

INTERIM FINANCIAL REPORT
30 JUNE 2016
GRUPPO TERNA

2016



Transmitting energy



INTERIM FINANCIAL REPORT
30 JUNE 2016
GRUPPO TERNA

2016



Contents

6	Interim Financial Report on Operations at 30 June 2016
96	Condensed consolidated interim financial statements at 30 June 2016

INTERIM FINANCIAL REPORT ON OPERATIONS AT 30 JUNE 2016

8	Highlights - Performance 1H2016
9	Significant events in the first half of 2016
13	Organisation
18	Business
23	Reference contexts
28	Strategy
33	Capital
39	Risk management
41	Performance in the first half of 2016
65	Further information
66	ANNEXES

The Interim Financial Report of the Terna Group at 30 June 2016, 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. 71 of 18 April 2016.

Highlights - Performance 1H2016

Performance of Terna stock and shareholder return

4.99/share*

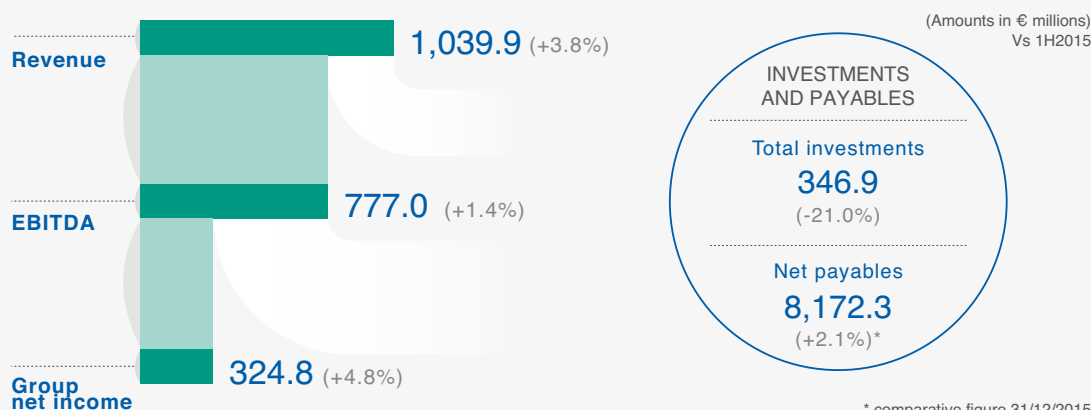
Price
at 30 June 2016

5.08/share*

Maximum share price,
reached on
30 March 2016

* Closing price.

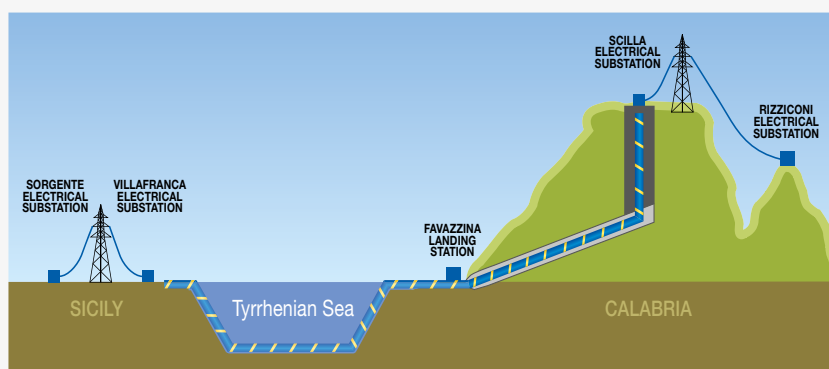
Financial and economic performance



Operating performance

The “Sorgente-Rizziconi” power line comes into operation:

- This represents the longest 380 kV AC undersea electrical connection in the world:
 - 105 km the total length, of which 38 km under the sea;
 - electricity transfer capacity up to 1,100 MW.
- A reduction of 700,000 tonnes of CO₂ emissions into the atmosphere each year, 114 km of old power lines dismantled and over 200 hectares benefiting from a lower environmental impact.
- Over € 700 million have been invested in this strategic project, representing a necessity for the Italian national electricity system and savings of around € 600 million each year.



Significant events in the first half of 2016

Management and development of the NTG

The major works of the first half of 2016 include the following:

The 380 kV **Villanova-Gissi** power line became operational on **31 January 2016**. This had been included in the Grid Development Plan and was authorised by the Ministry of Economic Development on 15 January 2013 with Decree no. 239/EL-195/180/2013. The work was aimed at remedying most of the electrical deficit of Abruzzo resolving its electrical infrastructural shortcomings, eliminating notable limitations on operations and reducing considerably the risks of blackouts. The power line also makes it possible to input greater quantities of electricity produced by renewable sources in Italy. The country will benefit significantly: the security and efficiency of the system; economically (savings for families and businesses); in the maintenance of the Adriatic backbone; electrically (increased transfer capacity); environmentally (increased transfer of production from renewable sources for 700 MW; and in the reduction of CO₂ emissions, of around 165 kt/year).

In **February 2016** Terna obtained approval, with a declaration of public utility, for the project to create the 132 kV “**Sacca Serenella Cabina Primaria – Cavallino Cabina Primaria**” and “**Fusina 2 - Sacca Fisola Cabina Primaria**” power lines in cable, included in the Grid Development Plan and approved by the Ministry of Economic Development. The work is necessary to guarantee the widest margins of security and reliability of power supplies to the Venice lagoon.

On **28 May 2016** the 380 kV **Sorgente-Rizziconi** power line came into service as provided for in the 2016 Development Plan.

This new infrastructure represents a strategic step forward not only for Calabria and Sicily but for Italy in general, enabling a more efficient use of the power stations in the south of the country and increasing competition, in turn leading to lower energy prices for Italian businesses and citizens. The estimated savings for the system with the new power line will be around € 600 million each year, added to the more than € 7 billion of savings generated since 2005 thanks to the improvements Terna has brought to the Italian Electricity System through investments which have made it possible to reduce grid congestions. Already, just a few weeks after the power line came into operation, an alignment has been seen in prices between Sicily and the continent. Over the last 5 years Terna has invested over € 700 million in the project, representing one of the most significant investments in the Group's history. The project involved 150 technologically advanced and highly skilled companies, including suppliers and construction firms, 90% of which are based in Italy. Over the period, more than 2,000 employees worked on the project.

From an environmental standpoint, the new infrastructure will enable Italy to reduce atmospheric emissions of CO₂ by around 700,000 tonnes each year. Thanks to the dismantling of 114 km of overhead power lines and 400 obsolete pylons, 2,500 tonnes of steel, aluminium, glass and concrete can be recycled. In addition, thanks to the use of innovative single-stem pylons for the overhead lines on the Sicily and Calabria sides which require 10 times less surface area than traditional pylons, 228 hectares have been freed up.

On **16 May 2016**, a new set of planning and environmental documentation was filed for the purposes of the public consultation for the redetermination of the environmental compatibility decree of the 380 kV “**Udine Ovest-Redipuglia**” power line, already 80% completed. Subsequently, on **17 June 2016** the Ministry for Cultural Heritage and Tourism – General Department for Archaeology, Fine Arts and Landscape (MiCHaT) – issued a negative opinion, for the matters concerning it, in the context of the Environmental Impact Assessment proceeding. We are assessing the actions to be taken to safeguard the investment already made and to enable the continuation of an indispensable project to resolve the risks of blackouts

on the electricity grid of Friuli and make it possible to supply power to local production sites at risk of delocalisation.

On **23 May 2016**, Terna reached an agreement with the local authorities for optimisation of the route of the new **Benevento II – Foggia** power line. This optimisation involves completely removing a pylon from the power line route and moving some of the remaining pylons within the buffer zone. All this for the benefit of a further minimisation of the electromagnetic fields generated by the work being built which, we should remind you, were already in the first planning stage well below the legal limits. This new power line will make the electricity system in Campania more secure and efficient, enabling an annual saving in the bills of more than € 30 million for businesses and households. The are positive effects also at the environmental level with the demolition, against the creation of 83 km of new overhead lines, of a total of approximately 105 km of old lines.

Interconnections abroad

As part of its commitment to facilitate the social acceptance and sustainability of its works, **in the first two months of 2016** Terna worked on refining the construction solutions for the two Interconnectors: Italy-Switzerland and Italy-France.

In **February 2016**, for the **Italy-France Interconnector**, Terna took advantage of the discussions held in 2015 with the institutions and communities involved in the project, obtaining from the Ministry of Economic Development the start of the authorisation procedure for the location variant of the Interconnection. The work will increase the security of the grid, reduce the congestions of the continental electricity grid and reduce the cost of electricity for households and businesses. We can note that on **16 May 2016** the Authority, by means of Resolution 228/2016/I/eel, approved the document “Opinion on the Piemonte Savoia Exemption Application” aimed at the issue by the Ministry of Economic Development of the exemption decree for the work.

On **20 July 2016** the said Ministry of Economic Development issued the “Decree of exemption for the private line of the interconnection power line” in favour of the company Piemonte Savoia S.r.l.. The document was sent to the European Commission for the necessary approval.

In **June** the **Intraday Market Coupling** process on the **border with Slovenia** officially began: the explicit auctions carried out by the JAO (Joint Auction Office) for intraday allocation of the interconnection capacity were replaced by an implicit allocation mechanism that consists of the coupling of the Italian intraday market sessions with the Slovenian market.

The mechanism was implemented thanks to the initiative and collaboration of the TSOs and the Energy Exchanges of Italy and Slovenia: the creation of this project is a further step towards the integration of the markets promoted by the European Commission and will enable more efficient allocation of the interconnection capacity between Italy and Slovenia.

This allocation model is compatible with continual trading, which is the European target model, and makes it possible to extract the congestion revenue (pricing of the capacity), as required by the EU guidelines on Capacity Allocation and Congestion Management (CACM).

Again in **June**, the “**D-2 Process**” became operational. This incorporates the Community Guidelines for Capacity Allocation and Congestion Management (CACM), which came into force on 14 August 2015, and involves Terna and the bordering TSOs at the Northern-Italy border (RTE, Swissgrid, APG and ELES) recalculating every day in a coordinated manner the NTC (Net Transfer Capacity) on the interconnections on the basis of the best forecasting information in their possession.

The “D-2 Process” had the double effect of:

- strengthening the management of security of exchanges with other countries because it made it possible to identify grid congestions in the operational planning stage;
- optimising the NTC as a result of the availability of more accurate forecasting data.

The results of the testing stage, in fact, showed that the “D-2 Process” generates additional efficiencies for the electricity market which makes available an average capacity of 200 MW on the Northern border.

Other Non-Regulated Activity Projects

In **May 2016** a Memorandum of Understanding was signed by the **Municipality of Pantelleria**, S.Med.E., the company that produces and distributes electricity on the island, and Terna Plus S.r.l. to continue a project for integration of clean energies and storage systems through the creation of plants for the production of electricity from renewable sources, batteries for energy storage, the implementation of a new system for electric mobility, actions for greater energy efficiency and reduction of CO2 emissions into the atmosphere to launch the island on the path of sustainability and leading-edge technology capable of generating evident economic and environmental benefits.

On **20 May 2016**, a three-year **collaboration agreement was signed by Terna and Tesla Motors** for the development of cutting-edge projects and better integration between e-mobility and the electricity grid and intelligent consumption; specifically, Terna and Tesla Motors will collaborate in implementing pilot projects such as Green Islands and Grid to Vehicle:

- Green Islands: for the integration of energy storage systems with renewable production plants, to be installed on the minor Italian islands such as Giglio/Giannutri and Pantelleria where Terna is engaged in creating “smart island” systems;
- Grid to Vehicle: assessing the potential use of Tesla’s electric cars to provide grid services which will benefit both electricity customers and motorists, allowing for a more intelligent use of renewable energy.

The strategic partnership with Tesla Motors is part of the company’s multi-year innovation, research and technological and sustainable development plan.

Sustainability

After having obtained recognition as Industry Leader in the Electric Utilities sector of the **Dow Jones Sustainability Index** (September 2015), Terna S.p.A is the only Italian company included in the Gold Class of the RobecoSAM Sustainability Yearbook 2016 published in **January 2016**.

In **June**, Terna was reconfirmed among the leading companies in the world for sustainability performance in the FTSE4Good indices of the London Stock Exchange.

The recognition of Terna, which has been present since 2005 in the FTSE4Good Global and Europe baskets, arrives a few days after its inclusion for the fifth consecutive year in the EURONEXT World 120, EURONEXT Europe 120 and EURONEXT Eurozone 120 indices of the rating agency VIGEO – EIRIS.

In **February 2016**, as part of its commitment for the development of an increasingly sustainable grid for territories and communities, Terna began demolishing 3 km of an old power line dating back to the 1950s, which with 17 pylons crosses the Florentine hills of **Pian dei Giullari, Arcetri and Monte alle Croci**, one of Italy's areas of greatest landscape and cultural prestige. All components of the pylons demolished (steel, aluminium, glass, cement) were put back into the production cycle in an efficient and sustainable manner.

On **7 June 2016**, Memoranda of Understanding were signed by Catia Bastioli, Chairperson of Terna, Rossella Muroni, Chairperson of **Legambiente**, Donatella Bianchi, Chairperson of **WWF Italy** and Andrea Purgatori, Chairman of **Greenpeace Italy**, to promote all the initiatives needed to expand awareness and spread a culture of sustainability in the energy field.

The objective of these agreements is close cooperation aimed at progressively improving the environmental sustainability of the NTG Development Plan. More specifically, by signing the memoranda, Terna and the three environmental associations undertake to collaborate on a strategic level to draft the Development Plan, on a structural level in drawing up the Strategic Environmental Assessment, as well as in the implementation stages during consultation with the community to identify the most compatible local choices.

Therefore, this cooperation strategy will develop over the following specific activities:

1. strategic level (drafting the Terna Development Plan) with discussions to assess future energy scenarios, identify development strategies for the electricity grid, in relation to the national and European environmental objectives, and to publicly debate the energy scenario at 2030 and 2050, in Italy and in Europe, subsequent to COP21 in Paris;
2. structural level (Strategic Environmental Assessment) to evaluate the socio-environmental context in the areas affected by the interventions envisaged by the Development Plan, and to identify the environmental corridors relating to the works that will be executed;
3. implementation level (design of the works and dialogue with the community) to cooperate in identifying the route feasibility bands for the sections of the electricity lines and the environmental content for consultation with local authorities, so as to minimise interference with priority natural areas, and mitigate the impact arising from development work disrupting or bordering on priority natural areas and implementing environmental rehabilitation measures.

Finance

On **18 February 2016** Terna launched **a bond issue** in Euro, at fixed rate, in the form of a private placement for a total of € 80 million as part of its Euro Medium Term Notes (EMTN) Programme of € 8,000,000,000, to which has been attributed a "BBB" rating by Standard and Poor's, "(P)Baa1" by Moody's and "BBB+" by Fitch. The bonds, with a duration of 10 years and maturity on 3 March 2026, will pay a coupon of 1.60%, and were issued at a price of 99.087%, with a spread of 108 basis points with respect to the midswap (the "Bonds"). The Bonds were admitted to listing 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.

Organisation

The Terna Group and its mission

The main business of the Terna Group is the transmission and dispatching of electricity in Italy, playing the role of the Italian TSO (Transmission System Operator), in a monopoly position through government concession. Terna manages all its activities focusing on the possible economic, social and environmental consequences and adopts a sustainable approach to business to create, maintain and consolidate a relationship of mutual trust with its stakeholders, needed for value creation for the Company and for the stakeholders themselves.

Regulated Activities

The Terna group owns 99.6% of the Italian National Transmission Grid.

It is responsible for the transmission and management of power flows on the High-Voltage and Very-High-Voltage Grid throughout the national territory, in order to maintain the balance between demand and supply of energy (dispatching). It is also responsible for the planning, construction and maintenance of the grid.

It is the Italian TSO (Transmission System Operator) with a monopoly under government licence in accordance with the regulations of the Italian Regulatory Authority for Electricity, Gas and Water (AEEGSI) and the guidelines of the Ministry of Economic Development. It ensures the security, quality and cost efficiency of the national electricity system and pursues the development of the grid and its integration with the European grid. It ensures equal conditions of access for all grid users.

It is the largest independent transmission system operator in Europe and among the leaders in the world in terms of kilometres of lines managed.

Electricity dispatching and transmission

Non-Regulated Activities

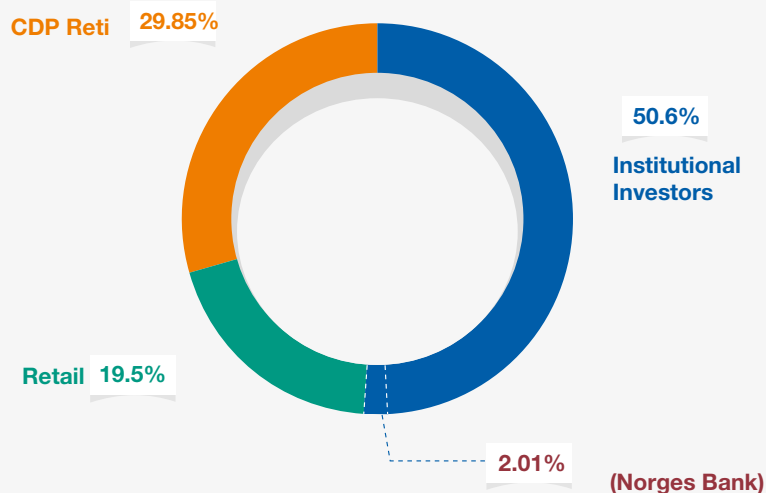
The Terna Group undertakes infrastructural activities and services under the Italian or foreign-market systems, pursuing new business opportunities with its experience, technical expertise and ability to innovate, all gained managing complex systems.

New business opportunities in Italy and abroad

Shareholdings and corporate structure

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:

SHAREHOLDING STRUCTURE BY TYPE

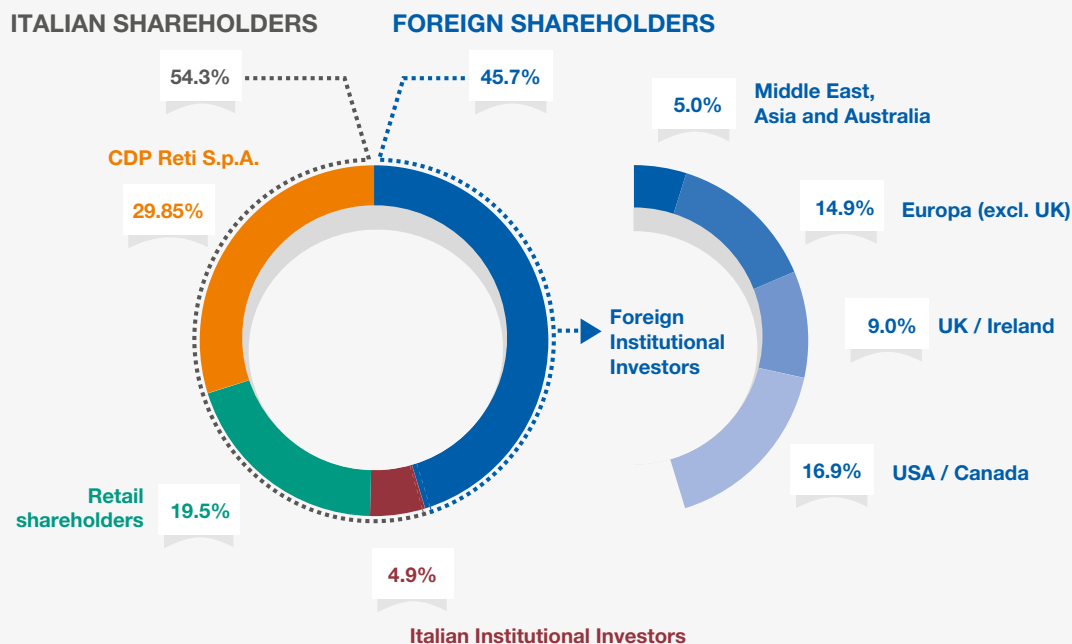


MAJOR SHAREHOLDERS*

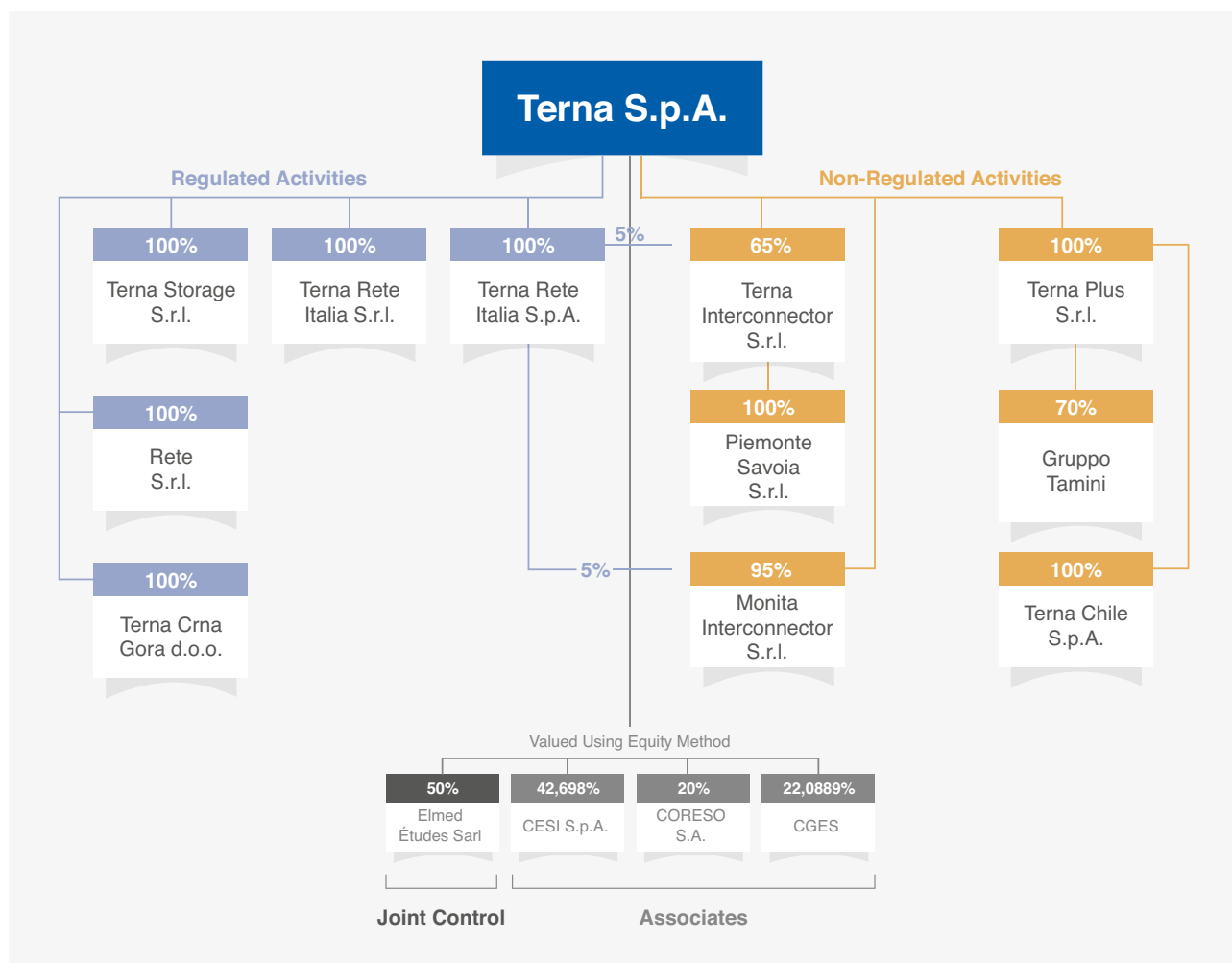
CDP RETI S.p.A. (subsidiary of Cassa Depositi e Prestiti S.p.A.): 29.851% NORGES BANK: 2.014%

*Shareholders that, on the basis of the information available and Consob communications received, participate in the share capital of Terna S.p.A. in an amount that exceeds the significance threshold indicated by Consob Resolution no. 11971/99 and that have not requested, in accordance with Art. 119-bis, paragraphs 7 and 8 of the Issuer Regulations as amended by Consob Resolution no. 18214, which came into force on 6 June 2012, for this not to be made public (stake ranging between 2% and 5%). It should also be noted that the significance thresholds were recently amended by Italian Legislative Decree no. 25 of 15 February 2016, published in the Italian Official Journal on 3 March 2016 and in force since 18 March 2016.

SHAREHOLDING STRUCTURE BY GEOGRAPHIC AREA AND TYPE



The corporate structure of the Terna Group at 30 June 2016 is shown below.



During the first half of 2016, there were no events that would have had effects on the Terna Group's organisational structure, which therefore reflects the situation as at 31 December 2015.

THE PARENT COMPANY

Terna S.p.A.

It holds the government concession for the transmission and dispatching of electricity and 80.13% of the NTG (considering the portions held by the subsidiaries Terna Rete Italia S.r.l. and Rete S.r.l., detailed below, the Group holds 99.6% of the NTG).

It owns the infrastructures and is responsible for defining the NTG Development Plan and its Defence Plan.

As regards the other companies:

- four Italian full subsidiaries and one foreign full subsidiary operate in Regulated Activities;
- six direct or indirect subsidiaries operate in Non-Regulated Activities;
- four associates or companies under joint control provide services and studies or other strategic activities.

ASSOCIATES OPERATING IN REGULATED ACTIVITIES

Company	Activity
Terna Rete Italia S.p.A.	It is delegated to carry out all traditional activities, ordinary and extraordinary maintenance, the management and performance of work on developing the NTG, as established by the Parent company Development Plan. A business unit rental contract was drawn up with the Parent Company and the consequent ad hoc intergroup contracts for regulating business.
Terna Rete Italia S.r.l.	It owns approximately 10.75% of the NTG infrastructures. The design, construction, management, development, running and maintenance of high-voltage electricity lines fall within its corporate purpose. The Grid was purchased in 2009 from Enel Distribuzione S.p.A.
Rete S.r.l.	It owns approximately 8.71% of NTG infrastructures. The design, construction, management, development, running and maintenance of high-voltage electricity lines fall within its corporate purpose. The company was purchased in 2015 from Gruppo Ferrovie dello Stato Italiane.
Terna Storage S.r.l.	It develops diffused energy storage system projects as well as related coordination, study and research activities. The accumulation systems aim to facilitate the dispatch of non-programmable renewables.
Terna Crna Gora d.o.o.	Company founded under Montenegro law that manages the activities relating to the authorisation, development and management of the Italy-Montenegro Interconnection on the Montenegro side. It also promotes new investments opportunities in the transmission sector for lines between Montenegro and neighbouring countries and of infrastructures to connect renewable energy plants in these countries.

ASSOCIATES OPERATING IN NON-REGULATED ACTIVITIES

Company	Activity
Terna Plus S.r.l.	Company for the development of new activities and business opportunities on the Italian non-regulated market and for the development and management of High Voltage infrastructures in Italy and abroad.
Tamini Group	The Group operates in the production and sale of industrial and power electricity transformers using six manufacturing facilities, all situated in Italy, in Legnano, Melegnano, Novara, Valdarno, Ospitaletto and Rodengo. These latter plants relate to the TES Group, acquired by Tamini during the previous financial year.
Terna Interconnector S.r.l.	Company delegated within the Group to develop and execute the Italy-France interconnection infrastructures.
Piemonte Savoia S.r.l.	The purpose of the new company within the Group is to design, create, manage, develop, operate and maintain, also on behalf of third parties, lines and network structures and other related infrastructures, plants and equipment functional to the said activities in the sector of electricity transmission or in analogous, related or connected sectors. Instrumental in the Italy-France interconnection.
Monita Interconnector S.r.l.	The purpose of the new company within the Group is to design, create, manage, develop, operate and maintain, also on behalf of third parties, lines and network structures and other related infrastructures, plants and equipment functional to the said activities in the sector of electricity transmission or in analogous, related or connected sectors. Instrumental in the Italy-Balkans interconnection.
Terna Chile S.p.A.	Company under Chilean law that handles the design, construction, administration, development, operation maintenance of any type of structure, plant, equipment and electrical infrastructure, including those of interconnection; production of all kinds of products and services, constructions, electrical and civil engineering works.

ASSOCIATE OR COMPANY UNDER JOINT CONTROL

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

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

Business

Regulated Activities

Electricity dispatch and transmission activities in Italy

The main business of the Terna Group is the transmission and dispatching of electricity in Italy, playing the role of the Italian TSO (Transmission System Operator), in a monopoly position through government concession.

It is the central segment of the electricity system chain.

The electricity system consists of:

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

The main activities carried out by the Group to carry on the Regulated Business consist of:

- grid operation and dispatching;
- maintaining infrastructure;
- grid development planning;
- carrying out development projects.

Grid operation and dispatching

The Terna Group ensures at all times a balance between input and output, i.e. between the supply of energy and consumption by end users. This dispatching function is performed by Terna Rete Italia. The major development of renewable sources has made this activity more complex, above all when the supply of renewables is high and the need for energy low, thereby requiring greater flexibility in managing dispatching resources. Preparation for real-time operation includes planning unavailability (of the grid and of production plants) with different time horizons, forecasting national electricity demand, comparing demand for consistency with the production plan determined as the result of the free energy market (Electricity Market and contracts outside of the Electricity Market), acquisition of resources for dispatching, and checks on the power transits for all the grid lines.

During the real-time control stage, the National Control Centre, coordinating other centres around the country, monitors the system and dispatches electricity, intervening, by communicating commands to producers and Remote-Control Centres, in order to vary grid supply and distribution. To avoid the risk of grid degeneration and prolonged power outages, it may also intervene in an emergency to reduce the demand. Terna manages the Dispatching Services Market (DSM) through which it acquires resources for the dispatching services.

Maintaining infrastructure

This is carried out by Terna Rete Italia through three Area Offices, which are divided into eight Operational Transmission Areas and which employ over 75% of the Group's human resources.

Grid development planning

Analysing electricity flows in the grid and producing supply and demand projections allow Terna to identify the critical points and, consequently, schedule the new work to be carried out in order to ensure that the system is adequate, including in the medium (+5 years) and long-term (+10 years) in terms of meeting demand, safety of operations, reducing congestion, and improving service quality and continuity. The growth of electricity production from renewable sources makes it indispensable to have all the existing regulatory resources available (including exchanges with other countries) together with generation control tools. Grid planning must be consistent with the aim of maximising the integration of renewable sources in safe conditions.

New work to be carried out is detailed in the NTG Development Plan, which is presented annually to the Ministry of Economic Development for approval. Terna follows the authorisation process for it, which also involves the AEEGSI in the public consultation stage under the terms of Italian Legislative Decree 93/2011 - Art. 36, paragraph 13.

Carrying out development projects

Terna sets out the requirements for external resources and project budgets, as well as the working methods and technical specifications for the components and materials that will be used.

Development works include developing interconnection grids with abroad and constructing electricity battery storage systems that can solve problems relating to the regulation of the electricity system created by the development of renewable energies and enable full use to be made of such sources.

New plants are generally constructed through outsourcing agreements, maintaining close control over the social and environmental aspects assigned to contractors. Terna, finally, identifies the best ways of connecting to the transmission grid for all operators who make an application.

Terna Rete Italia, finally, sets the engineering standards for plants connected to the grid, particularly construction standards and the performance required from equipment, machinery, and station and power-line components.

Non-Regulated Activities

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

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

Services for third parties

In Italy, during the first half of 2016, Terna continued to perform activities for third parties in the area of engineering services (developing technical solutions and supplying innovative services), Telecommunications (housing of telecommunication equipment and maintenance services involving fibre optic networks) and Operating Third-Party Plants (operating and maintaining High-Voltage and Very-High-Voltage plants). As regards Engineering services Terna obtained several EPC (Engineering, Procurement, Construction) orders. This model envisages the design, development and implementation of solutions to satisfy the growing demand for infrastructures and grid connections, and several orders for Management, Operation & Maintenance services regarding plants and power lines. Under the scope of Telecommunication services, the purchase of the High Voltage grid of Gruppo Ferrovie dello Stato Italiane (hereinafter FSI Group), completed in December 2015, envisaged the transfer of a contract for the passage of the fibre-optic cables owned by Basicel (which in 2014 generated € 5.6 million in revenue). For the purposes of contributing to the development of Italian projects for the ultra-broad band network, Terna made itself available in the context of the survey of the suitable infrastructures for extra-urban connection networks.

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

Initiatives abroad

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

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

The initiatives abroad of interest to the Terna Group are:

- EPC;
- Technical Assistance: this model envisages the supply of engineering and regulatory consultancy services for third parties operating in the electricity sector, also through participation in public tenders;
- BOOT (Build, Own, Operate, Transfer): this model envisages the design, construction and operation of transmission infrastructures and their ownership for a defined period of time; at the end of the period, the ownership of the asset is transferred to another subject;

- **Concessions:** this model envisages the acquisition and management of transmission systems abroad by taking part in international concession tenders on High-Voltage power lines.

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 99/2009¹, which assigned Terna the task of carrying out public tenders to select the companies (Selected Subjects) willing to finance specific interconnections, in exchange for the benefits deriving for them from obtaining a Decree of exemption from access by third parties on the 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.

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

INTERCONNECTIONS UNDERWAY

Interconnector Project “Italy-France”

The new “Italy-France” direct current interconnection, between the nodes of Piosasco and Grande Île, 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.

Interconnector Project “Italy-Montenegro”

The interconnection project between Italy and Montenegro creates a new electrical border between Italy and the Balkan country; as of now they are not electrically interconnected. The line will make it possible to increase the security of Italian and Montenegrin electrical procurement and to connect the Italian market with those of the other Balkan and Central and Eastern European countries.

In particular, it 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 but mostly with undersea cable.

(1) 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. would 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. EC no. 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 tender procedures could only be accessed by end customers, also grouped together in consortia, which are holders of withdrawal points each with installed power of not less than 10 MW. Art. 32 of Italian Law no. 99/09 was subsequently amended and added to by Italian Law no. 208 of 28/12/2015 (Art. 1, paragraph 831), which - among other things - extended up to 31 December 2021 the period provided for to complete the creation of the new interconnection infrastructures and provided for the establishment of a fund guaranteeing the commitments assumed for financing each interconnector.

Energy transformer production - Tamini Group

With a century of experience and a high degree of know-how, Tamini represents a historic industrial company, recognised in the electrical sector in Italy and abroad, as well as one of the most important groups in Europe in terms of developing, producing and selling industrial and power electrical transformers, a market that represents 23% of the global market for electrical components.

At the end of October 2015 Tamini Trasformatori was merged with TES Transformer Electro Service S.r.l. (henceforth also "TES"), a company based in Ospitaletto (Brescia) operating in the production of electricity transformers for industrial use and for the segment of the production and transmission of electricity, giving rise to a Group numbering more than 430 specialised employees with clients from more than 90 countries across the globe and more than 250 transformers installed each year.

Tamini creates industrial machines with an artisan touch. On the basis of its customers' specific system requirements, manual labour combines with the perfection offered by the most sophisticated design and calculation techniques, thanks to the use of cutting edge software and simulation models.

With over 9,000 transformers produced, Tamini exceeds every other operator in the world in the sector of special transformers for steelworks. In addition, Tamini is the manufacturer of the most powerful transformer in the world for steelworks, located in Turkey. It owns 6 manufacturing plants, specialised in the construction of a different type of machine, all located in Italy, in Legnano, Melegnano, Novara, Valdagno, Ospitaletto and Rodengo. In the last few months of 2015 and in the early months of 2016, following the Tamini-TES merger, on all levels a series of initiatives have been launched aimed at integrating the various corporate areas.

Reference contexts

Energy contexts²

The European Union has a small share of the world's energy reserves, but it consumes one fifth of the energy produced across the globe for a total cost that is estimated as in excess of € 350 billion each year; moreover, in environmental terms, we note that there is still a more than 80% dependency on fossil fuels.

