REPORT ON OPERATIONS
INTEGRATED REPORT

In the present Report on Operations - Integrated Report the economic-financial and operational performance and sustainability of the Terna Group are referenced to scenarios, contexts, capital, objectives and results, highlighting Terna's ability to create value over the short, medium and long term.
The Report follows the IIRC - International Integrated Reporting Council framework (Terna has supported the IIRC since 2011), based on a Materiality Analysis that identified the significant aspects for the Group and its stakeholders. For information on the Materiality Analysis, please see the Annexes.

Letter of the Chairwoman and the Chief Executive Officer

The Report we present shows the very positive results achieved by the Terna Group in 2015, both in economic and financial terms, as well as in terms of operations and sustainability. The information it contains does not capture only the company's performance, but also illustrates the factors underlying the results achieved and the new initiatives set up. First of all, there is the organisational restructuring of the Parent Company, with improved oversight on strategies and on innovation, with the aim of giving Terna the dynamism and flexibility necessary to continue to create value also in the coming years. The company's future will be characterised by an evolution of the electricity system which will entail a new market design and which will increasingly focus on the development of innovative services and new technologies, with attention to benefits for electricity users and to the problems of climate change.

From this comes the need for Transmission Operators to play a new role in the electricity system, taking grid security as a point of reference and continuing to guarantee high levels of service quality.

During 2015 we achieved all the targets provided for in the previous Plan. Besides acquiring the Ferrovie dello Stato electricity grid, with which Terna consolidated its role as leader among European grid operators, we managed to very successfully complete an important generational turnover project, which enabled us to recruit more than 300 young talents and equip ourselves with a more efficient structure.

The 2015 results confirm the Group's solid growth trend. Revenue was more than € 2 billion, with 4.3% growth compared to the previous year. EBITDA came out at more than € 1.5 billion, up 3.2% compared to the previous year. Net profit reached € 600 million, up by 9.4%. The investments are in line with the National Transmission Grid Development Plans and with the Strategic Plan and amounted to € 1.1 billion.

Terna was able to make its contribution also to the reduction in the costs of the electricity system, visible in the containment of expenses incurred on the dispatching service market and in further convergence of the zonal prices, keeping the system secure. Proof of this ability was provided on 21 July 2015, when Terna managed to cope with the highest demand ever (59.4 GW, +15.1% compared to the 2014 peak), managing at the same time the production of the approximately 700 thousand renewable plants connected and active in Italy, without losing a single kW of energy.

During 2015, Terna consolidated its cooperation with other grid operators both in the context of international bodies (ENTSO-E), and at the bilateral level, with the signing of a mutual collaboration agreement between Terna and the operator of the French grid RTE. In February 2015, "market coupling" also began on three Italian borders (France, Austria and Slovenia), which simplifies access to the market for the operators and guarantees efficient allocation of the transfer capacity between countries. The operating focus for the creation of the new interconnections provided for in the development plan is also continuing. Their entry into operation will increasingly facilitate the process of integration and coordination with the large continental electricity grids.

Moreover, the Group achieved environmental and social results which were, in some cases, the best ever. Among these, the 14% reduction in direct CO_2 emissions (down to 66,799 tonnes) and the growth in the percentage of recyclable waste to 92%. The grid development work enabled the removal from the territory of 98 km of obsolete lines (more than 613 km in the period 2010-2015). Investments in the development of human resources and in workplace safety found expression in the 30% increase in training hours (56 hours per capita in 2015, 43 in 2014), which involved 97% of employees, and in the reduction in occupational injuries, down both in absolute terms and in terms of injury rate and lost-day rate. The gradual improvements on all the sustainability fronts recorded over the last few years earned Terna – on the occasion of the annual revision of the Dow Jones Sustainability indices – recognition as Industry Leader among all the companies of the electric utilities sector.

In 2015 solid foundations were laid for the coming years. In fact, last December the tariff revision process was completed and this will guarantee a visibility of eight years. From 2016 to 2019, the regulatory framework is characterised by substantial methodological continuity with the past and from 2020 provides for the introduction of a new approach, based on the recognition of costs against total expenses (TOTEX).

Terna's team will be focused in the coming months on achieving the targets of the 2016–2019 Strategic Plan. Above all focused on strengthening the core business with electricity grid development – € 3.3 billion the total commitment, of which € 2.6 billion to increase the regulated assets (RAB) – and to integrate the grid acquired from Ferrovie dello Stato.
In addition, the Group will concentrate on the development of Non-Regulated Activities in Italy, on the Interconnector projects and on identifying new opportunities for investment abroad.
The commitment to cost excellence will also continue, with the aim of generating further benefits with respect to the previous Plan. We shall pay great attention to cash generation: a cumulative Free Cash Flow of approximately € 2 billion over the period of the Plan will enable us to service the cost of the debt, the dividends and international expansion, with a financial structure which will remain solid.

At the same time, the commitment to sustainability will continue. In particular, we shall pursue the strengthening of our ability to relate positively to all stakeholders, both at the central level and around the country, and we shall continue to invest in training, in safety and in the improvement of our environmental performance. In the context of future challenges, we are reassured by being able to count on the professional quality and values of Terna's people, who have provided an irreplaceable contribution to past results and who will be fundamental for seizing future opportunities.

The Chairwoman
CATIA BASTIOLI

The Chief Executive Officer
MATTEO DEL FANTE

Proposal for the allocation of profits for the year

For FY 2015, Terna S.p.A.'s Board of Directors proposes distributing a total dividend of € 401,998,400.00, equal to € 0.20 per share, of which € 0.07 per share resolved as an interim dividend on 11 November 2015.

The Board of Directors therefore proposes to allocate the net profit for FY 2015 of Terna S.p.A., totalling € 527,113,097.76, as follows:

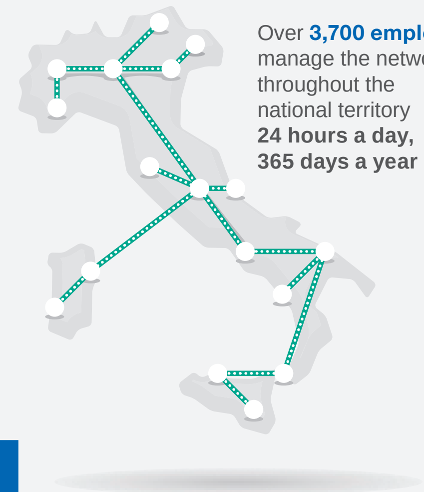
- € 140,699,440.00 to cover the account paid on the dividend as from 25 November 2015;
- € 261,298,960.00 to pay the balance of the dividend to be distributed in the amount of € 0.13 for each of the 2,009,992,000 ordinary shares outstanding to be assigned for payment – gross of any legal withholdings – on 22 June 2016, with "detachment date" of coupon No. 24 to coincide with 20 June 2016 (record date, pursuant to Art. 83-*terdecies* of Italian Legislative Decree No. 58 of 24 February 1998, the "Consolidated Law on Finance": 21 June 2016);
- € 125,114,697.76 as profit carried forward.

Interim dividend 2015

In the session of **11 November 2015**, Terna S.p.A.'s Board of Directors resolved the payment of an interim dividend for the year 2015, on the basis of the opinion expressed by the Audit Company PricewaterhouseCoopers S.p.A., provided for by Article 2433-*bis* of the Italian Civil Code. Bearing in mind that, in the first half of 2015, Terna S.p.A. achieved a net profit of € 263.9 million, the Company approved the distribution of the interim dividend of € 0.07 per share, payable from 25 November 2015 (with an ex dividend date (coupon 23) of 23 November 2015).

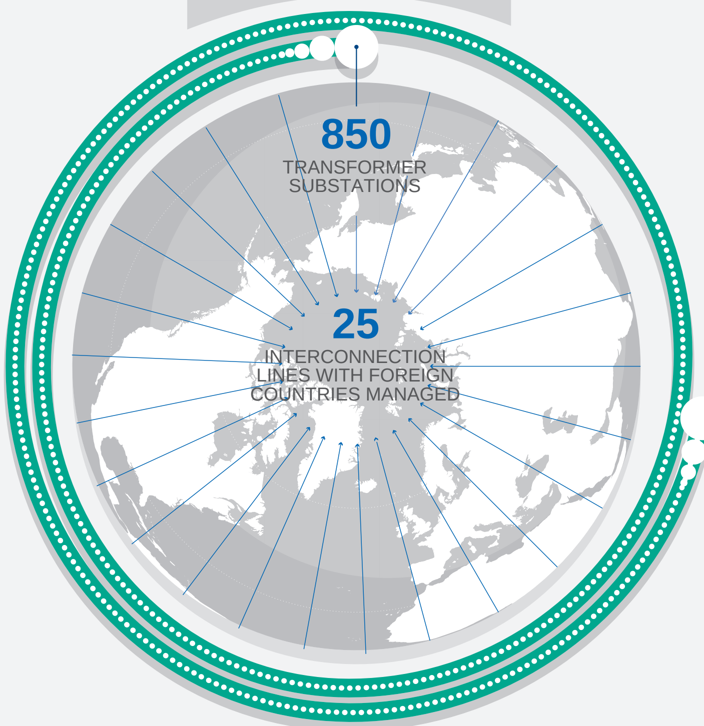
The Terna Group, briefly

- Owner of the National Transmission Grid (NTG); responsible for planning, construction and maintenance of the NTG
- Responsible for transmission and dispatching of electricity throughout Italy
- The largest independent network operator (TSO - Transmission System Operator) in Europe and the reference operator of the national electricity system



Over **3,700 employees** manage the network throughout the national territory **24 hours a day, 365 days a year**

72,600 Km
of electrical lines owned*
(almost twice around the Earth)



2016-2019 Strategic Plan
Commitment to develop new business opportunities in Italy and abroad

€ 2.6 billion
of investments in Regulated Activities

€ 2 billion
of accumulated Free Cash Flow

Stock and dividends
Listed on the Italian Stock Exchange since 2004

€ 10 billion
Approx. of capitalisation

€ 4 billion
accumulated dividends since listing (IPO)
> 400% Total shareholder return (TSR)

Leadership position in the rankings and in the main international stock market indices on sustainability

Aware of the social and environmental impact of its operations and oriented towards a sustainable approach to business

Constant growth in sustainability ratings

* The number refers to the total length of the electrical connections (three-phase power lines).

Management

Catia Bastioli
Chairwoman

Matteo Del Fante
Chief Executive Officer

Luigi de Francisci
Regulatory
Affairs Director

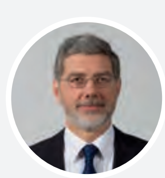
Stefano Conti
Grid Development
Director

Pierpaolo Cristofori
Administration, Finance,
Control and Investor
Relations Director

Luigi Michi
Director of Strategy
and Development Department
and CEO of Terna Plus

Pier Francesco Zanuzzi
Chief Executive Officer
Terna Rete Italia

Giuseppe Lasco
Corporate Affairs
Division Manager and Security
and Services Director



Fulvio De Luca
Audit Manager

Performance Highlights 2015 (vs. 2014)

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Performance of Terna stock and shareholder return

€ 4.22/share
Average price for the year

€ 4.79/share
Maximum share price, reached on 29 December 2015

€ 0.20
Dividend per share

+32.5%
Total shareholder return

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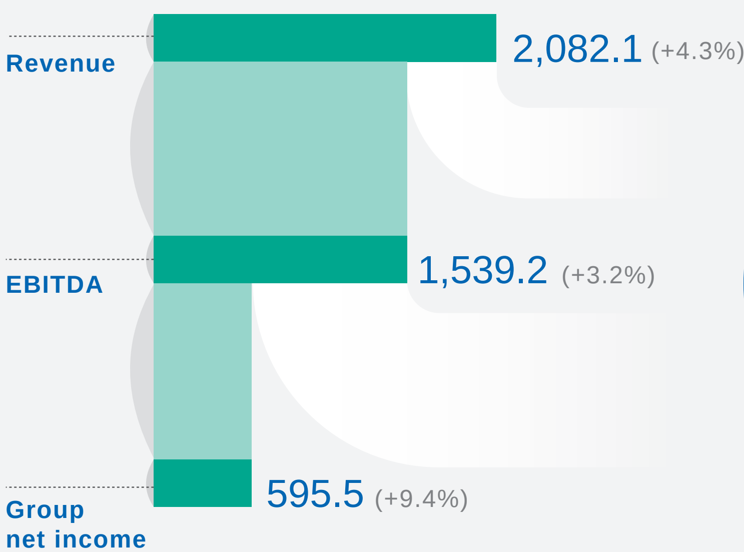
Financial and economic performance

(Amounts in € millions)



INVESTMENTS AND PAYABLES

Total investments
1,103.1
(+0.6%)

Net payables
8,002.7
(+14.9%)

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Operating performance

8,379 km
of power lines

350
electrical substations

acquired from Ferrovie dello Stato

PUN* € 52/MWh
The lowest cost of electricity since the start of the Electricity Market (in line with 2014).

DSM -31%**
Compared to 2014. Less system costs, more electricity savings for the country.

35,000 km
of inspected lines

* Single National Price: average zone prices (electricity sales prices in various parts of the country, excluding those from the pumping units and foreign areas), with a strong convergence thanks to the development of the network.

** Dispatching Services Market: platform for negotiation of offers to sell and purchase services, used by Terna S.p.A. to resolve network congestion, for reserves and for balancing in real time of inputs and withdrawals.

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Environmental performance

Incidence of SF_6 leaks over total installed gas*	0.44% (-16%)
Direct emissions of CO_2 (In equivalent tons)	66,799.4 (-14%)
Carbon intensity**	65.9% (-8%)
Recycled waste over total waste produced	92% (+11%)
Removed lines (km)	98.03

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Social performance

Training: training hours per capita	56 (+30%)
Training: personal coverage	97% (+8%)
Occupational injuries (Injury Rate) ***	0.84 (-34%)
Women holding managerial positions (senior and junior executives) over total women	18.2% (0.6%)

* Thanks to its chemical-physical properties, the gas SF_6 (sulphur hexafluoride) is used as a means of insulation within some of the network elements (e.g. switches, transformers and armoured systems). SF_6 leaks are the main source of direct greenhouse-gas emissions by Terna.

** This is the ratio between (direct and indirect) equivalent emissions of CO_2 and an important metric of corporate business. In the case of Terna, the ratio is measured on revenue expressed in € millions.

*** This is the number of injuries with at least one day's absence from work divided by the number of hours worked during the year and multiplied by 200,000 (corresponding to 50 working weeks x 40 hours x 100 employees).

Significant events 2015 for the Terna Group

Regulations

New 2016–2023 tariff system

During December, with Resolutions No. 583/15/R/com, No. 653/15/R/eel, No. 654/15/R/eel and No. 658/15/R/eel, the Regulatory Authority for Electricity, Gas and Water (hereinafter AEEGSI) set the tariff regulation for the 2016–2023 regulation period for electricity transmission, distribution, measurement and dispatching and the regulation regarding the quality of the transmission service.

The fifth period or new regulatory period (NPR) extends over eight years and is subdivided into two sub-periods identified as NPR1 (2016–2019) and NPR2 (2020–2023), each lasting four years: the first (NPR1), essentially continues the methodology of the past; while the second (NPR2) introduces a new methodology approach, based on the recognition of costs in relation to the total spend, intended as the sum of operating expenses and investments - i.e. TOTEX (Total Expenditure) - the details of which will be determined according to a business plan that will be set out under a new provision issued by the Authority.

As far as the base remuneration rate for recognised invested capital (WACC) is concerned, the AEEGSI introduced an appropriate six year regulatory period (i.e. WACC or PWACC Regulatory Period), extending from 2016 to 2021. The PWACC is subdivided into two sub-periods of three-years each, and sets the base WACC parameter levels applied to all infrastructure services in the electricity and gas sectors, excluding the specific parameters that refer to an individual service. The WACC for the 2016–2018 period is set at 5.3%, and is expected to be updated on the basis of pre-set rules, with effect from the second three-year period (2019–2021).

Based on the decisions taken, Terna conducted a preliminary estimate of the net invested capital recognised for regulatory purposes (RAB 2016) that stands at approximately € 13.8 billion, excluding the assets acquired from the Ferrovie dello Stato Group.

With regard to incentivized investments, Resolution 654/15/R/eel confirmed the effects of the incentive regulations from prior regulatory periods for all investments that came into operation at 31/12/2015. For investments that will become operational as from 1/1/2016, relating both to development works approved by the AEEGSI not included among the I3 investments and approved under Resolution 40/13 (O-NPR1), as well as to certain I3 investments approved under Resolution 40/2013 (I-NPR1), a 1% increase in the WACC is recognised for 12 years, subject to specific conditions set out in Annex A to Resolution 654/15/R/eel being adhered to.

Resolution 517/15/R/eel referring to the “Definition of the remuneration of the high- and very-high voltage electricity grids owned by the company Ferrovie dello Stato Italiane S.p.A. to be included in the National Transmission Grid (hereinafter NTG)” also stipulated the remuneration recognised for the portion of the non-NTG HV/VHV electricity grids - owned by FSI S.p.A. - in the event that this was acquired by Terna, and consequently became part of the NTG.

The regulation outlined the criteria for calculating and updating various components of the underlying recognised cost to said remuneration, which can be summarised extremely briefly as follows: the figure for the net invested capital recognised for tariff purposes (NIC) for HV and VHV electricity grids, to be included in the NTG stands at € 674 million. An extra remuneration of 1% is added to a portion of €149 million of this figure; the NIC remuneration will be recognised in the tariffs with effect from the 2017 tariffs; initial operating expenses recognised for tariff purposes are set at € 42.1 million, which include once-off costs identified on a flat-rate basis for € 2 million, with these costs recognised as from 2016; furthermore, as from the second year in which operating expenses are recognised, the once-off costs will be excluded (€ 2 million) and specific annual productivity recoveries will be applied.

Finally, one the main features introduced by the new regulatory framework is the reduction, with reference only to the remuneration of invested capital, in the delay with which the tariff remunerates investments made (i.e. time lag): the tariffs for year n will consider the remuneration on investment capital up until year (n-1) and the amortisation of investments up until year (n-2). The 1% extra remuneration to offset the time lag will therefore be limited to investments from 2012–2014, and abolished in relation to investments in subsequent years.

Market coupling on France, Austria and Slovenia

Market coupling began in February on three out of the five Italian borders (France, Austria and Slovenia). These four national electricity markets are “coupled” by synchronising the respective Electricity Exchanges and coordinating the respective TSOs, to become included in the broader Multi-Regional Coupling (MRC), which already connects most of the electricity markets of the EU. Market coupling simplifies access to the market for operators and guarantees allocation efficiency, providing the correct price signals: in fact, it guarantees that when an interconnection’s transport capacity is not being fully utilised, the prices for electricity in the bordering markets are identical, whereas if capacity is saturated, prices differ, with electricity flowing from the market with the lower price towards the one with the higher price. In this regard, the benefits to the end consumer result from a more efficient use of cross-border infrastructure. The result falls within the context of the broader integration project in European electricity markets, with the objective of increasing the European Union’s competitiveness.

Management and development of the NTG

Acquisition of the Ferrovie dello Stato HV Grid

The acquisition of the Ferrovie dello Stato grid adds 8,700 km of three-phase power lines (approximately 8,400 km of power lines) to the grid that already measured more than 63,900, thus consolidating Terna’s position as the largest independent European operator. The Company can now count on increased power in the grids integration process, both in Europe and in the Mediterranean. The transaction includes 7,510 km of high- and very-high-voltage power lines and 350 electrical substations, which will fall under the Terna perimeter; 869 km of High Voltage power lines, already part of the NTG and a contract to move over to fibre optics.

Laying of the Italy-Montenegro undersea connection cable

First laying of the undersea cable between Italy and Montenegro: the connection is 415 km long, of which 390 is in undersea cabling and 25 on land for 1,000 MW. This project has strategic importance at European level: the EU co-financed the feasibility study. It means greater security on the system, especially for central Italy. The benefits in economic terms are linked with the procurement of electricity at competitive costs, and the consequent reduction in prices for the consumer, and the possibility of exporting electricity produced in Italy to the Balkans. The electrical interconnection is completely undersea and buried for the part on land.

Italy-France

The new Italy - France interconnection project that Terna is developing between Piedmont and Savoia will have 190 km of lines (half in Italy and half in France), which will be a direct current entirely buried cable, between the electrical substations of Piossasco (Italy) and Grand’Ille (France). It will provide a 60% increase in the importing capacity of electricity to Italy, and guarantee a reduction in the problem of grid congestion between European countries, as well as a reduction in the electricity price on the electricity market in Italy. Involving more than 70 Italian companies, it will be implemented in complete synergy with the existing road and highway infrastructure, including the security tunnel in Fréjus. This will nullify any visual impact on the much-valued environmental landscape.

Sorgente-Rizziconi tunnel completed

The last diaphragm between the Scilla well and Favazzina tunnel has been drilled, which is needed to develop the Calabria-Sicily power line. This represented an engineering, technological and environmental challenge that required a well of almost 400 metres deep to be excavated inside the mountain on the Melia side, the raising of the beach at Favazzina to allow for the undersea cables to pass through and be buried, and drilling using an enormous mechanical mole up to a depth of over 2 km within the same mountain. Almost three years of work for our engineers, technicians and specialist workers, with an undersea section of 38 km that carries the longest stretch of alternating current cable in the world. All the work referred to above was carried out while strictly respecting the environment. The new connection line with Sicily will introduce savings of up to € 600 million a year on the electricity bill once it becomes operational.

Storage systems

At the multi–technology hub at Codrongianos in Sardinia, the storage systems, the reactors and two synchronous condensers that recently became operational, keep the system balanced, by optimising the use of the "essential plants" on the island, and bringing down the cost of electricity. In Southern Italy, 35 MW storage systems using NaS (sodium-sulphur) technology were installed at the three sites at Ginestra (12 MW), Flumeri (12 MW) and Scampitella (10.8 MW).
These can guarantee more than 250 Mwh of electricity storage capacity and are the first plants in Europe in terms of storage capacity, and among the leading in the world that are remote controlled and operated remotely. The plants are directly connected to the two 150 kV backbones "Benevento II – Celle San Vito" and "Benevento II – Bisaccia 380", which are sections of the grid that are typically congested due to the excessive wind production at certain times of the year in relation to the underlying transport and loading capacity.

Storage Lab

The Storage Lab is in the completion phase at Codrongianos in Sardinia and at Ciminna in Sicily. To date, seven suppliers have installed their batteries so that Terna can start testing the proposed solutions and integrate the batteries into the grid control systems. Other technologies and other suppliers will become involved to complete the monitoring of these solutions. The batteries will contribute to regulating the frequency and voltage on the electricity grid in Sardinia and Sicily, where there is a significant supply from renewable sources and problems arise from instability and inertia that are typical of islands. Once the configuration is completed, Codrongianos (with its 10 MW) and Ciminna (with its 6 MW) will become the largest multi-technology plants in the world.

Sustainability

Terna for the first time is the "Industry Leader" in the Electric Utilities sector of the Dow Jones Sustainability Index

In the annual review conducted by the Swiss sustainability rating agency RobecoSAM, Terna achieved its highest score ever and the highest for the Electric Utilities sector (89/100) to become for the first time the "Industry Leader" in its sector. This represents Terna's seventh consecutive listing in this international index and the most prestigious in the sustainability field.

Launch of Smart project for Isola del Giglio

Terna Plus and IBM, in conjunction with the Municipality of Isola del Giglio (Grosseto), the Tuscan Archipelago National Park Authority, the Fiora Water Company and SIE – the licensee company for the production and distribution of electricity on the island have signed a protocol to update the Island's electricity grid based on ICT solutions that integrate green sources, electricity storage and urban mobility in relation to the territory. The agreement also refers to the island of Giannutri. Renewable sources, electricity storage systems, electric vehicles and hi-tech solutions to manage "Active Demand" (that also involve water desalination) will thus form a mix of innovative solutions that will make the Isola del Giglio a smart island.

The Jus Vitae community farm on land owned by Terna

A year since the Terna-Jus Vitae Non-Profit Organisation agreement was signed, work is nearing completion on the structures for the initiative to move into the operational phase for the establishment of a Community Farm ("Fattoria sociale") on land owned by Terna and granted for use free of charge in Partinico, Ciminna and Fulgatore. The economic sustainability of the project was analysed by the incubation company Make a Cube[3] (Avanzi Group), and integrates several aspects, especially agriculture and catering, whilst also offering educational, training and cultural services aimed at the local community and focusing on facilitating youngsters from children's homes to enter the labour market.

Cascina Marchesa-Pellerina

This refers to a broad rationalisation project that will return 10 hectares of parkland to residents. Twenty pylons, of which some are more than 50 metres high dating back to the fifties, and 5 km of power lines will be removed to implement safer and more sustainable solutions for families, companies and the environment. A history of electrification that began in an area called Pellerina more than a century ago, to service Turin with the Martinetto power station(1906), which continues with technologically advanced solutions introduced by Terna.

Best grid

An international two-day meeting was held in Milan on the "Aesthetics of the grid: how to involve stakeholders in planning the landscape, the design and aesthetics of electricity infrastructure". This represents Terna's contribution to Best Grid, the project that is co-financed by the European Commission to develop European grids, by increasing the integration of renewable sources and acceptance of these works by local communities. The second day was taken up by a visit to the Germoglio and Monostelo pylons on the "Trino–Lacchiarella" and "Chignolo Po – Maleo" lines, and to the Maleo electrical substation, which are Italian best practice in terms of a minimised visual impact thanks to naturalistic engineering techniques.

Security, governance, skills and human resources

New business structure officially launched

2015 marks the official start of the new structure, based on the cornerstones of strengthening the Parent Company's governance, guidance and control role, on defining key responsibilities on business processes and transversal responsibilities relating to staff resources: "Regulated" and "Non-Regulated" activities in terms of Operations will be carried out by Terna Rete Italia S.p.A. (hereinafter Terna Rete Italia) and Terna Plus (Operations Companies), respectively. The Parent Company will be the sole interface for strategic stakeholders, such as national and international Institutions, the Authorities, investors and the media. It will directly govern the strategic processes associated with Regulatory Affairs, the NTG Development Plan (hereinafter DP), Security, Business Development and Innovation. This is the context that the new Strategy and Development Department falls under. Finally shared services centres have been established, namely single skills centres that can provide common services. By way of example, centres of excellence were created in the area of Human Resources and Organisation, Legal and Corporate Affairs, Procurements, ICT and in Administration and Finance.

Matteo Del Fante appointed Deputy Chairman of ENTSO-E

The meeting of the European association of electricity grid operators ENTSO-E elected the Chief Executive Officer Matteo Del Fante as Deputy Chairman of the Association. There are two key issues on the agenda: removing market distortions and developing renewables, whilst also paying attention to streamlining regulations. ENTSO-E was established in terms of European legislation and numbers 42 associates from the European Community and surrounding countries among its members. It supports an investment plan of around € 150 billion to integrate the national markets within the Union into a single European market.

Generational turnover

In line with the provisions of the 2015–2019 Strategic Plan submitted in March, Terna completed the generational turnover project. There were more than 430 voluntary staff exits that had already accrued the requirements for a pension and that will be meeting the prerequisites by 2016 and 2017. Against these exits, an appointment plan was completed involving more than 300 youths (around 9% of total employees), 130 of which are allocated to corporate structures in Southern Italy and the Islands. The appointments referred to newly qualified electrical engineers and electricians, who according to the "Jobs Act" were offered permanent employment contracts with growing protections. The initiative focuses on ensuring that the specific and distinctive skills of our Company are efficiently transmitted, and includes a significant training programme.

"Open & Transparent Site" begins

Terna has launched "Open & Transparent Sites", the first web tool in Italy that clearly provides information on tenders and sub-contracting relating to works in progress for the construction of electrical infrastructure. A voluntary decision and first of its kind for a private company, which places Terna at the forefront in its commitment to legality and transparency, guaranteeing increased security for companies and the community. Data is accessible on-line on the www.terna.it site, providing data and information on around 200 open sites, 750 companies and the work of about 4,000 people.

News rules on environmental protection

During the second edition of the Terna Forum on Security, the Company presented its model to integrate the needs of developing infrastructure with the protection of the environment to institutions and companies. Seven rules for a new agreement that involves all stakeholders, to ensure that development and environmental protection are recognised as parallel drivers for the industrial growth of Italy: the environment as a resource for the company, long-term plans and strategies, environmental governance, staff training, environmental risk management tools, integrated safety projects on work sites, suppliers holding environmental certification. In being among the first to adopt an “integrated safety” model, the Company is again leading the way in combining economic growth with safeguarding the environment.

Developing new markets

Terna-Enel Agreement for business abroad

Terna and Enel have signed a three-year agreement to identify, assess and develop integrated greenfield (for the construction of new infrastructure) and/or brownfield (for the acquisition of existing infrastructure) initiatives and opportunities associated with transmission grids in countries, other than Italy, where both Enel and Terna have strategic or commercial interests.

Terna – RTE Agreement for technical cooperation in Europe

In August, Terna signed an agreement with the French grid operator RTE to intensify technical cooperation in various areas. In addition to the project for the new cross-border electricity line between Italy and France, RTE and Terna will strengthen their commitment to developing electricity transmission infrastructure in Central – Southern Europe and the future European electricity system.

Acquisition of TES – Transformer Electro Service

In October, Terna completed the operation that combines Tamini with TES - Transformer Electro Service, another significant producer of industrial and power electrical transformers. Based on the agreement, Terna will have a 70% shareholding in Tamini’s capital, whereas the shareholders of TES will retain the remaining 30%. This acquisition resulted in an important corporate merger and further consolidated Tamini as a leader in the industrial sector in after-sales, as well as strengthening its position in the power and utilities sector.

Finance

Issue of new Terna € 1 billion bond

The new Terna bond, which was issued immediately after the announcement of the plan for the ECB to purchase State bonds, was placed at the lowest yield levels that had never been seen in Italian corporate bonds. This referred to a 7-year bond issue in Euro, at a fixed rate, for a total of € 1 billion, and a coupon of 0.875% The operation is part of Terna’s financial optimisation programmes, to cover the needs of the Group’s Industrial Plan.

Dividend

Based on the proposal from the BoD, Terna’s Shareholders’ Meeting resolved a dividend for the entire 2014 of € 0.20 per share, in line with previous results, and the distribution of € 0.13 per share, as payment of the interim dividend of € 0.07 already paid on 26 November 2014. During November, payment was finally made on the 2015 interim dividend for € 0.07 per share.

ORGANISATION, BUSINESS AND CAPITAL

Organisation

The Terna Group and its mission

Terna manages all its activities focusing on their possible economic, social and environmental consequences and adopts a sustainable approach to business to create, maintain and consolidate a relationship of mutual trust with its stakeholders, that is useful for the creation of value for the Company and the stakeholders.

Regulated Activities

The Terna group owns 99.7% of the Italian National Transmission Grid.
It is responsible for the transmission and management of power flows on the high- and very-high-voltage grid throughout the national territory, in order to maintain the balance between demand and supply of energy (dispatching). It is also responsible for the planning, construction and maintenance of the grid.
It acts as the Italian TSO with a monopoly under a government licence in accordance with the regulations of the Italian Regulatory Authority for Electricity, Gas and Water (AEEGSI) and the guidelines of the Ministry of Economic Development. It guarantees the security, quality and cost-effectiveness of the National Electricity System.
It pursues NTG development and its integration with the European grid. It ensures equal conditions of access for all grid users.
It is the largest independent transmission system operator in Europe and among the leaders in the world in terms of kilometres of lines managed.

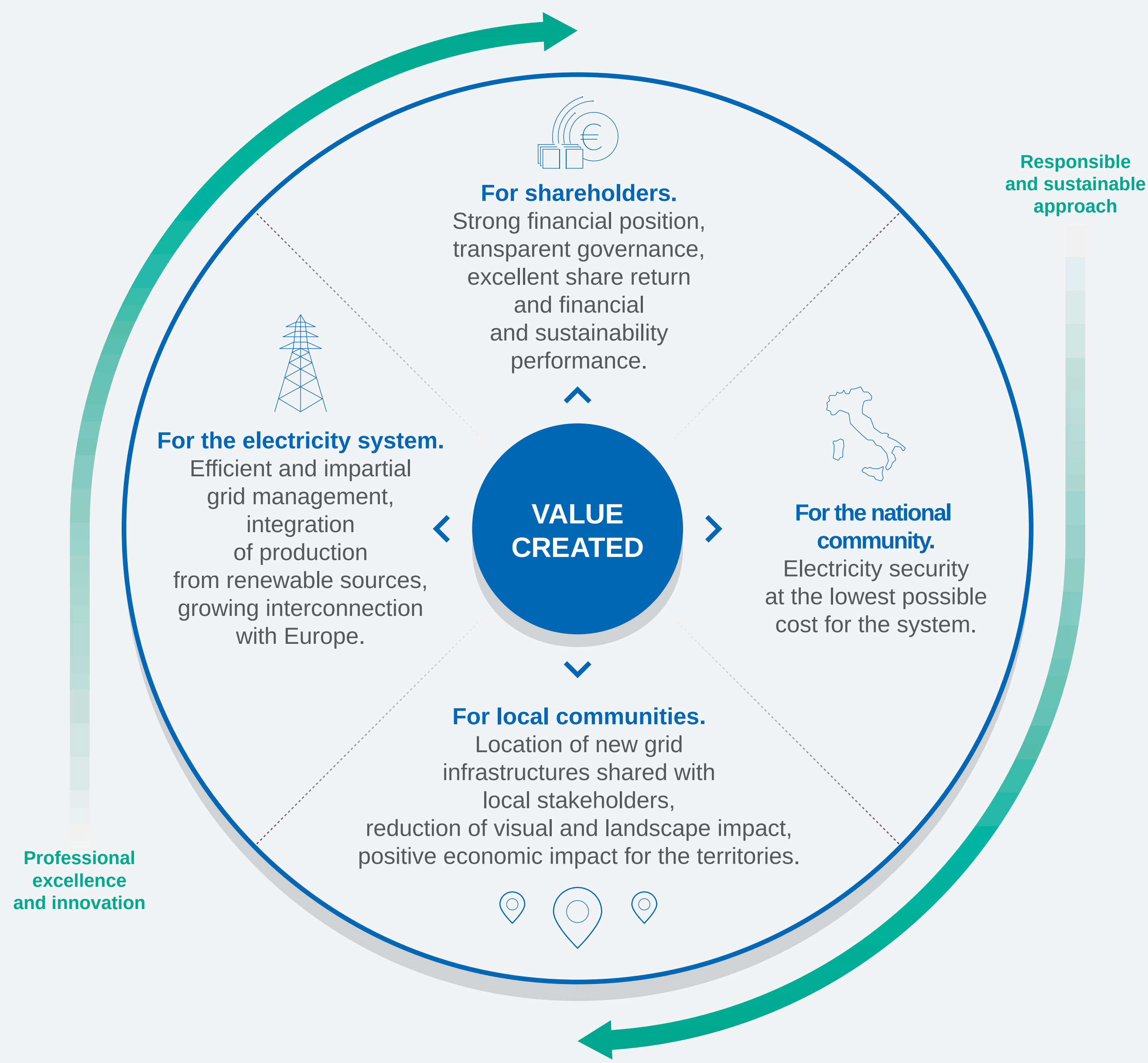
Primary and crucial point of reference for the electricity sector and for the Italian System

Non-Regulated Activities

The Terna Group undertakes infrastructural activities and services under the market system or regulated by foreign authorities, pursuing new business opportunities with its experience, technical expertise and ability to innovate, all gained managing complex systems.

Operator on the domestic and international market

THE TERNA VALUE CREATION MODEL



The Group's History

1999

Liberalisation of the electricity sector

Two new companies are created:
Terna, owner of the Italian Electricity Grid, and the National Transmission Grid Operator (NTGO) for operating the Grid.

2004

Listing on the stock exchange

50% of Terna's share capital placed on the market.

2005

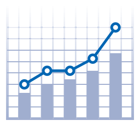
The new Terna

Consolidation of shareholder structure (Cassa Depositi e Prestiti becomes reference shareholder).

Unification of ownership and management of the National Transmission Grid.

New top management. Luigi Roth Chairman, Flavio Cattaneo CEO.

2006



Acceleration of investment

Bond issue to support the new Development Plan.

Terna joins Confindustria.

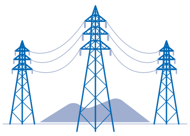
Adoption of new Code of Ethics.

2007

Sustainable development of the Grid

Terna launches "10 projects for sustainable development".

The "Matera - S. Sofia" power line comes into operation: the longest line in Italy (218 km).



2008

Terna is Europe's largest TSO

18,600 km of High-Voltage Lines acquired by Enel.

2009 2010 2011 2012 2013 2014 2015

Growth in value for shareholders

Terna joins the Dow Jones Sustainability Index.

Supplement to dividend policy thanks to the capital gain generated by the sale of its Brazilian subsidiary Terna Participações.

Terna an international player

Terna best utility in Europe in terms of total share yield 2007/2009 (“EEI International Utility Award”).

Terna clinches the biggest solar power transaction in Europe.

Strategic partnership with the Montenegrin TSO for the Italy-Montenegro power line.

Strategic power lines

The SA.PE.I. line (Sardinia-Italian Mainland) and the Chignolo Po-Maleo (Lombardy) line come into service.

Launch of construction sites for Sorgente-Rizziconi (Sicily-Calabria).

Company restructuring

New corporate structure: foundation of Terna Rete Italia S.p.A. (Regulated Activities) and Terna Plus S.r.l. (Non-Regulated Activities), wholly controlled by Terna S.p.A..

Consolidation, growth, innovation

Terna for the second time in a row is best utility in Europe in terms of total share yield 2010/2012 (“EEI International Utility Award”).

Work started on batteries for storage of electricity from renewable energy sources.

Value of the Terna Grid more than doubled: from € 5 billion to € 12 billion.

New Top Management

The Shareholders' meeting appoints the new Board of Directors. Catia Bastioli as Chairwoman and Matteo Del Fante as CEO.

Lines come into operation: Trino-Lacchiarella (Piedmont-Lombardy) and Foggia-Benevento (Campania-Puglia) with innovative pylons (“Single stem” and “Germoglio”).

Acquisition of Tamini, leading Italian company in the production of industrial electricity and power transformers.

An asset for the Country

Matteo Del Fante appointed Vice President of ENTSO-E.

Terna “Industry Leader” in the Electric Utilities category of the Dow Jones Sustainability Index.

Sorgente-Rizziconi tunnel completed.

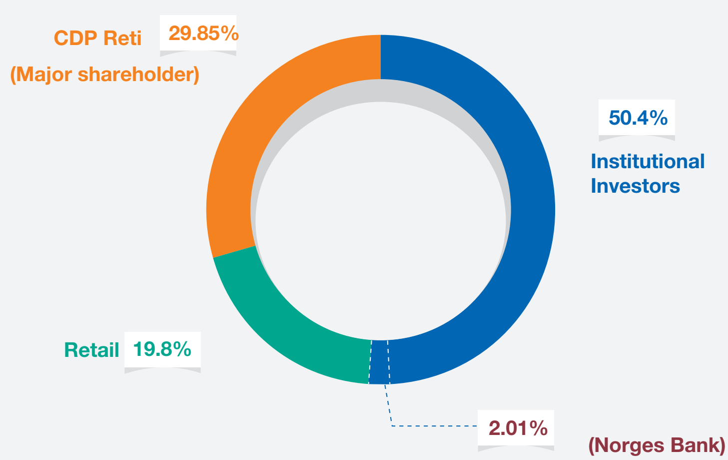
Acquisition of the High-Voltage Grid from Ferrovie dello Stato.

The fifth regulatory period starts.

Shareholders

At the reporting date, Terna's share capital amounted to € 442,198,240, represented by 2,009,992,000 ordinary shares, with a face value of € 0.22 each, fully paid-up.
On the basis of the shareholder register and other information gathered when this report was prepared, ownership of Terna S.p.A. is shown in the graph below.

SHAREHOLDING STRUCTURE BY TYPE



MAJOR *SHAREHOLDERS

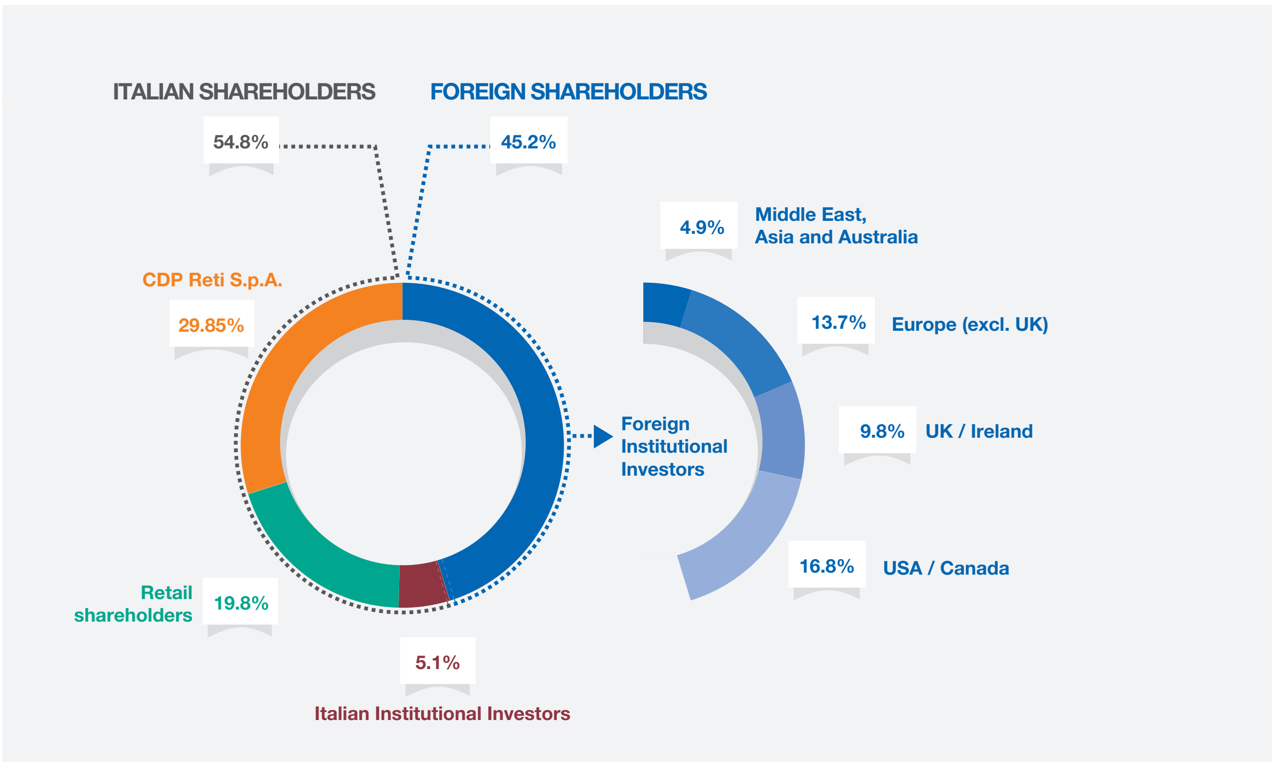
CDP RETI S.p.A. (subsidiary of Cassa Depositi e Prestiti S.p.A.): 29.851%
NORGES BANK: 2.014%

* Shareholders that, on the basis of the information available and CONSOB communications received, participate in the share capital of Terna S.p.A. in an amount that exceeds the significance threshold indicated by CONSOB resolution No. 11971/99 and that have not requested, in accordance with Art. 119-*bis*, paragraphs 7 and 8 of the Issuer Regulation as amended by CONSOB resolution No. 18214, which came into force on 06 June 2012, to not be made public (share ranging between 2% and 5%). It should also be noted that the significance thresholds were recently amended by Italian Legislative Decree No. 25 of February 15, 2016, published in the Italian Official Journal on March, 3 2016 and in force since March 18, 2016.

Shareholders' Agreements On 27 November 2014, a shareholders' agreement was signed by Cassa Depositi e Prestiti S.p.A. (CDP) on the one part, and State Grid Europe Limited (SGEL) and State Grid International Development Limited (SGID), on the other, in relation to CDP RETI S.p.A., SNAM S.p.A. and TERNA S.p.A..

On the basis of the periodic surveys carried out by Terna, it is believed that 54.8% of Terna shares are held by Italian investors and the remaining 45.2% by foreign institutional investors, primarily in the United States and in Europe.

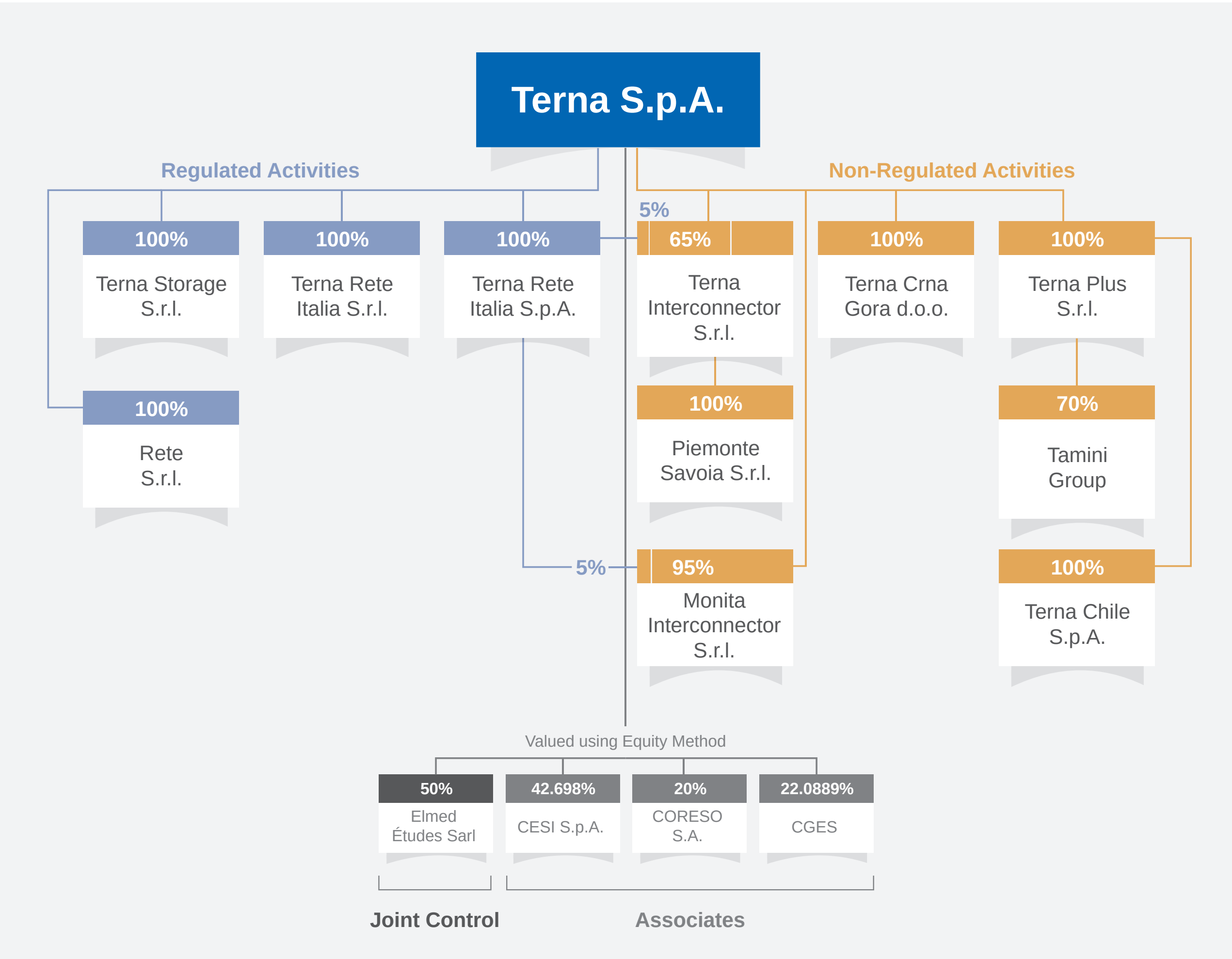
SHAREHOLDING STRUCTURE BY GEOGRAPHIC AREA AND TYPE



At end 2015, there were 100 SRI (Socially Responsible Investors) who invested in Terna with a sustainable approach in mind, based on the consideration of ESG (Environmental, Social and Governance) aspects, of whom 33 asset owners (32 at end 2014), i.e. pension funds, sovereign funds and other institutional investors, representing the vast majority of SRI investment in Terna; the other component, which instead has only a marginal weighting, is represented by 67 mutual investment funds (65 at end 2014). As a whole, at end 2015, SRI investors accounted for 6.24% of Terna (6.1% at end 2014) and around 10% of the capital held by identified institutional investors, substantially in line with the figures of 2014.

Information on ownership structure, restrictions on share transfer and shares granting special powers and restrictions on voting rights, as well as on shareholder agreements, is given in the “Report on Corporate Governance and Ownership Structure” relative to FY 2015, published jointly with the Terna and Terna Group Annual Financial Report.

Corporate structure



THE PARENT COMPANY

Terna S.p.A.

It holds the government concession on the transmission and dispatching of electricity.
It owns the infrastructures and is responsible for defining the NTG Development Plan and its Defence Plan.

ASSOCIATES OPERATING IN REGULATED ACTIVITIES

Company	Activity
Terna Rete Italia S.p.A.	It is delegated to carry out all traditional activities, ordinary and extraordinary maintenance, the management and performance of work on developing the NTG, as established by the Parent company Development Plan. A business unit rental contract was drawn up with the Parent Company with consequent ad hoc intergroup contracts for regulating business.
Terna Rete Italia S.r.l.	It owns approximately 12% of the NTG infrastructures. The design, construction, management, development, running and maintenance of high-voltage electricity lines fall within its corporate purpose. The Grid was purchased in 2009 from Enel Distribuzione.
Terna Storage S.r.l.	It develops diffused energy storage system projects as well as related coordination, study and research activities. The accumulation systems aim to facilitate the dispatch of non-programmable renewables.
Rete S.r.l.	It designs, produces, manages, develops, operates and maintains high voltage electricity lines. The company was purchased in 2015 from Ferrovie dello Stato Italiane Group.

ASSOCIATES OPERATING IN NON-REGULATED ACTIVITIES

Company	Activity
Terna Interconnector S.r.l.	Company delegated within the Group to develop and execute the Italy-France interconnection infrastructures.
Terna Plus S.r.l.	Company for the development of new activities and business opportunities on the Italian non-regulated market and for the development and management of High Voltage infrastructures in Italy and abroad.
Tamini Group	The Group operates in the production and sale of industrial and power electricity transformers using six manufacturing facilities, all situated in Italy, in Legnano, Melegnano, Novara, Valdagno, Ospitaletto and Rodengo. These last two plants refer to the TES Group purchased by Tamini during the year, as commented on in the section on significant events in 2015, to which the reader is referred.
Terna Crna Gora d.o.o.	Company founded under Montenegro law that manages the activities relating to the authorisation, development and management of the Italy-Montenegro interconnection on the Montenegro side. It also promotes new investments opportunities in the transmission sector for lines between Montenegro and neighbouring countries and of infrastructures to connect renewable energy plants in these countries.
Piemonte Savoia S.r.l.	Company dedicated to 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. Instrumental in the Italy-France interconnection.
Monita Interconnector S.r.l.	Company dedicated to 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. Instrumental in the Italy-Balkans interconnection.
Terna Chile S.p.A.	Company dedicated to 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. Instrumental in activities in Chile.

ASSOCIATE OR COMPANY UNDER JOINT CONTROL

Company	Activity
CESI S.p.A.	The Company aims to design, develop and manage, including on behalf of third parties, laboratories, test systems, special devices, measurement and calculation systems, developments and advanced technology applications and to provide services relating to testing, study, research, consultancy, engineering, design, qualification and certification of products, plants, services and systems, training and technical assistance, including coordinating third party activities, all also with a view to promoting pure and applied scientific research for progress in electro-technical, energy, electronic and IT sectors.
Elmed Études Sarl*	Tunisian company, focused initially on study activities prior to a tender for the construction and running of an electricity production pole in Tunisia and subsequent development of the works necessary to the connection between the Tunisian and Italian electricity grids, a programme that was not developed due to the altered political and economic circumstances. At present, the project evolution is currently being studied.
CGES (Crnogorski Elektroprenosmi Sistem Ad)	TSO of the Montenegro electricity market. Investment purchased under the scope of the Italy-Balkans Interconnection project.
CORESO S.A.	Belgian service company. The shareholding structure includes Terna the operators of France (RTE), Belgium (Elia) and Great Britain (National Grid), with 20% each, and the German operator, 50Hertz Transmission, with 10%. CORESO prepares daily forecasts and real-time analyses of energy flows in Central and Western Europe, identifying possible critical issues and duly informing the TSOs concerned in a timely manner.

* Subject to joint control together with the Tunisian company STEG.

STAFF AND REVENUES ACCORDING TO COMPANY (AS AT 31.12.2015)

Regulated Activities

Company	Employees	Revenue (€ million)
Terna S.p.A.	427	1,800.9
Terna Rete Italia S.p.A.	2,893	371.8
Terna Rete Italia S.r.l.	0	195.8
Terna Storage S.r.l.	1	1.2
Rete S.r.l.	0	7.8

Non-Regulated Activities

Company	Employees	Revenue (€ million)
Terna Plus S.r.l.	12	9.9
Terna Crna Gora d.o.o.	3	0.0
Monita Interconnector S.r.l.	0	0.3
Tamini Group	431	125.9
Interconnector S.r.l.	0	3.6
Piemonte Savoia S.r.l.	0	0.4
Terna Chile S.p.A.	0	10.3*

* in billions of Chilean pesos

Associate or company under joint control

Company	Employees	Revenue (€ million)
CESI S.p.A.	482	119
CORESO S.A.	31	8.6
Elmed Études Sarl	2	0
CGES	329	27.4

Corporate Governance

Governance system and structure of powers

Terna's Corporate Governance system is based on creating value for shareholders. This objective is pursued taking into account the social and environmental meaning of the Group's activities and the resulting need to adequately consider all stakeholders in the performance of those activities.
In this regard, the highest reference for matters of social responsibility and sustainability is the Code of Ethics[1], which, amongst others, requires that evidence be provided each year, in the Sustainability Report, of the implementation of the social and environmental policy and the consistency between the objectives and the results achieved. The Code of Ethics also recalls the ten principles of the Global Compact, multi-stakeholder network of the United Nations on human rights, employment, the environment and preventing corruption, to which Terna has adhered since 2009.

The Corporate Governance Code is in line with the principles of the Governance Code[2] for listed companies, drawn up by the Corporate Governance Committee and promoted by Abi, Ania, Assonime, Assogestioni, Borsa Italiana and Confindustria which Terna adopted, with CONSOB recommendations in this respect and, more generally, with international best practices, which the Company strives to uphold. Additional action aimed at improving the group governance system is underway and other action will be assessed for the constant update of Terna's governance system to comply with the best practices internationally and for the adhesion of the company to the provisions of the new Corporate Governance Code dated July 2015, as presented to the Terna Board of Directors on 28 July 2015. The Terna S.p.A. governance structure is based on the traditional administration and control model.
This model – without prejudice to the duties of the Shareholders' meeting – attributes the responsibility for the management to the Board of Directors, the supervisory functions to the Board of Statutory Auditors and the statutory audit of the accounts to the Independent Audit Company. The Board of Directors and the Board of Statutory Auditors and their respective Chairmen are appointed by the Shareholders' Meeting through the list voting mechanism. Three directors, the Chairman of the Board of Statutory Auditors and an alternate auditor, are appointed by shareholders other than the controlling shareholder, thereby guaranteeing that the minorities have a greater number of representatives than that envisaged by the Law. The number of independent directors envisaged by the Articles of Association is greater than that required by the law[3].

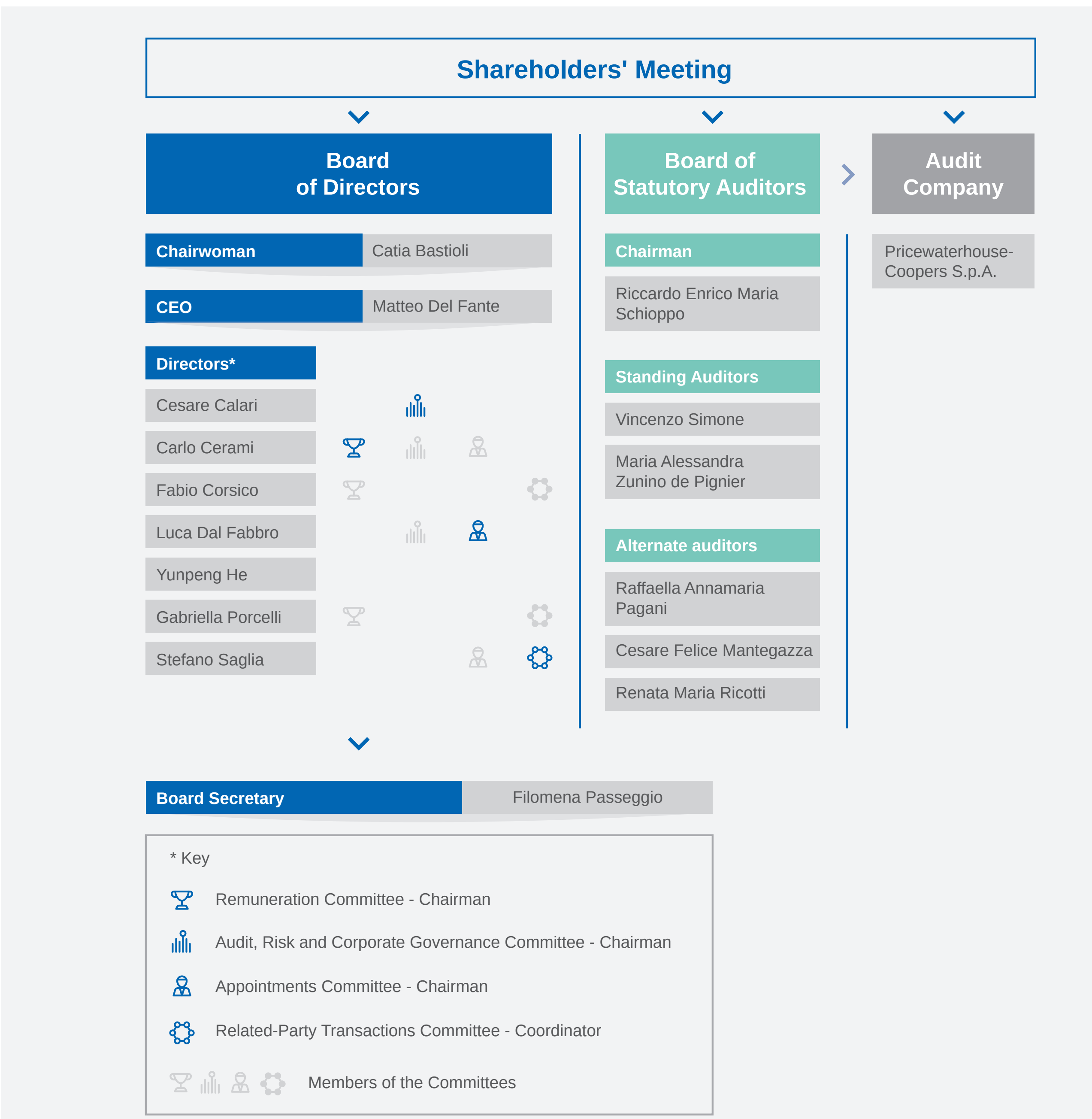
The Board of Directors has entrusted the Company's management to the Chief Executive Officer, reserving to itself the strategic and organizational functions and responsibilities with respect to the Company and the Group. It is also responsible for verifying that the necessary controls are in place to monitor the performance of the Company and its subsidiaries.

In accordance with the provisions of the Corporate Governance Code, the Board of Directors has also established an internal Remuneration Committee, Audit, Risk and Corporate Governance Committee and Appointments Committee: all with proactive and advisory functions and currently numbering at least three directors, all of whom are independent. Again under the scope of the Board of Directors, as envisaged by applicable regulations, the Related-Party Transactions Committee has been established with investigative, proactive and advisory duties and powers.

(1) Consultable at: http://download.terna.it/terna/0000/0062/28.pdf
(2) December 2011 edition, as updated to July 2014, accessible from the Borsa Italiana S.p.A. website *at* http://www.borsaitaliana.it/comitato-corporate-governance/codice/2014clean.pdf.
(3) Pursuant to privatization regulations (under article 6.3 of the Articles of Association) restrictions exist to the right to vote related to the limits of share ownership. There are also restrictions for operators of the electricity sector for which a limit equal to 5% of the share capital was established for exercising the right to vote in case of Directors' appointment (art. 14.3 letter e) of Company articles of association). Finally, with reference to the expression of voting rights in Shareholders' Meetings, certain provisions of the By-laws (pursuant specifically to Arts 10.2, 14.3 lett. f) and 26.2) identify cases of conflict of interest for the purposes of Art. 2373 of the Italian Civil Code in compliance with the provisions of Directive 2009/72/EC and of Italian Legislative Decree No. 93/2011 and with AEEGSI Resolutions Nos ARG/com 153/11 and 142/2013/R/eel with which the AEEGSI regulated the certification procedures for the electricity transmission operator and adopted the final decision to certify Terna as electricity "transmission system operator", under a system of ownership unbundling, as better specified in the "Report on Corporate Governance and Ownership Structure", published together with the Terna and Terna Group Annual Financial Report.

The Chairman is vested by the articles of association with the powers to represent the Company legally and to sign on its behalf, presides over shareholders' meetings, convenes and presides over the Board of Directors, and ascertains that the Board's resolutions are carried out. He also has the duties assigned him by the Law and the Corporate Governance Code to which the Company has adhered, assuming the promotional and advisory role within the CSR (corporate social responsibility), as well as overseeing activities related to participation in the company "CESI - Centro Elettrotecnico Sperimentale Italiano Giacinto Motta S.p.A.", in coordination with the Chief Executive Officer. Terna's Audit Unit reports to the Chairman of the Board of Directors. The Chief Executive Officer is also vested, by the articles of association, with the powers to represent the Company legally and to sign on its behalf, and in addition is vested, by a Board Resolution, with all powers for managing the Company, with the exception of those that are otherwise assigned by law or by the articles of association or reserved for the Board of Directors. Terna acknowledges the importance assigned by the market to the continuous improvement of corporate governance; the Company is therefore committed to implementing a transparent system, based on ethical, sustainable principles such as to guarantee a further competitive advantage by which to attract and maintain investors in its capital.

STRUCTURE AND MEMBERS OF BODIES



Special attention is paid to the quality of the work of the Board and Committees, which is also assured by means of evaluation and induction processes. In particular:

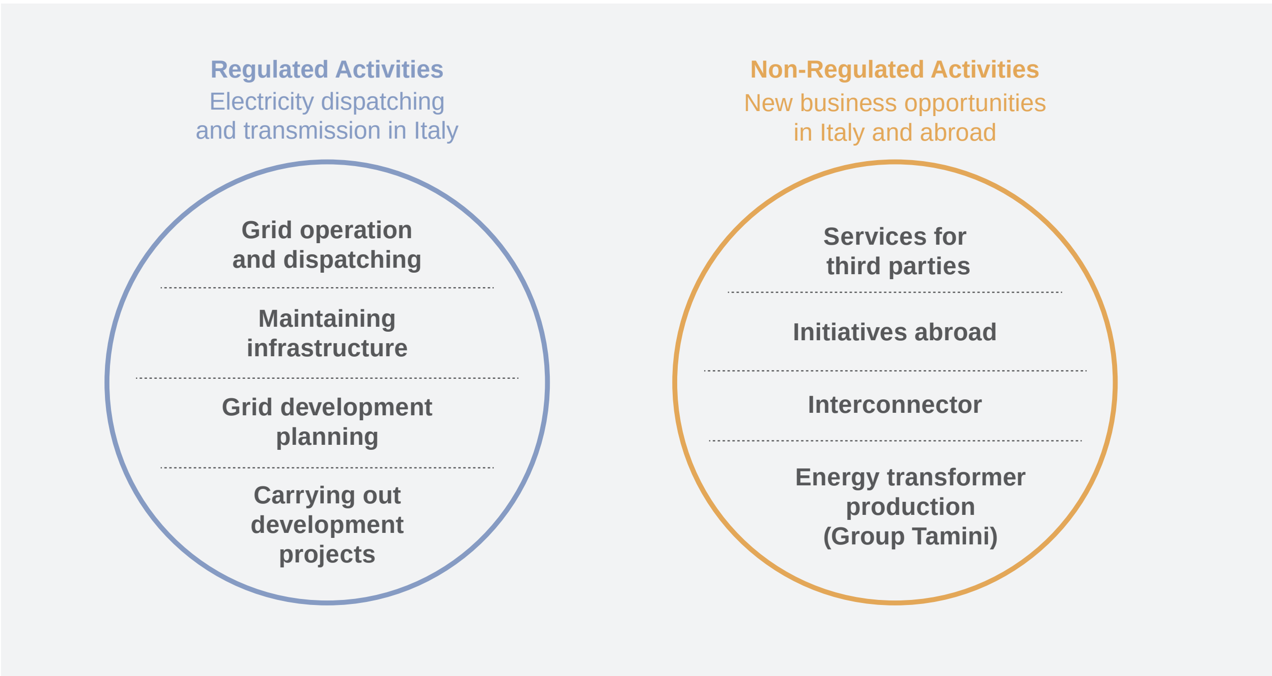
- since 2006, each year the Board has assessed the Board and the Committees, as well as their size and members, with reference to the activity carried out since appointment. In order to ensure maximum objectivity, the assessment is carried out by a specialised external consultant, with the support of the Appointments Committee;
- Terna prepares an induction programme based on the presentations of Terna's business and organisation by the top management, aimed at providing Directors and Auditors with suitable knowledge of the segment of business in which the company operates, business dynamics and their evolution and the reference legislative framework.

Remuneration policy

The remuneration of the Directors, especially those in executive positions, is a fundamental incentive and control tool for ensuring the integrity and effectiveness of company governance mechanisms. In thus doing, the constant pursuit of the creation of value is ensured over time, matching shareholder and management interests.

For further details see the "Annual Remuneration Report", published in accordance with the law, and the "Report on Corporate Governance and Ownership Structure", published together with the Terna and Terna Group Annual Financial Report.

Business



Regulated Activities

Electricity dispatch and transmission activities in Italy

The main business of the Terna Group is the transmission and dispatch of electricity in Italy, playing a role of Italian TSO (Transmission System Operator), in a monopoly position through government concession.
The regulated revenue from transmission and dispatching activities amounts to around 93% of Terna's total revenue and is determined on the basis of the resolutions of the AEEGSI.

It is the central segment of the electricity system chain.

The electricity system consists of:
- production: conversion of energy obtained from primary sources into electricity;
- transmission and dispatch: transfer of electricity produced by the production centres to the consumption areas through high voltage lines, electrical and transformer substations and storage systems comprising the transmission grid, guaranteeing a constant balance of supply and demand of electricity; through the interconnection lines with abroad, the transmission system enables the interchange of electricity between Italy and the other countries;
- distribution: delivery of medium- and low-voltage electricity to the final users.

ELECTRICITY DISPATCH AND TRANSMISSION IN ITALY

Grid operation and dispatching	The Terna Group ensures at all times a balance between input and output, i.e. between the supply of energy and consumption by end users. This function is called dispatching and is performed by Terna Rete Italia. The major development of renewable sources has made the activity more complex, above all when the supply of renewables is very high and the need for energy low, thereby requiring greater flexibility in managing dispatching resources. Preparation for real-time operation includes planning unavailability (of the grid and of production plants) with different time horizons, forecasting national electricity demand, comparing demand for consistency with the production plan determined as the result of the free energy market (Electricity Market and contracts outside of the Electricity Market), acquisition of resources for dispatching, and checks on the power transits for all the grid lines. During the real-time control stage, the National Control Centre, coordinating other centres around the country, monitors the system and dispatches electricity, intervening, by communicating commands to producers and Remote-Control Centres, in order to vary grid supply and distribution. To avoid the risk of grid degeneration and prolonged power outages, it may also intervene in an emergency to reduce the demand. Terna manages the Dispatching Services Market (DSM) through which it acquires resources for the dispatching services.
Maintaining infrastructures	This is carried out by Terna Rete Italia through three Area Offices, which are divided into eight Operational Transmission Areas and which employ over 75% of the Group's human resources.
Grid development planning	Analysing electricity flows in the grid and producing supply and demand projections allow Terna to identify the critical points and, consequently, schedule the new work to be carried out in order to ensure that the system is adequate, including in the medium (+5 years) and long-term (+10 years) in terms of meeting demand, safety of operations, reducing congestion, and improving service quality and continuity. The growth of electricity production from renewable sources makes it indispensable to have all the existing regulatory resources available (including exchanges with other countries) together with generation control tools. Grid planning must be consistent with the aim of maximising the integration of renewable sources in safe conditions. New work to be carried out is detailed in the NTG DP, which is presented every year to the Ministry of Economic Development for approval. Terna follows its complex authorisation process.
Carrying out development projects	Terna sets out the requirements for external resources and project budgets, as well as the working methods and technical specifications for the components and materials that will be used. Development works include developing interconnection grids with abroad and constructing electricity battery storage systems that can solve problems relating to the regulation of the electricity system created by the development of renewable energies and enable full use to be made of such sources. New plants are generally constructed through outsourcing agreements, maintaining close control over the social and environmental aspects assigned to contractors. Finally, by analysing them, Terna also identifies the best ways of connecting to the transmission grid for all operators who make an application. Terna Rete Italia sets the engineering standards for plants connected to the grid, particularly construction standards and the performance required from equipment, machinery, and station and power line components.

Non-Regulated Activities

Strengthened by the skills acquired in the core business, the Group's Non-Regulated Activities are divided into the following areas:

- services for third parties in the Italian market (EPC, TLC, O&M);
- initiatives abroad (EPC, Technical Assistance, BOOT, Concessions);
- Interconnectors;
- production of Transformers - Tamini Group.

Services for third parties

In Italy, during 2015, Terna continued to perform activities for third parties in the area of engineering services (developing technical solutions and supplying innovative services), Telecommunications (housing of telecommunication equipment and maintenance services involving fibre optic networks) and Operating Third-Party Plants (operating and maintaining High- and Very-High-Voltage plants). As regards Engineering services Terna obtained several EPC (Engineering, Procurement, Construction) orders: this model envisages the design, development and implementation of solutions to satisfy the growing demand for infrastructures and grid connections. The main ones include the development and connection of a 132 kv electrical substation in Sicily, the connection works to the NTG of an industrial plant in Emilia Romagna and a wind park in Basilicata. Additionally, connection was begun on a photovoltaic plant in Abruzzo. Under the scope of Telecommunication services, the purchase of the high voltage grid of the Ferrovie dello Stato Group, completed in December 2015, envisaged the transfer of a contract for the passage of the fibre optic owned by Basictel (which in 2014 generated € 5.6 million in revenue).

Finally, Third Party Plant Management services include the multi-year contract for the maintenance of an undersea cable and contracts for the maintenance of third party user substations, power lines and renewable production substations.

Initiatives abroad

Terna pursues development business in other countries with a view to diversification with respect to the national business, carried on also in collaboration with energy operators with consolidated presence abroad. Initiatives abroad represent a lever for the creation of value for the Group in a bid to diversifying risk and selecting opportunities with an attractive risk/return ratio.

Abroad, Terna focuses on geographic areas requiring investments in transmission infrastructures and which, at the same time, have stable political and regulatory structures.

The initiatives abroad of interest to the Terna Group are:

- *EPC*;
- *Technical assistance:* this model envisages the supply of engineering and regulatory consultancy services for third parties operating in the electricity sector, also through participation in public tenders;
- *BOOT (Build, Own, Operate, Transfer)*: this model envisages the design, construction and operation of transmission infrastructures and their ownership for a defined period of time; at the end of the period, the ownership of the asset is transferred to another pre-agreed subject;
- *Concessions:* this model envisages the acquisition and management of transmission systems abroad by taking part in international concession tenders.

Interconnector

In order to support the development of a single electricity market by expanding the infrastructure for interconnection with other countries, a community law was introduced which laid down guidelines for the creation of interconnections with other countries by subjects other than grid operators.
Italian legislation transposed the European indications in Law 99/2009[4], which assigned Terna the task of carrying out public tenders to select the Companies (Selected Subjects) willing to finance specific interconnections, in exchange for the benefits deriving for them from obtaining a Decree of exemption from access by third parties on the transfer capacity that the related infrastructures would make available. In particular, the law states that these Subjects, in exchange for a commitment to finance the work, will give Terna a mandate for the creation and operation of the interconnections.
Among the interconnections which may be financed by the Selected Subjects, the one regarding the Italy-France border is the one in the most advanced stage of development, followed by the Italy-Montenegro interconnection.

INTERCONNECTOR UNDERWAY	
Italy-France Interconnector Project	The new “Italy-France” direct current interconnection, between the nodes of Piossasco and Grande Ile, will make the French electricity border the most important for Italy, significantly increasing the cross-border interconnection capacity. The power line, which is 190 km long, will be the longest underground line in the world and will be characterised by very low impacts on the environment and the territory, thanks to a cutting-edge project.
Italy-Montenegro Interconnector Project	The interconnection project between Italy and Montenegro creates a new electrical border between Italy and the Balkan country; as of now they are not electrically interconnected. The line will make it possible to increase the security of Italian and Montenegrin electrical procurement and to connect the Italian market and the other Balkan countries, beyond Montenegro itself. In particular, the interconnection will connect the Villanova electrical substation in Italy, in the Municipality of Cepagatti (PE), with the new Lastva electrical substation in Montenegro, in the Municipality of Kotor, crossing the Adriatic Sea for a total length of more than 450 km and will, therefore, be made partly with underground cable and partly with undersea cable.

(4) Article 32 of Italian Law No. 99/09, in order to contribute to creating the single electricity market, established that the company Terna S.p.A. should act, in exchange for specific financing by third-party investors, to plan, build and operate, following specific mandates from these investors, one or more expansions of the foreign interconnection infrastructures in the role of interconnector, under the terms of Regulation (EC) No. 1228/03 (as abrogated and replaced by REG 714/2009). To this end, in accordance with the provision of the aforementioned Art. 32 of Italian Law No. 99/09, Terna S.p.A. organised tender procedures to select the subjects that intend to support the financing of the single interconnectors, the creation of which, in accordance with the provisions of the law, is subordinated to the issue of a specific exemption from access by third parties on the transfer capacity that these infrastructures make available. In accordance with the legislative prescriptions, the tender procedures could only be accessed by end customers, also grouped together in consortia, which are holders of withdrawal points each with installed power of not less than 10 MW.

Energy transformer production - Tamini Group

With a century of experience and a high degree of know-how, Tamini represents a historic industrial company, recognised in the electrical sector in Italy and abroad, as well as one of the most important groups in Europe in terms of developing, producing and selling industrial and power electrical transformers, a brand that represents 23% of the global market for electrical components.
At the end of October 2015 Tamini Trasformatori was merged with TES Transformer Electro Service S.r.l., a company based in Ospitaletto (Brescia) operating in the production of electricity transformers for industrial use and for the segment of the production and transmission of electricity, giving rise to a Group numbering more than 430 specialised employees with clients from more than 90 countries across the globe and more than 250 transformers installed each year.
Tamini creates industrial machines with an artisan touch. On the basis of its customers' specific system requirements, manual labour combines with the perfection offered by the most sophisticated design and calculation techniques, thanks to the use of cutting edge software and simulation models.
With over 9,000 transformers produced, Tamini exceeds every other operator in the world in the sector of special transformers for steelworks. In addition, Tamini is the manufacturer of the most powerful transformer in the world for steelworks, located in Turkey. It owns 6 manufacturing plants, specialised in the construction of a different type of machine, all located in Italy, in Legnano, Melegnano, Novara, Valdagno, Ospitaletto and Rodengo.
In the last few months of 2015, following the Tamini-TES merger, on all levels a series of initiatives have been launched aimed at integrating the various corporate areas.

Reference context

Energy contexts[5]

The European Union has a small share of the world's energy reserves, but it consumes one fifth of the energy produced across the globe for a total cost that is estimated as in excess of € 350 billion each year; moreover, in environmental terms, we note that there is still a more than 80% dependency on fossil fuels. European policies deal with these problems by pursuing a reduction in energy consumption, modernising and developing the energy grids (to facilitate competition and the diversification of sources) and increasing use of renewable energy sources.

European Energy Policy - Objectives

Reduced consumption

2020 target: 20% reduction in consumption compared to 1990 (400 power plants)

Modernisation and development of energy grids

- Improvement of interconnection (2020 target: 10%*)
- Improvement of storage capacity
- Renewable energy issue management
- Expansion of transmission grids

CO_2 emissions reduction

- Production of biofuels, wind and solar energy, use of hydrogen
- "Smart" city management, CO_2 capture and underground storage, new forms of electricity grids

Terna - commitment and results

Rationalization of the NTG

- Greater integration of renewables
- Reduction in soil consumption
- 600 km of old lines removed in the last 6 years

Research and development as a **catalyst for innovation** to create value

- Innovative open approach, based on external resources and partnerships

Reduced **Emissions**

- Annual reduction of 15 million tons of CO_2 emissions expected thanks to investments under the Development Plan

Maximization of energy efficiency

- Use of recycled materials for development and maintenance of the power grid
- Dispatching optimization
- Reduction of service costs

* 10% meaning the ratio between heat exchange on the interconnections and the installed electricity production capacity in the country itself. For 2030, the target trend is raised to 15%.

(5) Main source: European Union policies: Energy. Last update: November 2014. ISBN 978-92-79-42200-3 doi:10.2775/60553. Luxembourg, European Union Publications Office, 2015. © European Union, 2015.

EUROPEAN ENERGY POLICY OBJECTIVES

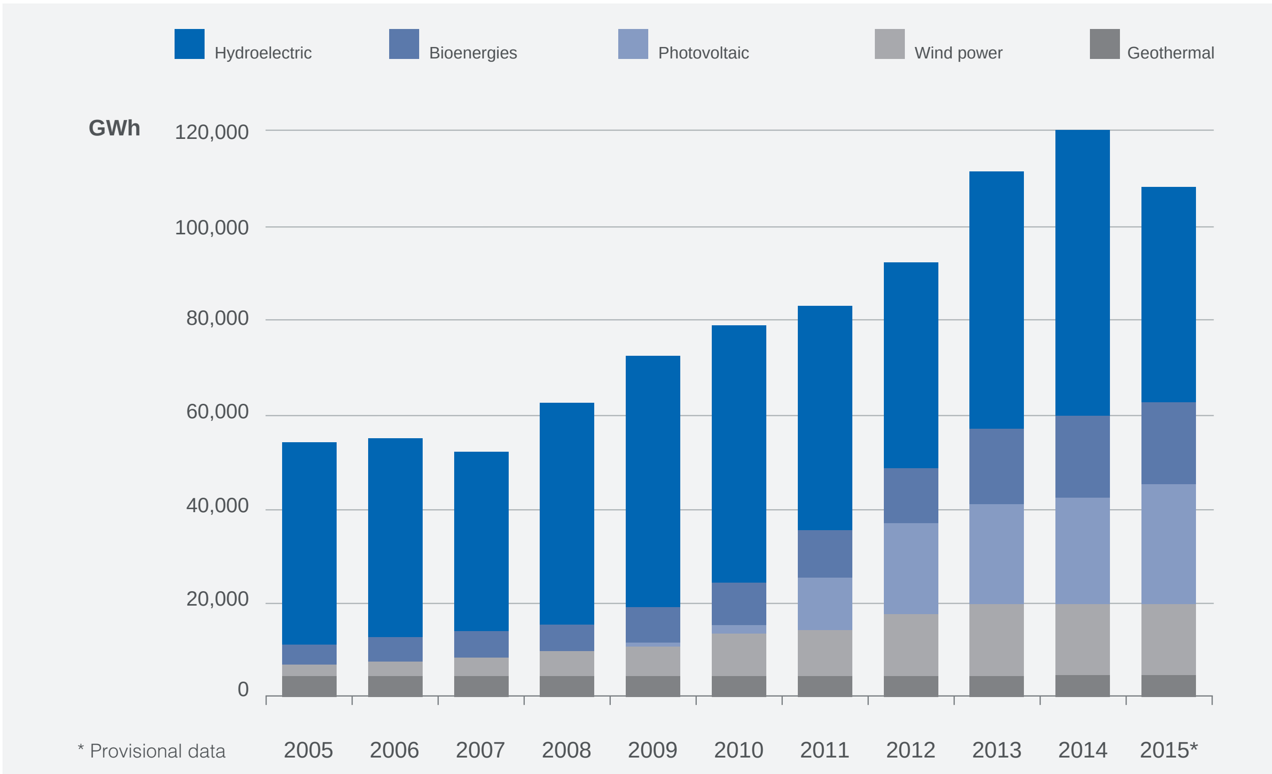
Objective	Description
Reduction of consumption	For 2020, the Union aims to reduce energy consumption by 20% as compared with 1990, equating the deactivation of 400 power plants.
Modernisation and development of the energy grids	Over the next ten years, a figure in the region of one thousand billion euro will need to be invested in grids. Member States are interested in developing high voltage lines and transnational gas pipes to improve the interconnection and increase energy storage capacity. The high voltage grids, which were initially built to connect the large electrical plants to the outlying consumption areas, must now integrate remote and discontinuous plants insofar as they are powered by renewable sources. At the European level, initiatives to implement the new European strategy regarding the Energy Union are currently being defined, including the action plan to achieve the 10% interconnection objective by 2020. As a consequence of these initiatives, European legislative proposals are expected in 2016/2017 regarding the design of a European electricity market.
Reduction of CO_2 emissions	Some industrial initiatives regard the production and sources of energy, including biofuels, wind, solar and nuclear power, as well as combustion batteries and the use of hydrogen. Others instead involve a better management of energy in "smart cities", the collection and underground storage of CO_2 and the electrical grids of the future. New technology needs to become less costly and more profitable if it is to reduce that currently used and consequently the CO_2 emissions produced by the European energy sector. At present, the target is for 20% of all energy consumed in the EU in 2020 (and at least 27% in 2030) to come from renewable sources: in 2011, across the globe solar panels were installed able to produce more than 100 gigawatts, of which 70% are in the EU. The growth of the European renewable energy market has also gone hand-in-hand with a considerable reduction of the costs of renewables.

Internationally, the Paris climate agreement at the end of 2015 (COP21) reinforced the approach taken towards renewable energy sources, defining the commitment to limit global warming to within 2 degrees. As a rule, the European and international energy context looks to be favourable for the electricity sector (production, transmission and distribution), in particular for the drive on infrastructures and renewables. With reference to the electrical infrastructures, the European Commission not only stresses the target electrical interconnections of 10% by 2020, but also hopes to reach 15% of electrical interconnections by 2030. The European Commission is also preparing a new draft legislation on renewables, which, together with the promotion of innovative technology interventions (i.e. smart grids, storage, demand side response) will enable a context to be developed that is favourable to the achievement of the objective of 27% renewables by 2030.

Growth of use of renewable energy may also be slowed due to the weakness of prices of non-renewable sources, including mainly oil, which at end 2015 dropped to less than 40 dollars a barrel. This weakness involves the whole of the commodities segment and may slow growth of the portion of non-regulated activities that mainly refers to businesses operating in the steel, aluminium, mining extraction, oil and gas segments (design and production of transformers for industrial use).

The table below highlights the trend of renewable production in Italy in the last 10 years.

TREND OF RENEWABLE PRODUCTION ACCORDING TO SOURCE IN ITALY



Electricity demand and production in Italy

After three years of recurring declines, the demand for electricity in Italy has recorded a positive change. In 2015, the demand for electricity in Italy was 315,234 million kWh (provisional data), a drop of +1.5% in comparison with 2014, which closed down 2.5% on the previous year; considering the working days, the change is +1.3%.

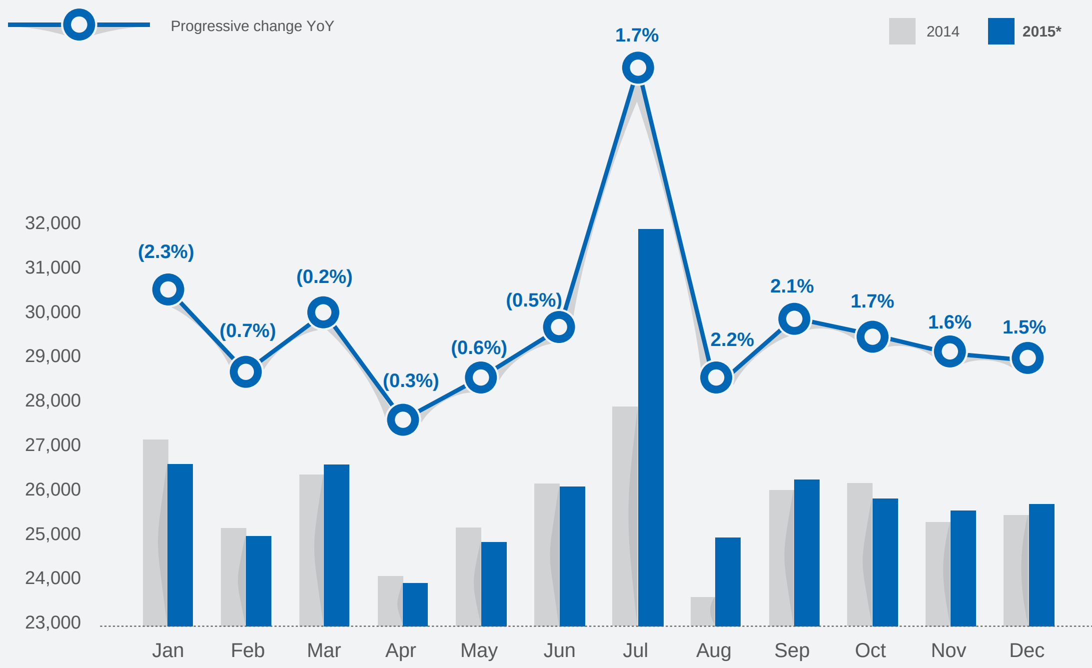
ELECTRICITY BALANCE SHEET FOR ITALY (GWH)

	2015*	2014	Δ	Δ %
Net production	270,703	269,148	1,555	0.6%
From foreign suppliers	50,846	46,747	4,099	8.1%
Sold to foreign clients	4,465	3,031	1,434	32.1%
For pumping	1,850	2,329	(479)	(25.9%)
Total demand in Italy	**315,234**	**310,535**	**4,699**	**1.5%**

* Provisional data

The monthly trend of the demand for electricity in Italy in 2015 with respect to last year's figure highlights a greater demand in all months except for January, April, May and October.

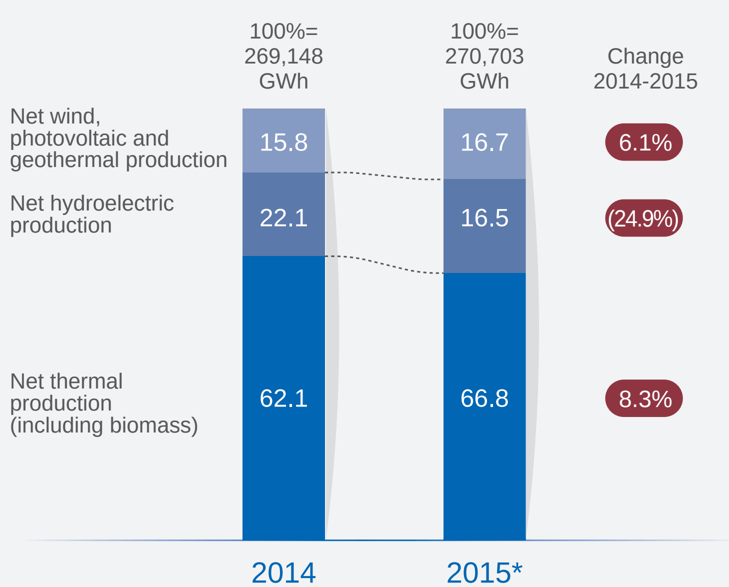
MONTHLY ELECTRICITY DEMAND IN ITALY (2015 V. 2014)



* Provisional data

ELECTRICITY PRODUCTION ACCORDING TO TYPE OF SOURCE[6]

Renewable sources have covered approximately 34% of the total energy demand. There were increases in photovoltaic, biomass and geothermal production. Hydro production sources are instead down (-25% after the record of 2014), as are wind power (-3%), mainly due to the different atmospheric conditions recorded in 2015. Thermal production also increases.



* Provisional data

(6) Renewable production can be defined as total production from wind, solar, geothermoelectric, biomass and hydro power net of pumping plant production. A proportion of thermoelectric production, amounting to approximately 18,000 GWh, was attributable to biomass, a renewable source.

Regulatory context

The regulatory context has a determining effect on Terna's activities.
With reference to multiple-year regulatory periods, the Authority establishes a structure and parameters to determine revenue and during each year can intervene, where necessary, to update the relevant parameters. More specifically, the price for the transmission service accounts for most of the regulated revenue and is calculated as the sum of the three components below.

Component	Description
Remuneration of the investment	Regulated Asset Base x Weighted Average Cost of Capital (WACC) The RAB (Regulatory Asset Base) is the regulatory value of Terna's assets. The Regulatory Asset Base is subject to a yearly update mainly based on new net investments, disposals and investments' deflator. The WACC considers the expected return on the risk-based capital component, the cost of debt and the proportion of these two components. In turn, the expected return of the component of risk-based capital depends on the correlation - referred to as ß - between the electrical transmission sector and the reference share market, according to the formula described in the Performance chapter. The following factors can result in a change to WACC and are not under Terna's control: • the level of interest rates and, in particular, as regards the return on risk-based capital, the BTP 10-year rate; • the risk premium on the reference share market; • Terna's ß.
Cover of depreciation and amortisation	Depreciation and amortisation recognised on assets.
Covering of operating expenses	Operating expenses recognised (with mechanism to encourage efficiencies by Terna).

The regulatory framework for 2016–2023 for the remuneration of transmission services introduces some major news, as commented on under Significant Events, to which we would refer you.
For a description of the changes made to the regulatory framework of interest to the Group introduced during 2015 and, thereafter, until the date on which this Annual Financial Report was prepared, please refer to the attached "Reference Legislation in Italy" and, in particular, to the section entitled "AEEGSI Resolutions".

Legislative context

The main regulatory acts of the year include Law 124/15 amending Law 241/90 “New rules on the administrative procedure” and delegates the government to reform the Service Conference as well as, at year end, the Stability Law, which sets out measures on Interconnector matters.

Standard	Content
PA reform	Law No. 124 of 07 August 2015 on the reorganisation of public administrations, contains a delegation to the Government to reform the service conference, to be implemented by 28 August 2016. The delegation criteria envisage: • forms of coordination or unitary representation for the participating administrations and the introduction of an asynchronous and telematic method of carrying out the works and mechanisms for overcoming disagreements; • adoption of a decree for the new regulation and reordering of public participations.
Interconnector	The 2016 Stability Law (Law No. 208 of 30 December 2015) intervenes on the regulation of the Interconnectors envisaging an extension to 31 December 2021 of the virtual import regime pursuant to paragraph 6 of art. 32 of Law 99/09. It also establishes a guarantee provision with Terna into which the amounts are flowed, determined as € 1/MWh per year, that the awarded subjects (i.e. the assignees of power assigned who have made the commitment with Terna for financing) are required to pay.
Milleproroghe Decree	Decree Law 210/15 extended the “super-interruptibility” regime in Sicily and Sardinia until 2017, for maximum quantities of 400 MW in Sardinia and 200 MW in Sicily and with the direct assignment of an annual valuation of the service of 170,000 €/MW. The same Decree entrusts to AEEGSI, for the same users connected at High- and Very-High Voltage, the redefinition of the tariff component structure in relation to general expenses, taking effect from 1 January 2016. Moreover, in connection with AIA Legislation, it defers the cut-off date by one year (until 1 January 2017) at which the major fuel plants built pre-2013 shall apply the limit emission values pursuant to the Fifth Part of the Environmental Code (Italian Legislative Decree 152/2006).
Environmental link	Law No. 221 of 28 December 2015 “Environmental provisions” sets out measures on electrical infrastructures. More specifically, it establishes the procedure for the definition of the method by which state property is crossed by works of the NTG, specifying the scope of application of the Environmental Impact Assessment (EIA) on underground cables and introduces the principle whereby the development of works of public utility may be compatible with the enjoyment of civil uses, which can therefore be maintained if the possibility of exercising them is not reduced by the infrastructural development.

For a description of the main regulatory provisions of interest to the Group issued during 2015 and, thereafter, until the date on which this Annual Financial Report was prepared, please refer to the attached “Reference Legislation in Italy” and, in particular, to the sections entitled “Regulatory context” and “Other information”.

Social context

The most significant element of the social context, in relation to Terna’s business, regards a generalised opposition with regards to the inclusion of new infrastructures in the territory, expressed by the population of the areas involved and often identified by the expression “NIMBY (Not In My Backyard) syndrome”. The opposition stems from a great sensitivity to the defence of one’s own territorial - living - rural area, from interventions from which the local community does not immediately benefit; in this sense, the purpose of safety and function of the electrical service provided by Terna in the general interests - even if known and recognised - is not considered relevant with respect to the aim of protecting one’s own specific territory. The poor awareness of the role played by Terna and fears connected with the effects on health of electromagnetic fields, drive this opposition. The role played by Terna in the electricity system is instead considered with interest by those who - like the main environmentalist associations, in their central structures - express concern over the effects of climate change, sustain the need for a rapid transition to the production of energy from renewable sources and see the development of the transmission grid and smart technologies as a factor able to allow for said energy transition both in Italy and worldwide.

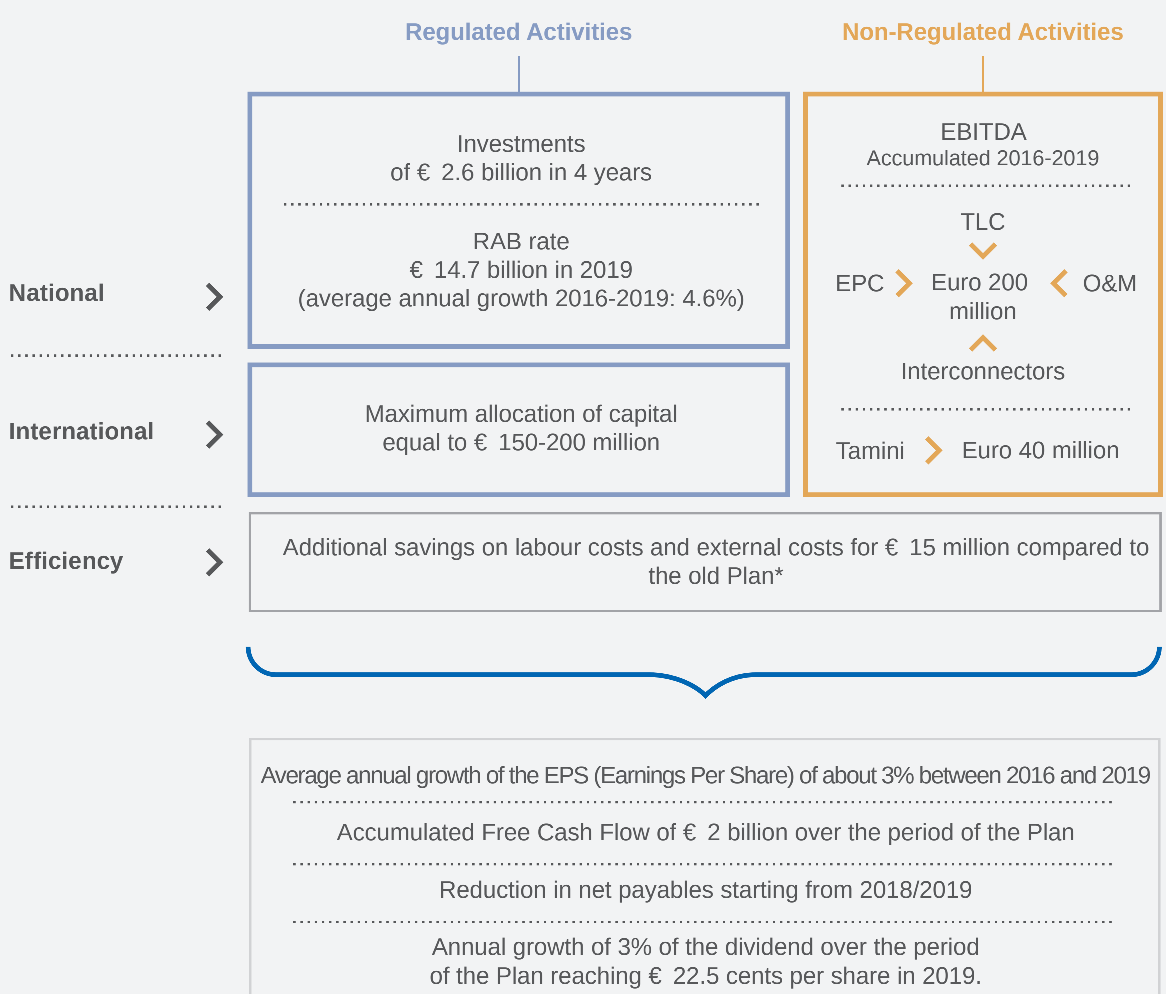
The 2016–2019 Strategic Plan

On 17 February 2016, Terna approved the Strategic Plan for 2016–2019. In light of the new regulatory framework and the evolution of the market context, the Plan envisages strategies that are aimed at reinforcing the core business, ensuring growth of Non-Regulated Activities, improving operative efficiency and developing internationally. More specifically, the strategic initiatives identified regard:

- in terms of Regulated Activities, the increased commitment to developing the National Electricity Grid and the integration of the High Voltage grid acquired from Ferrovie dello Stato;
- the promotion of new business under the scope of Non-Regulated Activities, in Italy and abroad;
- the identification of international opportunities in Regulated areas, coherent with the Group's current risk profile;
- the increase in operating efficiency;
- technological innovation;
- the improvement of Free Cash Flow and the maintenance of a solid financial structure.

These initiatives have allowed for the identification of a new dividends policy.

2016–2019 STRATEGIC PLAN - MAIN TARGETS



* Opex regulated, net of the operational impact of the High Voltage grid acquired from Ferrovie dello Stato.

TARGETS OF THE 2016–2019 STRATEGIC PLAN

Regulated Activities	In the next 4 years, the Terna Group plans a commitment to develop the national electricity grid that will reach around € 3.3 billion, with a limited impact on the tariff and net debt. Of this amount, € 2.6 billion is for investments that will feed into the electricity tariff, to which will be added EU financing totalling € 300 million, and around € 400 million for the Italy-France Interconnector project. Over the same time frame, the new Plan includes a commitment for around € 400 million more than in the previous plan, also thanks to the integration of the FS grid and an acceleration of strategic projects.
Non Regulated Activities	The Plan envisages a greater focus on the development of Non-Regulated Activities. These activities are expected to yield an average EBITDA margin of around 50% and make a contribution to EBITDA estimated as approximately € 200 million, cumulative over the Plan period. The Terna Group will also be involved in the incorporation of TES into Tamini, a process that will give rise to business that is forecast to generate cumulative EBITDA of around € 40 million over the course of the Plan with a target EBITDA margin of around 10%.
International development	The 2016–2019 Strategic Plan foresees an economic commitment of around € 150–200 million for regulated activities abroad to support growth and creation of value over the long-term. These initiatives will be selected through assessment processes that can guarantee a low risk profile, an optimisation of the industrial role played by Terna and may also be developed as part of a partnership.
Operating efficiency	During the Plan period, the Terna Group will maintain its focus on the cost excellent programmes launched in 2015, continuing to improve its operating processes and rationalise costs, also as regards the FS grid. Over the next four years, Terna estimates further cost efficiencies in the amount of € 10 million per year for the cost of labour and up to € 5 million per year for external costs; these additional efficiencies increase the savings envisaged by the previous Plan, announced as being up to € 30 million per year at end 2019 with respect to the 2014–2018 Industrial Plan.
Technological innovation	Terna intends to support research into innovative technological solutions in support of environmental sustainability and will continue to develop storage systems and smart systems, above all for the large islands and southern Italy. The Group has completed development of storage systems for approximately 50 MW on the 75 MW envisaged as a total, to help protect the system (security) and reduce grid congestion caused by the new sources of renewable production.
Improvement of Free Cash Flow	The evolution of the breakdown of Terna's revenue, together with the measures taken in the field to further increase operating efficiency, will successfully generate considerable benefits for the Group's EBITDA, which is expected to come in at more than € 1.6 billion in 2019 and will help generate around € 2 billion of Free Cash Flow in the Plan period. These actions, together with rigorous investments, will help guarantee the flexibility necessary to support an attractive dividends policy. Terna's financial structure remains solid and the net debt/RAB ratio will remain below 60% with debt expected to reduce as from 2018–2019.
New dividend policy	Upon completion of the definition of the regulatory variables for the next 4 years, in addition to by virtue of the action already taken and that envisaged by the Plan, the new dividend policy sees annual growth of the dividend of 3% throughout the Plan, up to 22.5 euro cents per share in 2019, with an increase in line with the forecast evolution of profits and main equity parameters. This policy reflects an overall payout that, during the Plan period, will remain below 75%.

2016 Development Plan

The 2016 DP foresees investments totalling € 6.6 billion, thanks to which efficiencies will be achieved for the electricity system, as well as benefits, such as:

- reduction of energy losses of 1.6 billion kilowatt-hours per year;
- reduction of CO_2 emissions of approximately 15 million tonnes/year;
- reduction of congestions for an amount of more than 5,000 MW;
- greater overall foreign exchange capacity, estimated at more than 6,000 MW;
- greater power capacity generated by renewable sources of around 5,500 MW.

Implementing Directive 2009/28/EC and the National Action Plan (NAP) prepared by the Ministry of Economic Development in 2010, Terna included a specific section in the National DP which defines the action needed for full use of the energy deriving from the production of renewable source systems. The grid analyses carried out in order to facilitate the use and development of production from renewable sources have enabled us to identify action to be taken both on the primary 380-220kV transmission grid, and on the 150-132kV High-Voltage grid. For the above purpose, below is a figure showing an overview of the main development work carried out on the 380 kV Very-High-Voltage grid.

MAIN ACTIONS PROVIDED FOR BY THE 2016 DP

Subsequent events

Management and development of the NTG

As a priority, but merely by way of example, the following works are mentioned.
On 31 January 2016, the 380 Kv Villanova-Gissi power line began operating, envisaged by the Grid DP and authorised by the Ministry of Economic Development on 15 January 2013, by 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. The country will benefit significantly: the security and efficiency of the system; economically (savings for families and businesses); in the maintenance of the Adriatic backbone; electrically (increased transfer capacity); environmentally (increased transfer of production from renewable sources for 700 MW; and in the reduction of CO_2 emissions, of around 165 kt/year).
Again in January, in upholding the indications given by the Ministry of the Environment, Terna asked all stakeholders interested to study the restructuring project of the electrical grid in the area of Lucca, aimed at facilitating its understanding and putting the Ministry of the Environment in the best possible position by which to choose the most appropriate solution for 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 DP 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

After having obtained recognition by the Industry Leader in the Electric Utilities sector of the Dow Jones Sustainability Index (September 2015), the Company is the only Italian company included in the Gold Class of Sustainability Yearbook 2016 RobecoSAM published in January 2016.
In February 2016, as part of its commitment to the development of an increasingly sustainable grid for territories and communities, Terna launched the demolition of 3 km of the 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: one of Italy’s areas of greatest landscape and cultural prestige. 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 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 3 March 2026, will pay a coupon of 1.60%, were issued at a price of 99.087%, with a spread of 108 basis points with respect to the midswap. A request for admission to listing on the Luxembourg Stock Exchange has been presented for the Bonds. The operation is part of Terna's financial optimisation programmes, to cover the needs of the Group's Industrial Plan.

Business outlook

In the next few months, the Terna Group will implement the 2016–2019 Strategic Plan that was approved by the Board of Directors and presented to the Financial community last 17 February 2016.

It is expected that the electrical sector will see an evolution driven by a strong focus on sustainable development and solutions hinged on the efficient use of resources and the minimisation of the environmental impact of the business. In this context, the Company intends to support the search for innovative technological solutions in support of environmental sustainability and pursue the optimisation of electricity dispatching activities, with a positive effect on costs and the reduction of CO_2 emissions and the transmission business, with the rationalisation of its plants throughout national territory, guaranteeing minimised soil use.

With reference to the new regulatory context, the period 2016–2019 will be characterised by the continuity of the electricity transmission, dispatching and metering services remuneration model and the regulation of the transmission service quality. More specifically, a base remuneration rate of the capital invested and recognised (WACC) fixed as 5.3% for the years 2016–2018 is expected, along with the bringing forward of remuneration on investments by one year, due to the elimination of the time lag and the change to the categories of extra encouraged investments (categories I2 (+1.5%) and I3 (+2%) have been eliminated and replaced by the new categories I-NPR1 and O-NPR1, both with incentives of 1%) to stimulate a greater selectivity of investments.

In this context, the Company has confirmed the strategic objectives with the focus on the completion of the investments envisaged in the DP, the Defence Plan and the renewal of existing assets, on the development of non-regulated activities and the rationalisation of processes and operating expenses.

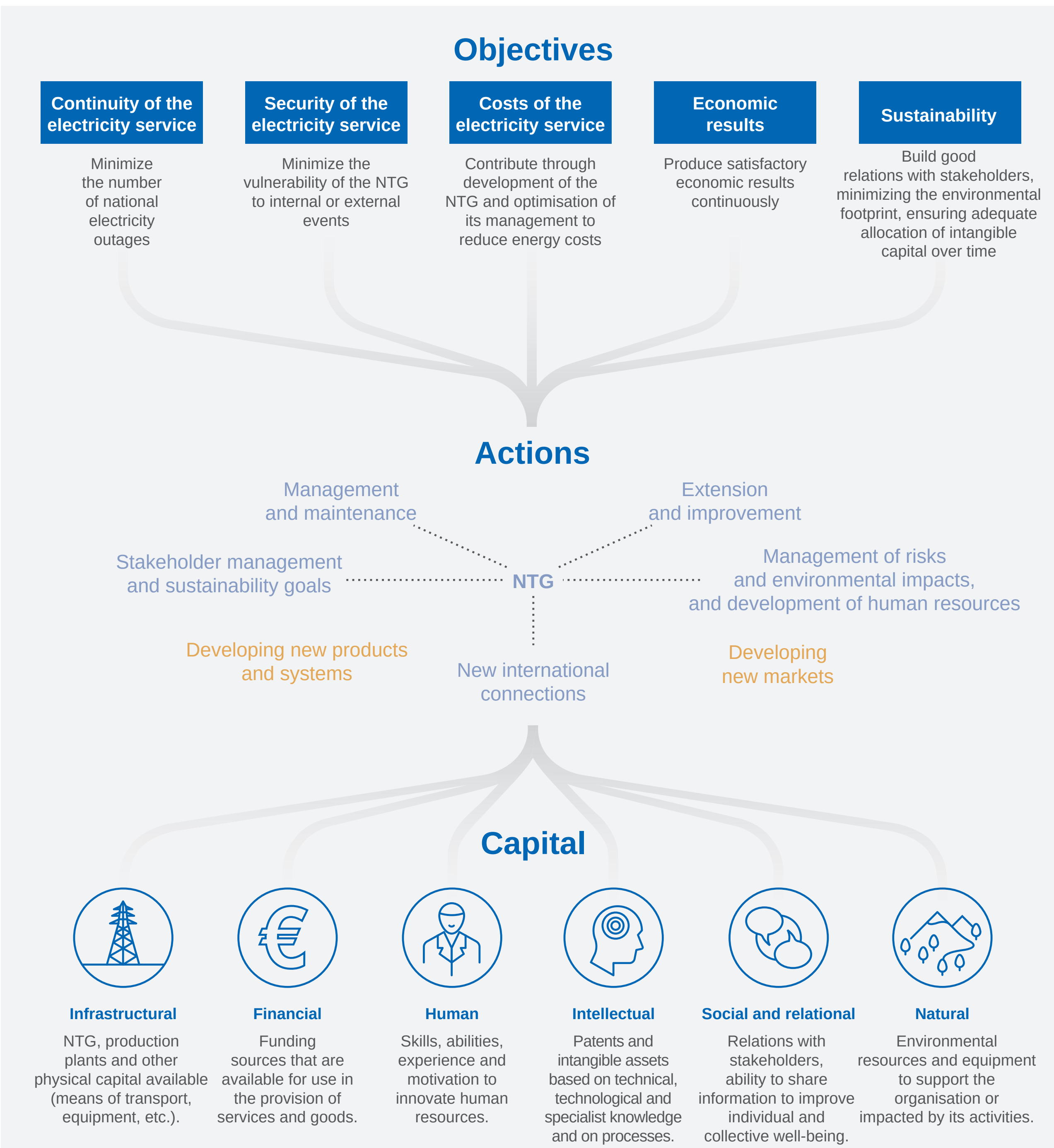
With reference to Non-Regulated Activities, the focus on value creation is confirmed, through activities for third-parties in the areas of engineering, creation and maintenance services mainly for the electrical and housing sector in the telecommunications business. The 2016 engineering and development works specifically include completion of a high voltage connection for a photovoltaic park in Chile and the start-up of the development of the Italy-France Interconnector. These activities involve a greater focus on opportunities abroad, which may also be developed as part of a partnership and which will be selected through careful assessment processes to guarantee a low risk profile.
The development of the company Tamini will also continue with the integration of TES with a view to optimising the distinctive competences of the two companies and exploit the synergies deriving from the company merger.

With specific reference to 2016, the Group's investment programme will continue. In particular, during the year it is expected that the 380 kV double three-phase alternating current Sorgente-Rizziconi interconnection will begin operating, guaranteeing improved security for the connection between the Sicilian and mainland electricity grids, and increasing competition between operators which is expected to have a positive influence on prices.
The Regulated Revenue is expected to be substantially in line with 2015, whilst for Non-Regulated Activities, the full effect of integration of the Tamini Group-TES can be expected.
Total profitability will be affected by the reduction in the basic rate of remuneration of the invested capital (WACC) and the remuneration due to operating expenses for the fixed assets acquired from the FSI Group (for which full remuneration will start in 2017). These two effects will be juxtaposed by the benefits of the cost efficiency enhancement programmes run in 2015.

Capital

Terna Group objectives and capital

The Terna Group's general objectives refer in part only to Regulated Activities, and partly to Regulated and Non-Regulated Activities combined. These objectives are pursued by transforming the capital that the Group holds into actions, based on governance strategies and systems.



Certain actions among those carried out by Terna could facilitate the generation of different kinds of capital from those that are utilised, this being the case mainly with development activities. To provide a more complete picture it is worth stressing that the Grid is the main infrastructure capital.

Infrastructure capital

The high-voltage and very-high-voltage NTG that exists in Italy represents the main infrastructure capital owned by the Terna Group.

The numbers

As previously noted in the significant events for the financial year, in December 2015, Terna acquired the electricity grids owned by Ferrovie dello Stato, adding 8,682 km of three-phase power lines (equivalent to 8,379 km of power lines) and 350 electrical substations to its own grid. In this way, the total electricity lines owned and managed by Terna total 72,600 km, increasing by approximately 13% compared to the previous year. The number of plants belonging to the Terna Group at 31 December 2015, compared to the situation at 31 December 2014, is shown in the following table.

GENERAL OVERVIEW OF THE NUMBER OF NTG OWNED BY THE TERNA GROUP[7]

(at 31/12)	2015					2014	Δ
	Units of measurement	Terna S.p.A.	Terna Rete Italia S.r.l.	Rete S.r.l.	TOTAL	TOTAL	TOTAL
Electrical stations	No.	472	28	350	850	491	359
Transformers	No.	674	3	25	702	661	41
	MVA	142,470	720	825	144,015	140,883	3,132
Bays	No.	5,159	118	831	6,108	5,205	903
Lines	km	41,681	16,212	8,379	66,272	57,871	8,401
Three-phase power lines	No.	2,446	1,717	N/A *	4,163*	4,133	30*
	km	46,646	17,271	8,682	72,599	63,891	8,707

* For Rete S.r.l. the number of three-phase power lines cannot be deduced from the contractual amount; the figures shown are referred to the consolidation of only Società Terna S.p.A. and Terna Rete Italia S.r.l.

(7) Km and MVA are calculated to three decimal places and rounded to the unit.

Further details on the number of electrical substations are outlined in the two tables below.

DETAILS OF THE ELECTRICAL SUBSTATIONS OWNED BY THE TERNA GROUP[8]

(at 31/12)	Units of measurement	2015	2014	Δ	Δ %
380 kV					
Substations	No.	159	157	2	1.27
Power transformed	MVA	109,508	108,098	1,410	1.30
220 kV					
Substations	No.	150	149	1	0.67
Power transformed	MVA	30,692	29,826	867	2.91
Lower voltages (≤150kV)					
Substations	No.	541	185	356	192.43
Power transformed	MVA	3,815	2,960	855	28.89
Total					
Substations	No.	850	491	9	73.12
Power transformed	MVA	144,015	140,883	3,132	2.22

DETAILS OF POWER LINES OWNED BY THE TERNA GROUP[9]

(at 31/12)	Units of measurement	2015	2014	Δ	Δ %
380 kV					
Three-phase power line length	km	12,118	12,099	19	0.16
Line length	km	11,105	11,086	19	0.17
220 kV					
Three-phase power line length	km	11,721	11,700	21	0.18
Line length	km	9,482	9,456	26	0.27
Lower voltages (≤150kV)					
Three-phase power line length	km	48,760	40,092	8,668	21.62
Line length	km	45,685	37,328	8,356	22.39
Total					
Three-phase power line length	km	72,599	63,891	8,707	13.63
aerial	km	69,515	60,978	8,537	14.00
underground cable	km	1,736	1,566	170	10.87
undersea cable	km	1,348	1,348	-	-
Line length	km	66,272	57,871	8,401	14.52
aerial	km	63,188	54,957	8,231	14.98
underground cable	km	1,736	1,566	170	10.87
undersea cable	km	1,348	1,348	-	-
Proportion of direct-current connections (200–400–500 kV)					
Three-phase power lines	km	2,066	2,066	-	-
% of total	%	3.23	3.23	-	-
Lines	km	1,746	1,746	-	-
% of total	%	3.02	3.02	-	-

(8) MVA calculated to three decimal places and rounded to the unit. Percentages calculated to five decimal places and rounded to two decimal places.
(9) Km calculated and rounded to the unit. Percentages rounded to two decimal places.

Further details on the main changes in the figures of the NTG owned by the Terna Group are shown in the Annex “Evolution of the NTG”.

Planning the development

Terna manages the NTG according to criteria of security and adequacy of the electricity system.
The requirement of guaranteeing a balance between the supply and demand for electricity necessitates that the transmission grid is adequate in relation to changes in the extent and location of power withdrawals and injections; in this regard, Terna prepares on an annual basis the NTG DP, which contains the transmission grid development investments envisaged over the long term and the progress status of the development works planned in previous years.
The 2016 DP is concerned with NTG development investments for 2016–2025. The document describes the reference framework, the objectives and the criteria that the Transmission Grid planning process is based on, the new development needs which emerged during 2015, the action priorities and the expected results deriving from implementing the DP. The Plan is accompanied by a closer examination of analyses carried out on the economic sustainability of the main development plans. The Document is available on the Terna internet site[10].
The data and information used in the NTG planning process refer to three basic aspects in the functioning of the electricity system: the status of the electricity system and its evolution, the development and distribution of consumption and the production of electricity. This planning process is graphically represented in summary below.

DP PREPARATION CRITERIA

Objectives	Analysis of medium and long term scenarios	Development needs	Definition of actions to develop the NTG	Contents of Development Plan
Security, continuity, service and coverage of demand	Analisi quadro normativo e linee di indirizzo strategiche	Strengthening of critical sections	New power lines/substations	List of actions
Quality of service (voltage)	Analysis of current grid and market scenarios	Removal of limited hubs	Upgrading of existing grid	Cost/Benefit analysis
Reduction of congestion, cost-effectiveness of the service	Development of demand	Removal of constraints for renewable energy sources	Improvements with devices for integration of renewable energy	Schedules and costs of works
Reduction of constraints for renewable energy sources	Development of new power plants	Increased exchange with foreign countries	NTG Connections	Expected results
Guarantee of connection	Analysis of import development and Merchant lines	Improvement in voltage profiles and service quality	PST and smart systems	
Compliance with landscape and environmental	Opportunities for expanding NTG		Reorganisation/rationalisation of grid	

(10) At http://www.terna.it/it-it/sistemaelettrico/pianodisviluppodellarete/pianidisviluppo.aspx

The DP follows a detailed approval process, which is set out briefly below.

APPROVAL PROCESS FOR TERNA'S DP
Terna's preparation of the ten-year Development Plan.
Public consultation by the AEEGSI, with the results made public (Italian Legislative Decree 93/2011 - Art. 36, paragraph 13).
Assessment by the Grid User Consultation Committee (based on the provisions of the Terna Grid Code, Chapter 13).
Assessment and approval by the Ministry of Economic Development, once the opinion of the Regions that are affected by the planned interventions has been obtained and taking into consideration the assessment made by the AEEGSI (Italian Legislative Decree 93/2011 - Art. 36, paragraph 12).
Process submitted to the Strategic Environmental Assessment (SEA)* by the Ministry of the Environment and Protection of Land and Sea, in conjunction with the Ministry for Cultural Heritage and Tourism. Italian Legislative Decree 152/2006 as subsequently amended and supplemented).

* It is also potentially subject to screening to check whether it should undergo SEA pursuant to Italian Legislative Decree No. 1 of 24 January 2012. The SEA is a procedure instituted specifically, by Community Directive 2001/42/EC, for the strategic environmental assessment of plans or programs that could have significant effects on the environment. This Directive was implemented in Italy through Legislative Decree 152/2006, taking effect on 31 July 2007.

The process especially makes provision for the Strategic Environmental Assessment. The purpose of this is to contribute to integrating environmental considerations into the process of preparing the plan, in order to guarantee environmental sustainability for the plan. Over the course of the years, Terna has shared a methodological/procedural approach to applying the SEA to the DP with the Ministry of the Environment and Protection of Land and Sea and the other relevant institutional organisations, focused on prior consultation with the relevant territorial authorities (Regions, Provinces, and Municipalities). The objective is a shared search for local sustainable solutions, in terms of environmental/local corridors, for the actions foreseen in the DP[11].

The consultation phase for the 2015 DP was completed on 31 January 2016; at the request of the AEEGSI, Terna will later comment on the observations received on the DP from stakeholders.

(11) The method involves the application of a set of localised criteria in the GIS (Geographic Information Systems) environment, known as the ERPA criteria, which make it possible to carry out an objective analysis of the area in which new electricity transmission infrastructure will be placed. In fact, the corridors identified by the ERPA criteria avoid the areas of "Exclusion" (where the regulations in effect prohibit the creation of new infrastructure), tend to avoid areas of "Repulsion" (classified under the regulations in effect as areas with natural, landscape or cultural assets) and prefer areas of "Attraction" (existing infrastructural corridors).

Financial capital

The Group's financial policy is distinguished by its diversification of financing sources, the balance between short and medium-long term instruments to cover loans, and the proactive management of debt.

At 31 December 2015, gross debt totalled approximately € 9 billion, of which € 6.4 billion was made up by bonds and € 2.6 billion by bank loans. The average debt maturity is around 5 and a half years; the proportion of net debt at fixed and variable rate to the total amounts to 57% and 43% respectively.

Bond debt consists of both public and private placement issuances in the context of the € 8 billion EMTN Bond Issue Programme (with the involvement of a number of both Italian and foreign banking and financial institutions), combined with the stand-alone issue for € 800 million dating back to 2004. Focusing on a specific bracket of qualified investors and listed on the Luxembourg Stock exchange, Terna bonds present a significantly diverse investor base, in terms of both sector and geographic profile. An example of this is the bond issued in February 2015, which was subscribed for over 90% by foreign investors (mainly German, Austrian, French) operating mainly in the fund management industry. This bond issued in February 2015 confirmed the excellent perception that investors have of Terna, as well as management's ability to take advantage of the opportunities offered by capital markets: in this instance, Terna managed to offer a coupon of 0.875%, the lowest ever provided by an Italian issuer, and secure subscriptions for more than 3.5 times the billion Euro the issue referred to.

The proactive management of debt from the perspective of rebalancing financial expense and improving cash management was apparent in the liability management transactions successfully undertaken in July 2015, with the early buy-back of securities maturing in 2017 for a total of € 480 million.

With regard to banking debt, Terna's main lender is the European Investment Bank (EIB); the total debt contracted with the EIB at 31 December 2015 stood at almost € 1.7 billion; all contracts entered into with the EIB are at a variable rate. In further consolidating the relationship that Terna has had with the Bank for over ten years, the loan of € 153 million provided by the EIB in December 2015 allowed Terna to benefit from extremely competitive funding conditions, both in terms of the rate and loan's duration (eighteen years).

Thanks to the solid nature of its credit profile, Terna is able to procure financial resources from banks at extremely favourable rates, as was the case recently with the signing in December 2015 of a revolving credit facility in the form of a "committed" line for an amount of € 800 million.

Details of Terna's financial capital is outlined in the Chapter "Economic-financial Performance".

Human capital

The generational turnover project

The Group has always undertaken interventions to rationalise, reorganise and render corporate processes more efficient, from a perspective of cost balancing between the professional and demographic composition of the work force, and acquiring new skills at a lower unit cost.
With consolidated expertise in this area, during 2015, the Company was committed to the generational turnover programme that it had announced in the context of the 2015–2019 Strategic Plan.

The programme that began in the last quarter of 2014 is directed at staff nearing pension age who have voluntarily chosen to end their employment with the Company; the instruments utilised in this regard included:

A. early consensual termination of the employment relationship, focusing on employees that have the requirements to receive an early or old-age pension or that have accrued these rights by the dates set in 2015, namely 31 March, 30 June, 30 September and 31 December;
B. art. 4, paragraphs 1–7-*ter* of Italian Law 92/2012 (hereinafter referred to as "Art. 4"), which introduced specific provisions that facilitate the exit of staff nearing the right to receive an old-age or early pension. Specifically, the plan implemented by the Terna Group in accordance with Art. 4, was directed at pensioning off the employees that had the requirements to qualify for an old-age or early pension within and no later than 31 December 2017, with the date for the termination of employment at 1 January 2016 (last working day 31/12/2015).

The early retirement and exit packages were balanced out by an intense recruitment and appointment of staff, with a consequent change to the mix of the Terna Group's work force, compared to 2014:

- bringing down the age of the work force by 4 years, with the average age now 43 in the Company;
- increasing the education rate by 8%, bringing the population of graduates and diploma holders in the Company to 79%.

A summary of the generational turnover for 2015 and other events that impacted on the size of the Terna Group is provided below:

- total exits: 473 resources, of which 199 early voluntary termination, 239 with recourse to Art. 4 and 35 other exits;
- total entries: 369 new appointments.

Generational turnover was supported by a multitude of initiatives, including especially:

(i) consolidating medium and longer duration training courses for newly appointed staff. The training material is largely developed and implemented by in-house experts, because it is inherent to typical "proprietary" know-how of the Terna Group;
(ii) strengthening the corporate training model, based on the transmission of knowledge and experience, which includes a corporate tutor at the relevant corporate structure to support newly appointed and/or reference personnel with high levels of seniority drawn from those have left the Company.

Composition and evolution

There were 3,767 Group employees at 31 December 2015, 30 units less than the previous year.

PERSONNEL CHANGES

Change in the workforce	at 31.12.2015	at 31.12.2014	Δ
Senior executives	76	68	8
Junior executives	514	557	(43)
Office staff	1,971	2,007	(36)
Blue-collar workers	1,206	1,165	41
Total	**3,767**	**3,797**	**(30)**

DISTRIBUTION OF PERSONNEL AMONG THE GROUP'S COMPANIES

At 31.12.2015	Terna S.p.A.	Terna Rete Italia S.p.A.	Terna Plus S.r.l.	Terna Storage S.r.l.	Tamini Group	Terna Crna Gora d.o.o.	Group Total
Senior executives	31	31	1	-	13	-	76
Junior executives	151	343	3	1	16	-	514
Office staff	245	1,560	8	-	155	3	1,971
Blue-collar workers	-	959	-	-	247	-	1,206
Total	**427**	**2,893**	**12**	**1**	**431**	**3**	**3,767**

At 31 December 2015, there were 58 workers with a project-based contract and employees of agencies providing temporary employment services to the Terna Group (107 in 2014).

The table below instead represents the employees of the Terna Group, excluding employees of the Tamini Group and of Terna Crna Gora d.o.o..

PERSONNEL CHANGES

	2015	2014	Δ
Employees recruited during the year	369	68	301
Employees who left during the year	473	73	400
Rate of personnel leaving*	13.76%	2.12%	

*The rates of personnel leaving show the ratio of terminations to the number of employees as of 31 December of the previous year.

Retirement is the most dominant reason for employees leaving. The rate of spontaneous resignations was largely contained (0.35% in 2015, 0.32% in 2014). The change in incoming and outgoing personnel compared to 2014, can be attributed to the generational turnover project that the Terna Group introduced during 2015.

PERSONNEL COMPOSITION BY TYPE OF CONTRACT

With regard to the composition of personnel according to the type of contract, it is noted that 3,331 employees out of 3,333 were appointed with an open-ended contract (3,436 out of 3,437 in 2014).

PERSONNEL COMPOSITION BY GENDER

	2015	2014	Δ
Men	2,942	3,042	(100)
Women	391	395	(4)
Total employees	**3,333**	**3,437**	**(104)**

The average age is 43 (47 in 2014); the drop compared to 2014 is attributable to the outcome of the generational turnover project.
As far as educational qualifications are concerned, employees holding degrees or diplomas represent 79% of the total (71% in 2014). The generational turnover has resulted in a progressive increase in employees' educational levels.

PERSONNEL COMPOSITION BY CATEGORY

	2015	2014	Δ
Senior executives	63	61	2
Junior executives	498	541	(43)
Office staff	1,813	1,887	(74)
Blue-collar workers	959	948	11
Total	3,333	3,437	(104)

The proportion of female senior and junior executives out of all female employees (26.1%) exceeds the number of female workers (11.7%). For additional information, reference is made to "Sustainability performance" - "Sustainability indicators".

New organisation

2015 saw the official start-up of the Terna Group's new organisation, which is based on strengthening the Parent Company's governance, guidance and control role, and defining responsibilities regarding business processes as well as transversal responsibilities relating to staff resources: "Regulated" and "Non-Regulated" activities in terms of Operations will be carried out by Terna Rete Italia and Terna Plus (the operational companies), respectively.
The Parent Company will be the sole interface for strategic stakeholders, such as national and international Institutions, the Authorities, investors and the media. It will directly govern the strategic processes associated with Regulatory Affairs, the NTG DP, Security, Business Development and Innovation. This is the context that the new Strategy and Development Department falls under. Finally shared services centres have been established, namely single skills centres that can provide common services. By way of example, centres of excellence were created in the area of Human Resources and Organisation, Legal and Corporate Affairs, Procurements, ICT and in Administration and Finance.

Recruitment and selection

The personnel recruited from the external labour market are graduates – in particular engineers – and qualified people with diplomas from professional institutes, most with an electrical specialisation. Once employed, the new recruits expand their knowledge and the necessary specific skills through dedicated introductory training courses. The preferred recruitment channel for candidates is the *"Working at Terna"* section of the company website.

The recruitment and selection process of personnel is managed by the Human Resource and Organisation Department, which also oversees relations with schools, universities and employment centres to support the process of finding new resources and create a virtuous circle of exchange between the Company and the outside world. From this perspective, Terna has entered into agreements with the leading Italian universities and business schools, funding the creation of specialised Master's courses.

RELATIONS WITH UNIVERSITIES AND TRAINING INSTITUTES

Key figures	Activity
28	agreements with universities and business schools
4	sponsored masters
75	hours of teaching by Terna employees at universities and business schools
471	students from university or Master's courses visiting the plants
16	traineeships, internships and project work begun in 2015 (in addition to 9 begun in 2014 and completed in 2015)
6	participations in career days

Training

Training at Terna continuously embraces all aspects of professional life. It is aimed at creating value for people through increasing and diversifying skills and employability and for the company, through the development of human capital in line with the mission and the business strategy. *Campus - Esperienze in Rete* (Experiences in the Network) is the brand for all the training provided. The training model is based on the transfer of specialist know-how that is entrusted to the most experienced staff of the internal Faculty and external collaborations (with universities and business schools) in order to ensure multiple teaching inputs. A dedicated office at an operating site of the Company in Rome can accommodate up to 200 employees involved in training activities at the same time.

BASIC STATISTICS ON TRAINING

Key figures	Activity
97%	of employees have attended at least one training course (91% in 2014)
190,807	hours of training provided (148,955 in 2014, +30%), of which 142,882 in the Training section
73,613	hours of training provided in the Training section referred to Safety
32%	of training hours dedicated to new employees
99 %	hours of training provided in the classroom
56	hours of training per capita (43 in 2014, +30%)
87	hours of training per capita for operators
19%	of the hours provided funded by Fondimpresa and Fondirigenti

Developing human capital

The new Terna Group Professional System is currently being implemented to support development activities aimed at ensuring that positions are effectively covered and guarantee an adequate succession planning process.
The Professional System promotes:

- professions (“professional families”), identified according to the main core-business corporate processes and staff;
- macro-roles (“duties”), that are transversal to the organisation, identified on the basis of the type and complexity of the contribution, broken down according to the level of seniority.

The professional system represents the framework on which HR strategies and policies are introduced, and comprises an integrated management and development system that makes it possible, *inter alia*, to:

- respond effectively and promptly to developments in business and the organisation, making the “duties” independent of the organisational structure;
- oversee and develop corporate know-how;
- optimise the mobility process for resources.

Intellectual capital

In all the core activities inherent to the transmission grid, Terna has always pursued the highest standards, starting from the design through to the management and maintenance of assets, and without compromising on the objectives of ongoing improvements in the areas of technologies and materials. Over the years, the highest quality standards have always been guaranteed thanks to applied research, interaction with suppliers, operational experience, and the assessments made by international benchmarks. With time, this approach evolved into a consistent application of criteria as well as stable and unified projects.
More recently however, the natural and consolidated approach to research and the development of best practices has been overtaken by the need to find optimal solutions and guide the capacity to innovation towards carefully adapting to the requirements progressively imposed by the environment and surrounding world.
Terna has been instrumental in the energy transition that is shaping the entire sector. It therefore intends providing an effective contribution to finding ’sustainable’ solutions, also within the context of eco-compatibility and mindful of climate change.
Attention and effort will consequently focus both on core activities, which are now faced with new prospects and a different approach, as well as on decidedly innovative sectors.
This new approach will open up new fronts for development and collaboration, which are materialising in the creation of dynamic interaction with the universities and research centres. These will ensure a fresh view and impetus to research and innovation on the one hand, whilst creating the conditions for guiding young talent towards professions that are important for the employment sector.
Research and development is undertaken organically and systematically, taking advantage of the excellent in-house competencies, and seeking leverage from the technical know-how and capacity to also develop opportunities beyond the regulated framework.

