Terna Group

Interim Financial Report

30 June 2015

Contents

Highlights – The results of the first half of 2015

The Terna stock

- +5.4% from the start of the year, the best performance among regulated stocks in Europe
- Record high for the security, € 4.40 per share on 19 May

Financial and economic performance

INCOME STATEMENT

1,002 €mln
Revenue
+5.5% YoY

767 €mln
EBITDA
+1.9% YoY

310 €mln
Net profit
+13.1% YoY

INVESTMENTS AND PAYABLES

439 €mln
Investments

6,876 €mln
Net Payables

Development of the transmission grid

Work in the period on the main projects[1]

- Italy – Montenegro HVDC interconnection (76 €mln)
- Sorgente – Rizziconi 380 kV power line (25 €mln)
- Italy – France interconnection (16 €mln)
- Udine Ovest-Redipuglia 380 kV power line (27 €mln)

(1) Net of capitalised borrowing costs.

Interim report on operations at 30 June 2015

Contents

Introduction

The Interim Financial Report of the Terna Group at 30 June 2015 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.

Organisation, reference scenario and business

Organisation and context in which the Group operates

Terna S.p.A. operates mainly in the Italian electricity system. Within the industry supply chain – the production, transmission, distribution and sale of electricity – Terna **manages the transmission segment, in the role of Italian TSO (Transmission System Operator), a monopoly position through government concession**. The activities performed by Terna are regulated by the Italian Regulatory Authority for Electricity Gas and Water (AEEGSI) and the Ministry for Economic Development.

The Terna Group **owns almost all of the National Transmission Grid (NTG) in Italy**[1] and is responsible for the transmission and dispatching of electricity on the high- and very-high-voltage grid throughout the country, as well as the planning, implementation and maintenance of the grid.

In managing transmission, Terna guarantees the security, quality and cost-effectiveness of the National Electricity System. It ensures equal conditions of access for all grid users. It develops market activity and **new business opportunities** with the experience and technical skills gained in managing complex systems. It also creates value for its shareholders with a strong commitment to professional best practices and with a responsible approach to the community, respecting the environment in which it operates.

Terna S.p.A. has been **listed** on the Borsa Italiana electronic market since 2004 and is one of the leading Italian companies in terms of stock market capitalisation. Since they were listed on the stock market, the shares have more than doubled in price (+141.18%) and the Total Shareholder's Return (TSR) is more than 350%.

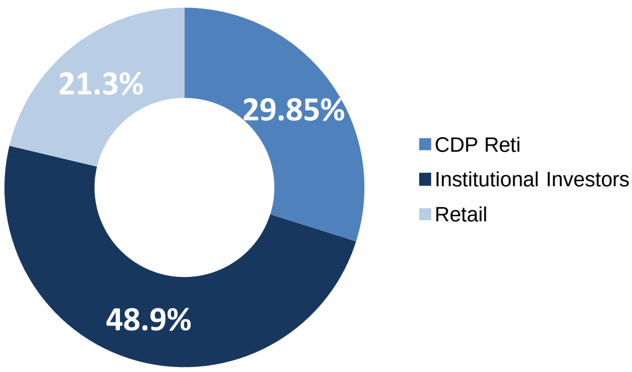
[1] Approximately 99% of the National Transmission Grid.

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.

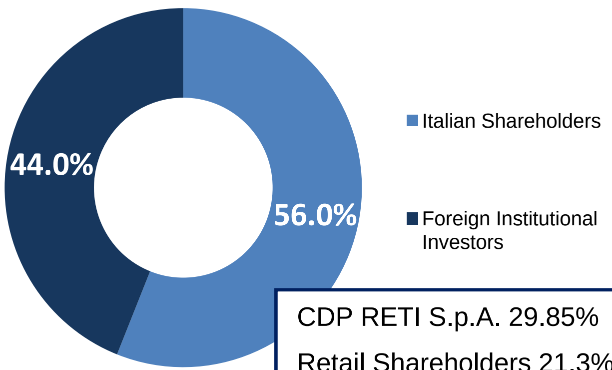
On the basis of the shareholder register and other information gathered when this report was prepared, ownership of Terna S.p.A. is divided as follows:

- CDP RETI S.p.A.[2] 29.85% (subsidiary of Cassa Depositi e Prestiti S.p.A.)[3]
- Institutional Investors 48.9%
    - of which People's Bank of China 2.0%[2]
    - of which Lazard Asset Management LLC 4.999%[2]
- Retail 21.3%



On the basis of the regular surveys carried out by the Company, it is believed that 56.0% of Terna shares are held by Italian investors (CDP RETI S.p.A. 29.85%, Retail 21.3% and Institutional Investors 4.9%), with the remaining 44.0% held by Foreign Institutional Investors, mainly American and European.

United Kingdom/Ireland 10.6%
USA/Canada 13.4%
Rest of Europe 13.3%
Middle East, Asia and Australia 4.0%
Other 2.6%



CDP RETI S.p.A. 29.85%
Retail Shareholders 21.3%
Institutional Investors 4.9%

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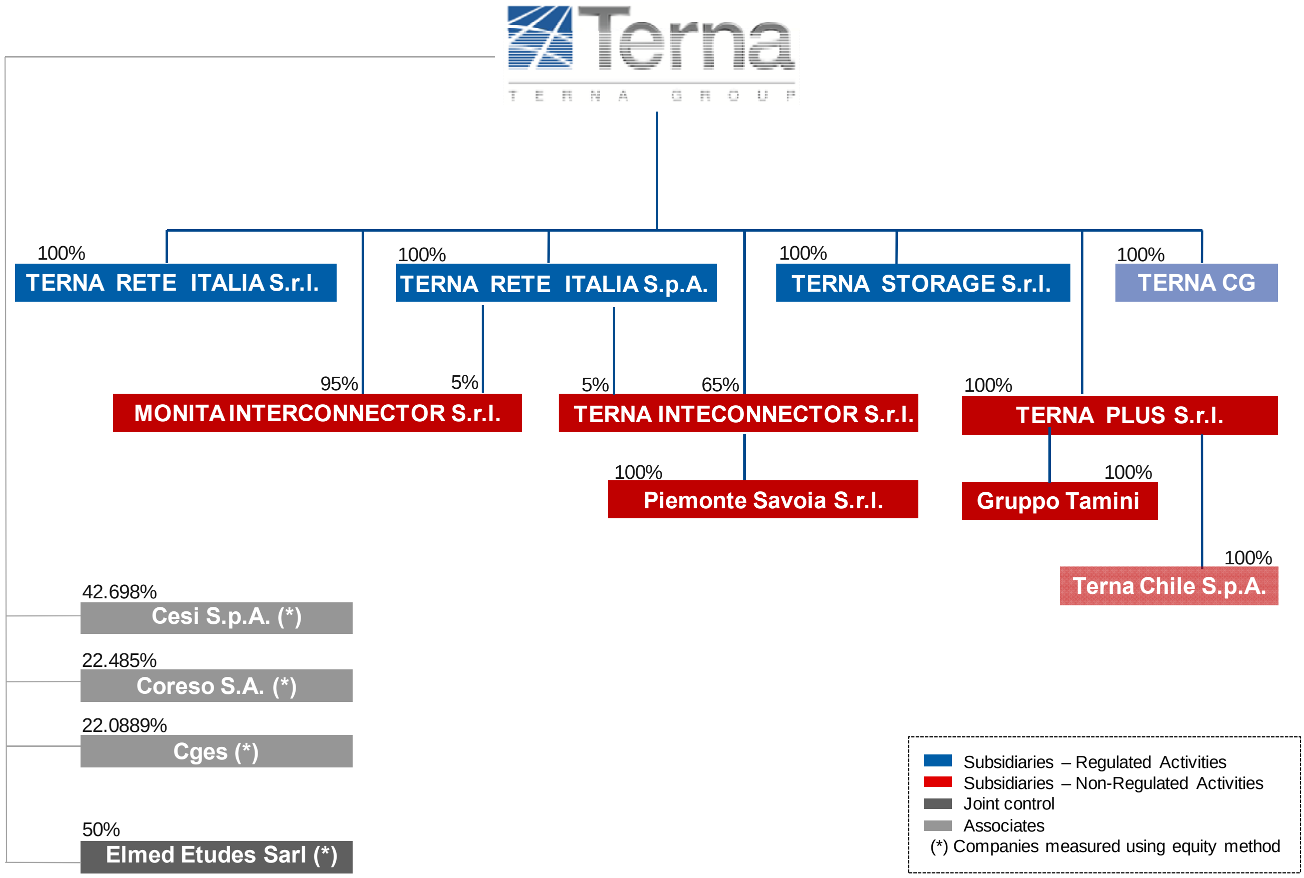
[2] A shareholder which - based on the information available and notifications received from Consob - holds an interest in Terna over the thresholds specified by CONSOB Resolution No. 11971/99.

[3] **Shareholders' agreements**: on 27 November 2014, a shareholders' agreement was signed by Cassa Depositi e Prestiti S.p.A.. (CDP), as one party, and State Grid Europe Limited (SGEL) and State Grid International Development Limited (SGID), as the other, in relation to CDP RETI S.p.A. (CDP RETI), SNAM S.p.A. and TERNA S.p.A.. The key information relating to this Shareholders' Agreement has been published on the CONSOB and Terna websites, pursuant to the regulations in force.

The corporate structure

The corporate structure of the Terna Group at 30 June 2015 is shown below.



PARENT COMPANY

The parent company Terna receives remuneration based on the tariff system set by the Italian Regulatory Authority for Electricity, Gas and Water, for the two important regulated activities it conducts in Italy, **the transmission and dispatching of electricity**, both in implementation of the concession granted by the Ministry of Economic Development (issued with the Decree of 20 April 2005 of the Ministry of Production), and maintains **ownership of the capital assets** and **responsibility for defining the National Transmission Grid Development Plan and the Defence Plan**.

SUBSIDIARIES

REGULATED ACTIVITIES

- **Terna Rete Italia S.p.A.**

  The company **is tasked, within the Terna Group, through a business unit rental agreement, with performing all Regulated Activities, ordinary and extraordinary maintenance of the section of the NTG owned, 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 the Parent Company's Development Plan.

- **Terna Rete Italia S.r.l.**
  The company **owns approximately 12.1% of the NTG infrastructure**; the design, construction, management, development, running and maintenance of high-voltage electricity lines fall within its corporate purpose.

- **Terna Storage S.r.l.**
  The Company is responsible, pursuant to *a specific contract signed with the Parent company*, for **safeguarding the construction of diffused Energy Storage System projects, as well as related coordination, study and research activities.**
  The Parent Company has, in fact, launched, also through Terna Storage S.r.l. a Storage System programme aimed at "*promoting the dispatching of non-programmable plants*", in line with the related legislation which provides for the possibility of including it among the works for developing the electricity transmission grids and in the extra-incentive mechanisms established by the Italian Regulatory Authority for Electricity Gas and Water (see Resolutions 43/2013 and 66/2013 of the AEEGSI).

- **Terna Crna Gora d.o.o.**
  The company, founded in Montenegro in 2011, has as its mission activities relating to the **authorisation, construction and management of the transmission infrastructure that constitutes the electricity interconnection line between Italy and Montenegro, on Montenegrin territory**, as well as the promotion and development of new investment opportunities in the transmission sector associated with the construction and management of new interconnection lines between Montenegro and neighbouring countries and of infrastructure to connect renewable energy plants in these countries.

NON-REGULATED ACTIVITIES

The development of Non-Regulated Activities pursues the objective of further enhancing assets held and the parent company Terna's distinctive skills in the creation and management of infrastructures, in particular at High Voltage, in Italy and abroad.

- **Terna Plus S.r.l.**
  Given its experience and the technical expertise it has acquired, the Terna Group develops new activities and business opportunities on the free market mainly through the company **Terna Plus S.r.l.** directly controlled by the Parent Company.
  - **Tamini Group**

    The Tamini Group operates in the production and sale of industrial and power electricity transformers using 4 manufacturing facilities, all situated in Italy, in Legnano, Melegnano, Novara and Valdagno.
    With almost 400 specialised employees, customers in over 90 countries throughout the world and more than 200 transformers installed each year, Tamini creates both special machines for the industrial markets (steel, aluminium, etc. sectors) and large power transformers for the electricity sector. 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.

- **Terna Chile S.p.A.**

  The company Terna Plus incorporated on **4 June 2015** the Chilean-law company **Terna Chile S.p.A.** with a share capital of a million Chilean pesos (corresponding to approximately € 1,400.00) to be paid up by 31 December 2015. 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.

- **Terna Interconnector S.r.l.**

  Terna Interconnector S.r.l. was set up in the second half of 2014 by the parent company Terna and the subsidiary Terna Rete Italia S.p.A., with share capital of € 10,000, subscribed for 95% by Terna S.p.A. and for the remainder by the aforesaid subsidiary.

  Terna Interconnector S.r.l. works in the field of the development and implementation of the **"Italy-France Interconnector" Project** for which, on 16 December 2013, the Parent Company and a number of industrial Federations signed the Memorandum of Understanding, aimed at creating and managing the foreign interconnection infrastructure ("Interconnections" or "Interconnector"), pursuant to Article 32 of Italian Law 99/2009[4].

  During the first half of 2015, in particular, the company Terna Interconnector:

  - sold to the company Transenergia S.r.l. a 30% stake in its share capital. Subsequently, on **27 March 2015**, the shareholders of Terna Interconnector made a capital contribution of € 20,000 divided in proportion to their equity interests;
  - set up on **27 March 2015** the company **Piemonte Savoia S.r.l.**, with a share capital of € 10,000. The new company, on behalf of the assignees of the Italy – France Interconnector and on the basis of specific mandates, will initiate the procedure, under the terms of M.D. 21 October 2005, to obtain a decree of exemption from the right of access of third parties on the transport capacity that the infrastructure will make available, for a capacity of 350 MW to be taken from the public line of 1,200 MW.

- **Monita Interconnector S.r.l.**

  We can note, in addition, that as part of the process of carrying out the Group's Non-Regulated Activities, with particular reference to the creation and management of infrastructures for interconnection with other countries, on **13 April 2015** the parent company Terna and the subsidiary Terna Rete Italia S.p.A. incorporated the company **Monita Interconnector S.r.l.** with share capital of € 10,000, subscribed 95% by Terna S.p.A. and the remainder by the aforesaid subsidiary. The new company will operate, in particular, in the field of developing and implementing the "Italy-Montenegro Interconnector" project.

[4] The agreement signed also served as the basis for negotiating future agreements with the parties winning the tender procedures issued by Terna S.p.A. in 2009 and 2010.

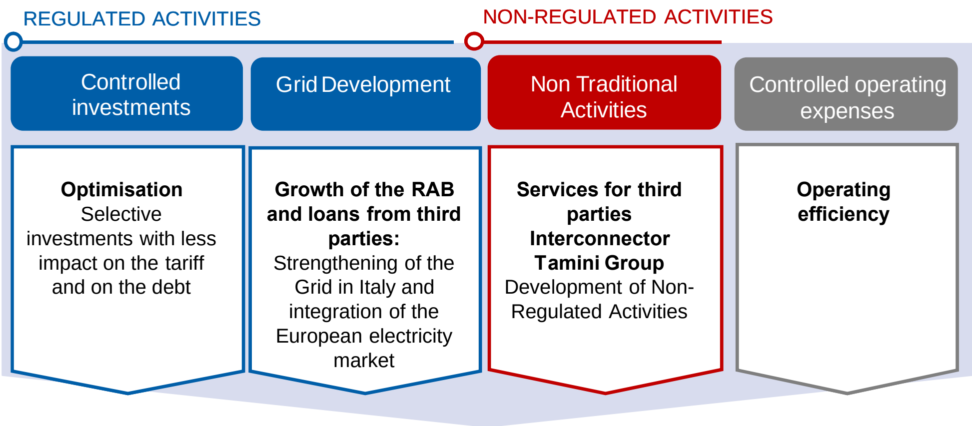
Terna's commitment, objectives and strategies in the medium and long term

Conscious of the importance of its service for the functioning of the entire electricity system and of the responsibility towards society in general, Terna has always been committed to creating a relationship of trust with its stakeholders (from the public to its employees), as well as to managing one of the most important resources for the company and for the country's economic system, represented by the National Transmission Grid (NTG).
Compliance with concession requirements is a precondition of Terna's business; the operating risks related to management of the grid – risks of disruption – have always been handled with the utmost care and constantly updated methods and techniques are employed.
More generally, contextual risks and opportunities emerge from Terna's relations with stakeholders. In this context, respect for the environment and for local communities – in the overall relations of the organisation with local areas – affect Terna's ability to make the investments provided for in its Development Plan. Also in identifying business opportunities in non-traditional spheres, which is part of the corporate strategy, Terna considers the potential of the territory and trends in the industry, counting on its unique skills and abilities.

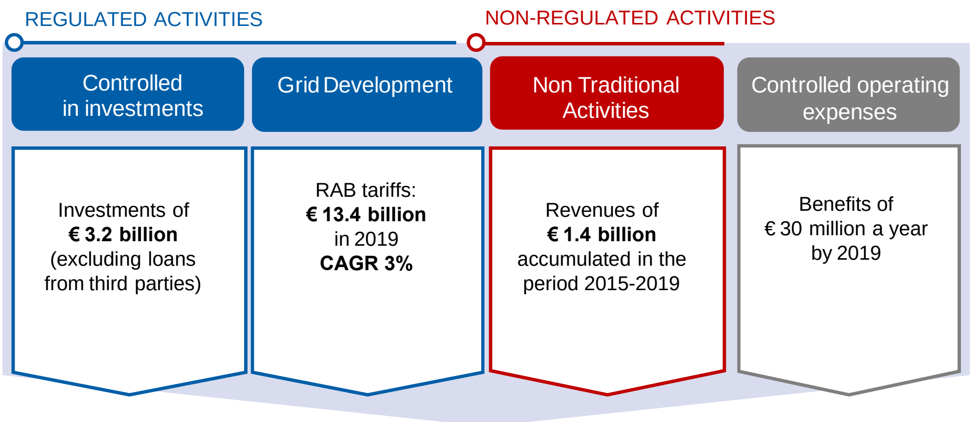
2015-2019 Strategic Plan

The main points of the 2015-2019 Strategic Plan are presented below:

The four pillars of the 2015-2019 Strategic Plan



Objectives 2015-2019



Reference context

Energy context

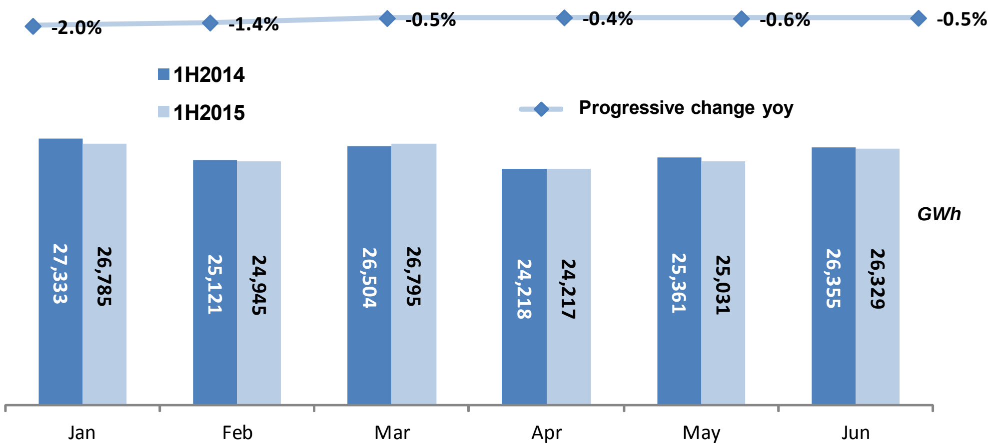
Demand for electricity in Italy

The trend of demand for electricity in Italy in the first half of 2015 confirms the less negative signs compared with the drops recorded in the past (the first half of 2014 showed a fall of around 3% compared with the first six months of 2013), with a trend profile that remained in any case stationary.

In particular, according to provisional data at 30 June 2015, the demand for electricity during the first six months of 2015 amounted to 154,102 GWh, down by -0.5% with respect to the same period in 2014.

Adjusting the data for the calendar effects (124 days in the first half of 2015 against 123 days in the same period of the previous year) and temperature effects (lower in the first quarter and higher in June compared with the corresponding periods of 2014), the change in electricity demand was -1.1%.

The trend of electricity requirements in Italy in the first half of 2015*, compared to the previous year, is shown in the graph below:



** Provisional data*

Electricity generation

Net domestic production amounted to 132,055 million kWh, according to the provisional data at 30 June 2015, slightly down (-1,5%) compared with the figures for corresponding periods of the previous year.

In the first half of 2015, net production from renewable wind, solar and geothermal energy resources increased compared with the corresponding period of the previous year, by +7.8% overall.

The table below shows the breakdown of domestic production by type of source:

ELECTRICITY PRODUCTION IN ITALY				
GWh	**1H2015 (*)**	**1H2014**	**Changes**	**%**
Net hydro generation	23,936	31,026	(7,090)	(22.90%)
Net thermal production[5]	84,027	80,717	3,310	4.10%
Net wind, photovoltaic and geothermal production	24,092	22,341	1,751	7.80%
Total net production	**132,055**	**134,084**	**(2,029)**	**(1.50%)**

** Provisional data*

As regards hydroelectric production – closely tied to weather conditions – it is necessary to consider that the comparison is made with the first half of 2014, a year in which hydroelectric production was at the highest level ever. We can note, therefore, in the period in question, a drop in hydro production of -23% compared with the first half of 2014.

Thermal generation[5] increased in the first six months of 2015, compared with the first half of 2014, with a rise of +4% net of ancillary services.

ELECTRICITY BALANCE SHEET FOR ITALY				
GWh	**1H2015 (*)**	**1H2014**	**Changes**	**%**
Net production	**132,055**	**134,084**	**(2,029)**	**(1.5%)**
From foreign suppliers	25,360	23,201	2,159	9.3%
Sold to foreign clients	(2,371)	(946)	(1,425)	(150.6%)
Export balance	**22,989**	**22,255**	**734**	**3.3%**
For pumping	(943)	(1,446)	(503)	(34.8%)
Total demand in Italy	**154,102**	**154,892**	**(790)**	**(0.5%)**

**** Provisional data***

Legislative and regulatory context

With reference to the legislative and regulatory context in which Terna operates, see the Annex "Relevant Italian legislation" for a more detailed description of the main regulatory measures relevant to the Group companies, issued in the first half of 2015 and, subsequently, up to the date of preparation of the present Interim Financial Report. The annex is divided into the sections “Legislative framework” for the main legal measures and “Resolutions of the Italian Regulatory Authority for Electricity, Gas and Water” for the more strictly regulatory area.

[5] A proportion of thermoelectric production, amounting to approximately 7%, was attributable to biomass, a renewable source.

With reference to the regulatory context, we can remind you that 2015 ends the fourth regulatory period for the electricity transmission, distribution and measurement services. With a view to the revision of the regulatory framework for the next regulatory period, the Italian Regulatory Authority for Electricity Gas and Water began two separate procedures:

- **"Revision of tariffs, quality and connections" procedure** (Res. 483/2014/R/eel of 9 October 2014): this regards the development of provisions regarding tariffs and quality of electricity transmission, distribution and metering services, as well as the technical/economic conditions for the provision of the connection service for the regulation period that will begin on 1 January 2016.
- **"WACC revision" procedure** (Res. 597/2014/R/com of 4 December 2014): this regards the overall revision of the methods of determining and updating the remuneration rate of invested capital for regulated services in the electrical and gas sectors.

In the context of the "Revision of tariffs, quality and connections" procedure, the measures of interest published as of today regard the following consultation documents (DCOs):

- DCO 5/2015/R/eel of 15 January 2015 and DCO 48/15 of 12 February 2015: these illustrate the general framework and the criteria, also from the technical point of view, at the base of the main lines of action that the Authority intends to develop during the procedure;
- DCO 335/2015/R/eel of 9 July 2015: this proposes detailed hypotheses for consultation, in relation to the scope of application, the duration of the regulatory period, the intra-period updating mechanisms, and the determination and updating of the costs recognised for determining the tariff levels for each of the electricity transmission, distribution and measurement services.

The Authority also announced the future publication of further consultation documents in the context of the procedure; in particular, further documents are planned on quality (around August), on the selective promotion of investments in transmission (around September), on tariffs and constraints on revenues which will also deal with the question of revenue guarantee mechanisms (around September) and on the Authority's final guidelines (around November).

In the context of the WACC revision procedure, in June 2015 DCO 275/2015/R/com was published; this presents the Authority's initial guidelines in relation to the criteria for an overall revision of the methods of determining and updating the remuneration rate for invested capital and to the timing for the adoption of the new method in the single regulated services of the electrical and gas sectors.

Other information

"Other information", which includes indications required by specific laws or regulations governing the sector, is provided below.

Treasury shares

The Parent Company does not hold any treasury shares or shares of CDP Reti S.p.A. or Cassa Depositi e Prestiti S.p.A., nor has it acquired or sold any during the first six months of 2015, either directly or indirectly.

Related-party transactions

Considering that the Parent has been subject to de facto control by Cassa Depositi e Prestiti S.p.A. since 2007, the related-party transactions carried out by the Terna Group during the first six months of 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 for the Economy and Finance.

Related-party transactions carried out in the six months of 2015 consisted largely 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 2014[6].

The Parent Company's governance 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 can note that, during the first six months of 2015, no transactions of major importance[7] were carried out, nor were operations subject to information obligations because they fall within the cases of exclusion provided for in the said Regulation[8].

Participation in the legislative simplification process pursuant to CONSOB Resolution No. 18079 of 20 January 2012

Pursuant to Art. 3 of CONSOB Resolution No. 18079 of 20 January 2012, Terna has decided to adopt the simplified system contemplated by Arts. 70, paragraph 8, and 71, paragraph 1-*bis*, of CONSOB Regulation No. 11971 of 14 May 1999 and subsequent amendments (CONSOB Issuer Regulation), thereby availing itself of the right to be exempt from the obligation to publish disclosure documents prescribed on the occasion of significant mergers, de-mergers, capital increases by contribution of non-cash assets, acquisitions and sales.

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[6] 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 2014, 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.

[7] That is, related-party transactions identified in accordance with the provisions of Annex 3 of the "Regulation on Related-Party Transactions" (adopted with CONSOB Resolution No. 17221 dated 12 March 2010, subsequently amended with CONSOB Resolution No. 17389 of 23 June 2010).

[8] As they are *"transactions coming under the scope of the ordinary business of the Company's continuing operations or those of its subsidiaries or associates or financial activities related thereto, provided that they were concluded at conditions equivalent to market or standard terms".*

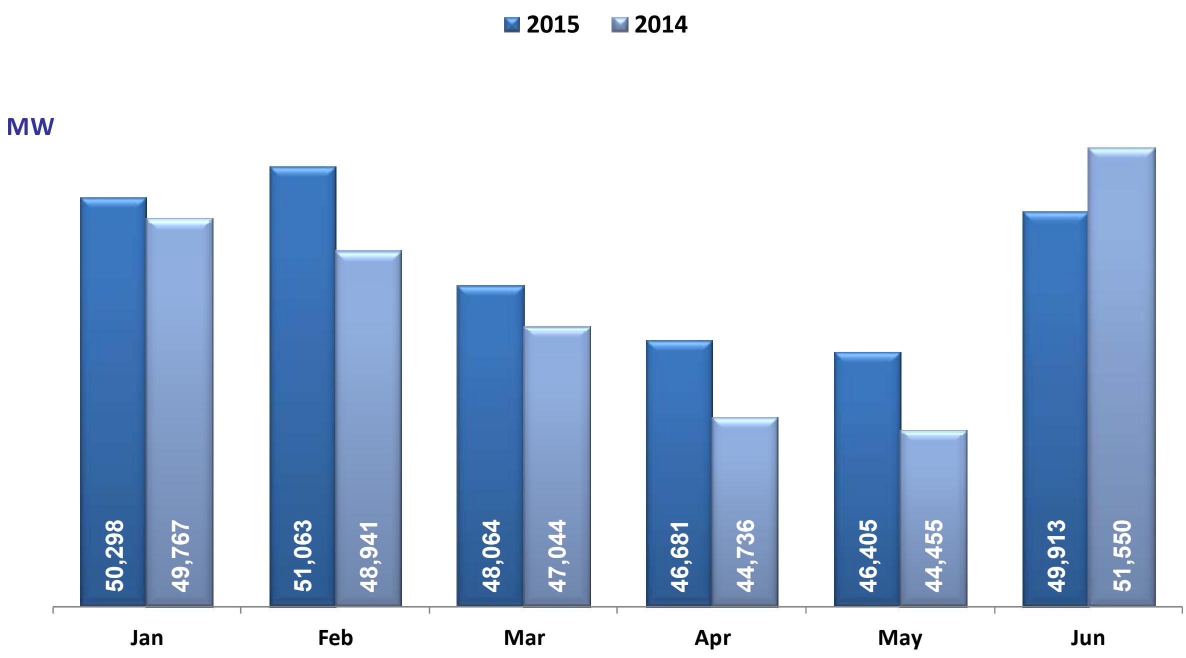
The Group's business and capital

Electricity dispatching

Coverage of demand

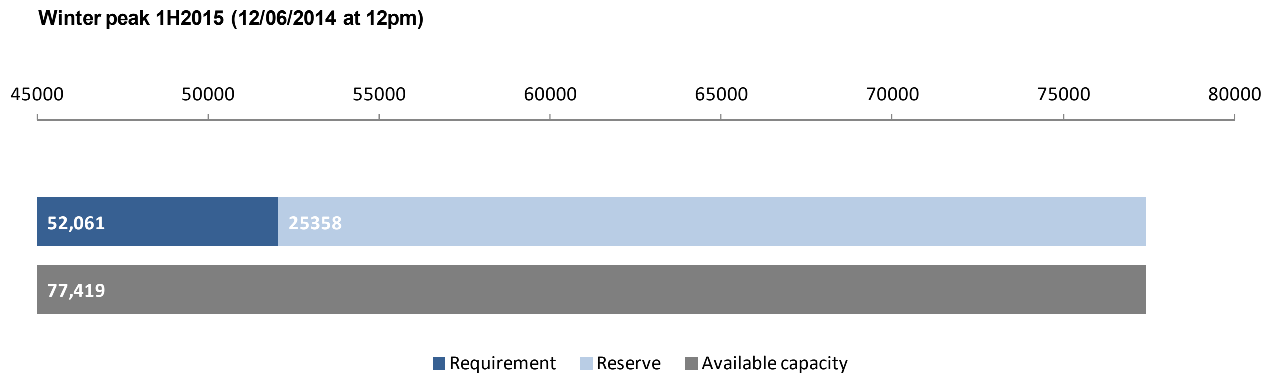
Coverage of demand, the trend of which is described in the section above, "Demand for electricity in Italy," is guaranteed by Terna through appropriate production margins as part of the process of planning the non-availability of grid elements in coordination with the non-availability of generation and considering production by plants using renewable, non-programmable sources which are entitled to dispatching priority.

