INTERIM FINANCIAL REPORT

30 JUNE 2017

TERNA GROUP

2017

Terna

TERNA GROUP

Enabling Energy Transition

INTERIM FINANCIAL REPORT

30 JUNE 2017

TERNA GROUP

Terna

TERNA GROUP

Summary

INTERIM REPORT ON OPERATIONS AT 30 JUNE 2017

Highlights 1H2017

New Board of Directors (2017-2019)

New Terna S.p.A. BoD appointed on 27 April 2017

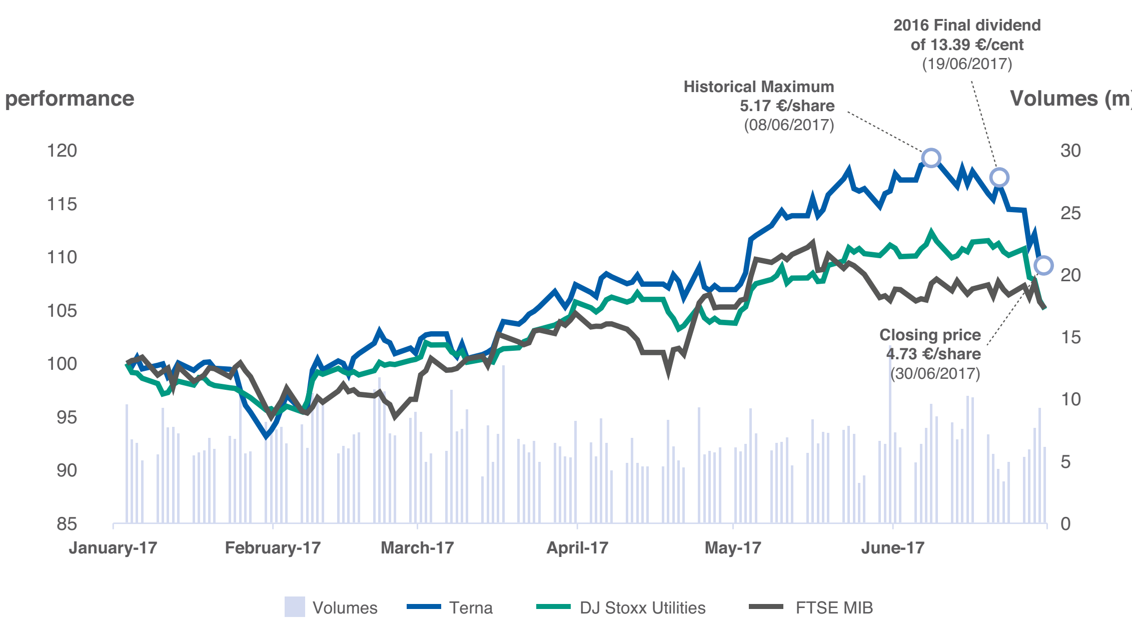
CHAIRWOMAN
Catia Bastioli

CHIEF EXECUTIVE OFFICER
Luigi Ferraris

DIRECTORS

Elena Vasco
Fabio Corsico
Luca Dal Fabbro
Yunpeng He
Gabriella Porcelli
Stefano Saglia
Paola Giannotti

Stock performance



Operating Performance

Capri-Continent interconnection

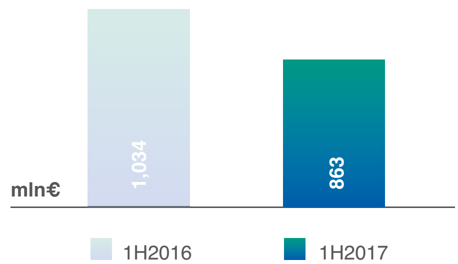
On 27 June, the connection line with the Italian peninsula came into operation.

Coverage of demand with renewable sources

Approximately 34%, higher than the target of the European energy Policy of 20% to be achieved by 2020.

MSD

MSD net expense decreased by 17% (€ -171 million), as a result of the AEEGSI prescriptions in favour of the Day Ahead Market.



Italy-France interconnection

On 04 July, sale of Piemonte Savoia S.r.l. (Private Interconnector) to the syndicate Interconnector Italia S.c.p.a.

International Activities – Closing of the agreement in Brazil

On 26 June, an agreement was closed with the Planova Group for the acquisition of 2 concessions, 158 km in the state of Rio Grande do Sul and 350 km in the state of Mato Grosso.

Sustainable electrical solutions

Commissioning & testing of the first vegetable-oil transformer in Italy.

Economic and financial performance

(Amounts in € millions)

Revenues	EBITDA	Group Net profit	Capital Expenditure	Net Financial debt
1,046.9	794.8	351.3	325.7	7,941.7
+0.7%*	+2.3%*	+8.2%*	-6.1%*	-0.2%**

* comparative figure 1H2016
** comparative figure 31/12/2016

Final dividend for 2016: € 269,137,928.80 (€ 0.1339 per each of the 2,009,992,000 shares), payable on 21 June 2017;

EIB Loans for Capri: 22-year loan for € 85 million agreed on 27 June 2017.

Introduction

The Interim Financial Report of the Terna Group at 30 June 2017 has been prepared in accordance with Art. 154-*ter* of Italian Legislative Decree no. 58/98, introduced by Legislative Decree no. 195 of 06 November 2007 (the "*Transparency* Decree"), as amended by Legislative Decree no. 254 of 30 December 2016.

The Company

The Terna Group operates primarily in the transmission and dispatching of electricity across Italy in its role as TSO (Transmission System Operator) and ISO (Independent System Operator), performed in compliance with a monopoly framework granted by a government concession. Terna manages all of its activities with great attention to their possible economic, social and environmental consequences and adopts a sustainable approach to business. The aim is to create, maintain and consolidate a relationship of mutual trust with its stakeholders, for the purpose of creating value for the Company and the stakeholders. The Company owns the infrastructures and is responsible for preparing the NTG Development Plan, its Security Plan and, from 2017, the Resilience Plan (Resolutions 653/15/R/eel and 646/15/R/eel, as amended).

The main business areas of the Terna Group are presented below:

Regulated Activities – Transmission and dispatching of electricity in Italy

The Terna Group owns 99.6% of the Italian National Transmission Grid (NTG).
It is the largest independent electricity transmission grid operator in Europe and one of the global leaders in terms of km of lines operated, with **more than 72,000 km of High and Extra-High-Voltage lines**.
It is responsible for the management of electricity flows on the High and Extra-High-Voltage grid throughout Italy, with the aim of maintaining the balance between energy supply and demand (dispatching). It is also responsible for grid planning, construction and maintenance activities. It fulfils the role of TSO on the basis of the regulations defined by the Italian Regulatory Authority for Electricity, Gas and Water (hereinafter AEEGSI) and the guidelines of the Ministry of Economic Development (hereinafter MISE). It guarantees the security, quality and reliability over time of the Italian Electricity System and pursues the development of the grid and its integration with the European grid. It ensures equal access conditions for all Grid users.

Non-Regulated Activities – New business opportunities in Italy

The Terna Group offers products and services pursuing new business opportunities thanks to the experience, technical skills and innovation capabilities acquired through the management of complex systems.

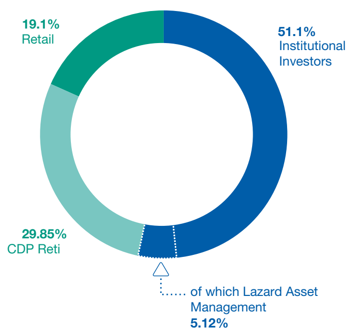
International Activities – Operator on the international market

The Terna Group offers products and services abroad with a view to diversifying its activities carried out in Italy, and collaborates with energy operators with a consolidated international presence.
The development activities focus on geographical areas requiring investments in transmission infrastructures that also have stable political and regulatory frameworks and a risk/return profile in line with that of the Company.

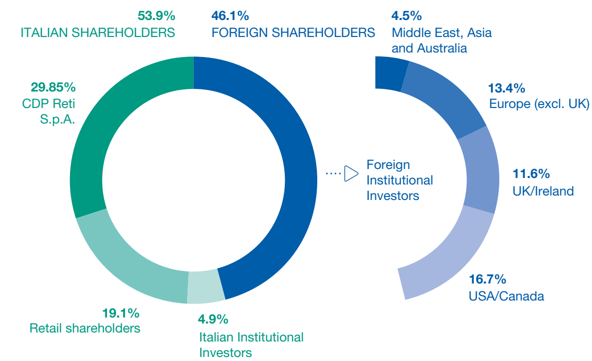
Shareholders

At the date of this report, Terna's share capital amounted to € 442,198,240 and was represented by 2,009,992,000 ordinary shares of a nominal value of € 0.22 per fully-paid share.
On the basis of the Shareholder Register and other information available as of July 2017, shareholding in Terna S.p.A. is represented in the graph below.

SHAREHOLDING STRUCTURE
BY TYPE



SHAREHOLDING STRUCTURE
BY GEOGRAPHICAL AREA AND TYPE



Based on periodic surveys conducted by the Company, share capital is deemed to be held for the 53.9% by Italian investors and for the 46.1% by foreign institutional investors. The latter are predominantly located in the USA and Europe.

Major shareholders[1]

CDP RETI S.p.A. (subsidiary of Cassa Depositi e Prestiti S.p.A.): **29.851%**
LAZARD ASSET MANAGEMENT LLC (Discretionary Asset Management): **5.122%**

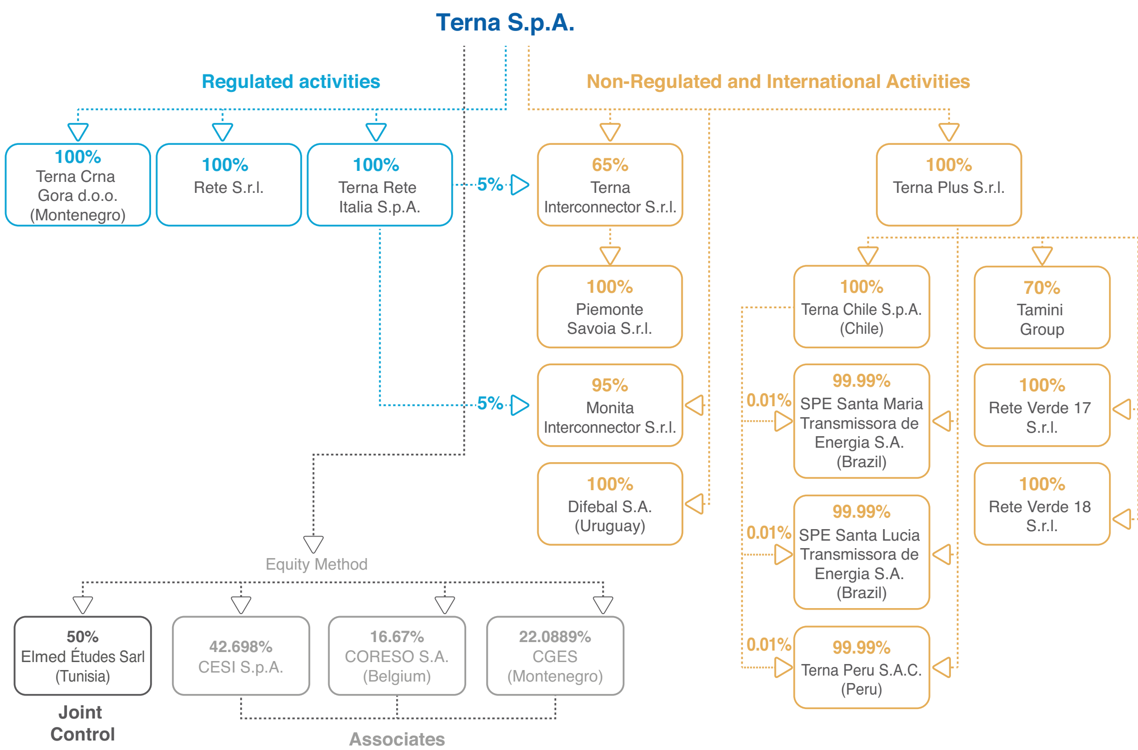
Shareholder Agreements

On 27 November 2014, a shareholder agreement was made between Cassa Depositi e Prestiti S.p.A. (CDP) and State Grid Europe Limited (SGEL) and State Grid International Development Limited (SGID), in relation to CDP RETI S.p.A., SNAM S.p.A. and TERNA S.p.A., subsequently amended to extend the provisions to Italgas S.p.A.

(1) Shareholders who, based on available information and any communication received from CONSOB, hold a proportion of share capital in Terna S.p.A. in excess of the significance thresholds indicated in CONSOB resolution no. 11971/99.

Corporate Structure

The corporate structure of the Terna Group at 30 June 2017 is presented below.



Compared to the situation on 31 December 2016, the following changes have been made to the Group's corporate structure.

<u>Acquisitions and registration of new companies:</u>

- On 10 May 2017, the subsidiary Terna Plus S.r.l. established two limited-liability companies, Rete Verde 17 S.r.l. and Rete Verde 18 S.r.l., aimed at the development of renewable-energy initiatives as agreed in the partnership between Terna and RFI signed in November 2016.
- On 13 June 2017, the subsidiaries Terna Plus S.r.l. and Terna Chile S.p.A. established the company Terna Peru S.A.C. under Peruvian law, with a shareholding of 99.99% and 0.01% respectively, for the construction of a 138-kV line (132 km).
- On 26 June 2017, the subsidiary Terna Plus S.r.l. acquired two public limited companies under Brazilian law, SPE Santa Maria Trasmissora de Energia S.A. and SPE Santa Lucia Trasmissora de Energia S.A. The shareholding of Terna Plus S.r.l. is 99.9%, while the remaining 0.01% is held by Terna Chile S.p.A..

<u>Mergers:</u>

- On 31 March 2017, the merger by incorporation of Terna Storage S.r.l. and Terna Rete Italia S.r.l. into Terna S.p.A. came into effect.
- In the context of the Tamini Group, on 8 June 2017 the merger by incorporation into Tamini Trasformatori S.r.l of T.E.S. Transformer Electro Service S.r.l. and V.T.D. Trasformatori S.r.l. came into effect.

Strategy and Main Events

Strategy

On **20 February 2017**, Terna approved and presented the **Strategic Plan for the period 2017–2021** to the market. In particular, the reference scenario of the electricity industry in Italy and in Europe, characterised by the steady growth of non-programmable renewables and the gradual decommissioning of traditional generation plants, has given rise to the need for appropriate development of the electricity grids. This has led to revision of the investment plan for the period with an increase to € 4 billion in order to:

- **Create infrastructures for interconnection with foreign countries**;
- **Expand interconnections to reduce local congestion**;
- **Facilitate the integration of renewables and improve system security**;
- **Use cutting-edge technologies**, with ever-increasing attention to environmental and sustainability aspects.

In addition, the 2017–2021 Strategic Plan provides for the consolidation of an industrial approach to Non-Regulated Activities, positioning Terna increasingly as an Energy Solution Provider, along with an international strategy which supports growth and value creation in the long term. Finally, maintaining a solid capital structure thanks to strong cash generation will contribute to sustaining an attractive dividend policy, which will ensure 3% annual dividend growth until 2021.

National Development Plan 2017

The 2017 National Development Plan (DP) sets out investments totalling approximately € 7.8 billion (of which 2.5 billion in the period 2017–2021), thanks to which savings will be achieved for the electricity system, as well as benefits, including:

- Higher total exchange capacity with international operators up to an estimated 5,000 MW;
- Higher output capacity from renewables up to approximately 4,500 MW;
- Reduction in congestion equivalent to approximately 3,000 MW;
- Reduction in energy losses by approximately 830 million kWh per year;
- Reduction in CO_2 emissions by approximately 7.7 million tonnes per year, through improved generation mix and reduced grid losses, equating to the equivalent emissions of around 6.5 million cars[2].

In accordance with Directive 2009/28/CE, the National Action Plan (NAP) produced by the Ministry of Economic Development in 2010 and the AEEGSI Resolution 627/16[3], Terna inserted a section into the National Strategic Plan in which it defines the necessary operations required to facilitate the full use of energy produced by renewables. Analysis conducted on the grid to investigate methods of enhancing the use and development of renewables led to the identification of operations both on the primary transmission network (380–220 kV) and on the High-Voltage network (150–132 kV).
The following figures show the main development activities regarding the Extra-High-Voltage 380 kV network.

(2) Average car emissions: 120 g CO_2/km; Average mileage: 10,000 km/year.
(3) Resolution 627/2016/R/eel - Provisions for the preparation of the ten-year development plan for the National Transmission Grid and the approval of the minimum requirements of the Plan in line with the assessments of the Authority.

Main events in the first half of 2017 and subsequent periods

OPERATIONS

- From **16 to 19 January 2017**, certain areas of Abruzzo and Le Marche were struck by an intense spell of bad weather and persistent heavy snowfall, which resulted in the loss of power to users of the distribution and transmission networks. Terna, the distribution companies, the Civil Protection Department and Public Institutions acted to resolve the power outage and restore the service.
- On **14 February 2017**, the MISE issued the new authorisation decree no. EL-146-*bis* "Udine Ovest – Redipuglia".
- On **31 March 2017**, in the context of developing the area of Benevento and the connection of renewable energy plants, the Benevento III (BN) substation was activated, equipped with five bays (three 380 kV bays and two 150 kV bays).
- On **1 June 2017**, Terna presented the "Rationalisation of the High-Voltage grid in the areas of Venice and Padua" project to the Technical Committee for Evaluation of Environmental Impact of the Ministry of the Environment and the Protection of Land and Sea, as part of the authorisation procedure for the works.
- On **27 June 2017**, the connection between the island of Capri and the Italian peninsula was activated.

INTERNATIONAL INTERCONNECTIONS

ITALY-FRANCE INTERCONNECTOR	On **4 July 2017** the company Piemonte Savoia S.r.l. was sold to the Interconnector Italia S.c.p.a. syndicate. The signed agreements also relate to the construction and operation of the private infrastructure. For further details, please refer to the "Non-Regulated Activities" section under Performance in the first half of 2017.
ITALY-MONTENEGRO INTERCONNECTOR	Ongoing activities to install undersea cable (capital expenditure of € 72.1 million over the six-month period): installation of the first pole complete; underground cables currently being installed. Works are progressing on the substations in Cepagatti (Italy side, for the assembly of equipment, transformers and converters), and Kotor (Montenegro side, for the completion of foundations for equipment and main buildings).

INTERNATIONAL ACTIVITIES

PERU	On **26 May 2017**, Terna Plus was awarded the tender by Proinversiòn (state agency for infrastructural investment controlled by the Peruvian Ministry of Energy and Mines) for the construction of a 138-kV line in central Peru, extending 132 km, which will connect the Aguaytìa and Pucallpagara electricity substations. The licence has a duration of 30 years and the total value of the project is around 12 million USD.
RUSSIA	On **2 June 2017**, as part of the St. Petersburg International Economic Forum SPIEF '17, Terna and Rosseti signed a non-binding MoU for a 36-month period, focusing on the exchange of know-how, best practices and cooperation in certain key technological areas in the electricity-transmission sector, including storage and the integration of renewables, as well as the identification of advanced solutions in the context of planning and constructing High-Voltage networks.
BRAZIL	On **26 June 2017**, an agreement with the Planova Group, a Brazilian company operating in the construction of civil works and infrastructure, was finalised in Brazil, aimed at acquiring two concessions for the construction and operation for a 30-year period of approximately 500 km of electricity infrastructure. Following the signing of the agreement on 2 February 2017, the operation was completed through the subsidiary Terna Plus and resulted in the acquisition of two Brazilian vehicle companies, "SPE - Santa Maria Transmissora de Energia S.A." and "SPE - Santa Lucia Transmissora de Energia S.A." According to the agreement, the Terna Group will be responsible for holding the concession and operating the line, while all engineering, procurement and construction (EPC) activities will be entrusted to Planova. Expected investments of € 180 million.

FINANCE

- On **6 March 2017**, Fitch confirmed Terna's rating as "BBB+", with a Stable Outlook; which was also reconfirmed following the downgrade of the Italian Republic to "BBB/Stable" on 21 April 2017, deeming that the regulator's independence, the mature risk-free scenario in terms of volume and the full access to financial markets are such to maintain the current rating.
- On **21 June 2017**, the **final dividend for 2016** of € 269,137,928.80 (€ 0.1339 per each of the 2,009,992,000 shares) was made payable.
- On **27 June 2017**, Terna S.p.A. signed an agreement with the European Investment Bank (EIB) for a 22-year loan of € 85 million, in order to support investments for the development of the Capri-Continent connection and the restructuring of the Sorrento Peninsula, which involves the replacement of the current 60 kV network with a new 150 kV network. The agreement includes a fixed-rate tranche at 1.386% for a total of € 73.55 million, and a variable-rate tranche, subject to certain conditions, equal to EURIBOR 6m + 0.343%, for a total of € 11.45 million.
- On **14 July 2017**, Terna signed the Project Finance for 81 million USD for the construction of a 500-kV transmission line to connect the cities of Melo and Tacuarembó in Uruguay. The funding is composed of a 17-year loan of approximately 56 million USD with the Inter-American Development Bank (IDB) and a 15-year loan of approximately 25 million USD with the Banco Bilbao Vizcaya Argentaria (BBVA). The funding has been qualified as a "green loan" by Vigeo Eiris, an agency specialising in the assessment of sustainability aspects in the field of business strategy and management, due to the positive impact of the new transmission line on electricity generation from renewables in Uruguay.
- On **19 July 2017**, Terna S.p.A. successfully launched a fixed-rate bond issuance for a total amount of € 1 billion under its € 8,000 million Euro Medium Term Notes (EMTN) Programme, which has been rated "BBB" by Standard and Poor's, "(P)Baa1" by Moody's and "BBB+" by Fitch. The notes, with a duration of 10 years and maturity date falling on 26 July 2027, will pay a coupon of 1.375%. The Notes will be listed on the Luxembourg Stock Exchange. The operation is part of the financial optimisation strategy to support investments for a more sustainable, secure and efficient electricity grid.
- On **21 July 2017** Terna and the European Investment Bank (EIB) signed an agreement for a € 130 million loan to support investments for the public part of the "Piemonte-Savoia" project. The loan, with a duration of 22 years, includes a single tranche at a fixed rate of 1.64%. The project forms part of the principal EIB lending programmes in the fields of energy and the environment.

SECURITY

- On **31 January 2017**, the Group became the first in Italy to obtain the anti-corruption certification according to the new international regulation ISO 37001:2016 - Anti-bribery management systems.

SUSTAINABILITY

- On **26 May 2017**, Terna obtained its sixth consecutive confirmation in the Euronext index of the ratings agency Vigeo Eiris thanks to its performance in the Environmental, Social and Governance sectors.

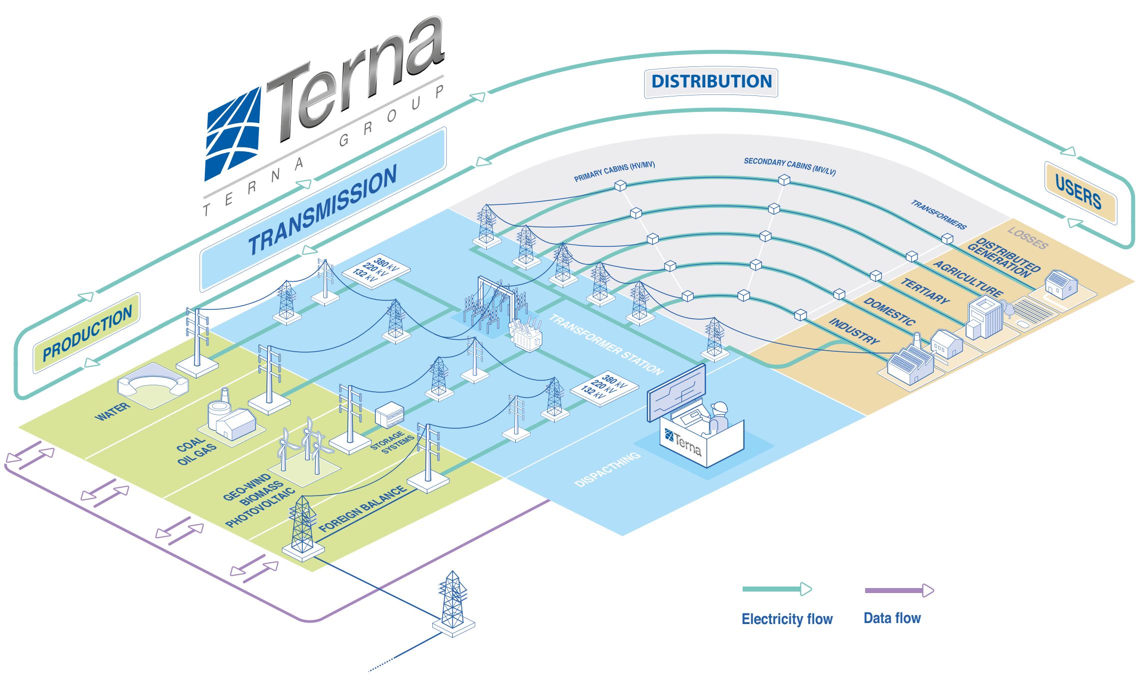
Business

Regulated Activities

Electricity transmission and dispatching activities in Italy

The main Regulated Activities of the Terna Group are the transmission and dispatching of electricity in Italy. Terna performs these activities in its role as Italian TSO (Transmission System Operator) and ISO (Independent System Operator), performed in compliance with a monopoly framework granted by a government concession.
The regulated revenues from such activities constitute approximately 93% of the Group's total revenues and are determined on the basis of regulations set forth by the AEEGSI in the relevant resolutions.

TERNA'S ROLE IN THE ITALIAN ELECTRICITY SYSTEM



Terna is responsible for the **Transmission and Dispatching** of electricity, consisting of the transfer of electricity produced in generation plants to usage areas through the high-voltage power lines, electricity and transformer substations and storage systems which make up the transmission grid, ensuring a constant balance between electricity supply and demand; thanks to international interconnections, the transmission system is also able to exchange electricity between Italy and other countries.
The supply chain is supported by the **Production** (intended as the conversion of energy from primary sources into electricity) and **Distribution** (the delivery of electricity through medium and low-voltage lines to end users) networks.

The operating process for regulated activities is essentially formed of the following phases:

- Planning
- Development
- Dispatching
- Maintenance of Infrastructure.