MAIN AREAS OF INNOVATION

Macro Clusters	Description
Smart Grids	Smart Grid initiatives refer to developing electricity grids that may be connected to the electricity system or not, with the aim of an "intelligent" management of existing electrical resources both in terms of production (renewables and non-renewables) and loading (domestic and industrial users), and also include any possible storage systems. The objectives of interventions in this area include: • optimal use of available resources; • introduction and testing of new services; • creation and testing of aggregation tools for production and loading, with possible involvement in the electricity market; • the management of intermittence from renewable sources, more flexible management of the grid; • increasing efficiencies and reducing the cost of electricity; • reduction of polluting emissions with less use of local traditional generation (diesel). There are additional sub-categories under the subject of Smart Grids: Active Demand, Smart Islands and more generally, New Smart Technologies.
Environmental sustainability	The Company's commitment to Sustainability is broken down over three areas with the objective of: • reducing the impact of corporate assets on the environment; • consolidating the grid, with the objective of supporting the move over to renewables and a more efficient and rational consumption; • anticipate and correct the impact of climate changes on assets, so as to best plan future developments of the grid.
Start-up	One of Terna's missions, as a leading Italian industry, is to promote national development through innovation. In this sense, it was deemed crucial to focus on start-ups, which represent the modern expression of business innovation. Terna consequently intends taking part in ad hoc initiatives put together by other leaders in the financial world.
Open Innovation	Innovation, research and development are the cornerstones of a company's development strategy, because they are decisive in identifying the future direction of technology and therefore also of investments. In Terna's case, the interest in this regard is not limited only to its own sphere, given that the basis for developing Smart Grids, is the ability to integrate various processes and contexts in an intelligent way, thus increasing overall efficiency and maximising potential. In this sense, Terna is committed to Open Innovation with companies that have strong strategic value in the future development of grids. These collaborations will be open to sharing objectives and ideas, in order to create a network of national and international excellences aimed at developing synergies.
Transmission technologies	Electricity transmission continues to experience great evolutions, in terms of research into efficient and effective systems to meet the paradigm shifts taking place across Europe and to be able to tackle the challenges that these entail, in line with the prescriptions of the Energy Union on the strengthening of the interconnection between systems and markets. What is at play here is not only the capacity to allocate significant volumes of renewable energy whilst at the same time, guaranteeing adequacy margins, satisfactory quality and security, but it is also necessary to create the conditions needed to achieve the ambitious targets set in terms of eco-compatibility over the next decade.
Storage	The rapid and impressive development of the NPRS (Non-Programmable Renewable Sources) requires new adequacy solutions and the development of systems that can reduce the impact of the related critical issues in the most effective and prompt manner possible, and also reach the objective of promoting the efficient use of electricity from renewable sources. To this end, in 2011, Terna undertook an ambitious storage systems testing programme, which is sub-divided into two macro-projects, "Power Intensive" and "Energy Intensive". The primary objective for each of these is to demonstrate the value of these innovative systems and test their capacities and potential. With developments in defence and control systems, the needs of the grid and Storage applications have also changed. In order to continually monitor technologies that are undergoing deep-seated changes, Terna has centralised its "Storage Lab" in Codrongianos (Sardinia), where seven different technologies are currently being tested, in conjunction with leading sector companies.

Natural capital

One of the elements that make up natural capital, and which Terna uses directly in order to implement its business is the availability of land. Given the restrictions that apply to erecting electricity infrastructure in residential areas, the land occupied by substations and the base of pylons is often on rural and agricultural land, and sometimes falls under protected areas, the existence of infrastructure could require interventions that mitigate the risk of potential impacts (albeit contained) on biodiversity (avifauna). In a broader sense,it could be complicit in the enjoyment of the natural environment due to the impact that infrastructure has on the landscape. Terna's production cycle does not directly utilise biological or mineral raw materials or water, and excludes the production of electricity, consequently limiting the quantity of greenhouse gases emitted.

Social and relational capital

Building a relationship based on mutual trust with our stakeholders begins with taking their interests into account and analysing their compatibility with those of the Company, in order to be able to adopt a consistent and transparent approach.
The stakeholder map for the Terna Group was revised in 2014. The current map is divided into 12 categories and 73 subcategories.
Following the latest revision that was completed in February 2015, Terna drew up a "Stakeholders management model", which is described in the relevant Guidelines adopted in October.
The method used to formulate the model is based on the AA1000 Stakeholders Engagement Standard (SES) developed by AccountAbility[12].
The Guidelines set out the model, which defines Terna's relations with its stakeholders, supporting the Company in building correct relations based on mutual trust, which is closely linked with the Company's success and ability to generate value for all its stakeholders.
The 2016–2017 Plan of Engagement was drawn up and approved at the end of 2015. This outlines certain priorities, while taking into consideration the impact that relations with specific stakeholders has in the implementation of the Strategic Plan.
For each category of stakeholders, the table details the type of relationship and specific engagement tools. For further information, reference is made to the chapter "Relations with stakeholders" and the 2015 Sustainability Report.

(12) The 2011 version of the AA1000SES standard was taken into account when drafting the model, because the most recent update to the standard was published in November 2015, when the Guideline had already been issued.

ACTIVITIES IN ITALY

Stakeholders	Relationship format and monitoring procedures
REGULATORS OF LICENSED ACTIVITIES AEEGSI, Ministry of Economic Development, European Regulatory Institutions.	Ongoing relations with the AEEGSI offices and Committee. Ongoing relations with the Ministry of Economic Development. Formal communications and reports within regulated processes. Transmission of information and evaluations in response to specific requests or on the initiative of Terna.
PUBLIC DECISION-MAKERS AND AUTHORITIES Ministries with responsibilities relevant to the electricity supply chain; Other Government Bodies; Regions and their Bodies; Parliament and Commissions; EU Institutions; Other regulation and audit institutions; the Judiciary; Strikes Information Commission; National institutions of other countries of interest; International institutions.	Regular meetings. Formal communications and reports within regulated processes.
SHAREHOLDERS Controlling shareholders; Institutional equity investors; Retail investors; Financial analysts; Proxy advisors; SRI Investors; ESG rating analysts and agencies.	Road shows, conference calls, presentations, dedicated meetings, internet site ("Investor Relations" on the site www.terna.it); telephone numbers (for institutional investors: +39 06 8313.9041; for shareholders' details: + 39 06 8313.8136) and dedicated e-mail (for institutional investors: investor.relations@terna.it; for shareholders' details: azionisti.retail@terna.it). Sustainability rating.
LENDERS Banks; Ratings agencies; Debt investors; International financial institutions; National and international public lenders.	Regular meetings. Dedicated informative documentation. Ratings.
ELECTRICITY SYSTEM OPERATORS Distributors; Producers; Potential users requesting connection to the NTG; Wholesalers; Associations representing industry operators; Other electricity supply chain organisations; Interruptible customers; Other transmission system operators (TSO); Industry bodies; Other NTG owners.	Grid Code Consultation Committee. Dedicated meetings. Participation in structured working panels. "Operator Consulting" section on Terna's website. Reports provided and regulated by the Grid Code. "My Terna" platform for dispatching users, with dedicated call centre. "GAUDÍ" Portal for integrated management of plant and production units.

continued ACTIVITIES IN ITALY

Stakeholders	Relationship format and monitoring procedures
MEDIA AND OPINION-MAKERS National and international media; National and international opinion groups; Web users; Universities; Other scientific and research organisations; National and international study and steering groups.	Presenting and distributing the Sustainability Report and the DP. Organising seminars, workshops and targeted surveys. Collaboration and partnership initiatives. Participation in structured working panels. Mailbox and profiles on social networks. External communication events and actions.
CUSTOMERS (non-regulated activities) Non-regulated business customers; Potential customers.	Dedicated meetings.
SUPPLIERS Core suppliers; Non-core suppliers; Trade associations representing suppliers; potential suppliers.	Procurement portal. Direct meetings. Post-tender feedback. Discussion panels with associations.
BUSINESS PARTNERS Business partners, Investee companies, Purchasers of interconnection lines; Public safety organisations; Applied research institutions; Business developers.	Partnership agreements. Protocols. Meetings for specific projects. Structured collaboration.
PEOPLE IN THE ORGANISATION Employees; Governance bodies; External staff; Trade unions; Educational system; Workers' representatives.	Direct surveys, on a sampling basis. Internal communication initiatives. Focus groups on specific issues. Consultations, discussions and negotiation with the Trade Unions.
COMMUNITIES Current and future end-users of the electrical service.	Terna uses various IT tools in its relations with communities: the website www.terna.it, social networks, dedicated e-mail addresses (info@terna.it). Detailed information on development projects for the Terna grid are available on the dedicated SEA portal (www.portalevas.terna.it). Information on contracts, tenders and sub-contracting of electricity infrastructure being constructed is available on the portal "Open & Transparent construction sites" http://www.terna.it/it-it/azienda/cantieritrasparenti.aspx Open channels for alerts (post, e-mail). Public consultation. Periodic sample population surveys.
LOCAL COMMUNITIES Landowners affected by grid development; Associations representing local interests; Local media; Local administrators; Local suppliers and subcontractors; Owners of property and land close to existing lines; Territorial committees; Local politicians; Local opinion-makers; Infrastructural sector operators; Other citizens affected by grid development; Other local authorities; Other citizens affected by existing lines.	Consultation process in planning the electricity grid. Formal communications and reports within regulated processes. Meetings with the general public. Open days illustrating initiatives underway in the territory. External communication events and actions.

INTERNATIONAL ACTIVITIES

Relations with Institutions and Associations

During 2015, Terna consolidated its cooperation with other grid operators both on a multi-lateral level in the context of international bodies, and at bilateral level, by signing a Memorandum of Understanding between Terna and the operator of the French grid RTE. This agreement refers to mutual cooperation in interest areas, such as grid development, promoting Non-Regulated Activities, research and technological innovation.

Since its inception, Terna has taken on a coordinating role within ENTSO-E**,** the European association of grid operators committed to the process of integrating and coordinating electricity grids being implemented under the Third EU Energy Package. Objective: to promote the coordinated development of the electricity grid at European level, with the drafting of the DP for the grid at European level and the relative reference scenarios. The ENTSO-E DP provides a European representation of the development of electricity transmission systems and the more significant investments contributing to the implementation of the European energy policy. For this reason, it represents the reference for the European Commission in identifying projects of common interest in implementing Regulation (EU) No. 347/2013.
Terna is also actively involved in preparing the European Network Codes that promote transparency and integration of markets, including market coupling at European level, as well as consolidating the technical and operational coordination of grids and interconnections between electricity systems.

As already mentioned in the significant events for 2015, during the year the Chief Executive Officer Matteo Del Fante was appointed Deputy Chairman of ENTSO-E. This appointment has further consolidated Terna's presence and standing at European level, thus growing its role in the Europe of energy, in favour of an ever-increasing process of integration and coordination of the large continental electricity grids.

In addition, Terna is also committed to other important reference international bodies on the international energy scene, such as:

CIGRE (Conseil International des Grands Réseaux Electriques), an international non-profit organisation in the research sector relating to High Voltage grids, with the objective of developing technical know-how in the field of electricity generation and transmission in the 57 member countries. The Association conducts its work through technical studies committees, which carry out research and studies on the planning, operation and maintenance of High Voltage electricity lines. Terna currently holds the Chairmanship of the Italian Committee, which the Company uses to leverage the circulation of its own know-how and experiences as a point of worldwide reference in the field of developing electricity transmission infrastructure.

GO15 (Reliable and Sustainable Power Grids), an international Association that brings together the eighteen largest transmission grid operators in the world. The Association was established in 2004, following several significant power blackouts involving many countries in the world (Brazil and Argentina in 2002; Canada, U.S.A and Italy in 2003) to study the problems related to securely operating electricity grids. As the leading European and sixth world operator, Terna contributes to the Association's work with its experience and the technical knowledge acquired in securely operating the Italian grid.

RGI (Renewables Grid Initiative), an Association that combines several NGOs (that are specifically involved in environmental issues) and eight European grid operators (Terna, 50Hertz, Elia, National Grid, RTE, Statnett, Swissgrid, Tennet) with the objective of integrating renewable energy sources arising from distributed generation and plants connected to the transmission grid, by developing electricity networks. For Terna, this provides an opportunity to guide and exchange best practices and experiences with other operators in the sustainable development of transmission grids, and to promote the participation and social acceptability of developing the transmission system.

EASE (European Association for Storage of Energy), a European Association that encourages research and industrial development in the field of storage systems, and promotes this technology for the transition towards a stable, flexible, eco-sustainable and less costly continental energy system. Terna collaborates in this regard to investigate the use of storage in transmission systems, sharing its technical knowledge and preparing strategies and common studies in synergy with other operators.

During the year, in addition, relationships with European Institutions (Commission, Parliament foremost) were consolidated, contributing to defining Italy's position in relation to the issues that were of interest to Terna. In particular, in the context of the Energy Union Package: the legislative proposals on Market Design, the revision of the Directive on Renewable Sources and the Security of Procurements, the interconnection targets for 2020 (10%) and 2030 (15%), the new European Neighbourhood Policy.

Priority was also given to preparing the list of Projects of Common Interest (PCI) for the electricity, gas sectors and the area of smart grids, in implementing EC Regulation No. 347/2013, with a view to ensuring that Terna projects are eligible for the grant funding provided by the CEF Programme (Connecting Europe Facility).
The second list of PCIs was adopted by the Commission on 18 November 2015. As far as Italy is concerned, the list adopted contains the following projects: the Italy-France Piossasco Grande Ile (Savoia-Piedmont) Interconnection, the Italy-Switzerland (Airolo–Baggio) interconnection, the Italy–Austria (Veneto-Lienz) Interconnection, the Italy–Montenegro (Villanova-Lastva) Interconnection, the Italy –Slovenia (Salgareda-Divaca) Interconnection. Furthermore, the Smart Grid Green-Me project between France and Italy and the Italy-Austria (Somplago Wulmak) and the Italy-Switzerland (Verderio Sils) merchant interconnections were considered to be Projects of Common Interest.

Once again with reference to the energy corridors in which Italy lies ("North-south electricity interconnections in Western Europe" - NSI West Electricity Corridor and "North-south electricity interconnections in Central-Eastern and Southern-Eastern Europe" - NSI East Electricity Corridor), Terna has already begun the main activities for its projects to be inserted in the PCI list for 2017, where development of the grid and interconnections with other countries should be confirmed.
In this regard, the cooperation framework initiated by the European Commission at the start of 2016 with ENTSO-E is extremely important to ensure the right synergies between the preparation of the DP for the European electricity grid (TYNDP 2016), which identifies the priority development requirements for the transmission system and the drafting of a third list of Projects of Common Interest.

Terna in the Mediterranean

Focusing on the Mediterranean basin allows Terna to benefit from Italy's competitive advantage: its geographical positioning – not only a potential outlet market but a hub between continental Europe and the Mediterranean. This also has an impact on the security of the system; following the integration of renewable sources in the grid, and European regulations to create a single market, it is essential to create strong interconnections with foreign countries and, therefore, natural outlet markets such as the Balkans and North Africa.

Business in the Balkans

The Balkans are an area of potential interest for Terna, considering their proximity and the energy potential in the region, particularly with regard to renewable sources.
The new undersea power line between Italy and Montenegro (described in the paragraph "Interconnector"), incorporated into the NTG DP, is based on agreements between the two governments[13], and also between Terna, the Government of Montenegro and local transmission operator CGES through a strategic partnership between Terna and CGES, in which Terna holds a stake.

Business in North Africa

North Africa is an area of strategic development for Terna, considering its geographical proximity and the opportunity to diversify sources and supply and exchange routes.

In this sense, Terna is currently undertaking a study on the Europe and North Africa connection via Italy and Tunisia, through the company Elmed Etudes, a joint venture with the Tunisian TSO STEG. The project falls within the sphere of the strategy outlined by the Energy Union Package measures, and presents a tangible investment opportunity in the current socio-political context, and a driver for sustainable and integrated economic development within the entire Maghreb area, and with Europe. Technical and economic studies have confirmed the benefits not only for the two countries directly connected, but for the whole of Europe and the North African region: specifically, in addition to responding to the increasing demand for electricity in Tunisia, the interconnection is strategic in consolidating the overall security of the European Union's electricity system, by diversifying sources and supply routes, and optimising the use of energy resources from the two shores of the Mediterranean. The project has consequently received the support of the Governments involved, as well as the European Commission.

The Italy-Tunisia project that envisages an HVDC (High Voltage Direct Current) connection, for the most part undersea, between Tunisia and Sicily for an interconnection capacity of approximately 600 MW, is included among Terna's DP projects, and in the list of ENTSO-E TYNDP projects, so as to promote the integration of the electricity systems in the European Mediterranean region, by increasing exchanges and resources from renewable sources.

Furthermore, in the North African region, Terna is involved in institutional and industrial cooperation initiatives, including through Med-TSO, the association of 20 transmission system operators around the Mediterranean, set up in 2012 on the initiative of Terna, which hosts the headquarters.

(13) The Intergovernmental Agreement signed by the Italian and Montenegro governments on 6 February 2010 was officially transposed into Italian law in June 2014.

RISK MANAGEMENT

The situation regarding risks for the Terna Group

Electricity transmission is the core business of Terna, regulated primarily through government concession and by the provisions established by the AEEGSI, which include the definition of remuneration of the Terna service and of the corresponding tariff system.

As a result, Terna is exposed not to common price- and market-related risks (or is so only to a limited extent in regard to Non-Regulated Activities), but to a regulatory and normative risk.

The regulatory risk derives from potential changes in the parameters used to determine regulated income, particularly following the multi-year review of the regulatory framework (see the paragraph on outcomes from the latest review, taking effect as of 2016). The normative risk is related to possible changes in Italian and European tax laws in relation to environmental, energy and social (work and contract) matters.

These aspects, like all types of risk, are closely analysed by Terna, which has identified the main risks connected to its activities and has provided for specific safeguards, instruments and organisational measures with a view to minimising such risks by reducing any impacts to within tolerable limits.

Risk management

To manage risks, Terna has introduced both general organisational measures and specific safeguards.

In regard to the first aspect, Terna firstly points to the creation within its Board of Directors of the Audit, Risk and Corporate Governance Committee, which has proactive and advisory functions and is composed entirely of independent directors. The Committee, as provided by the Corporate Governance Code, supports the Board in assessments and decisions relating to the internal audit and risk management system and performs periodic checks to ensure the adequacy of the system relative to the company's characteristics and risk profile and its efficacy. Corporate policy also establishes a direct relationship between the Committee and the Chief Risk Officer (CRO).

The CRO is appointed by the Director in charge of the Internal Audit and Risk Management System, after receiving an opinion from the Committee. He supports top management in effectively managing the Risk Management process at the Group level, with reference to all financial, operating and business risks. The scope of the Chief Risk Officer's activities extends to all of Terna S.p.A. and its subsidiaries, and he is entrusted with drawing up policies for the analysis, management and control of business risks, as well as "coordinating" all subjects involved in the Internal Audit and Risk Management System, in order to maximise their efficiency and reduce any overlapping of activities.

In line with this, the Risk Management division pursues the objective of continuous improvement of its action for the purpose of assuring stakeholders that the activities are carried out in accordance with the mandate and in an effective and efficient manner, creating added value and improving the company's operations.

To this end, Terna adopts the Enterprise Risk management (ERM) approach which, from a perspective of integrated and systematic risk management, includes the implementation of structural management tools and prevention measures.

Alongside the application of the ERM model, Terna has implemented an eGRC (Enterprise Governance, Risk and Compliance) IT instrument which is not only capable of containing the catalogue of risks resulting from the assessments, but allows for an integrated analysis of the results in order to study the interdependencies between processes, focusing on the coordination of the various functions of the Internal Audit and Risk Management System, in line with the indications of the Corporate Governance Code.
Within this framework, it has also been possible to identify an "acceptable" level of risk, which represents on the one hand the input of the risk governance process, identifying the causes of potential deviations from the planned objectives and quantifying their consequences, and on the other, an instrument for monitoring the efficacy of the risk management strategies adopted.

Terna's Company Protection Management is entrusted with security and protecting against of different types of risk, from the safety of people (health and safety of personnel in the workplace) to "processes" and tangible and intangible assets of the Group. In conducting its operations, it approaches the multiple operational risk scenarios with a focus on resilience and operational continuity, as described in more detail in the following paragraphs.

Governance, Integrity and Compliance

Terna – conscious of the need to ensure conditions of correctness and transparency in conducting its affairs and business activities in order to protect its position and image, the expectations of its shareholders and the work of its employees – implements a policy of continuous protection against Governance, Integrity and Compliance risks.
Based on the best practices in regard to governance and compliance:

- It has adopted a *Code of Ethics* in which it confirms legality, integrity and responsibility as being its general ethical principles and acknowledges that standards of good business management, respect in the broadest sense of the term, fairness as a basis for loyal, impartial behaviour and transparency in acting and communicating, are particularly important.
- It has implemented an *Organisational and Management Model, as provided for in Italian Legislative Decree 231 of 2001 and subsequent amendments and additions*, with the belief that this Model – beyond the provisions of the Decree, which point to it as an optional, non-compulsory element – can represent an effective tool for raising awareness among all those operating on behalf of Terna.
- Has appointed a "*Manager in charge of preparing the company's accounting data*", as provided under Law No. 262 of 28 December 2005 and subsequent amendments and additions, which affirms, through written statements, that the Company's acts and communications released to the market concerning the Company's account information (including infra-annual) match those taken from its documents, books and account entries.
- Has adopted an *Integrated Management System* which lays down criteria for the management of Quality, the Environment and Worker Health and Safety and is intended to guarantee system efficacy and efficiency, highlighting any potential risks in the areas observed and implementing any necessary mitigating measures. The main stages of the management system supervision process are:
  - creating new management systems and, if held to be desirable, requesting certification or accreditation;
  - supervising and updating existing corporate management systems;
  - implanting internal checks on corporate management systems;
  - reviewing the management systems;
  - preparing organisational structures for inspections by certification and/or accreditation organisations;

- a *management system for the prevention of serious accidents* was implemented in accordance with the indications of Italian Legislative Decree 344/99 (Seveso Directive);
- the monitoring of privacy regulations within Group companies was reorganised, implementing a newly structured model to ensure the correct fulfilment of legal obligations (Italian Legislative Decree 196/03 Privacy Code and related Authority Provisions), both to transpose certain legislative amendments implemented in the 2012/13 period and to adapt operations to the Group's new structure.

Further, following an innovative approach to risk reduction policies, Terna identified institutional partners with which to share the risk deriving from its own activities through cooperation with national and international regulatory bodies and authorities and the signing of a memorandum of Understanding. In particular:

- The Memorandum of Understanding signed with the Ministry of the Interior on 30 July 2008 is intended to increase the levels of physical protection of electrical substations;
- The Memorandum of Understanding pertaining to the collaboration agreements between Terna and Guardia di Finanza (Tax Police), renewed on 18 September 2013, is intended to prevent criminal infiltration in the management of strategic sectors, such as the electricity market and renewable energy sources;
- The Memorandum of Understanding signed with the National Fire Fighter Corps provides for a collaboration programme to increase protection of the National Electricity Transmission Grid;
- Collaboration agreement between Terna and ISCTI (Istituto Superiore delle Comunicazioni e delle Tecnologie dell'Informazione - Superior Institute of Information and Communication Technologies) for cooperation with CERT-National;
- Collaboration agreement between Terna and the Department of Information for Security of the Prime Minister's Office (DIS);
- Memorandum of Understanding between Terna and the National Association of Italian Municipalities;
- Agreement between Terna and Anie (Associazione Nazionale Imprese Elettriche - National Association of Electricity Companies) for the management of environmental safety on job sites.

ACTIVITIES CARRIED OUT TO PROTECT AGAINST GOVERNANCE, INTEGRITY AND COMPLIANCE RISKS

Activity	Description
Certification per Standard UNI CEI EN ISO/IEC 50001:2011	The Terna Group has obtained certification of the National Energy System in accordance with the UNI CEI EN ISO/IEC 50001:2011 standard. An achievement that places the group among the leaders both in Italy and abroad and which enhances its position on the international map of accredited companies: suffice it to say that fewer than 200 companies are certified under this standard in all of Italy, and most of these are significantly smaller than Terna, while those comparable in size are only partially certified (by business area or Italian subsidiaries of multinational companies).
Standard ISO/IEC 17025:2005 accreditation	During 2015, the procedure for accrediting the activities of Calibration Centre activities in Florence, Turin and Cagliari was prepared, in accordance with the ISO/IEC 17025:2005 standard, which is necessary to carry out metrological tests on active electrical energy meters and on electricity measurement systems used to determine energy flows for tax purposes, as foreseen by the Customs Agency.
Compliance with ISO 9001:2008 ISO 14001:2004 BS OHSAS 18001:2007 ISO 27001:2005	Certifying Body IMQ confirmed the compliance of business activity with the requirements per the following standards: • ISO 9001:2008; • ISO 14001:2004; • BS OHSAS 18001:2007; • ISO 27001:2005.

Commission of “231” crimes

Since the introduction of Legislative Decree No. 231 of 8 June 2001, which introduced into the Italian legislation a regime of administrative liability for companies, the Terna Board of Directors discussed the adoption of the Organisational and Management Model.

In its current format, the Model is broken down into eleven parts:
- A “general part”, which describes, *inter alia*, the content of Legislative Decree No. 231/2001, the objectives and functioning of the Model, the tasks of the Oversight Committee – made up of board members – entrusted with monitoring the functioning and observance of the Model, information flows, and the penalty system;
- Ten specific parts for each crime provided for by the legislation.

The content of the Model is consistent with that laid down in the relevant guidelines drafted by trade associations and with best practices, and represents a further step towards strictness, transparency and a sense of responsibility in internal relations and with the outside world, while at the same time offering shareholders guarantees of efficient and correct management.

In addition to the Model, Terna has also approved a specific set of “Compliance rules for the prevention of crimes and administrative offences of market abuse”, recently updated in July 2012, which aims to provide beneficiaries of the Model with an additional operational tool with which to assess their behaviour in regard to crimes and administrative offences of market abuse, and consequently to prevent conduct that could result in a source of administrative responsibility to the company.

ACTIVITIES CARRIED OUT TO PROTECT AGAINST RISKS OF THE COMMISSION OF “231” CRIMES

Activity	Description
Update Terna Group 231 Organisational Models	Following a series of legislative updates introduced in 2015, there is a need to update all Terna Group 231 Organisational Models. Specifically, Italian Law No. 186 of 15 December 2014, which entered into force on 1 January 2015, introduced the crime of self-laundering into our legislation, stipulating that it places administrative liability on the entity in whose interest or to whose benefit the crime is committed.
“Project 231”	In September 2015, “Project 231” was launched with the aim of redefining and updating the map of at-risk areas and the 231 Internal Audit System with the new organisational structure.
Training and information measures	Over the course of 2015, two training programmes for Group employees having never participated in an ad hoc classroom course were completed.

Fraud

Terna sees the management of business fraud as an important part of its approach to business management, striving to protect the reputation and image of the company, as well as giving its maximum attention and commitment to stakeholders in application of the Code of Ethics and behavioural rules.
An effective approach to tackling fraud or other types of embezzlement consists of three main objectives: *Prevention, Detection and Reaction*.

Terna has sought to pursue such objectives by adopting a Fraud Management structure in order to ensure that corporate assets (tangible and intangible resources, direct and upstream benefits) are protected with regard to all illegal events that could compromise them, through activity aimed at preventing and managing corporate fraud.

In order to identify potential internal vulnerabilities and then act to remove them, Terna has developed a reference methodological model based on the systematic analysis of preconditions that can be associated with fraudulent events, identifying "critical areas" in which fraudulent phenomena are more likely and tracing the triggers back to any organisational and operational problems in the processes.

This is accompanied by a constant monitoring of its internal regulations and their application, in order to assess and enhance the efficacy of the Internal Audit and Risk Management System with regard to fraud.

ACTIVITIES CARRIED OUT TO PROTECT AGAINST FRAUD RISKS

Activity	Description
Enterprise Risk Management (ERM) – Fraud Risk Assessment	Ideation and implementation of a specific Fraud Risk Assessment, seeking to identify potential areas of fraud risk and assess existing controls to prevent such risks, as part of the extension of the ERM (Enterprise Risk Management) project, in the following Terna core processes: Grid development, Design and Construction, Plant Maintenance, Regulatory Affairs.
"Open & Transparent Site" Portal	Design and implementation of the "Open & Transparent Site" Portal, dedicated entirely to job sites, which contains complete information on agreements, contracts and - for the first time - subcontracts relating to works in progress for the construction of large and small electricity infrastructure in Italy.
"Subcontract Management" Portal	The "Subcontract Management" Portal is a centralised electronic tool for the continuous management, analysis and monitoring of subcontracts, used to control the outsourcing process during the implementation phase of contracted works with existing suppliers and to improve process efficiency, guaranteeing its compliance and traceability, reducing exposure to fraud risk, illegal behaviour and criminal infiltration and mitigating 231 risk. Since 1 February 2015, contractors have been able to access the portal and request authorisation to subcontract directly to the system, indicating – in relation to a specific procurement contract and in line with the indications given during the tender phase – which works they intend to subcontract, for what amount and to which firm, and attaching all the necessary documentation related to the subcontract.

Operational risks

Terna has developed an Enterprise Risk Management (ERM) approach to risk analysis which comprises an interpretation of the existing theory to adapt it to the needs of an electricity system operator. The analysis of operational risks through this approach has enabled Terna to develop a detailed risk map, to which it has been possible to attribute an effective level of risk, as well as identifying which of such risks exceed a given acceptance threshold. These risks are typically used as a basis for identifying possible mitigating measures and estimating implementation times.
A recent risk assessment was conducted in collaboration with a leading international insurance brokerage firm with the aim of identifying, mapping, analysing, mitigating and transferring risks to the market, reflecting the Group's exposure and identifying any potential corrective and enhancement measures to be applied to insurance coverage. A Risk Register was then created, which identifies the checks carried out.

ACTIVITIES CARRIED OUT TO PROTECT AGAINST OPERATIONAL RISKS

Activity	Description
Risk Assessment for Operating Processes	Application of the ERM methodology was extended to all of the company's core and support processes, identifying all risks that could threaten the attainment of Group objectives and identifying for each of these the existing controls, risk factors and level of residual risk. For the most significant risks, the necessary actions to contain them were identified. The processes subject to Risk Assessment during 2015 were: • Regulatory Affairs (management of relations with AEEGSI for regulatory matters concerning the electricity market and the electricity system); • Design and Construction (set of implementation activities focusing on the development and upgrading of the NTG, in application of the DP, as decided annually by the Terna Group and which also includes the development, design and construction of support systems); • Plant Maintenance (set of activities carried out on plants or parts thereof in order to preserve their efficiency and good working order and to prolong their useful life); • Grid Development (set of activities intended to guarantee, in the medium/long term, connection to the grid of new generation or user plants, and transmission service for power produced by existing and future generation plants to distribution and load hubs in conditions of maximum efficiency, safety, continuity, quality, economy and reliability, in line with the evolution of the country's financial and industrial situation and in view of the relevant normative constraints and approved strategies).
Insurance Risk Assessment	In 2015, an Insurance Risk Assessment was conducted through which it was possible to: • take chronological pictures of the Terna business from the spin-off to today, analysing accident statistics and exposure; • identify and structurally analyse the main factors of uncertainty facing the company, creating stochastic models for assessing the probability of future accidents; • determine the business risk profile; • check that the existing transfer of risks is adequate and accurately reflects the evolution of the Group's exposure; • facilitate the identification and study of potential/further corrective and improvement measures to be applied Group coverage.

Physical threats to systems

The complexity and multiplicity of physical threats to Terna sites over the years have necessitated the adoption of various measures to contain risks of corruption, theft and damage to plants and, consequently, to ensure electricity service continuity.

Today, the physical security of substations is provided using devices, systems and divisions operating 24 hours a day, every day. This infrastructure has been further optimised for the surveillance of a subset of substations having been identified as critical based on an index calculated with the assessment of multiple risk elements. Technical, operational and social data and information have been collected for each site, including: number of plant bays, criticality of electrical grid elements, belonging to a critical grid section or re-ignition line, supplying power to larger cities, connection of stations larger than 500 MW, presence of Terna Defence Systems, presence of telecommunications and control centre hubs, etc., as well as the rate of intrusion and of damaging/malicious events reported over the years and other indicators for estimating the crime rate of the area.

Having started out with minimal surveillance provided from management rooms, following the electrical substation risk assessment process described above, the PSIS (Integrated Physical Security System for Terna substations) surveillance platform was developed, establishing the Security Operation Centre for the continuous observation of intrusion alarms and video signals. Today, the PSIS is able to monitor 180 plants and serves as the company's main electrical substation surveillance tool.
At the same time, a Terna-engineered video surveillance prototype (VideoBox) has been implemented, which is light, flexible, economical and quick to install.

ACTIVITIES CARRIED OUT TO PROTECT AGAINST RISK OF PHYSICAL THREATS TO PLANTS

Activity	Description
Collaboration with the Carabinieri (Italian Military Police)	Terna's collaboration with the Carabinieri continues, the contribution of which is significant and essential for the safe functioning of the National Electricity System at both preventive and repressive levels.
Terna "Open Day" security	2015 saw the launch of "Open Day", a new type of local communication activity for which Terna has taken all the necessary steps to ensure these events take place in safety. This type of initiative is upheld by specific institutional guidelines, including at the European level, and is intended to encourage public access in decisions regarding the localisation of major works, including upgrades to Terna works, in order to ensure greater acceptance thereof.
EXPO 2015	In 2015, efforts were intensified in the collaboration with the Milan Prefecture and the Lombardy Region for the drafting of EXPO 2015 emergency plans.

Jubilee of Mercy	Terna took part in work groups held by the Jubilee Technical Secretariat, set up by the Rome Prefecture, in pursuit of the main objectives:
	• planning the optimisation of road sites for the maintenance/development of critical infrastructure;
	• participating in the drafting of two plans:
	  ◦ management of the Rome Metropolitan area for Jubilee events in Rome;
	  ◦ preparation for and management of critical situations and emergencies.

Information and cyber risk

Terna adopts an "Information Security Governance" model based on a detailed structure of policies and procedures, combined with a well-structured operating program of Information Risk Management ("IRM"). The programme takes into account all the risk factors to which Group ICT is exposed (organisational, technical and technological, physical/environmental, cyber, etc.), including compliance with laws on data processing and the fight against cyber crime, and its aim is to counteract their impacts (interruptions to grids or IT services critical to electricity system operation and/or with potential damage to the NTG, confidentiality loss, theft or tampering with sensitive, strategic and confidential information relating to the electricity market and/or on third parties held by Terna).

Furthermore, through the Security Operations Centre (SOC), a state-of-the-art facility for the prevention, identification and timely management of information-related incidents through the constant monitoring of events deriving from heterogeneous ICT platforms, a structured process has been undertaken to identify and contain security incidents in a timely manner, minimising loss of information and promoting the recovery of affected services. The SOC is also responsible for measuring the risk to which company assets and the information contained in them are exposed.

Finally, as in previous years, there were no complaints received for breach of privacy, or for inappropriate or unauthorised use of personal data entrusted to the Group's companies, either through the email address (privacy@terna.it) created specifically for such notifications or through the other channels used for notification or identification.

ACTIVITIES CARRIED OUT IN RELATION TO IT SERVICE INTERRUPTION/DATA THEFT RISKS

Activity	Description
Controls for security of information assets	Controls aimed at guaranteeing the necessary security and resilience features for ICT assets were consolidated, prioritising those considered most critical or even vital for the proper functioning of Critical Infrastructure (CI), such as the grids and electricity grid control systems and the National Electricity System. The programme is also aimed at increasing the electronic security of databases used to store "business sensitive" company information. Finally, the same programme has seen a strengthening of procedures for reducing the risk to third party personnel working on company grids and information systems through the issue of new Information Security requirements which third parties are required to observe during the performance of contracts.
Institutional cooperation	Together with internal initiatives for preventing and managing cyber-risks, Terna has further increased its cooperation with Italian institutional organisations (MiSE-CERT, CNAIPIC, and DIS) which serve as the strategic framework for national cyber security, in order to create the synergies that are indispensable in managing extended emergencies and crises due to cyber attacks. The general framework has benefited the growth of operations of institutional bodies which, by virtue of specific Memoranda of Understanding with Terna which are now fully operational, have assumed a fundamental partnership role in the prevention and management of cyber-incidents.
Information measures for electronic security	With reference to 2015, the SOC began to submitting to the Information Security division monthly monitoring reports containing indicators on the progress of electronic security within the company, such as: number of security events with a summary of monthly/cumulative reports sorted according to origin and type, charts of spam/fishing/malware event patterns, summary of reported cases of abuse of local administrator credentials, port scans reported on perimeter defence systems, etc.

"Supplier" risk

Terna makes use of a *Company Qualification System*, established pursuant to the EU Directives (Italian Legislative Decree 163/2006 "Public contracts code for labour, services and provisions" and subsequent amendments and additions), for all the main core areas of supplies, labour and services that Terna itself intends to supervise, established on the basis of the strategic importance, degree of competitiveness and annual volumes supplied.

The qualification procedure allows Terna to assess the suitability of each economic operator (supplier/company) by verifying its fulfilment of legal, economic/financial, technical/organisational, training, safety/environmental and social ethics requirements.

Only those companies deemed suitable shall be entered into the Register of qualified companies and may participate in tenders held by Terna for their respective categories.

During the three-year validity period, companies are subject to monitoring in order to verify their continued fulfilment of the requirements met at the time of qualification.

This verification involves the continuous screening of a set of information gathered through reports from financial providers in regard to economic/financial progress and to any corporate changes (spin-offs, business unit acquisitions, etc.); vendor rating forms drafted by technical units which manage the procurement contracts of qualified companies; other Terna Management units, and news acquired from *open sources*.

Monitored suppliers are subject to an ongoing performance analysis which allows for the implementation of timely measures and for dissemination of information to Terna operational areas.

For any behaviour not in line with the qualification requirements, suppliers may be *recalled or temporarily suspended* (normally for a period of six months) from the Register. In the most serious cases, qualification shall be revoked, with the affected supplier having to wait one year before being able to submit a new request for qualification.

ACTIVITIES CARRIED OUT TO PROTECT AGAINST "SUPPLIER" RISK

Activity	Description
Supply Vendor Rating System	Creation of a Vendor Rating system for supply divisions. The project envisages both the identification of specific assessment ratings and the company activities and processes involved. The main supply phases (type and acceptance testing, material delivery and set up (where applicable), product life-cycle) were analysed in order to focus assessment ratings on the most critical or delicate phases.
"Supplier List"	Development of an integrated system of data collection and screening of information on selected suppliers in divisions not subject to qualification and performance monitoring, with the aim of drawing up inquiry lists (Supplier List) for procedures assigned beneath the EU threshold or for non-essential contracts, which, despite falling outside the scope of application of the Contracts Code, are however subject to compliance with the general principles of correctness, economy and equal treatment.
Introduction of penalty provisions	The growth of information on the operating procedures of qualified companies has allowed for a more effective and timely reporting of any company violations, ensuring the prompt adoption of the most appropriate penalty proceedings pursuant to the internal regulations, as well as the introduction of new provisions more relevant to the type and severity of the event. More specifically, penalty provisions have been introduced for individual company employees in order to ensure accountability among workers operating at Terna sites and to encourage them to adopt more appropriate and responsible behaviour.
Legality rating	With a view to nurturing a culture of legality and ensuring compliance with legal provisions in regard to contracts, companies have been given the ability to declare a legality rating (pursuant to Article 5-*ter* of Italian Legislative Decree 1/2012, as modified by Italian Legislative Decree 29/2012, converted with amendments by Italian Law 62/2012), a tool aimed at promoting and introducing principles of ethical behaviour in the business environment.

Financial risks

In carrying out its operations, the Terna Group is exposed to various financial risks, such as market risk (interest-rate risk and inflation risk), liquidity risk and credit risk.
The risk management policies adopted seek to identify, analyse and monitor the risks to which the Group is exposed, to establish appropriate limits and controls, and to check compliance with such limits.

These policies and related systems are reviewed on a regular basis in order to reflect any changes in market conditions and the activities of the Group.

Terna adopts 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.
Regarding the management of interest rate risk, to mitigate the effects on financial expense of rate fluctuation and to relate the cost of debt to the return on RAB, derivative contracts are entered into with 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.
For proper coverage, it is considered beneficial to carry out derivative operations that limit the fluctuation in the cost of debt for a period of time close to each regulatory period (at 31/12/2015, fixed rate net debt stood at 57%). The portion of debt coming due after the current regulatory period is left variable, or made variable through derivative instruments (and may subsequently be fixed, at the start of the next regular Tory period). This matter is discussed in more depth in paragraph “E. Commitments and risks” of the notes to the Financial Statements of Terna S.p.A. and of the Terna Group.

ACTIVITIES CARRIED OUT TO PROTECT AGAINST FINANCIAL RISKS

Activity	Description
Financial Risk Assessment	During 2015, a Financial Risk Assessment was carried out following an approach capable of providing a financial risk map that is compatible and in line with the Enterprise Risk Management model adopted by Terna.

Occupational injuries and environmental impacts

The Terna Group implemented management-related measures, drafting safety and environmental policies and guidelines and ensuring compliance with the legislation in force and the adopted procedures through on the spot inspections carried out on Terna sites and plants.

The Prevention and Protection Services set up for each Production Unit provide ongoing support to employers for implementing all the necessary measures for fulfilment of the obligations pursuant to Italian Legislative Decree 81/08.

ACTIVITIES CARRIED OUT TO PROTECT AGAINST RISK OF OCCUPATIONAL INJURIES AND ENVIRONMENTAL IMPACTS

Activity	Description
On-the-spot site inspections	As part of its site safety monitoring and control activities, the “Integrated Site Safety” project continued in 2015, aiming to ensure comprehensive on-site safety by analysing not only aspects related to safety in the workplace, but also aspects concerning environmental safety – such as pollution, waste management and impact on the surrounding environment – and the correct management of contracts.
Terna-ANIE relations	In 2015, collaborations continued with external entities and associations in regard to workplace and environmental safety. Specifically, the collaboration with the ANIE (National Association of Electricity Companies) Federation led to the drafting of an important set of guidelines on the management of safety-related aspects for activity on HV overhead power lines. And on 26 January 2015, an event was organised for the joint signing of the Memorandum of Understanding on the application of safety procedures for works at height, which was attended by the Terna CEO along with representatives of companies from the ANIE Federation. The adoption of this document demonstrates the will and commitment of Terna and other companies to operate in compliance with the safety procedures indicated therein, with specific commitment of ANIE to promote their application among all member companies.
“Near Miss: *Safety* and Environment” project	In the area of integrated safety and environment matters, and as part of the plan for continuous improvement, the “Near Miss: *Safety* and Environment” project was implemented with the aim of identifying and analysing all abnormal events, near-accidents and environmental impacts having occurred during work activity which, despite having the potential to do so, did not result in damage to people or the environment. The Near Miss project includes, as one of its integral parts, specific training and accompaniment for the introduction of the business procedure aimed at raising awareness and promoting a culture of reporting abnormal events and fostering a transition from a passive approach to safety, by simply following rules, procedures and technical regulations, to an active approach to safety, placing the individual at the centre of the safety system.
2015 Safety Day: Terna launches new environment safety rules	On 17 March 2015, the Company Protection Division arranged an important conference at which the “new environmental safety rules” were presented. The event, held in Rome, was attended by the Chairwoman, CEO and the Head of the Corporate Affairs Division, as well as the Minister for the Environment and Land and Sea Protection, ANCI Chairman, Chairman of Legambiente, CEO of the Piepoli Institute and Simona Bonafè, member of the EU Committee on the Environment, Public Health and Food Safety.
Training and information measures	Significant focus and importance is placed on training personnel on the topics of safety and the environment. Again in 2015, the number of training hours provided to personnel added up to 73,613, including training and preparatory activities, a large part of which were carried out in classrooms at the Terna Campus training centre. In 2015, environmental training continued with the specialist course entitled “Waste management for non-SISTRI delegates”, which was attended by technicians from across the country. Other training activities concerned the operation of special vehicles, fire prevention, first aid, management of risks of falling from height and electrical risk, as well as training for all Group personnel and regulated by the Region/State Conference Agreement.

Environmental, social and political issues

As part of activities to ensure the correct application of Corporate Governance policies based on compliance with national and industry regulations and on international best practices (e.g. Model 231, ISO 14001, technical industry regulations, etc.), at the end of 2014, a *Risk Observatory* was set up, and is now fully operational, with the aim of managing information flows towards the CRO and monitoring environmental, social and political issues connected to planned and existing works of the Terna Group, while ensuring timely reporting of events to Top Management, the CRO and the Secretary of the Oversight Committees pursuant to Italian Legislative Decree 231/01.

In recent years, the construction of Terna infrastructure is in fact taking on an increasing complexity and no longer involves phases of consultation and authorisation alone.

Today, when talking of infrastructure policies in Italy, the origin and the development of highly conflicting situations represent what has become a physiological obstructive trend: where there is a (potential) project, there is opposition, which in some cases can be extreme both in nature and weight and is increasingly becoming the main cause of project delays.

The Risk Observatory was set up in order to address "social" trends by monitoring the territory in which projects are localised, acting as a permanent safeguard through the systematic and integrated collection of information, with the preventive goal of intercepting critical situations and highlighting which unforeseen significant "231" events may cause significant delays in the completion of projects (while also delaying the benefit to the group) and result in increased costs.

ACTIVITIES CARRIED OUT TO PROTECT AGAINST ENVIRONMENTAL, SOCIAL AND POLITICAL ISSUES

Activity	Description
"Steering Committee for Environmental, Social and Political Issues"	To enhance environmental protection in areas at risk under Organisational Model 231 of the Terna Group and to share critical issues with all actors involved in the different stages of the process, the "Steering Committee for Environmental, Social and Political Issues" was established, which, on a monthly basis and whenever a qualifying critical event occurs, assesses all the critical issues identified and the proposed resolutions put forward by the Risk Observatory for their approval.
Map of critical issues	Through a representation by area, for each Terna Group project planned or in progress, the following information is given: • Social and political issues (strike committees, sit-ins, protests, articles in the local press, etc.); • Legal issues (complaints lodged by competent Public Prosecutors, criminal investigations, initiation of criminal proceedings, administrative proceedings through Regional Administrative Courts and the State Council); • Authorisation issues; • Construction issues.

Climate change risk

As a company objective, and in response to the requests of numerous stakeholders - including a growing number of investors - to envisage the potential consequences of climate change on Terna's business, the following table provides information on the risks related to some of the biggest trends connected to climate change, in particular those deriving from the development of the normative and regulatory framework aimed at containing emissions, physical risks and other risks related to the role and activities of Terna.

REGULATORY RISKS	
Reduction of emissions (emission trading/carbon tax)	Terna is not involved in the generation of electricity and therefore is not subject to any obligation to reduce emissions or to any emission-trading schemes. Accordingly, any fiscal or regulatory measures (e.g. carbon tax or emission-reduction targets) do not concern Terna and have no direct consequences on its business and financial performance.
Changes in consumption and generation systems intended to reduce energy consumption	Research into greater efficiency has already reduced the elasticity of energy demand to the growth of GDP. The consequences for Terna are very few: the current regulatory framework significantly limits the risk of repercussions on Terna income from a below-trend growth in energy demand.

PHYSICAL RISKS	
Extreme weather conditions (water shortage, extreme heat, ice)	These could make it more difficult to maintain a balanced input/withdrawal of electricity to/from the transmission grid and increase the probability of critical situations and temporary disconnection of users in certain areas of the country. To address these risks, Terna is carrying out research initiatives in two directions. The first is oriented to increasing knowledge of the potential consequences of extreme weather scenarios – in line with the IPCC (Intergovernmental Panel on Climate Change) data – on grid infrastructure and on transmission operations in order to increase system resilience; the second is aimed at developing technological solutions for securing the service in specific adverse weather conditions (see "Technology and Innovation").

OTHER RISKS	
Development of the production of electricity from renewable sources	This poses various operational and technological challenges for Terna in relation to the need to resolve grid congestion problems and for efficient and safe management of non-programmable production. For example, intermittent wind production makes dispatching more difficult.
Reputational	As the probability of critical situations due to extreme weather events increases, which can result in temporary user disconnection, Terna's reputation exposure to the public authorities and the media grows.

PERFORMANCE

Operating performance

Objectives

The Terna Group is oriented to continual improvement of its operating performance in all its fields of activities, regulated and non-regulated. In Terna's Regulated Activities, given its nature of reference operator for the Italian electricity system, it pursues objectives the significance of which are not only corporate but systemic; for this reason this section highlights in particular the connection between the objectives indicated by the concession and Terna's operating performance.
The main objectives in the operation of the transmission service by Terna are:
- continuity and security of the service;
- reduction of electricity costs.

A set of different activities carried out by Terna combines in the achievement of each objective: grid operation and dispatching, maintenance, the creation of development actions.
A report on the results achieved in relation to these objectives is therefore provided below and, subsequently, the activities that enabled the said results to be obtained in the year are described.

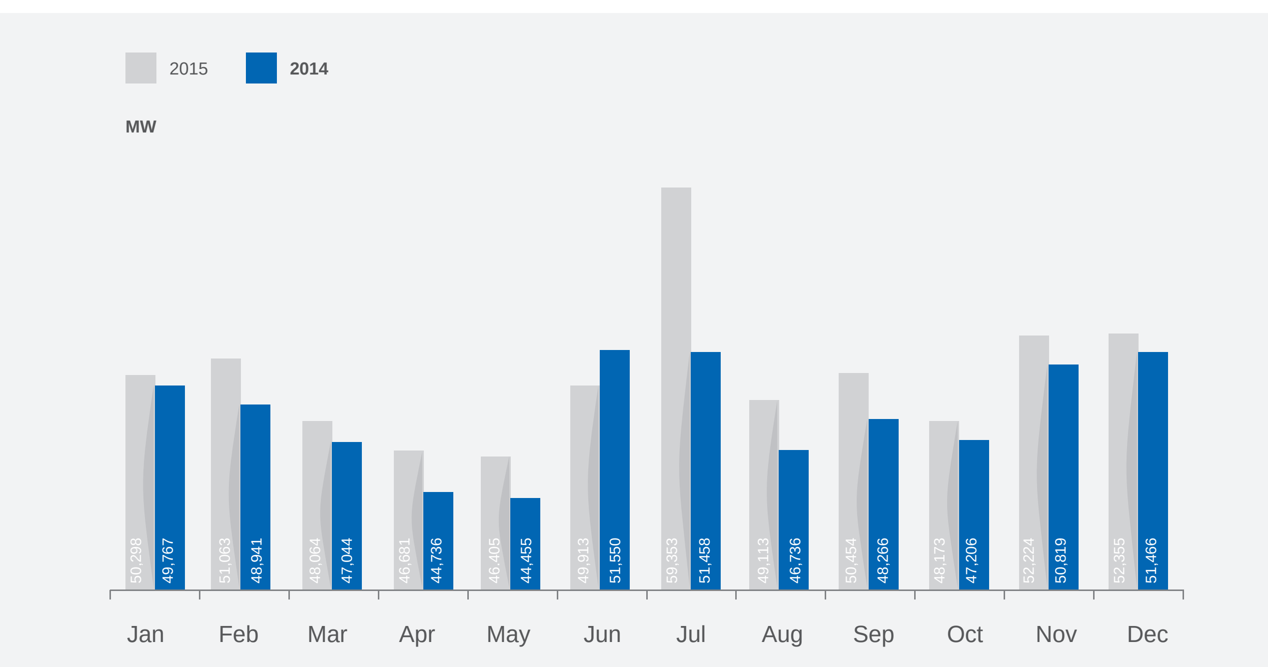
Results

Results relating to service continuity and security

Coverage of the demand for electricity

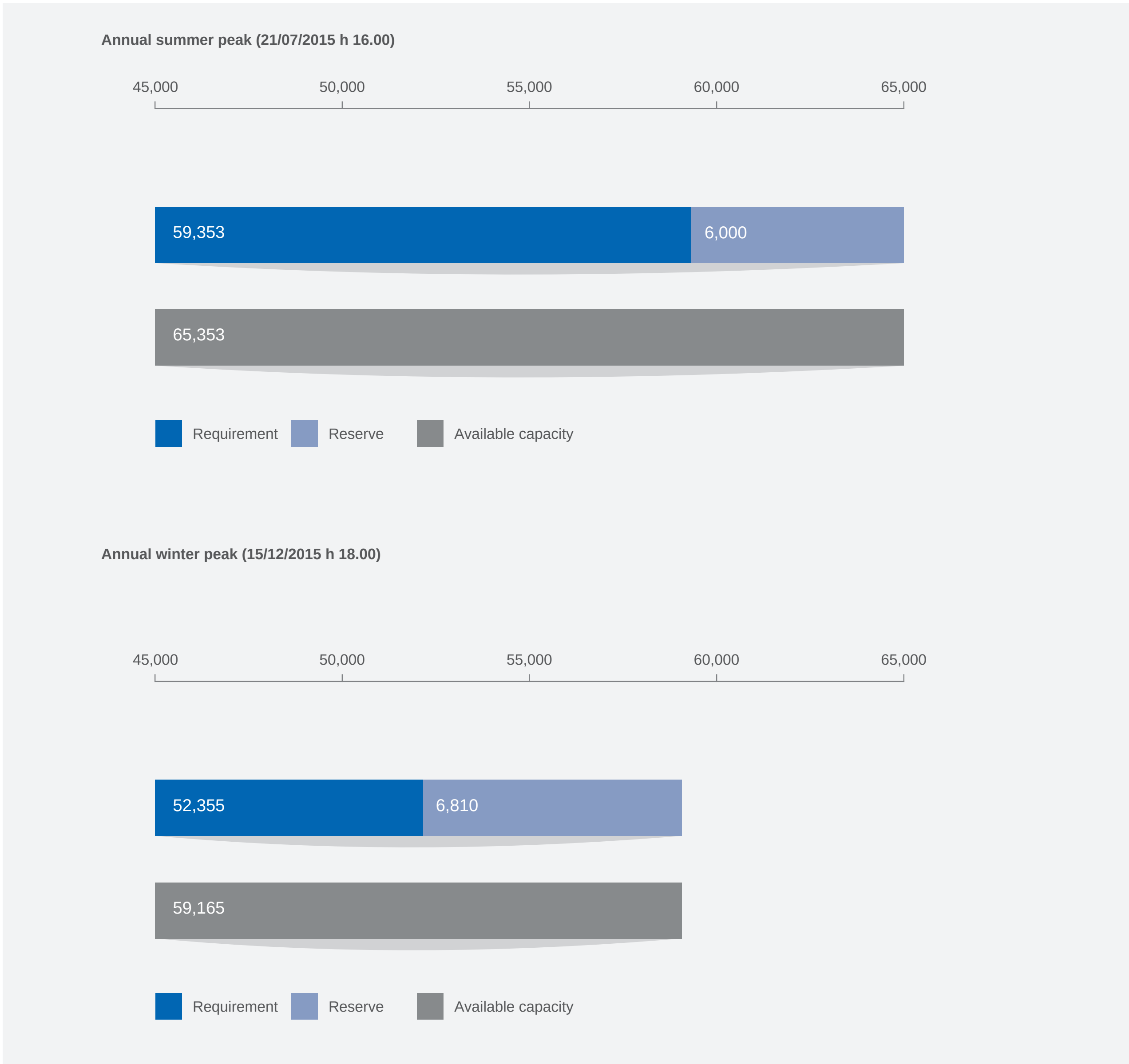
Coverage of the demand for electricity, the trend of which is described in the paragraph "Energy contexts", was guaranteed by Terna with adequate production margins.

MAXIMUM POWER FIGURES RECORDED IN EACH MONTH OF 2015 AND 2014



In 2015, demand reached a peak of 59,353 MW on 21 July 2015 at 4:00 p.m., 15.1% higher than the peak recorded in 2014.

POWER AVAILABILITY AND RESERVE CORRESPONDING WITH THE SUMMER AND WINTER PEAKS OF 2015



Continuity indices of the electrical service

Each stage of the electricity system – generation, transmission, and distribution – contributes to the result of ensuring the availability of electricity for society, guaranteeing adequate quality standards and a number of outages lower than pre-set thresholds.

Terna monitors the continuity of the service provided through different indices, defined by the AEEGSI (Resolution 250/04) and by the Terna Grid Code. The portions of NTG monitored are those owned by Terna S.p.A. and, since 2012, by the subsidiary Terna Rete Italia S.r.l.. Resolution 38/2016/R/eel recently clarified that the portion of the grid acquired from the FSI Group is excluded from the bonus/penalty mechanism for energy not supplied.

CONTINUITY INDICES USED

Contents	What it measures	How it is calculated
SAIFI+MAIFI*	Average number of short and long outages	Ratio between number of Users directly connected to the NTG involved in the outages and number of Users of the NTG.
AIT**	Average system outage time	Ratio between energy not supplied (ENS figure) and average power absorbed by the electricity system.
ENS***	Energy not supplied following events that originate from the NTG	Sum of the energy not supplied to Users connected to the NTG (following events that originate from the NTG).
RENS****	Energy not supplied following events that originate from the regulated grid*****	Sum of the energy not supplied to Users connected to the NTG (following events that originate from the regulated grid).

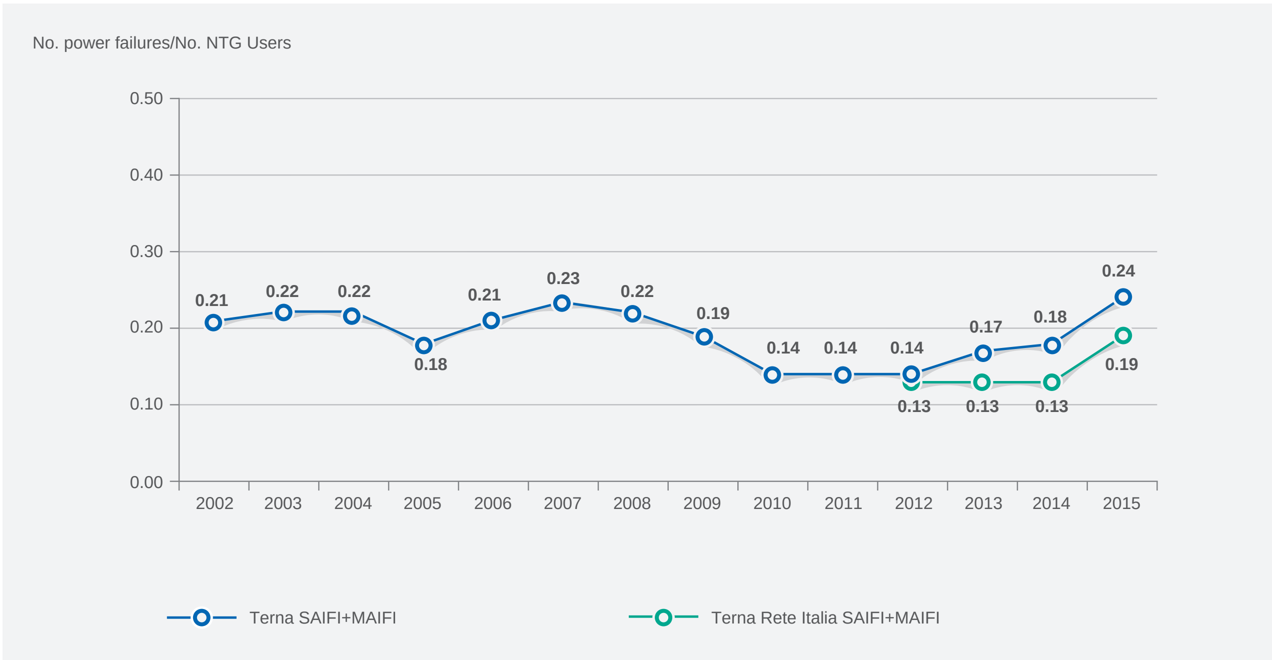
* Short Average Interruption Frequency Index + Medium Average Interruption Frequency Index.
** Average Interruption Time.
*** Energy Not Supplied.
**** Regulated Energy Not Supplied.
***** "Regulated grid" means all the High-Voltage and Very-High-Voltage grid.

These indices are significant for the system because they monitor the frequency and impact of events that have occurred on the electricity grid attributable to faults or to external factors such as meteorological events.
For all of them, with the exception of the RENS, the period of observation available is of more than ten years in which no significant changes are noted, testifying to the good quality of the service achieved.

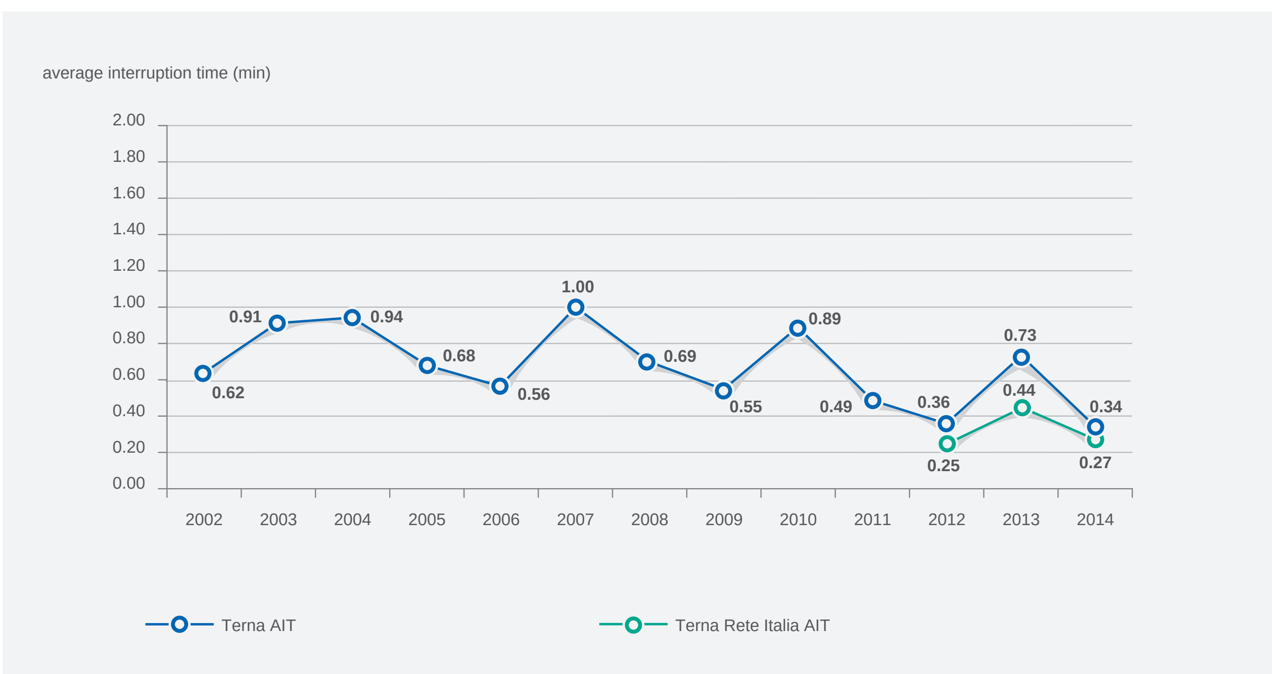
We must point out that, at the moment of publication of this report, the figures for the indicators AIT, ENS and RENS for the year 2015 are not available while awaiting the totals released by the AEEGSI. However, the provisional data show better performance than the targets.
It must be stressed, finally, that the relevant index for the purposes of the impact on regulated revenue is the service continuity indicator entitled RENS. In fact, the AEEGSI has regulated the quality of the service provided by Terna using an incentive/penalty mechanism set out by Resolution ARG/elt 197/11. It is applicable to the regulatory period 2012–2015 and relates to the Regulated Energy Not Supplied (RENS) index referring separately to the grid owned by Terna S.p.A. and that owned by the subsidiary Terna Rete Italia S.r.l..

The trend of the indices starting from 2002 is presented below, with the exception of the RENS, the trend of which is shown starting from 2008.

SAIFI+MAIFI INDICATOR

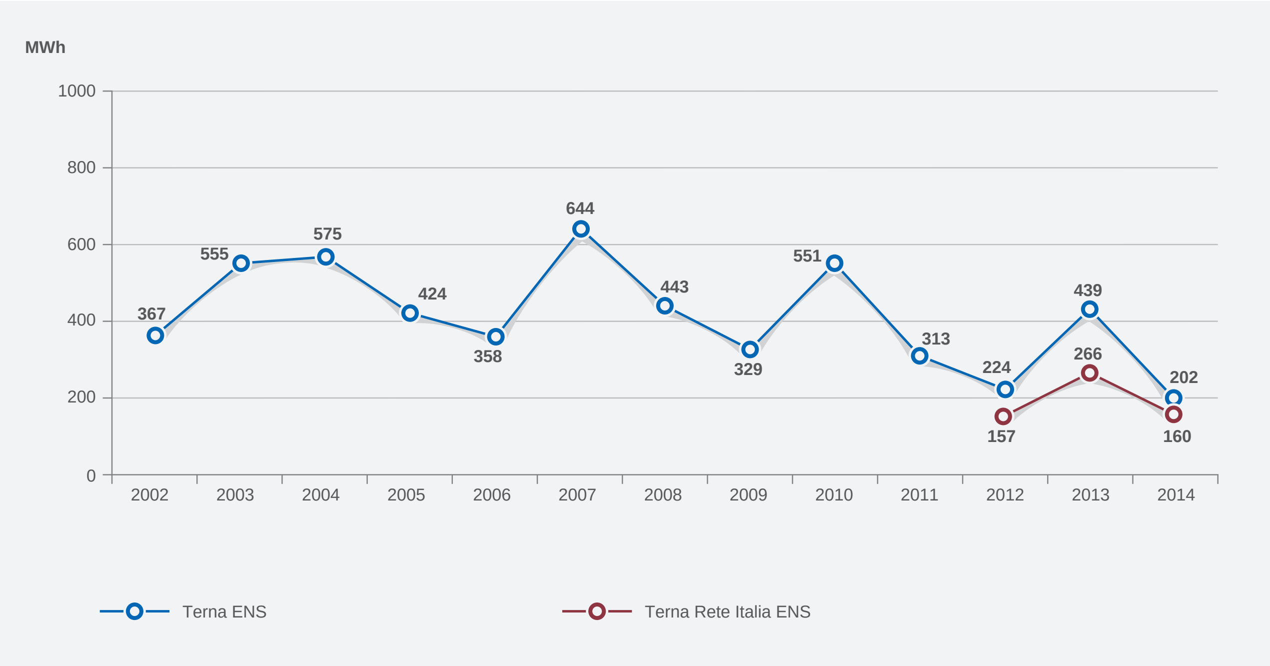


AIT INDICATOR[14]

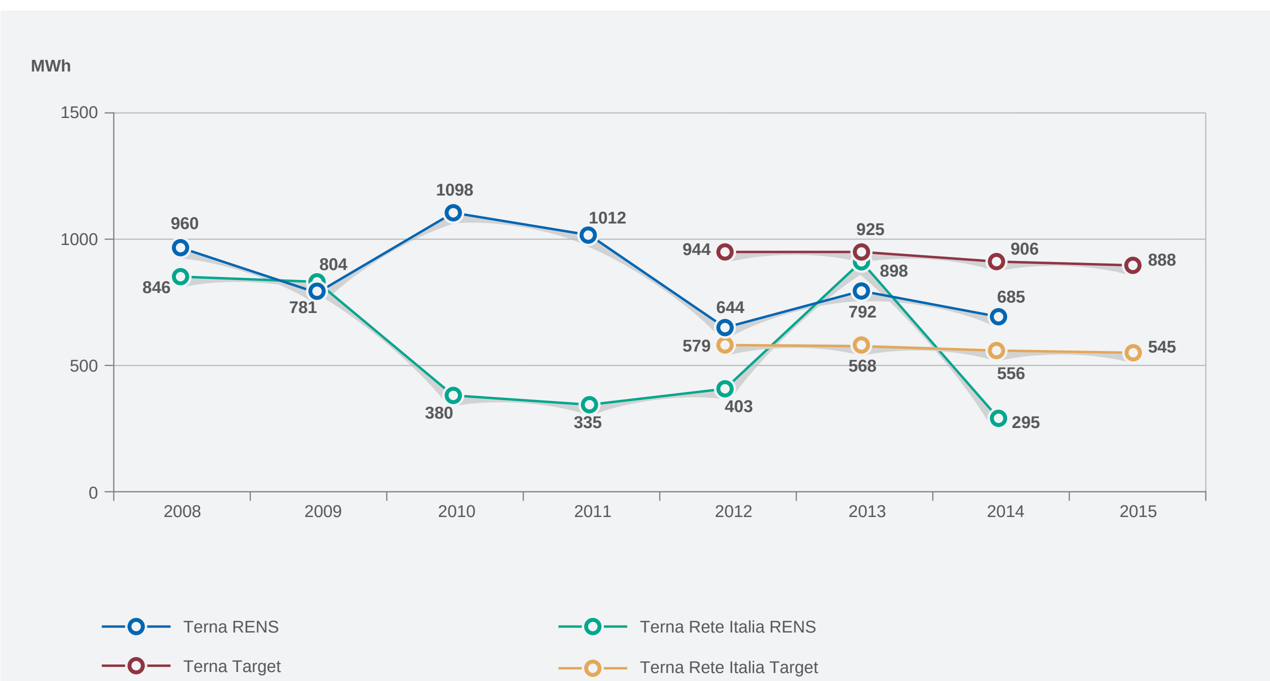


(14) Net of what was referable to significant incidents. 2015 figure not available at the moment of publication of this report.