The table below shows the maximum figures for power in MW seen during each month of 2015, and compared with the same period of the previous year:



In the first half of 2015, demand reached a peak of 51,063 MW on 9 February 2014 at 12:00 a.m., -1% below the peak recorded in the same period of 2014 (June).

The table below shows available power and reserves in correspondence to the highest peak of the first half of 2015:



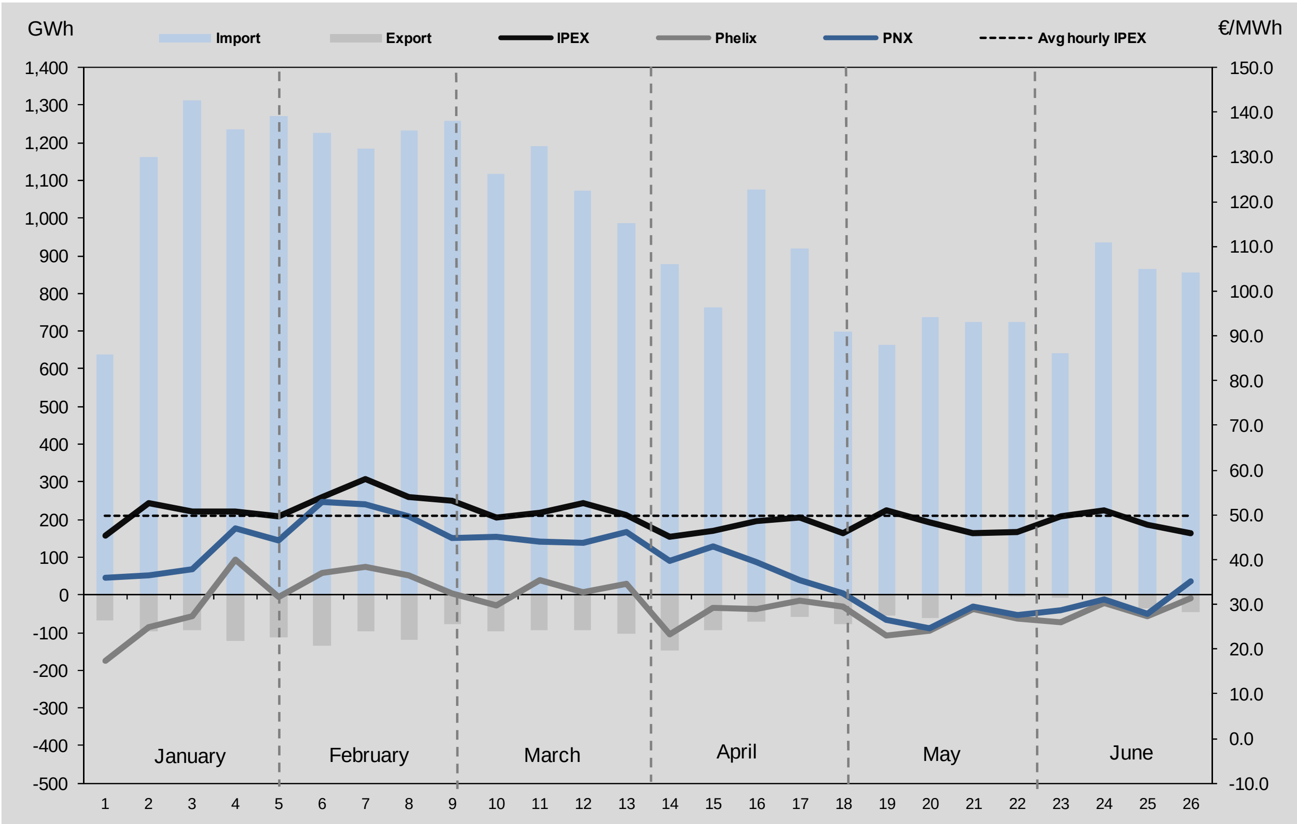
In the first half of 2015, trade recorded net imports up by approximately +1 TWh compared to the previous year (+4% YoY).

The **hourly average price on the Italian energy exchange** (IPEX/PUN) for the period January-June 2015 was 50 €/MWh, substantially in line compared with the same period of the previous year, although with a downward trend during the period.

Compared with the French (PNX) and German (EEX/PHELIX) exchanges it again recorded higher figures. However a different trend can be noted in the PNX compared with the German price and, as a consequence, the spread with the German and French exchanges showed different trends. In fact, while the spread with the Phelix increased slightly (approximately 2 €/MWh), the spread with the French price fell by approximately 4 €/MWh owing to the sharp increase in the French price in the winter months:

- price on the French energy exchange (PNX) of 39 €/MWh (+12% YoY);
- price on the German energy exchange (EEX/PHELIX) of 30 €/MWh (-7% YoY).

The trade and the weekly average prices of the first half of 2015 are presented below:



Note: the week start/end on the graph is Mon/Sun

On 25 February the "market coupling"[9] with the French, Austrian and Slovenian borders was launched for commercial exchanges made on the previous day. The introduction of this mechanism make the allocation of interconnection capacity more efficient with the long-term opportunity to form a single price with neighbouring countries, as shown in the chart presented above.

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[9] The term **market coupling** means a market integration mechanism which, in determining the value of electricity in the different European market areas involved, at the same time allocates the transport capacity available between the said areas, optimising use. In this way it is possible to avoid separating the purchase of transport capacity from the buying and selling of electricity, reducing the risks for operators deriving from having to estimate the value of the capacity and – for the system – not allocating it efficiently (unsold capacity despite the existence of a price difference between the two markets, capacity used – nominated – in a way not consistent with these differences) or maximising social well-being.

In particular, starting from the date noted above, the electricity markets of three of the five Italian borders, that is to say France, Austria and Slovenia, were "aligned" ("coupled") to each other through synchronisation of the respective Electricity Exchanges and coordination of the respective TSOs. For the Italy-Switzerland and Italy-Greece electrical borders the process will instead start in the next few months[10].

With the operational go-live of the project, which for Italy involves GME and Terna, our country has taken a further, significant step towards the integrated European electricity market. In fact, with the implicit allocation of the capacity along the Italian/French, Italian/Austrian and Italian/Slovenian borders, Italy is now part of the larger Multi-Regional Coupling (MRC)[11], which already connects most of the electricity markets of the European Union, from Finland to Portugal to Slovenia. At the continental level, the extension of market coupling to the MRC will involve a total of 20 European countries, for a total of approximately 2,800 TWh of annual consumption, that is 75% of European electricity needs.

There are multiple benefits of market coupling: the mechanism integrates the electricity market of various countries and makes it possible to assign the daily transit capacity on the border, with the objective of maximising the overall economic surplus of the participants in the market and increasing social well-being. According to the study carried out by the company "Booz&Company" for the European Commission, the entire process of integrating the European energy markets will bring benefits of up to € 70 billion per year, of which € 40 billion in the electricity sector: of these, a figure of between € 2.5 and 4 billion derives from "market coupling".

We can note, in this regard, that market integration has become one of the main objectives on the European Commission's agenda which, to accelerate implementation, has an objective of increasing the interconnection capacity among the member states from the current 8% to 15% by 2030. In this sense, Terna can play an important part, thanks to the 25 electrical interconnections already active on the Italian border (during the first half of 2015 the interconnection with Malta was made operational), to which must be added 5 more already being created (2 with France and Montenegro, and the one with Austria) and, in prospect, further projects currently in the study stage (Tunisia, Greece, Switzerland).

Price for supplying resources on the Dispatching Services Market (uplift)

The **Fee for provisioning of resources on the Dispatching Services Market** (**uplift**), referred to in 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 Dispatching Services Market (DSM) in spot and forward contracts (the latter representing bonuses for contracts signed as an alternative to declaration of essentiality), remuneration of plant goodwill on the DSM (so-called goodwill token), imbalances, congestion earnings and related financial hedges, virtual interconnection service and other minor items. This price is invoiced

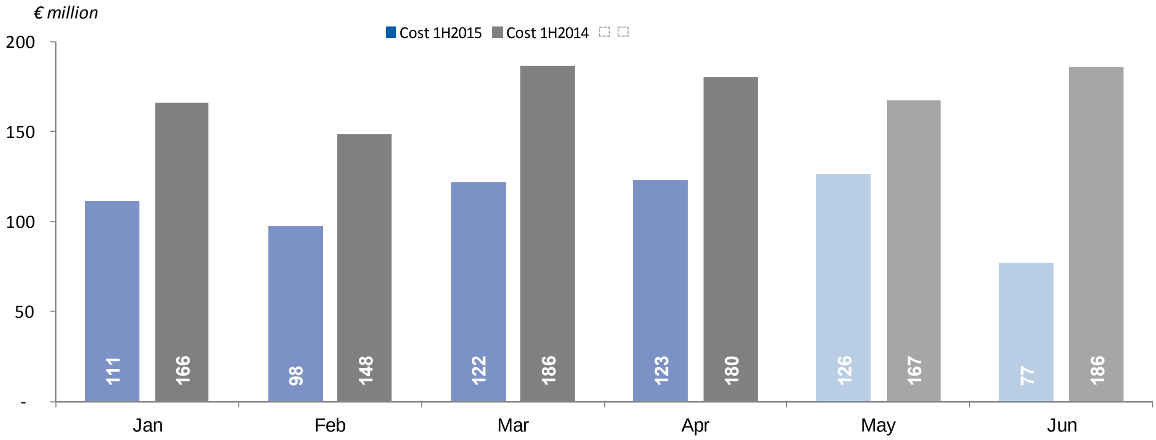
[10] ***Italian Borders Working Table*** **(IBWT)** is the full name of the joint market coupling project which involves the transmission system operators (ADMIE, APG, ELES, RTE, SWISSGRID and TERNA) and the power exchanges (BSP, GME, EPEX, EXAA e LAGIE) of Austria, France, Greece, Italy, Slovenia and Switzerland, with the support of CASC (Capacity Allocation Service Company), a centralised auction services company for allocating the cross-border transmission capacity among 12 European countries (Italy, Greece, France, Switzerland, Slovenia, Germany, Austria, Belgium, the Netherlands, Luxembourg, Denmark and Norway).

[11] **Multi-Regional Coupling (MRC)** is a pan-European project dedicated to integrating the spot electricity markets in Europe. It involves cooperation between the electricity exchanges (APX, Belpex, EPEX SPOT, Nord Pool Spot and OMIE) and the transmission system operators (50Hertz, Amprion, Creos, Elia, Energinet.dk, Fingrid, National Grid, REE, REN, RTE, Statnett, Svenska Kraftnät, TenneT TSO B.V., TenneT TSO GmbH and TransnetBW). The cooperation involves a day-ahead wholesale electricity market price coupling solution, which will make allocation of the interconnection capacity of the countries involved more efficient and increase overall social well-being. The MRC is based on a single algorithm – which calculates simultaneously the electricity market prices, the net positions and the flows on the interconnection lines among the offer zones – and on implicit auctions and is facilitated by the PCR solution.

pro-rata to users of the dispatching on the energy withdrawn, to cover the envisaged accruing monthly cost and the prior differences.

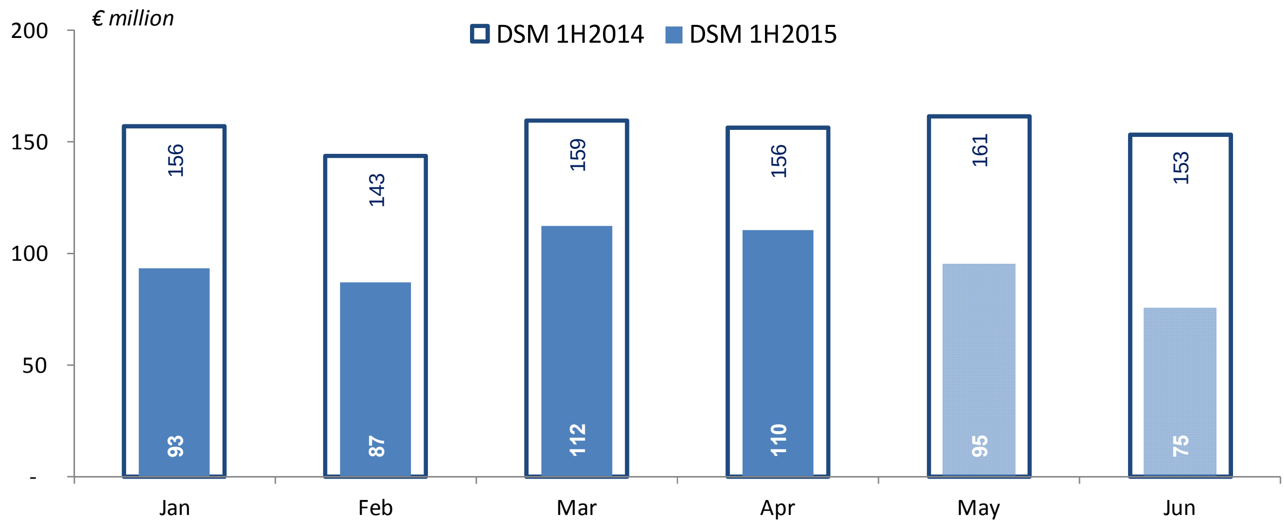
In the first half of 2015, the **total cost was € 652 million**[12], significantly down compared with the same period of the previous year, owing mainly to the reduction in the DSM management activity cost, despite the increase in the other items.

The graph below shows the trend in the cost related to the dispatching activity for the first half of the year.



With reference to purchases and sales on the **Dispatching Services Market** in the first half of 2015, **Terna procured resources for a total net expense of € 572 million**[13], sharply down compared with the corresponding period of the previous year owing to Grid Development projects that expanded competition between operators (adjustment devices, reactors, synchronous condensers at Codrongianos, in Sardinia), and owing to a reduction in commodity prices (in particular gas) and for application of the new UESS rules in Sicily which entail a reduction in the prices in the region, and halving of the premiums of contracts.

The chart below shows the monthly trend of net expenses related to procurement of resources on the DSM:



12 Provisional data for May and June.

Non-Regulated Activities

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

- Services for third parties
- Interconnector
- Tamini Group

The increase in Non-Regulated Activities in the first half of 2015, totalling € +32.4 million, is substantially due to revenues from work orders carried out by the Tamini Group subsequent to its inclusion within the Terna Group (€ +30.1 million), as commented on in detail in the "Performance" section.

SERVICES FOR THIRD PARTIES

The development of Services for Third Parties pursues the objective of further enhancing assets held and the parent company Terna's distinctive skills in the creation and management of infrastructures, (also in the EPC “Engineering, Procurement, and Construction” area), in particular at High Voltage, in Italy and abroad.

In Italy, during the first half of 2015, Terna's activities for third parties regarded the offer of **Engineering Services** (developing technical solutions and supplying innovative services), **Telecommunications** (housing of telecommunication equipment and maintenance services involving fibre optic networks) and **Plant Operation** (operating and maintaining High- and Extra-High-Voltage plants).

Abroad, in the first half of the year, the Terna Group acquired a first order in Chile, a location of extreme interest, as it associates a low country risk profile with a high rate of economic and infrastructural growth, in relation to the construction of a portion of power line and a switching station for a plant of the Enel group company Green Power.
As already noted in the section on the Group's corporate structure, on 4 June 2015, Terna Plus S.r.l. set up a Chilean-law company named “Terna Chile S.p.A.”.

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

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, which assigned Terna the task of carrying out public tenders to select the Subjects (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 transport 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.

On 16 December 2013, the Parent Company and a number of industrial Federations signed the Memorandum of Understanding, aimed at creating and managing the foreign interconnection infrastructure, pursuant to Article 32 of Italian Law 99/2009[13].

Among the interconnections which may be financed by the Selected Subjects, Italy-France is the one in the most advanced stage of development, followed by the Italy-Montenegro interconnection.

"Italy-France Interconnector" Project

With the aim of ensuring the creation and operation of the Italy-France Interconnector the company **Terna Interconnector S.r.l.** was incorporated. In this company the Terna Group has a 70% interest (more precisely Terna S.p.A. has 65% and Terna Rete Italia S.p.A. 5%) and Transenergia has a 30% stake.

In order to facilitate the project and make it feasible, on 27 March 2015, the company **Piemonte Savoia S.r.l.** was incorporated. (a company 100% owned by Terna Interconnector S.r.l.). Its purpose is to obtain exemption and it is destined to be sold entirely, subsequently, to the Selected Subjects. In particular, during June 2015, the company Piemonte Savoia S.r.l. notified to the Ministry of Economic Development the aforesaid application for exemption and also obtained the transfer to it of the authorisation related to the project.

The new "Italy-France" interconnection, combined with the projects to strengthen existing lines, 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 and technology.

"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 new direct current interconnection has a total nominal capacity of 1,000 MW, overloadable continuously up to 1,200 MW and is divided into two single poles of 500 MW each. 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.

The project will be financed and owned, in part, by Terna and, in part, by subjects which, in accordance with Article 32 of Law 99/09, are called upon to finance the interconnection (**Assignees**)[14], for the portion they are

[13] The agreement signed also served as the basis for negotiating future agreements with the parties winning the tender procedures issued by Terna S.p.A. in 2009 and 2010.

[14] 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 transport capacity that these infrastructures make available. In accordance with the legislative prescriptions, the

responsible for, of 300 MW. To this end, on 13 April 2015, the company named **Monita Interconnector S.r.l.** was incorporated. Terna S.p.A. has a 95% interest in this company and Terna Rete Italia S.p.A. has 5%, as already mentioned in the section on the Group's “Corporate Structure”.

This company, charged with presenting an application for exemption in the interest of the Assignees, is destined to be entirely sold to these latter before the exemption becomes effective, with consequent acquisition, by the Assignees themselves, of ownership of part of the interconnection (the “Interconnector”) and of the rights on the capacity for the portion of 300 MW.

TAMINI GROUP

With almost 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.

As regards the foreign market, in particular, it is worth noting the conclusion in the first half of the year of the supply of an important 157 MVA transformer for an American steelworks 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, including a 500 MVA transformer.

In the last few months, in addition, the Tamini factories have been busy implementing 2 projects in the product range entitled Phase Shifting Transformers, which Tamini managed to enter a few years ago, winning most recently the orders in construction today for Luxembourg the Czech Republic.

In keeping with the Terna Group's policies, the initiatives, launched in the second half of 2014, continued. These are aimed at improving and increasing the efficiency of company processes connected with the work order cycle. The project involved all areas of the company and produced new regulations for work orders, as well as an organisational overhaul needed to guarantee that activities and responsibilities matched.

On this point, we can note among other things that, with date of effectiveness 1 January 2015, the company Verbano Trasformatori S.r.l. was incorporated into Tamini Trasformatori S.r.l..

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tender procedures could only be accessed by final customers, also grouped together in consortia, which are holders of withdrawal points each with installed power of not less than 10 MW.

Terna's International Business

Abroad, Terna pursues two objectives: development of interconnections with bordering countries, for more security, cost-effectiveness and sustainability of procurement, and investments in other countries, an indispensable action with a view to diversification with respect to the national business, carried on also in collaboration with energy operators with consolidated presence abroad.

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.

Foreign investments, focused on countries characterised by the need to establish electricity infrastructure, represent a business opportunity for the Group, allowing it to take advantage of its world-class skills and best practices. For this purpose, on 11 May 2015, a Memorandum of Understanding with a three-year term was signed by Terna and Enel, which will enable the two companies to cooperate to identify, assess and develop integrated initiatives and opportunities, both Greenfield (for the creation of new assets) and/or Brownfield (for the acquisition of existing assets), associated with transmission grids in countries other than Italy. In foreign countries of strategic or commercial interest, Terna will contribute to the analysis of the electrical system, to grid planning, to design, and to the operation and maintenance of transmission assets, and is also involved in assessing the acquisition or development of transmission assets as part of integrated initiatives.

As the other party, Enel is involved, in the foreign countries in which it operates, including through companies belonging to the Group, in acquiring, developing and operating projects related to High Voltage transmission or connection grids, also integrated with a component of electricity generation or distribution, as regards both the creation of new assets, and the acquisition of existing assets.

On the basis of the MoU, if one party identifies an opportunity that it considers may be of reciprocal interest or even of exclusive interest to the other Party, it may submit the information on this opportunity as a priority to the attention of the latter. The opportunities will be assessed by the two companies on the basis of their common interests. The agreement has a term of three years.

In relation to the single opportunities that may be subject to assessment, the information relating to related-party transactions will be made available, if the conditions for this are fulfilled.

Business at the European level

During the first half of 2015, the appointment of the Chief Executive Officer Matteo Del Fante as Deputy Chairman of ENTSO-E, the European association of grid operators committed to the process of integrating and coordinating electricity grids, further strengthened Terna's presence and influence at the European level. Terna's role in the Europe of energy is thus growing, in favour of an ever-increasing process of integration and coordination of the large continental electricity grids.

Relationships with European Institutions were also consolidated, contributing to definition of the Italian position with respect to the dossiers relevant to Terna (the Regulation on the European Fund for Strategic Investments, the Energy Union Package).
In addition, the process is nearing completion for the adoption of the delegated act of the European Commission which will identify the second list of projects of common interest in the electricity and gas sectors and the subject area of smart grids, in implementation of Regulation (EC) No. 347/2013. The delegated act is expected for the second half of 2015 and, 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), the main projects for developing the grid and interconnections with other countries proposed by Terna should be confirmed.

Business in the Balkans

The Balkans are an area of great strategic 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, (already described in the paragraph "Interconnector"), incorporated into the NTG Development Plan, is based on agreements between the two governments[15], 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.
On obtainment of the authorisations and the award of the international contract tenders, the work on laying the undersea cable began (by Terna Rete Italia S.p.A.) on the Italian side and on the Montenegrin side, where the activities are controlled by the company Terna Crna Gora d.o.o.. For a more detailed analysis of the stage of progress in the first half of 2015 of the work on the Italy-Montenegro Interconnection, see the paragraph "Operating performance".
We can also note that monitoring of the stage of progress of the new interconnection lines of interest in the South East Europe area was started with the main international organisations, with the objective of making the best possible use of the Italy-Montenegro cable.

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 routes. In this area, Terna is currently carrying out study, development and cooperation activities through:

- creation of a Maghreb-Europe electric transmission corridor through interconnection of the systems of the countries concerned; Through the company Elmed Etudes, a joint venture with the Tunisian TSO STEG, Terna is taking part in the study for the interconnection project with Tunisia. The project, which envisages an interconnection capacity of approximately 600 MW, is included among the studies in progress in Terna's 2015 Development Plan (and in ENTSO-E's TYNDP), in order to facilitate the integration of the Electricity Systems of the Euro Mediterranean area, increasing trade and energy resources from renewable sources. The Italy-Tunisia interconnection has gained the attention of the European Commission, which recognises its strategic importance also with a view to possible financial support;

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[15] The Intergovernmental Agreement signed by the Italian and Montenegro governments on 6 February 2010 was officially transposed into Italian law in June 2014.

- participation 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.

Research and development

Terna is continually searching for innovative solutions aimed at improving the reliability of plants, and the security and quality of the service, as well as reducing costs. To this end, a true **Research Plan** has been prepared. This is made up of multiple projects which follow various lines of innovation. For its implementation, Terna also makes use of the specialist support of manufacturers, the collaboration of universities and above all of CESI S.p.A., a particularly specialised investee services company.

Among the various project, the following are some of the most significant:

- **innovative measurement transformers (optical ATs)**: testing has begun, both in the laboratory and in the field, of this transformer type, which is intrinsically safe, both from an environmental perspective (no oil or SF_6) and in terms of the physical safety of people and objects.
- **complete monitoring for on-line diagnostics of electrical substations:** the executive project was finalised for the installation, which will soon be carried out, of at least 5 monitoring systems for diagnostics in order to prevent serious faults, according to a priority plan based on technical and environmental impact considerations;
- **mitigation of electrical and magnetic fields**;
- **mitigation of noise deriving from the operation of machinery (transformers, etc.)**.

In particular, during the first half of 2015, we can note the following activities performed in the context of three different research lines:

- ***Structures and materials with lower environmental impact***

In the field of structures, a large number of innovative single-stem pylons for 380 kV were installed, in particular on the Udine Ovest-Redipuglia power line, currently under construction. Instead, in the materials field, important results have been obtained with the development of a new type of conductor with a carbon-fibre core, which, if installed on existing lines, makes it possible to avoid the construction of new power lines.

- ***New equipment and plant configurations***

The tests of a new type of 380 kV ultra-compact multifunctional device were completed successfully; this is a component that works as a “breaking-switching-measuring” device, characterised by its small size and quick installation. Two were installed: one in the Sorgente substation, the other in the Rizziconi substation.

- ***Resilience to significant weather events***

The aim of this research is to guarantee greater resistance of plants in the event of external, potentially dangerous events such as earthquakes, fires, and severe environmental conditions:

  - the first stage of installing innovative seismic damper systems for equipment was completed at plants located in higher-risk areas;
  - a second stage of installing anti-rotation devices for overhead conductors, able to counteract the formation and growth of "sleeves" of wet snow, is currently in progress. In this regard, a software model for predicting the formation of ice sleeves was also implemented.

The National Transmission Grid – Number of plants

The number of NTG plants belonging to the entire Group at 30 June 2015, and at 31 December 2014, is shown in the following table:

		Terna S.p.A.	Terna Rete Italia S.r.l.	TERNA GROUP 30.06.2015	TERNA GROUP 31.12.2014	TERNA GROUP Change
Substations		465	29	494	491	+ 3
Transformers		663	2	665	661	+ 4
		141,863 MVA	320 MVA	142,183 MVA	140,883 MVA	+ 1,300 MVA
Bays		5,104	121	5,225	5,205	+ 20
Lines		41,646 km	16,243 km	57,889 km	57,871 km	+ 18 km
Three-phase power lines		2,433	1,716	4,149	4,133	+ 16
		46,604 km	17,298 km	63,902 km	63,891 km	+ 11 km

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

The main changes in the first half of the year in the numbers for the NTG owned by the Parent Company and the subsidiary Terna Rete Italia S.r.l. are summarised below:

Substations

We can note the activation of three Terna substations: one at 380 kV in the municipality of Melfi (PT) and two at 150 kV in the sites of Valle (FG) and Petralia (CL) and the sale by Terna to "AEM Distribuzione" of the 220 kV section of the Martinetto (TO) substation.

Transformers

In the first half of 2015, 4 new 380 kV machines were activated at the Terna substations at Melfi (PT), Manfredonia (FG), Suvereto (LI) and Parma Vigheffio (PR) for a total of 1,000 MVA.

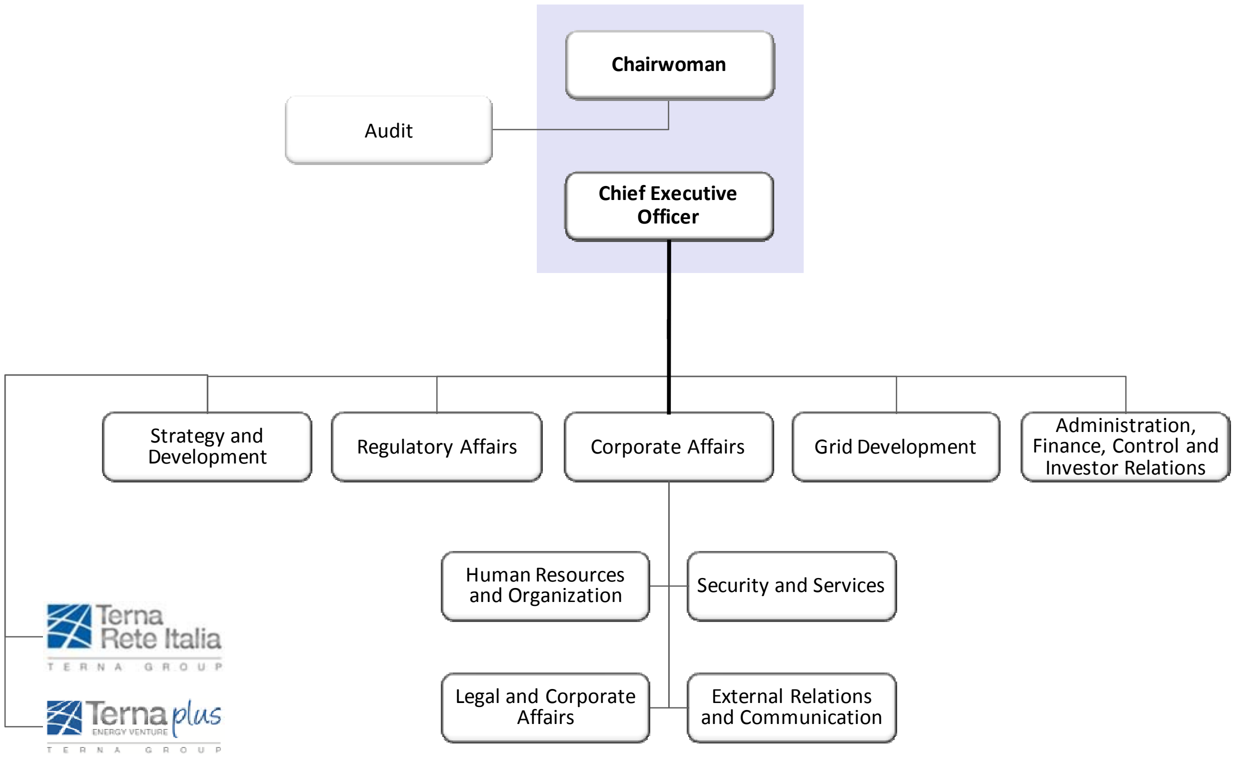
Power lines

We can note in the period the entry into service of the new Larino-Termoli connection with a simple 380 kV three-phase power line, for a total of 14.7 km, and the activation of 7 new Terna underground lines for a total of 28.1 km.

Management of human capital

The Group's organisational structure

On 1 April 2015, the Terna Group defined the new macro-structure, in keeping with the strategic lines of the 2015-2019 Industrial Plan. The new organisational structure is aimed at strengthening the Parent Company's governance, guidance and control role, and at centralising the key processes through the development of single competence and service centres for the whole Group.



Personnel framework: structure and changes

At 30 June 2015, the Terna Group had 3,725 employees. Details of the composition of Terna Group employees at the end of the period are shown below:

Change in the workforce	at 30.06.2015	at 31.12.2014	Changes
Senior executives	72	68	4
Junior executives	544	557	(13)
White-collar workers*	1,963	2,007	(44)
Production workers	1,146	1,165	(19)
Total	**3,725**	**3,797**	**(72)**

** Includes employees of Terna Crna Gora with local contracts (Montenegro).*

The number of personnel at the end of the period showed a decrease of 72 employees compared with 31 December 2014.