Non-Regulated Activities

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

- PRIVATE INTERCONNECTORS PURSUANT TO ITALIAN LAW 99/2009
- SERVICES FOR THIRD PARTY (Engineering, Telecommunications, O&M of Third-Party Plants)
- TRANSFORMERS - TAMINI GROUP

PRIVATE INTERCONNECTORS PURSUANT TO ITALIAN LAW 99/2009

In order to support the development of a single electricity market through the optimisation of the international interconnections infrastructure, European legislation was introduced which outlined the guidelines for the development of interconnections by parties other than grid operators.
The European directives were incorporated into Italian legislation in Law 99/2009, which entrusted to Terna the responsibility of selecting, on a public-tender basis, the Companies (Selected Parties) willing to finance specific interconnections in light of the benefits of obtaining an Exemption Order from third-party access to electricity transmission capacity made available by the relative infrastructure. In particular, the Law states that such Parties, having committed to funding the project, award Terna the mandate to develop and operate the interconnections.
A total of five interconnectors are planned across the following borders:

- **France:** installation of 350 MW private interconnection available with exemptions to private investors (part of a total 1,200 MW interconnection capacity), 190 km length. The completion and activation of the line is currently scheduled for December 2019;
- **Montenegro:** installation of 300 MW private interconnection available with exemptions to private investors (part of a total 1,200 MW of new interconnection capacity, of which the first 600 MW will be completed by December 2019);
- **Austria, Switzerland and Slovenia**, in the authorisation phase.

SERVICES FOR THIRD PARTIES

In Italy, in the first half of 2017, Terna continued to carry out activities related to services for third parties in the fields of:

- **ENGINEERING** (development of technical solutions and innovative services - EPC - Engineering, Procurement, Construction): this involves the planning, development and implementation of solutions to satisfy the increasing demand for grid infrastructure and connections;
- **TELECOMMUNICATIONS** (housing of telecommunications devices and maintenance services for fibre-optic networks): in the first half of the year, Terna finalised new contracts with telecommunications operators to grant usage rights for fibre-optic networks and related maintenance and equipment housing services. For example Terna signed a framework agreement for the installation of the Open Fiber Backbone network;
- **O&M OF THIRD-PARTY PLANTS** (operation and maintenance of High and Extra-High-Voltage plants).

TRANSFORMERS – TAMINI GROUP

With over a hundred years of experience and excellent know-how, Tamini is a prestigious long-standing industrial company. Recognised in the electricity sector both in Italy and abroad, it is one of the leading groups in Europe for the planning, production and commercialisation of industrial electricity and power transformers, a sector which represents 23% of the global electricity-components market.
Representing a national benchmark in the transformers sector in Italy and well-known in the electricity sector both nationally and abroad, Tamini operates through a team of around 400 specialised employees, serving clients from more than 90 countries worldwide.
Tamini manufactures industrial machinery with a focus on quality and craftsmanship. Based on the specific product requirements of each client, the manual labour is expertly combined with the most sophisticated design and calculation techniques thanks to the use of cutting-edge software and simulation models.
Having manufactured more than 9,000 transformers, Tamini has installed more machines than any other operator worldwide in the sector of specialist metalwork transformers. Furthermore, Tamini also holds the record for the most powerful transformer for steelworks in the world, which is found in Turkey. The company has six production plants, all located in Italy and specialising in the manufacture of various machines; the sites are in Legnano, Melegnano, Ospitaletto, Valdagno, Novara and Rodengo.
Tamini has also tested the first Italian-made vegetable-oil transformer.

International Activities

The Terna Group pursues development activities abroad with a view to diversifying its activities carried out in Italy, and in partnership with energy operators with a consolidated international presence. The Group's international initiatives create further value for the Group, with the aim of diversifying risk and selecting opportunities with an attractive reward/risk ratio.
Foreign investments directed towards countries characterised by a stable political and regulatory profile and a need to install electricity infrastructure are a key business opportunity for the Group and enhance skills and best practices at a global level.

International initiatives relevant to the Terna Group include:

- **EPC**: the implementation of Engineering, Procurement & Construction projects focusing on High-Voltage transmission systems on behalf of third parties;
- **TECHNICAL ASSISTANCE**: the provision of engineering and regulatory consultancy services for third parties operating in the electricity sector, including participation in public tendering procedures;
- **CONCESSIONS - BOOT** (Build, Own, Operate, Transfer) and **BOT** (Build, Own, Transfer): the BOOT model includes the design, construction and operation of transmission infrastructures and their ownership for a pre-defined time period usually acquired through international tendering procedures; at the end of the ownership period, the asset is transferred to another pre-agreed party; the BOT model extends exclusively to design and construction and, in general, the transfer of ownership of the infrastructure.

Further details on the new initiatives in **Brazil** and **Peru** are provided in the paragraph "Main events in the first half of 2017 and subsequent periods". As regards activities in **Uruguay**, please refer to the paragraph "Performance in the first half of 2017".

Business outlook

In the second half of the year, the Terna Group will be engaged in implementing the 2017–2021 Strategic Plan approved by the Board of Directors and presented to the financial community on 20 February 2017.

In particular, the company will continue to pursue its own strategic objectives, focusing on the development of the grid to enhance the integration of renewables and improve the security of the system while also accelerating the renewal of its own assets with the aim of mitigating service-outage risk, increasing environmental sustainability and supporting maintenance through the use of digital grid technologies.

With reference to International and Non-Regulated Activities, the company will proceed with the consolidation of a business approach based on the key skills of the Group, increasing Terna's position as an Energy Solution Provider.

With specific reference to the National Transmission Grid, approximately € 0.9 billion of capital expenditure is planned by the end of the year.

Among the key electricity infrastructure projects currently underway, the interconnections with Montenegro and France, due to enter into service in 2019, are particularly important. In the second half of the year, the Udine Ovest - Redipuglia 380 kV power line designed to optimise the Friuli electricity system is due online, bringing the additional benefit of a lower risk that energy will not be supplied and increasing the security of cross-border exchanges with Eastern Europe. Furthermore, in the context of activities to reduce congestion with the aim of improving the security and reliability of networks with a high user density, the activities in the city of Palermo are due for completion.

With reference to Non-Regulated Activities, the focus on the creation of value through activities performed for third-parties will continue, focusing on the areas of engineering, construction and maintenance services mainly for the electricity and telecommunications sectors. Furthermore, in the second half of the year, the Group will continue its collaboration with the Italian State Railways, aimed at launching the project to build on behalf of Rete Ferroviaria Italiana (RFI) photo-voltaic systems up to a maximum output of 200 MW which will ensure the generation of up to around 300 GWh of clean energy per year.

With reference to Interconnection projects, the construction of the Italy-France and Italy-Montenegro interconnectors is in progress.

Regarding international activities, in the second half of the year, works are due to begin on the construction of power lines in Uruguay, Brazil and Peru for a total length of over 850 km and a total invested capital of around € 260 million in the 2017–2019 period. In addition, the Group will continue to scout for possible international opportunities which may also be developed through partnerships and will be selected through careful evaluation processes to guarantee a low risk profile.

As in previous years, the Group will maintain its focus on cost-excellence programmes, continuing to improve its operating processes and rationalise costs, also regarding the integration of the grid acquired from the FSI Group.

The above-mentioned objectives will be pursued maintaining the commitment to maximise the cash generation needed to ensure a solid and balanced financial structure with an estimated net debt to RAB ratio of less than 60%.

External Context

Legislative

The main legislative sources that govern the role and activities of the Italian Electricity Transmission Grid Operator:

REGULATORY PILLARS

Unification of ownership and operation of the national electricity transmission grid

Prime Ministerial Decree of 11 May 2004 implementing Decree Law no. 239 of 29 August 2003, which defined the methods and initiated the process of unification of ownership and management of the national grid and of transmission to a single independent operator.

Concession

Ministerial Decree for production activities of 20 April 2005 and annexes, as amended by the Decree of 15 December 2010, which outlined the electricity transmission and dispatching activities in Italy, including the unified management of the national transmission grid.

The internal electricity market

Legislative Decree 93/11, on the internal electricity market, describes the core activities of the electricity grid operator and establishes the methods with which the AEEGSI issues the certification required for transmission system operators by the EU directive 2009/72/EC.

Energy

Demand and generation of electricity in Italy

In the first six months of 2017, the demand for electricity in Italy recorded a slightly positive change of 1.4% compared to the same period of 2016. In the period January-June 2017, demand for electricity in Italy was 154,482 million kWh compared to 152,395 million kWh in the comparative period.

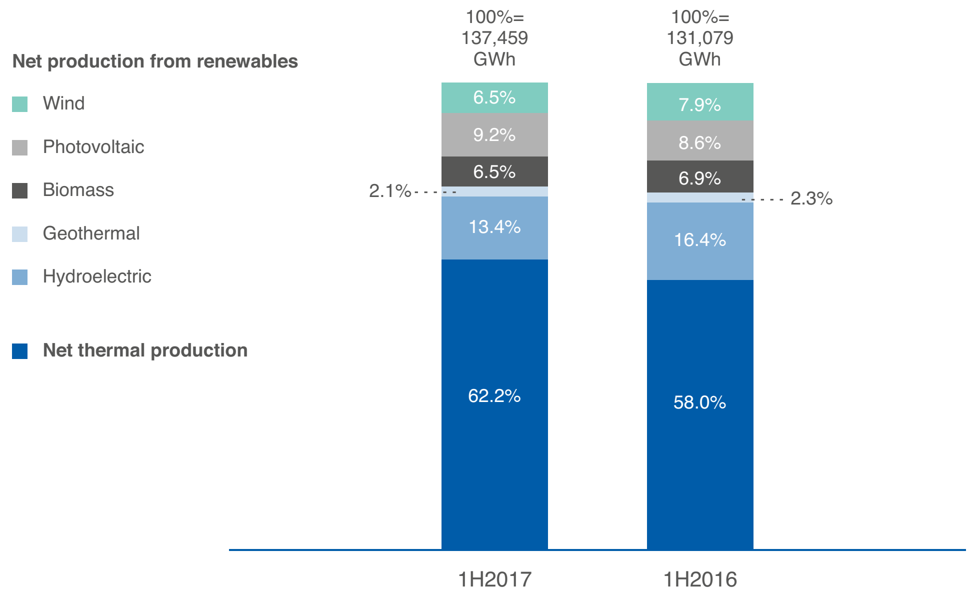
ELECTRICITY BALANCE SHEET FOR ITALY

	1 January - 30 June			
	2017*	2016*	Change	% change
Net production	137,459	131,079	6,380	4.9%
Import	21,395	25,705	(4,310)	(16.8%)
Export	(3,083)	(3,149)	66	(2.1%)
For pumping	(1,289)	(1,240)	(49)	4.0%
Total demand in Italy	**154,482**	**152,395**	**2,087**	**1.4%**

* Provisional data.
NOTE:
This does not include energy demand from auxiliary electricity generation services.
Pump-back systems: electricity used to pump water upwards for its subsequent use for electricity generation.

The positive variation on the electricity balance sheet for Italy was predominantly due to a cold wave in January 2017. Furthermore, in the last two months of the half-year period, an early heat wave also resulted in increased usage mainly due to air-conditioning systems.

NET ELECTRICITY GENERATION BY SOURCE TYPE*



* provisional data

In terms of electricity generation by source type, in the first six months of 2017, renewables accounted for approximately **37.8**% of total energy generation, a decrease on the same period of 2016 although with different trends for individual sources. In particular, less energy was generated by wind, hydro, geothermal and biomass systems.

Currently, the total percentage of demand met by renewables (approximately **34**%) exceeds the 20% target for 2020 set by the European Energy Policy, as well as the target of 27% for 2030 set by the Clean Energy Package.

Electricity Price Trend

The average hourly price on the Italian Power Exchange (IPEX[4]/PUN – Single National Price) for the first six months of 2017 was **51** €/MWh, an increase (+ **38**%) on the price recorded in the same period of 2016. The intense cold weather recorded across Europe in January, which also coincided with the French nuclear power stations going offline, contributed to the increase in PUN.

Regulatory

Regulatory Framework for the fifth regulatory period (2016–2023)[5]

2016 marked the beginning of the fifth regulatory period (or new regulatory period: NRP), an eight-year period divided into two sub-periods: NRP1 (2016–2019) and NRP2 (2020–2023). The regulatory system for the first four years is broadly in line with the previous regime, although with some new elements and, more generally, an increased focus on output-based regulatory logic. For the second four-year period, the Energy Regulator has proposed a new methodological approach to transmission service regulation, whereby costs will be recognised on the basis of total spending over time (operating costs and capital expenditure), also known as the TOTEX (Total Expenditure) approach.

(4) IPEX: Italian Power Exchange.
(5) With Resolutions no. 583/2015/R/com, no. 653/2015/R/eel, no. 654/2015/R/eel and no. 658/2015/R/eel, the AEEGSI established the tariff regulations for services related to the transmission, distribution, metering and dispatching of electricity and the regulation of transmission service quality for the regulatory period 2016–2023 (fifth regulatory period).

The Energy Regulator also introduced two specific regulatory sub-periods in order to fix the rate of recognised return on invested capital, known as the Weight Average Cost of Capital (WACC), for three years per period (2016–2018 and 2019–2021).
Certain key elements of NPR1 regulation, with reference to the return on transmission and dispatching services, are presented below.

Transmission and dispatching services in the first four-year period (2016–2019)

Transmission revenues[6] represents the most significant portion of regulated revenues and derives from the application of the transmission fee (TF) invoiced by Terna to distributors connected to the National Transmission Grid. This fee remunerates the transmission business carried on by the owners of the NTG, including owners of residual portions (outside the Terna Group), and since 2016 has a dual structure: **power** (**90% of all revenues**, expressed in € cent/kW/year) and **energy** (**10% of all revenues**, expressed in € cent/kWh).
The **dispatching service fee**[7] (DIS) remunerates Terna for activities connected to the dispatching service, and it is invoiced by Terna to the withdrawal dispatching users, in proportion to the respective quantities of energy dispatched.
The recognised costs used to determine the TF and DIS charge fall into three main categories, as summarised below:

THE THREE MAIN CATEGORIES OF RECOGNISED COSTS

▷ Tariff components covering capital costs (RAB):

Calculated by the Regulated Asset Base (RAB) and the Weighted Average Cost of Capital (WACC). RAB represents regulated invested capital, is reviewed annually on the basis of the ISTAT data on the change in the gross fixed capital deflator and is updated based on dynamic investments and divestitures. WACC represents the weighted average cost of equity capital and debt capital. The roles of determining and reviewing the WACC are established by the relevant resolutions issued by the Energy Regulator. For the 2016–2018 period, the regulatory WACC for transmission services is fixed at **5.3**%, real before tax.

▷ Tariff components covering depreciation:

Recognised depreciation (based on the useful regulatory asset lifetime) are reviewed annually on the basis of the change in the gross fixed capital deflator and including the net increase in depreciation as per the evolution of the regulated asset base.

▷ Tariff components covering operating expenses:

Recognised operating expenses are determined by the Energy Regulator at the start of the regulatory period, on the basis of operating expenses of the year of reference (2014 for NRP1) plus the residual quotas of efficiency gains made during the two previous regulatory periods. The value is reviewed annually on the basis of inflation and is offset by a percentage factor designed to redistribute the efficiency gains to end-users over time.

For more details on the regulatory framework for the 2016–2023 period, please refer to the information in the Annual Report at 31 December 2016.

(6) With Resolution 654/2015/R/eel, the Energy Regulator established the criteria and formula for the calculation of the power and energy components and their annual renewal for the 2016–2019 period. With Resolution 779/2016/R/eel, the Energy Regulator updated the transmission service tariffs for 2017.
(7) Resolution 658/2015/R/eel set out the tariff regulation criteria for provision of dispatching services, in amendment to Resolution no. 351/07. The DIS is updated annually according to the same criteria and procedures set out by Resolution 654/2015/R/eel for the TF (apart from a few exceptions outlined in the same Resolution 658/2015/R/eel). With Resolution 815/2016/R/eel, dispatching fees for 2017 were updated.

Social

Terna's commitment to sustainability is expressed above all in attention to reducing the environmental and social impacts associated with its activities, minimising the environmental footprint and guaranteeing an adequate endowment of intellectual capital over time.
This entails forecasting of the possible environmental and social impacts that development activities can have, as well as adoption of all measures needed to prevent and minimise them. It also means constructive dialogue with the local communities in the places where development is planned or where lines are present.
The Group's community focus is also expressed by its involvement in social, humanitarian and cultural initiatives, representing a tangible example of the Group's role in the development of civil society.
Another key element of Terna's approach to sustainability is its focus on human resources, not only in terms of renewing key technical skills which are often rare or unique in the electricity sector but also through its focus on health and safety in the workplace; the latter is particularly relevant given the fact that many operating activities are associated with specific risks, such as working at height and live-line maintenance.
The Sustainability Plan is designed to manage and define all activities associated with the growth of the business in terms of sustainability. In particular, it aims to:

- ensure the gradual and constant improvement of the Terna Group's sustainability performance over time, supplementing and supporting the business targets outlined in the Strategic Plan;
- safeguard and consolidate the Group's reputational capital, with specific reference to investors with a focus on sustainability and, more generally, in line with the 231 Model and Law 262.

The key elements of the social context are described below.

KEY ELEMENTS OF THE SOCIAL CONTEXT

Local communities: dialogue on the development of new electricity infrastructure

In 2002, Terna adopted a voluntary process of early involvement with local institutions (regional and local administrations, park authorities, etc.), extended in 2015 to include individual citizens with a direct interest in Terna's operations, through a series of public meetings known as "Terna meets...". Over the course of the first six months of 2017, nine such meetings took place (Auronzo, Cortina, Vaiano, Formazza, Domodossola (Val d'Ossola), Comignago, Avigliana, Val di Susa and Chiomonte) in order to express the safety and operational objectives of the electricity service provided in the public interest by Terna in the context of the development of new infrastructure.

Environmental Associations: conservation and biodiversity

Since 2009, Terna's commitment to the environment and biodiversity has been demonstrated by the Group's partnership agreements with leading Italian and international environmental associations (Legambiente, WWF and Greenpeace), with the aim of researching common solutions able to increase the environmental sustainability of the NTG. The growing concern over the impact of climate change and the concurrent energy transition phase towards a greater focus on renewable energy have further broadened Terna's partnership with these associations. Terna continues to be committed to conserving biodiversity: in the course of the first six months, the installation of bird boxes in various parks in Parma and Piacenza was completed, while a programme to install similar boxes along the Trasversale Lucana and Udine Ovest-Redipuglia lines was finalised. Finally, the first BSI (Bird Strike Indicator) test was completed on the Villanova-Gissi lines, aimed at monitoring the risk of birdlife colliding with the safety cables.

Capital

Infrastructural	Financial	Human	Intellectual	Social [8]	Natural [8]

Infrastructure

The High and Extra-High-Voltage NTG in Italy represents the main infrastructure capital of the Terna Group. At the end of the second quarter in 2017, the electricity lines owned and managed by Terna amounted to approximately 72.8 thousand km, in line with the total at 31 December 2016. In this context, there are 25 international interconnections, making Italy the most interconnected country in Europe.
The main variations to assets owned by the Terna group are presented below.

ASSETS VARIATIONS

SUBSTATIONS

In the context of developing the area of Benevento and the connection of renewable energy plants, the **Benevento III (BN) substation** was activated, equipped with five bays (three 380 kV and two 150 kV).
Also in the context of renewable-energy plants, the **Foggia Rignano (FG)** substation came into operation, equipped with four 150 kV bays.
Finally, three bays were installed at the **Pian Camuno (BS)** substation while the **Cedegolo (BS)**, substation comprising two 132 kV bays was decommissioned.

POWER LINES

As part of the redevelopment of the Naples metropolitan area, the **new Poggioreale-Secondigliano 220 kV line**, with 7.3 km of circuits, was installed.
Various **routing modifications** have been made, some at the request of third parties, with a total reduction of 1.3 km of 220 kV circuits and 4.3 km of 132 kV circuits.

Financial

The Group's financial strategy is characterised by diverse funding sources, a balance between short and mid-to-long term loans and proactive debt management.
Gross debt[9] on 30 June 2017 was approximately € 8.6 billion, represented by € 6.4 billion of bond issues and € 2.2 billion of bank loans (mainly with the EIB). The average debt maturity is approximately 5.3 years; the percentages of fixed-rate and variable-rate on gross debt are 83% and 17% of the total, respectively.

(8) Please refer to the information in the "Social Context" paragraph.
(9) Net debt refers to the sum of the items "Bonds", "Loans" and "Short-term loans" as detailed in the Statement of Net Financial Debt given in the Economic and Financial Performance section.

Human

At 30 June 2017, the Terna Group employed 3,931 employees; the breakdown of personnel by type is shown below:

Category	as of 30/06/2017	as of 31/12/2016	Δ
Senior Managers	70	76	(6)
Middle Managers	569	567	2
Office staff	2,028	1,978	50
Blue-collar workers	1,264	1,248	16
TOTAL	3,931	3,869	62

The headcount for the period showed an increase of 62 units compared with 31 December 2016 (93 new hirings against 31 releases); this variation is mainly due to the following events:

- the process of integrating the high-voltage assets acquired from the FSI Group and consequent implementation of the recruiting policy;
- the termination of employment through retirement.

Intellectual

The steady and significant evolution of the electricity supply chain requires a **new** systematic and organic approach to **innovation**, based on monitoring activities and the strategic acceleration of a portfolio of Research, Development and Innovation initiatives, as well as the proposal of new initiatives aimed at achieving the correct strategic position both within Italy and internationally.
The **Innovation Plan** (2017–2021) is based on the above premises, with the aim of guiding and overseeing company innovation by identifying strategic guidelines, monitoring projects and managing support tools.

TOOLS FOR INNOVATION

Systems and processes aimed at supporting the optimisation of internal assets and skills

These include tools designed to optimise the Group's intellectual capital and share corporate know-how, as well as portfolio-management tools.

Open innovation

This aims to open new development opportunities both within the company and externally, through dynamic interactions with universities and research centres, partnerships with peers and other large industrial players, and access to start-ups and small-to-medium sized businesses.

Access to subsidised incentive and financing mechanisms

This aims to promote access to incentives (e.g. tax credit for businesses that invest in research and development activities, or patent-box provisions) and specific funding programmes for both international and national R&D lines.

The main Research and Development initiatives in the six-month period are summarised below:

MAIN INITIATIVES

NEXT ENERGY

The first edition of the programme, launched in partnership with the Cariplo Foundation with the support of Cariplo Factory and Polihub to develop the skills of talented young people and support the development of innovative projects with a view to open innovation, ended on 4 April 2017 with the announcement of the three winning start-ups, which each received a contribution to help bring their projects to the market. Chaired by Terna Chairwoman Catia Bastioli, the jury selected the three best teams (Drone Radio Beacon; Ribes Tech and Sense Square) which, as well as gaining access to "Go to Market" services, are working with a fourth team, Cleveral, which was awarded a special commendation, to develop a pilot of each project in conjunction with Terna. The second edition of NEXT ENERGY will take place in September 2017.

Academic institutions

On 21 February 2017, a Partnership Agreement was signed with the Polytechnic University of Turin with the aim of launching a 5-year strategic partnership focusing on training activities (at the PhD, masters and university internship levels) and research, technological development and innovation in the electricity systems sector, with a particular focus on the development of three macro-themes: "Strategy and Development – Innovation, Research and Development", "Engineering – Dispatching" and "Engineering – Technologies". As part of the Agreement, in the second quarter of 2017, Terna launched two study grants aimed at supporting two three-year PhD programmes, starting in November.

Partnerships with Peers

In relation to partnerships with peers in the sector, during the first six months of 2017 a dialogue was opened with some of the leading European TSOs with the aim of promoting the continual improvement of the corporate internal innovation governance procedures. For one of these partnerships, Terna is working with the French TSO RTE to develop benchmarking and know-how sharing activities in the field of innovation using the current MoU.

This close partnership with leading players in the European energy sector is also demonstrated by the organisation of visits and events at Terna's Storage Plants, representing one of the few tangible examples in the world of utility-grade storage plants in operation in order to serve the grid requirements of the TSO. In particular, in February a delegation from the Belgian TSO ELIA visited the Flumeri Energy Intensive Storage site in order to acquire more know-how from Terna's experience in the storage systems sector and their operation as part of the national transmission grid. Much like the project with RTE, Terna launched a benchmarking project with ELIA focused on the internal innovation governance and the company's approach to Open Innovation. Finally, again in February, the H2020 planning proposal known as OSMOSE was submitted to the European Commission. Led by the French TSO RTE, the project involves Terna and another four European TSOs (REE, ELES, REN and ELIA), as well as various universities, research centres and industrial partners, and aims to demonstrate the technical feasibility of an optimum mix of flexibility solutions capable of enhancing the technical and economic efficiency of the European electricity system while ensuring safety and reliability.

Transmission technologies

- **Security Plan – Ice and snow risk management** – The project to install anti-rotational devices was continued, aimed at mitigating the risk of sleeves of ice forming on overhead power lines resulting in possible electricity outages.
- **Sustainable Solutions** – During the first six months, the test on the first vegetable-oil transformer built in Italy was carried out.

Alongside these initiatives, the increase in the value of human capital within the company has been supported by an increasingly active participation in leading international associations and committees in the electricity and innovation sector. One significant example of this is Terna's participation, starting in **February 2017**, in the European Commission platform **ETIP SNET** (European Technology and Innovation Platform - Smart Network for Energy Transition); this platform plays a key role in defining the research and innovation guidelines for subjects of community interest (such as Smart Grids and energy-storage technologies) aimed at optimising the current energy transition phase.

Risk Management

Terna's core business is represented by electricity transmission, regulated foremost by government concession and the provisions of the AEEGSI, which include defining the remuneration of services provided by Terna and the corresponding tariff scheme.
It therefore follows that Terna is not exposed to the typical pricing and market risks, other than marginally in relation to Non-Regulated and International Activities, but is instead subject to regulatory and legislative risks.
The regulatory risk derives from possible changes to the parameters determining regulated revenues, particularly during the multi-annual review of the regulatory framework (please refer to the paragraph regarding the outcome of the latest review, with effect from 2016). The legislative risk is linked to possible changes in Italian and European law on environmental, energy, taxation and social (work and contracts) matters.
Like all risk categories, these aspects are closely analysed by Terna, which has identified the key risks linked to its activities and established dedicated controls, tools and organisational structures aimed at reducing said risks and minimising their impact within tolerable limits.

Risk-analysis tools and procedures

The Terna Group has adopted the **Enterprise Risk Management (ERM)** approach which has been tailored to its role as Grid Operator.

To complement the adoption and application of an integrated risk-management model, Terna has implemented an Enterprise Governance, Risk and Compliance (eGRC) tool able to simplify and classify information in order to produce a homogeneous and comparable representation of company risks, facilitate detailed analysis of the results and represent the risk levels for each area through an integrated reporting system for consideration by Senior Management.

This complex risk structure and homogenisation process has divided the different risks into the following categories or macro-classifications: **Governance & Compliance**, **Operations** and **Strategy & Finance**.

CLASSIFICATION	
GOVERNANCE & COMPLIANCE	Governance and Compliance Models
	Relations with Institutional Partners
	Fraud Management
OPERATIONS	Operating-Procedures Risk Management
	Environmental, Social and Political Issues
	Physical Threats to Sites
	Cybercrime
	Supplier Risk
	Accidents in the Workplace and Environmental Incidents
STRATEGY & FINANCE	Financial Risks

For more information of the risk management activities carried out in the first half of the year, please see the annex "Risk Classification and Management".

Performance in the first half of 2017

Operating performance

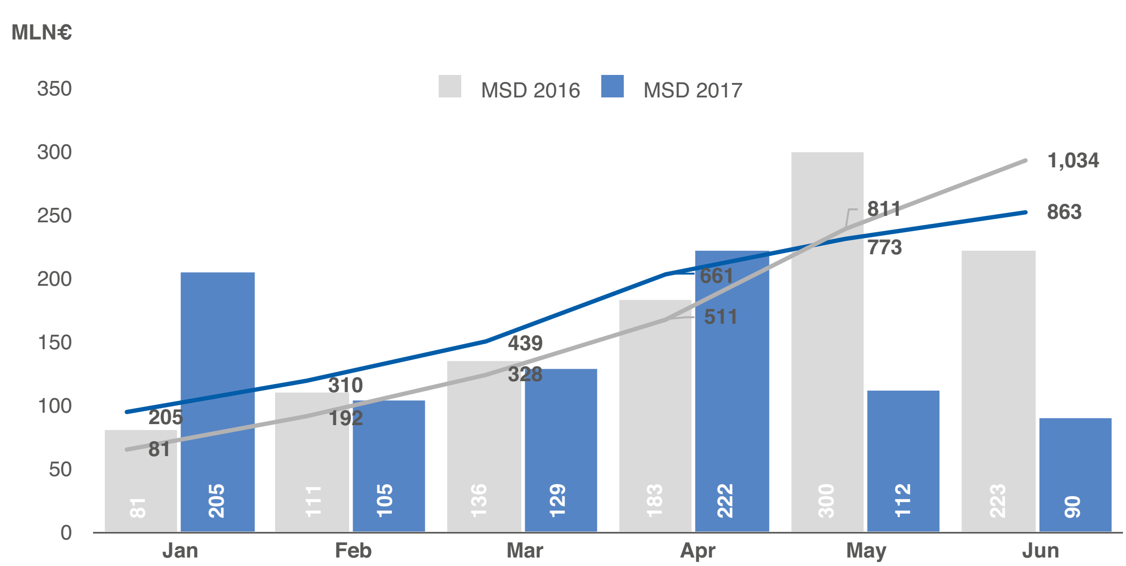
Regulated activities

Continuity and security of the electricity service

The first half of 2017 was marked by exceptional weather conditions involving intense snowfall and strong winds. The Abruzzo and Marche regions were severely hit in January, creating serious problems for service continuity. Terna, the distribution companies, the Civil Protection Department and Public Institutions acted to resolve the power outage and restore the service.
Following these events, the Authority also issued Resolution 127/17, which, with effect from 1 October 2017, made some changes to the settlement of compensation that the Distributors (directly) and/or Terna (indirectly, through the sharing mechanism) pay to the MV and LV users in case of prolonged outages.
The "RENS - Reference Energy Not Supplied" measure based on preliminary operating data of the first half of 2017 stood at about 239 MWh, compared to the relevant annual target, of about 946 MWh, without taking into account the aforementioned exceptional event.

Dispatching Service Market

On the Dispatching Service Market (MSD) Terna procures the resources to guarantee the security of the electricity system. In the first half of 2017, the net expense on the MSD was € 863 million[10], down compared to the corresponding period of last year (€ 1,034 million).
The first half was characterised by a total reduction of the net MSD expense due mainly to the essential-service systems which came into force in May and June. This effect more than offset the increases recorded in the second half of *January* due to the very cold spell which hit Northern Italy and Northern Europe in general, contributing to increased need for System Reserve (also partially owing to the cold weather and snowfalls which affected the Abruzzo region, limiting transfer between market zones) and owing to the positive effects deriving from a greater presence of operators in the Day Ahead Market (DAM) compared to the MSD following specific AEEGSI prescriptions.

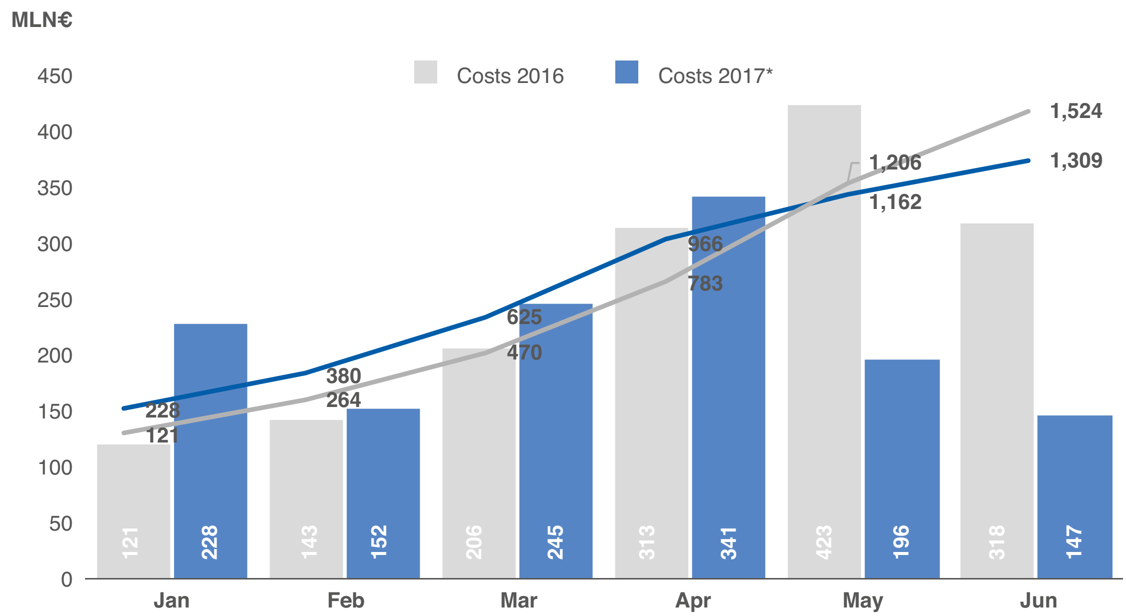


(10) Provisional data for June.

Fee to cover costs for procurement of resources on the MSD (Uplift)

AEEGSI Resolution no. 111/06 (TITLE 4) regulates the fees for dispatching services and connected guarantees. One of the dispatching fees is the fee for procurement of resources on the dispatching services market (Uplift) pursuant to art. 44 as amended.
The Uplift price is used by the system to recover net expenses deriving from energy-related items from the end user, including provision of services and energy to cover system unbalancing on the MSD, unbalancing prices, congestion income and relative coverage and the virtual interconnection service (the Interconnector).
This fee is invoiced pro-rata to dispatching users on the basis of the energy withdrawn, to cover the monthly cost accruing, and previous months cumulated differences.

In the first half of 2017, the total Uplift cost was approximately € 1,309 million[11], down compared to the same period of the previous year, predominantly as a result of the reduction of the MSD cost recorded in *May and June*.



*of which the MSD component is presented in detail in the previous paragraph.

Construction activities

The Group's capital expenditure in the first half of 2017 is presented below. It is classified in relation to the remuneration category and identified in the new regulatory framework (V period).

€ million	1H2017	1H2016	Δ	Δ%
I-NPR1	12.4	50.4	(38.0)	(75.4)
O-NPR1	20.9	10.9	10.0	91.7
Capital expenditure with incentives*	**33.3**	**61.3**	**(28.0)**	**(45.7)**
Other Regulated Activities	272.6	271.2	1.4	0.5
Capital expenditure in Regulated Activities	**305.9**	**332.5**	**(26.6)**	**(8.0)**
Other	19.8	14.4	5.4	37.5
Total capital expenditure	**325.7**	**346.9**	**(21.2)**	**(6.1)**

** Capital expenditure classified in accordance with art. 20 of Resolution 654/15/R/eel and awaiting approval by the AEEGSI.*

(11) Provisional data for June.

The Group's **total capital expenditure** in the first six months of 2017 amounted to € 325.7 million, compared to € 346.9 million in the same period of the previous year; of which **€ 33.3 million** related to **incentives** capital expenditure (categories I-NPR1 and O-NPR1), compared to € 61.3 million in the same period of the previous year, in line with the end-of-year targets (€ 0.9 billion).
The item "Other" includes capital expenditure in Non-Regulated Activities (€ 12.8 million, related mainly to the capital expenditure of the subsidiary Piemonte-Savoia) and capitalised financial expenses (€ 7.0 million).

With reference to the **main projects in the period**[12], the following is noted:

- the progress of construction works for interconnection with other countries related to the following lines:
    - Italy-Montenegro (€ 72.1 million), the entire undersea cable activities were completed; construction of substations and laying of underground cables in Italy and Montenegro are in progress;
    - Italy-France (€ 8.2 million), excavation and cable-laying activities are in progress on the provincial stretch of the connection (about 14 km of 17 km have been completed);
- installation of Laguna cables (€ 16.2 million), development of underground and undersea sections in progress. Tunnelling is ongoing to arrive at Cavallino and the archaeological studies are in progress in agreement with the archaeological authority of Venice;
- Macchialupo substation (€ 14.5 million), the substation and the two 150 kV double three-phase power lines, Bisaccia – Macchialupo 1 and 2 (20.4 km), have been acquired;
- the interconnection between Capri and the Italian peninsula (€ 12.9 million) came into operation at the end of June. The work supplying the island will guarantee a more secure connection of the electricity grid and service continuity;
- capital expenditure related to the grid acquired from the FSI Group (€ 9.2 million), predominantly as part of the process of functional separation of the substations and line renewal operations.

Non-Regulated Activities

Private interconnectors pursuant to Italian Law 99/2009

Activities continued in the first half of 2017 with the aim of developing Interconnector projects, implementing Italian Law 99/2009.
In particular, these activities regarded the **"Italy-France" Interconnector** project for which on 6 April 2017 the vehicle company Piemonte Savoia (PI.SA.) received a notification of exemption from the MISE, taking into account the MISE Directorial Decree of 20/07/2016 and the positive opinion issued on 9/12/2016 by the European Commission under the terms of Regulation (EC) no. 714/2009.
On **4 July 2017** the Terna Group and the "Interconnector Italia S.c.p.a." syndicate, which brings together "energy-intensive" private companies, signed the agreements for the construction and operation of the private part of the project. The entire capital of Piemonte Savoia S.r.l. was sold to the Interconnector Italia syndicate. Mandate contracts were also signed for construction (EPC) and the operation (O&M) for a total amount of about € 415 million.

(12) The amounts below include capitalised financial expenses.

Services for Third Parties

In Italy, during the first half of 2017, Terna continued to provide services for third parties in the fields of Engineering activities (developing technical solutions and supplying innovative services), EPC (Engineering, Procurement, Construction), Telecommunications (TLC, housing and fibre-optic network maintenance services) and Third-Party Plant Management (operation and maintenance activities involving High- and Extra-High-Voltage plants).

Engineering and **EPC**: development activities are continuing in the fields of energy efficiency and cogeneration services and in proposing connection solutions on the HV grid (focusing especially on renewable-energy producers).

Also of importance, was the letter of intent signed with RFI for the development of renewable-energy initiatives and the start of the authorisation procedure for development of the "smart island" project involving Giannutri Island and the technical progress (PTOs etc…) for the Giglio, Pantelleria and Certosa islands. These projects are part of Terna's wider strategy to upgrade the electricity systems of the minor islands, making them innovative.

Telecommunications: the Group continued to develop services leveraging fibre-optic and housing services, with particular reference to telecommunication operators.

In particular, during the first half of 2017, planning and negotiation of fibre-optic agreements continued with the main operators and contracts were signed which should be executed during 2017 and subsequent years. In addition, studies and demonstration projects are in progress to take further advantage of pylons and areas in electrical substations for advanced solutions in the ICT sector.

Third-Party Plant Management: the existing activities are continuing for the O&M of HV Plants, the management of contracts and renewals and the pursuit of new opportunities in this field.

Transformers – Tamini Group

Orders for transformers acquired in the first six months increased compared to the same period of the previous year (+13%); the workload at the factories also grew compared to the end of 2016.

During the period, the supply of Phase Shifting Transformers was completed. This is a complex project, of strategic importance for Tamini, which has managed to break in to this important sector at European level. In addition, at the Legnano facility, the approval test was performed successfully on the first transformer with vegetable oil built in Italy. At the end of March, the Headquarters of the Tamini Group was transferred to the Legnano office while work continues at the Melegnano facility.

International Activities

During the first half of 2017, activities abroad continued in line with the corporate strategy.

Uruguay

For construction of the 500 KV power line from Melo to Tacuarembo, works are in progress on the geological and geotechnical surveys, along with engineering of the structures and of the foundations. The 81-million-dollar Project Financing contract was finalised.

For more details on the new initiatives in **Uruguay**, **Brazil** and in **Peru**, please see the paragraph "Main events in the first half of 2017 and subsequent periods".

Economic and Financial performance

In order to present the economic 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-IFRSs adopted by the Group and contained in the Condensed Consolidated Interim Financial Statements.
These reclassified tables contain alternative performance measures with respect to those resulting directly from the tables of the Condensed Consolidated Interim Financial Statements, which management considers useful for monitoring Group trends, and representative of the economic and financial results produced by the business.
In line with the guidance found in ESMA/2015/1415, the criteria for constructing these measures are described in the notes which reconcile them with the schedules contained in the Condensed Consolidated Interim Financial Statements, attached to this Interim Report on Operations.

Consolidation perimeter

As already illustrated in the paragraph "Corporate Structure", the change in the consolidation perimeter compared to the situation at 31 December 2016 regards, in the context of the Non-Regulated Activities, the incorporation on **10 May 2017** of two limited-liability companies Rete Verde 17 S.r.l. and Rete Verde 18 S.r.l., carried out by Terna Plus S.r.l.; and the incorporation on **13 June 2017**, by the subsidiaries Terna Plus S.r.l. and Terna Chile S.p.A, of the Peruvian company Terna Peru S.A.C., with stakes of 99.99% and 0.01% respectively. Finally, it is important to note the acquisition on **26 June 2017** of two Brazilian joint-stock companies SPE Santa Maria Trasmissora de Energia S.A. and SPE Santa Lucia Trasmissora de Energia S.A..

Basis of presentation

The measurement and recognition criteria applied in this Interim Financial Report are consistent with those adopted in the Consolidated Financial Statements at 31 December 2016. For the purposes of better comparison some economic balances have been reclassified, but without altering equity at 31 December 2016.

Group reclassified income statement

The operating Income Statements of the Terna Group for the first half of 2017 and 2016 and for the second quarter of the years 2017 and 2016 are summarised in the statement below, obtained reclassifying the data presented in the Consolidated Income Statement:

II quarter								
2017	2016	Δ	Δ %	*€ million*	1H2017	1H2016	Δ	Δ %
523.0	**522.7**	**0.3**	**0.1**	**TOTAL REVENUES**	**1,046.9**	**1,039.9**	**7.0**	**0.7**
443.8	439.9	3.9	0.9	- Transmission	894.6	871.1	23.5	2.7
26.8	26.8	-	-	- Dispatching and other	55.6	54.8	0.8	1.5
49.2	51.6	(2.4)	(4.7)	- Other operating revenues	91.1	106.9	(15.8)	(14.8)
3.6	*4.3*	*(0.7)*	*(16.3)*	*of which other revenues from Regulated Activities*	*11.7*	*16.5*	*(4.8)*	*(29.1)*
45.6	*47.3*	*(1.7)*	*(3.6)*	*of which revenues from Non-Regulated Activities*	*79.4*	*90.4*	*(11.0)*	*(12.2)*
3.2	4.4	(1.2)	(27.3)	- IFRIC 12 effects*	5.6	7.1	(1.5)	(21.1)
131.0	**140.8**	**(9.8)**	**(7.0)**	**TOTAL OPERATING EXPENSES**	**252.1**	**262.9**	**(10.8)**	**(4.1)**
63.0	59.2	3.8	6.4	- Personnel	124.4	113.2	11.2	9.9
39.4	43.5	(4.1)	(9.4)	- Services, leases and rentals	73.7	84.1	(10.4)	(12.4)
17.7	18.8	(1.1)	(5.9)	- Materials	32.8	38.9	(6.1)	(15.7)
6.9	13.0	(6.1)	(46.9)	- Other expenses	11.8	16.0	(4.2)	(26.3)
0.8	1.9	(1.1)	(57.9)	- Quality of service	3.8	3.6	0.2	5.6
3.2	4.4	(1.2)	(27.3)	- IFRIC 12 effects*	5.6	7.1	(1.5)	(21.1)
392.0	**381.9**	**10.1**	**2.6**	**EBITDA (GROSS OPERATING MARGIN)**	**794.8**	**777.0**	**17.8**	**2.3**
130.8	136.0	(5.2)	(3.8)	- Amortisation, depreciation and impairment	260.8	267.2	(6.4)	(2.4)
261.2	**245.9**	**15.3**	**6.2**	**EBIT (OPERATING PROFIT)**	**534.0**	**509.8**	**24.2**	**4.7**
(19.1)	(17.0)	(2.1)	12.4	- Net financial income/(expense)	(39.6)	(36.2)	(3.4)	9.4
242.1	**228.9**	**13.2**	**5.8**	**PROFIT BEFORE TAXES**	**494.4**	**473.6**	**20.8**	**4.4**
70.2	67.4	2.8	4.2	- Income taxes for the period	143.9	150.7	(6.8)	(4.5)
171.9	**161.5**	**10.4**	**6.4**	**NET PROFIT FOR THE PERIOD**	**350.5**	**322.9**	**27.6**	**8.5**
(0.1)	(1.1)	1.0	(90.9)	- Profit attributable to non-controlling interests	(0.8)	(1.9)	1.1	(57.9)
172.0	**162.6**	**9.4**	**5.8**	**GROUP NET PROFIT FOR THE PERIOD**	**351.3**	**324.8**	**26.5**	**8.2**

* Recognised pursuant to the interpretation of "IFRIC 12 - Service Concession Arrangements"

In the first half of 2017, the Terna Group achieved total **revenues** of € **1,046.9 million**, an increase of € 7 million with respect to the first half of the previous year (+0.7%). This change can be attributed to Regulated Activities for € +19.5 million and to Non-Regulated Activities for € -11 million (as well as a decrease of € -1.5 million with respect to the previous financial year related to the application of IFRIC 12).

Revenues from Regulated Activities

The increase in revenues from Regulated Activities, of € 19.5 million, was due mainly to the following phenomena:

- **fee for transmission activity** € +23.5 million; it is worth noting the increase in the fee related to the NTG acquired at the end of 2015 from the FSI Group (€ +32.5 million), which in the comparative period was remunerated only to cover operating expenses, partially offset by the lower transmission revenues of the Parent Company (€ -9.0 million, related in particular to the one-off effects recognised in the first half of 2016, of € 6.8 million, mainly deriving from recognition of the strategic investments related to incentivised work in progress in 2015);
- **other revenues**: € -4.8 million; to be noted, in particular, the higher revenues made in the first half of 2016 for the "Copper Plan" (€ -7.9 million), in part offset by the 2017 higher insurance settlements (€ +2.9 million, essentially due to the payout received in March 2017 relating to a claim for a transformer).

Revenues from Non-Regulated Activities

€ million	1H2017	1H2016	Δ
Tamini Group	47.5	55.7	(8.2)
EPC contracts	4.9	7.9	(3.0)
O&M contracts	7.9	7.6	0.3
Telecommunications	16	16.5	(0.5)
Other	3.1	2.7	0.4
TOTAL	**79.4**	**90.4**	**(11.0)**

The revenues related to **Non-Regulated Activities** recorded a reduction of € 11 million, mainly due to the effect of the contraction in sales of transformers in the half-year period by the Tamini Group (€ -8.2 million). We can note however that in the first half of the year the Tamini Group's transformer order book grew by 13% compared to the same period of the previous year. With reference to EPC contracts, it is also worth noting the higher revenues of the first half of 2016 connected with an EPC in Chile (€ -1.7 million) and the reduction in contributions for EPC on the NTG (€ -1.3 million).

In the second quarter of 2017, revenues, net of the reduction of revenues from concession activities (under IFRIC 12 of € -1.2 million) increased by € 1.5 million compared to the corresponding period of 2016, owing essentially to the effects of the positive change in the fee for the transmission activity (€ +3.9 million) described above, offset by the drop recorded in Non-Regulated Activities (€ -1.7 million) and in other revenues from Regulated Activities (€ -0.7 million).

Operating expenses

Operating expenses during the period totalled € 252.1 million, down compared with the first half of 2016 by € 10.8 million.

€ million	1H2017	1H2016	Δ	Δ without Tamini	Δ Tamini
Personnel	124.4	113.2	11.2	13.4	(2.2)
Services, leases and rentals	73.7	84.1	(10.4)	(8.9)	(1.5)
Materials	32.8	38.9	(6.1)	(0.2)	(5.9)
Other expenses	11.8	16.0	(4.2)	(2.9)	(1.3)
Quality of service	3.8	3.6	0.2	0.2	-
IFRIC 12 effects*	5.6	7.1	(1.5)	(1.5)	-
TOTAL OPERATING EXPENSES	**252.1**	**262.9**	**(10.8)**	**0.1**	**(10.9)**

* Recognised pursuant to IFRIC 12

Operating expenses, net of Tamini Group balances (€ -10.9 million, mainly due to the reduction in orders and optimisation of costs in the Group's organisation) and cost reductions for concession activities (under IFRIC 12 equal to € -1.5 million), increased by € 1.6 million, as detailed below:

- **Personnel**: + € 13.4 million, mainly due to the increase in the average number of employees (in particular due to recruitment within Terna Rete Italia S.p.A. to support the insourcing of the asset perimeter of Rete S.r.l.) and salary adjustments linked to CCNL (Collective Labour Agreement) and the impact of variable costs and employee incentives;
- **Services, leases and rentals**: € -8.9 million, relating mainly to the internalisation of maintenance costs for the management of power lines of Rete S.r.l.;
- **Other expenses**: € -2.9 million, attributable mainly to the higher net provisions set aside to cover disputes recognised in the first half of 2016 (€ -2.2 million).

In the second quarter of 2017, costs, net of the reduction in costs for concession activities (under IFRIC 12 of € -1.2 million), fell by € 8.6 million compared to the corresponding period of 2016, owing essentially to the factors described above, related mainly to the subsidiary Rete S.r.l. (€ -5 million) and to the Tamini Group (€ -4.9 million).

EBITDA (Gross Operating Margin) of the period came out at **€ 794.8 million**, an increase of € 17.8 million compared to the € 777 million of the first half of 2016, owing mainly to the improved result for Regulated Activities.

The **EBITDA margin** improved from 74.7% in the first half of 2016 to **75.9**% in the first half of 2017.

The item **amortisation, depreciation and impairment,** at € 260.8 million, fell by € 6.4 million, mainly due to lower depreciation after the review of the useful life of electricity lines (increased from 40 to 45 years), partially offset the effects of the entry into operation of new plants and the impairment booked on some plants.

The **EBIT** (Operating Profit) was **€ 534 million**, against € 509.8 million in the first half of 2016 (+4.7%).
Net financial expenses, equal to € 39.6 million, mainly attributable to the Parent Company (39.1 million), show an increase of € 3.4 million compared with the € 36.2 million of the corresponding period of 2016, due mainly to the general increase in interest rates and to lower capitalised financial expenses (€ 2.4 million), as a result of lower capital expenditure in the period.

Profit before taxes totalled **€ 494.4 million**, up € 20.8 million (+4.4%).

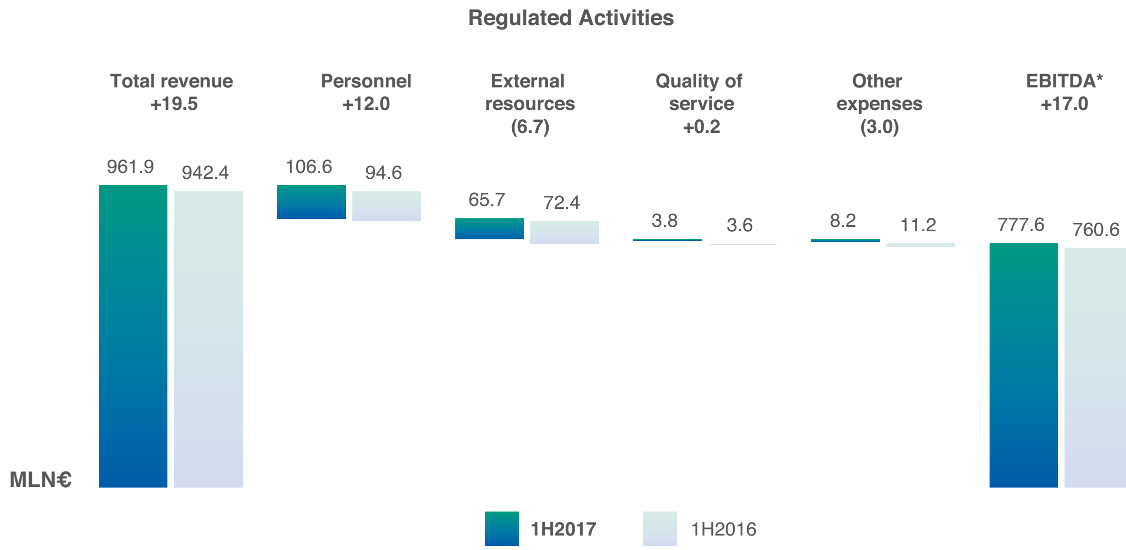
Income taxes totalled € 143.9 million and were down by € 6.8 million (-4.5%) compared to the first half of 2016, mainly due to the reduction in the IRES (corporate income tax) rate from 27.5% to 24% (pursuant to Law no. 208/2015 Stability Law for 2016).
The tax rate for the period amounted to 29.1%, compared with 31.8% in the first half of 2016.

Net profit for the period reached **€ 350.5 million**, up € 27.6 million (+8.5%) compared with the € 322.9 million of the same period of the previous year.

Group net profit for the period (excluding the profit attributable to non-controlling interests) stood at **€ 351.3 million**, an increase of € 26.5 million (+8.2%) compared to € 324.8 million in the first half of 2016.

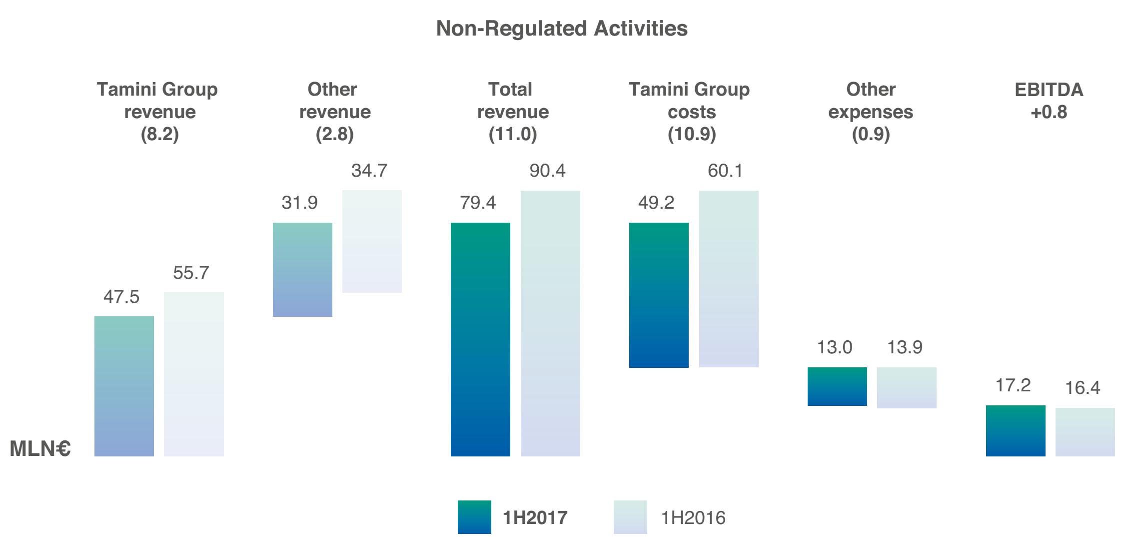
Economic results by business segment

The breakdown of the Terna Group's results by business segments, in relation to the first half of financial years 2017 and 2016, is shown in the table below[13]:



* including indirect costs

Regulated Activities EBITDA amounted to € 777.6 million, € + 17.0 million compared to the figure for the same period of the previous year. This increase was due to the rise in transmission revenues, owing to recognition of the remuneration of the capital and depreciation of the grid acquired from RFI, partially offset by higher personnel costs, owing to an increase in the headcounts due to insourcing of the RFI O&M activities which, on the contrary, entailed a reduction in the costs of external resources.



Non-Regulated Activities EBITDA in the first half of 2017, of € 17.2 million, showed an increase of € 0.8 million due mainly to the greater contribution of the Tamini Group (+€ 2.7 million, deriving in particular from the benefits of the reorganisation of the group carried out in 2016).

(13) The Terna Group's business segments have been prepared using the internal management control system adopted by the Parent Company, in line with the 2017–2021 Strategic Plan and do not include revenues and cost recognised in application of IFRIC12 of € 5.6 million in the first half of 2017 and € 7.1 million in the first half of 2016.

The Group's reclassified statement of financial position

The reclassified consolidated statements of financial position of the Terna Group at 30 June 2017, and 31 December 2016, are presented below, obtained by reclassifying the data found in the Consolidated Statement of Financial Position.

€ million	As of 30/06/2017	As of 31/12/2016	Δ
Total Net Non-Current Assets	**13,054.6**	**12,991.2**	**63.4**
- Intangible assets and goodwill	504.5	516.0	(11.5)
- Property, plant and equipment	12,458.6	12,386.1	72.5
- Financial assets	91.5	89.1	2.4
Total net working capital	**(1,109.4)**	**(1,092.5)**	**(16.9)**
- Net energy-related pass-through payables	(599.1)	(545.9)	(53.2)
- Net receivables from margin energy items	353.3	342.0	11.3
- Net trade payables	(487.8)	(633.5)	145.7
- Net tax liabilities	(6.7)	52.0	(58.7)
- Other net liabilities	(369.1)	(307.1)	(62.0)
Gross invested capital	**11,945.2**	**11,898.7**	**46.5**
Provisions	(363.2)	(384.6)	21.4
NET INVESTED CAPITAL	**11,582.0**	**11,514.1**	**67.9**
Equity attributable to shareholders of the parent	**3,621.3**	**3,535.4**	**85.9**
Minorities	**19.0**	**19.8**	**(0.8)**
Net financial debt	**7,941.7**	**7,958.9**	**(17.2)**
TOTAL	**11,582.0**	**11,514.1**	**67.9**

The increase in net **non-current assets** of € 63.4 million, compared with the figure at 31 December 2016, is mainly attributable to the item **Property, plant and equipment** (€ +72.5 million) owing to the combined effects of:

- capital expenditure for € 315.0 million;
- amortisation and depreciation for the period for € 228.1 million;
- other changes during the period of € -6.4 million, mainly related to plant grants, in particular those received for projects financed by MISE/EU; disposals and impairment (€ -8 million).

Intangible assets and goodwill recorded a drop of € 11.5 million compared to 31 December 2016 attributable to intangible assets owing mainly to ordinary changes for capital expenditure of € 10.7 million net of the amortisation accruing of € 25.1 million and the contribution of the new Brazilian companies acquired during the period (€ 2.2 million).

Total capital expenditure made by the Group in the first six months of 2017 amounted to € 325.7 million, in line with the Strategic Plan, compared with € 346.9 million in the corresponding period of 2016 (-6.1%).

€ million	1H2017	1H2016	Δ	Δ%
Capital expenditure in property, plant and equipment	315.0	331.7	(16.7)	(5.0)
Capital expenditure in intangible assets	10.7	15.2	(4.5)	(29.6)
Total Group capital expenditure	**325.7**	**346.9**	**(21.2)**	**(6.1)**

Financial assets recorded an increase of € 2.4 million deriving mainly from adjustments to the portion of shareholder's equity at 30 June 2017 of the equity investment in the associate company Cesi S.p.A..

Net working capital amounted to € -1,109.4 million and during the year generated liquidity totalling € 16.9 million with respect to 2016, due to the joint effects of:

Cash generation

- increase in **net energy-related pass-through payables** (equal to € 599.1 million at 30 June 2017) of € 53.2 million, mainly due to the combined effect of:
  - increase in the net payable associated with essential units for electricity system security - UESS (€ 221.5 million);
  - increase in net receivables for the Uplift fee (approximately € 62.6 million) generated in particular by the trend of the MSD compared to the end of the previous year;
  - fall in payables for capacity payment liquidation (€ 73.2 million, mainly pursuant to AEEGSI resolutions no. 398/2017 and no. 418/2017);
  - increase in net receivables for the interruptibility service and in other services following the postponement to July of a number of collections from CSEA (+€ 22.4 million);
- higher **net tax liabilities** (€ 58.7 million) attributable mainly to the trend in the payable position with the tax authority for VAT (+€ 41.4 million, compared to the credit situation at the end of financial year 2016) particularly relative to the effects of the AEEGSI measures of the end of 2016 related to the UESS[14]. In the period, we also reported higher net tax liabilities for current taxes (+€ 11.0 million), as a result of the recognition of income taxes for the period, net of the advances paid in the said period and of the final payment of the taxes for the previous year;
- increase in **other net liabilities** (€ 62.0 million) mainly related to the change in grants received (€ +81.9 million, mainly due to the collection of the last tranche of EU contributions for the Sorgente-Rizziconi project) and the increase of the Interconnector Guarantee Fund (€ +12.7 million) established under Terna S.p.A. by the 2016 Stability Law for the creation of interconnection works pursuant to article 32 of Law 99/09, in part offset by higher advances paid for development and EPC contracts of the business in Brazil (€ 16.8 million), as well as prepayments on items settled in the period (€ 11.1 million, referring to personnel, local taxes, insurance premiums and similar).

Cash utilization

- decrease in **net trade payables** of € 145.7 million, attributable mostly to greater investment activities carried out towards the end of the previous year; the increase in receivables for Non-Regulated Activities was also significant, with particular reference to the different trend in the period of the Tamini Group's orders (€ +13 million) compared to the end of financial year 2016;
- increase in **net receivables from margin energy items** of € +11.3 million, due particularly to the increase in the grid transmission fee receivables (€ +9.9 million), attributable mainly to full recognition of the portion of grid managed by the subsidiary Rete S.r.l..

Gross invested capital, therefore, amounted to € 11,945.2 million, recording an increase compared with the previous financial year of € 46.5 million.

(14) AEEGSI resolutions 612/2015/R/eel, 615/2015/R/eel and 616/2015/r/eel.

Provisions decreased by € 21.4 million, mainly due to:

- provision for deferred tax liabilities of € -10.5 million, mainly due to tax effects on depreciation and amortisation and changes in the provisions for risks and charges;
- provisions for risks and charges of € -5.5 million owing essentially to net utilisation of provisions for early retirement (€ -7.6 million) offset by net provisions set aside for charges on “quality of service” (€ +1.6 million, mitigation and sharing mechanism);
- employee benefits of € -5.4 million, owing mainly to reversal of energy discount provisions (€ -4.0 million).

Net invested capital amounted to € 11,582 million, an increase of € 67.9 million compared with 31 December 2016 and is financed by equity attributable to shareholders of the parent for € 3,621.3 million (compared with € 3,535.4 million at 31 December 2016), by equity of minorities for € 19 million (€ 19.8 million at 31 December 2016) and by net financial debt of € 7,941.7 million (€ -17.2 million compared with the € 7,958.9 million of 31 December 2016).

Below is a summary of the change in the cash flows described above.

€ million	*Cash flow* 1H 2017	*Cash flow* 1H 2016
- Net profit for the period	350.5	322.9
- Amortisation, depreciation and impairment	260.8	267.2
- Net change in provisions	(21.4)	4.3
- Net losses (gains) on asset disposals	(0.2)	(2.0)
Operating Cash Flow	589.7	592.4
- Change in Net Working Capital	16.9	(136.2)
- Other changes in non-current assets	3.6	1.8
- Changes in equity investments	(1.9)	(0.4)
Cash Flow from Operating Activities	608.3	457.6
- Total capital expenditure	(325.7)	(346.9)
Free Cash Flow	282.6	110.7
- Dividends paid to the owners of the Parent	(269.1)	(261.3)
Cash flow hedge reserve net of the tax effect and other changes in equity attributable to the owners of the Parent	3.7	(19.0)
Change in net financial debt	17.2	(169.6)

Net financial debt

The Group's net financial debt at 30 June 2017 stood at € 7,941.7 million, down € 17.2 million compared to 31 December 2016.
The proportion of gross debt at fixed and floating rate to the total amounts to 83% and 17% respectively.

€ million	30/06/2017	31/12/2016	Δ
Net financial debt (by duration)			
Total medium- and long-term debt	**7,382.4**	**8,074.1**	**(691.7)**
- Bonds	5,606.4	6,420.5	(814.1)
- Loans	2,081.6	1,983.9	97.7
- Derivative financial instruments	(277.3)	(312.9)	35.6
- Other non-current financial assets (Interconnector guarantee fund)	(28.3)	(17.4)	(10.9)
Total short-term debt (liquidity)	**559.3**	**(115.2)**	**674.5**
- Bonds (current portion)	749.5	769.9	(20.4)
- Short-term loans	25.5	20.1	5.4
- Floating-rate loans (current portions)	134.6	134.6	-
- Other net current financial liabilities*	54.1	95.9	(41.8)
- Cash and cash equivalents	(404.4)	(1,135.7)	731.3
Total net financial debt	**7,941.7**	**7,958.9**	**(17.2)**
Net financial debt (per type of instrument)			
- Bonds	6,355.9	7,190.4	(834.5)
- Loans	2,216.2	2,118.5	97.7
- Derivative financial instruments	(277.3)	(312.9)	35.6
- Short-term loans and other financial liabilities	79.6	116.0	(36.4)
- Cash and cash equivalents and other financial assets	(432.7)	(1,153.1)	720.4
Total net financial debt	**7,941.7**	**7,958.9**	**(17.2)**

*Including interest accrued not yet collected

The **Group's net financial debt** records the following changes:

- decrease in bonds (€ -834.5 million), as a result of the payment of the bond on 17 February 2017 for € 770.0 million and the fair value adjustment of the same financial instruments (€ -64.5 million, including amortised cost) as a result of the increase in forward rates as of 30 June 2017;
- increase in loans (+€ 97.7 million) owing mainly to the disbursement, in June, of an EIB loan of € 165 million net of the instalments repaid in the period (€ -67.3 million);
- decrease in the positive net balance of derivative financial instruments (€ +35.6 million), mainly due to the increase in the medium/long-term reference interest-rate curve with respect to December 2016;
- decrease in short-term loans and other financial liabilities (€ -36.4 million) mainly as a result of the liquidation of interest on loans and existing hedges;
- decrease in cash and cash equivalents and other financial assets for € 720.4 million.

Available liquidity at 30 June 2017 amounted to € 404.4 million, of which € 258.8 million invested in time deposits and € 145.6 million essentially deposited in current bank accounts, while other non-current financial assets include the recognition of the Interconnector Guarantee Fund established for the creation of interconnection works pursuant to article 32 of Italian Law 99/09, equal to € 28.3 million at 30 June 2017.

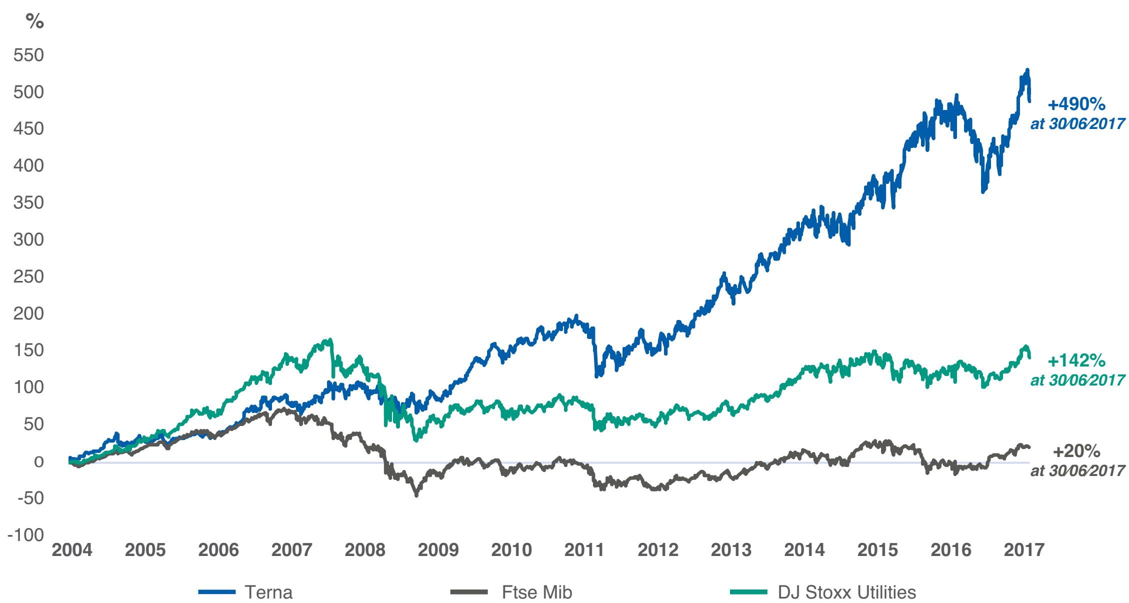
Table reconciling the period result and equity attributable to shareholders of the parent with the same values recorded by the Parent Company

€ million	Net profit 1H2017	Equity As of 30/06/2017
Financial Statements of the Parent Company	**323.5**	**3,507.5**
Results and equity contributed by the Group Companies:		
- Group Companies - Regulated Activities	27.8	28.0
- Group Companies - Non-Regulated Activities	(2.7)	75.4
Equity investments accounted for using the equity method	1.9	29.4
Consolidated financial statements total	**350.5**	**3,640.3**
Non-controlling interests – Non-Regulated Activities	(0.8)	19.0
Terna Group Consolidated Financial Statements	**351.3**	**3,621.3**

Performance of the Terna stock

Terna is one of the leading Italian companies for market capitalisation, is listed on the Borsa Italiana electronic market since 23 June 2004. Since the listing date, the stock has risen by 178% (capital gain) with a total shareholder return (TSR[15]) of 490%, higher than the +20% registered the FTSE MIB and the +142% of DJ Stoxx Utilities.
In the first half of 2017, Terna showed a positive performance of 8.6%, closing on 30 June at 4.73 €/share, outperforming both the Italian index (FTSE MIB +7.0%) and the European sector reference index (DJ Stoxx Utilities +5.1%). During the half-year period (the 8 of June) the stock also reached the new all-time high at 5.17 €/share. The daily average volumes traded in the period came out at about 7 million shares a day, lower compared to the same period of 2016 (7.9 million shares). It must to be considered that on 19 June, the stock paid the 2016 final dividend of € 13.39 cents.
In the first six months of 2017, the main European markets also registered positive performance. Madrid saw the biggest rise (+11.7%), followed by Milan with a gain of 7.0%. Paris and Frankfurt closed respectively at +5.3% and +4.5%, while London registered +2.4%.

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



Proportion of Terna shares

> in the FTSE MIB index[16]	2.02%

Source: Borsa Italiana. Data as of 30 June 2017.

(15) Total Shareholder Return (or TSR): the total return of an equity investment, calculated as the sum of:
I. capital gain: ratio between the change in the share price (difference between price recorded at the end and at the beginning of the reference period) and the price recorded at the beginning of the same period;
II. dividends reinvested: the ratio between dividends per share distributed in the reference period and the price of the stock at the beginning of the same period. The dividends are considered reinvested in the stock.
(16) % out of total FTSE MIB

Ratings

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

* Data as of 30 June 2017.

Sustainability performance

Presence in the stock market sustainability indices

In January 2017, Terna was included in the Silver Class of the "RobecoSAM Sustainability Yearbook 2017" of the Electric Utilities sector.
During the first half of 2017, Terna was confirmed in all the indices that update the composition of the respective baskets in the period of reference, i.e. Ethibel (ESI), Euronext-Vigeo and FTSE4GOOD.

Further information

"Further 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 of CDP Reti S.p.A. or Cassa Depositi e Prestiti S.p.A., nor has it acquired or sold any, either directly or indirectly, during the first six months of 2017.

Related-party transactions

Considering that the Terna Group has been subject to de facto control by Cassa Depositi e Prestiti S.p.A. since 2007, the related-party transactions carried out by the Terna Group during the first six months of 2017 included not only those with the associates and the employee pension funds (Fondenel and Fopen), but also those with Cassa Depositi e Prestiti, CDP Reti S.p.A. and the companies directly or indirectly controlled by the Ministry of Economy and Finance.

Related party transactions carried out in the first six months of 2017 consisted substantially of services under the scope of ordinary business and settled at market terms, as is described in greater detail in the Consolidated and Separate Financial Statements at 31 December 2016[17].
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.

It is noted that no transactions of major importance[18] were carried out in the first six months of 2016, nor were operations subject to disclosure obligations because they fall within the cases of exclusion provided for in the Regulations[19].

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 decided to adopt the simplified system envisaged by Arts. 70, paragraph 8, and 71, paragraph 1-*bis*, of the CONSOB Regulation no. 11971 of 14 May 1999 and subsequent amendments (CONSOB Issuer Regulations), thereby availing itself of the right to be exempt from the requirement to publish disclosure documents provided for in occasion of significant mergers, de-mergers, share capital increases by contribution of non-cash assets, acquisitions and sales.

(17) 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 2016, 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 and general management*", and on equity interests held by the same, is included in the annual remuneration report published in accordance with the Law.

(18) 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).

(19) 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

Summary of the main provisions in 2017

The main pieces of legislation are the budget law 2017 (law 208/16) which contains changes to taxation regulations, decree-law no. 244 of 30 December 2016, converted into law no. 19 of 27 February 2017 ("Thousand Extensions" [mille proroghe] decree), the amendment to the Procurement Code (legislative decree no. 56 of 19 April 2017), the motion of decree-law no. 50 of 24 April 2017, converted into law no. 96 of 21 June 2017 and legislative decree no. 90 of 25 May 2017 with reference to anti-money laundering.

Standard	Content
Changes on the subject of taxation and finance	Law no. 244 of 22 December 2016 (**Budget Law 2017**) has been extended to include acquisitions of new capital assets made in 2017 (even if delivered later, provided that this is by 30 June 2018, subject to a 20% advance payment by 31 December 2017), "super depreciation", as provided for by the 2016 Stability Law, and has established a higher premium (150%) for more innovative assets (hyper depreciation). For the latter, the deadline for making the order is 31 December 2017 and delivery must take place by this date, extended by decree-law no. 91/17 to 31 July 2018, also subject to a 20% advance payment by the end of 2017. With decree-law no. 50/17, the rates applicable to the notional return in reference to the capital increase from 31 December 2010 and deductible from taxable income (ACE an incentive of corporate capitalization) were redefined: "From the eighth taxation period, the percentage rate for the calculation of the notional return of the new capital is fixed at 1.5 percent", instead of 2.7%. For 2017, the rate is fixed at 1.6% rather than 2.3%. The decree also extended the split payment mechanism to the supply and provision of services to state-owned companies and listed companies included on the FTSE MIB index (the new regulations apply to transactions with invoices dated after 1 July 2017) and made amendments to VAT deduction and compensation rules. Finally, with law no. 19 of 27 February 2017, which converted decree-law no. 244/16, regulations to coordinate IRES and IRAP guidelines with legislative decree no. 139/15 were introduced, and the submission deadline for income and corporate income tax returns was extended to 16 October.
Reform of the Procurement Code	With Legislative Decree no. 56 of 19 April 2017, certain provisions of Legislative Decree no. 50 of 18 April 2016 were amended, implementing Directives 2014/23/EU, 2014/24/EU and 2014/25/EU on the subject of contracts and concessions. Legislative Decree 50/16 replaces Legislative Decree 163/06 and reforms the rules on the subject of public contracts also for the special sectors.

Revision of electricity tariffs	With decree-law no. 244/17, converted into law no. 19/17, the deadline for adjusting the tariff component structure for general system charges applied to non-domestic clients to comply with the regulation criteria for grid charges relating to transmission, distribution and measurement services in force on the same date, was amended from 1 January 2016 to 1 January 2018. In accordance with the decree, from 1 January 2017 the application of the variable components of general system fees extends only to energy withdrawn from public grid networks with third party connection obligations and not to total usage.
Anti-money laundering	Legislative Decree no. 90 of 25 May 2017, transposing Directive 2015/849, extended the application of certain pieces of anti-money laundering legislation to state-owned companies. In particular, in the context of the adoption of authorisation or concession measures, the selection of the contractor under the Procurement Code and the granting of contributions, it is expected that such companies adopt internal procedures to assess the level of exposure of their offices to risks related to money laundering and to communicate to the UIF any data and information relating to suspicious transactions to which they are aware in the course of their corporate activity.

National Transmission Grid Expansion

Details of the changes in the number of plants with respect to the situation at 31 December 2016 are given below.

DETAILS OF ELECTRICAL SUBSTATIONS OWNED BY THE TERNA GROUP[20]

	Unit of measurement	30/06/2017	31/12/2016	Δ	Δ %
380 kV					
Substations	No.	163	161	+ 2	+ 1.24
Power transformed	MVA	112,808	110,708	+ 2,100	+ 1.90
220 kV					
Substations	No.	148	150	(2)	(1.33)
Power transformed	MVA	31,067	30,837	+ 230	+ 0.75
Lower voltages (≤150kV)					
Substations	No.	550	544	+ 6	+ 1.10
Power transformed	MVA	3,972	3,911	+ 61	+ 1.56
Total					
Substations	No.	861	855	+ 6	+ 0.70
Power transformed	MVA	147,847	145,456	+ 2,391	+ 1.64

DETAILS OF POWER LINES OWNED BY THE TERNA GROUP[21]

	Unit of measurement	30/06/2017	31/12/2016	Δ	Δ %
380 kV					
Circuit length	km	12,335	12,314	+ 21	+ 0.17
Line length	km	11,259	11,238	+ 21	+ 0.19
220 kV					
Circuit length	km	11,700	11,698	+ 2	+ 0.01
Line length	km	9,369	9,363	+ 5	+ 0.06
Lower voltages (≤150kV)					
Circuit length	km	48,806	48,832	(26)	(0.05)
Line length	km	45,761	45,765	(4)	(0.01)
Total					
Circuit length	km	72,841	72,844	(3)	-
Aerial	km	69,556	69,618	(61)	(0.09)
Underground cable	km	1,822	1,804	+ 17	+ 0.96
Undersea cable	km	1,463	1,422	+ 41	+ 2.86
Line length	km	66,389	66,366	+ 23	+ 0.03
Aerial	km	63,105	63,140	(35)	(0.06)
Underground cable	km	1,822	1,804	+ 17	+ 0.96
Undersea cable	km	1,463	1,422	+ 41	+ 2.86
Proportion of DC connections (200–380–500 kV)					
Circuits	km	2,077	2,066		
% of total	%	2.85	2.84		
Lines	km	1,757	1,746		
% of total	%	2.65	2.63		

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

MAIN CHANGES TO NUMBER OF PLANTS OWNED BY THE TERNA GROUP

SUBSTATIONS

New plants:

The following **new activations** took place:

- activation of the new transformer substation in Benevento III [BN] (3 x 380 kV bays and 2 x 150 kV bays);
- activation of the new transformer substation in Capri [NA] (3 bays at 150 kV);
- activation of the new switching substations at Foggia Rignano [FG] and Oppido [PZ] (4 x 150 kV bays each);
- activation of the new switching substation at Torre Annunziata [NA] and Tursi [MT] (3 x 150 kV bays each);
- acquisition from third parties of the switching substation at Macchialupo [AV] (4 x new 150 kV bays).

The substation at Cedegolo [BS] (2 x 132 kV bays) was **permanently decommissioned**.

Existing plants:

- reclassification from 220 kV to 380 kV of the substation at Melilli (7 x 380 kV bays);
- activation of 6 new line bays in the substations at Priolo (2 x 380 kV bays), Pian Camuno and Baggio (1 x 132 kV bay each);
- activation of 11 new machine and/or rephasing bays in the substations at Palo del Colle and Melfi (1 x 380 kV bay and 1 x 150 kV bay each), Melilli (2 x 220 kV bays and 1 x 150 kV bay);
- activation of 4 new parallel bays in the substations at Palo del Colle (1 x 150 kV bays) and Pian Camuno (2 x 132 kV bays);
- deactivation and/or demolition of 8 bays in the substations at Livorno Marzocco (two 220 kV bays and three 132 kV bays), Stura (one 220 kV bay), Ceprano and Rotonda 220 (one 150 kV bay each).

TRANSFORMERS

The following **new activations** took place:

- activation of 1 new 380/150 kV auto-transformers of 400 MVA at the same time as the activation of the Benevento substation;
- activation of 2 new 380/220 kV auto-transformers of 400 MVA and 1 new 380/150 kV auto-transformer of 250 MVA at the same time as the reclassification of the Melilli substation;
- activation of 1 new 380/150 kV auto-transformer of 400 MVA in the Palo del Colle substation;
- activation of 1 new 380/150 kV auto-transformer of 250 MVA in the Melfi substation;
- activation of 1 new 220/15 kV transformer of 230 MVA at the same time as the activation of the Favara synchronous condenser;
- activation of 1 new 150/6 kV auto-transformer of 80 MVA in the Capri substation;

deactivation of 1 150/20 kV auto-transformer of 16 MVA in the Rotonda 220 substation.

POWER LINES

- **entry into service** of 5 new lines for a total of 48.0 km of circuits: Melilli - Priolo 380 kV (2 x new connections of 3.2 km of cable each), Poggioreale - Secondigliano 220 kV (7.3 km of cable), Capri - Torre Annunziata 150 kV (30.5 km of cable, of which 29.5 km undersea cable), Santa Gilla - Porto Canale 150 kV (3.8 km of cable);
- **acquisition from Third Parties** of 2 new 150 kV lines for a total of 44.0 km of circuits;
- **activation** of 1 short 150 kV connection (totalling 0.1 km) between adjacent plants;
- **construction** of 5 in-out derivations on operating lines with an overall increase of 5 circuits and a decrease of 4.1 km of circuit, of which: + 3 lines + 1.7 km at 150 kV, + 2 lines - 5.8 km at 132 kV;
- **construction of variants, rigid derivations and/or changes in the line and/or grid distribution** with a total reduction of 11.0 km of circuits, of which: + 3.3 km at 380 kV - 1.3 km at 220 kV - 13.0 km at 60 kV.

deactivation of 2 operating lines for a total of 4.1 km of circuit, of which 1 line of 4.0 km at 220 kV and 1 line of 1.0 km at 150 kV.

Risk Classification and Management

CLASSIFICATION	RISK MANAGEMENT MEASURES IN THE FIRST HALF OF 2017
GOVERNANCE & COMPLIANCE	**Governance and Compliance Models** • “Project 231”: the constant updating of the “at-risk areas” map in line with the company structure and the delivery of the first tranche of the Training Plan 2016–2018 involving almost all company staff, focusing on Safety and the Environment for operating personnel and with further focus on Anti-corruption, Market Abuse, Whistleblowing and the Code of Ethics for management personnel. • Project Compliance Newsletter: quarterly publication on the company intranet of a legislative and/or legal update regarding Legislative Decree no. 231/01, Anti-corruption, Safety, Environment, Privacy, Contracts and CSR. Personalised forms will be distributed to all employees. • Certification ISO 37001:2016: awarded to Terna in January 2017, making it the first Italian company to possess a certified anti-corruption management system. • Accreditation ISO/IEC17025:2005: in June, the Terna Group was awarded the accreditation provided for by regulation ISO/IEC 17025:2005 for its multi-site Calibration Centre (with Master Centre in Florence and Satellite Centres in Turin and Cagliari) in recognition of its active electricity measures and the electricity measurement systems used to evaluate flows of energy. • Certifications UNI EN ISO 9001:2015, UNI EN ISO 14001:2004, BS OHSAS 18001:2007: the half-year quality management/environment/safety plan was implemented and the external assessments for the confirmation of the certifications were carried out. • Certification ISO/IEC 27001:2005: the half-year plan for internal management system evaluations to ensure information security was implemented, and at the end of June the external assessments for the renewal of the certification were carried out. • Certification CEI UNI EN ISO 50001:2011: the two first electricity diagnoses to be carried out entirely by Terna and certified by the Group’s Energy Manager were carried out, and the format for future electricity diagnoses to be carried out at electricity substations was decided. The purchase of an IT system to manage internal usage of electricity is in progress. A pilot project to monitor on-line energy usage has been launched to identify the on-line monitoring points of the electricity substations with a view to future energy diagnoses in accordance with Legislative Decree no. 102/14. • Directive Seveso III: a Management System for the Prevention of Major Accidents (MS-PMA) has been implemented and is currently being amended in accordance of the new Seveso directive (Legislative Decree no. 105/15). A procedure to update the System for the Prevention of Major Accidents to comply with the criteria of the Integrated Management System has been launched. • SOA Certificate: a new Operating Instruction was issued and approved, aimed at regulating the issue, management, archiving and conservation of all documentation used for the request and renewal of SOA certificates. Activities which led to the unlimited bandwidth of the OG10 category being reached (high/medium-voltage transformer plants, distribution plants for AC and DC electricity and public lighting systems) were concluded.

CLASSIFICATION	RISK MANAGEMENT MEASURES IN THE FIRST HALF OF 2017
GOVERNANCE & COMPLIANCE	**Relations with Institutional Partners** • In the context of risk mitigation, Terna continued to collaborate with national and international Bodies and Authorities who share the risks arising from Terna's activities.
	Fraud Management • Project "Whistleblowing": in line with the provisions of the Self-Governance code for companies listed on the Italian Stock Exchange, the A.N.A.C and Italian and international best practice, the "Whistleblowing procedure" portal was created in order to manage notifications of any irregularities or violations of regulations and internal procedures; such procedures were already covered by Model 231, the Code of Ethics and the anti-fraud policies. • "GdF Terna Construction Sites" Project: Contracts and Subcontracts: as part of the renewal of the Memorandum of Understanding with the Guardia di Finanza (GdF, Italian Financial Police), additional functions were added to the "GdF Terna Construction Sites" portal: Contracts and Subcontracts, a tool for exclusive use by the GdF which provides a highly relevant overview in order to obtain information relative to regional investigations. Furthermore, in the broader context of collaborative vigilance between the A.N.A.C., the Special Anti-Corruption Branch of the GdF and companies operating in Italian public and/or strategic sectors, useful data is periodically provided for entry into the "MO.CO.P." System for the Monitoring of Public Contracts, used by the Special Anti-Corruption Branch for its investigations. • "Management of Subcontracts" Project: the "Management of Subcontracts" portal is currently being updated, with a view to maintaining the efficiency and effectiveness of subcontract management procedures while ensuring compliance with regulations and the response to requests in related Operating Areas in the same field of application. In this context, the digitalisation of the Portal and the dematerialisation of all documentation managed by the same is currently ongoing. • "Open and Transparent Construction Site" Portal: the useful information section has been enhanced in order to optimise the monitoring activities carried out in the region. Furthermore, specific changes to the Plant Construction Monitoring System have been scheduled to strengthen the monitoring procedures of construction activities. • External resource management process: in order to ensure that risks are minimised in high-risk areas, systematic preventative control measures have been implemented, extending from the application and consultancy phase through to IT services and the use of pre-determined suppliers. • Counterparty check: as a further systematic preventative control measure, an analysis of stakeholders with whom Terna interacts is carried out, aimed at minimising the risks related to transactions with third parties and the monitoring of "critical" clients. • Anti-Corruption: participation in multi-directional forums in collaboration with Assonime, Utilitalia, ACEA and ENEL, with the aim of identifying the obligations of transparency and data access required by Public Authority regulations (Legislative Decree no. 33/13), now extended by the amendments made in 2016 and 2017 to listed investee companies.

CLASSIFICATION	RISK MANAGEMENT MEASURES IN THE FIRST HALF OF 2017

OPERATIONS

Risk Management for Operating Processes

- "ERM Completion" Project: the project to develop the eGRC IT tool to support risk management activities was launched, aiming to integrate the results of applying ERM procedures to other risk management areas.
- Monitoring of Action Plans: the implementation of action plans drawn up in response to the 2016 Risk Assessment is currently being monitored.
- Evaluation of Risk/Opportunity of new components: an evaluation process to assess the risk/opportunity of new components and equipment was launched, in order to assess their effectiveness, compatibility with Terna plants and the impact of management criteria on the same before their application on a wider scale.

Environmental, social and political issues

- Project Risk Assessment: the final report of the first application of the Project Risk Assessment prototype was drafted, aimed at preventing risks emerging in the early stages of a project from continuing into later phases, causing delays in the construction of works or, in the most extreme cases, compromising the successful completion of the initiative.
- Risks Observatory Report: the mapping of critical environmental, social and political issues was continued, aimed at providing the Senior Management with a unified and complete vision of scheduled and ongoing works.

Physical Threats to Sites

- Security of Company Assets: changes to security procedures in line with company standards; also applicable to former RFI Assets acquired by the Terna Group.
- Physical Security Regulations: the production of the "Access regulations for company offices" and "Physical Security Assessment" guidelines.
- Special Projects: technical specifications for seismic sensors and field equipment for the Terna Accelerometer Network were defined.
- Anti-Intruder Devices: the process to update the PSIS (*Physical Security Integrated System*) continued, with approximately 50% of all plants scheduled for update in 2017; in 2017, seven new plants are to be constructed, three of which were completed in the first six months (Capri, Avellino, Torre Annunziata).
- Enhanced Company Protection System (ECPS): activities to industrialise and integrate the ECPS in existing plants were completed and rules governing intrusion events were finalised. The Strategic Forum for the management of critical events impacting on Terna Assets was drawn up.
- Controlled Access: controlled access systems were installed in the Turin and Palermo offices.
- Mobile CCTV Surveillance (Videobox): a project to replace and renew CCTV systems was launched. An action plan for the deployment of surveillance systems in key Terna stations formerly owned by RFI is currently being drafted.
- Construction Works Operating Security: a pilot project to improve security at construction works at the Cepagatti site (PE) is in progress; an experimental satellite system has been launched to monitor operations during adverse weather conditions in real time.

CLASSIFICATION	RISK MANAGEMENT MEASURES IN THE FIRST HALF OF 2017

OPERATIONS

Cybercrime

- Information Security Framework and Security Policy: The policy has been updated to reflect the NIS (*Network and Information Security*) and GDPR (*General Data Protection Regulation*) regulations. An analysis of the operational impacts (Gap Analysis) in the context of cyber-security situations has been launched, including through the activation of a dedicated department at the Security Operations Center, with reference to the regulations mentioned above.
- Security Classification: conducted on all Terna ICT platforms.
- IACS Risks (*Industrial Automation and Control Systems*): the work forums aimed at reducing cyber risk (IACS) to support Terna's Core Business activities already in the Prevention phase continued.
- Management of Digital Identities: the project to implement an Identity Governance solution was launched, aimed at all business departments and appointing managers able to verify and manage user roles and access privileges in the company, with the purpose of mitigating access-related risks.
- Cyber Security Monitoring and Incident Response: an Advanced Malware Protection project for work stations aimed at implementing a monitoring and management response to cyber incidents, analysis and prevention of hacking attempts to company websites and work stations.
- Perimeter Defence and Cyber Security Engineering: the implementation of solutions to combat Denial-of-Service (DOS) and application (Web Application Firewall) threats; update of the Intrusion Detection Systems security certificates.
- Training: review and update of the "Information Security Module" of the course for newly recruited blue-collar workers; issue of cyber security alerts to all employees.

Supplier risk

- Introduction of a new Information Technology merchandise department: "ICT Services for Businesses".
- "Supply Chain" project for social and environmental measures in the supply chain: the UNI EN ISO 14001:2004 and BS OHSAS 18001:2007 certifications were introduced as obligatory requirements for the departments responsible for painting pylons and cutting vegetation around power lines.
- Digitalisation Project: re-engineering and automation of the supplier qualification procedure.

Accidents in the Workplace and Environmental Incidents

- Construction site surveys: as part of the "Integrated Site Safety" project, four surveys were carried out with the aim of ensuring comprehensive on-site safety by analysing not only aspects related to health and safety in the workplace, but also aspects concerning environmental safety such as waste management, pollution and the impact on the surrounding environment, as well as the correct management of contracts.
- Training activities: health and safety in the workplace training courses were continued, with specific focus on fire prevention, first aid, working at height and electrical hazards.

CLASSIFICATION	RISK MANAGEMENT MEASURES IN THE FIRST HALF OF 2017
	• Relations with Organisms, Bodies and Associations: the activities of the Inter-Company Environmental, Health and Safety Forum continued, working with leading Italian companies operating in grid structures and infrastructure in order to facilitate inter-company communication, identify best safety practices, share interpretations of regulations and create a positive cycle of improvement on the issues of health, safety and the environment.
STRATEGY & FINANCIAL	**Financial risks** • Monitoring of Financial Key Risk Measures: during the first half of 2017, monitoring activities of the major Financial Key Risk Indicators continued, focusing principally on Risks related to Interest, Liquidity, Inflation, Counterparties and Exchange.

Alternative Performance Measures (API)

In line with the ESMA/2015/1415 guidelines, the Alternative Performance Measures used in the present Interim Financial Report are illustrated below.

MEASURE	DESCRIPTION
Economic results	
Operating Profit - EBIT	this is an operating performance measure and is calculated as the **Profit before taxes** plus **Net financial expenses/income**.
Gross Operating Margin - EBITDA	this is an operating performance measure and is calculated as the **Operating Profit (EBIT)** plus **Amortisation, depreciation and impairment**.
EBITDA MARGIN	this is an operating performance measure and derives from the ratio between the **Gross Operating Margin (EBITDA)** and **Revenues**.
TAX RATE	this expresses the proportion of tax with respect to the result and derives from the ratio between **Taxes on profit** and the **Profit before taxes**.
Financial position results	
Net working capital	this is a measure which expresses the company's liquidity and is determined by the difference between **current assets** and **current liabilities** of a non-financial nature represented on the balance sheet.
Gross Invested Capital	**Net non-current assets** plus **Net Working Capital**.
Net Invested Capital	determined by **Gross invested capital** net of **Provisions**.
Cash flows	
Net financial debt	this is a measure of the Group's financial structure and is determined as the sum of the **short- and long-term financial liabilities** and the related **derivative instruments**, net of **cash and cash equivalents** and of **financial assets**.
Free Cash Flow	this is the cash flow and it is given by the difference between the **cash flow from operating activities** and the **cash flow for capital expenditure**.

Reconciliation tables

In line with the ESMA/2015/1415 guidelines, the reconciliation of the financial schedules for the Income Statement, Statement of Financial Position, Net Financial Debt and Cash Flow of the Terna Group with the Income Statement and Statement of Financial Position is presented below.

RECONCILIATION WITH RECLASSIFIED INCOME STATEMENT SCHEDULES, STATEMENT OF FINANCIAL POSITION AND NET FINANCIAL DEBT OF THE TERNA GROUP

The Group's reclassified income statement	€ million	Consolidated income statement
Transmission	894.6	
Dispatching and other	55.6	"Revenues from sales and services"
IFRIC 12 effects	5.6	
Other operating revenues - Regulated Activities	11.7	"Revenues from sales and services" for € 68.2 million and "Other revenues and income"
Other operating revenues - Non-Regulated Activities	79.4	
Personnel	124.4	"Personnel" net of the costs from construction of assets in concession pursuant to IFRIC 12 (€ 1.8 million)
Services, leases and rentals	73.7	"Services" net of the costs from construction of assets in concession pursuant to IFRIC 12 (€ 2.8 million)
Materials	32.8	"Raw materials and consumables" net of the costs from construction of assets in concession pursuant to IFRIC 12 (€ 1 million)
Other costs	11.8	Other operating expenses
Quality of service	3.8	
	1.8	"Personnel"
IFRIC 12 effects	2.8	"Services"
	1.0	"Raw materials and consumables"
Net financial income (expense)	(39.6)	Points 1, 2 and 3 of letter C - "Financial income (expense)"
Income taxes for the period	143.9	Taxes for the period

The Group's reclassified statement of financial position	€ million	Consolidated statement of financial position
Financial assets	91.5	Equity investments accounted for using the equity method, "Other non-current assets" and "Non-current financial assets" for the carrying amount of the other investments (€ 0.1 million);
Net energy-related pass-through payables	(599.1)	"Trade receivables" for energy-related pass-through revenue receivables (€ 1,115.0 million) and "Trade payables" for energy-related pass-through costs payable (€ 1,714.1 million)
Net receivables from margin energy items	353.3	"Trade receivables" for grid transmission fees and margin energy items (€ 355.0 million) and "Trade payables" for margin energy items payable (€ 1.7 million)
Net trade payables	(487.8)	"Trade payables" net of the energy-related pass-through costs payable (€ 1,714.1 million) and margin energy items payable (€ 1.7 million) and "Trade receivables" net of energy-related pass-through revenue receivables (€ 1,115.0 million) and grid transmission fees and margin energy items (€ 355.0 million)
Net tax liabilities	(6.7)	"Income tax assets", "Other current assets" for the amount of the other tax assets (€ 31.4 million), "Other current liabilities" for the amount of other tax liabilities (€ 33.2 million) and "Tax liabilities"
Other net liabilities	(369.1)	"Other non-current liabilities", "Other current liabilities" net of Other tax liabilities (€ 33.2 million), "Inventories" and "Other current assets" net of other tax assets (€ 31.4 million)
Provisions	(363.2)	"Employee benefits", "Provisions for risks and charges" and "Deferred tax liabilities"
Net financial debt	7,941.7	"Long-term loans", "Current portion of long-term loans", "Non-current financial liabilities", "Short-term loans", "Cash and cash equivalents", "Non-current financial assets", net of other investments (€ 0.1 million), "Current financial assets" and "Current financial liabilities"

Statement of the Group's net financial debt	€ million	Consolidated statement of financial position
"Bonds" and "Loans"	7,688.0	Corresponds to "Long-term loans"
"Derivative financial instruments" - medium and long-term	(277.3)	Corresponds to "Non-current financial liabilities" and "Non-current financial assets" for the value of FVH derivatives (€ 286.5 million)
Other non-current financial assets (Interconnector guarantee fund)	(28.3)	Included under "Non-current financial assets"
"Bonds (current portions)" and "Floating-rate loans (current portions)"	884.1	Corresponds to "Current portion of long-term loans"
Other net current financial liabilities	54.1	Corresponds to "Current financial assets", "Current financial liabilities" and "Non-current financial assets" for the value of deferrals on Revolving Credit Facility commissions (€ 3.7 million).

Reconciliation of the Terna Group's Cash Flow Statement

€ million	Cash flow 1H2017	Financial Statements Reconciliation	Cash flow 1H2016	Financial Statements Reconciliation
- Net profit for the period	350.5		322.9	
- Amortisation, depreciation and impairment	260.8		267.2	
- Net change in provisions	(21.4)		4.3	
Employee benefits		*(5.4)*		*1.9*
Provisions for risks and charges		*(5.5)*		*25.0*
Deferred tax liabilities		*(10.5)*		*(22.6)*
- Net Losses (Gains) on asset disposals (1)	(0,2)		(2.0)	
Operating Cash Flow	**589.7**		**592.4**	
- Change in net working capital:	16.9		(136.2)	
Inventories		*(5.0)*		*(0.6)*
Trade receivables		*(159.3)*		*(740.6)*
Income tax assets		*5.5*		*7.5*
Other current assets		*(16.5)*		*88.6*
Trade payables		*55.5*		*420.4*
Tax liabilities		*11.0*		*26.6*
Other liabilities		*125.7*		*61.9*
- Other changes in non-current assets	1,7		1.4	
Intangible assets (2)		*(2.9)*		*-*
Property, plant and equipment (3)		*7.0*		*1.7*
Non-current financial assets		*-*		*(0.1)*
Other non-current assets		*(0.5)*		*0.1*
Equity investments accounted for using the equity method		*(1.9)*		*(0.3)*
Cash Flow from Operating Activities	**608.3**		**457.6**	
Capital expenditure				
- Total capital expenditure	(325.7)		(346.9)	
Property, plant and equipment (3)		*(315.0)*		*(331.7)*
Intangible assets (2)		*(10.7)*		*(15.2)*
Total cash flows provided by/(used in) investing activities	**(325.7)**		**(346.9)**	
Free Cash Flow	**282.6**		**110.7**	
Cash flow hedge reserve net of the tax effect and other changes in equity attributable to the owners of the Parent(4)	3.7		(19.0)	
- Dividends paid to the owners of the Parent (4)	(269.1)		(261.3)	
Change in net financial debt	**17.2**		**(169.6)**	
- Change in loans	***(748.5)***		***32.8***	
Non-current financial assets		*28.9*		*306.8*
Current financial assets		*(6.6)*		*32.0*
Non-current financial liabilities		*(3.6)*		*12.6*
Long-term loans		*(716.4)*		*(719.8)*
Short-term loans		*5.4*		*(338.3)*
Current portion of long-term loans		*(20.4)*		*769.6*
Current financial liabilities		*(35.8)*		*(30.1)*
- Change in cash and cash equivalents	***(731.3)***		***(136.8)***	

(1) included in the balances of "Other revenue and income" and "Other operating expenses" 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 2017

Consolidated financial statements

Consolidated income statement

€ million	Notes	1st half 2017	1st half 2016
A - REVENUES			
1. Revenues from sales and services	1	1,024.0	1,009.6
of which: related parties		*793.5*	*754.2*
2. Other revenues and income	2	22.9	30.3
of which: related parties		*0.3*	*-*
Total revenues		**1,046.9**	**1,039.9**
B - OPERATING EXPENSES			
1. Raw materials and consumables	3	33.8	40.0
2. Services	4	76.5	88.0
of which: related parties		*11.8*	*20.1*
3. Personnel	5	126.2	115.3
- gross personnel costs		*155.8*	*144.2*
- personnel costs capitalised		*(29.6)*	*(28.9)*
of which: related parties		*1.3*	*1.9*
4. Amortisation, depreciation and impairment	6	260.8	267.2
5. Other operating expenses	7	15.6	19.6
of which: related parties		*0.1*	*-*
Total costs		**512.9**	**530.1**
A - B OPERATING PROFIT		**534.0**	**509.8**
C - FINANCIAL INCOME/(EXPENSE)			
1. Financial income	8	2.0	3.7
2. Financial expense	8	(44.5)	(41.3)
of which: related parties		*(1.7)*	*2.5*
3. Share of profit/(losses) from equity investments accounted for using the equity method	9	2.9	1.4
D - PROFIT BEFORE TAXES		**494.4**	**473.6**
E - INCOME TAXES FOR THE PERIOD	**10**	**143.9**	**150.7**
F - NET PROFIT FOR THE PERIOD		**350.5**	**322.9**
Profit for the period attributable to Shareholders of the Parent		***351.3***	***324.8***
Profit for the period attributable to Non-Controlling Interests		***(0.8)***	***(1.9)***
Earnings per share			
Basic earnings per share	11	0.175	0.162
Diluted earnings per share		0.175	0.162

Consolidated statement of comprehensive income

€ million	Notes	1st half 2017	1st half 2016
NET PROFIT FOR THE PERIOD		**350.5**	**322.9**
Other comprehensive income/(loss) for the period which will subsequently be released to the income statement			
- Cash flow hedges net of tax effect	22	4.7	(18.0)
Other comprehensive income/(loss) for the period which will not subsequently be released to the income statement			
- Actuarial gains/(losses) on employee benefits net of tax effect	22	1.0	(0.8)
NET COMPREHENSIVE INCOME FOR THE PERIOD		**356.2**	**304.1**
NET COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
Shareholders of the Parent		357.0	306.0

Consolidated statement of financial position

€ million	Notes	As of 30/06/2017	As of 31/12/2016
A - NON-CURRENT ASSETS			
1. Property, plant and equipment	12	12,458.6	12,386.1
of which: related parties		*6.3*	*35.8*
2. Goodwill	13	230.1	230.1
3. Intangible assets	14	274.4	285.9
4. Equity investments accounted for using the equity method	15	77.1	75.2
5. Non-current financial assets	16	318.6	347.5
of which: related parties		*0.4*	*0.5*
6. Other non-current assets	17	14.3	13.8
Total non-current assets		**13,373.1**	**13,338.6**
B - CURRENT ASSETS			
1. Inventories	18	15.2	10.2
2. Trade receivables	19	1,602.6	1,443.3
of which: related parties		*299.1*	*291.7*
3. Current financial assets	16	32.8	26.2
4. Cash and cash equivalents	20	404.4	1,135.7
5. Income tax assets	21	14.2	19.7
6. Other current assets	17	84.0	67.5
of which: related parties		*1.0*	*-*
Total current assets		**2,153.2**	**2,702.6**
TOTAL ASSETS		**15,526.3**	**16,041.2**

Consolidated statement of financial position

€ million	Notes	As of 30/06/2017	As of 31/12/2016
C - EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT			
1. Share capital		442.2	442.2
2. Other reserves		820.9	815.3
3. Retained earnings and losses		2,006.9	1,789.7
4. Interim dividends		-	(144.9)
5. Net profit for the period		351.3	633.1
Total equity attributable to shareholders of the Parent	**22**	**3,621.3**	**3,535.4**
D - EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	**22**	**19.0**	**19.8**
Total equity - shareholders of the Parent and non-controlling interests		**3,640.3**	**3,555.2**
E - NON-CURRENT LIABILITIES			
1. Long-term loans	23	7,688.0	8,404.4
of which: related parties		*500.0*	*500.0*
2. Employee benefits	24	98.7	104.1
3. Provisions for risks and charges	25	233.1	238.6
4. Deferred tax liabilities	26	31.4	41.9
5. Non-current financial liabilities	23	9.2	12.8
6. Other non-current liabilities	27	149.0	138.1
Total non-current liabilities		**8,209.4**	**8,939.9**
F – CURRENT LIABILITIES			
1. Short-term loans	23	25.5	20.1
2. Current portion of long-term loans	23	884.1	904.5
3. Trade payables	28	2,336.2	2,280.7
of which: related parties		*46.3*	*69.8*
4. Tax liabilities	28	19.1	8.1
5. Current financial liabilities	23	90.6	126.4
of which: related parties		*0.6*	*0.6*
6. Other current liabilities	28	321.1	206.3
of which: related parties		*5.2*	*4.6*
Total current liabilities		**3,676.6**	**3,546.1**
TOTAL LIABILITIES AND EQUITY		**15,526.3**	**16,041.2**

Statement of changes in consolidated equity

31 DECEMBER 2016–30 JUNE 2017

	CONSOLIDATED SHARE CAPITAL AND RESERVES		
€ million	**Share capital**	**Legal reserve**	**Share premium reserve**
EQUITY AT 31 December 2016	442.2	88.4	20.0
NET PROFIT FOR THE PERIOD			
OTHER COMPREHENSIVE INCOME/(LOSS):			
- Change in fair value of cash flow hedging derivatives net of tax effect			
- Actuarial gains/(losses) on employee benefits net of tax effect			
Total other comprehensive income/(loss)	-	-	-
NET COMPREHENSIVE INCOME	-	-	-
TRANSACTIONS WITH SHAREHOLDERS:			
- Allocation of 2016 profit:			
- *Retained earnings*			
- *Dividends*			
Total transactions with shareholders	-	-	-
Other changes			
EQUITY AT 30 June 2017	442.2	88.4	20.0

31 DECEMBER 2015–30 JUNE 2016

	CONSOLIDATED SHARE CAPITAL AND RESERVES		
€ million	**Share capital**	**Legal reserve**	**Share premium reserve**
EQUITY AT 31 December 2015	442.2	88.4	20.0
NET PROFIT FOR THE PERIOD			
OTHER COMPREHENSIVE INCOME/(LOSS):			
- Change in fair value of cash flow hedging derivatives net of tax effect			
- Actuarial gains/(losses) on employee benefits net of tax effect			
Total other comprehensive income/(loss)	-	-	-
NET COMPREHENSIVE INCOME	-	-	-
TRANSACTIONS WITH SHAREHOLDERS:			
- Allocation of 2015 profit			
- *Retained earnings*			
- *Dividends*			
Total transactions with shareholders	-	-	-
Other changes			
EQUITY AT 30 June 2016	442.2	88.4	20.0

Cash-flow-hedge reserve	Other reserves	Retained earnings and losses	Interim dividends	Net profit for the period	Equity attributable to shareholders of the parent	Equity attributable to non-controlling interests	Equity - owners of the parent and non-controlling interests
(18.2)	725.1	1,789.7	(144.9)	633.1	3,535.4	19.8	3,555.2
				351.3	351.3	(0.8)	350.5
4.7					4.7		4.7
	1.0				1.0		1.0
4.7	1.0	-	-	-	5.7	-	5.7
4.7	1.0	-	-	351.3	357.0	(0.8)	356.2
		219.1		(219.1)	-		
			144.9	(414.0)	(269.1)		(269.1)
-	-	219.1	144.9	(633.1)	(269.1)	-	(269.1)
	(0.1)	(1.9)			(2.0)		(2.0)
(13.5)	726.0	2,006.9	-	351.3	3,621.3	19.0	3,640.3

Cash-flow-hedge reserve	Other reserves	Retained earnings and losses	Interim dividends	Net profit for the period	Equity attributable to shareholders of the parent	Equity attributable to non-controlling interests	Equity - owners of the parent and non-controlling interests
(5.3)	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)		(18.0)
	(0.8)				(0.8)		(0.8)
(18.0)	(0.8)	-	-	-	(18.8)	-	(18.8)
(18.0)	(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)
(23.3)	723.7	1,789.5	-	324.8	3,365.3	23.1	3,388.4

Consolidated cash flow statement

€ million	1st half 2017	1st half 2016
NET PROFIT FOR THE PERIOD	350.5	322.9
ADJUSTMENTS FOR:		
Amortisation, depreciation, impairment losses/(reversals of impairment losses) on property, plant and equipment and intangible assets*	258.3	260.7
Provisions (including employee-related provisions) and impairment losses	13.1	17.1
(Gains)/Losses on disposals of property, plant and equipment	(0.2)	(2.0)
Financial (income)/expense	42.3	37.5
Income taxes	143.9	150.7
CASH FLOWS GENERATED BY OPERATING ACTIVITIES, BEFORE CHANGES IN NET WORKING CAPITAL	807.9	786.9
Increase/(decrease) in provisions (including employee-related and tax provisions)	(23.2)	9.8
(Increase)/decrease in inventories	(5.0)	(0.6)
(Increase)/decrease in trade receivables and other current assets	(172.1)	(654.9)
Increase/(decrease) in trade payables and other current liabilities	169.2	481.0
Increase/(decrease) in other non-current liabilities	12.6	6.2
Increase/(decrease) in other non-current assets	0.1	0.3
Interest income and other financial income received**	23.1	442.2
Interest expense and other financial expense paid**	(136.1)	(153.4)
Income taxes paid	(142.9)	(130.9)
CASH FLOWS GENERATED BY OPERATING ACTIVITIES [A]	533.6	786.6
- of which: related parties	*(31.2)*	*34.5*
Capital expenditure in non-current property, plant and equipment, net of grants received	(307.9)	(332.1)
Revenues from sale of property, plant and equipment and intangible assets and other changes	(0.1)	3.0
Capitalised financial expenses	7.0	9.4
Capital expenditure in non-current intangible assets, net of grants received	(10.7)	(15.2)
Recognition of intangible assets, new acquisitions	(2.2)	-
(Increase)/decrease in equity interests in associates	(1.9)	(0.3)
(Increase)/decrease in other investments	-	(0.1)
CASH FLOWS USED IN INVESTING ACTIVITIES [B]	(315.8)	(335.3)
- of which: related parties	*29.5*	*25.7*
Increase/(decrease) in Reserves and retained earnings and losses	-	(0.2)
Dividends paid	(269.1)	(261.3)
Change in short- and medium/long-term financial debt (including short-term portions)***	(680.0)	(326.6)
CASH FLOWS GENERATED BY FINANCING ACTIVITIES [C]	(949.1)	(588.1)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS [A+B+C]	(731.3)	(136.8)
Cash and cash equivalents at start of period	1,135.7	431.6
Cash and cash equivalents at end of period	404.4	294.8

* Net of set-up grants taken to income statement for the period
** Including cash flows provided by derivatives
*** Net of derivatives and of impacts on adjustment to fair value

Notes to the Financial Statements

A. ACCOUNTING POLICIES AND MEASUREMENT CRITERIA

Introduction

Terna S.p.A. has registered offices in Via Galbani 70, Rome, Italy. The Condensed Consolidated Interim Financial Statements for the first half of 2017 include the company's separate financial statements and those of its subsidiaries (the "Group"), as well as the Group's equity interests 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 2017 were authorised for publication by the Directors on 27 July 2017.
The Consolidated Financial Statements for the year ended 31 December 2016 are available upon request at the Terna S.p.A. registered offices in Via Galbani 70, Rome, or on the company's website www.terna.it.

Compliance with IASs/IFRSs and basis of presentation

The Condensed Consolidated Interim Financial Statements at 30 June 2017 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 (hereinafter "IFRSs-EU") at that date and used in the Consolidated Financial Statements for the year ended 31 December 2016.
In particular, the Group's Condensed Consolidated Interim Financial Statements for the first half of 2017, prepared in conformity with the international accounting standard IAS 34, do not include all the information required in the annual financial statements and must be read together with the Consolidated Financial Statements for the year ended 31 December 2016. The present Condensed Consolidated Interim Financial Statements are, in fact, made up of a summary disclosure of the accounts, while the statements are compliant with those that make up the annual financial statements.
We must also specify that, for the purposes of better comparison, some balances have been reclassified, without, however, altering the equity figures at 31 December 2016 and those of the Income Statement for the first half of 2016.

Use of estimates

Preparation of the Condensed Consolidated Interim Financial Statements at 30 June 2017 requires the use by the management of estimates and assumptions that affect the carrying amounts of assets and liabilities and related disclosures, in addition to contingent assets and liabilities at the reporting date. The estimates and associated assumptions are based on previous experience and various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities the value of which is not readily apparent from other objective sources. Actual results may differ from these estimates.
We can also note that certain valuation processes, in particular the more complex ones such as determining any impairment losses of non-current assets, are generally carried out completely only in preparing the annual financial statements, if all the necessary information is available, except when there is evidence of impairment that requires an immediate valuation of any losses. In the same way, the actuarial valuations necessary for determining provisions for employee benefits are normally carried out on the occasion of preparing the annual financial statements.
The estimates and 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 the revision affects both the period of reference in which the estimate is revised and future periods, the change is recognised starting from the accounting period in which the revision is carried out and in future ones.

Consolidation scope

SUBSIDIARIES

Company Name	Registered office	Currency	Share capital	% held	Consolidation method
COMPANIES CONTROLLED DIRECTLY BY TERNA S.P.A.					
Terna Rete Italia S.p.A.	Rome	€	120,000	100%	Line-by-line
Business	Design, construction, management, development, operation and maintenance of grid structures and lines and of other infrastructures connected to the said grids, of plants and equipment functional to the said business in the sectors of electricity dispatching and transmission and in similar, related or connected segments.				
Terna Crna Gora d.o.o.	Podgorica (Montenegro)	€	84,000,000	100%	Line-by-line
Business	Authorisation, construction, and management of transmission infrastructures comprising the Italy-Montenegro electrical interconnection in Montenegro territory.				
Terna Plus S.r.l.	Rome	€	16,050,000	100%	Line-by-line
Business	Design, construction, management, development, operation and maintenance of plants, equipment and infrastructures including grids and systems, including diffused energy accumulation, pumping and/or storage.				
Terna Interconnector S.r.l.	Rome	€	10,000	65%*	Line-by-line
Business	Responsible for the activities of constructing and managing the private part of the Italy-France interconnection and for the civil works of the public part.				
Monita Interconnector S.r.l.	Rome	€	10,000	95%**	Line-by-line
Business	Responsible for the activities of constructing and managing the private part of the Italy-Montenegro interconnection.				
RETE S.r.l.	Rome	€	387,267,082	100%	Line-by-line
Business	Design, construction, management, development, operation and maintenance of high-voltage power lines within the former perimeter of the FSI Group.				
Difebal S.A.	Montevideo (Uruguay)	Uruguayan pesos	140,000	100%	Line-by-line
Business	Design, construction and maintenance of electricity infrastructure in Uruguay.				

* 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
Business	Construction, repair and sales of electrical machinery.				
Terna Chile S.p.A.	Santiago de Chile (Chile)	CLP	1,000,000	100%	Line-by-line
Business	Design, construction, administration, development, operation and maintenance of any type of structure, plant, equipment and electrical infrastructure, including those of interconnection; production of all kinds of products and services, constructions, electrical and civil engineering works; research, consulting and assistance on questions related to the core business; carrying out any other activity that can improve the use and development of plants, resources and skills.				
SPE Santa Maria Transmissora de Energia S.A.	San Paolo (Brazil)	BRL	41,154,207	99.99%**	Line-by-line
Business	Performance of public electricity transmission services, including the construction, operation and maintenance of electricity transmission plants or any other activity necessary to fulfil the said purpose.				
SPE Santa Lucia Transmissora de Energia S.A.	San Paolo (Brazil)	BRL	132,491,414	99.99%**	Line-by-line
Business	Performance of public electricity transmission services, including the construction, operation and maintenance of electricity transmission plants or any other activity necessary to fulfil the said purpose.				
Terna Peru S.A.C.	Lima (Peru)	PEN	1,000	99.99%**	Line-by-line
Business	Design, construction, administration, development, operation and maintenance of any type of structure, plant, equipment and electrical infrastructure, including those of interconnection; production of all kinds of products and services, constructions, electrical and civil engineering works; research, consulting and assistance on questions related to the core business; carrying out any other activity that can improve the use and development of plants, resources and skills.				
Rete Verde 17 S.r.l.	Rome	€	10,000	100%	Line-by-line
Business	Creation and development of projects in the field of renewable energies.				
Rete Verde 18 S.r.l.	Rome	€	10,000	100%	Line-by-line
Business	Creation and development of projects in the field of renewable energies.				
COMPANIES CONTROLLED THROUGH TAMINI TRASFORMATORI S.R.L.					
Tamini Transformers USA LLC	Oakbrook (Chicago - Illinois)	USD	42,904	100%	Line-by-line
Business	Sales of industrial and power electrical transformers.				
Tes Transformer Electro Service Asia Private Limited	Maharashtra (India)	Indian rupees	100,000	100%	Line-by-line
Business	Sales of industrial and power electrical transformers.				
COMPANIES CONTROLLED THROUGH TERNA INTERCONNECTOR S.R.L.					
Piemonte Savoia S.r.l.	Rome	€	10,000	100%	Line-by-line
Business	Design, construction, management, development, operation and maintenance, also on behalf of third parties, of lines and network structures and other related infrastructures, plants and equipment functional to the said activities in the sector of electricity transmission or in analogous, related or connected sectors.				

* 30% Holdco TES (controlled by the fund Xenon Private Equity V, Riccardo Reboldi and Giorgio Gussago)

** 0.01% Terna Chile S.p.A.

Compared to the situation at 31 December 2016, the following changes have been made to the Group's corporate structure.

Acquisitions and registration of new companies:

- On 10 May 2017, the subsidiary Terna Plus S.r.l. established two Italian law companies limited by quotas, Rete Verde 17 S.r.l. and Rete Verde 18 S.r.l., aimed at the development of renewable-energy initiatives as agreed in the partnership agreement between Terna and RFI signed in November 2016.
- On 13 June 2017, the subsidiaries Terna Plus S.r.l. and Terna Chile S.p.A. established the company Terna Peru S.A.C. under Peruvian law, with an equity investment of 99.99% and 0.01% respectively, for the construction of a 138-kV line (132 km).

- On 26 June 2017, the subsidiary Terna Plus S.r.l. acquired two public limited companies under Brazilian law, SPE Santa Maria Trasmissora de Energia S.A. and SPE Santa Lucia Trasmissora de Energia S.A. The equity investment of Terna Plus S.r.l. is 99.9%, while the remaining 0.01% is held by Terna Chile S.p.A..

Mergers:

- On 31 March 2017, the merger by incorporation of Terna Storage S.r.l. and Terna Rete Italia S.r.l. into Terna S.p.A. came into effect.
- In the context of the Tamini Group, on 08 June 2017 the merger by incorporation of T.E.S. Transformer Electro Service S.r.l. and V.T.D. Trasformatori S.r.l. into Tamini Trasformatori S.r.l. came into effect.

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 investee or, in any case, to cover its losses.

Joint ventures

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

Company Name	Registered office	Currency	Share capital	% held	Consolidation method	Carrying amount at 30/06/2017 *€ million*
ASSOCIATES						
Cesi S.p.A.	Milan	€	8,550,000	42.698%	Equity Method	46.8
Business	Experimental research and provision of services related to the electro-technical field.					
Coreso S.A.	Brussels (Belgium)	€	1,000,000	16.67%	Equity Method	0.3
Business	Technical centre owned by various electricity transmission companies which implements joint TSO technical coordination activities in order to improve and strengthen security and coordination of the electricity system in central/western Europe.					
CGES A.D.	Podgorica (Montenegro)	€	155,108,283	22.0889%	Equity Method	30.0
Business	Electricity dispatching and transmission operator in Montenegro.					
JOINT VENTURES						
ELMED Etudes S.a.r.l.	Tunisi (Tunisia)	Tunisian Dinar	2,700,000	50%	Equity Method	0.0
Business	Study activity concerning the connection of the Italian and Tunisian electricity grids.					

B. NOTES TO THE CONSOLIDATED INCOME STATEMENT

REVENUES

1. REVENUES FROM SALES AND SERVICES – € 1,024.0 million

€ million	1st half 2017	1st half 2016	Δ
Grid transmission fees	894.6	871.1	23.5
Other energy revenues	61.2	61.9	(0.7)
Other revenues from sales and services	68.2	76.6	(8.4)
TOTAL	**1,024.0**	**1,009.6**	**14.4**

Grid transmission fees

The Grid transmission fees are referable to the remuneration for owning and managing the National Transmission Grid – NTG for which the Parent Company is responsible (€ 830.0 million) together with the subsidiary Rete S.r.l. (€ 64.6 million).
The increase in the item compared to the first half of 2016 of € 23.5 million derives from the higher fee related to the NTG acquired from the FSI Group (€ +32.5 million), which in the comparative period was remunerated only to cover the operating expenses, partially offset by the lower transmission revenues of the Parent Company (€ -9.0 million, related in particular to the one-off effects recognised in the first half of 2016, of € 6.8 million, mainly deriving from recognition of the strategic investments related to the 2015 incentivised works in progress).

Other energy revenues

Other energy revenues includes the price paid to the Parent Company by the electricity operators for the dispatching service (DIS component, € 55.6 million) and revenues from the construction and development of dispatching infrastructures recognised following application of IFRIC 12 (€ 5.6 million).
The decrease in the item compared to the figure in the first half of 2016 equal to € 0.7 million is referable to the lower revenues for IFRIC 12 investments (€ -1.5 million) and to the tariff effect on the DIS component (€ +0.8 million).

Other energy items – pass-through revenue/costs

This item includes the revenues 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. To this end, the measurements at each point of input and withdrawal are taken and the differences from the energy market schedules are calculated. These differences (called imbalances) are measured using algorithms established by the regulatory framework. The net charge resulting from the measurement of these imbalances and of the buying and selling transactions executed by Terna on the MSD are billed on a pro rata basis to each consumer with an Uplift fee.
Other energy items also include the remuneration paid by the Parent Company to the other owners of the grid. The components of these transactions are detailed below.

€ million	1st half 2017	1st half 2016	Δ
Revenues - power exchange:	*2,157.7*	*2,172.4*	*(14.7)*
Revenues - non-power exchange:	*599.8*	*776.7*	*(176.9)*
PASS-THROUGH ENERGY REVENUES	2,757.5	2,949.1	(191.6)
Costs - power exchange:	*2,157.7*	*2,172.4*	*(14.7)*
Costs - non-power exchange:	*599.8*	*776.7*	*(176.9)*
PASS-THROUGH ENERGY COSTS	2,757.5	2,949.1	(191.6)

Other revenues from sales and services

The item “Other revenues from sales and services” amounted to € 68.2 million and recognises a decrease of € 8.4 million compared to the first half of 2016 mainly due to the effect of the reduction in sales of transformers made in the period by the Tamini Group (€ -7.9 million). We can note however that in the first half of the year the Tamini Group’s transformer order book grew by 13% compared to the same period of the previous year. With reference to EPC contracts, it is also worth noting the higher revenues of the first half of 2016 connected with an order in Chile (€ -1.7 million). It also includes higher revenues for the service of connecting plants to the NTG (€ +1.3 million).

2. OTHER REVENUES AND INCOME – € 22.9 million

€ million	1st half 2017	1st half 2016	Δ
Rental income	10.9	10.7	0.2
Sundry grants	2.5	5.1	(2.6)
Settlements for losses	3.3	0.1	3.2
Net contingent assets	2.6	1.6	1.0
Gains on the disposal of plant components	0.4	2.2	(1.8)
Sales to third parties	2.5	9.9	(7.4)
Other revenues	0.7	0.7	-
TOTAL	22.9	30.3	(7.4)

The decrease in the item of € 7.4 million compared to the first half of 2016 was essentially due to the combined effect of:

- lower income made from sales to third parties (€ -7.4 million), owing mainly for the higher revenues made in the first half of 2016 for the “Copper Plan” (€ -7.9 million);
- reduction of sundry grants (€ -2.6 million, of which -1.3 related to grants for EPC on the NTG);
- lower capital gains (€ -1.8 million) owing essentially to the sale in the first half of 2016 of a number of assets for renewal of the company car fleet;
- an increase of insurance payouts (€ +3.2 million, of which € +2.9 million essentially due to the payout received in March 2017 with reference to a claim on a transformer).

OPERATING EXPENSES

3. RAW MATERIALS AND CONSUMABLES - € 33.8 million

This item, amounting to € 33.8 million, expresses the value of consumption of miscellaneous materials used in the ordinary work of operating and maintaining plants of the Group and of third parties, and consumption of materials for fulfilling the Tamini Group’s orders.
The decrease in the item compared to the figure for the same period of the previous year (€ -6.2 million) is mainly related to the lower costs recognised by the Tamini Group owing to less business (€ -5.9 million).

4. SERVICES – € 76.5 million

€ million	1st half 2017	1st half 2016	Δ	Δ without Tamini	Δ Tamini
Tenders on plants	22.9	30.7	(7.8)	(10.8)	3.0
Maintenance and sundry services	33.4	34.9	(1.5)	2.5	(4.0)
Insurance	4.1	5.0	(0.9)	(0.6)	(0.3)
Remote transmission and telephones	5.5	5.8	(0.3)	(0.3)	-
IT services	5.2	5.5	(0.3)	(0.3)	-
Leases and rentals	5.4	6.1	(0.7)	(0.5)	(0.2)
TOTAL	**76.5**	**88.0**	**(11.5)**	**(10.0)**	**(1.5)**

Net of the contribution of the Tamini Group, costs of services came down compared to the corresponding period of the previous year by € 10.0 million, equal to € -8.9 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	(10.8)	(0.3)	(10.5)
Maintenance and sundry services	2.5	(0.2)	2.7
Insurance	(0.6)	-	(0.6)
Remote transmission and telephones	(0.3)	-	(0.3)
IT services	(0.3)	(0.6)	0.3
Leases and rentals	(0.5)	-	(0.5)
TOTAL	**(10.0)**	**(1.1)**	**(8.9)**

This decrease is mostly due to the internalisation of maintenance costs for the management of power lines of Rete S.r.l..

5. PERSONNEL– € 126.2 million

€ million	1st half 2017	1st half 2016	Δ
Wages, salaries and other short-term employee benefits	149.0	136.7	12.3
Directors' remuneration	1.2	1.6	(0.4)
Termination benefits, electricity discount and other post-employment benefits	4.5	5.9	(1.4)
Early retirement incentives	1.1	-	1.1
Gross personnel costs	***155.8***	***144.2***	***11.6***
Personnel costs capitalised	(29.6)	(28.9)	(0.7)
TOTAL	**126.2**	**115.3**	**10.9**

The item, of € 126.2 million, includes the cost of the personnel under the Tamini Group companies of € 10.9 million.

€ million	1st half 2017	1st half 2016	Δ	Δ Tamini	Δ IFRIC 12	Δ withoutTamini/ IFRIC 12
Gross personnel costs	155.8	144.2	11.6	(1.7)	-	13.3
Personnel costs capitalised	(29.6)	(28.9)	(0.7)	(0.5)	(0.3)	0.1
TOTAL	**126.2**	**115.3**	**10.9**	**(2.2)**	**(0.3)**	**13.4**

Personnel, net of the Tamini Group and of the costs recognised pursuant to IFRIC 12, recorded an increase of € 13.4 million compared to the first half of 2016, mainly as a result of the increase of the average number (owing in particular to recruitment in Terna Rete Italia S.p.A. for the evolution of the costs deriving from the management needs of the asset perimeter of Rete S.r.l.) and as a result of the adjustment of the remuneration linked to the National Collective Employment Contract and of the impacts on the variable costs and of incentives to the personnel.

The following table shows the average number of Group employees by category of the first half of 2017 and 2016.

Average number

	1st half 2017	1st half 2016	Δ
Senior managers	73	76	(3)
Middle managers	568	550	18
Office staff	1,998	1,946	52
Blue-collar workers	1,254	1,200	54
TOTAL	**3,893**	**3,772**	**121**

In the first six months of the year, the net change in the average number of the Group's employees – as described above – was +121 units compared to the corresponding period of 2016.

6. AMORTISATION, DEPRECIATION AND IMPAIRMENT – € 260.8 million

€ million	1st half 2017	1st half 2016	Δ
Amortisation of intangible assets	25.1	26.4	(1.3)
- of which: infrastructure rights	*12.5*	*14.3*	*(1.8)*
Depreciation of property, plant and equipment	228.1	239.4	(11.3)
Impairment losses of property, plant and equipment	7.6	-	7.6
Impairment losses of trade receivables	-	1.4	(1.4)
TOTAL	**260.8**	**267.2**	**(6.4)**

The item, of € 260.8 million, recorded a decrease compared to the first half of 2016 (€ -6.4 million, of which € -5.4 million referable to the Parent Company), owing mainly to lower depreciation based on the review of the useful life of electrical lines (increased from 40 to 45 years), partially offset by new plants beginning operations, as well as impairment of certain plants.

7. OTHER OPERATING EXPENSES - € 15.6 million

€ million	1st half 2017	1st half 2016	Δ
Indirect and local taxes and duties	5.9	5.6	0.3
Quality-of-service expenses	3.8	3.6	0.2
Net contingent liabilities	1.1	0.8	0.3
Allocations made to Provisions for disputes	0.7	4.1	(3.4)
Losses on disposal/decommissioning of plant	0.2	0.2	-
Other operating expenses	3.9	5.3	(1.4)
TOTAL	**15.6**	**19.6**	**(4.0)**

The item, of € 15.6 million, recorded a decrease of € 4.0 million compared to the same period of the previous year, mainly due to the higher allocations made to provisions for disputes recognised in the first half of 2016 (€ -3.4 million) as well as lower costs recorded in the period by the Tamini Group (€ -1.3 million).

8. NET FINANCIAL INCOME/(EXPENSE) - € (42.5) million

€ million	1st half 2017	1st half 2016	Δ
FINANCIAL EXPENSE			
Interest expense on medium/long-term loans and related hedges	(49.1)	(46.8)	(2.3)
Financial expense from parent company	(1.7)	(2.5)	0.8
Discounting of termination benefits and other personnel-related provisions and provisions for risks and charges	(0.5)	(1.0)	0.5
Capitalised financial expenses	7.0	9.4	(2.4)
Exchange losses	(0.2)	(0.1)	(0.1)
Other financial expense	-	(0.3)	0.3
Total expense	**(44.5)**	**(41.3)**	**(3.2)**
FINANCIAL INCOME			
Interest income and other financial income	1.2	2.6	(1.4)
Debt adjustment (bonds) and related hedges	0.8	1.1	(0.3)
Total income	**2.0**	**3.7**	**(1.7)**
TOTAL	**(42.5)**	**(37.6)**	**(4.9)**

Net financial expense for the period amounted to € 42.5 million comprising € 44.5 million of financial expense and € 2.0 million of financial income. The increase in net financial expense of € 4.9 million with respect to the first half of 2016 was mainly the result of the following factors:

- increase in financial expense related to medium- and long-term debt and related hedging (€ +2.3 million);
- lower capitalised financial expenses (€ -2.4 million) due to the lower investments made during the period and the lower cost of net debt in 2017 compared with that recognised in 2016;
- lower interest income and other financial income (€ -1.4 million) mainly attributable to lower net uplift income (€ -1.5 million);
- reduction in expense from the parent company (€ -0.8 million).

9. SHARE OF PROFIT/(LOSSES) FROM EQUITY INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD - € 2.9 million

The item, of € 2.9 million, reflects the economic effects deriving from adjustment to the portion of equity at 30 June 2017 of the equity investment in the associate CESI S.p.A. and recorded an increase of € 1.5 million compared to the first half of 2016.

10. INCOME TAXES FOR THE PERIOD – € 143.9 million

Income taxes for the period totalled € 143.9 million and were down by € 6.8 million compared to the first half of 2016, mainly due to the reduction in the IRES (corporate income tax) rate from 27.5% to 24% (pursuant to Italian Law no. 208/2015, the Stability Law for 2016).
The tax rate for the period amounted to 29.1%, compared with 31.8% in the first half of 2016.

The details of the taxes recognised in the period are presented below:

€ million	**1st half 2017**	**1st half 2016**	**Δ**
INCOME TAXES FOR THE PERIOD			
Current taxes:			
- IRES	131.3	135.8	(4.5)
- IRAP	25.8	38.3	(12.5)
Total current taxes	***157.1***	***174.1***	***(17.0)***
Temporary differences:			
- deferred tax assets	3.3	(0.3)	3.6
- deferred tax liabilities	(15.6)	(17.0)	1.4
Total deferred tax assets and liabilities	***(12.3)***	***(17.3)***	***5.0***
Adjustment to prior-year taxes	(0.9)	(6.1)	5.2
TOTAL	**143.9**	**150.7**	**(6.8)**

Current taxes: (of € 157.1 million) recorded a decrease of € 17.0 million compared to the balance of the first half of 2016, owing substantially to the reduction in the IRES rate commented on above.
Deferred tax assets and liabilities, of € -12.3 million, recorded a reduction of € 5.0 million, attributable essentially to lower utilisations of earlier provisions for additional depreciation compared to the fiscally relevant rates following the revision of the useful life of the assets and also to changes in Provisions for risks and charges.
The adjustments to prior year taxes, of € -0.9 million, refer to contingencies deriving from the effective settlement of the taxes on presenting the tax return; the item shows a change of € +5.2 million compared to the figure for the first half of 2016.

11. EARNINGS PER SHARE

Basic earnings per share came out at € 0.175 (numerator of € 351.3 million and denominator of 2,009,992.0 thousand).

C. OPERATING SEGMENTS

Consistent with the 2017–2021 Strategic Plan, and in line with IFRS 8, the following are the operating segments identified within the Terna Group:

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

Regulated Activities include the development, operation and maintenance of the National Transmission Grid in addition to dispatching and measuring and activities related to the creation of storage systems. These activities are represented in a single operating segment, as activities regulated by the AEEGSI with similar characteristics in terms of the remuneration model and the tariff determination methods.
The operating segment of non-regulated activities instead includes specialised services provided to third parties mainly relating to systems engineering services, the operation and maintenance of high-voltage and Extra-High-Voltage plants and the housing of telecommunications equipment and optical fibre network maintenance services. These activities are provided in a free market context by means of specific commercial initiatives.
We must specify that the operating segment of Non-Regulated Activities includes also the operating result of the Tamini Group, referable essentially to the construction and sale of electrical machinery, in particular power transformers, and the results of the companies set up to develop interconnection projects with other countries in an "interconnector" arrangement, that is Terna Interconnector S.r.l., Piemonte Savoia S.r.l. and Monita Interconnector S.r.l., and the companies Terna Chile S.p.A. and Difebal S.A. set up to develop initiatives in the South American market.
Below are the results of the operating segments of the Terna Group for the first half of 2017 and the first half of 2016, in line with the evidence of the Group management control system and the reconciliation with the Group's profit before taxes.

€ million	1st half 2017	1st half 2016	Δ	Δ %
TOTAL REVENUES FROM REGULATED ACTIVITIES	961.9	942.4	19.5	2.1%
TOTAL REVENUES FROM NON-REGULATED ACTIVITIES	79.4	90.4	(11.0)	(12.2%)
Revenues from construction of assets in concession (pursuant to IFRIC 12)	5.6	7.1	(1.5)	(21.1%)
TOTAL REVENUES	**1,046.9**	**1,039.9**	**7.0**	**0.7%**
EBITDA*	**794.8**	**777.0**	**17.8**	**2.3%**
*of which EBITDA from Regulated Activities***	*777.6*	*760.6*	*17.0*	*2.2%*
of which EBITDA from Non-Regulated Activities	*17.2*	*16.4*	*0.8*	*4.9%*
EBITDA margin	***75.9%***	***74.7%***		
*EBITDA margin on Regulated Activities***	80.8%	80.7%		
EBITDA margin on Non-Regulated Activities	21.7%	18.1%		
Reconciliation of segment result with pre-tax company result				
EBITDA (GROSS OPERATING MARGIN)	**794.8**	**777.0**		
Amortisation, depreciation and impairment	260.8	267.2		
EBIT (OPERATING PROFIT)	**534.0**	**509.8**		
Financial income/(expense)	(42.5)	(37.6)		
Share of profit/(loss) of equity-accounted investees	2.9	1.4		
Profit before taxes	**494.4**	**473.6**		

* EBITDA (Gross operating margin) is a measure of operating performance and is calculated by combining the EBIT (Operating Profit) with Amortisation, Depreciation and Impairment.

** EBITDA including indirect costs.

The Group's revenues for the first half of 2017 amounted to € 1,046.9 million recording a growth of € 7.0 million (+0.7%) with respect to the first half of 2016.
EBITDA (Gross Operating Margin) came out at € 794.8 million, with an increase of € 17.8 million (+2.3%) compared with € 777.0 million of the first half of 2016.

The **EBITDA (Gross Operating Margin) of Regulated Activities** amounted to € 777.6 million, up € 17.0 million compared to the corresponding period of the previous year. This increase was due to the increase in transmission revenues, owing to the recognition of the remuneration of the capital and of depreciation of the grid acquired from RFI, partly offset by higher personnel expenses, owing to an increase in the amounts for insourcing of the O&M activities previously entrusted to RFI which, on the contrary, entails a reduction in the costs of external resources.

The **EBITDA (Gross Operating Margin) of Non-Regulated Activities** of the first half of 2017 of € 17.2 million, increased by € 0.8 million due mainly to the greater contribution of the Tamini Group (€ +2.7 million, deriving in particular from the benefits of the reorganisation of the group carried out in 2016).

The **EBITDA margin** of the Group went up from 74.7% in the first half of 2016 to 75.9% in the first half of 2017.

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 measure at 30 June 2017 and 31 December 2016.

	Italy	
€ million	30/06/2017	31/12/2016
Net non-current assets*	13,054.6	12,991.2
of which Investments in associates and joint ventures	*77.1*	*75.2*
Net working capital (NWC)**	(1,109.4)	(1,092.5)
Gross invested capital***	11,945.2	11,898.7

* Net non-current assets include the value of the items "Property, plant and equipment", "Goodwill", "Intangible assets", "Equity investments accounted for using the equity method", "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 – € 12,458.6 million

€ million	Land	Buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	TOTAL
COST AT 01/01/2017	**189.4**	**1,771.9**	**16,275.7**	**97.0**	**137.9**	**1,464.1**	**19,936.0**
Capital expenditure	0.2	-	0.1	0.7	0.1	313.9	315.0
Entry into use	0.5	40.2	216.2	-	1.7	(258.6)	-
Disposals and impairment	-	-	(12.3)	-	(0.1)	(4.0)	(16.4)
Other changes	-	(1.5)	(13.5)	-	-	8.6	(6.4)
COST AT 30/06/2017	**190.1**	**1,810.6**	**16,466.2**	**97.7**	**139.6**	**1,524.0**	**20,228.2**
ACCUMULATED DEPRECIATION AND IMPAIRMENT AT 01/01/2017	**-**	**(482.2)**	**(6,892.8)**	**(76.7)**	**(98.2)**	**-**	**(7,549.9)**
Depreciation for the period	-	(21.7)	(198.0)	(2.4)	(6.0)	-	(228.1)
Disposals	-	-	8.3	-	0.1	-	8.4
ACCUMULATED DEPRECIATION AND IMPAIRMENT AT 30/06/2017	**-**	**(503.9)**	**(7,082.5)**	**(79.1)**	**(104.1)**	**-**	**(7,769.6)**
Carrying amount							
AS OF 30/06/2017	**190.1**	**1,306.7**	**9,383.7**	**18.6**	**35.5**	**1,524.0**	**12,458.6**
AS OF 31/12/2016	**189.4**	**1,289.7**	**9,382.9**	**20.3**	**39.7**	**1,464.1**	**12,386.1**
Δ	**0.7**	**17.0**	**0.8**	**(1.7)**	**(4.2)**	**59.9**	**72.5**

"Plant and machinery", at 30 June 2017 includes, in particular, the energy transportation network as well as the transformer stations in Italy.
The item "Property, plant and equipment" recorded an increase compared to the previous year, of € 72.5 million, as a result of the ordinary changes that occurred in the year referred to:

- capital expenditure during the year of € 315.0 million, of which € 301.7 million within the context of the Group's Regulated Activities. Investments of € 13.3 million were made in the area of Non-Regulated Activities, mainly for the creation of the private Italy-France interconnection line (€ 10.2 million);
- depreciation accruing of € 228.1 million;
- disposals and impairment (€ -8.0 million); other changes during the period of € -6.4 million, mainly relating to plant grants, in particular those received for projects financed by MISE/EU.

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

€ million	
Capital expenditure	
- Transmission lines	228.9
- Transformer stations	74.9
- Storage systems	0.3
- Other	10.9
TOTAL CAPITAL EXPENDITURE IN PROPERTY, PLANT AND EQUIPMENT	**315.0**
Depreciation for the period	(228.1)
Other changes	(6.4)
Disposals and impairment	(8.0)
TOTAL	**72.5**

As regards capital expenditure during the period in **Regulated Activities** (€ 301.7 million), we can note, in particular, that of the Parent Company, related mainly to:

- the progress of construction works for interconnection with other countries related to the following lines:
  - Italy-Montenegro (€ 72.1 million); the laying and protection activities and the entire undersea cable have been completed, the construction of the substations and the laying of the underground cables in Italy and in Montenegro are in progress;
  - Italy-France (€ 8.2 million), the excavation and cable-laying activities are in progress on the provincial stretch of the connection (about 14 km of 17 km have been completed);
- Creation of the Cavi Laguna (Laguna Cables) (€ 16.2 million) with progress on both the underground and undersea sections. Tunnelling is underway to arrive at Cavallino and the archaeological studies are in progress in agreement with the archaeological authority of Venice;
- Macchialupo substation (€ 14.5 million), the substation and the two 150-kV double three-phase power lines, Bisaccia – Macchialupo 1 and 2 (20.4 km), have been purchased;
- the interconnection between Capri and the Italian peninsula (€ 12.9 million), which came into operation at the end of June. The work supplying the island will guarantee a more secure connection of the electricity grid and service continuity.

The capital expenditure also include that related to the grid acquired from the FSI Group (€ 9.2 million), mainly as part of the process of functional separation of the substations and work on renewing the lines.

13. GOODWILL – € 230.1 million

Goodwill amounted to € 230.1 million and was unchanged from the balance recognised at 31 December 2016.

14. INTANGIBLE ASSETS – € 274.4 million

€ million	Infrastructure rights	Concessions	Other assets	Assets under development and payments on account	TOTAL
Cost	387.2	136,1	251,9	38,7	813,9
Accumulated amortisation	(283.4)	(63,0)	(181,6)	-	(528,0)
BALANCE AT 31/12/2016	**103.8**	**73,1**	**70,3**	**38,7**	285,9
Capital expenditure	-	-	-	10,7	10,7
Entry into use	6.2	-	7,1	(13,3)	-
Contribution of newly acquired companies	-	-	2,2	-	2,2
Amortisation for the period	(12.5)	(2,8)	(9,8)	-	(25,1)
Other changes	-	-	0,7	-	0,7
BALANCE AT 30/06/2017	**97.5**	**70,3**	**70,5**	**36,1**	274,4
Cost	393.4	136,1	262,0	36,1	827,6
Accumulated amortisation	(295.9)	(65,8)	(191,5)	-	(553,2)
BALANCE AT 30/06/2017	**97.5**	**70,3**	**70,5**	**36,1**	274,4
Δ	**(6.3)**	**(2,8)**	**0,2**	**(2,6)**	(11,5)

Intangible assets recorded a drop of € 11.5 million compared to the previous year, attributable mainly to ordinary changes in the period for capital expenditure of € 10.7 million net of the amortisation accruing of € 25.1 million; the contribution of the new Brazilian-law companies acquired during the period of € 2.2 million was also significant.

With reference to capital expenditure of the period in intangible assets (€ 10.7 million, referred to the Parent Company in the context of Regulated Activities), we can note in particular those for development and evolution of application software for the Remote Management System for Dispatching (€ 2.4 million), for the Power Exchange (€ 1.3 million) and for the protection of the Electricity System (€ 0.8 million), as well as software applications and general use licenses (€ 4.2 million).

15. EQUITY INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD – € 77.1 million

The item in question shows a difference compared to the previous year of € +1.9 million deriving from the adjustment to the portion of equity at 30 June 2017 of the equity investment in the associate Cesi S.p.A. (€ +2.9 million), taking into account the dividend to be received from the said company (€ -1.0 million).

16. FINANCIAL ASSETS

€ million	30/06/2017	31/12/2016	Δ
FVH derivatives	286.5	325.7	(39.2)
Revolving Credit Facility Commissions	3.7	4.3	(0.6)
Other Investments	0.1	0.1	-
Interconnector Guarantee Fund Deposit	28.3	17.4	10.9
NON-CURRENT FINANCIAL ASSETS	**318.6**	**347.5**	**(28.9)**
Deferred assets on FVH derivatives contracts	32.6	26.1	6.5
Other current financial assets	0.2	0.1	0.1
CURRENT FINANCIAL ASSETS	**32.8**	**26.2**	**6.6**

The item “Non-current financial assets”, of € 318.6 million, shows a decrease of € 28.9 million compared to the previous year, mainly attributable to the decrease in fair value of derivatives (€ -39.2 million) owing essentially to an increase in the reference interest rate curve compared to December 2016; offset by the positive change in the Interconnector Guarantee Fund set up of the construction of interconnection works pursuant to art. 32 of Italian Law 99/09 of € 28.3 million at 30 June 2017 (€ +10.9 million).
The item “Current financial assets” showed a balance of € 32.8 million and recorded an increase compared to the previous year of € +6.6 million due essentially to the increase in net financial income earned on the related financial instruments, but not yet paid.

17. OTHER ASSETS

€ million	30/06/2017	31/12/2016	Δ
Loans and advances to employees	9.5	9.0	0.5
Deposits with third parties	4.8	4.8	-
OTHER NON-CURRENT ASSETS	**14.3**	**13.8**	**0.5**
Other tax assets	31.4	47.1	(15.7)
Receivables from associates	1.0	-	1.0
Contractual advances to suppliers	22.0	7.7	14.3
Prepayments of operating expenses and accrued income	17.7	6.6	11.1
Other current assets - Interconnector Guarantee Fund	3.9	2.0	1.9
Receivables due from others	8.0	4.1	3.9
OTHER CURRENT ASSETS	**84.0**	**67.5**	**16.5**

"Other non-current assets" (€ 14.3 million) recorded a slight increase compared to the figures for the previous year (€ +0.5 million) and mainly comprise loans and advances to employees of the Parent Company and the subsidiaries Terna Rete Italia S.p.A. and Terna Plus S.r.l. (€ 9.5 million).
The item "Other current assets", of € 84.0 million, showed an increase of € 16.5 million compared to the balance at 31 December 2016 owing to the following changes:

- contractual advances to suppliers of € +14.3 million, related essentially to advances paid with reference to development and EPC contracts of business in Brazil (€16.8 million);
- portions of costs paid in advance but accruing after 30 June 2017 of € +11.1 million, of which in particular € 6,2 million attributable to personnel and € 3.6 million related to local taxes and insurance premiums;
- other tax assets € -15.7 million, owing substantially to the position with the Tax Authority for VAT;
- receivable for dividends to be paid by the associate CESI (€ +1.0 million).

18. INVENTORIES – € 15.2 milliono

The item recorded an increase of € 5.0 million compared to the figure for the previous year, referred mainly to the optical fibre to be used in the context of Non-Regulated Activity projects.

19. TRADE RECEIVABLES – € 1,602.6 million

€ million	30/06/2017	31/12/2016	Δ
Energy-related receivables	1,136.1	997.8	138.3
Grid transmission fee receivables	333.9	324.0	9.9
Other trade receivables	132.6	121.5	11.1
TOTAL	**1,602.6**	**1,443.3**	**159.3**

Trade receivables amounted to € 1,602.6 million and are measured net of impairment losses, referred to items considered non-collectable and recognised in allowances for doubtful accounts (€ 25.6 million for energy items and € 13.4 million for other items at 30 June 2017), the carrying amount shown approximates substantially the fair value.

Energy-related/adjusted receivables – € 1,136.1 million

The item includes receivables for "pass-through items" related to business performed by the Parent Company under Resolution 111/06 (€ 1,115 million) and receivables due from dispatching users for margin fees (€ 17.7 million). It also includes the receivable due from the Fund for Energy and Environmental Services (Cassa per i Servizi Energetici e Ambientali - CSEA) related to the measurement of RENS performance recognised in the previous year (€ 3.4 million).
The balance as a whole increased by € 138.3 million with respect to the figure at the end of financial year 2016, attributable to pass-through energy-related receivables mostly owing to the increase in the net receivable (€ 160.2 million) related to the Uplift fee for procurement of resources on the Dispatching Services Market (MSD) which takes into account of the higher net charges of the period associated with the said fee. The change also reflects the reduction in receivables deriving from the lower unit fee charged to withdrawal dispatching users for the remuneration of the essential units – UESS (€ -54.4 million) and the postponement to July of collections from CSEA (€ +22.4 million) for items maturing in June, generated by the difference between payments for the interruptibility services and other minor ones compared to the income receivable to cover the same.

Grid transmission fee receivables – € 333.9 million

Grid transmission fee receivables, of € 333.9 million, is related to the remuneration awarded to the Parent Company and to the other owners for the use of the National Transmission Grid by electricity distributors. The said receivables recorded an increase of € 9.9 million compared to 31 December 2016, attributable mainly to full recognition of the portion of grid managed by the subsidiary Rete S.r.l..

Other trade receivables – € 132.6 million

Other trade receivables refer mainly to receivables from customers of the Non-Regulated Activities and recorded an increase of € 11.1 million, attributable mainly to higher receivables for contract work in progress, as highlighted below, owing substantially to the changes in the Tamini Group's orders (€ +8.1 million).

€ million	Payments on account	Contract value	Balance at 30/06/2017	Payments on account	Contract value	Balance at 31/12/2016
Receivables for contract work in progress	(37.5)	74.1	**36.6**	(32.1)	61.4	**29.3**

The amount of the guarantees issued to third parties by Terna S.p.A., at 30 June 2017 came to € 55.4 million, of which € 26.8 million for sureties issued to secure the contractual obligations arising under the scope of operations and € 28.6 million as follows: € 13.7 million in the interest of the subsidiary Terna Rete Italia S.p.A., € 7.0 million in the interest of the subsidiary Terna Plus S.r.l., € 3.4 million in the interest of the subsidiary Rete S.r.l. and € 4.5 million in the interest of the subsidiary Difebal S.A.; all issued on the credit lines of Terna S.p.A..

20. CASH AND CASH EQUIVALENTS – € 404.4 million

Cash and cash equivalents at 30 June 2017 amounted to € 404.4 million, of which € 258.8 million invested in time deposits and € 145.6 million essentially deposited in bank current accounts.

21. INCOME TAX ASSETS – € 14.2 million

Income tax assets amounted to € 14.2 million and recorded a decrease of € 5.5 million compared to the previous year, attributable to lower IRES (corporate income tax) and IRAP (regional tax on productive activities) credits because they were partially used when the taxes for 2016 were settled.

LIABILITIES

22. EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT – € 3,621.3 million

Share capital – € 442.2 million

The share capital of the Parent Company is represented by 2,009,992,000 ordinary shares with a face value of € 0.22 each; it did not change compared to 31 December 2016.

Legal reserve – € 88.4 million

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

Other reserves – € 732.5 million

Other reserves increased by € 5.6 million, essentially due to Other Comprehensive Income, in particular:

- adjustment to fair value of derivative instruments hedging the Parent Company's floating-rate loans - cash-flow hedges (€ +4.7 million, net of the related tax effect of € -1.5 million);
- recognition of the actuarial gains and losses on employee benefits (€ +1.0 million, net of the related tax effect of € -0.3 million).

Retained earnings and losses – € 2,006.9 million

Retained earnings and losses increased by a total of € 217.2 million, as a result essentially of the allocation to retained earnings of the profit achieved by the Group in financial year 2016.

Distribution of final dividend

The Shareholders' Meeting of 27 April 2017 resolved the distribution of a dividend for the entire year 2016 of € 0.206 per share, and the distribution – gross of any legal withholdings – of a final dividend, net of the interim dividend paid previously, of € 269.1 million, equivalent to € 0.1339 per share; the amount was paid starting from 21 June 2017, with "ex-dividend date" of coupon no. 26 on 19 June 2017.

Equity attributable to non-controlling interests

Equity attributable to non-controlling interests, related to the Tamini Group, came to € 19.0 million, down by € 0.8 million compared to 31 December 2016, due to the loss recognised by the Group during the period.

23. LOANS AND FINANCIAL LIABILITIES

€ million	30/06/2017	31/12/2016	Δ
Bonds	5,606.4	6,420.5	(814.1)
Loans	2,081.6	1,983.9	97.7
LONG-TERM LOANS	**7,688.0**	**8,404.4**	**(716.4)**
CFH DERIVATIVES	9.2	12.8	(3.6)
NON-CURRENT FINANCIAL LIABILITIES	**9.2**	**12.8**	**(3.6)**
SHORT-TERM LOANS	**25.5**	**20.1**	**5.4**
Bonds	749.5	769.9	(20.4)
Floating-rate loans (current portions)	134.6	134.6	-
CURRENT PORTION OF LONG-TERM LOANS	**884.1**	**904.5**	**(20.4)**
TOTAL	**8,606.8**	**9,341.8**	**(735.0)**

Gross debt for the period decreased by € 735.0 million compared to the previous year, coming out at € 8,606.8 million.

The decrease in the value of bonds (€ -834.5 million) is mainly attributable for € -770 million to the redemption of the Bond on 17 February 2017, for € -71.8 million for the changes in fair value of the hedged risk net of the amortised cost effect and € +7.3 million for capitalisation of inflation for the period.

The change associated with interest rate risk refers for € -27.7 million to the 2024 Bond for € -12.3 million to the 2021 Bond.

The latest official prices at 30 June 2017 for the bonds listed on the Luxembourg Stock Exchange are detailed below:

€	price at 30/06/2017	price at 31/12/2016
bond maturity 2024:	127.8	130.48
bond maturity 2023:	131.96*	131.96
bond maturity 2019:	110.56	113.07
bond maturity 2026:	101.97	103.09
bond maturity 2021:	115.94	118.33
bond maturity 2018:	101.82	103.2
bond maturity 2022:	101.46	101.61
bond maturity 2028:	94.06	94.6

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

The amount of long-term loans showed an increase of € -97.7 million, due to:

- drawdown of a new EIB loan for € +165 million;
- decrease in mortgages and loans, of € -67.3 million, due to reimbursement of the due instalments of the existing loans.

Long-term loans

€ million	Maturity	31/12/2016	30/06/2017	Portion with maturity within 12 months	Portion with maturity beyond 12 months	Average interest rate as of 30/06/2017	Average interest rate net of hedging as of 30/06/2017
Bonds	2024	1,054.2	1,026.6	-	1,026.6	4.96%	0.18%
Bonds IL	2023	710.2	706.4	-	706.4	1.12%	1.12%
Bonds PP	2019	660.4	649.7	-	649.7	1.15%	1.15%
Bonds PP	2026	78.7	78.7	-	78.7	1.80%	1.80%
Bonds 1250	2021	1,432.5	1,408.9	-	1,408.9	2.71%	1.13%
Bonds 1250	2017	769.9	-	-	-	-	-
Bonds 1000	2022	996.1	996.4	-	996.4	0.95%	0.95%
Bonds 750	2018	749.1	749.5	749.5	-	2.99%	2.99%
Bonds 750	2028	739.3	739.7	-	739.7	1.13%	1.13%
EIB	2039	-	165.0	-	165.0	1.00%	1.00%
Total fixed rate		**7,190.4**	**6,520.9**	**749.5**	**5,771.4**		
EIB	2015-2030	1,611.9	1,545.8	132.4	1,413.4	0.56%	0.94%
CDP	2019	500.0	500.0	-	500.0	1.06%	1.14%
Leasing	2019–2021–2022	6.6	5.4	2.2	3.2	0.81%	0.81%
Total floating rate		**2,118.5**	**2,051.2**	**134.6**	**1,916.6**		
TOTAL		**9,308.9**	**8,572.1**	**884.1**	**7,688.0**		

The total amount of the Terna Group's loans at 30 June 2017 was € 8,572.1 million, of which € 884.1 million due within 12 months and € 7,688.0 million due after more than 12 months.

The following table reports changes in long-term debt during the first half of 2017, with an indication of the notional debt.

	31/12/2016					30/06/2017				
€ million	Notional debt	Carrying amount	Market value	Repay. and capitalis.	Drawdowns	Notional debt	Carrying amount	Market value	Δ Fair Value 31/12/2016 30/06/2017	Δ carrying amount
2024 Bond	800.0	1,054.2	1,043.8	-	-	800.0	1,026.6	1,043.8	(27.6)	2,842.8
IL bond	565.4	710.2	746.1	7.3	-	572.7	706.4	755.7	(11.1)	2,031.0
Private Placement 2019	600.0	660.4	678.4	-	-	600.0	649.7	678.4	(10.7)	1,917.4
Private Placement 2026	80.0	78.7	82.5	-	-	80.0	78.7	82.5	-	241.2
2021 Bond	1,250.0	1,432.5	1,479.2	-	-	1,250.0	1,408.9	1,479.2	(23.6)	4,114.5
2017 Bond	770.0	769.9	776.6	(770.0)	-	-	-	-	0.1*	6.7*
2022 Bond	1,000.0	996.1	774.0	-	-	1,000.0	996.4	774.0	0.3	2,770.7
2018 Bond	750.0	749.1	1,016.1	-	-	750.0	749.5	1,016.1	0.4	2,516.0
2028 Bond	750.0	739.3	709.5	-	-	750.0	739.7	709.5	0.4	2,199.6
Total bonds	**6,565.4**	**7,190.4**	**7,306.2**	**(762.7)**	**-**	**5,802.7**	**6,355.9**	**6,539.2**	**(71.8)**	**18,639.9**
Loans	2,118.7	2,118.5	2,118.7	(67.3)	165.0	2,216.4	2,216.2	2,216.4	-	6,413.4
Total loans	**2,118.7**	**2,118.5**	**2,118.7**	**(67.3)**	**165.0**	**2,216.4**	**2,216.2**	**2,216.4**	**-**	**6,413.4**
Total Financial debt	**8,684.1**	**9,308.9**	**9,424.9**	**(830.0)**	**165.0**	**8,019.1**	**8,572.1**	**8,755.6**	**(71.8)**	**25,053.3**

* Amounts referred to the period between 31/12/2016 and the bond redemption date

At 30 June 2017, the Group had an additional debt capacity of approximately € 955 million represented by uncommitted bank lines, to which must be added the additional capacity of € 2,050 million represented by three revolving credit facilities contracted in December 2014, December 2015 and July 2016, and € 128.8 million related to EIB loans not yet disbursed.
In addition, as provided for in IFRS 7, the table shows the fair value of financial payables which for bond loans is their market value on the basis of the prices at the reporting date, while for floating-rate loans it was assumed to be substantially equal to the notional amount of repayment.

Non-current financial liabilities

€ million	30/06/2017	31/12/2016	Δ
CFH derivatives	9.2	12.8	(3.6)
TOTAL	**9.2**	**12.8**	**(3.6)**

The item “Non-current financial liabilities”, of € 9.2 million, includes the fair value measurement of cash-flow hedging derivatives.
Fair value was measured by discounting the expected cash flows using the market yield curve at the reporting date. The change in the interest rate curve compared with 31 December 2016 resulted in a change amounting to € -3.6 million.

Short-term loans – € 25.5 million

The item “Short-term loans” of € 25.5 million, attributable to the balance of short-term loans disbursed to the Tamini Group, showed an increase of € 5.4 million, compared to 31 December 2016.

Current financial liabilities

Current financial liabilities include at 30 June 2017 the value of net financial expense accrued on financial instruments and not yet paid. This item shows a decrease, compared to 31 December 2016, of € -35.8 million.

€ million	30/06/2017	31/12/2016	Δ
DEFERRED LIABILITIES ON:			
Hedging derivatives	0.9	0.7	0.2
Bond	87.7	123.5	(35.8)
Loans	2.0	2.2	(0.2)
TOTAL	**90.6**	**126.4**	**(35.8)**

Net financial position

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

	€ million	30/06/2017
A.	Cash	145.6
B.	Short-term deposits	258.8
C.	**LIQUIDITY (A) + (B)**	**404.4**
D.	Current part of medium-/long-term debt	884.1
E.	Short-term loans	25.5
F.	Other net financial liabilities	54.1
	of which: related parties	*0.1*
G.	**CURRENT FINANCIAL DEBT (D+E+F)**	**963.7**
H.	**NET CURRENT FINANCIAL DEBT (G) – (C)**	**559.3**
I.	Non-current loans	2,081.6
	of which: related parties	*500.0*
J.	Bonds issued	5,606.4
K.	Derivative financial instruments in portfolio	(277.3)
L.	Other non-current financial assets (Interconnector Guarantee Fund)	(28.3)
M.	**Net non-current financial debt (I) + (J) + (K) + (L)**	**7,382.4**
N.	**Net financial debt (H) + (M)**	**7,941.7**

24. EMPLOYEE BENEFITS – € 98.7 million

€ million	31/12/2016	Provision	Interest cost	Utilisations and other changes	Actuarial gains/(losses)	30/06/2017
Deferred compensation benefits	53.9	0.2	0.2	(0.9)	(0.3)	53.1
Energy discount	28.8	0.2	0.2	(4.0)	(0.9)	24.3
Other employee benefits	21.4	0.3	0.1	(0.3)	(0.2)	21.3
TOTAL	**104.1**	**0.7**	**0.5**	**(5.2)**	**(1.4)**	**98.7**

The item recorded a decrease compared to the previous year of € 5.4 million, attributable essentially to the release of energy discount provisions (€ 4.0 million), to actuarial gains and losses accruing for the period (€ 1.4 million) and to provisions set aside in the period (€ 0.7 million).
The main assumptions used in the actuarial estimate of liabilities for employee benefits are substantially in line with the ones used for the 2016 financial statements.

25. PROVISIONS FOR RISKS AND CHARGES – € 233.1 million

€ million	Provision for disputes and litigation	Provisions for sundry risks and charges	Provision for early retirement incentives	TOTAL
Balance at 31/12/2016	**14.6**	**167.4**	**56.6**	**238.6**
Provisions	0.7	15.1	-	15.8
Utilisations and other changes	(0.4)	(13.3)	(7.6)	(21.3)
Balance at 30/06/2017	**14.9**	**169.2**	**49.0**	**233.1**

Provisions for risks and charges at 30 June 2017 recorded a balance of € 233.1 million and a net decrease of € 5.5 million compared to the figure at 31 December 2016, owing mainly to utilisations of provisions for early retirement incentives (€ -7.6 million), partially offset by net provisions for sundry risks and charges (€ +1.8 million) related in particular to charges on “quality of service” (mitigation and sharing mechanism).

26. DEFERRED TAX LIABILITIES – € 31.4 million

€ million	31/12/2016	Impact recognised in profit or loss and Other changes	Impact recognised in statement of comprehensive income	30/06/2017	Δ
Deferred tax liabilities	153.0	(15.6)	-	137.4	(15.6)
Deferred tax assets	(111.1)	3.3	1.8	(106.0)	5.1
DEFERRED TAX LIABILITIES	**41.9**	**(12.3)**	**1.8**	**31.4**	**(10.5)**

This balance, equal to € 31.4 million, reflects the net changes in the Group’s deferred tax assets and liabilities.
Deferred tax liabilities (€ 137.4 million) showed a decrease of € 15.6 million, mainly attributable to utilisation of prior-period provisions for additional depreciation and amortisation with respect to the fiscally-relevant rates of the Parent Company.
Deferred tax assets (€ 106.0 million) showed a decrease of € 5.1 million, attributable mainly to the tax effect of changes in provisions for risks and charges and in employee benefits and to the tax effect, recognised in the Statement of Comprehensive Income, on the changes in cash flow hedging instruments and on actuarial gains and losses on employee benefits (a total of € 1.8 million).

27. OTHER NON-CURRENT LIABILITIES – € 149.0 million

The item (€ 149 million) showed an increase of € 10.9 million compared to 31 December 2016 (€ 138.1 million), attributable mainly to the interconnection guarantee fund set up under Terna S.p.A. Following the issue of the 2016 Stability Law (€ +12.7 million), partially offset by the release of portions of plant grants, in relation to the depreciation of the period of the plants for which they were recognised (€ -1.8 million).

28. CURRENT LIABILITIES

€ million	30/06/2017	31/12/2016	Δ
Short-term loans *	25.5	20.1	5.4
Current portion of long-term loans*	884.1	904.5	(20.4)
Trade payables	2,336.2	2,280.7	55.5
Tax liabilities	19.1	8.1	11.0
Current financial liabilities*	90.6	126.4	(35.8)
Other current liabilities	321.1	206.3	114.8
TOTAL	**3,676.6**	**3,546.1**	**130.5**

(*) For these items see the comments in Note 23. Loans and financial liabilities

Trade payables – € 2,336.2 million

€ million	30/06/2017	31/12/2016	Δ
Suppliers:			
- Energy-related payables	1,715.8	1,525.8	190.0
- Non-energy-related payables	606.3	735.7	(129.4)
Payables due to associates	6.8	10.1	(3.3)
Payables for contract work in progress	7.3	9.1	(1.8)
TOTAL	**2,336.2**	**2,280.7**	**55.5**

Suppliers

Energy-related/adjusted payables – € 1,715.8 million

The increase in the item of € 190.0 million compared to the figure for the end of 2016 is essentially attributable to Payables for pass-through energy items, up by € 191.8 million owing mainly to the following items:

- payables associated with remuneration of essential units - UESS (€ +167.1 million), substantially due to items associated with collection in the period essentially in the absence of payments resolved by the AEEGSI;
- payables for items deriving from transactions on the power exchange (€ +97.6 million euro) associated mainly with the Dispatching Services Market (MSD) attributable among other things to a change in the behaviour of dispatching Users in terms of programming on the energy markets and an increase in prices on the MSD;
- payables associated with the capacity payment (€ -71.4 million) as a result substantially of payments made in June 2017 following AEEGSI resolutions no. 398/2017 and no. 418/2017 net of items related to fees received destined to cover the service.

Non-energy-related payables

Amounts due to suppliers, of € 606.3 million, refer to invoices both already received and not yet received for tenders, services and the purchase of materials and equipment.
The decrease compared to the previous year (€ 129.4 million), is essentially attributable to purchases and services for the greater investment activities implemented in the last period of 2016.

Payables to associates

This item, of € 6.8 million, shows payables to the associate CESI for services received mainly by the Parent Company (€ 1.1 million) and by the subsidiary Terna Rete Italia S.p.A. (€ 5.3 million), for studies and research in the electrotechnical sector. It shows a decrease of € 3.3 million compared to 31 December 2016.

Payables for contract work in progress

The payables for contract work in progress referred to payments on account received from customers, of € 7.3 million at 30 June 2017, fell by € 1.8 million compared to 31 December 2016, owing essentially to the progress on the orders of Terna Plus S.r.l. and its subsidiary Tamini:

€ million	Payments on account	Contract value	Balance at 30/06/2017	Payments on account	Contract value	Balance at 31/12/2016
Payables for contract work in progress	(30.9)	23.6	**(7.3)**	(28.0)	18.9	**(9.1)**

The carrying amount of trade payables is substantially equal to the fair value.
Group commitments to suppliers totalled approximately € 2,779.4 million and refer to purchase commitments relating to the normal "operating cycle" planned for the period 2017–2021.

Tax liabilities – € 19.1 million

The item, of € 19.1 million, shows the Group's payable for income taxes for the period and recorded an increase of € 11.0 million, compared to the balance at 31 December 2016 (€ 8.1 million), as a result of the recognition of income taxes for the period, net of payments on account made in the half-year period and settlement of the taxes for financial year 2016.

Other current liabilities – € 321.1 million

€ million	30/06/2017	31/12/2016	Δ
Payments on account	135.5	53.6	81.9
Other tax liabilities	33.2	6.7	26.5
Payables to social security institutions	22.5	23.6	(1.1)
Payables to employees	43.0	34.3	8.7
Other payables to third parties	86.9	88.1	(1.2)
TOTAL	**321.1**	**206.3**	**114.8**

Payments on account

This item (€ 135.5 million) includes the set-up grants received mainly by the Parent Company (€ 128.6 million), in relation to assets under construction at 30 June 2017.
Compared to 31 December 2016 (€ 53.6 million), a € 81.9 million increase was seen, mainly due to the effect of new payments on account received from third parties (€ 89 million, including EU grants related to the Sorgente-Rizziconi work) and net of grants made directly to reduce the carrying amount of assets for € 7.1 million.

Other tax liabilities

Other tax liabilities, of € 33.2 million, recorded an increase of € 26.5 million compared to the previous year, owing mainly to the VAT payable by the Group (€ 25.6 million) in being at 30 June 2017, compared to the credit situation at 31 December 2016. Also significant is the effect of recognition in the period of higher personnel income tax withholdings on employee remuneration and for deferred compensation benefits (€ +1.3 million).

Payables to social security institutions

Amounts payable to social security institutions, mainly relating to payables due to INPS by the Parent and the subsidiary Terna Rete Italia S.p.A., were € 22.5 million (€ 23.6 million at 31 December 2016); the item also includes the payable to the Fondo Previdenziale Elettrici - F.P.E. (Pension Fund for Electricians) (€ 3.8 million).

Payables to employees

Payables to employees, of € 43.0 million (€ 34.3 million at 31 December 2016), are related essentially to the Parent Company and the subsidiary Terna Rete Italia S.p.A. and mainly regard the amounts related to personnel incentives to be paid in the next year (€ 20.1 million) and payables to employees for the value of holidays abolished accrued and not paid but to be paid (€ 11.8 million).

Other payables to third parties

Other payables to third parties, equal to € 86.9 million (€ 88.1 million at 31 December 2016), essentially regard guarantee deposits (€ 61.5 million) received from electricity market operators securing their contractual obligations in respect of dispatching contracts, accrued expenses and deferred income (€ 13.2 million, mainly related to the Non-Regulated business of the Group) and other existing payables at 30 June 2017 (€ 12.2 million).
The item showed a decrease of € 1.2 million compared to the figure for the previous year, attributable essentially to the lower payables recognised by the Tamini Group.

E. COMMITMENTS AND RISKS

Risk Management

The Group's market and financial risks

In conducting its operations, the Terna Group is exposed to various financial risks: market risk (interest-rate risk and inflation risk), liquidity risk and credit risk.
The 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 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.
In particular, as 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 Terna Group's exposure to the above risks is substantially represented by the Parent Company's exposure, with the exception of the exchange rate risk related to the subsidiary Tamini Trasformatori S.r.l.; information on the Terna Group's exposure to each of the risks listed above is provided below, together with the objectives, policies and processes for managing these risks and the methods used to assess them, including, in addition, further quantitative information on the Parent Company's balances at 30 June 2017.
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 of the period, discounting projected cash flows on the basis of the market yield curve and inflation at the reporting date.
The financial assets and liabilities in respect of derivative instruments that 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, 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).

Please see, on this point, the reasons illustrated in the paragraph "The Group's market and financial risks" in the Notes to the Terna Group's 2016 Annual Report.
Information updated to the date of the present situation is provided below, on interest-rate, exchange-rate, credit and liquidity risks; for market and inflation risks, please see the explanation in the Risk Management paragraph in the Notes to the 2016 Annual Report.

Sensitivity to interest-rate risk

The following table reports the amounts booked in the income statement and in 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 of such changes recognised in the income statement and in equity. A hypothetical 10% variation in interest rates with respect to market interest rates at 30 June 2017 was assumed:

€ million	Gain/(loss) Current rates +10%	Current amounts	Current rates -10%	Equity Current rates +10%	Current amounts	Current rates -10%
30/06/2017						
Positions sensitive to interest rate variations (FVH, bonds, CFH)	(14.0)	**(14.1)**	(14.2)	(9.0)	**(9.7)**	(10.4)
Hypothetical change	0.1	-	(0.1)	0.7	-	(0.7)
31/12/2016						
Positions sensitive to interest rate variations (FVH, bonds)	(11.1)	**(11.2)**	(11.3)	(12.3)	**(12.8)**	(13.3)
Hypothetical change	0.1	-	(0.1)	0.5	-	(0.5)

At 30 June 2017, Terna has € 432.7 million of liquidity, 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 derivative financial instruments is considered to be marginal since the counterparties, in compliance with financial risk management policies, are leading international credit institutions with high ratings.
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 following table summarises the exposure at the interim reporting date.

€ million	30/06/2017	31/12/2016	Δ
FVH derivatives	286.5	325.7	(39.2)
Cash and cash equivalents and other financial assets	432.7	1,135.7	(703.0)
Trade receivables	1,602.6	1,443.3	159.3
TOTAL	**2,321.8**	**2,904.7**	**(582.9)**

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

Geographical distribution

€ million	30/06/2017	31/12/2016
Italy	1,487.7	1,398.7
Euro-area countries	90.1	27.1
Other countries	24.8	17.5
TOTAL	**1,602.6**	**1,443.3**

Customer type

€ million	30/06/2017	31/12/2016
Distributors	332.8	322.9
CSEA	110.8	73.8
Input dispatching contractors	167.9	190.4
Withdrawal dispatching contractors (non distributors)	845.8	718.3
Parties which have signed virtual import contracts and virtual importing services (interconnectors and shippers)	12.8	13.0
Sundry receivables	132.5	124.9
TOTAL	**1,602.6**	**1,443.3**

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

	30/06/2017		31/12/2016	
€ million	Impairment	Gross	Impairment	Gross
Not yet past due	-	1,518.7	-	1,337.2
0–30 days past due	-	29.2	-	55.2
31–120 days past due	-	14.3	-	16.5
More than 120 days past due	(39.0)	79.4	(39.0)	73.4
TOTAL	**(39.0)**	**1,641.6**	**(39.0)**	**1,482.3**

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

€ million	30/06/2017	31/12/2016
Balance at 1 January	(39.4)	(36.3)
Reversal of provision	0.6	1.1
Impairment for the period	(0.2)	(3.8)
BALANCE	**(39.0)**	**(39.0)**

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

€ million	30/06/2017	31/12/2016
Input dispatching activity	223.2	215.4
Withdrawal dispatching activity	1,124.7	1,015.4
Grid transmission fees - distributors	290.4	287.3
Virtual importing	86.7	93.8
BALANCE	**1,725.0**	**1,611.9**

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.

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 bond debt, which consists of an € 800 million issue in 2004 and eight issues in the context of its EMTN Programme (€ 8,000,000,000 Medium Term Notes Programme);
- bank debt, consisting of a loan from Cassa Depositi e Prestiti (CDP) of € 500 million that draws on EIB funds and three revolving credit facilities of € 750, 800 and 500 million (so-called "bank debt");
- a series of loans granted to the Company by the European Investment Bank (EIB) for a total amount of € 1,710.8 million.

The main covenants relative to the bond issues and the EMTN Programme consist in clauses regarding i) negative pledges, on the basis of which the Issuer or the Relevant Subsidiaries cannot create or continue mortgages, pledges or other constraints on their assets or revenues, to guarantee listed bonds (with the exception of certain "consented guarantees") ii) "pari passu", on the basis of which the securities constitute a direct obligation, unconditional and not guaranteed by the Issuer, without preference among them and with at least the same level of seniority as other present and future non-guaranteed and non-subordinated loans of the Issuers iii) "event of default", on the basis of which if certain predetermined events occur (e.g., lack of payment, liquidation of the Issuer, breach of contractual obligations, cross-default, etc.) a situation of breach is established and the loan in question is immediately collectable.

The main covenants related to bank debt consist of clauses relating to i) negative pledges, on the basis of which the Issuer or the Significant Subsidiaries cannot create or continue mortgages, pledges or other constraints on their assets or revenues, to guarantee listed bonds, with the exception of "consented guarantees", ii) "pari passu" on the basis of which the Borrower's payment obligations in relation to the loan contracts in question are not subordinated to any obligation in relation to other non-guaranteed and non-subordinated creditors, without prejudice to privileges under the law, iii) "event of default", on the basis of which if certain predetermined events occur (e.g. lack of payment, grave imprecisions in documents and/or declarations, insolvency, ceasing of business, substantially prejudicial effects, breach of contractual obligations including equality of conditions among lenders, cross-default, etc.) a situation of breach is established and the loan in question is immediately collectable, iv) obligatory early repayment in the case of below investment grade ratings (BBB-) for the majority of ratings agencies or in the case the Company ceases to be monitored by at least one agency.

The main covenants related to the EIB loans consist in clauses relating to i) negative pledges, on the basis of which the Company cannot create constraints with the exception of constraints granted in relation to debt lower than given amounts and under contractually specified circumstances; ii) granting to the Bank, upon request of the same, new guarantees in the case of ratings lower than BBB+/Baa1 for two ratings agencies out of three, or in the case in which the rating ceases to be published by all of the agencies, iii) "pari passu", on the basis of which the Company ensures that payment obligations are classified at the same level as those relating to all other unsecured non-subordinated creditors, iv) cases of contract termination/application of the acceleration cause/withdrawal (e.g. lack of payment, grave imprecisions in documents and/or declarations, insolvency, events that create negative consequences on financial commitments made by the Company, extraordinary administration, liquidation, substantial prejudicial change, breach of contractual commitments, etc.) v) obligatory early repayment following the occurrence of given events (e.g. change in control over the Company, loss of the concession, extraordinary corporate events, etc.).

None of the covenants have been infringed to date.

Legal disputes

The main unrecognised commitments and risks of the Parent Company Terna and the Tamini Group companies at 30 June 2017 are illustrated below. The other subsidiaries had no significant commitments and contingencies at that date.

Litigation concerning licensed activities

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

Legal disputes concerning supply contracts

The legal dispute in question concerns supply contracts signed by the Tamini Group companies and their customers for the supply of transformers and components relating to them. The said legal dispute regards also certain actions for compensation brought against the companies, 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.

F. RELATED-PARTY TRANSACTIONS

Terna's transactions with related parties during the period, taking account of the de facto control exercised by Cassa Depositi e Prestiti S.p.A. ascertained in 2007, regarded relations with the associate companies (Cesi S.p.A., CGES A.D. and Coreso S.A.) the employee pension funds (Fondenel and Fopen), and with said Cassa Depositi e Prestiti, with CDP Reti S.p.A. and with companies belonging to the GSE Group, the Enel Group, the Eni Group, the Ferrovie dello Stato (State Railway) Group, the Poste Italiane Group, with ANAS S.p.A. and Ansaldo Energia S.p.A..
Given that the companies of the Terna Group and the aforementioned subsidiaries directly or indirectly controlled by the Ministry of Economy and Finance fall within the definition of "Government-related entities" as per IAS 24 - "Related party disclosures", the Group adopts the partial exemption provided by the same standard, which dispenses with the required disclosures of relationships with other companies controlled, connected or under joint control of the same government body; in particular, the qualitative and quantitative indications of relationships with Government-related entities which have a significant impact on the Group's results are reported below in this section; no amounts relating to "pass-through items" are given here.

Related party transactions in the first half of 2017 are mainly services that are part of core business and governed by market terms.
The revenue and cost/receivable and payable transactions carried out by the Terna Group with related parties are indicated below.

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**	**non energy-related items**
	receivable leases of laboratories and similar structures for specific purposes	Technical consultancy, studies and research, projects and experimentation
CORESO S.A.		**non energy-related items**
		Technical TSO coordination services
GSE Group	**energy-related items**	
	MIS component, dispatching prices	
	non energy-related items	
	Specialist services, leases, IT services	
Enel Group	**energy-related items**	
	NTG remuneration and measurement aggregation, dispatching prices	
	non energy-related items	**non energy-related items**
	Lease and rent, line maintenance, works to move/vary lines, maintenance of power line communication on company-owned power lines	Return of electricity discount, personnel 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**	
	Dispatching fees	
	non energy-related items	**non energy-related items**
	Line maintenance	Various services
Ferrovie Group	**energy-related items**	
	Dispatching fees	
	non energy-related items	**non energy-related items**
	Line moving	Right-of-way fees
Anas S.p.A.	**non energy-related items**	**non energy-related items**
	Work on line moving/variants	Right-of-way fees
Italian Ministry of Economy and Finance (MEF)	**non energy-related items**	**non energy-related items**
	Work on line moving/variants	Grants
Fondenel and Fopen		**non energy-related items**
		Pension contributions paid by the Terna Group
Poste Italiane		**non energy-related items**
		Various services
Ansaldo Energia S.p.A.	**non energy-related items**	
	Various services	
Fintecna	**non energy-related items**	
	Maintenance on plants	

P&L TRANSACTIONS

€ million	Income items: Grid transmission fees and other energy-related items	Income items: Non energy-related items	Negative income components: Grid transmission fees and other energy-related items	Negative income components: Non energy-related items
De facto parent company				
Cassa Depositi e Prestiti S.p.A.	-	-	-	1.7
Total de facto parent company	**-**	**-**	**-**	**1.7**
Associates:				
Cesi S.p.A.	-	-	-	1.2
CORESO S.A.	-	-	-	0.8
Total associates	**-**	**-**	**-**	**2.0**
Other related companies:				
GSE Group	10.8	-	-	
Enel Group	778.1	1.2	-	1.4
Eni Group	1.9	0.3	-	
Ferrovie Group	1.2	0.3	-	8.4
CONI Servizi S.p.A.	-	-	-	0.1
Total other related companies	**792.0**	**1.8**	**-**	**9.9**
Pension funds:				
Fondenel	-	-	-	0.2
Fopen	-	-	-	1.1
Total pension funds	**-**	**-**	**-**	**1.3**
TOTAL	**792.0**	**1.8**	**-**	**14.9**

BALANCE SHEET TRANSACTIONS

€ million	Property, plant and equipment: Capitalised costs	Receivables and other assets: Other	Receivables and other assets: Financial	Payables and other liabilities: Other	Payables and other liabilities: Financial
De facto parent company					
Cassa Depositi e Prestiti S.p.A.	-	-	0.4	-	500.6
Total de facto parent company	**-**	**-**	**0.4**	**-**	**500.6**
Associates:					
Cesi S.p.A.	4.6	1.0	-	6.8	-
Total associates	**4.6**	**1.0**	**-**	**6.8**	**-**
Other related companies:					
GSE Group	-	3.3	-	0.2	-
Enel Group	1.6	293.1	-	25.2	-
Eni Group	-	1.1	-	1.0	-
Ferrovie Group	0.1	0.9	-	15.5	-
ANAS S.p.A.	-	0.4	-	0.4	-
SNAM Group	-	-	-	0.8	-
Fintecna S.p.A.	-	0.2	-	-	-
Ansaldo Energia S.p.A.	-	0.1	-	-	-
Total other related companies	**1.7**	**299.1**	**-**	**43.1**	**-**
Pension funds:					
Fopen	-	-	-	1.6	-
Total pension funds	**-**	**-**	**-**	**1.6**	**-**
TOTAL	**6.3**	**300.1**	**0.4**	**51.5**	**500.6**

* The guarantees refer to the bank guarantees received on purchase contracts entered into.

G. 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 2017, either with third parties or with related parties.

H. NOTES TO THE CASH FLOW STATEMENT

The cash provided by **continuing operations** in the period amounted to € 533.6 million, attributable for € 807.9 million to operating activities (self-financing) and for € 274.3 million to the absorption of financial resources generated by the management of net working capital.

Investing activities used net financial resources of € 315.8 million, and mainly included € 307.9 million of investment in property, plant and equipment (€ 315.0 million net of plant grants received in the period of € 7.1 million) and € 10.7 million of investment in intangible assets.

The net change in equity showed a decrease of € 269.1 million attributable to the payment of the 2016 final dividend to shareholders 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 € 584.9 million, covered mostly by the cash flows provided by continuing operations (€ 533.6 million). Net financial debt absorbed cash as a consequence mainly of repayment of the € 770 million bond made in the period, net of the new EIB loan entered into in the period (€ 165 million).

I. EVENTS SUBSEQUENT TO 30 JUNE 2017

On **4 July 2017**, the company Piemonte Savoia S.r.l. was sold to the Interconnector Italia S.c.p.a. consortium. The signed agreements also relate to the construction and operation of private infrastructure.

On **14 July 2017**, Terna signed the Project Finance agreement for USD 81 million for the construction of a 500-kV transmission line to connect the cities of Melo and Tacuarembó in Uruguay. The funding is composed of a 17-year loan of approximately USD 56 million with the Inter-American Development Bank (IDB) and a 15-year loan of approximately USD 25 million with the Banco Bilbao Vizcaya Argentaria (BBVA). The funding has been qualified as a “green loan” by Vigeo Eiris, an agency specialising in the assessment of sustainability aspects in the field of business strategy and management, due to the positive impact of the new transmission line on electricity generation from renewables in Uruguay.

On **19 July 2017** Terna launched successfully a bond issue at fixed rate for a total of € 1 billion 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 notes, with a duration of 10 years and maturity on 26 July 2027, will pay a coupon of 1.375%. A request for admission to listing on the Luxembourg Stock Exchange will be presented for the Notes. The operation is part of the strategy of financial optimisation in support of investments for an even more sustainable, secure and efficient electricity grid.

On **21 July 2017**, a € 130 million loan was entered into with the European Investment Bank (EIB) to support the public part of the “Piemonte-Savoia” project. The loan, with a term of 22 years, provides for a single tranche at a fixed rate of 1.64%. The operation is part of the main EIB financing lines in the energy and environmental fields.

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 Luigi Ferraris, as CEO, and Tiziano Ceccarani, 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 2017.

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 European Community in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and Council of 19 July 2002;

    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, 27/07/2017

Chief Executive Officer
(Luigi Ferraris)

Executive in Charge of the preparation of the Company's accounting documents
(Tiziano Ceccarani)

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

pwc

TERNA SPA

REVIEW REPORT ON CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2017

pwc

REVIEW REPORT ON CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2017

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 2017, comprising 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. The directors of Terna SpA are responsible for the preparation of the condensed consolidated interim financial statements in accordance with international accounting standard 34 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 No. 10867 of 31 July 1997. A review of condensed consolidated interim financial statements consists of making enquiries, 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.

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 2017 have not been prepared, in all material respects, in accordance with international accounting standard 34 applicable to interim financial reporting (IAS 34), as adopted by the European Union.

Rome, 27 July 2017

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.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

www.pwc.com/it

An Asset for the Country

www.terna.it

00156 Rome Viale Egidio Galbani, 70
Ph. +39 06 83138111

TERNA GROUP