ENS INDICATOR[15]



RENS INDICATOR[16]



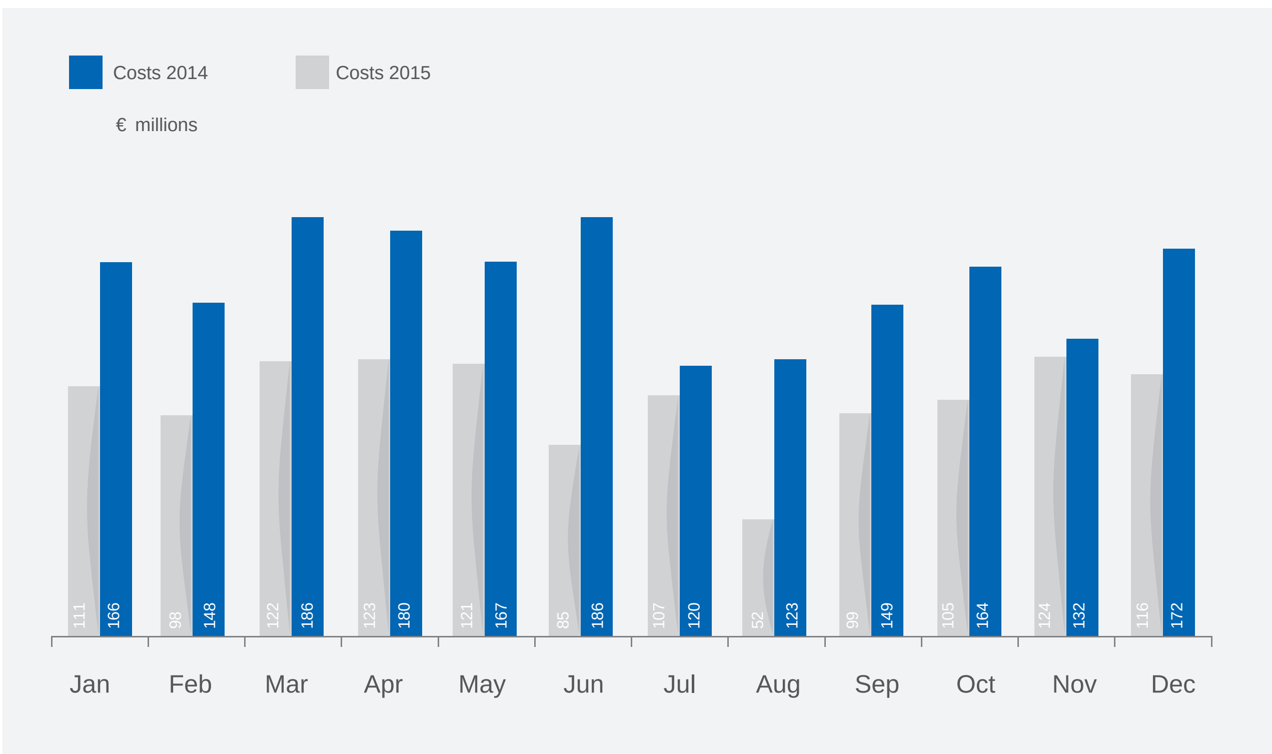
(15) Net of what was referable to significant incidents. 2015 figure not available at the moment of publication of this report.
(16) For the RENS indicator, the targets for 2012–2015 have been set as an average of the RENS 2008–2011 indicator, referred to in AEEGSI Resolution ARG/elt 197/11, with a 2% improvement in performance required for each year compared with the previous one.

The results related to electricity cost reduction

As noted in the paragraphs below, in 2015 Terna recorded a notable reduction in the cost of energy with a benefit for all the Italian system, thanks to the savings obtained on the Dispatching Services Market (DSM - for which Terna is directly responsible) and maintenance of the PUN (Single National Price) at the same minimum levels of 2014, with the effect of greater competitiveness.

Fee for procurement of resources on the DSM (uplift)

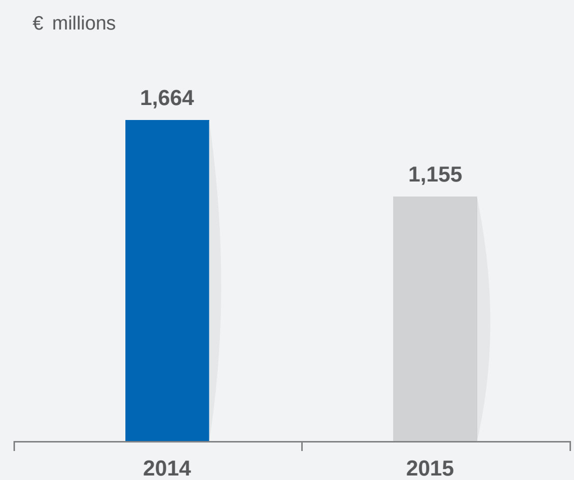
The Fee for procurement of resources on the DSM (so-called uplift), pursuant to AEEGSI Resolution No. 111/06 Art. 44 and subsequent amendments, represents the net expense associated with the following energy-related items: purchases and sales on the DSM, spot and forward (the latter representing premiums of contracts signed as an alternative to declaration of essentiality), remuneration of plant goodwill on the DSM (goodwill and structure change token), imbalances, congestion earnings and related financial hedges, virtual interconnection service (Interconnector) and other smaller items.



This price is invoiced pro-rata to users of the dispatching on the energy withdrawn, to cover the envisaged accruing monthly cost and the prior differences.
In 2015, the total uplift cost was € 1,264 million, a 33% reduction with respect to the previous year.

Dispatching Services Market

On the Dispatching Services Market (DSM), Terna procures dispatching resources to guarantee the security and adequacy of the electricity system.
In 2015, the net expense on the DSM was € 1,155 million, sharply down compared with 2014 (-31%) as shown below.



The cost reduction recorded in the year was mainly due to the reduction in prices, and to the Grid Development work which increased competition between operators and to the application of the new 'Essential Units for the Safety of the Electricity System' rules in Sicily which besides entailing a reduction in prices in Sicily led to a reduction in contract premiums.

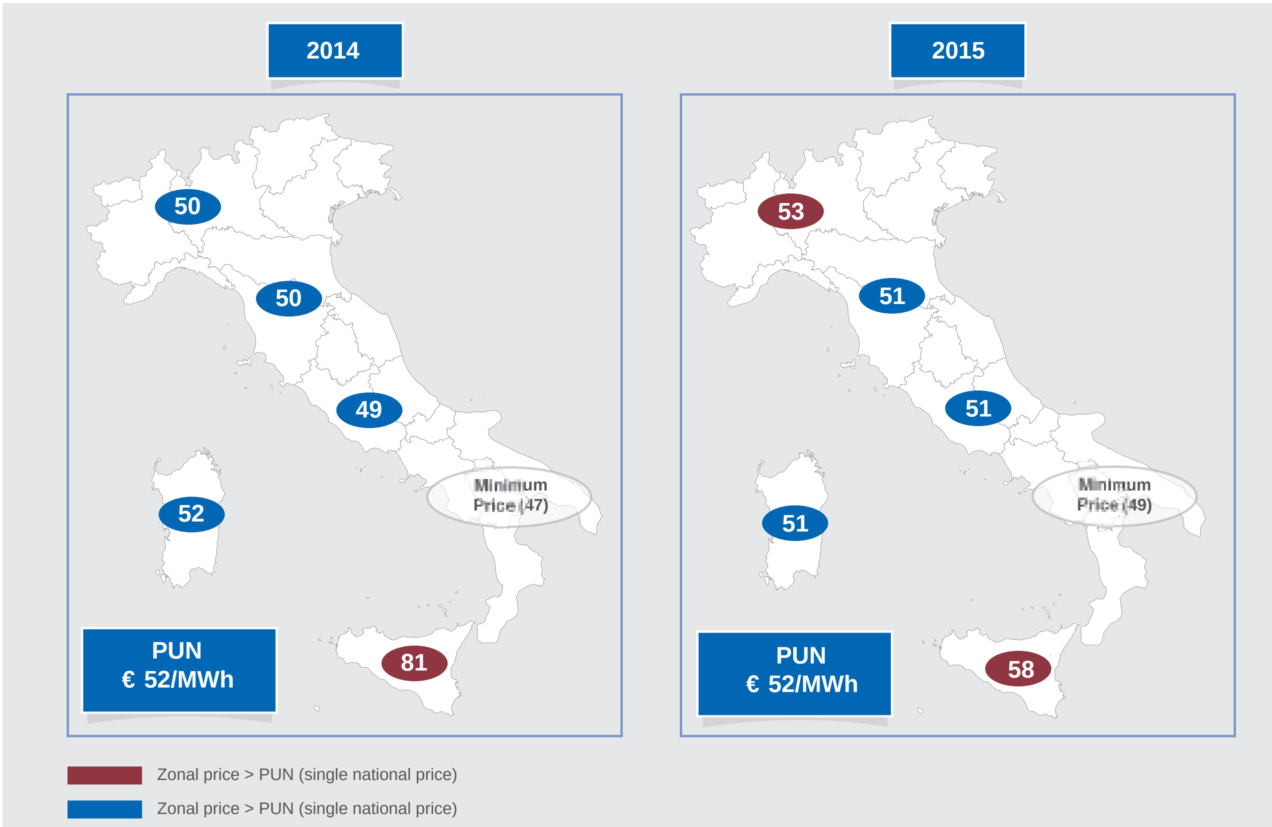
Energy prices and Exchanges with other countries

Energy prices

The hourly average price of the Italian power exchange (IPEX/PUN – Single National Price) for financial year 2015 was 52 €/MWh, in line with 2014, thus equalling the record for the lowest price since the start of the Power Exchange[17]. The Day Ahead Market (DAM) where the PUN is formed gives rise to prices that follow market logics (balance price given by the meeting between Demand and Supply of electricity). The driver of the price formation however is also the status of the Electricity Grid. The more this develops and becomes capillary, and the more it will make it possible to withdraw and transfer the most competitive energy. It also needs to be said that maintenance of the PUN at the minimum levels was also helped by Italian Legislative Decree No. 91/14 which introduced the system of essentiality of Sicilian plants and a sharp reduction in the price of gas which ensured that numerous traditional plants became more competitive.

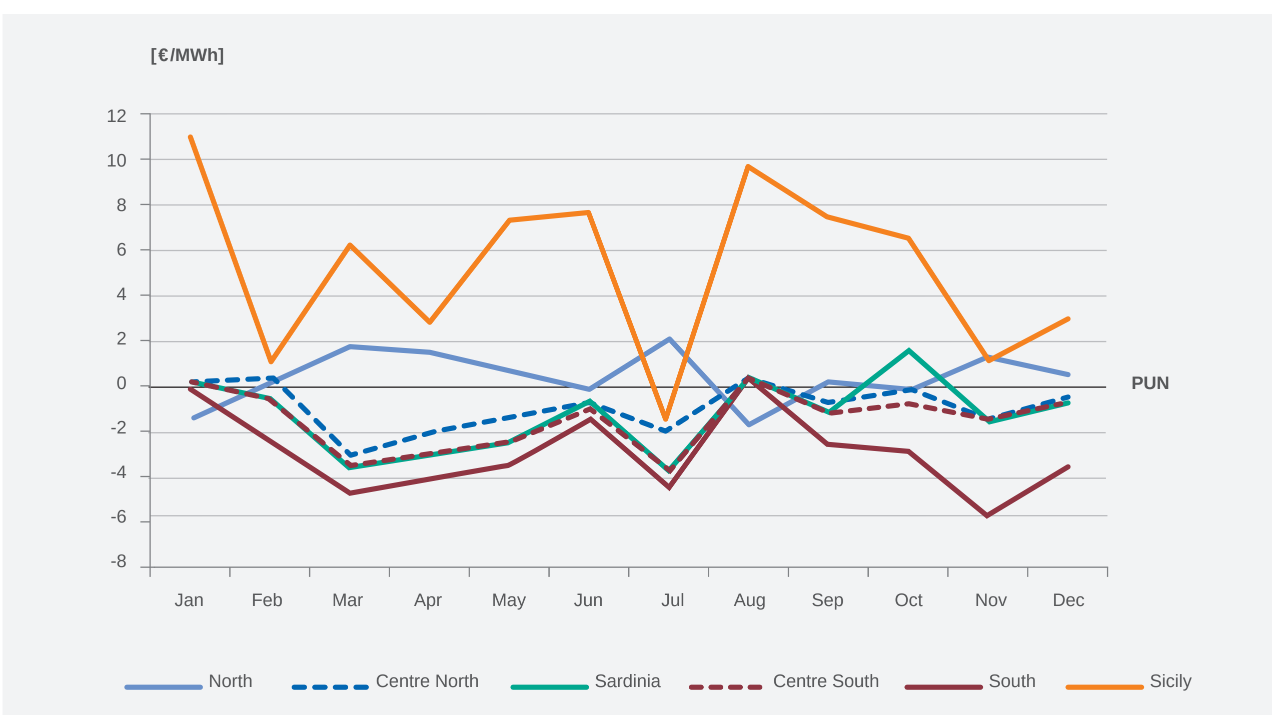
(17) 2004, the year in which the Electricity Market began operations, is not considered in this comparison, as negotiations were limited to 29% of the market, compared to 66% in 2014.

TREND OF THE SINGLE NATIONAL PRICE (PUN)



Spread between PUN and zonal prices

As can be seen in the chart above, the PUN remained constant at 52 €/MWh also in 2015 although with some differences in zonal prices. The chart below illustrates the spread between the single zonal prices and the PUN (on the chart represented on the zero line). As can be noted, with the exclusion of the Sicilian price for its structural characteristics (Sorgente – Rizziconi connection to the Continent still being developed), the other zonal prices remained around the PUN.



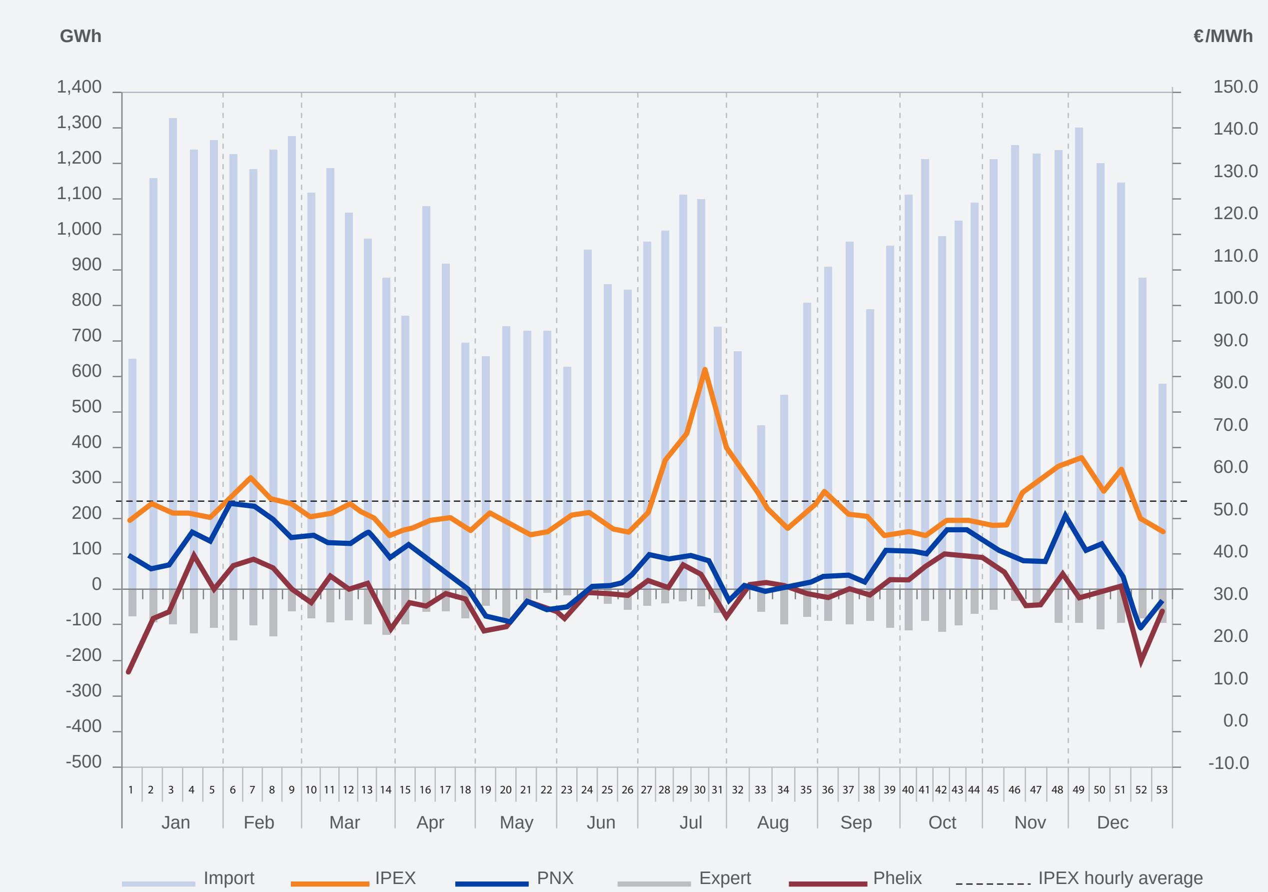
Exchanges with Foreign Countries

In 2015, foreign trade recorded net imports up by approximately +2.8 TWh compared to the previous year (+6% yoy). In particular, the increase in imports was partially offset by an analogous increase in exports, partly attributable to the new connection with Malta starting from the middle of March and partly due to the benefits generated by market coupling[18] with the bordering countries (with the exception of Switzerland currently being activated). The prices of the French (PNX) and German (EEX/PHELIX) foreign power exchanges, had, unlike in the past, diverging trends. The French price, in fact increased, while the Phelix recorded a slight reduction.

- The price on the French power exchange (PNX) was € 39/MWh (+11% yoy);
- the price on the German power exchange (EEX/PHELIX) was € 32/MWh (-3% yoy);

As a consequence the spread between the IPEX and the French exchange fell by approximately 3.7 €/MWh, going down from 17.5 to 13.8 €/MWh, while the spread with the German exchange increased by approximately 1.3 €/MWh, going up from 19.3 to 20.6 €/MWh. The difference in price of the exchanges is justified by the different generation fleet, characterised in Italy by higher production costs, hence the prevalence of import trade.

COMMERCIAL EXCHANGES AND WEEKLY AVERAGE PRICES OF ENERGY IN 2015



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

(18) Mechanism developed in the European context which optimises the management of the transfer capacity on the interconnections.

Regulated Activities

Grid operation and dispatching

In 2015, thanks also to funds of public loans of the Campania Regional Operating Programme (ROP) and the Interregional Operating Programme (POI) of the Ministry of Economic Development, the implementations of Dynamic Thermal Rating (DTR, a method for calculating the capacity of electricity lines: it takes into account the real weather conditions) on the NTG power lines continued with more vigour. The use of these innovative methodologies for optimised management of existing assets makes it possible to contain the re-dispatching expenses associated with congestions on the primary grid and also the necessary reductions of productions from renewable sources. This project is currently the largest at the European level in terms of both number of power lines managed in operation (already 16), and number of sensors installed (almost 70).
Another very innovative project from the technological point of view is the so-called WAMS (Wide Area Monitoring System). This is an increasingly accurate monitoring of the grid through a central system for acquiring and processing data with as many as 65 devices entitled PMU (Phasor Monitoring Unit) installed in the most important electrical substations and the signals from which are made available to the Control Rooms.

Maintaining infrastructures

Plant maintenance is essential to guarantee service quality and continuity. The main activities carried out in 2015 on electrical substations and lines are listed below. We can note the new forms of overhead line monitoring making great use of helicopters that became operational.

MAINTAINING INFRASTRUCTURES	
Monitoring and control of plants	22,700 periodic supervisory/technical inspections on substations at the various voltage levels; inspections with visual checks on 74,600 km of three-phase power lines, of which approximately 31,400 km with helicopters (visual + infra-red) with a total average frequency of approximately 1.2 inspections per year for each power line; 17,000 instrumental controls, carried out both from the ground, using thermal imaging cameras to identify hotspots, ultraviolet cameras (*Daycor*) to detect the corona effect on isolators and conductors, also climbing up the pylons with LLW (live-line working) techniques, and from helicopters, by means of flights for infra-red surveying (with Terna personnel onboard) and LIDAR surveys to identify interferences, with particular reference to trees.
Ordinary maintenance	Terna identifies actions to be carried out on the basis of the degradation signals received from the integrated remote management system, from the on-line sensors and from the evidence of the plant monitoring process using MBI (Maintenance and Business Intelligence), the expert system active since 2005 that optimises the maintenance work.
Tree cutting	During 2015 tree cutting regarded approximately 14,000 Km of power lines, to guarantee correct operation of the lines.
Activity with live-line working (LLW)	Approximately 1,150 monitoring checks and 1,100 line maintenance actions with live-line working were carried out. These actions, performed with the line in operation, increase the availability of the plants and contribute to improving service quality and continuity.
Extraordinary maintenance	During 2015, 11 km of overhead lines and 8 km of underground cable lines were rebuilt and approximately 2,500 km of electricity and guard wires were replaced.

Carrying out development projects

Each year, grid development work involves numerous projects at different stages of the implementation cycle.
For the details please see the document "Progress on previous Development Plans – updated to 31/12/2015" available in the section "Electricity service" of the website www.terna.it.

Completed work

2015 saw the completion of several development projects among which we can mention:

- new 220 kV section at the Musocco E/S, new 220 kV "Musocco – Ospiate" cable and connection cables of the Musocco ES to the 220 kV and 132 grid; 220 kV "Ric. Ovest – Ric. Sud" cable power line (works functional to the power supply to EXPO2015);
- rationalisation Turin - "Pianezza - Pellerina" T.217, T.233 and T.299;
- completion of the new 150 kV "Cagliari Sud Rumianca" cable connection;
- expansion of the 220 kV Ponte electrical substation;
- expansion of the 220 kV 220 kV Glorenza electrical substation and installation at the same time of the new 220/132kV ATR;
- new 380/132 kV ATR in the 380 kV Suvereto E.S.;
- new 380/132 kV ATR in the 380 kV Planais E.S.;
- new ATR in the Pian Camuno E.S.

We can note, finally, that on 31 January 2016 the construction of the 380 kV "Gissi – Villanova" power line was completed (first stretch necessary for doubling the 380 kV Adriatic backbone).
In relation to plants needed to collect and use the production from renewable sources in the South, expansions of large portions of 150 kV grid were completed and two new 380 kV substations built in Basilicata.

Progress on construction sites

The major works in progress in 2015 are part of projects that aim to reduce grid congestion, connect new power plants (particularly those based on renewable sources) and to make the NTG more reliable with a greater emphasis on the environment and security.
The "Sorgente – Rizziconi" 380 kV power line, for example, goes in this direction. This is expected to be completed by the end of the current year. Important work on interconnection with foreign countries is also being done, in particular the Italy – Montenegro HVDC and the Italy - France HVDC interconnections.

INNOVATION

Storage systems

The sharp increase in the production of electricity from non-programmable renewable sources (such as wind and photovoltaic) causes significant problems for adjustment of the electricity system and full use of such energy. This has led Terna to begin an innovative investment plan in the field of storage (battery) systems.
These systems make it possible to absorb excess production from renewable sources and to put it back into the grid when it is needed, thus enabling both more regular operation of programmable sources (such as thermoelectric ones), which are no longer forced to follow the variability of the others, and full use of the energy produced by the renewable sources.
Italian Legislative Decree 93/11 specified that, in implementation of the programme of the NTG DP, the operator of the national transmission system can create and manage diffused battery-based electricity-storage systems.
This is a sector of great innovation and experimentation, because there is no adequate experience on the extended and intensive use of large-scale batteries.
As part of the development of storage systems on the NTG, all the sites related to the "Energy Intensive" project came into operation, for a total of 34.8 MW, while, as regards the "Power Intensive" project 10 of the 12 systems installed at the two sites of Ciminna (PA) and Codrongianos (SS) have been completed for a total of 12.5 MW.

"Energy intensive" macro-project

Introduced as part of the 2011 DP, this provides for the creation of three storage systems in the south of Italy - at Ginestra (Benevento), Flumeri (Avellino) and Scampitella (Avellino) - for a total capacity of 34.8 MW. These plants allow the backbones of the National Electricity Grid, which are present in areas with a high concentration of non-programmable renewable energy sources, to be managed with greater security and flexibility. This enables the recovery of a significant quantity of energy produced by wind systems. The three Non-Conventional Storage Systems (NCSSs) came into operation between December 2014 and December 2015. The plants have technologies of an extremely innovative nature, among the few installations in the world for type and size.

"Power intensive" macro-project

Approved by the MED as part of the 2012 Defence Plan, this provides for the creation of two storage systems – at Ciminna in Sicily and Codrongianos in Sardinia – for a total capacity of 40 MW, with the aim of increasing the security of the electricity systems of the larger islands. During 2015 some of the testing activities envisaged by the Storage Lab project were carried out, and almost all the systems came into operation. The procurement procedures were also begun for the further technologies that will be needed to complete the ambitious experimental programme launched.

Project	Total investments since project start (mln €)*	2015 investments (mln €)*
DP: "Energy Intensive" storage systems	156.3	32.9
Defence Plan: "Power Intensive" storage systems	36.7	5.9
Total investments	193	38.8

*Figure net of capitalised borrowing costs.

Authorised work and authorisation procedures in progress

In 2015 authorisation was obtained for a number of development actions, among which it is worth mentioning:

- expansion of the HV grid north of Schio (with reference to the 132 kV "Schio – Arsiero" power line);
- new 150 kV "Roma Nord - Monterotondo" power line;
- 150 kV interconnection of the Campania Islands (SE Capri, 150 kV Capri – CP Torre A. cable connection; new "Sorrento – Capri" interconnection);
- work on the HV grid for collecting production from renewable sources in the Basilicata region;
- rearrangement of the Palermo metropolitan area (with reference to the connections on the Casuzze ES to the 150 kV "Ciminna – Mulini" power line);
- rearrangement of the 150 kV grid in the Cagliari area (CP Quartu - CP Quartucciu).

WORK FOR WHICH AUTHORISATION PROCEDURES WERE BEGUN IN 2015

INNOVATION

Smart island

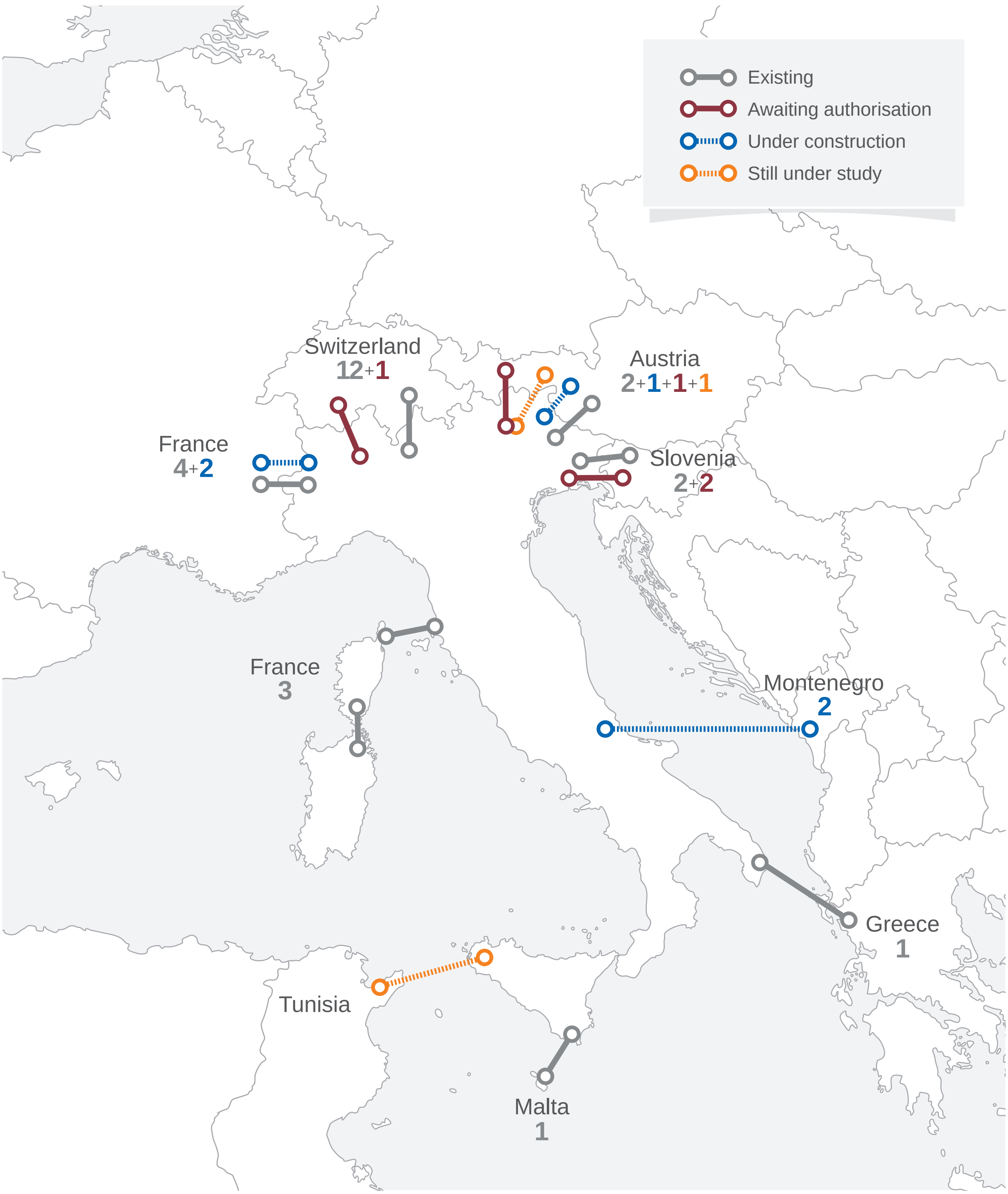
In June 2015 Terna Plus and IBM signed an Agreement for the launch of a project for the modernisation of the electricity grid of the island of Giglio with ICT solutions that integrate *green* sources, energy storage and urban mobility, respecting the territory. An innovative hybrid system will make it possible to lower the costs of electricity bills and improve the quality of the environment.

Renewable sources, energy storage systems, electrical vehicle and hi-tech solutions for managing so-called Active Demand: a mix of innovative solutions which will be able to make the Island of Giglio a genuine “smart island”. This is what is provided for in the Memorandum of Understanding signed by IBM and Terna Plus, with the Municipality of Isola del Giglio (GR), the Tuscan Archipelago National Park Authority, the Fiora Water Company and SIE- the licensee company for the production and distribution of electricity on the island. The agreement also regards the nearby territory of Giannutri.

The agreement has the objective of giving the territory of the Island of Giglio a leading-edge electricity system as it will be more efficient, smart, less polluting and more sustainable from the environmental point of view. On Giglio Island, in fact, as on other islands not connected to the national electricity grid and managed by small electricity companies, the production of electricity is currently entrusted to diesel generators - which lose into the environment about three quarters of the energy in the form of waste heat - with a great impact from the points of view of noise and emissions of harmful fumes. As well as being particularly damaging for the environment, the electricity thus produced has a cost on average six times higher than the continental price, which translates into bills more than € 60 million higher every year on a national basis. This was the basis for Terna Plus and IBM’s proposal aimed at creating highly innovative solutions that will be able to make Giglio Island a real and proper “smart island”.

Projects for interconnections with other countries and stage of progress of work

Its geographical position makes Italy a natural hub of the Mediterranean and it can count on an electricity frontier made up of 25 interconnection lines[19] to which must be added 5 new lines under construction.



(19) Of which 3 merchant lines, that is NTG lines not owned by Terna and the Italia-Malta connection owned by Enemalta.

The development work aimed at increasing the interconnection capacity (Net Transfer Capacity - NTC) on the electrical borders with foreign countries will enable the reduction of the energy procurement costs and the integration of the markets with the possibility of having more resources for operation of the Italian and European electricity system.

- Italy-France: the new Italy - France interconnection is a project unique in the world for engineering, technological and environmental solutions used: 190 km of line (approximately 95 km in Italy and 95 km in France) which will connect, through 25 municipalities of the province of Turin, the substations of Piossasco (Italy) and Grand'Ile (France), created entirely in direct-current underground cable, so also with no impact of the electrical field.
  On 10 February 2016 the Ministry of Economic Development launched the authorisation procedure for the localisation variant to the Italy - France electrical connection which with its 26 km of direct-current buried cables will affect the SP/SS 24 road between Bussoleno and Salbertrand.

- Italy-Montenegro: the new electrical connection will be at zero environmental impact because it is planned completely in undersea cable and buried for the part on land. As it is, in addition, a direct-current work, the electrical field generated will also be zero. The project, with power of 1000 MW, will connect Italy (Villanova, in the Province of Pescara) and Montenegro (the Tivat/Kotor area). It will be 420 km long, of which 390 km undersea cable and 30 km underground cable (15 km in Italy and 15 km in Montenegro).

Non-Regulated Activities

The Non-Regulated Activities were divided into the following areas:
- Services for third parties;
- Initiatives abroad;
- Interconnectors;
- Production of Transformers - Tamini Group.

Services for third parties

In Italy, during 2015, Terna continued to perform activities related to services for third parties in the area of engineering services (developing technical solutions and supplying innovative services), Telecommunications (housing of telecommunication equipment and maintenance services involving fibre optic networks) and Operating Third-Party Plants (operating and maintaining High- and Very-High-Voltage plants).
In relation to Telecommunications services, the acquisition of the High-Voltage grid of the Ferrovie dello Stato (State Railway) Group, completed in December 2015, provided for the transfer of a contract for passage of optical fibre belonging to Basictel (€ 5.6 million of revenue).

Initiatives abroad

Abroad, during 2015, the Terna Group's attention turned to Chile, as a location of extreme interest, as it associates a low country risk profile with a high rate of economic and infrastructural growth. With this in view, on 4 June 2015, Terna Plus S.r.l. (the Terna Group company responsible for the development of Non-Regulated Activities) incorporated a company under Chilean law named "Terna Chile S.p.A.". The Company's main purpose is to carry out design, construction, administration, development, operation and maintenance activities relating to electrical structures, plants, equipment and infrastructures, including those of interconnection. In 2015 Terna Chile developed an order for connection to the electricity grid of a 90 MW photovoltaic system.

In addition, again with a view to making the most of its skills, in 2015 Terna took part in international tenders for technical assistance for operators that tackle complex challenges associated with Grid operation and development activities, especially in emerging countries. In 2015 technical assistance projects were activated in the Mediterranean area and in Africa.

In the context of the foreign growth strategy, in May 2015 Terna signed with Enel a Memorandum of Understanding for electricity transmission projects around the world. The agreement has a duration of three years and will enable the two companies to cooperate on developing electricity transmission initiatives abroad, with the creation of new plants or the acquisition of existing assets. In foreign countries of strategic or commercial interest, Terna is interested in providing its technical collaboration with respect to the analysis of the electricity system, to grid planning, to design, to the operation and maintenance of transmission assets and is also interested in assessing the acquisition or development of transmission assets.

Interconnector

During 2015 the activities aimed at developing the first Interconnector projects implementing Italian Law 99/2009 were concretely launched. In particular, these activities regarded the projects in the most advanced stage of development related to the Italy-France and Italy-Montenegro interconnections.

INTERCONNECTORS UNDERWAY	
"Italy-France Interconnector" Project	The project envisages the utilisation pursuant to Law 99/2009 of a portion of the transfer capacity made available with the creation of the new Piossasco – Grande Ile HVDC interconnection. With the aim of ensuring the creation and operation of the Italy-France Interconnector the company Terna Interconnector S.r.l. was incorporated, with a 70% interest held by the Terna Group. The incorporation therefore took place on 27 March 2015 of the company Piemonte Savoia S.r.l. (a company 100% owned by Terna Interconnector S.r.l.), with the main purpose of requesting on behalf of Selected Subjects exemption for access by third parties (TPA *exemption*). Following the issuance of the exemption, the company is expected to be fully transferred to the Selected Subjects to become the vehicle company that will give the mandate to build and operate the private interconnection infrastructure. In particular, in 2015 the company Piemonte Savoia S.r.l. notified the Ministry of Economic Development of this exemption request.
"Italy-Montenegro Interconnector" Project	The interconnection involves the construction of a HVDC transmission line of over 450 km between the Villanova substation in Italy and the future Lastva substation in Montenegro. The financing of the project and its ownership will be partly assumed by Selected Subjects under Law 99/2009. For this purpose, a company named Monita Interconnector S.r.l, 100% held the by Terna Group, was incorporated on 13 April 2015. Following the issuance of the exemption, the company is expected to be fully transferred to the Selected Subjects to become the vehicle company that will give the mandate to build and operate the private interconnection infrastructure. After receiving a specific mandate from the Selected Subjects, Monita Interconnector Ltd submitted the exemption request to the Ministry of Economic Development in 2015.

Production of transformers - Tamini Group

With a century of experience and a high degree of know-how, Tamini represents a historical industrial company of excellence, recognised in the electrical sector in Italy and abroad.
At the end of October 2015 the merger was carried out between Tamini Trasformatori and TES Transformer Electro Service S.r.l, a company based in Ospitaletto (Brescia) operating in the sector of production of electricity transformers for industrial use and for the segment of production and transmission of electricity, creating a national hub of reference in the transformers sector with a Group of more than 430 specialised employees, with customers based in more than 90 countries worldwide and more than 250 transformers installed every year.

As regards the foreign market, in particular, it is worth noting the conclusion in the first nine months of the year of the supply of an important 157 MVA transformer for an American steelworks, of five rectifier transformers for the mining industry in Canada and an order for a steel plant in South Africa of 6 transformers. Africa remains a strategic market, both in the steel-making and mining industries in South Africa, and in Power, mainly in Algeria, where the Group is completing the supply of important orders.

In the last few months of the year the approval test was performed on the first of the four Phase Shifting Transformer orders for the Czech Republic. These are strategic orders the acquisition of which has enabled Tamini to gain a position in this sector in the European area.

At the end of July 2015 Tamini signed with Tenova Minerals PTY Ltd an exclusive partnership agreement with a duration of 10 years aimed at developing the technology used by the Company to be applied to the Tenova plants known as “Submerged Arc Furnaces” (“SAFs”).

In September 2015 an exclusive three-year agreement was finalised with the service centre Ohio Transformers Services in USA for repairs and maintenance of Tamini industrial transformers sold in the NAFTA (approximately 250 transformers in the USA and 80 in Canada installed as of today).

At the end of 2015 a partnership agreement was signed with Mobarakeh Steel Companies (MSC Group), the largest Iranian steelworks and a historical Tamini client. This provides for an important strengthening of the commercial relationship between the two companies, giving Tamini the role of privileged supplier of the Iranian group.

Economic-financial performance

Type and regulation of regulated revenues

Type

For some years now, Terna has sought to diversify its revenue in Italy and abroad, notably by developing market business. The Terna Group and Terna S.p.A. retains, however, a clear majority share of revenue gained through Regulated Activities overseen in Italy by the AEEGSI (hereinafter the Authority).
The regulated revenue derives mainly from transmission and dispatching business and in negligible amounts from measurement services, which will therefore not be considered in the representation below.

FEES FOR TRANSMISSION AND DISPATCHING	
Fee for the transmission service	This remunerates the transmission business carried on by all part holders of the NTG (including owners of residual portions). The income is collected entirely by Terna, which distributes it among all the owners, less certain items that fall within its own competence. The Authority determines the annual fee, based on rules defined at the beginning of each regulatory period, which is four years for the 2012–2015 period. With Resolution No. 654/2015/R/eel, the Authority established criteria and formulas for the calculation of the fee and its annual update in the 2016–2019 regulatory period.
Fee for the dispatching service	This remunerates Terna for related business and is billed by Terna to dispatching users*. The related revenues are entirely due to Terna, as the only subject responsible for this service.

*"Dispatch users" means subjects that have signed a dispatching service contract with Terna.

2012–2015 regulatory framework for the remuneration of dispatching and transmission services

Revenue guarantee mechanism

Regulated revenue depends on unit costs for transmission and dispatching and the volume of transmitted and dispatched energy. Unit costs for the year "t" are calculated by dividing the "fee" of the year "t-2" by the volumes expected for the year "t".
The Authority has provided a revenue guarantee that awards, in favour of or at the expense of Terna, only the differences within a +/-0.5% range of the actual and forecast volumes of the year "t".

Dispatching service

The fee for the dispatching service (DIS) remunerates Terna for activities directly connected to the dispatching service, and it is invoiced by Terna to the withdrawal dispatch users, in proportion to the respective quantities of energy dispatched. The related revenues are entirely due to Terna, as the only subject responsible for this service.
Resolution ARG/elt 204/11 calculated the DIS fee for the year 2012 and decided on the annual updating with the same criteria and methods as contemplated by Resolution ARG/elt 199/11 for the grid transmission fee.
For the years 2013, 2014 and 2015, the unit amount of the DIS fee has been updated respectively by Resolutions No. 576/12/R/eel, No. 636/13/R/eel and No. 658/14/R/eel.

Transmission service

The methodology for the determination of the transmission fee simulates a market remuneration, which pays Terna for its investment and costs incurred.
The fee has three components:

- fee for return on investment;
- fee to cover depreciation;
- fee to cover operating expenses.

For each of these components, the Authority determines the fee calculation method, summarised in the following table.

THE THREE COMPONENTS OF THE TRANSMISSION SERVICE FEE	
Fee for return on investment	The investment to be remunerated is known as the Regulated Asset Base (RAB). The RAB is revalued annually in accordance with ISTAT data on the change in the deflator of gross fixed investments and updated on the basis of investments and disposals. The rate of remuneration of the RAB, known as the Weighted Average Cost of Capital (WACC), is defined by the Authority. Pursuant to Art. 2 of Resolution ARG/elt 199/11, the WACC has been updated by the Authority to 6.3% until 2015; it is also contemplated that all the investments made after 31 December 2011 should benefit from an additional 1%, recognised by the Authority in order to compensate for the “regulatory lag”, i.e. the delay with which the tariffs remunerate investments (as indicated above, the tariffs related to the year “t” reflect the return on investments up to the year “t-2”). Therefore, the RAB base return on such investments (starting from the 2014 tariffs) is 7.3% (6.3%, +1%). For some specific types of investment, incentives are contemplated aimed at promoting investment in infrastructure: • additional WACC (on investments which have entered into service): for some types of investment, the WACC is increased for 12 years from the date of commissioning; • acceleration of investments: for some strategically important investments, an increase in the WACC is contemplated also in the construction period (works in progress), provided Terna reaches certain effectiveness indicators. In 2015, RAB remuneration (base + incentives) constituted approximately 52% of Terna’s recognised costs.
Fee to cover depreciation	Depreciation and amortisation are adjusted in accordance with the useful life of assets and new investments that have come into operation. They are also re-evaluated annually according to changes in the deflator of gross fixed investments. In 2015, amortisation/depreciation remuneration constituted approximately 31% of Terna’s recognised costs.
Fee to cover operating expenses	This is revenue recognised to cover operating costs (mainly external resource costs, including the cost of personnel and material purchases). The component covering the operating expenses of around 17% for 2015, is determined by the AEEGSI at the beginning of the regulatory period and is based on the operating expenses of the reference year (which for the regulatory period 2012–2015 was 2010) supplemented by residual portions – temporarily left to Terna – of the extra-efficiency achieved in the two previous regulatory periods. The value obtained is revalued annually on the basis of inflation and reduced by an efficiency factor aimed at completing, over time, the transfer to the final users of the extra-efficiency achieved. The reference for operating expenses for the 2016–2019 period are the costs incurred in 2014.

Quality of transmission service

In addition to the fees for the service, a system exists to encourage the quality of service provided by Terna. To encourage continuity of service there is a system of rewards and penalties for energy not supplied; it can generate penalties up to a maximum of € 12 million and incentives up to € 30 million annually.
In some cases, the distribution companies can fuel plants temporarily not supplied by Terna. For such services rendered (so-called mitigation) the distribution companies can obtain refunds from Terna up to 18 million annually.

Finally, Terna may have to share penalties/refunds paid by the distribution companies when outages occur affecting customers connected to MV and LV distribution networks, which entail exceeding the specific standards established by the Authority (in terms of duration/number of outages). Terna's share for exceeding the outage duration standards has a maximum annual limit of € 70 million, while that for exceeding the standards on the number of outages is contained in the limits of the provisions of the distribution service quality regulations (Title 5 of Part I of the TIQE).

2015 Incentive schemes

The Authority has introduced specific bonus and penalty schemes aimed at encouraging service improvement, both in terms of technical reliability and cost. As is implicit in incentive mechanisms, upon reaching objectives, the benefit to service users will be a multiple of the incentive paid to Terna. In particular, in 2015 incentive mechanisms were provided for:

- the transmission service quality (non-tariff incentive mechanism);
- the promotion of significant investments (tariff incentive mechanisms: additional WACC and investment acceleration, described previously).

The bonuses/penalties connected to achievement of the objectives established in the incentive schemes are included in the total regulated revenue.

2015 INCENTIVE SCHEMES

Objective	Authority Resolution	Period applicable
Quality of transmission service	Resolution ARG/elt 197/11	2012–2015
Promotion of particularly important investments (beyond WACC and investment acceleration).	Resolution ARG/elt 199/11	2012–2015

Pass-through items

With regard to dispatching operations, Terna manages cost and revenue items connected to the transactions, completed with electricity market operators, to buy and sell the energy: these are the "pass through" items, i.e. those which do not influence the profitability of the Terna Group, as revenue is equal to cost.
These items include payments such as the capacity payment which Terna collects from withdrawal dispatching users and passes on to the producers who make the capacity available on the market. It also includes the payment that Terna collects from the withdrawal dispatching users and passes on to the operators which supply the load interruption service.
A significant proportion of pass-through items consists of uplift, a tariff component which includes various system costs, including covering the net expenses incurred to procure resources on the Dispatching Service Market (DSM).
In 2015, pass-through revenues and costs for the Terna Group totalled € 5,059.1 million.

The Terna Group's performance and financial position

The 2015 Annual Report of the Terna Group has been prepared in accordance with the provisions of Art. 154-*ter* of Italian Legislative Decree 58/98 introduced by Italian Legislative Decree No. 195 of 6 November 2007 (the "Transparency Decree"), as amended by Italian Legislative Decree No. 27 of 27 January 2010.
In implementation of the provision of Italian Legislative Decree No. 38 of 28 February 2005 and EEC Regulation No. 1606/2002, the Terna Group prepares the consolidated financial statements as at and for the year ended 31 December 2015 in compliance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board and endorsed by the European Commission (hereinafter "EU IFRSs").
The 2015 Annual Report has been prepared on a historic cost basis, modified where necessary for certain financial instruments, as well as on a going concern basis.

Consolidation scope

As explained above under the section "Organisation, reference scenario and business" the change in the consolidation scope of the Terna Group compared to the situation at 31 December 2014 concerns, in particular, as part of the Regulated Activities, the company Rete S.r.l., which holds the assets acquired in December 2015 from Ferrovie dello Stato (FSI). The performance of the subsidiary is reflected in the Income Statement for 2015 as of 23 December 2015, the date on which the acquisition by the Terna Group was completed.
The consolidation scope of the Terna Group also includes the companies Piemonte Savoia S.r.l., Monita Interconnector S.r.l. and Terna Chile S.p.A., incorporated in 2015 Chile operating in the field of Non-Regulated Activities.
We refer finally to the acquisition, in the context of the Tamini Group, of the company TES – Transformer Electro Service S.r.l., which took place on 30 October 2015.

Basis of presentation

The measurement and recognition criteria applied in this Annual Financial Report are consistent with those adopted in the consolidated financial statements at 31 December 2014.
In order to present the performance of the Terna Group and to analyse its financial position, separate reclassified statements have been prepared that differ from those required by the EU-IFRS adopted and contained in the consolidated financial statements.
These reclassified tables contain alternative performance indicators with respect to those resulting directly from the tables of the consolidated financial statements, which management considers useful for monitoring Company trends, and representative of the economic and financial results produced by the business.
In line with Recommendation CESR/05-178b, the criteria for constructing these indicators are described in the footnotes which reconcile them with the schedules contained in the consolidated financial statements, attached to this Report on Operations.
For the purposes of better comparison some economic balances have been reclassified, but without altering the equity at 31 December 2014.
Note, finally, that the Stability Law for 2016 (Law No. 208 of 28 December 2015) provides for IRES company tax cuts (article 1 paragraphs 61–64), with effect from 2017, reduced from 27.5% to 24% for entities not classified as credit or financial institutions. In the light of the new legislation, the deferred tax assets and liabilities were consequently adjusted on the basis of the rate at the time of repayment; this resulted in a positive one-off effect estimated at about 8.2 million in the income statement in the current period.

Group reclassified income statement

The economic results for financial year 2015 for the Terna Group, compared with the previous year, are summarised in the following Operating Income Statement.

€ million	2015	2014	Δ	Δ %
REVENUE				
- Transmission fee	1,706.4	1,650.7	55.7	3.4%
- Dispatching fee	125.2	117.3	7.9	6.7%
- Other operating revenue	224.3	198.0	26.3	13.3%
of which other revenue from Regulated Activities	18.1	54.9	(36.8)	(67.0%)
of which revenue from Non-Regulated Activities	206.2	143.1	63.1	44.1%
- Revenue from construction of licensed activities	26.2	30.4	(4.2)	(13.8%)
TOTAL REVENUE	**2,082.1**	**1,996.4**	**85.7**	**4.3%**
OPERATING EXPENSES				
- Personnel expenses	226.9	258.9	(32.0)	(12.4%)
- Services, leases and rentals	145.2	139.5	5.7	4.1%
- Materials	89.9	37.1	52.8	142.3%
- Other expenses	46.8	41.2	5.6	13.6%
- Service quality	7.9	(2.2)	10.1	n/a
Costs of construction of licensed activities	26.2	30.4	(4.2)	(13.8%)
TOTAL OPERATING EXPENSES	542.9	504.9	38.0	7.5%
EBITDA (GROSS OPERATING PROFIT)	1,539.2	1,491.5	47.7	3.2%
Amortisation, depreciation and impairment	516.8	480.6	36.2	7.5%
EBIT (OPERATING PROFIT)	1,022.4	1,010.9	11.5	1.1%
- Net financial income (expense)	(141.1)	(127.9)	(13.2)	10.3%
PROFIT/LOSS BEFORE TAXES	881.3	883.0	(1.7)	(0.2%)
- Income taxes for the year	286.0	338.5	(52.5)	(15.5%)
NET PROFIT FOR THE YEAR	595.3	544.5	50.8	9.3%
- Share attributable to non-controlling interests	(0.2)	-	(0.2)	n/a
NET PROFIT OF THE GROUP	595.5	544.5	51.0	9.4%

In 2015, the Terna Group achieved revenues **totalling € 2,082.1 million**, € 1,732.5 million pertaining to the Parent Company, € 193.5 million to the subsidiary Terna Rete Italia S.r.l., and € 116.0 million to the Tamini Group, with an increase of € 85.7 million with respect to the previous year (+4.3%). This change is mainly attributable to Non-Regulated Activities, for € 63.1 million and to Regulated Activities for € 26.8 million.

The following are details of revenue items that make up the **Regulated Activities**, net of revenue from construction of licensed activities[20].

REVENUE FROM REGULATED ACTIVITIES

€ million	2015	2014	Δ
- Transmission fee	1,706.4	1,650.7	55.7
- Dispatching fee	125.2	117.3	7.9
- Other operating revenue	18.1	54.9	(36.8)
- Service quality	(4.7)	33.9	(38.6)
- Other	22.8	21.0	1.8
TOTAL	**1,849.7**	**1,822.9**	**26.8**

Revenue from Regulated Activities recorded an increase of € 26.8 million compared to the previous year, mainly due to:

- the increase of the fees for transmission services (€ +55.7 million) and for dispatching (€ +7.9 million). The two fees reflect the tariff update for the year 2015, inclusive of the impact of the mechanism neutralising the volume effect (pursuant to AEEGSI Resolution ARG/elt 188/08) with respect to the adjustment of the value of the reference energy established by the Authority for the year 2015, as well as the provision for risks relating to a dispute with an operator concerning the tariff adjustment mechanism with the Republic of San Marino, for € 10.7 million;
- the negative impact of service quality (€ -38.6 million), due mainly to bonuses recognised in 2014 for the RENS incentive mechanism, pursuant to Res. ARG/elt 197/11 regarding the estimate of penalties attributable to the current period.

Below we detail the economic effects of the bonus/penalty mechanisms related to service quality for financial year 2015, compared with 2014.

SERVICE QUALITY

€ million	2015	2014	Δ
Revenue			
RENS Bonuses (Penalties) (2015 and 2014)	(4.7)	33.9	(38.6)
	(4.7)	**33.9**	**(38.6)**
Costs			
Estimated costs connected to mitigation and partnership mechanisms	10.8	2.8	8.0
Contributions to Exceptional Events Provision	6.1	0.8	5.3
Contingent assets	(9.0)	(5.8)	(3.2)
	7.9	**(2.2)**	**10.1**
Net service quality impact	**(12.6)**	**36.1**	**(48.7)**

The growth of revenue from **Non-Regulated Activities** amounting to € +63.1 million is due essentially to revenues from orders by the Tamini Group (+62.5 million), which in the previous year contributed to group results only from the 20 May 2014 date of acquisition, as shown in the following table.

(20) This item includes the recognition of revenue provided by IFRIC 12 Service Concession Agreements, with the same amount in operating expenses.

REVENUE FROM NON-REGULATED ACTIVITIES

€ million	2015	2014	Δ
- Tamini Group	116.0	53.5	62.5
- Orders in Chile	14.3	-	14.3
- NTG variants	10.7	17.7	(7.0)
- Other	65.2	71.9	(6.7)
TOTAL	**206.2**	**143.1**	**63.1**

In the "Other" item, the change of -6.7 million is attributable to the 2014 release of the provision set aside, following the adjustment of the estimated likely costs of extraordinary operations finalised in 2011 in the photovoltaic sector (€ -13.8 million), partly offset by the adjustment of the price paid for the acquisition of Tamini (€ +5.9 million).

The **operating expenses** for the year equal to € 542.9 million and attributable to the parent company for € 148.0 million, the subsidiary Terna Rete Italia for € 251.8 million and the Tamini Group (for € 115.6 million) were **up** compared to 2014 (€ +38 million). Operating expenses net of the effect of consolidation of the Tamini Group decreased by approximately € 24.4 million.

The Group's expenses in the year are detailed in the table below.

OPERATING EXPENSES

€ million	2015	2014	Δ Total	Δ without Tamini	Δ Tamini
Personnel expenses	226.9	258.9	(32.0)	(40.5)	8.5
Services, leases and rentals	145.2	139.5	5.7	(5.6)	11.3
Materials	89.9	37.1	52.8	13.5	39.3
Other expenses	46.8	41.2	5.6	2.3	3.3
Service quality	7.9	(2.2)	10.1	10.1	-
Costs of construction of licensed activities	26.2	30.4	(4.2)	(4.2)	-
Total operating expenses	**542.9**	**504.9**	**38.0**	**(24.4)**	**62.4**

Net of the contribution of the Tamini Group, operating expenses were down € 24.4 million compared to the previous year, due to the following changes:

- **Personnel expenses:** € -40.5 million, mainly due to provision for early retirement incentives equal to € 36.6 million detected in the previous year, in support of the generational change project implemented in 2015. This project produced cost savings that have kept wages and salary costs in line, offsetting increases from contract renewals;
- **Services, leases and rentals:** € -5.6 million, related to improved operational efficiency achieved by the insourcing of activities and reduced spending volumes and unit costs of contracts outsourced to external suppliers;
- **Materials:** € +13.5 million, largely related to the costs recognised by the subsidiary Terna Chile due to an order in progress in Chile, begun in the third quarter of 2015;
- **Service quality:** € + 10.1 million, due mainly to provisions for mitigation mechanisms and partnership and for Exceptional Events Provision contributions, net of greater contingent assets observed compared to 2014.

EBITDA (gross operating margin) for the year stood at **€ 1,539.2 million**, an increase of € 47.7 million compared to € 1,491.5 million in 2014; this was mainly due to an improved result of Regulated Activities (€ +62.9 million). The **EBITDA margin** fell from 74.7% in 2014 to **73.9%** of 2015, caused principally by the consolidation of the Tamini Group.

The item **amortisation, depreciation and impairment** for the year, amounting to € 516.8 million (of which € 456.5 million of the parent company and € 48.2 million of the subsidiary Terna Rete Italia S.r.l.), grew by € 36.2 million compared to 2014, essentially due to the entry into operation of new plants and new disposal programmes defined at the end of the year (€ 12.1 million) and depreciation/amortisation for the year for € 23 million, of which € 14.3 million was attributable to the cancelled authorisation of the Dolo-Camin line construction project. In its lieu, a new grid scheme is in development prior to submission for authorisation, for € 7 million as a result of the analysis of the effective recoverability of the carrying amount of certain specific plants (Rapid-Installation Connection Substations) of Terna Plus and for the remainder to other assets, especially in ICT.

EBIT (operating profit), after deducting amortisation, depreciation and impairment, came to **€ 1,022.4 million**, compared to € 1,010.9 million in 2014 (+1.1%).

Net financial expenses for the year amounted to € 141.1 million, mainly attributable to the parent company (€ 139.3 million), recording an increase of € 13.2 million compared with € 127.9 million in 2014, mainly due to costs of Liability Management operations initiated on 20 July 2015 and commented in the section on "Significant events in 2015" (€ 32.3 million), mitigated by the net decrease effects of the overall decrease in market rates (€ -30 million: € -40.9 million for lower financial expenses and € 10.9 million for lower financial income). Help also came from lower net income on shareholdings valued at equity (€ 7.0 million, of which € 3.5 million related to the impairment of the stake in the associate CGES) and lower capitalised borrowing costs (€ 5.7 million, mainly due to the fall in market interest rates).

After deducting net financial expense, **profit before taxes** came out at **€ 881.3 million**, compared to the € 883 million of the previous year (-0.2%).

Income taxes for the year amounted to € 286.0 million, down € 52.5 million (-15.5%) compared with the previous year, mainly due to:
- reduction of the IRES rate from 27.5% from 1 January 2015 following the declaration of unconstitutionality of the surcharge introduced by Decree Law No. 112/2008 (known as the Robin Hood Tax)[21];
- deductibility of permanent personnel expenses for IRAP purposes introduced by the 2015 Stability Law starting from the current year;
- adjustment of net deferred taxes following the provisions of the Stability Law for 2016 (Law No. 208 of 28 December 2015), which provides for IRES company tax cuts (article 1 paragraphs 61–64), with effect from 2017, reduced from 27.5% to 24% for entities not classified as credit or financial institutions. The one-off effect amounted to € 8.2 million, compared with € 31.5 million the previous year following the elimination of the IRES surcharge; and
- the reversal of the provision for likely costs arising from the sale of Terna Participações by the parent company (for € 7.3 million).

The tax rate for the year dropped, going from 38.3% in 2014 to 32.5% in 2015.
Net profit for the year reached **€ 595.3 million**, an increase of € 50.8 million (+9.3%) with respect to the € 544.5 million of 2014.

Group net profit (therefore excluding the share attributable to third parties) stood at **€ 595.5 million**, an increase of € 51 million (+9.4%) compared to € 544.5 million in 2014.

(21) On 11 February 2015, the Constitutional Court published Ruling 10/2015, with which it declared the unconstitutionality of the Robin Hood Tax. Given that, in the Court's opinion, "the retroactive application of this declaration of unconstitutionality would create a serious violation of the balance of the budget" of the State, sanctioned in Article 81 of the Constitution, "the unconstitutionality is effective as of the day following the publication of this ruling".

Results by business segment

Economic results

The breakdown of the Terna Group's results by business segment, in relation to financial years 2015 and 2014, is detailed in the table below[22].

€ million	2015	2014	Δ	Δ%
Total revenue from Regulated Activities	1,849.7	1,822.9	26.8	1.5%
Transmission Fee	1,706.4	1,650.7	55.7	3.4%
Dispatching revenues	125.2	117.3	7.9	6.7%
Service quality	(4.7)	33.9	(38.6)	(113.9%)
Other core revenue	22.8	21.0	1.8	8.6%
Total revenue from Non-Regulated Activities	206.2	143.1	63.1	44.1%
Tamini Group revenue	116.0	53.5	62.5	116.8%
Other non-regulated revenue	90.2	89.6	0.6	0.7%
Revenue from construction of licensed activities	26.2	30.4	(4.2)	(13.8%)
Total revenue	2,082.1	1,996.4	85.7	4.3%
Total costs of Regulated Activities	363.8	399.9	(36.1)	(9.0%)
Personnel	194.9	236.0	(41.1)	(17.4%)
External resources	122.5	129.3	(6.8)	(5.3%)
Service quality	7.9	(2.2)	10.1	(459.1%)
Other expenses	38.5	36.8	1.7	4.6%
Total costs of Non-Regulated Activities	152.9	74.6	78.3	105.0%
Tamini Group costs	115.6	53.2	62.4	117.3%
Other costs for Non-Regulated Activities	37.3	21.4	15.9	74.3%
Costs from construction of licensed activities	26.2	30.4	(4.2)	(13.8%)
Total operating expenses	542.9	504.9	38.0	7.5%
EBITDA	1,539.2	1,491.5	47.7	3.2%
EBITDA Regulated Activities	1,485.9	1,423.0	62.9	4.4%
EBITDA Non-Regulated Activities	53.3	68.5	(15.2)	(22.2%)

Regulated Activities

The ***EBITDA of Regulated Activities*** amounted to € 1,485.9 million, up € 62.9 million compared to the figure for the previous year. This increase is due to the combined effect of higher revenues primarily for transmission and dispatching fees including lower revenues for service quality (€ +25 million) and lower costs for personnel and external resources (€ -47.9 million), related to provisions for early retirement incentives made last year and to improved operational efficiency achieved in 2015 through insourcing of activities and reduced spending volumes and unit costs of contracts entrusted to external suppliers.

(22) The Terna Group's business segments are in keeping with the internal management control system adopted by the Parent Company, in line with the 2016–2019 Strategic Plan.

Non-Regulated Activities

The **EBITDA of Non-Regulated Activities** stood at € 53.3 million, a decrease of € 15.2 million compared with the previous year due to rising costs recorded during the year (€+78.3 million), which is higher than the revenue increase (€ +63.1 million), mainly because of the 2014 release of the provision to adjust estimates of likely costs of extraordinary operations finalised in 2011 in the photovoltaic sector (€ -13.8 million).

Investments

In 2015, the Terna Group made investments for € 1,103.1 million, of which € 1,050.7 million (approximately 95.2%) were investments in Regulated Activities, i.e. remunerated by the AEEGSI; in particular, with reference to remunerated investments, we can note that:

- 44.7% receives extra remuneration of 2% (investment categories I3 and I4);
- 35.9% benefits from extra remuneration of 1.5% (investment category I2);
- 19.4% receives the basic remuneration (investment category I1).

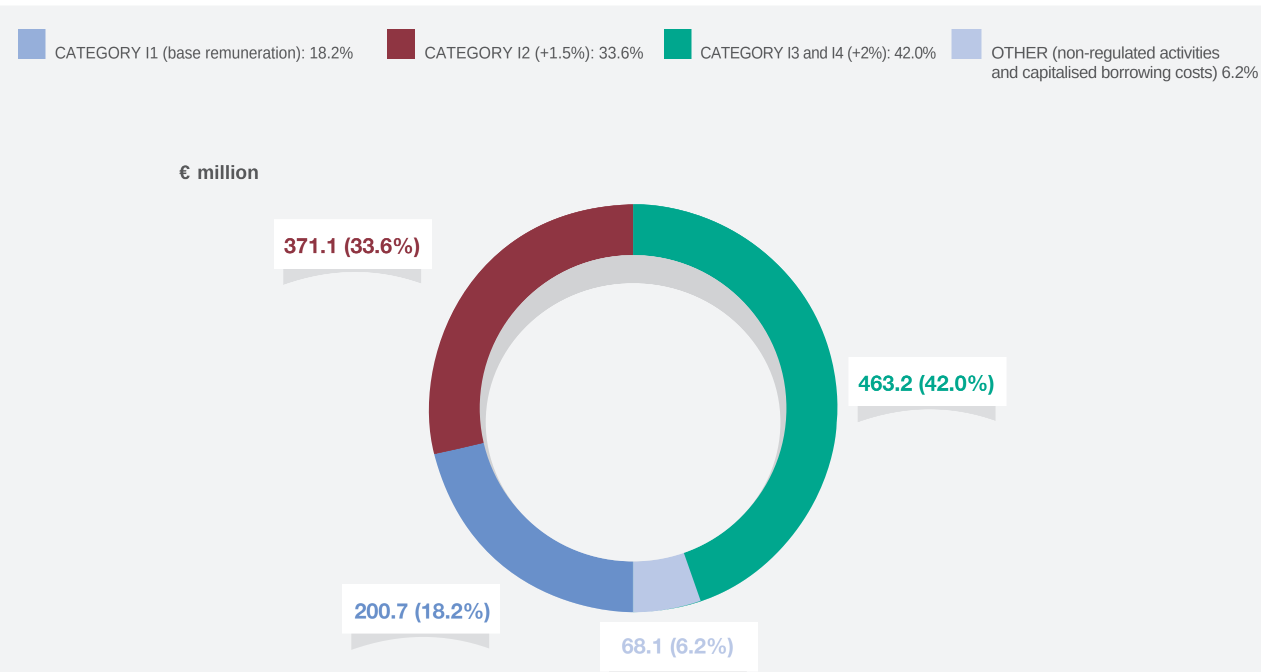
INVESTMENTS

	Financial year 2015	Financial year 2014	Δ	Δ%
Incentives +2%	463.2	468.7	(5.5)	(1.2%)
Incentives +1.5%	371.1	355.3	15.8	4.4%
Investments with incentives	**834.3**	**824.0**	**10.3**	**1.3%**
Base remuneration	200.7	226.1	(25.4)	(11.2%)
Investments in Regulated Activities	**1,035.0**	**1,050.1**	**(15.1)**	**(1.4%)**
Other[1]	68.1	46.0	22.1	48.0%
Total investments	1,103.1	1,096.1	7.0	0.6%

[1] These include investments in Non-Regulated Activities and capitalised borrowing costs.