The change was due to the initiative launched by the company in the last quarter of 2014, aimed at bringing forward generational turnover through incentives for the voluntary choice of retirement for employees close to eligibility for a pension. The initiative in question involved a first stage devoted to employees who had earned the requisites for retirement as of 31 March 2015, a second stage for employees with retirement requisites earned by 31 December 2015 and a third stage reserved for workers who have earned the requisites for retirement by 31 December 2017, in line with the provisions of Art. 4 of Italian Law 92/2012 ("*Fornero Law*"). The first two stages have been completed, while, for the third stage, the deadline for "expressing interest" expired in June; this will be followed by verification of the pension requisites by the INPS.

The breakdown, by company, of the number of employees at 30 June 2015 is illustrated in the table below:

At 30.06.2015	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	27	35	2	-	8	-	**72**
Junior executives	145	375	6	3	15	-	**544**
Office staff	227	1,609	4	4	115	4**	**1,963**
Production workers	-	933	-	-	213	-	**1,146**
TOTAL	**399**	**2,952**	**12**	**7**	**351**	**4**	**3,725**

** Includes three employees of Tamini Transformers USA LLC, a US company which belongs to the Tamini Group.*

*** Local employees.*

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 creating value 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 knowledge sharing in that the transfer of specialist know-how is entrusted to the most experienced staff of the internal Faculty. These experiences are supported by 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 has been active since 2012 and can accommodate up to 200 employees involved in training activities.

In the first half of 2015, Terna provided a total of **83,880 hours of training,** recording attendance of 7,599 with 2,803 company employees involved in at least one course. Specifically, 17,085 hours of training regarded new recruits on medium/long-term Training Pathways.

81% of hours of training provided by Terna in the first half of the year regarded the Training section, in the context of which the subject of Safety accounted for 62%.

Organising and developing human capital

Terna has developed a system for mapping and assessment of all Middle-Management roles, in order to identify career routes and to support the organisational processes.

In this context performance is the key indicator which orients the system of development and professional growth of the Terna Group's human resources.

At the core is the **Global Performance System (GPS)**, based on a definition of performance comprising two aspects:

- **the concrete achievement of pre-set targets;**
- **the organisational procedures implemented to achieve them.**

Targets, conduct, assessments and feedback are collected using IT software accessible to all personnel involved, which guarantees traceability over time and constant monitoring of growth.

Risks and opportunities

The situation regarding risks and opportunities for the Terna Group

Compliance with concession requirements is a precondition of Terna's business. For this reason, the operating risks related to management of the grid - risks of disruption - have always been handled with the utmost care and constantly updated methods and techniques are employed. Regarding transmission activities, Terna's monopoly position reduces market risks; the regulatory framework determines the scope of risks and opportunities. Other risks - e.g. financial risks - are identified and continually monitored and managed. The identification of business opportunities in non-traditional spheres is also part of the corporate strategy and takes into consideration important trends of the sector, such as the increase in production from renewable sources.

More generally, contextual risks and opportunities emerge from Terna's relations with stakeholders. In this context, respect for the environment and local communities impacts Terna's ability to make the investments provided for in the Development Plan, as detailed below.

Agreement with the community

Community and dialogue are fundamental issues for Terna, which recognises acceptance by local communities as an essential factor. Beyond relationships with institutions, which are already based on solutions agreed in advance, increasing the degree of acceptance of electricity infrastructure in the communities involved is a very important goal. With respect to this objective, communication plays a primary role, as does the involvement of associations representing civil society on a territorial level, as well as local institutions. Recently, in addition, Terna has undertaken a series of activities aimed at organising meetings specifically devoted to spreading information and to involving people who live in the territories involved by NTG development work, with particular reference to projects of community interest.

With regard to electromagnetic fields, Terna's commitment is expressed by its scrupulous compliance with Italian law, which is among the strictest internationally. Considering the sensitivity of public opinion surrounding the issue, Terna pays constant attention to advances in scientific research on electromagnetic fields to assess any risks connected with its work and will continue providing the public with accurate information on the matter.

Dialogue with local administrations

Terna's approach to local areas, which is especially important when new lines must be constructed, consists of a voluntary process of prior engagement with local institutions (regional and local administrations, park authorities, etc.). This process involves the sharing of NTG development needs with local institutions, a willingness to listen to stakeholder opinions and the search for a shared solution regarding the positioning of new infrastructures and the reorganisation of existing ones.
To facilitate acceptance of electricity infrastructure by local communities, Terna, in fact, considers it fundamental to hold discussions with local administrations as early as possible, right from the moment in which the need for a

new NTG development project is recognised. In this way, the conditions are created in which to develop and "build" the grid together, thus making it more sustainable and acceptable.
Terna's approach to local areas envisages a voluntary pre-authorisation procedure, illustrated in detail in the chapter on extending the grid, which should be consulted for further information.
During the first half of 2015, approximately 100 meetings were held with local administrations, involving around one hundred bodies.
In this context, in cases which may involve local opposition, Terna is willing to examine the situation and find alternative solutions, including ones which are technically more complex than those originally identified, provided that they are compatible with the general interest of the electricity service in terms of security, efficiency and cost-effectiveness.

Risks and uncertainties facing Terna and the Group

Terna has always paid careful attention to the prevention of risks of all kinds that could affect or limit the company's results in the remaining period of the year. This paragraph aims to provide a clearer, more complete representation of these risks which are summarised along with the uncertainties to which the Company is exposed, and which, besides, are already known to the market and shareholders, considering their presentation in the financial statements and financial prospectuses previously published.

Regulatory risk

In the first half of 2015, approximately 92% of the revenues received by the Terna Group derived from activities regulated by the Authority for Electricity, Gas and Water (hereinafter, AEEGSI).
With Resolutions 199/11 and 204/11 (as subsequently updated), the AEEGSI set out the tariff framework for transmission and dispatching services for the regulatory period 2012-2015, as well as the rules for the annual update of the relative unit costs (within the same regulatory period).
In 2015, the unit costs of the transmission and dispatching fees were respectively updated by AEEGSI resolutions 653/14 and 658/14.
In resolution 197/11 (and related subsequent amendments) the AEEGSI also established how the quality of the transmission service should be regulated for the same regulatory period (2012-2015).
With particular reference to RAB (Regulatory Asset Base) remuneration related to transmission and dispatching activities, Resolution 199/11, Article 2, provided for the updating by 30 November 2013 of the remuneration rate of invested capital for the period 1 January 2014 - 31 December 2015 on the basis of the average value of 10-year BTPs recorded in the period November 2012 - October 2013. In implementing this provision, Resolution 607/13 updated the rate of return in question to 6.3% (compared to the previous value of 7.4%) to be applied starting from the 2014 tariffs.

Volume effect

The unit costs for transmission and dispatching services are determined annually on the basis of the recognised costs of the aforesaid activities and of the respective physical quantities forecast (forecast of electricity transported on the NTG and of electricity dispatched). During the year Terna issues its invoices on the basis of the aforesaid fees and effective volumes of electricity respectively transmitted and dispatched. The effective

volumes (and thus the potential difference between the effective volumes and forecast volumes used to calculate the unit tariff) depend on factors outside the Group's control and Group revenue may thus prove higher or lower than expected on account of this "volume effect".
With the Resolutions 199/11, 204/11, 565/2012 and 607/13, the volume mitigation mechanism introduced by the earlier Resolution 188/08 was confirmed for the IV regulatory period (2012-2015). This states that any impact on Group revenues caused by possible variations in electricity volumes withdrawn from the transmission grid and dispatched, would be limited to a range of +/- 0,5%.

Quality of transmission service

Premiums and penalties for energy not supplied

Quality regulation of the transmission service provides for a mechanism of bonuses/penalties which takes into consideration solely the energy-not-delivered indicator. For the Terna Group, the maximum potential impact deriving from this incentive mechanism lies within a range of € -12/+30 million per year.

Services provided by distribution companies – Mitigation

In some specific types of power outage, in which the electricity supply from the RTN to VHV/MV or HV/MV transformation plants directly connected to the NTG is temporarily interrupted, the distributor companies can mitigate the difficulties for users connected to their grid counter-supplying these plants from MV grids and/or by inserting mobile generator units.
These services, aimed at continuity of the electricity supply, give the distributors the right to receive a fee, paid by Terna, calculated according to the counter-supplied (mitigated) energy.
The amounts related to mitigation services are subject to a maximum limit per single outage and, in certain circumstances, to specific deduction mechanisms. The annual amount paid by Terna for mitigation is also subject to a maximum limit of € 18 million (as regards any payments to distribution companies exceeding the annual limit, Terna may make a supplementary request to the Authority using the dedicated "Electricity services quality account").

Sharing of the penalties/refunds paid by the distribution companies to customers connected to the MV and LV distribution grids

The regulation provides for mechanisms on the basis of which Terna may be called upon to "share" the penalties/refunds paid by the distribution companies to final customers connected to their grids (MV/LV) when outages exceeding the specific standards established by the authority are exceeded, up to a maximum annual limit of € 70 million.
In specific cases or for the portion of refunds exceeding the maximum annual limit, Terna may request the refund of the excess from the "Exceptional Events Fund".

Domestic and European legislative risk

Tax laws

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

Laws on environmental matters

The Group's activities are affected by the generation of environmental legislation at the national, European and international levels (e.g. electromagnetic fields, landscape, etc.), and also, in the case of international activities, by laws expressed in the legal systems of foreign countries. Infrastructure investment projects must be subjected to the administrations responsible for the environment for examination and respect the instructions issued by the same.

Amendments to the legislation in effect are expected to occur to implement EU Directive 2014/52, regarding Environmental Impact Assessment (EIA). The 2014 European delegation law, recently approved by Parliament, delegates the power to the Government to adopt the rules implementing the Directive on EIA by March 2017. The Group may have to bear further costs for implementing the preventive measures or prescriptions that new national laws, autonomously or transposing European measures, could require in future.

Laws on energy

The Group's activities may be affected by changes in national and European legislation governing the electricity market, strategic infrastructures, the authorisation process for National Transmission Grid works, the sphere of activities which Terna may perform or regulatory changes which affect relations between the Group companies and other stakeholders (producers, distributors, etc.).

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, a series of European legislative proposals are expected in 2015/2016, including the outcomes of the consultation in progress to redefine the structure of the European electricity market, and measures to strengthen the governance of ENTSO-E and ACER.

Employment and contract laws

As regards electromagnetic fields, Directive 2013/35/EU on the exposure of workers to risks from electromagnetic fields has been adopted, and should be transposed by the end of May 2016 into the national legal system. In addition, new European Directives have recently been adopted with regard to tenders (see Directive 2014/25/EU for the special sectors), to which Italy must conform by April 2016 and on which the delegation law is currently being discussed in the Italian Parliament.

Operational risks: risks connected with NTG malfunctioning

In the context of the Terna Group's operations, risks of unexpected service interruptions caused by external events that are beyond Terna's control are calculated. These may include accidents, defects or breakdowns involving equipment or Control Systems, deteriorating plant performance, natural disasters, terrorist attacks and other extraordinary events of this kind. Besides the economic risk associated with repairs to the sections of the NTG owned by the Group, possible claims for compensation from third parties as a result of such events could arise if the Group is found to be responsible.

Specifically, with regard to employee injury risks, our company, which is certified BS OHSAS 18001, applies the BS 18004:2008 methodology, with the adoption of an estimate matrix which, in addition to qualitative assessments, also includes a quantitative assessment, based on frequency and consolidation of the data on a national basis relating to injuries that have occurred in the last 15 years.

In addition, each Production Unit prepares and annually updates a "Safety and Environment Improvement Plan", which contributes to guaranteeing continuous monitoring with the goal of managing the residual risk which is an integral part of the Risk Assessment Document.

Additionally, employee injuries are analysed through assessment of the gravity and frequency indexes foreseen in the UNI 7249 regulation which, specifically, after verifying the individual causes and situations in which the injuries occurred, foresees the activation of specific analytical commissions for the most serious cases.

Finally, every year data on injuries of contractors are also gathered and monitored and reported, together with the above indexes, in the sustainability report published annually.

Specific insurance cover has been arranged to mitigate the effect of operational risks.

Litigation risk: legal disputes

The Terna Group companies are involved in a certain number of legal disputes, both as plaintiffs and defendants and both in and out of court. They derive from the normal performance of business activities and relate to environmental and health protection issues, provisions related to regulated activities, the construction of new plants and the operating of existing ones, management of employment contracts with employees, the projects and services assigned to third parties, and relationships with the public administration and public organisations.

It is likely that in the future the Group may again be involved in new legal disputes of the types indicated above.

This matter is discussed in more depth in paragraph E. "Commitments and risks" of the Notes to the Condensed Consolidated Interim Financial Statements at 30 June 2015.

Market and financial risks

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

In its financial risk management policies approved by the Board of Directors, the Terna Group has defined responsibilities and operational procedures for financial risk management activities, making specific reference to the tools to be used and setting clear operating limits for their management.

Terna's risk management policies seek to identify and analyse the risks the Company is exposed to, establishing appropriate limits and controls and monitoring risks and compliance with such limits. These policies and related

systems are reviewed on a regular basis in order to reflect any changes in market conditions and the activities of the Group.
This matter is discussed in more depth in paragraph E. "Commitments and risks" of the Notes to the Condensed Consolidated Interim Financial Statements at 30 June 2015.

Risks connected to the need for financial resources

Even under current market conditions, the Group expects to maintain sufficient capacity to generate financial resources from its operating activities. However, the investment plan for the next two years should in any case lead to an increase in existing net debt. In relation to the condition of the financial markets, the need to finance and refinance the existing debt could determine, in the medium term, an increase in financial expenses and also entail higher risks for the Group in refinancing the maturing debt.

Risk on Non-Regulated Activities

A significant proportion of Non-Regulated Activities is related to market opportunities for the design, implementation and management of high-voltage plants which serve in connecting production from renewable sources in Italy or abroad. Consequently, any changes to the legislative or regulatory framework of reference for Non-Regulated Activities may make investment in this sector less attractive and, consequently, lead to a reduction of market opportunities for Terna's Non-Regulated Activities.
In addition, in the context of Non-Regulated Activities, following acquisition of the Tamini Group, we can note the risk typical of industrial business, with reference in particular to the credibility, solvency and country risk of counterparties, as well as product warranty risks, although these are estimated with appropriate provisions.

Climate change risks

Terna, as a utility company, transmits electricity as its core business. It is not involved in any way in the generation of electricity and thus is not subject to any obligation to reduce emissions or to any emission-trading schemes.
At present, there are no fiscal (e.g. a carbon tax) or regulatory measures (e.g. emission-reduction targets, inclusion in emission-trading schemes) which have direct consequences on Terna's business and financial performance.
Terna’s management has identified potential, albeit remote, risks connected with global warming and the reactions it might provoke within governments and in consumer habits.
Areas of overlap with Terna's work are as follows:

- the task of maintaining a balance between the input and withdrawal of electricity to/from the transmission grid becomes more difficult when weather conditions are extreme. Examples of this include during water shortages and in extreme heat or freezing conditions. The probability increases of critical situations which can result in the temporary disconnection of users in certain areas of the country. This consequently draws the attention of the public authorities and the mass media towards Terna. In this regard 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; the second is aimed at developing technological solutions for securing the service in specific adverse weather conditions;

- concern over climate change could lead to a reduction in the elasticity of energy demand to GDP growth. Research into greater energy efficiency has already altered the traditional relationship between economic growth and demand for electricity. This trend could also result in lower growth in the demand for electricity than currently seen, under equal conditions. The current regulations provide for a mechanism of partial sterilisation of the volume effect, with an excess of ±0.5% on the volumes of energy transported (see also the paragraph "Regulatory context");
- the increase in the production of energy from renewable sources poses various challenges for Terna in relation to the need to plan and implement investments to resolve grid congestion problems and for efficient and safe management of non-programmable production. Furthermore, intermittent production (in particular wind production) makes dispatching more difficult, increasing the need for power reserves and regulation.

Risk protection

Terna operates as legal monopoly on the basis of a government concession for the transmission and dispatching activity. This particular context transforms some market risks into regulatory risks, which consist of the inability to accurately predict the evolution of the legislative and regulatory framework, affecting Terna's approach to risk management.

Taking into account that approximately 92% of the Terna Group's revenues originate from activities recognised and remunerated by the AEEGSI, a change in the regulatory framework, or in the incentive scheme, represents a risk such as to determine significant impacts on the company's accounts, even in the presence of mitigation measures adopted by the Authority: public consultation of the decision-making processes, primary protection of the electrical user, stability of regulations and yet other mechanisms.

Terna's mission is to manage energy transmission in Italy guaranteeing the security of the electrical system, its quality and cost-effectiveness over time, ensuring equal access conditions for all users of the grids; the risks managed are therefore often risks of the entire electrical system (such as discontinuity of the service and an increase in costs for the community).

The continual analysis of events and the situations that caused them, verification of the intrinsically vulnerable procedures that enabled them to happen and application of the risk analysis have led over time to identifying a catalogue of known risks, for which controls and mitigation approaches are in place, and to imagining scenarios for unknown risks, i.e. those which are hidden or concealed.

With regard to reputational risk, across all of the Group's activities, protection is guaranteed and strengthened by a sustainable approach to business. This begins with the premise that it is necessary to comply with the law and therefore considers all potential environmental and social consequences in order to prevent and mitigate the effects of such risks.

Lastly, Terna constantly monitors risks associated with aspects of sustainability which may have a negative impact on its reputation and its intangible value, through ratings analyses by the main agencies which periodically produce sustainability assessments (such as RobecoSAM, Vigeo and Eiris).

Risk management systems and instruments

The Terna Group has a Risk Management process, which involves the Company in its entirety, aimed at identifying potential events with a more or less significant impact on the company, managing risk and providing reasonable security for the achievement of corporate objectives.

During the first half of 2015, Terna maintained direct control over all likely risk scenarios, in particular regarding operational risk, in the forms in which it is expressed with greater frequency for a company that is also “Critical Infrastructure” for the country. In this regard, the risk for supply continuity is widened to that of operation of all the infrastructures that guarantee people's current social status and welfare, and the risk of damage to the health of personnel in the workplace.

Identical attention is paid to the Group's other activities which, although apparently oriented to supplying or managing transversal services, contribute to strengthening the correct operating conditions and practices in support of the various aspects of security.

As part of the integrated and systematic risk management which distinguishes it, Terna has introduced structural management tools and prevention measures, interpreting and supplementing its own Risk Management rationale.

In line with this, the Risk Management Unit, with an approach that distinguishes Terna, 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, creating added value and improving the company's operations.

For these reasons, Risk Management has developed a structured, reproducible and objective risk management methodology, adopting Enterprise Risk Management (ERM), and applying it to all the "core" processes and to the Group's main support processes.

The adoption of the ERM framework, also in accordance with the directives of the new Corporate Governance Code for listed companies, guarantees a global view of risks and controls, as well as the diffusion of a common risk language and culture.

With this in mind, and in line with the international best practices, Terna has identified in the last year an Archer - eGRC technological infrastructure for Enterprise Governance and Compliance Risk, as the most suitable instrument to support the entire Risk Management process.

Archer - eGRC, through mapping and defining risks, classifying them, associating them with a context and identifying the control measures capable of mitigating them, has made it possible to:

- improve the quality and effectiveness of the risk management process;
- assess risks in collaboration with the business managers;
- automate the consolidation and communication of information on the company's exposure to risks;
- ensure continual information and a complete view for the management on exposure to risk and on the related mitigation policies, contributing to finding the right balance among cost optimisation, risk management and ability to innovate.

For the real-time monitoring and management of critical issues affecting key infrastructure, Terna makes use of a Security Operations Centre (SOC) capable of predicting, tackling and managing escalation risks, giving daily communication also to the Top Management through the "SOC Morning Bulletin".

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

- to increase the level of physical security at electrical substations, using innovative, targeted IT solutions that maintain constant contact with law enforcement authorities throughout the country. To this end, the Ministry of the Interior and Terna have developed a system for protecting the Company's critical sites that ensures 24/7 monitoring through the territorially-competent local units of the Carabinieri, the State Police and the Postal Police. As of today 175 sites are monitored and the company's objective is to extend this perimeter to take in the remaining plants;
- to prevent and counter IT attacks and damage to Terna's information systems and communications networks.

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

Qualification of plants

In the first half of 2015, as part of the market qualification activity regarding new production plants monitored through the control panel defined by the Authority in the Combined Text on Active Connections, approximately 21,000 new plants were recorded, mainly small photovoltaic ones, for a total of 480 MW.

On 1 January 2015, management of a new database system was begun in relation to Simple Production and Consumption Services (SPCSs), on the basis of the definition and qualification process resolved by the Authority in the Combined Text on Simple Production and Consumption Services. In particular, more than 20,000 new SPCSs were defined. In the coming months these will have to apply to the ESO (Energy Services Operator) for recognition of the EES (Efficient Energy System) qualification in order to benefit from the reduction on prices to cover the general system expenses to be applied on self-produced electricity.

In February 2015, Stage 1 of the project for management of Storage Systems in Gaudì began. Thanks to this, around 300 new photovoltaic plants equipped with a Storage System were registered.

In accordance with Resolution 421/2014/R/eel, in March 2015 the communication by distributor companies of the data provided for in the GE-DI form began. These data concern the adjustment of distributed generation from non-programmable sources to the prescription of Annex A72 of Terna's Grid Code.

The security of the electricity system

The Defence Systems Improvement Plan for the security of the National Electricity System, the **Security Plan**, is the work programme prepared by Terna to protect the security of the national electricity grid. The Plan is prepared by Terna every year with reference to a four-year programming period and is approved by the Ministry of Economic Development.

In particular, at the beginning of the year Terna prepared and sent to the Ministry of Economic Development the Security Plan for the 2015-2018 programming period, approved by the Ministry in April 2015.

The Plan, which in 2015 reached the twelfth edition, has had during the various editions an increasingly articulated approach to the theme of the security of the electricity system. The current structure of the Security Plan envisages 8 different areas for scheduling, control, regulation and protection, restarting and monitoring of the electricity system, and an area for the secure and optimal management of renewable sources.

In the context of the aforementioned areas of intervention, the 2015 Security Plan confirms the short/medium-term initiatives already identified in the previous editions, which also include innovative projects (in particular, power intensive electrochemical Storage Systems for ultra-rapid frequency regulation and equipment to compensate for reactive power), aimed at securely managing the system, in particular on the larger islands, in the expected operating scenarios characterised by increasing production from non-programmable renewable sources. In this context and also in consideration of the limited growth of the load and the progressive disposal of obsolete conventional thermal plants, with the consequent decrease of the system regulating capacity, the 2015 Plan includes studies to provide the main interconnection lines on the north Italian border with appropriate Phase Shifter Transformers (PSTs). In fact, these devices are particularly useful for the regulation and balancing of systems in critical situations, in particular under low load conditions or with excess production from non-programmable renewable sources.

The present Plan, in addition, contains new initiatives aimed at guaranteeing the security of the electricity system in the case of extreme weather events, such as ice and snow.

In 2014 investments made in relation to projects provided for in the Security Plan amounted to approximately € 82 million. The twelfth edition of the Security Plan for the years 2015-2018 provides for investments of around € 224 million.

Information Security

In the first half of 2015 important results were achieved following the introduction of projects and innovations introduced by Information and Communication Technology (ICT) so as to improve the security of the National Electricity System and the efficiency of corporate processes.

Security improvements of the National Electricity System (NES)

In the first half of 2015, as regards Defence Systems, activities began on two main fronts: firstly the revision of the remote switch of the Priolo limited production site, the logics of which must evolve to serve the Sicilian wind generators; secondly, the extension of the Defence Systems to non-conventional storage plants (NCSSs), allowing management of the disconnection and modulation of production/absorption also for these.

Improved efficiency of corporate procedures

In 2014, significant changes were introduced to systems for the start-up of the new DSM (Dispatching Service Market), with the aim of rendering the procurement of dispatching resources by Terna more flexible. On one hand, the goal was to improve dispatching of resources to take into account the growing importance of renewable sources, while on the other, producers were given the possibility to optimise the resources offered to the market, bringing them more into line with the technical constraints and production costs of their plants.

The procedures envisaged in AEEGSI Resolution 231/2013/R/eel were implemented, to allow all units able to provide the service access, on a voluntary basis, to the mechanism that allows remuneration of the contribution to the primary frequency regulation.

Significant changes were made to the settlement procedures used to calculate energy units affected by regulatory changes. This included adjustment of the procedure used to determine the variable cost paid for essential plants, revising the market macrozones pursuant to Resolution 525/2014/R/eel and adjustment to the non-compliance of the switch-on order, following Resolution 65/2014/R/eel.

In addition, new procedures were developed to assign instant interruptible and emergency resources for 2015-2017, following the provisions of Resolutions 301/2014/R/eel and 566/2014/R/eel, as well as the simultaneous adjustment of the procedures used to calculate the fees to implement that indicated in the regulations.

Finally, the Transparency Report platform was created; this is the new application required under Regulation (EU) No. 543/2013, obligatory for all TSOs. This regulation requires making a series of data available to the market, including total load, consumption, transmission, electricity generation and congestion management, which can be viewed using a platform managed by ENTSO-E.

Information security and cyber security

The introduction of the new technologies in support of the Terna Group's business activities is proceeding very quickly, forcing the company to continually face up to the various risk factors that accompany them; part of this work is the periodic updating of the corporate “security governance” model, based on the international best practices, to tackle the changing picture of threats that weigh upon the stock of IT assets, both intangible (that is information or data belonging to the company and/or to electricity operators), and tangible (such as IT infrastructures and networks, information systems, automation and control systems, IT services, etc.).

In this regard, the development of the annual programme of structured Information Risk Management ("IRM") activities is active on all the Group's IT and ICT projects and is one of the four areas on which the Enterprise Risk Management ("ERM") process is focused. The work of studying risk factor trends (including non-compliance with laws on data processing and fighting computer crime, which change continuously) is also fundamental and with it the tuning of mitigation.

In the first half of 2015, the aforementioned programme maintained, owing to the continuity of basic choices, its characteristic of preventive approach to cyber-risk, aimed at adopting the necessary postures of security and resilience of the ICT assets (with priority for critical or even vital ones for operating in optimal security conditions of the Critical Infrastructure, such as the networks and Control Systems of the electricity grid and of the National Electricity System), strengthening however at the same time the technical and organisational measures of a reactive kind, for the detection and prompt management of logical security incidents, aiming at a more incisive role of the SOC (Security Operations Centre).

In the six months just ended there was room also for the first development activities for integrating the "IRM" process into the innovative Archer GRC (Governance, Risk and Compliance) platform which is being created, with the prospect of achieving before the end of the year, also in the ICT field, important results in terms of representation of the "current" state of cyber-security and of the implementation of risk mitigation plans.

The IRM programme continues to put at the centre also the protection of the numerous databases with often "business sensitive" data, both of company origin and belonging to users of the transmission and dispatching services, those of electricity producers and traders (for example, production capacity and injection programmes), and with the data gathered for sector statistics (as part of the Italian National Statistics System) or made available by the sector authority for monitoring the electricity market.

Alongside the internal initiatives, Terna continued its proactive presence in the thematic technical work groups both in the ENTSOE context and with Italian institutional organisations (Ministry of Economic Development-CERT-National, CNAIPIC, DIS) which make up the operational part of the strategic framework for national cybernetic security, in order to perfect indispensable relationships and synergies for tackling any large-scale cyber-attack emergencies.

Finally, on the personal data protection front, Terna guaranteed the necessary performance of the duties provided for in the legislative framework on privacy, not recording any episodes of complaints by interested subjects for breaches on processing or for inappropriate use of personal data entrusted for various reasons to the Group companies, neither through the mailbox activated expressly for such notifications (privacy@terna.it), nor through other reporting or detection channels.

The Group's Performance

Significant events in the first half of 2015

Below are the main significant events in the first half of 2015. Please note that **during the period, no significant, non-recurring, atypical or unusual transactions were carried out, either with third parties or with related parties**.

Corporate

Constitutional Court Judgement 10/2015: declaration of unconstitutionality of the IRES surcharge pursuant to Article 81, paragraphs 16, 17 and 18 of Italian Law Decree No. 112/2008

On **11 February 2015**, the judgement was published, with which the Constitutional Court declared unconstitutional the so-called Robin Hood Tax (Art. 81, paragraphs 16, 17 and 18 of Italian Law Decree No. 112/2008).

The Court focused on the unconstitutionality under the terms of Arts. 53 and 3 of the Constitution, since the IRES supplement "*affects the company's entire income as absolutely no mechanism is put in place that would make it possible to tax separately and more severely only any part of extra income linked to the privileged position of the business carried on by the taxpayer in a continuing given economic situation.*" In addition the rules remain in a structural manner in the legislation without being contained in a predetermined and temporary time frame.

Due diligence for the acquisition of a HV grid from the FS Group

At the date on which the present Interim Financial Report was prepared assessments are in progress for the **potential acquisition** of the **High-Voltage grid owned by FS**: approximately 9,000 kilometres of lines and 400 High Voltage portions of electrical substations.

Due diligence is currently in progress with continuing work on checking and analysing the documentation relating to the perimeter to be acquired. From the regulatory point of view, the AEEGSI is finalising the preparatory activities for determining the tariff of the portions of the High Voltage grid as of today not included in the National Transmission Grid provided for in AEEGSI Resolution 11/2015/R/EEL of 22 January 2015.

The finalisation of this operation would enable the grids to be rationalised, an improvement in the quality of the service and efficiencies in line with the European best practices.

Incorporation of the company Monita Interconnector S.r.l.

As part of the process of carrying out the Group's Non-Regulated Activities, with particular reference to the creation and management of infrastructures for interconnection with other countries, on **13 April 2015**, the parent company Terna and the subsidiary Terna Rete Italia S.p.A. incorporated the company **Monita Interconnector S.r.l.**, with share capital of € 10,000, subscribed 95% by Terna S.p.A. and the remainder by the aforesaid subsidiary.

Regulated Activities

Market coupling along the Italian borders begins: the go-live is given for the project with France, Austria and Slovenia

On **24 February 2015**, the market coupling project along the Italian borders officially began, the electricity markets of Italy and three of its five neighbours, namely France, Austria and Slovenia, through synchronisation of the respective Electricity Exchanges and coordination of the respective TSOs.

The benefits of market coupling are many: according to the study carried out by the company “Booz&Company” for the European Commission, the entire process of integrating the European energy markets will bring benefits of up to € 70 billion per year, of which € 40 billion in the electricity sector: of these, a figure of between € 2.5 and 4 billion deriving from “market coupling”.

