Terna Group

Consolidated Interim Financial Report

30 September 2015

Contents

Highlights – The results of the first nine months of 2015

The Terna stock

- Record high for the security € 4.68 per share on 2 November 2015
- Performance +23.94%[1] from the start of the year, the best among regulated stocks in Europe
- Total Shareholder's Return[2] +27,84%[1]

Financial and economic performance

INCOME STATEMENT

1,517 €mln
Revenue
+4.8% YoY

1,161 €mln
EBITDA
+2.3% YoY

455 €mln
Net profit
+8.9% YoY

INVESTMENTS AND PAYABLES

702 €mln
Investments

6,561 €mln
Net Payables

Development of the transmission grid

Work in the period on the main projects[3]

- HVDC Italy – Montenegro interconnection (110 €mln)
- Foggia-Villanova 380 kV power line (48 €mln)
- Sorgente – Rizziconi 380 kV power line (38 €mln)
- Italy – France interconnection (22 €mln)

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[1] Bloomberg data updated on 3 November 2015.
[2] In addition to normal performance, the stock also pays dividends.
[3] Net of capitalised borrowing costs.

Introduction

This **Consolidated Interim Financial Report of the Terna Group as at 30 September 2015**, not submitted for accounting audit, has been prepared in accordance with the provisions of Art. 154-*ter* of Italian Legislative Decree No. 58/98 introduced by Italian Legislative Decree No. 195 of 6 November 2007 (the "Transparency Decree"), as amended by Italian Legislative Decree No. 27 of 27 January 2010. It does not, therefore, contain the disclosure required under the terms of IAS 34.

Organisation and reference scenario

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

The Terna Group **owns almost all of the National Transmission Grid (NTG) in Italy**[4] and is responsible for the transmission and dispatching of electricity on the high- and extra-high-voltage grid throughout the country, as well as the planning, implementation and maintenance of the grid.

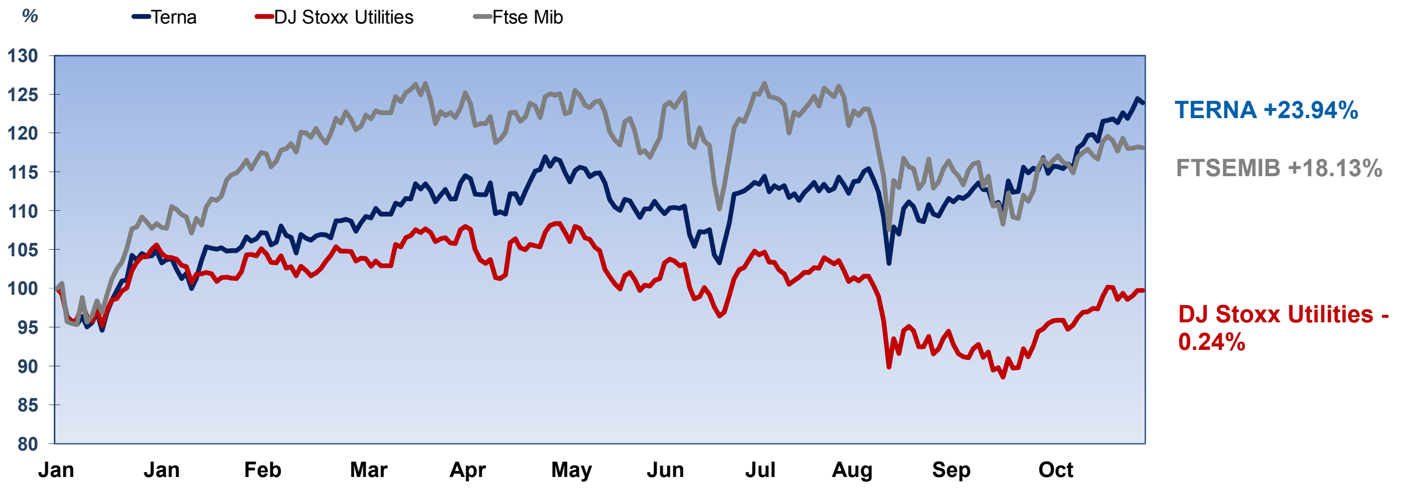
By managing transmission, Terna guarantees the security and quality of the National Electricity System, and its cost-effectiveness over time. It ensures equal conditions of access for all grid users. It develops market activity and **new business opportunities** with the experience and technical skills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

Terna S.p.A. has been **listed** on the Borsa Italiana electronic market since 2004 and is one of the leading Italian companies in terms of stock market capitalisation.

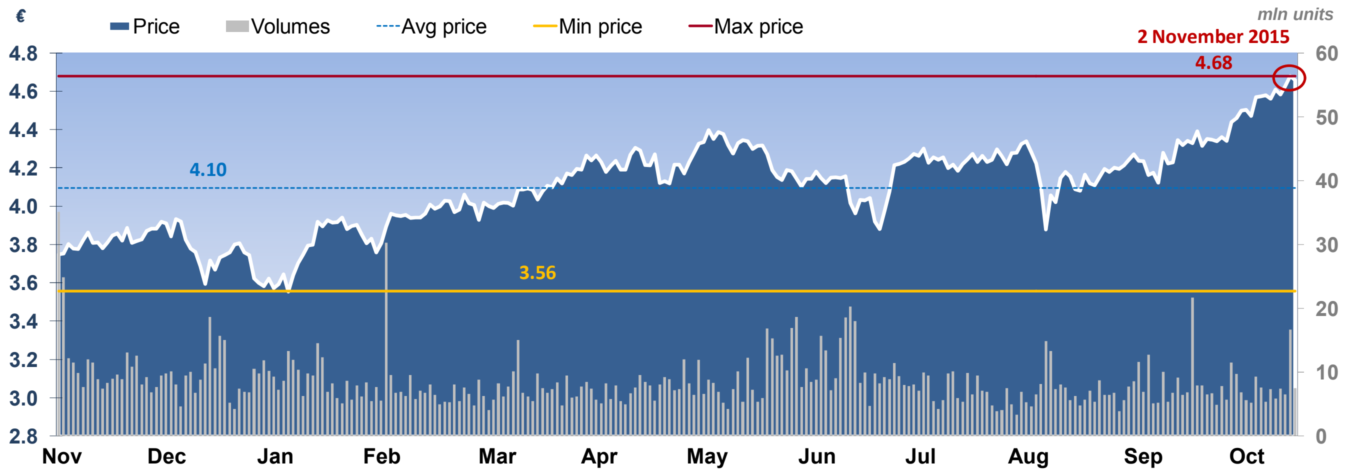
In the first ten months of 2015, Terna's stock reached an all-time high of € 4.68/share on 2 November, recording a performance that was 23.94% higher than both the FTSE MIB (+18.13%) and the European Sector Index (DJ Stoxx utilities, -0.24%).

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

Performance of Terna stock from the start of the year

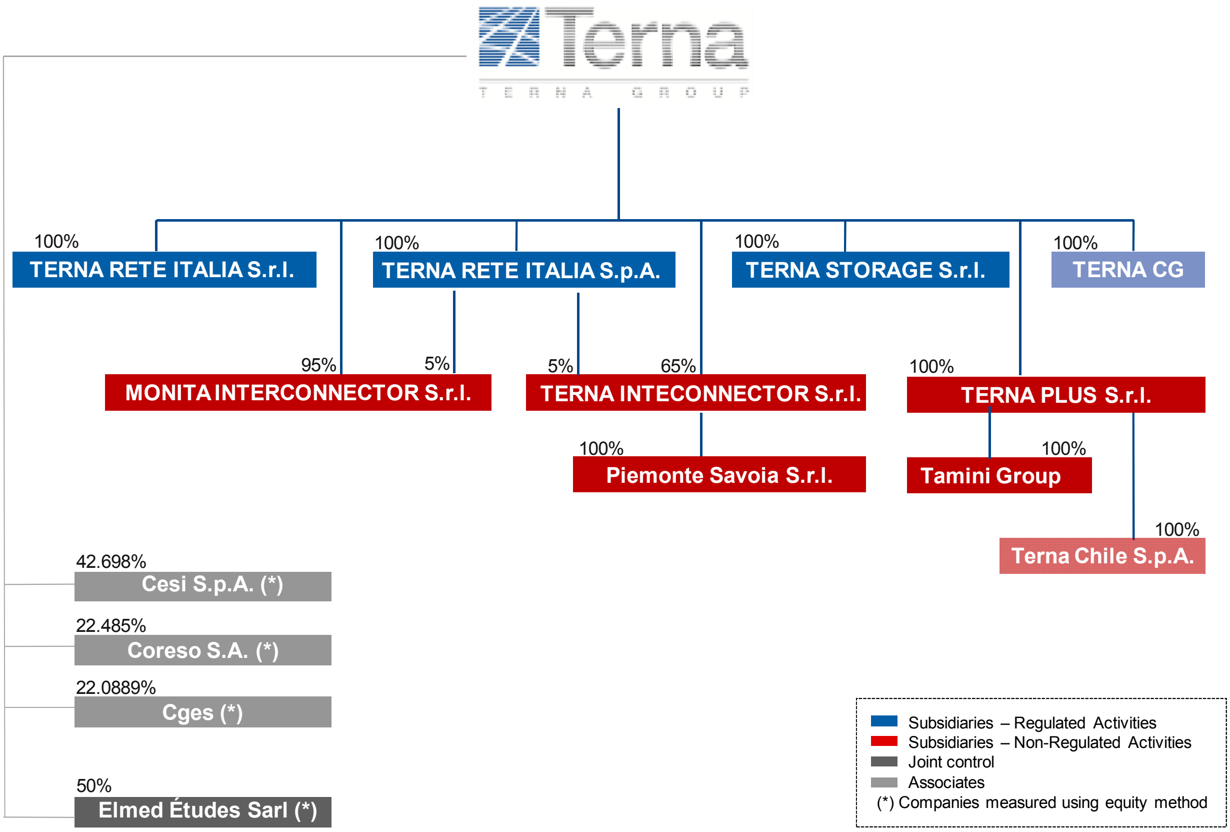


Performance of Terna stock last 12 months



The corporate structure

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



PARENT COMPANY

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

SUBSIDIARIES

REGULATED ACTIVITIES

- **Terna Rete Italia S.p.A.**
  The company **is tasked, within the Terna Group, through a business unit rental agreement, with performing all Regulated Activities, ordinary and extraordinary maintenance of the portion of the NTG owned, management and performance of work on developing the grid** as provided for in the Concession for transmission and dispatching, and on the basis of the provisions of the Parent Company's Development Plan.

- **Terna Rete Italia S.r.l.**

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

- **Terna Storage S.r.l.**

  The Company is responsible, pursuant to *a specific contract signed with the Parent company*, for **safeguarding the construction of diffused Energy Storage System projects, as well as related coordination, study and research activities.**

  The Parent Company has in fact launched, also through Terna Storage S.r.l. a Storage System programme aimed at "*promoting the dispatching of non-programmable plants*", in line with the related legislation which provides for the possibility of including it among the works for developing the electricity transmission grids and in the extra-incentive mechanisms established by the Italian Regulatory Authority for Electricity Gas and Water (see Resolutions 43/2013 and 66/2013 of the AEEGSI).

- **Terna Crna Gora d.o.o.**

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

  During the first nine months of 2015, the parent company Terna carried out an increase in the share capital of Terna Crna Gora for an amount of € 20 million[5] in order to meet the company's long-term financial needs.

NON-REGULATED ACTIVITIES

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

- **Terna Plus S.r.l.**

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

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[5] After the increase, the share capital of Terna Crna Gora amounts to a value of € 56 million.

- **Tamini Group**

  The **Tamini Group**, made up of the parent company Tamini Trasformatori S.r.l.[6] and the companies controlled by the latter V.T.D. Trasformatori S.r.l. and Tamini Transformers USA L.L.C., operates in the production and sale of industrial and power electricity transformers using 4 manufacturing facilities, all situated in Italy, in Legnano, Melegnano, Novara and Valdagno.