European policies deal with these problems by pursuing a reduction in energy consumption, modernising and developing the energy grids (to facilitate competition and the diversification of sources) and increasing use of renewable energy sources.

OBIETTIVI DELLA POLITICA ENERGETICA EUROPEA

Objective	Description
Reduction of consumption	For 2020, the Union aims to reduce energy consumption by 20% as compared with 1990, equating the deactivation of 400 power plants.
Modernisation and development of the energy grids	<ul style="list-style-type: none"> • Improvement of interconnection (2020 Target: 10%*); • Improvement of storage capacity; • Management of problems related to renewable sources; • Expansion of the transmission grids. <p>Over the next ten years, a figure in the region of one thousand billion euro will need to be invested in grids. The member states are interested in developing high-voltage lines and transnational gas pipes to improve the interconnection and increase energy storage capacity. The High-Voltage grids, which were initially built to connect large electrical plants to the outlying consumption areas, must now integrate remote and discontinuous plants insofar as they are powered by renewable sources. At the European level, initiatives to implement the new European strategy regarding the Energy Union are currently being defined, including the action plan to achieve the 10% interconnection objective by 2020.</p> <p>As a consequence of these initiatives, European legislative proposals are expected in 2016/2017 regarding the design of a European electricity market.</p>
Reduction of CO₂ emissions	<ul style="list-style-type: none"> • Production of biofuels, wind and solar energy, use of hydrogen; • "Smart" city management, CO₂, capture and underground storage, new forms of electricity grids. <p>Some industrial initiatives regard the production and sources of energy, including biofuels, wind, solar and nuclear power, as well as combustion batteries and the use of hydrogen. Others instead involve a better management of energy in "smart cities", the collection and underground storage of CO₂ and the electrical grids of the future. New technologies need to become less costly and more profitable if they are to replace those currently used and consequently reduce the CO₂ emissions produced by the European energy sector. At present, the target is for 20% of all energy consumed in the EU in 2020 (and at least 27% in 2030) to come from renewable sources: in 2011, across the globe solar panels were installed able to produce more than 100 gigawatts, of which 70% are in the EU.</p> <p>The growth of the European renewable energy market has also gone hand-in-hand with a considerable reduction of the costs of renewables.</p>

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

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

Internationally, the Paris climate agreement at the end of 2015 (COP21) reinforced the approach taken towards renewable energy sources, defining the commitment to limit global warming to within 2 degrees. As a rule, the European and international energy context looks to be favourable for the electricity sector (production, transmission and distribution), in particular for the boost to infrastructures and renewables. With reference to electrical infrastructures, the European Commission, besides repeating the 10% target for electrical interconnections with respect to the installed capacity of each Member State at 2020 - hopes that 15% will be reached at 2030. The European Commission is also preparing new draft legislation on renewables, which, together with the promotion of innovative technology projects (i.e. smart grids, storage, demand-side response) will enable a context to be developed that is favourable to the achievement of the objective of 27% production from renewable sources by 2030.

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

Electricity demand and production in Italy

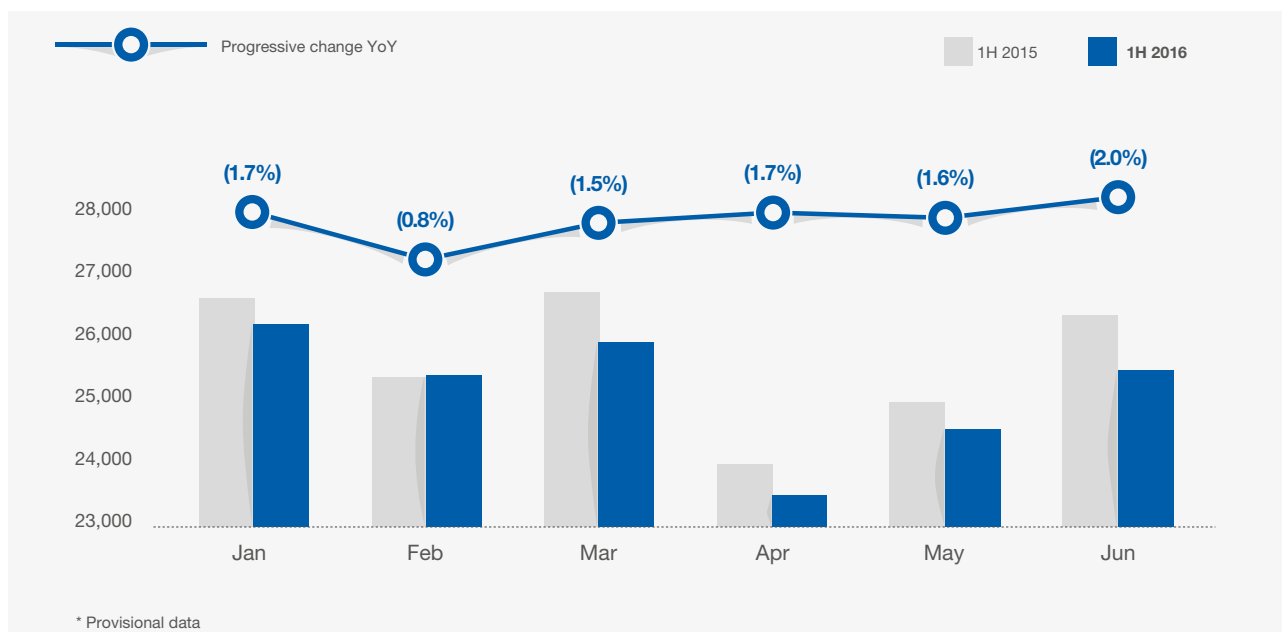
During the first half of 2016, electricity demand in Italy dropped by 2% compared to the same period of 2015. In the period January-June 2016, in fact, electricity demand in Italy was 151,005 million kWh (provisional data).

ELECTRICITY BALANCE SHEET FOR ITALY, GWH

	1H 2016*	1H 2015*	Δ	Δ %
Net production	129,688	132,153	(2,465)	(1.9%)
From foreign suppliers	25,702	25,391	311	1.2%
Sold to foreign clients	(3,145)	(2,450)	(695)	28.4%
For pumping	(1,240)	(944)	(296)	31.4%
Total demand in Italy	151,005	154,150	(3,145)	(2.0%)

* Provisional data

MONTHLY ELECTRICITY DEMAND IN 2016, GWH

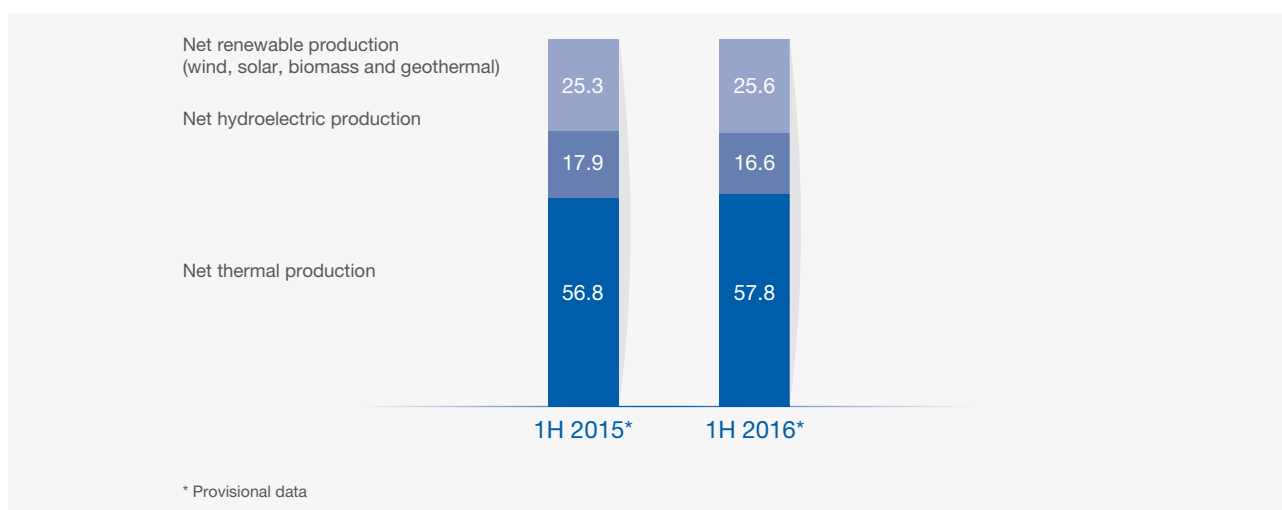


The monthly trend of electricity demand in Italy in the first half of 2016 shows a reduction in all months of the period.

ELECTRICITY PRODUCTION ACCORDING TO TYPE OF SOURCE³

In the first half of 2016, renewable sources covered approximately 36% of the total energy demand, substantially in line with the same period of 2015. The production of electricity from renewable sources increased slightly as a result of the greater production of wind power, while photovoltaic production fell. The phenomena can be attributed to the different weather conditions recorded in 2016 compared to the previous year.

ITALIAN NET PRODUCTION BY SOURCE



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

Regulatory context

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

Component	Descrizione
Remuneration of the investment	<p>Regulated Asset Base x Weighted Average Cost of Capital (WACC)</p> <p>The RAB (recognised invested capital) basically represents the regulatory value of Terna's assets. The recognised invested capital is subject to annual updating, primarily based on net investments, disposals and the deflator of gross fixed investments.</p> <p>The WACC considers the expected return on the risk-based capital component, the cost of debt and the proportion of these two components. In turn, the expected return of the risk capital component depends on the level of interest rates, on the risk premium of the equity market of reference and on the correlation - denominated - between the Terna stock and the equity market of reference.</p>
Cover of depreciation and amortisation	Depreciation and amortisation recognised on assets
Covering of operating expenses	Operating expenses recognised (with mechanism to encourage efficiencies by Terna).

New tariff system 2016–2023 for the Terna Group

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

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

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

With regard to **incentivised investments**, Resolution 654/15/R/eel confirmed the effects of the incentive regulations from prior regulatory periods for all investments that came into operation at 31 December 2015 and provided for a new “transitional incentive” mechanism for the 2016–2019 period. Under this mechanism, the AEEGSI is expected to approve a list of “O-NPR1” development works (not included in the I3 investments approved by Resolution 40/13) and a list of “I-NPR1” development projects (previously included in the I3 investments) and to recognise a 1% increase in the WACC for 12 years, subject to certain conditions set out in Annex A to Resolution 654/15/R/eel. For the works that make up the I-NPR1s and for O-NPR1 development works, the above Resolution also provides for the possibility of applying an additional output-based bonus.

Also included among the main changes introduced in the new regulatory framework is the reduction, with reference only to remuneration of invested capital, in the delay with which the tariff remunerates investments (**time-lag**): the tariffs for the year **n** will not contemplate the remuneration of investment capital until year (**n-1**) and the recognition of depreciation of investments until year (**n-2**). The 1% extra remuneration to offset the time lag is therefore limited to investments from 2012-2014, and abolished in relation to investments in subsequent years.

In addition, with the specific Resolution 517/15/R/eel, the AEEGSI defined the remuneration payable to the portion of electricity grids in HV/VHV not already in the NTG that Terna acquired from FSI Group, and which became - after the purchase - part of the National Transmission Grid; for more details please see the 2015 Annual Financial Report.

Social context

The most significant element of the social context, in relation to Terna’s business, regards a generalised opposition with regard to the construction of new infrastructures in the territory, expressed by the population of the areas involved and often identified by the expression “NIMBY (Not In My Backyard) syndrome”. The opposition arises from people’s strong sensitivity to defending their territorial – residential, rural – areas which translates, in the case of electrical infrastructures, into rejecting any work which would entail, in the opinion of the opponents, visual damage to the landscape and consequently loss of value of the properties nearby. The opposition is fuelled by certain imprecise notions on the role of Terna, whose mission of general interest is sometimes not known or is intentionally distorted by the Opposition Committees, and fears associated with the effects of electromagnetic fields on health. Finally, the purposes of security and functioning of the electrical service which Terna represents in the general interest – even if known and recognised – are not considered relevant with respect to the objective of protecting people’s specific territory, owing also to the clash between benefits of a general nature and local impact. The role played by Terna in the electricity system is instead considered with interest by those who - like the main environmentalist associations, in their central structures - express concern over the effects of climate change, sustain the need for a rapid transition to the production of energy from renewable sources and see the development of the transmission grid and smart technology as a factor able to allow for this energy transition both in Italy and worldwide. In the same way, the production sector is normally oriented positively in relation to Terna owing to the effects of efficiency and lower cost of the electrical service related to development of the grid.

Legislative context

The regulatory environment of Terna is shown in detail in the Annex – “Regulatory Framework”.

Strategy

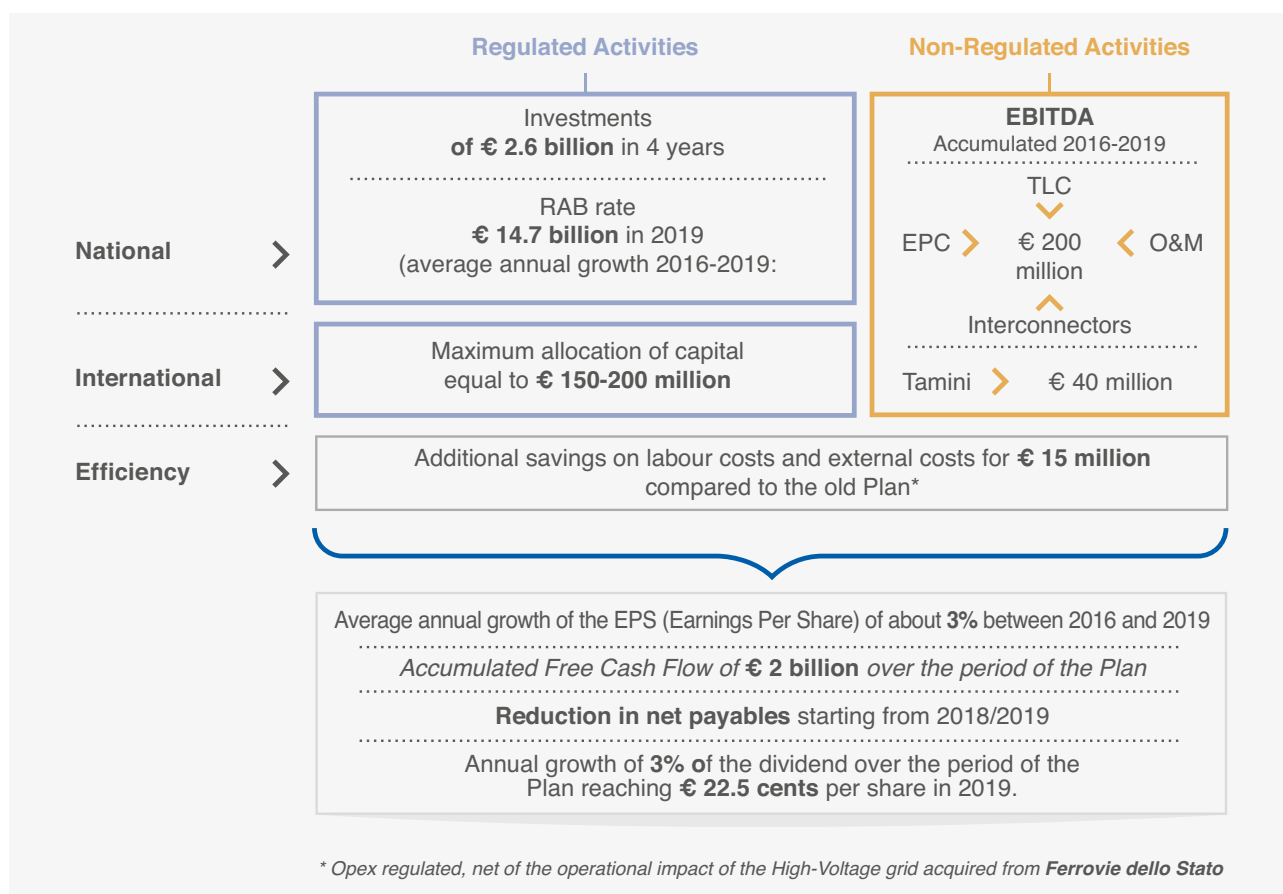
2016–2019 Strategic Plan

On **17 February 2016**, Terna approved the Strategic Plan for 2016–2019. In light of the new regulatory framework and the evolution of the market context, the Plan concentrates on reinforcing the core business, on improving operating efficiency, on Non-Regulated Activities in Italy, and on developing internationally. More specifically, the strategic initiatives identified regard:

- in terms of **Regulated Activities** in Italy, the increased commitment to developing the National Electricity Grid and the integration of the High Voltage grid acquired from FSI Group during 2015;
- the promotion of new business under the scope of **Non-Regulated Activities**, in Italy and abroad;
- the identification of international opportunities in regulated areas, coherent with the Group's current risk profile;
- the increase in operating efficiency;
- technological innovation;
- the improvement of Free Cash Flow and the maintenance of a solid financial structure.

The following table summarises the main provisions and commitments relating to the 2016–2019 Strategic Plan.

OVERALL FRAMEWORK OF THE PROVISIONS OF THE 2016–2019 STRATEGIC PLAN



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

2016 Development Plan

The 2016 Development Plan includes investments for nearly € 6.6 billion, thanks to which the electricity system will be made more efficient, with further significant advantages such as:

- reduction of energy losses of 1.6 billion kilowatt-hours per year;
- reduction of CO₂ emissions of approximately 15 million tonnes/year;
- reduction of congestions for an amount of more than 5,000 MW;
- greater overall foreign exchange capacity, estimated at more than 6,000 MW;
- greater power capacity generated by renewable sources of around 5,500 MW.

Implementing Directive 2009/28/EC and the National Action Plan (NAP) prepared by the Ministry of Economic Development in 2010, Terna included a specific section in the National Development Plan which defines the action needed for full use of the energy deriving from the production of renewable 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 380–220 kV transmission grid, and on the 150–132 kV High-Voltage grid. Below is a figure showing an overview of the main development work carried out on the 380 kV Very-High-Voltage grid:



Events subsequent to 30 June 2016

Terna wins the Safety Prize awarded by Confindustria and INAIL

Terna won the Safety Prize awarded by Confindustria and INAIL with the official patronage of the President of the Republic, which was consigned on 20 July 2016 in the presence of the Chairperson of Confindustria.

The 4th edition of the "Companies Safety Prize", awarded by Confindustria and INAIL with the technical collaboration of APQI (*Associazione Premio Qualità Italia* - Italy Quality Prize Association) and Accredia (the Italian Accreditation Body) was intended to reward companies that have distinguished themselves for commitment in the field of health and safety management, as a useful example for highlighting and sharing their experiences to raise the awareness of other companies and workers on legislative, cultural, organisational and behavioural aspects.

The purpose of the initiative was to create a true corporate culture regarding health and safety, rewarding the best companies that have distinguished themselves for excellence of management processes and, in particular, for a concrete commitment and results achieved in the field of health and safety.

The recognition obtained testifies to Terna's leadership in the use of increasingly innovative solutions to protect the health and safety of workers. One of the most significant assessment parameters analysed was the degree of maturity reached by the company in adopting the most effective best practices at the international level on the subject of safety.

€ 500 million revolving credit facility agreed)

On 26 July 2016 Terna agreed a back-up revolving credit facility, in the form of a "committed" line (the "Revolving Credit Facility" or "Facility"), for a total amount of € 500 million, with a pool of banks including Banca IMI, BNP Paribas, Bank of Tokyo - Mitsubishi, Caixa Bank and UniCredit serving as Joint Mandated Lead Arrangers and Bookrunners. The Revolving Credit Facility will have a duration of 5 years and the amount available will be usable throughout the duration of the loan with prior notification. The interest rate is linked to the EURIBOR plus a margin between 0.70% and 1.10% (based on the portion used).

Business outlook

In the second half of the year, the Terna Group will be engaged in implementing the 2016–2019 Strategic Plan approved by the Board of Directors and presented to the Financial community this past 17 February 2016.

In particular, the company will continue to pursue the strategic objectives with the focus on completing the investments envisaged in the Development Plan and the Defence Plan, and on renewing existing assets, developing Non-Regulated Activities and rationalising processes and operating expenses.

With specific reference to investments an amount at the end of the year of approximately € 850/900 million expected. As is known, in May the Sorgente-Rizziconi interconnection came into operation. This power line of approximately 105 km has the longest 380 kV alternating-current undersea cable in the world. The work will guarantee greater security of the connection of the Sicilian electricity grid to that of the mainland,

creating the conditions for eliminating the price spread present between Sicily and the rest of Italy. In addition it will make it possible to better use Sicilian renewable production, above all wind and photovoltaic power, totalling more than 700 MW. Among the other main electrical infrastructures being constructed are the interconnections of the NTG with Montenegro and France, the work necessary to integrate the grid acquired from FSI Group, and the projects to restructure and develop the grid in the metropolitan areas of Milan, Naples and Palermo.

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 sector and for the telecommunications business. In addition, in the second half of the year, the selection of international initiatives will continue; these may also be developed in partnerships and will be selected through careful assessment processes to guarantee a low risk profile.

In the area of sustainable development, with the recent agreement signed with the municipality of Pantelleria which follows that signed last year with Giglio Island, the Group continues its commitment to modernise and render “intelligent”, innovative and hi-tech those islands which are not connected to the national electricity grid (Smart Islands), through the integration of clean energies and storage systems and the implementation of actions for greater energy efficiency.

The development of the company Tamini will also continue with the integration of TES with a view to optimising the distinctive competences of the two companies and exploiting the synergies deriving from the company merger.

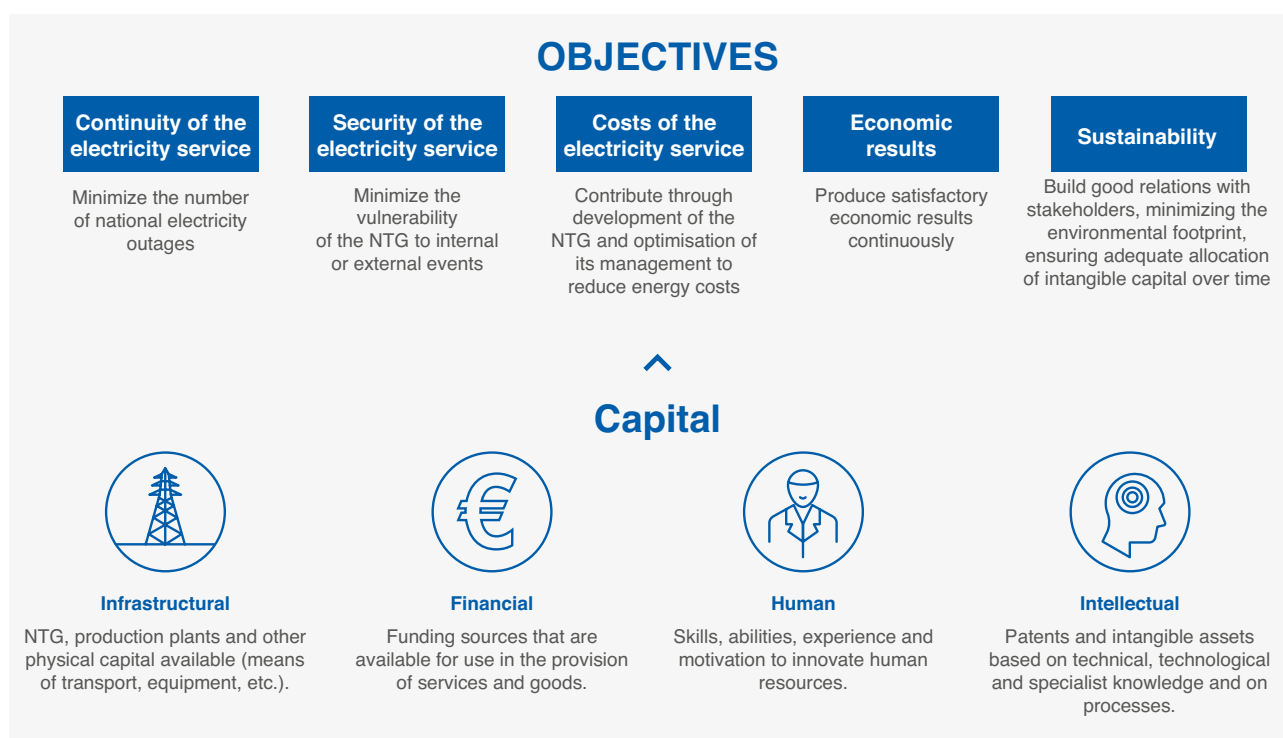
In continuity with the previous years, the Company will maintain its focus on the cost-excellent programmes, continuing to improve its operating processes and rationalise costs, also as regards the integration of the grid acquired from FSI Group.

The above objectives will be pursued whilst maintaining the commitment to maximise cash generation as necessary to ensure a healthy, balanced financial structure with the forecast ratio of net debt and RAB below 60%.

Capital

The Terna Group's objectives and capital

In its role as the reference operator for the Italian electricity system, Terna generates significant benefits for the entire electricity sector. These objectives are pursued by transforming the capital that the Group holds into actions that focus on reaching these objectives, based on governance strategies and systems, in the context of both Regulated Activities and Non-Regulated Activities.



Infrastructural capital

- ▶ The Group is owner of the National Transmission Grid (NTG) and is responsible for planning, construction and maintenance of the NTG.
- ▶ It is the largest independent network operator (TSO - Transmission System Operator) in Europe and the reference operator of the national electricity system

72.600 Km
of electrical lines owned*
(almost twice around the Earth)



The number of plants belonging to Terna S.p.A., Terna Rete Italia S.r.l. and Rete S.r.l. at 30 June 2016, compared to the situation at 31 December 2015, is shown in the following table:

GENERAL OVERVIEW OF THE NUMBER OF NTG PLANTS OWNED BY THE TERNA GROUP⁴

	Units of measurement	30.06.2016			TOTAL	31.12.2015		Δ
		Terna S.p.A.	Terna Rete Italia S.r.l.	Rete S.r.l.		TOTAL	TOTAL	
Electrical substations	no.	474	28	350	852	850	2	
Transformers	no.	677	3	25	705	702	3	
	MVA	143,250	720	825	144,795	144,015	780	
Bays	no.	5,197	118	831	6,146	6,108	38	
Lines	km	41,868	16,239	8,394	66,501	66,272	229	
Three-phase power lines	no.	2,458	1,718	390	4,566	4,551	15	
	km	46,820	17,301	8,691	72,812	72,599	213	

DETAILS OF THE ELECTRICAL SUBSTATIONS OWNED BY THE TERNA GROUP⁵

(at 30.06)	Units of measurement	30.06.2016	31.12.2015	Δ	Δ %
380 kV					
Substations	no.	160	159	1	0.63%
Power transformed	MVA	110,258	109,508	750	0.68%
220 kV					
Substations	no.	150	150	-	-
Power transformed	MVA	30,692	30,692	-	-
Lower voltages (≤150 kV)					
Substations	no.	542	541	1	0.18%
Power transformed	MVA	3,845	3,815	30	0.79%
Total					
Substations	no.	852	850	2	0.24%
Power transformed	MVA	144,795	144,015	780	0.54%

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

(5) MVA calculated to 3 decimal places and rounded to the unit. Percentages calculated to 5 decimal places and rounded to 2 decimal places. The number refers to the total length of the electrical connections (three-phase power lines)

DETAILS OF POWER LINES OWNED BY THE TERNA GROUP⁶

(at 30.06)	Units of measurement	30.06.2016	31.12.2015	Δ	Δ %
380 kV					
Three-phase power line length	km	12,316	12,118	198	1.63%
Line length	km	11,283	11,105	178	1.60%
220 kV					
Three-phase power line length	km	11,720	11,721	(1)	-
Line length	km	9,482	9,482	-	-
Lower voltages (≤150 kV)					
Three-phase power line length	km	48,776	48,760	16	0.03%
Line length	km	45,736	45,685	51	0.11%
Total					
Three-phase power line length	km	72,812	72,599	213	0.29%
aerial	km	69,624	69,515	109	0.16%
underground cable	km	1,766	1,736	30	1.73%
undersea cable	km	1,422	1,348	74	5.49%
Line length	km	66,501	66,272	229	0.35%
aerial	km	63,313	63,188	125	0.20%
underground cable	km	1,766	1,736	30	1.73%
undersea cable	km	1,422	1,348	74	5.49%
Proportion of direct-current connections (200–400–500 kV)					
Three-phase power lines	km	2,066	2,066	-	-
% of total	%	3	3	-	(0.35%)
Lines	km	1,746	1,746	-	-
% of total	%	3	3	-	-

Financial capital

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

At 30 June 2016, gross debt totalled approximately € 8.7 billion, of which € 6.5 billion was made up of bonds and € 2.2 billion of bank loans. The average debt maturity is around 5 years; the proportion of net debt at fixed and variable rate to the total amounts to 86% and 14% respectively.

Bond debt consists of both public and private placement issuances in the context of the € 8 billion EMTN Bond Issue Programme (with the involvement of a number of both Italian and foreign banking and financial institutions), combined with the stand-alone issuance for € 800 million dating back to 2004. Focusing on a specific bracket of qualified investors and listed on the Luxembourg Stock Exchange, Terna bonds present a significantly diverse investor base, in terms of both sector and geographical profile.

(6) Km calculated and rounded to the unit. Percentages rounded to 2 decimal places.

With regard to banking debt, Terna's main lender is the European Investment Bank (EIB); the total debt contracted with the EIB at 30 June 2016 stood at almost € 1.7 billion; all contracts entered into with the EIB are at a variable rate. In further consolidating the relationship that Terna has had with the Bank for over ten years, the loan of € 153 million provided by the EIB in December 2015 allowed Terna to benefit from extremely competitive funding conditions, both in terms of the rate and loan's duration (eighteen years).

Thanks to the solid nature of its credit profile, Terna is able to procure financial resources from banks at extremely favourable rates, as is testified by the two revolving back-up credit facilities in the form of a committed line for a total amount of € 1.55 billion.

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

Human capital

Composition and evolution

At 30 June 2016, the Terna Group had 3,781 employees. Details of the number of Terna Group employees at 30 June 2016 are shown below:

Change in the workforce	at 30.06.2016	at 31.12.2015	Δ
Senior executives	77	76	1
Junior executives	553	514	39
Office staff*	1,955	1,971	(16)
Blue-collar workers	1,196	1,206	(10)
TOTAL	3,781	3,767	14

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

The number of personnel at the end of the first half of 2016 shows an increase of 14 compared to 31 December 2015 (59 joining against 45 leaving); this change is associated mainly with the following events:

- completion of the remaining portion of the plan for the recruitment of the resources necessary for the generational turnover project that the Terna Group implemented during 2015;
- launch of the process of integrating the High-Voltage assets acquired from the FS Group and consequent implementation of the policy of recruiting resources dedicated to the future management of the plants;
- industrial restructuring of the Tamini facility in Novara and implementation of redundancy incentive policies which involved 22 individuals.

The change in personnel composition of the junior executives and white-collar workers categories is due in particular to the merit plan implemented by the Terna Group in the first half of the year.

The breakdown, by company, of the number of employees at 30 June 2016 is illustrated in the table below:

At 30.06.2016	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	34	28	1	-	14	-	77
Junior executives	163	366	5	-	19	-	553
Office staff	242	1,550	7	-	151	5*	1,955
Blue-collar workers	-	969	-	-	227	-	1,196
TOTAL	439	2,913	13	-	411	4	3,781

* Local employees

Training

During the first half of 2016, the Group continued the training activities aimed at developing the necessary skills of personnel brought in under the generational turnover project; as at 30 June 2016 a total of 42,000 hours of instruction had been delivered in particular for the topics “Context & Business Model”, “Education” and “Training”.

Next Energy initiative

In May 2016 Terna launched NEXT ENERGY, an initiative developed in partnership with the Cariplo Foundation to help young engineering graduates, through inclusion on corporate working groups engaged in developing innovative projects, and to support the development of innovative projects in areas related to development of the system through an entrepreneurial empowerment programme. Both projects will begin in October 2016 and end in March 2017.

Integrating the acquisition from FSI Group

During the first six months of 2016, Terna began the process of integrating the High-Voltage assets acquired from the FS Group on 23 December 2015. In particular, the necessary activities of an operating kind were defined together with the related need for resources connected to management of the perimeter acquired with particular attention to the dimensions when fully integrated, defined on the basis of the direct and indirect O&M activities. The selection process begun during the second quarter of 2016 led to the recruitment of 22 new resources as of 30 June.

Intellectual capital

In all the core activities inherent to the transmission grid, the Terna Group has always pursued the highest standards, starting from the design through to the management and maintenance of assets, and without compromising on the objectives of ongoing improvements in the areas of technologies and materials. Over the years, the highest quality standards have always been guaranteed thanks to applied research, interaction with suppliers, operational experience, and the assessments made according to international benchmarks. With time, this approach evolved into a consistent application of criteria as well as stable and unified projects.

More recently however, the natural and consolidated approach to research and the development of best practices has been overtaken by the need to find optimal solutions and guide the capacity to innovation towards carefully adapting to the requirements progressively imposed by the environment and surrounding world.

Terna has been instrumental in the energy transition that is shaping the entire sector. It therefore intends providing an effective contribution to finding 'sustainable' solutions, also within the context of eco-compatibility and mindful of climate change.

Attention and effort will consequently focus both on core activities, which are now faced with new prospects and a different approach, as well as on decidedly innovative sectors.

This new approach will open up new fronts for development and collaboration, which are materialising in the creation of **dynamic interaction with the universities and research centres**. These will ensure a fresh view and impetus to research and innovation on the one hand, whilst creating the conditions for guiding young talent towards professions that are important for the employment sector.

Research and development is undertaken organically and systematically, taking advantage of the excellent in-house skills, and seeking leverage from the technical know-how and capacity also to develop opportunities beyond the regulated framework.

In this context, the Terna group has also launched the activities necessary to be able to take advantage of the tax benefits currently provided for in the national legislation with the specific purpose of encouraging investments made in the field of research and innovation. These are, in particular:

- a) the provisions on the subject of "Patent boxes" (subsidy introduced by Art. 1, paragraphs from 37 to 45 of Italian Law no. 190/2014), which provide for a subsidised taxation system, for IRES and IRAP purposes, of a proportion of the income deriving from the direct or indirect use of the intangible assets produced by the company (including "know-how"). The subsidy, usable already from the 2015 tax period, has a duration of 5 tax periods and is renewable. Terna has already presented an application for a ruling to the Revenues Agency and is awaiting to define, in discussions with the Agency, the criteria for identifying the income admitted to make use of the subsidy;
- b) the "tax credit for companies that invest in research and development activities" (subsidy introduced by Art. 1, paragraph 35 of Italian Law no. 190/2014). The rules - applicable starting from the 2015 tax period and up to that in progress at 31 December 2019 - involve recognising a tax credit commensurate to the increase in the expenses incurred by the company for the research and development activities, compared to those of the same nature incurred by the same company in the 2012–2014 tax periods. Terna has begun the activities for determining the expenses incurred up to 2015 attributable to the parameters identified by the law, in order to define the subsidy due.

Risk management

The situation regarding risks for the Terna Group

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

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

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

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

Risk management

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

The measures of an organisational nature are associated with:

- the establishment of the Audit, Risk and Corporate Governance Committee, with proposing and advisory functions, and functions of support to the Board in assessments and decisions related to the Internal Audit and Risk Management System;
- the appointment of the Chief Risk Officer (CRO), appointed by the Director in Charge of the Internal Audit and Risk Management System, who supports the top company management in the effective management of the Risk Management process at the Group level;
- the presence of the Risk Management Unit which supports the CRO operationally in surveying, analysing and managing risks, by applying the Enterprise Risk Management (ERM) model adopted in Terna, making use also of an eGovernance, Risk and Compliance IT instrument in order to arrive at an integrated analysis of the results enabling the study of the interdependencies between the processes.