For more details on the subject see the paragraph “Electricity dispatching” in the section “Organisation, reference scenario and business”.

Non-Regulated Activities

Enel and Terna: MoU signed for electricity transmission projects worldwide

On **11 May 2015**, the Chief Executive Officer of **Enel**, Francesco Starace, and the Chief Executive Officer of **Terna**, Matteo Del Fante, signed a Memorandum of Understanding (“MoU”) for cooperation to identify, assess and develop integrated initiatives and opportunities, both Greenfield (for the creation of new assets) and/or Brownfield (for the acquisition of existing assets), associated with transmission grids in countries other than Italy, where both Enel and Terna have a strategic or commercial interest.

For more details on the agreement signed see the paragraph “Terna's International Business” in the section “Organisation, reference scenario and business”.

Finance

€ 1 billion 7-year bond issue launched

On **23 January 2015** Terna S.p.A. successfully launched on the market a bond issue in Euro, at fixed rate, for a total of € 1 billion, as part of its € 6,000,000,000 Euro Medium Term Notes (EMTN) Programme, which has been given a “BBB” rating with stable outlook by Standard and Poor’s, “(P)Baa1” with stable outlook by Moody’s and “BBB+” with stable outlook by Fitch. The issue generated demand for approximately € 3.5 billion.

The securities, with a duration of 7 years, maturing on 2 February 2022, will pay a coupon of 0.875% and were issued at a price equal to 99.42%, with a spread of 52 basis points with respect to the midswap (the "Securities"). The Securities are listed on the Luxembourg Stock Exchange.

The operation is part of Terna's financial optimisation programmes, to cover the needs of the Group's Industrial Plan.

Terna's rating

On **30 March 2015**, Fitch Ratings confirmed both the long-term rating of the issuer (IDR) and the rating of the senior unsecured debt of Terna S.p.A. at “BBB+”. The Outlook is Stable. At the same time, the Agency also confirmed the short-term rating of the issuer at “F2”.

Renewal of the EMTN programme

On **9 April 2015** Terna increased its bond issue programme entitled “Euro Medium Term Note Programme” (EMTN) bringing its amount up from € 6 to 8 billion as resolved by the Board of Directors on 4 March 2015. Deutsche Bank and Citigroup performed the role of Joint Arrangers of the Programme.

Sustainability

Terna and ANIE launch the “Safe Sites” project

On **26 January 2015**, Terna and ANIE, the federation which unites the main companies in the electro-technical and electronic sectors, signed a protocol related to the safety of the works necessary to guarantee maximum efficiency for the approximately 63,800 km of national electricity grid.

The Protocol – the first of this type signed by ANIE with an infrastructural company – follows the one signed in 2012 on construction site environmental safety, and is an expression of synergistic cooperation which aims at minimising the risks by adopting specific procedures in construction site work.

Terna and Legambiente sign an agreement for better integration of electricity infrastructures in the environment

On **24 April 2015**, the Chairwoman of Terna, Catia Bastioli, and the Chairman of Legambiente, Vittorio Cogliati Dezza, signed a Memorandum of Understanding to promote all the initiatives necessary to disseminate and increase the culture of sustainability in the energy field.

Thanks to this agreement even more attention is paid to territorial and environmental integration in electricity grid development plans. The new agreement, which renews the collaboration begun between the parties with the Memorandum signed in 2011, and which will be valid for the whole of 2016, arises from the need for the development of production from renewable sources to be increasingly integrated with the expansion of the electrical system, with a view to environmental sustainability and respect for the territory.

With the signing of this agreement, Legambiente and Terna undertake, therefore, to launch in collaboration a series of actions at the national and regional level, to disseminate among businesses and citizens correct information on the need to develop renewable energy sources and the Italian electricity grid, agreeing on the need for growing use of energy produced from sources capable of reducing climate-altering emissions.

Over the last few years, Terna has strongly accelerated on the front of investments to expand the electricity grid, also to facilitate the integration of clean energies: approximately € 9 billion of investments since 2005 have enabled Terna to connect to the grid already more than 27.5 GW of new electrical capacity from renewable sources, of which 18.8 GW of photovoltaic and 8.7 GW of wind, with evident economic and environmental benefits: currently, in fact, according to Terna data, renewables cover almost 40% of Italian electricity demand.

Terna and IBM together for sustainable solutions

On **25 June 2015** Terna Plus and IBM signed an important agreement for 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. This is the subject of the specific Memorandum of Understanding signed by the two companies 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 the island of Giannutri.

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.

With the solutions proposed by Terna Plus and IBM, intelligent and integrated management of the grid will make it possible to obtain important benefits from the environmental point of view with a “hybrid system” which, thanks to the introduction of photovoltaic plants and storage systems, will enable the diesel burnt to be halved and CO_2 emissions reduced by up to 4,000 tonnes a year. To these must be added the various indirect benefits, such as those related to reducing emissions associated with transport of the fuel from the mainland to the island.

Performance of Terna stock

In the first half of 2015, the main European stock exchanges recorded a positive performance, with the FTSE MIB index in Milan recording the biggest rise (FTSE MIB +18.14%). This was followed by Paris (CAC +12.83%), Frankfurt (DAX +8.86%) and Madrid (IBEX +4.77%).

In Europe, the difficult economic recovery, the high unemployment levels and the deflation scenario led the European Central Bank to begin Quantitative Easing, the expansive monetary policy measure which boosted the recovery in the performance of stock markets. However, the lack of an agreement on restructuring debt in Greece had a negative effect on the markets, reducing their gains in the early months of the year.

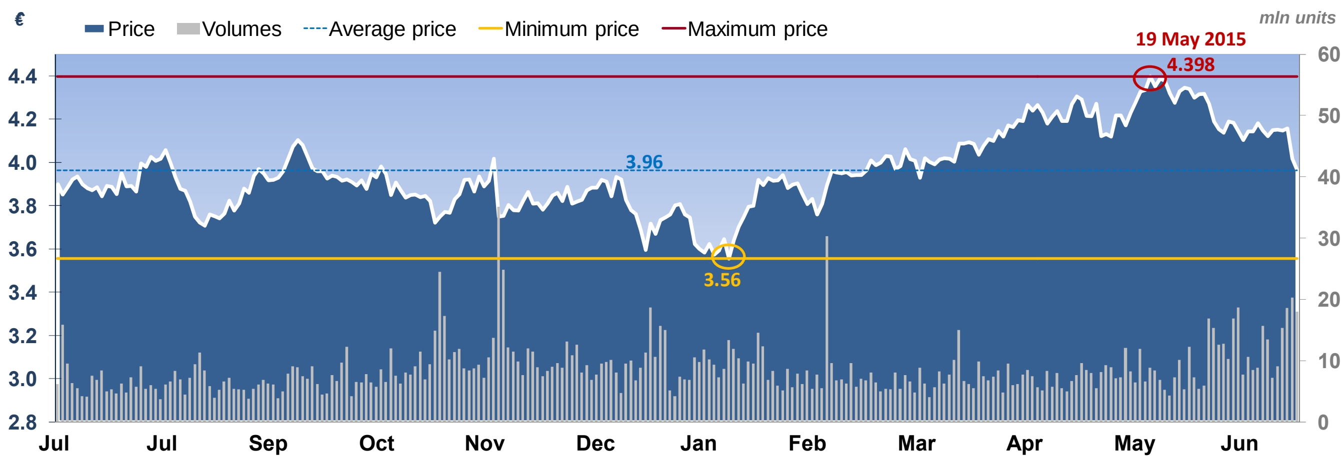
As regards government securities, the launch of Quantitative Easing by the ECB initially enabled a reduction in yields, which then rose again when the crisis in Greece became more acute. In particular, the yield of Italian ten-year BTPs, after falling to a record low in March (1.13%), then rose again until it ended the half-year at 2.33%.

In the USA, although the economic stimulation policies that boosted growth and reduced unemployment levels continued, the Dow Jones index fell in the half-year by 1.14%, after ending 2014 at record highs.

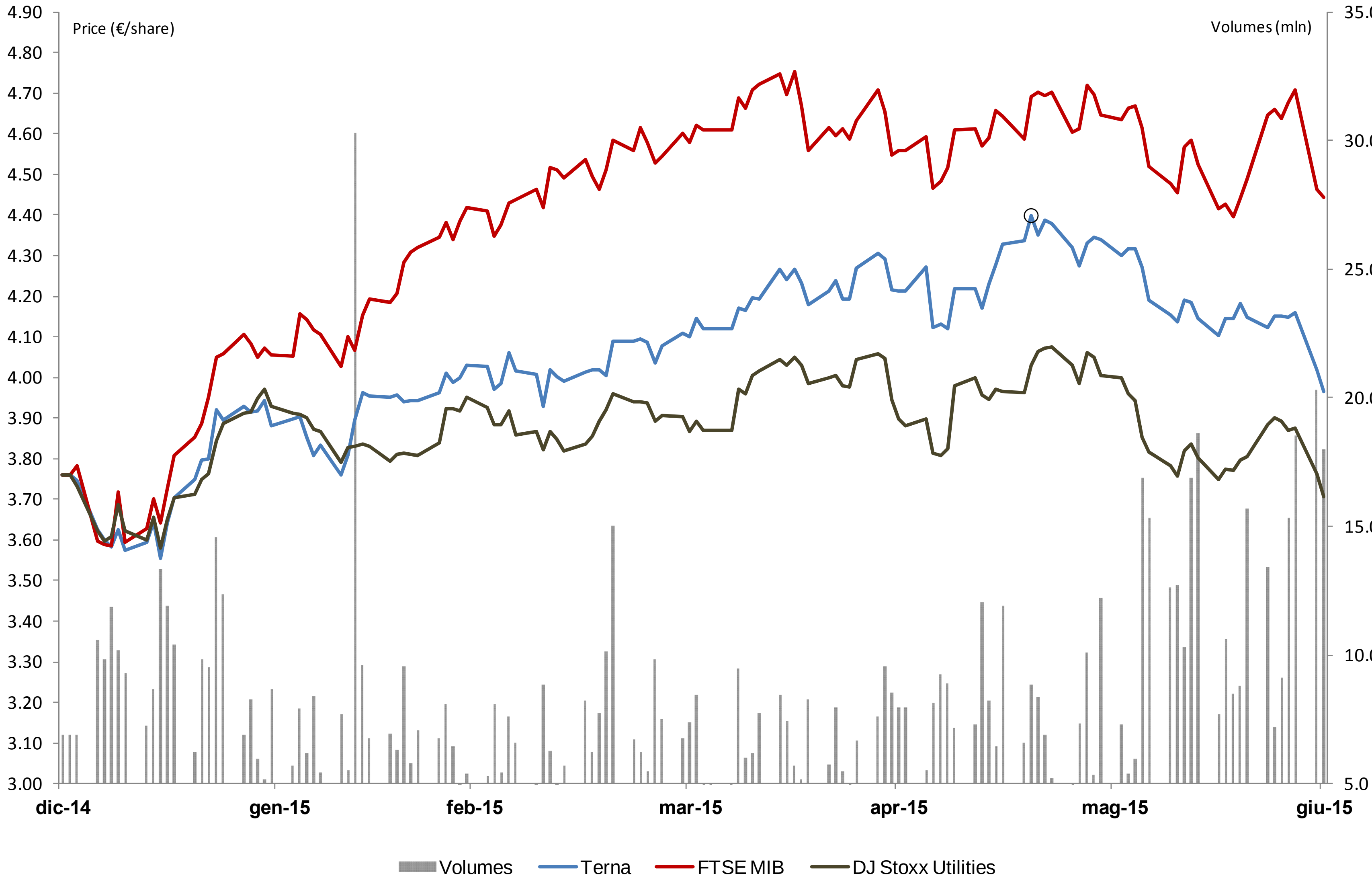
Terna, which in May reached a record high of 4.40 €/share, recorded in the half-year a rise of 5.43%, thus turning in the best performance among regulated stocks in Europe. The Total Shareholder's Return (TSR) was 8.75%. It should also be noted that, since its listing on the stock exchange (23 June 2004), the Terna stock has increased in value by 133.18% with a TSR of 354.29%. This performance is much better than the market (TSR FTSE MIB +21.99%) and the sector (TSR DJ Stoxx Utilities +136.64%).

The ECB communicated to the market that Terna has been added to the list of issuers whose bonds will be eligible for ECB as part of the Quantitative Easing programme.

The chart of the performance of the Terna stock in the last 12 months is presented below with the aforementioned record high highlighted:



Trend of Terna stock and the FTSE MIB and DJ STOXX 600 Utilities indexes



Source: Bloomberg. *Data at 30 June 2015*

Terna and the financial markets

Financial indicators		**30.06.2015**
Proportion of Terna shares[(1)]		
> in the FTSE MIB index		1.86%
>in the FTSE Italia All Share index		1.62%
Ratings		
Standard & Poor's	Outlook	Stable
	M/L term	BBB
	Short Term	A-2
Moody's	Outlook	Stable
	M/L term	Baa1
	Short Term	Prime-2
Fitch	Outlook	Stable
	M/L Term[(2)]	BBB+
	Short Term	F2

(1) Source: Borsa Italiana. Data at 30 June 2015
(2) Issuer Default Rating

Economic-financial performance

Terna Group performance and financial position

In order to present the performance of the Terna Group and to analyse its financial position, separate reclassified statements have been prepared that differ from those required by the EU-IFRS adopted by the Group and contained in the Condensed Consolidated Interim Financial Statements.
These reclassified tables contain performance indicators alternative to those derived directly from the tables of the Condensed Consolidated Interim Financial Statements; management considers these to be useful for monitoring Group trends and representative of the economic and financial results produced by the business.
In line with Recommendation CESR/05-178b, the criteria for constructing these indicators are described in the footnotes to the reclassified statements, which reconcile them with the schedules contained in the Condensed Consolidated Interim Financial Statements.

Consolidation scope

Compared to the situation at 31 December 2014, the scope of consolidation of the Terna Group also includes the companies Piemonte Savoia S.r.l., Monita Interconnector S.r.l. and Terna Chile S.p.A., set up during the first half of 2015 and operating in the Non-Regulated Activities sectors, as described under the paragraph "The corporate structure" in the section “Organisation, reference scenario and business”.

Basis of presentation

The measurement and recognition criteria applied in this consolidated interim financial report are consistent with those adopted in the consolidated financial statements at 31 December 2014. We can note that the comparative income statement at 30 June 2014 includes the Tamini Group starting from 20 May, the acquisition date. In addition, for the purposes of better comparison some P&L balances have been reclassified, but without materially changing the values of the result for the first half of 2014.

Reclassified income statement

The reclassified income statements of the Terna Group for the first six months and the second quarters of 2015 and 2014 are summarised in the statement below, obtained reclassifying the data presented in the consolidated income statements.

Q2					1 January - 30 June			
2015	2014	Δ	%	*€ million*	2015	2014	Δ	%
				Revenues:				
396.0	399.4	(3.4)	(0.9%)	- Transmission fee (1)	839.3	816.6	22.7	2.8%
30.2	26.6	3.6	13.5%	- Dispatching fee (1)	62.0	57.5	4.5	7.8%
57.8	37.7	20.1	53.3%	- Other operating revenue (2)	93.0	63.4	*29.6*	46.7%
6.1	*3.5*	*2.6*	*0.0%*	*of which other revenue from Regulated Activities*	*9.8*	*12.6*	*(2.8)*	*(22.2%)*
51.7	*34.2*	*17.5*	*51.2%*	*of which revenue from Non-Regulated Activities*	*83.2*	*50.8*	*32.4*	*63.8%*
4.7	8.2	(3.5)	(42.7%)	- Revenue from construction of assets in concession* (1)	7.7	12.4	(4.7)	(37.9%)
488.7	**471.9**	**16.8**	**3.6%**	**Total revenue**	**1,002.0**	**949.9**	**52.1**	**5.5%**
				Operating expenses:				
55.5	52.5	3.0	5.7%	- Personnel expenses (3)	111.8	103.8	8.0	7.7%
34.9	32.8	2.1	6.4%	- Services, leases and rentals (3)	65.8	58.2	7.6	13.1%
19.7	12.4	7.3	58.9%	- Materials (3)	32.2	14.6	17.6	120.5%
8.9	3.7	5.2	140.5%	- Other expenses	17.9	8.4	9.5	113.1%
4.7	8.2	(3.5)	(42.7%)	- Costs of construction of assets in concession* (4)	7.7	12.4	(4.7)	(37.9%)
123.7	**109.6**	**14.1**	**12.9%**	**Total expenses**	**235.4**	**197.4**	**38.0**	**19.3%**
365.0	**362.3**	**2.7**	**0.7%**	**EBITDA (GROSS OPERATING PROFIT)**	**766.6**	**752.5**	**14.1**	**1.9%**
122.7	122.2	**0.5**	**0.4%**	**Amortisation, depreciation and impairment**	**243.0**	**235.1**	**7.9**	**3.4%**
242.3	**240.1**	**2.2**	**0.9%**	**EBIT (OPERATING PROFIT/LOSS)**	**523.6**	**517.4**	**6.2**	**1.2%**
(32.7)	(32.9)	0.2	(0.6%)	- Net financial income (expense) (5)	(63.7)	(64.3)	0.6	(0.9%)
209.6	**207.2**	**2.4**	**1.2%**	**PROFIT/LOSS BEFORE TAXES**	**459.9**	**453.1**	**6.8**	**1.5%**
64.9	78.4	(13.5)	(17.2%)	- Income taxes for the period	150.0	179.1	(29.1)	(16.2%)
144.7	**128.8**	**15.9**	**12.3%**	**NET PROFIT FOR THE PERIOD**	**309.9**	**274.0**	**35.9**	**13.1%**
144.7	*128.8*	15.9	*12.3%*	*- Attributable to owners of the Parent*	*309.9*	*274.0*	*35.9*	*13.1%*

**Recognised pursuant to "IFRIC 12 - Service Concession Arrangements"*

In the first half of 2015, the Terna Group gained **revenues** of **€ 1,002.0 million**, relating to the Parent Company for € 849.1 million, to Terna Rete Italia S.r.l. for € 94.2 million and to the Tamini Group for € 51.9 million, an increase of € 52.1 million compared with the same period of the previous year (+5.5%). This change is attributable to Regulated Activities, for € +24.4 million, and Non-Regulated Activities, for € 32.4 million; revenue from investments in assets in concession fell by € 4.7 million.

In the Consolidated Income Statement:
(1) the balance is included in the item "Revenue from sales and services";
(2) the balance corresponds to the item "Other revenue and income", to the item "Revenue from sales and services" of € 60.2 million;
(3) they correspond to the items "Personnel expenses", "Services" and "Raw materials and consumables", net of the construction costs of assets in concession *pursuant to* IFRIC 12 (€ 7.7 million, of which € 2.5 million for "Personnel expenses", € 4.7 million for "Services, leases and rentals" and € 0.5 million for "Materials").
(4) the balance is included in the items "Personnel expenses", "Services" and "Raw materials and consumables", as detailed in note (3) above;
(5) corresponds to the total of the items presented in points 1, 2 and 3 of letter C - "Financial income/expense".

In the context of **Regulated Activities**, the increase of € 24.4 million derives mainly from the positive change in the **fees for the transmission activity** (€ +22.7 million) and for the **dispatching activity** (€ +4.5 million) which reflect the tariff update for the year 2015, reduced by the lack of a supplement revenues for the impact on the mechanism neutralising the volume effect (pursuant to Resolution AEEGSI 188/08) of the adjustment of the value of the energy of reference established by the Authority for the year 2015. The change in Other operating revenue from Regulated Activities (€ -2.8 million) reflects mainly the supplement of the premium for the quality of the RENS service for financial year 2012, recognised in the first half of 2014 (€ -5.7 million, on the basis of the indications of AEEGSI Resolution 118/2014/R/eel), net of higher revenue for insurance settlements for losses that occurred to plants in previous years (€ +2.7 million).

As regards **Non-Regulated Activities** – the results of which are presented under "Other operating revenue" – an increase of € 32.4 million was recorded, due substantially to the inclusion in the consolidation scope of the Tamini Group (€ +36 million, which besides included an insurance payout to cover the cost of reconstructing a transformer that had suffered damage in 2014); also recognised is the reduction in other specialist services to third parties, in particular in activities relating to orders for changes to the NTG (€ -5.1 million; the first half of 2014 was affected by more activities associated with the Expo), in part offset by engineering services (€ +2 million).

In the second quarter of 2015, Group revenues recorded an increase of approximately € 16.8 million compared to the same period of 2014 mainly due to the combined effect of the factors described above.

In the first six months of 2015, **operating expenses**, of € 235.4 million, **grew** by € 38.0 million compared with the first half of 2014, owing substantially to the operating expenses recognised in the period by the Tamini Group, compared with what was recognised in 2014 starting from the acquisition date (€ +35.3 million).

Details of the Group's operating expenses in the half-year are presented in the table below:

€ million	1st half 2015	1st half 2014	Δ Total	Δ 1st half (without Tamini)	Δ 1st half Tamini
Personnel expenses	111.8	103.8	8.0	0.7	7.3
Services, leases and rentals	65.8	58.2	7.6	(2.1)	9.7
Materials	32.2	14.6	17.6	0.1	17.5
Other costs	17.9	8.4	9.5	8.7	0.8
- Costs of construction of assets in concession	7.7	12.4	(4.7)	(4.7)	-
Total expenses	**235.4**	**197.4**	**38.0**	**2.7**	**35.3**

Operating expenses, net of the Tamini Group's balances, recorded an increase of € 2.7 million; the main differences are commented on below:

- "Personnel expenses": € +0.7 million owing essentially to lower capitalisations attributable to more executive activities associated with the various stages of progress of the main projects in the two comparable half-years;

- "Services, leases and rentals": € -2.1 million, substantially related to the reduction in costs for contracts and sundry services associated with plant maintenance;
- "Other expenses": € +8.7 million, mainly due to higher transmission service quality expenses following the outage events which occurred in the period[17] (€ +5.2 million) and to the provision for 2015 IMU (€ +3 million).

The overall change in operating expenses also takes into account the lower costs associated with investments in infrastructures in concession (€ -4.7 million).

The economic effects of the bonus/penalty mechanisms related to service quality for the first half of 2015, compared with the corresponding period of 2014 are summarised in the table below:

Electricity service quality			
	1H2015	1H2014	Δ
Revenue			
RENS premium supplement 2012	-	5.7	(5.7)
	-	**5.7**	**(5.7)**
Costs			
Mitigation and sharing mechanisms	2.7	0.7	2.0
Grants to Exceptional Events Provision	0.6	0.1	0.5
Extraordinary income		(2.7)	2.7
	3.3	**(1.9)**	**5.2**
Net service quality impact	**(3.3)**	**7.6**	**(10.9)**

EBITDA (Gross Operating Margin) for the period came out at **€ 766.6 million**, an increase of € 14.1 million compared with the € 752.5 million of the first six months of 2014 (+1.9%), owing mainly to higher *EBITDA of Regulated Activities* (€ +18.0 million), with a margin on revenue (EBITDA margin) down from 79.2% in the first six months of 2014 to **76.5%** of the corresponding period of 2015, owing substantially to the dilutive effect of the contribution of the Tamini Group.

The item **amortisation, depreciation and impairment** for the period, amounting to € 243.0 million (of which € 217.0 million of the parent company and € 24.0 million of the subsidiary Terna Rete Italia S.r.l.), grew by € 7.9 million compared with the same period of 2014 owing essentially to the entry into operation of new plants.

Amortisation, depreciation and impairment, in the comparison between the first two quarters of 2015, were substantially in line (€ +0.5 million).

EBIT (Operating Profit/Loss), after deducting amortisation, depreciation and impairment, came out at **€ 523.6 million**, compared with € 517.4 million in the first six months of 2014 (+1.2%).

Net financial expense for the period amounted to € 63.7 million, mainly attributable to the parent company (€ 63.2 million), was substantially in line with the figure for the same period of 2014 (€ -0.6 million).

[17] In the paragraph "Significant events in the first half of 2015" the main outage events which occurred in the half-year are commented on and 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 **€ 459.9 million**, up by € 6.8 million compared with the corresponding period of the previous year (+1.5%).

Income taxes for the period amounted to € 150.0 million and fell by € 29.1 million (-16.2%) compared with the same period of the previous year, following essentially the fiscal benefit on current taxes deriving from:

- reduction of the IRES rate from 27.5% from 2015 following the declaration of unconstitutionality of the surcharge introduced by Law Decree no. 112/2008 (the Robin Hood Tax)[18];
- deductibility of permanent personnel expenses for IRAP purposes introduced by the 2015 Stability Law starting from the current year.

The tax rate for the period therefore drops from 40.0% in the first six months of 2014 to 33.0% in the corresponding period of 2015.

Net profit for the period therefore came out at **€ 309.9 million**, up € 35.9 million (+13.1%) compared with the € 274.0 million of the first half of 2014.

[18] On 11 February 2015, the Constitutional Court published Judgement 10/2015, with which it declared unconstitutional 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 the first half of financial years 2015 and 2014, is shown in the table below[19]:

€ million	1st half 2015	1st half 2014	Δ	Δ%
Total revenue from Regulated Activities	**911.1**	**886.7**	**24.4**	**2.8%**
Transmission Fee	*839.3*	*816.6*	*22.7*	
Dispatching revenues	*62*	*57.5*	*4.5*	
Service quality	*0*	*5.7*	*(5.7)*	
Other core revenue	*9.8*	*6.9*	*2.9*	
Total revenue from Non-Regulated Activities	**83.2**	**50.8**	**32.4**	**63.8%**
Tamini Group revenue	*51.9*	*15.9*	*36.0*	
Other non-regulated revenue	*31.3*	*34.9*	*(3.6)*	
Revenues from construction of assets in concession	7.7	12.4	*(4.7)*	
Total revenue	**1,002.0**	**949.9**	**52.1**	**5.5%**
Total costs of Regulated Activities	**168.6**	**162.2**	**6.4**	**3.9%**
Personnel	*96.9*	*96.8*	*0.1*	
External resources	*55.7*	*58.8*	*(3.1)*	
Service quality	*3.3*	*(1.9)*	*5.2*	
Other expenses	*12.7*	*8.5*	*4.2*	
Total costs of Non-Regulated Activities	**59.1**	**22.8**	**36.3**	**159.2%**
Tamini Group costs	*49.6*	*14.3*	*35.3*	
Other non-regulated costs	*9.5*	*8.5*	*1.0*	
Costs from construction of assets in concession	7.7	12.4	*(4.7)*	
Total expenses	**235.4**	**197.4**	**38**	**19.3%**
EBITDA	**766.6**	**752.5**	**14.1**	**1.9%**
EBITDA Regulated Activities	742.5	724.5	18.0	2.5%
EBITDA Non-Regulated Activities	24.1	28.0	(3.9)	(13.9%)

** Note that conventionally, indirect costs are indirectly attributed to the EBITDA of Regulated Activities.*

[19] The Terna Group's business segments are in keeping with the internal management control system adopted by the Parent Company, in line with the 2015-2019 Strategic Plan.

Regulated Activities

The **EBITDA of Regulated Activities** amounted to € 742.5 million, up € 18 million compared to the figure for the first half of the previous year. This increase was due to higher revenue (€ +24.4 million) associated substantially with the increase in the CTR and DIS fees – which takes into account the update of tariffs for 2015 net of the impact of the mechanism neutralising the volume effect described above – partially offset by the lower service quality results (€ 10.9 million, as already detailed), and by higher insurance settlements for losses to primary plants (€ 2.7 million).

Non-Regulated Activities

EBITDA of Non-Regulated Activities amounted to € 24.1 million, down by € 3.9 million owing mainly to the reduction in activities related to orders for changes to the NTG (€ -5.1 million, mostly with reference to orders for Expo 2015 in the first half of 2014), in part offset by more engineering services (€ +2 million).

Investments

In the first half of 2015, the Terna Group made investments for € 438.9 million, of which € 411.6 million (approximately 94%) were investments in Regulated Activities, i.e. remunerated by the AEEGSI; in particular, with reference to remunerated investments, we can note that:

- 46% receives extra remuneration of 2% (investment categories I3 and I4);
- 35% benefits from extra remuneration of 1.5% (investment category I2);
- 19% receives the basic remuneration (investment category I1).

Investments	1st half 2015	1st half 2014	Δ	Δ%
Incentive +2% (Category I3/I4)	189.0	148.3	40.7	27.4%
Incentive +1.5% (Category I2)	143.0	123.8	19.2	15.5%
Investments with incentives	***332.0***	***272.1***	**59.9**	**22.0%**
Basic remuneration (Category I1)	79.6	93.4	(13.8)	(14.8%)
Investments in Regulated Activities	**411.6**	**365.5**	**46.1**	**12.6%**
Other	27.3	20.5	6.8	33.2%
Total investments	**438.9**	**386.0**	**52.9**	**13.7%**

** 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 variants for third parties.

Reclassified statement of financial position

The reclassified consolidated statements of financial position of the Terna Group at 30 June 2015, and 31 December 2014, are presented below.

€ million	**at 30.06.2015**	**at 31.12.2014**	**Δ**
Net non-current assets			
- Intangible assets and goodwill	436.4	452.5	(16.1)
- Property plant and equipment	10,982.9	10,778.6	204.3
- Financial assets (1)	89.5	89.3	0.2
Total	**11,508.8**	**11,320.4**	**188.4**
Net working capital			
- Trade receivables (2)	555.7	670.8	(115.1)
- Inventories	26.3	21.6	4.7
- Other assets (3)	34.9	24.4	10.5
- Trade payables (4)	568.7	742.9	(174.2)
- Net payables for pass-through energy items (5)	722.5	453.9	268.6
- Net tax liabilities (6)	39.7	(6.2)	45.9
- Other liabilities (7)	341.9	347.0	(5.1)
Total	**(1,055.9)**	**(820.8)**	**(235.1)**
Gross invested capital	**10,452.9**	**10,499.6**	**(46.7)**
Sundry provisions (8)	412.8	440.9	(28.1)
NET INVESTED CAPITAL	**10,040.1**	**10,058.7**	**(18.6)**
Equity attributable to the owners of the Parent	**3,164.1**	**3,092.9**	**71.2**
Net financial debt (9)	**6,876.0**	**6,965.8**	**(89.8)**
TOTAL	**10,040.1**	**10,058.7**	**(18.6)**

In the Consolidated Statement of Financial Position they correspond to:

(1) the items "Equity-accounted investees", "Other non-current assets" and "Non-current financial assets" for the carrying amount of the other investments (€ 0.3 million);

(2) the item “Trade receivables” net of energy-related pass-through revenue receivable(€ 846.1 million);

(3) the item “Other current assets” net of other tax assets (€ 16.9 million);

(4) the item “Trade payables” net of the energy-related pass-through costs payable (€ 1,568.6 million);

(5) the items “Trade receivables” for energy-related pass-through revenue receivable (€ 846.1 million) and “Trade payables” for energy-related pass-through costs payable (€ 1,568.6 million);

(6) the items “Tax assets”, “Other current assets” for the amount of the other tax assets (€ 16.9 million), “Other current liabilities” for the amount of other tax liabilities (€ 52.3 million) and “Tax liabilities”;

(7) the items “Other non-current liabilities”, “Current financial liabilities” and “Other current liabilities” net of other tax liabilities (€ 52.3 million);

(8) the items “Employee benefits”, “Provisions for risks and charges” and “Deferred tax liabilities”;

(9) the items "“Long-term loans”, “Current portion of long-term loans”, "Non-current financial liabilities”, “Cash and cash equivalents”, “Non-current financial assets” for the value of FVH derivatives (€ 666.6 million) and for the value of deferrals on Revolving Credit Facility commissions (€ 1.8 million), “Current financial assets” and “Current financial liabilities”.