The investments in Non-Regulated Activities, included under the item "Other" in the above table, mainly regard capitalised borrowing costs and variants for third parties.
Below is a representation of investments by category of remuneration.

INVESTMENTS IN CONNECTION WITH THE REMUNERATION CATEGORY



The Group's reclassified statement of financial position

The reclassified consolidated statements of financial position of the Terna Group at 31 December 2015, and 31 December 2014, are presented below.

€ million	at 31.12.2015	at 31.12.2014	Δ
Net non-current assets			
- Intangible assets and goodwill	520.1	452.5	67.6
- Property, plant and equipment	12,078.7	10,778.6	1,300.1
- Financial assets	89.5	89.3	0.2
Total	**12,688.3**	**11,320.4**	**1,367.9**
Net working capital			
- Trade receivables	568.3	670.8	(102.5)
- Inventories	12.4	21.6	(9.2)
- Other assets	40.0	24.4	15.6
- Trade payables	(747.1)	(742.9)	(4.2)
- Net energy-related pass-through payables	(617.9)	(453.9)	(164.0)
- Net tax assets	132.5	6.2	126.3
- Other liabilities	(349.9)	(347.0)	(2.9)
Total	**(961.7)**	**(820.8)**	**(140.9)**
Gross invested capital	**11,726.6**	**10,499.6**	**1,227.0**
Sundry provisions	(378.1)	(440.9)	62.8
NET INVESTED CAPITAL	**11,348.5**	**10,058.7**	**1,289.8**
Equity attributable to the owners of the Parent	**3,320.8**	**3,092.9**	**227.9**
Equity attributable to non-controlling interests	**25.0**	**-**	**25.0**
Net financial debt	**8,002.7**	**6,965.8**	**1,036.9**
TOTAL	**11,348.5**	**10,058.7**	**1,289.8**

The increase in **net non-current assets** of € 1,367.9 million, compared to the figures at 31 December 2014, signals the effects of the business combination involving Rete S.r.l. (performed on 23 December 2015), owner of the assets acquired from FSI. The table below summarizes the main effects on net non-current assets.

NET NON-CURRENT ASSETS OF RETE S.r.l.

	Values at the acquisition date
Assets included in the NTG with the operation	674.0
Assets previously included in the NTG	45.0
Total property, plant and equipment	**719.0**
Intangible assets (Basictel contract)	**38.0**
Amount paid	**757.0**

Property, plant and equipment recorded an increase of € 1,300.1 million for the combined effect of:

- investment of € 1,058.6 million reviewed below;
- contribution of the assets of Rete S.r.l., registered for a value of € 719 million, corresponding to the value recognized by the AEEGSI on the new portion of NTG, in addition to the recalculation of the value attributed to the portion of lines already included in the scope of Rete S.r.l.;
- amortisation and depreciation for the year of € 434.9 million;
- impairment of € 22.9 million, including € 14.3 million attributable to the Dolo-Camin project, commented on previously, € 7 million as a consequence of the analysis of the effective recoverability of the carrying amount of certain specific plants (Rapid Installation Connection Stations – SCRIs) of Terna Plus and the remainder refers to other assets, above all in the ICT field;
- disposals and other changes for the year of € 28.2 million.

Intangible assets and goodwill recorded an increase of € 67.6 million over the previous year, attributable mainly to the combined effect of:

- period investments of € 44.5 million (of which € 10.3 million in dispatch infrastructures), mentioned further on;
- recognition of the sum of € 38 million from the receivable contract for the housing of optical fibre acquired with Rete S.r.l.,enhanced in the allocation process by the higher price paid by the Terna Group;
- goodwill recognised on the occasion of the aforesaid acquisition by Rete S.r.l. for € 16.9 million, and the acquisition of Tes Trasformatori, for € 17.2 million within the scope of the Tamini Group;
- portion of amortisation/depreciation accruing (€ 55.3 million of which, in particular, € 34.6 million relating to the amortisation of the dispatching infrastructures and € 5.6 million relating to amortisation of the concession).

Total investments made by the Group in 2015 amounted to € 1,103.1 million, in line with the Strategic Plan, compared with € 1,096.1 million in 2014 (up by 0.6%).
It is particularly worth mentioning the investments in the ongoing project for the construction of three 380 kV power lines that are strategic for the system: Foggia-Villanova (€ 64.9 million), Sorgente-Rizziconi (€ 69.2 million) and Udine Ovest-Redipuglia (€ 46.1 million). The works on the HVDC Italy - Montenegro Interconnection are also continuing (investments of € 171.5 million) and the work on supplying cable and the substation for the Italy-France Interconnection (€ 16.5 million) have been initiated. The construction work on the synchronous condensers at the Favara and Partinico substations has been completed and testing is currently underway, with these becoming operational during the first quarter of 2016 (investment of € 30.8 million).
Lastly, as regards actions on the development of storage systems, one should note, with reference to the "Energy Intensive" projects, the entry into service of the Flumeri plant with an extra 6 MW and of the Scampitella plant with a further 10.8 MW (with a total on the three sites built of 34.8 MW installed) while, with reference to the "Power Intensive" projects, one should note the entry into service of 12.5 MW distributed on two sites: Codrongianos (7.4 MW) and Ciminna (5.1 MW). The overall recorded figure for investments in storage systems in 2015 was € 39.9 million.

Net working capital amounted to € -961.7 million and during the year generated liquidity totalling € 140.9 million with respect to 2014, due to the joint effects of:

Liquidity generated for a total of € 282.2 million, relating to:

- reduction in **trade receivables** by € 102.5 million, due to the combined effect of:
  - a decrease of € 114.2 million in the receivable for CTR (grid transmission fee), for the collection from the Cassa per i Servizi Energetici e Ambientali (CSEA) of the receivable for the supplement to the CTR revenues of Terna S.p.A. related to 2013 (€ 91.2 million) and the recognition of the payable position (€ 24.7 million) for higher revenues invoiced compared to the maximum volumes of reference energy established by the Authority for 2015 (mechanism to neutralise the volume effect);
  - collection of receivables in 2014 (€ 17.5 million) from the Cassa per i Servizi Energetici e Ambientali (CSEA) referring to the estimate of the previous year's positive performance related to the RENS mechanism regulating the transmission service quality;
  - increase in receivables for contracts for works in progress of the Tamini Group and the project in Chile (a total of € 29.2 million).
- increase in **net energy-related pass-through payables** totalling € 164 million, relating to the activity of dispatching by the Parent Company (equal to € 617.9 million at 31 December 2015), mainly due to:
  - increase in net debt linked to the fees remunerating the EUSSs - the Essential Units for the Safety of the electricity System - (€ 143.7 million) and the capacity payment (€ 43.3 million) approved by the Authority[23] in December 2015 and paid between December 2015 and February 2016 in favour of the users of these essential plants and production units;
  - reduction in net receivables (€ 25 million) resulting from the component of withdrawal intended to cover the instant and emergency interruptibility service and from the service of instant reduction in withdrawals for updating the tariffs and reviewing the procedures governing the supply of interruptible resources;
  - reduction in net payables (€ 50 million) arising from transactions in the electricity market, in particular in the Dispatching Services Market (DSM) [24].
- other amounts totalling € 16.3 million.

(23) 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.

(24) The significant reduction in net charges on the DSM (equal to € 1,155 million in 2015 down by 31% compared with € 1,662 million in 2014) is mainly attributable to lower prices, to the developmental work on the NTG (that have expanded the competition between operators) and the application of the new rules governing EUSSs in Sicily that has contributed to the reduction in energy prices on the island.

Liquidity absorbed, for a total of € 141.9 million, relating to:
- increase in **net tax assets** by € 126.3 million attributable to the Group's credit position with respect to the tax authorities for VAT compared to the debit situation at the year-end of 2014 (up by € 137.1 million, in view of the outstanding debt of € 23.2 million at 31 December 2014) due mainly to the tax effect of the increase in energy item payables as described above. This change was partially offset by higher net tax payables to the tax authorities for current taxes, as the previous year was affected by higher advance payments;
- other amounts of € 15.6 million.

Gross invested capital, therefore, amounted to € 11,726.6 million, recording an increase compared with the previous financial year of € 1,227 million.
Sundry provisions declined by € 62.8 million, owing mainly to:
- reduction in liabilities regarding provisions for employee benefits of € 40.8 million (of which € 22.3 million related mainly to the amounts payable to the beneficiaries of the aforementioned voluntary retirement programme and € 18.5 million referable to the recognition of actuarial gains and losses accruing to the year, owing to adjustment of the reference interest rate);
- net decrease in provisions for risks and charges of € 10.7 million mainly attributable to net utilisations of provisions for early retirement incentives (€ 14.1 million), referring to the generational turnover programme implemented during the year, to the reversal of provisions set aside for probable charges related to tax obligations arising from the disposal of Terna Participações by the Parent Company (for € 7.3 million), net of the provision set aside for a dispute relating to the tariff adjustment mechanism with the Republic of San Marino (for € -10.7 million);
- use of previous provisions in the net deferred tax liabilities (€ 11.3 million), mainly due to the adjustment consequent to the aforementioned reduction in IRES from 2017 onwards (€ 8 million) and the tax effect of the changes in the above provisions.

Net invested capital amounted to € 11,348.5 million, an increase of € 1,289.8 million compared with 31 December 2014 and is financed by shareholders' equity for € 3,345.8 million (compared with € 3,092.9 million at 31 December 2014) and by net financial debt for € 8,002.7 million (€ +1,036.9 million compared with the € 6,965.8 million of 31 December 2014).

Table reconciling the period result and Shareholders' Equity of the Group with the same values recorded by the Parent Company

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

€ million	Net profit 2015	Equity at 31/12/2015
Financial Statements of the Parent Company	**527.1**	**2,908.1**
Results and equity contributed by the Group Companies in Regulated Activities business	76.3	326.8
Results and equity contributed by Group companies in Non-Regulated Activities business	(6.9)	59.8
Equity-accounted investees	(1.0)	26.1
Terna Group Consolidated Financial Statements	**595.5**	**3,320.8**

Cash flows

Net financial debt

The Group's net financial debt at 31 December 2015 (€ 8,002.7 million) is broken down in the table below[25].

€ million	31.12.2015	31.12.2014	Δ
Net financial debt (by duration)			
A. Medium- and long-term debt			
- Bonds	6,406.1	5,983.6	422.5
- Floating-rate loans	2,110.4	2,101.6	8.8
- Derivative financial instruments	(680.9)	(754.9)	74.0
Total	**7,835.6**	**7,330.3**	**505.3**
B. Short-term debt (liquidity):			
- Short-term loans	416.6	-	416.6
- Floating-rate loans (current portions)	122.9	764.1	(641.2)
- Derivative financial instruments	-	5.6	(5.6)
- Other net current financial liabilities	59.2	83.1	(23.9)
- Cash and cash equivalents	(431.6)	(1,217.3)	785.7
Total	**167.1**	**(364.5)**	**531.6**
Total net financial debt	**8,002.7**	**6,965.8**	**1,036.9**
Net financial debt (per type of instrument)			
- Bonds	6,406.1	5,983.6	422.5
- Floating-rate loans	2,233.3	2,865.7	(632.4)
- Derivative financial instruments	(680.9)	(749.3)	68.4
- Short-term loans	416.6	-	416.6
- Other financial liabilities	59.2	83.1	(23.9)
- Cash and cash equivalents	(431.6)	(1,217.3)	785.7
Total net financial debt	**8,002.7**	**6,965.8**	**1,036.9**

The structure of net financial debt, which increased overall in financial year 2015 by € 1,036.9 million, presents the following changes:

- an increase in bonds (€ 422.5 million) as a result of the bond issue on 02 February 2015 for € 1 billion, early repayment of the bond with maturity 2017, for a nominal amount of € 480 million, in the context of the Liability Management programme completed on 21 July 2015, and the adjustment to fair value of the same financial instruments (€ -97.5 million, including the amortised cost);
- a reduction in floating-rate loans (€ 632.4 million) essentially owing to the combined effect of the repayment on 26 June 2015 of the Club Deal floating-rate loan agreed in October 2008 (€ 650 million), of the raising of a new loan with the European Investment Bank - EIB - on 17 December 2015 (€ 130 million) and of the instalments paid from the other outstanding loans (€ 112.4 million);
- a reduction in the positive net balance of derivative financial instruments (€ 68.4 million), mainly due to the change in the reference interest rate curve compared to December 2014;
- increased short-term loans (€ 416.6 million) relating mainly to the use of short-term credit lines for the Parent Company (€ 398.2 million) and the recognition of the short-term loans of the Tamini Group (€ 16.7 million).
- reduction of other financial liabilities for € 23.9 million;
- absorption of liquid assets (€ 785.7 million).

(25) Includes interest accrued not yet liquidated at 31 December 2015.

Cash flow

The cash flows for FYs 2015 and 2014 are shown in the table below.

€ million	Cash flow 31.12.2015	Cash flow 31.12.2014
- Net profit for the year	595.3	544.5
- Amortisation, depreciation and impairment	516.8	480.6
- Net financial expense	141.1	127.9
- Net change in provisions	(62.8)	(11.8)
- Net Losses (Gains) on asset disposals	(1.7)	(1.8)
Self-financing (Operating Cash Flow)	**1,188.7**	**1,139.4**
- Change in net working capital*	137.2	244.9
- Other changes in non-current assets	(777.5)	(31.6)
of which tangible and intangible assets acquired with the transaction with the FSI Group	(757.0)	-
- Change in equity investments	1.3	(4.5)
- Other changes in Equity attributable to owners of the Parent	13.7	(17.5)
- Other changes in equity attributable to non-controlling interests	25.2	-
Change in NWC and other (Cash Flow from Operating Activities)	**588.6**	**1,330.7**
net of the change in non-current assets acquired with the FSI Group	1,345.6	1,330.7
- Total investments	(1,103.1)	(1,096.1)
Free Cash Flow	**(514.5)**	**234.6**
net of the change in non-current assets acquired with the FSI Group	242.5	234.6
- Dividends paid to the owners of the Parent	(402.0)	(402.0)
- Net financial expense	(141.1)	(127.9)
- Equity reserve cash flow hedge, net of the tax effect	20.7	27.3
Change in net financial debt	**(1,036.9)**	**(268.0)**
net of the change in non-current assets acquired with the FSI Group	(279.9)	(268.0)

* Does not take into account impairments of trade receivables of the year (€ 3.7 million in 2015 and € 2.5 million in 2014).

The cash provided by operating activities in 2015 came to approximately € 588.6 million and is essentially attributable to self-financing (€ 1,188.7 million) and to financial resources provided by net working capital (€ 137.2 million) and the absorption essentially arising from the acquisition of Rete S.r.l. during the financial year (€ -757 million).

The most substantial effect on **self-financing** was that of profit for the year, € 595.3 million, before amortisation, depreciation and impairment accruing of € 516.8 million and net financial expense for the year (€ 141.1 million). The reduction of provisions of € 62.8 million mainly reflected the changes in benefits and provisions for risks related to staffing and also in the provision for net deferred tax liabilities primarily due to the adjustment consequent to the aforementioned reduction in IRES from 2017 onwards.

The change in **net working capital** of € +137.2 million is mostly attributable to the management of items of a commercial nature (including pass-through energy items) and to the increase in net tax assets mainly due to the Group's credit position with respect to the tax authorities for VAT, compared to the debit situation seen at the end of 2014.

The most significant **other changes** relate to:

- 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 aforesaid contract for the housing of optical fibre with the company Basictel;

- other changes in the Group's equity attributable to the actuarial valuation of employee benefits for the year (€ +13.2 million, also considering the tax impact, mainly due to the adjustment of the reference interest rate);
- other changes in equity attributable to non-controlling interests resulting from the completion, on 30 October 2015, of the business combination between the Subsidiary and TES Transformer Electro Service S.r.l., as described above.

The Group's **total investments** made in the year amounted to € 1,103.1 million referable to property, plant and equipment for € 1,058.6 million and to Intangible assets for € 44.5 million.
Therefore **the Free Cash Flow** was negative by € 514.5 million (net of the effects related to the acquisition of Rete S.r.l., operating activities produced cash for € 242.5 million), compared to cash generated in the previous year of € 234.6 million.
The **remuneration of shareholders** (payment of the balance of the 2014 dividend for € 261.3 million and the interim dividend of 2015 for € 140.7 million), and of the borrowed capital (net financial expense of € 141.1 million) net of the change in equity of the fair value of derivative instruments for hedging floating rate debt (cash flow hedge) (€ -20.7 million, net of the deferred tax effect), led to overall financial requirements of € 522.4 million. Taking into account all the components described above, the change in net financial debt amounted to € 1,036.9 million, compared with € 268 million in the previous year. Net of the operation with the FSI Group, the change in debt stood at € 279.9 million.

Terna S.p.A. performance and financial position

The 2015 Annual Financial Report of Terna S.p.A. has been prepared in accordance with the provisions of Art. 154-*ter* of Italian Legislative Decree 58/98 introduced by Italian Legislative Decree No. 195 of 6 November 2007 (the "Transparency Decree") as amended by Italian Legislative Decree No. 27 of 27 January 2010.
In implementation of the provision of Italian Legislative Decree No. 38 of 28 February 2005 and EEC Regulation No. 1606/2002, Terna S.p.A. prepares the financial statements at and for the year ended 31 December 2015 in compliance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board and endorsed by the European Commission (hereinafter "EU IFRSs").
The 2015 Annual Report has been prepared on a historic cost basis, modified where necessary for certain financial instruments, as well as on a going concern basis.
In compliance with the provisions of Art. 2364 of the Italian Civil Code and Art. 9.2 of the company's Articles of Association, the Board of Directors has resolved to call the shareholders to meet within one hundred and eighty days of the financial year end, insofar as Terna S.p.A. is a company required to prepare the consolidated financial statements.

Basis of presentation

The measurement and recognition criteria applied in this Annual Financial Report are consistent with those adopted in the separate financial statements at 31 December 2014.
In order to present the performance of Terna S.p.A. and to analyse its financial position, separate reclassified statements have been prepared that differ from those required by the EU-IFRS adopted by the Company and contained in the financial statements for the year.
These reclassified tables contain alternative performance indicators with respect to those resulting directly from the tables of the separate financial statements, which management considers useful for monitoring Company trends, and representative of the economic and financial results produced by the business.

In line with Recommendation CESR/05-178b, the criteria for constructing these indicators are described in the footnotes to the reclassified statements, which reconcile them with the schedules contained in the Condensed Consolidated Interim Financial Statements.
For the purposes of better comparison some economic balances have been reclassified, but without altering the equity at 31 December 2014.

Reclassified income statement of Terna S.p.A.

The reclassified Income Statement of Terna S.p.A. for 2015 and 2014 is shown below.

€ million	2015	2014	Δ	Δ%
REVENUE				
- Transmission Fee	1,519.7	1,468.6	51.1	3.5%
- Dispatching Fee	125.2	117.3	7.9	6.7%
- Other operating revenue	129.8	171.8	(42.0)	(24.4%)
of which other revenue from Regulated Activities	80.6	118.2	(37.6)	(31.8%)
of which revenue from Non-Regulated Activities	49.2	53.6	(4.4)	(8.2%)
- Revenue from construction of licensed activities*	26.2	30.4	(4.2)	(13.8%)
TOTAL REVENUE	1,800.9	1,788.1	12.8	0.7%
OPERATING EXPENSES				
- Personnel expenses	44.5	87.7	(43.2)	(49.3%)
- Services, leases and rentals	319.7	346.4	(26.7)	(7.7%)
- Materials	4.3	4.3	-	-
- Other expenses	32.3	34.2	(1.9)	(5.6%)
- Costs of construction of licensed activities*	26.2	30.4	(4.2)	(13.8%)
TOTAL OPERATING EXPENSES	427.0	503.0	(76.0)	(15.1%)
EBITDA (GROSS OPERATING PROFIT)	1,373.9	1,285.1	88.8	6.9%
Amortisation, depreciation and impairment	456.5	426.7	29.8	7.0%
EBIT (OPERATING PROFIT)	917.4	858.4	59.0	6.9%
- Net financial income (expense)	(135.0)	(121.2)	(13.8)	11.4%
PROFIT/LOSS BEFORE TAXES	782.4	737.2	45.2	6.1%
- Income taxes for the year	255.3	286.8	(31.5)	(11.0%)
NET PROFIT FOR THE YEAR	527.1	450.4	76.7	17.0%

In the year 2015 Terna S.p.A achieved revenues of € 1,800.9 million, with an increase of 0.7% (€ 12.8 million) compared to 2014, mainly due to the positive performance of Regulated Activities.
In particular, Revenues relating to **Regulated Activities**[26] showed an increase of € 21.4 million essentially due to:

- the positive change in fees for the transmission service (€ +51.1 million) reflects the updated tariff for 2015 including the impact of the mechanism neutralising the volume effect (pursuant to Resolution AEEGSI ARG/elt 188/08), in relation to the adjustment in the reference energy value set by the Authority for the year 2015, as well as the provision for risks associated with a legal dispute for € 10.7 million;
- the negative impact of the quality of service (€ -38.6 million), due to the estimate of the penalties for the year 2015 for the RENS incentive mechanism, pursuant to Resolution ARG/elt 197/11, compared to the bonuses collected in the previous year.

(26) Revenue from Regulated Activities includes revenue from the items “Transmission fee”, “Dispatching fee” and the related “Other operating revenue”.

Revenue from **Non-Regulated Activities** recorded a reduction of € 4.4 million referring mostly to the reduction in activities related to orders for variations on NTG (€ -5.0 million, mainly related to increased activities associated with Expo in the previous year), partially offset by the recognition of fees for activities provided to the subsidiaries Terna Interconnector and Terna Plus (€ +1 million in total).

Operating expenses amounted to € 427.0 million, a reduction of € 76 million with respect to the balance the previous year (-15.1%), due to the effects of the following phenomena:

- "Personnel expenses": the decrease of € 43.2 million is essentially attributable to the provision for early retirement incentives of € 36.6 million in 2014 supporting the generational turnover initiated during the current financial year, which provides for the recruitment of new young professionals and a voluntary early retirement plan; also of importance were the lower provisions set aside for incentives for senior executives (€ 4.8 million);
- "Costs for services, leases and rentals": the € 26.7 million reduction was mainly due to:
  - the performance penalty connected to transmission service quality paid to Terna Rete Italia as a synthetic economic recognition of the annual performance of the Subsidiary in executing the activities envisaged in the existing service contract. In particular, in 2015, in consideration of the final figures for the year connected to the above described service quality mechanisms, Terna assigned to Terna Rete Italia a penalty of € 10 million[27], in contrast to the bonus of € 10 million recognised in 2014, with an overall effect of € -20 million;
  - savings for contracts and efficiencies achieved in building, remote transmission and information technology services;
- "Other costs": the reduction of € 1.9 million is due mainly to lower costs for contingent liabilities (€ -8.9 million, mainly due to contingent liabilities regarding a supply contract recognised in 2014 for € 8.6 million) and by lower costs for IMU (€ -4.3 million), partially offset by higher costs for service quality (€ +10.1 million, mainly due to provisions for incentive mechanisms and contributions to the Exceptional Events Fund, net of contingent assets recognised in 2014[28]).

EBITDA (gross operating margin) amounted to € 1,373.9 million, equal to 76.3% of revenues (in contrast to 71.9% in 2014), up by € 88.8 million compared to the 2014 figure (6.9%), mainly due to the combined effects of higher revenues and lower operating expenses.
The item "**amortisation, depreciation and impairment**" for the year amounted to € 456.5 million showing a growth of € 29.8 million over 2014 (+7.0%), due to the entry into operation of new plants and the decommissioning and depreciation of some projects defined in the year.

EBIT (operating profit) therefore amounted to € 917.4 million, up by € 59.0 million (+6.9%) compared to 2014.

Net financial expense for the year amounted to € 135.0 million, an increase of € 13.8 million compared to € 121.2 million in the previous year mainly due to lower dividends and net interest income from subsidiaries (€ -8.5 million) and lower capitalised borrowing costs (€ -5.7 million for the reduction in interest rates). It should be noted that as regards cash flow operations there were lower net financial expenses of € 2.0 million, due to the net effect of the costs associated with the operation of Liability Management implemented on 20 July 2015 and commented in the section "Significant events in 2015" (€ 32.3 million), mitigated by the net effects of the general decrease in market interest rates (€ -30.2 million: € -42.3 million for lower financial expenses and € 12.1 million for lower financial income).

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(27) To that end, we note that on the basis of article 9.3 of the service contract with the Subsidiary, Terna undertakes to pay or impose a bonus/penalty for Terna Rete Italia annually, of an amount that corresponds to the total net value of the bonuses/penalties connected to the electricity service quality mechanisms recognised, for a maximum total value of € 10 million in each reference year.

(28) In the paragraph "Significant events in the first nine months of 2015" the main outage events which occurred in the period are commented on, as well as the trend in the Regulated Energy Not Supplied (RENS) index attributed to the grid owned by Terna S.p.A. and by the subsidiary Terna Rete Italia S.r.l. is described.

After deducting net financial expense, **profit before taxes** came out at € 782.4 million, up by € 45.2 million compared with the previous year (+6.1%).

Income taxes for the year came to € 255.3 million, a decrease with respect to the previous year of € 31.5 million (-11%). This decrease is due to the reduction in IRES, that went from 34% in 2014 (in the previous year, the IRES surcharge was applied under Decree Law No. 138 of 13 August 2011, that was removed in 2015) to 27.5% for the current year, deductibility of permanent personnel expenses for IRAP purposes introduced by the 2015 Stability Law starting from 2015 and the one-off effect of the adjustment to net deferred tax liabilities as a result of the reduction in IRES to 24% starting from 2017, as provided by the Stability Law in 2016. The one-off effect for the previous year due to the change in tax rate amounted to € 20.9 million.

The ***tax rate*** therefore came to 32.6%.

Consequently, **net profit for the year** came out at € 527.1 million, up € 76.7 million compared with the net profit of FY 2014 (+17%).

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

The reclassified statement of financial position of Terna S.p.A. at 31 December 2015 and 2014 is summarised below. The table is obtained by reclassifying the data stated in the Statement of financial position.

€ million	at 31.12.2015	at 31.12.2014	Δ
Net non-current assets			
- Intangible assets and goodwill	336.3	346.2	(9.9)
- Property, plant and equipment	10,141.8	9,577.0	564.8
- Financial assets	1,473.8	683.1	790.7
Total	**11,951.9**	**10,606.3**	**1,345.6**
Net working capital			
- Trade receivables	480.7	628.5	(147.8)
- Inventories	-	0.7	(0.7)
- Other assets	31.9	6.5	25.4
- Trade payables	(537.6)	(609.3)	71.7
- Net energy-related pass-through payables	(641.4)	(488.1)	(153.3)
- Net tax assets	109.2	(0.7)	109.9
- Other liabilities	(303.3)	(335.0)	31.7
Total	**(860.5)**	**(797.4)**	**(63.1)**
Gross invested capital	**11,091.4**	**9,808.9**	**1,282.5**
Sundry provisions	(216.2)	(258.0)	41.8
NET INVESTED CAPITAL	**10,875.2**	**9,550.9**	**1,324.3**
Equity	**2,908.1**	**2,756.7**	**151.4**
Net financial debt	**7,967.1**	**6,794.2**	**1,172.9**
TOTAL	**10,875.2**	**9,550.9**	**1,324.3**

The increase in **Net non-current assets** of € 1,345.6 million, compared with the figures at 31 December 2014, is mainly attributable to the item **Property, plant and equipment** which saw an increase of € 564.8 million and financial assets that rose by € 790.7 million.
The change (€ +564.9 million) is mainly attributable to the effect of new investments (€ 987.7 million) and the acquisition of assets within the Group (€ +17.1 million, including € 15 million related to the 25 lines totalling 255 kilometres by Terna Rete Italy S.r.l. and € 2.1 million relative to a SCRI by Terna Plus S.r.l.), net of amortisation and depreciation (€ -383.5 million) and disposals and other changes (€ -17.6 million, mostly regarding the cancellation of authorisation for the construction project of the Dolo-Camin line, for which a new network scheme is being looked at for submission for authorisation). In the context of other changes (€ -28.6 million), worthy of note are the contributions received from third parties and used directly to reduce assets under development and construction.
As regards investments for the year, one should note, in particular, those of the Parent Company, mainly related to the ongoing project for the construction of three 380 kV power lines that are strategic for the system: Foggia-Villanova, Sorgente-Rizziconi and Udine Ovest-Redipuglia. The works on the HVDC Italy - Montenegro Interconnection are also continuing and the work on supplying cable and the substation for the Italy-France Interconnection have been initiated. The construction work on the synchronous condensers at the Favara and Partinico substations has been completed and testing is currently underway, with these becoming operational during the first quarter of 2016.

Lastly, as regards actions on the development of storage systems, one should note, with reference to the "Energy Intensive" projects, the entry into service of the Flumeri plant with an extra 6 MW and of the Scampitella plant with a further 10.8 MW (with a total on the three sites built of 34.8 MW installed) while, with reference to the "Power Intensive" projects, one should note the entry into service of 12.5 MW distributed on two sites: Codrongianos (7.4 MW) and Ciminna (5.1 MW).

Intangible assets and goodwill recorded a reduction of € 9.9 million compared to 2014, attributable to ordinary period changes, in particular:

- period investments of € 44.2 million (of which € 26.3 million in dispatch infrastructures);
- portion of amortisation/depreciation accruing (€ 54.1 million of which, in particular, € 34.6 million relating to the amortisation of the dispatching infrastructures and € 5.6 million relating to amortisation of the concession).

Financial assets also registered an increase of € 790.7 million, mainly due to changes in equity investments held by the Company, primarily for the acquisition of Rete S.r.l. (€ 770.1 million) and for the capital increase subscribed in the subsidiary Terna Crna Gora (€ 20 million).

Net working capital stands at € -860.5 million and generated € 63.1 million in liquidity during the year essentially deriving from the following:

Liquidity generated for a total of € 301.8 million, relating to:

- **trade receivables**: € -147.8 million, mainly due to the combined effect of:
  - a decrease of € 114.2 million in the receivable for CTR (grid transmission fee), mainly for the collection from the Cassa per i Servizi Energetici e Ambientali (CSEA) of the receivable for the supplement to the CTR related to 2013 (€ 91.2 million) and the recognition of the payable position (€ 24.7 million) for higher revenues invoiced compared to the maximum volumes of reference energy established by the Authority for 2015 (mechanism to neutralise the volume effect);
  - reduction in energy margin fee receivables (€ -28.9 million), for the collection of receivables in 2014 (€ 17.5 million) from the Cassa per i Servizi Energetici e Ambientali (CSEA) referring to the estimate of the previous year's positive performance related to the RENS mechanism regulating the transmission service quality (in 2015 the performance was found to be negative) and lower receivables for the DIS component (€ -11.3 million) mainly due to lower unit fees for 2015 as per Resolution No. 658/2014.
- **Net energy-related pass-through payables**: these showed an increase of € 153.3 million compared to the figure at the end of 2014 mainly due to:
  - increase in net payables arising from the remuneration of the units essential for the safety of the electricity system - EUSS (€ 143.7 million) and productive capacity - capacity payment (€ 43.3 million) mainly attributable to the lower payments authorised by the Authority[29] in favour of users of essential installations and production units in relation to the items regarding the collection of fees for the relevant cover;
  - reduction in net receivables (€ 25 million) resulting from the component of withdrawal intended to cover the instant and emergency interruptibility service and from the service of instant reduction in withdrawals;
  - reduction in net payables (€ 50 million) arising from transactions in the electricity market, in particular in the Dispatching Services Market (DSM)[30];
  - other amounts totalling € 0.7 million.

Liquidity absorbed, for a total of € 238.7 million, relating to:

- **net tax assets**: € +109.9 million attributable to the credit position with respect to the tax authorities for VAT (up by € 131.3 million compared to the debit situation at the end of 2014) due mainly to the increase in energy-related payables as described above. This change was partially offset by higher advance payments for current taxes paid in the previous year;
- other amounts for a total of € 128.8 million, attributable to the reduction in trade payables and the change in other assets and liabilities.

(29) 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.

(30) The significant reduction in net charges on the DSM (equal to € 1,155 million in 2015 down by 31% compared with € 1,662 million in 2014) is mainly attributable to lower prices, to the developmental work on the NTG (that have expanded the competition between operators) and the application of the new rules governing EUSSs in Sicily that has contributed to the reduction in energy prices on the island.

Gross invested capital therefore amounted to € 11,091.4 million, with an increase of € 1,282.5 million compared to 31 December 2014.

Sundry provisions came to € 216.2 million, with a decrease of € 41.8 million, essentially due to the combined effect of the following changes:

- decrease in liabilities related to employee benefits for € 6.9 million, including € 6.9 million related to the recognition of actuarial gains and losses accruing for the year, owing to adjustment of the reference interest rate, and € -0.5 million mainly related to the amounts payable to the beneficiaries of the aforementioned voluntary retirement programme and to intercompany personnel transfers;
- net decrease in provisions for risks and charges of € 13.7 million mainly attributable to net utilisations of provisions for early retirement incentives (€ 14.1 million), referring to the generational turnover programme implemented during the year, to the reversal of provisions set aside for probable charges related to tax obligations arising from the disposal of Terna Participações by the Parent Company (for € 7.3 million), net of the provision set aside for a dispute relating to the tariff adjustment mechanism with the Republic of San Marino (for € -10.7 million);
- use of previous provisions in the net deferred tax liabilities (€ 21.2 million), mainly due to the adjustment consequent to the aforementioned reduction in IRES from 2017 onwards (€ 4.2 million) and the tax effect of the changes in the above funds.

Net invested capital stands at € 10,875.2 million and is financed through **Equity** for € 2,908.1 million (as compared with € 2,756.7 million at 31 December 2014) and by **net financial debt** for € 7,967.1 million (€ +1,172.9 million compared with 31 December 2014).

Cash flows

Net financial debt

The Company's net financial debt at 31 December 2015 (€ 7,967.1 million) is broken down in the table below[31].

€ million	31.12.2015	31.12.2014	Δ
A. Medium- and long-term debt			
- Bonds	6,406.1	5,983.6	422.5
- Floating-rate loans	2,103.8	2,094.4	9.4
- Derivative financial instruments	(681.8)	(754.9)	73.1
Total	**7,828.1**	**7,323.1**	**505.0**
B. Short-term debt (liquidity):			
- Short-term loans	398.2	-	398.2
- Floating-rate loans (current portions)	120.7	762.4	(641.7)
- Short-term loan to Terna Interconnector	(3.7)	-	(3.7)
- Derivative financial instruments	-	5.6	(5.6)
- Other net current financial liabilities	59.2	83.1	(23.9)
- Net intercompany treasury current account position	(25.4)	(181.1)	155.7
- Cash and cash equivalents	(410.0)	(1,198.9)	788.9
Total	**139.0**	**(528.9)**	**667.9**
TOTAL	**7,967.1**	**6,794.2**	**1,172.9**

The structure of the Company's net financial debt, which increased overall in financial year 2015 by € 1,172.9 million, presents the following changes:

- an increase in bonds (€ 422.5 million) as a result of the bond issue on 02 February 2015 for € 1 billion, early repayment of the bond with maturity 2017, for an amount of € 480 million, in the context of the Liability Management programme completed on 21 July 2015, and the adjustment to fair value of the same financial instruments (€ -97.5 million, including the amortised cost);
- a reduction in floating-rate loans (€ 632.3 million) essentially owing to the combined effect of the repayment on 26 June 2015 of the Club Deal floating-rate loan agreed in October 2008 (€ 650 million), of the raising of a new loan with the European Investment Bank - EIB - on 17 December 2015 (€130 million) and of the instalments paid from the other outstanding loans (€ 112.3 million);
- use of short-term lines of credit (€ 398.2 million);
- a decrease in the positive net balance of derivative financial instruments (€ 67.5 million), mainly due to the decrease in the reference interest rate curve with respect to December 2014;
- absorption of liquid assets (€ 788.9 million).

(31) Includes interest accrued not yet liquidated at 31 December 2015.

Cash flow

The Company's cash flows for FYs 2015 and 2014 are shown in the table below.

€ million	Cash flow 31.12.2015	Cash flow 31.12.2014
- Net profit for the year	527.1	450.4
- Amortisation, depreciation and impairment	456.5	426.7
- Net financial expense	135.0	121.2
- Net change in provisions	(41.8)	(2.7)
- Net Losses (Gains) on asset disposals	(1.6)	(1.8)
Self-financing (Operating Cash Flow)	**1,075.2**	**993.8**
- Change in net working capital*	60.1	206.9
- Change in equity investments	(789.8)	0.7
of which the purchase of the holding in Rete S.r.l.	(770.1)	-
- Other changes in Non-current assets	13.9	3.8
Other changes in Equity	5.0	(7.1)
Change in NWC and other (Cash Flow from Operating Activities)	**364.4**	**1,198.1**
net of the purchase of the holding in Rete S.r.l.	1,134.5	1,198.1
- Total investments	(1,021.6)	(1,021.8)
Free Cash Flow	**(657.2)**	**176.3**
net of the purchase of the holding in Rete S.r.l.	112.9	176.3
- Dividends paid to shareholders	(402.0)	(402.0)
- Net financial expense	(135.0)	(121.2)
- Equity reserve cash flow hedge net of the tax effect	21.3	27.3
Change in net financial debt	**(1,172.9)**	**(319.6)**
net of the purchase of the holding in Rete S.r.l.	(402.8)	(319.6)

* Does not take into account impairment of trade receivables of the year (€ 3 million in 2015 and €1.9 million in 2014).

The cash provided by operating activities in 2015 totalling € 364.4 million is mainly attributable to self-financing (€ +1,075.2 million) and to financial resources provided by net working capital (€ 60.1 million) and the absorption essentially arising from the acquisition of Rete S.r.l. during the financial year (€ -770.1 million).
In reference to **self-financing** it is particularly worth noting the profit for the year, € 527.1 million, before amortisation, depreciation and impairment accruing of € 456.5 million and net financial expense for the year (€ 135 million). The reduction in provisions of € 41.8 million mainly reflected the changes in the provision for net deferred tax liabilities, due to the adjustment consequent to the aforementioned reduction in the IRES from 2017 onwards, in the provisions for risks for the net utilisations of the provision for voluntary retirement incentives, as well as the employee benefits referable to the recognition of actuarial gains and losses accruing to the year, owing to adjustment of the reference interest rate.
Management of net working capital generated liquidity of € 60.1 million and is mostly attributable to the decrease in net trade receivables (including pass-through energy items) and to the increase in net tax assets mainly due to the credit position with respect to the tax authorities for VAT, compared to the debit situation seen at the end of 2014.

The other changes refer mainly to:

- the variation in equity investments held by the Company, primarily for the acquisition of Rete S.r.l. (€ 770.1 million) and for the capital increase subscribed in the subsidiary Terna Crna Gora (€ 20 million);
- other changes in equity due to the recognition of the actuarial valuation of employee benefits for the year (€ +5 million, also considering the tax impact compared to the previous year and mainly due to the adjustment of the reference interest rate).

Total investments made by the Company in the year amounted to € 1,021.6 million referable to property, plant and equipment (€ 977.4 million) and intangible assets (€ 44.2 million).
Therefore the **Free Cash Flow** absorbed by operating activities was € 657.2 million (net of the effects related to the acquisition of Rete S.r.l., operating activities produced cash for € 112.9 million), compared to cash generated in the previous year of € 176.3 million.
The **remuneration of shareholders** (payment of the balance of the 2014 dividend for € 261.3 million and the interim dividend of 2015 for € 140.7 million), and of the borrowed capital (net financial expense of € 135.0 million) net of the recognition in equity of the fair value of derivative instruments for hedging floating rate debt *(cash flow hedge)* (€ -21.3 million, net of the deferred tax effect), led to overall financial requirements of € 515.7 million. Taking into account all the components described above, the change in net financial debt amounted to € 1,172.9 million (€ 402.8 million net of the acquisition of Rete S.r.l.).

Performance of Terna stock

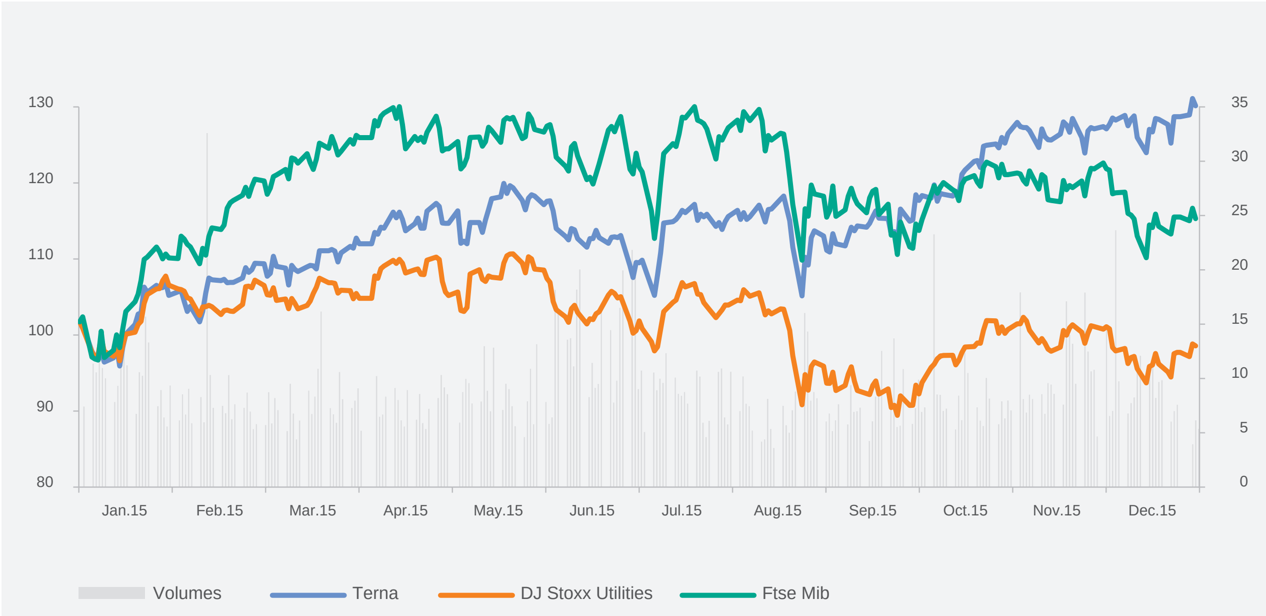
In what is still an unstable macroeconomic context, the main European stock exchanges ended 2015 with contrasting performances: Milan saw a rise of 12.7%, London and Madrid finished down at -4.5% and -6.2%, respectively, Frankfurt finished up 6.9% and Paris closed at +9.5%.
Although the stock markets continue to benefit from the expansive monetary policy measures adopted by the European Central Bank, the markets have been negatively affected by growing geopolitical tensions, along with concerns about Chinese economic growth and the weak macroeconomic data coming out of the euro area.

In regard to state securities, the yield of Italian ten-year BTPs shrank from 1.9% at the start of the year to 1.6% at the end of 2015, with a 12-month average of 1.7%.
In the USA, the Federal Reserve abandoned its zero rate policy, increasing the time value of money for the first time since 2006. In this context of uncertainty and consequent volatility, Wall Street closed 2015 largely unchanged (Dow Jones -0.8%).

Terna recorded an increase of 26.5%, in contrast with the European sector index (DJ Stoxx Utilities -3%) and guaranteed a Total Shareholder Return (TSR) of 32.5% (v. 1.7% of DJ Stoxx Utilities). The average daily volume traded in 2015 on Terna stock stood at approximately 8.4 million shares daily.

It should also be noted that, since its listing on the stock exchange (23 June 2004), the stock has increased in value by 179.8% with a TSR of 453.3%, outperforming both the Italian reference index (TSR FTSE MIB +17%) and the European sector index (TSR DJ Stoxx Utilities +136.9%).

TREND OF TERNA STOCK AND THE FTSE MIB AND DJ STOXX UTILITIES INDEXES



MAIN SHARE INDICATORS

	2015	2014	2013	2012
No. shares (*millions*)	2,010	2,010	2,010	2,010
Market capitalisation* (*millions of euro*)	9,560	7,558	7,300	6,078
Average price for the year	4.22	3.84	3.34	2.83
Earnings per share	0.296	0.271	0.256	0.231
Dividend per share	0.2	0.2	0.2	0.2
Payout ratio	76.3%	89.30%	88.40%	86.80%
*Dividend yield***	4.2%	5.3%	5.5%	6.6%
Total Shareholder Return	32.5%	8.9%	27.6%	24.9%

* Calculated based on the end-of-year price.
** Calculated as the ratio between the unit dividend for the year and the end-of-year price.

More information on the stock trend and dividend distribution policy is available on the website ("http://www.terna.it/it-it/investorrelations.aspx").

PROPORTION OF TERNA SHARES

> in the FTSE MIB index	2.10%

Source: Borsa Italiana. Data as at 31 December 2015

RATINGS

	Short Term	M/L term	Outlook
Standard & Poor's	A-2	BBB	Stable
Moody's	Prime-2	Baa1	Stable
Fitch	F2	BBB+[42]	Stable

Sustainability performance

Sustainability themes

Terna's commitment to sustainability is seen primarily in its focus on reducing environmental and social impacts connected to its business, minimising its environmental footprint and ensuring an adequate long-term provision of intangible assets.

This means being pro-actively concerned about the possible environmental and social impacts of any development, as well as adopting all the necessary measures to prevent and minimise such impacts and pursuing a constructive dialogue with the local communities living in the areas where the development is planned, or where there are power lines.
Focus on the community is also demonstrated by the creation of social, humanitarian and cultural initiatives which are a concrete sign of participation in the growth of civil society.

Another element of Terna's approach to sustainability is its attention to human resources both in terms of updating specific technical skills, which are often rare or unique in the electricity sector, and in terms of workplace safety, which is challenged by many operational activities being associated with particular risks, such as working a height of several metres from the ground or conducting maintenance procedures on live power lines.
Terna adopts a Sustainability Plan, a tool used for arranging and implementing significant activities to accompany business growth under a profile of sustainability, which aims to:

- ensure a gradual and continuous long-term improvement of Terna Group sustainability performance to integrate and support the business objectives set forth in its Strategic Plan, within a given timeframe;
- protect and consolidate the reputational capital of the Group, with specific reference to investors attentive to aspects of sustainability and, more generally speaking, in line with Model 231 and Italian Law 262.

For more details see the Sustainability Report 2015.

Main results

The improvement in Terna's environmental and social performance is based on a constant commitment to making progress in all areas of sustainability (Sustainability Report 2015: "Sustainability Plan 2015–2016" and "Sustainability Results and Objectives").

Over the course of 2015, Terna achieved environmental and social results which in some cases were better than ever. Among these, the impact of SF_6 leakage of the total installed fell to 0.44% (compared to 0.55% in 2014), direct CO_2 emissions dropped 14% (66,799.4 tonnes equivalent compared to 77,361 in 2014) and the percentage of recycled waste rose to 92% (81% in 2014). In the social sphere, training hours per capita hit the historic ceiling (56 hours compared to 43 in 2014).

Some of the main objectives envisaged in the Sustainability Plan and completed in 2015 included:

- drafting of the "Stakeholder Management Model" Guidelines (October 2015);
- holding 10 "Open Days", informative meetings held with the population of areas affected by grid development projects;
- continued active participation in the Business Network of the International Integrated Reporting Council for consolidating and refining experience in integrated report drafting;

- attainment of UNI CEI EN ISO/IEC 50001:2011 certification.

In September 2015, during the annual review of Dow Jones Sustainability indexes, Terna's entry in the Dow Jones Sustainability World and Europe indexes was confirmed and it was recognised as an industry leader in the global electric utilities sector.

Its inclusion among the main international sustainability indices is detailed below, in the paragraph "Presence in sustainability stock indexes".

Indicators

Many of the matters revealed as relevant by the materiality analysis have already been described at various points of this report: from quality of service through to the planning of the NTG Manager, economic and financial performance and HR development.
Below are indicators relating to some other issues deemed relevant by the materiality analysis or which are otherwise beneficial for evaluating business sustainability performance.
The complete report of Terna's social and environmental indicators, in accordance with the GRI (Global Reporting Initiative) standard, is available in the Sustainability Report and in the "Sustainability" section of the institutional website www.terna.it.

Kilometres of lines removed

In 2015, 98.03 km of lines were demolished; in the 2010–2015 period, 613.49 km of lines were demolished. Demolitions are defined as overhead lines removed from the ground (or replaced by cable lines) and do not include declassified or enhanced lines.

Direct greenhouse gas emissions

Terna's business is electricity transmission and it has no production activities, which in the electricity industry – and among all businesses in general – are those most responsible for greenhouse gas emissions. Greenhouse gas emissions are therefore not a significant indicator of the Group's sustainability performance. However, given the commitment that Terna has voluntarily made to limit emissions, data on the Group's direct emissions is given below.

TOTAL DIRECT GREENHOUSE-GAS EMISSIONS

(tonnes of CO_2 equivalent)*	2015	2014	Δ %
Direct consumption of energy sources	8,335.5	7,529.1	11%
SF_6 leakage	58,478.3	69,831.4	(16%)
Total direct emissions	66,799.4	77,360.5	(14%)
Carbon intensity (Tonnes of CO_2 equivalent / Income (in millions of euro)	65.9	72.0	(8%)

* The conversion of direct consumption of energy and leaks of sulphur hexafluoride (SF_6) in equivalent CO_2 emissions is done using the parameters indicated in the *Greenhouse Gas Protocol* (GHG) Initiative and in particular, using the emission factors indicated in the Fourth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC).

Direct greenhouse-gas emissions connected with Terna's activities are caused by:

- direct consumption of energy sources (petrol and diesel for vehicles, natural gas for heating, oil for generators and heating);
- leaks of SF_6 (sulphur hexafluoride), a greenhouse gas used in substation equipment for its high insulating power.

SF_6 leaks are the main direct source of greenhouse-gas emissions by Terna. In the last five year period, the quantity of SF_6 present in Terna's plants increased by 151 tonnes (+36%). This is a trend – common to many transmission operators – associated with the higher insulating performance of the gas and to the smaller size of stations built with equipment containing SF_6, compared with more traditional solutions.
In 2015, thanks to programmes to reduce the impact of SF_6 leakage and to the fact that no significant impacts occurred, losses fell in absolute terms in comparison to 2014 (-483 kg: from 2,971 kg to 2,488.4 kg). The impact of losses on the installed total in 2015 was 0.44% (0.55%[32] in 2014, 0.49% in 2013), the lowest ever recorded.

Costs for the environment

In 2015, Terna incurred total costs for the environment of € 39.7 million, made up of € 20.3 million of investments and € 19.4 million of operating costs.
As a general guideline, costs for the environment refers to the cost of steps taken by an organisation, or on its behalf by others, to prevent, reduce or repair damage to the environment which results from its operating activities (European Commission Recommendation 2001/453/EC).

(32) In 2014, the impact from leakage included an event that occurred in a substation which resulted in the loss of 784.1 kg of SF_6, equivalent to 26% of the total losses recorded.

COSTS FOR THE ENVIRONMENT - INVESTMENT AND OPERATING COSTS

Investments	2015	2014	2013
Environmental offsets [1]	1.2	12.7	8.4
Environmental impact studies [2]	5.0	2.1	3.9
Environmental activities – new plants [3]	5.8	4.4	5.0
Environmental activities – existing plants [4]	7.1	9.8	7.8
Demolitions [5]	1.2	4.7	1.0
TOTAL INVESTMENTS	20.3	33.7	26.1
Operating expenses			
Costs for environmental activities [6]	19.4	19.2	17.9

KEY

(1) Environmental offsets: these are amounts for offsetting the works set out in the Grid Development Plan, as determined by special agreements entered into with local institutions. The decrease from 2014 reflects the 2015 to 2016 slippage in commissioning of some lines.

(2) Environmental impact studies: these relate to plants provided for in the Grid DP that are at the construction stage or in the process of being authorised by the relevant administrations.

(3) Environmental activities - new plants: the amount shown is based on an estimate. On the basis of an analysis of several large investment projects, it turned out that at least 1% of the total expenses of the project regard environmental items, usually determined by obligations (for example, masking with trees, barriers against noise, installation of dissuaders for birdlife, environmental monitoring, analysis of excavated earth and rocks). Therefore, a value of 1% of investment costs for projects with similar features was considered.

(4) Environmental activities - existing plants: the expenses for upgrading existing plants in accordance with environmental provisions and new regulations (for example noise and visual/landscape aspects).

(5) Demolitions: the costs for the definitive dismantling of lines as part of rationalisation projects.

(6) Costs for environmental activities: cutting trees, cutting grass, waste management and demolitions/dismantling for small amounts not included in investments. These cost items, which can be determined directly from the industrial accounting, do not exhaust the year's total environmental costs, but represent the majority of them.

Method used to account costs for the environment

Environmental costs were shown separately on the basis of the definitions and the methodology described below (taken from the Terna Group operating guidelines), by aggregating information deducible from the company's general and industrial accounting.
Environmental costs are identified firstly on the basis of the definitions available, in particular those of the ISTAT (the Italian National Institute of Statistics), Eurostat and the GRI as well as on the European Commission's recommendation on the recognition, measurement and disclosure of environmental issues in annual accounts and annual reports (Recommendation 2001/453/EC).
These definitions were applied to the environmental aspects considered significant (for example, the noise of stations, electromagnetic fields, etc.) in the Company's ISO 14001-certified Environmental Management System to identify in the main corporate processes those of Terna's operating and investment activities with environmental significance.
Given that many of the Terna activities described in this report incur costs for the environment, several limitations were introduced in determining the reporting boundary:

- exclusion of integrated costs, i.e. regarding activities whose purpose is not exclusively environmental (for example, the use of pylons with features that are innovative also from the point of view of their environmental integration) because of the subjectivity of accounting only for the environmental components;
- exclusion of the additional costs connected with the consideration of restrictions or requests for safeguarding of the environment during the stage of planning and designing new lines (detours and burials).

Other conditions were that the costs had to be:

- significant;
- consistent with the annual reporting of accounts (operating costs and investment clearly distinguished);
- directly recognisable on the basis of the existing corporate accounting system (in order to minimise recourse to estimates based on off-the-books analysis).

These costs exclude expenses regarding internal resources and consider only expenses for external purchases (an exception is the "Environmental activities – existing plants" item, which includes the costs of internal personnel).

Occupational injuries

As in previous years, in 2015 there were no fatal occupational injuries suffered by the Group's employees. There were also no fatal or serious accidents reported in previous years, for which corporate liability was definitively ascertained in the three years in question. The total number of injuries fell 33.3% compared to 2014, from 36 to 24.
The frequency and severity rates shown below are calculated both on the basis of definitions adopted by GRI and the International Labour Organisation (ILO) and on the basis of another widely-used definition.

NUMBER OF OCCUPATIONAL INJURIES – TERNA EMPLOYEES

	2015	2014	Δ
Number of injuries	24	36	(12)
- of which serious	-	-	-
- of which fatal	-	-	-

INJURY RATE AND SEVERITY INDEXES

(GRI-ILO definition*)	2015	2014	Δ
Injury Rate: number of injuries with at least one day's abstention from work divided by the number of hours worked during the year and multiplied by 200,000**	0.84	1.27	(0.43)
Lost-Day Rate: days not worked owing to injury and hours worked in the year, multiplied by 200,000***	36.13	44.16	(8.03)

* As required by the GRI protocols, the definitions adopted are those provided for by the *International Labour Organisation* (ILO). To facilitate comparison with other sources, the following notes show the figures of the same indicators calculated with alternative formulae.
** Using a multiplication factor of 1,000,000 rather than 200,000, the injury rate index was 4.2 in 2015 and 6.3 in 2014.
*** Using a multiplication factor of 1,000 rather than 200,000, the injury severity index was 0.2 in 2015 and 0.2 in 2014.

The overall picture that is revealed by this data – which always show low figures and report the absence of fatal injuries – testifies to the effectiveness of the policies and practices implemented to ensure employee health and safety.
More specifically, the intense training and information delivered on the matter, together with the constant supervision are what lies behind the management system that has obtained, and maintained (since 2007), OHSAS 18001. The activities are managed by an organisational structure assigned to safety, structured into a central supervisory office and managers throughout the territory.

Equal opportunities

The large majority of Terna Group employees are men because of the traditional scarcity of female labour supply in more technical occupations.
However, the presence of women is increasing: the percentage of female employees at Terna in Italy was 9.0% at the end of 2005 (the year in which Terna gained operating autonomy) and has grown continually to reach 11.7% at the end of 2015.

The increase also regards higher-qualified positions of responsibility (senior and junior executives).
The portion of female managers (senior and junior executives) out of all managers (18.2%) exceeds the share of female workers. This shows that the personnel selection and development systems recognise and reward performance. We should finally point out that all forms of discrimination are specifically prohibited by the Group's Code of Ethics.

EQUAL OPPORTUNITIES INDICATORS

(Percentage values)	2015	2014	Δ
Women out of total employees			
Women out of total	11.7	11.5	2%
Women out of total net of blue-collar workers	16.5	15.9	4%
Female senior executives out of total senior executives	15.9	16.4	(3%)
Female senior and junior executives out of total senior and junior management	18.2	17.6	3%

Compliance with the law

Terna has made it a priority to ensure that its commitment to the environment coincides with its compliance with the law, but pro-actively extends to actions intended to improve its Environmental Management System.
During the 2013–2015 period it received no administrative or judicial sanctions, monetary or non-monetary, for non-compliance with environmental laws or regulations (the "key indicator tables" and the paragraph "Disputes" contain additional data on disputes and complaints received in the area of the environment).
In 2015, as in the previous two years, no spills of contaminating liquids were recorded. There were reports of three equipment explosions in power stations and damage to the Italy-Greece HDVC undersea cable (Greece side): in none of the cases was environmental damage recorded.
The main activities in 2015 for adapting to regulations and for improving the Environmental Management System concerned:

- drafting of a technical specification for purchasing SF_6 gas recovery and treatment equipment;
- maximising the sustainability of new power stations, including with respect to potential archaeological interference, detected in advance using magnetometer surveys and georadar;
- introduction of the role of "Environment Officer" into site management, tasked with overseeing compliance with environmental requirements and, during construction phases, compliance with the legal provisions concerning excavated earth and rocks, waste, temporary deposits, environmental impact and tree cutting;
- the environmental training initiated in 2014 is seen in the specialist course "Waste management with SISTRI".

In regard to biodiversity:

- drafting of guidelines for the installation of nest boxes for birdlife;
- monitoring their effectiveness;
- study of the installation of "bat boxes" as a way of mitigating the impact of new power lines on bats.

In regard to energy efficiency:

- performance of 20 Energy Diagnoses to comply with Italian Legislative Decree 102/2014 on company sites and electrical substations;
- appointment of 44 "Energy Officers" tasked with ensuring the implementation of the requirements set forth in the Energy Management System on all sites and electrical substations for which they are responsible;
- providing an online energy efficiency course to all Terna personnel.

Presence in the stock exchange sustainability indexes

During the course of 2015, Terna's membership of all the main international, quoted sustainability indices was confirmed. In January 2016, for the third year running, Terna was included in the Gold Class in the "RobecoSAM Sustainability Yearbook 2015". There are only three companies in the Electric Utilities sector globally which achieved this accolade. To be part of the Gold Class, companies must achieve a rating which is within 1% of that of the sector leader.

TERNA'S PRESENCE IN SUSTAINABILITY INDICES (AS OF 31/12/2015)

INDEX	INDEX FEATURES
DOW JONES SUSTAINABILITY INDICES	The DJSI indices select the companies with the best sustainability performance among those most highly capitalised (the top 317 out of 2,500 in the world for the World Index and the top 162 out of 600 European companies for the European index) according to the ratings calculated by the agency RobecoSAM. This index was considered more reliable by the "Rate the raters" survey conducted in 2013 by GlobeSCAN SustainAbility on a group of around 700 qualified sustainability experts representing 70 countries. Terna has been present on the DJSI World since 2009 and the DJSI Europe since 2010.
ECPI	Carried out by ECPI – an Italian agency founded in 1997 specialising in ratings, sustainability indices and research for integrating non-financial information into investment processes – based on its own analyses of the sustainability performance of European companies. Terna has been present on the ECPI since 2007.
ETHIBEL SUSTAINABILITY INDEX (ESI)	The indexes are developed on the basis of the ratings provided by the Vigeo rating agency. Inclusion is subject to the positive opinion of the Ethibel Forum, a panel of independent experts on the different aspects of sustainability. Terna has been present on the ESI since 2009.
FTSE ECPI	Introduced in 2010, and based on the analyses of ECPI, these are the only sustainability indexes that include solely companies listed on the Italian Stock Exchange. Terna has been present on the FTSE ECPI since 2010.
FTSE4Good	The FTSE4Good indices include the best companies in terms of sustainability performance on the basis of FTSE analyses conducted with the companies' support. The index is reviewed twice a year, in March and September, in order to include any new firms and to exclude those which have not maintained the required sustainability standards. This index was considered among the most reliable by the "Rate the raters" survey conducted in 2013 by GlobeSCAN SustainAbility on a group of around 700 qualified sustainability experts representing 70 countries. Terna has been continually present on the index (Global and Europe baskets) since 2005.
MSCI	MSCI has integrated the original KLD Indexes – which were among the first to trace the non-financial performances of companies and still constitute one of the most highly regarded references in the United States – with other sustainability indexes. Terna stock has been continually present on the index since 2007.
STOXX® ESG	Launched in 2011, these indexes are prepared on the basis of the assessments of the Sustainalytics rating agency and select the 348 best stocks for ESG performance among the 1,800 present in the general STOXX® Global index. To be included in the Global ESG Leaders Index, it is necessary to be included in at least one of the 3 specialised indexes (Global Environmental Leaders, Global Social Leaders and Global ESG Governance Leaders). Terna is the only Italian utility company included in all three. Terna has been present on the index since 2011.
STOXX LOW CARBON	Launched in February 2016, these indices provide a selection of firms characterised by low CO_2 emissions. The selection is based on data collected by CDP (Carbon Disclosure Project). The Index components are selected from the STOXX Global 1800 basket based on their carbon intensity data (Scope 1 and Scope 2 of the GHG Protocol on revenues).
VIGEO	Presented in 2012 by the rating agency Vigeo, these indices are made up of companies listed in the North American, Asian and European markets and included in the STOXX® 1800 benchmark. Vigeo's new ESG indexes are prepared on the basis of a methodology with more than 330 indicators and 38 sustainability criteria. Terna is present in the World 120, Eurozone 120 and Europe 120 baskets. Terna has been present on the index since 2012.
UNITED NATIONS GLOBAL COMPACT ("GC100")	Established in 2013 by United Nations Global Compact in collaboration with the research company Sustainalytics, this index includes the 100 companies which stand out globally both for their focus on matters of sustainability and for their financial performance, and which adhere to the ten United Nations basic principles in the areas of human rights, labour, environment and anti-corruption. Terna has been present on the index since 2013.

ANNEXES

Annexes related to the Materiality Analysis

In preparing the 2015 Integrated Report Terna took into account the basic principles of the Integrated Reporting Framework finalised by the IIRC-International Integrated Reporting Council. Among these principles is materiality, which calls upon companies to consider, in choosing matters to be dealt with and the KPIs connected with them, their effective importance in terms of their relationship to value creation.

To identify the relevant subjects for the company and for its stakeholders, in 2013 Terna began a materiality analysis in line with the GRI-G4 standard from which it derived a materiality matrix to be prepared, as well as a thematic tree (topics grouped together with several levels of detail) on the basis of the parameters of “Relevance for the company” (issues that reflect the significant economic, social and environmental impacts of the organisation) and “Relevance for Stakeholders” (issues that substantially affect stakeholders’ assessments and choices).