As regards, instead, the aspect of real and proper oversight, Terna's Security and Services Department has for some time been implementing measures to limit the different types of risk, from the safety of people (health and safety of personnel in the workplace) to "processes" and the Group's tangible and intangible assets. In conducting its operations, it approaches the multiple operational risk scenarios with a focus on resilience and business continuity.

Please see on this point the Annex “The Terna Group’s Risk Management”, which contains a description of the risk management implemented by the Terna Group, with reference to:

RISK MANAGEMENT IN THE TERNA GROUP	
Governance	<ul style="list-style-type: none"> • Governance, integrity and compliance • Commission of “231” crimes • Fraud
Operations	<ul style="list-style-type: none"> • Operational risks • Physical threats to systems • Information and Cyber Risk • “Supplier” risk • Occupational injuries and environmental impacts
Environment	<ul style="list-style-type: none"> • Environmental, social and political issues • Climate change risk
Financial	<ul style="list-style-type: none"> • Financial risks

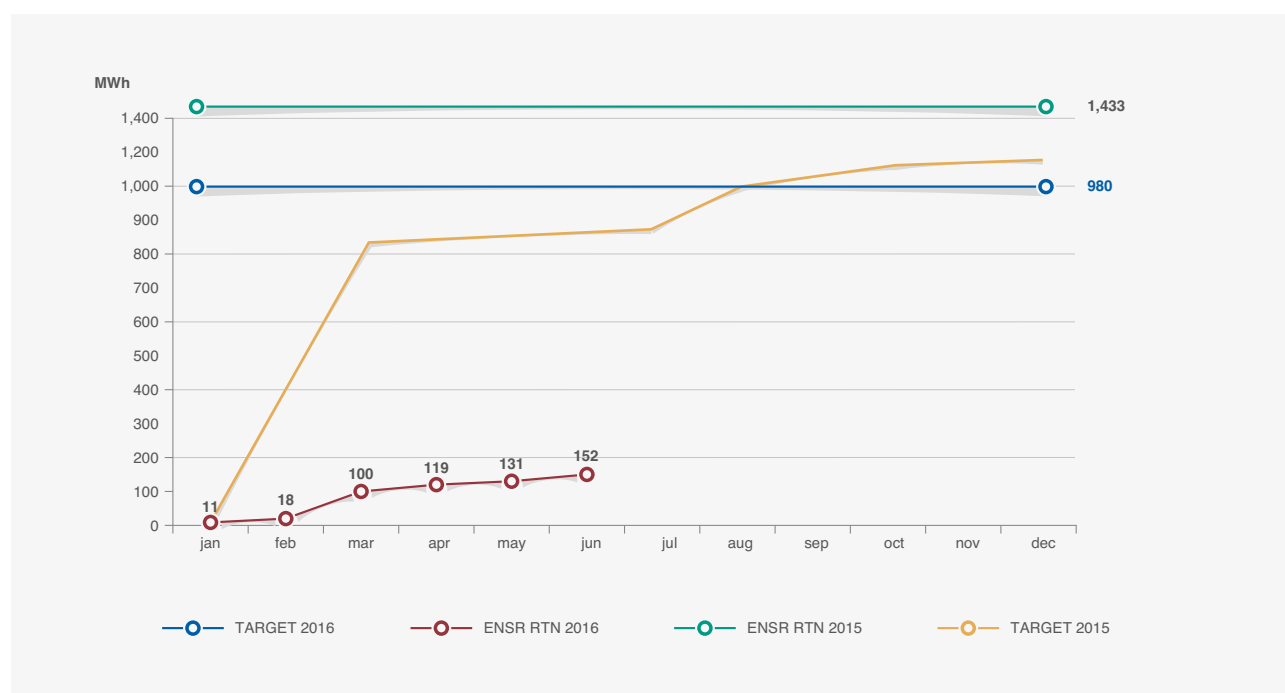
Performance in the first half of 2016

Operating performance

Continuity indices of the electrical service

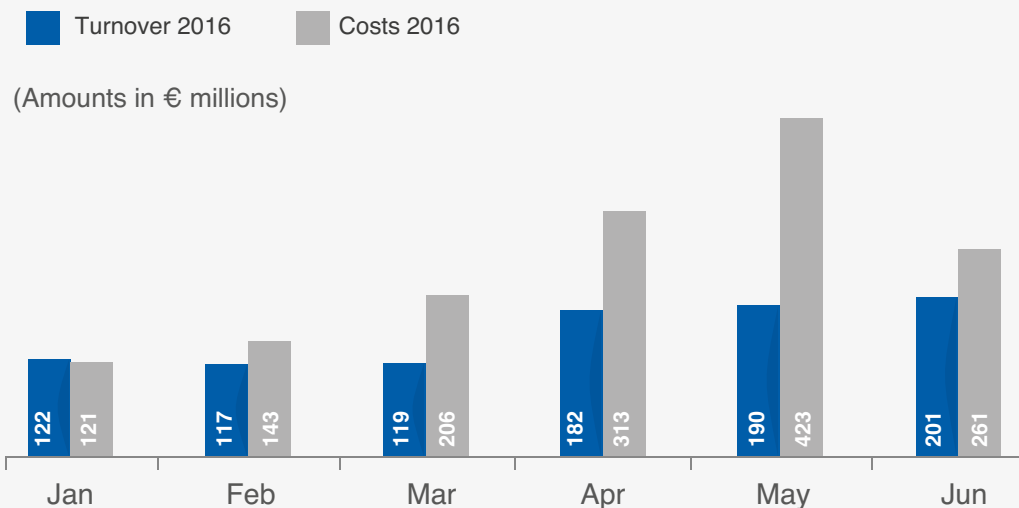
During the first half of 2016 there were no events with a high impact in terms of electricity system management and service continuity.

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.



Fee for procurement of resources on the DSM (uplift)

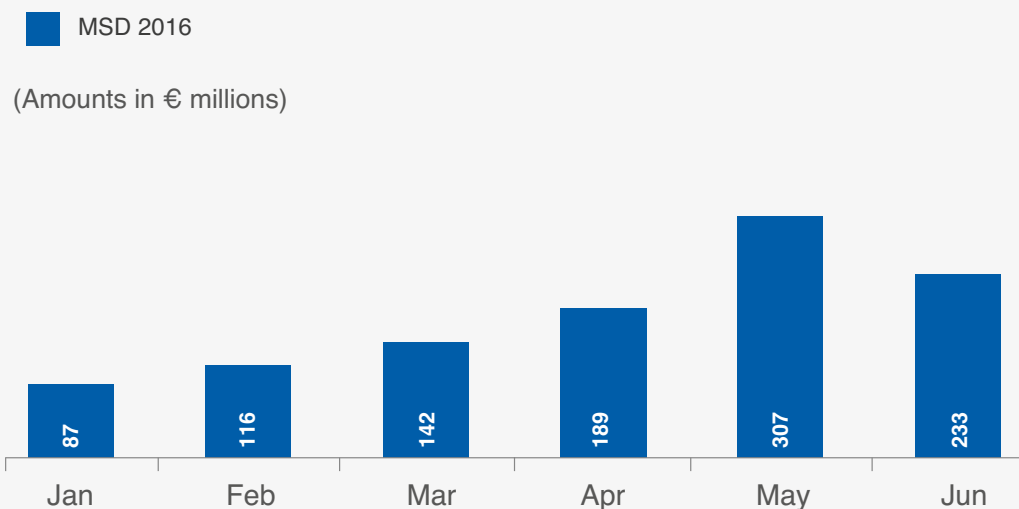
The Fee for procurement of resources on the DSM (uplift), pursuant to AEEGSI Resolution no. 111/06 Art. 44 and subsequent amendments, represents the net expense associated with the following energy-related items: purchases and sales on the DSM, spot and forward (the latter representing premiums of contracts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



This price is invoiced pro-rata to users of the dispatching on the energy withdrawn, to cover the envisaged accruing monthly cost and the prior differences. In the first half of 2016, the total cost for the uplift was € 1,467 million⁷, up compared with the same period of the previous year, owing mainly to the increase in the DSM cost (commented on in the next paragraph) and in unbalancing expenses.

Dispatching Services Market

On the Dispatching Services Market (DSM), Terna procures dispatching resources to guarantee the security and adequacy of the electricity system. In the first half of 2016, the net expense on the DSM was € 1,074 million⁷, up compared to the corresponding period of last year (€ 572 million).



(7) Provisional data for June

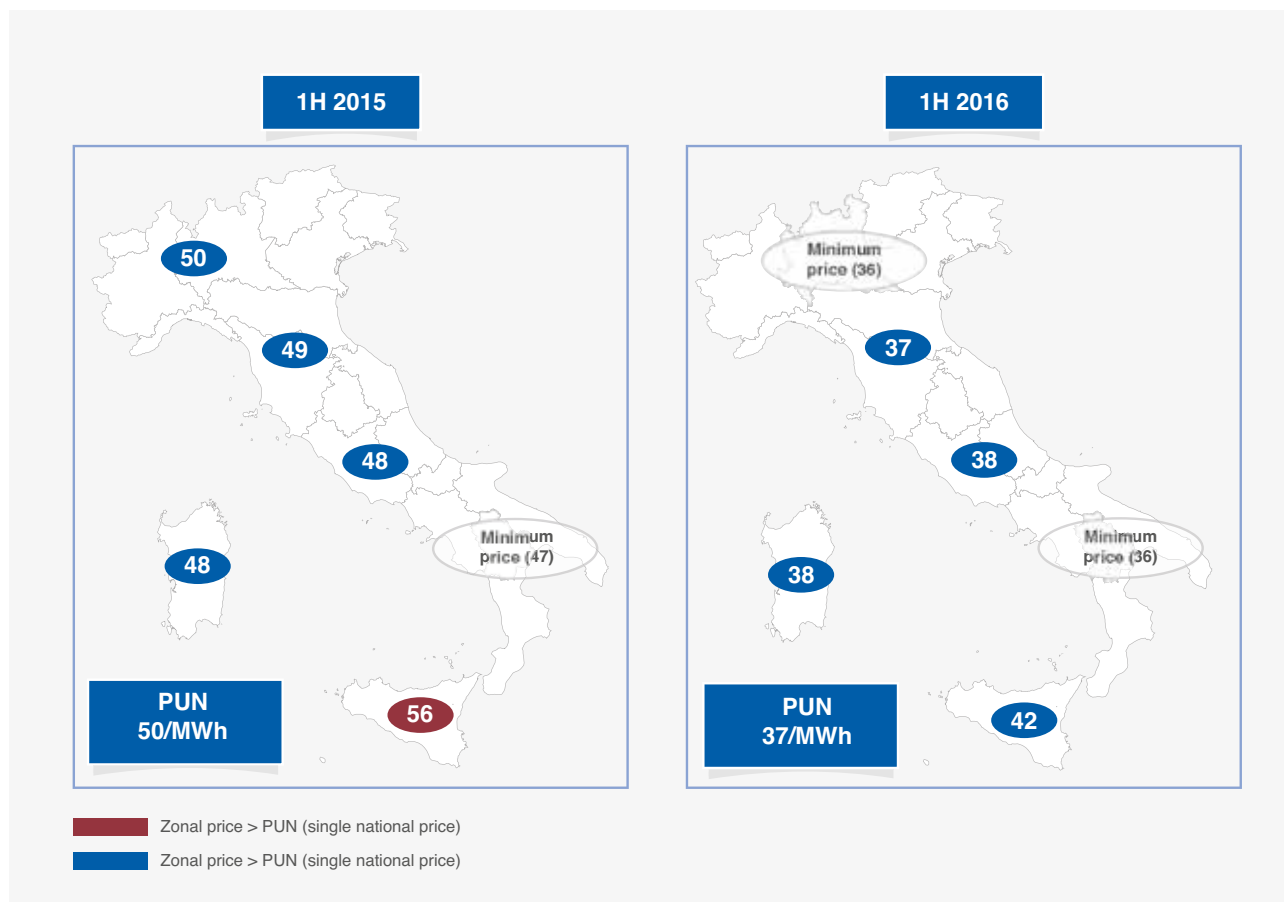
Energy prices and Exchanges with other countries

Energy prices

The hourly average price of the Italian power exchange (IPEX/PUN – Single National Price) for the first half of 2016 was 37 €/MWh, sharply down (-26%) compared to the same period of 2015, thus recording a new record for the lowest price since the start of the Power Exchange⁸. The Day Ahead Market (DAM) where the PUN is formed gives rise to prices that follow market logics (balance price given by the meeting between Demand and Supply of electricity). The driver of the price formation is also the status of the electricity grid. The more this develops and becomes capillary, and the more it will make it possible to withdraw and transfer the most competitive energy in terms of prices. It also needs to be said that maintenance of the PUN at the minimum levels was also helped by Italian Legislative Decree no. 91/14 which introduced the system of essentiality of a number of Sicilian plants and a sharp reduction in the price of commodities which ensured that numerous traditional plants became more competitive.

We can note a reduction in the spread between the Sicilian region and Southern Italy thanks to the recent entry into operation of the Sorgente-Rizziconi line, as described below.

Trend of the single national price (PUN) and of the zonal prices:



Exchanges with Foreign Countries

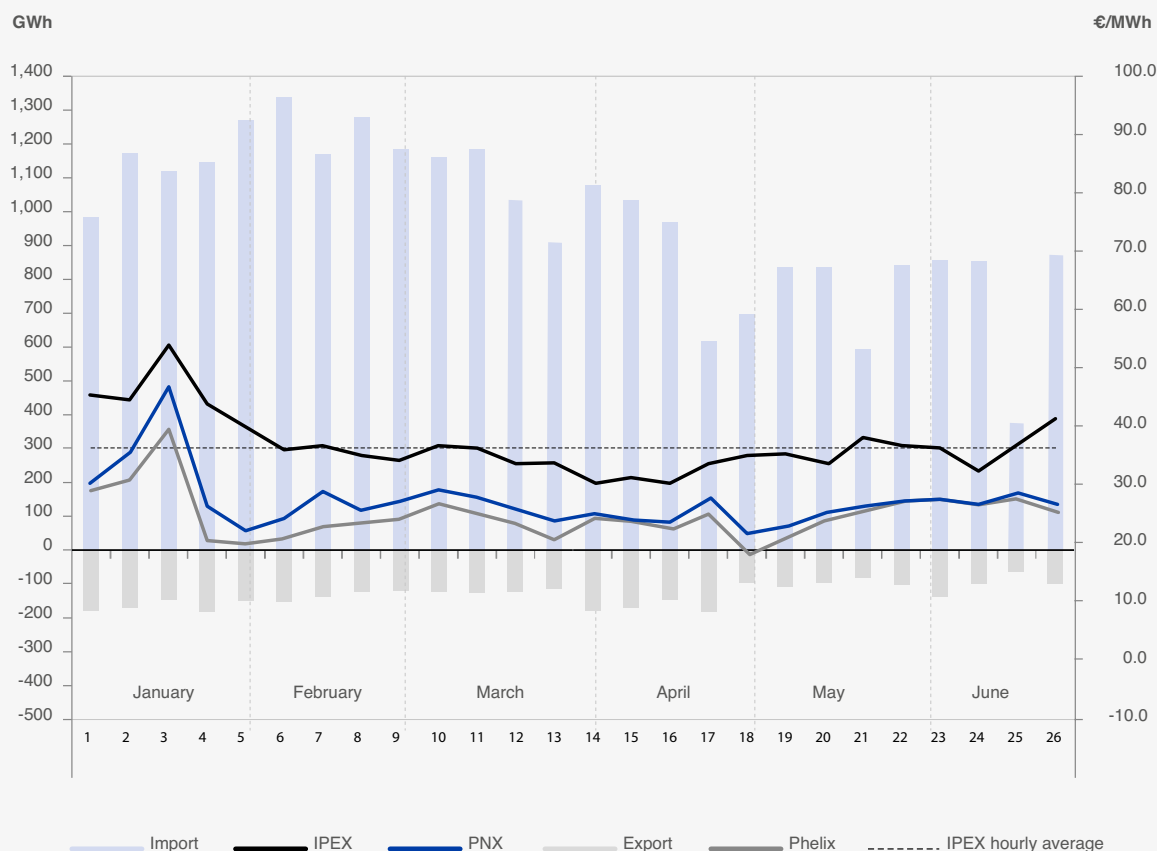
In the first half of 2016, foreign trade recorded net imports down by approximately 1.2 TWh compared to the previous year (-5% YoY). In particular, this reduction is attributable to the increase in Exports and to better management of the interconnection capacity due to the ever-increasing integration of the European electricity market (Market Coupling, D-2 etc.)

The Single National Price is still on average higher than the prices on the foreign French (PNX) and German (EEX/PHELIX) exchanges, although the spread continues to decline owing to the sharp reduction in the PUN which substantially is more also than the price reductions seen on the PNX and EEX:

- the price on the French power exchange (PNX) was € 27/MWh (-30% YoY);
- the price on the German power exchange (EEX/PHELIX) was 25 €/MWh (-26% YoY).

As a consequence, the spread between the IPEX/PUN and the French exchange fell by approximately 1.3 €/MWh, going down from 11.1 to 9.8 €/MWh, while the spread with the German exchange decreased by approximately 7.5 €/MWh, going down from 19.7 to 12.2 €/MWh.

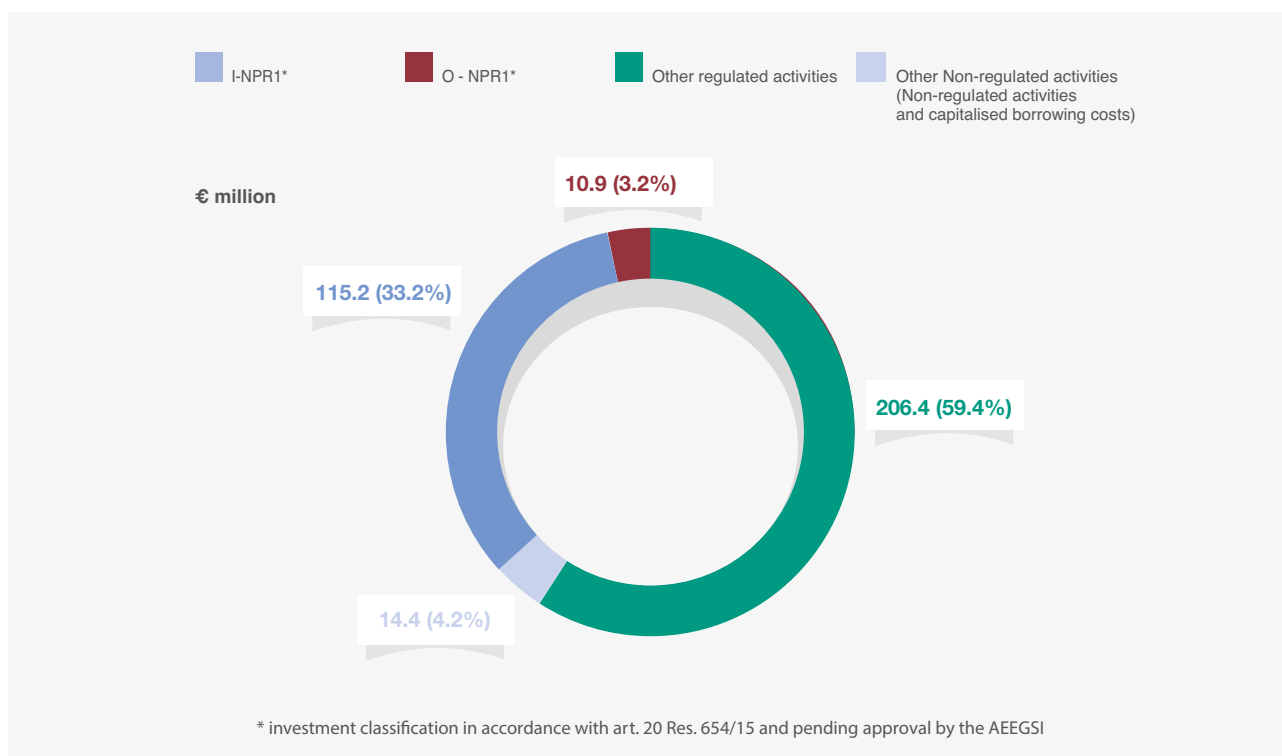
The difference in price of the exchanges is justified by the different generation fleet, characterised in Italy by higher production costs, hence the prevalence of import trade.



Commercial exchanges and weekly average prices of energy in the first half of 2016

Implementation activities - Regulated Activities

The total investments made by the Terna Group in the first half of 2016 amounted to € 346.9 million, of which € 341.9 million in Regulated Activities and € 5 million in Non-Regulated Activities. Below is the classification of the Group's investments according to the remuneration categories identified within the new regulatory framework (5th Period).



With reference to the main projects in the period, there follows a brief comment on the stage of progress of the main works:

380 kV Sorgente - Rizziconi power line (€ 69.1 million)

- The entire connection came into operation at the end of May 2016 and work is in progress to landscape areas and restore building sites. The work will guarantee greater security of the connection between the Sicilian and mainland electricity grids, creating the conditions for eliminating the price spread present between Sicily and the rest of Italy.

Italy-Montenegro interconnection (€ 39.9 million)

- Cable connection: the production of both submarine and underground cables is continuing;
- Converter substations: the Cepagatti substation is being fitted with prefabricated buildings; work is underway on the production of major machine appliances and auto-transformers; while at the Kotor site building foundations are under construction;

380 kV Foggia-Villanova power line (€ 22.7 million)

- The entire connection, about 70 km long, went into operation in January 2016; work is now underway on accommodation areas and restoration of sites to their former conditions.

Italy-France interconnection (€ 5.1 million)

- At the Piosasco substation the survey work has been completed;
- Cable connection: the civil works have begun and the executive planning of the motorway stretch of the cable has been completed.

Restructuring of the urban area of Palermo (€ 4.2 million)

- In the Casuzze substation the work on assembling the equipment has been completed and the civil works for laying the cables are in progress.

Investments in property, plant and equipment also include actions to purchase and/or renovate offices (€ 2.6 million).

For more details on the changes that occurred during the period see the annex “Evolution of the dimensions of the NTG”.

Investments in **Intangible Assets** (€ 15.2 million, of which € 15.1 million in Regulated Activities) include actions aimed at the updating and development of software and a residual investment reclassified in accordance with IFRIC 12 (€ 2.4 million).

Total investments by the Terna Group in the first half of 2016 amounted to **€ 346.9 million**, of which **€ 126.1 million** went to the I-NPR1 and O-NPR1 categories **incentivised** by the AEEGSI with an extra-remuneration of 1%, down € 92 million compared to the corresponding period of 2015 (-21%).

Implementation activities - Non-Regulated Activities

Projects under Non-Regulated Activities in Italy completed in the first half of 2016 are divided into the following areas:

- Interconnectors;
- Services for third parties;
- Production of Transformers - Tamini Group;
- Initiatives abroad.

Interconnections

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

“Italy-France” Interconnector Project

The project envisages the utilisation pursuant to Law 99/2009 of a portion of the transfer capacity made available with the creation of the new Piosasco – Grande Île HVDC interconnection. In the first half of 2016, Terna continued the authorisation procedure for the localisation variant to the Interconnection at the Ministry of Economic Development. Installation works on the HVDC link on the Italian side have also been launched in the stretch between Piosasco and Avigliana. In addition in May 2016 the AEEGSI and the French regulator CRE expressed the relevant opinion on exemption from the obligation to grant access to third parties to the transfer capacity made available by the new Interconnector. On 16 May 2016, in fact,

the Authority, approved with Resolution 228/2016/I/eel, the document “Opinion on the Piemonte Savoia Exemption Application” aimed at the issue by the Ministry of Economic Development of the exemption decree for the work.

“Italy-Montenegro” Interconnector Project

The interconnection involves the construction of a HVDC transmission line of over 450 km between the Villanova substation in Italy and the future Lastva substation in Montenegro. During the first half of 2016, work continued on the construction of the converter substations on the Italian and Montenegro side, as well as the laying of the first part of the undersea connection cable.

Services for third parties

In Italy, during the first half of 2016, Terna continued to perform activities for third parties in the area of engineering services (developing technical solutions and supplying innovative services), telecommunications (housing of telecommunication equipment and maintenance services involving fibre optic networks) and third-party plant management (operating and maintaining High-Voltage and Very-High-Voltage plants).

In relation to service in the Engineering field, among the main EPC orders acquired and completed, we can note the creation and connection of a 132 kV electrical substation in Sicily, of a wind farm in Basilicata, of a photovoltaic generation plant in Abruzzo and a provisional connection solution for a biomass cogeneration plant in Puglia. Among the main contracts acquired we can also mention the one for the creation of a 132 kV substation for connection to the NTG of a gas storage plant in a cave in Lombardy.

It is also worth noting the Memorandum of Understanding signed with the Municipality of Pantelleria, with the company that produces and distributes electricity on the island (S.Med.E.), and Terna Plus S.r.l. to continue a project for integration of clean energies and storage systems through the creation of plants for the production of electricity from renewable sources, batteries for energy storage, the implementation of a new system for electric mobility and actions for greater energy efficiency and reduction of CO₂ emissions into the atmosphere.

As for telecommunications activities, the company has focused on developing electrical infrastructure enhancement services for offering fibre optic and housing services to telecommunication operators, the Public Administration and industrial customers.

In particular a number of contracts were signed for the transfer of rights to use optical fibres for approximately € 3 million and feasibility studies were begun for the issue of further offers.

Third-party plant management activities included the signing of a contract for the Operation and Maintenance of a 380/30 kV user substation of a major industrial customer in Lombardy and, more in general, O&M contracts all over Italy. Development activities also continued in the field of energy efficiency services.

Production of Transformers - Tamini Group

At the end of October 2015 Tamini Trasformatori was merged with TES Transformer Electro Service S.r.l., a company based in Ospitaletto (Brescia) operating in the production of electricity transformers for industrial

use and for the segment of the production and transmission of electricity, giving rise to a group numbering more than 400 specialised employees with clients from more than 90 countries across the globe and more than 250 transformers installed each year.

In the first half of 2016 the first Phase Shifting Transformer units were delivered; this is a complex and strategic project for Tamini which has managed to enter into this important sector on a European scale.

Sales of transformers in the first half of the year fell compared to the same period of the previous year (-26%) although higher average margins were recorded.

As part of the process of reorganising its production structure, under the terms of the procedure provided for in Arts 4 and 24 of Italian Law 223/1991, in the period the Tamini Group reached an agreement for 22 people to leave on a voluntary basis and for the transfer of 26 white-collar workers employed at the Novara site to other sites of the Group. In Novara the winding department remains active, with a staff of 27 technicians specialised in the construction of windings destined for other factories of the Group.

Initiatives abroad

During the first half of 2016, the scouting activities related to the business initiative mentioned continued in line with the Terna Group's plan.

In the early months of the year the Terna Group's attention was devoted mainly to the completion of an order from Terna Chile S.p.A. for connecting a 80 MW photovoltaic power plant in the Atacama desert to the grid, for which two substations and the 220 kV line were commissioned.

Scouting activities continued regarding development prospects in geographical areas with low risk profiles and high growth rates.

In addition, with a view to the valorisation of its own skills, Terna signed technical support contracts to provide assistance in *O&M* and *Market Operations* in the Mediterranean and in Africa.

Economic-financial performance

The Terna Group's 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 ESMA/2015/1415 guidelines, the criteria for constructing these indicators are described in the footnotes which reconcile them with the schedules contained in the condensed consolidated interim financial statements, annexed to this Report on Operations.

Consolidation scope

During the first half of 2016, there were no events that would have had effects on the Terna Group's consolidation scope, which therefore reflects the situation at 31 December 2015 as described in the paragraph "Corporate Structure". We can note that the Income Statement of the first half of 2016 includes the contribution of Rete S.r.l. and of TES-Transformer Electro Service (controlled by Tamini S.r.l.), not included in the comparative period, since the acquisitions occurred on 23 December and 30 October 2015 respectively.

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 2015. We can specify that, for the purpose of better representation of the effects of acquisition of the FSI Group's grid, a number of comparative equity balances were redetermined under the terms of IFRS 3, without however modifying the economic result for the first half of 2015 and the equity at 31 December 2015.

Reclassified income statement

The operating income statements of the Terna Group for the first half of 2016 and 2015 and for the second quarter of 2016 and 2015 are summarised below. They have been obtained reclassifying the figures presented in the Consolidated Income Statement:

2nd quarter								
2016	2015	Δ	%	€ million	1H2016	1H2015	Δ	Δ %
REVENUE								
439.9	396.0	43.9	11.1%	- Transmission Fee	871.1	839.3	31.8	3.8%
26.8	30.2	(3.4)	(11.3%)	- Dispatching Fee	54.8	62.0	(7.2)	(11.6%)
51.6	57.8	(6.2)	(10.7%)	- Other revenues and income	106.9	93.0	13.9	14.9%
4.3	6.1	(1.8)	(29.5%)	of which other revenue from Regulated Activities	16.5	9.8	6.7	68.4%
47.3	51.7	(4.4)	(8.5%)	of which other revenue from Non-Regulated Activities	90.4	83.2	7.2	8.7%
4.4	4.7	(0.3)	(6.4%)	- Revenue from construction of licensed activities*	7.1	7.7	(0.6)	(7.8%)
522.7	488.7	34.0	7.0%	TOTAL REVENUE	1,039.9	1,002.0	37.9	3.8%
OPERATING EXPENSES								
59.2	55.5	3.7	6.7%	- Personnel expenses	113.2	111.8	1.4	1.3%
43.5	34.9	8.6	24.6%	- Services, leases and rentals	84.1	65.8	18.3	27.8%
18.8	19.7	(0.9)	(4.6%)	- Materials	38.9	32.2	6.7	20.8%
13.0	7.3	5.7	78.1%	- Other expenses	16.0	14.6	1.4	9.6%
1.9	1.6	0.3	18.8%	- Service quality	3.6	3.3	0.3	9.1%
4.4	4.7	(0.3)	(6.4%)	- Costs of construction of licensed activities	7.1	7.7	(0.6)	(7.8%)
140.8	123.7	17.1	13.8%	TOTAL OPERATING EXPENSES	262.9	235.4	27.5	11.7%
381.9	365.0	16.9	4.6%	EBITDA (GROSS OPERATING MARGIN)	777.0	766.6	10.4	1.4%
136.0	122.7	13.3	10.8%	- Amortisation, depreciation and impairment	267.2	243.0	24.2	10.0%
245.9	242.3	3.6	1.5%	EBIT (OPERATING PROFIT)	509.8	523.6	(13.8)	(2.6%)
(17.0)	(32.7)	15.7	(48.0%)	- Net financial income (expense)	(36.2)	(63.7)	27.5	(43.2%)
228.9	209.6	19.3	9.2%	PROFIT BEFORE TAX	473.6	459.9	13.7	3.0%
67.4	64.9	2.5	3.9%	- Income taxes for the period	150.7	150.0	0.7	0.5%
161.5	144.7	16.8	11.6%	NET PROFIT FOR THE PERIOD	322.9	309.9	13.0	4.2%
(1.1)	-	(1.1)	0.0%	-Share attributable to non-controlling interests	(1.9)	-	(1.9)	0.0%
162.6	144.7	17.9	12.4%	GROUP NET PROFIT FOR THE PERIOD	324.8	309.9	14.9	4.8%

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

In the first half of 2016, the Terna Group achieved **revenues** totalling **€ 1,039.9 million**, € 849 million pertaining to the Parent Company, € 90.9 million to the subsidiary Terna Rete Italia S.r.l. and € 55.7 million to the Tamini Group and € 34.9 million to Rete S.r.l., with an increase of € 37.9 million compared to the same period of the previous year (+3.8%). This change is attributable to Regulated Activities for € +31.3 million and to Non-Regulated Activities for € +7.2 million. Revenues from investments in licensed activities⁹ were substantially in line with the same period of the previous year (€ -0.6 million).

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

The following are details of Revenue items that make up the **Regulated Activities**¹⁰:

REVENUE FROM REGULATED ACTIVITIES

€ million	1H 2016	1H 2015	Δ
Transmission Fee	871.1	839.3	31.8
Dispatching Fee	54.8	62.0	(7.2)
Other revenues and income	16.5	9.8	6.7
TOTAL	942.4	911.1	31.3

In the first six months of 2016 revenue related to **Regulated Activities** recorded an increase of € 31.3 million compared to the same period of the previous year, mainly due to:

- the positive change in the fee for the transmission activity (€ +31.8 million): as well as the overall effects of the new 2016–2023 regulatory period (which entail a reduction in revenue referable to the revision of the WACC, partially offset by the reduction in the time-lag), also significant are the contribution of the inclusion in the first half of 2016 of the National Transmission Grid acquired at the end of 2015 from Gruppo Ferrovie dello Stato Italiane (€ +32.1 million, including the linearisation of the effects provided for in Resolution 517/2015/R/eel), and the recognition of the strategic investments related to the 2015 incentivised work in progress defined in AEEGSI Resolution 335/2016/R/eel (€ 5.5 million);
- the negative change in the fee for the dispatching business (€ -7.2 million), which reflects the overall effects of the new 2016–2023 regulatory period;
- the increase in other revenues and income (€ +6.7 million): owing mainly to higher revenues from sales to third parties, essentially for disposal of copper recovered in implementation of the “Copper Plan” (€ 8.3 million), which provides for the progressive replacement of certain obsolete copper conductors with new aluminium conductors, for the sale of some assets for the renewal of the company car fleet (€ +1.3 million), partially offset by the higher insurance settlements on plants recognised by the Parent Company in the period of comparison (€ -3.3 million).

REVENUE FROM NON-REGULATED ACTIVITIES

€ million	1H 2016	1H 2015	Δ
Contribution of the Tamini Group	55.7	51.9	3.8
New TLC contracts	5.7	-	5.7
Order in Chile	2.2	-	2.2
Other	26.8	31.3	(4.5)
TOTAL	90.4	83.2	7.2

The growth in revenues of **Non-Regulated Activities**, of € +7.2 million, was due substantially to:

- the contribution of the Tamini Group (€ +3.8 million), referable to the higher revenue for orders (€ +8.7 million, mainly as a result of the orders of the subsidiary TES), net of the reduction of other revenue (€ -4.9 million, owing essentially to an insurance indemnity recognised in the first half of 2015);
- revenue from contracts entailing receivables (€ +5.7 million) for the use of infrastructures or optical fibre, namely a contract for housing fibre owned by Basicel (€ +2.8 million) on the power lines of Rete S.r.l. and for the concession to third parties of a right to use a stretch of optical fibre (€ +2.9 million), signed by the Parent Company in April 2016;

(10) Net of revenue from construction of licensed activities

- the impact of an order in Chile (€ +2.2 million), not yet active in the comparative period;
- the reduction of contributions for variants at the request of third parties (€ -2.2 million) and the reduction of orders from third-party customers of the Parent Company (€ -1.9 million).

In the second quarter of 2016, revenue increased by € 34 million compared to the corresponding period of 2015, owing essentially to the effects of AEEGSI Resolution 335/2016/R/eel related to the recognition of 2015 incentivised investments and the change in the perimeter described above, which offset the reduction of the transport and dispatching fee as a result of the tariff review, and the drop recorded in non-regulated activities, mainly related to the Tamini Group.

OPERATING EXPENSES

€ million	1H 2016	1H 2015	Δ
Personnel expenses	113.2	111.8	1.4
Services, leases and rentals	84.1	65.8	18.3
Materials	38.9	32.2	6.7
Other expenses	16.0	14.6	1.4
Service quality	3.6	3.3	0.3
Costs of construction of licensed activities	7.1	7.7	(0.6)
Total operating expenses	262.9	235.4	27.5

Operating expenses in the first half of 2016, of € 262.9 million, were **up** compared to the same period of the previous year (€ +27.5 million), owing mainly to the effect of costs related to the subsidiary Rete S.r.l. (€ 18.4 million) and to inclusion of the subsidiary TES in the Tamini Group (€ +10.5 million).

The breakdown of the Group's operating expenses in the half-year period, with separate evidence for the Tamini Group deviation, is shown in the following table:

€ million	1H 2016	1H 2015	Δ Total	Δ without Tamini	Δ Tamini
Personnel expenses	113.2	111.8	1.4	(1.7)	3.1
Services, leases and rentals	84.1	65.8	18.3	16.8	1.5
Materials	38.9	32.2	6.7	2.1	4.6
Other expenses	16.0	14.6	1.4	0.1	1.3
Service quality	3.6	3.3	0.3	0.3	-
Costs of construction of licensed activities	7.1	7.7	(0.6)	(0.6)	-
Total operating expenses	262.9	235.4	27.5	17.0	10.5

Net of the contribution of the Tamini Group, operating expenses increased compared to the same period of the previous year by € 17.0 million, owing mainly to the following changes:

- **Personnel expenses:** -€ +1,7 million, deriving essentially from the effect of the savings generated by the generational turnover plan implemented during 2015, taking into account the lower capitalisations of the period;
- **Services, leases and rentals** € +16.8 million, relating mainly to costs incurred by the subsidiary Rete S.r.l. (€ 18 million, of which € 17.5 million related to the maintenance contract of the grid acquired from the FSI Group in 2015), partially offset by lower external costs related to other companies in the Group (€ -1.2 million);
- **Materials:** € +2.1 million, mainly related to the costs recognised by the subsidiary Terna Chile S.p.A. due to the aforesaid order in Chile (€ 1.8 million), begun in the second half of 2015.

The economic effects of the service quality bonus/penalty mechanisms for the first half of 2016 are substantially in line with the same period of the previous financial year (€ +0.3 million). Below is a comparison table:

€ million	1H 2016	1H 2015	Δ
Mitigation and partnership mechanisms	1.5	2.7	(1.2)
Contributions to Exceptional Events Provision	1.9	0.6	1.3
High-voltage users compensation mechanisms	0.2	-	0.2
TOTAL	3.6	3.3	0.3

The overall change in operating expenses also takes into account the lower costs associated with investments in infrastructures in concession (IFRIC 12, € -0.6 million, see note no. 9 above).

In the second quarter of 2016, costs increased by € 17.1 million compared to the corresponding period of 2015 owing essentially to the combined effect of the factors described above.

The **Gross Operating Margin (EBITDA)** related to the first half of 2016 came out at **€ 777 million**, an increase of € 10.4 million compared to the € 766.6 million of the first half of 2015. The **EBITDA margin** went down from 76.5% in the first half of 2015 to **74.7%** in the first half of 2016, due mainly to the dilutive effect of the Tamini Group and of Rete S.r.l..

The item **amortisation, depreciation and impairment** for the period, amounting to € 267.2 million (of which € 226.6 million of the parent company, € 24.1 million of the subsidiary Terna Rete Italia S.r.l. and € 12.7 million of the subsidiary Rete S.r.l.), grew by € 24.2 million compared with the same period in 2015 owing essentially to the commissioning of new plants and to amortisation and depreciation related to the subsidiary Rete S.r.l..

Net financial expense for the period, of **€ 36.2 million**, primarily attributable to the Parent Company (€ 35.3 million), shows a decrease of € 27.5 million compared to the same period in 2015 despite the lower capitalised borrowing costs (€ -6.9 million, owing essentially to lower investments made in the period and to the reduction in market interest rates). This reduction is attributable to the general decline in interest rates.

After deducting net financial expense, **profit before taxes for the period** came out at **€ 473.6 million**, compared to the € 459.9 million of the previous year (+3%).

Income taxes chargeable to the period were € 150.7 million and, despite the higher pre-tax profit, were substantially in line (€ +0.7 million, or +0.5%) compared to the figure for the first half of 2015, owing mainly to the effect of higher deductible items recognised in the period compared to the previous year. The tax rate for the period therefore dropped, going from 32.6% in the first half of 2015 to 31.8% in the first half of 2016.

Net profit for the period reached **€ 322.9 million**, up € 13 million (+4.2%) compared with the € 309.9 million of the first half of 2015.

Group net profit came out at **€ 324.8 million**, up € 14.9 million (+4.8%) compared with the € 309.9 million of the first half of 2015.

Results by business segment

Earnings results

The breakdown of the Terna Group's results by business segment, in relation to the first half of 2016 and to the same period of 2015, is detailed in the table below¹¹:

€ million	1H 2016	1H 2015	Δ	Δ %
Total revenue from Regulated Activities	942.4	911.1	31.3	3.4%
Transmission Fee	871.1	839.3	31.8	3.8%
Dispatching revenues	54.8	62.0	(7.2)	(11.6%)
Other core revenue	16.5	9.8	6.7	68.4%
Total revenue from Non-Regulated Activities	90.4	83.2	7.2	8.7%
Tamini Group revenue	55.7	51.9	3.8	7.3%
Other non-regulated revenue	34.7	31.3	3.4	10.9%
Revenue from construction of licensed activities	7.1	7.7	(0.6)	(7.8%)
Total revenue	1,039.9	1,002.0	37.9	3.8%
Total costs of Regulated Activities	181.8	168.6	13.2	7.8%
Personnel	94.6	96.9	(2.3)	(2.4%)
External resources	72.4	56.2	16.2	28.8%
Service quality	3.6	3.3	0.3	9.1%
Other expenses	11.2	12.2	(1.0)	(8.2%)
Total costs of Non-Regulated Activities	74.0	59.1	14.9	25.2%
Tamini Group costs	60.1	49.6	10.5	21.2%
Other non-regulated costs	13.9	9.5	4.4	46.3%
Costs from construction of licensed activities	7.1	7.7	(0.6)	(7.8%)
Total operating expenses	262.9	235.4	27.5	11.7%
EBITDA	777.0	766.6	10.4	1.4%
<i>EBITDA Regulated Activities</i>	760.6	742.5	18.1	2.4%
<i>EBITDA Non-Regulated Activities</i>	16.4	24.1	(7.7)	(32.0%)

Regulated Activities

The **EBITDA of Regulated Activities** amounted to € 760.6 million, up € 18.1 million compared to the figure for the half-year of comparison, owing mainly to the contribution of the subsidiary Rete S.r.l. (€ +13.8 million) for the increase in other regulated revenue (essentially the so-called "Copper Plan", for € 8.3 million) and taking into account the lower insurance settlements on the Parent Company's plants (€ -3.3 million).

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

Non-Regulated Activities

The **EBITDA of Non-Regulated Activities** came out at € 16.4 million, revealing a reduction of € 7.7 million substantially attributable to the Tamini Group (€ -6.7 million, also owing to non-recurring events).

Investments

Resolution 654/15/R/eel confirmed the effects of incentive regulations from prior regulatory periods for all investments that came into operation at 31 December 2015. For investments that will become operational as from 01 January 2016, relating both to development works approved by the AEEGSI not included among the ex-I3 investments and approved under Resolution 40/13 (O-NPR1), as well as to certain I3 investments approved under Resolution 40/2013 (I-NPR1), a 1% increase in the WACC is recognised for 12 years, subject to specific conditions set out in Annex A to Resolution 654/15/R/eel

The table below shows the breakdown of investments for the first half of 2016:

Investments	1H 2016	1H 2015	Δ	Δ %
I-NPR1	115.2	113.2	2.0	1.8%
O-NPR1	10.9	22.5	(11.6)	(51.6)%
Investments with incentives*	126.1	135.7	(9.6)	(7.1)%
Other regulated activities	206.4	276.1	(69.7)	(25.2)%
Investments in Regulated Activities	332.5	411.8	(79.3)	(19.3)%
Other Non-Regulated**	14.4	27.1	(12.7)	(46.9)%
Total investments	346.9	438.9	(92.0)	(21.0)%

* investments classified in accordance with Art. 20 of Resolution 654/15/R/eel and pending approval by the AEEGSI

** These include investments in Non-Regulated Activities and capitalised borrowing costs.

During the first six months of 2016, the Terna group invested € 346.9 million, compared to € 438.9 million in the first half of 2015. Of this € 126.1 million are investments included in the I-NPR1 and O-NPR1 categories specified above.

The investments in **Non-Regulated Activities**, included under the item “Other” in the above table, mainly regard capitalised borrowing costs and variants for third parties.

The Group's reclassified statement of financial position

The reclassified consolidated statements of financial position of the Terna Group at 30 June 2016 and 31 December 2015, are presented below.

€ million	at 30.06.2016	at 31.12.2015	Δ
Net non-current assets			
- Intangible assets and goodwill	518.9	530.1	(11.2)
- Property, plant and equipment	12,171.3	12,078.7	92.6
- Financial assets	89.8	89.5	0.3
Total	12,780.0	12,698.3	81.7
Net working capital			
- Trade receivables	447.5	568.3	(120.8)
- Inventories	13.0	12.4	0.6
- Other assets	58.8	40.0	18.8
- Trade payables	(556.2)	(747.1)	190.9
- Net energy-related pass-through payables	(369.2)	(617.9)	248.7
- Net tax liabilities	(57.0)	132.5	(189.5)
- Other liabilities	(378.8)	(364.9)	(13.9)
Total	(841.9)	(976.7)	134.8
Gross invested capital	11,938.1	11,721.6	216.5
Sundry provisions	(377.4)	(373.1)	(4.3)
NET INVESTED CAPITAL	11,560.7	11,348.5	212.2
Equity attributable to the owners of the Parent	3,365.3	3,320.8	44.5
Equity attributable to non-controlling interests	23.1	25.0	(1.9)
Net financial debt	8,172.3	8,002.7	169.6
TOTAL	11,560.7	11,348.5	212.2

The increase in **Net non-current assets** of € 81.7 million, compared with the figure of 31 December 2015, is mainly attributable to the item **Property, plant and equipment** (€ +92.6 million) owing essentially to the ordinary changes that occurred in the period related to:

- investments for € 331.7 million;
- depreciation and amortisation of the period of € 239.4 million and also other changes, such as the recognition of grants for plants and disposals (€ +0.3 million).

Intangible assets and goodwill recorded a decrease of € 11.2 million compared to the previous period, attributable to ordinary changes in intangible assets for investments of € 15.2 million net of the amortisation for the period of € 26.4 million.

Total investments made by the Group in the first half of 2016 amounted to € 346.9 million, in line with the Strategic Plan, compared with € 438.9 million in the corresponding period of 2015 (-21.0%).

Net working capital amounted to € -841.9 million and during the period used liquidity of € 134.8 million, owing mainly to the combined effect of:

Liquidity absorbed

The following phenomena have been identified:

- decrease in **net energy-related pass-through payables** totalling € -248.7 million, relating to the activity of dispatching by the Parent Company (equal to € 369.2 million at 30 June 2016), owing mainly to the combined effect of:
 - increase of net receivables associated with the so-called Uplift fee and to items associated with it (€ +369 million) mainly due to the higher net expense associated with the Dispatching Services Market (DSM)¹² and with unbalancing;
 - increase in the net receivable (€ 53 million) from Cassa per i Servizi Energetici e Ambientali (CSEA) associated mainly with the liquidation postponed to July of a number of items;
 - an increase in other assets (€ +18.8 million), mainly due to prepaid expenses on items settled during the first six months (such as staff costs, local taxes, insurance premiums and similar costs).
- a decrease in **trade payables** of € 190.9 million mostly for purchases and services relating inter alia to purchases and services related to the greater investment activities implemented in the last period of the previous year;
- an increase in **other assets** (€ +18.8 million), mainly due to prepaid expenses on items settled during the first six months (such as staff costs, local taxes, insurance premiums and similar costs).

Liquidity generated

The following phenomena have been identified:

- decrease in **trade receivables** of € -120.8 million, due mainly to the reduction in grid transmission fee receivables (€ -88 million), mainly attributable to the collection by Cassa per i Servizi Energetici e Ambientali (CSEA) of the receivable for the supplement to Terna S.p.A.'s grid transmission fee revenue related to 2014 (€ 80.8 million) and to the recognition of the grid transmission fee in the period of reference on the basis of the new tariffs set for 2016, the first year of the new 2016–2023 regulatory period; it is also worth noting the reduction in receivables associated with Non-Regulated Activities for collections in the period referable to greater activities recognised at the end of 2015;
- an increase in **net tax payables** of € 189.5 million attributable to the trend in the debit position with the tax authorities for VAT (€ +151.5 million, compared to the credit situation at the end of financial year 2015). Also significant were the higher net payables to the tax authorities for current taxes (€ +26.6 million), as a result of the recognition of income taxes of the period, net of advances paid over the six months and of the liquidation of taxes for financial year 2015.

Gross invested capital, therefore, amounted to € 11,938.1 million, recording an increase compared with the previous financial year of € 216.5 million.

Sundry provisions recorded an increase of € 4.3 million, mainly attributable to the change in provisions for employee benefits (€ +1.9 million), to the change in provisions for risks and charges (€ +25.0 million, mainly as a result of expenses consequent to entry into operation of plants, with particular reference to the Sorgente Rizziconi) and of provisions for net deferred tax liabilities (€ -22.6 million).

Net invested capital amounted to € 11,560.7 million, an increase of € 212.2 million compared with 31 December 2015 and is financed by equity attributable to the owners of the parent for € 3,365.3 million (compared with € 3,320.8 million at 31 December 2015), by third party equity for € 23.1 million (€ 25.0

(12) In the first half of 2016, the net expense on the DSM was € 1,075 million (provisional data for June) sharply up compared to the € 572 million of the same period of last year.

million at 31 December 2015) and by net financial debt of € 8,172.3 million (€ +169.6 million compared with the € 8,002.7 million of 31 December 2015).

Table reconciling the period result and shareholders' equity of the Group with the same figures recorded by the Parent Company

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

€ million	Net profit 1H 2016	Equity at 30.06.2016
Financial Statements of the Parent Company	284.3	2,911.9
Results and equity contributed by the Group companies - Regulated Activities	45.0	371.8
Results and equity contributed by the other Group companies - Non-Regulated Activities	(6.7)	78.3
Equity-accounted investees	0.3	26.4
Consolidated financial statements total	322.9	3,388.4
Non-controlling interests – Non-Regulated Activities	(1.9)	23.1
Terna Group Consolidated Financial Statements	324.8	3,365.3

Cash flows

Net financial debt

The Group's net financial debt at 30 June 2016 (€ 8,172.3 million) is broken down in the table below.

€ million	30.06.2016	31.12.2015	Δ
Net financial debt (by duration)			
A. Medium- and long-term debt			
- Bonds	5,753.3	6,406.1	(652.8)
- Floating-rate loans	2,043.4	2,110.4	(67.0)
- Derivative financial instruments	(361.7)	(680.9)	319.2
Total	7,435.0	7,835.6	(400.6)
B. Short-term debt (liquidity):			
- Bonds (current portion)	769.5	-	769.5
- Short-term loans	78.3	416.6	(338.3)
- Floating-rate loans (current portions)	123.0	122.9	0.1
- Other net current financial liabilities	61.3	59.2	2.1
- Cash and cash equivalents*	(294.8)	(431.6)	136.8
Total	737.3	167.1	570.2
Total net financial debt	8,172.3	8,002.7	169.6
Net financial debt (by type of instrument)			
- Bonds	6,522.8	6,406.1	116.7
- Floating-rate loans	2,166.4	2,233.3	(66.9)
- Derivative financial instruments	(361.7)	(680.9)	319.2
- Short-term loans and other financial liabilities	139.6	475.8	(336.2)
- Cash and cash equivalents	(294.8)	(431.6)	136.8
Total net financial debt	8,172.3	8,002.7	169.6
Totale indebitamento finanziario netto	8.172,3	8.002,7	169,6
* Including interest accrued not yet collected			

The structure of net financial debt, which increased overall by € 169.6 million in the first half of 2016, presents the following changes:

- increase in bonds (€ +116.7 million), as a result of the bond issue on 3 March 2016 for € 80 million and the adjustment to fair value of these financial instruments (€ +36.7 million, including amortised cost) as a result of the change in forward rates as of 30 June 2016;
- decrease of floating-rate loans (€ 66.9 million) for instalments paid from outstanding loans;
- change in the mark-to-market value of derivative financial instruments (€ +319.2 million), resulting from the simplification of the derivatives portfolio carried out during the second quarter of 2016 partially offset by the net effects on the fair value of these derivatives owing to the update of the reference interest rate curve with respect to the curve of December 2015;
- decrease in short-term loans (€ 336.2 million) mainly as a result of repayment made by the parent company of the credit lines outstanding at 31 December 2015;

- absorption of liquid assets (€ 136.8 million). Liquid assets at 30 June 2016 amounted to € 294.8 million, of which € 258.8 million referable to the liquidity collected in the context of the simplification of the derivatives portfolio carried out towards the end of the first half of 2016, invested in time deposits. Net liquidity in bank current accounts amounted to € 36.0 million.

Cash flow

The consolidated cash flow at 30 June 2016 and 30 June 2015 is shown in the statement below.

€ million	Cash flow 1H 2016	Cash flow 1H 2015
- Net Profit for the period	322.9	309.9
- Amortisation, depreciation and impairment	267.2	243.0
- Net financial expense	36.2	63.7
- Net change in provisions	4.3	(28.1)
- Net Losses (Gains) on asset disposals	(2.0)	(1.1)
Self-financing (Operating Cash Flow)	628.6	587.4
- Change in net working capital*	(136.2)	235.1
- Other changes in non-current assets	1.8	8.8
- Change in equity investments	(0.4)	(0.2)
Cash Flow from Operating Activities	493.8	831.1
- Total investments	(346.9)	(438.9)
Free Cash Flow	146.9	392.2
- Dividends paid to the owners of the Parent	(261.3)	(261.3)
- Net financial expense	(36.2)	(63.7)
- Cash flow hedge equity reserve net of the tax effect and other changes in equity	(19.0)	22.6
Change in net financial debt	(169.6)	89.8

* Does not take into account impairment of trade receivables accruing (€ 1.4 million in 1H 2016).

The **Cash Flow from Operating Activities** in the first half of 2016 came out at € 493.8 million compared to the € 831.1 million of the same period of the previous year. This flow is generated by self-financing (€ +628.6 million), by financial resources used by net working capital (€ -136.2 million) and by the change in other items (€ +1.4 million).

The effect on **Self-financing** was that of profit for the period, € 322.9 million, amortisation, depreciation and impairment accruing of € 267.2 million and net financial expense for the period (€ 36.2 million).

The change in **net working capital**, of € -136.2 million, is mainly attributable to the effects of pass-through energy items, to the change in the tax position and to the management of items of a commercial nature.

The Group's **total investments** made in the period amounted to € 346.9 million referable to property, plant and equipment for € 331.7 million and to intangible assets for € 15.2 million.

Therefore the **Free Cash Flow** generated by operating activities was € 146.9 million compared to € 392.2 million in the first half of the previous year.

The **remuneration of shareholders** was € 261.3 million (for payment of the 2015 final dividend, in line with last year) and the **remuneration of third-party capital** was € 36.2 million (compared to the € 63.7 million of the period of comparison). Taking into account the effects on equity (change in the cash flow hedging reserve) net financial debt increased by € 169.6 million, compared to the reduction of € 89.8 million of the first half of 2015.

Performance of Terna stock

Terna S.p.A. has been listed on the Borsa Italiana electronic market since 23 June 2004 and is one of the leading Italian companies in terms of stock market capitalisation (eleventh on the FTSE MIB index). From the listing date to the end of June 2016, the shares have almost tripled in price (+194%) and the Total Shareholder Return (TSR¹³) has been 497%.

The first half of 2016 saw the main European stock exchanges recording negative performance, owing to continuing volatility on the markets and an international context characterised by macroeconomic and political instability. With the exception of London, in fact, which recorded a gain of 4.2%, from the beginning of the year Milan recorded a loss of 24.4%, Paris and Frankfurt closed respectively at -8.6% and -12.6% and Madrid fell by 14.5%.

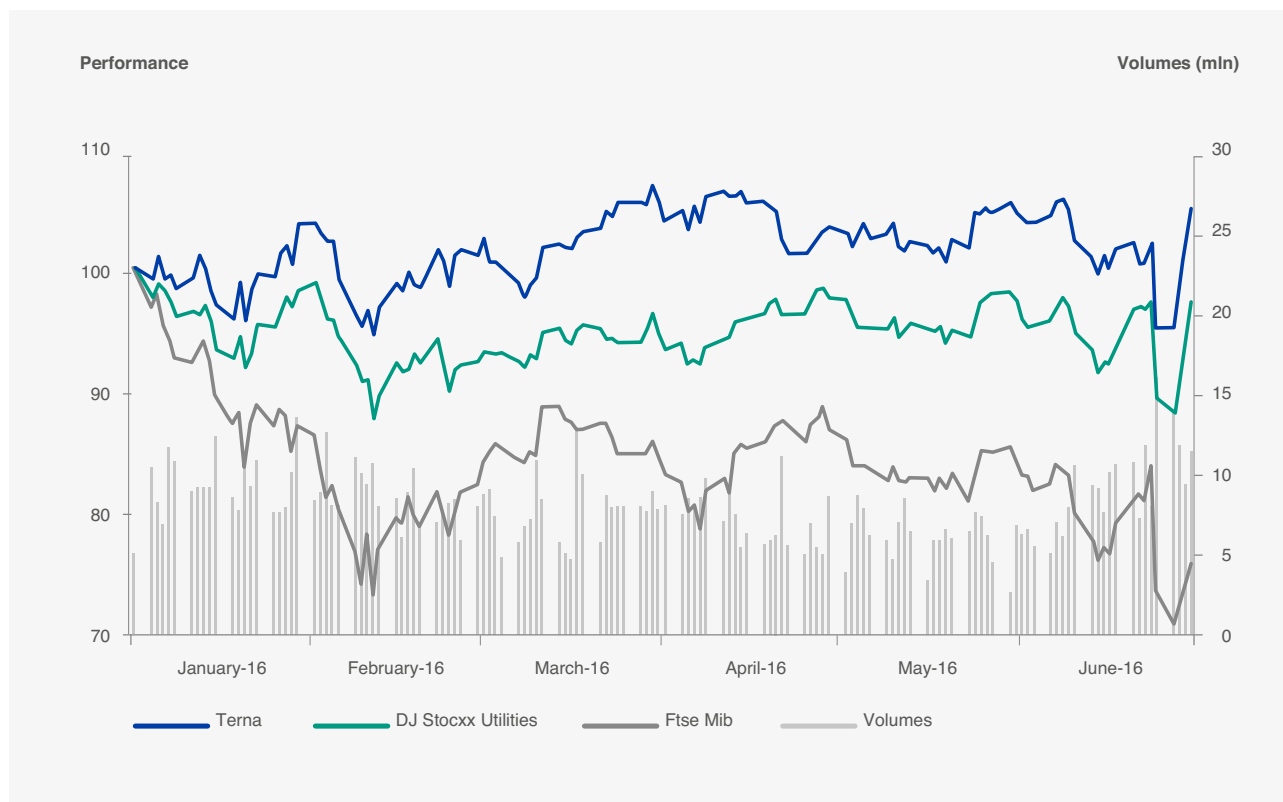
The markets were negatively affected above all by the accentuation of risks associated with geopolitical uncertainty, by the still weak growth data of the euro area and, lastly, by the referendum vote which was in favour of Great Britain exiting the European Union. With regard to government securities, the decision of the European Central Bank to strengthen the expansive monetary policy measures taken contributed to reducing the ten-year BTP yield, which went from 1.6% at the beginning of the year to 1.3% at the end of June 2016.

In the first half of 2016, Terna recorded a rise of 5% bucking the trend with respect to the European sectoral index of reference (DJ Stoxx Utilities), which dropped by 2.7%, the beginning of the year to the end of June 2016. Terna, in addition, recorded a TSR of 7.8% compared to the 0.90% chalked up by the DJ Stoxx Utilities. During the first half of the year, on 30 March 2016, the stock reached a new record high of 5.08 €/share. The average daily volume traded in the period on Terna stock stood at approximately 7.9 million shares daily, slightly down compared to the same period of 2015 (8.7 million shares).

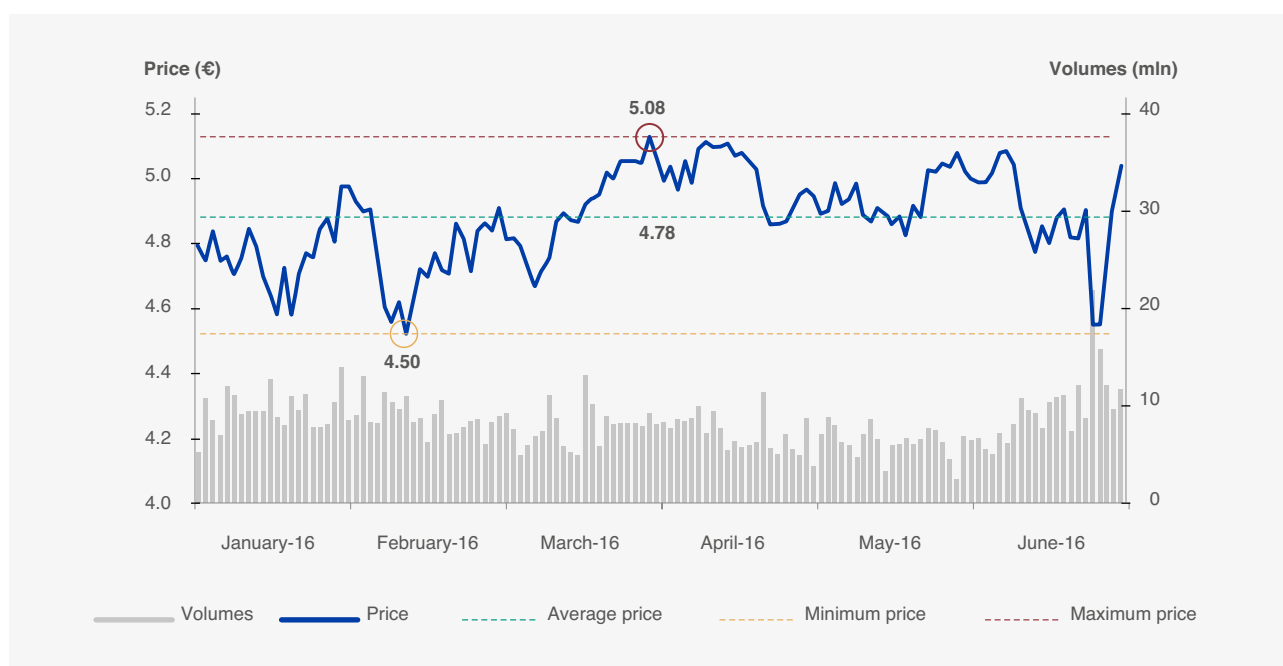
(13) Total Shareholder Return (or TSR): total return on an equity investment, calculated as the sum of:

- I. capital gain: ratio between the change in the price of the share (difference between the price recorded at the end and at the beginning of the reference period) and the price recorded at the beginning of the said period;
- II. dividends reinvested: the ratio between the dividends per share distributed in the reference period and the price of the stock at the beginning of the said period. The dividends are considered reinvested in the stock.

Trend of Terna stock and the FTSE MIB and DJ STOXX Utilities indices



Performance of Terna stock in 1H2016



Terna proportion on FTSE MIB and Rating

PROPORTION OF TERNA SHARES

> in the FTSE MIB index¹⁴ 2.79%

Source: Borsa Italiana. Data as at 30 June 2016

	Short Term	M/L term	Outlook
Terna S.p.A.			
Standard & Poor's	A-2	BBB	Stable
Moody's	Prime-2	Baa1	Stable
Fitch	F2	BBB+	Stable
Italian Republic			
Standard & Poor's	A-3	BBB-	Stable
Moody's	Prime-2	Baa2	Stable
Fitch	F2	BBB+	Stable

Sustainability performance

Sustainability themes

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

This means being pro-actively concerned about the possible environmental and social impacts of any development, as well as adopting all the necessary measures to prevent and minimise such impacts and pursuing a constructive dialogue with the local communities living in the areas where the development is planned, or where there are power lines.

Focus on the community is also demonstrated by the creation of social, humanitarian and cultural initiatives which are a concrete sign of participation in the growth of civil society.

Another element of Terna's approach to sustainability is its attention to human resources both in terms of updating specific technical skills, which are often rare or unique in the electricity sector, and in terms of workplace safety, which is challenged by many operational activities being associated with particular risks, such as working a height of several metres from the ground or conducting maintenance procedures on live power lines.

Terna adopts a Sustainability Plan, a tool used for arranging and implementing significant activities to accompany business growth under a profile of sustainability, which aims to:

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

(14) % Total FTSE MIB

Initiatives in the period

In the first half of 2016, Terna organised three public consultation meetings with the citizens affected by work on developing the National Electricity Grid: 28 January in Lucca on restructuring of the 380 and 132 kV grid that crosses the city and the areas around; 4 and 5 May in the South Tyrolean municipalities of Malles and Curon with regard to the Italy – Austria interconnection project.

Terna has also renewed its commitment to increasing the sustainability of its grid development investments signing memoranda of understanding with Legambiente, WWF Italia and Greenpeace Italia aimed at gradual improvement of the environmental sustainability of the National Electricity Grid Development Plan in the drafting stages of the Plan, preparation of the Strategic Environmental Assessment and consultation with the community to identify the most suitable location choices.

Presence in the stock exchange sustainability indices

In January 2016, for the third year running, Terna was included in the Gold Class in the “RobecoSAM Sustainability Yearbook 2015”. There are only three companies in the Electric Utilities sector globally which achieved this accolade.

To be part of the Gold Class, companies must achieve a rating which is within 1% of that of the sector leader.

During the first half of 2016 Terna was confirmed in the Euronext-Vigeo and FTSE4GOOD indices. Terna was also included in the new STOXX® Low Carbon indices, launched in February 2016. These indices provide a selection of companies characterised by low CO₂ emissions based on data collected by the CDP (Carbon Disclosure Project). The Index components are selected from the STOXX Global 1800 basket based on their carbon intensity data (Scope 1 and Scope 2 of the GHG Protocol on revenues).

Further 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 2016, 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 2016 included not only those with the associates and the employee pension funds (Fondenei and Fopen), but also those with Cassa Depositi e Prestiti, CDP Reti S.p.A., and the companies directly or indirectly controlled by the Ministry of Economy and Finance.

Related-party transactions carried out in the six months of 2016 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 2015¹⁵.

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 2016, no transactions of major importance¹⁶ were carried out, nor were operations subject to information obligations because they fall within the cases of exclusion provided for in the said Regulation¹⁷.

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.

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

(16) That is, related-party transactions identified in accordance with the provisions of Annex 3 of the “Regulations 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).

(17) 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”.

ANNEXES

Legislative framework

Below is a brief description of the main regulatory measures of interest for the Parent Company issued during the first half of 2016 and, subsequently, up to the date of preparation of this Interim Report on Operations.

a) Laws and measures issued in 2015 with effect from 2016

Italian Law no. 208 of 28 December 2015 containing “Provisions for drafting the annual and multi-year financial statements of the State”, published in the Italian Official Journal of 30 December 2015, no. 70.

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

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

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

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

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

Italian Law Decree no. 210 of 30 December 2015 on “extension of the terms envisaged by legislative measures” published in the Italian Official Journal of 30 December 2015, no. 302, converted with Italian Law no. 21 of 25 February 2015, published in the Italian Official Journal of 26 February 2016, no. 47.

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

With effect from 1 January 2016, the Decree gives AEEGSI the task of redefining, for non-domestic users, the structure of tariff components related to general expenses, adjusting it to criteria governing the grid tariff for transmission, distribution and measurement services. Moreover, in connection with AIA Legislation, it defers the cut-off date by one year (until 1 January 2017) at which the major fuel plants built pre-2013 shall apply the limit emission values pursuant to the Fifth Part of the Environmental Code (Italian Legislative Decree 152/2006).

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

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

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

b) Laws and measures issued in 2016

• On employment

Decree of the Minister of Labour and Social Policies, 25 March 2016.

The Labour and the Economy Ministers adopted the Decree implementing the rules of the Stability Law 2016 (Law 208/15) providing for the application of a substitute tax of 10% on bonuses of up to € 2,000 for employees with annual employment income up to € 50,000. For the purposes of application of the substitute rate for performance bonuses, collective agreements must provide for “criteria for measurement and verification of productivity gains, viability, quality, efficiency and innovation”. Contracts shall be filed within 30 days of the signing of the collective company or territorial agreements, together with the declaration of contract compliance with the provisions stated in the measure, drawn up in accordance with the model annexed to the Decree.

- **On company law**

Legislative Decree no. 25 of 15 February 2016, “Implementation of Directive 2013/50/EU of the European Parliament and of the Council of 22 October 2013 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and prospectus to be published for the public offer or admission to trading of financial instruments”, published in the Official Journal, no. 52 of 3 March 2016.

The Decree provides for a 2–3 per cent increase of the participation threshold relevant to the purposes of reporting obligations to CONSOB and to the company. Other changes concern the terms for the publication of the interim report by listed issuers, the acquisition of information by CONSOB and some simplifications (e.g. regarding mandatory quarterly reporting).

- **On contracts and infrastructure**

Law no. 11 of 28 January 2016, “Delegation to the Government for the implementation of Directives 2014/23/EU, 2014/24/EU and 2014/25/EU of the European Parliament and of the Council of 26 February 2014, on the award of concession contracts, on public procurement and procurement procedures by entities operating in the water, energy, transport and postal service sectors, as well as to revise the current regulations on public contracts for works, services and supplies”, published in the Official Journal no. 23 of 29 January 2016.

Italian Law no. 11/16 provides for the adoption by the Government by 16 April of a Legislative Decree transposing European Directives 2014/23/EU, 2014/24/EU and 2014/25/EU and revising the regulations on public contracts (the revision may be the subject of a separate decree, to be adopted by 31 July 2016).

The criteria of the delegation provide favour for the most economically advantageous tender, the introduction of public debate for major infrastructure projects and the transposition of directives in compliance with the prohibition of goldplating. In relation to special sectors (e.g. energy), a criterion of the law establishes that the Decree will have to give an accurate indication of “*the provisions applicable to them, in order to promote transparency in the sector and the full openness and contestability of the relevant markets*”.

Legislative Decree no. 33 of 15 February 2016, “Implementation of Directive 2014/61/EU of the European Parliament and of the Council of 15 May 2014 setting out measures to reduce the installation costs of high-speed electronic communication networks”, published in the Official Gazette no. 57 of 9 March 2016.

The Legislative Decree transposes Directive 2014/61/EU setting out measures to reduce the installation costs of high-speed electronic communications networks. The measure provides for the establishment of a national infrastructure, the *National federated infrastructure information system* (SINF), by the Ministry of Economic Development before 30 April 2016. It defines the rules governing relations between the functional physical infrastructure managers for hosting electronic communications networks and the network operators who want to install such networks; the measure establishes the criteria to define the economic conditions for access to the infrastructure, the option of recourse to AGCOM in case of non-agreement and the cases in which access can be denied.

Constitutional law awaiting enactment relating to: “Provisions for exceeding the equal bicameralism, reducing the number of parliamentarians, the operating costs of institutions, the abolition of the CNEL and the revision of title V of Part II of the Constitution”, text published in the Official Journal no. 88 of 15 April 2016.

The text of the law revising the constitution, approved by Parliament has been published in the Official Journal. Since it was not approved by a two-thirds majority of the Chambers, its effectiveness is suspended until 15 July or, in the event of the calling of a constitutional referendum, until its execution. Amongst other things, the law reforms Article 117 of the Constitution, attributing to the State, now as a competitor, the responsibility of national energy production, transport and distribution, as well as for the environment and ecosystem, the protection and enhancement of cultural and landscape heritage, and the protection and safety of workers.