The increase in **Net non-current assets** of € 188.4 million, compared with the figure of 31 December 2014, is mainly attributable to the item **Property, plant and equipment**, owing essentially to the combined effect of:

- investments for € 427.1 million;
- depreciation and amortisation for the period of € 215.1 million.

Disposals and other changes in the period, such as the recognition of set-up grants, accounted for the change in the item to € +204.3 million compared to 31 December 2014.

Intangible assets and goodwill recorded a reduction of € 16.1 million, mainly attributable to ordinary changes in intangible assets for investments of € 11.8 million net of the amortisation for the period of € 27.9 million.

Total investments made by the Group in the first half of 2015 amounted to € 438.9 million up € 52.9 million compared with the € 386 million of the corresponding period of 2014 (+13.7%).

Net working capital amounted to **€ -1,055.9 million** and, during the period, provided cash of € 235.1 million, owing essentially to the combined effect of:

Liquidity generated

- increase of **net energy-related pass-through payables** related to the electrical energy dispatching activity carried out by the Parent Company, of € 268.6 million, attributable to non-liquidation (awaiting the specific AEEGSI Resolutions) of items related to collection in the period from users of the dispatching of the fees remunerating the EUSSs (Essential Units for Electricity System Security) and the capacity payment (availability of production capacity);
- decrease in **trade receivables** of € 115.1 million, mainly due to collection from the CCSE (Cassa Conguaglio del Sistema Elettrico - Electricity Industry Clearing House) of the receivable for the 2013 revenue supplement, pursuant to AEEGSI Resolution 653/2014 (€ 91.2 million) which occurred in February; a reduction was also recognised in receivables linked to Non-Regulated Activities for collections in the period related to greater activities carried out at the end of 2014;
- increase in net tax liabilities (€ 45.9 million) mainly due to the recognition of income taxes for the period, net of payments on account in the period and of the effects of liquidating taxes of financial year 2014 (€ 35.1 million) and the higher net payable for VAT (€ 7.4 million);

Liquidity absorbed

- a reduction in trade payables of € 174.2 million mostly for purchases and services relating inter alia to greater investment activities implemented in the last period of the previous year;
- an increase in other assets of 10.5 million, owing essentially to recognition of the receivable related to the insurance reimbursement obtained with the definition of the damage that had occurred to a transformer in the previous year.

Gross invested capital, therefore, amounted to € 10,452.9 million, recording a decrease compared with the previous financial year of € 46.7 million.

Sundry provisions, amounting to € 412.8 million, recorded a decrease of € 28.1 million, mainly attributable to:

- provision for early retirement incentives (€ -8.2 million) connected with the generational turnover programme through early voluntary retirement incentives launched by the Parent Company during the previous year;
- provisions for employee benefits, which recorded a total reduction of € 15 million (of which € 6.8 million related mainly to the amounts payable to the beneficiaries of the aforementioned voluntary retirement programme and € 8.2 million referable to the recognition of actuarial gains and losses accruing to the period, owing to adjustment of the relevant interest rate);
- net utilisation of provisions for risks related to electricity service quality for charges payable to distributing companies for outages of the transformation plants connected to the NTG (€ 3.9 million).

Net invested capital amounted to € 10,040.1 million, a decrease of € 18.6 million compared with 31 December 2014 and is financed by shareholders' equity for € 3,164.1 million (compared with € 3,092.9 million at 31 December 2014) and by net financial indebtedness for € 6,876 million (€ -89.8 million compared with the € 6,965.8 million of 31 December 2014).

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

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

€ million	Net profit 1H 2015	Equity at 30.06.2015
Financial Statements of the Parent Company	**263.9**	**2,778.1**
Results and equity contributed by the Group Companies - Regulated Activities	47.0	293.4
Results and equity contributed by the other Group companies - Non-Regulated Activities	(1.2)	65.4
Equity-accounted investees	0.2	27.2
Terna Group Consolidated Financial Statements	**309.9**	**3,164.1**

Cash flows

Net financial debt

The Group's net financial debt at 30 June 2015 (€ 6,876 million) is broken down in the table below.

€ million	30.06.2015	31.12.2014	Δ
Net financial debt			
A. Medium- and long-term debt			
- Bond (1)	6,864.3	5,983.6	880.7
- Floating-rate loans (1)	2,034.6	2,101.6	(67.0)
- Derivative financial instruments (2)	(653.6)	(754.9)	101.3
Total	**8,245.3**	**7,330.3**	**915.0**
B. Short-term debt (liquidity):			
- Floating-rate loans (current portions) (3)	124.0	764.1	(640.1)
- Derivative financial instruments	-	5.6	(5.6)
- Other net current financial liabilities (4)	41.2	83.1	(41.9)
- Cash and cash equivalents	(1,534.5)	(1,217.3)	(317.2)
Total	**(1,369.3)**	**(364.5)**	**(1,004.8)**
Total net financial debt	**6,876.0**	**6,965.8**	**(89.8)**

The structure of net financial debt, which decreased overall by € 89.8 million in the first half of 2015, presents the following changes:

- an increase in bonds (€ 880.7 million), as a result of the bond issue on 19 February 2015 for € 1 billion, and of the adjustment to fair value of the said financial instruments (€ -118.8 million, including the amortised cost) net of the effect of the reduction in the value of the inflation-linked bond attributable to the negative inflation rate figure of the period (€ -0.5 million);
- a decrease in floating-rate loans (€ 707.1 million) owing to repayment on 26 June 2015 of the Club Deal floating-rate loan obtained in October 2008 (€ 650 million) and of the instalments falling due of the other existing loans (€ 57 million);
- a decrease in the positive net balance of derivative financial instruments (€ 95.7 million), mainly due to the increase in the medium/long-term reference interest rate curve with respect to December 2014;
- an increase in cash and cash equivalents (€ 317.2 million).

In the Consolidated Statement of Financial Position:
(1) this figure corresponds to the item "Long-term loans";
(2) this figure corresponds to the item "Non-current financial liabilities" and "Non-current financial assets" for the value of FVH derivatives (€ 666.2 million);
(3) this figure corresponds to the item "Current portion of long-term loans";
(4) this figure corresponds to the items "Current financial assets", "Non-current financial assets" for the value of deferrals on Revolving Credit Facility commissions (€ 1.8 million) and to the item "Current financial liabilities".

Cash flow

The consolidated cash flow at 30 June 2015 and 30 June 2014 is presented in the statement below.

€ million	Cash flow First half 2015	Cash flow First half 2014
- Net profit for the period	309.9	274.0
- Amortisation, depreciation and impairment	243.0	235.1
- Net financial expense	63.7	64.3
- Net change in provisions	(28.1)	(2.7)
- Net Losses (Gains) on asset disposals	(1.1)	(0.5)
Self-financing (Operating Cash Flow)	**587.4**	**570.2**
- Change in net working capital	235.1	(280.4)
- Other changes	31.2	(5.5)
Change in NWC and other (Cash Flow from Operating Activities)	**853.7**	**284.3**
- Total investments	**(438.9)**	**(386.0)**
Free Cash Flow	**414.8**	**(101.7)**
- Dividends paid to owners of the Parent	(261.3)	(261.3)
- Net financial expense	(63.7)	(64.3)
Change in net financial debt	**89.8**	**(427.3)**

The cash provided by operating activities in the first half of 2015 is attributable substantially to self-financing (€ 587.4 million), and to financial resources provided by net working capital (€ 235.1 million) and by other changes (€ 31.2 million).

The most substantial effect on **self-financing** was that of profit for the first half of 2015, € 309.9 million, gross of amortisation, depreciation and impairment accruing of € 243 million and net financial expense for the period (€ 63.7 million). The reduction in provisions of € 28.1 million substantially reflects the change in provisions for risks and benefits relating to personnel, and the quality of the electricity service.

The cash generated by **net working capital**, of € +235.1 million, is mostly attributable to the management of items of a commercial nature (including pass-through energy) and to the increase in tax payables owing mainly to the recognition of taxes accruing to the half-year net of payments on account in the period.

The Group's **total investments** made in the period amounted to € 438.9 million, referable to property, plant and equipment for € 427.1 million and to intangible assets for € 11.8 million.

Therefore the **net free cash flow** provided by operating activities amounted to € 414.8 million, compared with an absorption of cash of € 101.7 million in the corresponding period of the previous year.

The operations described above enabled a reduction in net financial debt of € 89.8 million, after covering the need deriving from **remuneration of shareholders** (payment of the balance on the 2014 dividend for € 261.3 million) and **of non-controlling interests** (net financial expense of € 63.7 million).

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

€ million	Cash flow First half 2015	Reconciliation financial statements	Cash flow First half 2014	Reconciliation financial statements
- Net profit for the period	309.9		274.0	
- Amortisation, depreciation and impairment	243.0		235.1	
- Net financial expense	63.7		64.3	
- Net change in provisions	(28.1)		(2.7)	
Employee benefits		*(15.0)*		*13.1*
Provisions for future risks and charges		*(11.8)*		*(2.8)*
Deferred tax liabilities		*(1.3)*		*(13.0)*
- Net Losses (Gains) on asset disposals	(1.1)		(0.5)	
Self-financing (Operating Cash Flow)	**587.4**		**570.2**	
- Change in net working capital:	235.1		(280.4)	
Inventories		*(4.7)*		*(10.0)*
Trade receivables		*176.0*		*(161.4)*
Income tax assets		*(9.8)*		*2.7*
Other current assets		*(5.8)*		*28.5*
Trade payables		*33.5*		*(158.6)*
Tax liabilities		*38.8*		*(6.1)*
Other liabilities		*7.1*		*24.5*
- Other changes in non-current assets	8.6		(12.0)	
Intangible assets		*0.0*		*(0.3)*
Property, plant and equipment		*8.8*		*(8.3)*
Non-current financial assets		*0.0*		*-*
Other non-current assets		*0.0*		*(1.1)*
Equity-accounted investees		*(0.2)*		*(2.3)*
- Other changes in equity attributable to owners of the Parent	22.6		6.5	
Equity attributable to owners of the Parent - Share capital, Other reserves and Retained earnings		*22.6*		*6.5*
Change in NWC and other (Cash Flow from Operating Activities)	**853.7**		**284.3**	
Investments				
- Total investments	(438.9)		(386.0)	
Property, plant and equipment		*(427.1)*		*(364.6)*
Intangible assets		*(11.8)*		*(21.4)*
Total cash flows provided by/(used in) investing activities	**(438.9)**		**(386.0)**	
Free Cash Flow	**414.8**		**(101.7)**	
Own funds				-
- Dividends paid to owners of the Parent	(261.3)		(261.3)	
Third party financing				
- Net financial expense	(63.7)		(64.3)	
Change in net financial debt	**89.8**		**(427.3)**	
- Change in loans	***227.4***		***484.8***	
Non-current financial assets		*118.4*		*(162.9)*
Current financial assets		*(5.9)*		*1.2*
Non-current financial liabilities		*(16.9)*		*(19.8)*
Long-term loans		*813.7*		*681.5*
Current portion of long-term loans		*(640.1)*		*5.1*
Current financial liabilities		*(41.8)*		*(20.3)*
- Change in cash and cash equivalents	***317.2***		***57.5***	

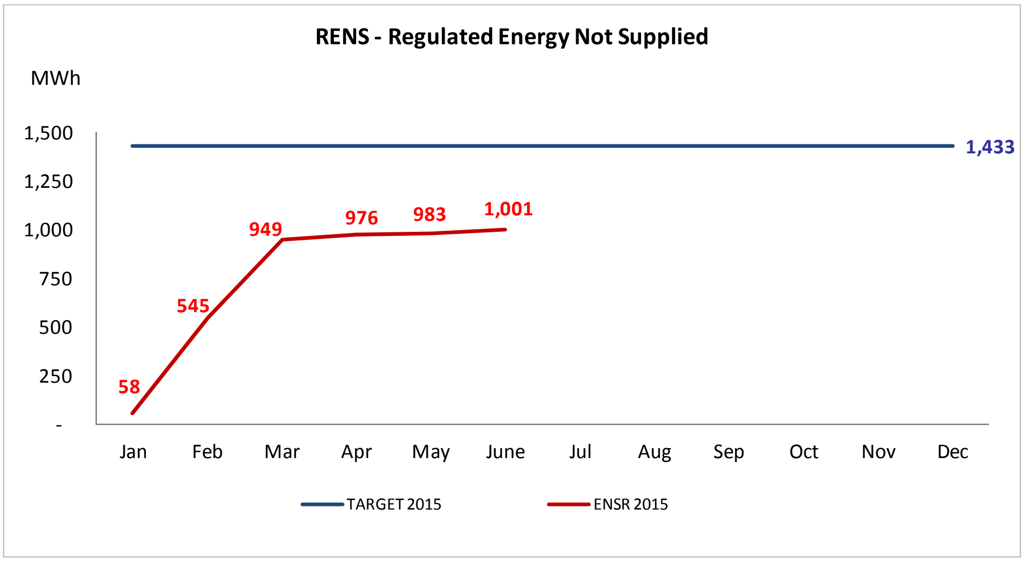
Operating performance

Quality of transmission service

Continuity is the most important parameter for measuring electricity service performance. Each stage of the electricity system – generation, transmission, and distribution – contributes to the final result: ensuring the availability of electricity for society, with appropriate standards of technical quality.
Terna monitors the quality of the service provided using different indexes, and identifies annual targets for improvement. The indexes referred to below, where not otherwise specified, are defined by AEEGSI (Resolutions 250/04 and 197/11) and by the Terna Grid Code.

Main electrical system operating events

In the first half of 2015 operation of the system was affected by a number of meteorological events with a high impact in terms of electrical 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.
On the occasion of both events, significant incidents were recorded. The advancement of the RENS “Reference Energy Not Supplied” indicator, based on preliminary operating data, with an indication of the annual target is shown below[22].

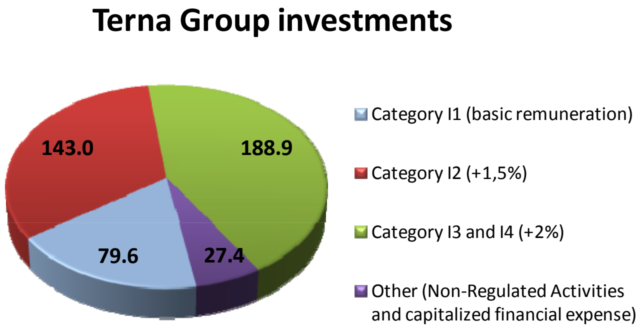


[22] Definition of Significant Incident and RENS pursuant to AEEGSI Resolution ARG/elt 197/11 which governs transmission service quality.

Investments in the first half of 2015

Total investments made by the Terna Group in the first six months of 2015 were € **438.9 million**, of which **331.9 million with incentives** from the AEEGSI involving extra remuneration of between 1.5% and 2%.

Below is the classification of the Group's investments, according to remuneration category[23]:



With reference to the main projects ongoing in the period, a brief comment on the stage of progress of the most significant work is presented below:

- **Italy-Montenegro Interconnection:**
  - *cable connection*: laying and protection of the first marine stretch of the first pole was completed, while production of the second stretch is at an advanced stage; production of the cable of the second pole has also begun;
  - *converter station*: work is in progress on laying the foundations and erecting prefabricated buildings at the Cepagatti substation, while in the Kotor substation organisation of the site continued.

- **380 kV Sorgente - Rizziconi power line:**
  - *power lines/cables*:
    - Calabria: excavation work on the Favazzina tunnel is continuing;
    - Sicily: creation of the underground cable stretch was completed; legal actions are continuing for the release from seizure of Pylon No. 40 in the Municipality of Saponara (ME) of the Villafranca-Sorgente 380 kV power line, as commented on in the discussion on significant events in the first half of 2015, to which the reader is referred.
  - *electrical substations*:
    - Calabria: work on the 380 kV bars of the Rizziconi substation is in progress;
    - Sicily: at Villafranca the 380 and 150 kV armoured lines were completed and approval tested and assembly of the machinery was completed; in the Sorgente electrical substation work on the 380 kV bars is at an advanced stage.

[23] The investments with which remunerative incentives at 2% are associated regard actions to reduce congestion between market zones, to increase the foreign interconnection capacity and, only in limited cases approved in advance by the AEEGSI, to resolve congestion within market zones. The other investments to develop the NTG benefit from an incentive of 1.5%. The incentive category I4 (+2%) is related to investments for developing Storage Systems.

- **380 kV Udine Ovest-Redipuglia power line**:

  -*power lines*:

  - work is continuing on procuring and laying the foundations, assembling the pylons and stringing the lines.

  -*electrical substation*:

  - at the Udine Ovest substation electromechanical assemblies and assembly of the auxiliary/general services and the Protection, Command and Control System have been completed.

- **380 kV Foggia-Villanova power line:**

  -*power lines*:

  - work is continuing on procuring supplies and laying foundations, and assembly of the pylons has begun.

  -*electrical substations*:

  - in the Villanova substation expansion of the 380 kV section has been completed with entry into service of two 380/120 kV ATRs and of the second 380/150 kV ATR; work is continuing on the 120 kV section;
  - in the Gissi substation the civil works have been completed for the expansion of two bays of the 380 kV section.

- **Italy-France interconnection:**

  In relation to the cable connection, the work consequent to the supply and installation has begun.

- **380 kV Paternò-Pantano-Priolo power line:**

  -*power lines/cables:*

  - excavation and laying of the 380 kV connection cable between the Melilli ES and the Priolo ES is continuing.

  -*electrical substations*:

  - the armoured 380 kV line has been completed and approval tested at the Priolo ES.

- **Storage Systems:**

  -*"Energy Intensive" Projects*

  - work is continuing on creating the Storage Plants at the Scampitella site.

  -*"Power Intensive" Projects*

  - testing activities at the Ciminna site and construction activities at the Codrongianos site are in progress.

The main work relating to **Non-Regulated Activities** regards variants for third parties and the beginning of preparatory activities for the interconnector on the French border.

Investments in intangible assets include the actions aimed at upgrading and developing software and, for the remainder, investments related to the dispatching infrastructures.

Sustainability performance

Corporate social responsibility

Terna's **fundamental objective**, in relation to the role played in the Italian electrical system, is to **guarantee a continuous, high quality electricity service at the lowest possible cost**. This purpose, which implies medium and long-term considerations, has been pursued with a sustainability approach, characterised by respect for the environment and the territory, as well as a focus on health and safety in the workplace and staff training. Terna's sustainability path is guided by its Code of Ethics, and is defined by concrete objectives which are first measured and then documented in the annual sustainability report. Terna has further reinforced its corporate sustainability commitment, publicly confirmed by its participation in the United Nations Global Compact, which promotes 10 universal principles in support of human rights, labour standards, the environment and the fight against corruption.

The Corporate Social Responsibility Unit collaborates with all the divisions of the company in order to define the company's ethical, social and environmental objectives in line with international best practices. The Unit, in addition, constantly monitors risks associated with aspects of sustainability that may have a negative impact on the reputation and intangible value of the Company, through ratings analyses by the main agencies (such as RobecoSAM, Vigeo and Eiris), which periodically conduct sustainability assessments.

In the first half of 2015, Terna carried out various initiatives in several areas of sustainability including, in particular:

- conclusion of the revised mapping of stakeholders, part of a more general project for structured management of relationships with stakeholders;
- on-line publication of the 2014 Sustainability Report, Terna's tenth and drawn up for the first time according to the G4 guidelines of the GRI-Global Reporting Initiative, one year in advance with respect to their definitive entry into force;
- publication of the second Integrated Report, drawn up in keeping with the principles of the International Integrated Reporting Council;
- annual renewal of the three ISO 9001 Quality certifications for Environmental Management ISO 14001 and for Workplace Health and Safety Management BS OHSAS 18001, of Terna's Integrated Management System;
- annual renewal of the **"Information Security Management System"** certification compliant with the new version of the international standard ISO/IEC 27001:2013.

Sustainability indexes and recognitions

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

In line with the confirmations, obtained in 2014 in the main international stock exchange sustainability indexes including the Dow Jones Sustainability Indexes (World and Europe) and the STOXX® Global ESG Leaders indexes, also during the first half of 2015 Terna obtained important recognitions, among which it is worth noting:

- inclusion in the Gold Class of the "SAM Sustainability Yearbook 2015", prepared on the basis of the analysis performed by SAM – Sustainable Asset Management, the sustainability ratings agency that carries out assessments for the Dow Jones Sustainability Indexes. To be part of the Gold Class, companies must achieve a rating which is within 1% of that of the leading company in the sector.
- confirmation in the Ethibel Investment Register, obtained on the basis of the analysis of the Vigeo agency and of the positive opinion of the Ethibel Forum, a panel of independent experts on the different aspects of sustainability.

Future prospects

Future performance in the short and medium-long term

As already noted in the section, "Organisation, reference scenario and business," Terna's Strategic Plan which takes a five-year view, defines objectives, priorities and investments helping the Group to identify tools to continue to create value.

This takes the form of identifying the medium- and long-term trends which could present challenges and deciding how to resolve them. This is the case, for instance, of the changing energy scenarios and consequent need to adapt the electricity transmission grid or, the increasing integration of grids at the European level.

In the long term, an increase in the importance of non-regulated business is expected, including in the creation of value. The focus on stakeholders and the desire to maintain a relationship of trust with them fuels sustainability policies facilitating a more solid business model in the medium and long term.

Grid development

The transmission grid must gradually evolve and expand in accordance with developments in the generation and consumption of electricity. Both the supply and demand of electricity grow at different rates in different areas of Italy. The combination of these elements changes the flows of electricity in the system, causing congestion in the existing grid.

To tackle these issues, Terna prepares annual **grid development investment programmes**, so as to keep the grid up to date with the evolution of production capacity and consumption, and to increase its efficiency and security. The development work that Terna plans and carries out has positive repercussions on society; in fact, the assumption underlying its implementation is that the collective financial benefit that this work generates outweighs its cost.

Every year, Terna prepares a **Transmission Grid Development Plan (DP)** containing the **National Transmission Grid development projects** envisaged for the next ten years and the progress made on development works planned in previous years.

The 2014 Development Plan is concerned with the transmission grid development investments in progress and/or to be started in the time window 2015-2024; the document also describes the theoretical framework, the objectives and the criteria used to set out the planning process for the transmission grid, the new development needs identified in 2013, priorities for action and the expected results of the Plan. It is accompanied by a closer examination of analyses carried out on the economic sustainability of the main development plans.

Every Development Plan follows a detailed path, in that it is assessed and approved by the Ministry of Economic Development, also following public consultation (pursuant to Article 36.13 of Legislative Decree 93/11) by the Authority for Electricity, Gas and Water, and also subjected to evaluation by the Grid User Consultation Committee.

In addition, pursuant to Legislative Decree 152/06, as amended, the Plan is also subject to the Strategic Environmental Assessment (SEA)[24] process carried out by the Ministry of the Environment and Protection of Land and Sea in collaboration with the Ministry for Cultural Heritage.

Smart Transmission Solutions

One of Terna's main needs is to make the transmission grid flexible over time, i.e. capable of evolving rapidly and effectively in response to unpredictable and rapidly changing circumstances.
For this reason, in the Development Plan Terna sets out projects able to guarantee appropriate margins of security, reliability and efficiency in the electricity system under various operating conditions, while maximising the timely and flexible use of existing infrastructure and thus facilitating integration of growing production from renewable sources, including those not directly connected to the NTG. In addition these solutions generally have **reduced environmental impact** (allowing use of existing assets to be maximised), and implementation times and costs which are typically lower than those necessary for the creation of new network infrastructures (High-Voltage lines and substations).

Among these projects we note:

- installation of electrical equipment (Phase Shifting Transformers - PSTs) for controlling energy flows on the High and Very-High-Voltage grid;
- installation of synchronous condensers to improve the stability and operating security of the system;
- installation of reactors and condensers for proper management of reactive power flows on the grid, with consequent cost reduction for the Dispatching Market;
- the use of systems that allow real-time monitoring of transport capacity on existing lines, also as a function of effective environmental conditions (Dynamic Rating). To this end, the testing, about to be completed, will make it possible to define types and standards for applying the method, in order for it to be progressively implemented and diffused, in particular on the critical Central North-North and Central South-South line sections and on renewable collection lines;
- testing of diffused storage systems to maximise the exploitation of power from renewable sources and to improve the regulation of the High and Very-High-Voltage systems;
- initiatives based on smart logic, aimed at improving the forecast and control of distributed generation.

The following innovative solutions are also planned:

- participation in the GREEN-ME project (Grid integration of REnewable Energy sources in the North - MEditerranean): in July 2014, a request was presented to the European Commission for financing, as part of the Connecting Europe Facility (CEF) by Italian and French TSOs and DSOs (Distribution System Operators). It involves the development of systems to integrate distributed generation from the South of France to the Regions of Northern Italy. The project has been added to the list of

[24] It may also be subject to screening to check whether it should undergo SEA pursuant to Legislative Decree No 1 of 24 January 2012.

Projects of Common Interest (**PCIs**), published by the European Commission in October 2013, as one of the "Smart Grid" projects; in addition, in correspondence with the start of the new PCI selection process - which at the moment is expected to be completed in the coming autumn 2015 - Terna confirmed the Green - Me project among the development proposals - formulated under the terms of Regulation (EU) No. 347/2013 - to be selected as a PCI and included in the next Union List by the European Commission. On this point, we can note that Green-Me has been added to the draft PCI list submitted to representatives of the Member States prior to the ACER approval process; the initiative is conditional on the possible financing of the activities provided for by the European Commission;

- improving grid identification and control with digital systems: exploiting the potential offered by digital equipment, we aim to provide measurements directly for the analysis and monitoring of service quality;
- monitoring grids: the growing impact of renewable sources on the distribution grids requires data collection and modelling which will enable a more detailed overview of the load/generation on distribution systems that operate with the transmission grid.

Main grid development work in progress

Each year, grid development work involves numerous projects at different stages of the implementation cycle. The main projects completed in the first half of 2015 and the stage of progress of those being implemented and authorised of the Development Plan updated to the first half of 2015 are presented below.

Completed work

In the first half of 2015, transformation capacity increased by about 1,300 MVA of power and approximately 28 km of new High and Extra-High-Voltage lines came into operation.

Among the projects completed, of note are creation of the 220 kV "Ospiate – Musocco" and "Milano Ricevitrice Ovest – Milano Ricevitrice Sud" cable connections and also the 150 kV "Fratta – Gricignano" cable connection to improve service in the Milan and Naples metropolitan areas. In relation to the plants needed to implement collection and use of production from renewable sources in the south of Italy the Valle (FG) and Petralia Sottana (PA) substations were completed. Also worth noting is the installation of reactors at the Forlì and Bovisio (MB) electrical substations.

Progress on construction sites

The major works still in progress in 2015 aim to reduce grid congestion, connect new power plants (particularly those based on renewable sources) and to make the National Transmission Grid more reliable with a greater emphasis on the environment and safety. In this direction, for example, are the 380 kV "Gissi-Villanova" power line (the first of the sections needed to double the Adriatic backbone to 380 kV) and the 380 kV "Sorgente-Rizziconi" power line, work on which is at an advanced stage. In addition, important interconnection initiatives with foreign countries are under way, in particular the Italy-Montenegro and Italy-France HVDC interconnections.

For a more detailed description of the stage of progress of the main projects being worked on, see the section “The Group's Performance”.

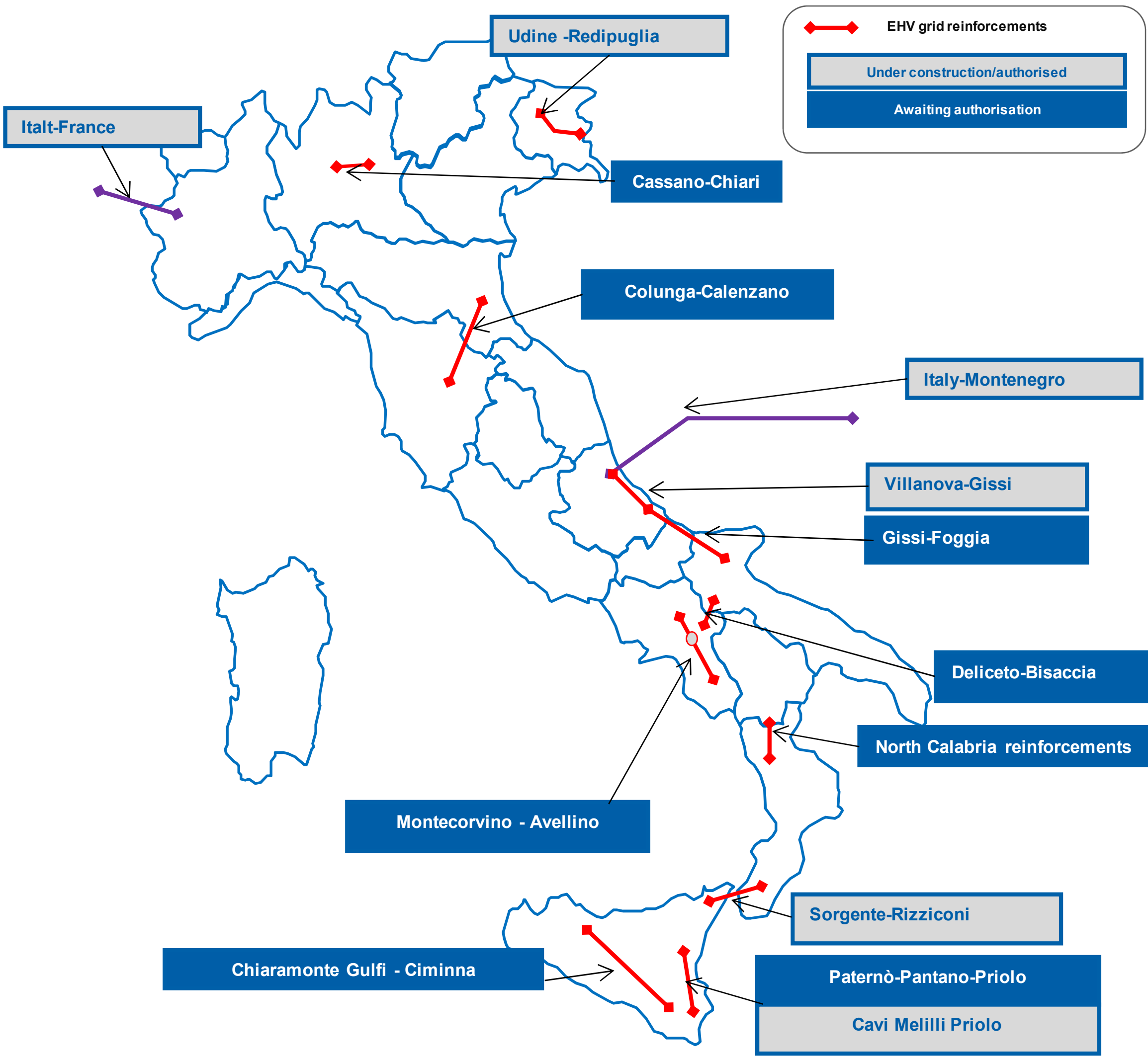
Authorised work and authorisation procedures in progress

In 2015 the following projects aimed at improving service continuity and quality were authorised: the new 150 kV “Rome North - Monterotondo” power line, the localising variant of the Capri substation, the burying of the 132 kV “Pianezza-Metro” power line, the 150 kV “Sorrento-Capri” connection and increased capacity of the 132 kV “Schio – Arsiero” power line.

