

CONSOLIDATED INTERIM FINANCIAL REPORT  
31 MARCH 2016  
TERNA GROUP

2016





# Transmitting energy





CONSOLIDATED INTERIM FINANCIAL REPORT  
31 MARCH 2016  
TERNA GROUP

2016





# Contents

---



---

<b>4</b>	<b>Performance Highlights 1Q2016</b>
<b>5</b>	<b>Introduction</b>
5	Significant events in the first quarter of 2016
<b>7</b>	<b>Organisation and Business</b>
7	The Terna Group and its mission
8	Corporate structure
<b>11</b>	<b>Reference context</b>
11	Energy context
14	Regulatory context
15	Legislative context
15	Social context
<b>16</b>	<b>Strategy</b>
16	2016–2019 Strategic Plan
17	2016 Development Plan
<b>18</b>	<b>Objectives and capital</b>
18	Infrastructure capital
19	Financial capital
19	Human capital
20	Intellectual capital
<b>21</b>	<b>Performance in the first quarter of 2016</b>
21	Operating performance
24	Economic-Financial Performance
35	Performance of Terna stock
<b>37</b>	<b>Significant events subsequent to 31 March 2016</b>
<b>38</b>	<b>Further information</b>
<b>39</b>	<b>Declaration by the Financial Reporting Manager</b> <b>in accordance with the provisions of Art. 154-<i>bis</i>, paragraph 2 of Italian Legislative</b> <b>Decree No. 58/1998</b>
<b>40</b>	<b>Annexes</b>
40	Regulatory framework
43	Resolutions of the Italian Regulatory Authority for Electricity, Gas and Water

# Performance Highlights 1Q2016

## Performance of Terna stock and shareholder return

**€ 4.78/share**

Average  
price for  
the quarter

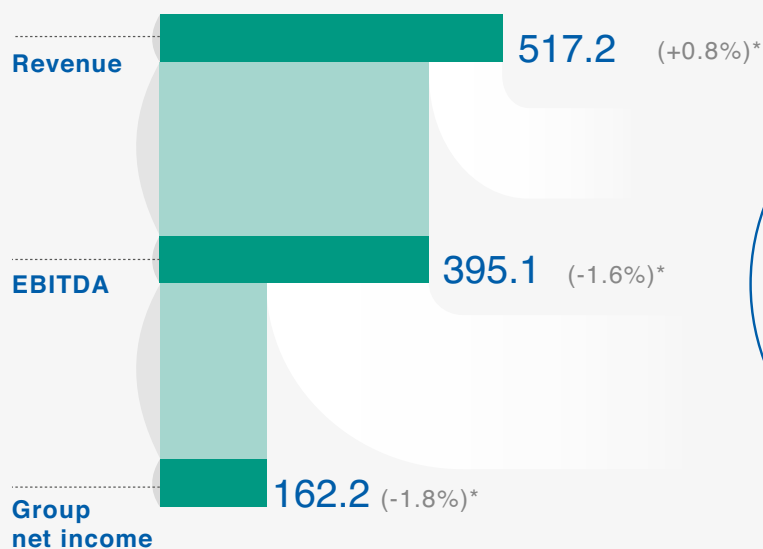
**€ 5.08/share\***

Maximum share price,  
reached on  
30 March 2016

\* Closing price.

## Financial and economic performance

(Amounts in € millions)



### INVESTMENTS AND DEBT

#### Total investments

**157.9**

(-10.9%)\*

#### Net debt

**7,687.2**

(-3.9%)\*\*

\* Comparative figure 1Q2015.

\*\* Comparative figure 31/12/2015.

# Introduction

This **Consolidated Interim Financial Report of the Terna Group at 31 March 2016**, not submitted for accounting audit, has been prepared voluntarily in accordance with the provisions (regarding implementation of the new EU Directive on Transparency (Directive 2013/50/CE)) of Italian Legislative Decree No. 25 of 15 February 2016 (the “Decree”), which removed the obligation to publish interim financial statements on the part of listed companies, delegating to CONSOB the task of evaluating the possible reintroduction of the obligation to publish “*additional periodic financial information*” with the limits and conditions set out in said Decree.

Pending the definition of a comprehensive regulatory framework, Terna saw fit to publish, in keeping with past practice, this Report on the first quarter of 2016.

## Significant events in the first quarter of 2016

### Management and development of the NTG

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

The 380 kV Villanova-Gissi power line became operational on **31 January 2016**. This had been included in the Grid Development Plan (hereinafter DP) and was authorised by the Ministry of Economic Development on 15 January 2013 with Decree No. 239/EL-195/180/2013. The work was aimed at remedying most of the electrical deficit of Abruzzo resolving its electrical infrastructural shortcomings, eliminating notable limitations on operations and reducing considerably the risks of blackouts. The power line also makes it possible to input greater quantities of electricity produced by renewable sources in Italy. The country will benefit significantly: the security and efficiency of the system; economically (savings for families and businesses); in the maintenance of the Adriatic backbone; electrically (increased transfer capacity); environmentally (increased transfer of production from renewable sources for 700 MW; and in the reduction of CO<sub>2</sub> emissions, of around 165 kt/year).

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

With the provision of **23 March 2016**, the Messina Public Prosecutor’s Office issued release from seizure of pylon No. 45 regarding the Sorgente-Rizziconi connection, previously put under seizure by the selfsame Prosecutor, thereby authorising Terna to complete the works already programmed. As a result of the successful release from seizure of pylon No. 45, the time of entry into service of the work is believed to be back on schedule for June 2016.

## Sustainability

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

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

## Interconnector

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

**In February 2016**, for the Italy-France Interconnector, a project which is unique in the world for engineering, technological and environmental solutions, Terna took advantage of the profitable discussions held in 2015 with the institutions and communities involved in the project, obtaining from the Ministry of Economic Development the start of the authorisation procedure for the location variant of the Interconnection. The work will increase the security of the grid, reduce the congestions of the continental electricity grid and reduce the cost of bills for citizens and businesses.

## Finance

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



# Organisation and Business

## The Terna Group and its mission

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

### Regulated Activities

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

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

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

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

**Electricity  
dispatching and  
transmission in  
Italy**

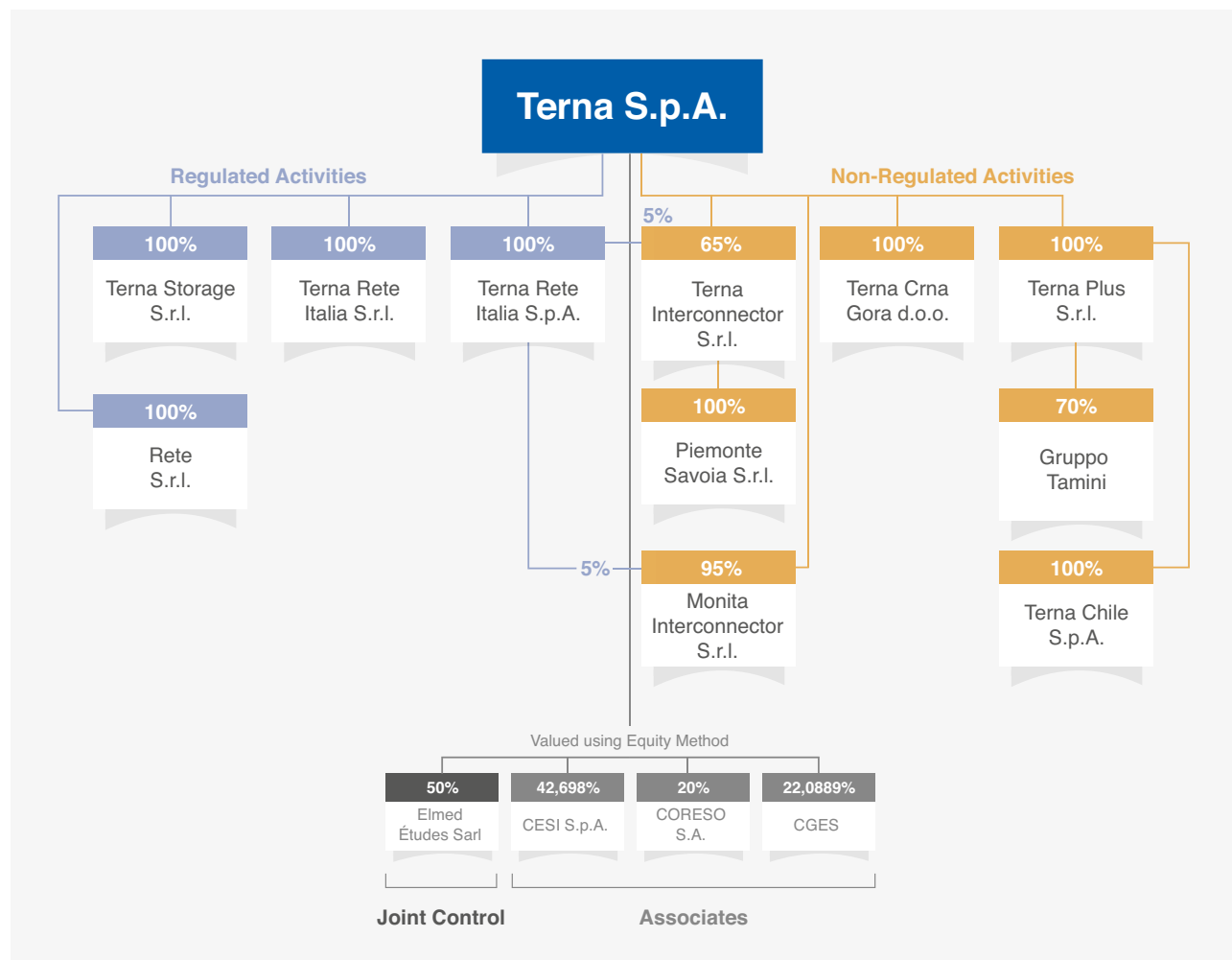
### Non-Regulated Activities

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

**New  
business  
opportunities in  
Italy and Abroad**

## Corporate structure

The corporate structure of the Terna Group at 31 March 2016 is shown below.



### THE PARENT COMPANY

#### Terna S.p.A.

It holds the government concession on the transmission and dispatching of electricity and 80.13% of NTG infrastructures (considering the participations belonging to the subsidiaries Terna Rete Italia S.r.l. and Rete S.r.l., detailed hereinafter, the Group owns 99.6% of the NTG).