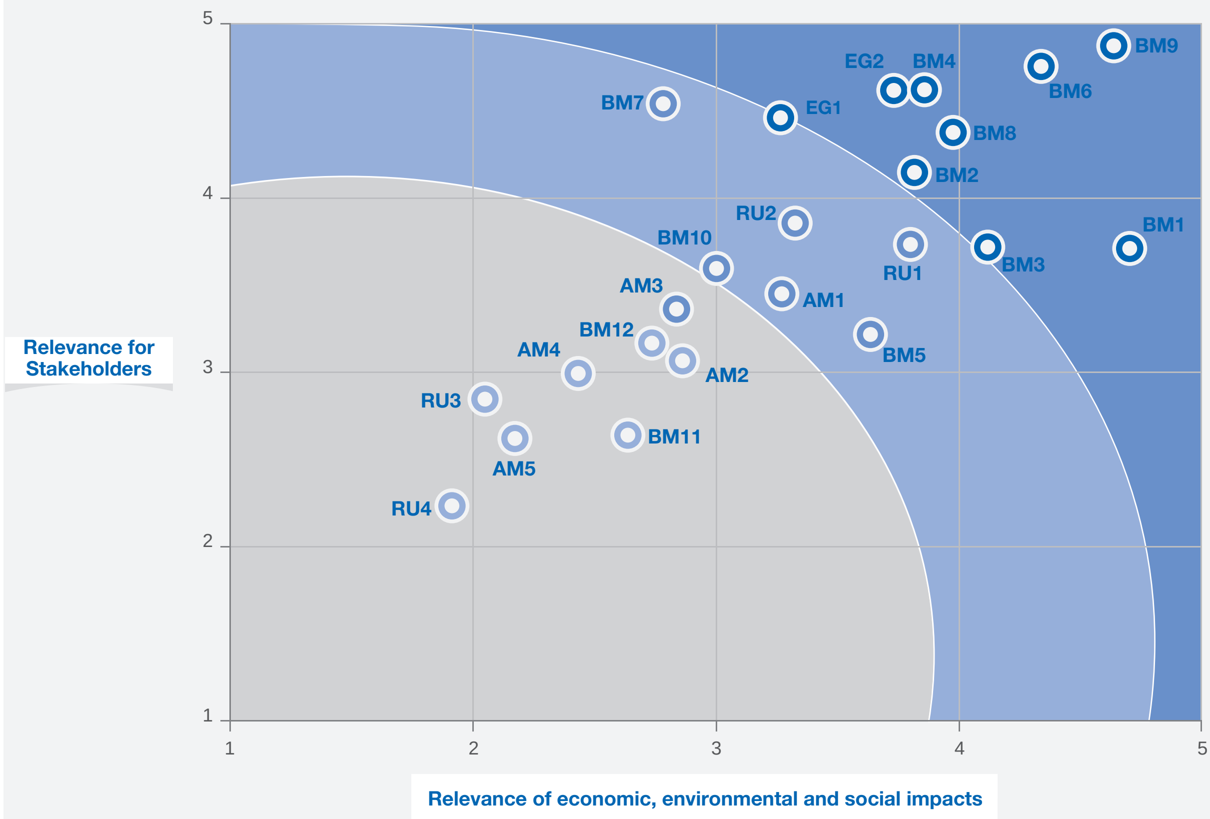
In 2014, the matrix was updated, considering new information on relevant issues, as well as their importance to stakeholders and for achieving corporate objectives. In particular, the following activities were undertaken.

- Updating the prioritisation of issues in terms of their “Impact on strategies”, in other words, the potential for each topic to generate risks and opportunities for corporate objectives in the short, medium and long term. The update was prepared via the analysis of documentation relating to 2014 (e.g. internal policies, the Development Plan and appropriate consultations, the Strategic Plan, press reviews, in-house publications, the Sustainability Plan, BSC and sustainability rating agency questionnaires, etc.), integrating the changes with the evidence that emerged in 2013, to achieve the “Relevance for Terna” aspect.
- Updating the prioritisation of the *issues* for the “Relevance for Stakeholders” aspect. The update was prepared via the analysis of revised documentation (e.g. the AEEGSI Strategic Plan, ANIE Annual Report, AGCM Annual Report, ASSOELETTRICA Report, Greenpeace Report, local and national press reviews, evidence from Terna interviews carried out as part of the new mapping of stakeholders). A qualitative-quantitative model was subsequently developed which allows for the issues to be prioritised via three variables:
  - the relevance of the issue for each category of stakeholder;
  - the influence of each category of stakeholder which considers the new mapping and the stakeholder importance ranking conducted in 2014;
  - the number of categories of stakeholders interested in the topic.

After validating the results obtained for the two dimensions, the 2014 Materiality Matrix was calculated.

Terna implemented a Stakeholders’ Management Model in 2015 (described in the 2015 Sustainability Report) which includes a thorough review of the 2016 Materiality Matrix and its subsequent annual updates. Given the substantial continuity of the strategic business approach, the 2015 Materiality Matrix is the same as the one published the previous year.

THE TERNA GROUP'S MATERIALITY MATRIX



Ethics and governance model
EG1 Efficacy of the governance model
EG2 Integrity and transparency in Corporate Conduct

Environmental conservation and improvement
AM1 Mitigation of visual impact
AM2 Safeguarding biodiversity
AM3 Management and monitoring of electromagnetic fields
AM4 Climate change, emissions and responsible use of resources
AM5 Responsible use of resources

Relations with people
RU1 Health and safety of workers and correct working practices
RU2 Developing human resources
RU3 Corporate welfare
RU4 Promoting diversity and equal opportunities

Business Management
BM1 Excellence of economic financial performance
BM2 Containment of service costs
BM3 Developing new business
BM4 Development of interconnections with foreign countries
BM5 Careful risk management
BM6 Responsible planning of the NTG
BM7 Local stakeholder engagement to develop the NTG
BM8 Innovation and integration of renewable sources
BM9 Quality, safety and continuity of the energy supply
BM10 Fairness in relations with electricity operators
BM11 Responsible management of the supply chain
BM12 Social commitment and positive impact on the country

Annexes on Organisation, business and capital

Italy's regulatory framework

Laws and measures issued in 2014 with effect from 2015

Italian Law No. 190 of 23 December 2014 containing "Provisions for drafting the annual and multi-year State budget (2015 Stability Law)", published in Italian Official Journal No. 99 of 29 December 2014.

The Stability Law provides for inclusion of the High- and Very-High-Voltage electricity grids and of the related portions of substations owned by Ferrovie dello Stato Italiane S.p.A. or its subsidiaries in the NTG, subject to completion of the acquisition of the above assets by Terna or one of its subsidiaries.

Upon completion of the acquisition, the concessions, authorisations and all other administrative provisions concerning these assets shall be understood to have been validly and effectively issued in favour of the purchaser.

On the subject of taxes, the Stability Law provides for an increase in the rates to be applied on the revaluation of severance pay and on the net result of pension funds. It also foresees, for the 2015 tax period, deductibility of permanent employment costs for the purposes of IRAP and contribution relief for new hires. The maximum limit for the TASI rate is confirmed at 2.5 per thousand again in 2015.

The law also provides for the possibility for workers to request, for the pay periods from 1 March 2015 to 30 June 2018, the payment of the portion maturing of termination benefits in the pay packet and establishes the "income tax bonus" of € 80 a month for incomes up to € 24 thousand a year and, in a lower amount, for employees with incomes from € 24 to € 26 thousand a year.

A subsidised tax regime is introduced for income deriving from the use of intellectual property, industrial patents and other corporate intangible assets. The assistance consists of a 50% exclusion of taxation on this income and is granted through prior agreement with the Tax Authority.

In addition, the 2015 Stability Law extends the reverse charge rules to transfers of electricity to a passive-reseller subject for a period of 4 years, from 1 January 2015.

Italian Law Decree No. 192 of 31 December 2014 on "Extension of the terms envisaged by legislative measures" published in Italian Official Journal No. 302 of 31 December 2014, converted with Italian Law No. 15 of 27 February 2015, published in Italian Official Journal No. 49 of 28 February 2015.

The Law Decree extends the obligation to pay an advance on work contracts for 2015 and 2016. For 2015 it also introduces an increase in the obligatory advance which goes up from 10% to 20% of the amount. With the subsequent Law Decree No. 210 of 30 December 2015, the 20% advance obligation is extended in reference to the assignment procedures initiated until 31 July 2016. The Decree also postpones to 2016 the effectiveness of the provision that abolishes the obligation for the taxpayer to present online, by the end of February of each year, a communication of the data on value added tax with reference to the previous calendar year and the obligation to present the annual single tax return for subjects whose tax period coincides with the calendar year obliged to present an income tax return and an annual return for VAT purposes.

Laws and measures issued in 2015

Italian Law No. 114 of 9 July 2015, "Powers delegated to the Government for transposition of the European directives and enactment of other European Union acts - 2014 European delegation law", published in Italian Official Journal No. 176 of 31 July 2015.
With the European delegation law, the Government is delegated to issue the legislative decrees or the acts needed to transpose from year to year into the national legislation the European laws introduced. Among the directives falling under the delegation contained in Law 114/15 of interest are Directive 2013/35/EU on exposure of workers to electrical and magnetic fields, Directive 2014/52/EU on environmental impact assessment, Directive 2014/56/EU on annual and consolidated accounts, Directive 2014/86/EU on the tax regime applicable to parent companies and subsidiaries of different Member States, Directive 2013/50/EU on transparency obligations for issuers of financial instruments, Directive 2014/65/EU relating to markets for financial instruments and Directive 2014/57/EU on market abuses.

On the subject of public equity investments and public administration

Italian Law No. 124 of 7 August 2015, containing "Powers delegated to the Government on reorganisation of the public administrations", published in Italian Official Journal No. 187 of 13 August 2015.
The law carries a power delegated to the Government for the issue, by 28 August 2016, of a legislative decree reforming and regulating public equity investments. The guiding criteria and principles contained in the delegation provide for a distinction between types of company in relation to the business carried on, the relevant public interests, the size and quality of the equity investment, and its direct or indirect nature, to the direct method or call for bids procedure for the assignment, and to listing on the stock exchange or to the issue of financial instruments listed in regulated markets. Among the purposes of the delegation, the elimination of overlaps between public- and private-law rules and systems based on the same needs to govern and control, the redefinition of the conditions and limits for the holding of corporate equity investments by public administrations, and the definition of the regime of responsibility of management and control bodies and of employees of investee companies.

On tax and social security contributions

Italian Law No. 34 of 24 March 2015, "Conversion into law, with amendments, of Italian Law Decree No. 4 of 24 January 2015, containing urgent measures on IMU exemptions. Extension of the terms concerning exercise of the delegated powers on revision of the tax system", published in Italian Official Journal No. 70 of 25 March 2015.
The Law lays down an extension of the terms for implementing the delegated tax powers pursuant to Italian Law No. 23 of 11 March 2014. The term for adopting the implementing decrees was therefore extended from 27 March to 27 June 2015. In addition, this term may be extended for a further 90 days if this becomes necessary for expression of the opinions on the draft legislative decrees by the competent parliamentary commissions. Among the criteria of the delegated powers, we can note the introduction of new forms of environmental and energy taxes and the reform of the land registry.
Implementing the delegated tax powers the following legislative decrees have been adopted:

- Italian Legislative Decree No. 156 of 24 September 2015, "Measures for the revision of the rules on inquiries and on tax disputes, implementing Articles 6, paragraph 6, and 10, paragraph 1, letters a) and b), of Italian Law No. 23 of 11 March 2014", published in Italian Official Journal No. 233 of 7 October 2015.

The decree regulates inquiries with new rules and reforms tax disputes.

- Italian Legislative Decree No. 158 of 24 September 2015, "Revision of the disciplinary system, implementing Article 8, paragraph 1, of Italian Law No. 23 of 11 March 2014", published in Italian Official Journal No. 233 of 7 October 2015.

The decree reforms the criminal disciplinary system with amendments to Italian Legislative Decree 74/00 and the administrative disciplinary system with amendments to Italian Legislative Decrees 471/97 and 472/97.

- Italian Legislative Decree No. 159 of 24 September 2015, "Measures to simplify and rationalise the rules on tax collection, implementing Article 3, paragraph 1, letter a) and b), of Italian Law No. 23 of 11 March 2014", published in Italian Official Journal No. 233 of 7 October 2015.

The decree modifies the system of payment in instalments and other current rules on tax collection.

On employment

Implementing the delegated powers contained in Law 183/2014 on employment the following measures were adopted:

- Italian Legislative Decree No. 23 of 4 March 2015, containing "Provisions on the subject of permanent employment contracts with growing protections, implementing Italian Law No. 183 of 10 December 2014" published in Italian Official Journal No. 54 of 6 March 2015.

The measure implements one of the delegated powers contained in Italian Law 183/14, introducing the contracts with growing protections. The new rules on permanent contracts applies to employees taken on permanently from a date subsequent to 6 March 2015. The new penalty system provides for re-employment only in cases of dismissal which is ineffective because it is communicated orally, dismissal which is invalid because it is discriminatory, total non-existence of the alleged conduct and collective dismissal communicated without observing the written form. In other cases of illegitimate dismissal, a monetary penalty is provided for in the form of compensation, equal to 2 months' pay (one in the case of mere formal or procedural defect) for each year of service, in any case not less than 4 and not more than 24. The Decree also states that the employer may make a conciliatory offer equal to one month's pay for each year of service (in any case not less than 2 and not more than 18), which once accepted by the worker precludes the possibility of a subsequent appeal against dismissal.

- Italian Legislative Decree No. 80 of 15 June 2015, containing "Measures aimed at protecting the maternity of working women and at favouring opportunities to reconcile living and working times for all workers", published in Italian Official Journal No. 34 of 25 June 2015.

The Decree envisages, for 2015, a number of measures for life-work conciliation, including extension of the time limits for fruition, with recognition of the indemnity equivalent to 30% of pay, of parental leave. To cover the measures contained in the Decree, the Fund for financing contribution relief as an incentive for second level contracts for the three years 2016–2018 is reduced by 10%.

- Italian Legislative Decree No. 81 of 15 June 2015, containing "Simplified organic text of contractual types and revision of the rules on duties", published in Italian Official Journal No. 34 of 25 June 2015.

The Decree reorders the rules on contractual types. With reference to temporary employment contracts, without affecting the limit of 20% of workers with temporary contracts, it specifies cases of exclusion from the calculation and establishes the administrative sanctions consequent to exceeding the limit. It also changes the rules on duties specifying at the legislative level that in the event of changes to the corporate organisational structures which affect workers' positions, the employer may assign them to duties belonging to a lower grade, provided that this falls within the same legal category and the grade and pay enjoyed are maintained.

- Italian Legislative Decree No. 148 of 14 September 2015, “Provisions to reform the legislation on social safety nets with continuing employment, implementing Italian Law No. 183 of 10 December 2014”, published in Italian Official Journal No. 221 of 24 September 2015.

The legislative decree reforms the rules on supplementary benefits providing for the extension of the scope of application also to workers employed with apprenticeship contracts; in addition, it fixes a maximum duration of the supplementary benefits to two years in the mobile five years, a provision for additional contributions from beneficiary companies and the redetermination of the ordinary rates for companies.

- Italian Legislative Decree No. 151 of 14 September 2015, “Provisions to rationalise and simplify the procedures and formalities for citizens and businesses and other provisions on employment and equal opportunities, implementing Italian Law No. 183 of 10 December 2014”, published in Official Journal No. 221 of 24 September 2015.

The legislative decree introduces a number of simplification measures in the establishment and management of the employment relationship, namely the abolition of the authorisation obligation for working abroad and recourse to electronic tools for mutually-agreed termination, keeping the single employment book and communications with public administrations; in addition, it introduces the possibility of transferring holidays to colleagues with children needing constant care.
It also makes changes on the subject of worker safety, providing forms of collaboration between health trusts and businesses for the purpose of assessing the risks and abolishing the injuries register. Finally, it lays down new rules on employing workers with disabilities and on remote controls.

On justice and loans to businesses

Italian Law Decree No. 3 of 24 January 2015 on “Urgent measures for the banking system and investments” published in Italian Official Journal No. 19 of 24 January 2015, converted with Italian Law No. 33 of 24 March 2015, published in Italian Official Journal No. 70 of 25 March 2015.
The Decree confers on Cassa Depositi e Prestiti the possibility to grant loans directly in support of exports and the internationalisation of the Italian economy. The activity may be carried on directly, through SACE or, after authorisation from the Bank of Italy, through another subsidiary.

Italian Law Decree No. 83 of 27 June 2015 on “Urgent measures on bankruptcy, civil law and civil procedural law and organisation and operation of the judicial administration” published in Italian Official Journal No. 147 of 27 June 2015, converted with Italian Law No. 132 of 06 August 2015, published in Italian Official Journal No. 192 of 20 August 2015.
The Decree makes changes to the Bankruptcy Law and to the Italian Civil and Civil Procedural Codes on arrangement and attachment procedures. A new measures under Royal Decree 267/42 allows creditors that represent at least 10% of receivables to present an alternative arrangement proposal. Other measures are aimed at enabling, after authorisation from the court, and facilitating, through the benefit of pre-deductibility, access to the receivable by subjects that apply for admission to arrangement with creditors to meet the need related to carrying on the corporate business.

Italian Law No. 68 of 22 May 2015, containing “Provisions on offences against the environment”, published in the Italian Official Journal No. 122 of 28 May 2015.
The Law introduces new types of crimes (environmental pollution, environmental disaster, impeding control and failure to reclaim) and supplements Italian Legislative Decree 231/01 on the administrative liability of the entity providing for sanctions on the companies to the advantage of which such crimes are committed, if they do not put in place organisational models capable of preventing them. Finally, it introduces into Italian Legislative Decree 152/06, containing rules on the environment, a sanctions system covering administrative and criminal offences involving the environment.

Italian Law Decree No. 69 of 27 May 2015, containing "Provisions on crimes against the public administration, Mafia-type associations and false accounting", published in Italian Official Journal No. 124 of 30 May 2015.

The Law provides for more severe penalties in the case of false corporate communications. With an amendment to Italian Legislative Decree 231/01, on the administrative liability of entities, it redefines the sanctions on companies in relation to the said crimes.

Italian Law No. 115 of 29 July 2015, "Provisions for the fulfilment of obligations arising from Italy's membership of the European Union - European Law 2014", published in Italian Official Journal No. 178 of 3 August 2015.

In relation to the assignment of foreign exchange capacity, the law states that the AEEGSI will now identify "*the methods and conditions for imports and exports of electricity by means of the NTG, taking into account the guidance adopted by the Ministry of Economic Development in relation to the commitments on the use of the electricity transit capacity deriving from international acts and agreements and from common projects defined with other States";* in this way the current succession in time between Authority resolution and ministerial act is inverted. The provision relating to calculation of the sanctions that the Authority can impose is also reformulated, eliminating the maximum ceiling currently provided for of approximately € 155 thousand and expressly mentioning the transmission operator as one of the possible recipients: "*The monetary administrative penalties imposed by the AEEGSI for breaches of the provisions of the present decree may not be less, as a minimum, than € 2,500 and may not exceed 10 per cent of the turnover made by the vertically-integrated company, or by the transmission operator, in the last year ended before the start of the disciplinary proceeding*".

Laws and measures issued in 2015 with effect from 2016

Italian Law No. 208 of 28 December 2015 containing "Provisions for drafting the annual and multi-year financial statement of the State", published in the Italian Official Journal of 30 December 2015, No. 70.

Italian Law No. 208 of 30 December 2015 (Stability Law 2016) applies to the rules on interconnectors, stipulating an extension until 31 December 2021 for the virtual import system pursuant to Article 32 paragraph 6 of Italian Law 99/09 and allowing for the Ministry of Economic Development to be able to specify an exemption period of less than twenty years.

It also introduces a Terna guarantee fund "*made up of the amounts, calculated at one euro/MWh per year, which winning bidders or awardees of assigned power having entered into a loan commitment with Terna*" for interconnectors pursuant to Italian Law 99/09 are required to pay until they enter into service. The fund applies exclusively to guarantee commitments entered into for the financing of each project. In such cases, the term for the entry into operation of interconnectors is adjusted to 48 months (rather than the current 36) from the date of publication of the issue of exemption decree in the Italian Official Gazette.

In regard to taxation, Italian law provides for the exclusion, in calculating the assumed revenue from properties used for special or particular purposes, machinery, devices, equipment and other plants used in the specific production process and the possibility of updating the assumed revenue from such property by 15 June taking effect this year.

It also provides for a reduction in IRES tax from 27.5% to 24% starting from the 2017 tax year. Starting from the same tax year, the withholding tax on profits paid out to companies and entities subject to tax on corporate income was reduced from 1.375% to 1.20%. In relation to income tax and the calculation of deductible costs, for business income owners who make investments in new tangible assets from 15 October 2015 to the end of 2016, "*with respect to the calculation of depreciation and financial lease payments, the cost of purchase is increased by 40 percent*". The limits for the deduction of depreciation and financial lease payments for company cars are also increased by the same amount. However, the scope of the measure excludes tangible assets, for which the Decree of the Minister of Finance of 31 December 1988 sets depreciation rates of less than 6.5%, investments in buildings and constructions, as well as investments in property as listed in Annex 3 to the Stability Law.

Finally, the Stability Law provides for the payment of the RAI fee in ten monthly instalments, charged against invoices for the payment of electricity consumption.

Italian Law Decree No. 210 of 30 December 2015 on "Extension of the terms envisaged by legislative measures" published in Italian Official Journal No. 302 of 30 December 2015.

Decree Law 210/15 extended the "super-interruptibility" regime in Sicily and Sardinia until 2017, for maximum quantities of 400 MW in Sardinia and 200 MW in Sicily and with the direct assignment of an annual valuation of the service of 170,000 €/MW.

The same Decree entrusts to AEEGSI, for the same users connected at High- and Very-High Voltage, the redefinition of the tariff component structure in relation to general expenses, taking effect from 1 January 2016. Moreover, in connection with AIA Legislation, it defers the cut-off date by one year (until 1 January 2017) at which the major fuel plants built pre-2013 shall apply the limit emission values pursuant to the Fifth Part of the Environmental Code (Italian Legislative Decree 152/2006).

Regarding the obligation to pay an advance on contracts for works under the Contracts Code, the same Decree provides that the percentage increase to 20% of the total shall apply to procurement procedures initiated up to 31 July 2016 rather than to 31 December 2015.

Italian Law No. 221 of 28 December 2015, "Environmental provisions to promote green economy measures and to reduce excessive use of natural resources", published in the Italian Official Gazette No. 13 of 2 February 2016.

This law, in effect since 2 February 2016, lays down measures relating to electrical infrastructure. More specifically, it establishes the procedure for the definition of the method by which state property is crossed by works of the NTG, specifying the scope of application of the EIA on underground cables and introduces the principle whereby the development of works of public utility may be compatible with the enjoyment of civil uses, which can therefore be maintained if the possibility of exercising them is not reduced by the infrastructural development.

AEEGSI Resolutions

Below is a brief summary of the main resolutions passed by the AEEGSI during 2015 and, later, up to the date of preparation of this Annual Financial Report.

Resolutions adopted in 2014 with impact in 2015

Resolution 653/2014/R/eel – Update of the fees for electricity transmission services, for the year 2015

With this measure, the Authority provided for the updating of the tariffs for the electricity transmission service for the year 2015. The main changes concern:

- updating of the CTR component, made equal to € 0.719/kWh;
- the inclusion of the costs of investments related to the Italy - Montenegro cable made outside of Italian territory within the transmission service remuneration items;
- the payment to Terna, by the Electricity Sector Adjustment Fund, of the 2013 revenue additions, including the adjustments on invoicing figures for the 2009–2012 period, for a total amount of € 91,195,592;
- the inclusion within transmission tariffs of revenues for investments in the pilot projects related to storage systems;
- the inclusion of the additional remuneration for works in progress for investments to develop transport capacity I=3 at 31 December 2013, equal to 2% for 12 years, consequent to exceeding the 70% limit of the overall conventional value of the milestones estimated for the second half of 2013, as part of the incentive mechanism to accelerate investment.

Resolution 658/2014/R/eel – Update of the dispatching fees for the year 2015

With this resolution, the Authority updated the dispatching fees for the year 2015. Specifically, in addition to updating the unit fees that dispatching users must pay as remuneration for production capacity, remuneration of the load interruptibility service, units essential to the security of the electricity system authorised to reintegrate costs, acceptance of mechanisms that compensate for costs correlated with the transport of electricity on foreign electricity grids (ITC), the Authority also updated the amount of the fee to cover the costs paid for Terna’s operations (DIS) to € 0.0439/kWh.

Resolutions adopted in 2015

Resolution 11/2015/R/eel - Launch of a procedure for defining the remuneration of the High and Very-High-Voltage electricity grids owned by the company Ferrovie dello Stato italiane S.p.A. to be included in the NTG

With this resolution, the Authority began the process of defining remuneration for the electricity transmission assets owned by the company Ferrovie dello Stato Italiane S.p.A. (FSI S.p.A.) subject to insertion in the NTG, pursuant to Article 1, Paragraph 193, of Italian Law No. 190 of 23 December 2014 (2015 Stability Law), in order to determine the net invested capital, the depreciation and amortisation and the current and arising operating expenses, taking into account the constraints introduced in the law, the potential benefits for the electricity system and in line with the tariff regulation criteria indicated in the ITT (Annex A to Resolution ARG/elt 199/11).

For the purposes of analysing and verifying the data and information involved in the procedure, the resolution, in addition to providing for the establishment of an independent commission of experts, also envisaged that Terna carry out specific assessments regarding the potential net benefits for the national electricity system deriving from including the FSI assets in the NTG, and that it send the results to the Authority.

Resolution 20/2015/R/com - Launch of a procedure for the recertification of Terna S.p.A., in its capacity as electricity transmission system operator and of Snam Rete Gas S.p.A., in its capacity as natural gas transport system operator.

With this measure the Authority launched the procedure for the recertification of Terna S.p.A., in its capacity as electricity transmission system operator and of Snam Rete Gas S.p.A., in its capacity as natural gas transport system operator In particular, the Authority considered it right to conduct in-depth investigations aimed at confirming that the two companies still have the requisites verified when they were first certified. To this end the Authority laid down for Terna S.p.A. and Snam Rete Gas S.p.A. an obligation to transmit within 60 days from publication of the resolution the up-to-date information provided for in Resolution ARG/com 153/2011, necessary for the purposes of the procedure.

Resolution 33/2015/R/eel – Approval of the rules for conducting intraday auctions for allocation of the transport capacity on the interconnections with Austria, France, Slovenia and Switzerland *(Rules for Intraday Capacity Allocation by Explicit Auctions on North Italian Borders)*

With this measure the Authority approved the rules for intraday capacity allocation (so-called *Intraday Auction Rules*) prepared by Terna together with the other network operators of Austria, France, Slovenia and Switzerland, participants in the work in the ACER context of the European Regional Initiative for the Central-South Region. In particular, in order to take into account the changes in the market closing times functional to implementation of market coupling, these allocation rules modify the operating procedures in force for conducting intraday auctions.

With this measure the Authority also confirmed the current methods of managing the income from transport capacity assignment procedures payable to Terna.

Resolution 45/2015/R/eel and Resolution 52/2015/R/eel – Measures on market coupling

With Resolution 45/2015/R/eel, the Authority formally launched market coupling on the Italy - Slovenia, Italy - Austria and Italy - France interconnections, verifying positively the documents and model contracts prepared by the parties to the Pre and Post Coupling Project in order to define the roles and responsibilities of the parties, and the operating procedures needed to make market coupling work.

The Authority also asked Gestore dei Mercati Energetici S.p.A. (GME), in agreement with Terna S.p.A, to transmit to the Authority the Agreement between GME and Terna S.p.A modified and supplemented so as to extend to the Italy - France and Italy - Austria borders the provisions of Resolution 609/2013/R/eel with reference to market coupling between Italy and Slovenia. With reference to the expenses and income deriving from the market coupling operating mechanism, the Resolution also stated that both the expenses and income deriving from execution of the service level agreement with CASC, and the amounts paid by Terna to GME or received by the latter must be recognised by Terna as the fee pursuant to Article 44 of Resolution 111/06 (uplift).

Implementing the provisions of this measure, the Authority also approved, with Resolution 52/2015/R/eel, both the draft agreement between GME and Terna S.p.A., and the draft agreement between GME and Cassa Conguaglio per il Settore Elettrico (electricity equalisation fund) for management of market coupling for the year 2015.

Resolutions 47/2015/R/eel, 169/2015/R/eel, 170/2015/R/eel, 196/2015/R/eel - Internal User Grids

With these resolutions the Authority adopted a series of measures that led to the updating of the list of Internal User Grids (IUGs), pursuant to Table 1 of Resolution ARG/elt 52/10. In particular, the Authority:

- provided for inclusion of the grid owned by the company Hexion Italia S.r.l. in the category of IUGs, identifying the company Hexion Italia S.r.l. as operator of the IUG and including this grid in the list pursuant to Table 1 of Resolution ARG/elt 52/10;
- rejected the request of the company API - Raffineria di Ancona S.p.A. to insert its grid, located in the municipality of Falconara Marittima, in the list of IUGs in considering that, at the date on which Italian Law 99/09 came into force, the plant configuration did not comply with the legislative requirements laid down for identifying IUGs;

- ordered, at the request of the interested parties, the exclusion of the grids of the companies MEMC and OCV Italia, located respectively in the municipality of Merano (BZ) and in the municipality of Vado Ligure (SV), from the list of IUGs as they no longer comply with the legislative requirements laid down for identifying IUGs;
- ordered the exclusion from the list of IUGs of the grid owned by the company Idroenergia S.r.l. located in the municipality of Orte as it does not comply with the requirements necessary for the purpose of classification as an IUG.

Resolution 63/2015/R/eel - Settlement of the economic items deriving from application of the mechanism for offsetting the average CCT expense

With this measure the Authority, following Ruling 463/15 of the Council of State, defined the settlement of the economic items deriving from application of the mechanism for offsetting the average expense of the fees for the allocation of rights to use the transport capacity (CCT).

In particular, the Authority established that Terna must pay to GSE an amount of € 9.8 million, to be recovered by an increase of the same amount of the uplift fee of the second quarter of 2015 and that GSE, in turn, must proceed to pay the amounts due to each operator with a right according to the provisions of Resolution 299/20012/R/eel.

Resolution 79/2015/R/eel - Completion of the regulation on remote disconnection of wind and photovoltaic production plants of power greater than or equal to 100 kW already connected or to be connected in Medium Voltage to ensure the security of the national electricity system

With this measure the Authority completed the regulation on remote disconnection of wind and photovoltaic production plants of power greater than or equal to 100 kW already connected or to be connected in Medium Voltage in order to ensure the security of the national electricity system. In particular, the Authority confirmed the figures for the premiums, already laid down in Resolution 421/2014/R/eel, to be paid to producers that comply with the prescriptions of the new Annex A.72 of the Grid Code by the end of June 2015. The Authority also ruled that all distributor companies that have at least one primary cabin, even if not directly connected with the NTG, are obliged to implement the centralised system for sending the signals necessary to activate remote disconnection. Exclusively for these distribution companies, initially not included in the field of application of Resolution 421/2014/R/eel, an extension is in the terms is envisaged for implementing the formalities they must complete.

Resolution 86/2015/E/com - Establishment of the Italian Register of Market Operators pursuant to Article 9 of EU Regulation no. 1227/2011 of the European Parliament and Council of 25 October 2011, concerning the integrity and transparency of the wholesale energy market (REMIT)

With this measure the Authority established the Italian National Register of Market Operators pursuant to Article 9 of EU Regulation no. 1227/2011 of the European Parliament and Council of 25 October 2011, concerning the integrity and transparency of the wholesale energy market (REMIT).

The Authority also approved the Operation and Use Manual of this National Register of Market Operators. In particular, the Manual developed by the Authority within its Database of public utility service operators in the energy sector, is aimed at illustrating the obligations and registration times, as well as the methods of access to and use of the National Register of Market Operators.

Resolution 92/2015/R/eel - Decisions on payment of the supplementary fee covering costs for the thermoelectric units essential to the security of the gas system

With this measure the Authority provided rulings on payment of the supplementary fee covering costs for the thermoelectric units essential for the security of the gas system. In particular, the Authority determined the amount of the advance on the supplementary fee covering costs for all the units included in the list of the units essential for the security of the gas system, approved by the Ministry of Economic Development with reference to the thermal year 2012/2013. Moreover, with this measure the Authority outlined the detailed criteria, also of a procedural nature, for determining the supplementary fee covering costs for the essential units for the 2013 gas emergency.

Resolution 95/2015/I/eel - Proposal to the Ministry of Economic Development to bring forward the stage of full implementation of the capacity market

With this Resolution the Authority proposes to the Ministry of Economic Development to bring forward the pro-competition and security system guarantee effects inherent in the capacity market defining a stage of first implementation of this market.

The stage of first implementation involves certain simplifications aimed at minimising the implementation times, mainly:

- recourse to alternative guarantee forms;
- first delivery period beginning on 1 January 2017 and last delivery period not later than 31 December 2020;
- annual delivery period;
- while awaiting full active participation of demand and of the foreign market, stochastic consideration of the respective contributions.

In this measure the Authority, among other things, asked Terna to work in order to reach an agreement with foreign operators to define the procedures for active foreign participation in the capacity market in order to increase the conditions of competition and reciprocity among member countries.

Resolution 96/2015/E/eel - Launch of a fact-finding enquiry in relation to interruptions in the electrical service that occurred on 6 February 2015 and on the following days in vast areas of the Emilia Romagna and Lombardy regions

With this measure the Authority launched a fact-finding enquiry regarding management of the disruption consequent to the outages of the electricity service that occurred on 6 February 2015 and on the following days in vast areas of the Emilia Romagna and Lombardy regions, stating that the same must be completed by the deadline of 31 December 2015.

The Authority asked Terna to send it, within 60 days, a report containing the information necessary for the purposes of the related assessments on compliance with the service obligations aimed at ensuring prompt repair of faults and timely restoration of the service in secure conditions and the assessments on possible actions of a regulatory nature. The same request is also made to the distributor companies involved in the disruption.

Resolution 120/2015/R/eel - Decisions on the San Filippo del Mela 220 kV and San Filippo del Mela 150 kV essential production plants for the year 2014

With this measure the Authority determined the amounts of the advance on the supplementary fee covering costs for the year 2014 to be paid by Terna to Edipower S.p.A. in relation to the San Filippo del Mela 150 kV and San Filippo del Mela 220 kV plants. The Authority also confirmed for the year 2014 the typical technical parameters valid for the purposes of determining the supplementary fee covering costs, already applied to these plants in previous years.

Resolution 149/2015/R/eel - Provisions related to the Ottana and San Quirico essential production plants, for the year 2014

With this measure the Authority determined the amounts of the six-monthly advance on the supplementary cost-covering fee for the year 2014 payable by Terna to Ottana Energia S.p.A. and Edison Trading S.p.A. in relation to the Ottana and San Quirico essential production plants.

Resolution 150/2015/R/eel and Resolution 283/2015/R/eel - Measures on the Centro Energia Ferrara plant

With Resolution 150/2015/R/eel the Authority revoked for the year 2015 the admission to the supplementary cost-covering fee system with reference to the Centro Energia Ferrara plant and ruled that Terna had to remove it from the 2015 list of essential plants with immediate effect.

The Authority also defined detailed criteria for the purposes of determining the supplementary cost-covering fee of the Centro Energia Ferrara plant for the year 2015. With the measure the Authority also approved the standard parameters proposed by Terna and confirmed the typical technical parameters already approved for the Centro Energia Ferrara plant for the year 2014 for the purpose of determining the variable cost of the plant for the year 2015. With Resolution 283/2015/R/eel the Authority also determined the amount of the six-monthly advance on the supplementary cost-covering fee for the year 2014, in relation to the Centro Energia Ferrara essential production plant, in the possession of E.ON Global Commodities SE.

Opinion 172/2015/I/efr – Opinion for the Ministry of Economic Development on the draft decree containing the approval of a single form for creating, connecting and operating small integrated photovoltaic plants on the roofs of buildings

With this measure the Authority issued a favourable opinion on the draft decree containing approval of a single form for creating, connecting and operating small integrated photovoltaic plants on the roofs of buildings, recommending to the Ministry of Economic Development a number of procedural changes. In particular, the draft decree is intended to simplify the administrative procedures envisaging that the single form will replace all other formalities required of producers for communicating the creation of small integrated photovoltaic plants. With a view to administrative simplification, the draft decree states, among other things, that the applicant, presenting the single form to the distribution company involved, will confer a mandate with representation on the latter to upload the data identifying the plant to the Consolidated Records Management System of Production Plants (GAUDÌ).

Resolution 209/2015/R/eel - Payment and coverage of final costs, for the year 2014, communicated by the company Terna S.p.A., for the performance of market monitoring activities

With this measure the Authority quantified the amount of the final costs payable to Terna, for the year 2014, for the purpose of performing market monitoring activities pursuant to paragraph 3.2 of the TIMM as € 801,784. The measure also quantified the revenue originating from the difference between the final costs payable to Terna for performing market monitoring activities pursuant to paragraph 3.2 of the TIMM, in the year 2014, and the estimated costs payable for the same year as € 53,686, establishing that this revenue will be recovered through the fee for Terna's operation (DIS component) for the year 2016.

Resolution 232/2015/A – Determination of the contribution rate for the operation of the AEEGSI due for the year 2015 by subjects operating in the relevant sectors.

With this measure, for subjects operating in Italy in the electricity and gas sectors, including companies operating under foreign law, the Authority established the contribution rate for Authority operating expenses for the year 2015 in the amount of 0.28 per thousand of income resulting from the financial statements approved relating to financial year 2014, which has to be paid by 31 July 2015.

Resolution 240/2015/R/eel - Recognition of costs, incurred in 2014 by the Company Terna S.p.A., for the performance of activities regarding the management and development of the Consolidated Records Management System of Production Plants (GAUDÌ).

With this measure the Authority recognised the costs incurred in 2014 by Terna for the performance of activities regarding the management and development the Consolidated Records Management System of Production Plants (GAUDÌ). In particular, the Authority quantified in the amount of € 1,081,427 final costs payable to Terna, for the year 2014 for the performance of the activities of developing and operating the GAUDÌ system. The Authority also ruled that the greater expense deriving from the difference between the final costs payable for 2014 and the estimated costs payable for the same year, of € 15,767, must be considered for the purposes of future quantification of the fee for Terna's operations related to 2016.

Resolution 249/2015/r/eel - Launch of the procedure for defining the dispatching rules applicable to the Italy-Malta interconnection and possible revision of the Authority's Resolution 111/06 on interconnection grids for which the control of scheduled trades is not implemented

With this measure the Authority launched a procedure for defining the dispatching rules applicable to the Italy-Malta interconnection and, more generally, for a possible revision of Resolution no. 111/06 on regulation of all interconnections for which the control of scheduled trades is not implemented, that is to say for interconnections not subject to frequency/power regulation functional to control of differences between the scheduled trade and the physical flow. For the purposes of the procedure, the Authority therefore asked Terna to send a list of all interconnections managed without the control of scheduled trades and stated that it intends to launch a specific consultation in order to acquire the observations of the parties involved.

Resolution 251/2015/R/eel - Ascertainment of progress in achieving the milestones of strategic investments for development of the NTG in relation to the year 2014

With this measure, the Authority ascertained the status of achievement of the strategic investment milestones for the development of the NTG envisaged for the year 2014, including milestones relating to subsequent years, achieved in advance, on the basis of the documentation submitted by Terna, and the surpassing of the 70% threshold of the total conventional value of these milestones. The Authority also ordered that Terna be granted the incentive for accelerating investments on fixed assets in progress relating to I=3 type investments existing at 31 December 2014, to be included in the transmission fees related to 2016.

Resolution 256/2015/R/eel - Update of the transitional rules for the specific remuneration of the production capacity

With this measure the Authority updated the transitional rules for the remuneration for availability of electricity generation capacity for the year 2014. In particular, the Authority, with reference to the transitory remuneration mechanism for availability of production capacity (capacity payment), established the revenue to be destined to pay the specific fee pursuant to Art. 35 of Resolution 48/04 for the year 2014 equal to € 94.2 million. With the same provision, the Authority also defined the table that specifies the times in relation to the year 2014.

Resolution 284/2015/R/eel and Resolution 307/2015/R/eel – Decisions on the essential production plants of Enel Produzione S.p.A.

With Resolution 284/2015/R/eel the Authority determined the amounts of the advance on the supplementary cost-covering fee for the year 2012, in relation to the Enel Produzione S.p.A. essential production units which operate on electricity grids with the obligation of connection to third parties that are not interconnected with the NTG.

With Resolution 307/2015/R/eel the Authority determined the supplementary cost-covering fees for the year 2012 in relation to the essential plants of Enel Produzione S.p.A.

Resolution 296/2015/R/com – Rules on the functional separation (unbundling) obligations for the electricity and gas sector

With this measure the Authority approved the integrated functional unbundling rules, establishing functional separation obligations aimed at ensuring independent management in the different activities performed by vertically integrated companies. The Authority also introduced obligations involving brand separation and communication policies between the distribution activity and the sales activity of vertically integrated companies and regulated access to commercially sensitive information relating to the distribution activity providing for recourse, if available, to instruments made available by the regulation and primarily to the Integrated Information System.

The measure, among other things, envisages that the functional unbundling obligations on Terna and on the transport operators, subject to certification pursuant to Resolution ARG/com 153/11, must be fulfilled by observing the requirements provided for in the said Resolution ARG/com 153/11 and in the subsequent certification decisions adopted by the Authority. It also stated that it considers right to postpone to future certification decisions the revision of the disclosure obligations on the companies subject to the certification procedures under Resolution ARG/com 153/11.

Resolution 333/2015/R/eel - Launch of proceeding on measuring the effective balancing for the years 2012, 2013 and 2014 following the ruling of the Council of State 1532/2015

With this measure the Authority launched a proceeding, to be completed by 31 December 2015, measuring the effective balancing for the years 2012, 2013 and 2014 following the ruling of the Council of State 1532/2015. In particular, the resolution is aimed at adopting rules on balancing relating to the periods in which, in the mentioned years, Resolutions 342/2012/R/eel, 239/2013/R/eel and 285/2013/R/eel were applied in order to protect users who in that period trusted in the application of balancing rules in line with the purposes and functions of the dispatching service and guaranteeing, at the same time, the application of regulations on this service consistent with the related purposes.

Resolution 359/2015/R/eel - Rules on the extra fee for transitory remuneration of the available production capacity

With this measure the Authority updated the transitory rules on the further remuneration of the available electricity generation capacity for the year 2014 and established that Terna must pay to market operators the amounts related to the extra fee for the year 2014.

Resolution 377/2015/R/eel - Revision of the conventional loss percentage factors and of the equalisation mechanism for losses on electricity distribution grids

With this measure the Authority revised the conventional loss percentage factors pursuant to Table 4 of the Integrated Settlement Rules (ISRs) starting from 1 January 2016 stating that they would not change for three years. In particular, the resolution updated the standard loss factors to be applied to withdrawals, inputs and interconnections between grids, confirming the definition of uniform coefficients at the national level. These coefficients may be revised in consideration of the development of distributed generation, of the effects deriving from the process of limiting commercial losses and of further methodological improvements. The measure also changed the loss equalisation mechanism to be applied starting from the distribution companies.

Resolution 393/2015/R/eel - Systematic reform of the regulations governing the electricity dispatching service and consequent implementation of the inter-departmental project EDR (Electricity Dispatching Reform)

With this measure the Authority launched a proceeding aimed at the creation of measures for systematic reform of the regulations governing the dispatching service. In order to introduce this reform of the market, the inter-departmental project "Electricity Dispatching Reform" was launched; to be completed by 31 December 2016 and is the responsibility of the Department for Regulations, to which is entrusted, among other things, the task of guiding and monitoring Terna's participation in projects aimed at testing methods of cross-border integration of the balancing market and of compiling integrated Electricity Dispatching rules, to replace Annex A of Authority Resolution 111/06 currently in force.

Resolution 397/2015/R/eel - Update of the milestones and target dates for strategic investments to develop the NTG

With this measure the Authority updated the perimeter of strategic investments pursuant to paragraph 22.5, letter c) of the Integrated Transmission Text (ITT) (investments I=3) and the related milestones and target dates approved with Resolution 40/2013/R/eel and amended with Resolution 654/2014/R/eel, providing for the deferment of the term to 30 November 2015 pursuant to point 4 of Resolution 654/2014/R/eel for the presentation, by Terna, of the updated and complete framework of planning and financing information related to Interconnection No. 1 "Italy - Balkans".

Resolution 400/2015/R/eel - Actions aimed at simplifying the technical and economic conditions for connection to the grids with obligation of connection of third parties of the production units (TICA)

With this measure the Authority supplements the rules relating to the technical and economic conditions for connection to the grids in accordance with the rules defined by the Decree of the Ministry of Economic Development of 19 May 2015.

This Decree approved the Single Form for the creation, connection and operation of photovoltaic plants with specific characteristics related to the type of plant (among which, nominal power not higher than 20 kW; power not higher than that already available in withdrawal; created at the final customer already provided with withdrawal points active in low voltage). The rules of the Resolution therefore have the purpose of introducing simplifications in the most simple cases of connection.

Resolution 412/2015/E/eel - Extension of the fact-finding enquiry on investments of regulated companies, launched with Resolution 256/2014/E/com, to the costs of grid plants for connection made by electricity producers

With this measure the Authority extended the scope of the fact-finding enquiry, launched with Resolution 256/2014/E/com, in order to assess the congruity and consistency of the cost elements communicated to the said Authority by a distribution company in relation to grid plants for connection made by electricity producers. In particular, the Authority resolved to carry out specific in-depth investigations, to be completed by 30 June 2016, aimed at verifying, with reference, as a priority, to the geographical areas and years reported to the Authority: the congruity of the economic and financial value given to the network plants acquired by the producers, the congruity of the expenses requested from producers for the grid plant testing activity, the methods of applying the rules of the Combined Text on Active Connections (Testo Integrato delle Connessioni Attive - TICA) which regulate the coordination for the creation of grid plants serving several applicants and the correct treatment, for tariff purposes, of the assets acquired and of the contributions received applying the TICA.

Resolution 413/2015/E/eel - Closure of the fact-finding enquiry related to provision of the electricity measurement service

With this measure the Authority ordered the closure of the fact-finding enquiry launched with Resolution 475/2013/E/eel, approving the document containing the “Report of the fact-finding enquiry related to provision of the electricity measurement service launched with Resolution 475/2013/E/eel”. The Report, illustrating the results of the fact-finding enquiry, suggests some possible actions to amend and supplement the current regulations on measurement aimed at resolving some of the critical issues that have emerged with reference, among other things, to the responsibility of the measurement service, to users indirectly connected to the NTG, to the production units connected both to the NTG and to the distribution grid.
The Authority therefore gave a mandate to the Infrastructure, Unbundling and Certification Department and to the Markets Department to adopt, in the context of the regulatory review, general regulatory measures on measurement taking into account the evidence that emerged during the fact-finding enquiry and gave a mandate to the Observatory, Supervision and Control Department for the preparation of later prescriptions in relation to single operators in the light of the contents of the Report.

Resolution 439/2015/E/eel – Approval of an inspection of the electricity transmission company, on the subject of service quality

With this provision, the Authority approved the performance of an inspection of Terna on the data on electricity transmission service quality communicated to the Authority in 2015.

Resolution 453/2015/R/eel - Adjustment of the supplementary fee covering generation costs for the units essential for the security of the electricity system subject to cost coverage

With this measure, the Authority adjusted the fee pursuant to Article 45 of Resolution no. 111/06 to the income needs envisaged for the year 2015, updated taking account the fact that, owing to the postponement of the date envisaged for completion of the Sorgente - Rizziconi project, the system pursuant to Italian Law Decree 91/14 will be applied for a longer period compared with that planned on the occasion of Resolution 658/2014/R/eel. In particular, the supplementary fee covering generation costs for the units essential for the security of the electricity system admitted to cost coverage, for the period October - December 2015, was fixed at 0.3054 c€/kWh.

Resolution 483/2015/R/eel - Approval of the rules for allocating the cross-border transport capacity valid starting from the year 2016

With this measure the Authority has successfully tested and approved the rules for the allocation of cross-border transport capacity valid from the year 2016, namely:

- the "*Allocation Rules for Forward Capacity Allocation*": these rules have been drawn up as part of the initiative promoted by ENTSO-E for the harmonisation and early adoption of the "*Network Code on Forward Capacity Allocation (NC FCA)*", 2 April 2014 version. The Resolution approved, in particular, the document containing the rules and the Annex "*Regional-specific annex: Italian Borders*", which defines the specific nature of economic compensation for reductions of rights to use cross-border transmission capacity to be applied at Italian borders;
- the "*Daily Capacity Allocation on Swiss Borders and Italy – Greece Border*" and through shadow auctions, in case of failure of the market coupling mechanism on the borders in which it is in force, "*Shadow Allocation Rules*";
- the "*Allocation Rules for Intraday Capacity Allocation on Northern Italian Borders*".

Resolution 486/2015/R/eel - Decisions concerning essential plants and changes and additions to the pertinent rules

With this measure, the Authority has adopted amendments and additions to the rules governing essential plants, determining, *inter alia*, the significant technical/financial values for application of the alternative remuneration rules to the typical systems of essentiality pursuant to Article 65-*bis* of Resolution no. 111/06, with reference to the continent macro-zone, and updating the criteria for calculating the fees for 2016 as part of the typical systems of essentiality referred to in Articles 63, 64 and 65 of Resolution no. 111/06. The measure has also extended the deadlines for completion of some of the activities entrusted to dispatching users and to Terna envisaged in the rules governing essential plants.

Resolution 487/2015/R/eel - Reform of the *switching process* in the electricity retail market

With this measure the Authority reformed the switching process in the electricity retail market, providing for a centralised management of the switching process through the Integrated Information System (SII), rather than the distributor, and a reduction of the timescales for switching electricity suppliers.

Resolution 496/2015/R/eel - Rules on essential plants in the Sardinia and Sicily macro-zones

With this measure, the Authority has defined the technical/financial parameters for application of the alternative remuneration rules to the typical systems of essentiality pursuant to Article 65-*bis* of Resolution No. 111/06, with reference to the groups of essential plants pursuant to Resolution No. 111/06 in the Sardinia and Sicily macro-zones. The Authority has also integrated the rule - for the Sicily macro-zone - concerning the essentiality system under Article 23 paragraph 3-*bis* of Italian Law Decree no. 91/14, as converted by Italian Law no. 116 of 11 August 2014, to take into account, *inter alia*, the postponement of the entry into operation of the Sorgente-Rizziconi project.

Resolution 510/2015/R/eel - Approval of the Terna proposal for the implementation of tender procedures for CCC and CCP assignment for 2016

With this measure, the Authority has approved the proposed regulations for the tender proceedings, issued by Terna, for assigning instruments hedging the volatility risk of the transport capacity use fee between a market area and the single national price (CCC) and instruments hedging against the volatility risk of the transport capacity use fee between a limited production site and the adjacent area (CCP) for the year 2016, having deemed them compliant with the relevant rules adopted by the same authorities (Resolutions 205/04 and 487/2014/R/eel).

Resolution 511/2015/R/eel - Extension of validity of the subdivision of the main grid into zones

With this measure, the Authority has extended for all of 2016 the existing zone configuration and has provided, in order to ensure a new zone configuration as established for the 2017–2019 period, that Terna shall submit a proposal to the authorities under the terms and according to the criteria currently in force.

Resolution 517/2015/R/eel - Defining the remuneration of the High- and Very-High-Voltage electricity grids owned by the company Ferrovie dello Stato italiane S.p.A. to be included in the NTG

With this measure the Authority determined the remuneration, amortisation and current and arising operating expenses relating to the high- and very-high-voltage grids owned by Ferrovie dello Stato Italiane S.p.A., subject to inclusion in the NTG pursuant to Italian Law 190/2014.

Resolutions 535/2015/R/eel, 536/2015/R/eel and 537/2015/R/eel – On Internal User Grids

With these measures, the Authority updated the list of Internal Use Grids pursuant to Resolution ARG/elt 52/10, inserting the new Internal Use Grid and changing the ownership of two Internal Use Grids already included in that list as a result of corporate transactions.

Resolutions 539/2015/R/eel - Adjustment of connection, metering, transmission, distribution, dispatching and sales services in the case of closed distribution systems

With this measure, the Authority approved the integrated text of measures for the regulation of closed distribution systems (TISDC) to be applied as of 1 January 2017.

With this Resolution the Authority particularly intended to complete the definitive framework for electricity grids establishing that they be classifiable, based on the current regulatory framework, into public grids, or grids operated by holders of a transmission or distribution licence, and closed distribution systems (SDC), namely private electricity grids that distribute electricity within a geographically confined industrial, commercial or shared services site which, except in certain cases, does not supply to the public. The Authority also established the regulation of connection, transmission, distribution, metering and sale services in the case of SDCs existing at the date of entry into force of Italian Law 99/09, equating, where possible, the SDC manager to a distributor, only without a licence.

Resolution 549/2015/R/eel - Effective balancing rules applicable to the Italy-Malta interconnection

With this measure, the Authority has provided that, as of 1 January 2016, effective balancing for export and import dispatching points corresponding to the Italy-Malta interconnection shall be assessed according to the provisions of Resolution No. 111/06 for unenabled units. Moreover, on a gradual and transitional basis for 2016 only, a deductible has been introduced on the assessment of 1 MWh imbalances for each hour within which the assessment of these imbalances is carried out at the assessment price of tenders for the sale of electricity accepted on the day-ahead market in the area where the dispatch point is located.

Resolution 550/2015/R/eel – Determination of the economic items of equalisation of revenue for the electricity transmission service for the year 2014

With this measure the Authority, in accordance with Article 16 paragraph 3 of the Integrated Tariff Rules (Annex A to Resolution ARG/elt 199/11), has quantified the economic items guaranteeing the income payable to the transmission service for the year 2014 in the amount of € 80,772,359.

Resolution 552/2015/R/eel – Determination of the bonuses and penalties related to electricity transmission service quality, for the year 2014

With this measure the Authority, pursuant to Article 7 of Appendix A to Resolution ARG/elt 197/11 and taking into account the results of the audit of October 2015, determined the amount of bonuses to be paid to Terna for the year 2014, amounting to € 19.3 million.

Resolution 557/2015/R/eel – Decisions on alternative systems for the essential plants

With this resolution, the Authority adjusted the values of the relevant technical/economic parameters in the context of alternative remuneration systems for essential plants for the year 2016, in consideration of Enel Produzione S.p.A.'s decision to partially adhere to these systems.

Resolution 558/2015/R/eel - Update to the procedures for the technical and economic conditions for connection to the grids with obligation of connection of third parties of the production units (TICA)
With this measure, the Authority updated and promptly changed the Combined Text on Active Connections (TICA) in order to overcome certain issues raised by grid operators and to take into account the outcome of the dispute settlement proceedings before the Authority. The Authority has also successfully verified the amendments to Chapter 1 of the Grid Code, as well as Annexes A.2 (Guide to connection schemes) and A.57 (Type contract for connection to NTG) as issued by Terna in July 2015.

Resolution 573/2015/R/eel – Rules on the subject of essential plants in the continent and Sardinia macro-zones, for the year 2016. Amendments and additions to Authority Resolution 111/06
With this measure the Authority determined the values of certain relevant parameters for the application of the typical systems to essential production plants in the continent and Sardinia macro-zones, for the year 2016.

Resolution 574/2015/R/eel – Rules on the subject of essential plants in the Sardinia macro-zone
With the measure the Authority determined, with reference to the Sicily macro-zone, the values of certain relevant parameters for the application of the typical systems and the system pursuant to Law Decree No. 91/14, as converted by the Italian Law No. 116 of 11 August 2014, for essential production plants.

Resolution 583/2015/R/com - Rate of return on invested capital for infrastructure services in the electricity and gas sectors: determination and updating criteria
With this measure, the Authority approved the criteria for determining and updating the rate of return on invested capital for infrastructure services in the electricity and gas sectors (Annex A - TIWACC 2016–2021), applied during the period 1 January 2016–31 December 2021.

Resolution 611/2015/R/eel - Payment of the 2016 estimated costs, as reported by Terna S.p.A., for the performance of wholesale electricity market monitoring activities.
With this measure the Authority recognised the costs estimated for 2016, communicated by Terna S.p.A., to perform activities needed to monitor the operation of the wholesale electricity markets, quantifying them at the amount of € 876,115.

Resolution 612/2015/R/eel – Decisions on the requests for advance payment of the reintegration fee, in relation to essential plants
With this measure the Authority determined the amounts of the advance fee for cost reintegration in relation to each essential plant for the year 2014.

Resolution 615/2015/R/eel - Provisions related to essential production plants, subject to the 91/14 system for the year 2015.
With this measure, the Authority has determined the amount of the six-monthly advance on the supplementary cost-covering fee for the year 2015, in relation to essential plants in the Sicily macro-zone, subject to the system referred to in Law Decree No. 91 of 24 June 2014, as converted into Italian Law No. 116 of 11 August 2014.

Resolution 616/2015/R/eel - Provisions related to essential production plants admitted to the cost-covering system in the continent and Sardinia macro-zones, for the year 2015.
With this measure, the Authority has determined the amount of the advance on the supplementary cost-covering fee for the year 2015 with reference to a part of plants admitted to the cost-covering system in the continent and Sardinia macro-zones.

Resolution 644/2015/E/eel - Closure of the fact-finding enquiry, launched with Authority Resolution 96/2015/E/eel, in relation to interruptions in the electrical service that occurred on 6 February 2015 in vast areas of the Emilia Romagna and Lombardy regions
With this measure the Authority has concluded the fact-finding enquiry, launched with Authority Resolution 96/2015/E/eel, in relation to interruptions in the electrical service that occurred on 6 February 2015 in vast areas of the Emilia Romagna and Lombardy regions.

The Authority has also instructed the Division of Sanctions and Obligations of the Authority to evaluate any follow-ups that may be appropriate in regard to certain distribution companies, laying down specific requirements for the updating and completion of their respective emergency plans.

Resolution 649/2015/R/eel – Approval of the contractual schedules in relation to the alternative systems for essential plants, for the year 2016

With this measure the Authority has approved Terna's contract proposals, referred to in Article 65-*bis*, paragraph 65-*bis*.5, Annex A to Resolution 111/06, for the year 2016.

Resolution 653/2015/R/eel - Integrated text of the *output-based* regulations for the electricity transmission service for the 2016–2023 regulatory period

With this measure the Authority has approved the rules governing the output-based regulations for the electricity transmission service for the 2016–2023 regulatory period. The measure particularly introduced several changes with respect to the regulation of the Energy Not Supplied bonus/penalty scheme, to the individual adjustment for HV end customers, to the obligations for the transmission company to publish the expected and actual maximum and minimum voltage for each HV user and to other output-based incentive regulation mechanisms for the selective promotion of investments, in regard to which the Authority will present further guidelines over the course of 2016. With reference to the vulnerability of the electricity system, namely grid outage caused by interruptions due to severe and persistent weather events, the Authority has also provided for the creation of a technical committee to study issues related to increasing the resilience of the system.

Resolution 654/2015/R/eel - Tariff adjustment for electricity transmission, distribution and metering services for the 2016–2023 regulatory period

With this measure, the Authority has outlined the tariff adjustment for electricity transmission, distribution and metering services for the 2016–2023 period, approving the "*Integrated provisions for the delivery of electricity transmission and distribution services*" (TIT), the "*Integrated provisions for the delivery of electricity metering service*" (TIME) and the "*Integrated text of economic conditions for delivery of the connection service*" (TCI), valid as of 1 January 2016. The measure, which is the result of an in-depth consultation process, provides, *inter alia*, for:

- establishing an 8-year duration for the new regulatory period for electricity transmission, from 2016 to 2023, dividing it into two 4-year sub-periods: the first (NPR1), from 2016 to 2019, the second (NPR2), from 2020–2023;
- the adoption in NPR1 of tariff criteria with incentive regulation schemes for the payment of operating expenses and rate-of-return type regulation schemes for capital costs and for the gradual adoption in NPR2 of an approach towards total expenditure control (*totex*);
- setting initial levels of paid expenses and criteria for updating them for the remaining years of NPR1;
- the establishment of rules for the selective promotion of investments;
- the adoption of a new transmission tariff scheme with a binomial power and energy structure;
- the setting of beta parameters relating to the electricity sector, allowing, in conjunction with the provisions of the Resolution 583/2015/R/com, for the determination of the relative rates of return on invested capital.

Resolution 658/2015/R/eel – Update of the dispatching fees for the year 2016

With this measure, the Authority has provided for the update of the dispatch fees for 2016 which include, *inter alia*, the fee to cover the costs paid for Terna's operations (DIS), the fee to cover the costs of remuneration for production capacity, the fee to cover the costs of remuneration of the load interruptibility service, the supplementary fee covering generation costs for the units essential for the security of the electricity system admitted to cost coverage, and the fee covering costs deriving from the adoption of mechanisms that compensate for costs correlated with the transport of electricity on foreign electricity grids (ITC). The Authority has also defined the amount of the single payment covering safeguarding fees.

Resolution 663/2015/R/eel – Decisions on the requests for admission, for the year 2016, to the cost reintegration system pursuant to Authority Resolution 111/06

With this measure the Authority has identified, after examining the requests submitted by operators regarding admission to the cost-covering system and whether or not such requests were accepted, the resulting changes by Terna to Annex A.27 to the Grid Code, laying down the list of essential plants pursuant to Resolution 111/06. More specifically, the Resolution provides that the San Filippo del Mela 220 kV plant be kept only in the list of essential units per Italian Law Decree 91/14.

Resolution 666/2015/R/eel - Amendment to Authority Resolution ARG/elt 179/09 in accordance with the provisions of the Stability Law 2016

With this measure, the Authority has adjusted the rules on the virtual importing service referred to in Resolution ARG/elt 179/09 on the basis of the amendments and additions provided for by the Law on "*Measures for the preparation of the annual and multi-annual State budget (Stability Law 2016)*" to Italian Law No. 99/09.

Further information

Further information required by specific legal or sector regulations is presented below.

Treasury shares

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

Related-party transactions

Considering that the Terna Group has been subject to de facto control by Cassa Depositi e Prestiti S.p.A. since 2007, the related-party transactions carried out by the Terna Group during 2015 included not only those with the associates and the employee pension funds (Fondenel and Fopen), but also those with Cassa Depositi e Prestiti, CDP Reti S.p.A. and the companies directly or indirectly controlled by the Ministry of Economy and Finance.

Related party transactions carried out in 2015 consisted substantially of services under the scope of ordinary business and settled at market terms, as is described in greater detail in the Consolidated and Separate Financial Statements at 31 December 2015[33].

The Parent Company's corporate governance[34] rules ensure that these transactions are carried out in compliance with the criteria of procedural and substantial correctness, with the same terms that would apply to independent counterparties and in accordance with the rules on the transparency of disclosures to the market.

We note that on 9 December 2015, Terna S.p.A., Ferrovie dello Stato Italiane S.p.A. and Rete Ferroviaria Italiana S.p.A. signed a purchase agreement for the acquisition by Terna of the entire share capital of S.EL.F., Società Elettrica Ferroviaria S.r.l., a company wholly controlled by FS which operates in the field of electricity transmission, as commented under the significant events of the year to which reference is made.

The transaction was classified as a related party transaction, in compliance with Article 6 of the Regulations on Related Party Transactions pursuant to CONSOB Resolution no. 17221/2010 and subsequent amendments and additions (Regulations), taking into account that: *(a)* FS is a company wholly owned by the Ministry of Economy and Finance ("MEF"); *(b)* the MEF holds an equity investment of 80.1% in the share capital of Cassa Depositi e Prestiti S.p.A.; *(c)* Cassa Depositi e Prestiti S.p.A. has an equity investment of 59.1% in CDP Reti S.p.A.; (d) CDP Reti S.p.A. holds 29.851% of the share capital of Terna.

The transaction was approved by the Terna Board of Directors following a favourable opinion issued unanimously by the Related-Party Transactions Committee. Given that it is a transaction with related parties "of greater significance", pursuant to Article 8 of the Regulations and Article 5.3 of Procedure, Terna shall publish the document in accordance with Article 5 of the Regulations in the manner and within the terms set forth therein.

With respect to the provisions of Article 71 of the Issuers Regulation, it should be noted that on 18 January 2013 Terna announced its decision to adopt the opt-out system pursuant to Articles 70, subparagraphs 8 and 71 paragraph 1-*bis* of the Issuers Regulation, thereby availing of the right to waive the publication requirements of disclosure documents provided in occasion of significant mergers, de-mergers, share capital increases by contribution of non-cash assets, purchases and sales.

Information on ownership structure

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

(33) Transactions with members of the Board of Statutory Auditors of the Parent Company, and in particular their fees, are detailed in the comments on the "Services" item in the Notes to the Consolidated and Separate Financial Statements at 31 December 2015, to which reference should be made. In addition, implementing CONSOB Resolution no. 18049 of 23 December 2011 in force since 31 December 2011, the disclosure on fees paid to "members of the administrative and auditing bodies, general managers", and on equity interests held by the same, is included in the annual remuneration report published in accordance with the Law.

(34) On 26 January 2016, the Board of Directors of the parent company, Terna S.p.A. amended the "Procedure for Related-Party Transactions" adopted within the Terna Group.

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

With regard to the provisions of Article 36 of the CONSOB Markets Regulation (no. 16191/2007 as subsequently amended), Terna S.p.A. does not hold any significant controlling interests under the terms of the aforementioned regulations in companies incorporated in and regulated by the laws of non-EU countries.
With regard to the provisions of Article 37 of said CONSOB Regulation, Terna S.p.A. is subject to the de facto control of Cassa Depositi e Prestiti S.p.A., which – as of 31 December 2013 – holds an equity interest amounting to 29.851% in the share capital, according to that verified by Cassa Depositi e Prestiti and disclosed on 19 April 2007. At present, no management or coordination has been formalised or exercised; Terna S.p.A. goes about its business directly or through its subsidiaries with independent management and trading.

Participation in the legislative simplification process pursuant to CONSOB Resolution 18079 of 20 January 2012

Pursuant to Art. 3 of CONSOB Resolution no. 18079 of 20 January 2012, Terna decided to adopt the simplified system envisaged by Arts. 70, paragraph 8, and 71, paragraph 1-*bis*, of the CONSOB Regulation no. 11971 of 14 May 1999 and subsequent amendments (CONSOB Issuers Regulation), thereby availing itself of the right to be exempt from being required to publish disclosure documents provided for in occasion of significant mergers, de-mergers, share capital increases by contribution of non-cash assets, acquisitions and sales.

Evolution of the dimensions of the NTG

Number of plants – Terna S.p.A.

The number of plants belonging to the company Terna S.p.A. as at 31 December 2015, compared to the situation as at 31 December 2014, is shown in the following table.

	31.12.2015	31.12.2014	Δ
Substations	472	462	10
Transformers	674	659	15
	142,470 MVA	140,563 MVA	1,907 MVA
Bays	5,159	5,084	75
Lines	41,681 km	41,398 km	283 km
Three-phase power lines	2,446	2,396	50
	46,646 km	46,345 km	301 km

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

Substations

With regard to the substations, we note the following changes:

1. of entire plants:

- activation of the new transformer substation in Genzano (4 x 380 kV bays and 5 x 150 kV bays);
- activation of the new transformer substation in Melfi (2 x 380 kV bays and 3 x 150 kV bays);
- activation of the new switching substation in Scampitella 2 (4 bays at 150 kV);
- activation of the new switching substation in Rotonda 150 (5 bays at 150 kV);
- activation of the new switching substation in S. Sostene (3 bays at 150 kV);
- activation of the new switching substation in Valle (3 bays at 150 kV);
- activation of the new switching substation in Petralia (3 bays at 150 kV);
- activation of the new switching substation in Massa Finalese (3 bays at 132 kV);
- declassification of the Martinetto substation from 220 kV to 132 kV following the sale to AEM Distribuzione of the 220 kV section of the plant;
- acquisition from Parco Eolico Buseto S.p.A. of the Buseto switching substation (3 bays at 150 kV);
- acquisition by Terna Plus S.r.l. of the non-standard (photovoltaic connection) Alfonsine 2 plant (one bay at 132 kV).

