SEPARATE FINANCIAL STATEMENTS

Financial statements

Income Statement of Terna S.p.A.

Terna S.p.A. - INCOME STATEMENT € million	Notes	2015	2014
A - REVENUE			
1. Revenue from sales and services	1	1,717,471,308	1,710,026,003
of which: related parties		1,582,051,701	*1,463,628,589*
2. Other revenue and income	2	83,468,488	78,070,051
of which: related parties		*46,896,202*	*32,056,949*
Total revenue		**1,800,939,796**	**1,788,096,054**
B - OPERATING EXPENSES			
1. Raw materials and consumables	3	8,223,687	5,706,964
of which: related parties		*2,904*	*27,777*
2. Services	4	341,657,963	375,246,686
of which: related parties		*303,151,141*	*315,805,378*
3. Personnel expenses	5	44,818,105	87,934,164
- gross personnel expenses		*47,078,064*	*89,729,100*
- gross personnel expenses, capitalised		*(2,259,959)*	*(1,794,936)*
of which: related parties		*622,843*	*545,092*
4. Amortisation, depreciation and impairment	6	456,500,108	426,650,701
5. Other operating expenses	7	32,308,997	34,175,542
of which: related parties		*17,869*	*254,176*
Total expenses		**883,508,860**	**929,714,057**
A-B OPERATING PROFIT		***917,430,936***	***858,381,997***
C - FINANCIAL INCOME/EXPENSE			
1. Financial income	8	19,062,715	39,718,485
of which: related parties		*5,295,096*	*16,278,507*
2. Financial expense	8	(154,119,655)	(160,937,674)
of which: related parties		*(6,178,821)*	*(9,858,533)*
D - PROFIT BEFORE TAXES		**782,373,996**	**737,162,808**
E - INCOME TAXES OF THE YEAR	**9**	**262,543,430**	**286,758.90**
F - PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**519,830,566**	**450,403,902**
G - NET PROFIT FOR THE YEAR FROM DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE	**10**	**7,282,532**	**-**
H - NET PROFIT FOR THE YEAR		**527,113,098**	**450,403,902**

Statement of Comprehensive Income of Terna S.p.A.

Terna S.p.A. - STATEMENT OF COMPREHENSIVE INCOME *€ million*	Notes	2015	2014
PROFIT FOR THE YEAR		**527,113,098**	**450,403,902**
Other comprehensive income for the year which will subsequently be released to the income statement:			
- *Cash flow hedges* net of tax effect	20	21,321,951	27,306,461
Other comprehensive income for the year which will not subsequently be released to the income statement:			
- Actuarial gains (losses) on employee benefits net of tax effect	20	4,922,820	(7,075,450)
COMPREHENSIVE INCOME FOR THE YEAR		**553,357,869**	**470,634,913**

Statement of Financial Position of Terna S.p.A.

Terna S.p.A. - STATEMENT OF FINANCIAL POSITION - ASSETS			
€ million	Notes	at 31.12.2015	at 31.12.2014
A - NON-CURRENT ASSETS			
1. Property, plant and equipment	11	10,141,855,027	9,576,992,660
of which: related parties		*73,784,527*	*17.1*
2. Goodwill	12	88,577,142	88,577,142
3. Intangible assets	13	247,658,618	257,556,128
4. Equity-accounted investees	14	2,162,055,434	1,467,156,624
5. Non-current financial assets	15	3,582,801	2,841,680
Total non-current assets		**12,643,729,022**	**11,393,124,234**
B - CURRENT ASSETS			
1. Inventories	16	-	688,982
2. Trade receivables	17	1,285,832,679	1,535,444,643
of which: related parties		*367,406,640*	*326,961,868*
3. Current financial assets	14	68,061,270	63,430,693
of which: related parties		*3,859,436*	*204,408*
4. Cash and cash equivalents	18	435,316,242	1,380,081,564
of which: related parties		*25,351,672*	*181,134,889*
5. Income tax assets	19	21,975,400	20,799,820
6. Other current assets	15	139,126,569	15,964,929
Total current assets		**1,950,312,160**	**3,016,410,631**
TOTAL ASSETS		**14,594,041,182**	**14,409,534,865**

Statement of Financial Position of Terna S.p.A.

Terna S.p.A. - STATEMENT OF FINANCIAL POSITION - LIABILITIES *€ million*	Notes	at 31.12.2015	at 31.12.2014
C - EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
1. Share capital		442,198,240	442,198,240
2. Other reserves		832,330,687	806,085,916
3. Retained earnings		1,247,143,719	1,198,738,217
4. Interim dividend		(140,699,440)	(140,699,440)
5. Profit for the year		527,113,098	450,403,902
Total Equity	20	**2,908,086,304**	**2,756,726,835**
D- NON-CURRENT LIABILITIES			
1. Long-term loans	21	8,509,914,842	8,078,074,278
of which: related parties		*500,000,000*	*500,000,000*
2. Employee benefits	22	27,083,425	33,969,125
3. Provisions for future risks and charges	23	157,815,063	171,506,082
4. Deferred tax liabilities	24	31,319,661	52,489,776
5. Non-current financial liabilities	21	6,382,372	29,864,885
6. Other non-current liabilities	25	49,936,449	68,746,114
Total non-current liabilities		**8,889,265,998**	**8,547,034,033**
E - CURRENT LIABILITIES			
1. Short-term loans	21	398,250,000	-
2. Current portion of long-term loans	26	120,674,482	762,437,379
3. Trade payables	29	1,984,111,162	2,004,350,908
of which: related parties		*444,232,702*	*526,560,255*
4. Tax liabilities	29	18,497,883	872,937
5. Current financial liabilities	24	127,086,272	154,117,082
of which: related parties		*802,569*	*965,069*
6. Other current liabilities	29	148,069,081	183,995,691
of which: related parties		*43,036,066*	*64,055,919*
Total current liabilities		**2,796,688,880**	**3,105,773,997**
TOTAL LIABILITIES AND EQUITY		**14,594,041,182**	**14,409,534,865**

Statement of changes in equity

31 DECEMBER 2014–31 DECEMBER 2015

€ million	SHARE CAPITAL AND RESERVES OF TERNA S.P.A. Share capital	Legal reserve	Share premium reserve	*Cash-flow-hedge reserve*
EQUITY AT 31 DECEMBER 2014	442.2	88.4	20.0	(26.0)
NET PROFIT FOR THE YEAR				
OTHER COMPREHENSIVE INCOME:				
Change in *fair value of cash flow hedging* derivatives net of tax effect				21.3
Actuarial gains (losses) on employee benefits net of tax effect				
Total other comprehensive income	-	-	-	21.3
COMPREHENSIVE INCOME	-	-	-	21.3
TRANSACTIONS WITH EQUITY OWNERS:				
Allocation of 2014 profit				
- Dividends				
- Retained earnings				
Interim dividend 2015				
Total transactions with equity owners and other transactions	-	-	-	-
EQUITY AT 31 December 2015	442.2	88.4	20.0	(4.7)

31 DECEMBER 2013–31 DECEMBER 2014

€ million	SHARE CAPITAL AND RESERVES OF TERNA S.P.A. Share capital	Legal reserve	Share premium reserve	*Cash-flow-hedge reserve*
EQUITY AT 31 December 2013	442.2	88.4	20.0	(53.3)
NET PROFIT FOR THE YEAR				
OTHER COMPREHENSIVE INCOME:				
Change in *fair value of cash flow hedging* derivatives net of tax effect				27.3
Actuarial gains (losses) on employee benefits net of tax effect				
Total other comprehensive income	-	-	-	27.3
COMPREHENSIVE INCOME	-	-	-	27.3
TRANSACTIONS WITH EQUITY OWNERS:				
Allocation of 2013 profit				
- Dividends				
- Retained earnings				
Interim dividend 2014				
Transfer to Terna Plus				
Total transactions with equity owners and other transactions	-	-	-	-
EQUITY AT 31 DECEMBER 2014	442.2	88.4	20.0	(26.0)

	Other reserves	Retained earnings and losses	Interim dividend	Profit for the year	Equity
	723.7	1,198.7	(140.7)	450.4	2,756.7
				527.1	527.1
					21.3
	5.0				5.0
	5.0	-	-	-	26.3
	5.0	-	-	527.1	553.4
			140.7	*(402.0)*	*(261.3)*
		48.4		*(48.4)*	-
			(140.7)		(140.7)
	-	48.4	-	(450.4)	(402.0)
	728.7	1,247.1	(140.7)	527.1	2,908.1

	Other reserves	Retained earnings	Interim dividend	Profit for the year	Equity
	730.8	1,145.9	(140.7)	454.8	2,688.1
				450.4	450.4
					27.3
	(7.1)				(7.1)
	(7.1)	-	-	-	20.2
	(7.1)	-	-	450.4	470.6
			140.7	*(402.0)*	*(261.3)*
		52.8		*(52.8)*	-
			(140.7)		(140.7)
	-	52.8	-	(454.8)	(402.0)
	723.7	1,198.7	(140.7)	450.4	2,756.7

Statement of cash flows*

TERNA S.p.A. - STATEMENT OF CASH FLOWS *€ million*	2015	2014
PROFIT FOR THE YEAR	527.1	450.4
ADJUSTMENTS FOR:		
Amortisation, depreciation, impairment losses/(reversals of impairment losses) on property, plant and equipment and intangible assets**	441.7	408.0
Provisions (including employee-related provisions) and impairment losses	39.4	79.2
(Gains)/Losses on disposals of property, plant and equipment	(1.6)	(1.8)
Financial (income)/expense	137.4	120.4
Income taxes	262.6	286.8
CASH FLOWS GENERATED BY OPERATING ACTIVITIES, BEFORE CHANGES IN NET WORKING CAPITAL	**1,406.6**	**1,343.0**
Increase/(Decrease) in provisions (including employee-related and tax provisions)	(51.2)	(34.8)
(Increase)/decrease in inventories	0.7	-
(Increase)/decrease in trade receivables and other current assets	123.0	212.4
Increase/(decrease) in trade payables and other current liabilities	(50.0)	37.4
Increase/(decrease) in other non-current liabilities	(2.4)	(1.9)
(Increase)/decrease in other non-current assets	(18.8)	(3.1)
Interest income and other financial income received	138.8	175.7
Dividend received	1.1	2.5
Interest expense and other financial expense paid	(319.7)	(323.5)
Income taxes paid	(276.4)	(371.3)
***CASH FLOWS* GENERATED BY OPERATING ACTIVITIES [A]**	**951.7**	**1,036.4**
Investments in property, plant and equipment, net of recognised grants	(948.8)	(963.1)
Revenue from sale of property, plant and equipment and other changes	3.4	3.4
Investments in non-current intangible assets, net of grants received	(44.2)	(47.1)
Capitalised borrowing costs	28.3	34.0
Intra-group transactions	(17.1)	(1.7)
Asset acquisition	-	(9.0)
(Increase)/decrease in equity interests	(789.8)	-
CASH FLOWS USED IN INVESTING ACTIVITIES [B]	**(1,768.2)**	**(983.5)**
Dividends paid	(402.0)	(402.0)
Change in short and medium/long-term financial payables (including short-term portions)***	277.6	390.6
Change in receivable short-term loans	(3.7)	-
CASH FLOWS GENERATED BY FINANCING ACTIVITIES [C]	**(128.1)**	**(11.4)**
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS [A+B+C]	**(944.6)**	**41.5**
Opening cash and cash equivalents	1,380.0	1,338.5
Closing cash and cash equivalents	435.4	1,380.0

* For comments on the Statement of Cash Flows, please see the section “Notes to the Statement of Cash Flows” in the “NOTES TO THE FINANCIAL STATEMENTS”.
** Net of set-up grants taken to income statement for the year.
*** Net of FVH derivatives.

Notes to the Financial Statements

A. Accounting policies and measurement criteria

Introduction

Terna S.p.A., which operates in the electrical energy transmission and dispatching sector, is a joint-stock company with headquarters at Viale Egidio Galbani 70, Rome, Italy.
These Separate financial statements were authorised for publication by the Directors on 21 March 2016.
The Separate Financial Statements at and for the year ended 31 December 2015 are available upon request at the Terna S.p.A. registered offices in Viale Egidio Galbani 70, Rome, or on the company's website www.terna.it.
The Board of Directors has authorised the Chairwoman and Chief Executive Officer to make any formal alterations to the Separate Financial Statements and any additions and adjustments to the chapters concerning significant subsequent events, as may be necessary.

Compliance with IAS/IFRS

The Separate Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), endorsed by the European Commission ("IFRS-EU") at that date.
This document has also been prepared taking into account the provisions of Legislative Decree No. 38 of 28 February 2005, the Italian Civil Code and CONSOB Resolutions Nos. 15519 ("*Provisions governing financial statements in implementation of Art. 9, paragraph 3, of Legislative Decree No. 38/2005*") and 15520 ("*Amendments to the implementing rules for Legislative Decree No. 58/1998*"), both of 27 July 2006, as well as CONSOB Communication No. DEM/6064293 of 28 July 2006 ("*Disclosure requirements for listed issuers and issuers of financial instruments that are widely held among the public pursuant to Art. 116 of the Consolidated Law on Finance*").
The separate financial statements have been prepared on a historical cost basis, modified where necessary for certain financial instruments, as well as on a going concern basis. The Company, in fact, has determined that, despite the challenging economic and financial environment, it does not face material uncertainties (as defined in paragraph 25 of IAS 1R) that might cast doubt on its ability to continue as a going concern.

Basis of presentation

The separate financial statements consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity and the Notes to the Statements. In the Statement of Financial Position, assets and liabilities are classified on a "current/non-current" basis, with separate reporting of assets and liabilities held for sale. Current assets, which include cash and cash equivalents, are those held for realisation, sale or consumption in the Company's normal operating cycle. Current liabilities are those expected to be settled in the Company's normal operating cycle or within one year from the reporting date.
The Income Statement is classified on the basis of the nature of costs. The Income Statement is presented as two statements, the first of which (Income Statement) presents the components of profit or loss for the year; while the second (Statement of Comprehensive Income) starts with the result for the year and then presents the revenue and expense items (including reclassification adjustments) that are recognised in equity rather than profit or loss for the year.

The Statement of Cash Flows has been prepared using the indirect method.
The Separate Financial Statements are accompanied by the Directors' Report on Operations for the company and Group, which as from the 2008 financial year has been prepared as a single document, exercising the option granted under Italian Legislative Decree No. 32 of 2 February 2007, which amended Art. 40 (Directors' Report on Operations) of Italian Legislative Decree No. 127 of 9 April 1991.
The Separate Financial Statements have been prepared in euro, while the figures in the notes are given in millions of euro, unless otherwise specified.
The Separate Financial Statements have been prepared using the historical cost method, with the exception of items that are recognised at fair value in accordance with the IFRSs-EU, as indicated in the accounting policies for each item.
We must specify that some balances of the financial statements at 31 December 2014, provided for comparison, have been restated, without, however, altering the equity figures at 31 December 2014 and those of the Income Statement for 2014.

Use of estimates

Preparation of the statement of financial position and Income Statement in accordance with the IFRSs-EU requires the use of estimates and assumptions that affect the carrying amounts of assets and liabilities and related disclosures, in addition to contingent assets and liabilities at the reporting date. The estimates and associated assumptions are based on previous experience and various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other objective sources. Actual results may, therefore, differ from these estimates. The estimates and underlying assumptions are reviewed periodically and the effects of any changes are recognised in the Income Statement for the period, if they relate solely to that period. In the case that the revision affects both current and future years, the change is recorded in the year in which the estimate is reviewed as well as in the relative future years.
The critical areas for key estimates and assumptions used by management in applying the IFRSs endorsed by the European Commission that could have significant effects on the Separate Financial Statements or that could give rise to risks that would entail significant adjustments to the carrying amount of assets and liabilities in subsequent years are summarised below.

Current taxes and adjustment of deferred tax assets and liabilities
We can note that the Stability Law for 2016 (Italian Law No. 208 of 28 December 2015) provided for a reduction in the IRES rate (Art. 1 paragraphs 61–64), starting from 2017, from 27.5% to 24% for entities not classified as credit or financial institutions.
Based on this regulatory framework, the Terna Group adjusted pre-paid and deferred tax liabilities, at the rate foreseen at the time of the payment (24%, without application of the additional RHT); this adjustment had a positive impact on the Income Statement of around € 4.2 million.

Employee benefits
The liability for employee benefits paid upon or following termination of employment in relation to defined benefit plans or other long-term benefits is recognised net of any plan assets and is measured on the basis of actuarial assumptions, estimating the amount of future benefits that employees have vested at the reporting date. The actuarial valuations used to quantify employee benefits (of all plans except termination benefits) were made on the basis of the "vested benefits" method by means of the "Projected Unit Credit" (PUC) criterion. These valuations are based on economic and demographic assumptions: discounting rate (used to determine the present value of the obligation, determined considering the return of high quality bond securities in line with the duration of the group of workers measured), inflation rate, rate at which future salary levels increase, increase rate of average health reimbursement, increase rate of electrical consumer goods prices and demographic techniques, such as, for example, mortality and invalidity, retirement, resignation, advances and family members.

Provisions for risks and charges

Liabilities that can be associated with legal and tax disputes and liabilities associated with town planning and environmental requalification projects are estimated by the company management. The measurement of provisions for legal disputes is based on the probability of incurring an expense, including the use of external lawyers supporting the Company; the estimate of provisions to be set aside for town planning and environmental requalification projects, the so-called "offsets" aimed at offsetting the environmental impact of the development of electrical lines, is based on an analysis of the agreements signed with local entities involved and the progress of activities on the development of the new power lines. Where the time value of money is significant, provisions are discounted, using a rate that company management believes to be appropriate (a pre-tax rate is used, so as to reflect current market values of money and the specific risks connected with the liability). After initial recognition, the value of the risk provision is updated to reflect the passing of time and any changes in the estimate following alterations to the amounts envisaged, the timing and the discount rates used. Any increase in provisions associated with the passage of time is recognised in the Income Statement under "Financial expense".

Impairment losses

Property, plant and equipment and intangible assets with finite useful lives are tested at least once a year to check for evidence of impairment. If there is an indication that an asset may be impaired, its recoverable amount is estimated.

The recoverable amount of goodwill and intangible assets with indefinite useful lives, where present, as well as intangible assets not yet available for use, is estimated at least annually. The recoverable amount is equal to the greater of the fair value less costs to sell and value in use. Value in use is measured by discounting estimated future cash flows considering information available at the time of estimate and on the basis of subjective assessments of the performance of future variables, such as prices, costs, demand growth rates, production profiles, and discounted at a pre-tax rate that reflects current market assessment of the time value of money for the investment period and risks specific to the asset. If the intangible asset does not generate cash inflows that are largely independent, the asset's recoverable amount is calculated as part of the CGU to which it belongs. An impairment loss is recognised in the Income Statement when the asset's book value, or the net invested capital of the CGU to which it belongs, is greater than its recoverable amount. Impairment losses of CGUs are first taken as a reduction in the carrying amount of any allocated goodwill and then as a reduction in other assets of the CGU on a pro rata basis. Except for goodwill, impairment losses may be reversed up to the recoverable amount if there is an indication that the impairment loss no longer exists or when there is a change in the methods used to measure recoverable amount.

Allowance for doubtful accounts

Trade receivables are initially recognised at fair value net of any impairment losses relating to sums considered non-recoverable, which are taken to the specific Allowance for doubtful accounts. Impairment losses are measured on the basis of the present value of estimated future cash flows, discounted at the original effective interest rate.

Investments in subsidiaries and associates

Investments in subsidiaries are those in entities over which Terna has the power to directly or indirectly govern financial and operating policies so as to obtain benefits from their activities. Investments in associates are those in entities over which Terna has significant influence. In assessing whether or not the Company has control or significant influence, potential voting rights that are presently exercisable or convertible are considered. Investments in subsidiaries and associates are measured at cost, reduced to reflect impairment losses. If the reasons for the impairment losses no longer exist, the carrying amount of the investment is reinstated within the limits of the impairment losses, and the reversal is taken to the Income Statement. In the event that an investee's losses attributable to the shareholders of the Parent Company exceed that investments' carrying amount, any excess is recognised in a specific provision, where the Parent Company is required to meet the legal or construction obligations of the investee or, in any case, to cover its losses.

Translation of foreign currency items

Terna S.p.A. prepares its financial statements in euro, which is also the functional currency. In these financial statements, all transactions in currencies other than the functional currency are recognised at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities in currencies other than the functional currency are subsequently adjusted at the exchange rate prevailing at year end. Any exchange rate differences are taken to the Income Statement.
Non-monetary assets and liabilities in foreign currency stated at historic cost are converted at the exchange rate prevailing when the transaction was initially recognised. Non-monetary assets and liabilities in foreign currency stated at fair value are converted at the exchange rate prevailing when fair value was measured.

Property, plant and equipment

Property, plant and equipment are recognised at historical cost, including costs directly attributable to putting the asset in the condition necessary for it to be capable of operating in the manner for which it was acquired. In the event of legal or constructive obligations, cost also includes the present value of the estimated cost of disposal or removal of the asset. The corresponding liability is recognised in provisions for risks and charges. Borrowing costs directly attributable to the acquisition, construction or production of an asset that qualify for capitalisation pursuant to IAS 23 are capitalised as part of the cost of the asset. For more information, please see the section “Financial income and expense” below. Costs incurred after purchase are recognised as an increase in the carrying amount of the asset to which they relate if it is probable that the future benefits of that cost will flow to the Company and if the cost can be reliably measured. All other costs are recognised in the Income Statement when incurred.
Each element of an item of property, plant and equipment of material value, with respect to the total value of the item to which it belongs, is recognised and depreciated separately.
Certain assets that were revalued at 1 January 2005 (transition date), or previously, are recognised at the revalued amount, which is considered deemed cost at the date of the revaluation.
Property, plant and equipment are shown net of accumulated depreciation and any impairment losses, which are measured as described below. Depreciation is calculated on a straight-line basis over the estimated useful economic life of the asset, which is reviewed annually, with revisions applied on a prospective basis. The depreciation of assets begins when the assets become available for use.
Liabilities associated with items of property, plant and equipment are taken to a specific provision as a balancing entry to the related asset. The amount is taken to the Income Statement through the depreciation of the asset.

The main depreciation rates calculated on the basis of the related asset's useful life are as follows.

DEPRECIATION RATES	
Civil and industrial buildings	2.50%
Transmission lines	2.50%
TRANSFORMER SUBSTATIONS:	
- Electrical machinery	2.38%
- Electrical devices and equipment	3.13%
- Automation and Control systems	6.70%
CENTRAL SYSTEMS FOR REMOTE MANAGEMENT AND CONTROL:	
- Devices, electrical equipment and ancillary plants	5.00%
- Electronic calculation equipment	10.00%

Land, regardless of whether it is free of construction or related to civil and industrial buildings, is not depreciated, since it has an indefinite useful life.
Property, plant and equipment acquired under finance leases - and through which the Group has substantially acquired all the risks and rewards of ownership - are recognised as Group assets at the lower of fair value and the present value of minimum lease payments due, including any amounts to be paid to exercise the purchasing option. The corresponding liability to the lessor is recognised under financial payables. Assets are depreciated using the criteria and rates described above. If the company is not reasonably certain that it will acquire ownership at the end of the lease, the asset is depreciated over the shorter of the term of the lease and the asset's useful life. Leases in which the lessor maintains substantially all the risks and rewards of ownership are classified as operating leases. Costs related to operating leases are taken in full to profits or losses over the term of the lease.

Intangible assets

Intangible assets, which all have finite useful lives, are recognised at cost, having obtained, if necessary, the approval of the Board of Statutory Auditors, and shown net of accumulated amortisation and any impairment losses, measured as described below.
Amortisation begins when the asset becomes available for use and is calculated on a straight-line basis over the estimated useful life of the related asset, which is reviewed annually. Any revisions to estimated figures are applied on a prospective basis.
Intangible assets essentially regard the exclusive concession to carry out electricity transmission and dispatching activities and other intangible assets. In particular, the Parent Company Terna S.p.A. obtained the concession for electricity transmission and dispatching activities in Italy on 1 November 2005 when it acquired the TSO business unit. As established in the Decree issued by the Ministry of Productive Activities on 20 April 2005, this concession runs for twenty-five years, renewable for another twenty-five years, from the date of effective transfer of the activities, functions, assets and legal arrangements of the concession from GSE (formerly GRTN) to Terna S.p.A. This intangible asset was initially recognised at cost, which reflected fair value.
Other non-current intangible assets mainly relate to the following:
- the development and innovation of software applications to manage the electricity invoicing process;
- the development and innovation of software applications to protect the electrical system;
- software applications related to the development of the Power Exchange, particularly relating to the registration of operators, consumption units and the development of foreign procedures.

Development costs are capitalised by the Company only if all following conditions are met: costs can be reliably estimated and there are technical possibilities and intent to complete the intangible asset so as for it to be available after use; the asset can be used and it is possible to demonstrate that it will generate probable future economic benefits. Financial expense directly attributable to the acquisition, construction or production of a non-current asset which justifies capitalisation pursuant to IAS 23 are capitalised as part of the cost of the asset.
For more information, please see the section “Financial income and expense” below.
All other development costs and research expenses are recognised in the Income Statement when incurred. These intangible assets are amortised over their estimated residual useful life, which is normally three years, given their rapid obsolescence.

Infrastructure rights
These include the property, plant and equipment and intangible assets employed in the dispatching activity, carried out under concession, which fall within the scope of application of IFRIC 12, since the relevant criteria apply: the services provided are regulated and control exists over the residual interest. More specifically, in view of the fee structure for dispatching activities, the Intangible Asset model has been applied, as provided for in the Interpretation.
The revenue and costs relating to investment in dispatching activities are recognised with reference to the contracts concerned on a stage-of-completion basis; revenue recognised during the construction phase is limited to the amount of the internal and external construction costs incurred, considering that the fair value of the construction services is equivalent to the construction cost paid to third-party contractors plus the internal cost of the technical personnel employed on such construction activities. The assets continue to be amortised and depreciated in accordance with the initial schedule.
By contrast, fee revenue continues to be recognised in accordance with IAS 18 and financial expense continues to be capitalised pursuant to IAS 23.
IFRIC 12, instead, is not applicable to the Company’s concession for the part relating to the transmission activities, since neither the concession nor related legislation envisage that the NTG will return to public ownership, either via the payment of an indemnity or otherwise.

Goodwill

Goodwill arising from the acquisition of subsidiaries is allocated to individual or groups of identified Cash Generating Units (CGU). The CGUs identified coincide with the Group companies that own electricity transmission grids. Goodwill is not amortised after initial recognition. It is adjusted to reflect impairment losses, measured as described below. Goodwill relating to investments in associates and joint ventures is included in the carrying amount of those companies. Where negative goodwill arises, it is recognised in the Income Statement at the time of acquisition.

Inventories

Inventories are recognised and measured at the lower of purchase cost and net estimated realisable value. Cost is calculated as the weighted average, including the accrued ancillary expenses. Net estimated realisable value means the estimated price of sale under normal conditions net of completion costs and the estimated costs to sell.

Contract work in progress

When the result of work done to order can be reliably estimated, the related contract costs and revenue are recognised separately in the Income Statement on a percentage of completion basis. Progress is determined based on the work carried out and measured proportionally to the ratio of costs for the works carried out up to the reporting date and total cost of the contract (cost-to-cost method).

Differences between the value of completed contracts and payments on account received are recognised under Statement of Financial Position assets or liabilities, considering any impairment losses on the work carried out so as to take into account the risks of customers' refusal to recognise the work performed. Expected contract losses are immediately taken to the Income Statement.
Contract costs include all those costs that relate directly to the specific contract, as well as fixed and variable costs incurred by the Company as part of normal operations.

Financial instruments

Financial assets
Any financial assets other than derivative financial instruments that the Company has the positive intention and ability to hold to maturity are recognised at cost at the settlement date, which is the fair value of the initial consideration given in exchange, including transaction costs. They are subsequently measured at amortised cost, using the effective interest method, net of any impairment losses, which are determined as the lower of the asset's carrying amount and the present value of estimated future cash flows, discounted using the original interest rate. Financial assets are derecognised when, following their transfer or settlement, the Company is no longer involved in their management and no longer holds the risks and rewards of the transferred or settled instruments.

Trade receivables
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method, and net of any impairment losses due to sums considered non-recoverable, which are taken to the specific allowance for impairment. Impairment losses are measured on the basis of the present value of estimated future cash flows, discounted at the original effective interest rate.
Receivables with due dates that fall under normal commercial terms are not discounted.

Cash and cash equivalents
Cash and cash equivalents are stated at nominal value. They include monetary items, i.e. amounts that are available on demand or very quickly, subject to an insignificant risk and without collection costs.

Trade payables
Trade payables are initially recognised at fair value and subsequently stated at amortised cost. If their due date falls under normal commercial terms, they are not discounted.

Financial liabilities
Financial liabilities other than financial derivatives are recognised at the settlement date and measured at fair value, net of directly related transaction costs. Subsequently, financial liabilities are measured at amortised cost, using the original effective interest method. If the liabilities are covered by fair value hedges, they are adjusted to reflect changes in fair value with respect to the hedged risk.

Derivative financial instruments

Derivatives are recognised at fair value at the trade date and classified as hedges if the relationship between the derivative and the hedged item is formally documented and the hedge is highly effective within a range of 80% to 125%, as initially verified and periodically checked. When derivatives cover the risk of changes in the cash flows of the hedged instruments (cash flow hedges), the part of changes in the fair value qualifying as effective is initially recognised in the statement of comprehensive income and subsequently in the Income Statement, in line with the effects of the hedged transaction. The portion of the fair value of the hedging instrument that does not qualify as effective is taken to the Income Statement.

When hedging derivatives cover the risk of changes in the fair value of hedged instruments (fair value hedges), they are recognised at fair value in the Income Statement. Accordingly, the hedged items are adjusted to reflect changes in the fair value associated with the hedged risk. Changes in the fair value of derivatives that do not meet hedge accounting requirements are recognised in the Income Statement.

The fair value of instruments not traded in regulated markets is measured by discounting projected cash flows along a yield curve of interest rates at the reporting date, and by converting amounts in currencies other than the euro at the year-end exchange rate.

Financial and non-financial contracts (which are not already measured at fair value) are also analysed to identify any embedded derivatives, which must be separated and measured at fair value.

This analysis is conducted at the time the entity becomes party to the contract or when the contract is renegotiated in a manner that produces a material change in the original associated cash flows. The measurement techniques used for derivatives existing at year end did not change with respect to the previous year. Accordingly, the effects in the Income Statement and in the statement of comprehensive income of these measurements are essentially attributable to normal market developments, as well as new derivative contracts signed during the year.

Employee benefits

The liability in respect of employee benefits payable upon or after termination of employment relates to defined benefit plans (Termination Benefits, additional month's pay[39], indemnity for lack of notice[40], energy discount, ASEM health benefits and other benefits) or other long-term employee benefits (loyalty bonus) and is recognised net of any plan assets. It is measured separately for each plan on the basis of actuarial calculations that estimate the amount of future benefits that employees have accrued at the reporting date. The liability is recognised on an accruals basis over the vesting period. It is measured by independent actuaries.

Provisions for risks and charges

Provisions set aside for risks and charges are recognised when, at the reporting date, the Company has a legal or constructive obligation towards others as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, provisions are measured by discounting estimated future cash flows using a pre-tax discount rate that reflects current market assessment of the time value of money and the specific risk applicable to the liability, if present. Where discounting is used, the increase in the provisions due to the passage of time is recognised in the Income Statement as financial expense. If the liability relates to property, plant and equipment (site disposal and restoration, for example), the provision is recognised as a balancing entry to the asset to which it relates. The expense is recognised in the Income Statement through depreciation of the item of property, plant and equipment to which it relates. Changes in the estimate are recognised within the Income Statement for the year in which the change occurs, except for costs expected for dismantling, removal and reclamation, which come as a result of changes in the timing and use of the economic resources necessary to extinguish the obligation or attributable to a material change in the discount rate, which are recognised as an increase or reduction of the related assets and recognised in the Income Statement through depreciation.

(39) Additional months' pay.
(40) Indemnity for lack of notice.

Grants

Grants received in relation to specific assets whose value is recognised under property, plant and equipment are recognised under other liabilities and taken to the Income Statement over the depreciation period of the related assets. Grants for operating expenses are expensed in full when the recognition requirements are satisfied.

Revenue

Revenue is recognised when it is probable that the economic benefits deriving from the operation will be used by the enterprise. Depending on the type of transaction, revenue is recognised on the basis of the following specific criteria:

- revenue from the sale of goods is recognised when the material risks and rewards of ownership of the goods have been transferred to the buyer and their total amount can be reliably determined and collected;
- revenue from services rendered is recognised with reference to the stage of completion of the transaction. If revenue cannot be reliably measured, it is recognised to the extent of recoverable costs;
- revenue accrued during the year in respect of contract work in progress is recognised on the basis of the payments agreed for the progress of works using the cost-to-cost method. In addition to contractual payments, project revenue includes any payments in respect of variations, price revisions and incentives, with the latter recognised where it is probable that they will actually be earned and can be reliably determined. Revenue is also adjusted for any penalties for delays attributable to the companies;
- when the recovery of an amount already recognised in revenue is uncertain, the non-recoverable value or the amount whose recovery is no longer probable is recorded as a cost, with recognition of a balancing entry in provisions for risks and charges;
- amounts collected on behalf of third parties, such as the fees paid to non-Terna grid owners, as well as revenue recognised for managing activities related to the balancing of the national electrical system, which do not increase equity, are reported net of the related costs (so-called pass-through energy items). This reporting method, which reflects the substance of transactions by offsetting revenue with the related costs arising from the “same transaction”, is discussed in full in the specific section of the Notes to the Financial Statements.

Financial income and expense

Financial expense directly attributable to the acquisition, construction or production of an asset that qualifies for capitalisation are capitalised as part of the cost of the asset. The property, plant and equipment and intangible assets involved are those that require at least one year before being ready for use. The directly attributable financial expense is that which would not have been incurred if the expenditure for the asset had not been incurred.
Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings. Where funds are raised through general borrowing, the eligible amount is determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate will be the weighted average of the financial expense applicable to the general pool, excluding any specifically borrowed funds. The amount of financial expense capitalised during a year shall in any case not exceed the amount of financial expense incurred during that year.
Capitalisation commences as from the date all the following conditions have been met: (a) expenditures have been incurred for the asset; (b) financial expense have been incurred; and (c) activities to prepare the asset for its intended use or sale are in progress.

Capitalisation ceases when the activities necessary to prepare the asset for its intended use or sale are substantially complete. The capitalisation rate used for 2015 amounts to 2.05% and that for 2014 amounts to 2.51%. Financial income and expense other than capitalised amounts are recognised on an accruals basis in respect of the interest on the net value of the related financial assets and liabilities using the effective interest rate.

Dividends

Dividends from investee companies are recognised when the shareholders' right to receive payment is established. Dividends and interim dividends payable to shareholders are shown as changes in equity at the date in which they are approved by the Shareholders' Meeting and the Board of Directors, respectively.

Income taxes

Current income taxes are recognised as "Tax liabilities", net of advances paid, or "Tax assets" where the net balance of the items is positive. They are based on the estimated taxable income and in accordance with current legislation, taking account of applicable exemptions.
Deferred tax assets and liabilities are calculated on the temporary differences between the carrying amounts of assets and liabilities recognised in the Separate Financial Statements and the corresponding amounts recognised for tax purposes, using current tax rates or the rates expected to be in effect when the temporary differences reverse, based on current rates or those that are substantially approved at the reporting date.
Deferred tax assets are recognised when their recovery is considered probable, i.e. when future taxable income will be available against which the asset can be used. The recoverability of deferred tax assets is reviewed at each year end. Deferred tax liabilities are recognised in any case if they exist. Taxes relating to items recognised directly in the statement of comprehensive income are also allocated to the statement of comprehensive income.

New standards

International accounting standards taking effect from 01 January 2015

A number of new accounting standards and a number of amendments to the accounting standards already applicable came into force as from 01 January 2015, with these having no impact on the Company. Specifically, we note:

Interpretation IFRIC 21 - Levies

On 14 June 2014, the interpretation IFRIC 21 – Levies was endorsed by the European Commission. This clarifies when to recognise a liability for a levy imposed by a government, with the exclusion of income taxes.

Improvements to IFRSs (2011–2013 Cycle)

On 18 December 2014 the European Commission endorsed the annual Improvements related to the 2011–2013 cycle, which make minor amendments to the standards IFRS 3, IFRS 13 and IAS 40.

International financial reporting standards endorsed but not yet in force

As of the date these financial statements were prepared, the European Commission has endorsed certain some new accounting standards and amendments to existing accounting standards. The possible impact of their application on the financial statements of the Terna Group is being evaluated. These accounting standards are listed below.

Amendment to IAS 19 – Defined Benefit Plan: Employee Contributions

On 17 December 2014 the European Commission endorsed the amendment to IAS 19 which enables recognition of contributions paid by employees to reduce the service costs of a defined benefit plan for employees. The amendment came into effect from 1 January 2016.

Improvements to IFRSs (2010–2012 Cycle)

Endorsed by the European Commission on 17 December 2014, the Annual *Improvement* was approved relative to the 2010–2012 cycle, incorporating changes to the standards IFRS 2, IFRS 3, IFRS 8, IAS 16, IAS 24, IAS 37, IAS 38 and IAS 39, with effect from 1 January 2016.

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

On 24 November 2015 the European Commission endorsed the amendment to IFRS 11 that clarifies the accounting treatment in the event of acquisitions of interests in a joint operation the activities of which represent a business under the terms of IFRS 3; for the criteria for recognising assets/liabilities reference is made to the provisions of the said IFRS 3. The amendment came into effect from 1 January 2016.

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

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

Improvements to IFRSs (2012–2014 Cycle)

The Annual Improvement related to the 2012–2014 cycle was endorsed on 15 December 2015. This contained minor amendments to a number of standards: IFRS 5, IFRS 7, IAS 19, IAS 34, with effect from 01 January 2016.

Amendments to IAS 27 – Equity Method in Separate Financial Statements

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

Amendments to IAS 1 – Disclosure Initiative

As part of the “Disclosure Initiative” project, on 18 December 2015 an amendment to IAS 1 was endorsed; this provides some clarifications on the disclosure obligation provided for in the amended standard. In the short term the project provides for limited changes to aspects regarding materiality, disaggregation of accounting items, structure of the Notes to the Financial Statements and disclosure on debt, the Income Statement, OCI and *accounting policies*. In the medium term the Board’s intention is to arrive at a new IFRS to replace IAS 1 (Presentation of Financial Statements), IAS 7 (Statement of Cash Flows) and IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors). The amendment came into effect from 1 January 2016.

International financial reporting standards not yet endorsed

For newly-issued amendments, standards and interpretations that have not yet been endorsed by the EU, but which address issues that affect or could affect the Terna Group, assessments are currently being conducted of the possible impact of their application on its financial statements, taking account of the date on which they take effect. In particular, among these, standards and interpretations that could have an impact on the Company’s financial statements are listed below.

IFRS 15 – Revenue from Contracts with Customers

New standard on accounting for revenue, published by the IASB on 28 May 2014, which replaces IAS 11 and IAS 18. The new standard is valid for all transactions in all sectors and is based on a five-step model: identify the contract with the customer, identify the performance obligations provided for in the contract, determine the transaction price, allocate the transaction price and finally recognise revenue when the performance obligations are satisfied. Performance occurs when control over goods or services underlying the *performance obligation* is passed to the customer. Control is defined as “the ability to direct the use of and obtain substantially all of the remaining benefits from the asset”. The amendment to the new standard was published on 11 September 2015, which postpones the date the principles comes into effect to 01 January 2018.

IFRS 9 - Financial Instruments

On 24 July 2014 the IASB published the final version of the standard IFRS 9 - Financial Instruments. The new standard derives from a complex and articulated process and incorporates the results of the IASB project to replace IAS 39, broken down into the following stages: classification and measurement, derecognition, impairment and hedge accounting. The document published, which supersedes all previous versions of IFRS 9, is to be considered complete and establishes first adoption in financial statements that begin on 1 January 2018 or later. The main changes in the new standard provide, among other things, for a single classification criterion for all types of financial assets, including those that contain embedded derivatives; financial assets will therefore be classified in their entirety and will not be subject to complex separation rules. The new classification criterion for financial instruments is based on the management model adopted by the company to manage financial assets with reference to the collection of cash flows and on the characteristics of the contractual cash flows of the said financial assets. As regards impairment, the model provided for in IAS 39 based on the criterion of incurred loss, which postponed the recognition of losses on receivables to the moment of occurrence of the trigger event, was superseded, as it was considered a weak point. The new IFRS 9 provides for a model characterised by a prospective view, which requires the immediate recognition of losses on receivables expected over the life of the financial instrument, as a trigger event no longer needs to occur for recognition of losses on receivables. The new standard completed, in addition, the stage of the hedge accounting project, except for the rules on macro hedge accounting which will be published later and provides, among the other changes, substantial revision of hedge accounting so as to better reflect risk management activities in the financial statements.

IFRS 16 - Leases

On 13 January 2016 the IASB published the new standard IFRS 16 which governs the accounting for leasing contracts, replacing the previous IAS 17. Among the changes the new standard, overcoming the distinction between operating and financial leasing, bases the accounting presentation on the so-called "right of use" approach, which for the lessee makes the accounting uniform for any type of leasing. At the moment of initial measurement, that is at the date on which the lessor makes the asset available to the lessee, the latter must recognise two asset items with opposite signs: the right to use the asset, among the assets and the payable for the leasing, among the liabilities. IFRS 16 is applicable as from 01 January 2019, but early application is permitted for companies that adopt IFRS 15 (Revenue from contracts with customers).

Amendment to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

On 19 January 2016 the IASB published an amendment to IAS 12 that intends to clarify the recognition of deferred tax assets for losses not recognised in the income statement on financial instruments carried at fair value.

Amendment to IAS 7: Disclosure Initiative

As part of the "Disclosure Initiative" project, on 29 January 2016 an amendment to IAS 7 was published, providing a number of clarifications on the disclosure obligations provided for in preparing the Statement of Cash Flows.

B. Notes to the income statement

Revenue

1. Revenue from sales and services – € 1,717.5 million

The table below details "Revenue from sales and services" for 2015 and 2014.

€ million	2015	2014	Δ
CTR grid transmission fees	1,519.9	1,464.0	55.9
Adjustments for prior year grid transmission fees	(0.2)	4.6	(4.8)
Service quality	(4.7)	33.9	(38.6)
Other energy revenue	151.4	147.7	3.7
Other revenue from sales and services	51.1	59.8	(8.7)
TOTAL	**1,717.5**	**1,710.0**	**7.5**

Grid transmission fees and related adjustment

The item, of € 1,519.7 million, consists of the revenue of the "core business" referred to the remuneration due to the Company for use of the National Transmission Grid. Specifically, the grid transmission fee for Terna S.p.A. reflects the adjustment made for the risks associated with the legal dispute in progress with an operator regarding the tariff regulating mechanism with the Republic of San Marino (€ 10.7 million).
The increase in revenue for transmission services (€ 51.1 million) reflects the updated tariff for 2015 and the positive impact of the mechanism neutralising the volume effect (pursuant to Art. 16 of the Integrated Transmission Text (ITT) 2012–2015), in relation to the reference value set by the Authority for the year 2015, as well as the provision referred to previously regarding the risks associated with a legal dispute in respect of an operator in the electricity market.

Service quality

The item (€ -4.7 million) includes the measurement for the negative performance in the year 2015 calculated on the basis of the RENS service quality regulatory mechanism (€ 6.5 million)[41], as well as the integration of the 2014 RENS premium recorded as a result of Resolution AEEGSI 552/2015/R/eel (€ 1.8 million). The comparative figure (+€ 33.9 million) reflected the positive result associated with service quality for financial year 2014 (€ 17.5 million) and the adjustment of the figure for the RENS bonus recognised in 2013 (€ 16.4 million)

Other energy revenue

This refers to the price paid to the Parent Company by the electricity operators for the dispatching service (DIS component, € 125.2 million) and revenue from the construction and development of dispatching infrastructures recognised following application of IFRIC 12 (€ 26.2 million). We should note that, as specified in the section "A. Accounting policies and measurement criteria", this last revenue corresponds to the costs incurred during the period to purchase raw materials and consumables, and for services and staff which are included in operating expenses. The increase in Other energy revenue for € 3.7 million is mainly attributable to the updated tariff for 2015 relating to the price to cover the costs recognised for Terna operations (€ +7.9 million), mitigated by the effect of lower investments in dispatching infrastructure (revenue down by € 4.2 million).

Other revenue from sales and services

The item "Other revenue from sales and services" amounted to € 51.1 million and for the most part refers to revenue from:

- administrative services to the subsidiaries (€ 29.5 million, of which € 27,6 million for services rendered by Terna Rete Italia S.p.A.);
- diversified specialised activities in the field of high- and very-high voltage, which the company provides third parties clients (for € 14.2 million);
- activities to design international interconnection lines (€ 4.6 million).

(41) In 2015, operation of the system was affected by a number of meteorological events with a high impact in terms of electricity system management and service continuity. In particular on 6 February, on the occasion of heavy snowfalls, there were widespread user blackouts in certain provinces of Lombardy and Emilia Romagna. In March, heavy snowfalls again affected the Abruzzo region, in particular on 5 and 6 March.

The difference in the item (-€ 8.7 million) is mainly due to less services of an administrative nature provided to Group Companies in particular to Terna Rete Italia S.p.A. (€ 6.5 million) following the reduction in the perimeter of services provided and to lower revenue deriving from contracts for the authorisation and design of interconnectors (€ 2.8 million).

Pass-through revenue/costs

This item includes revenue and costs of a "pass-through" nature (whose balance is therefore nil). They arise in respect of daily purchases and sales with operators on the electricity market to carry out dispatching activities. To this end, the measurements at each point of input and withdrawal are taken and the differences from the energy market schedules are calculated. These differences (called imbalances) are measured using algorithms established by the regulatory framework. The net charge resulting from the measurement of these imbalances and of the buying and selling transactions executed by Terna on the DSM are billed on a pro rata basis to each consumer with an uplift fee. It also includes the remuneration paid by Terna to the other owners of the grid. The components of these transactions are detailed below.

€ million	2015	2014	Changes
REVENUE - POWER EXCHANGE:			
- foreign market - exports	1.7	0.5	*1.2*
- Sale of energy on the Day Ahead Market, Adjustment Market, Market for Dispatching Services and others	358.0	336.8	21.2
- imbalances and other minor items	795.5	769.6	25.9
- resources procurement for the Market for Dispatching Services	1,400.6	1,962.8	(562.2)
- Congestion revenue - Rights for use of Transportation Capacity (RTC), Res. No. 288/06	511.1	811.3	(300.2)
- other items - Power Exchange	57.2	60.9	(3.7)
- Interconnector/Shipper	72.9	72.8	0.1
- Market coupling Res. 143/10	137.3	20.5	116.8
Total revenue - Power Exchange	***3,334.3***	***4,035.2***	***(700.9)***
Revenue components under Res. Nos. 168/04–237/04 and others	1,612.6	1,447.2	165.4
Other items	97.4	384.1	(286.7)
Revenue from grid transmission fees of other owners and GRTN share CIP/6	201.4	195.8	5.6
Total revenue from outside the Power Exchange	***1,911.4***	***2,027.1***	***(115.7)***
TOTAL PASS-THROUGH ENERGY REVENUE	**5,245.7**	**6,062.3**	**(816.6)**
ENERGY PURCHASES:			
- on Day Ahead Market and Adjustment Market	138.1	261.9	(123.8)
- to provide the dispatching service	1,475.9	1,839.7	(363.8)
- for unbalancing	928.1	831.0	97.1
- on the foreign market - imports	1.4	0.5	0.9
- Electricity Market Operator fees	-	0.1	(0.1)
- congestion revenue - rights for use of transportation capacity (RTC), Res. No. 288/06	356.0	486.4	(130.4)
- other items - Power Exchange	45.6	53.3	(7.7)
- Interconnector/Shipper	379.1	560.9	(181.8)
- Market coupling Res. 143/10	10.1	1.4	8.7
Total costs - Power Exchange	***3,334.3***	***4,035.2***	***(700.9)***
Purchase of electricity market related services	1,612.6	1,447.2	165.4
Other items	97.4	384.1	(286.7)
Fees to be paid to NTG owners, GRTN and others	201.4	195.8	5.6
Total services and fees	***1,911.4***	***2,027.1***	***(115.7)***
TOTAL PASS-THROUGH ENERGY COSTS	**5,245.7**	**6,062.3**	**(816.6)**

2. Other revenue and income – € 83.4 million

"Other revenue and income" for the years 2015 and 2014 are analysed in the following table.

€ million	2015	2014	Δ
Business unit rent	33.0	25.4	7.6
Rental income	22.1	22.1	-
Sundry grants	11.8	16.8	(5.0)
Contingent assets	5.0	7.8	(2.8)
Sales to third parties	4.9	0.8	4.1
Gains on the disposal of plant components	1.8	2.2	(0.4)
Insurance settlements for losses	3.5	2.1	1.4
Other revenue	1.3	0.9	0.4
TOTAL	**83.4**	**78.1**	**5.3**

Under the item "Other revenue and income", the significant items refer to revenue from the subsidiary Terna Rete Italia S.p.A. deriving from the business unit rental accruing to the year (€ 33 million), rental income (€ 22.1 million) relating mainly to housing the Wind Group's optical fibre on the company-owned network and for making available areas that can be equipped in favour of the subsidiaries Terna Rete Italia S.p.A., Terna Plus S.r.l. and Terna Storage S.r.l, in order to position employee workstations (€ 2.6 million), to sundry grants (€ 11.8 million), contingent assets (€ 5 million), insurance settlements for losses (€ 3.5 million) and capital gains on the disposal of plants (€ 1.8 million).
The increase in the item of € 5.3 million is essentially due to:

- higher rent for the business unit granted to the subsidiary Terna Rete Italia S.p.A. (+€ 7.6 million, which takes into account the more favourable tax system starting from 2015);
- higher revenue made on sales to third parties mainly for disposal of copper recovered implementing the "Copper Plan" (+€ 4.1 million);
- lower contributions received in the year due to the reduction in assets relating to variants on the NTG works (€ -5.0 million, mainly referring to the increased business associated with Expo in the previous year);
- lower contingent assets realised in the year (-€ 2.8 million) compared to the previous year in which reversals of provisions for legal cases were recognised.

Operating expenses:

3. Raw materials and consumables - € 8.2 million

This item, of € 8.2 million, expresses the value of purchases of sundry materials and supplies, including fuel to operate the vehicle fleet. The increase of € 2.5 million is ascribable to the higher costs for materials used in investments in dispatching infrastructures recognised in application of IFRIC 12.

4. Services - € 341.7 million.

The table below details services for 2015 and 2014.

€ million	2015	2014	Δ
Services, technical and administrative intercompany services	290.9	313.6	(22.7)
Maintenance and sundry services	27.1	27.9	(0.8)
Leases and rentals	9.3	8.4	0.9
Insurance	5.5	5.7	(0.2)
Remote transmission and telephone	4.0	8.6	(4.6)
IT services	3.2	7.8	(4.6)
Tenders on plants	1.7	3.2	(1.5)
TOTAL	**341.7**	**375.2**	**(33.5)**

The most significant component "Services, technical and administrative intercompany services" consists mainly of the costs accruing in execution of specific intercompany contracts (€ 290.9 million), referred generally to the subsidiary Terna Rete Italia S.p.A. for the maintenance and operation of plants owned (€ 267.8 million), for investments for the development of the Company's plants for the transmission and dispatching service (€ 23.3 million) and for activities and services carried out on third-party plants (€ 6.7 million); it also includes the penalty on performance associated with the transmission service quality attributed to Terna Rete Italia S.p.A. as a summary economic valuation of the annual service provided by the subsidiary in performing the activities provided for in the existing service contract (-€ 10.0 million).
The item also includes costs paid to third parties for maintenance operations, professional services and general services (€ 27.1 million), contracts and services for routine maintenance operations and maintaining the efficiency of systems (€ 1.7 million), remote transmission and telephones (€ 4 million), IT services (€ 3.2 million), leases and rentals (€ 9.3 million) and insurance (€ 5.5 million). We can specify that the costs relating to remuneration of the Board of Statutory Auditors for the period amounted to € 0.2 million.
Net of the costs recognised applying IFRIC 12 for the work on developing dispatching infrastructures (which recorded a reduction of € 6.8 million), the decrease in the item "Services" was € 26.7 million and was mainly due to:

- recognising the performance penalty relating to the quality of the transmission service attributed to Terna Rete Italia S.p.A. for € 10 million, against a premium of € 10 million[42] recorded in 2014 with an overall effect of € -20 million;
- savings and efficiencies achieved in general services, and especially via remote transmission and telephone.

In the current organisational structure of the Terna Group, investments on developing and renewing the dispatching infrastructures are made not only by Terna S.p.A. but also by the subsidiary Terna Italia S.p.A.: the related cost is charged totally under the item "Services" as a service received from the subsidiary. The table below breaks down the costs pursuant to IFRIC 12 recognised under this item.

€ million	2015	2014	Δ
IT services	0.4	3.5	(3.1)
Tenders on plants	0.4	1.6	(1.2)
Maintenance and sundry services	1.7	3.3	(1.6)
Costs for services from investments in dispatching infrastructures pursuant to IFRIC 12	***2.5***	***8.4***	***(5.9)***
Costs for services pursuant to IFRIC 12 - Services from Terna Rete Italia S.p.A.	19.5	20.4	(0.9)
Total costs for services from investments in dispatching infrastructures pursuant to IFRIC 12	***22.0***	***28.8***	***(6.8)***

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

5. Personnel expenses – € 44.8 million

Personnel expenses break down as follows.

€ million	2015	2014	Δ
Wages, salaries and other short-term employee benefits	40.9	44.4	(3.5)
Directors' fees	1.6	1.7	(0.1)
Severance indemnities, electricity discount and other post-employment benefits	2.9	2.6	0.3
Early retirement incentives	1.7	41.0	(39.3)
Personnel expenses, gross	***47.1***	***89.7***	***(42.6)***
Personnel expenses, capitalised	(2.3)	(1.8)	(0.5)
TOTAL	**44.8**	**87.9**	**(43.1)**

This item includes the cost of wages and salaries, social security contributions and other costs for redundancy incentives, as well as benefits paid to employees who stay with the company and termination indemnities provided for by the current National Collective Employment Contract for the electricity sector.

The decrease in personnel expenses of € 43.1 million is essentially attributable to the provision of € 36.6 million recognised in 2014 for the redundancy incentive associated with the corporate reorganisation plan launched by the Company during the year. Also of importance were the lower provisions set aside for incentives for senior executives (€ 4.8 million). The following table shows the number of employees by category at year end and the average number for the year.

	Average number		Final number	
	2015	2014	31.12.2015	31.12.2014
Executives	30	27	31	25
Junior executives	153	144	151	145
Office staff	228	211	245	214
TOTAL	**411**	**382**	**427**	**384**

For the reconciliation of the opening and closing balances of the present value of the liability for employee benefits and the main assumptions used in the actuarial estimate, see section "21. Employee benefits".

6. Amortisation, depreciation and impairment – € 456.5 million

The item relates to allocations during the year calculated on the basis of amortisation and depreciation rates that reflect the useful lives of the Company's plant, property and equipment and intangible assets (a total of € 437.6 million), and the writedowns on installations (€ 15.9 million) and the impairment of trade receivables, which are considered unlikely to be collected (€ 3 million).

The breakdown of and changes in the item during the year are shown in the following table.

€ million	2015	2014	Δ
Amortisation of intangible assets	54.1	57.3	(3.2)
- of which: infrastructure rights	*34.6*	*36.4*	*(1.8)*
Depreciation of property, plant and equipment	383.5	367.5	16.0
Impairment of property, plant and equipment and tangible assets	15.9	-	15.9
Impairment of trade receivables	3.0	1.9	1.1
TOTAL	456.5	426.7	29.8

The increase in the item of € 29.8 million reflects, in particular:

- growth in depreciation (+€ 12.8 million) as a result essentially of entry into service during the year of new property, plant and equipment and for new disposal programmes defined at the end of the year;
- the impairment of tangible assets of € 15.9 million attributable to the cancellation of the authorisation for the project to build the Dolo-Camin line, for which we are studying a new grid scheme to be presented for authorisation (€ 14.3 million) and for the remainder to other assets, above all in the ICT field.

7. Other Operating Expenses - € 32.3 million

Other operating expenses break down as follows.

€ million	2014	2013	Δ
Indirect and local taxes and duties	14.1	18.3	(4.2)
Service quality expenses	7.9	(2.2)	10.1
Contingent liabilities	1.1	10.0	(8.9)
Allocations made to Provisions for disputes	1.9	1.8	0.1
Losses on disposal/decommissioning of plant	0.2	-	0.2
Other operating expenses	7.1	6.3	0.8
TOTAL	32.3	34.2	(1.9)

The most significant components of the item are costs for indirect and local taxes and duties (€ 14.1 million, of which € 10.9 million for council tax (Imposta Municipale Unica - IMU) and € 3.1 million for TOSAP and TARES), service quality expenses (€ 7.9 million) and other operating expenses (€ 7.1 million) which include contributions, membership fees for bodies/associations of interest to the Company, costs for gifts and other expenses.

The decrease in the item of -€ 1.9 million derives mostly from the combined effect of the following events:

- changes in contingent liabilities (-€ 8.9 million) owing essentially to higher contingencies related to a contractual supply agreement recognised in 2014 (€ 8.6 million);
- lower costs for IMU council tax (-€ 4.3 million);
- an increase in service quality expenses, +€ 10.1 million mainly attributable to measurement of the sharing and mitigation mechanisms, and contributions to the Exceptional Events Fund consequent to outage events which mainly characterised the end of FY 2015 net of the higher contingent assets recognised in 2014.

8. Net financial income/(expense) - (135.0) million euro

This item is analysed below.

€ million	2015	2014	Changes
FINANCIAL INCOME			
Dividends from subsidiaries and associates	1.1	2.6	(1.5)
Financial income from subsidiaries	4.2	13.7	(9.5)
Interest income and other financial income	10.3	*21.4*	(11.1)
Debt adjustment (bonds) and related hedges	1.1	*2.0*	(0.9)
Exchange gains	2.4	-	2.4
Total income	**19.1**	**39.7**	**(20.6)**
FINANCIAL EXPENSE			
Financial expense from the Parent	(5.2)	(6.4)	1.2
Financial expense to subsidiaries	(1.0)	(3.5)	2.5
Other financial expense	(0.9)	(0.2)	(0.7)
Interest expense on medium/long-term loans and related hedges	(174.5)	(183.3)	8.8
Discounting of post-employment benefits and other personnel-related provisions	(0.8)	(0.7)	(0.1)
Exchange losses	-	(0.1)	0.1
Capitalised borrowing costs	28.3	34.0	(5.7)
Impairment of equity investments	-	(0.7)	0.7
Total expense	**(154.1)**	**(160.9)**	**6.8**
TOTAL	**(135.0)**	**(121.2)**	**(13.8)**

Net financial expense amounted to € 135.0 million comprising € 154.1 million of financial expense and € 19.1 million of financial income. The increase in net financial expense of -€ 13.8 million with respect to the previous financial year is mainly the result of the following factors:

- lowers dividends distributed in 2014 by the associate CGES A.D. (-€ 1.5 million);
- lower financial income from subsidiaries (-€ 9.5 million) mainly attributable to full repayment of the loan granted to the subsidiary Terna Rete Italia S.r.l., on 17 November 2014;
- lower financial income (-€ 11.1 million) attributable essentially to the general decrease in the market rates at which the cash was invested;
- greater exchange gains for 2015, related to adjustment to the exchange rate of the provision for probable expenses relating to tax obligations deriving from the sale of the equity interest held in the Brazilian subsidiaries (+€ 2.5 million);
- negative net economic effects deriving from the fair value adjustment of bonds and the related hedges (-€ 0.9 million);
- lower financial expense to subsidiaries (+€ 2.5 million) in relation to interest accrued on correspondent accounts with the same;
- decrease of relating to medium- and long-term debt and the related hedging (+€ 8.8 million) attributable mainly to the general decrease in marker rates during 2015; in particular the reduction in financial expense of € 42.3 million more than offset the net effect of the costs connected with the Liability Management operation (€ 32.3 million);
- lower capitalised financial expense (-€ 5.7 million) due to the lower cost of net debt in 2015 compared with that recognised in 2014.

9. Income taxes of the year – € 262.6 million

Income taxes chargeable to the year amounted to € 262.6 million, down by € 24.2 million compared with the previous year owing essentially to the reduction in the IRES rate, which went from 34% in 2014 to 27.5% starting from 2015 following the elimination of the IRES surcharge (the so-called Robin Hood Tax) and to the deductibility of permanent personnel expenses for IRAP purposes (introduced starting from 2015 by the 2015 Stability Law).

The following table shows changes in taxes with respect to 2014.

€ million	2015	2014	Δ
INCOME TAXES OF THE YEAR			
Current taxes:			
- IRES	248.8	310.1	(61.3)
- IRAP	49.6	52.1	(2.5)
Total current taxes	*298.4*	*362.2*	*(63.8)*
New temporary differences:			
- deferred tax assets	(11.2)	(16.6)	5.4
- other changes	-	(8.6)	8.6
Reversal of temporary differences:			
- deferred tax assets	15.2	17.5	(2.3)
- deferred tax liabilities	(30.6)	(41.8)	11.2
IRES tax rate adjustment	(4.2)	(20.9)	16.7
Total change in deferred tax assets and liabilities	*(30.8)*	*(70.4)*	*39.6*
Adjustment of prior-year taxes	(5.0)	(5.0)	-
TOTAL	262.6	286.8	(24.2)

Current taxes

Current taxes show a decrease of € 63.8 million compared with the balance of the previous year essentially as a result of the reductions of the IRES rate described above and also of the deductibility for IRAP purposes of expenses for personnel with permanent contracts.

Deferred tax assets and liabilities

In 2015, as a result of the provisions of the Stability Law for 2016 (Italian Law No. 208 of 28 December 2015), which introduced the reduction of the IRES rate (Art. 1 paragraphs 61–64), starting from 2017, from 27.5% to 24% for entities not classified as credit or financial institutions, the net deferred tax liabilities in the balance sheet were adjusted with a positive impact of € 4.2 million.
The higher positive impact noted in 2014 deriving from the adjustment of the IRES rate from 34% to 27.5% (an impact of € 20.9 million) consequent to the judgement of unconstitutionality of the so-called "Robin Hood Tax" and by the recognition of payments of deferred tax liabilities at 34% (compared to 27.5% in the current year) determined an increase in the balance of net deferred taxes of € 39.6 million compared to the figure for the previous year.

Adjustment of prior-year taxes and other one-off changes

Adjustment of prior-year taxes, of -€ 5 million, are related to the higher current taxes paid in previous years. The item is substantially in line with the figure for the previous year.
The effective proportion of income taxes (€ 262.6 million) to the profit before taxes was 33.6% compared with 38.9% in 2014 owing substantially to the effects described above.

For a clearer presentation of the differences between the theoretical and actual tax rates, the table below reconciles the theoretical tax rate with the effective tax rate for the year.

€ million	Taxable income	Tax	Δ %
Profit before taxes	782.4		
IRES - theoretical tax charge (27.5%)		215.2	
IRAP - theoretical tax charge (5.10% on operating profit of € 917.4 million)		46.8	
THEORETICAL TAX RATE		**262.0**	**33.5%**
Permanent IRES differences			
Employee benefits		0.7	0.1%
Contingencies		0.6	0.1%
IMU		3.0	0.4%
Impairment		4.4	0.5%
Other increases/decreases		2.5	0.3%
IRAP - Art. 6 Law 28/01/2009		(0.9)	(0.1%)
ACE Subsidy for economic growth		(2.4)	(0.3%)
Dividends		(0.3)	-
PERMANENT IRAP DIFFERENCES			
Personnel expense		0.3	-
Capitalised borrowing costs		1.4	0.2%
Other increases/decreases		0.5	0.1%
Tax rate net of adjustments to income taxes of previous years			**34.7%**
Prior year taxes		(5.0)	(0.6%)
Adjustment of IRES/IRAP deferred taxes		(4.2)	(0.5%)
Total taxes for the year		**262.6**	
Actual tax rate			33.6%

10. Net profit for the year from discontinued operations and assets held for sale – € 7.3 million

The item recognises the effects of the release of provisions set aside by Terna for probable expenses related to tax obligations deriving from the sale of Terna Participações (€ 7.3 million). In 2014, the item in question was zero.

C. Operating segments

Consistent with the provisions of "IFRS 8 - Operating Segments" concerning companies that publish the Consolidated Financial Statements of a parent company in the same document as the separate financial statements of that parent company, operating segment disclosures are provided for the Consolidated Financial Statements only. Accordingly, please see the analogous section of the Notes to the Financial Statements of the Terna Group.

D. Notes to the statement of financial position

Receivable

11. Property, plant and equipment – € 10,141.8 million

Property, plant and equipment amounted to € 10,141.8 million (€ 9,577.0 million at 31 December 2014). The amount and changes for each category are reported in the following table.

€ million	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Assets under development and payments on account	Total
COST AT 01.01.2015	**104.3**	**1,415.2**	**12,015.6**	**81.1**	**128.5**	**1,758.5**	**15,503.2**
Investments	0.2	-	0.1	2.6	1.4	973.1	977.4
Entry into use	16.7	98.6	731.6	-	7.5	(854.4)	-
Intra-group purchases	-	-	19.9	-	-	4.6	24.5
Disposals and impairment	(0.2)	(0.7)	(36.8)	-	(2.0)	(15.9)	(55.6)
Other changes		-	(13.5)	-	-	(15.1)	(28.6)
Reclassifications	-	(0.1)	(0.1)	-	0.2	-	-
COST AT 31.12.2015	**121.0**	**1,513.0**	**12,716.8**	**83.7**	**135.6**	**1,850.8**	**16,420.9**
ACCUMULATED DEPRECIATION AND IMPAIRMENT AT 01.01.2015	**-**	**(400.0)**	**(5,376.0)**	**(57.3)**	**(92.9)**	**-**	**(5,926.2)**
Depreciation charge for the year	-	(34.8)	(332.2)	(4.4)	(12.1)	-	(383.5)
Intra-group purchases	-	-	(7.4)	-	-	-	(7.4)
Disposals and impairment	-	0.6	35.4	-	2.0	-	*38.0*
ACCUMULATED DEPRECIATION AND IMPAIRMENT AT 31.12.2015	**-**	**(434.2)**	**(5,680.2)**	**(61.7)**	**(103.0)**	**-**	**(6,279.1)**
CARRYING AMOUNT							
AT 31 DECEMBER 2015	**121.0**	**1,078.8**	**7,036.6**	**22.0**	**32.6**	**1,850.8**	**10,141.8**
AT 31 December 2014	**104.3**	**1,015.2**	**6,639.6**	**23.8**	**35.6**	**1,758.5**	**9,577.0**

The category “Plant and machinery” essentially includes the energy transportation network as well as the transformation stations.

The item “Property, plant and equipment” recorded an increase compared to the previous year of € 564.8 million, as a result of the ordinary changes that occurred during the year related to investments in the period (€ +977.4 million, of which € 28.3 million related to capitalised borrowing costs), depreciation for the period (€-383.5 million), disposals and impairment (€ -17.6 million, of which € 15.9 million related mainly to the Dolo-Camin project already commented on above) and other changes (€ -28.6 million) related to contributions received from third parties and booked to directly reduce the fixed assets in operation and under construction: The 2015 Financial Year also saw:

- the purchase, on 13 April 2015, by the subsidiary Terna Rete Italia S.r.l. of certain transmission plants of the Company (25 lines for a total of 255 km), located in the north-east area (14 plants) and centre-south (10 plants) of the country for a price of € 15.0 million;
- the purchase, on 22 April 2015, by the subsidiary Terna Plus S.r.l. of a SCRI (Rapid Installation Connection Station) for a price of € 2.1 million.

With reference to investments in the year in **Regulated Activities** (€ 951.8 million) we can note in particular:

Italy-Montenegro interconnection (€ 171.5 million):
- Cable connection: the production of both submarine and underground cables is continuing.
- Conversion stations: at the Cepagatti substation the foundations are being laid and the prefabricated buildings being put up while at the Kotor site the station area is being prepared.

380 kV Foggia-Villanova power line (€ 64.9 million):
- Villanova-Gissi power line: by the end of the year the creation of the foundation and pylons were completed and almost all the conductors were tested.
- Electrical stations:
  - At the Villanova substations two 380/120 kV transformers and one 380/150 kV transformer that came into operation to complete the expansion programme.
  - At the Gissi substation the two new 380 kV line bays necessary for the new Villanova – Gissi power line were completed.
- Downstream of the 2015 activities and after closure of the financial statements, the entire connection came into operation on 31 January 2016.

380 kV power line Sorgente - Rizziconi (€ 69.2 million):
- After the resumption of the activities of creating the entire Sorgente – Rizziconi connection, which had been stopped owing to sequestration of Pylon No. 40, some days ago Terna was notified of the sequestration of Pylon No. 45 by the Messina Public Prosecutor's Office. Terna, in collaboration with the authorities responsible, is carrying out all the opportune actions to observe the times for entry into operation of the project, planned for June 2016.

380 kV Udine Ovest-Redipuglia power line (€ 46.1 million):
- The construction work has been suspended after Council of State Judgement No. 03652/2015, filed on 23 July 2014 which cancelled the Environmental Impact Assessment measure and the Single Authorisation Decree covering the work. The authorisation process began again at the beginning of October when the documentation necessary to remedy the disputed error of form was sent to the bodies involved. Before the interruption of the work 80% of the project had been completed:
  - Power lines: construction of the foundations was completed, assembly of the pylons is at an advanced stage and the stringing work was in progress.
  - Udine Sud electrical substation: all the construction work was completed and on-site testing of the equipment installed was finished.

Synchronous condensers in Sicily (€ 30.8 million):
- The construction work has been completed and testing on the condensers at the Favara and Partinico substations is currently underway, with these becoming operational during the first quarter of 2016.

Upgrades of power line capacities (€ 21.8 million):
- The work on replacing the conductors and guard wires of the 380 kV "La Spezia-Vignole" power line were completed for a total length of 113 km with a type of conductors of a new generation.
- Preparatory work is in progress for upgrading the capacity of the 380 kV "Rondissone-Trino" power line.

Storage systems (€ 39.9 million):
- "Energy Intensive" Projects (33.8 M€): the Flumeri plant has come into operation for a further 6 MW and the Scampitella plant for 10.8 MW for a total at the three sites built of 34.8 MW installed.
- "Power Intensive" Projects (6.1 M€): in operation 12.5 MW distributed on two sites: Codrongianos (7.4 MW) and Ciminna (5.1 MW).

Italy-France interconnection (€ 16.5 million):
- Cable connection: supply of the cable and the substation has begun.

The investments include in addition the actions to purchase and/or renovate offices (€ 22.8 million).
The main works relating to **non-regulated activities** (a total of € 25.6 million) involved essentially variants for third parties.

12. Goodwill – € 88.6 million

Goodwill amounted to € 88.6 million and was unchanged from the balance of the previous year.

Impairment testing

Cash Generating Unit – perimeter of Terna S.p.A. transmission activity

The goodwill shown above of € 88.6 million is referable entirely to the goodwill deriving from acquisition of RTL (incorporated by the Parent Company in 2008).
At the end of the year the impairment, in particular for the estimate on the recoverable value from the Goodwill, was taken for the Cash Generating Unit (CGU) referring to the perimeter of the Group's transmission activities.
The fair value of the CGU, calculated taking into consideration the Stock Exchange quotation of the Terna S.p.A. stock in 2015, was found to be higher than the carrying amount, for a value of € 2,900 million.

13. Intangible assets – € 247.7 million

Changes during the year in intangible assets are detailed below.

€ million	Rights on infrastructure	Concessions	Other assets	Assets under development and payments on account	Total
BALANCE AT 31.12.2014	**119.0**	**84.1**	**26.6**	**27.9**	**257.6**
Investments	-	-	0.2	44.0	44.2
Entry into use	30.9	-	7.8	(38.7)	-
Depreciation charge for the year	(34.6)	(5.6)	(13.9)	-	(54.1)
BALANCE AT 31.12.2015	**115.3**	**78.5**	**20.7**	**33.2**	**247.7**
Cost	371.2	135.4	174.9	33.2	714.7
Accumulated amortisation	(255.9)	(56.9)	(154.2)	-	(467.0)
BALANCE AT 31.12.2015	**115.3**	**78.5**	**20.7**	**33.2**	**247.7**

Intangible fixed assets amount to € 247.7 million and in particular, include:

- the infrastructures used for the dispatching services, carried out under concession and booked as set out by the "IFRIC 12 - Service Concession Arrangements", for a net book value at 31 December 2015 of € 115.3 million for infrastructures which came into operation and € € 17.6 million for infrastructures under construction included in the category "Assets under development and payments on account" (€ 119.0 million and € 22.2 million respectively at 31 December 2014);
- the concession for the provision of electricity transmission and dispatching services in Italy (with net carrying amount of € 78.5 million at 31 December 2015), recognised initially during 2005 at fair value and subsequently measured at cost.

Other intangible assets manly comprise application software developed internally or purchased when implementing systems development projects. The investments related to them (€ 17.9 million) were made essentially through internal development.
The difference with respect to the previous financial year (€ -9.9 million) is due to the combined effect of routine movements during the period, regarding amortisation accruing (€ -54.1 million, of which € 34.6 million relating to dispatching infrastructures) - and investments (€ 44.2 million, of which € 26.3 million for infrastructure rights) mainly in application software.
Among the investments for the year we can note in particular those related to the development and evolution of application software, the Dispatching Remote Management System (€ 10.7 million), for the Power Exchange (€ 4.5 million) and for protection of the Electrical System (€ 1.0 million), as well as software applications and licenses (€ 16.7 million).

14. Financial assets

The following table details financial assets recognised by Terna S.p.A..

	Carrying amount		
€ million	31.12.2015	31.12.2014	Δ
Investments in subsidiaries	1,418.1	628.0	790.1
Investments in associates	52.1	52.1	-
Other investments	-	0.3	(0.3)
FVH derivatives	688.2	784.8	(96.6)
RCF commissions	3.6	2.0	1.6
NON-CURRENT FINANCIAL ASSETS	**2,162.0**	**1,467.2**	**694.8**
Short-term loan to Terna Interconnector	3.7	-	3.7
Deferred assets on FVH derivatives contracts	61.5	60.4	1.1
OTHER CURRENT FINANCIAL ASSETS	**2.8**	**3.0**	**(0.2)**
CURRENT FINANCIAL ASSETS	**68.0**	**63.4**	**4.6**
TOTAL	2,230.0	1,530.6	699.4

The item “Non-current financial assets”, of € 2,162.0 million, included at 31 December 2015 the value of equity investments, fair value hedging derivatives hedging bonds and commissions paid on the Revolving Credit Facilities granted in December 2014 and December 2015.
The value of “Investments in subsidiaries” (€ 1,418.1 million) relates to equity investments in subsidiaries held directly by Terna S.p.A. and recorded an increase of € 790.1 million compared to 31 December 2014 attributable, for € 770.1 million, to the acquisition, on 23 December 2015, of the entire share capital of Rete S.r.l. (formerly S.EL.F.- Società Elettrica Ferroviaria S.r.l.) and, for € 20 million, to the capital increase of Terna Crna Gora d.o.o..
The value of “Investments in associates” (€ 52.1 million), in line with the balance of the previous year, refers to:

- the stake owned (42.698%) in the share capital of CESI S.p.A. (€ 17.6 million);
- the stake owned in the share capital of CORESO S.A. (of € 0.3 million), acquired in November 2010, which went down from 22.485% to 20% during November 2015;
- the value of investments in the associate CGES - CrnoGorski Elektroprenosni Sistem AD (€ 34.2 million), which was acquired in January 2011, representing a stake of 22.0889%.

CESI S.p.A. operates in the construction and management of laboratories and plants for tests, inspections, studies and experimental research relating to the electro-technical field in general and to the technical and scientific developments in that area.
The company CORESO S.A. is the first technical centre owned by various Electricity Transmission System Operators which carries out joint TSO technical coordination activities in order to improve and strengthen security and coordination of the Electrical System in central/western Europe; it prepares daily forecasts and analyses in real time of energy flows in the region, identifying potentially critical areas and promptly notifying the TSOs which are affected.
CGES is the operator responsible for electricity dispatch and transmission in Montenegro. The financial investment of Terna in CGES, which was made following an industrial cooperation and country system and included as part of inter-governmental understandings reached by Italy and Montenegro, sanctions the institutional commitment to the development of a new submarine electrical interconnection and the implementation of the partnership between national transmission operators.

The following table summarises Terna S.p.A.'s direct investments in subsidiaries and associates and jointly controlled companies at 31 December 2015, with data related to the last approved financial statements.

Company Name	Registered office	Currency	Share capital	% held	Consolidation method
COMPANIES CONTROLLED DIRECTLY BY TERNA S.P.A.					
Terna Rete Italia S.p.A.	Rome	€	120,000	100%	Line-by-line
Business:	Design, construction, management, development, operation and maintenance of grid structures and lines and of other infrastructures connected to the said grids, of plants and equipment functional to the said business in the sectors of electricity dispatching and transmission and in similar, related or connected segments.				
Terna Rete Italia S.r.l.	Rome	€	243,577,554	100%	Line-by-line
Business:	Design, construction, management, development, operation and maintenance of High-Voltage power lines.				
Terna Storage S.r.l.	Rome	€	10,000	100%	Line-by-line
Business:	Design, construction, management, development and maintenance of diffused energy storage systems (including batteries), pumping and/or storage systems, as well as plants, equipment and infrastructure, including grids.				
Terna Crna Gora d.o.o.	Podgorica	€	56,000,000	100%	Line-by-line
Business:	Authorisation, construction, and management of transmission infrastructures comprising the Italy-Montenegro electrical interconnection in Montenegrin territory.				
Terna Plus S.r.l.	Rome	€	16,050,000	100%	Line-by-line
Business:	Design, construction, management, development, operation and maintenance of plants, equipment and infrastructures including grids and systems, including diffused energy accumulation, pumping and/or storage.				
Terna Interconnector S.r.l.	Rome	€	10,000	65%*	Line-by-line
Business:	Design, construction, management, development, operation and maintenance, also on behalf of third parties, of lines and network structures and other related infrastructures, plants and equipment functional to the said activities in the sector of electricity transmission or in analogous, related or connected sectors.				
Monita Interconnector S.r.l.	Rome	€	10,000	95%**	Line-by-line
Business:	Design, construction, management, development, operation and maintenance, also on behalf of third parties, of lines and network structures and other related infrastructures, plants and equipment functional to the said activities in the sector of electricity transmission or in analogous, related or connected sectors.				
RETE S.r.l.	Rome	€	387,267,082	100%	Line-by-line
Business:	Design, construction, management, development, operation and maintenance of high-voltage power lines.				
COMPANIES CONTROLLED THROUGH TERNA PLUS S.R.L.					
Tamini Trasformatori S.r.l.	Melegnano (MI)	€	3,000,000	70%***	Line-by-line
Assets	Construction, repair and sales of electrical machinery.				
Terna Chile S.p.A.	Santiago del Cile (RCH)	CLP	1,000,000	100%	Line-by-line
Assets	Design, construction, administration, development, operation maintenance of any type of structure, plant, equipment and electrical infrastructure, including those of interconnection; production of all kinds of products and services, constructions, electrical and civil engineering works; research, consulting and assistance on questions related to the core business; conduction of any other activity that can improve the use and development of plants, resources and skills.				

Company Name	Registered office	Currency	Share capital	% held	Consolidation method
COMPANIES CONTROLLED THROUGH TAMINI TRASFORMATORI S.r.l.					
Verbano Trasformatori S.r.l.****	Novara	€	1,500,000	100%	Line-by-line
Assets	Construction, repair and sales of electrical machinery.				
V.T.D. Trasformatori S.r.l.	Valdagno (VI)	€	774,000	100%	Line-by-line
Assets	Production, repair and sales in any form allowed by current laws of electrical and electro-mechanical instruments and machinery.				
Tamini Transformers USA LLC	Oakbrook (Chicago - Illinois)	USD	42,904	100%	Line-by-line
Assets	Sales of industrial and power electrical transformers.				
Transformer Electro Service S.r.l.	Ospitaletto (BS)	€	1,134,000	100%	Line-by-line
Assets	Production of electricity transformers for industrial use and for the sector of electricity production and transmission. It is noted that the company holds 100% of the share capital of the manufacturing company under Indian law known as “Tes Transformer Electro Service Asia Private Limited” (share capital equal to 100,000.00 Indian rupees).				
COMPANIES CONTROLLED THROUGH TERNA INTERCONNECTOR S.r.l.					
Piemonte Savoia S.r.l.	Rome	€	10,000	100%	Line-by-line
Assets	Design, construction, management, development, operation and maintenance, also on behalf of third parties, of lines and network structures and other related infrastructures, plants and equipment functional to the said activities in the sector of electricity transmission or in analogous, related or connected sectors.				
ASSOCIATES					
Cesi S.p.A.	Milan	€	8,550,000	42.698%	*Equity Method*
Business:	Experimental electro-technical research.				
Coreso S.A.	Brussels (Belgium)	€	1,000,000	20.000%	*Equity Method*
Business:	Technical centre owned by various electricity transmission companies which implements joint TSO technical coordination activities in order to improve and strengthen security and coordination of the electricity system in central/western Europe.				
CGES A.D.	Podgorica	€	155,108,283	22.0889%	*Equity Method*
Business:	Electricity dispatching and transmission operator in Montenegro.				
JOINT CONTROL					
ELMED Etudes S.a.r.l.	Tunis	Tunisian Dinar	2,700,000	50%	*Equity Method*
Business:	Study activity concerning the connection of the Italian and Tunisian electricity grids.				

* 5% held by Terna Rete Italia S.p.A. and 30% held by Transenergia S.r.l..
** 5% held by Terna Rete Italia S.p.A..
*** 30% Holdco TES (controlled by the fund Xenon Private Equity V, Riccardo Reboldi and Giorgio Gussago).
**** Incorporated into Tamini Trasformatori S.r.l. with effect from 1 January 2015.

The fair value of the FVH derivatives hedging the Company's bonds, equal to € 688.2 million, is calculated by discounting forecast cash flow with the market interest rate curve at the reporting date. The decrease in the fair value of derivatives (€ 96.6 million) with respect to 31 December 2014 is due to the decrease of the interest rate curve at the end of 2015.
The item "Current financial assets" showed a balance of € 68.0 million (€ 63.4 million at 31 December 2014) and recorded an increase compared to the previous year of €+4.6 million due to:

- the loan granted in 2015 by Terna S.p.A. to the subsidiary Terna Interconnector S.r.l. with maturity July 2016 (+€ 3.7 million);
- the amount of net financial income matured on the related financial instruments, but not yet paid (+€ 1.1 million);
- the decrease in interest matured and not yet collected at the reporting date relating to short-term cash investments (-€ 0.2 million).

15. Other assets

"Other assets" are analysed below.

€ million	31.12.2015	31.12.2014	Δ
Receivables due from others:			
- loans and advances to employees	3.1	2.3	0.8
- deposits with third parties	0.5	0.5	-
OTHER NON-CURRENT ASSETS	**3.6**	**2.8**	**0.8**
Other tax assets	107.2	9.5	97.7
Receivables due from others:	31.9	6.5	25.4
OTHER CURRENT ASSETS	**139.1**	**16.0**	**123.1**

"Other non-current assets" (€ 3,6 million) - which are shown in the table - are in line with the amounts of the previous year and mainly comprise loans and advances paid to employees (€ 3,1 million).
The item "Other current assets" of € 139.1 million, a breakdown of which is given in the table above, shows an increase of € 123.1 million with respect to the balance at 31 December 2014, mainly due to other tax assets (+€ 97.7 million), as a result, in particular, of the VAT credit situation of 2015 compared to the debit situation of the previous year (+€ 102.3 million), and of lower credits for withholdings on interest income accrued with reference to financial assets (-€ 4.2 million).

16. Inventories – € 0.0 million

Inventories under working assets show a balance of zero at 31 December 2015. The balance of the previous year, of € 0.7 million, referred to the signing in 2013 of the supply contract for replacement parts for maintaining equipment needed for remote transmission systems.

17. Trade receivables – € 1,285.8 million

Trade receivables can be broken down as follows.

€ million	31.12.2015	31.12.2014	Δ
Energy-related receivables	826.0	956.7	(130.7)
Grid transmission fee receivables	400.0	514.2	(114.2)
Other trade receivables	29.1	32.4	(3.3)
Receivables from subsidiaries	30.7	32.1	(1.4)
TRADE RECEIVABLES	**1,285.8**	**1,535.4**	**(249.6)**

Trade receivables amounted to € 1,285.8 million and show a decrease (€ 249.6 million) compared with the previous year, essentially attributable to the grid transmission fees receivable in relation to the remuneration paid to the Company and to other owners for the use of the National Transmission Grid by electricity distributors (€ 114.2 million) and to pass-through amounts deriving from the electricity dispatching activities (€ 130.7 million). They are recognised net of impairment losses, referred to items considered non-collectable, recognised in allowances for doubtful accounts (€ 25.5 million for energy items and € 8.9 million for other items in 2015, compared with € 24.0 million for energy items and € 8.2 million for other items in 2014); the carrying amount shown approximates substantially to the fair value.

Energy-related receivables – € 826.0 million

The item included receivables for the so-called "pass-through items" related to energy dispatching activities carried out by the Company (€ 805.1 million) and, also, receivables from market operators for the for margin fees (€ 20.9 million) destined, in particular, to cover the costs recognised for the functioning of Terna related to the dispatching activity (DIS fee – Resolution 111/06 and subsequent amendments and additions).

The balance records an overall decrease of € 130.7 million compared with the previous year attributable, generally, to:

- Receivables for pass-through energy items: down by € 101.9 million owing substantially to the reduction of the receivable (€ 97 million) referred to the so-called Uplift Fee for procurement of resources in the Dispatching Services Market (DSM) owing mainly to lower prices related to energy transactions in the same market and to the lower cost referred to non-penalised unbalancing;
- Receivables for the IDIV component: down by € 11.4 million, mainly due to the lower unit price set for 2015 with Resolution 658/2014/R/eel.

The difference in the item also reflects the recognition at the end of 2014 of the receivable from Cassa per i Servizi Energetici e Ambientali (CSEA) referred to the estimate of the positive performance (negative in 2015) related to the RENS mechanism regulating the transmission service quality (€ 17.5 million).

Grid transmission fee receivables – € 400 million

Grid transmission fee receivables, of € 400 million, is related to the remuneration awarded to the Parent Company and to the other owners for the use of the National Transmission Grid by electricity distributors. The above receivables showed a decrease, of € 114.2 million, compared to the previous year, mainly attributable to receiving from Cassa per i Servizi Energetici e Ambientali (CSEA) the receivable for the supplement to the CTR (grid transmission fee) of Terna S.p.A. related to 2013 (€ 91.2 million) and to recognition of the payable position (€ 24.7 million) for higher revenue invoiced compared to the maximum volumes of energy of reference established by the Authority for the year 2015 (mechanism to neutralise the volume effect).

Other trade receivables – € 29.1 million

Other trade receivables mainly regard receivables due from third party clients of the Company for the diversified business; they show a drop of € 3.3 million with respect to the previous year primarily due to the higher collections during the year.

This item also includes net receivables for contract work in progress (€ 0.1 million), highlighted in the table below, related to works of multi-year duration which the Company has been implementing with third party customers, which show a net balance in line with the previous year.

€ million	Payments on account	Contract value	Balance at 31.12.2015	Payments on account	Contract value	Balance at 31.12.2014
Others	(0.6)	0.7	0.1	(9.5)	9.8	0.3

Receivables from subsidiaries – € 30.7 million

The item, of € 30.7 million, shows a balance substantially in line with the figure for the previous year (-€ 1.4 million) and relates substantially to the receivable due from the subsidiary Terna Rete Italia S.p.A. (€ 28.6 million), with reference mainly to technical activities carried out by the subsidiary on the plants and to the business unit rent (€ 9.9 million). The amount of the guarantees issued to third parties by Terna S.p.A. at 31 December 2015 came to € 108.7 million, of which € 79.4 million for sureties issued to secure the contractual obligations arising under the scope of operations and € 29.3 million as itemized below:

- € 0.5 million in guarantees issued on behalf of the subsidiary Terna Rete Italia S.r.l.;
- € 21.8 million in guarantees issued on behalf of the subsidiary Terna Rete Italia S.p.A.;
- € 7.0 million in the interest of the subsidiary Terna Plus S.r.l.;

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

18. Cash and cash equivalents – € 435.4 million

Cash and cash equivalents at 31 December 2015 amounted to € 435.4 million, of which € 400.0 million liquid funds invested in short-term, highly-liquid deposits and € 35.4 million net positive liquidity on bank current accounts.

19. Income tax assets – € 22.0 million

Receivables on Income tax assets amounted to € 22.0 million and recorded an increase of € 1.2 million compared to the previous year owing mainly to higher receivables for IRES and IRAP recognised on filing the 2014 tax return (€ 11.4 million), and the advances on IRES and IRAP paid in 2014 compared to the tax burden for the previous year (€ -10.2 million).

Liabilities

20. Equity attributable to the owners of the Parent – € 2,908.1 million

Share capital –€ 442.2 million

The share capital of Terna is represented by 2,009,992,000 ordinary shares, par value € 0.22 each.

Legal reserve –€ 88.4 million

The legal reserve is 20% of the Company's share capital; it did not change with respect to the previous year.

Other reserves –€ 744.0 million

Other reserves increased by € 26.3 million, due to Other Comprehensive Income, in particular owing to:

- adjustment to fair value of derivative instruments hedging the Company's floating-rate loans - cash-flow hedges (€ 21.3 million, considering the related tax effect of € 8.0 million);
- recognition of the actuarial gains and losses on employee benefits (€ 5.0 million, considering the related tax effect of € 1.9 million).

Retained earnings and losses – € 1,247.1 million

The increase of € 48.4 million of the item "Retained earnings and losses" regarded the allocation of the residual profit for 2014, compared to the distribution of the dividend in the same year (a total of € 402.0 million).

Interim dividend 2015

After receiving the report of the Independent Auditors required by Art. 2433-*bis* of the Italian Civil Code, on 11 November 2015 the Board of Directors approved the distribution of an interim dividend amounting to € 140.7 million, equal to € 0.07 per share, which is payable from 25 November 2015, with an ex dividend date (coupon 23) of 23 November 2015.

The following table shows the origin, availability and possibility of distribution of the equity components at the reporting date.

€ million	31.12.2015	Possibility of use	Available portion
Share capital	442.2	-	-
Legal reserve	88.4	B	88.4
Other reserves			
- equity-related	416.1	A, B, C	416.1
- income-related*	327.9	A, B, C	327.9
Retained earnings	1,247.1	A, B, C	1,247.1
Interim dividend	(140.7)	A, B, C	-
TOTAL	**2,381.0**		**2,079.5**
KEY:			
A - for share capital increase			
B - to cover losses			
C - for distribution to shareholders			

*Includes the negative reserve that contains the effective portion of the fair value changes of cash flow hedging equal, net of the tax effect, to € 4.8 million.

Of the total available portion, € 551.7 million refers to untaxed income-related reserves.

21. Loans and financial liabilities

The following table details loans and financial liabilities recognised in the separate financial statements of Terna S.p.A. at 31 December 2015.

	Carrying amount		
€ million	31.12.2015	31.12.2014	Δ
Bonds	6,406.1	5,983.6	422.5
Bank loans	2,103.8	2,094.4	9.4
LONG-TERM LOANS	**8,509.9**	**8,078.0**	**431.9**
CFH derivatives	6.4	29.9	(23.5)
NON-CURRENT FINANCIAL LIABILITIES	**6.4**	**29.9**	**(23.5)**
Short-term loans	398.2	-	398.2
Current portion of long-term loans	120.7	762.4	(641.7)
SHORT-TERM LOANS AND CURRENT PORTION OF MEDIUM/ LONG-TERM LOANS	**518.9**	**762.4**	**(243.5)**
TOTAL	**9,035.2**	**8,870.3**	**164.9**

Gross debt for the year increased with respect to the previous year by € 164,9 million to € 9,035.2 million. The increase in the value of bonds (+€ 422.5 million) is attributable for € 1 billion to the bond issue of 2 February 2015, for -€ 480 million to the operation to buy back the 2017 Bond carried out on 21 July 2015, for -€ -95.0 million to changes in the fair value of the hedged risk net of the amortised cost effect. The change associated with the hedging of interest rate risk comprises € -18.8 million in relation to the Inflation-Linked bond issue, € -31.8 million associated to the 2024 Bond, € -14.7 million for the Private Placement and € -29.7 million relating to the Bond issued in 2011.
The latest official prices at 31 December 2015 for the bonds listed on the Luxembourg Stock Exchange are detailed below:

- bond maturity 2024: 2015 price € 127.94 and 2014 price € 131.29;
- bond maturity 2023: 2015* price € 124.45 and 2014 price € 121.14;
- bond maturity 2019: 2015 price € 115.86 and 2014 price € 119.03;
- bond maturity 2021: 2015 price € 119.08 and 2014 price € 122.80;
- bond maturity 2017: 2015 price € 104.32 and 2014 price € 107.67;
- bond maturity 2018: 2015 price € 105.35 and 2014 price € 106.85.
- bond maturity 2022: 2015 price € 98.15

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

The debt which was originally floating rate, shows a decrease of € 632.3 million, due to:

- repayment, on 26 June 2015 of the Club Deal floating-rate loan obtained in October 2008 (-€ 650.0 million);
- drawdown of a new EIB loan for € 130 million;
- decrease in mortgages and loans from the EIB for -€ 112.3 million, due to the reimbursement of the due instalments of the existing loans.

Long-term loans

The following table reports the book values of long-term debt and the repayment plan as of 31 December 2015, broken down by loan type, including amounts falling due within one year and average interest rate at year-end.

€ million	Maturity	31.12.2014	31.12.2015	Portion with maturity within 12 months	Portion with maturity beyond 12 months	2017	2018	2019	2020	2021	After	Average interest rate as of 31.12.2015
Bonds	2024	1,081.9	1,050.1	-	1,050.1	-	-	-			1,050.1	4.90%
Bonds IL	2023	731.6	712.8	-	712.8	-	-	-			712.8	2.73%
Bonds PP	2019	691.9	677.2	-	677.2	-	-	677.2				4.88%
Bonds 1250	2021	1,483.0	1,453.3	-	1,453.3	-	-	-		1,453.3		4.75%
Bonds 1250	2017	1,247.8	769.2	-	769.2	769.2	-	-				4.13%
Bonds 1000	2022	-	995.3	-	995.3	-	-	-			995.3	0.87%
Bonds 750	2018	747.4	748.2	-	748.2	-	748.2	-				2.88%
Total fixed rate		**5,983.6**	**6,406.1**	**-**	**6,406.1**	**769.2**	**748.2**	**677.2**		**1.453.3**	**2,758.2**	
EIB	2015–2030	1,707.0	1,724.5	120.7	1,603.8	132.4	132.4	111.3	116.1	111.5	1,000.1	0.59%
Club Deal	2015	649.9	-	-	-	-	-	-			-	0.64%
CDP	2019	500.0	500.0	-	500.0	-	-	500.0			-	0.99%
Total floating rate		**2,856.9**	**2,224.5**	**120.7**	**2,103.8**	**132.4**	**132.4**	**611.3**	**116.1**	**111.5**	**1,000.1**	
TOTAL		**8,840.5**	**8,630.6**	**120.7**	**8,509.9**	**901.6**	**880.6**	**1,288.5**	**116.1**	**1,564.8**	**3,758.3**	

On maturity, on 15 September 2023, the Inflation Linked Bond provides for repayment of the face value revalued to inflation, while repayment of the face value of the other Bonds, of € 5,170.0 million, provides, following the buy-back operation for € 480 million of the 2017 Bond, for full repayment of € 770 million on 17 February 2017, of € 750 million on 16 February 2018, of € 600 million on 3 October 2019, of € 1,250 million on 15 March 2021, of € 1,000 million on 2 February 2022 and of € 800 million on 28 October 2024.

The above table also shows the repayment schedule relating to all the other components of the financial debt, and the average interest rate for each type of financial debt. For further comments see below also in relation to the financial hedging operations carried out to protect the company against the risk of interest rate oscillations.

As regards the 2024 Bond, with an average coupon of 4.90%, if fair value hedging operations are taken into account, the average interest rate is equal to 0.38%.

For the Inflation-Linked Bond, taking hedges into account, the average interest rate paid in the year was -1.27%.

The Private Placement, issued at fixed rate, was brought synthetically to floating rate with derivatives of the same duration and consequently the average interest rate in the year was 1.39%.

The coupon of the 2021 Bond is 4.74%; if we consider FVH operations, the average interest rate amounts to 1.20%.

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

Taking the hedging operations up to 23 November 2015 (the “unwinding” date of the related derivatives) into account, for the 2022 bond the average interest rate is 0.41%.

With regard to floating-rate loans covered by fluctuations in interest rates - and taking into account the effect of derivative financial instruments booked as cash-flow hedges - an average rate of 2% is reported for EIB financing while for the Club Deal loan of € 650 million, repaid in June, the average rate was 2.45% and for the CDP loan the average rate was 2.06%.

The following table reports changes in long-term debt for the year.

Type of loan *€ million*	Nominal debt at 31.12.2014	Carrying amount at 31.12.2014	Market value at 31.12.2014	Repayment and capitalisation	Drawdowns	Delta fair value 31.12.2014 31.12.2015	Change in carrying amount	Nominal debt at 31.12.2015	Carrying amount at 31.12.2015	Market value at 31.12.2015
Bonds 2014–2024	800.0	1,081.9	1,050.4		-	(31.8)	(31.8)	800.0	1,050.1	1,023.5
Listed IL bond	565.9	731.6	685.5		-	(18.8)	(18.8)	565.9	712.8	704.3
Private Placement	600.0	691.9	714.2	-	-	(14.7)	(14.7)	600.0	677.2	695.1
2021 Bond	1,250.0	1,483.0	1,535.0	-	-	(29.7)	(29.7)	1,250.0	1,453.3	1,488.5
2017 Bond	1,250.0	1,247.8	1,345.9	(480.0)	-	1.4	(478.6)	770.0	769.2	803.2
2022 Bond	-	-	-	-	1,000.0	(4.7)	995.3	1,000.0	995.3	981.5
2018 Bond	750.0	747.4	801.4	-	-	0.8	0.8	750.0	748.2	790.2
Total bonds	**5,215.9**	**5,983.6**	**6,132.4**	**(480.0)**	**1,000.0**	**(97.5)**	**422.5**	**5,735.9**	**6,406.1**	**6,486.3**
Bank loans	2,857.0	2,856.9	2,857.0	(762.4)	130.0	-	(632.4)	2,224.5	2,224.5	2,224.5
Total bank loans	**2,857.0**	**2,856.9**	**2,857.0**	**(762.4)**	**130.0**	**-**	**(632.4)**	**2,224.5**	**2,224.5**	**2,224.5**
TOTAL FINANCIAL DEBT	**8,072.9**	**8,840.5**	**8,989.4**	**(1,242.4)**	**1,130.0**	**(97.5)**	**(209.9)**	**7,960.4**	**8,630.6**	**8,710.8**

Compared to 31 December 2014, long-term debt recorded overall a decrease of -€ 209.8 million, due for -€ 97.5 million to the reduction in the fair value of the bonds, also considering the amortised cost of all loans, for -€ 480 million to the buy-back operation of the 2017 Bond, per € 1,000 million to the issue of a new Bond, for € 130 million to the drawdown of a new EIB loan, for € 650 million to repayment of the Club Deal loan and for 112.4 million to repayment of the instalment of the EIB loans.
At 31 December 2015, Terna had an additional debt capacity of approximately € 441 million represented by uncommitted bank lines, to which must be added the additional capacity of € 1,550 million represented by two revolving credit facilities agreed in December 2014 and December 2015.
In addition, as provided for in IFRS 7, the table shows the fair value of financial payables which for bond loans is their market value on the basis of the prices at the reporting date, while for floating-rate loans it was assumed to be substantially equal to the notional amount of repayment.

Non-current financial liabilities

The table below reports the amount of non-current financial liabilities at the end of financial year 2015 and changes with respect to figures at the end of 2014.

€ million	31.12.2015	31.12.2014	Δ
CFH derivatives	6.4	29.9	(23.5)
TOTAL	**6.4**	**29.9**	**(23.5)**

“Non-current financial liabilities” includes the fair value measurement of cash-flow hedges. Fair value was measured by discounting the expected cash flows using the market yield curve at the reporting date. The change in the interest rate curve compared with 31 December 2014 resulted in a change amounting to € -23.5 million.
In the context of financial liabilities, short-term loans for a total of € 398.2 million arising from the utilisation of uncommitted credit lines are noted.

Current financial liabilities

Current financial liabilities include at 31 December 2015 the value of net financial expenses accrued on financial instruments and not yet paid. This item shows a decrease, compared with the previous year, of -€ 27.0 million.
The details of the financial liabilities related to net Financial expense accrued but not settled are presented below, on the basis of the nature to which they refer.

€ million	31.12.2015	31.12.2014	Δ
CFH DERIVATIVES	**-**	**5.6**	**(5.6)**
DEFERRED LIABILITIES ON:			
Derivatives			
- hedging	*3.1*	*13.2*	*(10.1)*
Bond			
- Inflation linked	*4.5*	*4.6*	*(0.1)*
- Private Placement	*7.2*	*7.2*	*-*
- 5-year (2017)	*27.7*	*44.9*	*(17.2)*
- 7-year (2022)	*8.0*	*-*	*8.0*
- 20-year (2024)	*7.0*	*7.0*	*-*
- 10-year (2021)	*47.4*	*47.5*	*(0.1)*
- 5-year (2018)	*18.8*	*18.9*	*(0.1)*
	120.6	**130.1**	**(9.5)**
Loans	3.4	5.2	(1.8)
TOTAL	**127.1**	**154.1**	**(27.0)**

Net financial position

Pursuant to CONSOB Communication of 28 July 2006 and in compliance with Recommendation ESMA/2011/81 of 23 March 2011, the Company's net financial position is as follows.

€ million		Carrying amount 31.12.2015
A.	Cash	10.0
B.	Short-term deposits	400.0
C.	Net intercompany treasury current account position	25.4
D.	**LIQUIDITY (A) + (B)**	**431.6**
E.	Current portion of long-term payables	120.7
F.	Short-term loans	398.2
G.	Short-term loan to Terna Interconnector S.r.l.	**(3.7)**
H.	Other financial liabilities	**59.2**
I.	**CURRENT FINANCIAL DEBT (E) + (F) + (G) + (H)**	**574.4**
J.	**NET CURRENT FINANCIAL DEBT (I) - (D)**	139.0
K.	Non-current bank payables	2,103.8
L.	Bonds issued	6,406.1
M.	Derivative financial instruments in portfolio	(681.8)
N.	**NET NON-CURRENT FINANCIAL DEBT (K) + (L) + (M)**	**7,828.1**
O.	**NET FINANCIAL DEBT (J) + (N)**	**7,967.1**

For further details on the breakdown of the items present in the table please see Comments 14 "Financial assets", 18 "Cash and cash equivalents" and 21 "Loans and financial liabilities" in the present Notes.

For more information on the contractual provisions of outstanding loans at 31 December 2015, please see the Notes to the Consolidated Financial Statements.

22. Employee benefits – € 27.1 million

Terna provides benefits to its employees during their period of employment (loyalty bonus), at the termination of their employment (termination benefits, additional month's pay and allowance in lieu of notice), and in the period after the termination of employment (electricity discount and the ASEM health plan).
The loyalty bonus is awarded to employees and managers of the Company when they reach certain seniority levels (25 and 35 years of service).
The benefits granted at the termination of employment are recognised for all employees (termination indemnities), managers hired or appointed before 28 February 1999 (Indemnity for Lack of Notice), and employees (production workers, office staff and junior managers) hired before 24 July 2001 (Additional Month's Pay Indemnity).
Post-employment benefits consist of the following:

- discount on electricity consumed for domestic use. This benefit is offered to all employees hired before 30 June 1996 (energy discount);
- a healthcare plan complementing the national health service, as agreed under the terms of the national contract for industrial managers (the ASEM health plan).

The composition of termination benefits and other employee-related provisions at 31 December 2015 is detailed below along with changes in the period.

€ million	31.12.2014	Provision	Interest cost	Utilisations and other changes	Actuarial (gains)/losses	31.12.2015
BENEFITS PAYABLE TO EMPLOYEES						
Loyalty bonus and other incentives	0.5	-	-	-	-	0.5
Total	**0.5**	**-**	**-**	**-**	**-**	**0.5**
BENEFITS PAYABLE UPON TERMINATION OF EMPLOYMENT						
Termination benefits	4.2	-	0.1	-	(0.5)	3.8
IMA	0.5	-	-	-	-	0.5
Indemnities for lack of notice and similar	0.4	-	-	(0.1)	-	0.3
Total	**5.1**	**-**	**0.1**	**(0.1)**	**(0.4)**	**4.6**
POST-EMPLOYMENT BENEFITS						
Energy discount	22.7	0.1	0.3	(0.4)	(5.7)	17.0
ASEM	5.7	0.1	0.1	(0.2)	(0.7)	5.0
Total	**28.4**	**0.2**	**0.4**	**(0.6)**	**(6.4)**	**22.0**
TOTAL	**34.0**	**0.2**	**0.5**	**(0.7)**	**(6.9)**	**27.1**

The item, equal to € 27.1 million at 31 December 2015 (€ 34.0 million at 31 December 2014), shows a decrease of € 6.9 million compared to the previous year, mainly due to the recognition of actuarial gains/losses (€ 6.9 million, with impact on other comprehensive income).

Details of the pension cost relating to current employment and interest income and expense are shown below.

€ million	Loyalty bonus and other incentives	Termination benefits	IMA	Indemnities for lack of notice and similar	Energy discount	ASEM	Total
Net impact recognised in profit or loss							
- cost relating to current work performed	-	-	-	-	0.1	0.1	0.2
- interest income and expense	-	0.1	-	-	0.3	0.1	0.5
TOTAL RECOGNISED IN INCOME STATEMENT	**-**	**0.1**	**-**	**-**	**0.4**	**0.2**	**0.7**

Revaluation of the net liability for employee benefits is illustrated in the table below, where the types of actuarial gains and losses, recognised among Other Comprehensive Income, are detailed.

€ million	Termination benefits	IMA		Energy discount	ASEM	Total
Actuarial gains/losses						
- based on past experience	(0.2)	-	-	(2.1)	0.1	(2.2)
- due to changes in other economical assumptions	-	-	-	(2.1)	(0.2)	(2.3)
- due to changes in discount rate	(0.3)	-	-	(1.5)	(0.6)	(2.4)
TOTAL OCI IMPACTS	**(0.5)**	**-**	**-**	**(5.7)**	**(0.7)**	**(6.9)**

The statements below, finally, show that main actuarial assumptions used, a sensitivity analysis on the movements in these assumptions and the payment schedule envisaged in the plan. It should be noted that the interest rate used to determine the current value of the obligation was calculated, in line with 2014, considering the yield of the Iboxx Eurozone Corporates AA index at 31 December 2015 in line with the duration of the group of workers measured.

€ million	Loyalty bonus and other incentives	Termination benefits	IMA	Indemnities for lack of notice and similar	Energy discount	ASEM
Discount rate	2.03%	2.03%	0.98%	0.24% - 0.60%	2.03%	2.03%
Inflation rate	from 1.5% to 2.0%	from 1.5% to 2.0%	n/a	from 1.5% to 2.0%	from 1.5% to 2.0%	3.00%
Duration (in years)	13.56	11.26	6.50	3.00–4.00	11.43	13.40

€ million	Loyalty bonus and other incentives	Termination benefits	IMA	Indemnities for lack of notice and similar	Energy discount	ASEM	TOTAL
Discount rate +0.25%	0.5	4.0	0.3	0.3	23.3	5.2	33.6
Discount rate -0.25%	0.5	3.8	0.4	0.3	24.9	5.6	35.5
Inflation rate +0.25%	0.4	3.8	n/a	n/a	24.9	n/a	29.1
Inflation rate -0.25%	0.5	4.0	n/a	n/a	23.3	n/a	27.8
Annual rate of increase in healthcare +3%	n/a	n/a	n/a	n/a	n/a	8.9	8.9
Annual rate of increase in healthcare -3%	n/a	n/a	n/a	n/a	n/a	3.6	3.6
Conversion value of KW/h +5%	n/a	n/a	n/a	n/a	25.3	n/a	25.3
Conversion value of KW/h -5%	n/a	n/a	n/a	n/a	22.9	n/a	22.9

€ million	Loyalty bonus and other incentives	Termination benefits	IMA	Indemnities for lack of notice and similar	Energy discount	ASEM	TOTAL
By the end of 2016	-	0.2	-	-	0.8	0.2	1.2
By the end of 2017	-	0.2	0.1	-	0.8	0.2	1.3
By the end of 2018	-	0.1	-	-	0.8	0.3	1.2
By the end of 2019	-	0.2	-	-	0.8	0.3	1.3
By the end of 2020	0.1	0.1	-	0.1	0.8	0.4	1.5

23. Provisions for future risks and charges – € 157.8 million

The items and changes of the provisions for risks and charges at 31 December 2015 are set out below.

€ million	Provision for disputes and litigation	Provisions for sundry risks and charges	Provision for early retirement	Total
BALANCE AT 31.12.2014	**10.1**	**108.5**	**52.9**	**171.5**
Provisions	1.9	34.3	-	36.2
Utilisations and other changes	(1.4)	(34.4)	(14.1)	(49.9)
BALANCE AT 31.12.2015	**10.6**	**108.4**	**38.8**	**157.8**

Provision for disputes and litigation – € 10.6 million

The provision is set aside to cover the liabilities at year end that may arise from lawsuits and out-of-court disputes relating to Company activities. The amount set aside takes into account the opinions both of internal and external legal counsel and is substantially in line (+€ 0.5 million) with respect to the previous year.

Litigation for which no potential charge can reasonably be calculated is described in Section “E. Commitments and risks”.

Provisions for sundry risks and charges – € 108.4 million

The final balance of the provisions, although in line with the previous year (-€ 0.1 million), is the result of amounts set aside (€ 34.3 million) and utilisations and other changes (€ 34.4 million) in the year, among which in particular:

- provision set aside for a legal dispute relating to the mechanism for adjusting the tariffs with the Republic of San Marino (for € 10.7 million);
- provisions for risks associated with Council Tax (Imposta Municipale Unica - IMU) (€ 5.5 million);
- net provisions set aside referred to management incentive schemes, for € 3 million;
- net utilisations for "Projects for urban and environmental renewal" carried out by the Company for € 5.6 million;
- Reversal of the provision set aside for probable expenses related to tax obligations deriving from the sale of Terna Participações by the Company (for € 7.3 million);
- net reduction of € 4.5 million of provisions associated with regulation of transmission service quality (mitigation and participation mechanism pursuant to AEEGSI Resolution ARG/elt 198/11) which, net of provisions fro the estimate of the penalty linked to the outage events in the year, reflects the payments to distribution companies and reversals consequent to definition of the penalties related to previous years.

Provision for early retirement incentives – € 38.8 million

This provision reflects the estimated extraordinary charges related to the voluntary early termination of the working relationship of employees of the Company who are eligible for retirement. The item recorded a decrease of € 14.1 million, essentially attributable to the corporate reorganisation plan and generational turnover programme implemented in the year.

24. Deferred tax liabilities – € 31.3 million

The changes in this provision are analysed below.

€ million	31.12.2014	Impact recognised in profit or loss		Impact recognised in statement of comprehensive income	31.12.2015
		Provisions	Utilisations and other changes		
DEFERRED TAX LIABILITIES					
Property, plant and equipment	150.7	-	(41.6)	-	109.1
Employee benefits and financial instruments	3.5	-	(0.4)	-	3.1
Total deferred tax liabilities	**154.2**	**-**	**(42.0)**	**-**	**112.2**
DEFERRED TAX ASSETS					
Provisions for risks and charges	31.2	9.7	(12.1)	-	28.8
Allowance for doubtful accounts	2.9	-	-	-	2.9
Employee benefits	10.5	1.5	(2.7)	(1.9)	7.4
FVH - CFH derivatives	9.8	-	-	(8.0)	1.8
Release of goodwill	47.3	-	(7.3)	-	40.0
Total deferred tax assets	**101.7**	**11.2**	**(22.1)**	**(9.9)**	**80.9**
NET DEFERRED TAX LIABILITIES	**52.5**	**(11.2)**	**(19.9)**	**9.9**	**31.3**

This balance, equal to € 31.3 million, reflects the net movements in the Company's deferred tax assets and liabilities.

Deferred tax liabilities (€ 112.2 million) recorded a decrease of € 42 million, owing to:

- utilisation of previous provisions to cover the difference between additional depreciation and amortisation calculated using ordinary technical rates (€ 30.6 million), including the net reversal in respect of the amortisation/depreciation charge for the period attributable to the difference from merger eliminations allocated to property, plant and equipment following mergers carried out in previous years (€ 2.1 million);
- adjustment of net deferred tax liabilities (€ 11.4 million) consequent to the provisions of the Stability Law for 2016 (Italian Law No. 208 of 28 December 2015) provided for a reduction in the IRES rate (Art. 1 paragraphs 61–64), starting from 2017, from 27.5% to 24% for entities not classified as credit or financial institutions.

Deferred tax assets (€ 80.9 million) show a net decrease of € 20.8 million, mainly related to the following changes:

- net utilisations of € 9.9 million, attributable to the tax effect, which has no impact on the Income Statement, of changes in cash flow hedging financial instruments (€ 8 million) and of actuarial gains and losses on employee benefits (€ 1.9 million);
- utilisation, amounting to € 7.3 million, of the portion accruing of deferred tax assets allocated for the release of goodwill recognised following the incorporation of RTL, including the IRES rate adjustment to 24% (€ 4.5 million);
- net utilisation of € 4.7 million (including the impact of the adjustment) related to Provisions for early retirement incentives essentially attributable to the corporate reorganisation plan and generational turnover programme implemented in the year;
- net utilisation of € 1.5 million related to changes in the year in provisions for service quality consequent to the payments made, the reversals made following the definition of the penalties related to outages of previous years net of the expenses recognised for the events that occurred in the current year;
- provision of € 3,5 million linked to the amounts set aside for a dispute relating to the mechanism for adjusting the tariffs with the Republic of San Marino.

25. Other non-current liabilities – € 156.7 million

The item, of € 156.7 million at 31 December 2015, includes the amount payable to Terna Rete Italia S.p.A. arising through the transfer of net liabilities included in the business unit (€ 49.9 million) and deferred positions relating to set-up grants (€ 106.8 million).
The decrease in the item, of € 24.4 million compared to the previous year, derives from the reduction in the payable to Terna Rete Italia S.p.A., which reflects the transfers of personnel associated with the reorganisation that involved the Group during the year and the liquidation of some payable items included in the business unit (€ 18.8 million) and from the release of set-up grant portions (€ 5.6 million).

26. Current liabilities

Current liabilities at 31 December 2015 break down as follows.

€ million	31.12.2015	31.12.2014	Δ
Short-term loans (*)	398.2	-	398.2
Current portion of long-term loans (*)	120.7	762.4	(641.7)
Trade payables	1,984.1	2,004.4	(20.3)
Tax liabilities	18.5	0.9	17.6
Current financial liabilities (*)	127.1	154.1	(27.0)
Other current liabilities	148.1	184.0	(35.9)
TOTAL	**2,796.7**	**3,105.8**	**(309.1)**

(*) For these items see the comments in Note 20. LOANS AND FINANCIAL LIABILITIES.

Short-term loans – € 398.2 million

The item "Short-term loans" refers to the utilisation of the short-term credit lines.

Trade payables – € 1,984.1 million

Trade payables at 31 December 2015 break down as follows.

€ million	31.12.2015	31.12.2014	Δ
Suppliers:			
- Energy-related payables	1,459.2	1,396.0	63.2
- Non energy-related payables	111.8	119.0	(7.2)
Non energy-related payables due to subsidiaries	411.0	486.3	(75.3)
Payables due to associates	1.2	0.5	0.7
Payables for contract work in progress	0.9	2.6	(1.7)
TOTAL TRADE PAYABLES	**1,984.1**	**2,004.4**	**(20.3)**

Suppliers

<u>Energy-related/adjusted payables – € 1,459.2 million</u>

This item includes the financial effects related to items generated by the so-called "pass-through" costs related to energy dispatching activities carried out by the Company (€ 1,446.5 million) and the payable to Cassa per i Servizi Energetici e Ambientali (CSEA) for calculating the estimate of the 2015 performances referred to the mechanisms for the transmission service quality adjustment (a total of € 12.7 million).
The increase in the item of € 63.2 million compared to the previous year is essentially attributable to:

- Payables for pass-through energy items: up by € 51.5 million owing mainly to the following items:
  - payables arising from the remuneration of the units essential for the safety of the electricity system - UESS (€ +173.6 million) and productive capacity - capacity payment (€ +37.3 million) basically for the lower payments resolved by the Authority[43] in favour of users of essential installations and production units in relation to the items regarding the collection of fees for the relevant cover;
  - payables for purchases of energy on the Dispatching Service Market DSM (-€ 85.4 million) and for unbalancing associated with production and consumption units (-€ 44.9 million).
- Payables to Cassa per i Servizi Energetici e Ambientali (CSEA): up by € 11.8 million owing essentially to the recognition of expenses deriving from the bonus/penalty mechanisms associated with transmission service quality; of particular significance were the payable for the estimate of negative performance associated with the RENS (€ 6.5 million against the bonus recognised in 2014), and the payable for the contribution to the Exceptional Events Fund as CSEA set up in order to make up the expenses incurred in paying out refunds to MV/LV users involved by outages attributable to reasons of force majeure (€ 6.1 million compared to € 0.8 million in being at the end of 2014).

<u>Non energy-related payables</u>

Amounts due to suppliers refer to invoices both already received and yet to be received for tenders, services and the purchase of materials and equipment.
The downward change with respect to the previous year (-€ 7.2 million) is essentially attributable to less services and less purchases recorded in the year with respect to the same figure recorded the previous year.

Payables due to subsidiaries

The item, of € 411 million, shows a decrease of € -€ 75.3 million, mainly attributable to lower payables to the subsidiaries Terna Rete Italia S.p.A. (-€ 48.8 million) and Terna Storage S.r.l. (-€ 28.4 million), owing essentially to the lower investment activities recorded in the year.

Payables due to associates

This item, of € 1.2 million shows an increase of € 0.7 million compared with the same figure for the previous year, owing to payables to the associate CESI for services provided to the Company in the construction and management of laboratories and plants for tests, inspections, studies and experimental research in the general field of electricity technology and scientific and technical progress.

Company commitments to suppliers totalled approximately € 294.3 million and refer to purchase commitments relating to the normal "operating cycle" planned for the period 2016–2020.

Payables for contract work in progress

Payables for contract work in progress amounted to € 0.9 million at 31 December 2015 and were down compared to 31 December 2014 (€ 2.6 million). They can be broken down as follows.

€ million	Payments on account	Contract value	Balance at 31.12.2015	Payments on account	Contract value	Balance at 31.12.2014	Δ
Third-party customers	(1.2)	0.3	(0.9)	(7.3)	4.7	(2.6)	1.7

The carrying amount of trade payables is substantially equal to the fair value.

(43) With Resolutions 612/2015/R/eel of 11 December 2015, 615/2015/R/eel and 616/2015/R/eel of 15 December 2015, the AEEGSI provided for the Payments on account by Terna of the supplementary fee covering the costs of the EUSSs respectively for the year 2014 and for the year 2015 (for the essential units of Sicily, Sardinia and the continent) for a total amount of € 548.9 million.

Tax liabilities – € 18.5 million

The item refers to the Company's liabilities for IRES and IRAP taxes for the financial year and recorded a net increase, compared to the previous year, of € 17.6 million attributable substantially to lower payments on account of taxes for the year with respect to the payable recognised for current taxes accruing.

Other current liabilities – € 148.1 million

Other current liabilities break down as follows.

€ million	31.12.2015	31.12.2014	Δ
Payments on account	56.4	80.7	(24.3)
Other tax liabilities	1.5	30.1	(8.6)
Payables to social security institutions	6.2	6.2	-
Payables to employees	13.6	11.5	2.1
Other payables to third parties	70.4	55.5	14.9
TOTAL	148.1	184.0	(35.9)

Payments on account

This item (€ 56.4 million) includes the set-up grants received by the Company in relation to assets under construction at 31 December 2015.

Compared to the 2014 figure (€ 80.7 million), we note a drop of € 24.3 million that is essentially attributable to the utilisation of the contributions received during the last year from MED/of the EU for projects that are still in progress (€ -17.5 million) in addition to implementing other changes made on behalf of third parties (€ -7.8 million).

Other tax liabilities

The other tax liabilities, of € 1.5 million, include payables for income tax (IRPEF) withheld on salaries recognised at the end of the year. The change is essentially attributable to the Company's position with the tax authorities for VAT to be paid which in 2014 showed a payable of € 29 million.

Payables to social security institutions

Payables to social security institutions, essentially relating to payables to the pensions agency INPS, for employee contributions, showed a balance of € 6.2 million, equal to the balance recognised in the previous year of € 6.2 million.

Payables to employees

Payables to employees show a balance of € 13.6 million and mainly regard:

- amounts relating to staff incentives and to early retirement to be paid the following year (€ 10.3 million);
- payments due to employees for unused holiday time and abolished public holidays (€ 1.9 million).

the increase compared with the previous year (€ 2.1 million) is essentially due to higher payables for early retirement incentives to be paid.

Other payables to third parties

Other payables to third parties, equal to € 70.4 million (€ 55.5 million al 31 December 2014), essentially regard security deposits (€ 56.6 million) received from electricity market operators securing their contractual obligations in respect of dispatching contracts. The item, which showed an increase of € 14.9 million, is attributable mainly to the increase in security deposits received to guarantee the contractual obligations against dispatching and virtual interconnection contracts (+€ 15.9 million).

E. Commitments and risks

Risk management

Terna S.p.A.’s market and financial risks

During the financial year, in conducting its operations, Terna is exposed to various different financial risks: market risk (namely interest rate risk and inflation risk), liquidity risk and credit risk.
This section provides comprehensive information regarding Terna’s exposure to all the above risks, along with a presentation of the objectives, policies and processes for managing those risks and the methods used to measure them, with further quantitative disclosures concerning the 2014 financial statements.
Terna’s risk management policies seek to identify and analyse the risks the Company is exposed to, establishing appropriate limits and controls and monitoring risks and compliance with such limits. These policies and related systems are revised on a regular basis in order to reflect any changes in market conditions and the Company’s activities.
As a part of the financial risk management policies approved by the Board of Directors, Terna S.p.A. has established the responsibilities and operating procedures for financial risk management, specifically as concerns the instruments to be used and the precise operating limits in managing them.

	31.12.2015				31.12.2014			
€ million	Receivables	Receivables at fair value	Hedging derivatives	Total	Receivables	Receivables at fair value	Hedging derivatives	Total
ASSETS								
Derivative financial instruments (FVH)	-	-	688.2	688.2	-	-	784.8	784.8
Cash, short-term deposits and *inter-company* loans	435.4	-	-	435.4	1,380.0	-	-	1,380.0
TOTAL	**435.4**	**-**	**688.2**	**1,123.6**	**1,380.0**		**784.8**	**2,164.8**

	31.12.2015				31.12.2014			
€ million	Payables	Loans at fair value	Hedging derivatives	Total	Payables	Loans at fair value	Hedging derivatives	Total
LIABILITIES								
Long-term debt	2,224.5	6,406.1	-	8,630.6	2,856.8	5,983.6	-	8,840.4
Derivative financial instruments	-	-	6.4	6.4	-	-	35.5	35.5
TOTAL	**2,224.5**	**6,406.1**	**6.4**	**8,637.0**	**2,856.8**	**5,983.6**	**35.5**	**8,875.9**

Market risks

Market risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of changes in financial market conditions. Market risks include three types of risks: exchange rate risk, interest rate risk and inflation risk.
Risk management must be performed with the objective of maximising financial income and minimising the related risks by selecting counterparties and instruments compatible with the corporate risk management policy. Speculative activity is not envisaged in the corporate mission.
Terna S.p.A. seeks to adopt a dynamic approach to financial risk management. This approach is characterised by risk aversion, aiming at minimising risk through continuous monitoring of financial markets in order to plan hedging transactions in favourable market conditions. The dynamic approach makes it possible to take action to improve existing hedges where changes in market conditions or in the hedged item make the latter unsuitable or excessively expensive. The concept of hedging transaction is not restricted to hedges that qualify for hedge accounting, but rather encompasses the objective of total or partial hedging of the economic or financial item against interest rate risk.

All derivative contracts entered into have a notional amount and maturity date prior to or equal to that of the underlying financial liability, so that any change in the fair value and/or estimated cash flows of the contracts is offset by a corresponding change in the fair value and/or of the estimated cash flows of the underlying position. The fair value of financial derivatives reflects the estimated amount that Terna would pay or receive in order to extinguish contracts at the closing date.
The fair value of instruments is determined in accordance with the fair value hierarchy envisaged under IFRS 7 (Level 2) by means of appropriate valuation techniques for each category of financial instrument, using market data at the closing date (such as interest rates, exchange rates and volatility) and discounting projected cash flows on the basis of the market yield curve and inflation at the reporting date.
The financial assets and liabilities in respect of derivative instruments in place during the year can be classified as:

- cash flow hedging derivatives, mainly related to hedging the risk of changes in cash flows associated with long-term floating-rate loans;
- fair value hedging derivatives, related to hedging the exposure to changes in the fair value of a financial asset or liability associated with fluctuations in interest rates (fixed-rate bonds).

Below are the notional amounts and fair values of the derivative financial instruments subscribed by Terna.

	31.12.2015		31.12.2014		Δ	
€ million	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
FVH derivatives	3,150.0	688.2	3,150.0	784.8	-	(96.6)
CFH derivatives	3,043.1	(6.4)	2,687.3	(35.5)	355.8	29.1

Interest rate risk

Interest rate risk is represented by the uncertainty associated with interest rate fluctuations. This is the risk that a change in market interest rates may produce effects on the fair value or future cash flows of financial instruments.
In conducting its operations, Terna is exposed to the risk of fluctuations in interest rates. Its main source of interest rate risk is associated with items of net financial debt and the related hedging positions in derivative instruments that generate financial expense. Terna's borrowing strategy focuses on long-term loans, whose term reflects the useful life of company assets. It pursues an interest rate risk hedging policy that aims to reconcile this approach with the regulatory framework, which every four years establishes the cost of debt as part of the formula to set the return on the Regulatory Asset Base (RAB).
Accordingly, the hedging instruments used, at various maturity dates, include both derivatives that transform fixed rates into floating rates and derivatives that transform floating rates into fixed rates.
In order to reduce the amount of financial debt exposed to the risk of fluctuations in interest rates and to optimise the temporal correlation between average cost of debt and regulatory rate used in the WACC formula, various types of plain vanilla derivatives are used, such as interest rate swaps.
Interest rate swaps are used in order to reduce the volume of debt exposed to fluctuations in interest rates and volatility of borrowing costs. With an interest rate swap, Terna agrees with a counterparty to exchange, at specific intervals, the floating-rate cash flows on a specified notional amount against interest flows at a fixed rate (agreed between the parties), or vice versa.

The following table shows the financial instruments entered into by Terna, classified according to the type of interest rate (fixed or floating).

€ million	Carrying amount at 31.12.2015	Carrying amount at 31.12.2014	Δ
Fixed-rate financial instruments:			
- assets	-	-	-
- liabilities	6,412.5	6,019.1	393.4
Floating-rate financial instruments			
- assets	1,123.6	2,164.8	(1,041.2)
- liabilities	2,224.5	2,856.8	(632.3)
TOTAL	**7,513.4**	**6,711.1**	**802.3**

Sensitivity to interest-rate risk

As regards interest rate risk management, Terna has, on the one hand, entered into fixed-to-floating interest rate swaps (FVHs) to hedge the fair value of fixed-rate risk bonds and, on the other, floating-to-fixed interest rate swaps (CFHs) to hedge the expected cash flows in respect of all other floating-rate debt.

Since the hedging relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge, as verified initially and periodically over its life, is high (between 80% and 125%), the Company has elected to use hedge accounting to ensure the perfect temporal matching of the hedge and the hedged item. The aim of hedge accounting is to recognise the effects of the hedges and the hedged items in the income statement at the same time. Accordingly, for FVH derivatives, any changes in the fair value of the hedged item attributable to the risk being hedged must be booked in the income statement, thereby offsetting the changes in the fair value of the derivative booked in the income statement. For CFH derivatives, the changes in the fair value of the derivative must be booked in "Other comprehensive income" (recognising any ineffective portion of the hedge directly in the income statement) and then reversed through the income statement in the same period in which the cash flows of the hedged instrument materialise. The characteristics of the CFH derivatives mirror those of the underlying hedged asset so the related cash flows will materialise at the same maturities as the interest on the debt, with no impact of the changes in fair value on the income statement.

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

	Profit or loss			Equity		
€ million	Current rates +10%	Current amounts at 31 December	Current rates -10%	Current rates +10%	Current amounts at 31 December	Current rates -10%
31.12.2015						
Positions sensitive to interest rate variations (FVH, bonds, CFH)	1.1	1.1	1.1	(4.9)	(6.4)	(7.5)
Hypothetical change	-	-	-	1.5	-	(1.2)
31.12.2014						
Positions sensitive to interest rate variations (FVH, bonds)	(4.7)	2.0	8.7	(35.1)	(35.5)	(35.9)
Hypothetical change	(6.7)	-	6.7	0.4	-	(0.4)

Inflation risk

As regards inflation rate risk, the rates established by Regulators to remunerate Terna S.p.A.'s activities are determined so as to allow coverage of the sector's recognised costs. Such cost components are updated on an annual basis to consider the accrued impact of inflation. Having used an inflation-linked bond issue in 2007, the Company put in place an effective hedge of net income; in fact, any decrease in expected revenue due to a decrease in the inflation rate would be offset by lower financial expense.

Exchange rate risk

Generally Terna hedges exchange rate risk through the forward sale or purchase of currencies (forward contracts) or the use of options. Currency options give Terna the right or the obligation to buy or sell predetermined amounts of a currency at a specific exchange rate at the end of a specific period of time. Normally, both forward contracts and options have maturities of no more than 12 months.
Such contracts have a notional amount and maturity date less than or equal to that of the underlying financial liability, or the expected cash flows, so that any change in the fair value and/or estimated cash flows deriving from a rise or fall of the euro against other currencies is fully offset by a corresponding change in the fair value and/or estimated cash flows of the underlying position. At 31 December 2015 (as at 31 December 2014), no financial instruments exposed to exchange rate risk were present.

Liquidity risk

The liquidity risk is the risk Terna might encounter difficulty in discharging its obligations in respect of its financial liabilities and operational cycle. Liquidity risk management seeks to ensure adequate coverage of financial needs by obtaining adequate lines of credit and appropriate management of any surplus liquidity. At 31 December 2015, Terna had available short-term credit lines for approximately € 739 million and revolving credit lines for € 1.550 million. The table below shows the repayment plan at 31 December 2015 of the nominal long-term debt.

€ million	Maturity	31.12.2014	31.12.2015	Maturity within 12 months	Maturity beyond 12 months	2017	2018	2019	2020	2021	After
Bonds	2024	1,081.9	1,050.1	-	1,050.1	-	-	-			1,050.1
Bonds IL	2023	731.6	712.8	-	712.8	-	-	-			712.8
Bonds PP	2019	691.9	677.2	-	677.2	-	-	677.2			
Bonds 1250	2021	1,483.0	1,453.3	-	1,453.3	-	-	-		1,453.3	
Bonds 1250	2017	1,247.8	769.2	-	769.2	769.2	-	-			
Bonds 1000	2022	-	995.3	-	995.3	-	-	-			995.3
Bonds 750	2018	747.4	748.2	-	748.2	-	748.2	-			
Total fixed rate		**5,983.6**	**6,406.1**	**-**	**6,406.1**	**769.2**	**748.2**	**677.2**		**1,453.3**	**2,758.2**
EIB	2015–2030	1,707.0	1,724.5	120.6	1,603.9	132.4	132.4	111.3	116.1	111.5	1,000.2
Club Deal	2015	649.9	-	-	-	-	-	-			-
CDP	2019	500.0	500.0	-	500.0	-	-	500.0			-
Total floating rate		**2,856.9**	**2,224.5**	**120.6**	**2,103.9**	**132.4**	**132.4**	**611.3**	**116.1**	**111.5**	**1,000.1**
TOTAL		**8,840.5**	**8,630.6**	**120.6**	**8,510.0**	**901.6**	**880.6**	**1,288.5**	**116.1**	**1,564.8**	**3,758.3**

Credit risk

Credit risk is the risk a customer or one of the counterparties to a transaction in financial instruments could cause a financial loss by failing to discharge an obligation. It is mainly generated by trade receivables and the financial investments of the Company.
The credit risk originated by open positions on transactions in financial derivatives is considered to be marginal since the counterparties, in compliance with financial risk management policies, are leading international credit institutions with high ratings and such transactions are diversified in compliance with specific concentration limits.
Terna provides its services essentially to counterparties considered solvent by the market, and therefore with a high credit standing, and does not have highly concentrated credit risk.
Credit risk management is guided by the provisions of AEEG Resolution no. 111/06, which, in Art. 49, introduced instruments for the limitation of risks related to the insolvency of dispatching customers, both on a preventive basis and in the event of actual insolvency. In particular, the Resolution establishes three instruments to safeguard the electricity market: a guarantee system (bank guarantees provided by individual dispatching customers, based on their turnover), the option of terminating dispatching contracts (in the event of insolvency or failure to replace enforced guarantees) and, finally, the possibility of recovering uncollected debts, after having taken all other possible collection actions, through a specific fee defined by the Authority.
The following table summarises the exposure to such risk as at the reporting date.

	Carrying amount		
€ million	31.12.2015	31.12.2014	Δ
FVH derivatives	688.2	784.8	(96.6)
Cash and cash equivalents	435.4	1,380.0	(944.6)
Trade receivables	1,285.8	1,535.4	(249.6)
TOTAL	**2,409.4**	**3,700.2**	**(1,290.80)**

The total value of the exposure to credit rate risk at 31 December 2015 is represented by the carrying amount of financial assets (current and non-current), trade receivables and cash and cash equivalents.
The following tables provide qualitative information on trade receivables that are not past due and have not been impaired.

GEOGRAPHICAL DISTRIBUTION	Carrying amount	
€ million	31.12.2015	31.12.2014
Italy	1,223.9	1,495.6
Euro-area countries	56.9	37.9
Other countries	5.0	1.9
TOTAL	**1,285.8**	**1,535.4**

CUSTOMER TYPE	Carrying amount	
€ million	31.12.2015	31.12.2014
Distributors	335.6	335.0
Electricity Equalisation Fund (*)	82.9	197.1
Input dispatching contractors	189.5	176.9
Withdrawal dispatching contractors	598.3	750.0
Parties which have signed virtual import contracts and virtual import services (interconnectors and shippers)	18.2	12.3
Sundry receivables	61.3	64.1
TOTAL	**1,285.8**	**1,535.4**

(*) of which € 63.3 million from volume effect on grid transmission fees.

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

	31.12.2015		31.12.2014	
€ million	Impairment	Gross	Impairment	Gross
Not yet past due		1,228.8		1,427.7
0–30 days past due		1.8		62.0
31–120 days past due		11.1		13.7
More than 120 days past due	(34.4)	78.5	(32.2)	64.2
TOTAL	**(34.4)**	**1,320.2**	**(32.2)**	**1,567.6**

Changes in the allowance for doubtful accounts in the course of the year were as follows.

€ million	31.12.2015	31.12.2014
Balance at 1 January	(32.2)	(30.8)
Reversal of provision	0.8	0.5
Impairment for the year	(3.0)	(1.9)
BALANCE AT 31 DECEMBER	**(34.4)**	**(32.2)**

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

€ million	31.12.2015	31.12.2014
input dispatching activity	246.8	236.3
withdrawal dispatching activity	1,024.1	989.6
Grid transmission fees - distributors	262.1	254.0
Virtual importing and super interruptibility	80.0	87.8
BALANCE AT 31 DECEMBER	**1,613.0**	**1,567.7**

In addition, non-regulated activities are exposed to “counterparty risk”, in particular with subjects with which contracts involving income are signed, in consideration of the credibility and solvency of the parties in question and the impact that their possible insolvency could have on the financial balance of the business. Counterparty risk is mitigated by implementing special procedures to assess counterparties, which measure economic, financial and reputational aspects of the subjects in question.

Default risk and debt covenants

This risk is associated with the possibility that the loan contracts or bond rules to which the Company is party may contain provisions authorising counterparties to call in such loans immediately upon the occurrence of certain events, thereby generating liquidity risk. For more information on the contractual provisions of outstanding loans at 31 December 2015, please see the section “Loans and financial liabilities” in the notes of Terna S.p.A.’s Consolidated Financial Statements.

Parent company guarantees issued in favour of suppliers of subsidiaries

The Company has issued parent company guarantees in favour of a number of suppliers of the subsidiaries Terna Rete Italia S.p.A. and Terna Crna Gora d.o.o. for contracts connected with construction of the interconnection between Italy and Montenegro. The Company’s maximum exposure at 31 December 2015 amounted to € 60.4 million.

Legal disputes

The main off-balance sheet commitments and risks of the company at 31 December 2015 are as follows. The main unrecognised commitments and risks of the Parent Company Terna and the subsidiaries Terna Rete Italia S.r.l., Terna Rete Italia S.p.A. and the Tamini Group companies at 30 June 2015 are illustrated below. The other subsidiaries had no unrecognised commitments and contingencies at that date.

Environmental and urban planning litigation

Environmental litigation originates from the installation and operation of electrical plants and primarily involves damages which could be derived from exposure to electrical and magnetic fields that are generated by long-distance power lines. The Parent Company and the subsidiary Terna Rete Italia S.r.l. are involved in various civil and administrative lawsuits requesting the transfer or change in operations of allegedly harmful power lines, despite their being installed in full compliance with the applicable legislation (Italian Law No. 36 of 22 February 2001 and the Prime Minister's Decree of 8 July 2003). Only a very small number of cases include claims for damages for harm to health caused by electromagnetic fields.

Only in a few cases have adverse judgements been issued against the Parent Company. These have been appealed and the appeals are still pending, and adverse rulings are considered unlikely.

In addition, a number of cases relating to urban planning and environmental issues connected with constructing and operating certain transmission lines are pending. The possible effects of any unfavourable outcome to these cases are unpredictable and, accordingly, have not been considered when determining the “Provisions for disputes and other contingencies”.

In a limited number of cases, the possibility of an adverse outcome cannot be entirely ruled out. The possible consequences could, in addition to the award of damages, include the costs of modifying lines and the temporary suspension of their use. Examination of the above legal disputes, having regard for the information provided by the external legal consultants, suggests that the likelihood of adverse outcomes is remote, with the exception of a number of proceedings for which, considering the their status, it is not currently possible to carry out reliable assessments of their outcome.

Litigation concerning concession activities

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

Tax Authority

On 27 March 2012, the Parent Company Terna, as jointly and severally responsible with Enel Distribuzione S.p.A. (“Enel Distribution”), received a notice for the payment of greater taxes due as a result of the sale transaction of the holding owned by Enel Distribuzione in Elat S.r.l. (later Telat S.r.l., today Terna Rete Italia S.r.l.) to Terna S.p.A. (for the amount of approximately € 38 million, including interest). According to the provisions of the equity investment sale contract, Enel Distribuzione S.p.A. must release the Parent Company, Terna, of obligations regarding all costs, liabilities and any damages resulting from the aforementioned notice and the points contested therein. Enel Distribuzione, in agreement with Terna, intends to defend its interests in the appropriate settings, holding Terna exempt from all payments/advances. Therefore, on the basis of the contractual agreements, confirmed by Enel Distribuzione in a letter dated 17 April 2012, we do not believe that any financial expenditure will result from the notice in question. On 1 April 2014, the Provincial Tax Commission of Rome issued its judgement accepting Terna's appeal. The Tax Authority has appealed this decision. On 1 July 2015, the Provincial Tax Commission of Rome issued its judgement rejecting the appeal lodged by the Provincial Department 1 of Rome, confirming the 1st level judgement.

F. Business combinations

Reference is made to the same paragraph in the Notes to the Consolidated Financial Statements.

G. Related-party transactions

Terna S.p.A.'s transactions with related parties during the year, taking account of the de facto control exercised over the Company by Cassa Depositi e Prestiti S.p.A. ascertained in 2007, regarded - in addition to the subsidiaries (Terna Rete Italia S.p.A., Terna Rete Italia S.r.l., Terna Crna Gora d.o.o., Terna Plus S.r.l. Terna Storage S.r.l., Rete S.r.l., Terna Interconnector, Monita Interconnector S.r.l., Terna Chile S.p.A., Tamini Trasformatori S.r.l. and the companies controlled by this last – "Tamini Group"), - the associate companies (Cesi S.p.A., CGES A.D. and Coreso S.A.), the employee pension funds (Fondenel and Fopen), Cassa Depositi e Prestiti, CDP Reti S.p.A. as well as companies belonging to:

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

and ANAS S.p.A..

Also relevant were transactions with the Ministry for Economic Development in relation the grants received for projects financed by the MED/EU.
Given that Terna S.p.A. and the aforementioned subsidiaries directly or indirectly controlled by the Ministry of Economy and Finance fall within the definition of "Government-related entities" as per IAS 24 - *"Related party disclosures"*, the Group adopts the partial exemption provided by the same standard, which dispenses with the required disclosures of relationships with other companies controlled, connected or under joint control of the same government body; in particular, the qualitative and quantitative indications of relationships with Government-related entities which have a significant impact on the Group's results are reported below in this section; no amounts relating to "pass-through items" are given here.
Related party transactions in the financial year 2015 are mainly services that are part of core business and regulated by market conditions.
It should be remembered that, in the current organisational structure of the Terna Group, in signing the business unit rental agreement with the Company, and the consequent specific infra-group contracts, the subsidiary Terna Rete Italia S.p.A. is tasked with performing all non-regulated operational activities, ordinary and extraordinary maintenance of the section of the NTG owned, and management and performance of work on developing the grid as provided for in the Concession for transmission and dispatching, and on the basis of the provisions of Terna's Development Plan.
Terna also provides for the operative management of all subsidiaries by means of specific service agreements that not only assure the administrative and financial coordination and the coordination of institutional relations, but also enable it to act on behalf of the subsidiaries, or for and on their behalf.
Please also note that the Company has in being a two-year contract with the subsidiary Terna Storage, for "safeguarding the construction" of diffused energy storage systems projects, as well as the related "coordination", "study" and "research" activities.
As concerns the non-regulated activities, the Company uses the services offered by the subsidiary Terna Plus S.r.l., in accordance with the current intercompany service agreement.
Terna is also involved in the management of cash demands of subsidiaries through specific Treasury contracts that ensure the guidance and coordination of all transactions in relation to financial resource and needs management and treasury services, as well as the implementation of all related transactions.

Below is a summary of the main intercompany contracts in place at 31 December 2015.

Counterparty	Type	Annual price
Terna Rete Italia S.p.A.	**SERVICE AGREEMENT**	
	Operation & Maintenance	€ 267,813,235*
	Renewal and development	equal to costs incurred +5.82% on the personnel expenses incurred
	Administrative, assistance and consulting services - from Terna S.p.A. to Terna Rete Italia S.p.A. (receivable) - from Terna Rete Italia S.p.A. to Terna S.p.A. (liabilities)	 € 27,648,395* € 2,163,395*
	LEASE OF AREAS ABLE TO BE SET UP AS EMPLOYEE WORKSTATIONS	
	- from Terna S.p.A. to Terna Rete Italia S.p.A. (receivable) - from Terna Rete Italia S.p.A. to Terna S.p.A. (liabilities)	€ 2,349,361 € 406,188
	BUSINESS UNIT RENT	€ 32,996,771*
Terna Rete Italia S.r.l.	**ADMINISTRATIVE SERVICE AGREEMENT (RECEIVABLE)**	€ 399,822
Terna Plus S.r.l.	**SERVICE AGREEMENT**	
	Non-regulated of Terna (receivable) – Art. 2.6	€ 43,082
	Management fee (receivable) - Arts 2.1 and 2.2 Other administrative services att. On contract (receivable) - Art. 2.3	€ 723,371 € 43,485
	LEASE OF AREAS ABLE TO BE SET UP AS EMPLOYEE WORKSTATIONS (RECEIVABLE)	
	from Terna S.p.A. to Terna Plus S.r.l. (receivable)	€ 145,361
Tamini Group	Administrative service agreement (receivable)*	€ 150,234
Terna Storage S.r.l.	**ADMINISTRATIVE, ASSISTANCE AND CONSULTING SERVICE AGREEMENT (RECEIVABLE)**	
	from Terna S.p.A. to Terna Plus (receivable)	€ 243,802
	SERVICE AGREEMENT (PAYABLE)	
	Coord., study and monitoring of storage system dev. activities (fee) - payable	€ 800,000
	Adjustment and development of storage systems	equal to costs incurred +5.82% on the personnel expenses incurred
	LEASE OF AREAS ABLE TO BE SET UP AS EMPLOYEE WORKSTATIONS (RECEIVABLE)	€ 66,073
Terna Interconnector S.r.l.	**ADMINISTRATIVE SERVICE AGREEMENT (RECEIVABLE)**	€ 495,027
	Oversight and coordination for construction of the civil works of the Italy-France connection (payable)	pqual to the costs incurred + 5.82% on the same
Monita Interconnector S.r.l.	Administrative services, support for operations and preparations for implementation of the project	€ 102,280
Terna Chile S.p.A.	Management fee (assets)	€ 102,280
Terna Crna Gora d.o.o.	**SERVICE AGREEMENT**	€ 125,000
	Technical services Administrative services	equal to costs incurred + 5.82% € 90,074

**2015 price updated by agreement of the parties in accordance with Art. 9.6-bis and 7.1 of the service agreement.*

The table below also sets out the contractual terms and conditions of the financial contracts in place with the subsidiaries.

CONTRACTUAL CONDITIONS - INTEREST RATES			
	Loan	Intercompany current a/c	
		Inventories	Utilisations
Terna Rete Italia S.r.l.	-	Euribor monthly average 1 month +0.30%	Euribor monthly average 1 month +0.80%
Terna Rete Italia S.p.A.	-	Euribor monthly average 1 month +0.30%	Euribor monthly average 1 month +0.80%
Terna Plus S.r.l.	-	Euribor monthly average 1 month +0.30%	Euribor monthly average 1 month +0.80%
Terna Storage S.r.l.	-	Euribor monthly average 1 month +0.30%	Euribor monthly average 1 month +0.80%
Terna Interconnector S.r.l.	Euribor 12 months +0.31%	-	-

The following tables specify the nature of the transactions implemented by the Company with related parties and the respective income and expense totalled during the year, in addition to the respective receivables and payables in place as of 31 December 2015.

€ million	Income statement				
	Income items			Operating expenses	
Company	Grid transmission fees and other energy-related items	Non energy-related items	Dividends	Grid transmission fees and other energy-related items	Non energy-related items
Subsidiaries					
Terna Rete Italia S.p.A.	-	74.0	-	-	301.2
Terna Chile S.p.A.	-	0.1	-	-	-
Terna Rete Italia S.r.l.	-	4.6	-	-	-
Terna Gora d.o.o.	-	1.0	-	-	-
Terna Plus S.r.l.	-	1.4	-	-	0.2
Tamini Group	-	0.2	-	-	-
Terna Storage S.r.l.	-	0.5	-	-	1.0
Terna Inteconnector S.r.l.	-	0.6	-	-	-
Monita Interconnector S.r.l.	-	0.1	-	-	-
Total subsidiaries	**-**	**82.5**	**-**	**-**	**302.4**
De facto parent company					
Cassa Depositi e Prestiti S.p.A.	-	-	-	-	5.3
Total de facto parent company	**-**	**-**	**-**	**-**	**5.3**
Associates:					
Cesi S.p.A.	-	0.1	1.1	-	-
CORESO	-	-	-	-	1.6
Total associates	**-**	**0.1**	**1.1**	**-**	**1.6**
Other related companies:					
GSE Group	27.1	0.2	-	-	-
Enel Group	1,522.1	1.1	-	-	0.1
Eni Group	5.2	-	-	-	-
Ferrovie Group	2.4	-	-	7.6	0.1
ANAS S.p.A.	-	-	-	-	-
Total other related companies	**1,556.8**	**1.3**	**-**	**7.6**	**0.2**
Pension funds:					
Fondenel	-	-	-	-	0.2
Fopen	-	-	-	-	0.2
Total pension funds	**-**	**-**	**-**	**-**	**0.4**
TOTAL	**1,556.8**	**83.9**	**1.1**	**7.6**	**309.9**

€ million	Statement of financial position					
	Property, plant and equipment	Receivables and other assets		Payables and other liabilities		
Company	Capitalised costs	Other	Financial	Other	Financial	Guarantees*
Subsidiaries						
Terna Rete Italia S.p.A.	65.2	29.1	-	430.3	189.9	-
Terna Chile S.p.A.	-	0.1	-	-	-	-
Terna Rete Italia S.r.l.	-	4.2	-	21.9	(237.5)	-
Terna Gora d.o.o.	-	0.3	-	-	-	-
Terna Plus S.r.l.	-	0.8	-	0.7	25.6	-
Tamini Group	-	-	-	-	-	-
Terna Storage S.r.l.	0,4	0.1	-	29.4	(3.3)	
Terna Inteconnector S.r.l.	-	0.5	3.7	1.0	-	-
Monita Interconnector S.r.l.	-	0.1	-	-	-	-
Total subsidiaries	**65.6**	**35.2**	**3.7**	**483.5**	**(25.4)**	**-**
De facto parent company						
Cassa Depositi e Prestiti S.p.A.	-	-	0.2	-	500.8	-
Total de facto parent company	**-**	**-**	**0.2**	**-**	**500.8**	**-**
Associates:	-					
Cesi S.p.A.	2.0	0.1	-	1.2	-	1.2
Total associates	**2.0**	**0.1**	**-**	**1.2**	**-**	**1.2**
Other related companies:						
GSE Group	-	5.9	-	-	-	-
Enel Group	1.5	324.0	-	7.9	-	455.0
Eni Group	-	1.0	-	-	-	21.0
Ferrovie Group	-	0.6	-	1.4	-	44.4
ANAS S.p.A.	-	0.6	-	-	-	-
FINMECCANICA	4.7	-	-	-	-	-
Italian Ministry of Economic Development	-	-	-	42.8	-	-
Total other related companies	**6.2**	**332.1**	**-**	**52.1**	**-**	**520.4**
Pension funds:					-	-
Fopen	-	-	-	0.2	-	-
Italian Ministry of Economic Development	-	-	-	0.2	-	-
Total pension funds					**-**	**-**
TOTAL	**73.8**	**367.4**	**3.9**	**537.0**	**475.4**	**521.6**

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

H. Significant non-recurring events and transactions, and atypical or unusual transactions

No significant, non-recurring, atypical or unusual transactions - with the exception of those described above - were carried out during 2015, either with third parties or with related parties.

I. Notes to the statement of cash flows

The cash flow generated from **continuing operations** in the year amounted to around € 951.7 million, which reflects around € 1,406.6 million in cash from operating activities (self-financing) and around € 454.9 million in financial resources generated by the management of net working capital.
Investing activities used net financial resources of around € 1,768.2 million, and mainly included € 948.8 million of investment in property, plant and machinery (€ 977.4 million net of plant grants totalling € 28.6 million) and € 44.2 million of investment in intangible assets.
The cash flow for investing activities also reflects the change in the equity investments held by the Company, mainly for the acquisition of Rete S.r.l. (€ 770.1 million) and for the capital increase subscribed in the subsidiary Terna Crna Gora d.o.o. (€ 20 million).
The net change in **loan flows** in relation to shareholders' equity drops by € 402.0 million due to the disbursement of the 2014 dividend balance (€ 261.3 million) and the 2015 interim dividend (€ 140.7 million).
Consequently, the financial resources used in investing activities and the remuneration of equity during the period, led to total financial requirements of € 2,170.2 million in the year, part of which (€ 951.7 million) was covered by the cash flows generated by operating activities and the remainder by increasing net debt.

L. Subsequent events

Management and development of the NTG

The 380 kV Villanova-Gissi power line became operational on 31 January 2016. This had been included in the Grid Development Plan and was authorised by the Ministry of Economic Development on 15 January 2013 with Decree No. 239/EL-195/180/2013. The work was aimed at remedying most of the electrical deficit of Abruzzo resolving its electrical infrastructural shortcomings, eliminating the notable limitations on operations and reducing considerably the risks of blackouts. It also makes it possible to input greater quantities of electricity produced also by renewable sources in Italy. There are notable benefits for the country: for the security and efficiency of the system; economic (savings for families and businesses); maintenance of the Adriatic backbone; electrical (an increase in transfer capacity of more than 300 MW of energy); environmental (increased transport of production from renewable sources of 700 MW; reduction in CO_2 emissions of approximately 165 kt/year).
Again in January, accepting the indications of the Ministry of the Environment, Terna sent to all stakeholders involved in the study of the project to rearrange the electricity grid in the Lucca area, aimed at making it easier to understand and putting the Ministry of the Environment in the best condition for choosing the most suitable solution for the construction of the work.
In February 2016 Terna obtained approval, with a declaration of public utility, for the project to create the 132 kV “Sacca Serenella Cabina Primaria – Cavallino Cabina Primaria” and “Fusina 2 - Sacca Fisola Cabina Primaria” power lines in cable, included in the Grid Development Plan and approved by the Ministry of Economic Development. The work is necessary to guarantee the widest margins of security and reliability of power supplies to the Venice lagoon.

Sustainability

In January 2016 Terna was confirmed at the top of global sustainability, thanks to the results achieved in its environmental and social responsibility activities. The Company in fact obtained recognition as an Industry Leader in the Electric Utilities segment of the Dow Jones Sustainability Index, and is the only Italian company to qualify in the Gold Class of the 2016 Sustainability Yearbook just published by RobecoSAM. Terna, which has qualified for the fourth time in the Gold Class, achieved a total score of 89, the highest in its history and the highest among Electric Utilities, a segment that recorded an average score of 52.
In February 2016, as part of its commitment to developing an increasingly sustainable grid for territories and communities, Terna began work on demolishing 3 km of old power line, dating back to the 1950s, which with 17 pylons crosses the Florentine hills of Pian dei Giullari, Arcetri and Monte alle Croci: an area of precious landscape and cultural assets among the most important in Italy. All components of the pylons demolished (steel, aluminium, glass, cement), were put back into the productive cycle in an efficient and sustainable manner.

Interconnector

As part of its commitment to facilitate the social acceptance and sustainability of its works, in the first two months of 2016 Terna worked on refining the construction solutions for the two Interconnectors: Italy-Switzerland and Italy-France.
In March 2016, for the Italy-Switzerland Interconnector, Terna requested and obtained from the Ministry of the Environment the suspension of the Environmental Impact Assessment (EIA) proceeding. The suspension was made necessary to enable Terna to complete the considerable quantity of research and additional studies requested by the Ministry itself and by the Piedmont and Lombardy Regions. Again with a view to facilitating the social and environmental integration of the Interconnector, which will make it possible to have energy at lower cost in the valley of the Po and around Milan, in February 2016 Terna had met WWF, Legambiente and FAI to examine in depth a number of ideas to increase the environmental compatibility of some parts of the power line (Settimo Milanese electrical substation).
In February 2016, for the Italy-France Interconnector, a project which is unique in the world for engineering, technological and environmental solutions, Terna took advantage of the profitable discussions held in 2015 with the institutions and communities involved in the project, obtaining from the Ministry of Economic Development the start of the authorisation procedure for the location variant of the Interconnection. The work will increase the security of the grid, reduce the congestions of the continental electricity grid and reduce the cost of bills for citizens and businesses.

Finance

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

Disclosure pursuant to Art. 149-*duodecies* of the CONSOB Issuer Regulation

The following table, prepared in accordance with Art. 149-*duodecies* of the CONSOB Issuer Regulations, presents the fees for 2015 for the audit and non-audit services provided to Terna S.p.A. by the auditing companies.

In €	Entity providing service	Fees due for the year
Statutory audit	PwC S.p.A.	222,706.78
Attestation services	PwC* S.p.A.	151,800.00
TOTAL		**374,506.78**

(*) Includes services provided by other entities in the PWC network.

Certification of the separate financial statements pursuant to Art. 81 ter of Consob Regulation no. 11971 dated 14 May 1999 and subsequent amendments and additions

"Separate Financial Statements"

1. The undersigned Matteo Del Fante, as CEO, and PIERPAOLO CRISTOFORI, as Executive in Charge of the preparation of accounting documents for TERNA S.p.A., also considering that established by art. 154 *bis,* paragraphs 3 and 4 of Italian Legislative Decree no. 58 of 24 February 1998, certify:

   - the suitability in relation to the business characteristics; and

   - the effective application of the administrative and accounting procedures for the preparation of the separate financial statements during financial year 2015.

2. The assessment of the suitability of the administrative and accounting procedures for the preparation of the separate financial statements as at 31/12/2015, is based on a set of standards and methodologies defined by Terna S.p.A. in line with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, which represents a set of reference standards for the internal control and risk management system, generally accepted worldwide.

3. It is also specified that:

   3.1. the separate financial statements at 31/12/2015:

   a. are prepared in compliance with the applicable international accounting standards recognised in the European Community in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and Council of 19 July 2002 and the provisions issued in implementation of art. 9 of Italian Legislative Decree no. 38/2005;

   b. comply with the results of the accounts and accounting entries;

   c. are suitable to providing a truthful, correct representation of the equity, economic and financial position of the issuer;

   3.2. the report on operations includes a reliable analysis of the trend and operating result, in addition to the position of the issuer and a description of the main risks and uncertainties to which it is exposed.

Rome, 21/03/2016

Delegated administrative bodies
(Matteo Del Fante)

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

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

Report of the Board of Statutory Auditors to Terna S.p.A.'s Shareholders' Meeting under the terms of 153 of Italian Legislative Decree No. 58 of February 24, 1998 (Consolidated Law on Finance) and of Article 2429, third paragraph, of the Italian Civil Code

Dear Shareholders,

During the year ended December 31, 2015, the Board of Statutory Auditors carried out supervisory activities in accordance with the law, adapting its operations to the code of conduct of the Board of Statutory Auditors of listed companies issued by the Italian National Board of Chartered and Public accountants (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili), the recommendations of the National Commission for Companies and the Stock Exchange (CONSOB) regarding corporate controls and activities of the Board of Statutory Auditors and the guidelines of the Corporate Governance Code of the Italian Stock Exchange (Corporate Governance Code).

The statutory audit duties pursuant to Legislative Decree No. 39 of January 27, 2010, (Legislative Decree No. 39/2010) have been assigned to the auditing firm PricewaterhouseCoopers S.p.A., appointed by the Shareholders' Meeting of May 13, 2011 for the nine years from 2011 to 2019.

Also in compliance with the provisions issued by CONSOB with Notice DEM/1025564 dated April 6, 2001 and subsequent updates, we report the following:

- We monitored that the Law and the By-laws were complied with.
- We attended the meetings of the Board of Directors and specific preparatory meetings regarding the items on its agenda, as well as the meetings of the Audit, Risk and Corporate Governance Committee and were regularly informed by the Directors regarding the activities carried out, the expected outlook and the most significant economic, financial and equity transactions of the Company, and we were satisfied that the resolutions adopted and implemented were compliant with

the Law and the By-laws and were not manifestly imprudent, risky, and did not represent a potential conflict of interest, or contradict the resolutions passed by the Shareholders' Meeting or compromise the Company's assets. During the assessments, no atypical and/or unusual operations were identified. In fulfilling our mandate, we analysed the information flows from various corporate structures and we also conducted interviews with senior management of the Company, with the auditing firm and with the supervisory bodies of the subsidiaries.

- The Board of Directors, at the meeting of March 21, 2016, on the proposal of the Remuneration Committee, approved the "Annual Remuneration Report" prepared, in accordance with Article 123-*ter* of the Consolidated Law on Finance and in compliance with the provisions of Article 6 of the Corporate Governance Code.
- We monitored the compliance and effective application of the "Procedure for Related-Party Transactions" adopted by the Board of Directors on November 12, 2010 and governed by Article 4 of the CONSOB Regulation referred to in Resolution No. 17221 of March 12, 2010, as subsequently amended and updated.
- The Company drafted the 2015 financial statements according to International Accounting Standards (IAS/IFRS). These financial statements were audited by PricewaterhouseCoopers S.p.A., which issued its own report on April 22, 2016 without objections or calls for further disclosure. The financial statements, together with the Report on Operations, was made available to us in the terms of the law and we have no particular comments.
- The Company drafted the 2015 consolidated financial statements of the Terna Group according to International Accounting Standards (IAS/IFRS). These financial statements were also audited by PricewaterhouseCoopers S.p.A., which issued its own report on April 22, 2016 without objections or calls for further disclosure.
- Among the most significant operations carried out during 2015, we note the following, referring you to the Report on Operations for a more detailed analysis:
  - acquisition of the high-voltage grid of Ferrovie dello Stato Italiane S.p.A.;

– issue of a bond of € 1 billion.

- We collected information and monitored, as far as our authority allowed, the adequacy of the Company's corporate structure, compliance with the principles of proper management and the adequacy of the provisions issued by the Company to the subsidiaries pursuant to Article 114, paragraph 2 of the Consolidated Law on Finance, by acquiring information from the Heads of the designated company departments, through meetings held with the Auditing firm and through meetings held with the audit bodies of the most important subsidiaries in terms of size.
- We monitored the adequacy of the administrative and accounting system, assessing the reliability of the latter in providing a true and fair view of operations; this activity was carried out by obtaining information from the heads of the various departments, by examining company documents and analysing the results of the work carried out by the auditing firm PricewaterhouseCoopers S.p.A. The Chief Executive Officer and the Executive in charge of preparing the Company's accounting documents have, with a special report attached to the 2015 financial statements, attested: a) the adequacy and effective application of accounting and administrative procedures; b) the conformity of the contents of financial reports to international accounting standards; c) the alignment of the documents themselves to the books and records and their ability to accurately reflect the assets, and economic and financial position of the Company. A similar attestation is attached to the Terna Group Consolidated Financial Statements.
- We assessed the adequacy of the internal audit system through: a) examination of the report of the Head of Internal Audits on the internal audit system; b) examination of the Internal Audit reports, as well as information on the results of monitoring; c) meetings with the supervisory bodies of the main subsidiaries pursuant to the first and second paragraph of Article 151 of the Consolidated Law on Finance; d) participation in meetings of the Audit, Risk and Corporate Governance Committee and the acquisition of the relevant documentation; e)

meetings with the Executive in charge of preparing the Company's accounting documents and the Chief Risk Officer. Attending the Audit, Risk and Corporate Governance Committee meetings allowed the Board of Statutory Auditors to coordinate with the activities of the said Committee for the performance of its own functions as "Internal Audit and Accounting Committee" assumed on the basis of Article 19 of Italian Legislative Decree No. 39/2010 and, in particular, to oversee: a) the financial reporting process; b) the effectiveness of internal audit, accounting and risk management systems; c) the statutory audit of accounts; d) matters relating to the independence of the auditing firm.

On the basis of the activity carried out, considering the evolutionary nature of the Internal Audit System, the Board of Statutory Auditors expresses an evaluation of its overall adequacy and notes that there are no observations to report to the Shareholders' Meeting. With reference to the provisions of par. 9, point a) of Article 17 of Italian Legislative Decree No. 39/2010, the auditing firm PricewaterhouseCoopers S.p.A. has defined total fees for the Auditing of the Terna S.p.A.'s Separate and Consolidated financial statements as at December 31, 2015, as well as the limited auditing of the Interim financial statements, for the activities of assessment of regular accounting activities, and for the other assignments. The fees for these services (including expenses) totals € 204,600, composed as follows:

– Audit of unbundling for AEEGSI	35,200
– Audit of reporting packages	17,600
– Opinion on interim dividends	35,200
– Certification of Sustainability Report	44,000
– Issue of EMTN comfort letter	72,600.

Moreover, Pricewaterhouse Coopers has notified that, based on the best information available, taking into account prescribed and professional requirements that discipline the auditing activity, it has maintained in the reference period its position of independence and objectivity towards Terna S.p.A.

and that there have been no changes in the non-existence of elements of incompatibility with reference to the situations and the subjects provided for by Article 17 of Legislative Decree No. 39/2010 and of the articles referred to in Heading I-*bis* of Title VI of the Issuer Regulation adopted with CONSOB Resolution No. 11971 of May 14, 1999.

- We held periodic meetings with the representatives of the auditing firm, Pricewaterhouse Coopers S.p.A., pursuant to Article 150, paragraph 3 of the Consolidated Law on Finance, and no facts worthy to be mentioned in this Report emerged. We also note that on April 22, 2016 the Auditing firm has submitted its report, pursuant to the third paragraph of Article 19 of Legislative Decree No. 39/2010, reporting that in completing the auditing activities, no fundamental issues or significant lacks in the internal control system, with reference to the process of financial information reporting, have emerged.
- We monitored the procedures for effective implementation of the Corporate Governance Code adopted by the Company, as set forth in the Report on Corporate Governance and Ownership Structure approved by the Board of Directors on March 21, 2016. With reference to the recommendations within the competence of the Board of Statutory Auditors, we point out that:
  - we verified the correct application of the criteria and procedures for assessing independence, adopted by the Board of Directors;
  - regarding the self-assessment of the independence requirements of the members of the Board of Statutory Auditors, we verified its existence during the Board meeting of February 15, 2016, with methods consistent with those adopted by the directors;
  - we complied with the provisions of the regulation for managing and handling confidential and privileged company information.

Finally, it should be noted that the Auditing firm expressed its opinion regarding coherence of information with respect to the separate and consolidated financial statements pursuant to paragraph 4 of Article 123-*bis* of the Consolidated Law on Finance provided in the Report on Corporate Governance and Ownership Structure.

- With reference to Legislative Decree No. 231 of June 8, 2001, the Company has, for some time, adopted an organisational and management model, updated in 2015, which is compliant with best practices. Similar models have been adopted by the subsidiaries. During the year, the Board of Statutory Auditors maintained a constant information flow with members of the Supervisory Board. The information gathered did not reveal any critical issues with respect to the proper implementation of the organizational model that should be mentioned in this report.
- We have received no complaints under Article 2408 of the Civil Code, nor do we have knowledge of facts or statements which need to be passed on to the Shareholders' Meeting.
- We have verified compliance with the laws regarding the drawing up of the separate and consolidated financial statements and the Report on Operations, directly and with the collaboration of the Heads of departments and through information obtained by the Auditing firm, and we have nothing significant to report.
- We expressed the opinion required from the Board of Statutory Auditors by the third paragraph of Article 2389 of the Civil Code (remuneration of directors holding special office).
- The auditing firm issued the opinion referred to in paragraph 5 of Article 2433-*bis* of the Italian Civil Code (interim dividends).
- The members of the Board of Statutory Auditors have complied with the obligation to notify administration and audit assignments in Italian companies with the timeframes and methods provided for in Article 148-*bis* of the

Consolidated Law on Finance and Heading II of title V-*bis* of the cited Issuer Regulation.

- During 2015, the Board of Statutory Auditors met eight times, attended the nine meetings of the Board of Directors, the six meetings of the Audit, Risk and Corporate Governance Committee and the Shareholders' Meeting of June 9, 2015.

On the basis of its activities and the information acquired, the Board of Statutory Auditors found no omissions, reproachable facts, irregularities, or other circumstances that require reporting to the supervisory authorities or mention in this report.

Having reviewed the financial statements at December 31, 2015, the Board of Statutory Auditors has no objections to raise as regards the proposed resolutions presented by the Board of Directors.

Rome, April 22, 2016

On behalf of the Board of Statutory Auditors
The Chairman
Riccardo Schioppo

pwc

INDEPENDENT AUDITORS REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE 39 OF 27 JANUARY 2010

To the shareholders of
Terna SpA

Report on the separate financial statements

We have audited the accompanying separate financial statements of Terna SpA, which comprise the statement of financial position as of 31 December 2015, the income statement, the statement of comprehensive income, the statement of changes in shareholders equity and the statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Directors responsibility for the financial statements

The directors of Terna SpA are responsible for the preparation of separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree 38/2005.

Auditors responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11, paragraph 3, of Legislative Decree 39 of 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity preparation of financial statements that give a true and fair view, to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of Terna SpA as of 31 December 2015 and of the result of its operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree 38/2005.

Report on compliance with other laws and regulations

Opinion on the consistency of the report on operations and of certain information set out in the report on corporate governance and ownership structure with the separate financial statements

We have performed the procedures required under auditing standard (SA Italia) 720B to express an opinion, as required by law, on the consistency of the report on operations and of the information set out in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree 58/98, which are the responsibility of the directors of Terna SpA, with the separate financial statements of Terna SpA as of and for the year ended 31 December 2015. In our opinion, the report on operations and the information in the report on corporate governance and ownership structure mentioned above are consistent with the separate financial statements of Terna SpA as of and for the year ended 31 December 2015.

Rome, 22 April 2016

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers