 and 2014 price € 107.67;
- bond maturity 2018: 2015 price € 105.35 and 2014 price € 106.85;
- bond maturity 2022: 2015 price € 98.15.

*Source BNP Paribas, in the absence of up-to-date prices sources Reuters and Bloomberg.

The debt which was originally floating rate, shows a decrease of € 632.4 million, due to:

- repayment, on 26 June 2015 of the *Club Deal* floating-rate loan obtained in October 2008 (-€ 650.0 million);
- drawdown of a new EIB loan for € 130 million;
- decrease in mortgages and loans from the EIB for -€ 112.4 million, due to the reimbursement of the due instalments of the existing loans.

Long-term loans

The following table reports the book values of long-term debt and the repayment plan as of 31 December 2015, broken down by loan type, including amounts falling due within one year and average interest rate at year-end.

€ million	Maturity	31.12.2014	31.12.2015	Portion with maturity within 12 months	Portion with maturity beyond 12 months	2017	2018	2019	2020	2021	After	Average interest rate as of 31.12.2015
Bonds	2024	1,081.9	1,050.1	-	1,050.1	-	-	-			1,050.1	4.90%
Bonds IL	2023	731.6	712.8	-	712.8	-	-	-			712.8	2.73%
Bonds PP	2019	691.9	677.2	-	677.2	-	-	*677.2*				4.88%
Bonds 1250	2021	1,483.0	1,453.3	-	1,453.3	-	-	-		*1,453.3*		4.75%
Bonds 1250	2017	1,247.8	769.2	-	769.2	769.2	-	-				4.13%
Bonds 1000	2022	-	995.3	-	995.3	-	-	-			995.3	0.87%
Bonds 750	2018	747.4	748.2	-	748.2	-	748.2	-				2.88%
Total fixed rate		**5,983.6**	**6,406.1**	**-**	**6,406.1**	**769.2**	**748.2**	**677.2**		**1,453.3**	**2,758.2**	
EIB	2015–2030	1,707.0	1,724.5	120.7	1,603.8	132.4	132.4	111.3	116.1	111.5	1,000.2	0.59%
Club Deal	2015	649.9	-	-	-	-	-	-			-	0.64%
CDP	2019	500.0	500.0	-	500.0	-	-	500.0			-	0.99%
Leasing	2019–2021–2022	8.8	8.8	2.2	6.6	2.2	2.0	1.9	0.3	0.1	0.1	1.23%
Total floating rate		**2,865.7**	**2,233.3**	**122.9**	**2,110.4**	**134.6**	**134.4**	**613.2**	**116.4**	**111.6**	**1,000.2**	
TOTAL		**8,849.3**	**8,639.4**	**122.9**	**8,516.5**	**903.8**	**882.6**	**1,290.4**	**116.4**	**1,564.9**	**3,758.4**	

The total amount of the Terna Groups borrowings at 31 December 2015 was € 8,639.4 million, of which € 3,758.4 million is due after more than five years.
On maturity, on 15 September 2023, the Inflation Linked Bond provides for repayment of the face value revalued to inflation, while repayment of the face value of the other Bonds, of € 5,170.0 million, provides, following the buy-back operation for € 480 million of the 2017 Bond, for full repayment of € 770 million on 17 February 2017, of € 750 million on 16 February 2018, of € 600 million on 3 October 2019, of € 1,250 million on 15 March 2021, of € 1,000 million on 2 February 2022 and of € 800 million on 28 October 2024.

The above table also shows the repayment schedule relating to all the other components of the financial debt, and the average interest rate for each type of financial debt. For further comments see below also in relation to the financial hedging operations carried out to protect the company against the risk of interest rate oscillations.
As regards the 2024 Bond, with an average coupon of 4.90%, if fair value hedging operations are taken into account, the average interest rate is equal to 0.38%.
For the Inflation-Linked Bond, taking hedges into account, the average interest rate paid in the year was -1.27%.
The Private Placement, issued at fixed rate, was brought synthetically to floating rate with derivatives of the same duration and consequently the average interest rate in the year was 1.39%.
The coupon of the 2021 Bond is 4.74%; if we consider FVH operations, the average interest rate amounts to 1.20%.
For the bond issues maturing in 2017 and 2018, no hedges have been implemented and the average interest rate is 4.13% and 2.88% respectively.
Taking the hedging operations up to 23 November 2015 (the "unwinding" date of the related derivatives) into account, for the 2022 bond the average interest rate is 0.41%.
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% is reported for EIB financing while for the Club Deal loan of € 650 million, repaid in June, the average rate was 2.45% and for the CDP loan the average rate was 2.06%.

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

Type of loan *€ million*	Nominal debt at 31.12.2014	Carrying amount at 31.12.2014	Market value at 31.12.2014	Repayment and capitalisation	Drawdowns	Delta fair value 31.12.2014 31.12.2015	Change in carrying amount	Nominal debt at 31.12.2015	Carrying amount at 31.12.2015	Market value at 31.12.2015
Bonds 2014–2024	800.0	1,081.9	1,050.4		-	(31.8)	(31.8)	800.0	1,050.1	1,023.5
Listed IL bond	565.9	731.6	685.5		-	(18.8)	(18.8)	565.9	712.8	704.3
Private Placement	600.0	691.9	714.2	-	-	(14.7)	(14.7)	600.0	677.2	695.1
2021 Bond	1,250.0	1,483.0	1,535.0	-	-	(29.7)	(29.7)	1,250.0	1,453.3	1,488.5
2017 Bond	1,250.0	1,247.8	1,345.9	(480.0)	-	1.4	(478.6)	770.0	769.2	803.2
2022 Bond	-	-	-	-	1,000.0	(4.7)	995.3	1,000.0	995.3	981.5
2018 Bond	750.0	747.4	801.4	-	-	0.8	0.8	750.0	748.2	790.2
Total bonds	**5,215.9**	**5,983.6**	**6,132.4**	**(480.0)**	**1,000.0**	**(97.5)**	**422.5**	**5,735.9**	**6,406.1**	**6,486.3**
Bank loans	2,865.8	2,865.7	2,865.8	(762.4)	130.0	-	(632.4)	2,233.3	2,233.3	2,233.3
Total bank loans	**2,865.8**	**2,865.7**	**2,865.8**	**(762.4)**	**130.0**	**-**	**(632.4)**	**2,233.3**	**2,233.3**	**2,233.3**
TOTAL FINANCIAL DEBT	**8,081.7**	**8,849.3**	**8,998.2**	**(1,242.4)**	**1,130.0**	**(97.5)**	**(209.9)**	**7,969.2**	**8,639.4**	**8,719.6**

Compared to 31 December 2014, long-term debt recorded overall a decrease of -€ 209.9 million, due for -€ 97.5 million to the reduction in the fair value of the bonds, also considering the amortised cost of all loans, for -€ 480 million to the buy-back operation of the 2017 Bond, per € 1,000 million to the issue of a new Bond, for € 130 million to the drawdown of a new EIB loan, for € 650 million to repayment of the Club Deal loan and for 112.4 million to repayment of the instalment of the EIB loans.
At 31 December 2015, the Group had an additional debt capacity of approximately € 493 million represented by uncommitted bank lines, to which must be added the additional capacity of € 1,550 million represented by two revolving credit facilities agreed in December 2014 and December 2015.
In addition, as provided for in IFRS 7, the table shows the fair value of financial payables which for bond loans is their market value on the basis of the prices at the reporting date, while for floating-rate loans it was assumed to be substantially equal to the notional amount of repayment.

Non-current financial liabilities

The table below reports the amount of non-current financial liabilities at the end of financial year 2015 and changes with respect to figures at the end of 2014.

€ million	31.12.2015	31.12.2014	Δ
CFH derivatives	7.3	29.9	(22.6)
TOTAL	**7.3**	**29.9**	**(22.6)**

"Non-current financial liabilities" includes the fair value measurement of cash-flow hedges.
Fair value was measured by discounting the expected cash flows using the market yield curve at the reporting date. The change in the interest rate curve compared with 31 December 2014 resulted in a change amounting to € -22.6 million.
Under the item Financial Liabilities, we note Short-term loans for € 416.6 million, made up by the utilisation of uncommitted short-term credit lines for € 406 million, loans of € 8.9 million to the subsidiary TES, with repayment expected at the beginning of 2016, and € 1.7 million relating to the third party portion of shareholder financing in favour of Terna Interconnector.

Current financial liabilities

Current financial liabilities include at 31 December 2015 the value of net financial expenses accrued on financial instruments and not yet paid. This item shows a decrease, compared with the previous year, of -€ 27.0 million. The details of the financial liabilities related to net Financial expense accrued but not settled are presented below, on the basis of the nature to which they refer.