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

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

As regards the other companies:

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



## SUBSIDIARIES OPERATING IN REGULATED ACTIVITIES

Company	Assets
<b>Terna Rete Italia S.p.A.</b>	It is delegated to carry out all traditional activities, ordinary and extraordinary maintenance, the management and performance of work on developing the NTG, as established by the Parent company DP. A business unit rental contract was drawn up with the Parent Company and the consequent ad hoc intergroup contracts for regulating business.
<b>Terna Rete Italia S.r.l.</b>	It owns approximately 10.75% of the NTG infrastructures. The design, construction, management, development, running and maintenance of high-voltage electricity lines fall within its corporate purpose. The Grid was purchased in 2009 from Enel Distribuzione S.p.A..
<b>Terna Storage S.r.l.</b>	It develops diffused energy storage system projects as well as related coordination, study and research activities. The accumulation systems aim to facilitate the dispatch of non-programmable renewables.
<b>Rete S.r.l.</b>	It owns approximately 8.71% of NTG infrastructures. The design, construction, management, development, running and maintenance of High-Voltage electricity lines fall within its purpose. The company was purchased in 2015 from Gruppo Ferrovie dello Stato Italiane.

## SUBSIDIARIES OPERATING IN NON-REGULATED ACTIVITIES

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

## ASSOCIATES OR COMPANIES UNDER JOINT CONTROL

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

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



# Reference context

## Energy context

### Electricity demand and production in Italy

In the first quarter of 2016, demand for electricity amounted to 77,632 million kWh (provisional data), a decrease of -1.5% compared to the same period of 2015. Demand peaked – at 51,551 MW – on 19 January at 6 p.m.

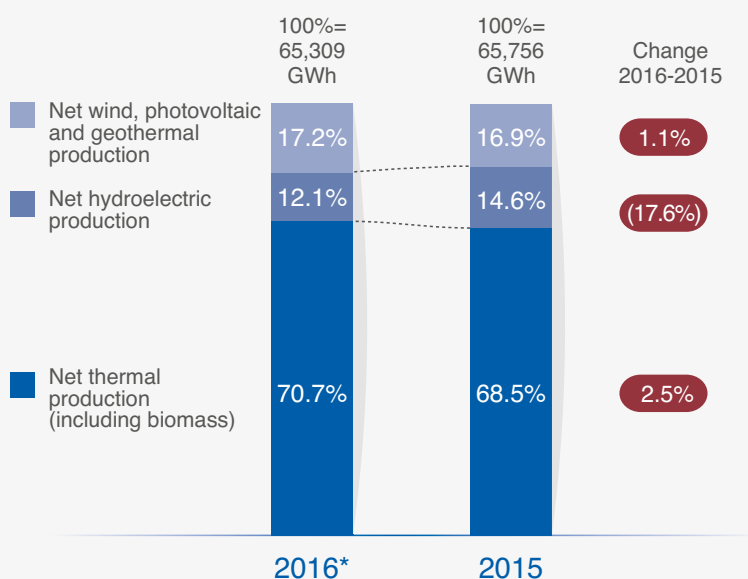
#### ELECTRICITY BALANCE SHEET FOR ITALY (GWh)

	1 January – 31 March (*)			
	2016	2015	Δ	% Δ
Net production	65,309	65,756	(447)	(0.7%)
From foreign suppliers	14,459	14,636	(177)	(1.2%)
Sold to foreign clients	(1,530)	(1,137)	(393)	34.6%
For pumping	(606)	(450)	(156)	34.7%
<b>Total demand in Italy</b>	<b>77,632</b>	<b>78,805</b>	<b>(1,173)</b>	<b>(1.5%)</b>

\* Provisional data.

#### ELECTRICITY PRODUCTION ACCORDING TO TYPE OF SOURCE

In the first quarter of 2016, total electricity generation amounted to 65.3 GWh, about -0.7% down from the 65.7 GWh in the same period of the previous year. 70.7% of demand was provided by thermal production (68.5% in the first quarter of 2015), which compensated for the decrease in hydroelectric production (-17.6% compared to the first quarter of 2015), reduced because of weather conditions (less rainfall). Renewable sources such as wind, photovoltaic and geothermal (excluding biomass) covered approximately 17.2% of net energy demand for the first quarter of 2016, up from 16.9% in the same period last year.



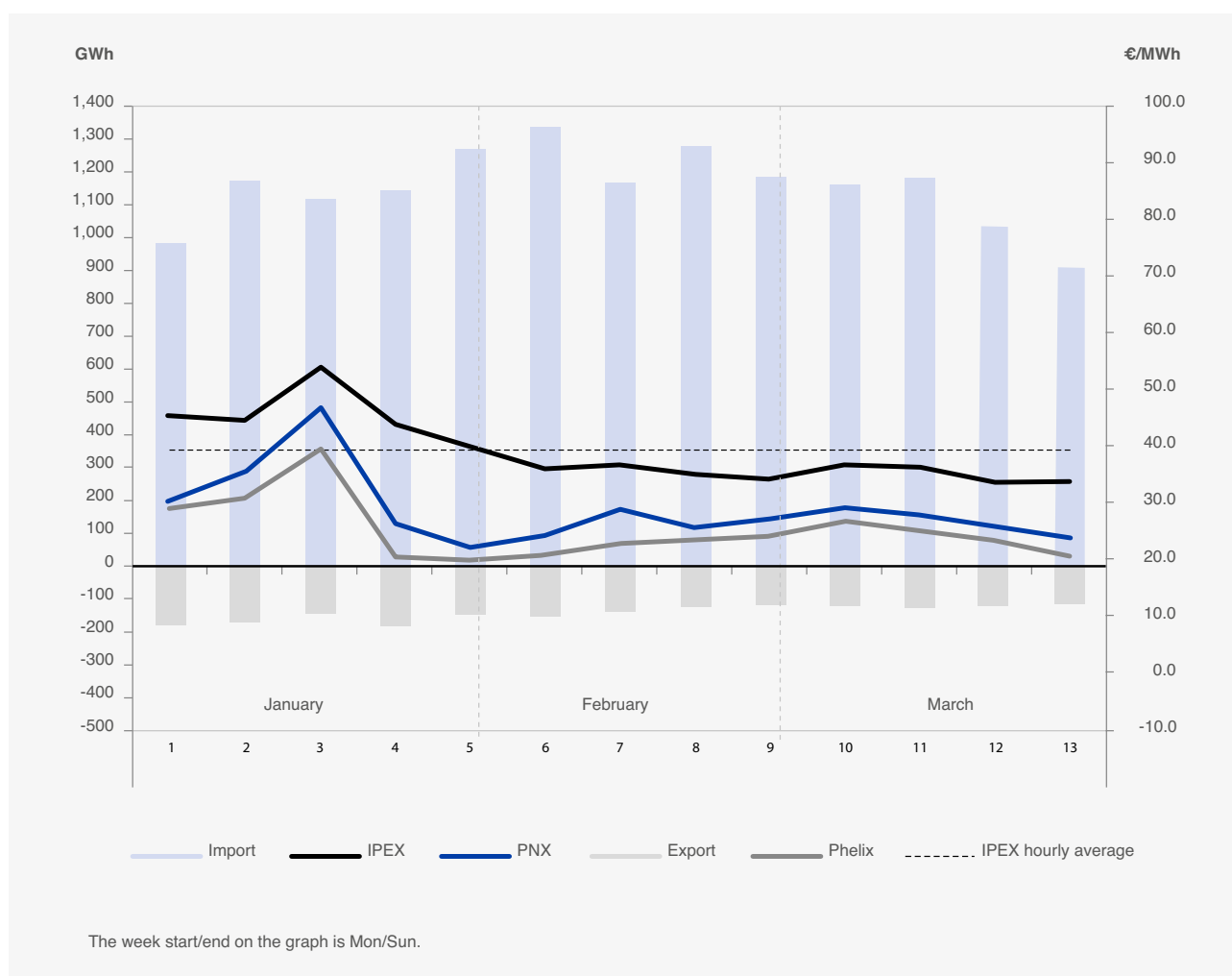
\* Provisional data.

## Electricity dispatching

The **hourly average price on the Italian energy exchange (IPEX/PUN)** for the first quarter of 2016 was 39.3 €/MWh, a sharp decrease (-25%) from the same period of the previous year despite remaining above the averages of the other European exchanges:

- French price (PNX): 28.9 €/MWh (a -36% reduction compared with the first quarter of 2015, with a rising spread compared with the PUN);
- price on the German energy exchange (EEX/PHELIX): 25.3 €/MWh (a -22% reduction compared with the first quarter of 2015, with a spread down compared with the PUN).

The foreign trade and the weekly average prices of the first three months of 2016 are presented below.



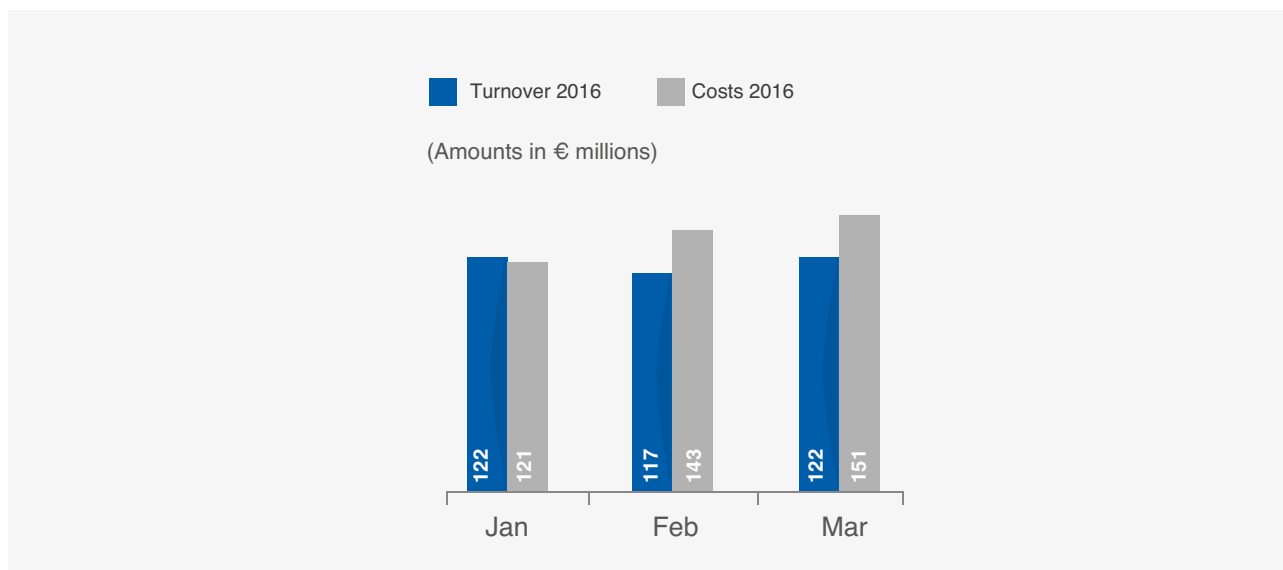
The **Fee for provisioning of resources on the Dispatching Service Market (Uplift)**, pursuant to AEEGSI Resolution No. 111/06 Art. 44 and subsequent amendments, represents the net expense associated with the following energy-related items: purchases and sales on the Dispatching Services Market (MSD), spot and forward (the latter representing premiums of contracts signed as an alternative to declaration of essentiality), remuneration of plant goodwill on the MSD (goodwill token), imbalances, congestion earnings and related financial hedges, virtual interconnection service (Interconnector) and other smaller items. This price is invoiced pro-rata to users of the dispatching on the energy withdrawn, to cover the envisaged accruing monthly cost and the prior differences.