Legislative Decree no. 50 of 18 April 2016, “Implementation of Directives 2014/23/EU, 2014/24/EU and 2014/25/EU on the award of concession contracts, on public procurement and procurement procedures by entities operating in the water, energy, transport and postal service sectors, as well as to revise the current regulations on public contracts for works, services and supplies”, published in the Official Journal no. 91 of 19 April 2016.

Italian Legislative Decree no. 50/16 replaces Legislative Decree no. 163/06 and reforms the rules on public contracts in order to implement the European directives on public procurement and concession also for special sectors, such as the management and supply of networks for the provision of electricity. One of the main innovations introduced is the preference for the criterion of the most economically advantageous tender for awarding contracts as opposed to the criterion of the largest discount. It has also strengthened the role of ANAC, which is invited to develop guidelines and proposals for the adoption of measures for the implementation of the rules laid down by the Decree.

Legislative Decree no. 97 of 25 May 2016, “Revision and simplification of the provisions on the prevention of corruption, on openness and transparency, amending Law no. 190 of 6 November 2012 and Legislative Decree no. 33 of 14 March 2013 pursuant to Article 7 of Law no. 124 of 7 August 2015, concerning the reorganisation of the Public Administrations”, published in the Official Journal no. 132 of 8 June 2016.

The Decree bears rules on disclosure and transparency and access to information, modifying the current Italian Legislative Decree no. 33/13 adopted in implementation of Law no. 190/12. The rules on openness and transparency shall apply wherever compatible and limited to data and documents relating to activities of public interest governed by national or EU law, and to entities that manage public services.

- **Regarding industry research**

Decree of the Italian Ministry of Economic Development of 21 April 2016 “Approval of the 2015–2017 three-year national electricity grid research Plan and the division of resources for 2015,” published in the Italian Official Journal no. 145 of 23 June 2016.

The Decree bears the approval of the 2015–2017 Three-year Plan of research of the national electricity system, which allocates € 210 million over three years for industrial research on 4 macro-themes: 1) the government, management and development of the national interconnected electricity system and integration of markets, 2) the electricity generation with low carbon emissions, 3) the transmission and distribution of electricity, 4) energy efficiency and energy savings in electrical end uses and interaction with other energy sources.

AEEGSI Resolutions

Presented below is a short summary of the main Resolutions passed by the Italian Regulatory Authority for Electricity, Gas and Water during the first half of 2016 and up to the date of preparation of this Report.

Resolution 1/2016/R/eel - Provisions on the instantaneous reduction of withdrawals of electricity, for the biennium 2016–2017 (super-interruptibility in the major islands)

With this measure the Authority, in implementing the provisions of the Decree-Law no. 210 of 30 December 2015, “Extension of deadlines provided by legal provisions” (“Milleprogge”, providing annual extensions of various laws), has updated the procedures for the performance of instantaneous reduction of withdrawals in Sicily and Sardinia for the 2016–2017 biennium. In particular, the Authority envisaged that:

- there be an extension until 31 December 2017 the provisions of Resolution ARG/elt 15/10, which regulated the service in the previous three-year periods, applying changes to reflect the amendments introduced by the Decree Law;
- Terna transmit to the Authority the proposal of procedures for service allocation and the proposal of related contractual standards;
- the first allocation procedure, covering the period February 2016 - December 2017, and the conclusion of contracts should be completed by 31 January 2016.

Resolution 21/2016/R/eel - Approval of changes made by Terna to the contract with Interconnector funders for virtual import measures

With this measure, the Authority approved Terna’s changes to the contract with entities selected for the funding of Interconnectors who wish to make use of virtual-importing measures under Article 32 paragraph 6 of Italian Law no. 99/09. In particular, the existing contract has been changed, as provided by the previous Resolution 666/2015/R/eel (Amendment to Authority Resolution ARG/elt 179/09, in accordance with the provisions of the 2016 Stability Law), to take account of the changes introduced by the 2016 Stability Law.

Resolution 72/2016/R/eel - Additions and amendments to the regulation relating to simple production and consumption systems

With this measure the Authority, in order to implement certain regulatory changes from 2015, updated the framework referred to in the *Consolidated Simple Production and Consumption Services Rules* (TISSPC) and also introduced a number of simplifications. In order to implement the provisions of Law no. 189/2015, the Authority extended the definition of SEEU-A, adding the provision that the unique status of the legal owner of the electricity production unit and consumption unit was verified as at 1 January 2016, in the case of entities which, in the period between 6 May 2010 and 1 January 2014, were under special administration. Other changes included the elimination from the TISSPC of the reference to the maximum limit of 20 MW provided as a condition for the creation of *Efficient Energy Systems* (SEU) and the approval, both in the TISSPC and the *Integrated Text for Closed Distribution Systems* (TISDC), of the definition of corporate group as that laid down in article 2359 of the Civil Code.

Resolution 73/2016/R/eel - Amendments and additions to Authority Resolutions 111/06, 166/2013/R/com, 258/2015/R/com and 487/2015/R/eel, functional to the signing and termination of dispatching and transport contracts, as well as the introduction of provisions on the switching of customers who are entitled to the safeguarding service

With this measure, the Authority brought amendments and additions to Authority Resolutions 111/06, 166/2013/R/com, 258/2015/R/com and 487/2015/R/eel, functional to the signing and termination of dispatching and transport contracts, and introduced provisions on the switching of end customers who are entitled to the safeguarding service. In particular, the Authority applied amendments, as from 1 June 2016, to some provisions of the existing regulation in order to define the information flows between the Integrated Information System (SII), Terna and the distribution companies with reference to the specificities for the creation of a new Dispatch User and for signing and termination of dispatching and transport contracts.

Resolution 87/2016/R/eel - Functional specifications enabling Low Voltage smart metering and the performance of second generation (2G) smart metering systems in the electricity sector, in accordance with Legislative Decree no. 102 of 4 July 2014

With this measure, the Authority defined the functional specifications enabling low voltage smart meters and the performance of its second generation (2G) smart metering systems in the electricity sector, pursuant to Italian Legislative Decree 102/2014 implementing Directive 2012/27/EU on energy efficiency, in view of the replacement of the first generation meters that have completed the expected lifetime for regulatory purposes, as defined in the Integrated Transmission Text (TIT). In particular, the measure defines the capabilities that must be assured by 2G smart metering systems and the expected performance levels and associated timing of full implementation, with reference to the performance specifications stated in the measure.

Resolution 101/2016/R/eel - Launch of proceedings for the creation of measures concerning certain aspects of the grid of Edison S.p.A., located in Torviscosa, pursuant to Authority Resolution 539/2015/R/eel

With this measure, the Authority launched proceedings, to be concluded by September 2016, aimed at verifying whether the electricity grid in Torviscosa, managed by Edison S.p.A., meets the requirements for inclusion in the list of *Internal User Grids* (RIU) and consequently whether to:

- confirm or exclude this grid from the list of RIUs;
- determine any principles for the quantification and the payment of transmission and distribution fees and general system charges paid but not due.

Resolution 134/2016/R/eel - Provisions on the extra fee for transitory remuneration of available production capacity, for the years 2010 and 2011

With this measure, the Authority adopted some provisions regarding additional fees for transient remuneration of availability of production capacity and, in particular, made provision that Terna recalculates additional fees for the remuneration of production capacity for the years 2010 and 2011 and that it applies any further charges resulting from the recalculation.

Resolution 164/2016/R/eel – Decisions on the requests for advance payment of the reimbursement of costs in relation to the essential plant in Montemartini for the year 2012

With this measure, the Authority provided that Terna pay the company Acea Energia the balance of the fee for reimbursement of costs related to the Montemartini plant for the year 2012.

Resolution 192/2016/R/eel - Determination of advance reimbursement payment relating to essential isolated production units, in the availability of Enel Produzione S.p.A. for the year 2013

With this measure the Authority established that Terna shall award Enel Produzione an advance payment of the reimbursement of generation costs of isolated production units, relating to the year 2013; the amount shall be equal to the advance payment of the supplementary fee for the year 2012 pursuant to Resolution 284/2015/R/eel.

Resolution 207/2016/R/eel – Resolutions with regard to the Trapani Turbogas production plant, essential for the year 2012

With this measure, the Authority established that Terna should pay the E.On Global Commodities SE the balance of the fee for reimbursement of costs related to the Trapani Turbogas Plant that was essential for the year 2012.

Resolution 214/2016/R/eel - Recognition of costs incurred in 2015 by Terna S.p.A., for the performance of activities regarding the management and development of the GAUDÌ System

With this measure, following a notification from Terna, the Authority established a figure of € 1,228,379.00 for the costs to be granted to Terna in the final account for the year 2015, for carrying out activities aimed at the development and operation of the GAUDÌ system and specified that the lower cost burden deriving from the difference between the final recognised costs for 2015 and the forecast recognised costs for the same year amounting to € 130,533.00 should be taken into account for the purposes of the future quantification of the fee for the operation of Terna in the year 2017.

Resolution 228/2016/I/eel - Approval of the document “Opinion on the Piemonte Savoia Exemption Application”

With this measure, the Authority, in answer to the application for exemption submitted by the company Piemonte Savoia, approved the document “Opinion on the Piedmont Savoia Exemption Application” whose purpose was the issue by the Ministry of Economic Development of the Decree exempting the company from the rules laid down in Article 16, paragraph 6 of Regulation 714/2009 and Article 9 of Directive 72/2009.

Resolution 248/2016/R/eel - Decisions regarding the Centro Energia Ferrara production plant, essential for the year 2012

With this measure, the Authority determined the amount of the fee to cover costs to be paid by Terna to the plant of Centro Energia Ferrara S.p.A., essential for the year 2012.

Resolution 249/2016/R/eel – Decisions on the essential production plant in the availability of Ottana Energia S.p.A.

With this measure, the Authority established that Terna should pay Ottana Energia S.p.A. the balance of the fee for reimbursement of costs related to the Ottana plant for the year 2013.

Resolution 268/2016/R/eel - Initiation of proceedings relating to guarantees for the access to the electricity dispatching service and verification on the compliance of Annexes A.61 and A.26 with the Code of Transmission, Dispatching, Development and Security of the Electricity Grid, prepared by Terna S.p.A.

With this measure, the Authority positively verified the proposal made by Terna concerning the Regulation on guarantees connected to dispatching contracts (Annex A.61 of the Grid Code) and the typical input and withdrawal dispatching Contracts (Annex A.26 of the Grid Code) and simultaneously initiated proceedings for the reform of the system of guarantees, with particular reference to the institute of rating, under which one should consider introducing solutions to minimise the overall risk to the system associated with the time required to terminate a dispatching contract in the event of user default.

Resolution 269/2016/R/eel – Decisions on the essential production plants in the availability of Enel Produzione S.p.A.

With this measure, the Authority established that Terna should pay Enel Produzione S.p.A. the balance of the fee for reimbursement of costs related to the Bari, Porto Empedocle and Sulcis plants for the year 2013.

Resolution 274/2016/R/eel - Termination of the regime of essentiality pursuant to Decree-Law no. 91/14 for generation plants in Sicily, following the entry into operation of the Sorgente-Rizziconi power line

With this measure, the Authority set the termination of the regime of essentiality pursuant to Decree-Law 91/14 to 00:00 of 28 May 2016, due to the entry into service of the Sorgente-Rizziconi intervention.

Resolution 297/2016/R/eel - Launch of the intraday market coupling pilot project between Italy and Slovenia: verification of the agreements between the parties

With this measure, the Authority has positively verified the provisions contained in the Convention and contractual documents prepared by the parties in the Cross-border IntraDay Implicit Allocation project and, in particular, with respect to the documents relevant to Terna: the model contract between the Gestore dei

Mercati Energetici (GME) and Terna; the outline contract called “Italian and Slovenian cross-border intra-day implicit auctions operational agreement” regulating the governance and cooperation of the parties in the operational phase of the project, as well as the operational procedures and the exchange of flows required for intra-day coupling between Italy and Slovenia; the Terna-Eles Bilateral Agreement; the rules for allocation of rights of use of intra-day transfer capacity (Allocation Rules for Intraday Capacity Allocation on France-Italy, Switzerland-Italy and Austria-Italy Borders). In addition, the Authority established that the amounts paid by Terna to GME or received from the latter, are ascribed by Terna to the consideration referred to in Article 44 of Resolution no. 111/06 (uplift).

Resolution 300/2016/R/eel – Decisions on the essential production plants of in the availability of Edipower S.p.A.

With this measure, the Authority established that Terna should pay Edipower S.p.A. the balance of the fee for reimbursement of costs related to the San Filippo del Mela 150 kV and San Filippo del Mela 220 kV plants for the year 2013.

Resolution 301/2016/R/eel – Decisions on the essential production plants for the year 2013 in the availability of Acea Energia S.p.A. and Enel Produzione S.p.A.

With this measure, the Authority established that Terna should pay Acea Energia S.p.A. the balance of the fee for reimbursement of costs for the Montemarini plant for the year 2013. The Authority also adjusted the amount of the balance of the consideration to cover costs of Enel Produzione S.p.A. for the year 2013 compared to the sum indicated in Resolution 269/2016/R/eel.

Resolution 303/2016/R/eel - Update of the transitional rules for the specific remuneration of the production capacity, for the year 2015

With reference to the transitory remuneration mechanism for availability of production capacity (capacity payment), the Authority established the revenue to be destined for the payment of the specific fee for the year 2015 equal to € 100,700,000, in order to proceed with the payment by 30 June 2016.

Resolution 304/2016/I/eel – Monitoring the development of distributed generation plants in Italy for the year 2014

With this measure, the Authority approved the annual report containing the data relating to the development in Italy for the year 2014 of the distributed generation plants, of the small generation and microgeneration types. In this regard, the Authority recommended that the data was provided and partly processed by Terna's Statistics Office, taking into account the data available to the Energy Services Operator relating to plants which have access to incentive schemes. In the Report, the Authority noted that the electricity generated through distributed generation and small generation is rapidly increasing, both in absolute and relative terms compared to the national total, mainly as a result of the new installation of photovoltaic systems, greater production from plants fuelled by biomass and biogas, as well as the effect of increased water availability. With particular regard to distributed generation, the Authority also noted a growth trend with reference to the number of installations and the gross output, on the one hand, and a slight reduction in the installed power, on the other.

Resolution 322/2016/R/eel - Provisions in relation to the Ottana Biopower plant in Sardinia

With this measure, the Authority ruled that Terna should start the process of finding the right regime of essentiality to be applied to the Ottana Biopower plant and for the definition of the technical-economic parameters to be used in the implementation of the scheme. In a subsequent measure, the Authority will establish the starting date of applicability of the regime of essentiality for the Ottana Biopower plant, according to the specific regime that this plant will be subject to.

Resolution 326/2016/R/eel - Future supply of resources for the dispatching service in Sardinia

With this measure, the Authority approved the proposal submitted by Terna concerning the future supply of dispatching resources in Sardinia in order to minimise and stabilise the cost of those resources on the island, with some careful additions in terms of clauses and fees for the recognition of specific costs. The Authority also established that the contracts shall take effect from 1 July 2016 and will expire on 31 December 2018, and that Terna shall select the related contractual counterparts by 28 June 2016.

The Authority lastly approved the proposals on standard parameters formulated by Terna and some applications lodged by dispatching users, for the purpose of calculating the acknowledged variable cost.

Resolution 333/2016/R/eel - Enhancement of the effective imbalances for the years 2012, 2013 and 2014 following the rulings of the Lombardy Regional Administrative Court no. 1648/2014 and of the Council of State no. 1532/2015 and following the new ruling by the Council of State no. 2457/2016

With this measure, the Authority defined the adjustments to be implemented to the effective imbalances between July 2012 and September 2014, following the rulings of the Lombardy Regional Administrative Court no. 1648/2014 and of the Council of State Nos. 1532/2015 and 2457/2016. In particular, following the guidelines outlined in the document for consultation 623/2015/R/eel, the Authority specified that for the recalculation of charges of imbalance between July 2012 and September 2014, users could choose whether to use a so-called standard discipline, which involves restoring the regulation in force at the time of programming, or an alternative discipline, which provides for the application of the guidelines in force before the first intervention by the Authority in 2012, also defining the procedures and time scales for the choice by the users between the two disciplines.

Resolution 334/2016/R/eel - Verification on the compliance of Annexes A.54 and A.66 with the Grid Code prepared by Terna S.p.A.

With this measure, the Authority positively verified the compliance of Annexes A.54 and A.66 with the Grid Code, concerning respectively “Classification and registration of the interruptions of users directly and indirectly connected to the NTG” and “Procedure for the determination of mitigation services provided by distribution companies”.

These annexes were updated by Terna in order to assimilate the provisions contained in Resolution 653/2015/R/eel (Integrated text of output-based adjustments to the electricity transmission service, for the regulatory period 2016–2023) and transmitted to the Authority for approval as required by the same Resolution.

Resolution 335/2016/R/eel - Ascertainment of progress in achieving the milestones of strategic investments for development of the National Transmission Grid in relation to the year 2015

With this measure, the Authority:

- verifies the status of achievement of the milestones planned for the year 2015, based on the documentation submitted by Terna, and the success in exceeding the 70% threshold of the overall conventional value of the aforesaid milestones.
- acknowledges the incentive for accelerating investments on fixed assets in progress relating to the I=3 investments in existence at 31 December 2015, to be included in the transmission fees related to the year 2017;
- confirms the provisional suspension of the “HVDC Italy-Balkans Interconnection” intervention from the list of interventions I=3;
- excludes permanently the intervention on “Rationalisation of 380 kV between Venice and Padua” from the list of I=3 interventions; with respect to that intervention, the Authority also specifies that the acceleration incentives granted to Terna during the 2012–2015 period of adjustment should be returned, as part of the revenue guarantee mechanism of transmission referred to in Article 16 of the integrated text of provisions on the supply of electricity transmission and distribution services (Annex A to Resolution no. 654/2015).

Resolution 342/2016/E/EEL - Launch of the proceedings under Regulation (EU) no. 1227/2011 (REMIT), for the timely adoption of prescriptive measures and the assessment of potential abuse in the wholesale electricity market

With this measure, the Authority ordered the opening of a procedure under Regulation (EU) no. 1227/2011 (REMIT – Regulation on Wholesale Energy Market Integrity and Transparency), for the timely adoption of prescriptive measures and the assessment of potential abuse in the wholesale electricity market. In launching this procedure, the Authority also:

- gave notice to any users of despatching involved in this, to cease any conduct aimed at the adoption of programming strategies that are inconsistent with the principles of diligence, prudence, skill and forethought, and any behaviour involving offers likely to alter the proper price formation process in the electricity markets, including effects on the behaviour of market participants who act according to reference prices, because such conduct may potentially be construed as market manipulation under Article 5 of the REMIT;
- mandated Terna to consider the possibility of future procurement of dispatching resources in order to minimise and stabilise dispatching charges, and to transmit the results of its considerations to the Authority.

Evolution of the dimensions of the NTG

Number of plants – Terna S.p.A.

The number of plants belonging to Terna S.p.A. as at 30 June 2016, compared to the situation as at 31 December 2015, is shown in the following table.

	Terna S.p.A.		Δ
	30.06.2016	31.12.2015	
Substations	474	472	2
Transformers	677	674	3
	143,250 MVA	142,470 MVA	780 MVA
Bays	5,197	5,159	38
Lines	41,868 km	41,681 km	187 km
Three-phase power lines	2,458	2,446	12
	46,820 km	46,646 km	174 km

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

Substations

With regard to the substations, we note the following changes:

1. of entire plants:

- activation of the new transformer substation in Villafranca Tirrena (7 x 380 kV bays and 3 x 150 kV bays);
- activation of the new switching substation in Butera (3 bays at 150 kV).

2. of existing plants:

- activation of 17 new bays in the substations of Rizziconi (2 bays at 380 kV), Melfi (1 bay at 380 kV), Rotonda 150 (2 bays at 150 kV), Bisaccia 380 and Deliceto (1 bay at 150 kV each), Chiari and Musocco (2 bays at 132 kV each), Avenza, Cedegolo Sud, Marginone, Martignone, Parma Vigheffio and San Rocco (1 bay at 132 kV each);
- activation of 6 new machine and/or power factor bays in the substations of Chiari (1 bay at 380 kV and 1 bay at 132 kV), Roma Sud (1 bay at 380 kV), Rumianca (1 bay at 150 kV), Casellina and Marginone (1 bay at 132 kV each);
- activation of 6 new machine and/or power factor bays in the substations of Melfi (1 bay at 380 kV and 1 bay at 150 kV), Rizziconi (1 bay at 380 kV), Chiari (2 bays at 132 kV), Suvereto (1 bay at 132 kV);
- deactivation and/or demolition of 6 bays in the substations of Misterbianco, Paternò and Rotonda (1 bay at 150 kV each), Marginone, Parma Vigheffio and San Rocco (1 bay at 132 kV each).

Transformers

With regard to transformers, we note the following changes:

- activation of 2 new 380/150 kV auto-transformers of 250 MVA at the same time as the Villafranca Tirrena substation began operating;
- activation of 1 new 380/132 kV auto-transformer of 250 MVA in the Chiari substation;
- replacement of one 220/15 kV transformer of 40 MVA with a similar one of the same power, in the Ottana substation.

Power lines

With regard to power lines, we note the following changes:

- entry into service of 10 new lines for a total of 225.7 km of three-phase lines: Villanova - Gissi at 380 kV (69.6 km of overhead lines), Scilla - Villafranca Tirrena 1 and 2 at 380 kV (total 85.2 km in cables), Sorgente - Villafranca Tirrena 1 and 2 at 380 kV (total 40.5 km in overhead and double three-phase power lines), Castelnuovo di Conza - Goleto at 150 kV (18.4 km in overhead lines), Misterbianco - Paternò at 150 kV (3.0 km in overhead lines), CL Forno - CP Cedegolo Sud at 132 kV (5.4 km in cables), Avenza - Massa Zona Industriale at 132 kV (3.7 km with mixed lines), SE Cuneo San Rocco - CP Cuneo San Rocco at 132 kV (0.1 km in overhead lines);
- activation of 1 short link (<0.1 km) at 132 kV between adjacent installations;
- construction of 5 in-out derivations on the same number of operating lines with an overall increase of the same number of triads and 4.9 km of triad line, of which: + 1 line and + 3.9 km at 380 kV, + 1 line at 220 kV, + 1 line and - 0.3 km at 150 kV, + 2 lines and + 1.3 km at 132 kV;
- construction of variants, rigid derivations and/or changes in the line and/or grid distribution with a total decrease of 1 line and an increase of 27.0 km of three-phase power line, of which: + 1 line and + 1.3 km at 150 kV, - 2 lines and - 28.3 km at 132 kV;
- deactivation and/or demolition of 3 operating lines for a total of 27.8 km of three-phase power lines, of which: 2 lines and 20.6 km at 150 kV, 1 line and 7.2 km at 132 kV.

Number of plants – Terna Rete Italia S.r.l.

The number of plants belonging to the company Terna Rete Italia S.r.l. as at 30 June 2016, compared to the situation as at 31 December 2015, is shown in the following table.

	Terna Rete Italia S.r.l.		Δ
	30.06.2016	31.12.2015	
Substations	28	28	0
Transformers	3	3	0
	720 MVA	720 MVA	0 MVA
Bays	118	118	0
Lines	16,239 km	16,212 km	27 km
Three-phase power lines	1,718	1,717	1
	17,301 km	17,271 km	30 km

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

Substations

With respect to substations, there are no variations.

Transformers

With respect to transformers, there are no variations.

Power lines

With regard to power lines, we note the following changes:

- construction of 1 in-out derivation on 1 150 kV operating line with an overall increase in the number of three-phase power lines and an overall reduction of 0.1 km of three-phase power line;
- construction of 1 variant on a 150 kV line with an overall increase of 0.4 km of three-phase power line.

Number of plants – Rete S.r.l.

The number of plants belonging to Rete S.r.l. as at 30 June 2016, compared to the situation as at 31 December 2015, is shown in the following table.

	Rete S.r.l.		Δ
	30.06.2016	31.12.2015	
Substations	350	350	0
Transformers	25	25	0
	825 MVA	825 MVA	0 MVA
Bays	831	831	0
Lines	8,394 km	8,379 km	15 km
Three-phase power lines	390	388	2
	8,691 km	8,682 km	9 km

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

Substations

With respect to substations, there are no variations.

Transformers

With respect to transformers, there are no variations.

Power lines

With regard to power lines, we note the following change:

- construction of 2 in-out derivations on the same number of 150 kV operating lines with an overall increase of the same number of three-phase power lines and 9.4 km of three-phase power line.

Risk Management in the Terna Group

Governance

Governance, Integrity and Compliance

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

Based on the best practices in regard to governance and compliance:

- it has adopted a Code of Ethics that states that legality, honesty and responsibility are its general ethical principles;
- it has implemented and constantly updated an Organisational and Management Model, as provided for in the Italian Legislative Decree no. 231 of 2001 as amended, as a valuable tool for raising awareness of all those who work in the name and on behalf of Terna;
- it has appointed a “Manager charged with preparing the Company’s financial reports”, as regulated by Law no. 262 of 28 December 2005, as amended;
- it has adopted an Integrated Management System which lays down criteria for the management of Quality, the Environment and Worker Health and Safety and is intended to guarantee system efficacy and efficiency, highlighting any potential risks in the areas observed and implementing any necessary mitigating measures;
- it has adopted a Management System for the Prevention of Serious Accidents in accordance with the provisions of Italian Legislative Decree 344/99 (Seveso Directive).
- it has reorganised the monitoring of privacy regulations within Group companies, by implementing a newly structured model to ensure the correct fulfilment of legal obligations (Italian Legislative Decree no. 196/03 Privacy Code and associated Measures of the Authority).

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

ACTIVITIES CARRIED OUT IN THE HALF YEAR TO PROTECT AGAINST GOVERNANCE, INTEGRITY AND COMPLIANCE RISKS

Activities	Description
Standard ISO/IEC 17025:2005 accreditation (Calibration laboratory)	During the first half of 2016, all the documentation was completed and approved by Accredia (the Italian Accreditation Body) for accrediting the activities of the Calibration Centres in Florence, Turin and Cagliari, in accordance with the ISO/IEC 17025:2005 standard, which is necessary for carrying out metrological tests on active electrical energy meters and on electricity measurement systems used to determine energy flows for tax purposes, as specified by the Customs Agency. Internal audits will soon be implemented, and a review will be made on the management system so that the process is completed before the implementation of the checks on accreditation by Accredia.
Standard ISO/IEC 17025:2005 accreditation (Multi-site LLW Laboratory)	In the first half of 2016, the activities have continued for the maintenance of accreditation of the multi-site Laboratory management system (Viverone, Civitavecchia, Frattamaggiore) for the testing of LLW equipment, in accordance with ISO/IEC 17025:2005, with a view to the coming checks that will be carried out by Accredia.
Compliance with ISO 9001:2015 ISO 14001:2004 BS OHSAS 18001:2007 ISO 27001:2005 ISO 50001:2011	<ul style="list-style-type: none"> • The IMQ Certifying Body confirmed the compliance of business activity with the requirements per the following standards: ISO 9001:2008; ISO 14001:2004; BS OHSAS 18001:2007; in particular, the Terna Group has passed the test for the transition from the norm UNI EN ISO 9001:2008 to the UNI EN ISO 9001:2015 norm; • the preparatory activities have been completed for the maintenance of the Information Management System (TIMM environment), according to ISO 27001:2005; • the preparatory activities are underway for the next inspection by the certification body for confirmation of the UNI CEI EN ISO/IEC 50001:2011 and the activities are underway that are supported by ENEA, acting on behalf of the MED for compliance with Italian Legislative Decree no. 102/2014 (increase in the number of energy analyses, on-line monitoring and implementation of energy saving actions for energy consumed for own use in office buildings and electrical substations).
Compliance with Italian Legislative Decree 105/2015	In the first half of 2016 the activities have continued for the maintenance of the Management System for the Prevention of Serious Accidents linked to SANC sites (Non Conventional Storage Systems), that fall under this legislation.
UNI-ISO 31000 certification	In the first half of 2016, the preparatory activities were conducted to define a “Gap Analysis of the risk organisational and management model” of Terna, i.e. the document analysis aimed at understanding the coverage of the various points of the norm as regards the company’s documentation on risk management.

Commission of “231” crimes

As soon as Legislative Decree no. 231 of 8 June 2001 came into force, introducing into the Italian legislation a regime of administrative liability for companies, the Terna Board of Directors passed a resolution for the adoption of the Organisational and Management Model.

In its current format, the Model is broken down into eleven parts:

- A “general part”, which describes, *inter alia*, the content of Legislative Decree no. 231/2001, the objectives and functioning of the Model, the tasks of the Supervisory Body in the form of a board, the information flows, and the penalty system;
- Ten specific parts for each crime provided for by the legislation.

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

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

Activities	Description
Updates to the Organisational models 231 of the Terna Group	All the models of the Group have been updated following the introduction of new offences into the catalogue of offences. In particular, the updates followed the entry into force of Law no. 68/2015 and Law no. 69/2015 regarding, respectively, eco-crimes and crimes against the public administration, Mafia-type associations and false accounting. All upgrades are waiting to be signed by the Chief Executive Officers of the Group companies.
“Project 231”	In the first half of 2016, the first phase of the Project 231 came to an end with the production of an audit report and a Gap analysis, which will be followed up in the second phase.
Training and information measures	A classroom-based training program is being designed for the following year and all the contents of the on-line training courses have been updated.

Fraud

Terna sees the management of business fraud as an important part of its approach to business management, striving to protect the reputation and image of the company, as well as giving its maximum attention and commitment to stakeholders in application of the Code of Ethics and behavioural rules.

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

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

ACTIVITIES CARRIED OUT IN THE HALF YEAR TO PROTECT AGAINST FRAUD RISKS

Activities	Description
Portal “Open and Transparent Constructions Sites”	<p>The “Open & Transparent Construction Sites” Porta is a web tool, dedicated entirely to job sites, which contains complete information on agreements, contracts and - for the first time - subcontracts relating to works in progress for the construction of large and small electricity infrastructures in Italy.</p> <p>For all regions, from Valle D'Aosta to Sicily, the list of works in progress is available for consultation and each individual job provides data on the construction sites linked to it, not only in terms of location and technical and descriptive aspects, but also those that define the organisation and the companies involved, the progress and financial details.</p> <p>For each site the details include the purpose of the work (the objective and details of operations), as well as the names of the Project Managers, the EHSCs (Environment, Health and Safety Coordinators), the PMEs (Project Managers in the Execution Phase), the firms involved (contractors and subcontractors), and specifically it is possible to check the procedures for awarding the jobs, the number of companies that participated in the tender, the value of the contracts and subcontracts and the progress of the work.</p> <p>The published information is updated by RM-FMG through a continuous and comprehensive process of collecting, integrating and validating data provided by the technical units that are responsible for the execution of the works. From the launch date of the website (November 2015) more than 17,000 hits have been recorded, with an average of 100 hits a day, a significant result considering also that no supporting campaigns have been organised.</p>
“Subcontract Management” Portal	<p>The “Subcontract Management” Portal is a centralised electronic tool for the continuous management, analysis and monitoring of subcontracts, used to control the outsourcing process during the implementation phase of contracted works with existing suppliers and to improve process efficiency, guaranteeing its compliance and traceability, reducing exposure to fraud risk, illegal behaviour and criminal infiltration and mitigating 231 risk.</p> <p>Since 1 February 2015, contractors have been able to access the portal and request authorisation to subcontract directly to the system, indicating – in relation to a specific procurement contract and in line with the indications given during the tender phase – which works they intend to subcontract, for what amount and to which firm, and attaching all the necessary documentation related to the subcontract.</p>

Operations

Operational risks

Terna has developed an Enterprise Risk Management (ERM) approach to risk analysis which comprises an interpretation of the existing theory to adapt it to the needs of an electricity system operator. The analysis of operational risks through this approach has enabled Terna to develop a detailed risk map, to which it has been possible to attribute an effective level of risk, as well as identifying which of such risks exceed a given acceptance threshold. These risks are typically used as a basis for identifying possible mitigating measures and estimating implementation times.

ACTIVITIES CARRIED OUT IN THE HALF YEAR TO PROTECT AGAINST OPERATIONAL RISKS

Activities	Description
Risk Assessment of the Operating Processes	<p>In the first half of 2016, a Risk Assessment was conducted aimed at updating the risks related to the following business processes:</p> <ul style="list-style-type: none"> • Dispatching and Conduction (set of activities geared to the supervision, control, operation and monitoring of the national electricity system according to efficiency criteria); • Regulatory Affairs (management of Dispatching Contracts, updates to the Grid Code and regulation of the physical and financial entries with the operators of the relevant markets); • Information and Telecommunications Systems (set of activities geared to the evolution, maintenance and operation of information systems in the field of “operations”).

Physical threats to systems

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

Today, the physical security of substations is provided using devices, systems and divisions operating 24 hours a day, every day. This infrastructure has been further optimised for the surveillance of a subset of substations having been identified as critical based on an index calculated with the assessment of multiple risk elements.

Starting from the PSIS (Integrated Physical Security System for Terna substations) surveillance platform, Terna is developing its system that is already able to continuously monitor intrusion alarms and video signals in the SETA system (Evolved System for Company Protection), integrating the aforesaid alarms with those generated by the cyber security protection systems, all through a brand-new advanced graphical interface.

ACTIVITIES CARRIED OUT IN THE HALF YEAR TO PROTECT AGAINST RISK OF PHYSICAL THREATS TO PLANTS

Activities	Description
Implementation of the SETA project	Ongoing evolution of the PSIS system that will allow the physical security and logic security to be monitored in an integrated mode from a single console located at the SOC.
Access Control	Ongoing construction of the new access control system for the offices in Rome. In addition to increasing passive defences, the project makes digital identities unique even for physical access to the buildings.
SIEM SYSTEM	The new SOC SIEM (Security Information and Event Management) system has been activated and, in addition to making monitoring of system logs more effective, it extends its sphere of action.
SCADA Perimeter security systems	Terna is protecting its telecommunication networks dedicated to its Process SCADA systems via the installation of firewalls.
Collaboration with the Carabinieri	Terna's collaboration with the Carabinieri continues, the contribution of which is significant and essential for the safe functioning of the National Electricity System at both preventive and repressive levels.

Information and Cyber Risk

Terna adopts a sufficiently mature model of “Information Security Governance”, focused on an operating framework of Information & Cyber Risk Management, where policy, monitoring and control structures, and asset-owners interact in a coordinated manner.

This model examines all the typical risk factors (organisational risk, technical and technological risk, physical and environmental risk, cyber-threat or cyber-attack etc.) to which the Group's “ICT ecosystem” is exposed, while pursuing compliance with laws on data processing and the fight against computer crime. The objectives are to minimise risks and contrast impacts, in particular to contain interruptions or impairments to the networks or critical IT services that run the electrical infrastructure of the Group or control the entire national electricity system, as well as any loss of confidentiality, theft or tampering of sensitive data, of strategically important data concerning the electricity market and/or any personal data entrusted to Terna.

Moreover, thanks to the services of its state-of-the-art Security Operations Center (SOC), it creates, through the correlation, monitoring and analysis of millions of logs coming daily from the ICT platforms and its own logic perimeter defence systems, a structured monitoring system aimed at preventing, identifying and promptly dealing with the consequences of security incidents, minimising information loss and promoting, together with the asset-owners, the restoration of the services or data in question.

In this context, Terna is focusing its attention on the protection of telecommunication networks dedicated to the process systems, through the inclusion of perimeter protection systems in the SCADA segments.