In addition, for the purpose of greater integration of generation from renewable sources the reconstruction with increased capacity of the 150 kV “Matera – Grottole”, “Grottole – Salandra, Salandra FS”, and “Salandra – S. Mauro Forte” power lines was authorised,

In addition, further authorisation procedures were launched for projects mainly aimed at improving service continuity and quality on the HV grid.

The picture below summarises the main projects included in the Development Plan which are currently authorised or awaiting authorisation:



Projects set out in the Development Plan for use of renewable energy systems

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 Development Plan 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.

The picture below shows an overview of the main development work carried out on the 380kV Very-High-Voltage grid, aimed at fully using the energy produced by renewable sources:

Significant events subsequent to 30 June 2015

Liability management

On 20 July 2015 Terna S.p.A. defined the results and the "pricing" of its offer to eligible Holders of its securities entitled "€1,250,000,000 4.125 per cent. Notes due February 2017" and "€750,000,000 2.875 per cent Notes due February 2018".

The Offers were announced on 10 July 2015 and were proposed with the terms and conditions contained in the Tender Offer Memorandum prepared by the Company.

At the Expiry Term of 17 July 2015 a total nominal amount of Securities of approximately € 756 million was validly brought in acceptance of the Offers while the Company accepted an approximate total nominal amount of € 480 million.

Barclays Bank PLC, Citigroup Global Markets Limited and Credit Suisse Securities (Europe) Limited acted as Dealer Managers in relation to the Offers.

Consultation documents on the fifth regulatory period

The year 2015 ends the fourth regulatory period for the electricity transmission, distribution and measurement services. With a view to the revision of the regulatory framework for the next regulatory period, the Italian Regulatory Authority for Electricity, Gas and Water began two separate procedures, which were followed by separate consultation documents, as commented on in the discussion on the legislative and regulatory context to which the reader is referred.

Sorgente – Rizziconi: possible completion of the power line

On **17 July 2015** an order was issued to release from seizure Pylon no. 40 of the "Sorgente – Rizziconi" power line; this order was made enforceable on **28 July 2015**.

With this measure Terna will be able to complete the works on the power line, which were interrupted following the order, issued by the Court of Messina on 13 March 2015, impounding the aforementioned pylon.

It is worth recalling that the "Sorgente-Rizziconi" power line is a strategic infrastructure for the Sicilian electrical system.

"Udine Ovest – Redipuglia" power line: Council of State blocks project due to defect of form

On **24 July 2015**, the Council of State issued a ruling blocking the "Udine Ovest – Redipuglia" power line – already in an advanced stage of completion – due to a defect of form. This is a project of strategic importance for the Friuli Venezia Giulia region.

More specifically, the ruling did not bring into question the project itself or its importance, but rather the methods by which the Ministry for Cultural Heritage issued its approval, one of 50 already acquired for the project. Terna is in the process of evaluating the effects of the ruling and the best approach to protect itself.

Business outlook

In the second half of the year, the Terna Group will be busy implementing the provisions of the 2015-2019 Strategic Plan approved by the Board of Directors on 26 March 2015.

In particular, the company will focus on maximising the cash generation necessary to ensure a healthy and balanced financial structure and to sustain the dividends policy. This objective will be pursued through programs to rationalise investments and operating costs, as well as developing new initiatives, such as the creation of new cross-border interconnections and new activities in the non-regulated area.

With specific reference to investments, an amount at the end of the year of approximately € 1 billion is foreseen for the development and renewal of the NTG, as well as for the creation of the Storage Systems provided for in the Development Plan and the Defence Plan.
With specific reference to initiatives on costs, the company has completed the first stage of generational turnover with 153 employees leaving and 87 new recruitments made by the end of June; in the second half of 2015 the preparatory activities for implementing the second stage of the plan will be finalised.
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. In particular, in the second half of the year the creation of a High Voltage connection is planned for a photovoltaic park in Chile for the client Enel Green Power, as is the consolidation and development of the Tamini company, with the objective of making the most of the firm's skills.
In the area of the development of new cross-border interconnections, in 2015 the signing of agreements to start the creation of an interconnection with France is planned, pursuant to Italian Law 99/2009 (the Interconnector).

ANNEX

Italy's regulatory framework

Regulatory framework

Below is a brief description of the main recent regulatory measures of interest for the Parent Company issued during the first half of 2015 and, subsequently, up to the date of preparation of the present Interim Financial Report.

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 the Italian Official Journal of 29 December 2014, No. 99.

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 National Electricity Transmission Grid; the inclusion is conditional on 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 (regional tax on productive activities) and contribution relief for new hires. The maximum limit for the TASI (tax on indivisible services) 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 euro 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 per cent of the amount. 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.

Measures issued in 2015

- **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 is 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.
The same Law converts Italian Law Decree 4/15, laying down the exemptions for agricultural land located in totally mountain municipalities and, if possessed and cultivated by direct farmers and professional agricultural entrepreneurs, in partially mountain municipalities. The exemption was extended, with application already from 2014, also to agricultural or uncultivated land located in the municipalities of the smaller islands.

- **On employment**

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.

- **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 the SACE or, after authorisation from the Bank of Italy, through another subsidiary.

Italian Law Decree No. 83 of 27 June 2015, containing "Urgent measures on bankruptcy, civil law and civil procedural law and organisation and operation of the judicial administration", published in the Italian Official Journal No. 147 of 27 June 2015.

The Decree makes changes to the bankruptcy law and to the Italian civil and civil procedural codes on arrangement and attachment procedures. Among the measures it 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.

Resolutions of the Italian Regulatory Authority for Electricity, Gas and Water

Presented below is a short summary of the main resolutions passed by the Italian Regulatory Authority for Electricity, Gas and Water (the "Authority") during the first half of 2015 and later, up to the date of preparation of this Interim 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 national transmission grid

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 national transmission grid, 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 opportune 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 (CCSE) 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 Network 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 provided for in the terms 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, and 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 made 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. With this measure the Authority also 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 arrive at agreements 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 the company 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 the companies 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 with immediate effect from the 2015 list of essential plants.

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 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 stating 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 Production Plants Consolidated Records Management System (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 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 (*Testo Integrato per il Monitoraggio del Mercato Elettrico* - Integrated Rules for Electricity Market Monitoring) 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 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 Production Plants Consolidated Records Management System (GAUDI).

With this measure the Authority recognised the costs incurred in 2014 by Terna for the performance of activities regarding the management and development of the Production Plants Consolidated Records Management System (GAUDÌ). In particular, the Authority quantified at € 1,081,427 the amount of 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 purpose of future quantification of the fee for Terna's operations related to the year 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 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 of € 94,200,000. With the same provision, the Authority also defined the table that specifies the time brackets in relation to the year 2014.

Resolution 251/2015/R/eel - Ascertainment of progress in achieving the milestones of strategic investments for development of the national transmission grid 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 National Transmission Grid 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 in existence at 31 December 2014, to be included in the transmission fees related to the year 2016.

Resolution 284/2015/R/eel and Resolution 307/2015/R/eel – Decisions on the essential production plants available to 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 national transmission grid.
With Resolution 307/2015/R/eel the Authority determined the supplementary cost-covering fees for the year 2012 in relation to the essential plants available to Enel Produzione S.p.A..

Resolution 296/2015/R/com – Rules on the subject of 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, states that the functional unbundling obligations on Terna and on the transport operators, subject to certification under the terms of 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 consequent certification decisions adopted by the Authority. It also stated that it considers opportune to postpone to future certification decisions the revision of the disclosure obligations on the companies subject to the certification procedures under the terms of Resolution ARG/com 153/11.

Terna
TERNA GROUP

Condensed consolidated interim financial statements at 30 June 2015

Contents

Consolidated financial statements

Consolidated income statement

Consolidated - TERNA Group INCOME STATEMENT *€ million*	Notes	1st half 2015	1st half 2014
A REVENUE			
1 Revenue from sales and services	1	969.2	922.3
of which: related parties		*589.4*	*714.5*
2 Other revenue and income	2	32.8	27.6
of which: related parties		*0.4*	*1.0*
Total revenue		**1,002.0**	**949.9**
B OPERATING EXPENSES			
1 Raw materials and consumables	3	32.7	15.3
2 Services	4	70.5	66.6
of which: related parties		*0.9*	*0.7*
3 Personnel expenses	5	114.3	107.1
- gross personnel expenses		*149.6*	*142.8*
- gross personnel expenses, capitalised		*(35.3)*	*(35.7)*
of which: related parties		*1.2*	*0.2*
4 Amortisation, depreciation and impairment	6	243.0	235.1
5 Other operating expenses	7	17.9	8.4
of which: related parties		*0.0*	*0.1*
Total expenses		**478.4**	**432.5**
A-B Operating profit		**523.6**	**517.4**
C Financial income/expense			
1 Financial income	8	6.1	13.6
2 Financial expense	8	(71.0)	(82.7)
of which: related parties		*(2.7)*	*(3.2)*
3 Share of profit/(losses) deriving from equity-accounted investees	9	1.2	4.8
D Profit before taxes		**459.9**	**453.1**
E Income taxes	10	150.0	179.1
F Net profit for the period		**309.9**	**274.0**
Profit for the period attributable to owners of the Parent		***309.9***	***274.0***
Earnings per share			
Basic earnings per share	11	0.154	0.136
Diluted earnings per share		0.154	0.136

Consolidated statement of comprehensive income

Consolidated – TERNA Group STATEMENT OF COMPREHENSIVE INCOME *€ million*	Notes	1st half 2015	1st half 2014
Net profit for the period		**309.9**	**274.0**
Other comprehensive income for the period which will be subsequently released to the income statement			
- Cash flow hedges net of tax effect	22	16.4	13.2
Other comprehensive income for the period which will not be subsequently released to the income statement			
- Actuarial gains (losses) on employee benefits net of tax effect	22	6.0	(6.7)
Net comprehensive income for the period		**332.3**	**280.5**
Net comprehensive income for the period attributable to:		**332.3**	**280.5**
Owners of the Parent		332.3	280.5

Consolidated statement of financial position

Consolidated – TERNA Group STATEMENT OF FINANCIAL POSITION ASSETS € million	Notes	at 30.06.2015	at 31.12.2014
A- Non-current assets			
1 Property, plant and equipment	12	10,982.9	10,778.6
of which: related parties		*13.7*	*17.1*
2 Goodwill	13	190.2	190.2
3 Intangible assets	14	246.2	262.3
4 Equity-accounted investees	15	79.4	79.2
5 Non-current financial assets	16	668.7	787.1
6 Other non-current assets	17	9.8	9.8
Total non-current assets		**12,177.2**	**12,107.2**
B- Current assets			
1 Inventories	18	26.3	21.6
2 Trade receivables	19	1,401.8	1,577.8
of which: related parties		*281.2*	*297.6*
3 Current financial assets	16	69.3	63.4
of which: related parties		*1.0*	*0.2*
4 Cash and cash equivalents	20	1,534.5	1,217.3
5 Income tax assets	21	35.7	25.9
6 Other current assets	17	51.8	46.0
of which: related parties		*1.1*	-
Total current assets		**3,119.4**	**2,952.0**
TOTAL ASSETS		**15,296.6**	**15,059.2**

Consolidated – TERNA Group STATEMENT OF FINANCIAL POSITION LIABILITIES € million	Notes	at 30.06.2015	at 31.12.2014
C- Equity attributable to owners of the Parent			
1 Share capital		442.2	442.2
2 Other reserves		815.9	793.5
3 Retained earnings		1,596.1	1,453.4
4 Interim dividend		-	(140.7)
5 Net profit for the period		309.9	544.5
Total equity attributable to owners of the Parent	22	**3,164.1**	**3,092.9**
D- Non-current liabilities			
1 Long-term loans	23	8,898.9	8,085.2
of which: related parties		*500.0*	*500.0*
2 Employee benefits	24	131.3	146.3
3 Provisions for risks and charges	25	197.7	209.5
4 Deferred tax liabilities	26	83.8	85.1
5 Non-current financial liabilities	23	13.0	29.9
6 Other non-current liabilities	27	126.9	128.7
Total non-current liabilities		**9,451.6**	**8,684.7**
E- Current liabilities			
1 Current portion of long-term loans	23	124.0	764.1
2 Trade payables	28	2,137.3	2,103.8
of which: related parties		*35.6*	*27.7*
3 Tax liabilities	28	40.0	1.2
4 Current financial liabilities	23	112.3	154.1
of which: related parties		*0.8*	*0.9*
5 Other current liabilities	28	267.3	258.4
of which: related parties		*62.2*	*66.9*
Total current liabilities		**2,680.9**	**3,281.6**
TOTAL LIABILITIES AND EQUITY		**15,296.6**	**15,059.2**

Statement of changes in consolidated equity

31 December 2014 – 30 June 2015

€ million	Share capital	Legal reserve	Share premium reserve	Cash-flow-hedge reserve	Other reserves	Retained earnings	Interim dividend	Net profit for the period	**Equity attributable to the owners of the Parent**
	Consolidated share capital and reserves								
Equity at 31 December 2014	442.2	88.4	20.0	-26.0	711.1	1,453.4	-140.7	544.5	3,092.9
Net profit for the period								**309.9**	**309.9**
Other comprehensive income:									
- Change in fair value of cash flow hedging derivatives net of tax effect				16.4					16.4
- Actuarial gains (losses) on employee benefits net of tax effect					6.0				6.0
Total other comprehensive income	**-**	**-**	**-**	**16.4**	**6.0**	**-**	**-**	**-**	**22.4**
Net comprehensive income	**-**	**-**	**-**	**16.4**	**6.0**	**-**	**-**	**309.9**	**332.3**
Transactions with equity owners:									
- Allocation of 2014 profit									
- Retained earnings						142.5	140.7	-283.2	-
- Dividends								-261.3	-261.3
Total transactions with equity owners	**-**	**-**	**-**	**-**	**-**	**142.5**	**140.7**	**-544.5**	**-261.3**
Other changes						0.2			0.2
Equity at 30 June 2015	**442.2**	**88.4**	**20.0**	**-9.6**	**717.1**	**1,596.1**	**-**	**309.9**	**3,164.1**

31 December 2013 – 30 June 2014

€ million	Share capital	Legal reserve	Share premium reserve	Cash-flow-hedge reserve	Other reserves	Retained earnings	Interim dividend	Net profit for the period	**Equity attributable to the owners of the Parent**
	Consolidated share capital and reserves								
Equity at 31 December 2013	**442.2**	**88.4**	**20.0**	**-53.3**	**728.5**	**1,341.9**	**-140.7**	**513.6**	**2,940.6**
Net profit for the period								**274.0**	**274.0**
Other comprehensive income:									
- Change in fair value of cash flow hedging derivatives net of tax effect				13.2					13.2
- Actuarial gains (losses) on employee benefits net of tax effect					-6.7				-6.7
Total other comprehensive income	**-**	**-**	**-**	**13.2**	**-6.7**	**-**	**-**	**-**	**6.5**
Net comprehensive income	**-**	**-**	**-**	**13.2**	**-6.7**	**-**	**-**	**274.0**	**280.5**
Transactions with equity owners:									
- Allocation of 2013 profit									
- Retained earnings						111.6	140.7	-252.3	-
- Dividends								-261.3	-261.3
Total transactions with equity owners	**-**	**-**	**-**	**-**	**-**	**111.6**	**140.7**	**-513.6**	**-261.3**
Equity at 30 June 2014	**442.2**	**88.4**	**20.0**	**-40.1**	**721.8**	**1,453.5**	**-**	**274.0**	**2,959.8**

Consolidated statement of cash flows*

TERNA GROUP STATEMENT OF CASH FLOWS *€ million*	1st half 2015	1st half 2014
Net profit for the period	**309.9**	**274.0**
Adjustments for:		
Amortisation, depreciation, impairment losses/(reversals of impairment losses) on non-current property, plant and equipment and intangible assets**	235.7	222.7
Provisions (including employee-related provisions) and impairment	10.3	20.3
(Gains)/Losses on disposals of property, plant and equipment	(1.1)	(0.5)
Financial (income)/expenses	65.4	68.3
Income taxes	150.0	179.1
Cash flows generated by operating activities, before changes in net working capital	**770.2**	**763.9**
Increase/(Decrease) in provisions (including employee-related and tax provisions)	(29.9)	(26.3)
(Increase)/decrease in inventories	(4.7)	(10.0)
(Increase)/decrease in trade receivables and other current assets	155.8	(146.1)
Increase/(decrease) in trade payables and other current liabilities	43.9	(123.8)
Increase/(decrease) in other non-current liabilities	1.4	1.2
(Increase)/decrease in other non-current assets	0.0	(1.1)
Interest income and other financial income received	68.1	79.2
Dividend received	0.0	1.3
Interest expense and other financial expense paid	(181.7)	(188.8)
Income taxes paid	(123.7)	(178.2)
Cash flows generated by operating activities [a]	**699.4**	**171.3**
Investments in non-current property, plant and equipment, net of grants received	(420.5)	(358.1)
Recognition of newly-acquired Property, plant and equipment	-	(23.9)
Revenue from sale of non-current property, plant and equipment and intangible assets and other changes	2.2	8.9
Capitalised financial expense	16.3	16.5
Investment in non-current intangible assets, net of grants received	(11.8)	(21.4)
Recognition of intangible assets, new acquisitions	-	(0.1)
(Increase)/decrease in equity interests in associates	(0.2)	(4.8)
Cash flows used in investing activities [b]	**(414.0)**	**(382.9)**
Increase/(decrease) in net income and accumulated losses	0.2	-
Dividends paid	(261.3)	(261.3)
Change in short- and medium/long-term financial payables (including short-term portions)***	292.9	530.4
Change in short-term financial investments		
Cash flows generated by financing activities [c]	**31.8**	**269.1**
Increase/(decrease) in cash and cash equivalents [a+b+c]	**317.2**	**57.5**
Opening cash and cash equivalents	**1,217.3**	**1,617.1**
Closing cash and cash equivalents	**1,534.5**	**1,674.6**

* 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 period.
*** Net of derivatives and of impacts of adjustment to fair value.

Notes to the Condensed Consolidated Interim Financial Statements

A. ACCOUNTING POLICIES AND MEASUREMENT CRITERIA

Introduction

Terna S.p.A. has registered offices in Viale Galbani 70, Rome, Italy. The Condensed Consolidated Interim Financial Statements for the first six months of 2015 comprise the interim financial statements of the Company and those of its subsidiaries (the "Group"), as well as the Group's investments in associates and joint ventures. The subsidiaries included within the scope of consolidation are listed below.

These Condensed Consolidated Interim Financial Statements at 30 June 2015 were authorised for publication by the Directors on 28 July 2015.

The Consolidated Financial Statements at and for the year ended 31 December 2014 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.

Compliance with IAS/IFRS and basis of presentation

The Condensed Consolidated Interim Financial Statements at and for the six months ended 30 June 2015 have been prepared in accordance with the International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), endorsed by the European Commission ("IFRS-EU") at that date and used in preparing the Consolidated Financial Statements at and for the year ended 31 December 2014.

In particular, the Group's Condensed Consolidated Interim Financial Statements for the first half of 2015, prepared in conformity with IAS 34, do not contain all of the information required for Annual Financial Statements and must be read together with the Consolidated Financial Statements at and for the year ended 31 December 2014. These Condensed Consolidated Interim Financial Statements present summary financial information, while the formats of the principal schedules are consistent with those presented in the annual report.

It should be noted that, for the purposes of better comparison, some comparative balances of the Condensed Consolidated Interim Financial Statements at 30 June 2014 have been reclassified, but without materially changing the the result of the Income Statement of the first half of 2014.

Use of estimates

The preparation of the Condensed Consolidated Interim Financial Statements at 30 June 2015, required management to make estimates and assumptions that affect the carrying amounts of assets and liabilities and the related disclosures, as well as the amounts of contingent assets and liabilities at the reporting date. The estimates and the associated assumptions were based on previous experience and various other factors considered reasonable under the circumstances, and were applied to measure the carrying amounts of assets and liabilities not readily determinable from objective sources. Actual results may differ from these estimates.

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

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

Consolidation scope

Subsidiaries

The companies included within the consolidation scope are listed below:

Company	Registered office	Currency	Share capital	% held	Consolidation method
COMPANIES CONTROLLED DIRECTLY BY TERNA S.P.A.					
Terna Rete Italia S.p.A.	Rome	€	120,000	100%	Line-by-line
Business:	design, construction, management, development, operation and maintenance of grid structures and lines and of other infrastructures connected to the said grids, of plants and equipment functional to the said business in the sectors of electricity dispatch and transmission and in similar, related or connected segments.				
Terna Rete Italia S.r.l.	Rome	€	243,577,554	100%	Line-by-line
Business:	design, construction, management, development, operation and maintenance of high-voltage power lines.				
Terna 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	€	36,000,000	100%	Line-by-line
Business:	authorisation, construction, and management of transmission infrastructures comprising the Italy-Montenegro electrical interconnection in Montenegro 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 in grids and of systems, including diffused energy accumulation.				
Terna 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.				
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.				
COMPANIES CONTROLLED THROUGH TERNA PLUS S.r.l.					
Tamini Trasformatori S.r.l.	Melegnano (Milan)	€	3,000,000	100%	Line-by-line
Business:	construction, repair and sales of electrical machinery.				
Terna Chile S.p.A.	Santiago del Cile (Republic of Chile)	Chilean Pesos	1,000,000	100%	Line-by-line
Business:	design, construction, administration, development, operation and 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.				
COMPANIES CONTROLLED THROUGH TAMINI TRASFORMATORI S.r.l.					
V.T.D. Trasformatori S.r.l.	Valdagno (Vicenza)	€	774,000	100%	Line-by-line
Business:	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	37,770	100%	Line-by-line
Business:	sales of industrial and power electrical transformers.				
COMPANIES CONTROLLED THROUGH TERNA INTERCONNECTOR Srl					
Piemonte Savoia S.r.l.	Rome	€	10,000	100%	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.				

** 5% held by Terna Rete Italia S.p.A.*

With respect to 31 December 2014, the **change in the consolidation scope** relates to:

- the incorporation, on 27 March 2015, of the company Piemonte Savoia S.r.l., with a share capital of € 10,000. The new company, on behalf of the assignees of the Italy – France Interconnector and on the basis of specific mandates, will initiate the procedure, pursuant to Ministerial Decree of 21 October 2005, to obtain a decree of exemption from the right of access of third parties to the transport capacity that the infrastructure will make available, for a capacity of 350 MW.
- the incorporation, on 13 April 2015, of the company Monita Interconnector, with share capital of € 10,000, subscribed 95% by Terna S.p.A. and for the remainder by Terna Rete Italia S.p.A.. The new company will operate, in particular, in the field of developing and implementing the "Italy-Montenegro Interconnector" Project.
- the incorporation, on 4 June 2015, of the company Terna Chile S.p.A.. The company was set up by Terna Plus S.r.l., with a share capital of a million Chilean pesos to be paid up by 31 December 2015. 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.
- the incorporation, with effect from 1 January 2015, of Verbano Trasformatori S.r.l. in the parent company Tamini Trasformatori S.r.l..

Associates

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

The number of associates and the related equity interests have not changed since 31 December 2014.

Joint ventures

The number of joint ventures and the interests held in them have not changed since 31 December 2014. Elmed Etudes Sarl is the only joint venture, in which the Parent holds a 50% interest.

New standards

International accounting standards taking effect from 1 January 2015

The following international accounting standards and their interpretations - application of which had no impact on the Group's consolidated financial statements - came into force on 1 January 2015:

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.

B. NOTES TO THE CONSOLIDATED INCOME STATEMENT

REVENUE

1. REVENUE FROM SALES AND SERVICES - € 969.2 million

“Revenue from sales and services” for the first six months of 2015 and 2014 is analysed in the following table:

€ million	H1 2015	H1 2014	Changes
Grid transmission fees	839.3	816.6	22.7
Other energy revenue	69.7	69.9	(0.2)
Service quality bonuses/penalties	-	5.7	(5.7)
Other revenue from sales and services	60.2	30.1	30.1
Total	**969.2**	**922.3**	**46.9**

Grid transmission fees

Grid transmission fees refers to the remuneration paid to the Parent Company for use of the National Transmission Grid – NTG (€ 747.5 million). It also comprises the net revenue from the portion of the NTG pertaining to the subsidiary Terna Rete Italia S.r.l. (€ 91.8 million).

The increase in the item of € 22.7 million reflects the tariff update for the year 2015, reduced by the lack of supplementary revenue for the impact on the mechanism neutralising the volume effect (pursuant to AEEGSI Resolution 188/08) of the adjustment of the value of the relevant energy established by the Authority for the year 2015.

Other energy revenue

Other energy revenue includes price paid to the Parent Company by the electricity operators for the dispatching service (DIS component, € 62 million) and revenue from the construction and development of dispatching infrastructures recognised following application of IFRIC 12 (€ 7.7 million).

The slight decrease in the item of € 0.2 million reflects the reduction of the above revenue pursuant to IFRIC 12 deriving from investments in dispatching infrastructures (€ -4.7 million) net of the increase in the DIS fee (€ +4.5 million) which takes into account the update of tariffs for the year 2015.

Other energy items – pass-through revenue/costs

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

The other energy items also include the grid transmission fee which Terna pays to other grid owners.
The components of these transactions are detailed below.

€ million	H1 2015	H1 2014	Changes
Revenue – Power Exchange	1,603.1	2,042.6	(439.5)
Revenue – non-Power Exchange	779.7	895.6	(115.9)
Total pass-through energy revenue	**2,382.8**	**2,938.2**	**(555.4)**
Costs – Power Exchange	1,603.1	2,042.6	(439.5)
Costs – non-Power Exchange	779.7	895.6	(115.9)
Total pass-through energy costs	**2,382.8**	**2,938.2**	**(555.4)**

Service quality bonuses/penalties

The item was zero in the first half of 2015. The comparison period included the supplement of the premium for the transmission service quality (RENS) for the year 2012 recognised on the basis of the provisions of Resolution 118/2014 (€ +5.7 million).

Other revenue from sales and services

The item "Other revenue from sales and services" amounted to € 60.2 million and included mostly revenue deriving from specialist services provided to third-parties mainly referable to services and contracts for plant engineering and activities to operate and maintain High and Extra High Voltage plants and with the acquisition of the Tamini Group in 2014, also revenue from the progress and completion of contracts for power transformers (€ 45.9 million).

The significant increase in other revenue from sales and services (€ +30.1 million) was due to consolidation of the results of the Tamini Group for the entire half-year compared with the contribution of about a month in the corresponding period of 2014 (€ +30.1 million).

2. OTHER REVENUE AND INCOME - € 32.8 million

"Other revenue and income" for the first six months of 2015 and 2014 is broken down in the following table:

€ million	H1 2015	H1 2014	Changes
Rental income	11.0	11.7	(0.7)
Sundry grants	7.3	12.4	(5.1)
Settlements for losses	8.4	0.7	7.7
Contingent assets	3.4	1.5	1.9
Gains on the disposal of plant components	1.2	0.8	0.4
Sales to third parties	0.8	0.3	0.5
Other revenue	0.7	0.2	0.5
Total	**32.8**	**27.6**	**5.2**

"Other revenue and income", amounting to € 32.8 million, mainly refer to the Parent Company for € 24.3 million and to the Tamini Group for € 6 million.

The increase in the item of € 5.2 million is mainly due to revenue deriving from:

- recognition of an insurance payout to cover the cost of reconstructing a transformer that had suffered damage in 2014 (€ 8.0 million);
- contingent assets (€ +1.9 million) referred essentially to a contract (receivable) for optical fibre housing.

The change also reflects lower revenue from activities related to orders for changes to the NTG (€ -5.1 million; the first half of 2014 included more activities linked to the Expo).

OPERATING EXPENSES

3. RAW MATERIALS AND CONSUMABLES - € 32.7 million

This item (amounting to € 32.7 million) expresses the value of consumption of miscellaneous equipment and materials used in the core business of operating and maintaining plants and consumption of materials for fulfilling the Tamini Group's orders.

The increase in the item compared to the figure for the same period of the previous financial year (€ +17.4 million) was mainly due to the Tamini Group's costs, taking into account that the same contributed to the consolidation for about a month in the first half of 2014.

4. SERVICES – € 70.5 million

The cost of “Services” for the first six months of 2015 and 2014 is broken down in the following table:

€ million	H1 2015	H1 2014	Changes
Tenders on plants	12.3	13.8	(1.5)
Maintenance and sundry services	35.7	26.7	9.0
Insurance	3.9	4.1	(0.2)
Remote transmission and telephone	6.2	6.4	(0.2)
IT services	6.7	9.8	(3.1)
Leases and rentals	5.7	5.8	(0.1)
Total	**70.5**	**66.6**	**3.9**

Costs for services, a total of € 70.5 million, are attributable essentially to the Parent Company for € 25.0 million, to the subsidiary Terna Rete Italia S.p.A. for € 30.8 million and to the Tamini Group for € 11.4 million (these latter included in the item “Maintenance and sundry services”).

The increase in the item of € 3.9 million was due essentially to the effect of the higher costs for services referred to the Tamini Group (€ +9.7 million compared to the 2014 figure relating to the period 20 May – 30 June) net of the reduction deriving from:

- costs for investments in dispatching infrastructures (pursuant to IFRIC 12 - € -3.7 million);
- costs for contracts and sundry services associated with plant maintenance (€ -2.1 million).