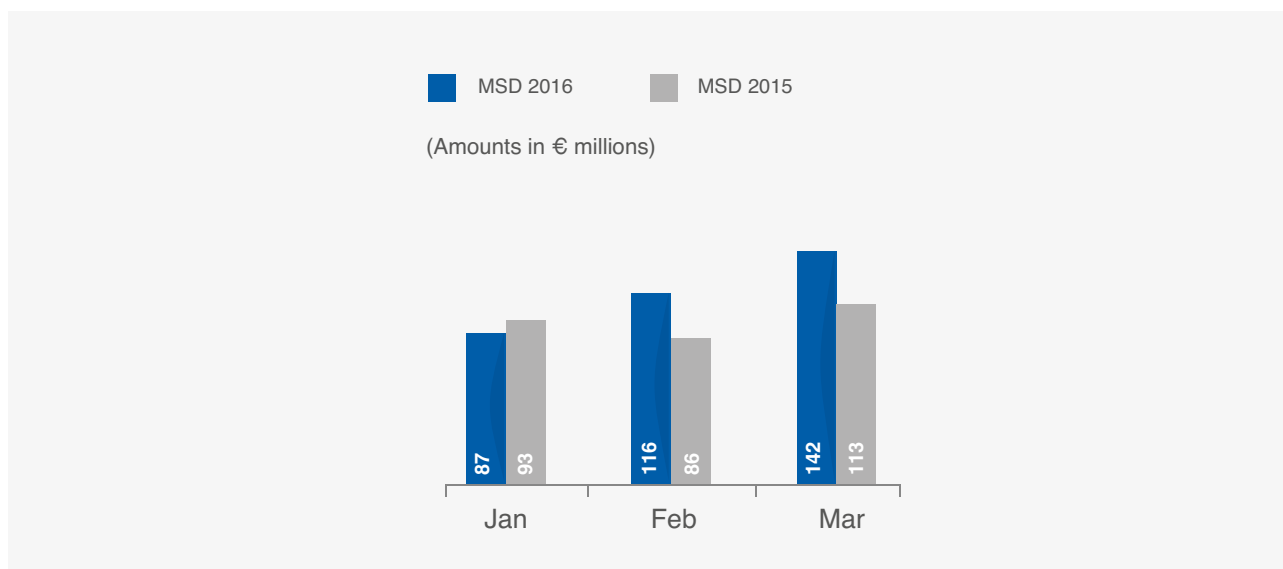
In the first quarter of 2016 the **total cost amounted to € 416 million<sup>1</sup>**, an increase compared to the same period last year, mainly due to increases in the cost of supplies on the Dispatching Services Market and the cost of Imbalances.

The growth of the MSD and thus in the Uplift in the context of a decreasing PUN is linked, with the same volumes handled, to a significant change in MSD prices, also in the face of certain cases of unavailability of grid/generation plant elements.

The graph below shows the revenue from invoicing the uplift (“Turnover”) and the related final cost (“Costs”) also in terms of a monthly unit price.



With regard to purchases and sales on **the Dispatching Services Market** in the first quarter of 2016, **Terna procured resources for a net burden of € 346 million<sup>2</sup>**, an increase compared to last year (+18%), mainly due to price effect (MSD price increase due to non-operation of some plants in response to the energy market and to increase in offer price), only minimally compensated by volume effect.



(1) Provisional data for March.

(2) *Ibidem*.

## Regulatory context

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

Component	Description
<b>Remuneration of the investment</b>	<p>Regulated Asset Base x Weighted Average Cost of Capital (WACC)</p> <p>The RAB (recognised invested capital) basically represents the regulatory value of Terna's assets. The recognised invested capital is subject to annual updating, primarily based on net investments, disposals, and the deflator of gross fixed investments.</p> <p>The WACC considers the expected return on the risk-based capital component, the cost of debt and the proportion of these two components. In turn, the expected return of the component of risk-based capital depends on the correlation – referred to as <math>\beta</math> – between Terna stock and the reference share market.</p> <p>The following factors can result in a change to WACC and are not under Terna's control:</p> <ul style="list-style-type: none"> <li>• level of interest rates;</li> <li>• the risk premium on the reference share market;</li> <li>• Terna's <math>\beta</math>.</li> </ul>
<b>Cover of depreciation and amortisation</b>	Depreciation and amortisation recognised on assets.
<b>Covering of operating expenses</b>	Operating expenses recognised (with mechanism to encourage efficiencies by Terna).

### New tariff system 2016–2023 for the Terna Group

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

The fifth period or new regulatory period (NPR) extends over eight years and is subdivided into two sub-periods identified as NPR1 (2016–2019) and NPR2 (2020–2023), each lasting four years: the first (NPR1), essentially continues the methodology of the past; while the second (NPR2) introduces a new methodology approach, based on the recognition of costs in relation to the total spend, intended as the sum of operating expenses and investments - i.e. TOTEX (Total Expenditure) - the details of which will be determined according to a business plan that will be set out under a new provision issued by the Authority. As far as the base remuneration rate for recognised invested capital (WACC) is concerned, the AEEGSI introduced an appropriate six year regulatory period (i.e. WACC or PWACC regulatory period), extending from 2016 to 2021. The PWACC is subdivided into two sub-periods of three-years each, and sets the base WACC parameter levels applied to all infrastructure services in the electricity and gas sectors, excluding the specific parameters that refer to an individual service. The WACC for the 2016–2018 period is set at 5.3%, and is expected to be updated on the basis of pre-set rules, with effect from the second three-year period (2019–2021).

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

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

Deliberation 517/15/R/eel stipulated the remuneration recognised for the portion of the non-NTG HV/VHV electricity grids that Terna bought from FSI S.p.A, that Triad acquired from FSI S.p.A. and which, subsequent to the purchase, has become part of the National Transmission Grid.

In particular, the regulation outlined the criteria for calculating and updating various components of the underlying recognised cost to said remuneration, which can be summarised extremely briefly as follows: the figure for the net invested capital recognised for tariff purposes (NIC) for HV and VHV electricity grids, to be included in the NTG stands at € 674 million. An extra remuneration of 1.5% is added to a portion of €149 million of this figure; the NIC remuneration will be recognised in the tariffs with effect from the 2017 tariffs; initial operating expenses recognised for tariff purposes are set at € 42.1 million, which include once-off costs identified on a flat-rate basis for € 2 million, with these costs recognised as from 2016; furthermore, as from the second year in which operating expenses are recognised, the once-off costs will be excluded (€ 2 million) and specific annual productivity recoveries will be applied.

## Legislative context

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

## Social context

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



# Strategy

## 2016–2019 Strategic Plan

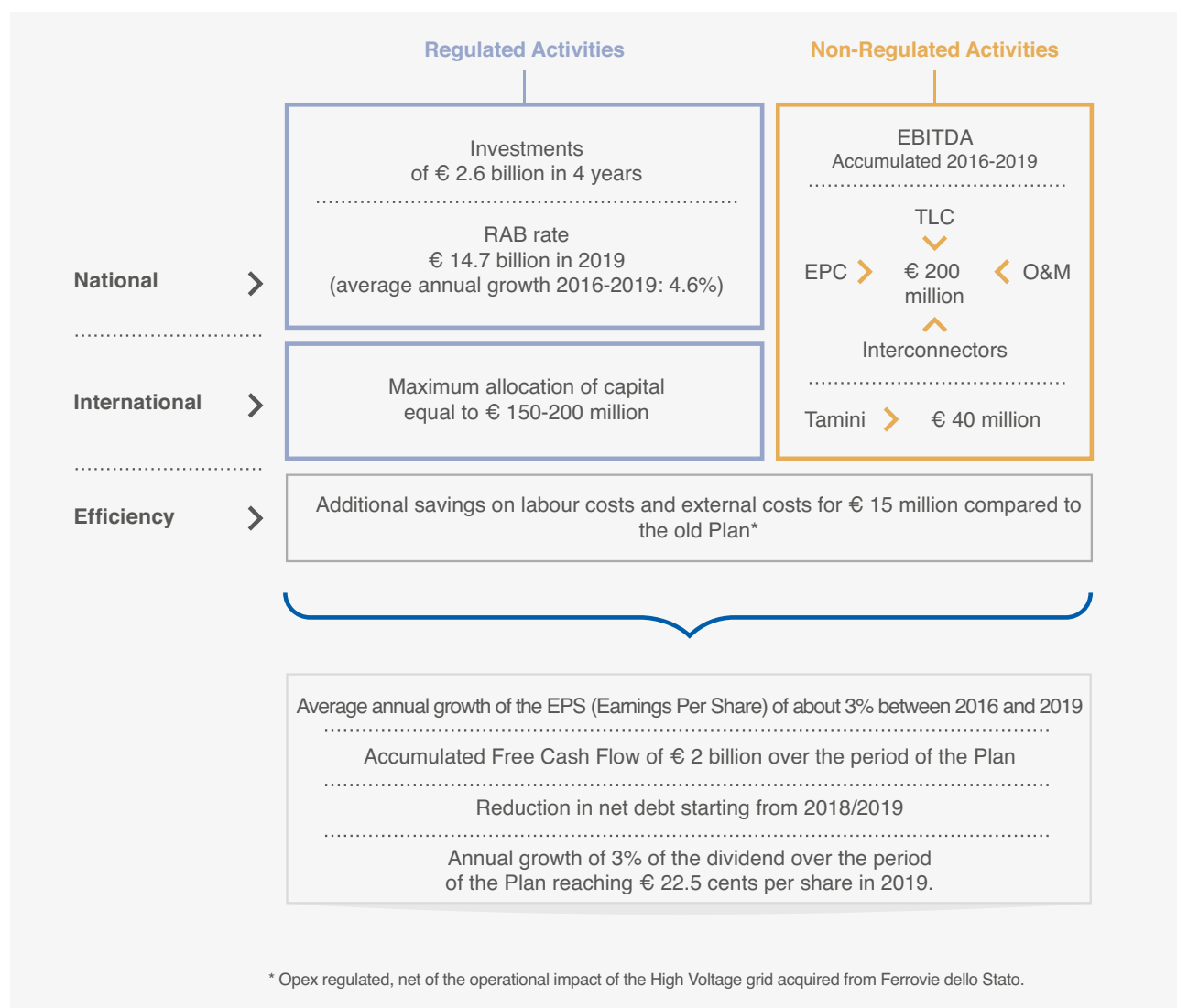
On 17 February 2016, Terna approved the Strategic Plan for 2016–2019. In light of the new regulatory framework and the evolution of the market context, the Plan envisages strategies that are aimed at reinforcing the core business, ensuring growth of Non-Regulated Activities, improving operative efficiency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