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

Activities	Description
Controls for the security of information assets	<p>In this half-year, the degree of penetration of cyber security controls and countermeasures has increased on ICT platforms, systems and applications, and at the same time the maturity of the checks has grown. This has allowed us to ensure the best security features and resilience for the ICT assets already in operation or belonging to new development projects, giving priority to those business-critical or even vital aspects for the Operations on the critical infrastructure and to follow the logic security of the databases that house highly sensitive business information.</p> <p>The improvement program has also produced better containment of the risk inherent in personal activities of third parties who work on networks and corporate information systems, through the highly precise application of information security requirements to be complied with suppliers during the execution of contracts.</p>
Strengthening of the Institutional cooperation and collaboration framework	<p>Together with internal initiatives for preventing and managing cyber-risks, during this half-year Terna has further increased the quality of its cooperation with Italian institutional organisations (MISE-CERT/Nazionale, CNAIPIC, and DIS) which serve as the strategic framework for national cyber security, by creating greater synergies that are essential in managing any widespread emergencies caused by cyber attacks.</p> <p>The general framework has benefited at the same time from the growth of operations of internal entities (SOC) and institutional bodies which, also by virtue of specific Memoranda of Understanding with Terna which are now fully operational, have played a fundamental role in partnerships for the prevention and management of cyber-incidents.</p>
Targeted interventions for the industrial domain security	<p>The first half-year saw a particular focus of interventions aimed at the protection of Terna's industrial domain (Industrial Automated Control System - IACS), with the involvement of the reference ICT facilities and with a view to ensuring the segregation of critical networks and compliance with their access policies.</p>
Security of Internet Browsing and email channel	<p>Considered as one of the main sources of infection for ITC assets and networks, special attention has been paid to Internet browsing and the email channel through the adoption, in the first half-year, of sophisticated and advanced automatic filtering tools of web content and e-mails, increasing at the same time the reaction capacity of specialist operators in the event of any alarm signals.</p>
Security monitoring in real time	<p>During the first half-year the perimeter of the systems has increased that send security information to the SOC scan and correlation engines, with the development of new use case monitoring by security analysts.</p>
Communication, information and reporting	<p>In the first half 2016, the SOC has refined the mechanisms and quality of communications about cyber security events, to the management (new morning line), to the other players involved in the process of protecting information assets (monthly reporting), to the community of end-users (alert and awareness campaigns) and to third parties suspected of improper activities (reports on abuse).</p>
Personal data protection	<p>As regards protection of personal data kept by the Terna Group, in the first half of 2016, as in previous years, there were no violations of privacy or cases of improper use or unauthorised processing. In addition, no complaints from stakeholders were received, either through its dedicated mailbox (privacy@terna.it) or through other institutional contact channels.</p>

“Supplier” risk

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

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

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

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

ACTIVITIES CARRIED OUT IN THE HALF-YEAR TO PROTECT AGAINST “SUPPLIER” RISK

Activities	Description
“Supplier List”	Development of an integrated system of data collection and screening of information on selected suppliers in divisions not subject to qualification, with the aim of drawing up inquiry lists (Supplier List) for procedures assigned beneath the EU threshold or for non-essential contracts, which, despite falling outside the scope of application of the Contracts Code, are however subject to compliance with the general principles of correctness, economy and equal treatment. Since the first half of 2016, the system on the technical and specialised product categories has been active, with regard to project engineering, geological studies, testing and inspections, surveys, environmental studies, land registry procedures and easements.
Evolutionary Qualification Portal	<p>The project involves the improvement of some as is features and the introduction of some new ones arising from changes introduced into the qualification process during 2015. The main new features are listed below:</p> <ul style="list-style-type: none"> • management of the vendor rating system assigned to the Security Coordinator during execution and to the Security Coordinator and Works Director during the design stage; • review of the consortia qualification process; • management of new sanctions introduced in relation to qualified personnel; • redefinition of the qualification process for professionals.
Qualification Visits	Having a Supplier Register consisting of firms that meet the quality standards required by Terna, means exercising precise control over the information made available by suppliers during the of qualification application phase, including visits to the enterprise's production facilities, offices and work sites. The increasingly recurrent use of visits for new candidates for qualification as well as for renewals allows checks to be made on the veracity of the information available on the qualification Portal and to acquire information on how companies run their businesses, identifying any critical points to be brought to the attention of the Qualification Committee.

Occupational injuries and environmental impacts

The Terna Group implemented management-related measures, drafting safety and environmental policies and guidelines and ensuring compliance with the legislation in force and the adopted procedures through on the spot inspections carried out on Terna sites and plants. The Prevention and Protection Services set up for each Production Unit provide ongoing support to employers for implementing all the necessary measures for fulfilment of the obligations pursuant to Italian Legislative Decree. 81/08.

ACTIVITIES CARRIED OUT IN THE HALF-YEAR TO PROTECT AGAINST RISK OF OCCUPATIONAL INJURIES AND ENVIRONMENTAL IMPACTS

Activities	Description
On-the-spot site inspections	As part of its site safety monitoring and control activities, the “Integrated Site Safety” project continued also in the first half of 2016, aiming to ensure comprehensive on-site safety by analysing not only aspects related to safety in the workplace, but also those concerning environmental safety – such as pollution, waste management and impact on the surrounding environment – and the correct management of contracts.
Terna-ANIE relations	In 2016, collaborations continued with external entities and associations in regard to workplace and environmental safety. In particular, in collaboration with ANIE (National Association of Electric Enterprises) a technical committee was created for the preparation of an important guideline on the management of security aspects relating to activities with cable power lines as a follow-up to the previous guidelines relating to activities with overhead electrical power lines.
“Near Miss: Safety and Environment” project	In the area of integrated safety and environment matters, and as part of the plan for continuous improvement, the “Near Miss: Safety and Environment” project was implemented with the aim of identifying and analysing all abnormal events, near-accidents and environmental impacts having occurred during work activity which, despite having the potential to do so, did not result in damage to people or the environment. The Near Miss project includes, as one of its integral parts, specific training and accompaniment for the introduction of the business procedure aimed at raising awareness and promoting a culture of reporting abnormal events and fostering a transition from a passive approach to safety, by simply following rules, procedures and technical regulations, to an active approach to safety, placing the individual at the centre of the safety system.
Training and information measures	Great sensitivity and importance are given to staff training on topics regarding safety and the environment through education and training, most of which is done in the classroom at the Campus Terna training centre. Environmental training continued with the specialist course entitled “Waste management for non-STRIDOR delegates”, which was attended by technicians from across the country. Other training activities concerned the operation of special vehicles, fire prevention, first aid, management of risks of falling from height and electrical risk, as well as training for all Group personnel and regulated by the Region/State Conference Agreement.

Environment

Environmental, social and political issues

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

The construction of Terna infrastructures has in recent years become increasingly complex, often accompanied by high levels of conflict and opposition to the works from among the local community.

ACTIVITIES CARRIED OUT IN THE HALF-YEAR TO PROTECT AGAINST ENVIRONMENTAL, SOCIAL AND POLITICAL ISSUES

Activities	Description
“Steering Committee for Environmental, Social and Political Issues”	To enhance environmental protection in areas at risk under Organisational Model 231 of the Terna Group and to share critical issues with all actors involved in the different stages of the process, the “Steering Committee for Environmental, Social and Political Issues” was established, which, on a monthly basis and whenever a qualifying critical event occurs, assesses all the critical issues identified and the proposed resolutions put forward by the Risk Observatory for their approval.
Map of critical issues	<p>Through a representation by area, for each Terna Group project planned or in progress, the following information is given:</p> <ul style="list-style-type: none"> • social and political issues (strike committees, sit-ins, protests, articles in the local press, etc.); • legal issues (complaints lodged by competent Public Prosecutors, criminal investigations, initiation of criminal proceedings, administrative proceedings through Regional Administrative Courts and the State Council); • authorisation issues; • construction issues.

Climate change risk

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

REGULATORY RISKS

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

PHYSICAL RISKS

Activities	Description
Extreme weather conditions (water shortage, extreme heat, ice)	<p>Through a representation by area, for each Terna Group project planned or in progress, the following information is given:</p> <ul style="list-style-type: none"> • social and political issues (strike committees, sit-ins, protests, articles in the local press, etc.); • legal issues (complaints lodged by competent Public Prosecutors, criminal investigations, initiation of criminal proceedings, administrative proceedings through Regional Administrative Courts and the State Council); • authorisation issues; • construction issues.

OTHER RISKS

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

Financial

Financial risks

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

The risk management policies adopted seek to identify, analyse and monitor the risks to which the Group is exposed, to establish appropriate limits and controls, and to check compliance with such limits.

These policies and related systems are reviewed on a regular basis in order to reflect any changes in market conditions and the activities of the Group. Terna adopts a dynamic approach to financial risk management. This approach is characterised by risk aversion, aiming at minimising risk through continuous monitoring of financial markets in order to plan hedging transactions in favourable market conditions. The dynamic approach makes it possible to take action to improve existing hedges where changes in market conditions or in the hedged item make the latter unsuitable or excessively expensive.

Regarding the management of interest rate risk, to mitigate the effects on financial expense of rate fluctuations and to relate the cost of debt to the return on RAB, derivative contracts are entered into with a notional amount and maturity date prior to or equal to that of the underlying financial liability, so that any change in the fair value and/or estimated cash flows of the contracts is offset by a corresponding change in the fair value and/or of the estimated cash flows of the underlying position.

Recognising the special market conditions with interest rates at historic lows, Terna has seen fit to increase the fixed-rate debt component also beyond the current regulatory period by closing in advance a portion of the Fair Value Hedging derivatives bringing the proportion of net debt at fixed rates from the 57% of 31 December 2015 to 86% at 30 June 2016. This operation also entailed an increase in the financial average duration of the fixed-rate debt which went up from three and a half years to four years. This matter is discussed in more depth in paragraph E. "Commitments and risks" of the Notes to the Condensed Consolidated Interim Financial Statements shown below.

Reconciliation statements

NOTES TO THE TERNA GROUP RECLASSIFIED INCOME STATEMENT

This table compares the items in the Group's reclassified income statement against those in its consolidated income statement:

The Group's reclassified income statement	euro milioni	Consolidated income statement
Transmission Fee	871.1	
Dispatching fee	54.8	"Revenue from sales and services"
Revenue from construction of licensed activities	7.1	
Other operating revenue - Regulated Activities	16.5	
Other operating revenue - Non-Regulated Activities	90.4	"Revenue from sales and services" for € 76.6 million and "Other revenue and income"
Personnel expenses	113.2	"Personnel expenses" net of the construction costs of licensed activities pursuant to IFRIC 12 (€ 2.1 million)
Services, leases and rentals	84.1	"Services" net of the construction costs of licensed activities pursuant to IFRIC 12 (€ 3.9 million)
Materials	38.9	"Raw materials and consumables" net of the construction costs of licensed activities pursuant to IFRIC 12 (€ 1.1 million)
Other expenses	16.0	
Service quality	3.6	Other operating expenses
	2.1	"Personnel expenses"
Costs of construction of licensed activities	3.9	"Services"
	1.1	"Raw materials and consumables"
Net financial income (expense)	(36.2)	Points 1, 2 and 3 of letter C - "Financial income/expense".
Income taxes for the period	150.7	"Income taxes"

The Group's reclassified statement of financial position

NOTES TO THE TERNA GROUP RECLASSIFIED STATEMENT OF FINANCIAL POSITION

This table compares the items in the Group's reclassified statement of financial position against those in its consolidated statement of financial position:

The Group's reclassified statement of financial position	€ million	Consolidated statement of financial position
Financial assets	89.8	"Equity-accounted investees", "Other non-current assets" and "Non-current financial assets" for the carrying amount of the other investments (€ 0.1 million);
Trade receivables	447.5	"Trade receivables" net of energy-related pass-through revenue receivables (€ 1,665.1 million)
Other assets	58.8	"Other current assets" net of other tax assets (€ 13.9 million);
Net tax liabilities	(57.0)	"Income tax assets", "Other current assets" for the amount of the other tax assets (€ 13.9 million), "Other current liabilities" for the amount of other tax liabilities (€ 55.4 million) and "Income tax liabilities";
Trade payables	(556.2)	"Trade payables" net of the energy-related pass-through costs payable (€ 2,034.3 million);
Net energy-related pass-through payables	(369.2)	"Trade receivables" for energy-related pass-through revenue receivables (€ 1,665.1 million) and "Trade payables" for energy-related pass-through costs payable (€ 2,034.3 million)
Other liabilities	(378.8)	"Other non-current liabilities" and "Other current liabilities" net of other tax liabilities (€ 243.8 million);
Sundry provisions	(377.4)	"Employee benefits", "Provisions for risks and charges" and "Deferred tax liabilities"
Net financial debt	8,172.3	"Long-term loans", "Current portion of long-term loans", "Non-current financial liabilities", "Short-term loans", "Cash and cash equivalents", "Non-current financial assets" for the value of FVH derivatives (€ 381.6 million) and for the value of deferrals on Revolving Credit Facility commissions (€ 3.4 million), "Current financial assets" and "Current financial liabilities"

Cash flows (of the Group)

NOTES TO THE STATEMENT OF THE TERNA GROUP'S NET FINANCIAL DEBT

The following table compares the items indicated in the Group's net financial debt statement against those in its consolidated statement of financial position.

Statement of the Group's net financial debt	€ million	Consolidated statement of financial position
"Bond" and "Floating-rate loans"	7,796.7	Corresponds to "Long-term loans"
"Derivative financial instruments" - long-term	(361.7)	Corresponds to "Non-current financial liabilities" and "Non-current financial assets" for the value of FVH derivatives (€ 381.6 million)
"Bonds (current portions)" and "Floating-rate loans (current portions)"	892.5	Corresponds to "Current portion of long-term loans"
"Other net current financial liabilities"	61.3	Corresponds to "Current financial assets", "Current financial liabilities" and "Non-current financial assets" for the value of deferrals on Revolving Credit Facility commissions (€ 3.4 million).

RECONCILIATION OF THE GROUP CASH FLOW

In line with ESMA/2015/1415 guidelines, the cash flow data are compared with the consolidated accounting statements through specific reconcilization notes illustrated in the table below:

€ million	Cash flow 1H 2016	Financial Statements Reconciliation	Cash flow 1H 2015	Financial Statements Reconciliation
- Net Profit for the period	322.9		309.9	
- Amortisation, depreciation and impairment	267.2		243.0	
- Net financial expense	36.2		63.7	
- Net change in provisions	4.3		(28.1)	
Employee benefits		1.9		(15.0)
Provisions for risks and charges		25.0		(11.8)
Deferred tax liabilities		(22.6)		(1.3)
- Net Losses (Gains) on asset disposals ⁽¹⁾	(2.0)		(1.1)	
Self-financing (Operating Cash Flow)	628.6		587.4	
- Change in net working capital:	(136.2)		235.1	
Inventories		(0.6)		(4.7)
Trade receivables*		(740.6)		176.0
Income tax assets		7.5		(9.8)
Other current assets		88.6		(5.8)
Trade payables		420.4		33.5
Tax liabilities		26.6		38.8
Current financial liabilities				-
Other liabilities		61.9		7.1
- Other changes in non-current assets	1.4		8.6	
Property, plant and equipment ⁽³⁾		1.7		8.8
Non-current financial assets		(0.1)		-
Other non-current assets		0.1		-
Equity-accounted investees		(0.3)		(0.2)
Cash Flow from Operating Activities	493.8		831.1	
Investments				
- Total investments	(346.9)		(438.9)	
Property, plant and equipment ⁽³⁾		(331.7)		(427.1)
Intangible assets ⁽²⁾		(15.2)		(11.8)
Total cash flows provided by/(used in) investing activities	(346.9)		(438.9)	
Free Cash Flow	146.9		392.2	
- Equity reserve cash flow hedges net of the tax effect and other changes in equity	(19.0)		22.6	
- Dividends paid to the owners of the Parent	(261.3)		(261.3)	
- Net financial expense	(36.2)		(63.7)	
Change in net financial debt	(169.6)		89.8	
- Change in loans	32.8		227.4	
Non-current financial assets		306.8		118.4
Current financial assets		32.0		(5.9)
Non-current financial liabilities		12.6		(16.9)
Long-term loans		(719.8)		813.7
Short-term loans		(338.3)		-
Current portion of long-term loans		769.6		(640.1)
Current financial liabilities		(30.1)		(41.8)
- Change in cash and cash equivalents	(136.8)		317.2	

* Does not take into account impairment of trade receivables accruing (€ 1.4 million in 1H 2016).

⁽¹⁾ included in the "Other revenue and income" and "Other operating costs" items of the consolidated financial statements;

⁽²⁾ see note 14 to the financial statements;

⁽³⁾ see note 12 to the financial statements;

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

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016

98 Consolidated financial statements

- 98 Consolidated income statement
- 99 Consolidated statement of comprehensive income
- 100 Consolidated statement of financial position
- 103 Statement of changes in consolidated equity
- 104 Consolidated statement of cash flows

105 Notes to the Financial Statements

- 105 A. Accounting policies and measurement criteria
- 110 B. Notes to the consolidated income statement
 - 110 Revenue
 - 112 Operating expenses
 - 116 Financial income and expense
- 118 C. Operating segments
- 120 D. Notes to the consolidated statement of financial position
 - 120 Assets
 - 127 Liabilities
- 137 E. Commitments and risks
- 145 F. Business combinations
- 145 G. Related-party transactions
- 148 H. Significant non-recurring events and transactions, and atypical or unusual transactions
- 148 I. Notes to the statement of cash flows
- 148 L. Significant events subsequent to 30 june 2016

151 Attestation of the Interim Consolidated Financial Statements under the terms of Art. 81-ter of Consob Regulation no. 11971 of 14 May 1999 and subsequent amendments and additions

152 Independent Auditors' report

Consolidated financial statements

Consolidated income statement

Consolidated Financial Statements - TERNA GROUP - INCOME STATEMENT			
€ million	Notes	1H 2016	1H 2015
A - REVENUE			
1. Revenue from sales and services	1	1,009.6	969.2
<i>of which: related parties</i>		754.2	589.4
2. Other revenue and income	2	30.3	32.8
<i>of which: related parties</i>		-	0.4
Total revenue		1,039.9	1,002.0
B - OPERATING EXPENSES			
1. Raw materials and consumables	3	40.0	32.7
2. Services	4	88.0	70.5
<i>of which: related parties</i>		20.1	0.9
3. Personnel expenses	5	115.3	114.3
- gross personnel expenses		144.2	149.6
- personnel expenses, capitalised		(28.9)	(35.3)
<i>of which: related parties</i>		1.9	1.2
4. Amortisation, depreciation and impairment	6	267.2	243.0
5. Other operating expenses	7	19.6	17.9
<i>of which: related parties</i>		-	-
Total expenses		530.1	478.4
A-B OPERATING PROFIT		509.8	523.6
C - FINANCIAL INCOME/EXPENSE			
1. Financial income	8	3.7	6.1
2. Financial expense	8	(41.3)	(71.0)
<i>of which: related parties</i>		2.5	(2.7)
Share of profits/(losses) deriving from equity-accounted investees	9	1.4	1.2
D - PROFIT BEFORE TAXES		473.6	459.9
E - INCOME TAXES	10	150.7	150.0
F - NET PROFIT FOR THE PERIOD		322.9	309.9
<i>Profit for the period attributable to owners of the Parent</i>		324.8	309.9
<i>Profit for the period attributable to Non-Controlling Interests</i>		(1.9)	-
Earnings per share			
Basic earnings per share	11	0.2	0.2
Diluted earnings per share		0.2	0.2
Earnings per share from continuing operations			
Basic earnings per share	11	0.162	0.154
Diluted earnings per share		0.162	0.154

Consolidated statement of comprehensive income

Consolidated Financial Statements - TERNA GROUP - STATEMENT OF COMPREHENSIVE INCOME			
€ million	Notes	1H 2016	1H 2015
NET PROFIT FOR THE PERIOD		322.9	309.9
Other comprehensive income for the period which will be subsequently released to the income statement			
- Cash flow hedges net of tax effect	22	(18.0)	16.4
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	(0.8)	6.0
NET COMPREHENSIVE INCOME FOR THE PERIOD		304.1	332.3
NET COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:		304.1	332.3
<i>Owners of the Parent</i>		306.0	332.3

Consolidated statement of financial position

Consolidated Financial Statements - TERNA GROUP - STATEMENT OF FINANCIAL POSITION - ASSETS			
€ million	Notes	at 30.06.2016	at 31.12.2015
A - NON-CURRENT ASSETS			
1. Property, plant and equipment	12	12,171.3	12,078.7
<i>of which: related parties</i>		7.9	33.6
2. Goodwill	13	234.3	234.3
3. Intangible assets	14	284.6	295.8
4. Equity-accounted investees	15	78.5	78.2
5. Non-current financial assets	16	385.1	691.8
6. Other non-current assets	17	11.2	11.3
Total non-current assets		13,165.0	13,390.1
B - CURRENT ASSETS			
1. Inventories	18	13.0	12.4
2. Trade receivables	19	2,112.6	1,373.4
<i>of which: related parties</i>		307.7	335.2
3. Current financial assets	16	32.3	64.3
<i>of which: related parties</i>		0.6	0.2
4. Cash and cash equivalents	20	294.8	431.6
5. Income tax assets	21	26.5	34.0
6. Other current assets	17	72.7	161.3
<i>of which: related parties</i>		1.1	-
Total current assets		2,551.9	2,077.0
TOTAL ASSETS		15,716.9	15,467.1

Consolidated statement of financial position

Consolidated Financial Statements - TERNA GROUP - STATEMENT OF FINANCIAL POSITION - LIABILITIES				
€ million	Notes	at 30.06.2016	at 31.12.2015	
C - EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT				
1. Share capital		442.2	442.2	
2. Other reserves		808.8	827.4	
3. Retained earnings		1,789.5	1,596.4	
4. Interim dividend		-	(140.7)	
5. Net profit for the period		324.8	595.5	
Total equity attributable to owners of the Parent	22	3,365.3	3,320.8	
D - EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		22	23.1	25.0
Total equity - owners of the Parent and non-controlling interests			3,388.4	3,345.8
E - NON-CURRENT LIABILITIES				
1. Long-term loans	23	7,796.7	8,516.5	
of which: related parties		500.0	500.0	
2. Employee benefits	24	107.4	105.5	
3. Provisions for risks and charges	25	223.8	198.8	
4. Deferred tax liabilities	26	46.2	68.8	
5. Non-current financial liabilities	23	19.9	7.3	
6. Other non-current liabilities	27	127.5	124.1	
Total non-current liabilities		8,321.5	9,021.0	
F - CURRENT LIABILITIES				
1. Short-term loans	23	78.3	416.6	
2. Current portion of long-term loans	23	892.5	122.9	
3. Trade payables	28	2,590.5	2,170.1	
of which: related parties		32.7	41.7	
4. Tax liabilities	28	42.0	15.4	
5. Current financial liabilities	23	97.0	127.1	
of which: related parties		0.7	0.8	
6. Other current liabilities	28	306.7	248.2	
of which: related parties		62.0	44.4	
Total current liabilities		4,007.0	3,100.3	
TOTAL LIABILITIES AND EQUITY			15,716.9	15,467.1

Statement of changes in consolidated equity

31 DECEMBER 2015–30 JUNE 2016

CONSOLIDATED SHARE CAPITAL AND RESERVES

€ million	Share capital	Legal reserve	Share premium reserve	Cash-flow-hedge reserve
EQUITY AT 31 DECEMBER 2015	442.2	88.4	20.0	(5.3)
NET PROFIT FOR THE PERIOD				
OTHER COMPREHENSIVE INCOME:				
- Change in fair value of cash flow hedging derivatives net of tax effect				(18.0)
- Actuarial gains (losses) on employee benefits net of tax effect				
Total other comprehensive income	-	-	-	(18.0)
NET COMPREHENSIVE INCOME	-	-	-	(18.0)
TRANSACTIONS WITH EQUITY OWNERS:				
- Allocation of 2015 profit				
- Retained earnings				
- Dividends				
- 2016 Interim dividend				
- Other transactions				
- Exercise of stock options				
- Interim dividend				
Total transactions with equity owners	-	-	-	-
Other changes				
EQUITY AT 30 JUNE 2016	442.2	88.4	20.0	(23.3)

31 DECEMBER 2014–30 JUNE 2015

CONSOLIDATED SHARE CAPITAL AND RESERVES

€ million	Share capital	Legal reserve	Share premium reserve	Cash-flow-hedge reserve
EQUITY AT 31 DECEMBER 2014	442.2	88.4	20.0	(26.0)
NET PROFIT FOR THE PERIOD				
OTHER COMPREHENSIVE INCOME:				
- Change in fair value of cash flow hedging derivatives net of tax effect				16.4
- Actuarial gains (losses) on employee benefits net of tax effect				
Total other comprehensive income	-	-	-	16.4
NET COMPREHENSIVE INCOME	-	-	-	16.4
TRANSACTIONS WITH EQUITY OWNERS:				
- Allocation of 2014 profit				
- Retained earnings				
- Dividends				
Total transactions with equity owners	-	-	-	-
Other changes				
EQUITY AT 30 JUNE 2015	442.2	88.4	20.0	(9.6)

Other reserves	Retained earnings	Interim dividend	Net profit for the period	Equity attributable to the owners of the Parent	Equity attributable to non-controlling interests	Equity - owners of the Parent and non-controlling interests
724.3	1,596.4	(140.7)	595.5	3,320.8	25.0	3,345.8
			324.8	324.8	(1.9)	322.9
				(18.0)		(18.0)
(0.8)				(0.8)		(0.8)
(0.8)	-	-	-	(18.8)	-	(18.8)
(0.8)	-	-	324.8	306.0	(1.9)	304.1
	193.5	140.7	(334.2)	-		
			(261.3)	(261.3)		(261.3)
				-		
				-		
-	193.5	140.7	(595.5)	(261.3)	-	(261.3)
0.2	(0.4)			(0.2)		(0.2)
723.7	1,789.5	-	324.8	3,365.3	23.1	3,388.4

Other reserves	Retained earnings	Interim dividend	Net profit for the period	Equity attributable to the owners of the parent
711.1	1,453.4	(140.7)	544.5	3,092.9
			309.9	309.9
				16.4
6.0				6.0
6.0	-	-	-	22.4
6.0	-	-	309.9	332.3
	142.5	140.7	(283.2)	-
			(261.3)	(261.3)
-	142.5	140.7	(544.5)	(261.3)
	0.2			0.2
717.1	1,596.1	-	309.9	3,164.1

Consolidated statement of cash flows

TERNA GROUP - STATEMENT OF CASH FLOWS		
€ million	1H 2016	1H 2015
NET PROFIT FOR THE PERIOD	322.9	309.9
ADJUSTMENTS FOR:		
Amortisation, depreciation, impairment losses/(reversals of impairment losses) on non-current property, plant and equipment and intangible assets**	260.7	235.7
Provisions (including employee-related provisions) and impairment losses	17.1	10.3
(Gains)/Losses on disposals of property, plant and equipment	(2.0)	(1.1)
Financial (income)/expense	37.5	65.4
Income taxes	150.7	150.0
CASH FLOWS GENERATED BY OPERATING ACTIVITIES, BEFORE CHANGES IN NET WORKING CAPITAL	786.9	770.2
Increase/(Decrease) in provisions (including employee-related and tax provisions)	9.8	(29.9)
(Increase)/decrease in inventories	(0.6)	(4.7)
(Increase)/decrease in trade receivables and other current assets	(654.9)	155.8
Increase/(decrease) in trade payables and other current liabilities	481.0	43.9
Increase/(decrease) in other non-current liabilities	6.2	1.4
(Increase)/decrease in other non-current assets	0.3	-
Interest income and other financial income received	442.2	68.1
Interest expense and other financial expense paid	(153.4)	(181.7)
Income taxes paid	(130.9)	(123.7)
CASH FLOWS GENERATED BY OPERATING ACTIVITIES [A]	786.6	699.4
Investments in property, plant and equipment, net of grants received	(332.1)	(420.5)
Revenue from sale of non-current property, plant and equipment and intangible assets and other changes	3.0	2.2
Capitalised financial expense	9.4	16.3
Investment in non-current intangible assets, net of grants received	(15.2)	(11.8)
(Increase)/decrease in equity interests in associates	(0.3)	(0.2)
(Increase)/decrease in other investments	(0.1)	-
CASH FLOWS USED IN INVESTING ACTIVITIES [B]	(335.3)	(414.0)
Increase/(decrease) in Reserves and accumulated Profit and losses	(0.2)	0.2
Dividends paid	(261.3)	(261.3)
Change in short- and medium/long-term financial payables (including short-term portions)***	(326.6)	292.9
CASH FLOWS GENERATED BY FINANCING ACTIVITIES [C]	(588.1)	31.8
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS [A+B+C]	(136.8)	317.2
Cash and cash equivalents at start of period	431.6	1,217.3
Cash and cash equivalents at end of period	294.8	1,534.5

(*) 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 Financial Statements

A. ACCOUNTING POLICIES AND MEASUREMENT CRITERIA

Introduction

The Condensed Consolidated Interim Financial Statements for the first six months of 2016 comprise the interim financial statements of the Company and those of its subsidiaries (the “Group”), as well as the Group’s investments in associates and joint ventures. The subsidiaries included within the scope of consolidation are listed below.

The Condensed Consolidated Interim Financial Statements at 30 June 2016 were authorised for publication by the Directors on 27 July 2016.

The Consolidated Financial Statements at and for the year ended 31 December 2015 are available upon request at the Terna S.p.A. registered offices in Viale Egidio Galbani 70, Rome, or on the company’s website www.terna.it.

Compliance with IAS/IFRS and basis of presentation

The Condensed Consolidated Interim Financial Statements at and for the six months ended 30 June 2016 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 2015.

The Group’s Condensed Consolidated Interim Financial Statements for the first half of 2016, 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 2015.

We can specify that, for the purpose of better representation of the effects of acquisition of the FSI grid, a number of comparative equity balances (particularly with reference to the items goodwill, other liabilities and deferred tax liabilities) were redetermined under the terms of IFRS 3, without however modifying the economic result for the first half of 2015 and the equity at 31 December 2015.

Use of estimates

Preparation of the Condensed Consolidated Interim Financial Statements at 30 June 2016 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.

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.

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 Name	Registered office	Currency	Share capital	% held	Consolidation method
COMPANIES CONTROLLED DIRECTLY BY TERNA S.P.A.					
Terna Rete Italia S.p.A.	Rome	€	120,000	100%	Line-by-line
Activity	Design, construction, management, development, operation and maintenance of grid structures and lines and of other infrastructures connected to the said grids, of plants and equipment functional to the said business in the sectors of electricity dispatching and transmission and in similar, related or connected segments.				
Terna Rete Italia S.r.l.	Rome	€	243,577,554	100%	Line-by-line
Activity	Design, construction, management, development, operation and maintenance of High-Voltage power lines.				
Terna Storage S.r.l.	Rome	€	10,000	100%	Line-by-line
Activity	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	€	84,000,000	100%	Line-by-line
Activity	Authorisation, construction, and management of transmission infrastructures comprising the Italy-Montenegro electrical interconnection in Montenegrin territory.				
Terna Plus S.r.l.	Rome	€	16,050,000	100%	Line-by-line
Activity	Design, construction, management, development, operation and maintenance of plants, equipment and infrastructures including grids and systems, including diffused energy accumulation, pumping and/or storage.				
Terna Interconnector S.r.l.	Rome	€	10,000	65%*	Line-by-line
Activity	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
Activity	Design, construction, management, development, operation and maintenance, also on behalf of third parties, of lines and network structures and other related infrastructures, plants and equipment functional to the said activities in the sector of electricity transmission or in analogous, related or connected sectors.				
RETE S.r.l.	Rome	€	387,267,082	100%	Line-by-line
Activity	Design, construction, management, development, operation and maintenance of High-Voltage power lines.				

* 5% held by Terna Rete Italia S.p.A. and 30% held by Transenergia S.r.l.

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

Company Name	Registered office	Currency	Share capital	% held	Consolidation method
COMPANIES CONTROLLED THROUGH TERNA PLUS S.R.L.					
Tamini Trasformatori S.r.l.	Melegnano (Milan)	€	3,000,000	70%*	Line-by-line
Activity	Construction, repair and sales of electrical machinery.				
Terna Chile S.p.A.	Santiago del Cile (RCH)	CLP	1,000,000	100%	Line-by-line
Activity	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 TRASFORMATORE S.R.L.					
V.T.D. Trasformatori S.r.l.	Valdagno (Vicenza)	€	774,000	100%	Line-by-line
Activity	Production, repair and sales in any form allowed by current laws of electrical and electro-mechanical instruments and machinery.				
Tamini Transformers USA LLC	Oakbrook (Chicago - Illinois)	USD	42,904	100%	Line-by-line
Activity	Sales of industrial and power electrical transformers.				
Transformer Electro Service S.r.l.	Ospitaletto (Brescia)	€	1,134,000	100%	Line-by-line
Activity	Production of electricity transformers for industrial use and for the sector of electricity production and transmission. It is noted that the company holds 100% of the share capital of the manufacturing company under Indian law known as “Tes Transformer Electro Service Asia Private Limited” (share capital equal to 100,000.00 Indian rupees).				
COMPANIES CONTROLLED THROUGH TERNA INTERCONNECTOR S.R.L.					
Piemonte Savoia S.r.l.	Rome	€	10,000	100%	Line-by-line
Activity	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.				
* 30% Holdco TES (controlled by the fund Xenon Private Equity V, Riccardo Reboldi and Giorgio Gussago).					

Compared to 31 December 2015 there were no changes in the consolidation scope.

Associates

Investments in associates are those over which the Terna Group has significant influence but which are neither subsidiaries nor joint ventures. In assessing whether or not Terna has a significant influence, potential voting rights that are presently exercisable or convertible are also considered.

These investments are initially recognised at acquisition cost and subsequently measured using the equity method. The profits or losses attributable to the Group are recognised in the Consolidated Financial Statements when significant influence begins and until that influence ceases.

In the event that the loss pertaining to the Group exceeds the book value of the equity interest, the latter is written off and any excess is recognised in a specific provision if the Parent Company is required to meet the legal or constructive obligations of the subsidiary or, in any case, to cover its losses.

Joint-controlled entities

Investments in jointly-controlled entities, in which the Group exercises joint control of other entities, are recognised initially at cost and subsequently measured using the equity method.

In assessing the existence of joint control, it is ascertained whether the parties are bound by a contractual agreement and whether this agreement attributes to the parties the joint control of the agreement itself. Specifically, joint control is given by the sharing, on a contractual basis, of control over an agreement, which exists only when decisions relating to the relevant activities require the unanimous consent of all parties that share control.

The associates and joint ventures included are listed below.

Company Name	Registered office	Currency	Share capital	% held	Consolidation method
ASSOCIATES					
CESI S.p.A.	Milan	€	8,550,000	42.698%	Equity method
Activity	Experimental electro-technical research.				
CORESIO S.A.	Brussels (Belgium)	€	1,000,000	20.000%	Equity method
Activity	Technical centre owned by various electricity transmission companies which implements joint TSO technical coordination activities in order to improve and strengthen security and the coordination of the electricity system in central/western Europe.				
CGES A.D.	Podgorica	€	155,108,283	22.0889%	Equity method
Activity	Electricity dispatching and transmission operator in Montenegro.				
COMPANY SUBJECT TO JOINT CONTROL					
ELMED Etudes S.a.r.l.	Tunis	Tunisian Dinar	2,700,000	50%	Equity method
Activity	Study activity concerning the connection of the Italian and Tunisian electricity grids.				

New standards

International accounting standards taking effect from 1 January 2016

A number of new amendments and a number of interpretations to the accounting standards already applicable came into force as from 1 January 2016, but these had no impact on the Company. Specifically, we note:

Amendment to IAS 19 – Defined Benefit Plan: Employee Contributions

On 17 December 2014 the European Commission endorsed the amendment to IAS 19 which enables recognition of contributions paid by employees to reduce the service costs of a defined benefit plan for employees.

Improvements to IFRSs (2010-2012 Cycle)

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

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

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

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

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

Improvements to IFRSs (2012-2014 Cycle)

The Annual Improvement related to the 2012-2014 cycle was endorsed on 15 December 2015. This contained minor amendments to a number of standards:

Amendments to IAS 27 – Equity Method in Separate Financial Statements

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

Amendments to IAS 1 – Disclosure Initiative

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

B. NOTES TO THE CONSOLIDATED INCOME STATEMENT

REVENUE

1. REVENUE FROM SALES AND SERVICES – € 1,009.6 million

“Revenue from sales and services” for the first six months of 2016 and 2015 is analysed in the following table:

€ million	1H 2016	1H 2015	Δ
Grid transmission fees	871.1	839.3	31.8
Other energy revenue	61.9	69.7	(7.8)
Other revenue from sales and services	76.6	60.2	16.4
TOTAL	1,009.6	969.2	40.4
TOTALE	1.009,6	969,2	40,4

Grid transmission fees

Grid transmission fees refer to the remuneration paid to the Parent Company for use of the National Transmission Grid – NTG (€ 752.7 million). It also comprises the net remuneration of the portion of the NTG owned by the subsidiaries Terna Rete Italia S.r.l. (€ 86.3 million) and Rete S.r.l. (€ 32.1 million).

The increase in the item of € 31.8 million - as well as to the overall effects of the new 2016–2023 regulatory period, which entail a net reduction of € 5.8 million - was due to the contribution of the inclusion in the first half of 2016 of the National Transmission Grid acquired at the end of 2015 from FSI Group (€ +32.1 million, including the recording of the effects provided for in Resolution 517/2015/R/eel pursuant to IFRS 3), and the recognition of the strategic investments related to the 2015 incentivised works in progress defined in AEEGSI Resolution 335/2016/R/eel (€ 5.5 million).

Other energy revenue

Other energy revenue includes the price paid to the Parent Company by the electricity operators for the dispatching service (DIS component, € 54.8 million) and revenue from the construction and development of dispatching infrastructures recognised following application of IFRIC 12 (€ 7.1 million).

The decrease in the item of € 7.8 million reflects the effects of the aforementioned tariff update (€ -7.2 million) and also of the reduction in revenue pursuant to IFRIC 12 deriving from investment activities regarding the dispatching infrastructures (€ -0.6 million).

Other energy items – pass-through revenue/costs

This item includes the revenue and costs “passed-through” by the Group (whose net balance is therefore nil), which relate entirely to the Parent. These flows arise with operators active in the electricity market, and involve the daily purchase and sale of energy in order to carry out dispatching activities. To this end, the measurements at each point of input and withdrawal are taken and the differences from the energy market schedules are calculated. 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	1H 2016	1H 2015	Δ
Revenue - power exchange	2,172.4	1,603.1	569.3
Revenue - non-power exchange	776.7	779.7	(3.0)
TOTAL PASS-THROUGH ENERGY REVENUE	2,949.1	2,382.8	566.3
Costs - power exchange	2,172.4	1,603.1	569.3
Costs - non-power exchange	776.7	779.7	(3.0)
TOTAL PASS-THROUGH ENERGY COSTS	2,949.1	2,382.8	566.3

Other revenue from sales and services

The item “Other revenue from sales and services” amounted to € 76.6 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 Very-High-Voltage plants and also revenue of the Tamini Group from the progress and completion of contracts for power transformers (€ 54.6 million).

The increase in revenue from other sales and services (€ +16.4 million) was substantially due to:

- revenue from orders completed by the Tamini Group (€ +8.7 million) owing mainly to the effect of the orders of the subsidiary TES, not included in the consolidation scope in the first half of 2015;
- revenue from contracts entailing receivables (€ +5.7 million) for the use of infrastructures or optical fibre, namely a contract for housing fibre owned by Basicel (€ +2.8 million) on the power lines of Rete S.r.l., or for the concession to third parties of a right to use a stretch of optical fibre (€ +2.9 million), signed by the Parent Company in April 2016;
- the impact of an order in Chile (€ +2.2 million), not yet active in the comparison period.

2. OTHER REVENUE AND INCOME – € 30.3 million

“Other revenue and income” for the first six months of 2016 and 2015 is broken down in the following table.

€ million	1H 2016	1H 2015	Δ
Rental income	10.7	11.0	(0.3)
Sundry grants	5.1	7.3	(2.2)
Settlements for losses	0.1	8.4	(8.3)
Contingent assets	1.6	3.4	(1.8)
Gains on the disposal of plant components	2.2	1.2	1.0
Sales to third parties	9.9	0.8	9.1
Other revenue	0.7	0.7	-
TOTAL	30.3	32.8	(2.5)

The “Other revenue and income”, of € 30.3 million, related mainly to the Parent Company for € 24.6 million, to the subsidiary Terna Rete Italia S.r.l. for € 4.3 million and to the Tamini Group for € 1.1 million.

The decrease in the item of € 2.5 million is essentially due to the combined effect of:

- the reduction in revenue for insurance settlements (€ -8.3 million) essentially for an insurance settlement recognised in the first half of 2015.
- the higher revenue made from sales to third parties (€ +9.1 million), owing essentially to the disposal of copper recovered, implementing the so-called “Copper Plan” (€ 8.3 million), which includes the progressive replacement of obsolete copper conductors with new aluminium conductors;
- the reduction in contributions for variants at the request of third parties (€ -2.2 million) and the recognition in the first half of 2015 of higher contingent assets of € 1.8 million, owing essentially to a supply contract related to the housing of optical fibre.

Also significant was the reduction in contributions for variants at the request of third parties (€ -2.2 million) and the recognition in the first half of 2015 of higher contingent assets of € 1.8 million, owing essentially to a supply contract related to the housing of optical fibre.

OPERATING EXPENSES

3. RAW MATERIALS AND CONSUMABLES - € 40.0 million

This item (amounting to € 40.0 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 year (€ +7.3 million) was mainly related to the higher costs for procuring material incurred by the Tamini Group (€ +4.6 million compared to the first half of 2015) as well as costs recognised for an order in Chile, not yet active in the comparison period (€ +1.8 million).

4. SERVICES - € 88.0 million

Costs for services, amounting to a total of € 88.0 million, are attributable mainly to the subsidiary Terna Rete Italia S.p.A. for € 34.9 million, to the Parent Company for € 19.3 million, to the subsidiary Rete S.r.l. for € 18.0 million, as well as to the Tamini Group (€ 12.9 million).

The breakdown of the Group's operating expenses in the half-year period, with separate evidence for the Tamini Group deviation, is shown in the following table.

€ million	1H 2016	1H 2015	Δ	Δ without Tamini	Δ Tamini
Tenders on plants	31.3	12.3	19.0	18.9	0.1
Maintenance and sundry services	34.3	35.7	(1.4)	(1.5)	0.1
Insurance	5.0	3.9	1.1	0.4	0.7
Remote transmission and telephone	5.8	6.2	(0.4)	(0.5)	0.1
IT services	5.5	6.7	(1.2)	(1.2)	-
Leases and rentals	6.1	5.7	0.4	(0.1)	0.5
TOTAL	88.0	70.5	17.5	16.0	1.5

Net of the contribution from the Tamini Group, costs of services increased compared to the previous year by € 16.0 million, and by € 16.8 million if the higher costs for implementing IFRIC 12 are not taken into consideration.

€ million	Δ without Tamini	Δ IFRIC 12	Δ without Tamini/IFRIC 12
Tenders on plants	18.9	0.1	18.8
Maintenance and sundry services	(1.5)	(0.9)	(0.6)
Insurance	0.4	-	0.4
Remote transmission and telephone	(0.5)	-	(0.5)
IT services	(1.2)	-	(1.2)
Leases and rentals	(0.1)	-	(0.1)
TOTAL	16.0	(0.8)	16.8

This increase is mostly attributable to the costs incurred by the subsidiary Rete S.r.l. (€ 18 million, of which € 17.5 million related to the maintenance contract for the grid acquired from the FSI Group in 2015), partially offset by lower costs related to other companies in the Group (€ -1.2 million).

5. PERSONNEL EXPENSES – € 115.3 million

“Personnel expenses” for the first six months of 2016 and 2015 are broken down in the following table.

€ million	1H 2016	1H 2015	Δ
Wages, salaries and other short-term employee benefits	136.7	139.8	(3.1)
Directors' fees	1.6	0.8	0.8
Post-employment benefits, energy discount and other employee benefits	5.9	9.0	(3.1)
Personnel expenses, gross	144.2	149.6	(5.4)
Capitalised internal work by employees	(28.9)	(35.3)	6.4
TOTAL	115.3	114.3	1.0

The item, € 115.3 million, includes the cost of personnel employed by the Tamini Group companies for € 13.1 million and recorded an increase of € 1.0 million compared to the figure for the first half of 2015 (of which € +3.1 million related to the Tamini Group).

€ million	1H 2016	1H 2015	Δ	Δ Tamini	Δ IFRIC 12	Δ without Tamini/IFRIC 12
Personnel expenses, gross	144.2	149.6	(5.4)	2.6	-	(8.0)
Personnel expenses, capitalised	(28.9)	(35.3)	6.4	0.5	(0.4)	6.3
Total	115.3	114.3	1.0	3.1	(0.4)	(1.7)

Personnel expenses, net of the Tamini contribution and of the costs recognised applying IFRIC 12, recorded a decrease of € 1.7 million deriving essentially from the effect of the savings generated by the generational turnover project implemented in 2015 net of the lower capitalisations of the period.

The following table shows the average number of employees of the Group by category for the first half of 2016 and 2015.

euro milioni	Average number		Δ
	1H 2016	1H 2015	
Executives	76	72	4
Junior executives	550	550	-
Office staff	1,946	2,001	(55)
Blue-collar workers	1,200	1,157	43
TOTAL	3,772	3,780	(8)

The net change in the average number of employees of the Group – as described above – was -8 persons during the first half of the year compared with the same period in 2015 owing to the different proportion of Tamini Group employees in the two periods compared.

6. AMORTISATION, DEPRECIATION AND IMPAIRMENT – € 267.2 million

Amortisation, depreciation and impairment in the first six months of 2016 and 2015 are broken down below:

€ million	1H 2016	1H 2015	Δ
Amortisation of intangible assets	26.4	27.9	(1.5)
<i>of which: infrastructure rights</i>	<i>14.3</i>	<i>17.2</i>	<i>(2.9)</i>
Depreciation of property, plant and equipment	239.4	215.1	24.3
Impairment of trade receivables	1.4	-	1.4
TOTAL	267.2	243.0	24.2
TOTALE	267,2	243,0	24,2

The item, of € 267.2 million, recorded an increase compared to the first half of 2015 (€ 24.2 million, of which € 12.7 million related to depreciation and amortisation recognised on the assets of the subsidiary Rete S.r.l. acquired at the end of 2015), mostly attributable to the higher depreciation of property, plant and equipment (€ +24.3 million) owing essentially to entry into operation of new plants and for the depreciation of Rete S.r.l..

7. OTHER OPERATING EXPENSES - € 19.6 million

“Other operating expenses” for the first six months of 2016 and 2015 are broken down in the following table:

€ million	1H 2016	1H 2015	Δ
Allocations made to Provisions for disputes	4.1	1.4	2.7
Electricity service quality expenses	3.6	3.3	0.3
Indirect and local taxes and duties	5.6	8.0	(2.4)
Contingent liabilities	2.3	1.3	1.0
Losses on disposal/decommissioning of plant	0.2	-	0.2
Other operating expenses	3.8	3.9	(0.1)
TOTAL	19.6	17.9	1.7

The item, of € 19.6 million, recorded an increase of € 1.7 million compared to the first half of 2015, mainly attributable to the higher costs of the Tamini Group (€ +1.3 million), to higher provisions set aside for disputes (€ +2.7 million), in part offset by lower costs for Council Tax (IMU) recognised in the period (€ -2.6 million).

FINANCIAL INCOME AND EXPENSE

8. NET FINANCIAL INCOME/(EXPENSE) - € (37.6) million

The item for the first six months of 2016 and 2015 is broken down in the following table:

€ million	1H 2016	1H 2015	Δ
FINANCIAL INCOME			
Interest income and other financial income	2.6	5.6	(3.0)
Debt adjustment (bonds) and related hedges	1.1	-	1.1
Exchange gains	-	0.5	(0.5)
Total income	3.7	6.1	(2.4)
FINANCIAL EXPENSE			
Financial expense from the Parent	(2.5)	(2.7)	0.2
Interest expense on medium/long-term loans and related hedges	(46.8)	(83.4)	36.6
Debt adjustment (bonds) and related hedges	-	(0.1)	0.1
Discounting of post-employment benefits, other personnel-related provisions and provisions for risks and charges	(1.0)	(1.1)	0.1
Capitalised financial expense	9.4	16.3	(6.9)
Exchange losses	(0.1)	-	(0.1)
Other financial expense	(0.3)	-	(0.3)
Total expense	(41.3)	(71.0)	29.7
Total	(37.6)	(64.9)	27.3

Net financial expense in the period amounted to € 37.6 million comprising € 41.3 million of financial expense and € 3.7 million of financial income. The reduction (€ 27.3 million) compared to the same period of the prior year is mainly attributable to the following factors:

- lower financial income (€ -3.0 million) which was primarily attributable to the combined effect of:
 - a general decrease in the market interest rates at which cash was invested (€ -5.6 million);
 - recognition of higher net uplift income (€ 2.6 million);
- exchange rate adjustment (€ -0.6 million) essentially related to provisions for probable expenses in relation to tax obligations deriving from the sale of the equity interest held in the Brazilian subsidiaries recognised in the previous year;
- positive net economic effects deriving from the fair value adjustment of bonds and the related hedges (€ 1.2 million);
- lower financial expense deriving from medium and long-term debt and the related hedges (€ +36.6 million), attributable to the general decrease in interest rates;
- lower capitalised financial expense (€ -6.9 million).

9. SHARE OF PROFIT/(LOSSES) DERIVING FROM EQUITY-ACCOUNTED INVESTEEES - € 1.4 million

This item, of € 1.4 million, substantially in line compared to the first half of 2015 (€ +0.2 million), sets out the economic effects deriving from the adjustment to the share of shareholders' equity as at 30 June 2016 of the equity investment in the Group's associate CESI S.p.A..

10. INCOME TAXES – € 150.7 million

Income taxes chargeable to the period were € 150.7 million and, despite the higher pre-tax profit, were substantially in line (€ +0.7 million) compared to the figure for the first half of 2015, owing mainly to the effect of higher deductible items recognised in the period compared to the previous year.

The tax rate for the period therefore dropped, going from 32.6% in the first half of 2015 to 31.8% in the first half of 2016.

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

€ million	1H 2016	1H 2015	Δ
Income taxes			
Current taxes:			
- IRES (corporate income tax)	135.8	137.8	(2.0)
- IRAP (regional tax on productive activities)	38.3	28.2	10.1
Total current taxes	174.1	166.0	8.1
Temporary differences:			
- deferred tax assets	(0.3)	9.3	(9.6)
- deferred tax liabilities	(17.0)	(19.0)	2.0
Total change in deferred tax assets and liabilities	(17.3)	(9.7)	(7.6)
Adjustment of prior-year taxes	(6.1)	(6.3)	0.2
Total	150.7	150.0	0.7

Current taxes

Current taxes (of € 174.1 million) recorded an increase of 8.1 million compared to the balance of the first half of 2015, owing mainly to the higher pre-tax profit of the period.

Deferred tax assets and liabilities

Deferred tax assets and liabilities, of € -17.3 million, recorded a change of € -7.6 million, essentially due to the utilisation of previous provisions for additional depreciation and amortisation compared to the fiscally relevant rates and also to the changes in provisions for employee benefits, as commented on in detail in notes 26 “Deferred tax liabilities” and 24. “Employee benefits” of the present Notes to the Financial Statements.

Adjustment of prior-year taxes

The adjustments of the taxes referred to previous years, of € -6.1 million, refer to 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 2015.

11. EARNINGS PER SHARE

Basic earnings per share, which corresponds to diluted earnings per share, amounts to € 0.162 (with a numerator of € 324.8 million, and a denominator of 2,009,992.0 thousand shares).

C. OPERATING SEGMENTS

Below are the main economic results of the operating segments identified in the context of the Terna Group in line with the 2016–2019 Strategic Plan.

The operating segment of Regulated Activities includes the development, operation and maintenance of the National Transmission Grid in addition to dispatching and measuring and activities related to the creation of Storage Systems. These activities are represented in a single operating segment, as they are regulated by the AEEGSI with similar characteristics in terms of the remuneration model for investments and operating expenses 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-voltage and very-high-voltage plants and the housing of telecommunications equipment and optical fibre network maintenance services. These activities are provided in a free market context. We must specify that the operating segment of Non-Regulated Activities includes also the operating result of the Tamini Group, which operates in the construction and sale of electrical machinery, in particular power transformers, and the results of the companies set up to develop interconnection projects with other countries in an “Interconnector” arrangement, that is Terna Interconnector S.r.l., Piemonte Savoia S.r.l. and Monita Interconnector S.r.l., and the company Terna Chile S.p.A. set up to develop initiatives in the South American market.

Below are the results of the operating segments of the Terna Group in the first half of 2016 and the first half of 2015, in line with the evidence of the Group management control system and the reconciliation with the Group’s pre-tax result.

€ million	1H 2016	1H 2015	Δ	Δ %
TOTAL REVENUE FROM REGULATED ACTIVITIES	942.4	911.1	31.3	3.4%
TOTAL REVENUE FROM NON-REGULATED ACTIVITIES	90.4	83.2	7.2	8.7%
Revenue from construction of licensed activities (pursuant to IFRIC 12)	7.1	7.7	(0.6)	(7.8%)
TOTAL REVENUE	1,039.9	1,002.0	37.9	3.8%
EBITDA	777.0	766.6	10.4	1.4%
<i>of which EBITDA from Regulated Activities*</i>	760.6	742.5	18.1	2.4%
<i>of which EBITDA from Non-Regulated Activities</i>	16.4	24.1	(7.7)	(32.0%)
EBITDA margin	74.7%	76.5%		
<i>EBITDA margin on Regulated Activities*</i>	80.7%	81.5%		
<i>EBITDA margin on Non-Regulated Activities</i>	18.1%	29.0%		
Reconciliation of segment result with pre-tax company result				
EBITDA	777.0	766.6		
Amortisation, depreciation and impairment	267.2	243.0		
EBIT	509.8	523.6		
Financial income/(expense)	(37.6)	(64.9)		
<i>Share of profit/(loss) of equity-accounted investees</i>	1.4	1.2		
Profit/(loss) before taxes	473.6	459.9		

* EBITDA including indirect costs

The Group's revenue for the first half of 2016 amounted to € 1,039.9 million recording growth of € 37.9 million (+3.8%) compared to the first half of 2015.

EBITDA (Gross Operating Margin) came out at € 777.0 million, an increase of € 10.4 million (+1.4%) compared to the € 766.6 million of the first half of 2015.

The increase in the **EBITDA of Regulated Activities** of € 18.1 million was due mainly to the following factors:

- contribution of the acquisition of Rete S.r.l. (€ +13.8 million);
- higher transmission revenue owing to the net effect of the recognition of the strategic investments related to 2015 incentivised work in progress as per Resolution 335/2016/R/eel (€ +5.5 million);
- higher other revenue of € 6.7 million, mainly for the so-called "Copper Plan";
- lower DIS revenue of € 7.2 million, owing to a tariff reduction following the regulatory review.

The **EBITDA of Non-Regulated Activities** came out at € 16.4 million, down by € 7.7 million compared to the first half of 2015 owing essentially to the lower contribution of the Tamini Group (€ -6.7 million).

The Group's **EBITDA margin** went down from 76.5% in the first half of 2015 to 74.7% in the first half of 2016 owing mainly to the lower contribution of Non-Regulated Activities for the Tamini Group and for the Rete S.r.l. perimeter delta.

The information regularly reported to Senior Management does not make direct reference to segment activities but rather to the measurement and presentation of gross invested capital, given the non-material contribution of Non-Regulated Activities. The following table reports that indicator at 30 June 2016 and 31 December 2015.

€ million	Italy	
	30.06.2016	31.12.2014
Net non-current assets *	12,780.0	12,698.3
<i>of which Investments in associates and jointly-controlled entities</i>	78.5	78.2
Net working capital (NWC) **	(841.9)	(976.7)
Gross invested capital ***	11,938.1	11,721.6

* Net fixed assets include the value of the items "Property, plant and equipment", "Goodwill", "Intangible assets", "Equity-accounted investees", "Other non-current assets" and "Non-current financial assets" for the value of the other equity investments (€ 0.1 million).

** NWC (Net Working Capital) is equal to the difference between total current assets, net of cash and cash equivalents and of the item "Current financial assets" and total current liabilities net of the short-term portion of long-term financing and net of the items "Short-term loans" and "Current financial liabilities", and the item "Other non-current liabilities".

*** The Gross Invested Capital is equal to the sum of net non-current assets and the NWC (Net Working Capital).

D. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

12. PROPERTY, PLANT AND EQUIPMENT – € 12,171.3 million

Property, plant and equipment amounted to € 12,171.3 million (€ 12,078.7 million at 31 December 2015). The amount and changes for each category are reported in the following table:

€ million	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Assets under development and payments on account	Total
COST AT 01.01.2016	185.2	1,546.8	15,322.8	94.6	140.2	1,950.2	19,239.8
Investments	-	-	0.1	1.3	15.6	314.7	331.7
Entry into use	1.3	183.1	684.9	0.2	-	(869.5)	-
Disposals and impairment	-	-	(11.0)	-	(6.0)	-	(17.0)
Other changes	-	-	(2.8)	-	-	4.1	1.3
COST AT 30.06.2016	186.5	1,729.9	15,994.0	96.1	149.8	1,399.5	19,555.8
ACCUMULATED DEPRECIATION AND IMPAIRMENT AT 01.01.2016	-	(441.4)	(6,540.8)	(71.9)	(107.0)	-	(7,161.1)
Depreciation for the period	-	(19.5)	(211.4)	(2.5)	(6.0)	-	(239.4)
Disposals	-	-	10.0	-	6.0	-	16.0
ACCUMULATED DEPRECIATION AND IMPAIRMENT AT 30.06.2016	-	(460.9)	(6,742.2)	(74.4)	(107.0)	-	(7,384.5)
Carrying amount							
At 30 June 2016	186.5	1,269.0	9,251.8	21.7	42.8	1,399.5	12,171.3
At 31 December 2015	185.2	1,105.4	8,782.0	22.7	33.2	1,950.2	12,078.7

“Plant and equipment”, at 30 June 2016, includes in particular the energy transportation network as well as the transformation stations in Italy.

The item “Property, plant and equipment” recorded an increase compared to the previous year, of € 92.6 million, as a result of the ordinary changes that occurred in the period referred to:

- investments of 331,7 million, of which € 326.8 million made in the context of the Group’s Regulated Activities (referred essentially to the Parent Company for € 306.3 million and to the subsidiary Terna Rete Italia S.r.l. for € 17.3 million); in the context of the Non-Regulated Activities we can note investments for € 4.9 million mainly for work on variants carried out for third parties (€ 3.0 million) and for the creation of the private “Italy – France” interconnection line (€ 1.3 million);
- depreciation accruing (€ -239.4 million) and also disposals and other changes (€ +0.3 million).

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

€ million	1H 2016
Investments	
of which transmission lines	219.6
of which transformer stations	85.3
of which storage systems	1.7
of which other	25.1
TOTAL INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT	331.7
Depreciation	(239.4)
Disposals and other changes	0.3
Total investments	92.6

As regards investments during the period in **Regulated Activities** (€ 326.8 million), we can note, in particular, those of the Parent Company, related mainly to:

380 kV Sorgente - Rizziconi power line (€ 69.1 million)

- The entire connection came into operation at the end of May 2016 and work is now underway on landscaping areas and restoring building sites. The work will guarantee greater security of the connection of the Sicilian electricity grid to that of the mainland, creating the conditions required to eliminate the current price spread which exists between Sicily and the rest of the country.

Italy-Montenegro interconnection (€ 39.9 million)

- Cable connection: the production of both submarine and underground cables is continuing.
- Converter substations: the Cepagatti substation is being fitted with prefabricated buildings; work is in progress on the production of major appliances and auto-transformers; while at the Kotor site building foundations are under construction;

380 kV Foggia-Villanova power line (€ 22.7 million)

- The entire connection, about 70 km long, came into operation in January 2016; work is now underway on landscaping areas and restoring sites to their former conditions.

Italy-France interconnection (€ 5.1 million)

- At the Piossasco substation the drilling and survey activities have been completed.
- Cable connection: the civil works have begun and the executive planning of the motorway stretch of the cable has been completed.

Restructuring of the Palermo metropolitan area (€ 4.2 million)

- In the Casuzze substation the work on assembling the equipment has been completed and the civil works for laying the cables are in progress.

The investments also include the actions to purchase and/or renovate offices (€ 2.6 million).

13. GOODWILL – € 234.3 million

Goodwill amounted to € 234.3 million and was unchanged from the balance at 31 December 2015.

We must specify that the comparative balance includes the redetermination (of € 10 million), recognised in order to better represent the effects of the acquisition of the FSI grid, commented on in the section “A. Accounting policies and measurement criteria” to which you are referred.

14. INTANGIBLE ASSETS – € 284.6 million

Changes in intangible assets during the period are detailed below:

€ million	Infrastructure rights	Concessions	Other assets	Assets under development and payments on account	Total
BALANCE AT 31.12.2015	115.3	78.5	68.8	33.2	295.8
Investments	-	-	-	15.2	15.2
Entry into use	2.9	-	4.2	(7.1)	-
Amortisation for the period	(14.3)	(2.8)	(9.3)	-	(26.4)
BALANCE AT 30.06.2016	103.9	75.7	63.7	41.3	284.6
Cost	374.1	135.9	236.4	41.3	787.7
Accumulated amortisation	(270.2)	(60.2)	(172.7)	-	(503.1)
BALANCE AT 30.06.2016	103.9	75.7	63.7	41.3	284.6

Intangible assets amounted to € 284.6 million (€ 295.8 million at 31 December 2015). In particular this item includes:

- the infrastructures used for the dispatching services, provided under concession and booked as set out by the “IFRIC 12 - Service Concession Arrangements”, for a net book value at 30 June 2016 of € 103.9 million for infrastructures which came into operation and € 21.9 million for infrastructures under construction included in the category “Assets under development and payments on account” (€ 115.3 million and € 17.6 million respectively at 31 December 2015);
- the concession for the provision of electricity transmission and dispatching services in Italy (with net carrying amount of € 75.7 million at 30 June 2016), with a term of twenty-five years, recognised initially during 2005 at fair value and subsequently measured at cost.

Other intangible assets mainly comprise application software developed internally or purchased when implementing systems development projects. The investments related to them, referred mainly to the Parent Company (€ 7.7 million), were made essentially through internal development.

The difference with respect to the previous financial year (€ -11.2 million) is due to the combined effect of routine movements during the period, mainly regarding amortisation (€ 26.4 million, of which € 14.3 million relating to dispatching infrastructures and € 2.8 million relating to the concession), and investments (€ 15.2 million) made during the period.

Investments for the period in intangible assets (€ 15.2 million, of which in Regulated Activities € 15.1 million referred mainly to the Parent Company), we can note, in particular, those for the development and evolution of software for the Remote Management System for Dispatching (€ 3.1 million), for the Power Exchange (€ 1.5 million) and for the protection of the Electricity System (€ 0.3 million), as well as software applications and general use licenses (€ 7.7 million).

15. EQUITY-ACCOUNTED INVESTEEES - € 78.5 million

This item, equal to € 78.5 million, relates to the equity investments of the Parent Company in CESI S.p.A. (€ 43.1 million, representing a 42.698% stake), CGES – CrnoGorski Elektroprenosni Sistem AD (€ 35.0 million, representing a 22.0889% stake) and CORESO S.A. (€ 0.4 million, representing a 20.000% stake).

16. FINANCIAL ASSETS

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

€ million	Carrying amount		Δ
	30.06.2016	31.12.2015	
FVH derivatives	381.6	688.2	(306.6)
RCF commissions	3.4	3.6	(0.2)
Other investments	0.1	-	0.1
NON-CURRENT FINANCIAL ASSETS	385.1	691.8	(306.7)
Deferred assets on FVH derivatives contracts	32.2	61.5	(29.3)
Other current financial assets	0.1	2.8	(2.7)
CURRENT FINANCIAL ASSETS	32.3	64.3	(32.0)
Total	417.4	756.1	(338.7)

At 30 June 2016, “Non-current financial assets”, amounting to € 385.1 million, mainly reported the measurement of fair value hedging derivatives hedging bonds and of fees paid on the Revolving Credit Facility.

The decrease in the fair value of derivatives (€ -306.6 million) compared to 31 December 2015 is mainly attributable to the termination of FVH derivatives for a notional amount of € 1.8 billion (€ 0.6 billion with maturity 2019, € 0.7 billion with maturity 2021 and € 0.5 billion with maturity 2023) with a view to simplifying the derivatives portfolio carried out during the second quarter of 2016, partially offset by the decrease in the reference interest rate curve compared to December 2015.

The item “Current financial assets” showed a balance of € 32.3 million (€ 64.3 million at 31 December 2015) and recorded a decrease compared to the previous year of € 32.0 million due essentially to the amount of net financial income received in the period

17. OTHER ASSETS

“Other assets” are broken down below:

€ million	30.6.2016	31.12.2015	Δ
Loans and advances to employees	9.0	9.1	(0.1)
Deposits with third parties	2.2	2.2	-
OTHER NON-CURRENT ASSETS	11.2	11.3	(0.1)
Other tax receivables	13.9	121.3	(107.4)
Receivable from associates	1.1	-	1.1
Contractual advances to suppliers	33.7	31.9	1.8
Prepayments of operating expenses	14.4	3.1	11.3
Receivables due from others	9.6	5.0	4.6
OTHER CURRENT ASSETS	72.7	161.3	(88.6)

“Other non-current assets” (€ 11.2 million) - which are presented in the table above - were essentially unchanged since last year (€ -0.1 million) and mainly comprise loans and advances paid to employees by the parent company and the subsidiaries Terna Rete Italia S.p.A. and Terna Plus S.r.l. (€ 9 million).

The item “Other current assets”, equal to € 72.7 million, the composition of which is presented in the previous statement, showed an decrease of € 88.6 million compared to the balance at 31 December 2015 owing to:

- other tax receivables (€ -107.4 million), substantially referable to the lower VAT credit recognised at 30 June 2016, which decreased by € 105.3 million;
- the receivable for dividends to be collected from the associate CESI (€ +1.1 million);
- advances to suppliers, which show an increase of € 1.8 million compared to the balance at 31 December 2015;
- the proportion of costs already paid but accruing after 30 June 2016 (€ +11.3 million), of which € 6.1 million is attributable to personnel and € 4.3 million related to local taxes and insurance premiums;
- receivables due from others (€ +4.6 million) which mainly show the greater receivable items of the Tamini Group (+4.0 million, largely related to the recognition of the receivable from a factoring company for the transfer without recourse of company receivables, in part collected in July).

18. INVENTORIES – € 13.0 million

Inventories under working assets, of € 13 million consist mainly of materials and equipment destined for the work of operating, maintaining and building plants.

The item showed an increase of € 0.6 million compared to the figure for the previous year (€ 12.4 million), referred to the balance of the inventories of Tamini Trasformatori S.r.l. and of its subsidiaries.

19. TRADE RECEIVABLES – € 2,112.6 million

Trade receivables can be broken down as follows:

€ million	30.06.2016	31.12.2015	Δ
Energy-related receivables	1,683.2	826.0	857.2
Grid transmission fee receivables	312.0	400.0	(88.0)
Other trade receivables	117.4	147.4	(30.0)
TRADE RECEIVABLES	2,112.6	1,373.4	739.2

Trade receivables amounted to € 2,112.6 million and show an increase (€ 739.2 million) compared with the previous year, essentially attributable to combined effect of higher receivables for energy items (€ 857.2 million) and to the lower 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 (€ -88.0 million).

They are recognised net of impairment losses, referred to items considered non-collectable, recognised in allowances for doubtful accounts (€ 25.4 million for energy items and € 12 million for other items at 30 June 2016); the carrying amount shown approximates substantially to the fair value.

Energy-related/adjusted receivables – € 1,683.2 million

The item includes receivables for the so-called “pass-through items” related to energy dispatching activities carried out by the Parent Company (€ 1,665.1 million) and, also, receivables from market operators for margin fees (€ 18.1 million) destined, in particular, to cover the costs recognised for the functioning of Terna related to the dispatching activity (DIS fee – Resolution 111/06 and subsequent amendments and additions).

The balance recorded a total increase of € 857.2 million compared to 31 December of the previous year attributable, mainly, to pass-through items, up by € 860 million. In particular the change is associated with the net receivable for the so-called uplift fee and to items associated with it (€ +820 million) mainly due to the higher net expense associated with the Dispatching Services Market (DSM)¹ and with unbalancing. The difference takes account of the receivable from Cassa per i Servizi Energetici e Ambientali (CSEA) attributable to the liquidation at the beginning of July a number of items the settlement of which, on the basis of the relevant legislation, was envisaged during the period (€ 37.5 million).

Grid transmission fee receivables – € 312.0 million

The grid transmission fee receivables, € 312.0 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. The above receivables show a decrease of € 88.0 million compared to 31 December 2015, attributable mainly to collection by the Cassa per i Servizi Energetici e Ambientali (CSEA) of receivables for the supplement to the grid transmission fee revenues of Terna SpA relating to 2014 (€ 80.8 million euro) and to the recognition of the grid transmission fees in the reporting period based on new rates set for 2016, the first year of the new 2016–2023 regulatory period.

(1) In the first half of 2016, the net expense on the DSM was € 1,075 million (provisional data for June) sharply up compared to the € 572 million of the same period of last year.

Other trade receivables – € 117.4 million

Other trade receivables refer mainly to receivables from customers for Non-Regulated Activities and showed a decrease of € 30.0 million, mainly due to collections in the period associated with more activities carried out at the end of 2015.

This item also includes receivables for contract work in progress (€ 38.3 million) related to works of multi-year duration which the Group has been implementing with third party customers, shown in the table below:

€ million	Payments on account	Contract value	Balance at 30.06.2016	Payments on account	Contract value	Balance at 31.12.2015
Receivables for contract work in progress	(34.1)	72.4	38.3	(25.6)	72.9	47.3

The amount of the guarantees issued to third parties in the interest of the Terna Group at 30 June 2016 came to € 105 million, of which € 83.4 million for sureties issued to secure the contractual obligations arising under the scope of operations and € 21.6 million as itemized below:

- € 0.5 million in guarantees issued on behalf of the subsidiary Terna Rete Italia S.r.l.;
- € 19.1 million in guarantees issued on behalf of the subsidiary Terna Rete Italia S.p.A.;
- € 2.0 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 – € 294.8 million

Cash and cash equivalents at 30 June 2016 amounted to € 294.8 million, of which € 258.8 million liquid funds invested but readily liquidable, referable to the simplification of the derivatives portfolio carried out towards the end of the first half of 2016 and € 36.0 million net positive liquidity on bank current accounts.

21. INCOME TAX ASSETS – € 26.5 million

Income tax assets amounted to € 26.5 million and recorded a decrease of € 7.5 million compared to the previous year, owing to the lower IRES and IRAP credits, as they were partially utilised on payment of the taxes for financial year 2015.

LIABILITIES

22. PATRIMONIO NETTO DI GRUPPO – 3.365,3 milioni di euro

Share capital – € 442.2 million

The share capital of the Parent is represented by 2,009,992,000 ordinary shares with a par value € 0.22 each; this has not changed since 31 December 2015.

Legal reserve – € 88.4 million

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

Other reserves – € 720.4 million

Other reserves decreased by a net € 18.6 million, mainly due to Other Comprehensive Income, in particular owing to:

- adjustment to fair value of derivative instruments hedging the Parent Company's floating-rate loans - cash-flow hedges (€ -18.0 million, net of the related tax effect of € +5.7 million);
- recognition of the actuarial gains and losses on employee benefits (€ -0.8 million, net of the related tax effect of € +0.3 million).

Retained earnings and losses – € 1,789.5 million

Retained earnings increased by a total of € 193.1 million essentially owing to allocation of the Group's profit for 2015.

Payment of final dividend

On 30 May 2016, the Shareholders' Meeting resolved a total dividend for the entire 2015 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 22 June 2016, following detachment of coupon no. 24 on 20 June 2016.

Equity attributable to non-controlling interests

Equity attributable to non-controlling interests, related to the Tamini Group, was € 23.1 million (€ 25.0 million at 31 December 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 2016.

€ million	Carrying amount		Δ
	30.06.2016	31.12.2015	
Bonds	5,753.3	6,406.1	(652.8)
Bank loans	2,043.4	2,110.4	(67.0)
LONG-TERM LOANS	7,796.7	8,516.5	(719.8)
CFH derivatives	19.9	7.3	12.6
NON-CURRENT FINANCIAL LIABILITIES	19.9	7.3	12.6
SHORT-TERM LOANS	78.3	416.6	(338.3)
Bonds	769.5	-	769.5
Bank loans	123.0	122.9	0.1
CURRENT PORTION OF LONG-TERM LOANS	892.5	122.9	769.6
TOTAL	8,787.4	9,063.3	(275.9)

The carrying amount 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 decreased with respect to the previous year by € 275.9 million to € 8,787.4 million. The increase in the value of bonds (€ +116.7 million) is attributable for € 80 million to the bond issue of 3 March 2016, and for € 36.7 million to changes in the fair value of the hedged risk net of the amortised cost effect. The change associated with the hedging of interest rate risk is mainly made up of € 6.6 million in relation to the inflation-linked bond issue, € 32.8 million associated with the 2024 Bond, € -5.9 million with the 2019 Private Placement, € -1.4 million with the 2026 Private Placement and € -3.4 million relating to the 2021 Bond Loan.

Instead, considering the market quotations (source Reuters), bonds listed on the Luxembourg Stock Exchange have the following prices:

- bond maturing 2024, price at 30 June 2016: 133.24 and price at 31 December 2015: 127.94;
- bond maturing 2023, price at 30 June 2016: 128.6 and price at 31 December 2015: 124.45;
- bond maturing 2019, price at 30 June 2016: 115.67 and price at 31 December 2015: 115.86;
- bond maturing 2021, price at 30 June 2016: 120.68 and price at 31 December 2015: 119.08;
- bond maturing 2017, price at 30 June 2016: 102.61 and price at 31 December 2015: 104.32;
- bond maturing 2018, price at 30 June 2016: 104.63 and price at 31 December 2015: 105.35;
- bond maturing 2022, price at 30 June 2016: 102.14 and price at 31 December 2015: 98.15;
- bond maturing 2026, price at 30 June 2016: 102.78.

The debt which was originally floating-rate, shows a decrease of € 66.9 million mainly due to the reduction in EIB (European Investment Bank) loans and other financing following repayments made on outstanding loans.

Long-term loans

The total amount of the Group borrowing at 30 June 2016 was equal to € 8,689.2 million, of which € 892.5 million due within 12 months.

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

€ million	Maturity	31.12.2015	30.06.2016	Maturity within 12 months	Maturity beyond 12 months	Average interest rate as of 30.06.2016
Bonds	2014-2024	1,050.1	1,082.9	-	1,082.9	4.90%
Bonds IL	2023	712.8	719.4	-	719.4	2.73%
Bonds PP	2019	677.2	671.3	-	671.3	4.88%
Bonds PP	2026	-	78.6	-	78.6	1.60%
Bonds 1250	2021	1,453.3	1,456.7	-	1,456.7	4.75%
Bonds 1250	2017	769.2	769.5	769.5	-	4.13%
Bonds 1000	2022	995.3	995.7	-	995.7	0.88%
Bonds 750	2018	748.2	748.7	-	748.7	2.88%
Total fixed rate		6,406.1	6,522.8	769.5	5,753.3	
EIB	2018-2033					
Club Deal	2015	1,724.5	1,658.5	120.8	1,537.7	0.42%
CDP	2019	500.0	500.0	-	500.0	0.90%
Leasing	2019-2021-2022	8.8	7.9	2.2	5.7	0.96%
Total floating rate		2,233.3	2,166.4	123.0	2,043.4	
TOTAL		8,639.4	8,689.2	892.5	7,796.7	

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 € 5,250.0 million, provides for full repayment of € 770 million on 16 February 2017, of € 750 million on 16 February 2018, of € 600 million on 3 October 2019, of € 1,250 million on 15 March 2021, of € 1,000 million on 2 February 2022, of € 800 million on 28 October 2024 and of € 80 million on 3 March 2026.

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.

The fixed-rate 2024 Bond 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 0.29%.

For the inflation-linked Bond, taking hedging into account, the average interest rate paid in the year was -2.23%.

As regards the 2019 Private Placement, with an average coupon of 4.875%, if fair value hedging operations are taken into account, the average interest rate is equal to 1.19%.

The coupon of the 2021 Bond is 4.75%; if we consider FVH operations, the average interest rate is 1.20%.

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 0.77% is reported for EIB loans and an average rate of 1.14% for the CDP loans.

The following table reports the changes in long-term debt during the first half of 2016:

€ million	31.12.2015						30.06.2016			
	Notional debt	Carrying amount	Market value	Repay. and capitalis.	Drawdowns	Δ Fair value 31.12.15 30.06.16	Δ carrying amount	Notional debt	Carrying amount	Market value
Bond 2024	800.0	1,050.1	1,023.5		-	32.8	32.8	800.0	1,082.9	1,065.9
Bond IL	565.9	712.8	704.3		-	6.6	6.6	563.1	719.4	727.7
Private Placement 2019	600.0	677.2	695.1		-	(5.9)	(5.9)	600.0	671.3	694.0
Private Placement 2019	-	-	-		80.0	(1.4)	78.6	80.0	78.6	82.2
Bond 2021	1,250.0	1,453.3	1,488.5		-	3.4	3.4	1,250.0	1,456.7	508.5
Bond 2017	770.0	769.2	803.2		-	0.3	0.3	770.0	769.5	790.1
Bond 2022	1,000.0	995.3	981.5		-	0.4	0.4	1,000.0	995.7	1,021.4
Bond 2018	750.0	748.2	790.2		-	0.5	0.5	750.0	748.7	784.7
Total bonds	5,735.9	6,406.1	6,486.3	-	80.0	36.7	116.7	5,813.1	6,522.8	6,674.5
Bank loans	2,233.3	2,233.3	2,233.3	(66.9)	-	-	(66.9)	2,166.4	2,166.4	2,166.4
Total bank loans	2,233.3	2,233.3	2,233.3	(66.9)	-	-	(66.9)	2,166.4	2,166.4	2,166.4
Total Financial debt	7,969.2	8,639.4	8,719.6	(66.9)	80.0	36.7	49.8	7,979.5	8,689.2	8,840.9

At 30 June 2016, 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	30.06.2016	31.12.2015	Δ
CFH derivatives	19.9	7.3	12.6
TOTAL	19.9	7.3	12.6

“Non-current financial liabilities” includes the fair value measurement of cash-flow hedges. Fair value was measured by discounting the expected cash flows using the market yield curve at the reporting date. Compared with 31 December 2015, the fair value of CFH derivatives, for the non-current portion, increased by € 12.6 million.

Short-term loans

Under the item Financial Liabilities, we note Short-term loans for € 78.3 million, made up by the utilisation of uncommitted short-term credit lines for € 76.6 million, and € 1.7 million relating to the third party portion of shareholder financing in favour of Terna Interconnector.

The change in the item, € -338.3 million compared to 31 December 2015 is due essentially to less use of uncommitted short-term credit lines.

Current financial liabilities

Current financial liabilities, consisting essentially of the amount of financial expense on the related financial instruments but not yet settled, have decreased by € -30.1 million since the end of last year.

€ million	30.06.2016	31.12.2015	Δ
CFH DERIVATIVES			
DEFERRED LIABILITIES ON:			
Derivatives			
- <i>hedging</i>	0.6	3.1	(2.5)
Bond			
- <i>inflation linked</i>	4.5	4.5	-
- <i>Private Placement</i>	21.7	7.2	14.5
- <i>5-year (2017)</i>	11.7	27.7	(16.0)
- <i>7-year (2022)</i>	3.6	8.0	(4.4)
- <i>20-year (2024)</i>	26.5	7.0	19.5
- <i>10-year (2021)</i>	17.6	47.4	(29.8)
- <i>5-year (2018)</i>	8.0	18.8	(10.8)
- <i>10-year (2026)</i>	0.4	-	0.4
	94.0	120.6	(26.6)
Loans	2.4	3.4	(1.0)
TOTAL	97.0	127.1	(30.1)

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

€ million	Carrying amount 30.06.2016
A. Cash	36.0
B. Short-term deposits	258.8
C. Liquidity (A) + (B)	294.8
D. Current portion of long-term payables	892.5
E. Short-term loans	78.3
F. Other financial liabilities	61.3
G. Current financial debt (D) + (E) + (F)	1,032.1
H. Net current financial debt (G) - (C)	737.3
I. Non-current bank payables	2,043.4
J. Bonds issued	5,753.3
K. Derivative financial instruments in portfolio	(361.7)
L. Net non-current financial debt (I) + (J) + (K)	7,435.0
M. Net financial debt (L) + (H)	8,172.3

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 – € 107.4 million

The composition and changes for termination benefits and other employee-related provisions at 30 June 2016 are detailed in the table below:

€ million	31.12.2015	Provisions	Interest Cost	Utilisations and other changes	Actuarial gains and losses	30.06.2016
Termination benefits	51.8	6.4	0.5	(6.5)	-	52.2
Energy discount	33.7	0.6	0.3	(0.9)	1.1	34.8
Other employee benefits	20.0	1.4	0.2	(1.2)	-	20.4
Total	105.5	8.4	1.0	(8.6)	1.1	107.4

The item, of € 107.4 million at 30 June 2016 (€ 105.5 million at 31 December 2015), recorded an increase compared to the previous year of € 1.9 million, attributable essentially to provisions for the period (€ 8.4 million), to actuarial gains and losses for the period (€ 1.1 million) and to utilisations in the period (€ 8.6 million).

The main assumptions underlying the actuarial estimate of employee benefit obligations are essentially in line with those used for the 2015 Financial statements.

	Termination benefits	Energy discount	Other employee benefits
Discount rate	1.94%	2.03%	0.98% - 2.03%

25. PROVISIONS FOR RISKS AND CHARGES – € 223.8 million

The breakdown of and changes in provisions for risks and charges at 30 June 2016 is detailed below:

€ million	Provision for disputes and litigation	Provisions for other risks and charges	Provision for early-retirement incentives	30.06.2016
BALANCE at 31.12.2015	12.8	147.1	38.9	198.8
Provisions	4.1	48.1	-	52.2
Utilisations and other changes	(1.8)	(14.6)	(10.8)	(27.2)
BALANCE at 30.06.2016	15.1	180.6	28.1	223.8

Provisions for risks and charges recorded a net increase of € 25 million compared to the figure at 31 December 2015, owing mainly to utilisations of provisions for early retirement incentives (€ 10.8 million) related to the corporate reorganisation plan launched by the Parent Company during the previous year and the net change in provisions for other risks and charges (€ +33.5 million), which derived mainly from:

- net provisions (€ 41.1 million) set aside 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, testing, and other expenses for systems operation, with particular reference to Sorgente-Rizziconi;
- net utilisations referred to management incentive schemes, for € 7.5 million;

Also significant were the net provisions set aside in the period for disputes and litigation (€ 2.3 million) destined to cover the liabilities that could derive from lawsuits and out-of-court disputes related to the activities carried out by the Group.

26. DEFERRED TAX LIABILITIES – € 46.2 million

The changes in this provision are analysed below:

euro milioni	31.12.2015	Impact recognised in profit or loss and Other changes	Impact recognised in statement of comprehensive income	30.06.2016	Δ
Deferred tax liabilities	179.5	(16.3)	-	163.2	(16.3)
Deferred tax assets	(110.7)	(0.3)	(6.0)	(117.0)	(6.3)
NET DEFERRED TAX LIABILITIES	68.8	(16.6)	(6.0)	46.2	(22.6)

This balance, equal to € 46.2 million, reflects the net movements in the Group’s deferred tax assets and liabilities.

Deferred tax liabilities (€ 163.2 million) showed a decrease of € 16.3 million, 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 € 15.9 million and € 1.4 million respectively.

Deferred tax assets (€ 117.0 million) showed an increase of € 6.3 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 (€ 6.0 million).

27. OTHER NON-CURRENT LIABILITIES – € 127.5 million

The item (€ 127.5 million) shows an increase of € 3.4 million compared to 31 December 2015 (€ 124.1 million), mainly attributable to the interconnection guarantee fund set up under Terna S.p.A. following the issue of the 2015 Stability Law (€ 6.5 million), partially offset by the release of portions of grants for plants, in relation to depreciation of the period of the plants for which they were recognised (€ 3.0 million).

28. CURRENT LIABILITIES

Current liabilities at 30 June 2016 break down as follows:

€ million	30.06.2016	31.12.2015	Δ
Short-term loans *	78.3	416.6	(338.3)
Current portion of long-term loans *	892.5	122.9	769.6
Trade payables	2,590.5	2,170.1	420.4
Tax liabilities	42.0	15.4	26.6
Current financial liabilities *	97.0	127.1	(30.1)
Other current liabilities	306.7	248.2	58.5
TOTAL	4,007.0	3,100.3	906.7

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

Trade payables – € 2,590.5 million

Trade payables at 30 June 2016 break down as follows:

€ million	30.06.2016	31.12.2015	Δ
Suppliers:			
- Energy-related payables	2,051.2	1,435.7	615.5
- Non energy-related payables	521.7	714.1	(192.4)
Payables due to associates	4.2	9.9	(5.7)
Payables for contract work in progress	13.4	10.4	3.0
TOTAL TRADE PAYABLES	2,590.5	2,170.1	420.4

Suppliers

- Energy-related/adjusted payables – € 2,051.2 million

This item includes the financial effects related to items generated by the so-called “pass-through” costs related to energy dispatching activities carried out by the Parent Company (€ 2,036.7 million) and the payable to Cassa per i Servizi Energetici e Ambientali (CSEA) for calculating the performance referred to the mechanisms for the transmission service quality adjustment (a total of € 14.5 million).

The increase in the item of € 615.5 million compared to the previous year is essentially due to payables for pass-through energy items, which increased by € 611.3 million attributable mainly to:

- higher costs related to items associated with the so-called Uplift fee (€ 451 million) due mainly to the higher net expense associated with the Dispatching Services Market (DSM) and with unbalancing (for the consequent effects on the so-called Uplift fee (see the item “Trade receivables”));
- payables linked to the remuneration of EUSSs - the Essential Units for the Safety of the electricity System (approximately +159.6 million).

- Non energy-related payables

Amounts due to suppliers, of € 521.7 million, 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 (€ 192.4 million) is essentially due to the purchases and services for greater investment activities carried out in the last period of 2015.

Payables to associates

This item, of € 4.2 million, basically shows payables to the associate CESI, for services received by the Parent Company (€ 0.3 million), by the subsidiary Terna Rete Italia S.p.A. (3.6 million) and by the subsidiary Terna Plus S.r.l. (€ 0.3 million), related to the construction and management of laboratories and plants for tests, inspections, studies and experimental research relating to the electro-technical field in general and to the technical and scientific developments. The decrease (€ 5.7 million) compared to 31 December 2015 is due to lower performance of the associate CESI during the first half of 2016.

The Group's commitments to suppliers totalled approximately € 2,716.6 million and refer to purchase commitments relating to the normal “operating cycle” planned for the period 2016–2020.

Payables for contract work in progress

Payables for contract work in progress related to advance payments received from customers, of € 13.4 million as at 30 June 2016, increased by € 3 million compared with 31 December 2015, essentially due to advancing orders of Tamini Trasformatori S.r.l. and of its Chilean subsidiary:

€ million	Payments on account	Contract value	Balance at 30.06.2016	Payments on account	Contract value	Balance at 31.12.2015
Payables for contract work in progress	(41.6)	28.2	(13.4)	(23.7)	13.3	(10.4)
Total	(41.6)	28.2	(13.4)	(23.7)	13.3	(10.4)

Tax liabilities – € 42.0 million

The item, equal to € 42.0 million, refers to the Group's tax liabilities for the period and recorded an increase of € +26.6 million, compared to the previous year, as a result of the recognition of income taxes of the period, net of advances paid over the six months and of the liquidation of taxes for financial year 2015.

Other current liabilities – € 306.7 million

Other current liabilities break down as follows:

€ million	30.06.2016	31.12.2015	Δ
Payments on account	98.3	59.0	39.3
Other tax payables	55.4	7.4	48.0
Payables to social security institutions	25.3	24.7	0.6
Payables to employees	39.2	55.9	(16.7)
Other payables to third parties	88.5	101.2	(12.7)
TOTAL	306.7	248.2	58.5

Payments on account

This item (€ 98.3 million) includes set-up grants received mainly by the Company (€ 94.4 million) in relation to assets under construction at 30 June 2016.

With respect to 31 December 2015 (€ 59.0 million), it shows an increase of € 39.3 million, essentially due to contributions recognised directly to reduce the carrying amount of assets which came into operation during the period (€ 0.4 million) net of new grants received from third parties (mainly from the EU to finance the “Sorgente-Rizziconi” project, € 33 million).

Other tax payables

Other tax payables, amounting to € 55.4 million, show an increase of € 48.0 million with respect to the previous financial year, mainly as a result of the VAT payable owed by the Group (€ 46.2 million) existing at 30 June 2016.

Payables to social security institutions

Amounts payable to social security institutions, mainly relating to payables due to INPS by the Parent and the subsidiary Terna Rete Italia S.p.A., amounted to € 25.3 million (€ 24.7 million at 31 December 2015). The item also includes the payable due to Fondo Previdenziale Elettrici – F.P.E. (pension fund for electricians) (€ 5.2 million).

Payables to employees

Payables to employees, amounting to € 39.2 million (€ 55.9 million at 31 December 2015), 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 (€ 18.1 million), and payables to employees for unused holiday time and abolished public holidays to be paid (€ 12.0 million).

Other payables to third parties

Other payables to third parties, of € 88.5 million (€ 101.2 million at 31 December 2015), refer essentially to the recognition of guarantee deposits (€ 60.7 million) received from electricity market operators to guarantee the contractual obligations arising from dispatching contracts, to the recognition of costs with deferred payment and deferred revenue (€ 19.2 million) and to other payables existing at 30 June 2016 (€ 8.6 million).

E. COMMITMENTS AND RISKS

Risk management

Market and financial risks of the Group

Nell'esercizio della sua attività, il Gruppo Terna è esposto a diversi rischi finanziari: rischio di mercato (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 Group's risk management policies seek to identify and analyse the risks the Group Companies are exposed to, establishing appropriate limits and controls and monitoring risks and compliance with these 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 a part of the financial risk management policies approved by the Board of Directors, Terna has established the responsibilities and operating procedures for financial risk management, specifically as concerns the instruments to be used and the precise operating limits in managing them.

The exposure of the Terna Group to the above risks, with the exception of exchange risk relative to the 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 2016.

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 of the Group" section of the Notes to the 2015 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 2015.

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 30 June 2016 was assumed:

€ million	Profit or loss			Equity		
	Current rates +10%	Current amounts	Current rates -10%	Current rates +10%	Current amounts	Current rates -10%
30.06.2016						
Positions sensitive to changes in interest rates (FVH, bonds, CFH)	0.8	0.7	0.6	(18.8)	(19.6)	(20.4)
<i>Hypothetical change</i>	0.1	-	(0.1)	(0.8)	-	(0.8)
31.12.2015						
Positions sensitive to interest rate variations (FVH, Bonds)	1.1	1.1	1.1	(4.9)	(6.4)	(7.5)
<i>Hypothetical change</i>	-	-	-	1.5	-	(1.2)

Liquidity risk

At 30 June 2016, Terna has liquidity of € 294.8 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 Group.

The credit risk originated by open positions on transactions in financial derivatives is considered to be marginal since the counterparties, in compliance with financial risk management policies, are leading international credit institutions with high ratings and such transactions are diversified in compliance with specific concentration limits. 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 2016 is represented by the total carrying amount 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:

€ million	Carrying amount		Variazione
	30.06.2016	31.12.2015	
FVH derivatives	381.6	688.2	(306.6)
Cash and cash equivalents	294.8	431.6	(136.8)
Trade receivables	2,112.6	1,373.4	739.2
Total	2,789.0	2,493.2	295.8

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

GEOGRAPHICAL DISTRIBUTION € million	Carrying amount	
	30.06.2016	31.12.2015
Italy	2,042.6	1,256.5
Euro-area countries	38.8	80.7
Other countries	31.2	36.2
Total	2,112.6	1,373.4

CUSTOMER TYPE € million	Carrying amount	
	30.06.2016	31.12.2015
Distributors	328.4	335.6
CSEA	82.0	82.9
Input dispatching contractors	156.7	189.5
Withdrawal dispatching contractors (non distributors)	1,410.7	598.3
Parties which have signed virtual import contracts and virtual import services (Interconnectors and Shippers)	17.4	18.2
Sundry receivables	117.4	148.9
Total	2,112.6	1,373.4

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

euro milioni	30.06.2016 Impairment	Gross	31.12.2015 Impairment	Gross
Not yet past due	-	1,853.1	-	1,282.8
0-30 days past due	-	247.6	-	10.5
31-120 days past due	-	10.2	-	18.5
More than 120 days past due	(37.4)	39.2	(36.3)	97.9
Total	(37.4)	2,150.1	(36.3)	1,409.7

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

€ million	30.06.2016	31.12.2015
Balance at 1 January	(36.3)	(33.6)
Reversal of provision	0.6	0.8
Impairment for the period	(1.7)	(3.5)
Balance	(37.4)	(36.3)

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

€ million	30.06.2016	31.12.2015
Input dispatching activity	216.2	246.8
Withdrawal dispatching activity	1,005.9	1,024.1
Grid transmission fees - distributors	264.1	262.1
Virtual importing	105.0	80.0
Balance	1,591.2	1,613.0

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 seven issues carried out under the bond issue programme of € 8 billion (€ 8,000,000,000 Medium-Term Notes Programme, hereinafter the "EMTN Programme"), one issue of € 500 million in 2007, one issue in the form of a Private Placement of € 600 million in 2009, one issue of € 1,250 million carried out in March 2011, one issue of € 1,250 million carried out in February 2012 and partially reduced through a buy-back operation for € 480 million performed in 2015, one issue of € 750 million in October 2012, one issue of € 1,000 million in February 2015, and one issue in the form of a Private Placement of € 80 million carried out in 2016;
- bank debt, consisting of a loan from Cassa Depositi e Prestiti (CDP) of € 500 million that draws on EIB funds, a revolving credit facility of € 750 million and a revolving credit facility of € 800 million;
- a series of loans to the Company from the European Investment Bank (EIB) for a total amount of € 2,271 million.

The main covenants relating to the issue of bonds and the € 8 billion EMTN Programme are summarised below:

- "negative pledge" clauses, under which the Issuer or Significant Subsidiaries (consolidated companies whose total assets represent at least 10% of total consolidated assets and, solely for the EMTN Programme, whose registered offices are in an OECD Member Country) may not establish or maintain mortgages, liens or other encumbrances on all or part of its assets or revenue in order to secure listed bonds, unless these guarantees are extended on the same basis to the bonds concerned. There are certain exceptions (so-called "permitted guarantees" such as, for example, guarantees required by law, guarantees in place prior to the date of issue of the bonds, guarantees on new assets that only secure the payable arranged to acquire them etc.), in relation to which the Company is not bound by the above obligations;
- "*pari passu*" clauses under which the securities constitute a direct, unconditional and unsecured obligation of the issuer; 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 provided for by the CDP loan of € 500 million, by the revolving credit facility of € 750 million and by the revolving credit facility of € 800 million can be summarised as follows:

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

- “negative pledge” clauses on the basis of which the Company must not, directly or indirectly,
- constitute constraints (such as personal or real guarantees, easements, privileges, charges or rights of third parties, etc.), without the consent of the Bank, with the exception of constraints granted in relation to debts of less than certain amounts and in contractually specified circumstances;
- clauses requiring the delivery of additional guarantees to the Bank in the event of a reduction in the rating under which, if the credit rating of the medium and long-term unsubordinated and unsecured debt is lowered and, consequently, is below: BBB+ for Standard & Poor’s, Baa1 for Moody’s; and BBB+ for Fitch or if the credit rating should cease to be published by all said ratings agencies, the Bank is entitled to require the Company to provide it with additional guarantees that are considered satisfactory at the unchallengeable but reasonable discretion of the Bank;
- “pari passu” clauses, under which, for the entire period of the loans, the Company will ensure that the payment obligations have the same seniority as those relating to all other unsecured and unsubordinated creditors;
- clauses regarding “termination of the contract/application of the acceleration clause/withdrawal” on which basis, where predetermined events occur (such as failure to pay, serious inaccuracies in the documentation and/or statements presented, insolvency, events resulting in negative consequences on the financial commitments made by the Company, special administration, liquidation, significant detrimental change, failure to fulfil contractual commitments, etc.) triggering immediate repayment; in addition, where the Company is required upon default to discharge in advance any other financial obligation in respect of loans, credit facilities, bank advances, discounting, the issue or subscription of any form of bond or security, except where certain thresholds are exceeded, such default shall also constitute default on the loan in question, triggering immediate repayment;
- obligatory early repayment clauses, based on which the Company will be required to repay the Loan early should specific events occur (such as for example, change in the control of the Company, loss of the concession, extraordinary corporate event) and, as a result of these, an agreement cannot be reached between the Company and the Bank regarding the changes to be made to the Contract, or if the Company does not constitute guarantees considered satisfactory at the reasonable discretion of the Bank, following a downgrading of the credit rating below certain contractually-defined thresholds or following cessation of publication of the same by the three rating agencies indicated above;
- periodic or occasional disclosure requirements both on the occurrence of specified events concerning both the projects being financed and on the Company itself.

None of the covenants have been infringed to date.

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 2016 are illustrated below. The other subsidiaries had no unrecognised commitments and contingencies at that date.

Legal disputes concerning the environment and urban planning

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, inter alia, 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 their status, it is not possible at the moment to carry out reliable assessments of their outcome.

Legal Disputes concerning concession activities

Given that it has been the licensee for transmission and dispatching activities since 1 November 2005, the Parent has is a party to a number of cases appealing AEEGSI, MED (Ministry for Economic Development) and/or Terna measures relating to activities operated under the license. Only in cases in which the plaintiffs not only claim defects in the measures, but also allege that Terna violated the rules established by such authorities, or in cases in which the measure had an impact on Terna, has the Company appeared in court. Within the scope of this litigation, although a number of cases have seen the AEEGSI Resolutions struck down in the first and/or second-level court, together with, where applicable, the consequent measures adopted by Terna, it is felt that there is little risk of adverse outcomes for Terna, since the matters generally regard pass-through items. This position is supported by the information provided by the external legal counsel representing the Company in the cases involved. As the licensee for transmission and dispatching activities, the measures taken by the Parent Company Terna when applying the Resolutions adopted by the Authority are sometimes the subject of challenges. In appropriate circumstances, the economic costs of such challenges may be borne by the Authority.

Legal disputes concerning supply contracts

The legal dispute in question concerns supply contracts signed by Tamini Group companies and their customers for the supply of transformers and components relating to them.

The said legal dispute regards mostly lawsuits initiated by the Tamini Group companies in order to recover the receivables deriving from the said contracts, but regards also certain actions for compensation brought against the companies in question, for alleged damages caused by the machinery and/or components supplied by the same.

In relation to the said lawsuits, as of today unfavourable outcomes cannot be excluded.

Tax Authority

On 27 March 2012, the parent company Terna, as jointly and severally responsible with Enel Distribuzione S.p.A. ("Enel 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). The appeal lodged by Terna against the notice for payment was accepted by the Provincial Tax Commission of Rome, with the judgement confirmed on appeal by the Regional Tax Commission of Rome. The Tax Authority did not appeal this decision before the Supreme Court. The favourable judgement, therefore, became definitive; consequently, there is no longer any risk of future financial outlays for the Company.

F. BUSINESS COMBINATIONS

There were no business combinations during the first half of 2016.

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 not only with the associate company CESI S.p.A. and with the employee pension funds (FONDENEL and FOPEN), but also 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;
- Ferrovie dello Stato Group (State Railway);
- the Poste Italiane Group;

and with ANAS 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 2016 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 year, in addition to the respective receivables and payables in place as of 30 June 2016:

Related party	Revenue transactions	Cost transactions
Cassa Depositi e Prestiti S.p.A.		Non energy-related items Credit line
Cesi S.p.A.	Non energy-related items Lease of laboratories and similar structures for specific purposes	Non energy-related items Technical consultancy, studies and research, projects and experimentation
GSE Group	Energy-related items MIS component, dispatching prices Non energy-related items Specialist services, leases, IT services	
Enel Group	Energy-related items NTG remuneration and measurement aggregation, dispatching prices Non energy-related items Lease and rent, line maintenance, works to move/vary lines, maintenance of power line communication on company-owned power lines..	Non energy-related items Return of electricity discount, staff administration, building services, supply of MV power to new stations, specialised services for connection to Terna control and protection systems
ENI Group	Energy-related items Dispatch fees Non energy-related items Line maintenance	
FSI Group	Energy-related items Dispatch fees Non energy-related items Line moving	Energy-related items NTG Remuneration Non energy-related items Right-of-way fees
Anas S.p.A.	Non energy-related items Work on line moving/variants	Non energy-related items Right-of-way fees
Italian Ministry of Economic Development	Non energy-related items Work on line moving/variants	Non energy-related items Grants for line moving/variants
Fondenel e Fopen		Non energy-related items Pension contributions borne by the Terna Group
Poste Italiane		Non energy-related items Various services

€ million		Income statement			
Company	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
<i>De facto parent company:</i>					
Cassa Depositi e Prestiti S.p.A.	-	-	-	-	2.5
Total de facto parent company	-	-	-	-	2.5
<i>Associates:</i>					
Cesi S.p.A.	-	-	-	0.7	-
Total associates	-	-	-	0.7	-
<i>Other related companies:</i>					
GSE Group	11.4	-	-	0.2	-
Enel Group	740.6	-	-	2.2	-
Eni Group	2.2	-	-	0.2	-
FSI Group	-	-	-	17.3	-
ANAS S.p.A.	-	-	-	0.3	-
Total other related companies	754.2	-	-	20.2	-
<i>Pension funds:</i>					
Fondenel	-	-	-	0.2	-
Fopen	-	-	-	0.9	-
Total pension funds	-	-	-	1.1	-
TOTAL	754,2	-	-	22.0	2.5

€ million		Statement of financial position				
Società	Property, plant and equipment	Receivables and other assets		Payables and other liabilities		Guarantees*
	Capitalised costs	Other	Financial	Other	Financial	
<i>De facto parent company:</i>						
Cassa Depositi e Prestiti S.p.A.	-	-	0.6	-	500.7	-
Total de facto parent company	-	-	0.6	-	500.7	-
<i>Associates:</i>						
Cesi S.p.A.	4.9	1.1	-	4.2	-	7.8
Total associates	4.9	1.1	-	4.2	-	7.8
<i>Other related companies:</i>						
GSE Group	0.2	3.8	-	0.2	-	-
Enel Group	2.7	302.5	-	19.2	-	495.7
Eni Group	-	0.9	-	0.2	-	21.6
FSI Group	0.1	0.5	-	8.9	-	-
Italian Ministry of Economic Development	-	-	-	60.5	-	-
Total other related companies	3.0	307.7	-	89.0	-	517.3
<i>Pension funds:</i>						
Fopen	-	-	-	1.5	-	-
Total pension funds	-	-	-	1.5	-	-
TOTAL	7.9	-	-	94.7	500.7	525.1

* The guarantees refer to sureties received on contracts signed.

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 2016, either with third parties or with related parties.

I. NOTES TO THE STATEMENT OF CASH FLOWS

The cash flow generated by **continuing operations** in the period amounted to € 786.6 million, which reflects € 786.9 million in cash from operating activities (self-financing) and € 0.3 million in financial resources generated by the management of net working capital.

Investing activities used net financial resources of € 335.3 million, and included mainly € 331.7 million of investment in property, plant and machinery net of capital grants received in the period and capitalised borrowing costs (the latter of € 9.4 million), and € 15.2 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 payment of the balance on the 2015 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 € 596.6 million, covered totally by the cash flows generated by operating activities (€ 786.6 million). The net financial debt therefore decreased during the period.

L. SIGNIFICANT EVENTS SUBSEQUENT TO 30 JUNE 2016

Terna wins the Safety Prize awarded by Confindustria and INAIL

Terna won the Safety Prize awarded by Confindustria and INAIL with the official patronage of the President of the Republic, which was consigned on 20/07/2016 in the presence of the Chairperson of Confindustria.

The 4th edition of the "Companies Safety Prize", awarded by Confindustria and INAIL with the technical collaboration of APQI (*Associazione Premio Qualità Italia* - Italy Quality Prize Association) and Accredia (the Italian Accreditation Body) was intended to reward companies that have distinguished themselves for commitment in the field of health and safety management, as a useful example for highlighting and sharing their experiences to raise the awareness of other companies and workers on legislative, cultural, organisational and behavioural aspects.

The purpose of the initiative was to create a real and proper corporate culture on the subject of health and safety, rewarding the best companies that have distinguished themselves for the excellence of the management process and, in particular, for the concrete commitment and results achieved in the field of health and safety.

The recognition obtained testifies to Terna's leadership in the use of increasingly innovative solutions to protect the health and safety of workers. One of the most significant assessment parameters analysed was the degree of maturity reached by the company in adopting the most effective best practices at the international level on the subject of safety.

€ 500 million revolving credit facility agreed

On 26 July 2016 Terna agreed a back-up revolving credit facility, in the form of a "committed" line (the "Revolving Credit Facility" or "Facility"), for a total amount of € 500 million, with a pool of banks including Banca IMI, BNP Paribas, Bank of Tokyo - Mitsubishi, Caixa Bank and UniCredit serving as Joint Mandated Lead Arrangers and Bookrunners. The Revolving Credit Facility will have a duration of 5 years and the amount available will be usable throughout the duration of the loan with prior notification. The interest rate is linked to the EURIBOR plus a margin between 0.70% and 1.10% (based on the portion used).

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

“Attestation of Interim Financial Statements”

1. The undersigned Matteo Del Fante, as CEO, and Pierpaolo Cristofori, as Executive in Charge of the preparation of accounting documents for TERNA S.p.A., also considering that established by art. 154 *bis*, paragraphs 3 and 4 of Italian Legislative Decree no. 58 of 24 February 1998, certify:
 - the suitability in relation to the business characteristics; and
 - the effective application of the administrative and accounting procedures for the preparation of the condensed consolidated interim financial statements during first the half of 2016.
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. comply with the results of the accounts and accounting entries;
 - c. are suitable to providing a truthful, correct representation of the equity, economic and financial position of the issuer and all companies included in the consolidation.
 - 3.2. the 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, 27/07/2016

Delegated administrative bodies
(Matteo Del Fante)

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

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



INDEPENDENT AUDITORS' REPORT ON THE REVIEW OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2016

To the Shareholders of
Terna SpA

Foreword

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 2016 comprising the statement of financial position, the income statement, the statement of comprehensive income, the statements of changes in shareholders' equity, the statement of cash flows and related notes. Terna SpA directors are responsible for the preparation of the condensed consolidated interim financial statements in accordance with 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 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, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed consolidated interim financial statements.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhner 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Via Grazioli 73 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

www.pwc.com/it

**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 2016 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, 29 July 2016

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.

An Asset for the Country



00156 ROMA VIALE EGIDIO GALBANI, 70
TEL +39 06 83138111