2. of existing plants:

- activation of 37 new bays in the substations of Priolo (3 bays at 380 kV), Sorgente (2 bays at 380 kV), Rizziconi (1 bay at 380 kV), Glorenza and Musocco (3 bays at 220 kV each), Ospiate, Udine Nord Est and Ottana (1 bay at 220 kV), Bisaccia 380 (3 bays at 150 kV), Troia, Rumianca and Cagliari Sud (1 bay at 150 kV), S. Rocco (10 bays at 132 kV), Ponte and Flero (2 bays at 132 kV each), Genova Termica and Molini di Tures (1 bay at 132 kV);
- activation of 30 new machine and/or power factor correction bays in the substations of Manfredonia and Laino (1 bay at 380 kV and 1 bay at 150 kV), Planais, Suvereto and Parma Vigheffio (1 bay at 380 kV and 1 bay at 132 kV), Forlì and Rizziconi (2 bays at 380 kV each), Bovisio (1 bay at 380 kV), Fulgatore (2 bays at 220 kV and 1 bay at 150 kV), Musocco (2 bays at 220 kV and 2 bays at 132 kV), Glorenza (1 bay at 220 kV and 1 bay at 132 kV), Flumeri (1 bay at 150 kV), Genova Termica, Leinì, S. Rocco, Ponte and Marginone (1 bay at 132 kV);
- activation of 7 new parallel and/or connector bays in the stations of Priolo (1 bay at 380 kV), Musocco, Marcaria, Glorenza and Fulgatore (1 bay at 220 kV each), S. Rocco (2 bays at 132 kV);
- deactivation and/or demolition of 40 bays in the stations of Priolo (4 bays at 380 kV), Rizziconi (3 bays at 380 kV), Glorenza (2 bays at 220 kV), Rotonda (bay at 220 kV and 5 bays at 150 kV), Venina (1 bay at 220 kV), S. Rocco (12 bays at 132 kV), Genova Termica (3 bays at 132 kV), Ponte (2 bays at 132 kV), Martinetto, Brescia S. Bartolomeo, Leinì and Bussolengo Medio Adige (1 bay at 132 kV each), Porto Empedocle (3 bays at 70 kV);
- sale to AEM Distribuzione of the entire 220 kV section (7 bays) of the Martinetto plant.

Transformers

With regard to transformers, we note the following changes:

- activation of 2 new 380/150 kV auto-transformers of 250 MVA at the time the Melfi and Genzano stations (1 x ATR, each) entered into operations;
- activation of 2 new 380/150 kV auto-transformers of 250 MVA in the stations of Manfredonia and Laino (1 x ATR each);
- activation of 3 new 380/132 kV auto-transformers of 250 MVA in the stations of Planais, Suvereto and Parma Vigheffio (1 x ATR each);
- activation of 1 new 220/150 kV auto-transformer of 250 MVA in the Fulgatore substation;
- activation of 2 new 220/132 kV auto-transformer of 250 MVA in the Musocco substation;
- activation of 3 new 220/132 kV auto-transformers of 160 MVA in the stations of Rosone, Salvemini and Glorenza (1 x ATR each);

- activation of 1 new 220/132/8 kV auto-transformer of 80 MVA in the Ponte substation;
- activation of 1 new 150/20 kV auto-transformer of 20 MVA in the Flumeri substation;
- purchase of one 132/20 kV transformer of 63 MVA in the Alfonsine 2 plant, at the time the plant was purchased by Terna Plus S.r.l.;
- replacement of one 380/220 kV transformer of 400 MVA with a similar one of the same power in the S. Sofia substation;
- replacement of two 380/150 kV transformers of 250 MVA with similar ones of the same power in the Rizziconi and Bari Ovest stations (1 x ATR each);
- replacement of one 220/132 kV transformer of 160 MVA with a similar one of the same power in the Bolzano substation;
- replacement of one 220/150 kV transformer of 160 MVA with a similar one of 100 MVA in Fratta substation;
- replacement of one 220/21.6 kV transformer of 40 MVA with a similar one of the same power in the Conegliano substation;
- replacement of one 132/15 kV transformer of 40 MVA with a 132/66/15 kV machine of 32 MVA in the Camporosso substation;
- replacement of one 132/15 kV transformer of 25 MVA with a similar one of 40 MVA in the Leini substation;
- sale of two 220 kV/132 kV transformers of 100 MVA in the Martinetto substation, following the sale to AEM Distribuzione of the 220 kV section of the plant;
- deactivation of one 380 kV Phase Shift Transformer (PST) of 1,800 MVA in the Villanova PST substation and its transfer to the Foggia PST substation to replace an identical one being repaired;
- deactivation of one 220/150 kV auto-transformer of 100 MVA in the Rotonda substation;
- deactivation of one 220/132 kV auto-transformer of 160 MVA in the Martinetto substation;
- decommissioning of one 220/132 kV transformer of 50 MVA in the Rosone substation;
- decommissioning of one 220/132/8kV transformer of 73.5MVA in the Ponte substation.

Power lines

With regard to power lines, we note the following changes:

- entry into service of 11 new lines for a total of 74.5 km of three-phase lines: Acerra-Casalnuovo 220 kV (8.5 km cable), Milano Ricevitrice Ovest-Milano Ricevitrice Sud 220 kV (8.1 km cable), Ospiate-Musocco 220 kV (6.4 km cable), Cagliari Sud-Rumianca 150 kV (19.5 km cable), Fratta-Gricignano 150 kV (8.7 km cable), Laino-Rotonda 150 kV (3.8 km cable), cl Forno-cp Edolo 132 kV (12.5 km cable), Flero-cs S. Zeno 132 kV (2.1 km overhead), Ospiate-cp Fiera Nuova 132 kV (2.0 km cable), cp Ospiate-cp Fiera Nuova 132 kV (2.0 km cable), Quarto d’Altino cp-Quarto d’Altino sc 132 kV (0.9 km cable);
- activation of 2 short connections (< 0.1 km) between adjacent plants of which 1 is of 380 kV and 1 of 220 kV;
- construction of 18 in-out derivations on the same number of operating lines with an overall increase of the same number of three-phase power lines and 3.8 km of three-phase power lines, of which: + 1 line + 0.1 km at 380 kV, + 2 lines + 2.2 km at 220 kV + 11 lines + 0.6 km at 150 kV, + 4 lines + 0.9 km at 132 kV;
- acquisition by Termoli Energia of the Larino-Termoli line in operation at 380 kV (14.7 km overhead);
- acquisition by Terna Rete Italia S.r.l. of 25 operating three-phase power lines covering a total of 255.0 km, of which: 10 lines and 123.0 km at 150 kV, 15 lines and 132.0 km at 132 kV; 2 lines acquired have been incorporated into other existing lines, for which the actual increase in the number of lines is 23;
- acquisition by Terna Plus S.r.l. of 1 short connection at 132 kV;
- sale to ENEL Distribuzione of 1 line operating at 70 kV for a total of 0.1 km of three-phase power lines;
- construction of variants, rigid derivations and/or changes in the line and/or grid distribution with a total increase of 8 lines and an increase of 11.8 km of three-phase power lines, of which: + 4.0 km at 380 kV, + 1.4 km at 220 kV, + 0.3 km at 150 kV, + 7 lines + 2.3 km at 132 kV + 1 line + 3.6 km at 60 kV, + 0.2 km at 15 kV;
- deactivation and/or demolition of 11 operating lines for a total of 47.4 km of three-phase power lines, of which: 2 lines and 9.6 km at 220 kV, 2 lines and 7.3 km at 150 kV, 5 lines and 30.2 km at 132 kV; 2 lines and 0.3 km at 70 kV.

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

The number of plants belonging to the company Terna Rete Italia S.r.l. as at 31 December 2015, compared to the situation as at 31 December 2014, is shown in the following table.

	31.12.2015	31.12.2014	Δ
Substations	28	29	(1)
Transformers	3	2	1
	720 MVA	320 MVA	400 MVA
Bays	118	121	(3)
Lines	16,212 km	16,473 km	(261 km)
Three-phase power lines	1,717	1,737	(20)
	17,271 km	17,546 km	(276 km)

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

Substations

With regard to the stations, we note the following change at the level of the existing plants:

- activation of 1 new 380 kV machine bay in the Cassano 380 substation.

Transformers

With regard to transformers, we note the following change:

- activation of 1 new 380/220 kV auto-transformer of 400 MVA in the Cassano 380 substation.

Power lines

With regard to power lines, we note the following changes:

- entry into operation of the new Taloro-Ovodda 150 kV line, covering 0.4 km overhead;
- construction of 5 in-out derivations on the same number of operating lines with an overall increase of the same number of three-phase power lines and 0.2 km of three-phase power lines, of which: + 3 lines + 0.3 km at 150 kV, + 2 lines 0.1 km at 132 kV;
- construction of variants, rigid derivations and/or changes in the line and/or grid distribution with a total increase of 19.7 km of three-phase power lines, of which: + 19 km at 150 kV + 0.7 km at 132 kV;
- transfer to Terna S.p.A. of 25 operating lines for a total of 255.0 km of three-phase power lines, of which: 10 lines and 123.0 km at 150 kV, 15 lines and 132.0 km at 132 kV.

Number of plants – Rete S.r.l.

The number of plants belonging to the company Terna Rete Italia S.r.l. as at 31 December 2015, compared to the situation as at 31 December 2014, is shown in the following table.

	31.12.2015
Substations	350
Transformers	25
	825 MVA
Bays	831
Lines	8,379 km
Three-phase power lines	8,682 km

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

Annexes on economic/financial performance

The Terna Group's performance and financial position

Group reclassified income statement

NOTES TO THE TERNA GROUP RECLASSIFIED INCOME STATEMENT

This table presents the reconciliations of the balances of the items in the Group's reclassified income statement with those in its consolidated income statement.

The Group's reclassified income statement	€ million	Consolidated income statement
Transmission Fee	1,706.4	"Revenue from sales and services"
Dispatching fee	125.2	"Revenue from sales and services"
Revenue from construction of licensed activities	26.2	"Revenue from sales and services"
Other operating revenue - Regulated Activities	18.1	"Revenue from sales and services" for € 154.1 million and "Other revenue and income"
Other operating revenue - Non-Regulated Activities	206.2	
Personnel expenses	226.9	"Personnel expenses" net of the construction costs of licensed activities pursuant to IFRIC 12 (€ 4.9 million)
Services, leases and rentals	145.2	"Services" net of the construction costs of licensed activities pursuant to IFRIC 12 (€ 15.5 million)
Materials	89.9	"Raw materials and consumables" net of the construction costs of licensed activities pursuant to IFRIC 12 (€ 5.8 million)
Other expenses	46.8	Other operating expenses
Service quality	7.9	Other operating expenses
Costs of construction of licensed activities	4.9	"Personnel expenses"
	15.5	"Services"
	5.8	"Raw materials and consumables"
Net financial income (expense)	(141.1)	Points 1, 2 and 3 of letter C - "Financial income/ expense"
Income taxes for the year	286.0	"Income taxes of the year" and "Net profit from discontinued operations"

The Group’s reclassified statement of financial position

NOTES TO THE TERNA GROUP RECLASSIFIED STATEMENT OF FINANCIAL POSITION

This table presents the reconciliations of the balances of the items in the Group’s statement of financial position with those in its consolidated statement of financial position.

The Group’s reclassified statement of financial position	€ million	Consolidated statement of financial position
Financial assets	89.5	“Equity-accounted investees” and “Other non-current assets”
Trade receivables	568.3	“Trade receivables” net of energy-related pass-through revenue receivables (€ 805.1 million)
Other assets	40.0	“Other current assets” net of other tax assets (€ 121.3 million)
Net tax assets	132.5	“Tax assets”, “Other current assets” for the amount of the other tax assets (€ 121.3 million), “Other current liabilities” for the amount of other tax liabilities (€ 7.4 million) and “Tax liabilities”
Trade payables	(747.1)	“Trade payables” net of the energy-related pass-through costs payable (€ 1,423.0 million)
Net energy-related pass-through payables	(617.9)	“Trade receivables” for energy-related pass-through revenue receivables (€ 805.1 million) and “Trade payables” for energy-related pass-through costs payable (€ 1,423.0 million)
Other liabilities	(349.9)	“Other non-current liabilities” and “Other current liabilities” net of other tax liabilities (€ 225.8 million)
Sundry provisions	(378.1)	“Employee benefits”, “Provisions for risks and charges” and “Deferred tax liabilities”
Net financial debt	8,002.7	“Long-term loans”, “Current portion of long-term loans”, “Non-current financial liabilities”, “Short-term loans”, “Cash and cash equivalents”, “Non-current financial assets”, “Current financial assets” and “Current financial liabilities”

Financial flows (of the Group)

NOTES TO THE STATEMENT OF THE TERNA GROUP NET FINANCIAL DEBT

The following table shows the reconciliations of the balances of the items indicated in the Statement of the Group's net financial debt statement with those in its consolidated statement of financial position.

Statement of the Group's net financial debt	€ million	Consolidated statement of financial position
"Bond" and "Floating-rate loans"	8,516.5	Corresponds to "Long-term loans"
"Derivative financial instruments" - long-term	(680.9)	Corresponds to "Non-current financial liabilities" and "Non-current financial assets" for the value of FVH derivatives (€ 688.2 million)
"Floating-rate loans (current portions)"	122.9	Corresponds to "Current portion of long-term loans"
Other net current financial liabilities	59.2	Corresponds to "Current financial assets", "Current financial liabilities" and "Non-current financial assets" for the value of deferrals on *Revolving Credit Facility* commissions (€ 3.6 million).

RECONCILIATION OF THE GROUP CASH FLOW

In line with Recommendation CESR/05-178b, the cash flow data are compared with the consolidated accounting statements through specific reconciliation notes illustrated in the table below.

€ million	Cash flow 31.12.2015	Financial Statements Reconciliation	Cash flow 31.12.2014	Financial Statements Reconciliation
- Net profit for the year	595.3		544.5	
- Amortisation, depreciation and impairment	516.8		480.6	
- Net financial expense	141.1		127.9	
- Net change in provisions	(62.8)		(11.8)	
Employee benefits		*(40.8)*		*26.2*
Provisions for risks and charges		*(10.7)*		*32.5*
Deferred tax liabilities		*(11.3)*		*(70.5)*
- Net Losses (Gains) on asset disposals[1]	(1.7)		(1.8)	
Self-financing (Operating Cash Flow)	**1,188.7**		**1,139.4**	
- Change in net working capital*	137.2	244.9	244.9	244.9
Inventories		*9.2*		*(13.6)*
*Trade receivables**		*200.7*		*140.8*
Income tax assets		*(8.1)*		*(5.1)*
Other current assets		*(115.3)*		*33.4*
Trade payables		*66.3*		*41.5*
Tax liabilities		*14.2*		*(30.3)*
Other liabilities		*(29.8)*		*78.2*
- Other changes in non-current assets	(776.2)		(36.1)	
Goodwill		*(34.1)*		*-*
Intangible assets[2]		*(44.3)*		*(1.9)*
of which intangible assets acquired with the transaction with the FSI Group		*(38.0)*		*-*
Property, plant and equipment[3]		*(697.6)*		*(27.7)*
of which tangible assets acquired with the transaction with the FSI Group		*(719.0)*		*-*
Non-current financial assets		*0.3*		*0.7*
Other non-current assets		*(1.5)*		*(2.0)*
Equity-accounted investees		*1.0*		*(5.2)*
- Other changes in equity attributable to owners of the Parent[4]	13.7		(17.5)	
Equity attributable to owners of the Parent - Share capital, Other reserves and Retained earnings		*13.7*		*(17.5)*
- Other changes in equity attributable to non-controlling interests [4]	25.2		-	
Change in NWC and other (Cash Flow from Operating Activities)	**588.6**		**1,330.7**	
net of the change in non-current assets acquired with the FSI Group	*1,345.6*		*1,330.7*	
Investments				
- Total investments	(1,103.1)		(1,096.1)	
Property, plant and equipment[3]		*(1,058.6)*		*(1,048.7)*
Intangible assets[2]		*(44.5)*		*(47.4)*

Total cash flows provided by/(used in) investing activities	**(1,103.1)**		**(1,096.1)**	
Free Cash Flow	**(514.5)**		**234.6**	
net of the change in non-current assets acquired with the FSI Group	*242.5*		*234.6*	
Own funds				
- Dividends paid to the owners of the Parent	*(402.0)*		*(402.0)*	
Third party financing				
- Net financial expense	*(141.1)*		*(127.9)*	
- Cash flow hedges net of tax effect	*20.7*		*27.3*	
Change in net financial debt	**(1,036.9)**		**(268.0)**	
net of the change in non-current assets acquired with the FSI Group	(279.9)		(268.0)	
- Change in loans	**251.2**		**(131.8)**	
Non-current financial assets		*95.0*		*(259.7)*
Current financial assets		*(0.9)*		*39.3*
Non-current financial liabilities		*(22.6)*		*(50.1)*
Long-term loans		*431.3*		*73.5*
Short-term loans		*416.6*		*-*
Current portion of long-term loans		*(641.2)*		*68.1*
Current financial liabilities		*(27.0)*		*(2.9)*
- Change in cash and cash equivalents	**(785.7)**		**(399.8)**	

* Does not take into account impairment of trade receivables of the year (€ 3.7 million in 2015 and € 2.5 million in 2014).
(1) Included in the balances of “Other revenue and income” and “Other operating expenses” of the consolidated financial statements.
(2) See note 15 to the financial statements.
(3) See note 13 to the financial statements.
(4) See the Statement of Changes in Consolidated Equity.

Terna S.p.A. performance and financial position

Reclassified income statement of Terna S.p.A.

NOTES TO THE TERNA S.P.A. RECLASSIFIED INCOME STATEMENT

This table shows the reconciliations of the balances of the items in the Terna S.p.A. reclassified income statement with those in its income statement:

Terna reclassified income statement	€ million	Income Statement
Transmission Fee	1,519.7	"Revenue from sales and services"
Dispatching fee	125.2	"Revenue from sales and services"
Revenue from construction of licensed activities	26.2	"Revenue from sales and services"
Other operating revenue - Regulated Activities	80.6	"Revenue from sales and services" for € 46.4 million and "Other revenue and income"
Other operating revenue - Non-Regulated Activities	49.2	
Personnel expenses	44.5	"Personnel expenses" net of the construction costs of licensed activities pursuant to IFRIC 12 (€ 0.3 million)
Services, leases and rentals	319.7	"Services" net of the construction costs of licensed activities pursuant to IFRIC 12 (€ 22.0 million)
Materials	4.3	"Raw materials and consumables" net of the construction costs of licensed activities pursuant to IFRIC 12 (€ 3.9 million)
Other expenses	32.3	Other operating expenses
Costs of construction of licensed activities	0.3	"Personnel expenses"
	22.0	"Services"
	3.9	"Raw materials and consumables"
Net financial income (expense)	(135.0)	Points 1 and 2 of letter C - "Financial income/ expense"
Income taxes for the year	255.3	"Income taxes of the year" and "Net profit from discontinued operations"

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

NOTES TO THE TERNA S.P.A. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

This table shows the reconciliations of the balances of the items in the Terna S.p.A. reclassified statement of financial position with those in statement of financial position.

Reclassified statement of financial position of Terna	€ million	Consolidated statement of financial position
Financial assets	1,473.8	"Non-current financial assets" for the value of the equity investments in subsidiaries and associates (€ 1,470.2 million) and "Other non-current assets"
Trade receivables	480.7	"Trade receivables" net of energy-related pass-through revenue receivables (€ 805.1 million)
Other assets	31.9	"Other current assets" net of other tax assets (€ 107.2 million)
Net tax assets	109.2	"Tax assets", "Other current assets" for the amount of the other tax assets (€ 107.2 million), "Other current liabilities" for the amount of other tax liabilities (€ 1.5 million) and "Tax liabilities"
Trade payables	(537.6)	"Trade payables" net of the energy-related pass-through costs payable (€ 1,446.5 million)
Net energy-related pass-through payables	(641.4)	"Trade receivables" for energy-related pass-through revenue receivables (€ 805.1 million) and "Trade payables" for energy-related pass-through costs payable (€ 1,446.5 million)
Other liabilities	(303.3)	"Other non-current liabilities" and "Other current liabilities" net of other tax liabilities (€ 146.6 million)
Sundry provisions	(216.2)	"Employee benefits", "Provisions for risks and charges" and "Deferred tax liabilities"
Net financial debt	7,967.1	"Long-term loans", "Current portion of long-term loans", "Non-current financial liabilities", "Short-term loans", "Cash and cash equivalents", "Non-current financial assets" for the value of FVH derivatives (€ 688.2 million) and for the value of deferrals on *Revolving Credit Facility* commissions (€ 3.6 million), "Current financial assets" and "Current financial liabilities"

Cash flows

NOTES TO THE TERNA S.P.A. STATEMENT OF NET FINANCIAL DEBT

The following table shows the reconciliations of the balances of the items indicated in Terna S.p.A.'s net financial debt statement with those in its statement of financial position.

Terna net financial debt statement	€ million	Statement of financial position
"Bond" and "Floating-rate loans"	8,509.9	Corresponds to "Long-term loans"
"Derivative financial instruments" - long-term	(681.8)	Corresponds to "Non-current financial liabilities" and "Non-current financial assets" for the value of FVH derivatives (€ 688.2 million)
"Floating-rate loans (current portions)"	120.7	Corresponds to "Current portion of long-term loans"
"Short-term loan to Terna Interconnector"	(3.7)	Included under "Current financial assets"
"Net intercompany treasury current account position" and "Cash and cash equivalents"	(435.4)	Corresponds to "Cash and cash equivalents"
Other net current financial liabilities	59.2	Corresponds to "Current financial assets" net of the short-term loan to Terna Interconnector (€ 3.7 million), "Current financial liabilities" and "Non-current financial assets" for the value of deferrals on Revolving Credit Facility commissions (€ 3.6 million).

RECONCILIATION OF TERNA S.P.A. CASH FLOW

In line with Recommendation CESR/05-178b, the cash flow data are compared with Terna S.p.A.'s accounting statements through specific reconciliation notes illustrated in the table below.

€ million	Cash flow 31.12.2015	Financial Statements Reconciliation	Cash flow 31.12.2014	Financial Statements Reconciliation
- Net profit for the year	527.1		450.4	
- Amortisation, depreciation and impairment	456.5		426.7	
- Net financial expense	135.0		121.2	
- Net change in provisions	(41.8)		(2.7)	
Employee benefits		*(6.9)*		*10.3*
Provisions for risks and charges		*(13.7)*		*35.4*
Deferred tax liabilities		*(21.2)*		*(48.4)*
- Net Losses (Gains) on asset disposals[1]	(1.6)		(1.8)	
Self-financing (Operating Cash Flow)	**1,075.2**		**993.8**	
- Change in net working capital*	60.1		206.9	
Inventories		*0.7*		*-*
*Trade receivables**		*246.7*		*183.8*
Current financial assets		*-*		*-*
Income tax assets		*(1.2)*		*(14.7)*
Other current assets		*(123.1)*		*50.9*
Trade payables		*(20.3)*		*(44.4)*
Tax liabilities		*17.6*		*(30.6)*
Current financial liabilities		*-*		*-*
Other liabilities		*(60.3)*		*61.9*
- Other changes in non-current assets	(775.9)		4.5	
Property, plant and equipment		*14.7*		*4.6*
Intangible assets[3]		*-*		
Non-current financial assets		*(789.8)*		*0.8*
of which the purchase of the holding in Rete S.r.l.		*(770.1)*		*-*
Other non-current assets		*(0.8)*		*(0.6)*
- Other changes in equity	*5.0*		*(7.1)*	
Equity - Share capital and Other reserves[4]		*5.0*		*(7.1)*
Change in NWC and other (Cash Flow from Operating Activities)	**364.4**		**1,198.1**	
net of the purchase of the holding of Rete S.r.l.	*1,134.5*		*1,198.1*	
Investments				
- Total investments	(1,021.6)		(1,021.8)	
Property, plant and equipment[2]		*(977.4)*		*(974.7)*
Intangible assets[3]		*(44.2)*		*(47.1)*

Total cash flows provided by/(used in) investing activities	**(1,021.6)**		**(1,021.8)**	
net of the purchase of the holding in Rete S.r.l.	*112.9*		*176.3*	
Free Cash Flow	**(657.2)**		**176.3**	
Own funds				
- Dividends[4]	*(402.0)*		*(402.0)*	
Third party financing				
- Net financial expense	*(135.0)*		*(121.2)*	
- Cash flow hedges net of tax effect	*21.3*		*27.3*	
Change in net financial debt	**(1,172.9)**		**(319.6)**	
net of the purchase of the holding in Rete S.r.l.	(402.8)		(319.6)	
- Change in loans	**228.3**		**361.1**	
Current financial assets		*(4.6)*		*41.1*
Non-current financial assets		*95.0*		*242.2*
Non-current financial liabilities		*(23.5)*		*(50.1)*
Long-term loans		*431.9*		*64.4*
Short-term loans		*398.2*		*0.0*
Current portion of long-term loans		*(641.7)*		*66.4*
Current financial liabilities		*(27.0)*		*(2.9)*
- Change in cash and cash equivalents	**(944.6)**		**41.5**	

* Does not take into account impairment of trade receivables of the year (€ 3.0 million in 2015 and € 1.9 million in 2014).

(1) Included in the balances of “Other revenue and income” and “Other operating expenses” of the consolidated financial statements.
(2) See note 13 to the financial statements.
(3) See note 15 to the financial statements.
(4) See the Statement of Changes in Equity.

Other Annexes

Notice of Call - Call of ordinary Shareholders' Meeting

The ordinary Shareholders' Meeting of TERNA S.p.A. has been convened in Rome, at TERNA's Auditorium in Piazza Giuseppe Frua no. 2, on a single call, for its ordinary session on May 30, 2016 at 11 a.m. to discuss and resolve on the following

Agenda

1. Separate Financial Statements as at December 31, 2015. Reports by the Board of Directors, the Board of Statutory Auditors and the Independent Auditors. Related resolutions. Presentation of the Consolidated Financial Statements as at December 31, 2015;
2. Allocation of the profit for the year;
3. Annual Remuneration Report: consultation on the Remuneration Policy pursuant to Art. 123-*ter*, paragraph 6 of Legislative Decree 58/1998 (Consolidated Law on Finance);
4. 2016-2018 Long-Term Monetary Incentive Plan. Related resolutions.

Reports and documentation

The illustrative reports by the Directors on the items on the agenda, required by current legislation, will be made available to the public at the Company head office by April 30, 2016.
Documents submitted to the Shareholders' Meeting will be made available to the public at the Company head office in the terms provided for by current legislation.
The reports and documents relative to the Shareholders' Meeting will be published on the Company website (www.terna.it - Investor Relations) and on the website of the authorised storage system "1Info" (www.1info.it), and filed with the Borsa Italiana S.p.A. stock exchange. They will also be accessible from the Borsa Italiana S.p.A. website (www.borsaitaliana.it). Shareholders and non-shareholders entitled to participate in the Shareholders' Meeting have the right to view them and obtain copies.

Right to supplement the agenda and presentation of additional resolution proposals

Shareholders who represent at least a fortieth of the share capital with voting rights, also jointly, may, pursuant to and according to the procedures detailed in Art. 126-*bis* of Legislative Decree 58/1998 (Consolidated Law on Finance), within ten days of the publication of this notice (by May 8, 2016, extended to May 9, 2016 as the first following working day) ask for additional items to be included in the agenda, indicating in the request the additional items proposed, or present further resolution proposals on matters already included in the Meeting's agenda (without prejudice to the possibility, for those with voting rights, of individually present resolution proposals at the Shareholders' Meeting).
The request must be submitted in writing, may be made via hard-copy or e-mail, and must be accompanied by information making it possible to identify the party presenting the request, and indicating further, wherever possible, a telephone contact. It must reach TERNA S.p.A. by the deadline set out above (i.e. May 8, 2016, extended to May 9, 2016 as the first following working day), either by being brought to TERNA S.p.A. at its head office (FAO: Legal and Corporate Affairs Management - TERNA S.p.A. Corporate Affairs and Corporate Governance), or sent by mail or fax to +39 06 8313 8218, or by e-mail or certified electronic mail to the following certified email address: assemblea2016@pec.terna.it.
Within the same deadline and using the same methods indicated to present the request, the Board of Directors of TERNA S.p.A. must also receive a report that indicates the motivation for the resolution proposal on the new subjects that are being proposed to be dealt with, or the motivation relating to the additional resolution proposals presented on matters already included on the agenda.

Please remember that pursuant to law, additions to the agenda are not allowed for subjects, which the Shareholders' Meeting will be resolving upon according to the law and based on Directors' proposals or on the basis of a project or a report prepared by them that is different from the one dealing with the subjects in the agenda.
In the event of supplements to the agenda and/or the presentation of new resolution proposals, notice shall be given with the same methods of publication as this notice, at least fifteen days before the date scheduled for the Shareholders' Meeting. At the same time – with the same methods indicated for the Reports of the Directors on the subjects on the Agenda – the report presented by the shareholders is made available to the public, together with any assessments of the Board of Directors.

Share capital

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

Right to participate in the Shareholders' Meeting and exercise the right to vote

The right to participate in the Shareholders' Meeting and exercise the right to vote, according to the provisions in Art. 10.1 of the Bylaws, is governed by applicable legislation and regulatory provisions. Pursuant to Art. 83*sexies* of the Consolidated Law on Finance, such right is demonstrated by notification to the Company by an intermediary, in compliance with its own accounting records, on behalf of the individual who is entitled to the right to vote, based on evidence related to the close of the accounting day of the seventh open-market day prior to the date set for the Shareholders' Meeting (i.e. May 19, 2016), the record date. The credit and debit registrations made on accounts subsequent to the said term are not significant for purposes of legitimizing the exercise of the right to vote in the Shareholders' Meeting. Therefore, those who appear as owners of the Company shares subsequent to said date will not be allowed to participate and vote.
Communications by intermediaries for participation must be received by the Company by the end of the third open-market day prior to the date set for the Shareholders' Meeting (i.e., May 25, 2016). There is no prejudice to the entitlement to participate and vote if the Company has received the communications after said indicated term, provided that they are received by the time the Meeting begins.
No provision is made for participating in this Shareholders' Meeting by electronic means and there are no procedures for voting by mail or by electronic means.
With regard to the exercise of voting rights, please note specifically that the provisions of Art. 10.2 of the Bylaws on the conflict of interest apply under Art. 2373 of the Civil Code adopted by the Company pursuant to Directive no. 2009/72/EC of July 13, 2009, of Legislative Decree no. 93 of June 1, 2011, and the resolutions of the Regulatory Authority for Electricity, Gas and Water (AEEGSI) no. ARG/com 153/11 and 142/2013/R/eel with which AEEGSI governed the certification procedures for the electricity transmission system operator and adopted the final decision to certify TERNA S.p.A. as the electricity "transmission system operator" ("Unbundling Regulations").
For this purpose, without prejudice to the assessments made by the AEEGSI in the context of the certification of the Company as the electricity "transmission system operator", each participant in the Shareholders' Meeting is invited to declare, under its own responsibility, the possible existence of a conflict of interest.

Representation at the Shareholders' Meeting

Ordinary proxy

All shareholders who have a right to speak and vote at the Meeting may be represented through proxy, granted in writing or with an electronic document signed electronically pursuant to Art. 21, paragraph 2, of Legislative Decree 82/2005, according to the provisions of Art. 11.1 of the Bylaws, as required by current legislation.

For this purpose, the proxy form issued upon request of the entitled party by the qualified intermediaries can be used, or the proxy form available on the Company's website (www.terna.it - "Investor Relations") or at the head office. The proxy may be notified to the Company by filing notification at the company offices (Legal and Corporate Affairs Management - TERNA S.p.A. Corporate Affairs and Corporate Governance); or by post (to the attention of the Legal and Corporate Affairs Management - TERNA S.p.A. Corporate Affairs and Corporate Governance – viale Egidio Galbani, 70 – 00156 Rome); or by sending it via e-mail or certified e-mail to the certified e-mail address assemblea2016@pec.terna.it; or via the appropriate section of the Company website (www.terna.it - Investor Relations); or by fax to the no. +39 06 8313 8218; and it must be received by the Company before the start of the Shareholders' Meeting. Pursuant to the applicable Art. 135-*novies* of the Consolidated Law on Finance, as a replacement of the original, the representative may deliver or transmit to the Company a copy of the proxy, also by electronic means, stating under his/her own responsibility that the proxy is in compliance with the original, as well as confirming the identity of the person issuing the proxy.

Designated Representative Proxy

The proxy may also be conferred, with voting instructions, to Computershare S.p.A. (previously Servizio Titoli S.p.A.), with head offices in Milan, Via Lorenzo Mascheroni no. 19 – 20145, appointed by the Company as "Appointed Representative" pursuant to Art. 135-*undecies* Consolidated Law on Finance. For this purpose one may use the specific web application provided and managed by Computershare S.p.A. which provides instructions on how to fill in the Designated Representative proxy form, which may be accessed via the appropriate section of the Company website (www.terna.it - Investor Relations). The Designated Representative proxy form is also available in a printable version from the website, or from the Company's offices. Proxies may not be conferred to Computershare S.p.A., unless in its capacity as designated representative of the Company. The Designated Representative proxy must contain voting instructions to all or some of the subjects on the agenda and the original must be given to said Designated Representative by the end of the second openmarket day prior to the date set for the Shareholders' Meeting (i.e. by May 26, 2016) at the following address: Computershare S.p.A. (ref "Proxy Terna S.p.A. Shareholders' Meeting") Via Monte Giberto no. 33 - 00138 Rome. A copy of the proxy, accompanied by a declaration stating that it is compliant with the original, can be sent in advance to the Designated Representative by the same term by fax to: +39 06 4541 7450 or to the certified e-mail address: terna@pecserviziotitoli.it.

A Designated Representative proxy is valid only for resolutions proposed at the Shareholders' Meeting for which the person issuing the proxy gave voting instructions. The proxy and the voting instructions are revocable within the same term as hereinabove (i.e. by May 26, 2016), with the methods and terms indicated above.

Right to submit queries regarding items on the agenda

Under the terms of Art. 127-*ter* of the Consolidated Law on Finance, those with voting rights in the Shareholders' Meeting can submit queries regarding the items on the agenda, also before the meeting. The questions must be posed in writing and sent to TERNA S.p.A. to its head office (FAO Legal and Corporate Affairs Management - TERNA S.p.A. Corporate Affairs and Corporate Governance) by fax at the number +39 06 8313 8218, or by e-mail or certified electronic mail at the certified e-mail address: assemblea2016@pec.terna.it.

Without prejudice to any other provisions in this notice, whoever intends making use of this right, must send his/her queries to the Company at the latest three days prior to the date of the Shareholders' Meeting (namely by May 27, 2016). In this regard, a specific indication must be given as to the item on the agenda that the proposed individual queries refer to. A response will be provided to the queries received prior to the start of the Shareholders' Meeting at the latest during the Shareholders' Meeting itself. The Company may provide a single response to queries with the same content. There is no obligation for a response, even during the Shareholders' Meeting, in the event of queries submitted prior to the Meeting, where the information required is already available in the "Frequently Asked Questions" section of the Company website (www.terna.it – "Investor Relations"), or when the response has already been published in that section of the Company's website. The response will be deemed to have been given during the Shareholders' Meeting, when provided in hard-copy format and made available to everyone entitled to vote at the start of the meeting.

Annual Remuneration Report

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

2016-2018 Long-Term Monetary Incentive Plan

The 2016-2018 Long-Term Monetary Incentive Plan, the fourth item on the agenda, is submitted to the shareholders' meeting in accordance with Art. 114-*bis* of the Consolidated Law on Finance, although it does not provide for the allocation of TERNA S.p.A. shares in favour of the beneficiaries, because it involves the possibility of dispensing a cash compensation to the latter, also measured with reference to the trend of TERNA S.p.A stock with respect to a peer group consisting of the main listed European companies in the utilities sector specifically identified, with a business model similar to that of TERNA S.p.A.

Further Information

Further information concerning the subjects on the agenda is made available to the shareholders in the Directors' reports concerning the respective items on the agenda, as well as in the Bylaws and in applicable legislation, which should be referred to for any information not expressly provided for in this notice.

Regarding the exercise of the company rights mentioned in this notice, please remember that pursuant to Arts. 22 and 23, paragraph 1, of the "Regulation governing centralised management services, liquidation, systems of guarantee and of the relative management companies", adopted by the Bank of Italy and by Consob with the provision of February 22, 2008 and subsequently amended by deed of the Bank of Italy/Consob dated December 24, 2010, and updated with provisions of February 11 and 24, 2015 ("Bank of Italy/Consob Regulation"), the legitimacy of exercising, also jointly, corporate rights such as participation in and exercising the right to vote in the Shareholders' Meetings, the right to supplement the agenda and to present additional resolution proposals and the right to submit queries on subjects on the agenda, is certified by a communication to the issuer made by the intermediary in compliance with his/her accounting records for shareholders.

Pursuant to Art. 25 of the Bank of Italy/Consob Regulation, legitimization to rights different from those provided for in Arts. 22 and 23 is assessed by certification issued by the intermediary in compliance with his/her own accounting records.

To facilitate the verification of one's right to participate in the Shareholders' Meeting, those entitled to vote can send the documentation proving this right to the Company by mail (to the Legal and Corporate Affairs Management - TERNA S.p.A. Corporate Affairs and Corporate Governance – viale Egidio Galbani, 70 – 00156 Rome), also with a copy or via fax to +39 06 8313 8218, at least two days before the date set for the Shareholders' Meeting.

Please note that the offices in charge of personal identification and verification of entitlement to participate in the Shareholders' Meeting will be available on the day of the Shareholders' Meeting, two hours before the Meeting begins.

A service dedicated to Meeting assistance is available to give further information at the following numbers: telephone +39 06 4541 7413 - fax +39 06 4541 7450.

For further information, reference is made to the section on the Company website dedicated to this Shareholders' Meeting (www.terna.it – "Investor Relations").

The Chairwoman of the Board of Directors
Catia Bastioli

This notice was published on the Company website www.terna.it on April 28, 2016 and in extract form in the daily newspaper "Il Sole 24 Ore" on April 28, 2016.

TERNA S.p.A. – Head office in Rome – viale Egidio Galbani, no. 70
Share Capital 442,198,240 euros fully paid-in
Rome Companies Register, Tax ID code and VAT code no. 05779661007
R.E.A. of Rome no. 922416

CONSOLIDATED FINANCIAL STATEMENTS

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		**15,459.1**	**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

€ million	CONSOLIDATED SHARE CAPITAL AND RESERVES 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

€ million	CONSOLIDATED SHARE CAPITAL AND RESERVES 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.

pwc

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

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Via Grazioli 73 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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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

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

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

SEPARATE FINANCIAL STATEMENTS

Financial statements

Income Statement of Terna S.p.A.

Terna S.p.A. - INCOME STATEMENT € million	Notes	2015	2014
A - REVENUE			
1. Revenue from sales and services	1	1,717,471,308	1,710,026,003
of which: related parties		1,582,051,701	*1,463,628,589*
2. Other revenue and income	2	83,468,488	78,070,051
of which: related parties		*46,896,202*	*32,056,949*
Total revenue		**1,800,939,796**	**1,788,096,054**
B - OPERATING EXPENSES			
1. Raw materials and consumables	3	8,223,687	5,706,964
of which: related parties		*2,904*	*27,777*
2. Services	4	341,657,963	375,246,686
of which: related parties		*303,151,141*	*315,805,378*
3. Personnel expenses	5	44,818,105	87,934,164
- gross personnel expenses		*47,078,064*	*89,729,100*
- gross personnel expenses, capitalised		*(2,259,959)*	*(1,794,936)*
of which: related parties		*622,843*	*545,092*
4. Amortisation, depreciation and impairment	6	456,500,108	426,650,701
5. Other operating expenses	7	32,308,997	34,175,542
of which: related parties		*17,869*	*254,176*
Total expenses		**883,508,860**	**929,714,057**
A-B OPERATING PROFIT		***917,430,936***	***858,381,997***
C - FINANCIAL INCOME/EXPENSE			
1. Financial income	8	19,062,715	39,718,485
of which: related parties		*5,295,096*	*16,278,507*
2. Financial expense	8	(154,119,655)	(160,937,674)
of which: related parties		*(6,178,821)*	*(9,858,533)*
D - PROFIT BEFORE TAXES		**782,373,996**	**737,162,808**
E - INCOME TAXES OF THE YEAR	**9**	**262,543,430**	**286,758.90**
F - PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**519,830,566**	**450,403,902**
G - NET PROFIT FOR THE YEAR FROM DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE	**10**	**7,282,532**	**-**
H - NET PROFIT FOR THE YEAR		**527,113,098**	**450,403,902**

Statement of Comprehensive Income of Terna S.p.A.

Terna S.p.A. - STATEMENT OF COMPREHENSIVE INCOME *€ million*	Notes	2015	2014
PROFIT FOR THE YEAR		**527,113,098**	**450,403,902**
Other comprehensive income for the year which will subsequently be released to the income statement:			
- *Cash flow hedges* net of tax effect	20	21,321,951	27,306,461
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	20	4,922,820	(7,075,450)
COMPREHENSIVE INCOME FOR THE YEAR		**553,357,869**	**470,634,913**

Statement of Financial Position of Terna S.p.A.

Terna S.p.A. - STATEMENT OF FINANCIAL POSITION - ASSETS *€ million*	Notes	at 31.12.2015	at 31.12.2014
A - NON-CURRENT ASSETS			
1. Property, plant and equipment	11	10,141,855,027	9,576,992,660
of which: related parties		*73,784,527*	*17.1*
2. Goodwill	12	88,577,142	88,577,142
3. Intangible assets	13	247,658,618	257,556,128
4. Equity-accounted investees	14	2,162,055,434	1,467,156,624
5. Non-current financial assets	15	3,582,801	2,841,680
Total non-current assets		**12,643,729,022**	**11,393,124,234**
B - CURRENT ASSETS			
1. Inventories	16	-	688,982
2. Trade receivables	17	1,285,832,679	1,535,444,643
of which: related parties		*367,406,640*	*326,961,868*
3. Current financial assets	14	68,061,270	63,430,693
of which: related parties		*3,859,436*	*204,408*
4. Cash and cash equivalents	18	435,316,242	1,380,081,564
of which: related parties		*25,351,672*	*181,134,889*
5. Income tax assets	19	21,975,400	20,799,820
6. Other current assets	15	139,126,569	15,964,929
Total current assets		**1,950,312,160**	**3,016,410,631**
TOTAL ASSETS		**14,594,041,182**	**14,409,534,865**

Statement of Financial Position of Terna S.p.A.

Terna S.p.A. - 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		442,198,240	442,198,240
2. Other reserves		832,330,687	806,085,916
3. Retained earnings		1,247,143,719	1,198,738,217
4. Interim dividend		(140,699,440)	(140,699,440)
5. Profit for the year		527,113,098	450,403,902
Total Equity	20	**2,908,086,304**	**2,756,726,835**
D- NON-CURRENT LIABILITIES			
1. Long-term loans	21	8,509,914,842	8,078,074,278
of which: related parties		*500,000,000*	*500,000,000*
2. Employee benefits	22	27,083,425	33,969,125
3. Provisions for future risks and charges	23	157,815,063	171,506,082
4. Deferred tax liabilities	24	31,319,661	52,489,776
5. Non-current financial liabilities	21	6,382,372	29,864,885
6. Other non-current liabilities	25	49,936,449	68,746,114
Total non-current liabilities		**8,889,265,998**	**8,547,034,033**
E - CURRENT LIABILITIES			
1. Short-term loans	21	398,250,000	-
2. Current portion of long-term loans	26	120,674,482	762,437,379
3. Trade payables	29	1,984,111,162	2,004,350,908
of which: related parties		*444,232,702*	*526,560,255*
4. Tax liabilities	29	18,497,883	872,937
5. Current financial liabilities	24	127,086,272	154,117,082
of which: related parties		*802,569*	*965,069*
6. Other current liabilities	29	148,069,081	183,995,691
of which: related parties		*43,036,066*	*64,055,919*
Total current liabilities		**2,796,688,880**	**3,105,773,997**
TOTAL LIABILITIES AND EQUITY		**14,594,041,182**	**14,409,534,865**

Statement of changes in equity

31 DECEMBER 2014–31 DECEMBER 2015	SHARE CAPITAL AND RESERVES OF TERNA S.P.A.			
€ 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				21.3
Actuarial gains (losses) on employee benefits net of tax effect				
Total other comprehensive income	-	-	-	**21.3**
COMPREHENSIVE INCOME	-	-	-	**21.3**
TRANSACTIONS WITH EQUITY OWNERS:				
Allocation of 2014 profit				
- *Dividends*				
- *Retained earnings*				
Interim dividend 2015				
Total transactions with equity owners and other transactions	-	-	-	-
EQUITY AT 31 December 2015	**442.2**	**88.4**	**20.0**	**(4.7)**

31 DECEMBER 2013–31 DECEMBER 2014	SHARE CAPITAL AND RESERVES OF TERNA S.P.A.			
€ 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				
- *Dividends*				
- *Retained earnings*				
Interim dividend 2014				
Transfer to Terna Plus				
Total transactions with equity owners and other transactions	-	-	-	-
EQUITY AT 31 DECEMBER 2014	**442.2**	**88.4**	**20.0**	**(26.0)**

Other reserves	Retained earnings and losses	Interim dividend	Profit for the year	Equity
723.7	1,198.7	(140.7)	450.4	2,756.7
			527.1	527.1
				21.3
5.0				5.0
5.0	-	-	-	26.3
5.0	-	-	527.1	553.4
		140.7	*(402.0)*	*(261.3)*
	48.4		*(48.4)*	-
		(140.7)		(140.7)
-	48.4	-	(450.4)	(402.0)
728.7	1,247.1	(140.7)	527.1	2,908.1

Other reserves	Retained earnings	Interim dividend	Profit for the year	Equity
730.8	1,145.9	(140.7)	454.8	2,688.1
			450.4	450.4
				27.3
(7.1)				(7.1)
(7.1)	-	-	-	20.2
(7.1)	-	-	450.4	470.6
		140.7	*(402.0)*	*(261.3)*
	52.8		*(52.8)*	-
		(140.7)		(140.7)
-	52.8	-	(454.8)	(402.0)
723.7	1,198.7	(140.7)	450.4	2,756.7

Statement of cash flows*

TERNA S.p.A. - STATEMENT OF CASH FLOWS *€ million*	2015	2014
PROFIT FOR THE YEAR	**527.1**	**450.4**
ADJUSTMENTS FOR:		
Amortisation, depreciation, impairment losses/(reversals of impairment losses) on property, plant and equipment and intangible assets**	441.7	408.0
Provisions (including employee-related provisions) and impairment losses	39.4	79.2
(Gains)/Losses on disposals of property, plant and equipment	(1.6)	(1.8)
Financial (income)/expense	137.4	120.4
Income taxes	262.6	286.8
CASH FLOWS GENERATED BY OPERATING ACTIVITIES, BEFORE CHANGES IN NET WORKING CAPITAL	**1,406.6**	**1,343.0**
Increase/(Decrease) in provisions (including employee-related and tax provisions)	(51.2)	(34.8)
(Increase)/decrease in inventories	0.7	-
(Increase)/decrease in trade receivables and other current assets	123.0	212.4
Increase/(decrease) in trade payables and other current liabilities	(50.0)	37.4
Increase/(decrease) in other non-current liabilities	(2.4)	(1.9)
(Increase)/decrease in other non-current assets	(18.8)	(3.1)
Interest income and other financial income received	138.8	175.7
Dividend received	1.1	2.5
Interest expense and other financial expense paid	(319.7)	(323.5)
Income taxes paid	(276.4)	(371.3)
***CASH FLOWS* GENERATED BY OPERATING ACTIVITIES [A]**	**951.7**	**1,036.4**
Investments in property, plant and equipment, net of recognised grants	(948.8)	(963.1)
Revenue from sale of property, plant and equipment and other changes	3.4	3.4
Investments in non-current intangible assets, net of grants received	(44.2)	(47.1)
Capitalised borrowing costs	28.3	34.0
Intra-group transactions	(17.1)	(1.7)
Asset acquisition	-	(9.0)
(Increase)/decrease in equity interests	(789.8)	-
CASH FLOWS USED IN INVESTING ACTIVITIES [B]	**(1,768.2)**	**(983.5)**
Dividends paid	(402.0)	(402.0)
Change in short and medium/long-term financial payables (including short-term portions)***	277.6	390.6
Change in receivable short-term loans	(3.7)	-
CASH FLOWS GENERATED BY FINANCING ACTIVITIES [C]	**(128.1)**	**(11.4)**
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS [A+B+C]	**(944.6)**	**41.5**
Opening cash and cash equivalents	1,380.0	1,338.5
Closing cash and cash equivalents	435.4	1,380.0

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

Notes to the Financial Statements

A. Accounting policies and measurement criteria

Introduction

Terna S.p.A., which operates in the electrical energy transmission and dispatching sector, is a joint-stock company with headquarters at Viale Egidio Galbani 70, Rome, Italy.
These Separate financial statements were authorised for publication by the Directors on 21 March 2016.
The Separate 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 authorised the Chairwoman and Chief Executive Officer to make any formal alterations to the Separate Financial Statements and any additions and adjustments to the chapters concerning significant subsequent events, as may be necessary.

Compliance with IAS/IFRS

The Separate Financial Statements have been prepared in accordance with the 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*").
The separate financial statements have been prepared on a historical cost basis, modified where necessary for certain financial instruments, as well as on a going concern basis. The Company, in fact, has determined that, despite the challenging economic and financial environment, it does not face material uncertainties (as defined in paragraph 25 of IAS 1R) that might cast doubt on its ability to continue as a going concern.

Basis of presentation

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

The Statement of Cash Flows has been prepared using the indirect method.
The Separate Financial Statements are accompanied by the Directors' Report on Operations for the company and Group, which as from the 2008 financial year has been prepared as a single document, exercising the option granted under 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.
The Separate Financial Statements have been prepared in euro, while the figures in the notes are given in millions of euro, unless otherwise specified.
The Separate Financial Statements have been prepared using the historical cost method, with the exception of items that are recognised at fair value in accordance with the IFRSs-EU, as indicated in the accounting policies for each item.
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 statement of financial position and Income Statement in accordance with the IFRSs-EU requires the use of estimates and assumptions that affect the carrying amounts of assets and liabilities and related disclosures, in addition to contingent assets and liabilities at the reporting date. The estimates and 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, therefore, differ from these estimates. The estimates and underlying assumptions are reviewed periodically and the effects of any changes are recognised in the Income Statement for the period, if they relate solely to that period. 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 Separate 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 € 4.2 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: discounting rate (used to determine the present 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 Company; the estimate of provisions to be set aside for town planning and environmental requalification projects, the so-called “offsets” aimed at offsetting the environmental impact of the development of electrical lines, is based on an analysis of the agreements signed with local entities involved and the progress of activities on the development of the new power 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 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.

Investments in subsidiaries and associates

Investments in subsidiaries are those in entities over which Terna has the power to directly or indirectly govern financial and operating policies so as to obtain benefits from their activities. Investments in associates are those in entities over which Terna has significant influence. In assessing whether or not the Company has control or significant influence, potential voting rights that are presently exercisable or convertible are considered. Investments in subsidiaries and associates are measured at cost, reduced to reflect impairment losses. If the reasons for the impairment losses no longer exist, the carrying amount of the investment is reinstated within the limits of the impairment losses, and the reversal is taken to the Income Statement. In the event that an investee’s losses attributable to the shareholders of the Parent Company exceed that investments’ carrying amount, any excess is recognised in a specific provision, where the Parent Company is required to meet the legal or construction obligations of the investee or, in any case, to cover its losses.

Translation of foreign currency items

Terna S.p.A. prepares its financial statements in 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 Company 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.
Certain assets that were revalued at 1 January 2005 (transition date), or previously, are recognised at the revalued amount, which is considered deemed cost at the date of the revaluation.
Property, plant and equipment are shown net of accumulated depreciation and any impairment losses, which are measured as described below. Depreciation is calculated on a straight-line basis over the estimated useful economic life of the asset, which is reviewed annually, with revisions applied on a prospective basis. The depreciation of assets begins when the assets become available for use.
Liabilities associated with items of property, plant and equipment are taken to a specific provision as a balancing entry to the related asset. The amount is taken to 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 Company only if all following conditions are met: costs can be reliably estimated and there are technical possibilities and intent to complete the intangible asset so as for it to be available after use; the asset can be used and it is possible to demonstrate that it will generate probable future economic benefits. 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 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 individual or groups of 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.

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 those costs that relate directly to the specific contract, as well as fixed and variable costs incurred by the Company as part of normal operations.

Financial instruments

Financial assets
Any financial assets other than 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 Company is no longer involved in their management and no longer holds the risks and rewards of the transferred or settled instruments.

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

Cash and cash equivalents
Cash and cash equivalents are stated at nominal value. They include monetary items, i.e. amounts that are available on demand or 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 the statement of comprehensive income and subsequently in the Income Statement, in line with the effects of the hedged transaction. The portion of the fair value of the hedging instrument that does not qualify as effective is taken to the Income Statement.

When hedging derivatives cover the risk of changes in the fair value of hedged instruments (fair value hedges), they are recognised at fair value in the Income Statement. Accordingly, the hedged items are adjusted to reflect changes in the fair value associated with the hedged risk. Changes in the fair value of derivatives that do not meet hedge accounting requirements are recognised in the Income Statement.

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 in the statement of comprehensive income 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[39], indemnity for lack of notice[40], 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.

(39) Additional months' pay.
(40) Indemnity for lack of notice.

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;
- revenue accrued during the year in respect of contract work in progress is recognised on the basis of the payments agreed for the progress of works using the cost-to-cost method. In addition to contractual payments, project revenue includes any payments in respect of variations, price revisions and incentives, with the latter recognised where it is probable that they will actually be earned and can be reliably determined. Revenue is also adjusted for any penalties for delays attributable to the companies;
- when the recovery of an amount already recognised in revenue is uncertain, the non-recoverable value or the amount whose recovery is no longer probable is recorded as a cost, with recognition of a balancing entry in provisions for risks and charges;
- amounts collected on behalf of third parties, such as the fees paid to non-Terna grid owners, as well as revenue recognised for managing activities related to the balancing of the national electrical system, which do not increase equity, are reported net of the related costs (so-called pass-through energy items). This reporting method, which reflects the substance of transactions by offsetting revenue with the related costs arising from the "same transaction", is discussed in full in the specific section of the Notes to the Financial Statements.

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.

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 the statement of comprehensive income are also allocated to the statement of comprehensive income.

New standards

International accounting standards taking effect from 01 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 income statement

Revenue

1. Revenue from sales and services – € 1,717.5 million

The table below details “Revenue from sales and services” for 2015 and 2014.

€ million	2015	2014	Δ
CTR grid transmission fees	1,519.9	1,464.0	55.9
Adjustments for prior year grid transmission fees	(0.2)	4.6	(4.8)
Service quality	(4.7)	33.9	(38.6)
Other energy revenue	151.4	147.7	3.7
Other revenue from sales and services	51.1	59.8	(8.7)
TOTAL	**1,717.5**	**1,710.0**	**7.5**

Grid transmission fees and related adjustment

The item, of € 1,519.7 million, consists of the revenue of the “core business” referred to the remuneration due to the Company for use of the National Transmission Grid. 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 (€ 51.1 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)[41], 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).

Other revenue from sales and services

The item “Other revenue from sales and services” amounted to € 51.1 million and for the most part refers to revenue from:

- administrative services to the subsidiaries (€ 29.5 million, of which € 27,6 million for services rendered by Terna Rete Italia S.p.A.);
- diversified specialised activities in the field of high- and very-high voltage, which the company provides third parties clients (for € 14.2 million);
- activities to design international interconnection lines (€ 4.6 million).

(41) 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.

The difference in the item (-€ 8.7 million) is mainly due to less services of an administrative nature provided to Group Companies in particular to Terna Rete Italia S.p.A. (€ 6.5 million) following the reduction in the perimeter of services provided and to lower revenue deriving from contracts for the authorisation and design of interconnectors (€ 2.8 million).

Pass-through revenue/costs

This item includes revenue and costs of a "pass-through" nature (whose balance is therefore nil). They arise in respect of daily purchases and sales with operators on the electricity market to carry out dispatching activities. To this end, the measurements at each point of input and withdrawal are taken and the differences from the energy market schedules are calculated. These differences (called imbalances) are measured using algorithms established by the regulatory framework. The net charge resulting from the measurement of these imbalances and of the buying and selling transactions executed by Terna on the DSM are billed on a pro rata basis to each consumer with an uplift fee. It also includes the remuneration paid by Terna to the other owners of the grid. The components of these transactions are detailed below.

€ million	2015	2014	Changes
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. No. 288/06	511.1	811.3	(300.2)
- other items - Power Exchange	57.2	60.9	(3.7)
- 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	201.4	195.8	5.6
Total revenue from outside the Power Exchange	***1,911.4***	***2,027.1***	***(115.7)***
TOTAL PASS-THROUGH ENERGY REVENUE	**5,245.7**	**6,062.3**	**(816.6)**
ENERGY PURCHASES:			
- on Day Ahead Market and Adjustment Market	138.1	261.9	(123.8)
- to provide the dispatching service	1,475.9	1,839.7	(363.8)
- 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	356.0	486.4	(130.4)
- 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	201.4	195.8	5.6
Total services and fees	***1,911.4***	***2,027.1***	***(115.7)***
TOTAL PASS-THROUGH ENERGY COSTS	**5,245.7**	**6,062.3**	**(816.6)**

2. Other revenue and income – € 83.4 million

“Other revenue and income” for the years 2015 and 2014 are analysed in the following table.

€ million	2015	2014	Δ
Business unit rent	33.0	25.4	7.6
Rental income	22.1	22.1	-
Sundry grants	11.8	16.8	(5.0)
Contingent assets	5.0	7.8	(2.8)
Sales to third parties	4.9	0.8	4.1
Gains on the disposal of plant components	1.8	2.2	(0.4)
Insurance settlements for losses	3.5	2.1	1.4
Other revenue	1.3	0.9	0.4
TOTAL	**83.4**	**78.1**	**5.3**

Under the item “Other revenue and income”, the significant items refer to revenue from the subsidiary Terna Rete Italia S.p.A. deriving from the business unit rental accruing to the year (€ 33 million), rental income (€ 22.1 million) relating mainly to housing the Wind Group’s optical fibre on the company-owned network and for making available areas that can be equipped in favour of the subsidiaries Terna Rete Italia S.p.A., Terna Plus S.r.l. and Terna Storage S.r.l, in order to position employee workstations (€ 2.6 million), to sundry grants (€ 11.8 million), contingent assets (€ 5 million), insurance settlements for losses (€ 3.5 million) and capital gains on the disposal of plants (€ 1.8 million).
The increase in the item of € 5.3 million is essentially due to:

- higher rent for the business unit granted to the subsidiary Terna Rete Italia S.p.A. (+€ 7.6 million, which takes into account the more favourable tax system starting from 2015);
- higher revenue made on sales to third parties mainly for disposal of copper recovered implementing the “Copper Plan” (+€ 4.1 million);
- lower contributions received in the year due to the reduction in assets relating to variants on the NTG works (€ -5.0 million, mainly referring to the increased business associated with Expo in the previous year);
- lower contingent assets realised in the year (-€ 2.8 million) compared to the previous year in which reversals of provisions for legal cases were recognised.

Operating expenses:

3. Raw materials and consumables - € 8.2 million

This item, of € 8.2 million, expresses the value of purchases of sundry materials and supplies, including fuel to operate the vehicle fleet. The increase of € 2.5 million is ascribable to the higher costs for materials used in investments in dispatching infrastructures recognised in application of IFRIC 12.

4. Services - € 341.7 million.

The table below details services for 2015 and 2014.

€ million	2015	2014	Δ
Services, technical and administrative intercompany services	290.9	313.6	(22.7)
Maintenance and sundry services	27.1	27.9	(0.8)
Leases and rentals	9.3	8.4	0.9
Insurance	5.5	5.7	(0.2)
Remote transmission and telephone	4.0	8.6	(4.6)
IT services	3.2	7.8	(4.6)
Tenders on plants	1.7	3.2	(1.5)
TOTAL	**341.7**	**375.2**	**(33.5)**

The most significant component "Services, technical and administrative intercompany services" consists mainly of the costs accruing in execution of specific intercompany contracts (€ 290.9 million), referred generally to the subsidiary Terna Rete Italia S.p.A. for the maintenance and operation of plants owned (€ 267.8 million), for investments for the development of the Company's plants for the transmission and dispatching service (€ 23.3 million) and for activities and services carried out on third-party plants (€ 6.7 million); it also includes the penalty on performance associated with the transmission service quality attributed to Terna Rete Italia S.p.A. as a summary economic valuation of the annual service provided by the subsidiary in performing the activities provided for in the existing service contract (-€ 10.0 million).
The item also includes costs paid to third parties for maintenance operations, professional services and general services (€ 27.1 million), contracts and services for routine maintenance operations and maintaining the efficiency of systems (€ 1.7 million), remote transmission and telephones (€ 4 million), IT services (€ 3.2 million), leases and rentals (€ 9.3 million) and insurance (€ 5.5 million). We can specify that the costs relating to remuneration of the Board of Statutory Auditors for the period amounted to € 0.2 million.
Net of the costs recognised applying IFRIC 12 for the work on developing dispatching infrastructures (which recorded a reduction of € 6.8 million), the decrease in the item "Services" was € 26.7 million and was mainly due to:

- recognising the performance penalty relating to the quality of the transmission service attributed to Terna Rete Italia S.p.A. for € 10 million, against a premium of € 10 million[42] recorded in 2014 with an overall effect of € -20 million;
- savings and efficiencies achieved in general services, and especially via remote transmission and telephone.

In the current organisational structure of the Terna Group, investments on developing and renewing the dispatching infrastructures are made not only by Terna S.p.A. but also by the subsidiary Terna Italia S.p.A.: the related cost is charged totally under the item "Services" as a service received from the subsidiary. The table below breaks down the costs pursuant to IFRIC 12 recognised under this item.

€ million	2015	2014	Δ
IT services	0.4	3.5	(3.1)
Tenders on plants	0.4	1.6	(1.2)
Maintenance and sundry services	1.7	3.3	(1.6)
Costs for services from investments in dispatching infrastructures pursuant to IFRIC 12	***2.5***	***8.4***	***(5.9)***
Costs for services pursuant to IFRIC 12 - Services from Terna Rete Italia S.p.A.	19.5	20.4	(0.9)
Total costs for services from investments in dispatching infrastructures pursuant to IFRIC 12	***22.0***	***28.8***	***(6.8)***

(42) To that end, we note that on the basis of article 9.3 of the service contract with the subsidiary, Terna S.p.A. undertakes to pay or impose a bonus/reward for Terna Rete Italia S.p.A. annually, of an amount that corresponds to the total net value of the bonuses/penalties connected to the electricity service quality mechanisms recognised, for a maximum total value of € 10 million in each reference year.

5. Personnel expenses – € 44.8 million

Personnel expenses break down as follows.

€ million	2015	2014	Δ
Wages, salaries and other short-term employee benefits	40.9	44.4	(3.5)
Directors' fees	1.6	1.7	(0.1)
Severance indemnities, electricity discount and other post-employment benefits	2.9	2.6	0.3
Early retirement incentives	1.7	41.0	(39.3)
Personnel expenses, gross	***47.1***	***89.7***	***(42.6)***
Personnel expenses, capitalised	(2.3)	(1.8)	(0.5)
TOTAL	44.8	87.9	(43.1)

This item includes the cost of wages and salaries, social security contributions and other costs 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.

The decrease in personnel expenses of € 43.1 million is essentially attributable to the provision of € 36.6 million recognised in 2014 for the redundancy incentive associated with the corporate reorganisation plan launched by the Company during the year. Also of importance were the lower provisions set aside for incentives for senior executives (€ 4.8 million). The following table shows the number of employees by category at year end and the average number for the year.

	Average number		Final number	
	2015	2014	31.12.2015	31.12.2014
Executives	30	27	31	25
Junior executives	153	144	151	145
Office staff	228	211	245	214
TOTAL	411	382	427	384

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 "21. Employee benefits".

6. Amortisation, depreciation and impairment – € 456.5 million

The item relates to allocations during the year calculated on the basis of amortisation and depreciation rates that reflect the useful lives of the Company's plant, property and equipment and intangible assets (a total of € 437.6 million), and the writedowns on installations (€ 15.9 million) and the impairment of trade receivables, which are considered unlikely to be collected (€ 3 million).

The breakdown of and changes in the item during the year are shown in the following table.

€ million	2015	2014	Δ
Amortisation of intangible assets	54.1	57.3	(3.2)
- of which: infrastructure rights	*34.6*	*36.4*	*(1.8)*
Depreciation of property, plant and equipment	383.5	367.5	16.0
Impairment of property, plant and equipment and tangible assets	15.9	-	15.9
Impairment of trade receivables	3.0	1.9	1.1
TOTAL	456.5	426.7	29.8

The increase in the item of € 29.8 million reflects, in particular:

- growth in depreciation (+€ 12.8 million) as a result essentially of entry into service during the year of new property, plant and equipment and for new disposal programmes defined at the end of the year;
- the impairment of tangible assets of € 15.9 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 (€ 14.3 million) and for the remainder to other assets, above all in the ICT field.

7. Other Operating Expenses - € 32.3 million

Other operating expenses break down as follows.

€ million	2014	2013	Δ
Indirect and local taxes and duties	14.1	18.3	(4.2)
Service quality expenses	7.9	(2.2)	10.1
Contingent liabilities	1.1	10.0	(8.9)
Allocations made to Provisions for disputes	1.9	1.8	0.1
Losses on disposal/decommissioning of plant	0.2	-	0.2
Other operating expenses	7.1	6.3	0.8
TOTAL	32.3	34.2	(1.9)

The most significant components of the item are costs for indirect and local taxes and duties (€ 14.1 million, of which € 10.9 million for council tax (Imposta Municipale Unica - IMU) and € 3.1 million for TOSAP and TARES), service quality expenses (€ 7.9 million) and other operating expenses (€ 7.1 million) which include contributions, membership fees for bodies/associations of interest to the Company, costs for gifts and other expenses.

The decrease in the item of -€ 1.9 million derives mostly from the combined effect of the following events:

- changes in contingent liabilities (-€ 8.9 million) owing essentially to higher contingencies related to a contractual supply agreement recognised in 2014 (€ 8.6 million);
- lower costs for IMU council tax (-€ 4.3 million);
- an increase in service quality expenses, +€ 10.1 million mainly attributable to measurement of the sharing and mitigation mechanisms, and contributions to the Exceptional Events Fund consequent to outage events which mainly characterised the end of FY 2015 net of the higher contingent assets recognised in 2014.

8. Net financial income/(expense) - (135.0) million euro

This item is analysed below.

€ million	2015	2014	Changes
FINANCIAL INCOME			
Dividends from subsidiaries and associates	1.1	2.6	(1.5)
Financial income from subsidiaries	4.2	13.7	(9.5)
Interest income and other financial income	10.3	*21.4*	(11.1)
Debt adjustment (bonds) and related hedges	1.1	*2.0*	(0.9)
Exchange gains	2.4	-	2.4
Total income	**19.1**	**39.7**	**(20.6)**
FINANCIAL EXPENSE			
Financial expense from the Parent	(5.2)	(6.4)	1.2
Financial expense to subsidiaries	(1.0)	(3.5)	2.5
Other financial expense	(0.9)	(0.2)	(0.7)
Interest expense on medium/long-term loans and related hedges	(174.5)	(183.3)	8.8
Discounting of post-employment benefits and other personnel-related provisions	(0.8)	(0.7)	(0.1)
Exchange losses	-	(0.1)	0.1
Capitalised borrowing costs	28.3	34.0	(5.7)
Impairment of equity investments	-	(0.7)	0.7
Total expense	**(154.1)**	**(160.9)**	**6.8**
TOTAL	**(135.0)**	**(121.2)**	**(13.8)**

Net financial expense amounted to € 135.0 million comprising € 154.1 million of financial expense and € 19.1 million of financial income. The increase in net financial expense of -€ 13.8 million with respect to the previous financial year is mainly the result of the following factors:

- lowers dividends distributed in 2014 by the associate CGES A.D. (-€ 1.5 million);
- lower financial income from subsidiaries (-€ 9.5 million) mainly attributable to full repayment of the loan granted to the subsidiary Terna Rete Italia S.r.l., on 17 November 2014;
- lower financial income (-€ 11.1 million) attributable essentially to the general decrease in the market rates at which the cash was invested;
- greater exchange gains for 2015, related to adjustment to the exchange rate of the provision for probable expenses relating to tax obligations deriving from the sale of the equity interest held in the Brazilian subsidiaries (+€ 2.5 million);
- negative net economic effects deriving from the fair value adjustment of bonds and the related hedges (-€ 0.9 million);
- lower financial expense to subsidiaries (+€ 2.5 million) in relation to interest accrued on correspondent accounts with the same;
- decrease of relating to medium- and long-term debt and the related hedging (+€ 8.8 million) attributable mainly to the general decrease in marker rates during 2015; in particular the reduction in financial expense of € 42.3 million more than offset the net effect of the costs connected with the Liability Management operation (€ 32.3 million);
- lower capitalised financial expense (-€ 5.7 million) due to the lower cost of net debt in 2015 compared with that recognised in 2014.

9. Income taxes of the year – € 262.6 million

Income taxes chargeable to the year amounted to € 262.6 million, down by € 24.2 million compared with the previous year owing essentially to the reduction in the IRES rate, which went from 34% in 2014 to 27.5% starting from 2015 following the elimination of the IRES surcharge (the so-called Robin Hood Tax) and to the deductibility of permanent personnel expenses for IRAP purposes (introduced starting from 2015 by the 2015 Stability Law).

The following table shows changes in taxes with respect to 2014.

€ million	2015	2014	Δ
INCOME TAXES OF THE YEAR			
Current taxes:			
- IRES	248.8	310.1	(61.3)
- IRAP	49.6	52.1	(2.5)
Total current taxes	*298.4*	*362.2*	*(63.8)*
New temporary differences:			
- deferred tax assets	(11.2)	(16.6)	5.4
- other changes	-	(8.6)	8.6
Reversal of temporary differences:			
- deferred tax assets	15.2	17.5	(2.3)
- deferred tax liabilities	(30.6)	(41.8)	11.2
IRES tax rate adjustment	(4.2)	(20.9)	16.7
Total change in deferred tax assets and liabilities	*(30.8)*	*(70.4)*	*39.6*
Adjustment of prior-year taxes	(5.0)	(5.0)	-
TOTAL	262.6	286.8	(24.2)

Current taxes

Current taxes show a decrease of € 63.8 million compared with the balance of the previous year essentially as a result of the reductions of the IRES rate described above and also of 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 € 4.2 million.

The higher positive impact noted in 2014 deriving from the adjustment of the IRES rate from 34% to 27.5% (an impact of € 20.9 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 € 39.6 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 -€ 5 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 (€ 262.6 million) to the profit before taxes was 33.6% compared with 38.9% 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 theoretical tax rate with the effective tax rate for the year.

€ million	Taxable income	Tax	Δ %
Profit before taxes	782.4		
IRES - theoretical tax charge (27.5%)		215.2	
IRAP - theoretical tax charge (5.10% on operating profit of € 917.4 million)		46.8	
THEORETICAL TAX RATE		**262.0**	**33.5%**
Permanent IRES differences			
Employee benefits		0.7	0.1%
Contingencies		0.6	0.1%
IMU		3.0	0.4%
Impairment		4.4	0.5%
Other increases/decreases		2.5	0.3%
IRAP - Art. 6 Law 28/01/2009		(0.9)	(0.1%)
ACE Subsidy for economic growth		(2.4)	(0.3%)
Dividends		(0.3)	-
PERMANENT IRAP DIFFERENCES			
Personnel expense		0.3	-
Capitalised borrowing costs		1.4	0.2%
Other increases/decreases		0.5	0.1%
Tax rate net of adjustments to income taxes of previous years			**34.7%**
Prior year taxes		(5.0)	(0.6%)
Adjustment of IRES/IRAP deferred taxes		(4.2)	(0.5%)
Total taxes for the year		**262.6**	
Actual tax rate			33.6%

10. Net profit for the year from discontinued operations and assets held for sale – € 7.3 million

The item recognises the effects of the release of provisions set aside by Terna for probable expenses related to tax obligations deriving from the sale of Terna Participações (€ 7.3 million). In 2014, the item in question was zero.

C. Operating segments

Consistent with the provisions of “IFRS 8 - Operating Segments” concerning companies that publish the Consolidated Financial Statements of a parent company in the same document as the separate financial statements of that parent company, operating segment disclosures are provided for the Consolidated Financial Statements only. Accordingly, please see the analogous section of the Notes to the Financial Statements of the Terna Group.

D. Notes to the statement of financial position

Receivable

11. Property, plant and equipment – € 10,141.8 million

Property, plant and equipment amounted to € 10,141.8 million (€ 9,577.0 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	**104.3**	**1,415.2**	**12,015.6**	**81.1**	**128.5**	**1,758.5**	**15,503.2**
Investments	0.2	-	0.1	2.6	1.4	973.1	977.4
Entry into use	16.7	98.6	731.6	-	7.5	(854.4)	-
Intra-group purchases	-	-	19.9	-	-	4.6	24.5
Disposals and impairment	(0.2)	(0.7)	(36.8)	-	(2.0)	(15.9)	(55.6)
Other changes		-	(13.5)	-	-	(15.1)	(28.6)
Reclassifications	-	(0.1)	(0.1)	-	0.2	-	-
COST AT 31.12.2015	**121.0**	**1,513.0**	**12,716.8**	**83.7**	**135.6**	**1,850.8**	**16,420.9**
ACCUMULATED DEPRECIATION AND IMPAIRMENT AT 01.01.2015	**-**	**(400.0)**	**(5,376.0)**	**(57.3)**	**(92.9)**	**-**	**(5,926.2)**
Depreciation charge for the year	-	(34.8)	(332.2)	(4.4)	(12.1)	-	(383.5)
Intra-group purchases	-	-	(7.4)	-	-	-	(7.4)
Disposals and impairment	-	0.6	35.4	-	2.0	-	*38.0*
ACCUMULATED DEPRECIATION AND IMPAIRMENT AT 31.12.2015	**-**	**(434.2)**	**(5,680.2)**	**(61.7)**	**(103.0)**	**-**	**(6,279.1)**
CARRYING AMOUNT							
AT 31 DECEMBER 2015	**121.0**	**1,078.8**	**7,036.6**	**22.0**	**32.6**	**1,850.8**	**10,141.8**
AT 31 December 2014	**104.3**	**1,015.2**	**6,639.6**	**23.8**	**35.6**	**1,758.5**	**9,577.0**

The category “Plant and machinery” essentially includes the energy transportation network as well as the transformation stations.

The item “Property, plant and equipment” recorded an increase compared to the previous year of € 564.8 million, as a result of the ordinary changes that occurred during the year related to investments in the period (€ +977.4 million, of which € 28.3 million related to capitalised borrowing costs), depreciation for the period (€-383.5 million), disposals and impairment (€ -17.6 million, of which € 15.9 million related mainly to the Dolo-Camin project already commented on above) and other changes (€ -28.6 million) related to contributions received from third parties and booked to directly reduce the fixed assets in operation and under construction: The 2015 Financial Year also saw:

- the purchase, on 13 April 2015, by the subsidiary Terna Rete Italia S.r.l. of certain transmission plants of the Company (25 lines for a total of 255 km), located in the north-east area (14 plants) and centre-south (10 plants) of the country for a price of € 15.0 million;
- the purchase, on 22 April 2015, by the subsidiary Terna Plus S.r.l. of a SCRI (Rapid Installation Connection Station) for a price of € 2.1 million.

With reference to investments in the year in **Regulated Activities** (€ 951.8 million) we can note in particular:

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 was notified of the sequestration of Pylon No. 45 by the Messina Public Prosecutor's Office. Terna, 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 include in addition the actions to purchase and/or renovate offices (€ 22.8 million).
The main works relating to **non-regulated activities** (a total of € 25.6 million) involved essentially variants for third parties.

12. Goodwill – € 88.6 million

Goodwill amounted to € 88.6 million and was unchanged from the balance of the previous year.

Impairment testing

Cash Generating Unit – perimeter of Terna S.p.A. transmission activity

The goodwill shown above of € 88.6 million is referable entirely to the goodwill deriving from acquisition of RTL (incorporated by the Parent Company in 2008).
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.
The fair value of the CGU, calculated taking into consideration the Stock Exchange quotation of the Terna S.p.A. stock in 2015, was found to be higher than the carrying amount, for a value of € 2,900 million.

13. Intangible assets – € 247.7 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**	**26.6**	**27.9**	**257.6**
Investments	-	-	0.2	44.0	44.2
Entry into use	30.9	-	7.8	(38.7)	-
Depreciation charge for the year	(34.6)	(5.6)	(13.9)	-	(54.1)
BALANCE AT 31.12.2015	**115.3**	**78.5**	**20.7**	**33.2**	**247.7**
Cost	371.2	135.4	174.9	33.2	714.7
Accumulated amortisation	(255.9)	(56.9)	(154.2)	-	(467.0)
BALANCE AT 31.12.2015	**115.3**	**78.5**	**20.7**	**33.2**	**247.7**

Intangible fixed assets amount to € 247.7 million and in particular, include:

- 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), 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 (€ 17.9 million) were made essentially through internal development.
The difference with respect to the previous financial year (€ -9.9 million) is due to the combined effect of routine movements during the period, regarding amortisation accruing (€ -54.1 million, of which € 34.6 million relating to dispatching infrastructures) - and investments (€ 44.2 million, of which € 26.3 million for infrastructure rights) mainly in application software.
Among the investments for the year we can note in particular those related to the development and evolution of application software, the Dispatching Remote Management System (€ 10.7 million), for the Power Exchange (€ 4.5 million) and for protection of the Electrical System (€ 1.0 million), as well as software applications and licenses (€ 16.7 million).

14. Financial assets

The following table details financial assets recognised by Terna S.p.A..

	Carrying amount		
€ million	31.12.2015	31.12.2014	Δ
Investments in subsidiaries	1,418.1	628.0	790.1
Investments in associates	52.1	52.1	-
Other investments	-	0.3	(0.3)
FVH derivatives	688.2	784.8	(96.6)
RCF commissions	3.6	2.0	1.6
NON-CURRENT FINANCIAL ASSETS	**2,162.0**	**1,467.2**	**694.8**
Short-term loan to Terna Interconnector	3.7	-	3.7
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	**68.0**	**63.4**	**4.6**
TOTAL	**2,230.0**	**1,530.6**	**699.4**

The item “Non-current financial assets”, of € 2,162.0 million, included at 31 December 2015 the value of equity investments, fair value hedging derivatives hedging bonds and commissions paid on the Revolving Credit Facilities granted in December 2014 and December 2015.

The value of “Investments in subsidiaries” (€ 1,418.1 million) relates to equity investments in subsidiaries held directly by Terna S.p.A. and recorded an increase of € 790.1 million compared to 31 December 2014 attributable, for € 770.1 million, to the acquisition, on 23 December 2015, of the entire share capital of Rete S.r.l. (formerly S.EL.F.- Società Elettrica Ferroviaria S.r.l.) and, for € 20 million, to the capital increase of Terna Crna Gora d.o.o..

The value of “Investments in associates” (€ 52.1 million), in line with the balance of the previous year, refers to:

- the stake owned (42.698%) in the share capital of CESI S.p.A. (€ 17.6 million);
- the stake owned in the share capital of CORESO S.A. (of € 0.3 million), acquired in November 2010, which went down from 22.485% to 20% during November 2015;
- the value of investments in the associate CGES - CrnoGorski Elektroprenosni Sistem AD (€ 34.2 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 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.

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 following table summarises Terna S.p.A.'s direct investments in subsidiaries and associates and jointly controlled companies at 31 December 2015, with data related to the last approved financial statements.

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
Business:	Design, construction, management, development, operation and maintenance of grid structures and lines and of other infrastructures connected to the said grids, of plants and equipment functional to the said business in the sectors of electricity dispatching and transmission and in similar, related or connected segments.				
Terna Rete Italia S.r.l.	Rome	€	243,577,554	100%	Line-by-line
Business:	Design, construction, management, development, operation and maintenance of High-Voltage power lines.				
Terna Storage S.r.l.	Rome	€	10,000	100%	Line-by-line
Business:	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
Business:	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
Business:	Design, construction, management, development, operation and maintenance of plants, equipment and infrastructures including grids and systems, including diffused energy accumulation, pumping and/or storage.				
Terna Interconnector S.r.l.	Rome	€	10,000	65%*	Line-by-line
Business:	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
Business:	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
Business:	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.				
ASSOCIATES					
Cesi S.p.A.	Milan	€	8,550,000	42.698%	*Equity Method*
Business:	Experimental electro-technical research.				
Coreso S.A.	Brussels (Belgium)	€	1,000,000	20.000%	*Equity Method*
Business:	Technical centre owned by various electricity transmission companies which implements joint TSO technical coordination activities in order to improve and strengthen security and coordination of the electricity system in central/western Europe.				
CGES A.D.	Podgorica	€	155,108,283	22.0889%	*Equity Method*
Business:	Electricity dispatching and transmission operator in Montenegro.				
JOINT CONTROL					
ELMED Etudes S.a.r.l.	Tunis	Tunisian Dinar	2,700,000	50%	*Equity Method*
Business:	Study activity concerning the connection of the Italian and Tunisian electricity grids.				

* 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 fair value of the FVH derivatives hedging the 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 € 68.0 million (€ 63.4 million at 31 December 2014) and recorded an increase compared to the previous year of €+4.6 million due to:

- the loan granted in 2015 by Terna S.p.A. to the subsidiary Terna Interconnector S.r.l. with maturity July 2016 (+€ 3.7 million);
- the amount of net financial income matured on the related financial instruments, but not yet paid (+€ 1.1 million);
- the decrease in interest matured and not yet collected at the reporting date relating to short-term cash investments (-€ 0.2 million).

15. Other assets

"Other assets" are analysed below.

€ million	31.12.2015	31.12.2014	Δ
Receivables due from others:			
- loans and advances to employees	3.1	2.3	0.8
- deposits with third parties	0.5	0.5	-
OTHER NON-CURRENT ASSETS	**3.6**	**2.8**	**0.8**
Other tax assets	107.2	9.5	97.7
Receivables due from others:	31.9	6.5	25.4
OTHER CURRENT ASSETS	**139.1**	**16.0**	**123.1**

"Other non-current assets" (€ 3,6 million) - which are shown in the table - are in line with the amounts of the previous year and mainly comprise loans and advances paid to employees (€ 3,1 million).
The item "Other current assets" of € 139.1 million, a breakdown of which is given in the table above, shows an increase of € 123.1 million with respect to the balance at 31 December 2014, mainly due to other tax assets (+€ 97.7 million), as a result, in particular, of the VAT credit situation of 2015 compared to the debit situation of the previous year (+€ 102.3 million), and of lower credits for withholdings on interest income accrued with reference to financial assets (-€ 4.2 million).

16. Inventories – € 0.0 million

Inventories under working assets show a balance of zero at 31 December 2015. The balance of the previous year, of € 0.7 million, referred to the signing in 2013 of the supply contract for replacement parts for maintaining equipment needed for remote transmission systems.

17. Trade receivables – € 1,285.8 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	29.1	32.4	(3.3)
Receivables from subsidiaries	30.7	32.1	(1.4)
TRADE RECEIVABLES	**1,285.8**	**1,535.4**	**(249.6)**

Trade receivables amounted to € 1,285.8 million and show a decrease (€ 249.6 million) compared with the previous year, essentially attributable to the grid transmission fees receivable in relation to the remuneration paid to the 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 € 8.9 million for other items in 2015, compared with € 24.0 million for energy items and € 8.2 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 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 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 – € 29.1 million

Other trade receivables mainly regard receivables due from third party clients of the Company for the diversified business; they show a drop of € 3.3 million with respect to the previous year primarily due to the higher collections during the year.

This item also includes net receivables for contract work in progress (€ 0.1 million), highlighted in the table below, related to works of multi-year duration which the Company has been implementing with third party customers, which show a net balance in line with the previous year.

€ million	Payments on account	Contract value	Balance at 31.12.2015	Payments on account	Contract value	Balance at 31.12.2014
Others	(0.6)	0.7	0.1	(9.5)	9.8	0.3

Receivables from subsidiaries – € 30.7 million
The item, of € 30.7 million, shows a balance substantially in line with the figure for the previous year (-€ 1.4 million) and relates substantially to the receivable due from the subsidiary Terna Rete Italia S.p.A. (€ 28.6 million), with reference mainly to technical activities carried out by the subsidiary on the plants and to the business unit rent (€ 9.9 million). The amount of the guarantees issued to third parties by Terna S.p.A. 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..

18. Cash and cash equivalents – € 435.4 million
Cash and cash equivalents at 31 December 2015 amounted to € 435.4 million, of which € 400.0 million liquid funds invested in short-term, highly-liquid deposits and € 35.4 million net positive liquidity on bank current accounts.

19. Income tax assets – € 22.0 million
Receivables on Income tax assets amounted to € 22.0 million and recorded an increase of € 1.2 million compared to the previous year owing mainly to higher receivables for IRES and IRAP recognised on filing the 2014 tax return (€ 11.4 million), and the advances on IRES and IRAP paid in 2014 compared to the tax burden for the previous year (€ -10.2 million).

Liabilities

20. Equity attributable to the owners of the Parent – € 2,908.1 million
Share capital –€ 442.2 million
The share capital of Terna is represented by 2,009,992,000 ordinary shares, par value € 0.22 each.

Legal reserve –€ 88.4 million
The legal reserve is 20% of the Company’s share capital; it did not change with respect to the previous year.

Other reserves –€ 744.0 million
Other reserves increased by € 26.3 million, due to Other Comprehensive Income, in particular owing to:
- adjustment to fair value of derivative instruments hedging the Company’s floating-rate loans - cash-flow hedges (€ 21.3 million, considering the related tax effect of € 8.0 million);
- recognition of the actuarial gains and losses on employee benefits (€ 5.0 million, considering the related tax effect of € 1.9 million).

Retained earnings and losses – € 1,247.1 million
The increase of € 48.4 million of the item “Retained earnings and losses” regarded the allocation of the residual profit for 2014, compared to the distribution of the dividend in the same year (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 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.

The following table shows the origin, availability and possibility of distribution of the equity components at the reporting date.

€ million	31.12.2015	Possibility of use	Available portion
Share capital	442.2	-	-
Legal reserve	88.4	B	88.4
Other reserves			
- equity-related	416.1	A, B, C	416.1
- income-related*	327.9	A, B, C	327.9
Retained earnings	1,247.1	A, B, C	1,247.1
Interim dividend	(140.7)	A, B, C	-
TOTAL	**2,381.0**		**2,079.5**
KEY:			
A - for share capital increase			
B - to cover losses			
C - for distribution to shareholders			

*Includes the negative reserve that contains the effective portion of the fair value changes of cash flow hedging equal, net of the tax effect, to € 4.8 million.

Of the total available portion, € 551.7 million refers to untaxed income-related reserves.

21. Loans and financial liabilities

The following table details loans and financial liabilities recognised in the separate financial statements of Terna S.p.A. at 31 December 2015.

	Carrying amount		
€ million	31.12.2015	31.12.2014	Δ
Bonds	6,406.1	5,983.6	422.5
Bank loans	2,103.8	2,094.4	9.4
LONG-TERM LOANS	**8,509.9**	**8,078.0**	**431.9**
CFH derivatives	6.4	29.9	(23.5)
NON-CURRENT FINANCIAL LIABILITIES	**6.4**	**29.9**	**(23.5)**
Short-term loans	398.2	-	398.2
Current portion of long-term loans	120.7	762.4	(641.7)
SHORT-TERM LOANS AND CURRENT PORTION OF MEDIUM/ LONG-TERM LOANS	**518.9**	**762.4**	**(243.5)**
TOTAL	**9,035.2**	**8,870.3**	**164.9**

Gross debt for the year increased with respect to the previous year by € 164,9 million to € 9,035.2 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 € 632.3 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 -€ 112.3 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	1,000.1	0.59%
Club Deal	2015	649.9	-	-	-	-	-	-			-	0.64%
CDP	2019	500.0	500.0	-	500.0	-	-	500.0			-	0.99%
Total floating rate		**2,856.9**	**2,224.5**	**120.7**	**2,103.8**	**132.4**	**132.4**	**611.3**	**116.1**	**111.5**	**1,000.1**	
TOTAL		**8,840.5**	**8,630.6**	**120.7**	**8,509.9**	**901.6**	**880.6**	**1,288.5**	**116.1**	**1,564.8**	**3,758.3**	

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	2,857.0	2,856.9	2,857.0	(762.4)	130.0	-	(632.4)	2,224.5	2,224.5	2,224.5
Total bank loans	**2,857.0**	**2,856.9**	**2,857.0**	**(762.4)**	**130.0**	**-**	**(632.4)**	**2,224.5**	**2,224.5**	**2,224.5**
TOTAL FINANCIAL DEBT	**8,072.9**	**8,840.5**	**8,989.4**	**(1,242.4)**	**1,130.0**	**(97.5)**	**(209.9)**	**7,960.4**	**8,630.6**	**8,710.8**

Compared to 31 December 2014, long-term debt recorded overall a decrease of -€ 209.8 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, Terna had an additional debt capacity of approximately € 441 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	6.4	29.9	(23.5)
TOTAL	**6.4**	**29.9**	**(23.5)**

“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 € -23.5 million.
In the context of financial liabilities, short-term loans for a total of € 398.2 million arising from the utilisation of uncommitted credit lines are noted.

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, the Company's net financial position is as follows.

		Carrying amount
€ million		31.12.2015
A.	Cash	10.0
B.	Short-term deposits	400.0
C.	Net intercompany treasury current account position	25.4
D.	**LIQUIDITY (A) + (B)**	**431.6**
E.	Current portion of long-term payables	120.7
F.	Short-term loans	398.2
G.	Short-term loan to Terna Interconnector S.r.l.	**(3.7)**
H.	Other financial liabilities	**59.2**
I.	**CURRENT FINANCIAL DEBT (E) + (F) + (G) + (H)**	**574.4**
J.	**NET CURRENT FINANCIAL DEBT (I) - (D)**	139.0
K.	Non-current bank payables	2,103.8
L.	Bonds issued	6,406.1
M.	Derivative financial instruments in portfolio	(681.8)
N.	**NET NON-CURRENT FINANCIAL DEBT (K) + (L) + (M)**	**7,828.1**
O.	**NET FINANCIAL DEBT (J) + (N)**	**7,967.1**

For further details on the breakdown of the items present in the table please see Comments 14 “Financial assets”, 18 “Cash and cash equivalents” and 21 “Loans and financial liabilities” in the present Notes.

For more information on the contractual provisions of outstanding loans at 31 December 2015, please see the Notes to the Consolidated Financial Statements.

22. Employee benefits – € 27.1 million

Terna provides benefits to its employees during their period of employment (loyalty bonus), at the termination of their employment (termination benefits, additional month’s pay and 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 Company when they reach certain seniority levels (25 and 35 years of service).
The benefits granted at the termination of employment are recognised for all employees (termination 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	Provision	Interest cost	Utilisations and other changes	Actuarial (gains)/losses	31.12.2015
BENEFITS PAYABLE TO EMPLOYEES						
Loyalty bonus and other incentives	0.5	-	-	-	-	0.5
Total	**0.5**	**-**	**-**	**-**	**-**	**0.5**
BENEFITS PAYABLE UPON TERMINATION OF EMPLOYMENT						
Termination benefits	4.2	-	0.1	-	(0.5)	3.8
IMA	0.5	-	-	-	-	0.5
Indemnities for lack of notice and similar	0.4	-	-	(0.1)	-	0.3
Total	**5.1**	**-**	**0.1**	**(0.1)**	**(0.4)**	**4.6**
POST-EMPLOYMENT BENEFITS						
Energy discount	22.7	0.1	0.3	(0.4)	(5.7)	17.0
ASEM	5.7	0.1	0.1	(0.2)	(0.7)	5.0
Total	**28.4**	**0.2**	**0.4**	**(0.6)**	**(6.4)**	**22.0**
TOTAL	**34.0**	**0.2**	**0.5**	**(0.7)**	**(6.9)**	**27.1**

The item, equal to € 27.1 million at 31 December 2015 (€ 34.0 million at 31 December 2014), shows a decrease of € 6.9 million compared to the previous year, mainly due to the recognition of actuarial gains/losses (€ 6.9 million, with impact on other comprehensive income).

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	0.1	0.2
- interest income and expense	-	0.1	-	-	0.3	0.1	0.5
TOTAL RECOGNISED IN INCOME STATEMENT	**-**	**0.1**	**-**	**-**	**0.4**	**0.2**	**0.7**

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	(0.2)	-	-	(2.1)	0.1	(2.2)
- due to changes in other economical assumptions	-	-	-	(2.1)	(0.2)	(2.3)
- due to changes in discount rate	(0.3)	-	-	(1.5)	(0.6)	(2.4)
TOTAL OCI IMPACTS	**(0.5)**	**-**	**-**	**(5.7)**	**(0.7)**	**(6.9)**

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%	2.03%	0.98%	0.24% - 0.60%	2.03%	2.03%
Inflation rate	from 1.5% to 2.0%	from 1.5% to 2.0%	n/a	from 1.5% to 2.0%	from 1.5% to 2.0%	3.00%
Duration (in years)	13.56	11.26	6.50	3.00–4.00	11.43	13.40

€ million	Loyalty bonus and other incentives	Termination benefits	IMA	Indemnities for lack of notice and similar	Energy discount	ASEM	TOTAL
Discount rate +0.25%	0.5	4.0	0.3	0.3	23.3	5.2	33.6
Discount rate -0.25%	0.5	3.8	0.4	0.3	24.9	5.6	35.5
Inflation rate +0.25%	0.4	3.8	n/a	n/a	24.9	n/a	29.1
Inflation rate -0.25%	0.5	4.0	n/a	n/a	23.3	n/a	27.8
Annual rate of increase in healthcare +3%	n/a	n/a	n/a	n/a	n/a	8.9	8.9
Annual rate of increase in healthcare -3%	n/a	n/a	n/a	n/a	n/a	3.6	3.6
Conversion value of KW/h +5%	n/a	n/a	n/a	n/a	25.3	n/a	25.3
Conversion value of KW/h -5%	n/a	n/a	n/a	n/a	22.9	n/a	22.9

€ 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	-	0.2	-	-	0.8	0.2	1.2
By the end of 2017	-	0.2	0.1	-	0.8	0.2	1.3
By the end of 2018	-	0.1	-	-	0.8	0.3	1.2
By the end of 2019	-	0.2	-	-	0.8	0.3	1.3
By the end of 2020	0.1	0.1	-	0.1	0.8	0.4	1.5

23. Provisions for future risks and charges – € 157.8 million

The items and changes of the provisions for risks and charges at 31 December 2015 are set out below.

€ million	Provision for disputes and litigation	Provisions for sundry risks and charges	Provision for early retirement	Total
BALANCE AT 31.12.2014	**10.1**	**108.5**	**52.9**	**171.5**
Provisions	1.9	34.3	-	36.2
Utilisations and other changes	(1.4)	(34.4)	(14.1)	(49.9)
BALANCE AT 31.12.2015	**10.6**	**108.4**	**38.8**	**157.8**

Provision for disputes and litigation – € 10.6 million

The provision is set aside to cover the liabilities at year end that may arise from lawsuits and out-of-court disputes relating to Company activities. The amount set aside takes into account the opinions both of internal and external legal counsel and is substantially in line (+€ 0.5 million) with respect to the previous 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 – € 108.4 million

The final balance of the provisions, although in line with the previous year (-€ 0.1 million), is the result of amounts set aside (€ 34.3 million) and utilisations and other changes (€ 34.4 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);
- provisions for risks associated with Council Tax (Imposta Municipale Unica - IMU) (€ 5.5 million);
- net provisions set aside referred to management incentive schemes, for € 3 million;
- net utilisations for "Projects for urban and environmental renewal" carried out by the 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 Company (for € 7.3 million);
- net reduction of € 4.5 million of provisions associated with regulation of transmission service quality (mitigation and participation mechanism pursuant to AEEGSI Resolution ARG/elt 198/11) which, net of provisions fro the estimate of the penalty linked to the outage events in the year, reflects the payments to distribution companies and reversals consequent to definition of the penalties related to previous years.

Provision for early retirement incentives – € 38.8 million

This provision reflects the estimated extraordinary charges related to the voluntary early termination of the working relationship of employees of the 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.

24. Deferred tax liabilities – € 31.3 million

The changes in this provision are analysed below.

€ million	31.12.2014	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	150.7	-	(41.6)	-	109.1
Employee benefits and financial instruments	3.5	-	(0.4)	-	3.1
Total deferred tax liabilities	**154.2**	**-**	**(42.0)**	**-**	**112.2**
DEFERRED TAX ASSETS					
Provisions for risks and charges	31.2	9.7	(12.1)	-	28.8
Allowance for doubtful accounts	2.9	-	-	-	2.9
Employee benefits	10.5	1.5	(2.7)	(1.9)	7.4
FVH - CFH derivatives	9.8	-	-	(8.0)	1.8
Release of goodwill	47.3	-	(7.3)	-	40.0
Total deferred tax assets	**101.7**	**11.2**	**(22.1)**	**(9.9)**	**80.9**
NET DEFERRED TAX LIABILITIES	**52.5**	**(11.2)**	**(19.9)**	**9.9**	**31.3**

This balance, equal to € 31.3 million, reflects the net movements in the Company's deferred tax assets and liabilities.

Deferred tax liabilities (€ 112.2 million) recorded a decrease of € 42 million, owing to:

- utilisation of previous provisions to cover the difference between additional depreciation and amortisation calculated using ordinary technical rates (€ 30.6 million), including the net reversal in respect of the amortisation/depreciation charge for the period attributable to the difference from merger eliminations allocated to property, plant and equipment following mergers carried out in previous years (€ 2.1 million);
- adjustment of net deferred tax liabilities (€ 11.4 million) consequent to the provisions of 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.

Deferred tax assets (€ 80.9 million) show a net decrease of € 20.8 million, mainly related to the following changes:

- net utilisations of € 9.9 million, attributable to the tax effect, which has no impact on the Income Statement, of changes in cash flow hedging financial instruments (€ 8 million) and of actuarial gains and losses on employee benefits (€ 1.9 million);
- utilisation, amounting to € 7.3 million, of the portion accruing of deferred tax assets allocated for the release of goodwill recognised following the incorporation of RTL, including the IRES rate adjustment to 24% (€ 4.5 million);
- net utilisation of € 4.7 million (including the impact of the adjustment) related to Provisions for early retirement incentives essentially attributable to the corporate reorganisation plan and generational turnover programme implemented in the year;
- net utilisation of € 1.5 million related to changes in the year in provisions for service quality consequent to the payments made, the reversals made following the definition of the penalties related to outages of previous years net of the expenses recognised for the events that occurred in the current year;
- provision of € 3,5 million linked to the amounts set aside for a dispute relating to the mechanism for adjusting the tariffs with the Republic of San Marino.

25. Other non-current liabilities – € 156.7 million

The item, of € 156.7 million at 31 December 2015, includes the amount payable to Terna Rete Italia S.p.A. arising through the transfer of net liabilities included in the business unit (€ 49.9 million) and deferred positions relating to set-up grants (€ 106.8 million).
The decrease in the item, of € 24.4 million compared to the previous year, derives from the reduction in the payable to Terna Rete Italia S.p.A., which reflects the transfers of personnel associated with the reorganisation that involved the Group during the year and the liquidation of some payable items included in the business unit (€ 18.8 million) and from the release of set-up grant portions (€ 5.6 million).

26. Current liabilities

Current liabilities at 31 December 2015 break down as follows.

€ million	31.12.2015	31.12.2014	Δ
Short-term loans (*)	398.2	-	398.2
Current portion of long-term loans (*)	120.7	762.4	(641.7)
Trade payables	1,984.1	2,004.4	(20.3)
Tax liabilities	18.5	0.9	17.6
Current financial liabilities (*)	127.1	154.1	(27.0)
Other current liabilities	148.1	184.0	(35.9)
TOTAL	**2,796.7**	**3,105.8**	**(309.1)**

(*) For these items see the comments in Note 20. LOANS AND FINANCIAL LIABILITIES.

Short-term loans – € 398.2 million

The item “Short-term loans” refers to the utilisation of the short-term credit lines.

Trade payables – € 1,984.1 million

Trade payables at 31 December 2015 break down as follows.

€ million	31.12.2015	31.12.2014	Δ
Suppliers:			
- Energy-related payables	1,459.2	1,396.0	63.2
- Non energy-related payables	111.8	119.0	(7.2)
Non energy-related payables due to subsidiaries	411.0	486.3	(75.3)
Payables due to associates	1.2	0.5	0.7
Payables for contract work in progress	0.9	2.6	(1.7)
TOTAL TRADE PAYABLES	**1,984.1**	**2,004.4**	**(20.3)**

Suppliers

<u>Energy-related/adjusted payables – € 1,459.2 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 Company (€ 1,446.5 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 € 63.2 million compared to the previous year is essentially attributable to:

- Payables for pass-through energy items: up by € 51.5 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[43] 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 downward change with respect to the previous year (-€ 7.2 million) is essentially attributable to less services and less purchases recorded in the year with respect to the same figure recorded the previous year.

Payables due to subsidiaries

The item, of € 411 million, shows a decrease of € -€ 75.3 million, mainly attributable to lower payables to the subsidiaries Terna Rete Italia S.p.A. (-€ 48.8 million) and Terna Storage S.r.l. (-€ 28.4 million), owing essentially to the lower investment activities recorded in the year.

Payables due to associates

This item, of € 1.2 million shows an increase of € 0.7 million compared with the same figure for the previous year, owing to payables to the associate CESI for services provided to the Company in the construction and management of laboratories and plants for tests, inspections, studies and experimental research in the general field of electricity technology and scientific and technical progress.

Company commitments to suppliers totalled approximately € 294.3 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 amounted to € 0.9 million at 31 December 2015 and were down compared to 31 December 2014 (€ 2.6 million). They can be broken down as follows.

€ million	Payments on account	Contract value	Balance at 31.12.2015	Payments on account	Contract value	Balance at 31.12.2014	Δ
Third-party customers	(1.2)	0.3	(0.9)	(7.3)	4.7	(2.6)	1.7

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

(43) 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.

Tax liabilities – € 18.5 million

The item refers to the Company's liabilities for IRES and IRAP taxes for the financial year and recorded a net increase, compared to the previous year, of € 17.6 million attributable substantially to lower payments on account of taxes for the year with respect to the payable recognised for current taxes accruing.

Other current liabilities – € 148.1 million

Other current liabilities break down as follows.

€ million	31.12.2015	31.12.2014	Δ
Payments on account	56.4	80.7	(24.3)
Other tax liabilities	1.5	30.1	(8.6)
Payables to social security institutions	6.2	6.2	-
Payables to employees	13.6	11.5	2.1
Other payables to third parties	70.4	55.5	14.9
TOTAL	**148.1**	**184.0**	**(35.9)**

Payments on account

This item (€ 56.4 million) includes the set-up grants received by the Company in relation to assets under construction at 31 December 2015.
Compared to the 2014 figure (€ 80.7 million), we note a drop of € 24.3 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

The other tax liabilities, of € 1.5 million, include payables for income tax (IRPEF) withheld on salaries recognised at the end of the year. The change is essentially attributable to the Company's position with the tax authorities for VAT to be paid which in 2014 showed a payable of € 29 million.

Payables to social security institutions

Payables to social security institutions, essentially relating to payables to the pensions agency INPS, for employee contributions, showed a balance of € 6.2 million, equal to the balance recognised in the previous year of € 6.2 million.

Payables to employees

Payables to employees show a balance of € 13.6 million and mainly regard:

- amounts relating to staff incentives and to early retirement to be paid the following year (€ 10.3 million);
- payments due to employees for unused holiday time and abolished public holidays (€ 1.9 million).

the increase compared with the previous year (€ 2.1 million) is essentially due to higher payables for early retirement incentives to be paid.

Other payables to third parties

Other payables to third parties, equal to € 70.4 million (€ 55.5 million al 31 December 2014), essentially regard security deposits (€ 56.6 million) received from electricity market operators securing their contractual obligations in respect of dispatching contracts. The item, which showed an increase of € 14.9 million, is attributable mainly to the increase in security deposits received to guarantee the contractual obligations against dispatching and virtual interconnection contracts (+€ 15.9 million).

E. Commitments and risks

Risk management

Terna S.p.A.'s market and financial risks

During the financial year, in conducting its operations, Terna is exposed to various different financial risks: market risk (namely interest rate risk and inflation risk), liquidity risk and credit risk.
This section provides comprehensive information regarding Terna's exposure to all the above risks, along with a presentation of the objectives, policies and processes for managing those risks and the methods used to measure them, with further quantitative disclosures concerning the 2014 financial statements.
Terna's risk management policies seek to identify and analyse the risks the Company is exposed to, establishing appropriate limits and controls and monitoring risks and compliance with such limits. These policies and related systems are revised on a regular basis in order to reflect any changes in market conditions and the Company's activities.
As a part of the financial risk management policies approved by the Board of Directors, Terna S.p.A. has established the responsibilities and operating procedures for financial risk management, specifically as concerns the instruments to be used and the precise operating limits in managing them.

	31.12.2015				31.12.2014			
€ million	Receivables	Receivables at fair value	Hedging derivatives	Total	Receivables	Receivables at fair value	Hedging derivatives	Total
ASSETS								
Derivative financial instruments (FVH)	-	-	688.2	688.2	-	-	784.8	784.8
Cash, short-term deposits and *inter-company* loans	435.4	-	-	435.4	1,380.0	-	-	1,380.0
TOTAL	**435.4**	**-**	**688.2**	**1,123.6**	**1,380.0**		**784.8**	**2,164.8**

	31.12.2015				31.12.2014			
€ million	Payables	Loans at fair value	Hedging derivatives	Total	Payables	Loans at fair value	Hedging derivatives	Total
LIABILITIES								
Long-term debt	2,224.5	6,406.1	-	8,630.6	2,856.8	5,983.6	-	8,840.4
Derivative financial instruments	-	-	6.4	6.4	-	-	35.5	35.5
TOTAL	**2,224.5**	**6,406.1**	**6.4**	**8,637.0**	**2,856.8**	**5,983.6**	**35.5**	**8,875.9**

Market risks

Market risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of changes in financial market conditions. Market risks include three types of risks: exchange rate risk, interest rate risk and inflation risk.
Risk management must be performed with the objective of maximising financial income and minimising the related risks by selecting counterparties and instruments compatible with the corporate risk management policy. Speculative activity is not envisaged in the corporate mission.
Terna S.p.A. seeks to adopt a dynamic approach to financial risk management. This approach is characterised by risk aversion, aiming at minimising risk through continuous monitoring of financial markets in order to plan hedging transactions in favourable market conditions. The dynamic approach makes it possible to take action to improve existing hedges where changes in market conditions or in the hedged item make the latter unsuitable or excessively expensive. The concept of hedging transaction is not restricted to 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, mainly 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 Terna.

	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	3,043.1	(6.4)	2,687.3	(35.5)	355.8	29.1

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	6,412.5	6,019.1	393.4
Floating-rate financial instruments			
- assets	1,123.6	2,164.8	(1,041.2)
- liabilities	2,224.5	2,856.8	(632.3)
TOTAL	**7,513.4**	**6,711.1**	**802.3**

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 interest rate variations (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 € 739 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	120.6	1,603.9	132.4	132.4	111.3	116.1	111.5	1,000.2
Club Deal	2015	649.9	-	-	-	-	-	-			-
CDP	2019	500.0	500.0	-	500.0	-	-	500.0			-
Total floating rate		**2,856.9**	**2,224.5**	**120.6**	**2,103.9**	**132.4**	**132.4**	**611.3**	**116.1**	**111.5**	**1,000.1**
TOTAL		**8,840.5**	**8,630.6**	**120.6**	**8,510.0**	**901.6**	**880.6**	**1,288.5**	**116.1**	**1,564.8**	**3,758.3**

Credit risk

Credit risk is the risk a customer or one of the counterparties to a transaction in financial instruments could cause a financial loss by failing to discharge an obligation. It is mainly generated by trade receivables and the financial investments of the Company.
The credit risk originated by open positions on transactions in financial derivatives is considered to be marginal since the counterparties, in compliance with financial risk management policies, are leading international credit institutions with high ratings and such transactions are diversified in compliance with specific concentration limits.
Terna provides its services 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	435.4	1,380.0	(944.6)
Trade receivables	1,285.8	1,535.4	(249.6)
TOTAL	**2,409.4**	**3,700.2**	**(1,290.80)**

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	1,223.9	1,495.6
Euro-area countries	56.9	37.9
Other countries	5.0	1.9
TOTAL	**1,285.8**	**1,535.4**

CUSTOMER TYPE	Carrying amount	
€ million	31.12.2015	31.12.2014
Distributors	335.6	335.0
Electricity Equalisation Fund (*)	82.9	197.1
Input dispatching contractors	189.5	176.9
Withdrawal dispatching contractors	598.3	750.0
Parties which have signed virtual import contracts and virtual import services (interconnectors and shippers)	18.2	12.3
Sundry receivables	61.3	64.1
TOTAL	**1,285.8**	**1,535.4**

(*) 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		1,228.8		1,427.7
0–30 days past due		1.8		62.0
31–120 days past due		11.1		13.7
More than 120 days past due	(34.4)	78.5	(32.2)	64.2
TOTAL	**(34.4)**	**1,320.2**	**(32.2)**	**1,567.6**

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	(32.2)	(30.8)
Reversal of provision	0.8	0.5
Impairment for the year	(3.0)	(1.9)
BALANCE AT 31 DECEMBER	**(34.4)**	**(32.2)**

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 Company is party may contain provisions authorising counterparties to call in such loans immediately upon the occurrence of certain events, thereby generating liquidity risk. For more information on the contractual provisions of outstanding loans at 31 December 2015, please see the section “Loans and financial liabilities” in the notes of Terna S.p.A.’s Consolidated Financial Statements.

Parent company guarantees issued in favour of suppliers of subsidiaries

The Company has issued parent company guarantees in favour of a number of suppliers of the subsidiaries Terna Rete Italia S.p.A. and Terna Crna Gora d.o.o. for contracts connected with construction of the interconnection between Italy and Montenegro. The Company’s maximum exposure at 31 December 2015 amounted to € 60.4 million.

Legal disputes

The main off-balance sheet commitments and risks of the company at 31 December 2015 are as follows.
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 30 June 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.

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

Reference is made to the same paragraph in the Notes to the Consolidated Financial Statements.

G. Related-party transactions

Terna S.p.A.'s transactions with related parties during the year, taking account of the de facto control exercised over the Company by Cassa Depositi e Prestiti S.p.A. ascertained in 2007, regarded - in addition to the subsidiaries (Terna Rete Italia S.p.A., Terna Rete Italia S.r.l., Terna Crna Gora d.o.o., Terna Plus S.r.l. Terna Storage S.r.l., Rete S.r.l., Terna Interconnector, Monita Interconnector S.r.l., Terna Chile S.p.A., Tamini Trasformatori S.r.l. and the companies controlled by this last – "Tamini Group"), - the associate companies (Cesi S.p.A., CGES A.D. and Coreso S.A.), the employee pension funds (Fondenel and Fopen), Cassa Depositi e Prestiti, CDP Reti S.p.A. as well as companies belonging to:

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

and 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 Terna S.p.A. and the aforementioned subsidiaries directly or indirectly controlled by the Ministry of 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.
It should be remembered that, in the current organisational structure of the Terna Group, in signing the business unit rental agreement with the Company, and the consequent specific infra-group contracts, the subsidiary Terna Rete Italia S.p.A. is tasked with performing all non-regulated operational activities, ordinary and extraordinary maintenance of the section of the NTG owned, and management and performance of work on developing the grid as provided for in the Concession for transmission and dispatching, and on the basis of the provisions of Terna's Development Plan.
Terna also provides for the operative management of all subsidiaries by means of specific service agreements that not only assure the administrative and financial coordination and the coordination of institutional relations, but also enable it to act on behalf of the subsidiaries, or for and on their behalf.
Please also note that the Company has in being a two-year contract with the subsidiary Terna Storage, for "safeguarding the construction" of diffused energy storage systems projects, as well as the related "coordination", "study" and "research" activities.
As concerns the non-regulated activities, the Company uses the services offered by the subsidiary Terna Plus S.r.l., in accordance with the current intercompany service agreement.
Terna is also involved in the management of cash demands of subsidiaries through specific Treasury contracts that ensure the guidance and coordination of all transactions in relation to financial resource and needs management and treasury services, as well as the implementation of all related transactions.

Below is a summary of the main intercompany contracts in place at 31 December 2015.

Counterparty	Type	Annual price
Terna Rete Italia S.p.A.	**SERVICE AGREEMENT**	
	Operation & Maintenance	€ 267,813,235*
	Renewal and development	equal to costs incurred +5.82% on the personnel expenses incurred
	Administrative, assistance and consulting services - from Terna S.p.A. to Terna Rete Italia S.p.A. (receivable) - from Terna Rete Italia S.p.A. to Terna S.p.A. (liabilities)	 € 27,648,395* € 2,163,395*
	LEASE OF AREAS ABLE TO BE SET UP AS EMPLOYEE WORKSTATIONS	
	- from Terna S.p.A. to Terna Rete Italia S.p.A. (receivable) - from Terna Rete Italia S.p.A. to Terna S.p.A. (liabilities)	€ 2,349,361 € 406,188
	BUSINESS UNIT RENT	€ 32,996,771*
Terna Rete Italia S.r.l.	**ADMINISTRATIVE SERVICE AGREEMENT (RECEIVABLE)**	€ 399,822
Terna Plus S.r.l.	**SERVICE AGREEMENT**	
	Non-regulated of Terna (receivable) – Art. 2.6	€ 43,082
	Management fee (receivable) - Arts 2.1 and 2.2 Other administrative services att. On contract (receivable) - Art. 2.3	€ 723,371 € 43,485
	LEASE OF AREAS ABLE TO BE SET UP AS EMPLOYEE WORKSTATIONS (RECEIVABLE)	
	from Terna S.p.A. to Terna Plus S.r.l. (receivable)	€ 145,361
Tamini Group	Administrative service agreement (receivable)*	€ 150,234
Terna Storage S.r.l.	**ADMINISTRATIVE, ASSISTANCE AND CONSULTING SERVICE AGREEMENT (RECEIVABLE)**	
	from Terna S.p.A. to Terna Plus (receivable)	€ 243,802
	SERVICE AGREEMENT (PAYABLE)	
	Coord., study and monitoring of storage system dev. activities (fee) - payable	€ 800,000
	Adjustment and development of storage systems	equal to costs incurred +5.82% on the personnel expenses incurred
	LEASE OF AREAS ABLE TO BE SET UP AS EMPLOYEE WORKSTATIONS (RECEIVABLE)	€ 66,073
Terna Interconnector S.r.l.	**ADMINISTRATIVE SERVICE AGREEMENT (RECEIVABLE)**	€ 495,027
	Oversight and coordination for construction of the civil works of the Italy-France connection (payable)	pqual to the costs incurred + 5.82% on the same
Monita Interconnector S.r.l.	Administrative services, support for operations and preparations for implementation of the project	€ 102,280
Terna Chile S.p.A.	Management fee (assets)	€ 102,280
Terna Crna Gora d.o.o.	**SERVICE AGREEMENT**	€ 125,000
	Technical services Administrative services	equal to costs incurred + 5.82% € 90,074

**2015 price updated by agreement of the parties in accordance with Art. 9.6-bis and 7.1 of the service agreement.*

The table below also sets out the contractual terms and conditions of the financial contracts in place with the subsidiaries.

CONTRACTUAL CONDITIONS - INTEREST RATES			
	Loan	Intercompany current a/c	
		Inventories	Utilisations
Terna Rete Italia S.r.l.	-	Euribor monthly average 1 month +0.30%	Euribor monthly average 1 month +0.80%
Terna Rete Italia S.p.A.	-	Euribor monthly average 1 month +0.30%	Euribor monthly average 1 month +0.80%
Terna Plus S.r.l.	-	Euribor monthly average 1 month +0.30%	Euribor monthly average 1 month +0.80%
Terna Storage S.r.l.	-	Euribor monthly average 1 month +0.30%	Euribor monthly average 1 month +0.80%
Terna Interconnector S.r.l.	Euribor 12 months +0.31%	-	-

The following tables specify the nature of the transactions implemented by the Company with related parties and the respective income and expense totalled during the year, in addition to the respective receivables and payables in place as of 31 December 2015.

€ 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
Subsidiaries					
Terna Rete Italia S.p.A.	-	74.0	-	-	301.2
Terna Chile S.p.A.	-	0.1	-	-	-
Terna Rete Italia S.r.l.	-	4.6	-	-	-
Terna Gora d.o.o.	-	1.0	-	-	-
Terna Plus S.r.l.	-	1.4	-	-	0.2
Tamini Group	-	0.2	-	-	-
Terna Storage S.r.l.	-	0.5	-	-	1.0
Terna Inteconnector S.r.l.	-	0.6	-	-	-
Monita Interconnector S.r.l.	-	0.1	-	-	-
Total subsidiaries	**-**	**82.5**	**-**	**-**	**302.4**
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	1.1	-	-
CORESO	-	-	-	-	1.6
Total associates	**-**	**0.1**	**1.1**	**-**	**1.6**
Other related companies:					
GSE Group	27.1	0.2	-	-	-
Enel Group	1,522.1	1.1	-	-	0.1
Eni Group	5.2	-	-	-	-
Ferrovie Group	2.4	-	-	7.6	0.1
ANAS S.p.A.	-	-	-	-	-
Total other related companies	**1,556.8**	**1.3**	**-**	**7.6**	**0.2**
Pension funds:					
Fondenel	-	-	-	-	0.2
Fopen	-	-	-	-	0.2
Total pension funds	**-**	**-**	**-**	**-**	**0.4**
TOTAL	**1,556.8**	**83.9**	**1.1**	**7.6**	**309.9**

€ million	Statement of financial position					
	Property, plant and equipment	Receivables and other assets		Payables and other liabilities		
Company	Capitalised costs	Other	Financial	Other	Financial	Guarantees*
Subsidiaries						
Terna Rete Italia S.p.A.	65.2	29.1	-	430.3	189.9	-
Terna Chile S.p.A.	-	0.1	-	-	-	-
Terna Rete Italia S.r.l.	-	4.2	-	21.9	(237.5)	-
Terna Gora d.o.o.	-	0.3	-	-	-	-
Terna Plus S.r.l.	-	0.8	-	0.7	25.6	-
Tamini Group	-	-	-	-	-	-
Terna Storage S.r.l.	0,4	0.1	-	29.4	(3.3)	
Terna Inteconnector S.r.l.	-	0.5	3.7	1.0	-	-
Monita Interconnector S.r.l.	-	0.1	-	-	-	-
Total subsidiaries	**65.6**	**35.2**	**3.7**	**483.5**	**(25.4)**	**-**
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.	2.0	0.1	-	1.2	-	1.2
Total associates	**2.0**	**0.1**	**-**	**1.2**	**-**	**1.2**
Other related companies:						
GSE Group	-	5.9	-	-	-	-
Enel Group	1.5	324.0	-	7.9	-	455.0
Eni Group	-	1.0	-	-	-	21.0
Ferrovie Group	-	0.6	-	1.4	-	44.4
ANAS S.p.A.	-	0.6	-	-	-	-
FINMECCANICA	4.7	-	-	-	-	-
Italian Ministry of Economic Development	-	-	-	42.8	-	-
Total other related companies	**6.2**	**332.1**	**-**	**52.1**	**-**	**520.4**
Pension funds:					-	-
Fopen	-	-	-	0.2	-	-
Italian Ministry of Economic Development	-	-	-	0.2	-	-
Total pension funds					**-**	**-**
TOTAL	**73.8**	**367.4**	**3.9**	**537.0**	**475.4**	**521.6**

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

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

No significant, non-recurring, atypical or unusual transactions - 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 € 951.7 million, which reflects around € 1,406.6 million in cash from operating activities (self-financing) and around € 454.9 million in financial resources generated by the management of net working capital.
Investing activities used net financial resources of around € 1,768.2 million, and mainly included € 948.8 million of investment in property, plant and machinery (€ 977.4 million net of plant grants totalling € 28.6 million) and € 44.2 million of investment in intangible assets.
The cash flow for investing activities also reflects the change in the equity investments held by the Company, mainly for the acquisition of Rete S.r.l. (€ 770.1 million) and for the capital increase subscribed in the subsidiary Terna Crna Gora d.o.o. (€ 20 million).
The net change in **loan flows** in relation to shareholders' equity drops by € 402.0 million 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 € 2,170.2 million in the year, part of which (€ 951.7 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 are notable benefits for the country: for the security and efficiency of the system; economic (savings for families and businesses); maintenance of the Adriatic backbone; electrical (an increase in transfer capacity of more than 300 MW of energy); environmental (increased transport of production from renewable sources of 700 MW; reduction in CO_2 emissions of approximately 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 Terna S.p.A. by the auditing companies.

In €	Entity providing service	Fees due for the year
Statutory audit	PwC S.p.A.	222,706.78
Attestation services	PwC* S.p.A.	151,800.00
TOTAL		**374,506.78**

(*) Includes services provided by other entities in the PWC network.

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

"Separate 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 separate financial statements during financial year 2015.
2. The assessment of the suitability of the administrative and accounting procedures for the preparation of the separate 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 separate 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;

   3.2. the report on operations includes a reliable analysis of the trend and operating result, in addition to the position of the issuer and a description of the main risks and uncertainties to which it is exposed.

Rome, 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.

Report of the Board of Statutory Auditors to Terna S.p.A.'s Shareholders' Meeting under the terms of 153 of Italian Legislative Decree No. 58 of February 24, 1998 (Consolidated Law on Finance) and of Article 2429, third paragraph, of the Italian Civil Code

Dear Shareholders,

During the year ended December 31, 2015, the Board of Statutory Auditors carried out supervisory activities in accordance with the law, adapting its operations to the code of conduct of the Board of Statutory Auditors of listed companies issued by the Italian National Board of Chartered and Public accountants (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili), the recommendations of the National Commission for Companies and the Stock Exchange (CONSOB) regarding corporate controls and activities of the Board of Statutory Auditors and the guidelines of the Corporate Governance Code of the Italian Stock Exchange (Corporate Governance Code).

The statutory audit duties pursuant to Legislative Decree No. 39 of January 27, 2010, (Legislative Decree No. 39/2010) have been assigned to the auditing firm PricewaterhouseCoopers S.p.A., appointed by the Shareholders' Meeting of May 13, 2011 for the nine years from 2011 to 2019.

Also in compliance with the provisions issued by CONSOB with Notice DEM/1025564 dated April 6, 2001 and subsequent updates, we report the following:

- We monitored that the Law and the By-laws were complied with.
- We attended the meetings of the Board of Directors and specific preparatory meetings regarding the items on its agenda, as well as the meetings of the Audit, Risk and Corporate Governance Committee and were regularly informed by the Directors regarding the activities carried out, the expected outlook and the most significant economic, financial and equity transactions of the Company, and we were satisfied that the resolutions adopted and implemented were compliant with

the Law and the By-laws and were not manifestly imprudent, risky, and did not represent a potential conflict of interest, or contradict the resolutions passed by the Shareholders' Meeting or compromise the Company's assets. During the assessments, no atypical and/or unusual operations were identified. In fulfilling our mandate, we analysed the information flows from various corporate structures and we also conducted interviews with senior management of the Company, with the auditing firm and with the supervisory bodies of the subsidiaries.

- The Board of Directors, at the meeting of March 21, 2016, on the proposal of the Remuneration Committee, approved the "Annual Remuneration Report" prepared, in accordance with Article 123-*ter* of the Consolidated Law on Finance and in compliance with the provisions of Article 6 of the Corporate Governance Code.
- We monitored the compliance and effective application of the "Procedure for Related-Party Transactions" adopted by the Board of Directors on November 12, 2010 and governed by Article 4 of the CONSOB Regulation referred to in Resolution No. 17221 of March 12, 2010, as subsequently amended and updated.
- The Company drafted the 2015 financial statements according to International Accounting Standards (IAS/IFRS). These financial statements were audited by PricewaterhouseCoopers S.p.A., which issued its own report on April 22, 2016 without objections or calls for further disclosure. The financial statements, together with the Report on Operations, was made available to us in the terms of the law and we have no particular comments.
- The Company drafted the 2015 consolidated financial statements of the Terna Group according to International Accounting Standards (IAS/IFRS). These financial statements were also audited by PricewaterhouseCoopers S.p.A., which issued its own report on April 22, 2016 without objections or calls for further disclosure.
- Among the most significant operations carried out during 2015, we note the following, referring you to the Report on Operations for a more detailed analysis:
  - acquisition of the high-voltage grid of Ferrovie dello Stato Italiane S.p.A.;

– issue of a bond of € 1 billion.

- We collected information and monitored, as far as our authority allowed, the adequacy of the Company's corporate structure, compliance with the principles of proper management and the adequacy of the provisions issued by the Company to the subsidiaries pursuant to Article 114, paragraph 2 of the Consolidated Law on Finance, by acquiring information from the Heads of the designated company departments, through meetings held with the Auditing firm and through meetings held with the audit bodies of the most important subsidiaries in terms of size.
- We monitored the adequacy of the administrative and accounting system, assessing the reliability of the latter in providing a true and fair view of operations; this activity was carried out by obtaining information from the heads of the various departments, by examining company documents and analysing the results of the work carried out by the auditing firm PricewaterhouseCoopers S.p.A. The Chief Executive Officer and the Executive in charge of preparing the Company's accounting documents have, with a special report attached to the 2015 financial statements, attested: a) the adequacy and effective application of accounting and administrative procedures; b) the conformity of the contents of financial reports to international accounting standards; c) the alignment of the documents themselves to the books and records and their ability to accurately reflect the assets, and economic and financial position of the Company. A similar attestation is attached to the Terna Group Consolidated Financial Statements.
- We assessed the adequacy of the internal audit system through: a) examination of the report of the Head of Internal Audits on the internal audit system; b) examination of the Internal Audit reports, as well as information on the results of monitoring; c) meetings with the supervisory bodies of the main subsidiaries pursuant to the first and second paragraph of Article 151 of the Consolidated Law on Finance; d) participation in meetings of the Audit, Risk and Corporate Governance Committee and the acquisition of the relevant documentation; e)

meetings with the Executive in charge of preparing the Company's accounting documents and the Chief Risk Officer. Attending the Audit, Risk and Corporate Governance Committee meetings allowed the Board of Statutory Auditors to coordinate with the activities of the said Committee for the performance of its own functions as "Internal Audit and Accounting Committee" assumed on the basis of Article 19 of Italian Legislative Decree No. 39/2010 and, in particular, to oversee: a) the financial reporting process; b) the effectiveness of internal audit, accounting and risk management systems; c) the statutory audit of accounts; d) matters relating to the independence of the auditing firm.

On the basis of the activity carried out, considering the evolutionary nature of the Internal Audit System, the Board of Statutory Auditors expresses an evaluation of its overall adequacy and notes that there are no observations to report to the Shareholders' Meeting. With reference to the provisions of par. 9, point a) of Article 17 of Italian Legislative Decree No. 39/2010, the auditing firm PricewaterhouseCoopers S.p.A. has defined total fees for the Auditing of the Terna S.p.A.'s Separate and Consolidated financial statements as at December 31, 2015, as well as the limited auditing of the Interim financial statements, for the activities of assessment of regular accounting activities, and for the other assignments. The fees for these services (including expenses) totals € 204,600, composed as follows:

- Audit of unbundling for AEEGSI 35,200
- Audit of reporting packages 17,600
- Opinion on interim dividends 35,200
- Certification of Sustainability Report 44,000
- Issue of EMTN comfort letter 72,600.

Moreover, Pricewaterhouse Coopers has notified that, based on the best information available, taking into account prescribed and professional requirements that discipline the auditing activity, it has maintained in the reference period its position of independence and objectivity towards Terna S.p.A.

and that there have been no changes in the non-existence of elements of incompatibility with reference to the situations and the subjects provided for by Article 17 of Legislative Decree No. 39/2010 and of the articles referred to in Heading I-*bis* of Title VI of the Issuer Regulation adopted with CONSOB Resolution No. 11971 of May 14, 1999.

- We held periodic meetings with the representatives of the auditing firm, Pricewaterhouse Coopers S.p.A., pursuant to Article 150, paragraph 3 of the Consolidated Law on Finance, and no facts worthy to be mentioned in this Report emerged. We also note that on April 22, 2016 the Auditing firm has submitted its report, pursuant to the third paragraph of Article 19 of Legislative Decree No. 39/2010, reporting that in completing the auditing activities, no fundamental issues or significant lacks in the internal control system, with reference to the process of financial information reporting, have emerged.
- We monitored the procedures for effective implementation of the Corporate Governance Code adopted by the Company, as set forth in the Report on Corporate Governance and Ownership Structure approved by the Board of Directors on March 21, 2016. With reference to the recommendations within the competence of the Board of Statutory Auditors, we point out that:
  - we verified the correct application of the criteria and procedures for assessing independence, adopted by the Board of Directors;
  - regarding the self-assessment of the independence requirements of the members of the Board of Statutory Auditors, we verified its existence during the Board meeting of February 15, 2016, with methods consistent with those adopted by the directors;
  - we complied with the provisions of the regulation for managing and handling confidential and privileged company information.

Finally, it should be noted that the Auditing firm expressed its opinion regarding coherence of information with respect to the separate and consolidated financial statements pursuant to paragraph 4 of Article 123-*bis* of the Consolidated Law on Finance provided in the Report on Corporate Governance and Ownership Structure.

- With reference to Legislative Decree No. 231 of June 8, 2001, the Company has, for some time, adopted an organisational and management model, updated in 2015, which is compliant with best practices. Similar models have been adopted by the subsidiaries. During the year, the Board of Statutory Auditors maintained a constant information flow with members of the Supervisory Board. The information gathered did not reveal any critical issues with respect to the proper implementation of the organizational model that should be mentioned in this report.
- We have received no complaints under Article 2408 of the Civil Code, nor do we have knowledge of facts or statements which need to be passed on to the Shareholders' Meeting.
- We have verified compliance with the laws regarding the drawing up of the separate and consolidated financial statements and the Report on Operations, directly and with the collaboration of the Heads of departments and through information obtained by the Auditing firm, and we have nothing significant to report.
- We expressed the opinion required from the Board of Statutory Auditors by the third paragraph of Article 2389 of the Civil Code (remuneration of directors holding special office).
- The auditing firm issued the opinion referred to in paragraph 5 of Article 2433-*bis* of the Italian Civil Code (interim dividends).
- The members of the Board of Statutory Auditors have complied with the obligation to notify administration and audit assignments in Italian companies with the timeframes and methods provided for in Article 148-*bis* of the

Consolidated Law on Finance and Heading II of title V-*bis* of the cited Issuer Regulation.

- During 2015, the Board of Statutory Auditors met eight times, attended the nine meetings of the Board of Directors, the six meetings of the Audit, Risk and Corporate Governance Committee and the Shareholders' Meeting of June 9, 2015.

On the basis of its activities and the information acquired, the Board of Statutory Auditors found no omissions, reproachable facts, irregularities, or other circumstances that require reporting to the supervisory authorities or mention in this report.

Having reviewed the financial statements at December 31, 2015, the Board of Statutory Auditors has no objections to raise as regards the proposed resolutions presented by the Board of Directors.

Rome, April 22, 2016

On behalf of the Board of Statutory Auditors
The Chairman
Riccardo Schioppo

pwc

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 separate financial statements

We have audited the accompanying separate financial statements of Terna SpA, 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 financial statements

The directors of Terna SpA are responsible for the preparation of separate 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 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 financial statements are free from material misstatements.

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

PricewaterhouseCoopers SpA

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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 separate financial statements give a true and fair view of the financial position of Terna SpA 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 separate 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 separate financial statements of Terna SpA 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 separate financial statements of Terna SpA as of and for the year ended 31 December 2015.

Rome, 22 April 2016

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

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

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Terna

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