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

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

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

### 2016-2019 STRATEGIC PLAN - MAIN TARGETS



## 2016 Development Plan

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

- reduction of energy losses of 1.6 billion kilowatt-hours per year;
- reduction of CO<sub>2</sub> emissions of approximately 15 million tonnes/year;
- reduction of congestions for an amount of more than 5,000 MW;
- greater overall foreign exchange capacity, estimated at more than 6,000 MW;
- greater power capacity generated by renewable sources of around 5,500 MW.

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

### MAIN ACTIONS PROVIDED FOR BY THE 2016 DP



# Objectives and capital

The Terna Group's general objectives refer in part only to Regulated Activities, and partly to Regulated and Non-Regulated Activities combined.

## Objectives

Continuity of the electricity service	Security of the electricity service	Costs of the electricity service	Economic results	Sustainability
Minimize the number of national electricity outages	Minimize the vulnerability of the NTG to internal or external events	Contribute through development of the NTG and optimisation of its management to reduce energy costs	Produce satisfactory economic results continuously	Build good relations with stakeholders, minimizing the environmental footprint, ensuring adequate allocation of intangible capital over time

In its role as the reference operator for the Italian electricity system, Terna generates significant benefits for the entire electricity sector. These objectives are pursued by transforming the capital that the Group holds into actions that focus on reaching said objectives, based on governance strategies and systems.

## Infrastructure capital

The changes in plant numbers of Terna S.p.A., Terna Rete Italia S.r.l. and Rete S.r.l. at 31 March 2016 compared with the situation at the end of 2015<sup>3</sup> mainly refer to the parent Terna S.p.A., the volume of which totals an increase of 1 substation, 8 bays, 6 three-phase circuits that correspond to 47.1 km of power lines, as described below:

### Substations

- activation of the 150 kV Butera (CL) switching substation, equipped with 3 bays;
- activation of 8 bays in the substations at Melfi (PZ), 150 Rotonda (PZ), San Rocco (CN), Martignone (BO), Casellina (FI) and Parma Vigheffio (PR);
- deactivation and/or demolition of 3 bays in the substations of Rotonda 220 (PZ), San Rocco (CN) and Parma Vigheffio (PR).

### Power lines

- activation of the new 380 kV Villanova - Gissi aerial connection, equal to 69.6 km of three-phase power line;
- activation of the new 132 kV San Rocco - CP San Rocco cable power line, equal to 0.1 km of three-phase power line;
- construction of 5 in-out derivations on 5 operating lines with an overall increase of 5 three-phase circuits and 5.3 km of three-phase power line;
- construction of variants and/or route changes with an overall decrease of 1 three-phase power line for a length of 27.9 km of the same.

(3) The NTG of the Terna Group at 31 December 2015 consisted of 66,272 km of power lines (equivalent to 72,599 km of three-phase circuits), 850 transformation and switching stations (a total of 6,108 bays) and 702 transformers with a total power of 144,015 MVA.



## Financial capital

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

At 31 March 2016, gross debt totalled approximately € 8.8 billion, of which € 6.5 billion was made up by bonds and € 2.3 billion by bank loans. The average maturity of debt was approximately 5.2 years; at 31 March 2016 the incidence of net debt at fixed rates was 62% of the total including the effect of derivatives (the average duration of derivative contracts was 4.7 years). Bond debt consists of both public and private placement issuances in the context of the € 8 billion EMTN Bond Issue Programme (with the involvement of a number of both Italian and foreign banking and financial institutions), combined with the stand-alone issue for € 800 million dating back to 2004. Focusing on a specific bracket of qualified investors and listed on the Luxembourg Stock exchange, Terna bonds present a significantly diverse investor base, in terms of both sector and geographic profile. Terna carries out constant monitoring of the capital market in order to avail of any collection opportunities, as demonstrated in February 2016 by the issue, by private placement, of a bond loan of € 80 million maturing in March 2026. With regard to banking debt, Terna's main lender is the European Investment Bank (EIB); the total debt contracted with the EIB at 31 March 2016 stood at almost € 1.7 billion; all contracts entered into with the EIB are at a variable rate.

Thanks to the strength of its credit profile, Terna is able to collect financial funds in the banking market under extremely favourable conditions, as demonstrated by the two "committed" revolving credit lines for a total amount of € 1.6 billion, currently active, which allow the company to meet rating agency requirements and keep its current ratings.

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

## Human capital

At 31 March 2016, the Terna Group had 3,778 employees. Details of the number of Terna Group employees at 31 March 2016 are shown below.

### PERSONNEL CHANGES

	at 31.03.2016	at 31.12.2015	Δ
Senior executives	74	76	(2)
Junior executives	555	514	41
Office staff*	1,945	1,971	(26)
Blue-collar workers	1,204	1,206	(2)
<b>TOTAL</b>	<b>3,778</b>	<b>3,767</b>	<b>11</b>

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

The workforce at the end of the first quarter of 2016 shows an increase of 11 compared to 31 December 2015 (24 new employees compared with 13 terminations). This increase is related mainly to the completion of the hiring plan necessary for the generational turnover project implemented by the Terna Group during 2015.

The change in personnel composition of the junior executives and office staff categories is due to the merit plan implemented by the Terna Group during the first quarter of 2016.

The breakdown by company of the number of employees at 31 March 2016 is illustrated in the table below.

At 31.03.2016	Terna S.p.A.	Terna Rete Italia S.p.A.	Terna Plus S.r.l.	Terna Storage S.r.l.	Tamini Group	Terna Crna Gora d.o.o.	Group Total
Senior executives	32	28	1	-	13	-	74
Junior executives	161	366	5	-	19	-	551
Office staff	240	1,543	8	-	154	4*	1,949
Blue-collar workers	-	957	-	-	247	-	1,204
<b>TOTAL</b>	<b>433</b>	<b>2,894</b>	<b>14</b>	<b>-</b>	<b>433</b>	<b>4</b>	<b>3,778</b>

\* Local employees.

## Training

During the first quarter of 2016 the Group started the training process aimed at developing the necessary skills of personnel brought in under the generational turnover project; as at 31 March 2016 a total of 35,000 hours of instruction had been delivered in particular for the topics "Context & Business Model" and "Training".

## Intellectual capital

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

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

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

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

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

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

# Performance in the first quarter of 2016

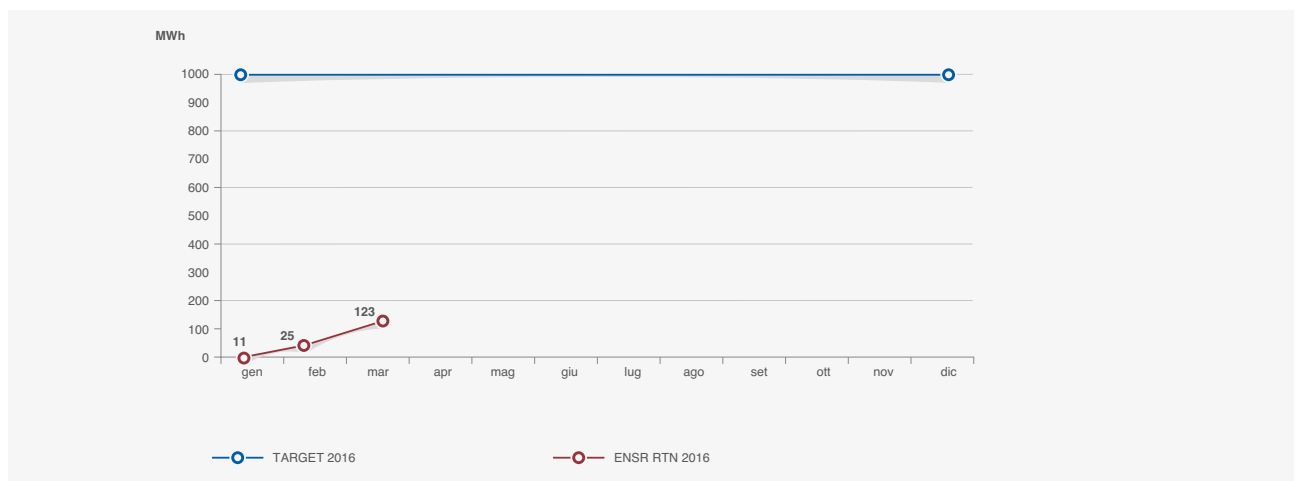
## Operating performance

### Continuity indices of the electrical service

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

The advancement of the “RENS - Reference Energy Not Supplied” indicator, based on preliminary operating data, with an indication of the annual target is shown below<sup>4</sup>.

### RENS NTG - REFERENCE ENERGY NOT SUPPLIED



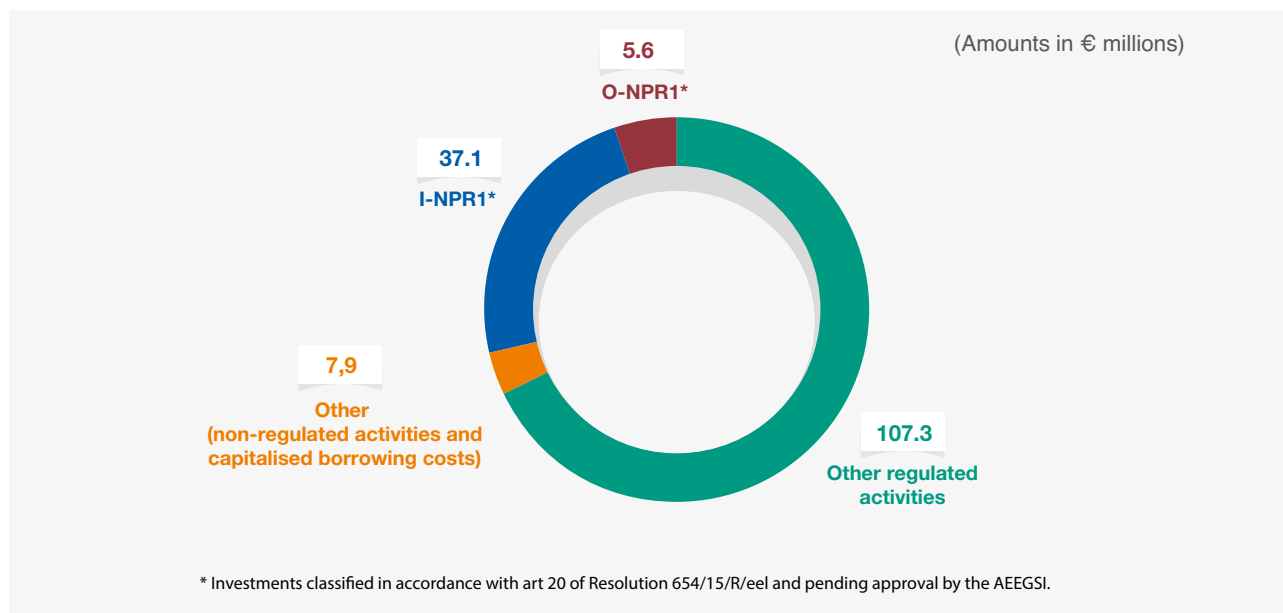
(4) Definition of RENS pursuant to AEEGSI Resolution 653/2015/R/eel, which governs transmission service quality.



## Implementation activities - Regulated Activities

The total investments made by the Terna Group in the first three months of 2016 amounted to € 157.9 million. Below is the classification of the Group's investments according to the remuneration categories identified within the new regulatory framework.

### TERNA GROUP INVESTMENTS



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

#### Italy-Montenegro interconnection (€ 25.8 million):

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

#### 380 kV Foggia-Villanova power line (€ 23.6 million):

- The first part of the connection, the Villanova-Gissi section, about 70 km long, went into operation in January 2016; work is now underway on accommodation areas and restoration of sites to their former conditions;

#### 380 kV power line Sorgente - Rizziconi (€ 10.4 million):

- Works are completed on laying of cables and construction joints inside the Favazzina tunnel; testing and final activities are now underway;

#### Substation 380/150 kV Melfi connections (€ 3.2 million):

- Entry into service of the Melfi electrical substation and related connections; street restoration and final works are underway.

Investments in property, plant and equipment also include actions to purchase and/or renovate offices (€ 1.3 million).

Investments in **intangible assets** (€ 8.2 million) include actions aimed at the update and development of software and a residual investment reclassified in accordance with IFRIC 12 (€ 0.6 million).

**Total investments** by the Terna Group in the first three months of 2016 amounted to **€ 157.9 million**, of which **€ 42.7 million** went to the I-NPR1 and O-NPR1 categories **incentivised** by the AEEGSI with an extra-remuneration of 1%, down € 19.3 million compared to the € 177.2 million of the corresponding period in 2015 (-10.9%).

## Implementation activities - Non-Regulated Activities Italy

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

- Interconnectors;
- Services for third parties.

### Interconnector

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

#### INTERCONNECTORS UNDERWAY

##### “Italy-France Interconnector” Project

The project envisages the utilisation pursuant to Law 99/2009 of a portion of the transfer capacity made available with the creation of the new Piossasco – Grande Ile HVDC interconnection. In the first quarter of 2016, Terna obtained the go-ahead from the Ministry of Economic Development for the start of the authorisation process of the localisation interconnection variant. Installation works on the HVDC link on the Italian side have also been launched.

##### “Italy-Montenegro Interconnector” Project

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

### Services for third parties

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

Regarding services in the field of engineering, work was completed on the construction of a temporary NTG connection with a 20 MW photovoltaic plant in Central Italy. Contracts were also acquired for the construction of user stations for industrial customers and producers of renewable energy.

As for telecommunications activities, the company has focused on developing electrical infrastructure enhancement services for offering fibre optic and housing services to telecom operators, public administration and industrial customers. In particular, feasibility projects were launched and deals worked out with several counterparts for a total of about 800 km of fibre optics.

### Implementation activities - Non-Regulated Activities Abroad

During the first quarter of 2016, the Terna Group's attention was devoted mainly to the completion of an order from Terna Chile S.p.A. for grid connection to a 80 MW photovoltaic power plant in the Atacama desert, for which two substations and the 220 kV line were commissioned.

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

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

## Economic-Financial Performance

In order to present the performance of the Terna Group and to analyse its financial position, financial schedules have been prepared. These are not subject to independent auditing. These reclassified tables contain alternative performance indicators, which management considers useful for monitoring Group trends, and representative of the economic and financial results produced by the business. The criteria used for the construction of such indicators (pursuant to Recommendation CESR/05-178b) are the same as those used in the annual disclosure.

### Consolidation scope

As already illustrated in the "Corporate Structure" section, during the first quarter of 2016, there were no events that would have had effects on the Terna Group's consolidation scope, which therefore reflects the situation at 31 December 2015.

### Basis of presentation

The measurement and recognition criteria applied in this consolidated interim financial report are consistent with those adopted in the consolidated financial statements at 31 December 2015.



## Economic results

The economic results of the Terna Group for the first three months of 2016 compared with the same period of the previous year, are summarised in the following operating income statement.

€ million	1Q2016	1Q2015	Δ	Δ %
<b>REVENUE</b>				
- Transmission Fee	431.2	443.3	(12.1)	(2.7%)
- Dispatching Fee	28.0	31.8	(3.8)	(11.9%)
- Other operating revenue	55.3	35.2	20.1	57.1%
of which other revenue from Regulated Activities	12.2	3.7	8.5	229.7%
of which revenue from Non-Regulated Activities	43.1	31.5	11.6	36.8%
- Revenue from construction of licensed activities*	2.7	3.0	(0.3)	(10.0%)
<b>TOTAL REVENUE</b>	<b>517.2</b>	<b>513.3</b>	<b>3.9</b>	<b>0.8%</b>
<b>OPERATING EXPENSES</b>				
- Personnel expenses	54.0	56.3	(2.3)	(4.1%)
- Services, leases and rentals	40.6	30.9	9.7	31.4%
- Materials	20.1	12.5	7.6	60.8%
- Other expenses	3.0	7.3	(4.3)	(58.9%)
- Service quality	1.7	1.7	-	0.0%
- Costs of construction of licensed activities*	2.7	3.0	(0.3)	(10.0%)
<b>TOTAL OPERATING EXPENSES</b>	<b>122.1</b>	<b>111.7</b>	<b>10.4</b>	<b>9.3%</b>
<b>EBITDA (GROSS OPERATING PROFIT)</b>	<b>395.1</b>	<b>401.6</b>	<b>(6.5)</b>	<b>(1.6%)</b>
Amortisation, depreciation and impairment	131.2	120.3	10.9	9.1%
<b>EBIT (OPERATING PROFIT)</b>	<b>263.9</b>	<b>281.3</b>	<b>(17.4)</b>	<b>(6.2%)</b>
- Net financial income (expense)	(19.2)	(31.0)	11.8	(38.1%)
<b>PROFIT/LOSS BEFORE TAXES</b>	<b>244.7</b>	<b>250.3</b>	<b>(5.6)</b>	<b>(2.2%)</b>
- Income taxes for the period	83.3	85.1	(1.8)	(2.1%)
<b>NET PROFIT FOR THE PERIOD</b>	<b>161.4</b>	<b>165.2</b>	<b>(3.8)</b>	<b>(2.3%)</b>
- Share attributable to non-controlling interests	(0.8)	-	(0.8)	0.0%
<b>GROUP NET PROFIT FOR THE PERIOD</b>	<b>162.2</b>	<b>165.2</b>	<b>(3.0)</b>	<b>(1.8%)</b>

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

In the first nine months of 2016, the Terna Group earned **revenue of € 517.2 million**, relating to the Parent Company for € 423.9 million, Terna Rete Italia S.r.l. for € 46.7 million, the Tamini Group for € 27.2 million, the subsidiary Rete S.r.l. for € 13.7 million and other companies for € 5.7 million. The item notes an increase of € 3.9 million compared to the same period of the previous year (+0.8%), due to the net effect of increased revenues related to Non-Regulated Activities for € 11.6 million and the reduction in revenues from Regulated Activities for € 7.4 million; the revenues from investments in licensed assets are broadly in line with the same period of the previous year (reduction of € 0.3 million).

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

### REVENUE FROM REGULATED ACTIVITIES

€ million	1Q2016	1Q2015	Δ
Transmission Fee	431.2	443.3	(12.1)
Dispatching Fee	28.0	31.8	(3.8)
Other operating revenue	12.2	3.7	8.5
<b>TOTAL</b>	<b>471.4</b>	<b>478.8</b>	<b>(7.4)</b>

The decrease in revenues from Regulated Activities, equal to € 7.4 million, compared to the first three months of 2015, is mainly due to the reduction of **the fees for transmission** (€ -12.1 million) and for **dispatching activities** (€ -3.8 million), largely reflecting the overall effects of the new regulatory period 2016–2023 (€ -28.2 million) and the contribution of the inclusion, in the first quarter of 2016, of the national transmission grid acquired at the end of 2015 from Gruppo Ferrovie dello Stato Italiane (€ +12.3 million), limited to the cost components related to operating expenses for the portion of the grid subject to Resolution 517/2015/R/eel. This change was partly offset by higher revenues from sales to third parties, primarily for disposal of copper recovered in implementation of the “Copper Plan” (€ 8.3 million), which includes the progressive replacement of obsolete copper conductors with new aluminium conductors.

### REVENUE FROM NON-REGULATED ACTIVITIES

€ million	1Q2016	1Q2015	Δ
Orders of the Tamini Group	27.1	19.0	8.1
Orders in Chile	2.0	-	2.0
Active contract Rete S.r.l.	1.4	-	1.4
Other	12.6	12.5	0.1
<b>TOTAL</b>	<b>43.1</b>	<b>31.5</b>	<b>11.6</b>

Revenues from **Non-Regulated Activities** increase by € 11.6 million due to greater revenues from orders made during the quarter by the Tamini Group (€ +8.1 million) and for revenues from an order in Chile (€ +2 million), not yet active in the comparison period. The deviation of the item also recognises the fee for the period of the subsidiary Rete S.r.l. for support for fibre optics owned by Basicetel (€ 1.4 million).

### OPERATING EXPENSES

€ million	1Q2016	1Q2015	Δ
Personnel expenses	54.0	56.3	(2.3)
Services, leases and rentals	40.6	30.9	9.7
Materials	20.1	12.5	7.6
Other expenses	3.0	7.3	(4.3)
Service quality	1.7	1.7	-
Costs of construction of licensed activities*	2.7	3.0	(0.3)
<b>TOTAL OPERATING EXPENSES</b>	<b>122.1</b>	<b>111.7</b>	<b>10.4</b>

\* Recognised pursuant to IFRIC 12.

In the first quarter of 2016 **operating expenses**, equal to € 122.1 million, are increasing by € 10.4 million towards the level of the same period in 2015.

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

€ million	1Q2016	1Q2015	Δ Total	Δ without Tamini	Δ Tamini
Personnel expenses	54.0	56.3	(2.3)	(3.7)	1.4
Services, leases and rentals	40.6	30.9	9.7	8.0	1.7
Materials	20.1	12.5	7.6	1.8	5.8
Other expenses	3.0	7.3	(4.3)	(4.7)	0.4
Service quality	1.7	1.7	-	-	-
Costs of construction of licensed activities*	2.7	3.0	(0.3)	(0.3)	-
<b>TOTAL OPERATING EXPENSES</b>	<b>122.1</b>	<b>111.7</b>	<b>10.4</b>	<b>1.1</b>	<b>9.3</b>

\* Recognised pursuant to IFRIC 12.

Operating expenses, net of the Tamini Group's balances, recorded an increase of € 1.1 million compared to the first three months of 2015, as detailed below:

- "Personnel expenses": € -3.7 million primarily from the effect of savings generated by the generational turnover project implemented in 2015;
- "Services, leases and rentals": € +8 million, relating mainly to maintenance costs incurred by the subsidiary Rete S.r.l. (€ 8.9 million), not included in the scope of consolidation in the first quarter of 2015 and related to the network maintenance contract acquired from the FS in Group in 2015, partially offset by lower external costs related to other companies in the Group (€ -0.9 million);
- "Materials": € +1.8 million, related mainly to total costs for the first quarter of Terna Chile S.p.A. from the order in Chile, started in the second part of 2015;
- "Other expenses": € -4.7 million, due mainly to the change in the IMU provision compared to that effected in the first quarter 2015 (€ -5 million).

The overall change in operating expenses also takes into account the lower costs associated with investments in infrastructures in concession (IFRIC 12, € -0.3 million).

The economic effects of the service quality bonus/penalty mechanisms for the first quarter of 2016 are in line with the same period of the previous financial year. Below is a comparison table.

#### Electricity service quality costs

€ million	1Q2016	1Q2015	Δ
Mitigation and sharing mechanisms	1.4	1.4	-
Grants to Exceptional Events Provision	0.2	0.3	(0.1)
High-voltage users compensation mechanisms	0.1	-	0.1
<b>TOTAL</b>	<b>1.7</b>	<b>1.7</b>	<b>-</b>

**EBITDA** (Gross Operating Margin) for the period came out at **€ 395.1 million**, a decrease of € 6.5 million compared with the € 401.6 million of the first three months of 2015.

The **EBITDA margin** went down from 78.2% in the first quarter of 2015 to 76.4% in the corresponding period of 2016, owing substantially to the dilutive effect of the contribution of the Tamini Group.

The item **amortisation, depreciation and impairment** for the period, amounting to € 131.2 million (of which € 111.3 million of the parent company, € 12 million of the subsidiary Terna Rete Italia S.r.l. and € 6.4 million of the subsidiary Rete S.r.l.), grew by € 10.9 million compared with the same period in 2015 owing essentially to the commissioning of new plants.

**EBIT** (Operating Profit/Loss), after deducting amortisation, depreciation and impairment, came out at **€ 263.9 million**, compared with € 281.3 million in the first three months of 2015 (-6.2%).

The **net financial expense** for the period amounted to € 19.2 million, primarily attributable to the parent company (€ 18.6 million), reveal a decrease of € 11.8 million compared to the same period in 2015 (in particular € 14.7 million for lower borrowing costs and € 3 million for lower financial expense) essentially as a result of the reduction in market rates and the reduction in gross debt related primarily to the Liability Management operation initiated during July 2015.

After deducting net financial expense, **profit before taxes** came out at **€ 244.7 million**, down by € 5.6 million compared with the corresponding period of the previous year (-2.2%).

**Income taxes** for the period amounted to **€ 83.3 million** and fell by € 1.8 million (-2.1%) compared with the same period of the previous year essentially due to lower pre-tax profit.

The **tax rate** for the year (34%) is in line with the first quarter of 2015.

**Group net profit for the period** came out at **€ 162.2 million**, down € 3 million (-1.8%) compared with the € 165.2 million of the first quarter of 2015.



## Results by business segment

### Economic results

The breakdown of the Terna Group's results by business segment, in relation to the first quarter of financial years 2016 and 2015, is shown in the table below<sup>5</sup>.

€ million	1Q2016	1Q2015	Δ	Δ%
<b>Total revenue from Regulated Activities</b>	<b>471.4</b>	<b>478.8</b>	<b>(7.4)</b>	<b>(1.5%)</b>
Transmission fee	431.2	443.3	(12.1)	(2.7%)
Dispatching fee	28.0	31.8	(3.8)	(11.9%)
Other core revenue	12.2	3.7	8.5	229.7%
<b>Total revenue from Non-Regulated Activities</b>	<b>43.1</b>	<b>31.5</b>	<b>11.6</b>	<b>36.8%</b>
Tamini Group revenue	27.2	19.1	8.1	42.4%
Other non-regulated revenue	15.9	12.4	3.5	28.2%
<b>Revenue from construction of licensed activities</b>	<b>2.7</b>	<b>3.0</b>	<b>(0.3)</b>	<b>(10.0%)</b>
<b>Total revenue</b>	<b>517.2</b>	<b>513.3</b>	<b>3.9</b>	<b>0.8%</b>
<b>Total costs of Regulated Activities</b>	<b>83.7</b>	<b>85.5</b>	<b>(1.8)</b>	<b>(2.1%)</b>
Personnel	45.5	49.3	(3.8)	(7.7%)
External resources	35.0	28.3	6.7	23.7%
Service quality	1.7	1.7	-	0.0%
Other expenses	1.5	6.2	(4.7)	(75.8%)
<b>Total costs of Non-Regulated Activities</b>	<b>35.7</b>	<b>23.2</b>	<b>12.5</b>	<b>53.9%</b>
Tamini Group costs	28.8	19.5	9.3	47.7%
Other non-regulated costs	6.9	3.7	3.2	86.5%
<b>Costs from construction of licensed activities</b>	<b>2.7</b>	<b>3.0</b>	<b>(0.3)</b>	<b>(10.0%)</b>
<b>Total operating expenses</b>	<b>122.1</b>	<b>111.7</b>	<b>10.4</b>	<b>9.3%</b>
<b>EBITDA</b>	<b>395.1</b>	<b>401.6</b>	<b>(6.5)</b>	<b>(1.6%)</b>
EBITDA Regulated Activities	387.7	393.3	(5.6)	(1.4%)
EBITDA Non-Regulated Activities	7.4	8.3	(0.9)	(10.8%)

### Regulated Activities

The **EBITDA of Regulated Activities** amounted to € 387.7 million, down € 5.6 million compared to the figure for the first quarter of the previous year. This decrease is mainly due to the reduction of **the fees for transmission** (€ -12.1 million) and for **dispatching activities** (€ -3.8 million) mainly reflecting the effects of the new regulatory period 2016–2023, the inclusion, in the first quarter of 2016, of the national transmission grid acquired at the end of 2015 from the Ferrovie dello Stato Italiane Group and the effects on operational costs of containment actions implemented as from 2015.

### Non-Regulated Activities

The **EBITDA relating to Non-Regulated Activities** in the first quarter of 2016, equal to € 7.4 million, reveals a reduction of € 0.9 million substantially attributable to the Tamini Group (€ -1.2 million).

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

## Investments

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

The table below shows the breakdown of investments for the first quarter of 2016.

### INVESTMENTS

	1Q2016	1Q2015	Δ	Δ%
Incentives +1% (I-NPR1)	37.1	38.9	(1.8)	(4.6%)
Incentives +1% (O-NPR1)	5.6	9.2	(3.6)	(39.1%)
<b>Investments with incentives*</b>	<b>42.7</b>	<b>48.1</b>	<b>(5.4)</b>	<b>(11.2%)</b>
Base remuneration	107.3	118.5	(11.2)	(9.5%)
<b>Investments in Regulated Activities</b>	<b>150.0</b>	<b>166.6</b>	<b>(16.6)</b>	<b>(10.0%)</b>
Other**	7.9	10.6	(2.7)	(25.5%)
<b>Total investments</b>	<b>157.9</b>	<b>177.2</b>	<b>(19.3)</b>	<b>(10.9%)</b>

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

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

During the first quarter of 2016, the Terna group invested € 157.9 million, of which 42.7 million are investments included in the I-NPR1 and O-NPR1 categories specified above.

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

## Equity results

The Terna Group's statements of financial position at 31 March 2016 and at 31 December 2015 is summarised in the table below.

€ million	at 31.03.2016	at 31.12.2015	Δ
<b>Net non-current assets</b>			
- Intangible assets and goodwill	514.4	520.1	(5.7)
- Property, plant and equipment	12,082.1	12,078.7	3.4
- Financial assets	90.9	89.5	1.4
<b>Total</b>	<b>12,687.4</b>	<b>12,688.3</b>	<b>(0.9)</b>
<b>Net working capital</b>			
- Trade receivables	470.6	568.3	(97.7)
- Inventories	12.6	12.4	0.2
- Other assets	46.2	40.0	6.2
- Trade payables	(609.1)	(747.1)	138.0
- Net energy-related pass-through payables	(593.8)	(617.9)	24.1
- Net tax assets	(125.9)	132.5	(258.4)
- Other liabilities	(345.6)	(349.9)	4.3
<b>Total</b>	<b>(1,145.0)</b>	<b>(961.7)</b>	<b>(183.3)</b>
<b>Gross invested capital</b>	<b>11,542.4</b>	<b>11,726.6</b>	<b>(184.2)</b>
Sundry provisions	(361.5)	(378.1)	16.6
<b>NET INVESTED CAPITAL</b>	<b>11,180.9</b>	<b>11,348.5</b>	<b>(167.6)</b>
<b>Equity attributable to the owners of the Parent</b>	<b>3,469.4</b>	<b>3,320.8</b>	<b>148.6</b>
<b>Equity attributable to non-controlling interests</b>	<b>24.3</b>	<b>25.0</b>	<b>(0.7)</b>
<b>Net financial debt</b>	<b>7,687.2</b>	<b>8,002.7</b>	<b>(315.5)</b>
<b>TOTAL</b>	<b>11,180.9</b>	<b>11,348.5</b>	<b>(167.6)</b>

The decrease in **net non-current assets** amounting to € 0.9 million compared to 31 December 2015 is attributable mainly to **intangible assets and goodwill** (€ -5.7 million), due chiefly to the ordinary movements of investments for the period equal to € 8.2 million net of the amortisation for the period equal to € 13.7 million.

**Property, plant and equipment** recorded an increase of € 3.4 million for the combined effect of:

- investments for € 149.7 million;
- depreciation and amortisation for the period of € 117.5 million.

Other changes in the period, such as the recognition of set-up grants, resulted in a variation of € -28.7 million compared to 31 December 2015.

**Total investments** made by the Group in the first three months of 2016 amounted to € 157.9 million, down € 19.3 million compared to the € 177.2 million of the corresponding period of 2015 (-10.9%).

**Net working capital** amounted to € -1,145 million and, during the period, provided cash of € 183.3 million, owing essentially to the combined effect of:

**Liquidity generated:**

- decrease in **trade receivables** for € 97.7 million due mainly to the reduction in receivables from grid transmission fees (amounting to € 305.7 million at 31 March 2016) compared to € 94.3 million at 31 December 2015, attributable essentially to collection by the “Cassa per i Servizi Energetici e Ambientali” (CSEA) of receivables for the integration of grid transmission fee revenues of Terna S.p.A. relating to 2014 (€ 80.8 million euro) and the recognition of the lower grid transmission fees in the reporting period based on new rates set for 2016, the first year of the new regulatory period 2016–2023;
- increase in net tax payables (€ 258.4 million) due essentially to the recognition of income taxes for the period (€ 93.9 million), and net payables for VAT recorded on 31 March 2016 equal to € 51.8 million, compared to the payable of € 113.9 million recorded on 31 December 2015 (€ +165.6 million), due mainly to the effects of the AEEGSI measures issued at the end of the year 2015<sup>6</sup>.

**Liquidity absorbed:**

- reduction in net energy-related pass-through payables for € 24.1 million compared to the figure at the end of 2015, relating to the dispatching activity by the Parent Company (equal to € 593.8 million at 31 March 2016), mainly due to the combined effect of:
  - increase of net receivables associated with the corresponding Uplift and associated items (about € 120 million) attributable to higher expenses related to the Dispatching Services Market (MSD), resulting primarily from increased prices for the supply of services in the first quarter of 2016;
  - increase in net payables arising from units essential for the security of the electricity system - UESS (about € 56.4 million) resulting, in particular, from the adjustment of the fee relating to the collection set by AEEGSI for the last quarter 2015 with Resolution 453/2015/R/eel (to take account of higher charges for the postponed commissioning of the 380 kV “Sorgente-Rizziconi” power line between Sicily and the Mainland), which more than offset the payment in favour of users of essential plants made at the start of the year<sup>7</sup> in implementation of AEEGSI measures issued in December 2015;
  - greater net payables due to increased productive capacity – capacity payment (about € 46.5 million) referable to items regarding collection in the first quarter of 2016, in the absence of any Authority Deliberations aimed at remunerating operators for the availability of electricity production capacity;
- a reduction in trade payables of € 138 million mostly for liquidation of purchases and services relating inter alia to greater investment activities implemented in the last period of the previous year.

**Gross invested capital**, therefore, amounted to € 11,542.4 million, recording a decrease compared with the previous financial year of € 184.2 million.

**Sundry provisions** amounted to € 361.5 million, registering a decrease of € 16.6 million, attributable mainly to the use of net deferred tax liabilities for € 14 million, largely referable to the release impact of deferred tax liabilities on additional depreciation with respect to the economic-technical portion of the parent company and Terna Rete Italia S.r.l., and the reduction in provisions for risks and charges (€ -3.8 million), partially offset by provisions for employee benefits (€ +1.2 million).

**Net invested capital** amounted to € 11,180.9 million, a decrease of € 167.6 million compared with 31 December 2015 and is financed by equity attributable to the owners of the parent for € 3,469.4 million (compared with € 3,320.8 million at 31 December 2015), by third party equity for € 24.3 million (€ 25.0 million at 31 December 2015) and by net financial debt of € 7,687.2 million (€ -315.5 million compared with the € 8,002.7 million of 31 December 2015).

(6) With Resolutions 612/2015/R/eel of 11 December 2015, 615/2015/R/eel and 616/2015/R/eel of 15 December 2015, the AEEGSI provided for advance payments by Terna of the reimbursement of UESS costs respectively for the year 2014 and for the year 2015 (for the essential units of Sicily, Sardinia and the mainland) for a total amount of € 548.9 million, of which € 132.9 million were transferred in January 2016.

(7) *Ibidem*.



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

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

€ million	Net profit 1Q2016	Equity at 31.03.2016
<b>Financial Statements of the Parent Company</b>	<b>141.8</b>	<b>3,036.9</b>
Results and equity contributed by the Group Companies - Regulated Activities	21.8	348.3
Results and equity contributed by the other Group companies - Non-Regulated Activities	(3.4)	81.2
Equity-accounted investees	1.2	27.3
<b>Consolidated financial statements total</b>	<b>161.4</b>	<b>3,493.7</b>
Third party interests – Non-Regulated Activities	(0.8)	24.3
<b>Terna Group Consolidated Financial Statements</b>	<b>162.2</b>	<b>3,469.4</b>

## Cash flows

### Net financial debt

The Group's net financial debt at 31 March 2016 (€ 7,687.2 million) is broken down in the table below.

€ million	at 31.03.2016	at 31.12.2015	Δ
<b>Net financial debt (by duration)</b>			
<i>A. Medium- and long-term debt</i>			
- Bonds	5,769.3	6,406.1	(636.8)
- Floating-rate loans	2,054.4	2,110.4	(56.0)
- Derivative financial instruments	(718.9)	(680.9)	(38.0)
<b>Total</b>	<b>7,104.8</b>	<b>7,835.6</b>	<b>(730.8)</b>
<i>B. Short-term debt (liquidity):</i>			
- Bonds (current portion)	769.3	-	769.3
- Short-term loans	86.3	416.6	(330.3)
- Floating-rate loans (current portions)	134.4	122.9	11.5
- Other net current financial liabilities	12.8	59.2	(46.4)
- Cash and cash equivalents*	(420.4)	(431.6)	11.2
<b>Total</b>	<b>582.4</b>	<b>167.1</b>	<b>415.3</b>
<b>Total net financial debt</b>	<b>7,687.2</b>	<b>8,002.7</b>	<b>(315.5)</b>
<b>Net financial debt (per type of instrument)</b>			
- Bonds	6,538.6	6,406.1	132.5
- Floating-rate loans	2,188.8	2,233.3	(44.5)
- Derivative financial instruments	(718.9)	(680.9)	(38.0)
- Short-term loans and other financial liabilities	99.1	475.8	(376.7)
- Cash and cash equivalents	(420.4)	(431.6)	11.2
<b>Total net financial debt</b>	<b>7,687.2</b>	<b>8,002.7</b>	<b>(315.5)</b>

\* Including interest accrued not yet collected.

The structure of net financial debt, which decreased overall by € 315.5 million in the first three months of 2016, shows the following changes:

- increase in bonds (€ 132.5 million), as a result of the bond issue on 3 March 2016 for € 80 million and the adjustment to fair value of these financial instruments (€ 52.5 million, including amortised cost);
- decrease of floating-rate loans (€ 44.5 million) for instalments paid from outstanding loans;
- an increase in the positive net balance of derivative financial instruments (€ 38 million), mainly due to the decrease in the medium/long-term reference interest rate curve with respect to December 2015;
- decrease in short-term loans (€ 330.3 million) mainly as a result of repayment of the outstanding credit lines of the parent company at 31 December 2015;
- reduction of other financial liabilities for € 46.4 million;
- absorption of liquid assets (€ 11.2 million).

### Cash flow

The consolidated cash flow at 31 March 2016 and 31 March 2015 is presented in the statement below.

€ million	Cash flow 1Q2016	Cash flow 1Q2015
- Net Profit for the period	161.4	165.2
- Amortisation, depreciation and impairment	131.2	120.3
- Net financial expense	19.2	31.0
- Net change in provisions	(16.6)	(11.3)
- Net Losses (Gains) on asset disposals	(0.2)	(0.8)
<b>Self-financing (Operating Cash Flow)</b>	<b>295.0</b>	<b>304.4</b>
- Change in net working capital	183.3	332.3
- Other changes in non-current assets	29.0	12.9
- Change in equity investments	(1.2)	(1.1)
<b>Change in NWC and other (Cash Flow from Operating Activities)</b>	<b>506.1</b>	<b>648.5</b>
- Total investments	(157.9)	(177.2)
<b>Free Cash Flow</b>	<b>348.2</b>	<b>471.3</b>
- Net financial expense	(19.2)	(31.0)
- Equity reserve cash flow hedges net of the tax effect and other changes in equity	(13.5)	9.3
<b>Change in net financial debt</b>	<b>315.5</b>	<b>449.6</b>

The cash provided by operating activities in the first quarter of 2016, equal to € 506.1 million, is attributable largely to self-financing (€ 295 million), financial resources provided by net working capital (€ 183.3 million) and by other changes (€ 27.8 million).

The most substantial effect on **self-financing** was that of profit for the first quarter of 2016, € 161.4 million, gross of amortisation, depreciation and impairment accruing of € 131.2 million and net financial expense for the period (€ 19.2 million). The reduction in funding by € 16.6 million reflects in particular the use of net deferred tax liabilities and changes in the provisions for risks and charges.

The generation of liquidity of the **net working capital**, equal to €+183.3 million, is due mostly to the increase in net tax payables mainly for higher net VAT payables recorded at 31 March 2016 compared to the credit situation at the end of 2015 and the recognition of taxes for the quarter, partially offset by the decrease in trade payables (including pass-through energy).

The Group's **total investments** made in the quarter amounted to € 157.9 million referable to property, plant and equipment for € 149.7 million and to intangible assets for € 8.2 million.

Therefore the **free cash flow** provided by operating activities amounted to € 348.2 million.

The remuneration of **third party capital** (net financial expense for € 19.2 million) and **changes in equity** (€ 13.5 million) in particular, of the fair value of derivative instruments for hedging floating rate debt (€ 12.0 million, net of the deferred tax effect), led to overall financial requirements of € 32.7 million.

Given all the components described above, net financial debt shows a reduction of € 315.5 million.

## Performance of Terna stock

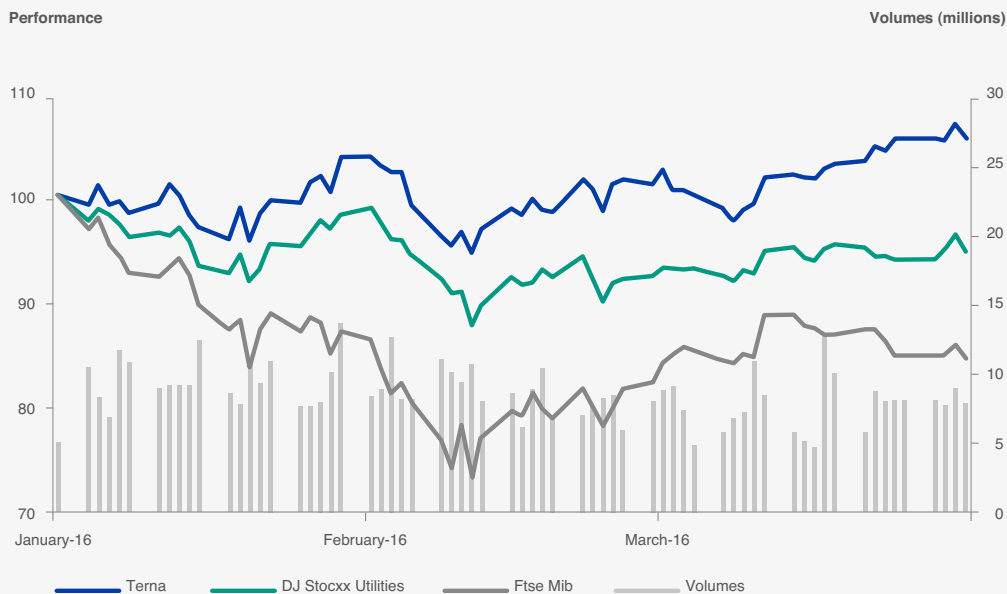
With a current market environment characterised by high volatility and a still unstable macroeconomic framework, the main European stock markets all closed the first quarter of 2016 with negative performance. Milan saw a loss of 15.4%, London and Madrid finished -1.1% and -8.6% down respectively, Frankfurt finished 7.6% up and Paris closed at -5.4%.

The markets have negatively affected increasing geopolitical tensions, combined with weak economic results from the eurozone. With regard to government bonds, the expansive monetary policy measures taken by the European Central Bank have contributed to reducing the ten-year BTP yield, which went from 1.6% at the beginning of the year to 1.2% at the end of March 2016.

Since the start of the year Terna has recorded an increase of 5.45% in contrast to the European reference index (DJ Stoxx Utilities -5.26%). The average daily volume traded in the quarter on Terna stock stood at approximately 8.4 million shares daily, broadly in line with the same period of 2015.

It should also be noted that, since its listing on the stock exchange (23 June 2004), the stock has increased in value by 195% with a TSR of 483.5%, outperforming both the Italian reference index (TSR FTSE MIB -1.05%) and the European sector index (TSR DJ Stoxx Utilities +123.9%).

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



## PERFORMANCE OF STOCK 1Q2016





# Significant events subsequent to 31 March 2016

## Sustainability

The Group continues its commitment to developing a more sustainable system: as part of the **upgrade of the electricity grid in the province of Naples**, the demolition of obsolete lines began in **April 2016**. The project involves approximately 18 km of old lines and 56 pylons in the municipalities of Frattamaggiore, Frattaminore, Crispano, Cardito, Caivano, Acerra, Afragola, Orta di Otella and Casalnuovo di Napoli.

The dismantling operations, to be concluded in a few months, have been made possible by the construction and commissioning of a new underground power line 8.7 km in length, in operation since March of 2015.

The demolition of the pylons of the 18 km of power lines frees up about 252 thousand square metres of land and allows the recovery of steel, aluminium and glass, which is all delivered to specialised companies for subsequent recycling.

After the completion of this grid upgrade work, the savings for the system will be approximately € 11 million per year; on the environmental front, reduced grid losses will result in approximately 7000 tons less CO<sub>2</sub> emissions each year.

## Non-Regulated Activities

On **15 April 2016** a contract was signed with BT Italia S.p.A. (subsidiary of British Telecommunications plc) for the granting of indefeasible rights of use (IRU) of an optic fibre pair of a total length of 683 km, already laid on the guard wires of power lines owned by Terna S.p.A. and Terna Rete S.r.l. Italy. The deal lasts 14 years and the amount of the contract is € 2.9 million.

## AEEGSI resolutions

On **21 April 2016**, the Authority published Resolution 192/2016/R/eel "Determination of advance reimbursement payment relating to essential isolated production units, in the availability of production Enel Produzione S.p.A. for the year 2013".

With this measure the Authority provides that by **31 May 2016** Terna shall award Enel Produzione an advance payment of the reimbursement of generation costs of isolated units, relating to the year 2013; the amount shall be equal to the advance payment of the supplementary fee for the year 2012 pursuant to Resolution 284/2015/R/eel.

## Further information

### Treasury shares

The Parent Company does not hold any treasury shares or shares of CDP Reti S.p.A. or Cassa Depositi e Prestiti S.p.A., nor has it acquired or sold any during the first three months of 2016, either directly or indirectly.

### Related-party transactions

Considering that the Parent has been subject to de facto control by Cassa Depositi e Prestiti S.p.A. since 2007, the related-party transactions carried out by the Terna Group during the first three months of 2016 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 three months of 2016 consisted largely of services under the scope of ordinary business and settled at market terms, as is described in greater detail in the Consolidated and Separate Financial Statements at 31 December 2015<sup>8</sup>.

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

We can note that, during the first three months of 2016, no significant transactions, that is to say related party transactions identified in compliance with the provisions of Appendix 3 to the "Regulation containing rules on related-party transactions" (adopted with CONSOB Resolution no. 17221 of 12 March 2010, as amended with CONSOB Resolution no. 17389 of 23 June 2010), were carried out, nor were transactions subject to compulsory disclosures but concluded applying the exclusion established by the Regulation, insofar as they were "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".

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

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

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

## Declaration by the Financial Reporting Manager in accordance with the provisions of Art. 154-*bis*, paragraph 2 of Italian Legislative Decree No. 58/1998

The Financial Reporting Manager, Pierpaolo Cristofori, in accordance with Art. 154-*bis*, paragraph 2 of the Consolidated Law on Finance, declares that the accounting disclosure provided in this Consolidated Interim Financial Report at 31 March 2016 is consistent with the documents, books and accounts.

# Annexes

## Regulatory framework

Below is a brief description of the main recent regulatory measures of interest for the Parent Company issued during first quarter 2016 and, subsequently, up to the date of preparation of the present Consolidated Interim Financial Report.

### Laws and measures issued in 2015 with effect from 2016

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

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

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

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

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

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



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

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

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

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

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

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

## **Laws and measures issued in 2016**

### ***On employment***

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

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

### **On company law**

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

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

### **On contracts and infrastructure**

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

The 11/16 Law provides for the adoption by the Government by April 16 of a Legislative Decree transposing European Directives 2014/23/EU, 2014/24/EU and 2014/25/EU and revising the regulations on public contracts (the revision may be the subject of a separate decree, to be adopted by 31 July 2016).

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

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

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

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

Below is a short summary of the main resolutions passed by the Regulatory Authority for Electricity Gas and Water during the first quarter of 2016 extending to the date of preparation of this interim financial report.

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

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

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

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

With this measure, the Authority approved Terna’s changes to the contract with entities selected for the funding of interconnectors who wish to make use of virtual-importing measures under Article 32 paragraph 6 of the 99/09 Law. In particular, the existing contract has been changed, as provided by the previous Resolution 666/2015/R/eel (*Amendment to Authority Resolution ARG/elt 179/09, in accordance with the provisions of the Stability Law 2016*), to take account of the changes introduced by the Stability Law 2016.

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

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

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

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

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

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

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

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

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

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

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

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

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



# **An Asset for the Country**





[www.terna.it](http://www.terna.it)

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