We can specify that the costs relating to remuneration of the Board of Statutory Auditors for the period amounted to € 0.2 million.

5. PERSONNEL EXPENSES – € 114.3 million

“Personnel expenses” for the first six months of 2015 and 2014 are broken down in the following table:

€ million	H1 2015	H1 2014	Changes
Wages, salaries and other short-term employee benefits	139.8	132.9	6.9
Directors' fees	0.8	1.2	-0.4
Post-employment benefits, electricity discount and other employee benefits	9.0	8.7	0.3
Personnel expenses, gross	***149.6***	***142.8***	***6.8***
Capitalised internal work by employees	-35.3	-35.7	0.4
Total	**114.3**	**107.1**	**7.2**

The item, at € 114.3 million, shows an increase of € 7.2 million with respect to the same period of the previous year, entirely due to the Tamini Group's personnel expenses (€ 7.3 million net of the related capitalisation of € +0.8 million).

The following table shows the average number of employees of the Group by category for the first half of 2015 and 2014:

	Average number		
	1st half 2015	**1st half 2014**	**Change**
Executives	72	65	7
Junior executives	550	528	22
White-collar workers	2,001	1,931	70
Production workers	1,157	1,013	144
Total	**3,780**	**3,537**	**243**

The net change in the average number of employees of the Group – as described above – was +243 persons during the first half of the year compared with the same period in 2014 owing to the different proportion of Tamini Group employees in the two periods compared.

6. AMORTISATION, DEPRECIATION AND IMPAIRMENT – € 243 million

Amortisation, depreciation and impairment in the first six months of 2015 and 2014 are broken down below:

€ million	H1 2015	H1 2014	Changes
Amortisation of intangible assets	27.9	28.9	(1.0)
of which: infrastructure rights	*17.2*	*18.1*	*(0.9)*
Depreciation of property, plant and equipment	215.1	198.0	17.1
Impairment of property, plant and equipment	-	8.2	(8.2)
Total	**243.0**	**235.1**	**7.9**

This item, at € 243 million, shows an increase with respect to the first half of 2014 (€ 7.9 million, of which € 6.1 million referable to the Parent Company), mainly due to property, plant and equipment for the recognition of greater depreciation (€ +17.1 million, essentially due to new plants coming into operation during the year) net of impairment losses recognised in the first half of 2014 (€ 8.2 million following the accident which occurred during the previous year).

7. OTHER OPERATING EXPENSES – € 17.9 million

“Other operating expenses” for the first six months of 2015 and 2014 are broken down in the following table:

€ million	H1 2015	H1 2014	Changes
Allocations made to Provisions for disputes	1.4	-	1.4
Electricity service quality expenses	3.3	(1.9)	5.2
Indirect and local taxes and duties	8.0	4.7	3.3
Contingent liabilities	1.3	1.1	0.2
Losses on disposal/decommissioning of plant	0.0	0.3	(0.3)
Other operating expenses	3.9	4.2	(0.3)
Total	**17.9**	**8.4**	**9.5**

The item, of € 17.9 million, recorded an increase of € 9.5 million mainly attributable to the higher expenses relating to electricity service quality owing to the outage events which occurred in the period (€ 5.2 million) and to provisions for 2015 local single tax (IMU) (€ +3 million).

FINANCIAL INCOME AND EXPENSE

8. NET FINANCIAL INCOME/(EXPENSE) - € (64.9) million

The item related to the first six months of 2015 and 2014 is broken down in the following table:

€ million	H1 2015	H1 2014	Changes
Financial income			
Interest income and other financial income	5.6	13.6	(8.0)
Exchange gains	0.5	-	0.5
Total income	**6.1**	**13.6**	**(7.5)**
Financial expense			
Financial expense from the Parent	(2.7)	(3.2)	0.5
Interest expense on medium/long-term loans and related hedges	(83.4)	(92.1)	8.7
Debt adjustment (bonds) and related hedges	(0.1)	(1.6)	1.5
Discounting of termination benefits and other provisions	(1.1)	(1.6)	0.5
Capitalised financial expense	16.3	16.6	(0.3)
Impairment of equity investments	-	(0.8)	0.8
Total expense	**(71.0)**	**(82.7)**	**11.7**
Total	**(64.9)**	**(69.1)**	**4.2**

Net financial expense of the period amounted to € 64.9 million, and refer to financial expense for € 71.0 million and to financial income for € 6.1 million. The decrease of € 4.2 million compared to the same period last year is mainly the result of the following factors:

- lower financial income (€ -8.0 million) which was primarily attributable to the combined effect of:
  - higher liquid funds invested (€ 10.4 million);
  - a general decrease in the market interest rates at which the cash was invested (€ -17.2 million);
  - recognition of lower net income for uplift (€ -1.2 million);
- exchange rate adjustment (€ 0.5 million) of provisions for probable expenses in relation to tax obligations deriving from the sale of the equity interest held in the Brazilian subsidiaries;
- the positive net economic effects deriving from the fair value adjustment of bonds and the related hedges (€ 1.5 million);
- lower financial expense deriving from medium and long-term debt and the related hedges (€ +8.7 million) essentially due to the decrease of interest rates and the negative figure of the inflation rate during the period;
- lower financial expense deriving from the discounting of employee benefits and provisions for risks and charges (€ +0.5 million);
- lower capitalised borrowing costs (€ -0.3 million).

9. SHARE OF PROFIT/(LOSSES) FROM EQUITY-ACCOUNTED INVESTEES - € 1.2 million

This item, of € 1.2 million, mainly sets out the economic effects deriving from the adjustment to the share of shareholders' equity as at 30 June 2015 of the equity investments in the Group's associates, namely in (CESI S.p.A., CrnoGorski Elektroprenosni Sistem AD – CGES and CORESO).

10. TAXES FOR THE PERIOD - € 150 million

Income taxes chargeable to the period were € 150 million, down compared with the first half of 2014 (€ -29.1 million), essentially as a result of the IRES rate at 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)[26] and of the deductibility of permanent personnel expenses for IRAP purposes introduced by the 2015 Stability Law starting from the current year.

The tax rate for the period therefore drops from 40% in the first six months of 2014 to 33% in the corresponding period of 2015.

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

€ million	H1 2015	H1 2014	Changes
Income taxes			
Current taxes:			
- IRES (corporate income tax)	137.8	167.0	(29.2)
- IRAP	28.2	30.9	(2.7)
Total current taxes	***166.0***	***197.9***	***(31.9)***
Temporary differences			
- deferred tax assets	9.3	11.1	(1.8)
- deferred tax liabilities	(19.0)	(22.8)	3.8
Total deferred tax assets and liabilities	***(9.7)***	***(11.7)***	***2.0***
Adjustment of prior-year taxes	***(6.3)***	***(7.1)***	***0.8***
Total	**150.0**	**179.1**	**(29.1)**

Current taxes

Current taxes (of € 166 million) show a decrease of € 31.9 million compared with the balance of the first half of 2014 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.

[26] On 11 February 2015, the Constitutional Court published Judgement 10/2015, with which it declared unconstitutional 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."

Deferred tax assets and liabilities

Deferred tax assets and liabilities, equal to € -9.7 million, show a change of € +2 million, essentially due to the lower use of the provision for deferred taxes from the previous allocations calculated on additional amortisation with respect to the fiscally relevant portions, as well as less net use of deferred tax assets mainly relative to the change in the provision for risks and charges, as noted in detail in the context of note 25 “Provisions for risks and charges" and 26 "Deferred tax liabilities" of these Notes to the Condensed Consolideted Interim Financial Statements. .

Adjustment of prior-year taxes

The adjustments of the taxes referred to previous years, of € -6.3 million, refer to the contingencies resulting from the actual liquidation of the taxes at the time of the income statement; this item was substantially in line with the figure of the first half of 2014.

11. EARNINGS PER SHARE

Basic earnings per share, which corresponds to diluted earnings per share, amounts to € 0.154 (with a numerator of € 309.9 million, and a denominator of 2,009,992.0 thousand shares).

C. OPERATING SEGMENTS

Consistent with the 2015-2019 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 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 extra 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. Note that the operating segment of Non-Regulated Activities also includes the results of the management of the Tamini Group, essentially with reference to the construction and sale of electrical machinery, in particular power transformers.

Below are the results of the operating segments of the Terna Group in the first half of 2015 and the first half of 2014, in line with the evidence of the Group management control system and the reconciliation with the Group's pre-tax result.

€ million	**H1 2015**	**H1 2014**
Total revenue from Regulated Activities	918.8	899.1
Total revenue from Non-Regulated Activities	83.2	50.8**
Total revenue	**1,002.0**	**949.9**
EBITDA	**766.6**	**752.5**
of which EBITDA on Regulated Activities*	742.5	724.5
of which EBITDA on Non-Regulated Activities	24.1	28
EBITDA margin	*76.5%*	*79.2%*
*EBITDA margin on Regulated Activities**	*80.8%*	*80.6%*
*EBITDA margin on Non-Regulated Activities***	*29.0%*	*55.1%*
Reconciliation of segment result with pre-tax company result		
EBITDA	***766.6***	***752.5***
Amortisation, depreciation and impairment	243.0	235.1
EBIT	***523.6***	***517.4***
Financial income/(expense)	(64.9)	(69.1)
Share of profit/(loss) of holding valued at equity	1.2	4.8
Profit/(loss) before taxes	***459.9***	***453.1***

** EBITDA including indirect costs.*

***The contribution of the Tamini Group refers to the period from 20 May (acquisition date) to 30 June 2014.*

The Group's revenue at June 2015 amounted to € 1,002.0 million recording growth of € 52.1 million (+5.5%) compared to the first half of 2014.

EBITDA (Gross Operating Margin) came out at € 766.6 million, an increase of € 14.1 million (+1.9%) compared to the € 752.5 million of the first half of 2014.

The increase in the **EBITDA of Regulated Activities**, of € 18 million, was mainly due to higher revenue from CTR fees (up € 22.7 million) as a result of investments in 2013 net of the supplementary revenue pursuant to AEEGSI Resolution 188/08 and higher DIS (up € 4.5 million) only partially offset by higher costs related to service quality (which includes higher costs in the first half of 2015 for mitigation and sharing expenses and positive one-offs in the first half of 2014).

The decrease in **EBITDA of Non-Regulated Activities** of € 3.9 million reflects the reduction in orders for changes to the NTG for third-parties compared with the first half of 2014 which included greater activity linked to the Expo and the TEEM.

The Group's ***EBITDA margin*** went down from 79.2% in the first half of 2014 to 76.5% of the corresponding period of 2015 mostly as a result of acquisition of the Tamini Group.

The information regularly reported to Senior Management does not make direct reference to segment activities but rather to the measurement and presentation of gross invested capital. The following table reports that indicator at 30 June 2015 and 31 December 2014:

	Italy	
€ million	**30.06.2015**	**31.12.2014**
Net non-current assets	11,508.8	11,320.4
Net working capital (NWC)	(1,055.9)	(820.8)
Gross invested capital	10,452.9	10,499.6
Investments in associates and joint ventures	79.4	79.2

D. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

12. PROPERTY, PLANT AND EQUIPMENT - € 10,982.9 million

Property, plant and equipment amounted to € 10,982.9 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 machinery	Industrial and commercial equipment	Other assets	Assets under construction 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	2.8		0.1	0.80	0.2	423.2	427.1
Entry into use	11.6	23.7	188.3			(223.6)	-
Disposals and impairment	-	(0.2)	(16.3)	-	(0.1)		(16.6)
Other changes	-	-	(8.6)	-	-	2.0	(6.6)
Reclassifications	-	-	(0.1)	1.0	(0.9)	-	-
Cost at 30.06.2015	**121.6**	**1,468.3**	**14,068.0**	**90.5**	**132.1**	**2,036.2**	**17,916.7**
Accumulated depreciation and impairment at 01.01.2015	**-**	**(406.1)**	**(6,166.6)**	**(64.3)**	**(97.2)**	**-**	**(6,734.2)**
Depreciation for the period	-	(17.6)	(188.6)	(2.4)	(6.5)	-	(215.1)
Disposals		0.2	15.2	-	0.1	-	15.5
Reclassifications	-	-	-	(1.0)	1.0	-	-
Accumulated depreciation and impairment at 30.06.2015	**-**	**(423.5)**	**(6,340.0)**	**(67.7)**	**(102.6)**	**-**	**(6,933.8)**
Carrying amount							
At 30 June 2015	**121.6**	**1,044.8**	**7,728.0**	**22.8**	**29.5**	**2,036.2**	**10,982.9**
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 30 June 2015 includes, in particular, the energy transportation network as well as the transformation stations in Italy.

The item "Property, plant and equipment" shows an increase on the previous financial year amounting to € 204.3 million, as a result of ordinary transactions made during the period, relating to:

- investments of € 427.1 million, of which € 397.5 million referred to the parent company Terna, € 21.5 million to the subsidiary Terna Rete Italia S.r.l. and € 5.0 million to the subsidiary Piemonte Savoia S.r.l.;
- Depreciation accruing (€ -215.1 million) and also disposals, reclassifications and other changes (€ -7.7 million).

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

€ million	
Investments	
- Transmission lines	277.4
- Transformation stations	129.4
- Storage systems	6.1
- Other	14.2
Total investments in property, plant and equipment	**427.1**
Depreciation and Amortisation	(215.1)
Disposals and other changes	(7.7)
TOTAL	**204.3**

As regards investments during the period in **Regulated Activities** (€ 416.8 million), we can note, in particular, those of the Parent Company, related mainly to:

Italy-Montenegro interconnection (€ 69 million)

- cable connection: laying and protection of the first marine stretch of the first pole was completed, while production of the second stretch is at an advanced stage; production of the cable of the second pole has also begun;
- converter stations: work is in progress on laying the foundations and erecting prefabricated buildings at the Cepagatti substation, while in the Kotor substation organisation of the site continued;

380 kV Sorgente - Rizziconi power line (€ 30.7 million):

- power lines/cables:
  - Calabria: excavation work on the Favazzina tunnel is continuing;
  - Sicily: creation of the underground cable stretch was completed; legal actions are continuing for the release from seizure of Pylon no. 40 in the Municipality of Saponara (Messina) of the Villafranca-Sorgente 380 kV power line, as commented on in the discussion on significant events in the first half of 2015, to which the reader is referred;
- electrical substations:
  - Calabria: work on the 380 kV bars of the Rizziconi substation is in progress;
  - Sicily: at Villafranca the 380 and 150 kV armoured lines were completed and approval tested and assembly of the machinery was completed; in the Sorgente electrical substation work on the 380 kV bars is at an advanced stage.

380 kV Udine Ovest-Redipuglia power line (€ 29 million):

- power lines: work is continuing on procuring and laying the foundations, assembling the pylons and stringing the lines;
- electrical substation: at the Udine Ovest substation the electromechanical assemblies and the auxiliary/general services and the protection, command and control system have been completed.

380 kV Foggia-Villanova power line (€ 16.6 million)

- power lines: work is continuing on procuring supplies and laying foundations, and assembly of the pylons has begun;
- electrical substations: in the Villanova substation expansion of the 380 kV section has been completed with entry into service of two 380/120 kV ATRs and of the second 380/150 kV ATR; work is continuing on the 120 kV section; in the Gissi substation the civil works have been completed for the expansion of two bays of the 380 kV section.

Italy-France interconnection (€ 15.9 million):

- in relation to the cable connection, the work consequent to the supply and installation has begun.

380 kV Paternò-Pantano-Priolo power line (€ 13.5 million):

- power lines/cables: excavation and laying of the 380 kV connection cable between the Melilli ES and the Priolo ES is continuing;

- electrical substations: the armoured 380 kV line has been completed and approval tested at the Priolo ES.

Storage systems (€ 6.1 million):

- “Energy Intensive” projects (€ 3.9 million): work is continuing on creating the Storage Plants at the Scampitella site;

- “Power Intensive” projects (€ 2.2 million): testing activities at the Ciminna site and construction activities at the Codrongianos site are in progress.

The item “Other” includes purchase and/or renovation of offices.

The main works relating to Non-Regulated Activities regards variants for third parties and the beginning of preparatory activities for the interconnector on the French border.

13. GOODWILL - € 190.2 million

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

14. INTANGIBLE ASSETS – € 246.2 million

Changes in intangible assets during the period are detailed below:

€ million	**Infrastructure rights**	**Concessions**	**Other assets**	**Assets under development and payments on account**	**Total**
Balance at 31.12.2014	**119.0**	**84.1**	**31.3**	**27.9**	**262.3**
Investments	-	-	0.1	11.7	11.8
Entry into use	6.7	-	0.2	-6.9	0.0
Amortisation	(17.2)	(2.8)	(7.9)	-	(27.9)
Reclassifications	-	-	0.0	-	0.0
Balance at 30.06.2015	**108.5**	**81.3**	**23.7**	**32.7**	**246.2**
Cost	382.8	135.9	180.0	32.7	731.4
Accumulated amortisation	(274.3)	(54.6)	(156.3)	-	(485.2)
Balance at 30.06.2015	**108.5**	**81.3**	**23.7**	**32.7**	**246.2**

Intangible assets amounted to € 246.2 million (€ 262.3 million at 31 December 2014). This item, in particular, includes:

- infrastructures used for the dispatching services, carried out under concession and recognised as set out by "IFRIC 12 - Service Concession Arrangements", for a net Carrying amount at 30 June 2015 of € 108.5 million for infrastructures which came into operation and € 23.2 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 € 81.3 million at 30 June 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. Related investments (€ 4.0 million) are made essentially through internal development.

The difference with respect to the previous financial year (€ -16.1 million) is due to the combined effect of routine movements during the period, mainly regarding amortisation (€ 27.9 million, of which € 17.2 million relating to dispatching infrastructures and € 2.8 million relating to the concession), and investments (€ 11.8 million) made during the period.

Investments for the period in intangible assets (€ 11.8 million, of which in Regulated Activities € 11.7 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 (€ 3.3 million), for the Power Exchange (€ 1.7 million) and for the protection of the Electrical System (€ 0.2 million), as well as software applications and general use licenses (€ 3.7 million).

15. EQUITY ACCOUNTED INVESTEE - € 79.4 million

This item amounts to € 79.4 million and relates to the equity investment of the Parent Company in the companies CESI S.p.A. (€ 40.5 million, representing a 42.698% stake), CGES – CrnoGorski Elektroprenosni Sistem AD (€ 38.4 million, representing a 22.0889% stake) and CORESO S.A. (€ 0.5 million, representing a 22.485% stake).

16. FINANCIAL ASSETS

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

	Book value		
€ million	**30.06.2015**	**31.12.2014**	**Change**
FVH derivatives	666.6	784.8	(118.2)
RCF commissions	1.8	2.0	(0.2)
Equity investments	0.3	0.3	-
Non-current financial assets	**668.7**	**787.1**	**(118.4)**
Deferred assets on FVH derivatives contracts	66.1	60.4	5.7
Other current financial assets	3.2	3.0	0.2
Current financial assets	**69.3**	**63.4**	**5.9**
Total	**738.0**	**850.5**	**(112.5)**

At 30 June 2015, "Non-current financial assets", amounting to € 668.7 million, reported the measurement of fair value hedging derivatives hedging bonds, the initial costs associated with the € 750 million Revolving Credit Facility agreed in December 2014 and not yet used and the value of other equity investments held by the Parent Company.

The decrease in the fair value of derivatives (€ -118.2 million) with respect to 31 December 2014 was mainly due to the increase of the relevant medium/long-term interest rate curve at the end of June 2015.

The decrease in the fair value of the derivatives referable to interest rates was offset by a decrease in the fair value component of bonds recognised among financial liabilities.

"Other investments", of € 0.3 million, showed no change compared with 31 December 2014 and refers to the 8.3% interest held in the share capital of CASC CWE S.A. acquired in November 2010.

The item “Current financial assets” showed a balance of € 69.3 million (€ 63.4 million at 31 December 2014) and recorded a decrease compared to the previous year of € 5.9 million due essentially to the amount of net financial income accrued on the related financial instruments, but not yet paid (€ +5.7 million).

17. OTHER ASSETS

“Other assets” are broken down below:

€ million	30.06.2015	31.12.2014	Change
Receivables due from others:			
- loans and advances to employees	8.8	8.8	-
- deposits with third parties	1.0	1.0	-
Other non-current assets	**9.8**	**9.8**	**-**
Other tax assets	16.9	21.6	(4.7)
Receivables due from others:			
- receivables from associates	1.1	-	1.1
- advances to employees	0.1	0.2	(0.1)
- others	33.7	24.2	9.5
Other current assets	**51.8**	**46.0**	**5.8**

"Other non-current assets" (€ 9.8 million) - which are presented in the table above - showed a balance in line with the figures for the previous year and mainly comprised loans and advances paid to employees by the Parent Company and the subsidiaries Terna Rete Italia S.p.A., Terna Plus and Terna Storage (€ 8.8 million).

The item "Other current assets", equal to € 51.8 million and whose composition is presented in the previous statement, showed an increase (€ 5.8 million) compared to 31 December 2014 owing to:

- other tax assets (€ -4.7 million) referable substantially to the lower assets for advance withholdings on interest income accrued on the Parent Company's financial assets (€ -5.0 million) to the higher VAT receivable from the tax authorities (€ 0,2 million);
- the receivable for dividends to be collected from the associate CESI (€ 1.1 million);
- receivables due from others (€ +9.5 million) referable, mainly, to recognition of the receivable for the insurance payout due following the definition of the damage that had occurred to a transformer in the previous year (€ 8.0 million).

18. INVENTORIES – € 26.3 million

Inventories under working assets, of € 26.3 million, showed an increase of € 4.7 million compared to the figure for the previous year (€ 21.6 million), owing essentially to greater product creation activities by the Tamini Group in the first half of the year (€ 4.7 million).

19. TRADE RECEIVABLES – € 1,401.8 million

Trade receivables can be broken down as follows:

€ million	30.06.2015	31.12.2014	Change
Energy-related receivables	885.4	956.7	(71.3)
Grid transmission fee receivables	417.8	514.2	(96.4)
Other trade receivables	98.6	106.9	(8.3)
Trade receivables	**1,401.8**	**1,577.8**	**(176.0)**

Trade receivables amounted to € 1,401.8 million and show a decrease (€ 176.0 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 (€ -96.4 million) and to receivables for energy items (€ 71.3 million).
Receivables are measured net of impairment losses on items considered non-collectable, recognised in allowances for doubtful accounts (€ 24.0 million for energy items and € 9.6 million for other items at 30 June 2015, in line with the figure for 2014); the carrying amount shown is substantially equal to the fair value.

Energy-related receivables - € 885.4 million

They mainly include receivables in relation to the so-called "pass-through" energy items arising in respect of dispatching activities carried out by the parent company. This item also includes receivables for fees payable by market operators for dispatching activities (DIS fee as per AEEG Resolution 111/06 and its subsequent amendments and additions).
The decrease in this item of € -71.3 million from the previous year was mainly due to the combined effect of:

- lower receivables for electrical energy sales on the Power Exchange (€ -34.2 million), deriving mainly from a decrease in receivables for the uplift component (€ -145.3 million) and from a reduction in turnover on the electricity market (€ -23.9 million) offset by an increase in the balancing quantities and valuation prices (€ 114.0 million);
- a decrease in receivables from sales of electricity outside of the Power Exchange (€ -26.7 million) owing mainly to a decrease in receivables for congestion earnings (€ -19.5 million).

Grid transmission fee receivables - € 417.8 million

The grid transmission fee receivables, € 417.8 million, are related to the remuneration paid to the Parent Company and to other owners for use of the National Transmission Grid by electricity distributors. A decrease of € 96.4 million was recognised, compared with the previous year, mainly due to collection from the Electricity Equalisation Fund of the receivable supplementing the grid transmission fee revenue of Terna S.p.A. provided for in AEEGSI Resolution 653/2014 (of € 91.2 million) related to 2013, which occurred in February.

Other trade receivables - € 98.6 million

Other trade receivables refer mainly to receivables from customers for non-regulated activities and showed a decrease of € 8.3 million, mainly due to collections in the period associated with more activities carried out at the end of 2014.

This item also includes receivables for contract work in progress (€ 18.3 million) relative 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 30.06.2015**	Payments on account	Contract value	**Balance at 31.12.2014**
Others	(16.2)	34.5	**18.3**	(17.9)	33.7	**15.8**

The amount of guarantees issued to third parties in the interest of the Terna Group at 30 June 2015 was € 89.1 million and refers to bank sureties issued to secure the contractual obligations arising under the scope of its operating activities as itemised below:

- € 79.0 million in the interest of Terna S.p.A.;
- € 0.5 million in the interest of the subsidiary Terna Rete Italia S.r.l.;
- € 2.5 million in the interest of the subsidiary Terna Rete Italia S.p.A.;
- € 7.1 million in the interest of the subsidiary Terna Plus S.r.l.;

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

20. CASH AND CASH EQUIVALENTS – € 1,534.5 million

Cash and cash equivalents at 30 June 2015 amounted to € 1,534.5 million of which € 1,000.0 million liquid funds invested in highly-liquid short-term deposits and € 534.3 million net liquidity in bank current accounts.

21. INCOME TAX ASSETS - € 35.7 million

Income tax assets amounted to € 35.7 million and recorded an increase of € 9.8 million compared to the previous year owing to the higher advances paid for IRES and IRAP taxes with respect to the tax burden of the year.

LIABILITIES

22. EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT – € 3,164.1 million

Share capital - € 442.2 million

The share capital of the Parent is represented by 2,009,992,000 ordinary shares with a par value of € 0.22 each; this has not changed since 31 December 2014.

Legal reserve - € 88.4 million

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

Other reserves - € 727.5 million

Other reserves had a net increase of € 22.4 million net, due to Other comprehensive income, in particular:

- adjustment to fair value of derivative instruments hedging floating-rate loans of the Parent - cash-flow hedges (€ 16.4 million, net of the related tax effect of € -6.2 million);
- recognition of the actuarial gains and losses on employees benefits (€ 6.0 million, net of the relative tax effect of € -2.3 million).

Retained earnings and losses - € 1,596.1 million

Retained earnings increased by € 142.7 million following allocation of the Group's profit for 2014.

Payment of final dividend

On 9 June 2015, the Shareholders' Meeting resolved a total dividend for the entire 2014 year, equal to € 0.20 per share, and authorised the payment – gross of any withholding taxes – of a final dividend, net of the interim dividend paid previously of € 261.3 million, equal to € 0.13 per share; this amount was made payable as of 24 June 2015, following detachment of coupon no. 22 on 22 June 2015.

23. LOANS AND FINANCIAL LIABILITIES

The following table details the loans and financial liabilities recognised in the Condensed Consolidated Interim Financial Statements of the Terna Group at 30 June 2015:

	Book value		
€ million	**30.06.2015**	**31.12.2014**	**Change**
Bonds	6,864.3	5,983.6	880.7
Bank loans	2,034.6	2,101.6	(67.0)
Long-term loans	**8,898.9**	**8,085.2**	**813.7**
CFH derivatives	13.0	29.9	(16.9)
Non-current financial liabilities	**13.0**	**29.9**	**(16.9)**
Current portion of long-term loans	124.0	764.1	(640.1)
Short-term loans and current portion of medium/long-term loans	**124.0**	**764.1**	**(640.1)**
Total	**9,035.9**	**8,879.2**	**156.7**

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

Gross debt for the period increased with respect to the previous year by € 156.7 million to € 9,035.9 million. The increase in the value of bonds (€ +880.7 million) is attributable for € 1 billion to the bond issue of 2 February 2015, for € -118.8 million to changes in the fair value of the risk hedged net of the effect of the amortised cost and for € -0.5 million to the negative inflation rate figure of the period. The change linked to the hedging of interest-rate risk comprises € -19.4 million relating to the inflation-linked bond, € -34.4 million relating to the 2024 bond, € -10.1 million relating to the Private Placement, € -27.7 million relating to the 2021 bond and € -28.1 million relating to the 2022 bond; it is offset by the increase in the fair value of derivatives recognised as financial assets (€ -118.2 million).

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

- bond maturing 2024, price at 30 June 2015: 123.38 and price at 31 December 2014: 131.29;
- bond maturing 2023, price at 30 June 2015: 117.99 and price at 31 December 2014: 121.14;
- bond maturing 2019, price at 30 June 2015: 115.91 and price at 31 December 2014: 119.03;
- bond maturing 2021, price at 30 June 2015: 117.45 and price at 31 December 2014: 122.80;
- bond maturing 2017, price at 30 June 2015: 105.64 and price at 31 December 2014: 107.67;
- bond maturing 2018, price at 30 June 2015: 105.58 and price at 31 December 2014: 106.85;
- bond maturing 2022, price at 30 June 2015: 95.23.

The debt which was originally floating rate, shows a decrease of € 707.1 million, due to:

- repayment, on 26 June 2015 of the Club Deal floating-rate loan obtained in October 2008 (€ -650.0 million);

- decrease in mortgages and loans from the EIB (European Investment Bank) for € -57.1 million, due to the reimbursement of the instalments coming due for the existing loans.

Long-term loans

The total amount of the Group borrowing at 30 June 2015 was equal to € 9,023.0 million, of which € 123.9 million due within 12 months.

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

€ million	**Maturity**	**31.12.2014**	**30.06.2015**	**Maturity within 12 months**	**Maturity beyond 12 months**	**Average interest rate as of 30.06.2015**
Bonds	2014-2024	1,081.9	1,047.5	-	1,047.5	4.90%
Bonds IL	2023	731.6	711.7	-	711.7	2.73%
Bonds PP	2019	691.9	681.8	-	681.8	4.88%
Bonds 1250	2021	1,483.0	1,455.3	-	1,455.3	4.75%
Bonds 1250	2017	1,247.8	1,248.3	-	1,248.3	4.13%
Bonds 750	2018	747.5	747.9	-	747.9	2.88%
Bonds 1000	2022	-	971.9	-	971.9	0.52%
Total fixed rate		**5,983.7**	**6,864.4**	**-**	**6,864.4**	
EIB	2014-2030	1,707.0	1,650.7	122.2	1,528.5	0.63%
Club Deal	2015	649.9			-	0.64%
CDP	2019	500.0	500.0	-	500.0	1.04%
Leasing	2019-2021-2022	8.8	7.9	1.7	6.2	1.23%
Total floating rate		**2,865.7**	**2,158.6**	**123.9**	**2,034.7**	
Total		**8,849.4**	**9,023.0**	**123.9**	**8,899.1**	

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 € 5,650.0 million, provides for extinction for € 1,250 million on 17 February 2017, for € 750 million on 16 February 2018, for € 600 million on 3 October 2019, for € 1,250 million on 15 March 2021, for € 1,000 million on 2 February 2022 and for € 800 million on 28 October 2024.

The previous table shows the average interest rate for each type of financial liability. Below we also comment on the Group's hedging operations against interest rate fluctuations.

As regards the 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 0.39%.

For the Inflation-Linked Bond, taking hedges into account and assuming a -0.19% inflation rate, the average interest rate paid in the year was -1.43%.

The fixed-rate Private Placement was synthetically transformed into floating rate by means of derivative contracts with the same maturity. Consequently, the average interest rate paid in the period was 1.40%.

As regards the 2021 Bond, the average coupon is 4.75%; if we consider FVH operations, the average interest rate amounts to 1.24%.

For the 2022 Bond, issued in 2015 and synthetically transformed into floating rate by means of derivative contracts with maturity the same as that of the issue, the average interest rate net of hedging is 0.40%.

For the two bond issues maturing in 2017 and 2018, no hedges have been implemented and the average interest rate is 4.13% and 2.88% respectively.

With regard to floating-rate loans covered by fluctuations in interest rates - and taking into account the effect of derivative financial instruments booked as cash-flow hedges - an average rate of 2.30% 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 2.97%.

The following table reports the changes in long-term debt during the first half of 2015:

	31.12.2014							30.06.2015		
€ million	**Notional debt**	**Book value**	**Market value**	**Repay. and capitalis.**	**Drawdowns**	**Δ Fair Value 31.12.2014 30.06.2015**	**Δ book value**	**Notional debt**	**Book value**	**Market value**
2024 Bond	800.0	1,081.9	1,050.4	-	-	(34.4)	(34.4)	800.0	1,047.5	987.0
Listed IL bond	565.9	731.6	685.5	(0.5)	-	(19.4)	(19.9)	565.9	711.7	667.7
Private Placement	600.0	691.9	714.2	-	-	(10.1)	(10.1)	600.0	681.8	695.5
2021 Bond	1,250.0	1,483.0	1,535.0	-	-	(27.7)	(27.7)	1,250.0	1,455.3	1,468.1
2017 Bond	1,250.0	1,247.8	1,345.9	-	-	0.5	0.5	1,250.0	1,248.3	1,320.5
2018 Bond	750.0	747.5	801.4	-	-	0.4	0.4	750.0	747.9	791.9
2022 Bond	-	-	-	-	1,000.0	(28.1)	971.9	1,000.0	971.9	952.3
Total bonds	**5,215.9**	**5,983.7**	**6,132.4**	**(0.5)**	**1,000.0**	**(118.8)**	**880.7**	**6,215.9**	**6,864.4**	**6,883.0**
Bank loans	2,865.8	2,865.7	2,865.8	(707.1)	-	-	(707.1)	2,158.6	2,158.6	2,158.6
Total bank loans	**2,865.8**	**2,865.7**	**2,865.8**	**(707.1)**	**-**	**-**	**(707.1)**	**2,158.6**	**2,158.6**	**2,158.6**
Total financial debt	**8,081.7**	**8,849.4**	**8,998.2**	**(707.6)**	**1,000.0**	**(118.8)**	**173.6**	**8,374.5**	**9,023.0**	**9,041.6**

At 30 June 2015, the Parent Company also has unused “uncommitted” credit lines.

Non-current financial liabilities

The following table reports the amount and changes in non-current financial liabilities since the end of the year:

€ million	**30.06.2015**	**31.12.2014**	**Change**
CFH derivatives	13.0	29.9	(16.9)
Total	**13.0**	**29.9**	**(16.9)**

“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. Compared with 31 December 2014, the fair value of CFH derivatives, for the non-current portion, fell by € -16.9 million.

Current financial liabilities

Current financial liabilities, consisting essentially of the amount of financial expense on the related financial instruments but not yet settled, decreased by € -41.8 million in comparison with the prior year.

€ million	**30.06.2015**	**31.12.2014**	**Change**
CFH derivatives	0.0	5.6	(5.6)
Deferred liabilities on:			
Derivatives	7.8	13.2	(5.4)
Bonds	100.7	130.1	(29.4)
Loans	3.8	5.2	(1.4)
Total	112.3	154.1	(41.8)

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

	€ million	**Book value 30.06.2015**
A.	Cash	534.5
B.	Short-term deposits	1,000.0
C.	**Liquidity (A) + (B)**	**1,534.5**
D.	Current portion of long-term payables	124.0
E.	**Current financial debt (D)**	**124.0**
F.	**Net current financial debt (E) - (C)**	**(1,410.5)**
G.	Non-current bank payables	2,034.6
H.	Bonds issued	6,864.3
I.	Derivative financial instruments in portfolio	(653.6)
J.	Other financial liabilities	41.2
K.	**Net non-current financial debt (G) + (H) + (I) + (J)**	**8,286.5**
L	**Net financial debt (K) + (F)**	**6,876.0**

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

24. EMPLOYEE BENEFITS - € 131.3 million

The composition and changes for termination benefits and other employee-related provisions at 30 June 2015 is detailed in the table below:

€ million	31.12.2014	Provisions	*Interest cost*	Utilisations and other changes	Actuarial gains and losses	30.06.2015
Termination benefits	72.7	-	0.3	(5.3)	(3.3)	64.4
Energy discount	49.0	0.4	0.4	(1.6)	(4.0)	44.2
Other employee benefits	24.6	0.3	0.1	(1.4)	(0.9)	22.7
Total	**146.3**	**0.7**	**0.8**	**(8.3)**	**(8.2)**	**131.3**

The item, equal to € 131.3 million at 30 June 2015 (€ 146.3 at 31 December 2014), shows a decrease from the previous financial year of € 15.0 million, attributable mainly to the actuarial gains and losses pertaining to the period (€ 8.2 million) and the to utilizations in the period (€ 8.3 million, of which € 6.8 million associated mainly with the amounts payable to the beneficiaries of the voluntary retirement programme).
The main assumptions underlying the actuarial estimate of employee benefit obligations are essentially in line with those used for the 2014 Financial Statements: the discount rates were updated as in the table below:

	Termination benefits	Energy discount	Other employee benefits
Discount rate	1.44% - 2.06%	2.06%	0.35% - 2.06%

25. PROVISION FOR FUTURE RISKS AND CHARGES – € 197.7 million

The breakdown of and changes in provisions for risks and charges at 30 June 2015 is detailed below:

€ million	Provision for disputes and litigation	Provisions for other risks and charges	Provision for early retirement	Total
Balance at 31.12.2014	**11.8**	**144.7**	**53.0**	**209.5**
Provisions	1.3	8.7	0.0	10.0
Utilisations and other changes	(1.1)	(12.5)	(8.2)	(21.8)
Balance at 30.06.2015	**12.0**	**140.9**	**44.8**	**197.7**

Provisions for risks and charges recorded a reduction of € 11.8 million compared to the figure at 31 December 2014, owing mainly to utilisations of provisions for early retirement incentives (€ 8.2 million) connected with the corporate reorganisation plan launched by the Parent Company in the previous year. Net utilisations (€ 3.8 million) of provision for sundry risks and charges were also recognised, deriving mainly from:

- a net utilisation of € -3.9 million for charges due to distributing companies for power failures of transformation plants connected to the NTG (in accordance with Resolution 341/07);
- a net utilisation (€ -2.8 million) for "Projects for urban and environmental renewal", the aim of which is to offset the environmental impact of constructing power lines, in addition to expenses related to prescriptions and testing;
- amounts set aside (€ 3.0 million) to adjust provisions for risks for the IMU tax.

26. DEFERRED TAX LIABILITIES – € 83.8 million

The changes in this provision are analysed below:

€ million	31.12.2014	Impact recognised in Income Statement	Impact recognised in statement of comprehensive income	30.06.2015
Deferred tax liabilities	217.8	(19.0)	-	198.8
Deferred tax assets	132.7	(9.3)	(8.4)	115.0
NET DEFERRED TAX LIABILITIES	**85.1**	**(9.7)**	**8.4**	**83.8**

This balance, equal to € 83.8 million, reflects the net movements in the Group's deferred tax assets and liabilities.

Deferred tax liabilities (€ 198.8 million) showed a decrease of € 19.0 million, mainly attributable to utilisation of prior-period provisions for additional depreciation and amortisation with respect to the fiscally relevant portions of the Parent Company Terna and the subsidiary Terna Rete Italia S.r.l., of € 16.3 million and 1.2 million respectively.

Deferred tax assets (€ 115.0 million) showed a decrease of € 17.7 million, mainly attributable to the tax effect of changes in provisions for risks and charges and of employee benefits and to the tax effect, recognised in the Statement of Comprehensive Income, on changes in cash flow hedging financial instruments and on actuarial gains and losses on employee benefits (€ -8.4 million).

27. OTHER NON-CURRENT LIABILITIES – € 126.9 million

This item (€ 126.9 million) has decreased since 31 December 2014 (€ 128.7 million), by € 1.8 million due to the release of set-up grants in relation with the depreciation for the period of plants for which grants were recognised;

28. CURRENT LIABILITIES

Current liabilities at 30 June 2015 break down as follows:

€ million	30.06.2015	31.12.2014	Change
Current portion of long-term loans *	124.0	764.1	(640.1)
Trade payables	2,137.3	2,103.8	33.5
Tax liabilities	40.0	1.2	38.8
Current financial liabilities*	112.3	154.1	(41.8)
Other current liabilities	267.3	258.4	8.9
Total	**2,680.9**	**3,281.6**	**(600.7)**

(*) For these items see the comments in Note 23. LOANS AND FINANCIAL LIABILITIES

Trade payables – € 2,137.3 million

Trade payables at 30 June 2015 break down as follows:

€ million	**30.06.2015**	**31.12.2014**	**Change**
Suppliers:			
- Energy-related payables	1,569.6	1,361.8	207.8
- Non energy-related payables	534.5	701.8	(167.3)
Payables due to associates	7.7	9.9	(2.2)
Payables for contract work in progress	25.5	30.3	(4.8)
Total trade payables	**2,137.3**	**2,103.8**	**33.5**

Suppliers

- Energy-related payables

This item includes the effects on the balance sheet of payables for "pass-through" costs not ascribable to the Parent Company, and refers mainly to purchase of energy relative to dispatching activities and the transport fee due to the owners of other sections of the NTG.

The increase (€ 207.8 million) compared with the previous year was essentially due to higher payables (€ 207.1 million) related to "pass-through items", mainly ascribable to the combined effect of:

– the decrease in payables for the purchase of electrical energy within the Power Exchange (€ 40.0 million), deriving mainly from the net effect of the lower payables generated by the decrease in the volumes of procurement of resources on the Energy Market (€ 81.3 million), as already described in the "Trade Receivables" section, partially offset by the increase in quantities and imbalance assessment prices (€ 45.2 million);
– the increase in payables for the electrical energy purchases outside of the Power Exchange (€ 247.5 million), mainly deriving from the increase in payables for the UESS (Essential Units for Electricity System Security) (€ 216.4 million), and for the procurement of interruptible resources (€ 22.0 million);

- Non energy-related payables

Amounts due to suppliers refer to invoices both already received and yet to be received for tenders, services and the purchase of materials and equipment.

The downward change with respect to the previous year (€ 167.3 million) is essentially due to the purchases and services for greater investment activities carried out in the last period of 2014.

Payables to associates

The item, € 7.7 million, basically shows payables to the associate CESI, for services received by the Parent Company (€ 0.1 million) and the subsidiary Terna Rete Italia S.p.A. (€ 7.5 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. The decrease (€ 2.2 million) from 31 December 2014, is due to lower performance of the associate CESI during the first half of 2015.

Group commitments with suppliers amounted to about € 2,714.8 million and refer to purchase commitments relating to normal "operating activities" for the period 2016-2021.

Payables for contract work in progress

Payables for contract work in progress related to advance payments received from customers, of € 25.5 million as at 30 June 2015 fell by € 4.8 million compared with 31 December 2014, essentially due to advancing orders of Tamini Trasformatori S.r.l. and its subsidiaries:

€ million	**Payments on account**	**Contract value**	**Balance at 30.06.2015**	**Payments on account**	**Contract value**	**Balance at 31.12.2014**
Other	34.7	(9.2)	25.5	46.2	(15.9)	30.3

Tax liabilities - € 40.0 million

The item refers to the Group's tax liabilities for the financial year and refers mainly to the parent company Terna S.p.A. (€ 34.1 million) and to the subsidiary Terna Rete Italia S.r.l. (€ 5.4 million).
It shows an increase of € 38.8 million with respect to the previous year, essentially due to recognition of taxes pertaining to the period (€ 166.0 million), payment of the balance of current taxes for the previous year (€ 1.2 million) and advances paid for the year in progress (€ 126.0 million).

Other current liabilities - € 267.3 million

Other current liabilities break down as follows:

	30.06.2015	**31.12.2014**	**Change**
Payments on account	79.9	83.8	(3.9)
Other tax liabilities	41.4	40.1	1.3
Payables to social security institutions	24.8	24.0	0.8
Payables to employees	36.3	40.4	(4.1)
Other payables to third parties	84.9	70.1	14.8
Total	**267.3**	**258.4**	**8.9**

Payments on account

This item (€ 79.9 million) includes set-up grants received mainly by the Parent Company (€ 75.8 million), in relation to non-current assets under construction at 30 June 2015.
With respect to 31 December 2014 (€ 83.8 million), the item shows a decrease of € 3.9 million, essentially due to contributions recognised directly to reduce the book value of assets which came into operation during the period (€ 8.6 million) net of new grants received from third parties (€ 4.7 million).

Other tax liabilities

Other tax liabilities, amounting to € 41.4 million, show an increase of € 1.3 million with respect to the previous financial year, mainly as a result of the recognition of the VAT payable (€ 30.3 million) for the period.

Payables to social security institutions

Amounts payable to social security institutions, mainly relating to payables due to INPS (National Social Security Institute) by the Parent and the subsidiary Terna Rete Italia S.p.A., amount to € 24.8 million (€ 24.0 million at 31 December 2014). The item also includes the payable due to Fondo Previdenziale Elettrici – F.P.E. (security fund for electricians) (€ 5.8 million).

Payables to employees

Payables to employees, amounting to € 36.3 million (€ 40.4 million at 31 December 2014), related mainly to the Parent and the subsidiary Terna Rete Italia S.p.A. and are mainly for amounts related to staff incentives to be paid the following year (€ 21.1 million), payables to employees for unused holiday time and abolished public holidays to be paid (€ 11.6 million).

Other payables to third parties

Other payables to third parties, of € 84.9 million (€ 70.1 million at 31 December 2014), mainly regard security deposits (€ 40.9 million) received from electricity market operators securing their obligations in respect of dispatching contracts, to other payables (€ 28.2 million) and the recognition of costs with deferred liquidation and deferred income (€ 15.8 million).

E. COMMITMENTS AND RISKS

Risk management

Market and financial risks of the Group

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

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

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

The exposure of the Terna Group to the above risks, with the exception of exchange risk relative to the recently-acquired subsidiary Tamini Trasformatori S.r.l., is essentially represented by the exposure of the Parent. Accordingly, this section provides comprehensive information about the Terna Group's exposure to each of the above risks, along with a presentation of the objectives, policies and processes for managing such risks and the methods used to measure them, as well as further quantitative disclosures drawn from the Parent's Financial Statements at 30 June 2015.

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

Financial assets and liabilities in respect of derivative instruments which Terna S.p.A. had in place during the period 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, mainly related to hedging the exposure to changes in the fair value of a financial asset or liability associated with fluctuations in interest rates (fixed-rate bonds).

See also the discussion in the "Market and financial risks" section of the Notes to the 2014 Annual Report of the Terna Group.

The following paragraphs provide information, updated to the date of this report, concerning interest-rate risk, exchange risk, credit risk and liquidity risk; market risk and inflation risk, on the other hand, are discussed in the Risk Management section of the Notes to the Annual Report at 31 December 2014.

Sensitivity to interest-rate risk

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

	Profit or loss			Statement of comprehensive income		
€ million	**Current rates +10%**	**Amounts recognised in the income statement**	**Current rates -10%**	**Current rates +10%**	**Amounts recognised in the statement of comprehensive income**	**Current rates -10%**
30.06.2015						
Positions sensitive to interest rate variations (FVH, bonds, CFH)	0.1	-	-	(11.7)	(12.1)	(12.5)
Hypothetical change	-	-	-	0.4	-	(0.4)
31.12.2014						
Positions sensitive to interest rate variations (FVH, bonds)	2.1	2.0	1.9	(35.1)	(35.5)	(35.9)
Hypothetical change	0.1	-	(0.1)	0.4	-	(0.4)

Liquidity risk

At 30 June 2015, Terna has liquidity of € 1,534.5 million as well as unused short-term uncommitted credit lines.

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. In application of that envisaged in IFRS 13, the fair value of the derivative financial instruments is adjusted to take into account the counterpart's credit risk.

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

The exposure to credit risk at 30 June 2015 is represented by the total book value of (current and non-current) financial assets and trade receivables.

With regard to financial assets, we can note that Terna provides its services mainly to counterparties considered solvent by the market, which therefore have high credit standing.

The Group's exposure to financial credit risk at the end of the six-month period is as follows:

	Book value		
€ million	**30.06.2015**	**31.12.2014**	**Change**
FVH derivatives	666.6	784.8	(118.2)
Cash and cash equivalents	1,534.5	1,217.3	317.2
Trade receivables	1,401.8	1,577.8	(176.0)
Total	**3,602.9**	**3,579.9**	**23.0**

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

Geographical distribution

	Book value	
€ million	30.06.2015	31.12.2014
Italy	1,346.2	1,505.4
Euro-area countries	24.5	44.8
Other countries	31.1	27.6
Total	1,401.8	1,577.8

Customer type

	Book value	
€ million	30.06.2015	31.12.2014
Distributors (*)	326.4	335.0
Electricity Equalisation Fund (**)	105.9	197.1
Input dispatching contractors	216.9	176.9
Withdrawal dispatching contractors	637.5	750.0
Parties which have signed virtual import contracts and virtual import services (interconnectors and shippers)	16.2	12.3
Sundry receivables	98.9	106.5
Total	1,401.8	1,577.8

(*) includes the receivable accrued in respect of Terna Rete Italia S.r.l. grid transmission fees.

(**) of which € 87.9 million from volume effect on grid transmission fees.

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

€ million	30.06.2015		31.12.2014	
	Impairment	Gross	Impairment	Gross
Not yet past due		1,271.7		1,450.6
0-30 days past due		46.8		69.0
31-120 days past due		27.2		16.0
More than 120 days past due	(33.6)	89.7	(33.6)	75.8
Total	(33.6)	1,435.4	(33.6)	1,611.4

Changes in provisions for bad debts in the course of the period were as follows:

€ million	30.06.2015	31.12.2014
Balance at 1 January	(33.6)	(32.0)
Reversal of provision	-	0.5
Impairment in the period	-	(2.1)
Total	(33.6)	(33.6)

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

	30.06.2015	31.12.2014
Input dispatching activity	234.9	236.3
Withdrawal dispatching activity	1,036.0	989.6
Grid transmission fees - distributors	262.1	254.0
Virtual importing	87.7	87.8
Total	1,620.7	1,567.7

In addition, non-traditional 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 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:

- the Company's bonds, comprising one issue of € 800 million in 2004, and five issues carried out under the bond issue programme of € 8 billion (€ 8,000,000,000 Euro 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 realised 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;
- bank debt, consisting of a loan from Cassa Depositi e Prestiti (CDP) of € 500 million that draws on EIB funds and a revolving credit facility of € 750 million;
- loans to the Company from the European Investment Bank (EIB) totalling € 2,118 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; they are 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 for the € 500 million loan from CDP and the revolving credit facility of € 750 million are summarised below:

- "negative pledge" clauses, under which the Company and each Significant Subsidiary (consolidated companies whose total assets represent at least 10% of total consolidated assets) agree not to establish or maintain guarantees on all or part of their assets, securing any type of financial liability, with the exception of "permitted guarantees" (guarantees required by law, guarantees in place prior to the date of the loans, guarantees on new assets that only secure the debt arranged to acquire them, guarantees given to governmental or international entities, including the EIB, guarantees on financial borrowings whose amount does not exceed 10% of total assets of the Borrower, etc.);

- "pari passu" clauses under which the payment undertakings of the borrower in respect of loans are not subordinate to any obligation in respect of other unsecured and unsubordinated creditors, except in the case of statutory preferential rights;
- "event of default" clauses linked to the occurrence of specified events (such as 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 principal covenants governing the EIB loans are summarised below:

- "negative pledge" clauses, under which if the Company establishes, agrees, provides or decides to maintain restrictions in favour, whether directly or indirectly, of third parties (such as unsecured or secured guarantees, liens, encumbrances, charges or other rights), it must also extend equivalent guarantees to the Bank, upon simple request from the latter, except in the case of restrictions granted in relation to borrowing below a threshold level;
- clauses requiring the delivery of additional guarantees to the Bank in the event of a reduction in the Company's credit rating under which, if the credit rating of the medium- and long-term unsecured and unsubordinated debt is lowered and, consequently, the rating is lower than: BBB+ by Standard&Poor’s or Baa1 by Moody’s or BBB+ by 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 sole discretion of the Bank, exercised on a reasonable basis;
- "*pari passu*" clauses, under which, for the entire period of the loans, the Company will ensure that the payment obligations have the same seniority as those relating to all other unsecured and unsubordinated creditors;
- 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.

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 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 in a number of cases appealing AEEGSI, 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 the 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 Distribuzione"), 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 from 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 sentence 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 trial judgement.

F. BUSINESS COMBINATIONS

There were no business combinations during the first half of 2015.

G. RELATED-PARTY TRANSACTIONS

The Terna Group's transactions with related parties during the first half of 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 associated companies Cesi S.p.A. and Coreso S.A., the employee pension funds (Fondenel and Fopen), and with Cassa Depositi e Prestiti itself, with CDP Reti S.p.A. as well as with companies belonging to:

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

and with the companies ANAS S.p.A. and Finmeccanica S.p.A..

Also relevant were transactions with the Ministry for Economic Development in relation with the grants received for projects financed by the Ministry for Economic Development / the 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 during the first half of 2015 are mainly services that are part of ordinary management and regulated by market conditions.

Please note that in accordance with new regulations introduced by CONSOB Resolution no. 18049 of 23 December 2011 published in the Italian Official Journal no. 303 of 30 December 2011 and in force as from 31 December 2011, the disclosure on fees relating to *“members of the administrative and auditing bodies, general managers*” and on the equity interests held by the same, is included in the annual remuneration report published in accordance with the law.

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 period, in addition to the respective receivables and payables in place as of 30 June 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, study and research, projects and experimentation
CORESO S.A.	-	Non energy-related items Technical TSO coordination services
GSE Group	Energy-related items MIS component, dispatching fees Non energy-related items Specialist services, leases, IT services	- -
Enel Group	Energy-related items NTG remuneration and measurement aggregation, dispatching fees Non energy-related items Lease and rent, line maintenance, works to move/vary lines, 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
Finmeccanica S.p.A.	-	Non energy-related items Supplies of machinery
Italian Ministry for Economic Development		Non energy-related items Grants for line moving/variants
Fondenel and Fopen		Non energy-related items Pension contributions borne by the Terna Group

Company € million	Income statement				
	Income items		Operating expenses		
	Grid transmission fees and other energy-related items	Non energy-related items	Grid transmission fees and other energy-related items	Non energy-related items	Financial items
De facto parent company					
Cassa Depositi e Prestiti S.p.A.	-	-	-	-	2.7
Total de facto parent company	***-***	***-***	***-***	***-***	***2.7***
Associates:					
Cesi S.p.A.	-	0.1	-	0.6	-
Total associates	***-***	***0.1***	***-***	***0.6***	***-***
Other related companies:					
GSE Group	13.5	-	-	-	-
Enel Group	574.9	1.3	-	1.2	-
Eni Group	2.4	0.1	-	0.1	-
Ferrovie Group	1.2	-	3.7	-	-
Total other related companies	***592.0***	***1.4***	***3.7***	***1.3***	***-***
Pension funds:					
Fondenel	-	-	-	0.1	-
Fopen	-	-	-	0.1	-
Total pension funds	***-***	***-***	***-***	***0.2***	***-***
Total	***592.0***	***1.5***	***3.7***	***2.1***	***2.7***

Company € million	Statement of financial position					Guarantees*
	Property, plant and equipment	Receivables and other assets		Payables and other liabilities		
	Capitalised costs	Other	Financial	Other	Financial	
De facto parent company	-					
Cassa Depositi e Prestiti S.p.A.	-	-	1.0	0.1	500.8	-
Total de facto parent company	***-***	***-***	***1.0***	***0.1***	***500.8***	***-***
Associates:	-					
Cesi S.p.A.	5.8	1.3	-	7.6	-	6.4
CORESO S.A.	-	-	-	0.1	-	-
Total associates	***5.8***	***1.3***	***-***	***7.7***	***-***	***6.4***
Other related companies:						
GSE Group	-	4.0	-	-	-	-
Enel Group	3.0	274.9	-	21.9	-	436.1
Eni Group	0.2	1.0	-	0.3	-	5.0
Ferrovie Group	-	0.5	-	1.3	-	44.4
ANAS S.p.A.	-	0.6	-	0.1	-	-
Finmeccanica S.p.A.	4.7	-	-	5.7	-	-
Italian Ministry for Economic Development	-	-	-	60.5	-	-
Total other related companies	***7.9***	***281.0***	***-***	***89.8***	***-***	***485.5***
Pension funds:						
Fondenel	-	-	-	-	-	-
Fopen	-	-	-	0.2	-	-
Total pension funds	***-***	***-***	***-***	***0.2***	***-***	***-***
Total	***13.7***	***282.3***	***1.0***	***97.8***	***500.8***	***491.9***

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

H. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS, AND ATYPICAL OR UNUSUAL TRANSACTIONS

No significant, non-recurring, atypical or unusual transactions were carried out during the first half of 2015, either with third parties or with related parties.

I. NOTES TO THE STATEMENT OF CASH FLOWS

The cash flow generated from **operating activities** in the period amounted to € 699.4 million, which reflects € 770.2 million in cash from operations (self-financing) and € 70.8 million in financial resources generated by the management of net working capital.

Investing activities used net financial resources of around € 414 million, and included mainly € 404.2 million of investment in property, plant and machinery net of set-up grants received in the period and capitalised financial expense (the latter of € 16.3 million) and € 11.8 million of investment in intangible assets.

The net change in **cash flows** relating to shareholders' equity reveals a decrease of € 261.3 million due to the payment of the balance on the 2014 dividend to the owners of the Parent. Consequently, the financial resources used in investing activities and the remuneration of equity during the period, led to total financial requirements of € 675.3 million covered totally by the cash flows generated by operating activities (€ 699.4 million). The net financial debt therefore, during the period, remained substantially stable.

L. SIGNIFICANT EVENTS SUBSEQUENT TO 30 JUNE 2015

Liability management

On 20 July 2015 Terna S.p.A. defined the results and the “pricing” of its offer to eligible Holders of its securities entitled “€1,250,000,000 4.125 per cent”. Notes due February 2017” and “€750,000,000 2.875 per cent Notes due February 2018”.
The Offers were announced on 10 July 2015 and were proposed with the terms and conditions contained in the Tender Offer Memorandum prepared by the Company.
At the Expiry Term of 17 July 2015 a total nominal amount of Securities of approximately € 756 million was validly brought in acceptance of the Offers while the Company accepted an approximate total nominal amount of € 480 million.
Barclays Bank PLC, Citigroup Global Markets Limited and Credit Suisse Securities (Europe) Limited acted as Dealer Managers in relation to the Offers.

Consultation documents on the fifth regulatory period

The year 2015 ends the fourth regulatory period for the electricity transmission, distribution and measurement services. With a view to the revision of the regulatory framework for the next regulatory period, the Italian Regulatory Authority for Electricity, Gas and Water began two separate procedures, which were followed by separate consultation documents.

Sorgente – Rizziconi: possible completion of the power line

On **17 July 2015** an order was issued to release from seizure Pylon no. 40 of the “Sorgente – Rizziconi” power line; this order was made enforceable on **28 July 2015**.

With this measure Terna will be able to complete the works on the power line, which were interrupted following the order, issued by the Court of Messina on 13 March 2015, impounding the aforementioned pylon.

It is worth recalling that the “Sorgente-Rizziconi” power line is a strategic infrastructure for the Sicilian electrical system.

“Udine Ovest – Redipuglia” power line: Council of State blocks project due to defect of form

On **24 July 2015**, the Council of State issued a ruling blocking the “Udine Ovest – Redipuglia” power line – already in an advanced stage of completion – due to a defect of form. This is a project of strategic importance for the Friuli Venezia Giulia region.

More specifically, the ruling did not bring into question the project itself or its importance, but rather the methods by which the Ministry for Cultural Heritage issued its approval, one of 50 already acquired for the project. Terna is in the process of evaluating the effects of the ruling and the best approach to protect itself.

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

Certification of the Interim Financial Report pursuant to Art. 81 ter of Consob Regulation no. 11971 dated 14 May 1999 and subsequent amendments and additions

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 preparation of the condensed consolidated interim financial statements during the first half of 2015.

2. In this regard no significant aspects emerged.

3. It is also specified that:

   3.1. The condensed consolidated interim financial statements:

   a. are prepared in compliance with the applicable international accounting standards recognised in the Economic 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. correspond with the results of the accounts and accounting entries;

   c. are suitable for 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 interim report on operations includes a reliable analysis of references to significant events that occurred in the first six months of the year and their impact on the condensed consolidated interim financial statements, together with a description of the main risks and uncertainties to which the issuer is exposed in the remaining six months of the year.

The interim report on operations also includes a reliable analysis of information on significant transactions with related parties.

Rome, 28 July 2015

Delegated administrative bodies	Executive in Charge of the preparation of the company's accounting documents
………………………………	…………………………………………

Report of the Independent Auditors

pwc

INDEPENDENT AUDITORS' REPORT ON THE REVIEW OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2015

To the Shareholders of
Terna SpA

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements of Terna SpA and its subsidiaries (Terna Group) as of and for the six months period ended 30 June 2015 comprising the statement of financial position, the income statement, the statement of comprehensive income, the statements of changes in shareholders' equity, the statement of cash flows and the related notes. Terna SpA directors are responsible for the preparation of the condensed consolidated interim financial statements in accordance with the international accounting standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of the limited review

We conducted our work in accordance with the criteria for a review recommended by Consob in Resolution 10867 of 31 July 1997. A review of condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full scope audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a full scope audit. Accordingly, we do not express an audit opinion on the condensed consolidated interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements of Terna Group as of and for the six months period ended 30 June 2015 have not been prepared, in all material respects, in accordance with the international accounting standard applicable to interim financial reporting (IAS 34), as adopted by the European Union.

Rome, 30 July 2015

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

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