€ million	31.12.2015	31.12.2014	Δ
CFH DERIVATIVES	**-**	**5.6**	**(5.6)**
DEFERRED LIABILITIES ON:			
Derivatives			
- hedging	*3.1*	*13.2*	*(10.1)*
Bond			
- Inflation Linked	*4.5*	*4.6*	*(0.1)*
- Private Placement	*7.2*	*7.2*	*-*
- 5-year (2017)	*27.7*	*44.9*	*(17.2)*
- 7-year (2022)	*8.0*	*-*	*8.0*
- 20-year (2024)	*7.0*	*7.0*	*-*
- 10-year (2021)	*47.4*	*47.5*	*(0.1)*
- 5-year (2018)	*18.8*	*18.9*	*(0.1)*
	120.6	**130.1**	**(9.5)**
Loans	3.4	5.2	(1.8)
TOTAL	**127.1**	**154.1**	**(27.0)**

Net financial position

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

€ million		Carrying amount 31.12.2015
A.	Cash	31.6
B.	Short-term deposits	400.0
C.	**LIQUIDITY (A) + (B)**	**431.6**
D.	Current portion of long-term payables	122.9
E.	Short-term loans	416.6
F.	**OTHER FINANCIAL LIABILITIES**	**59.2**
G.	**CURRENT FINANCIAL DEBT (D+E+F)**	**598.7**
H.	**NET CURRENT FINANCIAL DEBT (G) - (C)**	**167.1**
I.	Non-current bank payables	2,110.4
J.	Bonds issued	6,406.1
K.	Derivative financial instruments in portfolio	(680.9)
L.	**NET NON-CURRENT FINANCIAL DEBT (I) + (J) + (K)**	**7,835.6**
M.	**NET FINANCIAL DEBT (H) + (L)**	**8,002.7**

For further details on the breakdown of the items present in the table please see Comments 17 “Current financial assets”, 21 “Cash and cash equivalents” and 24 “Loans and financial liabilities” in the present Notes.

Default risk and debt covenants

This risk is associated with the possibility that the loan contracts or bond rules to which the Group is a party may contain provisions that, if certain events occur, authorise counterparties to call in such loans immediately, thereby generating liquidity risk.

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

1. the Company’s bonds, comprising one issue of € 800 million in 2004, and six issues carried out under the bond issue programme of € 8 billion (€ 8,000,000,000 Medium-Term Notes Programme, hereinafter the “EMTN Programme”), one issue of € 500 million in 2007, one issue in the form of a Private Placement of € 600 million in 2009, one issue of € 1,250 million carried out in March 2011, one issue of € 1,250 million in February 2012, one issue of € 750 million in October 2012 and one issue of € 1,000 million in February 2015;
2. bank debt, consisting of a loan from Cassa Depositi e Prestiti (CDP) of € 500 million that draws on EIB funds, a revolving credit facility of € 750 million and a revolving credit facility of € 800 million;
3. a series of loans to the Company from the European Investment Bank (EIB) for a total amount of € 2,271 million.

The main covenants relating to the issue of bonds and the € 8 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 Member 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 predetermined events (e.g. failure to pay, initiation of liquidation proceedings of the Issuer, breach of contractual obligations, etc.) are considered to represent potential default and the loan in question falls immediately due; 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;
- reporting requirements, both periodic and occasional, on the occurrence of specified events.

The main covenants provided for by the CDP loan of € 500 million, by the revolving credit facility of € 750 million and by the revolving credit facility of € 800 million can be summarised as follows:

- "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 obligations 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 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 defaults and the loan in question falls immediately due; 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 event in respect of the loan concerned, which becomes immediately repayable;
- compulsory early redemption clause, 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, or if the Company ceases to be monitored by at least one rating agency;
- reporting requirements, both periodic and occasional, on the occurrence of specified events.

The main covenants governing the EIB loans are summarised below:

- "negative pledge" clauses on the basis of which the Company must not, directly or indirectly, constitute constraints (such as personal or real guarantees, easements, privileges, charges or rights of third parties, etc.), without the consent of the Bank, with the exception of constraints granted in relation to debts of less than certain amounts and in contractually specified circumstances;
- clauses requiring the delivery of additional guarantees to the Bank in the event of a reduction in the rating under which, if the credit rating of the medium and long-term unsubordinated and unsecured debt is lowered and, consequently, is below: BBB+ for Standard & Poor's, Baa1 for Moody's; and BBB+ for Fitch or if the credit rating should cease to be published by all said ratings agencies, the Bank is entitled to require the Company to provide it with additional guarantees that are considered satisfactory at the unchallengeable but reasonable discretion of the Bank;
- "*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;
- clauses regarding "termination of the contract/application of the acceleration clause/withdrawal" on which basis, where predetermined events occur (such as 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, failure to fulfil contractual commitments, etc.) 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;
- obligatory early repayment clauses, 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, extraordinary corporate event) 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, or if the Company does not constitute guarantees considered satisfactory at the reasonable discretion of the Bank, following a downgrading of the credit rating below certain contractually-defined thresholds or following cessation of publication of the same by the three rating agencies indicated above;
- periodic or occasional disclosure requirements both on the occurrence of specified events concerning both the projects being financed and on the Company itself.

None of the covenants have been infringed to date.

25. Employee benefits – € 105.5 million

The Group provides benefits to its employees during their period of employment (loyalty bonus), at the termination of their employment (termination benefits, additional month's pay and allowance in lieu of notice), and in the period after the termination of employment (electricity discount and the ASEM health plan). The loyalty bonus is awarded to employees and managers of the Group when they reach certain seniority levels (25 and 35 years of service).

The benefits granted at the termination of employment are recognised for all employees (termination indemnities), managers hired or appointed before 28 February 1999 (Indemnity for Lack of Notice), and employees (production workers, office staff and junior managers) hired before 24 July 2001 (Additional Month's Pay Indemnity).

Post-employment benefits consist of the following:

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

The composition of termination benefits and other employee-related provisions at 31 December 2015 is detailed below along with changes in the period.

€ million	31.12.2014	Contribution of newly acquired companies	Provision	Interest cost	Utilisations and other changes	Actuarial gains/losses	31.12.2015
BENEFITS PAYABLE TO EMPLOYEES							
Loyalty bonus and other incentives	4.9	-	-	0.1	(0.8)	-	4.2
Total	**4.9**	**-**	**-**	**0.1**	**(0.8)**	**-**	**4.2**
BENEFITS PAYABLE UPON TERMINATION OF EMPLOYMENT							
Termination benefits	72.7	1.1	0.1	0.6	(16.6)	(6.1)	51.8
IMA	9.8	-	0.3	0.1	(2.8)	(0.1)	7.3
Indemnities for lack of notice and similar	0.9	-	-	-	(0.1)	-	0.8
Total	**83.4**	**1.1**	**0.4**	**0.7**	**(19.5)**	**(6.2)**	**59.9**
POST-EMPLOYMENT BENEFITS							
Energy discount	49.0	-	1.0	0.7	(5.9)	(11.1)	33.7
ASEM	9.0	-	0.2	0.1	(0.4)	(1.2)	7.7
Total	**58.0**	**-**	**1.2**	**0.8**	**(6.3)**	**(12.3)**	**41.4**
TOTAL	**146.3**	**1.1**	**1.6**	**1.6**	**(26.6)**	**(18.5)**	**105.5**

The item, of € 105.5 million at 31 December 2015 (€ 146.3 million at 31 December 2014), recorded a reduction compared to the previous year of € 40.8 million, attributable mainly to utilisations and other changes for the year (-€ 26.6 million, essentially for benefits due to the beneficiaries of the aforementioned voluntary retirement programme) and to the recognition of actuarial gains and losses (€ 18.5 million, for the adjustment of interest rates for the year).
Details of the pension cost relating to current employment and interest income and expense are shown below.

€ million	Loyalty bonus and other incentives	Termination benefits	IMA	Indemnities for lack of notice and similar	Energy discount	ASEM	Total
Net impact recognised in profit or loss							
- cost relating to current work performed	-	0.1	0.3	-	1.0	0.2	1.6
- interest income and expense	0.1	0.6	0.1	-	0.7	0.1	1.6
- curtailment (revenue)	-	(0.3)	(1.4)	(0.1)	-	(0.1)	(1.9)
TOTAL RECOGNISED IN INCOME STATEMENT	**0.1**	**0.4**	**(1.0)**	**(0.1)**	**1.7**	**0.2**	**1.3**

Revaluation of the net liability for employee benefits is illustrated in the table below, where the types of actuarial gains and losses, recognised among Other Comprehensive Income, are detailed.

€ million	Termination benefits	IMA		Energy discount	ASEM	Total
Actuarial gains/losses						
- based on past experience	(1.1)	-	-	(2.5)	0.1	(3.5)
- due to changes in demographical assumptions	-	-	-	-	-	-
- due to changes in other economical assumptions	0.4	-	-	(4.8)	(0.4)	(4.8)
- due to changes in discount rate	(5.4)	(0.1)	-	(3.8)	(0.9)	(10.2)
TOTAL OCI IMPACTS	**(6.1)**	**(0.1)**	**-**	**(11.1)**	**(1.2)**	**(18.5)**

The statements below, finally, show that main actuarial assumptions used, a sensitivity analysis on the movements in these assumptions and the payment schedule envisaged in the plan. It should be noted that the interest rate used to determine the current value of the obligation was calculated, in line with 2014, considering the yield of the Iboxx Eurozone Corporates AA index at 31 December 2015 in line with the duration of the group of workers measured.

€ million	Loyalty bonus and other incentives	Termination benefits	IMA	Indemnities for lack of notice and similar	Energy discount	ASEM
Discount rate	2.03%	1.94%	0.98%	0.56% - 0.6%	2.03%	2.03%
Inflation rate	1.05% for 2016 1.8% for 2017 1.7% for 2018 1.6% for 2019 2.0% from 2020 onwards	1.05% for 2016 1.8% for 2017 1.7% for 2018 1.6% for 2019 2.0% from 2020 onwards	n/a	1.05% for 2016 1.8% for 2017 1.7% for 2018 1.6% for 2019 2.0% from 2020 onwards	1.05% for 2016 1.8% for 2017 1.7% for 2018 1.6% for 2019 2.0% from 2020 onwards	3.00%
Duration (in years)	8.5–12	7.8–14	7.7–8.9	0.8–6.8	13.3–16.7	13.3–17.7

€ million	Loyalty bonus and other incentives	Termination benefits	IMA	Indemnities for lack of notice and similar	Energy discount	ASEM	TOTAL
Discount rate +0.25%	4.4	50.8	6.9	0.7	36.8	7.7	107.3
Discount rate -0.25%	4.2	49.0	7.1	0.7	39.9	8.4	109.3
Inflation rate +0.25%	4.2	48.7	n/a	n/a	40.0	n/a	92.9
Inflation rate -0.25%	4.4	51.0	n/a	n/a	36.9	n/a	92.3
Annual rate of increase in healthcare +3%	n/a	n/a	n/a	n/a	n/a	14.0	14.0
Annual rate of increase in healthcare -3%	n/a	n/a	n/a	n/a	n/a	5.0	5.0
Conversion value of KW/h +5%	n/a	n/a	n/a	n/a	40.3	n/a	40.3
Conversion value of KW/h -5%	n/a	n/a	n/a	n/a	36.4	n/a	36.4

€ million	Loyalty bonus and other incentives	Termination benefits	IMA	Indemnities for lack of notice and similar	Energy discount	ASEM	TOTAL
By the end of 2016	0.7	2.6	1.2	-	0.8	0.3	5.6
By the end of 2017	0.2	2.9	0.5	0.1	0.8	0.3	4.8
By the end of 2018	0.3	1.9	0.5	0.1	0.8	0.3	3.9
By the end of 2019	0.4	3.0	0.5	-	0.8	0.4	5.1
By the end of 2020	0.8	3.4	0.6	0.2	0.8	0.4	6.2

26. Provisions for future risks and charges – € 198.8 million

The breakdown of and change in provisions for risks and charges at 31 December 2015 is detailed below.

€ million	Provision for disputes and litigation	Provisions for sundry risks and charges	Provision for early retirement	Total
BALANCE AT 31.12.2014	**11.8**	**144.7**	**53.0**	**209.5**
Contribution of newly acquired companies	-	0.5	-	0.5
Provisions	2.5	37.4	-	39.9
Utilisations and other changes	(1.5)	(35.5)	(14.1)	(51.1)
BALANCE AT 31.12.2015	**12.8**	**147.1**	**38.9**	**198.8**

Provision for disputes and litigation – € 12.8 million

The provisions are set aside to cover the liabilities at year-end that may arise from lawsuits and out-of-court disputes relating to the Group companies' activities. The amount set aside takes into account the opinions both of internal and external legal counsel and recorded a net change of € 1.0 million with respect to the previous year, due to net provisions made during the financial year.

Litigation for which no potential charge can reasonably be calculated is described in Section "E. Commitments and risks".

Provisions for sundry risks and charges – € 147.1 million

The provisions recorded a net increase of € 2.4 million, compared to the previous year, referable to the amounts set aside (€ 37.9 million) and to utilisations and other changes (-€ 35.5 million) in the year, among which in particular:

- provision set aside for a legal dispute relating to the mechanism for adjusting the tariffs with the Republic of San Marino for € 10.7 million;
- net provisions set aside referred to management incentive schemes, for € 4.3 million;
- net utilisations for "Projects for urban and environmental renewal" carried out by the Parent Company for -€ 5.6 million;
- Reversal of the provision set aside for probable expenses related to tax obligations deriving from the sale of Terna Participações by the Parent Company for -€ 7.3 million.

Provision for early retirement incentives – € 38.9 million

This provision reflects the estimated extraordinary charges related to the voluntary early termination of the working relationship of employees of the Parent Company who are eligible for retirement. The item recorded a decrease of € 14.1 million, essentially attributable to the corporate reorganisation plan and generational turnover programme implemented in the year.

27. Deferred tax liabilities – € 73.8 million

The changes in this provision are analysed below.

€ million	31.12.2014	Contribution of newly acquired companies	Impact recognised in profit or loss		Impact recognised in statement of comprehensive income	31.12.2015
			Provisions	Utilisations and other changes		
DEFERRED TAX LIABILITIES						
Property, plant and equipment	214.3	-	-	(52.6)	-	161.7
Extraordinary transactions	-	19.7	-		-	19.7
Employee benefits and financial instruments	3.5	-	-	(0.4)	-	3.1
Total deferred tax liabilities	**217.8**	**19.7**	**-**	**(53.0)**	**-**	**184.5**
DEFERRED TAX ASSETS						
Provisions for risks and charges	41.8	-	10.2	(12.5)	-	39.5
Allowance for doubtful accounts	3.2	-	-	-	-	3.2
Employee benefits	30.3	-	9.4	(11.2)	(5.3)	23.2
FVH - CFH derivatives	9.8	-	-	-	(7.8)	2.0
Release of goodwill	47.2	-	-	(7.3)	-	39.9
Other	0.4	-	2.5	-	-	2.9
Total deferred tax assets	**132.7**	**-**	**22.1**	**(31.0)**	**(13.1)**	**110.7**
NET DEFERRED TAX LIABILITIES	**85.1**	**19.7**	**(22.1)**	**(22.0)**	**13.1**	**73.8**

This balance, equal to € 73.8 million, reflects the net movements in the Group's deferred tax assets and liabilities.

Deferred tax liabilities (€ 184.5 million) recorded a decrease of € 33.3 million, owing essentially to:

- utilisation of prior-period provisions covering the accelerated depreciation and amortisation with respect to the economic/technical rates by the Parent Company Terna and the subsidiary Terna Rete Italia S.r.l. (respectively € 30.6 million and € 2.7 million);
- provisions set aside in the process of allocating to price paid for the business combinations carried out by the Group in the year, Rete S.r.l. and TES S.r.l. (€ 19.7 million);
- adjustment (-€ 17.0 million) of deferred tax liabilities at 31 December 2015 to the IRES rate of 24%, provided for starting from 2017 by the 2016 Stability Law.

Deferred tax assets (€ 110.7 million) show a decrease of € 22.0 million, mainly related to the following changes:

- reversal, for € 8.8 million, owing to the aforementioned effect of the change in the IRES rate provided for from 2017;
- utilisation for € 13.1 million, attributable to the tax effect, which has no impact on the Income Statement, recognised on the changes in financial instruments, namely cash flow hedges, and on employee benefits;
- utilisation of the relevant proportion of deferred tax assets allocated for the release of goodwill recorded following the incorporation of RTL by the Parent Company (€ 2.9 million);
- provision for impairment losses booked during 2015, for € 2.5 million.

28. Other non-current liabilities – € 124.1 million

This item, amounting to € 124.1 million at 31 December 2015 encompasses the deferred positions of set-up grants of the Parent Company (€ 106.9 million) and of Terna Rete Italia S.r.l. (€ 17.2 million). The reduction in this item with respect to the previous financial year, of € 4.6 million, essentially derives from the release of the portion of grants in relation to depreciation of plants in the period for which they were recognised, net of new grants received.

29. Current liabilities

Current liabilities at 31 December 2015 break down as follows.

€ million	31.12.2015	31.12.2014	Δ
Short-term loans*	416.6	-	416.6
Current portion of long-term loans*	122.9	764.1	(641.2)
Trade payables	2,170.1	2,103.8	66.3
Tax liabilities	15.4	1.2	14.2
Current financial liabilities*	127.1	154.1	(27.0)
Other current liabilities	233.2	258.4	(25.2)
TOTAL	3,085.3	3,281.6	(196.3)

* For these items see the comments in Note 24. LOANS AND FINANCIAL LIABILITIES

Short-term loans – € 416.6 million

The item "Short-term loans" of € 416.6 million, refers mainly to the use of short-term credit lines for the Parent Company (€ 398.2 million); also recognised is the balance of the short-term loan granted to the Tamini company for € 16.7 million.

Trade payables – € 2,170.1 million

Trade payables at 31 December 2015 break down as follows.