  With almost 400 specialised employees, customers in over 90 countries throughout the world and more than 200 transformers installed each year, Tamini creates both special machines for the industrial markets (steel, aluminium, etc. sectors) and large power transformers for the electricity sector. On the basis of its customers' specific system requirements, manual labour combines with the perfection offered by the most sophisticated design and calculation techniques, thanks to the use of cutting edge software and simulation models.

  In order to strengthen its leadership in the sector of producing industrial transformers and the relative after-sales service, during the period in question, the Parent Company Tamini Trasformatori S.r.l. began merging with TES Transformer Electro Service S.r.l, a company with registered offices in Ospitaletto (Brescia) that operates in the sector of producing electrical transformers for industrial use and for the market producing and transmitting electricity. For details on the transaction that was finalised on 30 October 2015, reference is made to the paragraph "Events subsequent to 30 September 2015".

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

  The company Terna Plus incorporated on **4 June 2015** the Chilean-law company **Terna Chile S.p.A.** with a share capital of a million Chilean pesos (corresponding to approximately € 1,400.00), which will be paid up by 31 December 2015. The company's main purpose is to carry out design, construction, administration, development, operation and maintenance activities relating to electrical structures, plants, equipment and infrastructures, including those of interconnection.

  During the third quarter of 2015 Terna Chile S.p.A. continued the development of a first order in Chile, a location of extreme interest, as it associates a low country risk profile with a high rate of economic and infrastructural growth, in relation to the construction of a portion of power line and a switching station for a plant of the Enel group company Green Power.

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

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

  Terna Interconnector S.r.l. works in the field of the development and implementation of the **"Italy-France Interconnector" Project** for which, on 16 December 2013, the Parent Company and a number of industrial Federations signed the Memorandum of Understanding, aimed at creating and managing the foreign interconnection infrastructure ("Interconnections" or "Interconnector"), pursuant to Article 32 of Italian Law 99/20097.

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

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[6] The subsidiary Verbano Trasformatori S.r.l. was incorporated into Tamini Trasformatori S.r.l., as of 1 January 2015.

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

- sold to the company Transenergia S.r.l. a 30% stake in its share capital. Subsequently, the shareholders of Terna Interconnector, in proportion to their equity interests, made a capital contribution of € 20,000 (**27 March 2015**) and granted a short-term loan, at fixed rate for a total value of € 5.7 million (**13 July 2015**);
- set up on **27 March 2015** the company **Piemonte Savoia S.r.l.**, with a share capital of € 10,000. On behalf of the assignees of the "Italy-France Interconnector" and on the basis of specific mandates, the new company initiated the procedure, under the terms of the Ministerial Decree of 21 October 2005, to obtain a decree of exemption from the right of access of third parties on the transport capacity that the infrastructure will make available, for a capacity of 350 MW to be taken from the public line of 1,200 MW. In order to meet the short-term financial needs, on **13 July 2015**, the Company obtained from the sole shareholder Terna Interconnector a fixed-rate loan for an amount of € 5.3 million.

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

Significant events in the third quarter of 2015

Below are the main significant events of the third quarter 2015.

Regulated Activities

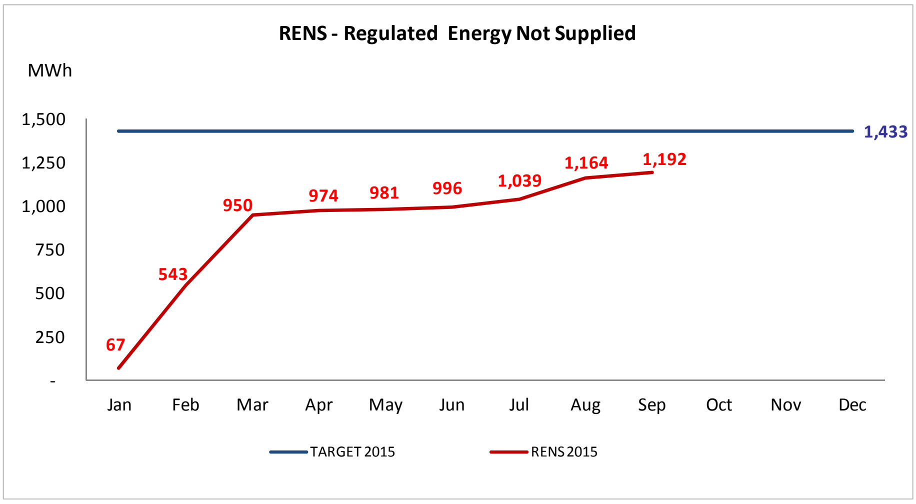
Consultation documents on the fifth regulatory period

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

Main electrical system operating events

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

The advancement of the RENS "Reference Energy Not Supplied" indicator, based on preliminary operating data, with an indication of the annual target is shown below[8].



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

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

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

More specifically, the ruling did not bring into question the project itself or its importance, but rather the methods by which the Ministry for Cultural Heritage issued its approval, one of 50 already acquired for the project.

On 2 October 2015, Terna sent the Ministry of Economic Development the documentation required to remedy the contested error. The Ministry for Cultural Assets and Heritage will thus be able to comply with the judgement remedying the lack of justification highlighted.

Sorgente – Rizziconi power line: completion of the work possible

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

With this measure Terna resumed the building activities to complete the work interrupted following the order impounding the aforementioned pylon, issued by the Court of Messina on 13 March 2015. The line is expected to come into operation by the first half of 2016.

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

Non-Regulated Activities

Agreement signed by Tamini Trasformatori and Tes Transformer Electro Service

In the field of the development of the Terna Group's Non-Regulated Activities, on **16 September 2015** the subsidiary Terna Plus S.r.l. signed with the Xenon Private Equity fund, Riccardo Reboldi and Giorgio Gussago an agreement for the contribution to Tamini Trasformatori S.r.l., a company fully controlled by Terna Plus S.r.l., of the entire share capital of Tes Transformer Electro Service S.r.l. (hereinafter "TES"). The transaction, completed on 30 October 2015, is described in the section "Events subsequent to 30 September 2015", to which you are referred.

TES produces mainly transformers for industrial use and power transformers up to 420kV and 300MVA and provides after-sales assistance services to customers. It was incorporated in 1998 following the spin-off of ASO Siderurgica S.r.l. ("ASO"). The production facility is situated in Ospitaletto (Brescia) and at the end of 2014 it recorded revenues of € 29.5 million and an EBITDA € 2.8 million, while it had 69 employees.

Finance

Liability management

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

Sustainability

Terna also at the top of the STOXX ESG Leaders Indices for sustainability.

On **7 October 2015**, for the fifth consecutive year Terna was confirmed in the STOXX Global ESG Leaders Indices, which are based on an analysis of a basket of companies, very complete in terms of both geography and sector, which is prepared by Sustainalytics, one of the leading rating agencies in the world in the field of sustainability.
Terna sits comfortably among leader companies, as it is included in all the specialised leadership indices: environmental, social and governance. This is a recognition that assumes even more significance if we consider that to qualify in the general index being present in just one of these three segments would be sufficient. There are only 7 utility companies, at the global level, present in all three indices, and there are only 14 Italian companies, including Terna, in the STOXX Global ESG Leaders.

Terna confirmed in the Ethibel sustainability index

On the **18 September 2015** Terna was confirmed also for 2015 in the Ethibel Sustainability Index (ESI) Excellence Europe, which includes about 200 European companies and only 11 Italian ones.
This index has a particular influence on investors sensitive to ethical matters – the so-called SRIs, Socially Responsible Investors – of the central-European area.
The presence in the Terna capital of investors attentive to ethical matters was 14.9% at the end of 2014. SRIs, that is investors who have invested in Terna applying a sustainable investment approach based on the consideration of ESG (Environmental, Social, Governance) aspects represent 10% of the shares held by the institutional investors identified.

Terna Industry leader in the 2015 Dow Jones Sustainability Index

On **10 September 2015** Terna was confirmed in the prestigious Dow Jones Sustainability Index for the seventh consecutive time obtaining the recognition of Industry leader in the Electric Utilities sector. For Terna this is an important recognition: only 8 Electric Utilities, in fact, are included in the World index and just 2 in the Europe index.

The confirmation in both the indices with a total score of 89, the highest ever for Terna and the highest recorded in the Electric Utilities sector (average score: 52), with growth of 2 points compared with that already significant of last year, recognises the company's constant commitment to sustainable management and constitutes for the investors a sign of the ability to create value also in the medium-long term. The increase in Terna's score occurred above all thanks to the improvement in performance in the environmental area.

Energy context

Energy trend in Italy

Electricity demand in the first nine months of 2015

The analysis of the demand for electricity in the first nine months of 2015 shows positive signs with an improving trend compared with the same period of 2014, to which the exceptionally high temperatures recorded in July 2015 contributed.

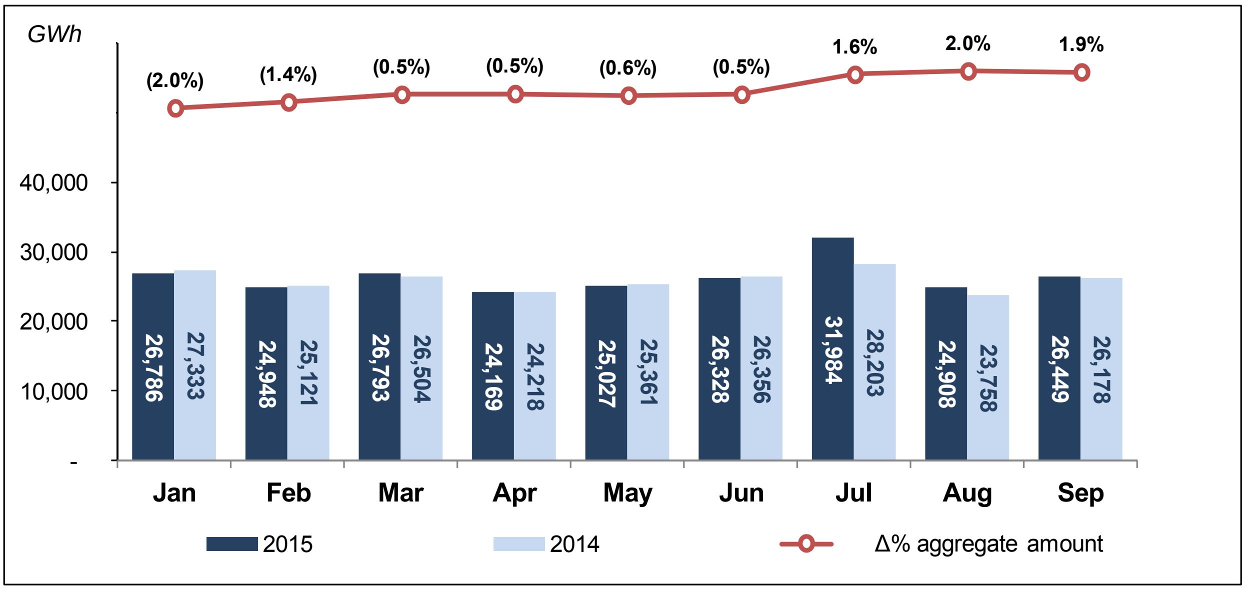
	1 January - 30 September			
GWh	**2015***	**2014**	**Changes**	**%**
Hydroelectric	36,257	47,130	(10,873.0)	(23.1%)
Thermoelectric	133,115	122,714	10,401	8.5%
Geothermal	4,330	4,150	180	4.3%
Wind and photovoltaic	32,097	30,039	2,058	6.9%
Net production	**205,799**	**204,033**	**1,766**	**0.9%**
Imported	36,572	32,953	3,619	11.0%
Exported	3,673	2,155	1,518	70.4%
Export balance	**32,899**	**30,798**	**2,101**	**6.8%**
Consumption for pumping	1,306	1,800	(494.0)	(27.4%)
Electricity demand	**237,392**	**233,031**	**4,361**	**1.9%**

**Provisional data for September.*

In the period January-September 2015, according to the provisional data at 30 September 2015, the demand for electricity was 237,392 GWh, up 1.9% (+4,361 GWh) compared to the volumes of the corresponding period of last year. The figure adjusted for the calendar was +1.7% and if the temperature effects are also considered, the change in electricity demand was +0.5%.

This demand was met with the net domestic production (205,799 GWh) and with net imports from abroad (32,899 GWh). Demand peaked – at 59,393 MW – on 21 July at 4 p.m..

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



Legislative and regulatory context

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

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

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

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

- DCO 5/2015/R/eel of 15 January 2015: this illustrates the general framework and the criteria at the base of the main lines of action that the Authority intends to develop during the procedure;
- DCO 48/2015/R/eel of 12 February 2015: examines in depth from a technical point of view the lines of action contained in Document 5/2015/R/eel on the subject of regulating quality;
- DCO 335/2015/R/eel of 9 July 2015: this proposes detailed hypotheses for consultation, in relation to certain specific questions, such as the scope of application, the duration of the regulatory period, the intra-period updating mechanisms, and the determination and updating of the costs recognised for determining the tariff levels for each of the electricity transmission, distribution and measurement services.
- DCO 415/2015/R/eel of 6 August 2015: this follows, in particular, DCO 48/2015/R/eel, illustrating the Authority's final orientations on regulating the quality of the electricity transmission, distribution and measurement services;
- DCO 446/2015/R/eel of 24 September 2015: this follows DCOs 5/2015/R/eel and 335/2015/R/eel, illustrating the Authority's first orientations in relation to fixing revenue constraints, the tariff structure and the associated equalisation mechanisms;
- DCO 464/2015/R/eel of 1 October 2015: this illustrates the Authority's initial orientations on the subject of the selectivity of electricity transmission grid development investments, considering the evolution of the cost-benefit analysis methodology for investments.

The Authority has also announced the future publication (in November) of a conclusive document which will contain the Authority's final orientations for the fifth period of tariff regulation of the electricity industry, which will be followed by the final measure, that is the resolution relating to the fifth regulatory period (planned for December). Also planned, during 2016, is the presentation, in opportune consultations, of its final orientations with regard to the selective incentive mechanisms of an output-based type outlined by way of example in DCO 464/2015/R/eel.

In the context of the WACC Revision procedure, the measures of interest published as of today regard the following consultation documents (DCOs):

- DCO 275/2015/R/com of 9 June 2015; this presents the Authority's initial guidelines in relation to the criteria for an overall revision of the methods of determining and updating the remuneration rate for invested capital and to the timing for the adoption of the new method in the single regulated services of the electricity and gas sectors.
- DCO 509/2015/R/com of 29 October 2015: outlines the Authority's final deliberations regarding the overall revision of the procedures for determining and updating the remuneration rate on invested capital (WACC) for regulated services in the electricity and gas sectors, in view of the final regulation being adopted within the first ten days of December 2015, which will set the initial parameters, combined for all services (with the exception, therefore, of those specific to individual services).

Of further significance is the recent publication of **resolution 517/2015/R/eel dated 29 October 2015**, which determines the remuneration, amortisations and current and arising operating expenses relating to the high-voltage and very high-voltage grids owned by FSI S.p.A., subject to inclusion in the national transmission grid pursuant to Italian Law 190/2014.

Other information

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

Treasury shares

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

Related-party transactions

Considering that the Parent has been subject to de facto control by Cassa Depositi e Prestiti S.p.A. since 2007, the related-party transactions carried out by the Terna Group during the first nine months of 2015 included not only those with the associates and the employee pension funds (Fondenel and Fopen), but also those with Cassa Depositi e Prestiti, CDP Reti S.p.A. and the companies directly or indirectly controlled by the Ministry for the Economy and Finance.

Related party transactions carried out during the period consisted substantially of services under the scope of ordinary business and settled at market terms, as is described in greater detail in the Consolidated and Separate Statements at 31 December 2014[9].

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

We can note that, during the first nine months of 2015, no significant transactions, that is to say related party transactions identified in compliance with the provisions of Appendix 3 to the "Regulation containing rules on related-party transactions" (adopted with CONSOB Resolution No. 17221 of 12 March 2010, as amended with Consob Resolution No. 17389 of 23 June 2010), were carried out, nor were transactions subject to compulsory disclosures but concluded applying the exclusion established by the Regulation, insofar as they were “*transactions coming under the scope of the ordinary business of the Company's continuing operations or those of its subsidiaries or associates or financial activities related thereto, provided that they were concluded at conditions equivalent to market or standard terms*”.

[9] Transactions with members of the Board of Statutory Auditors of the Parent Company, and in particular their fees, are detailed in the comments on the "Services" item in the Notes to the Consolidated and Separate Financial Statements at 31 December 2014, to which reference should be made. In addition, implementing CONSOB Resolution No. 18049 of 23 December 2011 in force since 31 December 2011, the disclosure on fees paid to *“members of the administrative and auditing bodies, general managers*”, and on equity interests held by the same, is included in the annual remuneration report published in accordance with the law.

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

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

The Group's business and capital

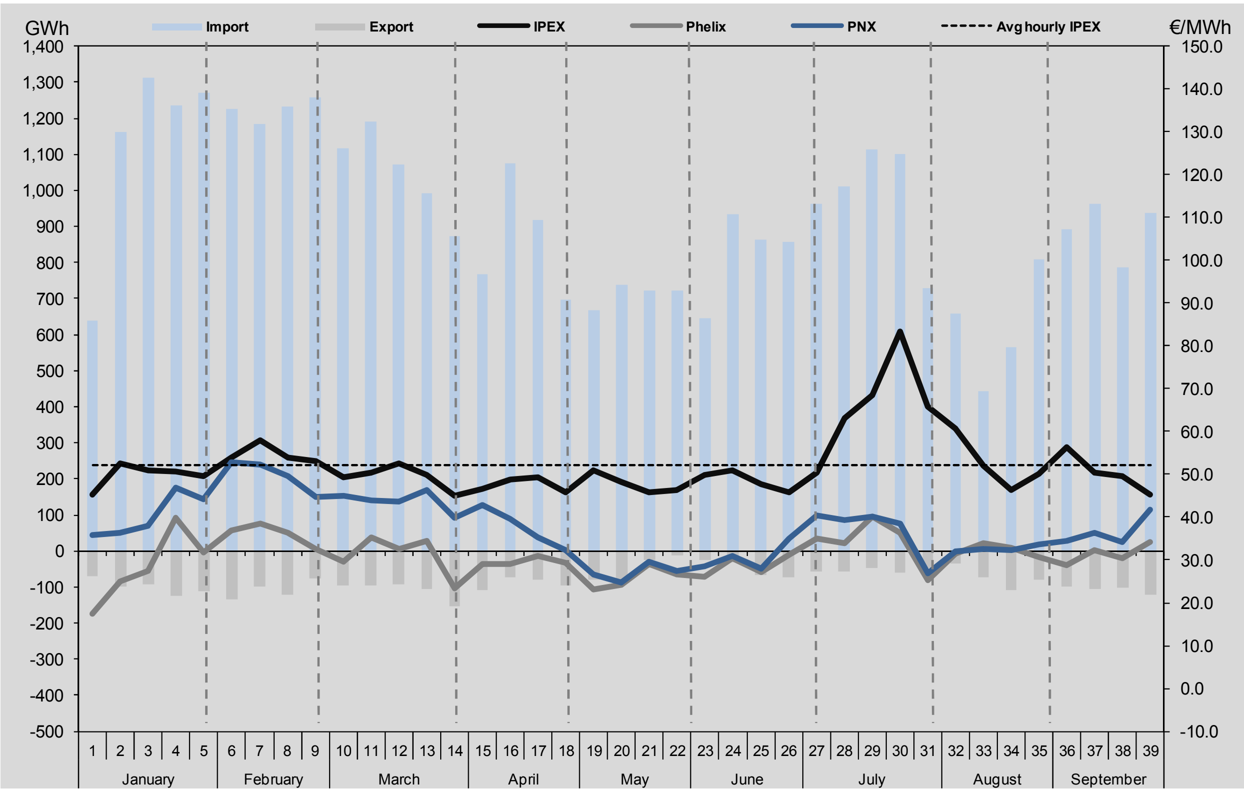
Electricity dispatching

As described in the paragraph “Energy Context” in the first section of the document, in the first nine months of 2015 demand for electricity was 237,392 million kWh, met in part with net national production (205,799 million kWh) and for the excess with net imports from abroad (32,899 million kWh).

The **hourly average price on the Italian energy exchange** (IPEX/PUN) for the first nine months of 2015 was 52 €/MWh, slightly up over the same period in 2014 owing to the exceptional demand for electricity seen in July 2015, again on average higher than on the other European exchanges. We can note the different trend in French and German prices:

- French price (PNX): 38 €/MWh (a +16% increase compared with the period Jan-Sept 2014, with a spread down compared with the PUN);
- price on the German energy exchange (EEX/PHELIX): 31 €/MWh (slightly down, by -3%, compared with the first nine months of 2014, with a spread up compared with the PUN);

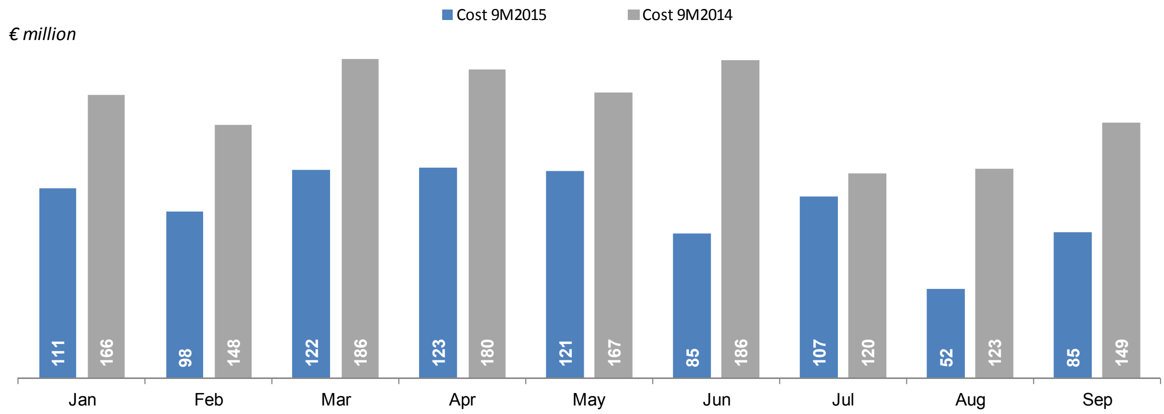
The foreign trade - which from April 2015 includes also exports to Malta - and the weekly average prices of the first nine months of 2015 are presented below:



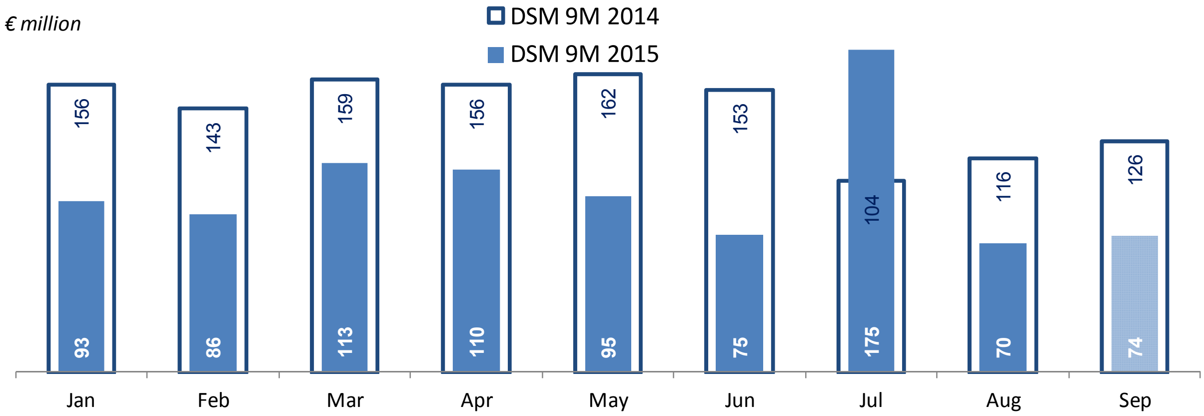
Note. The week start/end on the graph is Mon/Sun

The **Fee for provisioning of resources on the Dispatching Services Market** (***Uplift***), pursuant to AEEGSI Resolution No. 111/06 Art. 44 and subsequent amendments, represents the net expense associated with the following energy-related items: purchases and sales on the Dispatching Services Market (DSM), spot and forward (the latter representing premiums of contracts signed as an alternative to declaration of essentiality), remuneration of plant goodwill on the DSM (goodwill token), balancing, congestion earnings and related financial hedges, virtual interconnection service and other minor items.

This price is invoiced pro-rata to users of the dispatching on the energy withdrawn, to cover the envisaged accruing monthly cost and the prior differences.
During the first nine months of 2015, the **total cost stood at Euro 904 million**[10] a significant drop from the Euro 1,405 million during the first nine months of 2014.



With regard to purchases and sales on the **Dispatching Services Market** from January to September 2015, **Terna procured resources for a net expense of € 891 million**[10], a sharp fall compared to the corresponding period of the previous year (for Euro 1,271 million).



In July, the volumes traded on the DSM were particularly high, to cover increased demand and guarantee the adequacy and security of the electricity system. Even during peak periods, there were no significant events recorded from the perspective of "Energy not Supplied".

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10 Provisional data for September.

Non-Regulated Activities

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

- Services for third parties
- Interconnector
- Transformers - Tamini Group

SERVICES FOR THIRD PARTIES

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

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

As already noted in the section on the Group's corporate structure, on 4 June 2015, Terna Plus S.r.l. set up a Chilean-law company named "Terna Chile S.p.A.", to manage the supply contract with Enel Green Power Chile for connecting the 90 MW Pampa Norte photovoltaic park involving the construction of a substation and a connection line. This is the first order in Chile, a location of extreme interest, as it associates a low country risk profile with a high rate of economic and infrastructural growth. During the third quarter of 2015 the civil engineering work began for the construction of the substation, once the preliminary activities had been completed.

Furthermore, and once again from the perspective of enhancing its skills, Terna took part in several international tenders for technical assistance services relating to the management and development of the Grid, especially in emerging countries (for example, Turkey).

INTERCONNECTOR

In order to support the development of a single electricity market by expanding the infrastructure for interconnection with other countries, a community law was introduced which laid down guidelines for the creation of interconnections with other countries by subjects other than grid operators.
Italian legislation transposed the European indications in Law 99/2009[11], which assigned Terna the task of carrying out public tenders to select the Subjects (Selected Subjects) willing to finance specific

[11] Article 32 of Italian Law No. 99/09, in order to contribute to creating the single electricity market, established that the company Terna S.p.A. should act, in exchange for specific financing by third-party investors, to plan, build and operate, following specific mandates from these investors, one or more expansions of the foreign interconnection infrastructures in the role of interconnector, under the terms of Regulation (EC) No. 1228/03 (as abrogated and replaced by REG 714/2009). To this end, in

interconnections, in exchange for the benefits deriving for them from obtaining a Decree of exemption from access by third parties on the transport capacity that the related infrastructures would make available. In particular, the law states that these Subjects, in exchange for a commitment to finance the work, will give Terna a mandate for the creation and operation of the interconnections.

On 16 December 2013, the Parent Company and a number of industrial Federations signed the Memorandum of Understanding, aimed at creating and managing the foreign interconnection infrastructure, pursuant to Article 32 of Italian Law 99/2009[12].

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

"Italy-France Interconnector" Project

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

The new direct current interconnection between Italy and France will have a nominal total capacity of 1,200 MW, divided into two independent poles of 600 MW each, and will connect the electrical substations of Pioscasco and Grande Ile; it is expected to come into operation at the end of 2019. In Italy, the line will mainly run along the pre-existing A32 highway infrastructure and in the safety shaft of the Fréjus tunnel, parallel to a similar interconnection that will be built on the same line and operated by Terna. In France, the two lines will be owned and managed by RTE.

In Italy, both sections will be materially managed by Terna Rete Italia and commercially by Capacity Allocation Service Company (CASC) or based on Market Coupling, whereas ownership will remain with Terna S.p.A. for one of the two sections of the Italian TSO, and the other will be held by the private investor (NewCo) that requires exemption. 600 MW of the interconnection capacity will be assigned to the manager of the French network, 250 MW to the public Terna line and 350 MW to the private line.

In order to facilitate the project and make it feasible, on 27 March 2015, the NewCo **Piemonte Savoia S.r.l.** was incorporated (company owned 100% by Terna Interconnector S.r.l.). The purpose of the company is to obtain the exemption and to implement and operate the private interconnection aimed at being fully sold in the future to Selected Subjects, so as to become the vehicle company that will implement and manage the interconnection infrastructure. In particular, in June 2015, having obtained on 18 May 2015 the transfer of the authorisation originally issued to Transenergia s.r.l. for the creation

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accordance with the provision of the aforementioned Art. 32 of Italian Law No. 99/09, Terna S.p.A. organised tender procedures to select the subjects that intend to support the financing of the single interconnectors, the creation of which, in accordance with the provisions of the law, is subordinated to the issue of a specific exemption from access by third parties on the transport capacity that these infrastructures make available. In accordance with the legislative prescriptions, the tender procedures could only be accessed by final customers, also grouped together in consortia, which are holders of withdrawal points each with installed power of not less than 10 MW.

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

of the work, the company Piemonte Savoia S.r.l. notified the Ministry of Economic Development of the above request for exemption for 350 MW.

The new "Italy-France" interconnection, combined with the projects to strengthen existing lines, will make the French electricity border the most important for Italy, significantly increasing the cross-border interconnection capacity. The power line, which is 190 km long, will be the longest underground line in the world and will be characterised by very low impacts on the environment and the territory, thanks to a cutting-edge project and technology.

“Italy-Montenegro Interconnector” Project

The interconnection project between Italy and Montenegro creates a new electrical border between Italy and the Balkan country; as of now they are not electrically interconnected. The new direct current interconnection has a total nominal capacity of 1,000 MW, overloadable continuously up to 1,200 MW and is divided into two single poles of 500 MW each. The line will make it possible to increase the security of Italian and Montenegrin electrical procurement and to connect the Italian market and the other Balkan countries, beyond Montenegro itself.

In particular, the interconnection will connect the Villanova electrical substation in Italy, in the Municipality of Cepagatti (PE), with the new Lastva electrical substation in Montenegro, in the Municipality of Kotor, crossing the Adriatic Sea for a total length of more than 450 km and will, therefore, be made partly with underground cable and partly with undersea cable.

The funding for the project and its ownership lies partially with Terna, and partially with the Selected Subjects for the portions they are responsible for, currently calculated at 300 MW. To this end, on 13 April 2015, the company named **Monita Interconnector S.r.l.** was incorporated. Terna S.p.A. has a 95% interest in this company and Terna Rete Italia S.p.A. has 5%, as already mentioned in the section on the Group's “Corporate Structure”.

This company, charged with presenting an application for exemption in the interest of the Selected Subjects, is destined to be entirely sold to the latter once the exemption becomes effective, with consequent acquisition, by the Selected Subjects themselves, of ownership of part of the interconnection (the “Interconnector”) and of the rights on the capacity for the portion of 300 MW. On 23 September 2015 Monita Interconnector S.r.l. received the transfer of the authorisation from Terna S.p.A. for a perimeter made up of a module of the Cepagatti conversion station, a 15 km-long direct current ±500 kV pole underground cable and a portion of a direct current ±500 kV pole submarine cable, of approximately 77 Km in Italian territorial waters (with a total length of the stretch of approximately 238 Km), for total power of 300 MW.

After receiving a specific mandate from the Selected Subjects, Monita Interconnector S.r.l. presented, on 8 October 2015, to the Ministry of Economic Development a request for exemption from the rules that provides for the right of access of third parties for a capacity of 300 MW for a duration of 10 years from when the interconnection line comes into operation.

TRANSFORMERS - TAMINI GROUP

With almost a century of experience and a high degree of know-how, Tamini represents a historical industrial company of excellence, recognised in the electrical sector in Italy and abroad.

As regards the foreign market, in particular, it is worth noting the conclusion in the first nine months of the year of the supply of an important 157 MVA transformer for an American steelworks, of five rectifier transformers for the mining industry in Canada and an order for a steel plant in South Africa of 6 transformers. Africa remains a strategic market, both in the steel-making and mining industries in South Africa, and in Power, mainly in Algeria, where the Group is completing the supply of important orders.
In the last few months, in addition, the Tamini factories have been busy implementing 2 projects in the product range entitled Phase Shifting Transformers, which Tamini managed to enter a few years ago, winning most recently the orders in construction today for Luxembourg and the Czech Republic.

At the end of July 2015 Tamini signed with Tenova Minerals PTY Ltd an exclusive partnership agreement with a duration of 10 years aimed at developing the technology used by the Company to be applied to the Tenova plants known as “Submerged Arc Furnaces” (“SAFs”).

At the end of October 2015 Tamini Trasformatori was merged with TES Transformer Electro Service S.r.l, a company based in Ospitaletto (Brescia) operating in the production of electricity transformers for industrial use and for the segment of the production and transmission of electricity.
The managements of the two companies, with the support of the major shareholders, assessed the **opportunity** of integrating the two companies **to create a national hub** of reference **in the transformer sector**, in particular for the industrial market. For details of the transaction see the paragraph “Events subsequent to 30 September 2015.

Research and development

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

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

- **innovative measurement transformers (optical ATs)**: testing has begun, both in the laboratory and in the field, of this type of transformers, which are intrinsically safe, both from an environmental point of view (no oil or SF_6) and in terms of the physical safety of people and objects; in particular a group of optical ATs has been installed in the Lacchiarella ES in order to monitor its correct operation;
- **complete monitoring for on-line diagnostics of electrical substations:** the executive project was finalised for the installation, which will soon be carried out, of at least 5 Monitoring Systems for diagnostics in order to prevent serious faults, according to a priority plan based on technical and environmental impact considerations;
- **mitigation of electrical and magnetic fields**: a number of passive loop configurations have been examined and studied. These are to be implemented as pilot solutions on existing lines;
- **mitigation of noise deriving from the operation of machinery (transformers, etc.)**.

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

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

In the field of structures, a large number of innovative single-stem pylons for 380 kV have been installed. In the materials field, important results have been obtained with the development of a new type of conductor with a carbon-fibre core, which, if installed on existing lines, makes it possible to requalify existing electricity power lines, in this way eliminating or reducing grid congestion.

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

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

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

The aim of this research is to guarantee greater resistance of plants in the event of external, potentially dangerous events such as earthquakes, fires, and critical environmental conditions. The first phase of installing the innovative Seismic Damper Systems for equipment in plants located in higher risk areas was completed, whereas the second stage of installing anti-rotation devices for overhead conductors, able to counteract the formation and growth of "sleeves" of wet snow, is currently in progress. In this regard, a software model for predicting the formation of ice sleeves was also implemented with RSE.

The National Transmission Grid (NTG)

Number of plants

The number of plants belonging to Terna S.p.A. and Terna Rete Italia S.r.l. at 30 September 2015 compared to the situation at the end of the first half of 2015[13] - referred mainly to the parent company Terna - recorded a total increase of 4 substations, 24 bays, 5 power transformers for power of 995 MVA and 9 three-phase power lines for a length of 14.3 Km of line.

Below are the main changes:

Substations

- activation of the 380 kV transformation station in Genzano (PZ), consisting of 4 380 kV bays, 3 150 kV bays and 1 380/132 kV 250 MVA ATR;
- activation of the 150 kV transformation station in Rotonda (PZ), made up initially of 3 150 kV bays;
- activation of the 150 kV SANC connection station of Scampitella 2 (AV), consisting of 4 bays and 2 150/20 kV TRs of 20 MVA each;
- activation of the 150 kV wind production connection station of San Sostene (CZ), consisting of 4 bays;
- activation of 1 new 380/150 kV 250 MVA transformer and the related bays at the Laino substation;
- activation of 2 new 380/132 kV 250 MVA transformers and the related bays respectively at the Pian Camuno and Planais substations;

Power lines

- activation of the new 220 kV Acerra - Casalnuovo cable power line, 8.4 km of three-phase power line;
- activation of the new 150 kV Laino - Rotonda cable power line, 3.8 km of three-phase power line;
- construction of 5 in-out derivations on the same number of operating lines with an overall increase of the same number of triads and 1.7 km of triad line, of which: + 1 line and + 0.6 km at 380 kV, + 4 lines + 1.1 km at 150 kV.

[13] The NTG of the Terna Group at 30 June 2015 consisted of 57,889 km of power lines (equivalent to 63,902 km of three-phase power lines), 494 transformation stations (a total of 5,225 bays) and 665 transformers with a total power of 142,183 MVA.

Investments

Below is a brief commentary on the progress of the main works completed in the first nine months of 2015:

Interconnections abroad

- **Italy-Montenegro interconnection,** for the exchange of electricity with the Balkan area:
  - *cable connection*: the production of both submarine and underground cables is continuing;
  - *conversion stations*: creation of the foundations and prefabricated buildings is in progress at the Cepagatti substation and the substation area at the Kotor site is being prepared.
- **Italy-France interconnection,** to increase transport capacity on the northern border with France:
  - *cable connection*: supply of the cable and the substation has begun;

Reducing congestion between market areas

- **380 kV power line Sorgente – Rizziconi**, to increase the exchange limitations between Sicily and the Continent, as well as improving the security of the grid and benefiting from renewable sources in Sicily:
  - *power lines/cables:*
    - *Calabria*: work continues to complete the cable stretch;
    - *Sicily*: work has begun again to complete the 380 kV Villafranca – Sorgente power line in the Municipality of Saponara (ME) following the release from seizure of Pylon No. 40 obtained on 28 July 2015;
  - *electrical substations*:
    - *Calabria*: work on the 380 kV bars of the Rizziconi substation is in progress;
    - *Sicily*: the 380 and 150 kV armoured lines were completed at Villafranca, two transformers and two reactors were installed and the civil works are nearing completion; at Sorgente the activities on the 380 kV bars are nearing completion;
- **380 kV power line Foggia-Villanova,** to increase the exchange limitations in the direction South – Central South and to promote production from renewable sources in the South**:**
  - *power lines:* construction of the foundations has been completed and 58% of the pylons have been assembled; where possible, the stringing work has begun;
  - *electrical substations*:
    - *Villanova substation*: expansion of the 380 kV section has been completed with entry into service of two 380/120 kV transformers and the second 380/150 kV transformer; the rearrangement of the 120 kV is section is continuing;
    - *Gissi substation:* the civil works have been completed for the expansion of two bays of the 380 kV section, while the electromechanical assembly and installation of the protection, command and control system are in progress;

Reducing inter-area congestion and production capacity constraints

- **380 kV power line Udine West-Redipuglia,** to reduce the constraints on the grid section after the Redipuglia node, which currently limits exchanges with the Slovenian border and impacts on the use of locally produced resources:
  The construction work has been suspended after Council of State Judgement No. 03652/2015, filed on 23/07/2014 which cancelled the Environmental Impact Assessment measure and the Single Authorisation Decree covering the work. Before the interruption of the work:
  - *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;
- **380 kV power line Paternò - Pantano – Priolo,** for greater interchangeability of resources in Sicily and between Sicily and the Continent, as well as improving the security of the grid and benefiting from production from renewable sources:
  - *power lines/cables*: excavation and laying of the connection cable between the Melilli and Priolo substations are in progress;
  - *electrical substations*: the armoured 380 kV line has been completed at the Priolo substation;

Storage Systems:

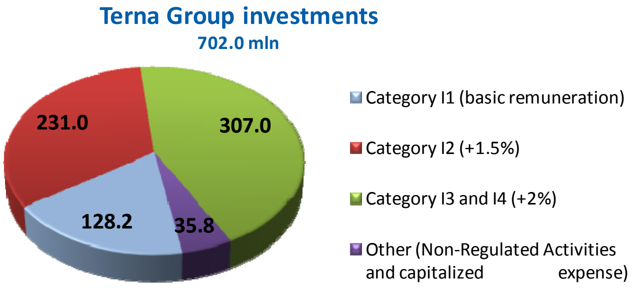
- ***"Energy Intensive" Projects:***
  tests have been performed on 2.4 MW at the Flumeri site, while at the Scampitella site the civil works have been completed and the electromagnetic assembly of the electrical substation connected to the NTG is nearing completion;
- ***"Power Intensive" Projects***:
  9.6 MW is in operation and the testing of the remaining modules is at an advanced stage in the two sites of Ciminna and Codrongianos.

In addition, the work related to Non-Regulated Activities has regarded essentially the NTG for work on **variants for third parties**.

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

Total investments made by the Terna Group in the first nine months of 2015 were € **702 million**, of which **538.1 million with incentives** from the AEEGSI involving extra remuneration of between 1.5% and 2%.

Below is the classification of the Group's investments, according to remuneration category[14]:



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

Personnel

At 30 September 2015, the Terna Group had 3,783 employees. Details of the composition of Terna Group employees at the end of the period are shown below:

Change in the workforce	at 30.09.2015	at 31.12.2014	Changes
Executives	73	68	5
Junior management	537	557	(20)
White-collar workers*	2,009	2,007	2
Production workers	1,164	1,165	(1)
Total	**3,783**	**3,797**	**(14)**

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

The number of personnel at the end of the period showed a decrease of 14 employees compared to 31 December 2014, with 195 employees leaving and 181 new employees.

The change was mainly due to the initiative launched by the company in the last quarter of 2014, aimed at bringing forward generational turnover through incentives for the voluntary choice of retirement for employees close to eligibility for a pension. The initiative in question involved a first stage devoted to employees who had earned the requisites for retirement as of 31 March 2015, a second stage for employees with retirement requisites earned by 31 December 2015 and a third stage reserved for workers who have earned the requisites for retirement by 31 December 2017, in line with the provisions of Art. 4 of Italian Law 92/2012 ("*Fornero Law*"). Specifically, the first stage ended with 115 employees leaving the company, while at 30 September 2015, 46 employees had left under the second stage, which will end on 31 December 2015. For the third stage, the deadline for "expressing interest" expired in June; this will be followed by verification of the pension requisites by the pensions agency, INPS.

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

Al 30.09.2015	Terna S.p.A.	Terna Rete Italia S.p.A.	Terna Plus S.r.l.	Terna Storage S.r.l.	Gruppo Tamini*	Terna Crna Gora d.o.o.	Totale Gruppo
Dirigenti	31	33	1	-	8	-	**73**
Quadri	151	366	4	1	15	-	**537**
Impiegati	237	1.641	7	3	116	5**	**2.009**
Operai	-	951	-	-	213	-	**1.164**
TOTALE	**419**	**2.991**	**12**	**4**	**352**	**5**	**3.783**

** Include dipendenti di Tamini Transformers USA LLC, società statunitense appartenente al Gruppo Tamini.*

*** Dipendenti locali.*

The Group's Performance

The Terna Group's performance and financial position

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

Consolidation scope

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

Basis of presentation

The measurement and recognition criteria applied in this consolidated interim financial report are consistent with those adopted in the consolidated financial statements at 31 December 2014.

We note that the comparative income statement at 30 September 2014 includes the Tamini Group starting from 20 May 2014, the acquisition date.

Reclassified income statement

The reclassified income statement of the Terna Group for the first nine months and the third quarter of 2015 and 2014 are summarised in the statement below, obtained reclassifying the data presented in the consolidated income statement.

Q3					1 January - 30 September			
2015	2014	Δ	%	*€ million*	2015	2014	Δ	%
				Revenue:				
421.7	422.1	(0.4)	(0.1%)	- Transmission Fee	1,261.0	1,238.7	22.3	1.8%
32.0	30.2	1.8	6.0%	- Dispatching Fee	94.0	87.7	6.3	7.2%
56.2	40.0	16.2	40.5%	- Other operating revenue	149.2	103.4	*45.8*	44.3%
1.8	*3.2*	*(1.4)*	(43.8%)	*of which other revenue from Regulated Activities*	*11.6*	*15.8*	*(4.2)*	(26.6%)
54.4	*36.8*	*17.6*	47.8%	*of which revenue from Non-Regulated Activities*	*137.6*	*87.6*	*50.0*	57.1%
4.9	5.5	(0.6)	(10.9%)	- Revenue from construction of assets in concession*	12.6	17.9	(5.3)	(29.6%)
514.8	**497.8**	**17.0**	**3.4%**	**Total revenue**	**1,516.8**	**1,447.7**	**69.1**	**4.8%**
				Operating expenses:				
51.4	57.6	(6.2)	(10.8%)	- Personnel costs	163.2	161.4	1.8	1.1%
31.4	31.7	(0.3)	(0.9%)	- Services, leases and rentals	97.2	89.9	7.3	8.1%
24.2	15.4	8.8	57.1%	- Materials	56.4	30.0	26.4	88.0%
8.7	5.3	3.4	64.2%	- Other expenses	26.6	13.7	12.9	94.2%
4.9	5.5	(0.6)	(10.9%)	- Costs of construction of assets in concession*	12.6	17.9	(5.3)	(29.6%)
120.6	**115.5**	**5.1**	**4.4%**	**Total operating expenses**	**356.0**	**312.9**	**43.1**	**13.8%**
394.2	**382.3**	**11.9**	**3.1%**	**EBITDA (GROSS OPERATING PROFIT)**	**1,160.8**	**1,134.8**	**26.0**	**2.3%**
118.9	**108.3**	**10.6**	**9.8%**	**Amortisation, depreciation and impairment**	**361.9**	**343.4**	**18.5**	**5.4%**
275.3	**274.0**	**1.3**	**0.5%**	**EBIT (OPERATING PROFIT/LOSS)**	**798.9**	**791.4**	**7.5**	**0.9%**
(53.4)	(35.5)	(17.9)	50.4%	- Net financial income (expense)	(117.1)	(99.8)	(17.3)	17.3%
221.9	**238.5**	**(16.6)**	**(7.0%)**	**PROFIT/LOSS BEFORE TAXES**	**681.8**	**691.6**	**(9.8)**	**(1.4%)**
76.9	94.7	(17.8)	(18.8%)	- Income taxes for the period	226.9	273.8	(46.9)	(17.1%)
145.0	**143.8**	**1.2**	**0.8%**	**NET PROFIT FOR THE PERIOD**	**454.9**	**417.8**	**37.1**	**8.9%**
145.0	*143.8*	*1.2*	*0.8%*	*- Attributable to owners of the Parent*	*454.9*	*417.8*	*37.1*	*8.9%*

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

In the first nine months of 2015, the Terna Group earned **revenue** of **€ 1,516.8 million**, relating to the Parent Company for € 1,273.6 million, to Terna Rete Italia S.r.l. for € 141.6 million and to the Tamini Group for € 77.5 million, an increase of € 69.1 million compared with the same period of the previous year (+4.8%). This change is attributable to Regulated Activities for € +24.4 million and Non-Regulated Activities, for € 50 million; revenue from investments in assets in concession fell by € 5.3 million, recorded in line with IFRIC 12.

In the context of **Regulated Activities**, the increase of € 24.4 million derives mainly from the positive change in **fees for the transmission service** (€ +22.3 million) and for the **dispatching service** (€ +6.3 million). The two fees reflect the tariff update for the year 2015, reduced by the costs recognised in the first nine months of 2015 owing to the impact on the mechanism neutralising the volume effect (pursuant to AEEGSI Resolution 188/08) of the adjustment of the value of the relevant energy established by the Authority for the year 2015, compared to the positive effect of this increase seen in the first nine months of 2014.

As regards **Non-Regulated Activities** – the results of which are presented under "Other operating revenue" – an increase of € 50 million was recorded, due substantially to the inclusion in the consolidation scope of the Tamini Group (€ +38.9 million); also recognised is the effect of the price adjustment paid for the acquisition of Tamini (€ +5.9 million), the revenue for an order in progress in Chile (€ +7.3 million) and more specialist and engineering services (€ +2.7 million), in part offset by the reduction of activities related to orders for variants on the NTG (€ -4.8 million; the first nine months of 2014 were affected by more activities associated with the Expo).

In the third quarter of 2015, an increase of around € 22.0 million was registered in Group revenues compared to the same period of 2014. This was primarily due to Non-Regulated Activities, and the impacts described above linked to the acquisition of Tamini and the new order in Chile.

In the first nine months of 2015, **operating expenses**, of € 356.5 million, **grew** by € 43.1 million compared with the first nine months of 2014, owing substantially to the operating expenses recognised in the period by the Tamini Group, compared with what was recognised in 2014 starting from the acquisition date (€ +38.5 million).

Details of the Group's operating expenses in the first nine months of 2015 are presented in the table below:

€ million	9M 2015	9M 2014	Δ Total	Δ 9M 2015 (without Tamini)	Δ 9M 2015 Tamini
Personnel expenses	163.2	161.4	1.8	(5.2)	7.0
Services, leases and rentals	97.2	89.9	7.3	(2.7)	10.0
Materials	56.4	30	26.4	6.9	19.5
Other costs	23.1	15.4	7.7	5.7	2.0
Service quality	3.5	(1.7)	5.2	5.2	-
- Costs of construction of assets in concession	12.6	17.9	(5.3)	(5.3)	-
Total expenses	**356.0**	**312.9**	**43.1**	**4.6**	**38.5**

Operating expenses, net of the Tamini Group's balances, recorded an increase of € 4.6 million; the main differences are commented on below:

- "Personnel expenses": € -5.2 million, owing essentially to the higher costs recognised in the first nine months of the previous year for the reorganisation and restructuring programmes launched during the second quarter of 2014 (€ -5.9 million). Also recognised were the lower capitalisations attributable largely to the various stages of progress of the main projects in the two corresponding periods;
- "Services": € -2.7 million relative to lower costs for contracts and savings in building and remote-transmission services;
- "Materials": € +6.9 million, substantially related to the costs recognised by the subsidiary Terna Chile in the context of the order in progress in Chile, begun in the third quarter of 2015;
- "Other expenses": € +5.7 million, owing essentially to the higher costs for Council Tax (Imposta Municipale Unica - IMU);

- "Service quality": €+ 5.2 million attributable above all to contingent assets recognised in the first nine months of 2014[15].

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

Electricity service quality *€ million*	9M 2015	9M 2014	Δ
Revenue			
RENS premium supplement 2012	-	5.7	(5.7)
	-	**5.7**	**(5.7)**
Costs			
Mitigation and sharing mechanisms	2.8	2.1	0.7
Grants to Exceptional Events Provision	0.7	0.2	0.5
Contingent assets	-	(4.0)	4.0
	3.5	**(1.7)**	**5.2**
Net service quality impact	**(3.5)**	**7.4**	**(10.9)**

Operating expenses for the third quarter of 2015 have increased by € 5.1 million euros compared to the same period of the previous year due to IMU (council tax) costs and the purchase of materials connected to the aforementioned Chile order, partially offset by higher personnel costs in 2014 due to restructuring and generational turnover.

The overall change in operating expenses also takes into account the lower costs associated with investments in infrastructures in concession - IFRIC 12 (€ -5.3 million).

EBITDA (Gross Operating Margin) for the period came out at **€ 1,160.8 million**, an increase of € 26 million compared with the € 1,134.8 million of the first six months of 2014 (+2.3%), owing mainly to higher *EBITDA of Regulated Activities* (€ +22.6 million), with a margin on revenue (EBITDA margin) down from 78.4% in the first nine months of 2014 to **76.5%** in the corresponding period of 2015, owing substantially to the dilutive effect of the contribution of the Tamini Group.

The item **amortisation, depreciation and impairment** for the period, amounting to € 361.9 million (of which € 323.0 million of the parent company and € 35.9 million of the subsidiary Terna Rete Italia S.r.l.), grew by € 18.5 million compared with the same period in 2014 owing essentially to the entry into operation of new plants.

Amortisation, depreciation and impairment, in the comparison between the third quarter of 2015 and the same period of 2014, show an increase of € 10.6 million (9.8%).

EBIT (Operating Profit/Loss), after deducting amortisation, depreciation and impairment, came out at **€ 798.9 million**, compared with € 791.4 million in the first nine months of 2014 (+0.9%).

Net financial expenses for the period amounted to € 117.1 million, mainly attributable to the parent company (€ 116,3 million), and showed an increase of € 17.3 million to the figure for the same period of 2014 owing mainly to the costs (€ 28.4 million at the reporting date) associated with the Liability

[15] In the paragraph "Significant events in the first nine months of 2015" the main outage events which occurred in the period are commented on, as well as the trend in the Regulated Energy Not Supplied (RENS) index attributed to the grid owned by Terna S.p.A. and by the subsidiary Terna Rete Italia S.r.l. is described.

Management operation carried out on 20 July 2015 and commented on in the section “Significant events in the third quarter of 2015” This effect was mitigated by the reduction in net financial expenses due mainly to the general decrease in market rates (€ -11.1 million: € -21 million for lower financial expenses and € -10 million for lower financial income).

After deducting net financial expense, **profit before taxes** came out at **€ 681.8 million**, down by 1.4% compared with the corresponding period of the previous year (€ 691.6 million).

Income taxes for the period amounted to € 226.9 million and fell by € 46.9 million (-17.1%) compared with the same period of the previous year, following essentially the fiscal benefit on current taxes deriving from:

- reduction of the IRES rate from 27.5% from 1 January 2015 following the declaration of unconstitutionality of the surcharge introduced by Law Decree No. 112/2008 (known as the Robin Hood Tax)[16];
- deductibility of permanent personnel expenses for IRAP purposes introduced by the 2015 Stability Law starting from the current year.

The tax rate for the period dropped from 39.6% in the first nine months of 2014 to 33.3% in the corresponding period of 2015.

As a result, **net profit for the period** came out at **€ 454.9 million**, up € 37.1 million (+8.9%) compared to € 417.8 million for the first nine months of 2014.

[16] On 11 February 2015, the Constitutional Court published Ruling 10/2015, with which it declared unconstitutional the Robin Hood Tax. Given that, in the Court's opinion, "the retroactive application of this declaration of unconstitutionality would create a serious violation of the balance of the budget" of the State, sanctioned in Article 81 of the Constitution, "the unconstitutionality is effective as of the day following the publication of this ruling."

Results by business segment

Economic results

The breakdown of the Terna Group's results by business segment, in relation to the first nine months of financial years 2015 and 2014, is shown in the table below[17]:

€ million	9M 2015	9M 2014	Δ	Δ%
Total revenue from Regulated Activities	**1,366.6**	**1,342.2**	**24.4**	**1.8%**
Transmission Fee	*1261*	*1238.7*	*22.3*	
Dispatching revenues	*94*	*87.7*	*6.3*	
Service quality	*-*	*5.7*	*(5.7)*	
Other core revenue	*11.6*	*10.1*	*1.5*	
Total revenue from Non-Regulated Activities	**137.6**	**87.6**	**50.0**	**57.1%**
Tamini Group revenue	*77.5*	*38.6*	*38.9*	
Other non-regulated revenue	*60.1*	*49*	*11.1*	
Revenues from construction of assets in concession	12.6	17.9	*(5.3)*	
Total revenue	**1,516.8**	**1,447.7**	**69.1**	**4.8%**
Total costs of Regulated Activities	**244.6**	**242.8**	**1.8**	**0.7%**
Personnel	*140.7*	*146.9*	*(6.2)*	
External resources	*81.9*	*85.9*	*(4)*	
Service quality	*3.5*	*(1.7)*	*5.2*	
Other expenses	*18.5*	*11.7*	*6.8*	
Total costs of Non-Regulated Activities	**98.8**	**52.2**	**46.6**	**89.3%**
Tamini Group costs	*76.2*	*37.8*	*38.4*	
Other non-regulated costs	*22.6*	*14.4*	*8.2*	
Costs from construction of assets in concession	12.6	17.9	*(5.3)*	
Total operating expenses	**356**	**312.9**	**43.1**	**13.8%**
EBITDA	**1,160.8**	**1,134.8**	**26.0**	**2.3%**
EBITDA Regulated Activities*	1,122.0	1,099.4	22.6	2.1%
EBITDA Non-Regulated Activities	38.8	35.4	3.4	9.6%

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

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

Regulated Activities

The **EBITDA of Regulated Activities** amounted to € 1,122.0 million, up € 22.6 million compared to the figure for the first nine months of the previous year. This increase was due to higher revenue (€ +24.4 million) associated substantially with the increase in the CTR and DIS fees – which takes into account the tariff update for 2015 net of the impact of the mechanism neutralising the volume effect described above.

Non-Regulated Activities

The **EBITDA of Non-Regulated Activities** came out at € 38.8 million, an increase of € 3,4 million owing mainly to the price adjustment defined for the acquisition of Tamini (€ +5,9 million), and more specialist and engineering services (€ +2.7 million), in part offset by the reduction of activities related to orders for variants on the NTG (€ -4.8 million).

Investments

In the first nine months of 2015 the Terna Group made investments for € 702.0 million, of which € 666.2 million (approximately 94.9%) were investments in Regulated Activities, i.e. remunerated by the AEEGSI; in particular, with reference to remunerated investments[18], we can note that:

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

Investments	9M 2015	9M 2014	Δ	Δ%
Incentive +2% (Category I3/I4)	307.0	258.9	48.1	18.6%
Incentive +1.5% (Category I2)	231.0	214.8	16.2	7.5%
Investments with incentives	***538.0***	***473.7***	**64.3**	**13.6%**
Basic remuneration (Category I1)	128.2	146.9	(18.7)	(12.7%)
Investments in Regulated Activities	**666.2**	**620.6**	**45.6**	**7.3%**
Other*	35.8	31.8	4.0	12.6%
Total investments	**702.0**	**652.4**	**49.6**	**7.6%**

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

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

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

Reclassified Statement of Financial Position

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

€ million	at 30.09.2015	at 31.12.2014	Δ
Net non-current assets			
- Intangible assets and goodwill	432.5	452.5	(20.0)
- Property plant and equipment	11,093.3	10,778.6	314.7
- Financial assets	91.2	89.3	1.9
Total	**11,617.0**	**11,320.4**	**296.6**
Net working capital			
- Trade receivables	567.5	670.8	(103.3)
- Inventories	11.9	21.6	(9.7)
- Other assets	21.0	24.4	(3.4)
- Trade payables	621.2	742.9	(121.7)
- Net energy-related pass-through payables	892.1	453.9	438.2
- Net tax liabilities	142.6	(6.2)	148.8
- Other liabilities	290.2	347.0	(56.8)
Total	**(1,345.7)**	**(820.8)**	**(524.9)**
Gross invested capital	**10,271.3**	**10,499.6**	**(228.3)**
Sundry provisions	398.7	440.9	(42.2)
NET INVESTED CAPITAL	**9,872.6**	**10,058.7**	**(186.1)**
Equity attributable to the owners of the Parent	**3,311.8**	**3,092.9**	**218.9**
Net financial debt	**6,560.8**	**6,965.8**	**(405.0)**
TOTAL	**9,872.6**	**10,058.7**	**(186.1)**

The increase in **Net non-current assets** of € 296.6 million, compared with the figure of 31 December 2014, is mainly attributable to the item **Property, plant and equipment**, owing essentially to the combined effect of:

- investments for € 682.0 million;
- depreciation and amortisation for the period of € 321.9 million.

Disposals and other changes in the period, such as the recognition of set-up grants, accounted for the change in the item to € +314.7 million compared to 31 December 2014.

Intangible assets and goodwill recorded a reduction of € 20.0 million, mainly attributable to ordinary changes in intangible assets for investments of € 20 million net of the amortisation for the period of € 40.0 million.

Total investments made by the Group in the first nine months of 2015 amounted to € 702.0 million, up € 49.6 million compared with the € 652.4 million of the corresponding period of 2014 (+7.6%).

The **net working capital** came out at € **-1,345.7 million** and during the period it generated cash of € 524.9 million which, net of the slight decrease in net trade payables (€ -18.4 million), is essentially attributable to the combined effect of:

- an increase in **net energy-related pass-through payables** related to the electricity dispatching activity carried out by the Parent Company, of € 438.2 million, mainly attributable to non-liquidation (awaiting the specific AEEGSI Resolutions) of items related to collection in the period from users of the dispatching of the fees remunerating the EUSSs (Essential Units for Electricity System Security) and the capacity payment (availability of production capacity), net of the reduction in net payables for transactions on the dispatching services market;
- an increase in **net tax liabilities** (€ 148.8 million) mainly due to the recognition of income taxes for the period (€ 255.8 million), net of payments on account in the period and of the effects of liquidating taxes of financial year 2014 (€ 135.7 million) and the higher net payable for VAT (€ 20.8 million);
- a decrease in **other liabilities** (€ -56.8 million) due mainly to the utilisation of set-up grants, recognised directly to reduce the carrying amount of assets (€ -42.5 million, net of new contributions received).

Gross invested capital, therefore, amounted to € 10,271.3 million, recording a decrease compared with the previous financial year of € 228.3 million.

Sundry provisions, amounting to € 398.7 million, recorded a decrease of € 42.2 million, mainly attributable to:

- provisions for employee benefits, which recorded a total reduction of € 15.4 million (of which € 7.2 million related mainly to the amounts payable to the beneficiaries of the aforementioned voluntary retirement programme and € 8.2 million referable to the recognition of actuarial gains and losses accruing to the year, owing to adjustment of the relevant interest rate);
- provisions for early retirement incentives (€ -9.1 million) connected with the generational turnover programme through early voluntary retirement incentives launched by the Parent Company during the previous year;
- net utilisation of provisions for risks related to electricity service quality for charges payable to distributing companies for outages of the transformation plants connected to the NTG (€ -6.7 million);
- utilisations of net deferred taxes (€ -14.6 million), owing mainly to the utilisation of prior-period provisions for additional depreciation and amortisation with respect to the economic/technical rates, to recognition of the tax effect on the measurement of cash flow hedging instruments and to the changes in the provisions described above.

Net invested capital amounted to € 9,872.6 million, a decrease of € 186.1 million compared with 31 December 2014 and is financed by shareholders' equity for € 3,311.8 million (compared with € 3,092.9 million at 31 December 2014) and by net financial indebtedness for € 6,560.8 million (€ -405.0 million compared with the € 6,965.8 million of 31 December 2014).

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

A reconciliation of consolidated equity and profit for the first nine months of 2015 with the amounts reported by the Parent is provided below:

€ million	Net profit 9M 2015	Equity at 30.09.2015
Financial Statements of the Parent Company	**378.6**	**2,895.3**
Results and equity contributed by the Group Companies - Regulated Activities	73.8	320.3
Results and equity contributed by the other Group companies - Non-Regulated Activities	1.2	67.9
Equity-accounted investees	1.3	28.3
Terna Group Consolidated Financial Statements	**454.9**	**3,311.8**

Cash flows

Net financial debt

The Group's net financial debt at 30 September 2015 (€ 6,560.8 million) is broken down in the table below.

€ million	30.09.2015	31.12.2014	Change
Financial debt			
A. Medium- and long-term debt			
- Bond Loans	6,416.7	5,983.6	433.1
- Floating-rate loans	2,001.5	2,101.6	(100.1)
- Derivative financial instruments	(688.2)	(754.9)	66.7
Total	**7,730.0**	**7,330.3**	**399.7**
B. Short-term debt (liquidity):			
- Short-term loans	1.7	-	1.7
- Floating-rate loans (current portions)	122.4	764.1	(641.7)
- Derivative financial instruments	-	5.6	(5.6)
- Other net current financial liabilities	37.5	83.1	(45.6)
- Cash and cash equivalents*	(1,330.8)	(1,217.3)	(113.5)
Total	**(1,169.2)**	**(364.5)**	**(804.7)**
Total net financial debt	**6,560.8**	**6,965.8**	**(405.0)**
Net financial debt (per type of instrument)			
- Bond Loans	6,416.7	5,983.6	433.1
- Floating-rate loans	2,123.9	2,865.7	(741.8)
- Derivative financial instruments	(688.2)	(749.3)	61.1
- Short term loans and other financial liabilities	39.2	83.1	(43.9)
- Cash and cash equivalents	(1,330.8)	(1,217.3)	(113.5)
Total net financial debt	**6,560.8**	**6,965.8**	**(405.0)**

The structure of net financial debt, which decreased overall by € 405 million in the first nine months of 2015, shows the following changes:

- an increase in bonds (€ 433.1 million) as a result of the bond issue on 2 February 2015 for € 1 billion, early repayment of the bond with maturity 2017, for an amount of € 480 million, in the context of the Liability Management programme completed on 20 July 2015, and the adjustment to fair value of the same financial instruments (€ -86.9 million, including the amortised cost);
- a decrease in floating-rate loans (€ 741.8 million) owing to repayment on 26 June 2015 of the Club Deal floating-rate loan agreed in October 2008 (€ 650 million) and of the instalments refunded by the other existing loans (€ 91.8 million);
- a decrease in the positive net balance of derivative financial instruments (€ 61.1 million), mainly due to the increase in the medium/long-term reference interest rate curve with respect to December 2014;
- an increase in cash and cash equivalents (€ 113.5 million).

The application of the change in debt in terms of Group management is described in the following paragraph.

Cash flow

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

€ million	*Cash flow* 9M2015	*Cash flow* 9M2014	*Cash flow* 3Q2015	*Cash flow* 3Q2014
- Net Profit for the period	454.9	417.8	145.0	143.8
- Amortisation, depreciation and impairment	361.9	343.4	118.9	108.3
- Net financial expense	117.1	99.8	53.4	35.5
- Net change in provisions	(42.2)	(11.1)	(14.1)	(8.4)
- Net Losses (Gains) on asset disposals	(1.3)	(0.9)	(0.2)	(0.4)
Self-financing (Operating Cash Flow)	**890.4**	**849.0**	**303.0**	**278.8**
- Change in net working capital	524.9	109.1	289.8	389.5
- Other changes	70.1	(3.9)	38.9	1.6
Change in NWC and other (Cash Flow from Operating Activities)	**1,485.4**	**954.2**	**631.7**	**669.9**
- Total investments	**(702.0)**	**(652.4)**	**(263.1)**	**(266.4)**
Free Cash Flow	**783.4**	**301.8**	**368.6**	**403.5**
- Dividends paid to owners of the Parent	(261.3)	(261.3)	-	-
- Net financial expense	(117.1)	(99.8)	(53.4)	(35.5)
Change in net financial debt	**405.0**	**(59.3)**	**315.2**	**368.0**

The cash provided by operating activities in the first nine months of 2015 is attributable substantially to self-financing (€ 890.4 million), and to financial resources provided by net working capital (€ 524.9 million) and by other changes (€ 70.1 million).

The most substantial effect on **self-financing** was that of profit for the first nine months of 2015, € 454.9 million, gross of amortisation, depreciation and impairment accruing of € 361.9 million and net financial expense for the period (€ 117.1 million). The reduction in provisions of € 42.2 million substantially reflects the change in provisions for risks and benefits relating to personnel, and the change in net deferred tax provision.
The cash generated by **net working capital**, of € +524.9 million, is mostly attributable to the management of pass-through energy items and to the increase in tax payables owing mainly to the recognition of taxes accruing to the nine months net of payments on account in the period.

The Group's **total investments** made in the first nine months amounted to € 702.0 million referable to property, plant and equipment for € 682.0 million and to intangible assets for € 20 million.

Therefore the **net free cash flow** provided by operating activities amounted to € 783.4 million, compared with an absorption of cash of € 301.8 million generated in the corresponding period of the previous year.

The operations described above enabled a reduction in net financial debt of € 405.0 million, after covering the need deriving from **remuneration of shareholders** (payment of the balance on the 2014 dividend for € 261.3 million) and **of third-party capital** (net financial expense of € 117.1 million).

Significant events subsequent to 30 September 2015

Closing of the business combination between Tamini and TES Transformer Electro Service S.r.l.

As part of the development of Non-Regulated Activities, on **30 October 2015** the operation relating to the process of merger between Tamini Trasformatori S.r.l. ("Tamini"), a company controlled by Terna Plus S.r.l., and TES Transformer Electro Service S.r.l.("TES").

As provided for in the Memorandum of Understanding (MoU) signed by the parties on 16 September 2015, the transaction was carried out by means of a share swap, that is with the incorporation of a new holding company Holdco TES S.r.l., wholly owned by the TES shareholders, which contributed to Tamini 100% delle of the TES shares in exchange for a Tamini share capital increase of approximately 26.4 million euro. With completion of the transaction Terna Plus is the owner of an equity interest of 70% in the Tamini share capital while Holdco TES owns the remaining 30% stake.
The operation, which achieves an important corporate and business combination, further consolidates Tamini as a leader in the industrial and after-sales sector, as well as strengthening it in the power and utilities sector, for the benefit of its customers and of the global steel industry.

New AEEGSI consultation document for the revision of the WACC

On **29 October 2015**, the Authority published the consultation document 509/2015/R/com "*Criteria for determining and updating the remuneration rate on invested capital for infrastructure regulation of the electricity and gas sectors - Final guidelines*"; the document consolidates the Authority's guidelines based on the outcomes of the consultation of the previous consultation document 275/2015/R/com. More specifically, it presents the Authority's final guidelines on the overall revision of the methods for the determination and update of the rate of return on invested capital (WACC) for regulated services of the electricity and gas sectors, in view of the adoption of the final provision within the first ten days of December 2015, at which point the initial parameters will be defined, unified for all services (with the exception, therefore, of those specific to the individual services).

Resolution 517/2015/R/eel - "Definition of the remuneration of the high and very high voltage electricity grids owned by the company Ferrovie dello Stato italiane S.p.A. to be included in the national transmission grid"

On **29 October 2015**, the Authority published Resolution 517/2015/R/eel which determines the remuneration, amortisations and current and arising operating expenses relating to the high-voltage and very high-voltage grids owned by FSI S.p.A., subject to inclusion in the national transmission grid pursuant to Italian Law 190/2014.

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

The Financial Reporting Manager, Pierpaolo Cristofori, in accordance with Art. 154-*bis*, paragraph 2 of the Consolidated Law on Finance, declares that the accounting disclosure provided in this Consolidated Interim Financial Report at 30 September 2015 is consistent with the documents, books and accounts.

ANNEX

Italy's regulatory framework

Regulatory framework

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

Measures issued in 2015

Italian Law No. 114 of 9 July 2015, "Powers delegated to the Government for transposition of the European directives and enactment of other European Union acts - 2014 European delegation law", published in Italian Official Journal No. 176 of 31 July 2015.

With the European delegation law, the Government is delegated to issue the legislative decrees or the acts needed to transpose from year to year into the national legislation the European laws introduced. Among the directives falling under the delegation contained in Law 114/15 of interest are Directive 2013/35/EU on exposure of workers to electrical and magnetic fields, Directive 2014/52/EU on environmental impact assessment, Directive 2014/56/EU on annual and consolidated accounts, Directive 2014/86/EU on the tax regime applicable to parent companies and subsidiaries of different Member States, Directive 2013/50/EU on transparency obligations for issuers of financial instruments, Directive 2014/65/EU relating to markets for financial instruments and Directive 2014/57/EU on market abuses.

➢ **On the subject of public equity investments and public administration**

Italian Law No. 124 of 7 August 2015, containing "Powers delegated to the Government on reorganisation of the public administrations", published in Italian Official Journal No. 187 of 13 August 2015.

The law carries a power delegated to the Government for the issue, by 28 August 2016, of a legislative decree reforming and regulating public equity investments. The guiding criteria and principles contained in the delegation provide for a distinction between types of company in relation to the business carried on, the relevant public interests, the size and quality of the equity investment, and its direct or indirect nature, to the direct method or call for bids procedure for the assignment, and to listing on the stock exchange or to the issue of financial instruments listed in regulated markets. Among the purposes of the delegation, the elimination of overlaps between public- and private-law rules and systems based on the same needs to govern and control, the redefinition of the conditions and limits for the holding of corporate equity investments by public administrations, and the definition of the regime of responsibility of management and control bodies and of employees of investee companies.

- **On energy**

Italian Law No. 115 of 29 July 2015, "Provisions for the fulfilment of obligations arising from Italy's membership of the European Union - European Law 2014", published in Italian Official Journal No. 178 of 3 August 2015, .

In relation to the assignment of foreign exchange capacity, the law states that the Regulatory Authority for Electricity, Gas and Water will now identify "*the methods and conditions for imports and exports of electricity by means of the national transmission grid, taking into account the guidance adopted by the Ministry of Economic Development in relation to the commitments on the use of the electricity transit capacity deriving from international acts and agreements and from common projects defined with other States";* in this way the current succession in time between Authority resolution and ministerial act is inverted.
The provision relating to calculation of the sanctions that the Authority can impose is also reformulated, eliminating the maximum ceiling currently provided for of approximately € 155 thousand and expressly mentioning the transmission operator as one of the possible recipients: *"The monetary administrative penalties imposed by the Regulatory Authority for Electricity, Gas and Water for breaches of the provisions of the present decree may not be less, as a minimum, than € 2,500 and may not exceed 10 per cent of the turnover made by the vertically-integrated company, or by the transmission operator, in the last year ended before the start of the disciplinary proceeding".*

- **On tax and social security contributions**

Italian Law No. 34 of 24 March 2015, "Conversion into law, with amendments, of Italian Law Decree No. 4 of 24 January 2015, containing urgent measures on IMU exemptions. Extension of the terms concerning exercise of the delegated powers on revision of the tax system", published in Italian Official Journal No. 70 of 25 March 2015.

The Law lays down an extension of the terms for implementing the delegated tax powers pursuant to Italian Law No. 23 of 11 March 2014. The term for adopting the implementing decrees was therefore extended from 27 March to 27 June 2015. In addition, this term may be extended for a further 90 days if this becomes necessary for expression of the opinions on the draft legislative decrees by the competent parliamentary commissions. Among the criteria of the delegated powers, we can note the introduction of new forms of environmental and energy taxes and the reform of the land registry.
Implementing the delegated tax powers the following legislative decrees have been adopted:

Italian Legislative Decree No. 156 of 24 September 2015, "Measures for the revision of the rules on inquiries and on tax disputes, implementing Articles 6, paragraph 6, and 10, paragraph 1, letters a) and b), of Italian Law No. 23 of 11 March 2014", published in Italian Official Journal No. 233 of 7 October 2015.

The decree regulates inquiries with new rules and reforms tax disputes.

Italian Legislative Decree No. 158 of 24 September 2015, "Revision of the disciplinary system, implementing Article 8, paragraph 1, of Italian Law No. 23 of 11 March 2014", published in Italian Official Journal No. 233 of 7 October 2015.

The decree reforms the criminal disciplinary system with amendments to Italian Legislative Decree 74/00 and the administrative disciplinary system with amendments to Italian Legislative Decrees 471/97 and 472/97.

Italian Legislative Decree No. 159 of 24 September 2015, "Measures to simplify and rationalise the rules on tax collection, implementing Article 3, paragraph 1, letter a) and b), of Italian Law No. 23 of 11 March 2014", published in Italian Official Journal No. 233 of 7 October 2015.

The decree modifies the system of payment in instalments and other current rules on tax collection.

- **On employment**

Implementing the delegated powers contained in Law 183/2014 on employment the following measures were adopted:

Italian Legislative Decree No. 148 of 14 September 2015, "Provisions to reform the legislation on social safety nets with continuing employment, implementing Italian Law No. 183 of 10 December 2014", published in Italian Official Journal No. 221 of 24 September 2015.

The legislative decree reforms the rules on supplementary benefits providing for the extension of the scope of application also to workers employed with apprenticeship contracts; in addition, it fixes a maximum duration of the supplementary benefits to two years in the mobile five years, a provision for additional contributions from beneficiary companies and the redetermination of the ordinary rates for companies.

Italian Legislative Decree No. 151 of 14 September 2015, "Provisions to rationalise and simplify the procedures and formalities for citizens and businesses and other provisions on employment and equal opportunities, implementing Italian Law No. 183 of 10 December 2014", published in Official Journal No. 221 of 24 September 2015.

The legislative decree introduces a number of simplification measures in the establishment and management of the employment relationship, namely the abolition of the authorisation obligation for working abroad and recourse to electronic tools for mutually-agreed termination, keeping the single employment book and communications with public administrations; in addition, it introduces the possibility of transferring holidays to colleagues with children needing constant care.
It also makes changes on the subject of worker safety, providing forms of collaboration between health trusts and businesses for the purpose of assessing the risks and abolishing the injuries register. Finally, it lays down new rules on employing workers with disabilities and on remote controls.

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

Below a short summary is presented of the main resolutions passed by the Italian Regulatory Authority for Electricity Gas and Water during the third quarter of 2015 and, later, up to the date of preparation of this Interim Financial Report.

Resolution 333/2015/R/eel - Launch of proceeding on measuring the effective balancing for the years 2012, 2013 and 2014 following the ruling of the Council of State 1532/2015

With this measure the Authority launched a proceeding, to be completed by 31 December 2015, measuring the effective balancing for the years 2012, 2013 and 2014 following the ruling of the Council of State 1532/2015. In particular, the resolution is aimed at adopting rules on balancing relating to the periods in which, in the years mentioned, resolutions 342/2012/R/eel, 239/2013/R/eel and 285/2013/R/eel were applied in order to protect users who in that period trusted in the application of balancing rules in line with the purposes and functions of the dispatching service and guaranteeing, at the same time, the application of regulations on this service in keeping with the related purposes.

Resolution 359/2015/R/eel - Rules on the extra fee for transitory remuneration of the available production capacity

With this measure the Authority updated the transitory rules on the further remuneration of the available electricity generation capacity for the year 2014 and established that Terna must pay to market operators the amounts related to the extra fee for the year 2014.

Resolution 377/2015/R/eel - Revision of the conventional loss percentage factors and of the equalisation mechanism for losses on electricity distribution grids

With this measure the Authority revised the conventional loss percentage factors pursuant to Table 4 of the Integrated Settlement Rules (ISRs) starting from 1 January 2016 stating that they would no change for three years. In particular, the resolution updated the standard loss factors to be applied to withdrawals, inputs and interconnections between grids, confirming the definition of uniform coefficients at the national level. These coefficients may be revised in consideration of the development of distributed generation, of the effects deriving from the process of limiting commercial losses and of further methodological refinements. The measure also changed the loss equalisation mechanism to be applied starting from the distribution companies.

Resolution 393/2015/R/eel - Systematic reform of the regulations governing the electricity dispatching service and consequent activation of the inter-departmental project EDR (Electricity Dispatching Reform)

With this measure the Authority launched a proceeding aimed at the formation of measures for systematic reform of the regulations governing the dispatching service . In order to introduce this reform of the market, the inter-departmental project “Electricity Dispatching Reform” was launched; this is to be completed by 31 December 2016 and is the responsibility of the Department for Regulations, to which is entrusted, among other things, the task of guiding and monitoring Terna's participation in projects aimed at testing methods of cross-border integration of the balancing market and of compiling integrated Electricity Dispatching rules, to replace Annex A of Authority Resolution 111/06 currently in force.

Resolution 397/2015/R/eel - Update of the milestones and objective dates for strategic investments to develop the national transmission grid.

With this measure the Authority updated the perimeter of strategic investments pursuant to paragraph 22.5, letter c) of the Integrated Transmission Text (ITT) (investments I=3) and the related milestones and target dates approved with Resolution 40/2013/R/eel and amended with Resolution 654/2014/R/eel, providing for the deferment to 30 November 2015 of the term pursuant to point 4 of Resolution 654/2014/R/eel for the presentation, by Terna, of the updated and complete picture of the information of a planning and financing nature related to Interconnection No.1 “Italy - Balkans”.

Resolution 400/2015/R/eel - Actions aimed at simplifying the technical and economic conditions for connection to the grids with obligation of connection of third parties of the production units (TICA)

With this measure the Authority supplements the rules relating to the technical and economic conditions for connection to the grids in accordance with the rules defined by the decree of the Ministry of Economic Development of 19 May 2015. This decree approved the Single Form for the creation, connection and operation of photovoltaic plants with specific characteristics related to the type of plant (among which, nominal power not more than 20kW; power not more than that already available in withdrawal; created at the final customer already provided with withdrawal points active in low voltage). The rules of the resolution therefore have the purpose of introducing simplifications in the most simple cases of connection.

Resolution 412/2015/E/eel - Extension of the fact-finding enquiry on investments of regulated companies, launched with Resolution 256/2014/e/com, to the costs of grid plants for connection made by electricity producers

With this measure the Authority extended the scope of the fact-finding enquiry, launched with Resolution 256/2014/E/com, in order to assess the congruity and consistency of the cost elements communicated to the said Authority by a distribution company in relation to grid plants for connection made by electricity producers. In particular, the Authority resolved to carry out specific in-depth investigations, to be completed by 30 June 2016, aimed at verifying, with reference, as a priority, to the geographical areas and years reported to the Authority: the congruity of the economic and financial value given to the network plants acquired by the producers, the congruity of the expenses requested from producers for the grid plant testing activity, the methods of applying the rules of the Combined Text on Active Connections (Testo Integrato delle Connessioni Attive - TICA) which regulate the coordination for the creation of grid plants serving several applicants and the correct treatment, for tariff purposes, of the assets acquired and of the contributions received applying the TICA.

Resolution 413/2015/E/eel - Closure of the fact-finding enquiry related to provision of the electricity measurement service

With this measure the Authority ordered the closure of the fact-finding enquiry launched with Resolution 475/2013/E/eel, approving the document containing the “Report of the fact-finding enquiry related to provision of the electricity measurement service launched with Resolution 475/2013/E/eel”. The Report, illustrating the results of the fact-finding enquiry, suggests some possible actions to amend and supplement the current regulations on measurement aimed at resolving some of the critical issues that have emerged with reference, among other things, to the responsibility of the measurement service, to users indirectly connected to the National Transmission Grid (NTG), to the production units connected both to the NTG and to the distribution grid.

The Authority therefore gave a mandate to the Infrastructure, Unbundling and Certification Department and to the Markets Department to adopt, in the context of the regulatory review, general regulatory measures on measurement taking into account the evidence that emerged during the fact-finding enquiry and gave a mandate to the Observatory, Supervision and Control Department for the preparation of later prescriptions in relation to single operators in the light of the contents of the Report.

Resolution 439/2015/E/eel – Approval of an inspection of the electricity transmission company, on the subject of service quality

With this provision, the Authority approved the performance of an inspection of Terna on the data on electricity transmission service quality communicated to the Authority in 2015.

Resolution 453/2015/R/eel - Adjustment of the supplementary fee covering generation costs for the units essential for the security of the electricity system subject to cost coverage

With this measure, the Authority adjusted the fee pursuant to Article 45 of Resolution No. 111/06 to the income needs envisaged for the year 2015, updated taking account the fact that, owing to the postponement of the date envisaged for completion of the Sorgente - Rizziconi project, the regime pursuant to Italian Law Decree 91/14 will be applied for a longer period compared with that planned on the occasion of Resolution 658/2014/R/eel. In particular, the supplementary fee covering generation costs for the units essential for the security of the electricity system admitted to cost coverage, for the period October - December 2015, was fixed at 0.3054 c€/kWh.