€ million	31.12.2015	31.12.2014	Δ
Suppliers:			
- Energy-related payables	1,435.7	1,361.8	73.9
- Non energy-related payables	714.1	712.6	1.5
Payables due to associates	9.9	9.9	-
Payables for contract work in progress	10.4	19.5	(9.1)
TOTAL TRADE PAYABLES	2,170.1	2,103.8	66.3

Suppliers

<u>Energy-related/adjusted payables – € 1,435.7 million</u>

This item includes the financial effects related to items generated by the so-called "pass-through" costs related to energy dispatching activities carried out by the Parent Company (€ 1,423 million) and the payable to Cassa per i Servizi Energetici e Ambientali (CSEA) for calculating the estimate of the 2015 performances referred to the mechanisms for the transmission service quality adjustment (a total of € 12.7 million). The increase in the item of € 73.9 million compared to the previous year is essentially attributable to:

- Payables for pass-through energy items: up by € 62.1 million owing mainly to the following items:
  - Payables arising from the remuneration of the units essential for the safety of the electricity system - UESS (€ +173.6 million) and productive capacity - capacity payment (€ +37.3 million) basically for the lower payments resolved by the Authority[38] in favour of users of essential installations and production units in relation to the items regarding the collection of fees for the relevant cover;
  - payables for purchases of energy on the Dispatching Service Market DSM (-€ 85.4 million) and for unbalancing associated with production and consumption units (-€ 44.9 million).
- Payables to Cassa per i Servizi Energetici e Ambientali (CSEA): up by € 11.8 million owing essentially to the recognition of expenses deriving from the bonus/penalty mechanisms associated with transmission service quality; of particular significance were the payable for the estimate of negative performance associated with the RENS (€ 6.5 million against the bonus recognised in 2014), and the payable for the contribution to the Exceptional Events Fund as CSEA set up in order to make up the expenses incurred in paying out refunds to MV/LV users involved by outages attributable to reasons of force majeure (€ 6.1 million compared to € 0.8 million in being at the end of 2014).

<u>Non energy-related payables</u>

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 2015 figure (€ 714.1 million) is substantially in line with the same figure for the previous year (€ 712.6 million); the payables referred to the Tamini Group were € 45.7 million.

Payables to associates

This item, of € 9.9 million, basically shows payables to the associate, CESI, for services received by the Parent Company (€ 1.2 million) and by the subsidiary Terna Rete Italia S.p.A. (€ 8.5 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.
Company commitments to suppliers totalled approximately € 2,696 million and refer to purchase commitments relating to the normal "operating cycle" planned for the period 2016–2020.

Payables for contract work in progress

Payables for contract work in progress, of € 10.4 million at 31 December 2015, show a decrease compared with the figure recorded at 31 December 2014 (€ 9.1 million), owing essentially to the contribution of items related to the Tamini Group (€ 7.7 million). The item is structured as shown below.

€ million	Payments on account	Contract value	Balance at 31.12.2015	Payments on account	Contract value	Balance at 31.12.2014
Third-party customers	(23.7)	13.3	(10.4)	(35.4)	15.9	(19.5)
TOTAL	**(23.7)**	**13.3**	**(10.4)**	**(35.4)**	**15.9**	(19.5)

The carrying amount of trade payables is substantially equal to the fair value.

Tax liabilities – € 15.4 million

The item refers to the Group's tax liabilities for the financial year net of any relative advances and refers to:

- IRES payables of € 6.8 million;
- IRAP payables of € 8.6 million.

(38) With Resolutions 612/2015/R/eel of 11 December 2015, 615/2015/R/eel and 616/2015/R/eel of 15 December 2015, the AEEGSI provided for the Payments on account by Terna of the supplementary fee covering the costs of the EUSSs respectively for the year 2014 and for the year 2015 (for the essential units of Sicily, Sardinia and the continent) for a total amount of € 548.9 million.

It recorded a net increase, compared to the previous year, of € 14.2 million attributable substantially to lower payments on account of taxes for the year with respect to the payable recognised for current taxes accruing, as a result of elimination of the IRES surcharge deriving from application of the Robin Hood Tax declared unconstitutional in the year, so the payments on account were aligned to this legislative change.

Other current liabilities – € 233.2 million

Other current liabilities break down as follows.

€ million	31.12.2015	31.12.2014	Δ
Payments on account	59.0	83.8	(24.8)
Other tax liabilities	7.4	40.1	(32.7)
Payables to social security institutions	24.7	24.0	0.7
Payables to employees	55.9	40.4	15.5
Other payables to third parties	86.2	70.1	16.1
TOTAL	**233.2**	**258.4**	**(25.2)**

Payments on account

This item (€ 59 million) recognises set-up grants related to plants received by the Group (€ 56.3 million for the Parent Company and € 1.7 million for Terna Rete Italia S.r.l.) for assets still under construction at 31 December 2015. Compared to the 2014 figure (€ 83.8 million), we note a drop of € 24.8 million that is essentially attributable to the utilisation of the contributions received during the last year from MED/of the EU for projects that are still in progress (€ -17.5 million) in addition to implementing other changes made on behalf of third parties (€ -7.8 million).

Other tax liabilities

Other tax liabilities for € 7.4 million recorded a decrease of € 32.7 million compared to the previous year, mainly due to the effect of recording the relevant VAT payable of certain companies in the Group in 2014, for a total of € 33.5 million; we also note the increase in the taxes withheld on employees' salaries for € 0.7 million.

Payables to social security institutions

Amounts payable to social security institutions, mainly relating to payables due to INPS by the Parent and the subsidiary Terna Rete Italia S.p.A., were € 24.7 million and were substantially in line with the previous year (€ 24.0 million). The item also includes the payable due to Fondo Previdenziale Elettrici – F.P.E., the Pension Fund for Electricians (€ 4.4 million).

Payables to employees

Payables to employees, of € 55.9 million (€ 40.4 million at 31 December 2014), pertain essentially to the Parent Company and to the subsidiary Terna Rete Italia S.p.A. and mainly regard:

- amounts relating to staff incentives to be paid the following year (€ 33.3 million);
- payments due to employees for unused holiday time and abolished public holidays (€ 10.2 million).
- termination indemnities due to employees whose employment was terminated before 31 December 2015 (€ 9.7 million).

These payables showed an increase of € 15.5 million, attributable mainly to the higher debt to be paid in relation to the employees subscribing to the generational turnover programme launched by the Group (€ +13.1 million), and the additional debt for staff incentives (€ +1.3 million).

Other payables to third parties

Other payables to third parties, equal to € 86.2 million (€ 70.1 million al 31 December 2014), mainly regard security deposits (€ 56.7 million) received from electricity market operators securing their contractual obligations. The item showed a total increase of € 16.1 million, attributable essentially to higher security deposits received to guarantee the contractual obligations against dispatching and virtual interconnection contracts (+€ 15.9 million).

E. Commitments and risks

Risk management

Market and financial risks

During the financial year, in going about its business, the Terna Group is exposed to various different financial risks: market risk (namely exchange rate risk, interest rate risk and inflation risk), liquidity risk and credit risk. This section provides information regarding the Terna Group's exposure to all the above risks, along with a presentation of the objectives, policies and processes for managing those risks and the methods used to measure them, with further quantitative disclosures concerning the 2015 financial statements. The Group's risk management policies seek to identify and analyse the risks the companies are exposed to, establishing appropriate limits and controls and monitoring risks and compliance with such limits. These policies and the related systems are reviewed on a regular basis, in order to take account of any changes in market conditions or in the operations of the companies.

The exposure of the Terna Group to the aforementioned risks is substantially represented by the exposure of the Parent Company. As a part of the financial risk management policies approved by the Board of Directors, Terna has established the responsibilities and operating procedures for financial risk management, specifically as concerns the instruments to be used and the precise operating limits in managing them.

	2015				2014			
€ million	Receivables	Receivables at fair value	Hedging derivatives	Total	Receivables	Receivables at fair value	Hedging derivatives	Total
ASSETS								
Derivative financial instruments	-	-	688.2	688.2	-	-	784.8	784.8
Cash, short-term deposits and inter-company loans	431.6	-	-	431.6	1,217.3	-	-	1,217.3
TOTAL	**431.6**	**-**	**688.2**	**1,119.8**	**1,217.3**		**784.8**	**2,002.1**

	2015				2014			
€ million	Payables	Loans at fair value	Hedging derivatives	Total	Payables	Loans at fair value	Hedging derivatives	Total
LIABILITIES								
Long-term debt	2,233.3	6,406.1	-	8,639.4	2,865.7	5,983.6	-	8,849.3
Derivative financial instruments	-	-	7.3	7.3	-	-	35.5	35.5
TOTAL	**2,233.3**	**6,406.1**	**7.3**	**8,646.7**	**2,865.7**	**5,983.6**	**35.5**	**8,884.8**

Market risks

Market risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of changes in financial market conditions. Market risks include three types of risks: exchange rate risk, interest rate risk and inflation risk.

Risk management must be performed with the objective of maximising financial income and minimising the related risks by selecting counterparties and instruments compatible with the corporate risk management policy. Speculative activity is not envisaged in the corporate mission.

The Terna Group seeks to adopt a dynamic approach to financial risk management. This approach is characterised by risk aversion, aiming at minimising risk through continuous monitoring of financial markets in order to plan hedging transactions in favourable market conditions. The dynamic approach makes it possible to take action to improve existing hedges where changes in market conditions or in the hedged item make the latter unsuitable or excessively expensive.

The concept of hedging transaction is not restricted to hedges that qualify for hedge accounting, but rather encompasses the objective of total or partial hedging of the economic or financial item against interest rate risk. All derivative contracts entered into have a notional amount and maturity date prior to or equal to that of the underlying financial liability, so that any change in the fair value and/or estimated cash flows of the contracts is offset by a corresponding change in the fair value and/or of the estimated cash flows of the underlying position. The fair value of financial derivatives reflects the estimated amount that Terna would pay or receive in order to extinguish contracts at the closing date.
The fair value of instruments is determined in accordance with the fair value hierarchy envisaged under IFRS 7 (Level 2) by means of appropriate valuation techniques for each category of financial instrument, using market data at the closing date (such as interest rates, exchange rates and volatility) and discounting projected cash flows on the basis of the market yield curve and inflation at the reporting date. The financial assets and liabilities in respect of derivative instruments in place during the year can be classified as:

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

Below are the notional amounts and fair values of the derivative financial instruments subscribed by the Terna Group.

	31.12.2015		31.12.2014		Δ	
€ million	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
FVH derivatives	3,150.0	688.2	3,150.0	784.8	-	(96.6)
CFH derivatives	3,050.2	(7.3)	2,687.3	(35.5)	362.9	28.2

Interest rate risk

Interest rate risk is represented by the uncertainty associated with interest rate fluctuations. This is the risk that a change in market interest rates may produce effects on the fair value or future cash flows of financial instruments. In conducting its operations, Terna is exposed to the risk of fluctuations in interest rates. Its main source of interest rate risk is associated with items of net financial debt and the related hedging positions in derivative instruments that generate financial expense. Terna's borrowing strategy focuses on long-term loans, whose term reflects the useful life of company assets. It pursues an interest rate risk hedging policy that aims to reconcile this approach with the regulatory framework, which every four years establishes the cost of debt as part of the formula to set the return on the Regulatory Asset Base (RAB).
Accordingly, the hedging instruments used, at various maturity dates, include both derivatives that transform fixed rates into floating rates and derivatives that transform floating rates into fixed rates.
In order to reduce the amount of financial debt exposed to the risk of fluctuations in interest rates and to optimise the temporal correlation between average cost of debt and regulatory rate used in the WACC formula, various types of plain vanilla derivatives are used, such as interest rate swaps.
Interest rate swaps are used in order to reduce the volume of debt exposed to fluctuations in interest rates and volatility of borrowing costs. With an interest rate swap, Terna agrees with a counterparty to exchange, at specific intervals, the floating-rate cash flows on a specified notional amount against interest flows at a fixed rate (agreed between the parties), or vice versa. The following table shows the financial instruments entered into by Terna, classified according to the type of interest rate (fixed or floating).

€ million	Carrying amount at 31.12.2015	Carrying amount at 31.12.2014	Δ
Fixed-rate financial instruments:			
- assets	-	-	-
- liabilities	6,413.4	6,019.1	394.3
Floating-rate financial instruments			
- assets	1,119.8	2,002.1	(882.3)
- liabilities	2,233.3	2,865.7	(632.4)
TOTAL	**7,526.9**	**6,882.7**	**644.2**

Sensitivity to interest-rate risk

As regards interest rate risk management, Terna has, on the one hand, entered into fixed-to-floating interest rate swaps (FVHs) to hedge the fair value of fixed-rate risk bonds and, on the other, floating-to-fixed interest rate swaps (CFHs) to hedge the expected cash flows in respect of all other floating-rate debt.
Since the hedging relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge, as verified initially and periodically over its life, is high (between 80% and 125%), the Company has elected to use hedge accounting to ensure the perfect temporal matching of the hedge and the hedged item. The aim of hedge accounting is to recognise the effects of the hedges and the hedged items in the income statement at the same time. Accordingly, for FVH derivatives, any changes in the fair value of the hedged item attributable to the risk being hedged must be booked in the income statement, thereby offsetting the changes in the fair value of the derivative booked in the income statement. For CFH derivatives, the changes in the fair value of the derivative must be booked in "Other comprehensive income" (recognising any ineffective portion of the hedge directly in the income statement) and then reversed through the income statement in the same period in which the cash flows of the hedged instrument materialise. The characteristics of the CFH derivatives mirror those of the underlying hedged asset so the related cash flows will materialise at the same maturities as the interest on the debt, with no impact of the changes in fair value on the income statement.
The following table reports the amounts booked in the income statement and in "Other comprehensive income" for positions that are sensitive to changes in interest rates, the theoretical value of the positions following a positive or negative shift in the yield curve and the differential impact of such changes recognised in the income statement and in "Other Comprehensive Income". 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%	Current amounts at 31 December	Current rates -10%	Current rates +10%	Current amounts at 31 December	Current rates -10%
31.12.2015						
Positions sensitive to changes in interest rates (FVH, bonds, CFH)	1.1	1.1	1.1	(4.9)	(6.4)	(7.5)
Hypothetical change	-	-	-	1.5	-	(1.2)
31.12.2014						
Positions sensitive to interest rate variations (FVH, bonds)	(4.7)	2.0	8.7	(35.1)	(35.5)	(35.9)
Hypothetical change	(6.7)	-	6.7	0.4	-	(0.4)

Inflation risk

As regards inflation rate risk, the rates established by Regulators to remunerate Terna S.p.A.'s activities are determined so as to allow coverage of the sector's recognised costs. Such cost components are updated on an annual basis to consider the accrued impact of inflation. Having used an inflation-linked bond issue in 2007 the Company put in place an effective hedge of net income; in fact, any decrease in expected revenue due to a decrease in the inflation rate would be offset by lower financial expense.

Exchange rate risk

Generally Terna hedges exchange rate risk through the forward sale or purchase of currencies (forward contracts) or the use of options. Currency options give Terna the right or the obligation to buy or sell predetermined amounts of a currency at a specific exchange rate at the end of a specific period of time. Normally, both forward contracts and options have maturities of no more than 12 months.

Such contracts have a notional amount and maturity date less than or equal to that of the underlying financial liability, or the expected cash flows, so that any change in the fair value and/or estimated cash flows deriving from a rise or fall of the euro against other currencies is fully offset by a corresponding change in the fair value and/or estimated cash flows of the underlying position. At 31 December 2015 (as at 31 December 2014), no financial instruments exposed to exchange rate risk were present.

Liquidity risk

The liquidity risk is the risk Terna might encounter difficulty in discharging its obligations in respect of its financial liabilities and operational cycle. Liquidity risk management seeks to ensure adequate coverage of financial needs by obtaining adequate lines of credit and appropriate management of any surplus liquidity. At 31 December 2015, Terna had available short-term credit lines for approximately € 493 million and revolving credit lines for € 1,550 million. The table below shows the repayment plan at 31 December 2015 of the nominal long-term debt.

€ million	Maturity	31.12.2014	31.12.2015	Maturity within 12 months	Maturity beyond 12 months	2017	2018	2019	2020	2021	After
Bonds	2024	1,081.9	1,050.1	-	1,050.1	-	-	-			1,050.1
Bonds IL	2023	731.6	712.8	-	712.8	-	-	-			712.8
Bonds PP	2019	691.9	677.2	-	677.2	-	-	677.2			
Bonds 1250	2021	1,483.0	1,453.3	-	1,453.3	-	-	-		1,453.3	
Bonds 1250	2017	1,247.8	769.2	-	769.2	769.2	-	-			
Bonds 1000	2022	-	995.3	-	995.3	-	-	-			995.3
Bonds 750	2018	747.4	748.2	-	748.2	-	748.2	-			
Total fixed rate		**5,983.6**	**6,406.1**	**-**	**6,406.1**	**769.2**	**748.2**	**677.2**		**1,453.3**	**2,758.2**
EIB	2015–2030	1,707.0	1,724.5	120.7	1,603.8	132.4	132.4	111.3	116.1	111.5	1,000.1
Club Deal	2015	649.9	-	-	-	-	-	-			-
CDP	2019	500.0	500.0	-	500.0	-	-	500.0			-
Leasing	2019–2021–2022	8.8	8.8	2.2	6.6	2.2	2.0	1.9	0.3	0.1	0.1
Total floating rate		**2,865.7**	**2,233.3**	**122.9**	**2,110.4**	**134.6**	**134.4**	**613.2**	**116.4**	**111.6**	**1,000.2**
TOTAL		**8,849.3**	**8,639.4**	**122.9**	**8,516.5**	**903.8**	**882.6**	**1,290.4**	**116.4**	**1,564.9**	**3,758.4**

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 Group.

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

Credit risk management is guided by the provisions of 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 following table summarises the exposure to such risk as at the reporting date.

	Carrying amount		
€ million	31.12.2015	31.12.2014	Δ
FVH derivatives	688.2	784.8	(96.6)
Cash and cash equivalents	431.6	1,217.3	(785.7)
Trade receivables	1,373.4	1,577.8	(204.4)
TOTAL	**2,493.2**	**3,579.9**	**(1,086.7)**

The total value of the exposure to credit rate risk at 31 December 2015 is represented by the carrying amount of financial assets (current and non-current), trade receivables and cash and cash equivalents.
The following tables provide qualitative information on trade receivables that are not past due and have not been impaired.

GEOGRAPHICAL DISTRIBUTION	Carrying amount	
€ million	31.12.2015	31.12.2014
Italy	1,256.5	1,505.4
Euro-area countries	80.7	44.8
Other countries	36.2	27.6
TOTAL	**1,373.4**	**1,577.8**

CUSTOMER TYPE	Carrying amount	
€ million	31.12.2015	31.12.2014
Distributors	335.6	335.0
CSEA (*)	82.9	197.1
Input dispatching contractors	189.5	176.9
Withdrawal dispatching contractors	598.3	750.0
Parties which have virtual import contracts and virtual import services (*interconnectors* and *shippers*)	18.2	12.3
Receivables for sundry activities	148.9	106.5
TOTAL	**1,373.4**	**1,577.8**

(*) of which € 63.3 million from volume effect on grid transmission fees

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

	31.12.2015		31.12.2014	
€ million	Impairment	Gross	Impairment	Gross
Not yet past due		1,282.8		1,450.6
0–30 days past due		10.5		69.0
31–120 days past due		18.5		16.0
More than 120 days past due	(36.3)	97.9	(33.6)	75.8
Total	**(36.3)**	**1,409.7**	**(33.6)**	**1,611.4**

Changes in the allowance for doubtful accounts in the course of the year were as follows.

€ million	31.12.2015	31.12.2014
Balance at 1 January	(33.6)	(32.0)
Reversal of provision	0.8	0.5
Impairment for the year	(3.5)	(2.1)
Balance at 31 December	**(36.3)**	**(33.6)**

The value of guarantees received from eligible electricity market operators is illustrated below.

€ million	31.12.2015	31.12.2014
input dispatching activity	246.8	236.3
withdrawal dispatching activity	1,024.1	989.6
Grid transmission fees - distributors	262.1	254.0
Virtual importing and super interruptibility	80.0	87.8
Balance at 31 December	**1,613.0**	**1,567.7**

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

Default risk and debt covenants

This risk is associated with the possibility that the loan contracts or bond rules to which the Parent is a party may contain provisions authorising counterparties to call in such loans immediately upon the occurrence of certain events, thereby generating liquidity risk. For more information on the contractual provisions of outstanding loans at 31 December 2015, please see the section “Loans and financial liabilities” in the notes of the Terna Group.

Legal disputes

The main unrecognised commitments and risks of the Parent Company Terna and the subsidiaries Terna Rete Italia S.r.l., Terna Rete Italia S.p.A. and the Tamini Group companies at 31 December 2015 are illustrated below. The other subsidiaries had no unrecognised commitments and contingencies at that date.

Environmental and urban planning litigation

Environmental litigation originates from the installation and operation of electrical plants and primarily involves damages which could be derived from exposure to electrical and magnetic fields that are generated by long-distance power lines. The Parent Company and the subsidiary Terna Rete Italia S.r.l. are involved in various civil and administrative lawsuits requesting the transfer or change in operations of allegedly harmful power lines, despite their being installed in full compliance with the applicable legislation (Italian Law No. 36 of 22 February 2001 and the Prime Minister’s Decree of 8 July 2003). Only a very small number of cases include claims for damages for harm to health caused by electromagnetic fields.
Only in a few cases have adverse judgements been issued against the Parent Company. These have been appealed and the appeals are still pending, and adverse rulings are considered unlikely.
In addition, a number of cases relating to urban planning and environmental issues connected with constructing and operating certain transmission lines are pending. The possible effects of any unfavourable outcome to these cases are unpredictable and, accordingly, have not been considered when determining the “Provisions for disputes and other contingencies”.

In a limited number of cases, the possibility of an adverse outcome cannot be entirely ruled out. The possible consequences could, in addition to the award of damages, include the costs of modifying lines and the temporary suspension of their use. Examination of the above legal disputes, having regard for the information provided by the external legal consultants, suggests that the likelihood of adverse outcomes is remote, with the exception of a number of proceedings for which, considering the their status, it is not currently possible to carry out reliable assessments of their outcome.

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 as a party in a number of cases appealing AEEG, MAP and/or Terna measures relating to activities operated under the license. Only in cases in which the plaintiffs not only claim defects in the measures, but also allege that Terna violated the rules established by such authorities, or in cases in which the measure had an impact on Terna, has the Company appeared in court. Within the scope of this litigation, although a number of cases have seen the AEEGSI Resolutions struck down in the first and/or second-level court, together with, where applicable, 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.

Legal disputes concerning supply contracts

The legal dispute in question concerns supply contracts signed by Tamini Group companies and their customers for the supply of transformers and components relating to them.
The said legal dispute regards mostly lawsuits initiated by the Tamini Group companies in order to recover the receivables deriving from the said contracts, but regards also certain actions for compensation brought against the companies in question, for alleged damages caused by the machinery and/or components supplied by the same.
In relation to the said lawsuits, as of today unfavourable outcomes cannot be excluded.

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 greater taxes due as a result of the sale transaction of the holding owned by Enel Distribuzione in Elat S.r.l. (later Telat S.r.l., today Terna Rete Italia S.r.l.) to Terna S.p.A. (for the amount of approximately € 38 million, including interest). According to the provisions of the equity 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, in agreement with Terna, intends to defend its interests in the appropriate settings, holding Terna exempt from all payments/advances. Therefore, on the basis of the contractual agreements, confirmed by Enel Distribuzione in a letter dated 17 April 2012, we do not believe that any financial expenditure will result from the notice in question. On 1 April 2014, the Provincial Tax Commission of Rome issued its judgement accepting Terna's appeal. The Tax Authority has appealed this decision.
On 1 July 2015, the Provincial Tax Commission of Rome issued its judgement rejecting the appeal lodged by the Provincial Department 1 of Rome, confirming the 1st level judgement.

F. Business combinations

Acquisition of Rete S.r.l.

On 23 December 2015 Terna S.p.A. acquired the entire share capital of Rete S.r.l. (named S.EL.F. – Società Elettrica Ferroviaria S.r.l. up to the date of the Shareholders' Meeting of 23 December 2015) a company up to that date controlled by Ferrovie dello Stato Italiane S.p.A. (henceforth "FSI").

Specifically, the merger was structured over two phases: in the first stage, RFI (company in the FSI Group) carried out a partial demerger in favour of the beneficiary company S.EL.F. relating to a business unit made up mainly of the high- and very-high-voltage lines in the National Transmission Grid (NTG) and those destined to be included in the NTG together with the relevant portion of electricity substations associated with these lines and the relevant fixed assets, in accordance with Italian Law No. 190 of 23 December 2014 ("RFI Business Unit"). After completing the demerger operation, so from the moment in which the RFI Business Unit became part of the assets of S.EL.F. and after the conditions to which the effectiveness of the operation was subject had been fulfilled (authorisation by the Italian Antitrust Authority and non-exercise of the special powers pursuant to Article 2 of Italian Law Decree No. 21 of 15 March 2012, the so-called Golden Power Law), TERNA S.p.A. acquired the entire share capital of the Company and renamed it Rete S.r.l. (henceforth "Rete").

The RFI Business Unit is therefore basically made up by the electricity grid already included in the NTG (869 km) and the additional lines and relevant portions of the electrical substations pertinent to these lines and the relative fixed assets, included in the NTG on the basis of Italian Law No. 190 of 23 December 2014 (7,510 km of lines and 350 electrical substations). Rete's grid already included in the NTG was measured in the Company in continuity of values, while the part newly included in the NTG was measured, at the date of acquisition of the Company by TERNA S.p.A., on the basis of the provisions of AEEGSI Resolution 517/2015/R/eel.

The electricity grid which is part of the Business Unit is used in order to procure electricity for the railway lines and for the transport of electricity of third parties on the basis of specific conventions. From 16 April 2007 and up to the date of effectiveness of the demerger in its favour of the RFI business unit the Company, in virtue of a leasing contract signed with RFI, had full availability of the portion of electricity grid owned by the FSI Group company, already included in the NTG (869 km). For this lease the Company had to pay RFI an annual rent of € 1 million, plus the fee for ordinary and extraordinary maintenance. The price was quantified on the basis of how much was received by TERNA under the convention described below, net of the fee provided for in the leasing contract with RFI (€ 1 million) and of its overheads. In 2008 the Company and TERNA signed a convention ("Convention"), on the basis of the template approved by the Ministry, that governs the operation of electricity transmission activity with reference to the portion of grid owned by RFI. On the basis of the Convention, TERNA pays the Company the fee for use of the grid.

In addition RFI signed with the company Basictel S.p.A., on 13 October 2000, two related contracts, entitled respectively "Contract for the Transfer of Rights of Way" and "Contract for Use of Fibre Optics", and subsequently further amendatory agreements (as a whole, "Basictel Contract"). With the first contract RFI granted, among other things, to Basictel the exclusive right to lay and maintain a fibre-optic cable inside the guard wire of a number of RFI power lines, to provide telecommunication services. With the second contract, in addition, the terms and conditions were defined for maintenance of the infrastructures installed by Basictel. Both contracts were conferred to Rete S.r.l. at the moment of demerger from RFI together with the related power lines.

The price was set at € 757 million and was fully paid.

The assets and liabilities were recognised at fair value at the acquisition date. In particular, the portion of assets newly included in the NTG was measured on the basis of the provisions of AEEGSI Resolution 517/2015/R/eel (€ 674 million), while the portion of grid already included in the NTG was measured on the basis of the expected tariff flows. Finally an intangible asset was identified in relation to the Basictel contract, on the basis of the present value of the payment flows provided for in the contract.

We can also note that ancillary costs for the merger operation, as of the date of this report, were € 13,1 million, referred essentially to the registry tax paid.

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

€ million	Amount of assets acquired and liabilities assumed at 23.12.2015
ASSETS	
NON-CURRENT ASSETS	
Property, plant and equipment	719.0
of which assets already included in the NTG	*45.0*
of which assets included in the NTG starting from 23.12.2015	*674.0*
Intangible assets	38.0
Total Non-current Assets	**757.0**
LIABILITIES	
DEFERRED TAX LIABILITIES	**16.9**
TOTAL LIABILITIES	**16.9**
NET ASSETS ACQUIRED	**740.1**
GOODWILL	**16.9**
PRICE	**757.0**

The contribution from the acquisition date of the Rete S.r.l. to the consolidated revenue of financial year 2015 was € 0.2 million, while the contribution to consolidated EBITDA was € 0.1 million.
We can note finally that the measurement of assets acquired and liabilities assumed, at the date of the present financial statements, must be considered provisional.

Acquisition of TES – Transformer Electro Services S.r.l.

The business combination between Tamini Trasformatori S.r.l. (a company controlled by the Terna Group through Terna Plus S.r.l.) and TES Transformer Electro Service S.r.l., was completed on 30 October 2015, on the basis of the agreement signed on 16 September 2015.
The operation, which was carried out through a Tamini share capital increase of approximately € 26.4 million, reserved for the company Holdco TES S.r.l. (controlled by the fund Xenon Private Equity V, Riccardo Reboldi and Giorgio Gussago).
Following execution of the agreement Terna Plus S.r.l. is the owner of an equity interest of 70% in the Tamini share capital while Holdco TES owns the remaining 30% stake.
The operation, which achieves an important corporate and business combination, has the aim of further consolidating Tamini as a leader in the industrial and after-sales sector, as well as strengthening it in the power and utilities sector, for the benefit of its customers and of the global steel industry.
The price is determined on the basis of the accounting contribution of the Tamini Group at the acquisition date, for the stake corresponding to 30%, of € 24.7 million.
Assets and liabilities are recognised at fair value at the acquisition date; in particular, with reference to intangible assets the brand and technological know-how are measured with the relief from royalties method. The land and buildings are measured with the market method and the plant and equipment on the basis of the cost method.

Amount of assets acquired and liabilities assumed at 30.10.2015

€ million	Fair value
ASSETS	
Non-current assets	
Property, plant and equipment	8.5
Intangible assets	6.3
Financial non-current assets	0.1
Total Non-current Assets	**14.9**
Current assets	
Trade receivables	3.8
Inventory	8.7
Other receivables and other assets	1.8
Liquidity	5.2
Total Working Assets	**19.5**
TOTAL ASSETS	34.4
LIABILITIES	
Non-current liabilities	
Employee benefits	1.1
Provisions for risks and charges	0.5
Total non-current Liabilities	**1.6**
Current liabilities	
Trade payables	8.3
Deferred tax liabilities	-
Other liabilities	1.9
Total non-current Liabilities	**10.2**
Payables	**12.3**
TOTAL LIABILITIES	26.9
NET ASSETS ACQUIRED	7.5
Goodwill	17.2
PRICE	24.7

We can note finally that the measurement of assets acquired and liabilities assumed, at the date of the present financial statements, must be considered provisional.

G. Related-party transactions

Terna's transactions with related parties during the year, taking account of the de facto control exercised by Cassa Depositi e Prestiti S.p.A. ascertained in 2007, regarded relations with the associate companies (Cesi S.p.A., CGES A.D. and Coreso S.A.) the employee pension funds (Fondenel and Fopen), and with said Cassa Depositi e Prestiti, con CDP Reti S.p.A. and with companies belonging to:

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

and with ANAS S.p.A..

Also relevant were transactions with the Ministry for Economic Development in relation the grants received for projects financed by the MED/EU.
Given that the companies of the Terna Group and the aforementioned subsidiaries directly or indirectly controlled by the Ministry for the Economy and Finance fall within the definition of "Government-related entities" as per IAS 24 - "Related party disclosures", the Group adopts the partial exemption provided by the same standard, which dispenses with the required disclosures of relationships with other companies controlled, connected or under joint control of the same government body; in particular, the qualitative and quantitative indications of relationships with Government-related entities which have a significant impact on the Group's results are reported below in this section; no amounts relating to "pass-through items" are given here.
Related party transactions in the financial year 2015 are mainly services that are part of core business and regulated by market conditions.

Below is an explanation of the nature of the transactions implemented by the Terna Group with related parties and the respective income and expense totalled during the year, in addition to the respective receivables and payables in place as of 31 December 2015.

Related party	Revenue transactions	Cost transactions
Cassa Depositi e Prestiti S.p.A.		**Non energy-related items** Credit line
Cesi S.p.A.	**Non energy-related items** Lease of laboratories and similar structures for specific purposes	**Non energy-related items** Technical consultancy, studies and research, projects and experimentation
CORESO S.A.		**Non energy-related items** Technical TSO coordination services
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, maintenance of power line communication on company-owned power lines.	**Non energy-related items** Return of electricity discount, staff administration, building services, supply of MV power to new stations, specialised services for connection to Terna control and protection systems
ENI Group	**Energy-related items** 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 S.p.A.	**Non energy-related items** Work on line moving/variants	**Non energy-related items** Right-of-way fees
Italian Ministry of Economic Development	**Non energy-related items** Work on line moving/variants	**Non energy-related items** Grants for line moving/variants
Fondenel and Fopen		**Non energy-related items** Pension contributions borne by the Terna Group
Finmeccanica	**Non energy-related items** Maintenance on plants	
MEF	**Non energy-related items** Various services	**non energy-related items** Various services
Poste Italiane		**Non energy-related items** Various services

€ million	Income statement				
	Income items			Operating expenses	
Company	Grid transmission fees and other energy-related items	Non energy-related items	Dividends	Grid transmission fees and other energy-related items	Non energy-related items
De facto parent company:					
Cassa Depositi e Prestiti S.p.A.	-	-	-	-	5.3
Total de facto parent company	**-**	**-**	**-**	**-**	**5.3**
Associates:					
Cesi S.p.A.	-	0.1		-	3.1
CORESO S.A.	-	-			1.6
Total associates	**-**	**0.1**	**-**	**-**	**4.7**
Other related companies:					
GSE Group	27.1	0.2	-	-	-
Enel Group	1,522.1	2.1	-	-	6.5
Eni Group	5.2	0.4	-	-	0.1
Ferrovie Group	2.4	-	-	7.6	-
MEF	-	0.1	-	-	0.1
Total other related companies	**1,556.8**	**2.8**	**-**	**7.6**	**6.7**
Pension funds:					
Fondenel	-	-	-	-	0.4
Fopen	-	-	-	-	1.9
Total pension funds	**-**	**-**	**-**	**-**	**2.3**
TOTAL	**1,556.8**	**2.9**	**-**	**7.6**	**19.0**

€ million	Statement of financial position					
	Property, plant and equipment	Receivables and other assets		Payables and other liabilities		Guarantees*
Company	Capitalised costs	Other	Financial	Other	Financial	
De facto parent company:						
Cassa Depositi e Prestiti S.p.A.	-	-	0.2	-	500.8	-
Total de facto parent company	**-**	**-**	**0.2**	**-**	**500.8**	**-**
Associates:						
Cesi S.p.A.	20.6	0.3	-	9.9	-	3.2
Total associates	**20.6**	**0.3**	**-**	**9.9**	**-**	**3.2**
Other related companies:						
GSE Group	0.2	5.9	-	0.2	-	-
Enel Group	8.0	326.4	-	29.5	-	445.8
Eni Group	-	1.3	-	0.6	-	24.1
Ferrovie Group	0.1	0.6	-	1.5	-	22.0
ANAS S.p.A.	-	0.6	-	-	-	-
FINMECCANICA	4.7	-	-	-	-	-
Italian Ministry of Economic Development	-	-	-	42.8		-
MEF	-	0.1	-	-	-	-
Total other related companies	**13.0**	**334.2**	**-**	**74.7**	**-**	**491.9**
Pension funds:						
Fopen	-	-	-	1.6	-	-
Total pension funds	**-**	**-**	**-**	**1.6**	**-**	**-**
TOTAL	**33.6**	**335.2**	**0.2**	**86.2**	**500.8**	**495.1**

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

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

No significant, non-recurring, atypical or unusual transactions - with the exception of those described above - were carried out during 2015, either with third parties or with related parties.

I. Notes to the statement of cash flows

The cash flow generated from **continuing operations** in the year amounted to around € 1,143.8 million, which reflects around € 1,575.8 million in cash from operating activities (self-financing) and around € 432.0 million in financial resources generated by the management of net working capital.
Investing activities used net financial resources of around € 1,849.1 million, and included specifically € 1,032.1 million of investment in property, plant and machinery (€ 1,058.6 million net of plant grants totalling € 26.5 million) and € 44.5 million of investment in intangible assets and capitalised borrowing costs for € 28.7 million. In this context also significant were:

- the contribution of Rete S.r.l. tangible and intangible assets, recognised for € 757 million, of which € 719 million related to Property, plant and equipment and € 38 million to Intangible assets, referring to the contract for the laying of optical fibre with the company Basictel;
- the contribution of TES tangible and intangible assets in the scope of the Tamini Group, recognised for € 14.8 million, of which € 8.5 million related to Property, plant and equipment and € 6.3 million to Intangible assets;
- goodwill recognised on the occasion of the aforesaid acquisitions of Rete S.r.l. for € 16.9 million, and of TES Trasformatori, for € 17.2 million.

The net change in **loan flows** in relation to shareholders' equity drops by € 402.0 million mainly due to the disbursement of the 2014 dividend balance (€ 261.3 million) and the 2015 interim dividend (€ 140.7 million).
Consequently, the financial resources used in investing activities and the remuneration of equity during the period, led to total financial requirements of € 2,250.6 million in the year, part of which (€ 1,143.8 million) was covered by the cash flows generated by operating activities and the remainder by increasing net debt.

L. Subsequent events

Management and development of the NTG

The 380 kV Villanova-Gissi power line became operational on 31 January 2016. This had been included in the Grid Development Plan and was authorised by the Ministry of Economic Development on 15 January 2013 with Decree No. 239/EL-195/180/2013. The work was aimed at remedying most of the electrical deficit of Abruzzo resolving its electrical infrastructural shortcomings, eliminating the notable limitations on operations and reducing considerably the risks of blackouts. It also makes it possible to input greater quantities of electricity produced also by renewable sources in Italy. There were also significant benefits for Italy: in terms of the security and efficiency of the system; costs (savings for families and companies); maintenance of the Adriatic backbone; electricity (increased transfer capacity for over 300 MW); environmental (increased transfer of production from renewable sources for 700 MW: reduction in CO_2 emissions for around 165 kt/year).

Again in January, accepting the indications of the Ministry of the Environment, Terna sent to all stakeholders involved in the study of the project to rearrange the electricity grid in the Lucca area, aimed at making it easier to understand and putting the Ministry of the Environment in the best condition for choosing the most suitable solution for the construction of the work.
In February 2016 Terna obtained approval, with a declaration of public utility, for the project to create the 132 kV “Sacca Serenella Cabina Primaria – Cavallino Cabina Primaria” and “Fusina 2 - Sacca Fisola Cabina Primaria” power lines in cable, included in the Grid Development Plan and approved by the Ministry of Economic Development. The work is necessary to guarantee the widest margins of security and reliability of power supplies to the Venice lagoon.

Sustainability

In January 2016 Terna was confirmed at the top of global sustainability, thanks to the results achieved in its environmental and social responsibility activities. The Company in fact obtained recognition as an Industry Leader in the Electric Utilities segment of the Dow Jones Sustainability Index, and is the only Italian company to qualify in the Gold Class of the 2016 Sustainability Yearbook just published by RobecoSAM. Terna, which has qualified for the fourth time in the Gold Class, achieved a total score of 89, the highest in its history and the highest among Electric Utilities, a segment that recorded an average score of 52.
In February 2016, as part of its commitment to developing an increasingly sustainable grid for territories and communities, Terna began work on demolishing 3 km of old power line, dating back to the 1950s, which with 17 pylons crosses the Florentine hills of Pian dei Giullari, Arcetri and Monte alle Croci: an area of precious landscape and cultural assets among the most important in Italy. All components of the pylons demolished (steel, aluminium, glass, cement), were put back into the productive cycle in an efficient and sustainable manner.

Interconnector

As part of its commitment to facilitate the social acceptance and sustainability of its works, in the first two months of 2016 Terna worked on refining the construction solutions for the two Interconnectors: Italy-Switzerland and Italy-France. In March 2016, for the Italy-Switzerland Interconnector, Terna requested and obtained from the Ministry of the Environment the suspension of the Environmental Impact Assessment (EIA) proceeding. The suspension was made necessary to enable Terna to complete the considerable quantity of research and additional studies requested by the Ministry itself and by the Piedmont and Lombardy Regions. Again with a view to facilitating the social and environmental integration of the Interconnector, which will make it possible to have energy at lower cost in the valley of the Po and around Milan, in February 2016 Terna had met WWF, Legambiente and FAI to examine in depth a number of ideas to increase the environmental compatibility of some parts of the power line (Settimo Milanese electrical substation).
In February 2016, for the Italy-France Interconnector, a project which is unique in the world for engineering, technological and environmental solutions, Terna took advantage of the profitable discussions held in 2015 with the institutions and communities involved in the project, obtaining from the Ministry of Economic Development the start of the authorisation procedure for the location variant of the Interconnection. The work will increase the security of the grid, reduce the congestions of the continental electricity grid and reduce the cost of bills for citizens and businesses.

Finance

On 18 February 2016 Terna launched a bond issue in Euro, at fixed rate, in the form of a private placement for a total of € 80 million as part of its Euro Medium Term Notes (EMTN) Programme of € 8,000,000,000, to which has been attributed a “BBB” rating by Standard and Poor’s, “(P)Baa1” by Moody’s and “BBB+” by Fitch. The bonds, with a duration of 10 years and maturity on 03 March 2026, will pay a coupon of 1.60%, will be issued at a price of 99.087%, with a spread of 108 basis points with respect to the midswap (the “Bonds”). A request for admission to listing on the Luxembourg Stock Exchange will be presented for the Bonds. The operation is part of Terna’s financial optimisation programmes, to cover the needs of the Group’s Industrial Plan.

Disclosure pursuant to Art. 149-*duodecies* of the CONSOB Issuer Regulation

The following table, prepared in accordance with Art. 149-*duodecies* of the CONSOB Issuer Regulations, presents the fees for 2015 for the audit and non-audit services provided to the Terna Group by the auditing companies.

In €	Entity providing service	Fees due for the year
Statutory audit	PWC	534,196
Attestation services	PWC	154,700
TOTAL		**688,896**

Certification of the consolidated financial statements pursuant to Art. 81 ter of Consob Regulation no. 11971 dated 14 May 1999 and subsequent amendments and additions

"Consolidated Financial Statements"

1. The undersigned Matteo Del Fante, as CEO, and PIERPAOLO CRISTOFORI, as Executive in Charge of the preparation of accounting documents for TERNA S.p.A., also considering that established by art. 154 *bis,* paragraphs 3 and 4 of Italian Legislative Decree no. 58 of 24 February 1998, certify:

   - the suitability in relation to the business characteristics; and
   - the effective application of the administrative and accounting procedures for the preparation of the consolidated financial statements during financial year 2015.

2. The assessment of the suitability of the administrative and accounting procedures for the preparation of the consolidated financial statements as at 31/12/2015, is based on a set of standards and methodologies defined by Terna S.p.A. in line with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, which represents a set of reference standards for the internal control and risk management system, generally accepted worldwide.

3. It is also specified that:

   3.1. the consolidated financial statements at 31/12/2015:

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

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

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

   3.2. the report on operations includes a reliable analysis of the trend and operating result, in addition to the position of the issuer and all businesses included in the scope of consolidation and a description of the main risks and uncertainties to which they are exposed.

Rome, 21/03/2016

Delegated administrative bodies
(Matteo Del Fante)

Executive in Charge of the preparation of the Company's accounting documents
(Pierpaolo Cristofori)

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

INDEPENDENT AUDITORS REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE 39 OF 27 JANUARY 2010

To the shareholders of
Terna SpA

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Terna group, which comprise the statement of financial position as of 31 December 2015, the income statement, the statement of comprehensive income, the statement of changes in shareholders equity and the statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Directors responsibility for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree 38/2005.

Auditors responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11, paragraph 3, of Legislative Decree 39 of 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatements.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the group preparation of consolidated financial statements that give a true and fair view, to plan and perform audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group internal control. An audit also includes evaluating the appropriateness of accounting policies used and

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the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Terna group as of 31 December 2015 and of the result of its operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree 38/2005.

Report on compliance with other laws and regulations

Opinion on the consistency of the report on operations and of certain information set out in the report on corporate governance and ownership structure with the consolidated financial statements

We have performed the procedures required under auditing standard (SA Italia) 720B to express an opinion, as required by law, on the consistency of the report on operations and of the information set out in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree 58/98, which are the responsibility of the directors of Terna SpA, with the consolidated financial statements of Terna group as of and for the year ended 31 December 2015. In our opinion, the report on operations and the information in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Terna group as of and for the year ended 31 December 2015.

Rome, 22 April 2016

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Signed by

Paolo Caccini
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers