2015 Annual Report

CONTENTS

COMPANY BODIES 3

REPORT ON GROUP OPERATIONS... 13

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2015 69

REPORT ON CDP RETI S.p.A. OPERATIONS.. 163

FINANCIAL STATEMENTS AT 31 DECEMBER 2015.................................. 174

COMPANY BODIES AND OFFICERS

BOARD OF DIRECTORS (*)

Franco Bassanini	*Chairman*
Leone Pattofatto (**)	*Chief Executive Officer*
Cristiana Procopio (***)	*Director*
Jun Yu	*Director*
Yunpeng He	*Director*

BOARD OF AUDITORS (*)

Guglielmo Marengo	*Chairman*
Francesca Di Donato	*Auditor*
Paolo Sebastiani	*Auditor*

Independent auditors (****) **PricewaterhouseCoopers S.p.A.**

(*)Appointed by the Shareholders' Meeting of 27 November 2014 – in office up to the date of the Shareholders' Meeting called for the approval of the financial statements for the year ended 31 December 2016.

(**)Appointed by co-optation by the Board of Directors on 6 August 2015 to replace Giovanni Gorno Tempini, director and Chief Executive Officer, who submitted his resignation on 10 July 2015. The Shareholders' Meeting held on 11 January 2016 confirmed Mr. Pattofatto as a member of the Board of Directors with term of office aligned with that of the other Directors in office.

(***)Appointed by co-optation by the Board of Directors on 31 March 2016 to replace Ludovica Rizzotti, director, who submitted his resignation on 25 March 2016. The Shareholders' Meeting held on 31 March 2016 confirmed Ms. Procopio as a member of the Board of Directors with term of office aligned with that of the other Directors in office.

(****) Engagement granted by the Shareholders' Meeting of 24 June 2015 for the period 2015 - 2023.

CONSOLIDATED REPORT ON OPERATIONS AND CONSOLIDATED FINANCIAL STATEMENT

1. PRESENTATION OF THE GROUP 14

1.1 ROLE AND MISSION OF THE CDP RETI GROUP 14

1.2 BACKGROUND SCENARIO 20

2. SIGNIFICANT EVENTS OF THE 2015 FOR SECTORS/COMPANIES 21

3. ORGANISATIONAL STRUCTURE 28

3.1 ORGANISATIONAL STRUCTURE 28

3.2 RISK FACTORS 29

4. BALANCE SHEET AND ECONOMIC PERFORMANCE OF THE GROUP.... 40

4.1 RECLASSIFIED CONSOLIDATED BALANCE SHEET 40

4.1.1 ASSETS 40

4.1.2 LIABILITIES AND EQUITY 43

4.1.3 RECONCILIATION OF CONSOLIDATED EQUITY AND NET INCOME 45

4.2 RECLASSIFIED CONSOLIDATED INCOME STATEMENT 46

4.3 SECTOR TREND 49

4.3.1 SNAM (GAS TRANSPORTATION, DISTRIBUTION, REGASSIFICATION AND STORAGE) ... 49

4.3.2 TERNA (ELECTRICITY DISPATCHING AND TRANSMISSION SECTOR) 52

4.4 CONSOLIDATED NET FINANCIAL DEBT 56

5. OUTLOOK - PROSPECTS FOR 2016 57

6. SIGNIFICANT EVENTS AFTER 31 DECEMBER 2015 58

7. OTHER INFORMATION 60

8. REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE OF CDP RETI PURSUANT TO ARTICLE 123-BIS.2 B)

OF THE CONSOLIDATED LAW ON FINANCIAL INTERMEDIATION (TUF) 65

INTRODUCTION 79

I – BASIS OF PRESENTATION AND ACCOUNTING POLICIES....................80

I.1. GENERAL INFORMATION 80

I.1.1. DECLARATION OF CONFORMITY TO INTERNATIONAL ACCOUNTING STANDARDS 80

I.1.2. BASIS OF PRESENTATION 80

I.1.3. SCOPE AND METHODS OF CONSOLIDATION 85

I.1.4. EVENTS SUBSEQUENT TO THE REPORTING DATE OF THE CONSOLIDATED FINANCIAL STATEMENTS 87

I.1.5. OTHER ISSUES.................... 88

I.2. SECTION PERTAINING TO THE MAIN ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT....................90

PROPERTY, PLANT AND EQUIPMENT 90

ASSETS USED IN FINANCE LEASES 91

INTANGIBLE ASSETS 92

EQUITY INVESTMENTS 93

FINANCIAL ASSETS 95

HEDGING TRANSACTIONS 100

INVENTORIES 102

CONSTRUCTION CONTRACTS.................... 103

CASH AND CASH EQUIVALENTS 103

CURRENT AND DEFERRED TAXATION.................... 104

PROVISIONS 105

PROVISIONS FOR EMPLOYEE BENEFITS 105

FINANCIAL LIABILITIES 106

Revenues 106
Grants 106
Interest income and expense 107
Dividends 107
Share-based payments 108
Capitalised borrowing costs 108
Transactions with related parties 109
II - INFORMATION ON THE BALANCE SHEET 110
I. ASSETS 110
Non-current assets 110
A1. Property, plant and equipment 110
A2.Inventories - compulsory stock 111
A3.Intangible assets 112
A4.Equity investments 114
A5.Non-current financial assets 115
A6.Deferred tax assets 115
A7.Other non-current assets 117
A14.Non-current assets held for sale 118
CURRENT ASSETS 118
A8.Current financial assets 118
A9.Income tax receivables 119
A10.Trade receivables 119
A11. Inventories 120
A12.Other current assets 121

A13.CASH AND CASH EQUIVALENTS 121

II. LIABILITIES........ 123

P1. EQUITY 123

NON-CURRENT LIABILITIES 124

P.2 PROVISIONS 124

P.3 PROVISIONS FOR EMPLOYEE BENEFITS 125

P.4 LOANS 126

P.5 OTHER NON-CURRENT LIABILITIES 127

P.6 DEFERRED TAX LIABILITIES 128

P.7 OTHER NON-CURRENT LIABILITIES 130

P.14 LIABILITIES DIRECTLY ATTRIBUTABLE FOR AVAILABLE-FOR-SALE ASSETS 131

CURRENT LIABILITIES........ 132

P.8 CURRENT PORTION OF LONG-TERM LOANS 132

P.9 TRADE PAYABLES........ 132

P.10 INCOME TAX LIABILITIES 133

P.11 CURRENT FINANCIAL LIABILITIES........ 133

P.12 OTHER CURRENT LIABILITIES 134

III - INFORMATION ON THE INCOME STATEMENT 135

A. REVENUES 135

A.1 REVENUES FROM SALES AND SERVICES 135

A.2 OTHER REVENUES AND INCOME........ 136

B. OPERATING COSTS 136

B.1 RAW MATERIALS AND CONSUMABLES USED 136

B.2 SERVICES 137

B.3 STAFF COSTS 138

B.4 AMORTISATION, DEPRECIATION AND IMPAIRMENT 139

B.5 OTHER OPERATING COSTS 139

C. FINANCIAL INCOME (EXPENSE) 140

C.1. FINANCIAL INCOME 140

C.2. FINANCIAL INCOME 140

C.3 PORTION OF INCOME (EXPENSES) FROM EQUITY INVESTMENTS VALUED WITH THE EQUITY METHOD 141

E. TAXES FOR THE FINANCIAL YEAR 142

G. NET INCOME FROM DISCOUNTED OPERATIONS 143

IV - BUSINESS COMBINATIONS 144

V - TRANSACTIONS WITH RELATED PARTIES 146

V.1 INFORMATION ON DIRECTORS' AND STATUTORY AUDITORS' REMUNERATION 146

V.2. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES 146

VI – FINANCIAL RISK MANAGEMENT 148

VII - SEGMENT REPORTING 149

VIII - GUARANTEES AND COMMITMENTS 151

ANNEX: SCOPE OF CONSOLIDATION 153

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS 154

REPORT OF THE INDEPENDENT AUDITORS 157

REPORT ON OPERATIONS AND FINANCIAL STATEMENT OF CDP RETI S.p.A.

1. PARENT COMPANY OPERATIONAL PERFORMANCE 164

1.2 INCOME PERFORMANCE 164

1.3 STATEMENT OF FINANCIAL POSITION 166

1.4 NET FINANCIAL DEBT 170

2. REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE OF CDP RETI PURSUANT TO ARTICLE 123-BIS.2 B) OF THE CONSOLIDATED LAW ON FINANCIAL INTERMEDIATION (TUF) 172

3. PROPOSED ALLOCATION OF 2015 NET INCOME 172

INTRODUCTION 184

I – BASIS OF PRESENTATION AND ACCOUNTING POLICIES 186

I.1. GENERAL INFORMATION 186

I.1.1. DECLARATION OF CONFORMITY TO INTERNATIONAL ACCOUNTING STANDARDS 186

I.1.2. BASIS OF PRESENTATION 186

I.1.3. EVENTS SUBSEQUENT TO THE REPORTING DATE 191

I.1.4. OTHER ISSUES 192

I.2. THE MAIN FINANCIAL STATEMENT ACCOUNTS 193

EQUITY INVESTMENTS 193

FINANCIAL ASSETS 194

CURRENT AND DEFERRED TAXATION 200

FINANCIAL LIABILITIES 201

HEDGING DERIVATIVES 201

CASH AND CASH EQUIVALENTS 203

INTEREST INCOME AND EXPENSE 203

DIVIDENDS 203

TRANSACTIONS WITH RELATED PARTIES 204

METHODS FOR DETERMINING FAIR VALUE CRITERIA 204

II - INFORMATION ON THE BALANCE SHEET 207

I. ASSETS 207

I.1. NON-CURRENT ASSETS 207

I.1.1. EQUITY INVESTMENTS 207

I.1.2. DEFERRED TAX ASSETS 208

I.2. CURRENT ASSETS 210

I.2.1. CURRENT FINANCIAL ASSETS 210

I.2.2. TAX RECEIVABLES 210

I.2.3. OTHER CURRENT ASSETS 210

I.2.4. CASH AND CASH EQUIVALENTS 211

II. LIABILITIES 213

II.1. EQUITY 213

II.1.1. SHARE CAPITAL 213

II.1.2. RESERVES 213

II.1.3. VALUATION RESERVES 215

II.2. NON-CURRENT LIABILITIES 216

II.2.1. STAFF SEVERANCE PAY 216

II.2.2. LOANS 216

II.2.3. OTHER FINANCIAL LIABILITIES 217

II.3. CURRENT LIABILITIES 218

II.3.1. Current portion of loans 218
II.3.2. Tax payables 218
II.3.3. Other current liabilities 219
II.4. Reporting on financial instruments for IAS/IFRS purposes 221
II.5. Other information 222
II.5.1. Guarantees issued and commitments 222
II.5.2. Assets pledged as collateral for own debts and commitments 222
II.5.3. Own securities portfolio deposited with third parties 222
III - INFORMATION ON THE INCOME STATEMENT 223
III.1. Profit (loss) on core business 223
III.1.1. Dividends 223
III.2. Profit (loss) on operations 223
III.2.1. Financial income 223
III.2.2. Borrowing expenses 224
III.2.3. Administrative expenses 224
III.3. Other operating income (costs) 226
III.3.1 Other income 226
III.4. Income taxes, current and deferred taxes 226
III.4.1 Income taxes, current and deferred taxes 226
IV - Information on risks and related hedging policies 228
V - Transactions with related parties 229
V.1. Information on the compensation of key management personnel 229
V.2. Information on transactions with related parties 230

V.3. KEY DATA OF THE COMPANY PERFORMING MANAGEMENT AND COORDINATION.......... 232

VI - SEGMENT REPORTING...233

REPORT OF THE BOARD OF AUDITORS 237

REPORT OF THE INDEPENDENT AUDITORS..244

ANNEXES 247

Report on Group Operations

REPORT ON OPERATIONS

1. PRESENTATION OF THE GROUP

1.1 ROLE AND MISSION OF THE CDP RETI GROUP

The CDP RETI Group consists of the parent company CDP RETI S.p.A. ("CDP RETI" or the "Company") and its direct subsidiaries TERNA S.p.A. and SNAM S.p.A., as well as the indirect subsidiaries shown in the consolidated financial statements and specifically in the section Scope and methods of consolidation.

PARENT COMPANY

CDP RETI's mission is to manage the equity investments in SNAM and TERNA, monitoring the infrastructure they operate to ensure it is developed and maintained appropriately, and developing the necessary expertise in gas transport, dispatching, distribution, regasification and storage, and electricity transmission, in order to oversee its investments most effectively.
The Company acts in particular as an investment vehicle, established in October 2012, the date when the corporate purpose was restricted to the management of equity investments operating in the field of grid infrastructure in the energy and gas sector. Within this area, the Company acquired an ownership interest in SNAM from ENI corresponding to 30% of the voting capital minus one share.

Subsequently, on 27 October 2014, as part of the process to open CDP RETI's share capital to outside investors, CDP transferred its entire stake in TERNA, equal to 29.851% of share capital, to CDP RETI. The Company's corporate purpose was therefore amended and now specifically provides for the ownership and management of equity investments in SNAM and TERNA.

At the end of this process, with a view to opening the share capital to outside investors, on 27 November 2014, an overall stake of 40.9% of CDP RETI was transferred from CDP S.p.A. to State Grid Europe Limited ("SGEL"), a company of the State Grid Corporation of China, and to a group of Italian institutional investors (Cassa Nazionale di Previdenza e Assistenza Forense and 33 Foundations of banking origin). On the same date, CDP, SGEL and its parent, State Grid International Development Limited, signed a shareholders' agreement granting SGEL governance rights to protect its investment.

As of the date of preparation of this document, the shareholder structure of CDP RETI was made up as follows: 59.1% by Cassa Depositi e Prestiti S.p.A. ("CDP"), 35.0% by State Grid Europe Limited ("SGEL"), and the remainder by Italian institutional investors.

DIRECT SUBSIDIARIES AND RELATED CONSOLIDATION SCOPE

The SNAM Group ("SNAM") oversees regulated activities in the gas sector in Italy. The Group operates in the areas of natural gas transport and dispatching, regasification of liquefied natural gas (GNL), and distribution and storage of natural gas. SNAM operates on the domestic market through four operating companies 100%-owned by Snam S.p.A.: respectively, SNAM Rete Gas (transport and despatching), GNL Italia (LNG regassification), Stogit (storage) and Italgas (distribution). SNAM is also active in Europe in the construction and integrated management of natural gas infrastructure.

Snam's business focuses on regulated activities. Regulation entails tariff systems that enable coverage of the costs incurred by the operator and a fair return on invested capital.

Snam has been listed on the Borsa Italiana electronic market since 2001.

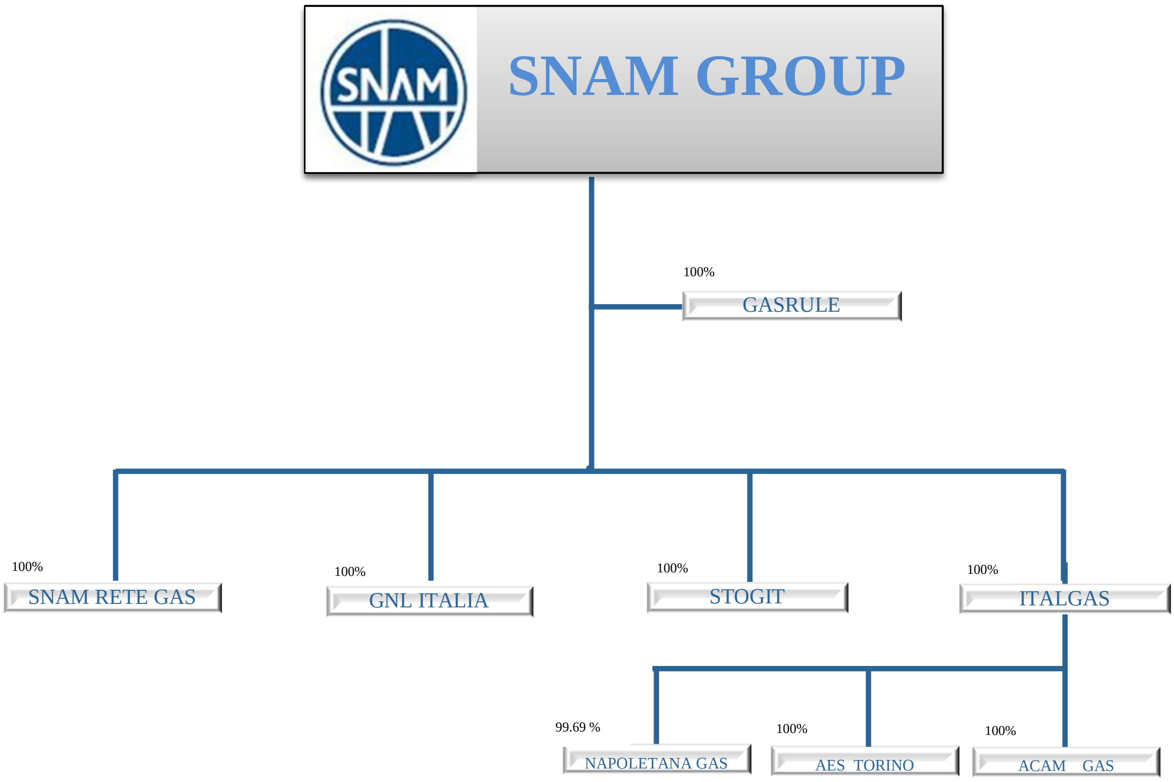
The operating companies are described below:

- *SNAM RETE GAS* is the leading Italian natural gas transportation and dispatching operator, and owns almost all the transportation infrastructures in Italy. The gas from abroad is injected into the national network via entry points where the network joins up with the import methane pipelines (Tarvisio, Gorizia, Gries Pass, Mazara del Vallo and

Gela) and with the LNG regasification terminals (Panigaglia, Cavarzere and Livorno). Once imported or regasified, the gas is transported up to the local distribution network, the Redelivery Points of the Regional Network or large end customers, consisting in thermoelectric power plants or industrial manufacturing plants.

- *GNL ITALIA* owns the Panigaglia terminal (La Spezia), the first regasification plant built in Italy. The process for the extraction of natural gas from the fields, its liquefaction for transportation by ship and subsequent regasification for use by the users, forms the "LNG chain". The process begins in the country of the exporter, where the natural gas is brought to a liquid state and subsequently loaded onto tankers for shipping to the LNG regasification terminal. At the regasification terminal, the LNG is unloaded, then heated and returned to a gaseous state before being injected into the natural gas transportation network.
- *Stogit* is the largest storage operator in Italy and one of the major ones in Europe. Natural gas storage activities in Italy take place under a concession regime and serve to offset the various demands of gas provision and consumption (supply has a basically constant profile throughout the year, while gas demand is characterised by high seasonal variability) and to ensure that strategic quantities of gas are available to compensate for any lack of or reduction in non-EU supply or crises in the gas system.
- *Italgas* is the largest Italian operator for the distribution of natural gas in Italy. The natural gas distribution business operates on a concession regime through the conferral of this service by local public entities. The gas distribution service is carried out for sales companies authorised to market to end users by the transportation of the gas through city networks.

Below is the consolidation scope of the Snam Group at 31 December 2015:



CONSOLIDATING COMPANY	SHAREHOLDERS	%OWNERSHIP
Snam S.p.A.	CDP Reti S.p.A.	28.98
	CDP Gas S.r.l.	1.12
	Eni S.p.A.	2.22
	Snam S.p.A.	0.03
	other shareholders	67.65

(*) At January 18, 2016, date on which the ENI bond, convertible into SNAM shares, expired, the % decreased to 0.02%, whereas the Third Party % grew to 69.85%.

Compared to the situation at December 31, 2014, the consolidation scope of the Snam Group includes the variances that can be attributed to Acam Gas S.p.A.'s entry as a result of Italgas S.p.A.'s purchase of the remaining 51% of the company's share capital. Following this acquisition, effective as of April 1, 2015, Italgas S.p.A. owns the entire share capital of Acam Gas S.p.A. It should also be noted that, since January 1, 2015 the strategic transactions of merger by incorporation of Metano Arcore S.p.A. (100% Italgas) and Seteap S.p.A. (100% Napoletanagas) into Italgas S.p.A. and Napoletanagas S.p.A. respectively became effective.

The TERNA Group ("TERNA") is an operator of energy transmission grids. It is the operator and the main owner of the high-voltage electricity National Transmission Grid ("NTG"). The Company is responsible for the planning, construction and maintenance of the grid. TERNA is also responsible for the transmission and dispatching of electricity on the High and Extra High Voltage NTG throughout the country, as well as the planning, implementation and maintenance of the grid.

TERNA has been listed on the Borsa Italiana electronic market since 2004.

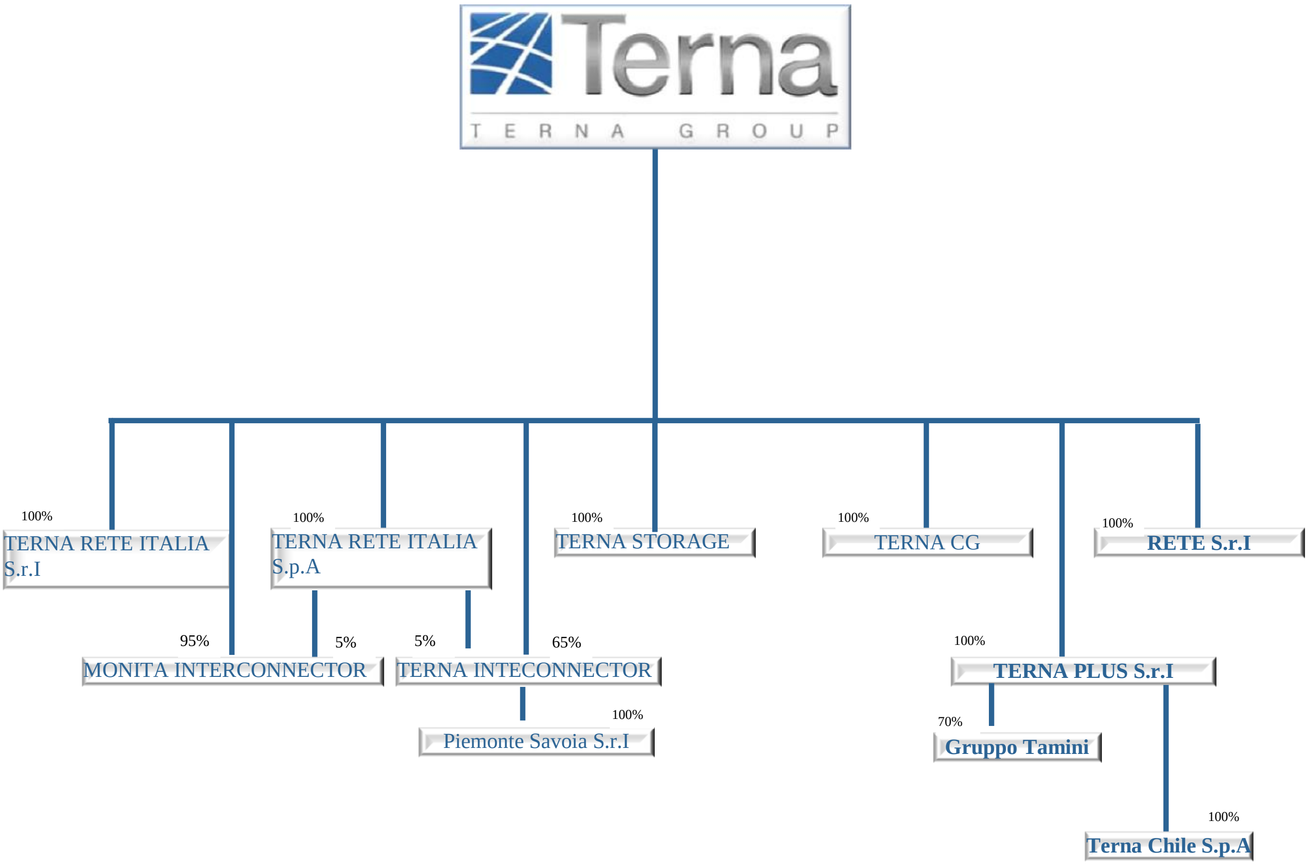
The Group operates in the segments: (i) Regulated Activities, Transmission and Dispatching of electricity in Italy (performed as a monopoly granted by government concession) and (ii) Unregulated Activities, which represent new business opportunities (Third-party services, initiatives with Foreign states, interconnections with international markets, energy production and transformation).

The Companies operating in the Regulatory Activities segment (Terna's traditional core business) are describe below:

- *Terna Rete Italia S.p.A*. is tasked with performing all Regulated Activities, ordinary and extraordinary maintenance of the section of the NTG owned, managing and performing work on developing the grid.
- *Terna Rete Italia S.r.l.* owns approximately 12% of the NTG infrastructure and the design, construction, management, development, running and maintenance of high-voltage electricity lines fall within its corporate purposee.
- *Terna Storage S.r.l.* is responsible for safeguarding the construction of diffused energy storage systems projects, as well as related coordination, study and research activities.
- *Rete S.r.l.* purchased on December 23, 2015 from Ferrovie dello Stato Italiane S.p.A.. The integration of the assets acquired for a total of 8,379 km of power lines and 350 electrical sub-stations, is part of the NTG unification and expansion process. In this way, the power lines owned and

managed by Terna reach over 72,000 km in total, an increase of approx. 13% over the previous year.

Below is the consolidation scope of the Terna Group at 31 December 2015:



CONSOLIDATING COMPANY	SHAREHOLDERS	% OWNERSHIP
Terna S.p.A.	CDP Reti S.p.A.	29.85
	other shareholders	70.15

The change in the scope of consolidation of the Terna Group compared to the situation at December 31, 2014 is due to:

- ✓ *Regulated Activities*: acquisition of the entire share capital of Rete S.r.l. from Ferrovie dello Stato Italiane S.p.A..

- ✓ *Unregulated Activities*: reduction of the control share of the Tamini Group (from 100% to 70%) and establishment of Piemonte Savoia S.r.l. (100% Terna Interconnector S.r.l.), Monita Interconnector S.r.l. (95% Terna S.p.A. and 5% Terna Rete Italia S.p.A.) and Terna Chile S.p.A. (100% Terna Plus S.r.l.).

See the Financial Statements, specifically the “Scope and Methods of Consolidation” section, for more detailed information about the composition of consolidated companies.

1.2 BACKGROUND SCENARIO

With respect to SNAM and the Italian gas market, in 2015 the natural gas injected into the National Transportation Grid amounted to 67.44 billion cubic metres, an increase of 5.53 billion cubic metres over 2014. The growth in domestic gas demand (+8.9% over 2014) was due to higher consumption in the thermoelectric sector (+3.01 billion cubic metres; +16.8%), as a result of a growth in electricity demand and the simultaneous reduction in the production of hydroelectric power, partly counter-balanced by the growing production of energy from other renewable sources (in particular, solar photovoltaic, wind and bioenergy) and greater consumption in the residential and service sectors (+2.95 billion cubic metres; +11.5%), essentially due to weather conditions.

Natural gas taken from the National Transportation Grid in 2015 (66.94 billion cubic metres) was mainly used for: (i) redelivery to users at the Network Exit Points (66.46 billion cubic metres; +9.0%); (ii) export and transit (0.27 billion cubic metres); (iii) consumption by compression plants and gas emissions from the Network and Snam Rete Gas plants (0.18 billion cubic metres).

With respect to the tariff framework, the process for the update of tariff criteria for all regulated activities performed by the Group was concluded. More in detail, with regard to storage activity, the fourth regulatory period starts from 1 January 2015 (for a four-year period ending in 2018), in line with tariff criteria defined by the Authority with resolution 531/2014/R/gas. For the remaining activities (transportation, regasification and distribution) the regulatory period has already started in 01 January 2014, with expiry in 2017 for transport and regasification and 2019 for distribution.

With regard to TERNA, domestic electricity demand, after a reduction for three consecutive years, experienced an upturn. More specifically, in 2015, demand for electricity in Italy stood at 315,234 million kWh (interim data), +1.5% compared with 2014, which ended with drop of -2.5% versus the previous year; taking into account working days, the variance is of +1.3%. The monthly trend of domestic energy demand in 2015 compared to the previous year's data shows a higher demand for all months, with the exception of January, April, May and October.

With respect to electricity production 2015, renewable sources accounting for 34% of demand coverage. Solar PV, biomass and geothermal electricity sources were on the up, whilst hydroelectric sources experienced a drop (-25%, after the historic record set in 2014), together with wind (-3%), mainly because of different weather conditions in 2015.

2. SIGNIFICANT EVENTS OF THE 2015 FOR SECTORS/COMPANIES

Regarding the Parent Company CDP RETI, during the year 2015 the Bridge Loan Facility was fully repaid through (i) a €250 million increase in the Term Loan Facility, and (ii) the issuance of €750 million in new bonds. The bonds are listed on the Irish stock exchange and were reserved to institutional investors, with a 7-year maturity and paying an annual coupon of 1.875%; the bonds were issued at a price of 99.909%.
With regard to dividends received by the subsidiaries (SNAM and TERNA), during the reporting period €254 million was received by SNAM (2014 dividend) and €120 million by TERNA (€78 2014 final dividend and €42 2015 interim dividend). As concerns dividends paid to shareholders, on 29 May 2015 a total of €189 million was paid out in 2014 dividends (of which €112 million to CDP).

With regard to SNAM, at the end of March 2015, CDP determined that conditions for de facto control established in IFRS 10 regarding consolidated financial statements had been met and, therefore, consolidated SNAM on a line-by-line basis in the financial statements at 31 December 2014. Accordingly, in line with the CDP financial statements the CDP RETI Group is also required to consolidate SNAM on a line-by-line basis even though SNAM is not subject to direction and coordination either by CDP or CDP RETI as per the decisions of the respective Boards of Directors.

Also with reference to TERNA, CDP and CDP RETI do not have direction and coordination perform; both Companies, as with reference to SNAM, have the simple exercise of administrative and property rights arising from the status of shareholders.

Details are provided below of the significant events for year 2015 for the subsidiaries SNAM and TERNA.

SNAM and TERNA:

- ruling 10/2015 of the Italian Constitutional Court: ruling of constitutional illegitimacy of the IRES additional tax (art. 81.16, 81.17 and 81.18 of Italian Legislative Decree no. 112/2008) known as the “Robin Hood Tax”.

SNAM (transportation, distribution, regasification and gas storage sectors):

- in November 2015, Snam concluded a liability management operation, featuring the repurchase of outstanding bonds, with a 3.82% fixed rate average coupon and remaining average maturity of less than 2 years for a total nominal amount of approximately €1.0 billion, and the simultaneous issue of a new 1.375% fixed rate bond maturing in 8 years' time for €0.75 billion;
- renewal of Euro Medium Term Notes (EMTN) programme related to bonds issue: on 22 June 2015, the Board of Directors of Snam resolved to renew

the EMTN programme, leaving the maximum value of the bonds issued unchanged at €12 billion;

- on 17 December 2015, Snam S.p.A. completed the acquisition of the 20% interest held by Statoil Holding Netherlands B.V. in the Trans Adriatic Pipeline AG (TAP), for an amount of €130 million. TAP is the company developing the gas pipeline which will allow for the transportation of gas produced in the Azerbaijan to European markets. As a result of the acquisition, Snam took over from Statoil a shareholders' loan granted to TAP, which totalled €78 million at the closing date (as well as all the rights and commitments for completion of the project);
- on 28 January 2015 an agreement was entered into with Credit Agricole Assurances (agreement also signed by Singapore GIC sovereign fund and by EDF at the same time) for the acquisition by the latter of 10% of the share capital of TIGF (a company operating in the transportation and storage of gas in the South-West of France). The amount received by SNAM was over 80 million;
- Italgas - Revocation of the judicial administration and reappointment of the company's Board of Directors: The activities relating to the revocation of the judicial administration order imposed on Italgas by the Court of Palermo were completed on 9 July 2015. The Court ordered the handover of the company on 29 June 2015. Having acknowledged the revocation of the judicial administration order, on 9 July 2015 the Italgas Shareholders' Meeting reappointed all members of the Board of Directors, the term of which expires at the Shareholders' Meeting called for approval of the financial statements for the year ended 31 December 2015.

TERNA (dispatching and transmission of electricity):

- as already mentioned, on 23 December 2015 Terna S.p.A. acquired the entire share capital of Rete S.r.l. (called S.EL.F. – Società Elettrica Ferroviaria up until the date of the Shareholders' Meeting of 23 December 2015) from Ferrovie dello Stato Italiane S.p.A. (hereinafter, "FSI"). This transaction was structured in two phases: in the first phase RFI (an FSI Group company), carried out a partial demerger in favour of the beneficiary Company S.EL.F., concerning a Business Unit consisting mainly of high and ultra-high voltage lines already included in the NTG and of further lines earmarked for inclusion into the NTG together with the relevant share of electrical substations and the relevant buildings, pursuant to Law no. 190 of 23 December 2014 ("RFI Business Unit"). After perfecting the demerger transaction, i.e. from the time the RFI Business Unit became part of S.EL.F.'s assets and upon meeting the conditions on which the effectiveness of the transaction was dependent (authorisation by the Competition and Market Authority and non-exercise of the special powers pursuant to Article 2 of Italian Law-Decree no. 21 of 15 March 2012, the so-called "Golden Power"), TERNA S.p.A. acquired the entire capital of the Company, renaming the latter Rete S.r.l. (hereinafter "Rete"). The electricity grid that is part of the Business Unit is used to supply power to the railway network and to transport Third-Party electricity based on specific agreements.
- in December 2015, the Authority for Electricity, Gas and the Water System (AEEGSI) established, for the 2016 - 2023 regulatory period, the tariffs for the provision of electricity transmission, distribution, measurement and dispatching services and the regulation of the transmission service quality. The fifth or new regulatory period (NPR) lasts eight years and is split into two halves, with a duration of four years' each (2016- 2019 for the first, characterised by substantial methodological continuity with respect to the past and 2020–2023 for the second, based on new logics). With specific reference to the second period, costs shall be recognised depending on total expenditure (sum of operating costs and investment costs - so-called

TOTEX - Total Expenditure) still being defined. With regard to the recognised basic rate of return for invested capital (WACC), AEEGSI introduced a dedicated regulatory period with a six-year term (so-called WACC Regulatory Period or PWACC), from 2016 to 2021. Based on the decisions adopted, Terna performed a preliminary estimate net capital invested recognised for regulatory purposes (RAB 2016), equal to approx. €13.8 billion, excluding the assets acquired from Gruppo Ferrovie dello Stato.

- Issue of a 7-year bond for €1 billion: on 23 January 2015, Terna S.p.A. completed the issue on the market of a fixed-rate bond in euro, for a total of €1 billion, under its Euro Medium Term Notes programme (EMTN) of €6 billion. The notes, which are listed on the Luxembourg Stock Exchange and have a duration of 7 years (maturity date 2 February 2022), pay a coupon of 0.875% and were issued at a price of 99.42%.

CONSOLIDATED FINANCIAL HIGHLIGHTS

(millions of euros)

Key financial figures		31/12/2015	31/12/2014
Total revenue	millions of euros	5,705	3,566
- of which regulated	millions of euros	5,423	3,506
EBITDA	millions of euros	4,331	2,763
EBITDA margin (*)	%	76%	77%
Operating profit (EBIT)	millions of euros	2,644	1,725
EBIT margin (**)	%	46%	48%
Net income	millions of euros	1,827	1,279
Net income margin	%	32%	36%

Key balance sheet and cash flow figures		31/12/2015	31/12/2014
Property, plant and equipment	millions of euros	33,235	32,061
Intangible assets	millions of euros	7,824	7,704
Long-term financial liabilities	millions of euros	22,592	22,234
Equity	millions of euros	15,575	14,758
Net financial debt	millions of euros	(22,912)	(21,929)

Other key figures		31/12/2015	31/12/2014
Technical investments	millions of euros	2,375	2,409
Net cash flow for the period	millions of euros	(663)	1,229
Workforce at the end of period	Number	10,074	9,869
Dividends distributed to shareholders during the year	millions of euros		
- from SNAM(***)	millions of euros	(875)	(507)
- from TERNA	millions of euros	(402)	(402)
- from CDP RETI	millions of euros	(189)	(284)

Ratios		31/12/2015	31/12/2014
ROE (****)	%	12%	10%
Net financial debt/Equity	Number	1.5	1.5
Net financial debt/EBIT	Number	8.7	12.7

(*) Ratio of EBITDA to Total revenue
(**) Ratio of EBIT to Total revenue

(***) The dividend paid in 2014 is the balance of the dividend 2013. From 2014 Snam does not distribute interim dividend.

(****) Return on equity (ROE) was calculated as the ratio of net profit to the average of the beginning and end shareholders' equity for the period

First of all, we note that the comparison between 2015 and the corresponding period 2014 was affected by the fact that at 31 December 2014 there was a full line-by-line consolidation of TERNA only in relation with its balance sheets and not with its income statement, because the effectiveness of the operation of transfer by CDP was near the year-end date. Moreover, it should be noted that both EBITDA and EBIT are not regulated by IFRS. As a result, the determination criterion used by CDP RETI may also not be similar to that used by other groups and, as a result, not comparable. For the purposes of these management accounts, EBITDA is defined as adjusted Net Income of the following items (included in the Consolidated Financial Statements): (i) Net income from discontinued operations, (ii) Taxes for the Year, (iii) Financial Gains/Losses, (iv) Amortisation, Depreciation and Impairment. The same considerations, with the exception of the item Amortisation, Depreciation and Impairment, apply to EBIT.

With reference to the main date for the 2015 financial years, the following results were posted:

- Total revenues of approx. €5,705 million (3,566 in 2014); an increase of 60% over the previous year. The change in revenues compared to 2014 is almost entirely due to the consolidation of TERNA (€2,056 million), to which a slight increase (+ 83 million) of SNAM's revenues must be added;
- Gross Operating Profit (EBITDA) of €4,331 million (€2,763 million in 2014), with a percentage of revenues of 76%, in line with the 77% posted in 2014. The increase of absolute values is mainly due to the change in the scope of consolidation. With respect to overall profit (so-called EBITDA margin), SNAM contributed to 49% and TERNA to 27%. The profit for 2014 was entirely due to SNAM;
- Operating Profit (EBIT) of €2,644 million (€1,725 million in 2014), with a share of revenues (so-called EBIT margin) of 46%, vs. 48% in 2014. This figure, moreover, was impacted by amortisation, depreciation and impairment resulting from the allocation process for the purchase price of SNAM's and TERNA's assets (so-called Purchase price allocation or, for brevity's sake, *PPA*)[1];
- Net income of €1,827 million (€1,279 million in 2014), equating to 32% of revenues (36% in 2014). The Parent Company's result is €519 million, versus €367 million in 2014;

[1] This allocation, required by IFRS 3 (International Financial Reporting Standard 3 - Business Combinations), must be carried out by the acquiring company, as part of its consolidated financial statements, in order to justify the purchase cost incurred as part of this extraordinary operation.

- Net financial debt of €22,912 million, an increase of €983 million (+4%) compared to 31 December 2014 mainly as a result of the variance recorded by TERNA during the period, whose net financial debt increased in 2015 by approx. €1 billion (from €6,968 to €8,003 million). The total amount of approx. 23 billion refers mainly to SNAM (for 60%) and TERNA (35%);
- Technical investments carried out in 2015 amounted to €2,375 million (€2,409 million in 2014), 54% related to SNAM and 46% to TERNA;
- Negative net cash flow for the year amounted to €663 million (from €1,484 to €821 million) , mainly due to TERNA (liquidity absorption of 786 million, also due to the aforementioned acquisition from Ferrovie dello Stato) and SNAM (57 million reduction in cash and cash equivalents), counter-balanced by higher cash generation by CDP RETI (+179 million, mainly due to higher dividends received vs. 2014). Operating activities generated resources of €3,188 million, but were absorbed by investment activities (negative by 3,132 million, of which 2,524 million for investments in buildings, plant and machinery) and financing activities (-€728 million, mainly due to distributed dividends).

3. ORGANISATIONAL STRUCTURE

3.1 ORGANISATIONAL STRUCTURE

At 31 December 2015, CDP RETI has 4 employees, all with open-ended contracts, an increase compared to the single employee (partially seconded, until July 2015, from the parent CDP) as at 31 December 2014.
In particular, as from 10 August 2015, two resources were hired, while from 1 October, after a period of secondment from other CDP Group companies, two additional units were hired.
Finally, more generally, it is pointed out that the Company makes recourse to the operational support of the parent company CDP based on contractual agreements

that provide the Company with all the expertise and services essential for the proper conduct of its business.
Moreover, following the bond issue of 21 May 2015 listed on the Irish Stock Exchange, CDP RETI acquired the status of listed Issuer with Italy as Member State of origin and, therefore, was required, pursuant to Art. 154 – bis of the Consolidated Financial Act, to appoint a Financial Reporting Manager.

The final headcounts of the SNAM and TERNA groups are detailed below:

SNAM

Professional category	31/12/2015	31/12/2014	Changes
Senior Manager	129	124	5
Middle Managers	629	602	27
Office staff	3,435	3,280	155
Manual workers	2,110	2,066	44
	6,303	**6,072**	**231**

TERNA

Professional category	31/12/2015	31/12/2014	Changes
Senior Manager	76	68	8
Middle Managers	514	557	(43)
Office staff	1,971	2,007	(36)
Manual workers	1,206	1,165	41
	3,767	**3,797**	**(30)**

3.2 RISK FACTORS

In the normal course of its business activities, the CDP RETI Group is exposed to various, financial and non-financial, risk factors that, if they were materialised, could have an impact on the economic and financial position of the group.
The parent company CDP RETI, as holder of significant equity investments, is affected by the risk profiles of its investee companies. The monitoring of these risks, based on the rigorous system of measurement and control, is performed in the first instance by the Directors in assessing the recoverability of investments made that, for the financial statements, is reflected in the measurement of the

carrying value of equity investments. The risk profiles are, moreover, constantly measured based on the volatility of the market price of the related shares.

The company also relies on the operational support of the parent CDP under the service contracts in place. More specifically, risk management is coordinated at group level in collaboration with the Equity Investments Area and the other relevant units of CDP.

With regard to the parent company in particular, the following key risks have been identified:

Risk related to the financial performance and operating results of SNAM and TERNA

Given that the company is a financial holding company, its performance and liquidity are affected by the ability of its subsidiaries to pay out dividends, which is in turn influenced by the financial status and operating results of the SNAM Group and the TERNA Group. Consequently, any significant change in these two parameters could have an adverse impact on the financial status and operating results of CDP RETI.

Risk related to the limits in the transfer of financial resources from SNAM and TERNA

The financial position and operating results of CDP RETI, as already mentioned, depend on the flow of funds from SNAM and TERNA, in the form of dividends. This availability depends not only on the ability of SNAM and TERNA to generate sufficient cash flow, but also on the ability of the two groups to overcome any legal and contractual restrictions on the distribution of dividends. For example these may include: i) regulatory impediments to fee increases, ii) requests for substantial investments in the infrastructure that the two groups have under management, iii) compliance with covenants in loan agreements. Lastly, in more general terms, a further restriction could arise from future levels of tax.

As a result these restrictions, and the resulting reduction in cash inflows, could have a significant adverse impact on the parent company's ability to cover the cash outflows related to the outstanding bonds and loans.

Liquidity and credit risk related to the activities of CDP RETI

In relation to its business activities, the parent company is exposed to liquidity risk, namely the risk that, due to the inability of raising new funds or liquidating assets on the market, the Company may not be able to fulfil its payment commitments, resulting in an impact on income if the company is forced to sustain additional costs to meet such commitments or, an extreme consequence, a condition of insolvency that puts the continuation of company business at risk. Although the company's objective is to establish a financial structure that ensures an adequate level of liquidity and balance in terms of duration and composition of the debt, external factors can not be ruled out such as an adverse market environment or heavy restrictions on access to bank credit. In such a scenario the Company may encounter difficulties in covering the cash outlays related to outstanding bonds and loans.

Default risk and debt covenants

The risk of default consists in the possibility that the loan agreements underwritten contain provisions, that entail the possibility for the lender to activate contractual protections, which could result in the early repayment of the loan if specific circumstances occur, thereby generating a potential liquidity risk.

CDP RETI long-term loans provide for compliance with covenants that reflect international market practices. These covenants are related to:

1. Bond issued in May 2015 (nominal amount €750 million) and maturity date in 2022;
2. Bank debt (so called Term Loan Facility) entered into with a syndicate of banks on 29 September 2014 for an initial amount of €275 million and currently at 412.5 million as a result of the refinancing in the month of May 2015;

3. Debt (c.d. *Term Loan Facility*) granted to the Company by the parent company CDP, entered into on 29 September 2014 for an initial amount of €225 million and currently at €337,5 million (refinancing in the month of May 2015).

The principal covenants relating to the issue of bonds are summarised below:

- "negative pledge" clauses, according to which the Issuer is subject to limitations on the creation or maintenance of restrictions on all or part of its assets or on its income to ensure debt, present or future, except for the circumstances expressly permitted;
- "*change of control*" clauses, under which bondholders have the option to require the Issuer to repay its bonds in the circumstance in which the Cassa Depositi e Prestiti no longer has control over the company;
- "*event of default*" clauses, under which predetermined events (e.g. failure to pay, breach of contractual obligations, etc.) are considered to represent potential default and the loan in question falls immediately due; in addition, under the "cross default" clauses, the occurrence of a default event in respect of any financial debt (above a threshold level) issued by the Issuer also constitutes a default in respect of the loan concerned, which becomes immediately repayable.

The main covenants governing the loans granted by the pool of banks and the parent company CDP, in addition to the covenants described in connection with the bond issue, mainly:

- an increase (from the current 1% to 1.5% potentially) in the spread applied to the interest rate if the credit rating assigned to CDP RETI reaches the level BB+ (or equivalent) or lower for at least one of the two agencies rating (Moody's or Fitch);
- "pari passu" clauses, under which the Company, for the duration of the loans, will ensure that the payment obligations have the same degree as those relating to all other unsubordinated unsecured creditors, without prejudice to the legal privileges;

- reporting requirements, both periodic and occasional, on the occurrence of specified events;
- compliance with the following financial covenants in order to avoid an event of default:
  - ✓ *Loan To Value*: ratio, expressed as a percentage, of (i) the financial debt (net of cash and cash equivalents) and (ii) the market value (in the 180 days prior to the date of detection) of SNAM and TERNA shares. This ratio must not exceed 50%;
  - ✓ *Dividend Interest Coverage Ratio* (DICR): ratio , with reference to the 12 months preceding the date of detection, of (i) the cash derived from dividends received and (ii) financial interest paid on debt. The ratio should be less than 1.25;
  - ✓ *Total Debt Service Amount* (TDSA): at any time CDP RETI must have cash and cash equivalents available in an amount not lower than the interest, fees, commissions and other costs related to the financing that must be paid within the subsequent 6 months.

As at 31 December 2015 there were no events which result in non-compliance with these commitments and contractual covenants.

To mitigate these risks CDP RETI monitors the circumstances that could have adverse effects on its financial position and earnings, also from the perspective of complying with covenants in place on outstanding loans. With regard to the earnings and financial performance of the subsidiaries TERNA and SNAM, CDP RETI carefully monitors their results, with particular attention to all the aspects that could have impacts on the dividend distribution policies.

As regards liquidity, periodic discussions are also held with the Parent Company CDP, both for the management of the irregular deposit[2] and in terms of assessing the need for establishing credit facilities.

[2] With regard to the deposit agreement "by which one party (custodian) receives from the other (depositor) movable goods with the obligation to preserve them and to return them in kind" (Art. 1766 of the Italian Civil Code), in the irregular deposit (concerning money or other fungible goods) the custodian is not required to return exactly the same goods, but must return

In any case, at 31 December 2015 there are no tensions in terms of liquidity, since CDP RETI received dividends in the period from its subsidiaries totalling about €373 million and at 31 December 2015 its cash and cash equivalents stood at approximately €372 million (also taking into account the so-called *Commercial Papers* amounting to 340 million). It is pointed out, in this regard, that such stock at the end of February 2016 amounted to approximately €40 million, mainly due to the distribution of an interim dividend for 2015 which took place in January 2016 for an overall amount of approximately 323 million.

Lastly, the main risks measured and managed at the level of TERNA and SNAM are detailed below.

Risk of change in interest rates and risks related to funding needs

Interest rate fluctuations and their impact on the market value of the company's financial assets and liabilities and on the level of net financial expense, are monitored in pursuing the objectives set and approved in the respective financial plans of the two subsidiaries.

At 31 December 2015, the SNAM Group used external financial resources in the form of bond issues and bi-lateral and syndicated loan agreements with banks and other Lenders, in the form of medium- to long-term loans and credit facilities at interest rates that were index-linked to market reference rates. At 31 December 2015 Snam had an Interest Rate Swap (IRS) derivative contract for a fixed-rate bond of €500 million with maturity date 2023. Terna, too, is exposured to interest rate variation risk. Its main source of interest rate risk is associated with items of net financial debt and the related hedging positions in derivative instruments that generate financial expense. The borrowing strategy focused on long-term loans. It also pursued an interest rate risk hedging policy.

the same amount of the same kind and quality of goods. The custodian, therefore, at the time of delivery, becomes the owner of the goods delivered to the same (Art. 1782 of the Italian Civil Code).

Exchange rate risk

Exposure to the exchange rate risk pertains to both transaction risk and translation risk related to exchange rates. The "transaction" exchange risk arises from the conversion of trade or financial receivables (payables) into currencies other than the functional currency and can be linked to the impact of adverse exchange rate fluctuations between the moment the transaction was originated and the moment it was perfected (collection/payment). Exchange rate "translation" risk, on the other hand, manifests itself in the preparation of the consolidated financial statements, due to the translation of the income statement and balance sheet of consolidated subsidiaries that prepare their accounts using a functional currency other than the euro.

The objective of both companies is to minimise these risks, also through the use of derivative financial instruments.

With regard to SNAM in particular, at 31 December 2015, it had foreign currency items consisting essentially of a bond for an amount of 10 billion Japanese Yen maturing in 2019, fully converted into Euros through a Cross Currency Swap hedging derivative.

Terna covers the exchange rate risk through the sale or purchase of forward currency (forward contracts) or options give it the right of obligation to purchase or sell pre-set currency amounts at a specific exchange rate at the end of a certain time period. In the financial statements at 31 December 2015 (as at 31 December 2014), there were no financial instruments exposed to exchange rate risk.

Credit risk

Credit risk is the company's exposure to potential losses arising from a counterparty defaulting on its obligations. The non-payment or delayed settlement of any amounts due may negatively impact its performance and financial soundness.

SNAM provides its business services to a limited number of gas sector operators, of which ENI S.p.A. is the most important one in terms of turnover. However, it cannot be ruled out that SNAM may incur into liabilities and/or losses due to the non-fulfilment of payment obligations by its clients. At 31 December 2015, approx. 60% of trade receivables (46% at 31 December 2014) referred to top-tier investment grade customers, including Eni S.p.A..

TERNA essentially renders its services to counterparties considered solvent by the market, with an accordingly high credit standing, and does not have concentrations of credit risk.

Credit risk management by TERNA is guided by the provisions of Resolution no. 111/06 of the Italian Authority for Electricity and Gas (AEEGSI), which, at Article 49, introduced instruments for the limitation of risks related to the insolvency of dispatching customers, both on a preventive basis and in the event of actual insolvency.

Liquidity risk

The liquidity risk is the risk that, due to the inability of raising new funds (funding liquidity risk) or liquidating assets on the market (asset liquidity risk), the Company may not be able to fulfil its payment commitments, resulting in an impact on income if the company is forced to sustain additional costs to meet such commitments or, an extreme consequence, a condition of insolvency that puts the continuation of company business at risk.

At 31 December 2015, SNAM had unused long-term committed credit facilities totalling approximately €3.95 billion. Moreover, Snam had a Euro Medium Term Notes (EMTN) programme for a total maximum counter-value of €12 billion, used for approx. €9.7 billion at 31 December 2015. At 31 December 2015, Terna had approximately €493 million in short-term credit lines and €1,550 million in revolving credit lines.

Default risk and debt covenants

The risk of default consists in the possibility that the loan agreements underwritten contain provisions that entail the possibility for the lender to activate contractual protections, which could result in the early repayment of the loan if specific circumstances occur, thereby generating a potential liquidity risk.

At 31 December 2015 SNAM and TERNA had outstanding bilateral and syndicated loan agreements with banks and other Financial Institutions, in addition to bond issues. Some of these agreements and loans provide for, *inter alia*, compliance with the following: (i) negative pledge commitments under which there are limitations concerning the pledging of real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (ii) *pari passu*, change of control and event of default clauses; (iii) limitations on some extraordinary transactions that the Company and its subsidiaries can carry out; iv) disclosure obligations.

For EIB loans only, the lender is entitled to request further guarantees if there is a reduction in the rating.

Operational risks

Operational risks consisted mainly in malfunction and unplanned outage of the service due to accidents, failures or malfunctions of equipment or control systems, lower plant yield and extraordinary events such as explosions, fires, earthquakes, landslides or other similar events outside Snam's control. Although SNAM has taken out specific insurance policies to cover some of these risks, the related insurance cover could be insufficient to meet all the losses incurred, compensation obligations or cost increases.

Snam may experience delays in the progress of infrastructure construction work as a result of the many unforeseeable events linked to operating, economic, regulatory, authorisation and competition factors that are outside of its control.

Further risks relate to environmental litigation with respect to the development and operation of generation plants and mainly linked to the damages that may

result from exposure to electric and magnetic fields generated by power lines. As a matter of fact, TERNA is the defendant in a number of civil and administrative proceedings requesting the removal or change in operation methods of power lines on the basis of their alleged potential harmfulness, even if they were installed in full compliance with relevant applicable regulations.
Generally speaking, the examination of the litigation suggests that the likelihood of adverse outcomes is remote, except in the case of some legal proceedings for which at the moment it is not possible to make reliable assessments of its outcome.

Regulatory risk

SNAM and TERNA carry out activities in sectors subject to regulation. The directives and regulatory provisions issued by the European Union and the Italian government and the resolutions of the Authority for Electricity, Gas and the Water System (AEEGSI) and, more generally, changes to the reference regulatory framework may have a significant impact on operations, earnings and financial stability. Considering the specific nature of its business and the context in which SNAM and TERNA operate, changes to the regulatory context with regard to criteria for determining reference tariffs are particularly significant.

With regard to SNAM, regulatory risk is closely linked to the regulation of its activities in the gas sector. The relevant directives and legal provisions issued by the European Union and the Italian government and the resolutions of the Authority and, more generally, changes to the regulatory framework may have a significant impact on the Company’s operating activities, financial position and results.

With regard to TERNA, in the first half of 2015 around 89% of its revenues came from activities regulated by the Authority for the Electricity, Gas and the Water System. The Authority sets out, with respect to the multi-year regulatory periods, the structure and parameters for determining revenues and may intervene each year, where required, in order to update relevant parameters. Specifically, the fee for the transmission service represents the major share of regulated revenues and is calculated as the sum of three components: (i) profitability of the investment; (ii) coverage of amortization (iii) coverage of operating costs.

A more detailed examination of the risks described and other critical aspects can be found in financial annual reports of SNAM and TERNA.

4. BALANCE SHEET AND ECONOMIC PERFORMANCE OF THE GROUP

In order to facilitate understanding of the results for the period, an analysis of the balance sheet and economic performance at 31 December 2015 is provided below using statements reclassified on the basis of operational criteria.

4.1 RECLASSIFIED CONSOLIDATED BALANCE SHEET

4.1.1 ASSETS

The reclassified and consolidated assets of the CDP RETI Group at 31 December 2015 can be grouped into the following aggregates:

(millions of euros)

Assets	31/12/2015	31/12/20114
Property, plant and equipment	33,235	32,061
Intangible assets	7,824	7,704
Trade receivables	3,050	3,306
Other assets (*)	4,211	4,494
Cash and cash equivalents	821	1,484
TOTAL ASSETS	**49,141**	**49,049**

(*) The figures of the consolidated financial statements that are not represented in the riclassified Assets are included in Other assets.

At that date, assets totalled €49,141 million and primarily consisted of SNAM and TERNA's property, plant and equipment (about 68% of all assets, 65% in 2014).The increase (€1,174 million) is the result of €1,300 million from TERNA and €79 million from SNAM, partially offset by approximately €204 million in additional impacts deriving from consolidation[3].

The changes in TERNA's assets are due above all to investments (around €1,059 million, of which €951 million by Terna S.p.A.) and the aforementioned acquisition of Rete S.r.l. (with assets recorded for a total value of €719 million, plus additional €38 million entered in intangible assets, for a total of €757 million, as mentioned), net of amortisation and depreciation and impairment (€ 435 million) and write-downs for the period (€ 23 million). SNAM's variances, amounting to €79 million, were due to investments for the period (approx. €846 million) net of amortisation, depreciation and impairment for the year (amounting to €548 million) and further variances (mainly variances of the present value of expenses for site decommissioning and reinstatement).

The item intangible assets – much of which is attributable to SNAM's agreements for concession services, analyzed in greater detail in the notes – increased by €121 million: approx. €200 million from SNAM and €68 million (of which €38 million as a result of the agreement for the laying of fibre optic cables transferred with Rete S.r.l., recognised in the process for the allocation of the higher purchase price paid by TERNA to the Ferrovie dello Stato Group), from TERNA, only partly offset by the effects of consolidation.

The movement in SNAM's intangible assets was mainly driven by investments (€426 million, of which €373 million referred to the distribution sector and €37 to the transportation sector) and the change in consolidation scope (€105 million) following Italgas' acquisition of control over Acam Gas, only partly offset by amortisation and depreciation (€ 301 million) and by further variances recorded during the year.

The reduction in trade receivables (€256 million in total) can be attributed to TERNA (€204 million) and to SNAM (€51 million). TERNA's reduction is mainly ascribable to (i) the decrease in receivable for the grid transport consideration paid to the Parent company and other owners for use of the National

[3] Effects connected to the PPA (purchase price allocation) of SNAM and TERNA.

Transmission Grid by electricity distributors (- €114 million, of which €91 for collection of some 2013 revenues from the Energy and Environmental Services Fund); (ii) the reduction of receivables (€ 97 million) for the consideration for the purchase of resources on the Dispatching Services Market.
With respect to SNAM, instead, the drop was mainly affected, *inter alia*, by provisions (€45 million) for bad debts primarily as a result of the impairment (€41 million) following the Authority's decision to provide for partial recognition of outstanding receivables for the period 1 December 2011-23 October 2012.

The contraction in other assets (€283 million in total) was almost entirely due to SNAM (€282 million) and mainly ascribable to (i) the decrease in financial receivables (€138 million) for the combined effect of the closure and the concurrent repayment (€216 million) to SNAM of the Shareholders' Loan - granted in 2014 to the joint control company TAG as part of a refinancing transaction for the entire TAG debt effected with banks - and the transfer of the aforementioned Shareholders' Loan from Statoil for an amount of €78 million at the closing date, and (ii) the reduction of deferred tax assets (€85 million).

Finally, cash and cash equivalents mainly attributable to TERNA (€432 million) and the parent company (€372 million) decreased by a total of about €663 million, as the combined effect of the reductions for TERNA (-€786 million) and SNAM (-€57 million), only partly offset by the increase of the parent company CDP RETI (+€179 million). In this respect, it should be noted that the consistent decrease for TERNA (from €1,217 to €432 million) was mainly affected by the acquisition of RETE S.r.l. from Ferrovie dello Stato, whilst CDP RETI 's higher cash and cash equivalents benefitted from the higher dividends received.

4.1.2 LIABILITIES AND EQUITY

The reclassified and consolidated liabilities and equity of the CDP RETI Group at 31 December 2015 can be grouped into the following aggregates:

(millions of euros)

Equity and Liabilities	**31/12/2015**	**31/12/20114**
Long-term financial liabilities	22,592	22,234
- non-current (*)	*21,082*	*20,470*
- current (**)	*1,510*	*1,764*
Trade payables	2,864	2,920
Other liabilities (***)	8,110	9,137
Equity	15,575	14,758
- attributable to the CDP RETI Group	*4,339*	*3,987*
- attributable to minority interests	*11,236*	*10,771*
TOTAL LIABILITIES	**49,141**	**49,049**

(*) In consolidated financial statements: Loans
(**) In consolidated financial statements: Current portion of long-term loans
(***) The figures of the consolidated financial statements that are not represented in the riclassified Equity and Liabilities are included in Other liabilities.

The group's long-term financial liabilities (loans and bond issues) – €12.5 billion attributable to SNAM (more than 50%), €9 billion to TERNA (about 40%) and €1.5 billion to CDP RETI – increased by €755 million over the year, mainly because of CDP RETI's restructuring of its debt through: (i) the aforementioned full repayment of the Bridge Loan Facility (about €1 billion recorded in other liabilities in 2014 due to its short-term nature), (ii) the increase in the Term Loan Facility for a further €250 million (from €500 million to €750 million) and (iii) the issue of bonds with a par value of €750 million.

For a more in-depth understanding of the item under review for the company, see the Segment Trend section (SNAM and TERNA) and the Report on the Separate Financial Statements of CDP RETI.

Trade payables showed a decrease of €56 million, mainly attributable to SNAM (contraction of €122 million), and in particular due to the reduction in the natural gas transport sector (€98 million), partly offset by higher TERNA payables (+ €66 million).

Other liabilities saw a reduction of €1,028 million, largely due to the debt restructuring of the parent company CDP RETI (€1 billion reduction in short-term borrowing, booked to other liabilities), and the reduction of deferred tax liabilities linked to the Purchase price allocation (mainly as a result of the reduction of the IRES rate starting from 2017).

Equity grew by €817 million mainly due to the contribution of the result for the period (€1,827 million, of which €519 million from the parent company), which managed to offset the decrease linked to (i) the dividends distributed to Third Parties by SNAM and TERNA during the year (approx. €804 million in total) and to its own shareholders by the Parent Company CDP RETI (€189 million), as well as to (ii) the 2015 interim dividend distributed by TERNA to Third Parties (€ 99 million).

4.1.3 RECONCILIATION OF CONSOLIDATED EQUITY AND NET INCOME

The reconciliation between the equity and net income of the parent company and the consolidated figures is presented below:

(millions of euros)

2015 FINANCIAL YEAR	Net income	Capital and reserves	Total
PARENT COMPANY FINANCIAL STATEMENTS	**358**	**3,343**	**3,701**
Balance from financial statements of fully consolidated companies	1,834	9,097	10,931
Consolidation adjustments:			
- Carrying amount of fully consolidated equity investments	0	(4,835)	(4,835)
- Dividends from fully consolidated companies	(374)	374	0
- Purchase price allocation	16	5,770	5,786
- Other adjustments	(7)	(1)	(8)
CONSOLIDATED FINANCIAL STATEMENTS	**1,827**	**13,748**	**15,575**
- attributable to the CDP RETI Group	*519*	*3,820*	*4,339*
- attributable to minority interests	*1,308*	*9,928*	*11,236*

4.2 RECLASSIFIED CONSOLIDATED INCOME STATEMENT

The reclassified consolidated income statement of the CDP RETI group at 31 December 2015 is composed as follows:

(millions of euros)

Icome Statement	31/12/2015	31/12/2014	Change	Terna Group	Change (same scope)
Total revenues (*)	5,705	3,566	2,139	2,056	83
Operating costs (not included Depreciation and Amortiza	(1,374)	(803)	(571)	(520)	(51)
EBITDA	**4,331**	**2,763**	**1,568**	**1,536**	**32**
EBITDA margin	***76%***	***77%***	***-1%***		
- of which SNAM	*49%*	*77%*			
- of which TERNA	*27%*	*0%*			
Depreciation and Amortization	(1,687)	(1,038)	(649)	(558)	(90)
Operating profit (EBIT)	**2,644**	**1,725**	**919**	**978**	**(58)**
EBIT margin	***46%***	***48%***	***-2%***		
- of which SNAM	*34%*	*55%*			
- of which TERNA	*18%*	*0%*			
- of which consolidation	*-6%*	*-7%*			
Financial income (expense)	(409)	(318)	(92)	(141)	49
Income taxes	(415)	(128)	(286)	(222)	(64)
Profit from continuing operations	**1,820**	**1,279**	**541**	**614**	**(73)**
Profit from discontinued operations	7	0	7	7	0
NET INCOME	**1,827**	**1,279**	**548**	**621**	**(73)**
- for CDP RETI Group	*519*	*367*			
- for minority interests	*1,308*	*912*			

(*) In Riclassified Income Statement, pursuant to IFRIC 12 "Service Concession Arrangements" are not icluded:
- regarding SNAM, revenue from the construction and upgrading of natural gas distribution infrastructure (€321 million in 2015 and €316 million in 2014);
- regarding TERNA, revenue from construction of assets in concession (€26 million in 2015);
these revenues are recognised in an amount equal to the costs incurred and are shown as a direct reduction of the respective cost items.

As already mentioned in the Consolidated Financial Highlights section, the comparison between 2015 and 2014 is affected by the change in the scope of consolidation as a result of full line-by-line consolidation of TERNA's income statement starting from 2015. The format used highlights the effect linked to TERNA's consolidation in order to enable like-for-like comparisons. For a clearer understanding of the variances for the two financial years at sector level, see the Sector Trend paragraph.

Revenues of the year are attributable to SNAM for €3,649 million (€3,566 million in 2014) and to TERNA for €2,056 million. Excluding TERNA's consolidation, a growth of €83 million was recorded, which is fully attributable to SNAM.

Operating costs – mainly comprising costs for services (€489 million) and staff costs (€555 million) – increased by about €571 million compared to the previous period. Like for like, the €51 million variance is due by €60 million to higher costs for SNAM, partly absorbed by minor costs for CDP RETI (which, in 2014, had been impacted by fees for the structuring of the loan granted in the last quarter).

The Gross Operating Margin (EBITDA) amounted to €4,331 million vs €2,763 in 2014, equating to 76% of revenues (EBITDA margin), in line with 2014. Compared to 2014, when the entire margin could be ascribed to SNAM, SNAM accounted for 49% of it and TERNA for 27%.

The Operating Profit (EBIT) achieved in 2015, equal to €2,644 million (€1,725 million in 2014), was affected by amortisation, depreciation and impairment for the year (€1,687 million vs €1,038 million in 2014). Like for like, the increase was approx. €90 million, attributable both to SNAM and the effects of the so-called Purchase price allocation. The EBIT margin (percentage of Total Revenues) at 31 December 2015 amounted to 46% (48% in 2014).

Financial income (Expense) was negative by €409 million (€ 318 million in 2014) and mainly referred to SNAM (€ 245 million) and TERNA (€ 141 million). Like for like, the positive variance of €49 million was mainly attributable to SNAM (€ 21 million).

Income taxes, totalling €415 million, referred primarily to SNAM (€ 467 million), TERNA (€ 293 million) and the effects of deferred tax linked to Purchase price allocation. Like for like, compared to 2014, there was a contraction of €64 million essentially due to the variance of deferred taxes following the reduction of the

IRES rate from 27.5% to 24% effective from 2017, as set out by the 2016 Stability Law.

Net income from discontinued operations, equal to approx. €7 million and pertaining to TERNA, includes the effects of the release of the provision for tax obligations (resulting from the sale of Terna Participações by Terna S.p.A.) that are considered fulfilled as a result of the expiry of the collection deadline for the Brazilian local authority.

The income and expense items referred to above enabled the company to close 2015 with a consolidated profit of approx. €1,827 million (of which €519 million attributable to CDP RETI).

4.3 SECTOR TREND

The key income statement, balance sheet and cashflow data are shown below, based on the formats used by SNAM and TERNA for their financial statements. For the reconciliation of the reclassified financial statements to statutory ones see SNAM's and TERNA's documentation.

4.3.1 SNAM (gas transportation, distribution, regassification and storage)

SNAM

(millions of euros)

		31/12/2015	31/12/2014
Total revenue (*)	millions of euros	3,649	3,566
- of which regulated	millions of euros	*3,573*	*3,506*
EBITDA	millions of euros	2,799	2,776
EBITDA margin (**)	%	77%	78%
Operating profit (EBIT)	millions of euros	1,950	1,973
EBIT margin (***)	%	53%	55%
Net income	millions of euros	1,238	1,198
Equity	millions of euros	7,586	7,172
Net financial debt	millions of euros	(13,779)	(13,652)
Net cash flow for the period	millions of euros	(57)	72
Technical investments	millions of euros	1,272	1,313

(*) In Riclassified scheme are not icluded revenue from the construction and upgrading of natural gas distribution infrastructure (€321 million in 2015 and €316 million in 2014); these revenues are recognised in an amount equal to the costs incurred and are shown as a direct reduction of the respective cost items.

(**) Ratio of EBITDA to Total revenue

(***) Ratio of EBIT to Total revenue

Total Revenues

SNAM's total revenues at 31 December 2015 amounted to €3,649 million (a 2% increase compared to €3,566 million at 31 December 2014) and referred (net to consolidation adjustments) to Regulated revenues (98% of total revenues) by €3,573 million and to Unregulated revenues by €76 million. Regulated revenues pertained to transportation (€2,085 million), distribution (€1,071 million), storage (€ 399 million) and regassification (€18 million). Unregulated revenues referred primarily to income for the sale of natural gas (€27 million) and for lease/maintenance of fibre optic telecommunications cables (€ 12 million).

Operating Profit (EBIT)

Higher operating costs (€ 850 million vs €790), which were primarily impacted by charges for the abolition of the Gas Fund and by higher amortisation, depreciation and impairment - significantly influenced by the commissioning of new infrastructure and the change in the scope of consolidation - resulted in an Operating Profit of approx. €1,950 million, a decrease both in absolute and percentage terms (so-called EBIT margin) compared to 2014.

Net Income

Even in presence of a drop in Operating Margin (- €23 million), the reduction (€42 million) in income taxes and the improvement (€21 million) in financial management and equity investments - the latter in view of the reduction in the average cost of debt and the result for the year for companies recognised at equity, determined a net income of €1,238 million for 2015 (due almost in full to the Parent company), a €40 improvement over 2014 (+3.3% vs. €1,198 million in 2014). With specific reference to the lower tax burden, it should be noted that this was impacted by the reduction in current taxes (€595 million vs €731 million at the end of 2014), mainly linked to the (i) abolition of the IRES surtax (so-called "Robin Hood Tax") as a result of the ruling of constitutional illegitimacy by the Italian Constitutional Court on 9 February 2015 and (ii) the deductibility (starting from 1 January 2015) of labour costs for IRAP purposes, only partly offset by accounting effects linked to deferred tax.

Equity

The increase for the year (approx. €414 million) related mainly to the result for the year (€1,238 million) and other variances (€ 51 million, referred primarily to the effect of the inclusion of a new shareholder in TIGD's ownership structure), which was only partly offset by the distribution of the ordinary dividend for 2014

(€875 million) authorised by the Ordinary Shareholder's Meeting of Snam S.p.A. on 29 April 2015 at the rate of €0.25 per share and paid out starting from 20 May 2015.

Net Financial Debt

Net financial debt, which posted an increase of €127 million over 2014 (€13,779 million vs €13,652 million), consisted almost entirely of:

- ✓ bonds for €9,811 million (inclusive of the current portion), down by €820 million, mainly as a result of the repayment of a bond with a par value of €750 million with maturity at November 2015 for to the aforementioned Liability Management transaction;
- ✓ Bank loans for €3,950 million (inclusive of current portion), up by approx. €655 million and mainly relating to new loans with the EIB and the greater use of bank credit facilities.

Even in presence of lower gross financial debt (a reduction of approx. €146 million), the item under review takes into account the decrease of financial receivables (€ 216 million) following the closure and concurrent repayment to SNAM of the Shareholder’s Loan granted in 2014 to the joint control company TAG, as well as lower cash and cash equivalents (€17 million vs €74 million at the end of 2014).

Technical Investments

Technical investments for the financial year amounted to €1,272 million (€1,313 million in 2014) and referred for €846 million to property, plant and equipment and for €426 to intangible assets (of which €321 for agreements for services under concession[4]). At sector level, investments pertained mainly to transportation (€ 693 million), distribution (€ 393 million) and storage (170 million).

[4] Agreements under which Snam is committed to distribute the natural gas to AEEGSI’s established rate, holding the right of infrastructure, controlled by the grantor, in order to provide the public service.

Proposed dividend

The Shareholders' Meeting, convened in single call on 27 April 2016, has resolved the distribution of a total dividend for 2015 of €25 cent per share, in line with that for 2014, to be paid out starting from 20 May 2016.

4.3.2 TERNA (electricity dispatching and transmission sector)

TERNA

(millions of euros)

		31/12/2015	31/12/2014
Total revenue	millions of euros	2,082	1,996
- of which regulated	millions of euros	*1,850*	*1,823*
EBITDA	millions of euros	1,539	1,492
EBITDA margin (*)	%	74%	75%
Operating profit (EBIT)	millions of euros	1,022	1,011
EBIT margin (**)	%	49%	51%
Net income	millions of euros	595	545
Equity	millions of euros	3,346	3,093
Net financial debt	millions of euros	(8,003)	(6,968)
Net cash flow for the period	millions of euros	(786)	(400)
Technical investments	millions of euros	1,103	1,096

(*) Ratio of EBITDA to Total

(**) Ratio of EBIT to Total revenue

Total Revenues

TERNA's total revenues at 31 December 2015 amounted to €2,082 million[5] (a €86 million increase, of approx. 4%, vs 2014), due to an improvement in both regulated (+ €27 million) and unregulated activities (+ €63 million, mainly due to the contribution of the Tamini Group, which, in 2014, had been included into group results only from the acquisition date of 20 May). Revenues referred primarily to the Parent Company Terna S.p.A. for €1,800 million, to the subsidiary Terna Rete Italia S.r.l. for 196 million and to the Tamini Group for €126 million.

Regulated revenues for the year, amounting to €1,850 million (approx. 90% of the total), referred mainly to the consideration for the use of the NTG (€1,706

[5] Amount before IFRIC 12 adjustments.

million vs €1,651 million in 2014) and that for the dispatching service received by electricity operators (€125 million vs €117 in 2014). The €27 million increase over 2014 was mainly due to the positive variance of the considerations for the transmission (+ € 56 million) and dispatching activity (+ €8 million), which was able to offset the negative impact of service quality (- €39 million).

Operating Profit (EBIT)

Higher revenues enabled the absorption of both the increase (€ 38 million) in operating costs (€ 543 million vs 505) - mainly impacted by the incorporation of the Tamini Group - and higher amortisation, depreciation and impairment (+ €12 million), as well as writedowns (+ €24 million). In this respect, it should be noted that net of the Tamini Group (€63 million), operating costs would have been reduced by €24 million, essentially due to lower labour costs, taking into account that 2014 figures were impacted by the provision for early retirement aimed to encourage generational change. The item amortisation, depreciation and impairment, in particular, was affected by the commissioning of new plants and disposal plans defined at the end of the financial year (+€12 million), as well as by the cancellation of certain projects/devaluation of specific plants (+€23 million). This resulted in an Operating Profit equal to €1,022 million, an increase in absolute terms with respect to 2014, even if it represented a reduction in percentage terms (so-called EBIT margin) for the aforementioned reasons (i.e. impact of the Tamini Group and higher depreciation, amortisation, impairment/writedowns).

Net Income

The higher operating profit was more than offset by higher net financial expense (€141 million vs €128 million in 2014), with an increase mainly relating to the Liability Management transactions effected on 20 July 2015. Financial management, moreover, was impacted by the non-contribution of equity investments valued at equity (which had a positive impact of €8 million in 2014) and lower financial income (- €11 million), as a result of the general reduction of interest rates in the market in which liquidity was invested, which were only partly offset by the decrease of financial expense for medium and long-term debt and relevant hedges (- €9 million).

The financial management, the lower tax burden - which, as in the case of SNAM was impacted (i) by the abolition of the IRES surtax (so-called "Robin Hood Tax"), (ii) by the deductibility of labour costs for the IRAP purposes - and net income for the year from dismissed operations (already analysed in the Group Income Statement) determined a net profit of €595 million at the end of 2015 (€0.2 thousands of which attributable to minority interests), i.e. an improvement approx. €50 million over 2014 (+9.3% compared to €545 million in 2014).

Equity

The increase for the financial year (approx. €253 million) was mainly due to the result for the year (approx. €595 million) and additional variances that impacted on comprehensive income for the year (so-called comprehensive income statement components, amounting to €34 million and referred mainly to the effects of the fair value adjustment of hedge derivatives and the recognition of actuarial gains and losses on employee benefits), only partly offset by the distribution of the 2014 ordinary dividend (€ 261 million) and the 2015 interim dividend (€ 141 million) authorised by the Board of Directors of Terna S.p.A. on 11 November 2015 at a rate of €0.07 per share and paid out starting from 25 November 2015.

Net Financial Debt

Net financial debt, which posted an increase of €1,035 million over 2014 (€8,003 million vs €6,968 million) was significantly impacted by the drop in cash and cash equivalents (from €1,217 million to €431 million, mainly as a result of investments effected and the aforementioned acquisition from Ferrovie dello Stato), consisted mainly of:

- ✓ Bonds, all with maturity beyond 2016, for a value of €6,406 million, with an increase of approx. €420 million mainly as a result of the bond issue for €1 billion of 2 February 2015 offset only in part by the 2017 bond repurchase transaction (par value of €480 million) carried out as part of the Liability Management programme, and of other variances (mainly the fair value adjustment of financial instruments).;

- ✓ Long-term loans for €2,110 million, in line with 2014 (approx. €2,100 million) and mainly relating to financial payables due to EIB (approx. €1,600) and CDP (€500 million).
- ✓ Cash and cash equivalents for approx. €430 million, €400 million of which invested in short-term, readily negotiable deposits and €32 million in bank current accounts.

Technical Investments

Technical investments for the financial year amounted to €1,103 million (€1,096 million in 2014) and referred for €1,059 million to property, plant and equipment (specifically, to transport lines for €651 million and to transformation systems for €322 million) and for €45 to intangible assets. Approximately 92% (€1,019 million) of total investments were investments from Regulated activities i.e. remunerated by AEEGSI. Particular mention should be made of the investments for the continuation of the works for the development of three power lines: "Foggia-Villanova", "Sorgente-Rizziconi" and "Udine Ovest-Redipuglia". Work on interconnections with France and Montenegro is also ongoing.

Proposed dividend

The Board of Directors shall propose to the Shareholders' Meeting, convened in single call on 30 May 2016, the approval of a total dividend of €0.20 per share for the financial year, in line with that for 2014 and the distribution - net of the ordinary interim dividend for 2015 of €0.07 per share already paid out from 25 November 2015 - of the remaining €0.13 per share, gross of any legally required withholdings, to be paid out starting from 22 June 2016.

4.4 Consolidated Net Financial Debt

The consolidated net financial position at 31 December 2015, prepared in accordance with the recommendation of the European Securities and Market Authority-ESMA (formerly CESR) of 10 February 2005, compared with the end of 2014, is composed as follows:

CONSOLIDATED NET FINANCIAL DEBT *(millions of euros)*

	31/12/2015	31/12/2014
A. Cash (1)	1	1
B. Cash equivalent (1)	820	1,483
C. Trading securities	0	0
D. Liquidity (A)+(B)+(C)	**821**	**1,484**
E. Current Financial Receivable (2)	**5**	**216**
F. Current Bank debt (3) (5)	1,738	1,596
G. Current portion of non current debt (3)	1,510	1,765
H. Other current financial debt (2) (3) (5) (6)	89	548
I. Current Financial Debt (F)+(G)+(H)	**3,337**	**3,909**
J. Net Current Financial Indebtedness (I)-(E)-(D)	**2,511**	**2,209**
K. Non current Bank loans (4)	5,127	4,604
L. Bond Issued (4)	15,610	15,639
M. Other non current loans (4) (6) (7)	(336)	(523)
N. Non current Financial Indebtedness (K)+(L)+(M)	**20,401**	**19,720**
O. Net Financial Indebtedness (J)+(N)	**22,912**	**21,929**

In the consolidated balance sheet :

(1) Cash and cash equivalents

(2) Current financial assets

(3) Current portion of long-term loans

(4) Loans

(5) Current financial liabilities

(6) Non-current financial assets

(7) Other financial liabilities

Consolidated Net Financial Debt showed a balance €22,912 attributable to SNAM for €13,779 million, to TERNA for €8,003 million and to the Parent Company CDP RETI for €1,130 million.

For further details about the item under review, see the Sector Trend and the Parent Company's Report on Operations.

5. OUTLOOK - PROSPECTS FOR 2016

Regarding the Parent Company CDP RETI, in connection with the entry of new third party investors in the related capital, finalised in 2014, and the associated financing operation, which already during 2015 required the implementation of a new organisational structure, activities related to getting the new configuration into full swing will continue.

On the management front, in the first semester 2016 it is expected the distribution of final dividend for 2015 by the subsidiaries SNAM and TERNA, which will – among other things – pay for the financial expenses connected to the bond issue and outstanding loans.

In general terms, the group's activities are expected to continue without change in the current sectors of interest (i.e. electricity and gas).

Regarding SNAM, current estimates suggests that demand for natural gas on the Italian market during 2016 will be essentially stable on 2015 levels, normalised for temperature. With respect to the commitment to developing the Italian natural gas infrastructure, a technical investment programme that is by and large in line with that of 2015 was envisaged for the same scope of activity.

In more general term the Board of Directors Board of Directors identified the opportunity to launch a feasibility study on a possible industrial and corporate restructuring operation for the separation of Italgas from Snam, which could be achieved through a partial and proportional splitting of Snam involving all or part of its equity investment in Italgas.

Regarding TERNA, it is confirmed the engagement in the coming months in implementing the provisions of the 2016-2019 Strategic Plan approved by the Board of Directors and presented to the financial community on February 17, 2016. It is expected that the electricity sector will be characterised by an evolution driven by a strong attention to sustainable development and solutions oriented to the efficient use of resources and to minimise the environmental impact of the activities.

6. SIGNIFICANT EVENTS AFTER 31 DECEMBER 2015

Regarding the parent company CDP RETI's main events occurring after the end of the year, we note:

- given the end of the term of office as director of Mr. Pattofatto (co-opted to the board on 6 August 2015 in replacement of Director and CEO Giovanni Gorno Tempini, who resigned on 10 July 2015) the Shareholders' Meeting held on 11 January 2016, in ordinary session, confirmed Mr. Pattofatto as a member of the Board of Directors, with expiry of office in line with that of the other Directors in office (i.e. Shareholders' Meeting called to approve the financial statements of 2016). The Board of Directors, again during its meeting of 11 January 2016, unanimously approved to confirm Mr. Leone Pattofatto as Chief Executive Officer.
- in extraordinary session, the Shareholders' Meeting held on 11 January 2016 approved a number of amendments relating to the integrity and professionalism of directors and the procedures for replacing outgoing directors during the term of office.
- the Board of Directors, meeting on 11 January 2016, approved distribution to shareholders of an interim dividend for 2015 of €1,999.73 per share (for each of the 161,514 shares), for a total amount of approximately €323 million, already fully paid. The interim dividend was approved based on the accounting situation of the company as at 30 September 2015 - prepared in accordance with the IAS/IFRS standards - which closed the period with net income of approximately €323 million and available reserves of approximately €3,345 million. The financial statements of CDP RETI as at 30 September 2015, the Directors' Report and the opinion of the Independent Auditors pursuant to Art. 2433-bis of the Civil Code have been filed at the registered office of the company.
- in January the treasury operation relating to the resale of Commercial Papers was completed; this operation (i.e. purchase for a nominal amount of approx. €340 million) had been put in place at the end of 2015 with a

view to better allocation of cash previously held in the irregular deposit account with the parent CDP. It is pointed out, moreover, that much of this cash was then used for payment of the interim 2015 dividend described above.

No further particularly significant events have occurred that could affect the financial position and operating performance.

With regard to **SNAM** it is noted:

- with Resolution 46/2016/R/gas, published on 12 February 2016, the Authority provisionally approved reference revenues for the storage service for 2016. By 31 May 2016, storage companies shall submit to the Authority their final reference revenues proposals, which the Authority shall approve in turn within 60 days.

With regard to **TERNA** it is noted:

- The 380 kV "Villanova-Gissi" power line came into operation on January 31, 2016. This line was foreseen in the Network Development Plan and authorised by the Ministry of Economic Development on January 15, 2013. Also in January, implementing the guidelines of the Ministry for the Environment, Terna sent to all stakeholders involved the study on the electricity network refurbishment project for the Lucca area. In February 2016, Terna obtained the approval of the project for the creation of the 132 kV "Sacca Serenella Cabina Primaria-Cavallino Cabina Primaria" and "Fusina 2-Sacca Fisola Cabina PrimariaIn the first two months of 2016 Terna worked on refining the construction solutions for the two Interconnectors "Italy-Switzerland" and "Italy-France". In March 2016, for the "Italy-Switzerland" Interconnector, TERNA obtained from the Ministry of the Environment the suspension of the Environmental Impact Assessment (EIA) proceeding to complete the studies and supplementary enquiries requested by the Ministry itself and by the Piedmont and Lombardy Regions. For what concerns the "Italy-France" Interconnector in

February 2016, Terna obtained from the Ministry of Economic Development the start-up of the authorisation procedure of the local Interconnection variation.

- On February 18, 2016 Terna launched a bond issue in Euro, at a fixed rate as private placement for a total of € 80 million as part of its Euro Medium Term Notes (EMTN) Programme of € 8,000,000,000, to which a “BBB” rating has been attributed by Standard and Poor’s, “(P)Baa1” by Moody’s and “BBB+” by Fitch. An application for listing on the Luxembourg stock exchange was submitted for the Securities. The operation is part of Terna's financial optimisation programmes, to cover the needs of the Group's Industrial Plan.

7. OTHER INFORMATION

Approval of the financial statements

The Shareholders’ Meeting to approve the financial statements, as provided for by Article 10.4 of the bylaws of CDP RETI S.p.A., shall be called within 180 days of the close of the financial year. The use of that time limit rather than the ordinary limit of 120 days from the close of the financial year, permitted under Article 2364, paragraph 2, of the Italian Civil Code, is justified by the fact that the Company is required to prepare consolidated financial statements.

Related-party relations

Details regarding relations with subsidiaries, associates, parents and the companies controlled by them, can be found in the consolidated accounts, and in particular to the section “Related-party transactions”.

With respect to CDP RETI in particular, it should be noted that related-party transactions cannot be classes neither as atypical nor unusual, since they are part of normal operations. Such transactions are settled at market rates, taking into account the features of the services rendered.

During 2015, the aforementioned transactions regarded mainly accounts with the parent company Cassa Depositi e Prestiti in relation to:

1) an interest-bearing deposit account;
2) a share custody and administration agreement;
3) service agreements for support activities;
4) a derivative contract;
5) commercial papers;
6) tax consolidation receivables;
7) loans.

Treasury shares

The Parent Company does not hold, and has not acquired and/or disposed of, shares or ownership interests in parent companies during the course of 2015, either directly or through trusts or intermediaries.

At 31 December 2015, SNAM held 1,127,250 treasury shares (the same as at 31 December 2014), corresponding to 0.03% of share capital, with a book value of approximately €5 million. The market value of the treasury shares at 31 December 2015, calculated by multiplying the number of treasury shares on such date by the official price at year end of €4.850 per share, amounted to about €5 million. As of that date, all stock options had been exercised, (the last incentive plan expired on 29 July 2014), so no remaining treasury shares are committed to these plans, and no treasury shares purchase plans are in progress.
Moreover, the companies owned by Snam S.p.A. do not hold and have not been authorized to purchase shares in Snam S.p.A. by their respective Shareholders' Meeting.

TERNA does not hold and has not bought or sold (including indirectly) any treasury shares, shares in CDP RETI S.p.A. or in Cassa depositi e prestiti S.p.A. during year 2015.

Performance of SNAM and TERNA shares

	SNAM		TERNA	
	2015	2014	2015	2014
Key share price data				
Number of outstanding shares at 31 December (million)	3,499.50	3,499.50	2,010.00	2,009.99
Official year-end price (€)	4.85	4.11	4.77	3.78
Market capitalization (*)	16,973	14,383	9,588	7,598
Maximum official price per share	4.94270	4.55420	4.77830	4.12430
Minimum official price per share	3.91710	3.85650	3.58480	3.56790
Average official price per share	4.50918	4.22699	4.22111	3.83981
Official price at year end (**)	4.84830	4.11410	4.77310	3.78300
Closing price at year end (***)	4.83000	4.10000	4.75600	3.76000

(*) Product of the number of outstanding shares (precise number) for the official price per share at year end
(**) average price, weighted for the relevant quantities, of all contracts concluded during the day.
(***) price at which contracts are concluded at the closing auction.

The Snam share ended 2015 with an official price of €4.848, +17.8% over the price of €4.114 recorded at the end of the previous year. The closing price amounted to 4.83, with an all-time high of €4.93 on 3 December 2015 and a minimum of 3.92 on 7 January 2015.
In 2015, a total of approx. 3.3 billion shares were traded on the Italian Electronic Stock Exchange, with an average daily trading volume of 13.1 billion shares.
Market capitalisation at 31 December amounted to 16,973 million.

The Terna share ended 2015 with an official price of €4.773, +26.2% over the price of €3.783 recorded at the end of the previous year. The closing price amounted to 4.75, with an all-time high of €4.79 on 29 December 2015 and a minimum of 3.58 on 7 January 2015.
In 2015, a total of approx. 2.1 billion shares were traded on the Italian Electronic Stock Exchange, with an average daily trading volume of 8.3 billion shares.
Market capitalisation at 31 December amounted to 9,588 million.

Research and development activities

The Parent Company, in view of the nature of the activity performed, does not carry out any R&D activity.

Secondary offices

Starting from 1 July 2015, the Parent Company has had a secondary office in Via Versilia, 2 (00187 Rome), which acts as an administration office.

Social and environmental responsibility

Code of Conduct

CDP RETI, also with reference to its vision in terms of social and environmental responsibility, has adopted specific rules of conduct by transposition of the "Code of Ethics of Cassa Depositi e Prestiti S.p.A. and of Companies subject to management and coordination".

The Code of Ethics has the objective of declaring and disseminating the values and rules of conduct which the Company intends to refer to in the exercise of its business activities and governs the set of rights, duties and responsibilities that the Company expressly takes vis-a-vis the stakeholders with which it interacts in the course of its activities.

The set of ethical principles and values expressed in the Code of Ethics must underlie the activity of all those who in any way act in the interests of the Company.

Human Resources

<u>Health and Safety</u>: In 2015 the company initiated the obligations imposed by Legislative Decree no. 81/2008 (Consolidated Law on Occupational Health and Safety) both to comply with legal requirements as well as for

the purposes of improvement of the process of development of the company culture and knowledge and awareness of the centrality of occupational safety. In this context, the documents provided for by law were prepared, in order to map the business risks and put in place the preventive measures; to such effect, the RAD (Risk Assessment Document; this document aims to make a global and documented assessment of all risks to the health and safety related to the company) together with its annexes and the Emergency and Evacuation Plan (fire safety and risk assessment plan with regard to workplaces) were prepared. CDP RETI S.p.A., moreover, as at 31 December 2015, had all the figures required by Legislative Decree 81/2008; some of these, such as the Employer, the Workers' Safety Representative and the Emergency and First Aid Officers are in-house, whereas others, such as the Health and Safety Manager and the Company Doctor were identified outside the company. Finally, in accordance with the Consolidated Act mentioned above, staff undergo training courses.

During 2015 no occupational accidents were recorded.

8. REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE OF CDP RETI PURSUANT TO ARTICLE 123-BIS.2 B) OF THE CONSOLIDATED LAW ON FINANCIAL INTERMEDIATION (TUF)

Key characteristics of the risk and internal control management systems with regard to the financial reporting process

The CDP RETI Group is aware that financial reporting plays a central role in establishing and maintaining positive relationships between the Company and its stakeholders. The internal control system, which oversees the Company's reporting processes, is set up – including at Group level – in such a way as to ensure that information is reliable, accurate and timely, in compliance with the applicable accounting standards.

The Company's control system is structured to comply with the model adopted in the CoSO Report[6] and is subdivided into five components (control environment, risk assessment, control activity, information and communications, and monitoring) which, depending to their characteristics, operate at the organizational unit and/or operating/administrative process level. In line with the model, the controls are monitored on a periodic basis in order to assess their operational effectiveness and efficiency over time.

The control model is based on an initial company-wide analysis of the control system in order to verify that the environment is, generally speaking, organised to reduce the risk of error or improper conduct with regard to the disclosure of accounting and financial information.
This analysis is undertaken by verifying the presence of appropriate elements, ranging from adequate governance systems to ethical an appropriate risk management policy etc.

[6] Committee of Sponsoring Organisations of the Treadway Commission.

At the process level, the approach consists of an assessment phase to identify specific risks which, if the risk event were to occur, might prevent the rapid and accurate identification, measurement, processing and representation of corporate events in the accounts. This process involves the development of risk and control association matrices that are used to analyse processes on the basis of their risk profiles and the associated control activities.

The process level analysis is structured as follows:

- an initial phase identifies risks and defines control objectives in order to mitigate those risks;
- a second phase regards identification and evaluation of controls by: (i) identifying the type of control; (ii) evaluating the potential effectiveness of the control activity in risk mitigation terms; (iii) assessment/presence of control record; (iv) formulation of an overall judgement by correlating the control’s potential effectiveness and the traceability of the control; (v) identification of key controls;
- the third phase consists of identifying areas of improvement regarding the control: (i) traceability of the control; (ii) design of the control.

Monitoring the effective operation of the control system is another key component of the CoSO Report; this activity is carried out on a regular basis, addressing the periods covered by the reporting.

The CDP RETI monitoring phase is structured as follows:

- sampling of items for testing;
- test execution;
- weighting of any anomalies detected, and an associated assessment.

Within the CDP RETI Group, the Board of Directors and Board of Auditors are periodically informed of assessments of the internal control system and on the results of tests carried out, in addition to any shortfalls emerging and the initiatives taken for their resolution.

To enable the Financial Reporting Manager and the administrative bodies delegated by the Parent Company to issue the certification pursuant to Article 154-bis of the Consolidated Law on Financial Intermediation, a flow of information to the Financial Reporting Manager of the Parent Company was established, comprising the intra-Group "chain" certification system, which use the standard certification established by Consob

Independent auditors

CDP RETI's financial statements are audited by PricewaterhouseCoopers S.p.A. ("PwC"). During the course of the financial year, the independent auditors are responsible for verifying that the Company keeps its accounts properly and that it appropriately records events that occur during the year in the Company's accounts. Furthermore, the independent auditors check that the individual and consolidated financial statements are consistent with the records in the accounts and audits conducted, and that these documents comply with applicable regulations.

The independent auditors issue an opinion on the individual and consolidated financial statements, and on the half-year interim report. The independent auditors are appointed by the Shareholders' Meeting in ordinary session, acting on a reasoned proposal put forward by the control body. The current independent auditors were appointed in execution of a resolution of the June 2015 Shareholders' Meeting, which engaged that firm to audit the financial statements and accounts for the 2015 - 2023 period.

Manager responsible for the preparation of the company's financial reports

As noted, following the bond issue in May 2015 listed on the Irish Stock Exchange, CDP RETI acquired the status of listed Issuer with Italy as Member

State of origin and, therefore, was required, pursuant to Art. 154 – bis of the Consolidated Financial Act, to appoint a Financial Reporting Manager.

For more information on the experience requirements and methods for appointing and substituting the Financial Reporting Manager, the provisions of Article 19.13 of CDP RETI's Articles of Association are reported below.

Article 19.13 CDP RETI Articles of Association

The board of directors appoints, subject to the prior favorable opinion of the board of statutory auditors, for a term not lower than the term of office of the same board and not higher than six fiscal years, the manager responsible for the preparation of the corporate accounting documents who shall carry out the tasks and activities provided by art. 154-bis of legislative decree 24 February 1998, n. 58. The manager responsible for the preparation of the corporate accounting documents must possess the requisites of honorability prescribed for directors and cannot hold the offices listed in Paragraph 15.11 of the By-Laws[7]. The manager responsible for the preparation of the corporate accounting documents must be chosen based on criteria of professionalism and competence among persons who have at least three-year experience in the administrative area of companies, consulting firms or professional firms. The manager responsible for the preparation of the corporate accounting documents may be revoked by the board of directors, subject to prior consultation with the board of statutory auditors, only for just cause. The manager responsible for the preparation of the corporate accounting documents automatically ceases from office in the absence of the requisites prescribed for the office. The forfeiture is declared by the board of directors within thirty days from the knowledge of the lack of requisites.

[7] Not entitled to hold any office in the management or control bodies, or management positions, in Eni S.p.A. and its subsidiaries, nor to have any direct or indirect relationship of a professional or economic nature with these companies.

Consolidated Financial Statements

at 31 December 2015

STRUCTURE AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2015

These Consolidated Financial Statements are prepared in compliance with the provisions of international accounting standards, and consists of:

- **CONSOLIDATED BALANCE SHEET**
- **CONSOLIDATED INCOME STATEMENT**
- **STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME**
- **STATEMENT OF CHANGES IN CONSOLIDATED EQUITY**
- **CONSOLIDATED STATEMENT OF CASH FLOWS**
- **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

The Notes consist of the following:

INTRODUCTION

I - Basis of presentation and accounting policies

II - Information on the balance sheet

III - Information on the income statement

IV - Business combinations

V - Transactions with related parties

VI - Information on risks and related hedging policies

VII - Segment reporting

VIII Guarantees and commitments

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2015

Consolidated balance sheet

Consolidated income statement

Consolidated statement of comprehensive income

Consolidated statement of changes in equity

Consolidated cash flow statement

(thousands of euros)

CONSOLIDATED BALANCE SHEETS

Notes	Assets	31/12/2015	31/12/2014
	NON-CURRENT ASSETS		
A1	Property, plant and equipment	33,235,235	32,060,561
A2	Inventories - compulsory stock	362,713	362,713
A3	Intangible assets	7,824,399	7,703,589
A4	Equity investments	1,546,517	1,575,744
A5	Non-current financial assets	774,709	792,382
A6	Deferred tax assets	623,914	729,131
A7	Other non-current assets	143,396	171,578
	Total non-current assets	**44,510,883**	**43,395,698**
A14	**Non-current assets held for sale**	24,479	23,783
	CURRENT ASSETS		
A8	Current financial assets	72,539	281,188
A9	Income tax receivables	88,078	73,797
A10	Trade receivables	3,050,379	3,306,217
A11	Inventories	163,968	176,838
A12	Other current assets	409,918	307,618
A13	Cash and cash equivalents	820,708	1,483,589
	Total current assets	**4,605,590**	**5,629,247**
	TOTAL ASSETS	**49,140,952**	**49,048,728**

(thousands of euros)

CONSOLIDATED BALANCE SHEETS

Notes	Liabilities and equity	31/12/2015	31/12/2014
P1	**EQUITY**		
	Share capital	162	162
	Issue premium	1,315,158	1,315,158
	Reserves	2,511,985	2,310,653
	Valuation reserves	(7,726)	(6,471)
	Treasury shares		
	Interim dividend		
	Net income for the period (+/-)	518,991	367,071
	Group equity	**4,338,570**	**3,986,573**
	Minority interests	11,236,673	10,771,160
	Total Equity	**15,575,243**	**14,757,733**
	NON-CURRENT LIABILITIES		
P2	Provisions	974,599	1,223,082
P3	Provisions for employee benefits	271,647	287,276
P4	Loans	21,081,982	20,469,809
P5	Other financial liabilities	12,435	38,420
P6	Deferred tax liabilities	3,110,056	3,685,059
P7	Other non-current liabilities	416,527	396,707
	Total non-current liabilities	**25,867,246**	**26,100,353**
P13	**Liabilities directly attributable for available-for-sale assets**	6,782	7,249
	CURRENT LIABILITIES		
P8	Current portion of long-term loans	1,510,320	1,763,788
P9	Trade payables	2,863,954	2,920,200
P10	Income tax liabilities	16,787	2,315
P11	Current financial liabilities	1,894,845	2,215,897
P12	Other current liabilities	1,405,775	1,281,193
	Total current liabilities	**7,691,681**	**8,183,393**
	TOTAL LIABILITIES AND EQUITY	**49,140,952**	**49,048,728**

(thousands of euros)

CONSOLIDATE INCOME STATEMENT

Notes	Income statement items	31/12/2015	31/12/2014
A	**REVENUES**		
A1	Revenues from sales and services	5,868,117	3,784,464
A2	Other revenues and income	183,936	98,207
	Total revenues	**6,052,053**	**3,882,671**
B	**OPERATING COSTS**		
B1	Raw materials and consumables used	(275,744)	(123,402)
B2	Services	(664,845)	(534,891)
B3	Staff costs	(637,995)	(344,522)
B4	Amortisation, depreciation and impairment	(1,686,523)	(1,037,866)
B5	Other operating costs	(142,801)	(116,953)
	Total costs	**(3,407,908)**	**(2,157,634)**
A - B	**OPERATING PROFIT**	**2,644,145**	**1,725,037**
C	**FINANCIAL INCOME (EXPENSE)**		
C1	Financial income	25,908	21,126
C2	Borrowing expenses	(570,898)	(419,438)
C3	Portion of income (expenses) from equity investments valued with the equity method	135,610	80,573
D	**INCOME BEFORE TAXES**	**2,234,765**	**1,407,298**
E	Taxes for the year	(414,824)	(128,329)
F	**NET INCOME FROM CONTINUOUS OPERATIONS**	**1,819,941**	**1,278,969**
G	Net income from discontinued operations	7,283	0
F	**NET INCOME**	**1,827,224**	**1,278,969**
	for		
	- the Group	518,991	367,071
	- Minority interests	1,308,233	911,898

(thousands of euros)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Items	31/12/2015	31/12/2014
1	**Net income (loss) for the year**	**1,827,224**	**1,278,969**
	Other comprehensive income net of taxes not transferred to income statement		
2	Property, plant and equipment		
3	Intangible assets		
4	Defined benefit plans	16,310	(10,997)
5	Non-current assets held for sale		
6	Share of valuation reserves of equity investments accounted for using equity method	0	(2,118)
	Other comprehensive income net of taxes transferred to income statement		
7	Hedging of foreign investments		
8	Exchange rate differences	6,953	7,574
9	Cash flow hedges	18,612	(1,841)
10	Financial assets available for sale		
11	Non-current assets held for sale		
12	Share of valuation reserves of equity investments accounted for using equity method	3,944	0
13	**Total other comprehensive income net of taxes**	**45,819**	**(7,382)**
14	**Comprehensive income (item 1+13)**	**1,873,043**	**1,271,587**
15	Consolidated comprehensive income attributable to minority interests	1,342,230	906,656
16	**Consolidated comprehensive income attributable to shareholders of the parent company**	**530,813**	**364,931**

(thousands of euros)

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME: pertaining to the shareholders of the parent company and minority interests

	Items	31/12/2015			31/12/2014		
		pertaining to shareholders of the parent company	**pertaining to minority interests**	**Total**	**pertaining to shareholders of the parent company**	**pertaining to minority interests**	**Total**
1	**Net income (loss) for the year**	**518,991**	**1,308,233**	**1,827,224**	**367,071**	**911,898**	**1,278,969**
	Other comprehensive income net of taxes not transferred to income statement						
2	Property, plant and equipment						
3	Intangible assets						
4	Defined benefit plans	4,842	11,468	16,310	(3,188)	(7,809)	(10,997)
5	Non-current assets held for sale						
6	Share of valuation reserves of equity investments accounted for using equity method				(614)	(1,504)	(2,118)
	Other comprehensive income net of taxes transferred to income statement						
7	Hedging of foreign investments						
8	Exchange rate differences	2,017	4,936	6,953	2,196	5,378	7,574
9	Cash flow hedges	3,820	14,792	18,612	(534)	(1,307)	(1,841)
10	Financial assets available for sale						
11	Non-current assets held for sale						
12	Share of valuation reserves of equity investments accounted for using equity method	1,143	2,801	3,944			
13	**Total other comprehensive income net of taxes**	**11,822**	**33,997**	**45,819**	**(2,140)**	**(5,242)**	**(7,382)**
14	**Comprehensive income (item 1+13)**	**530,813**	**1,342,230**	**1,873,043**	**364,931**	**906,656**	**1,271,587**

(thousands of euros)

STATEMENT OF CHANGES IN EQUITY: CURRENT PERIOD

	31/12/2014	Changes in opening balance	01/01/2015	Allocation of net income for previous year		Changes for the period										Total equity at 31.12.2015	Group equity at 31.12.2015	Equity non-controlling interests at 31.12.2015
						Changes in reserves	Equity transactions								Comprehensive income for 2015			
				Reserves	Dividends and other allocations		Issues of new shares	Purchase of own shares	Interim dividends	Special dividend distribution	Changes in equity instruments	Derivatives on own shares	Stock options	Change in equity interests				
Share capital:	2,935,512	0	2,935,512	0	0	0	0	0		0	0	0	0	0	0	2,935,512	162	2,935,350
a) ordinary shares	2,935,512		2,935,512													2,935,512	162	2,935,350
b) preference shares	0		0													0		0
Share premium reserve	2,536,578		2,536,578			(68,186)										2,468,392	1,315,158	1,153,234
Reserves:	8,161,806	0	8,161,806	369,919	(183,299)	92,780	0	0		0	0	0	0	25,299	0	8,466,505	2,511,985	5,954,520
a) income	6,141,455		6,141,455	369,919	(183,299)	92,780								25,299		6,446,154	485,043	5,961,111
b) other	2,020,351		2,020,351													2,020,351	2,026,942	(6,591)
Valuation reserves	(53,051)		(53,051)			(13,077)									45,819	(20,309)	(7,726)	(12,583)
Treasury shares	(3,382)		(3,382)													(3,382)		(3,382)
Interim dividend	(98,699)		(98,699)	98,699					(98,699)							(98,699)		(98,699)
Net income (loss) for the year	1,278,969		1,278,969	(468,618)	(810,351)										1,827,224	1,827,224	518,991	1,308,233
Total Equity	**14,757,733**	**0**	**14,757,733**	**0**	**(993,650)**	**11,517**	**0**	**0**	**(98,699)**	**0**	**0**	**0**	**0**	**25,299**	**1,873,043**	**15,575,243**	**4,338,570**	**11,236,673**
Group equity	3,986,573		3,986,573		(189,097)	10,282									530,813	4,338,570		
Equity non-controlling interests	10,771,160		10,771,160		(804,553)	1,235			(98,699)					25,299	1,342,230	11,236,673		

(thousands of euros)

STATEMENT OF CHANGES IN EQUITY: PREVIOUS FINANCIAL YEAR

	31/12/2013	Changes in opening balance	01/01/2014	Allocation of net income for previous year		Changes for the period										Total equity at 31.12.2014	Group equity at 31.12.2014	Equity non-controlling interests at 31.12.2014
						Changes in reserves	Equity transactions								Comprehensive income for 2014			
				Reserves	Dividends and other allocations		Issues of new shares	Purchase of own shares	Interim dividends	Special dividend distribution	Changes in equity instruments	Derivatives on own shares	Stock options	Change in equity interests				
Share capital:	2,499,401	0	2,499,401	0	0	0	88,008	0		0	0	0	0	348,103	0	2,935,512	162	2,935,350
a) ordinary shares	2,499,401		2,499,401				88,008							348,103		2,935,512	162	2,935,350
b) preference shares			0											0		0	0	0
Share premium reserve	925,025		925,025			1,552	1,578,497							31,504		2,536,578	1,315,158	1,221,420
Reserves:	6,661,510	0	6,661,510	(94,222)	0	(1,437,483)	131,379	665		0	0	0	0	2,899,957	0	8,161,806	2,310,653	5,851,153
a) income	4,120,156		4,120,156	(94,136)		60,132	131,379	665						1,923,259		6,141,455	280,732	5,860,723
b) other	2,541,354		2,541,354	(86)		(1,497,615)	0	0						976,698		2,020,351	2,029,921	(9,570)
Valuation reserves	(14,939)		(14,939)											(30,730)	(7,382)	(53,051)	(6,471)	(46,580)
Interim dividend	(236,542)		(236,542)	236,542										(98,699)		(98,699)		(98,699)
Treasury shares	(4,884)		(4,884)					1,551						(49)		(3,382)		(3,382)
Net income (loss) for the year	781,463		781,463	(142,320)	(639,143)										1,278,969	1,278,969	367,071	911,898
Total Equity	**10,611,034**	**0**	**10,611,034**	**0**	**(639,143)**	**(1,435,931)**	**1,797,884**	**2,216**	**0**	**0**	**0**	**0**	**0**	**3,150,086**	**1,271,587**	**14,757,733**	**3,986,573**	**10,771,160**
Group equity	3,735,290		3,735,290		(284,324)	(1,442,507)	1,460,091	665						152,427	364,931	3,986,573		
Equity non-controlling interests	6,875,744		6,875,744		(354,819)	6,576	337,793	1,551						2,997,659	906,656	10,771,160		

(thousands of euros)

CASH FLOW STATEMENT	**31/12/2015**	**31/12/2014**
Net income	1,827,224	1,278,969
Adjustments to net income to reflect cash flow from operating activities:		
Amortisation and depreciation	1,671,379	1,031,654
Net writedowns (revaluations) of property, plant and equipment and intangible assets	48,165	6,212
Effect of accounting using the equity method	(135,086)	(131,750)
Net losses (gains) on disposals, cancellations and eliminations of assets	30,960	70,906
Interest income	(21,283)	(19,174)
Interest expense	510,661	352,921
Income taxes	427,541	128,329
Changes in capital over the year:		
- Inventories	63,785	(17,430)
- Trade receivables	66,224	65,500
- Trade payables	(80,484)	(154,501)
- Provisions	(24,440)	23,186
- Other assets and liabilities	138,832	24,818
Cash flow from working capital	163,917	(58,427)
Change in provisions for employee benefits	(17,400)	(1,849)
Dividends received	140,821	98,793
Interest received	139,576	2,432
Interest paid	(663,151)	(346,470)
income taxes paid net of tax credits reimbursed	(926,185)	(865,836)
Cash flow from operating activities	3,197,139	1,546,710
- with related parties		
Investing activities:		
- Property, plant and equipment	(2,523,620)	(916,941)
- Intangible assets	(481,994)	(366,160)
- Companies in the scope of consolidation and business units	(79,451)	1,212,122
- Equity investments	(142,905)	(5,373)
- Change in payables and receivables relative to investing activities	(59,092)	54,324
Cash flow from investing activities	(3,287,062)	(22,028)
Divestments:		
- Property, plant and equipment	8,980	3,063
- Intangible assets	191	0
- Equity investments	146,644	7,263
- Change in payables and receivables relative to divestments	(398)	1,804
Cash flow from divestments	155,417	12,130
Net cash flow from investing activities	(3,131,645)	(9,898)
- with related parties		
Assumption of long-term financial debt	2,044,407	3,471,452
Repayments of long-term financial debt	(1,619,205)	(1,474,028)
Increase (decrease) in short-term financial debt	(303,104)	(6,830)
Decrease (increase) of financing receivables for non-operating purposes	216,181	(216,181)
	338,279	1,774,413
Net equity capital injections	25,697	(1,485,419)
Dividends distributed to shareholders	(1,092,351)	(597,230)
Net cash flow from financing activities	(728,375)	(308,236)
- with related parties	0	0
Net cash flow for the period	(662,881)	1,228,576
Cash and cash equivalents at start of year	1,483,589	255,013
Cash and cash equivalents at end of year	820,708	1,483,589

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

INTRODUCTION

STRUCTURE AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the CDP RETI Group (hereinafter also the "Group") have been prepared based on IAS/IFRS and include the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the notes to the financial statements, and are accompanied by the Director's report on operations.

CDP RETI SPA is required to prepare consolidated financial statements in compliance with international accounting standards (IFRS 10). The exception resulting from the fact that it is a sub-holding company owned by a holding company (Cassa Depositi e Prestiti S.p.A.), which in turn prepares consolidated financial statements, in fact, does not apply to entities that issue debt securities listed on a regulated market.

The financial statements present a clear, true and fair view of the Group's financial position and performance of operations.

All figures in the financial statements and in the tables in the notes are in thousands of euros.

In the income statement, revenues are indicated without a sign, while costs are shown in parentheses.

The rounded totals for the various figures are obtained by summing the rounded balances of the items making up such totals.

AUDITING OF THE FINANCIAL STATEMENTS

The financial statements of CDP Reti Group are audited by the independent auditors PricewaterhouseCoopers S.p.A.

I – BASIS OF PRESENTATION AND ACCOUNTING POLICIES

I.1. GENERAL INFORMATION

I.1.1. Declaration of conformity to International Accounting Standards

These financial statements have been prepared in accordance with IAS/IFRS issued by the IASB (including the interpretation documents SIC and IFRIC) endorsed by the European Commission, taking into account the minimum reporting requirements established by the Italian Civil Code, where compatible with the standards adopted.

I.1.2. Basis of presentation

The financial statements have been prepared in accordance with the IFRS issued by the IASB (including the SIC and IFRIC interpretations) endorsed by the European Commission pursuant to Regulation (EC) 1606 of 19 July 2002.

For the purposes of interpretation and to provide support in applying these standards, the following documents have also been considered, although they have not been endorsed by the European Commission:

- the Framework for the Preparation and Presentation of Financial Statements (issued by the International Accounting Standards Board in 2001);
- Implementation Guidance, Basis for Conclusions, IFRIC interpretations, and any other documentation prepared by the IASB or IFRIC to supplement the IFRS;
- Interpretation documents concerning the application of the IAS/IFRS in Italy, prepared by the *Organismo Italiano di Contabilità* (Italian Accounting Board; OIC).

Where the information required by international accounting standards is considered inadequate for providing a true and fair view, the notes to the financial statements also include additional information for such purpose.

New accounting standards applicable to financial statements for the year ended 31 December 2015

As required by IAS 8 (Accounting policies, changes in accounting estimates and errors) details of the new international accounting standards, or amendments to standards already in force, whose application became mandatory from 1 January 2015, are provided below.

- Endorsement Commission Regulation EU 634/2014 adopting IFRIC 21 - Levies. This Interpretation addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37 (Provisions, Contingent Liabilities and Contingent Asset). It also addresses the accounting for a liability to pay a levy whose timing and amount are uncertain.

- Commission Regulation (EU) 1361/2014 of 18 December 2014, published in the Italian Official Gazette as Law 365 of 19 December 2014 amending certain international accounting standards: IFRS 3, IFRS 13 and IAS 40. The amendments apply to the following accounting standards:
    - IFRS 3 Business combinations
      the amendment clarifies that the scope of application of IFRS 3 excludes the establishment of any type of joint arrangement as defined by IFRS 11;
    - IFRS 13 Fair value measurement
      the amendment clarifies that the exception under paragraph 48 of IFRS 13, pertaining to the possibility of measuring the fair value of a net position - in the event there are financial assets and liabilities with offsetting position in market risk or credit risk- applies to all contracts that fall into the scope of application of IAS 39 -and of IFRS 9 in future- irrespective of whether they fulfil the definition of

financial assets or liabilities provided in IAS 32;

- IAS 40 Investment property

  the amendment clarifies that IFRS 3 and IAS 40 are not mutually exclusive and that, in order to determine whether the purchase of a property falls within the scope of application of IFRS 3 or IAS 40, it is necessary to refer to the specific guidelines provided by the respective standards. As a matter of fact, an assessment is required in order to establish whether the purchase of a property investment represents the purchase of an asset, a group of assets or even a business combination pursuant to IFRS 3.

New accounting standards and interpretations already issued and approved by the European Union but not yet in force:

Listed below are the new standards and interpretations already issued but not yet in force and therefore not applicable to the preparation of the financial statements at 31 December 2015 (unless, where permitted, it is chosen to adopt them in advance):

- Endorsement Regulation EU 28/2015: Improvements to international accounting standards, 2010-2012 Cycle. The objective of the annual improvements is to address the relevant topics relating to inconsistencies identified in the IFRS or to clarify wording, which are not urgent in nature, but were discussed by the IASB during the project cycle started in 2011. In some cases the amendments represent clarifications or changes to the standards in question (IFRS 8, IAS 16, IAS 24 and IAS 38), and in other cases the amendments result in changes to the existing provisions or provide additional guidance concerning their application (IFRS 2 and 3).

- Commission Regulation (EU) 29/2015 of 17 December 2014, published in the Italian Official Gazette as Law 5 of 9 January 2015, adopting Amendments to IAS 19 – Defined benefit plans: Employee contributions.

The amendment to IAS 19 was needed to simplify the accounting, under particular conditions, for defined benefit plans that involve contributions from employees or third parties. If certain conditions are not met, the recognition of those contributions becomes more complex because they must be allocated to the individual periods of the plan through the actuarial calculation of the related liability.

- Commission Regulation (EU) 2015/2113 of 23 November 2015, published in the Official Journal L 306 of 24 November, adopting Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture - Agriculture: bearer plants. The IASB decided that plants, which are used solely to grow produce over several periods, known as bearer plants, should be accounted for in the same way as property, plant and equipment in IAS 16 Property, Plant and Equipment, because their operation is similar to that of manufacturing.

- Commission Regulation (EU) 2015/2173 of 24 November 2015, published in the Official Journal L 307 of 25 November, adopting Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations. The amendments provide guidance on accounting of acquisitions of interests in joint operations that constitute a business.

- Commission Regulation (EU) 2015/2231 of 2 December 2015, published in the Official Journal L 317 of 3 December, adopting Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets: Clarification of acceptable depreciation methods*. The amendment in question clarifies the appropriateness of a depreciation method based on revenues, i.e. on a depreciation plan for property, plant and equipment and intangible assets on the basis of the revenues generated by their use.

- Commission Regulation (EU) 2015/2343 of 15 December 2015, published in the Official Journal L 330 of 16 December, adopting the *IFRS - Annual* *improvements cycle 2012-2014*, in the context of normal rationalisation and clarification of the International accounting standards. The amendments included in the 2012-2014 improvements cycle concern: IFRS 5, IFRS 7, IAS 19, IAS 34 and IFRS 15.

- Commission Regulation (EU) 2015/2406 of 18 December 2015, published in the Official Journal L 333 of 19 December, adopting Amendments to IAS 1 – Presentation of Financial Statements: Disclosure initiative. The amendments aim at improving the effectiveness of the disclosure and to encourage companies to determine the information to be included in the financial statements within the scope of application of IAS 1 with professional judgement.

- Commission Regulation (EU) 2015/2441 of 18 December 2015, published in the Official Journal L 336 of 23 December, adopting Amendments to IAS 27 Separate Financial Statements: Equity Method in Separate Financial Statements. The changes are intended to allow entities to apply the equity method, described in IAS 28 Investments in associates and joint ventures for accounting investments in subsidiaries, joint ventures and associates in their separate financial statements.

IFRS that will enter into force as of the reporting periods beginning after 1 January 2016 but are not yet endorsed by the European Union

At the date of approval of these Financial Statements, certain accounting principles, interpretations and amendments were issued by the IASB, but were yet to be transposed into EU Law, including:

- IFRS 14 regulatory deferral accounts;
- IFRS 9, ‘Financial instruments’;
- IFRS 15, ‘Revenue from Contracts with Customers’;
- IFRS 16 Leases;

- Amendments to IFRS 10 Consolidated financial statements and IAS 28, Investments in associates and joint ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidation Exception (issued on 18 December 2014);
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses.

The consolidated financial statements have been prepared on an accruals and going-concern basis. The general principles of the materiality and significance of information and the prevalence of substance over form have also been taken into account.
In compliance with IAS 1 Revised, CDP RETI has conducted an assessment of the Company's ability to continue to operate as a going concern, considering all available information over the medium term.
Based on analysis of this information, CDP RETI considers it appropriate to prepare the reporting package on a going-concern basis.
No assets have been offset against liabilities, or revenues against costs, unless expressly required or allowed by accounting standards or a related interpretation.

I.1.3. SCOPE AND METHODS OF CONSOLIDATION

These Consolidated Financial Statements include the Financial Statements of CDP Reti and its subsidiaries.

Starting from 2007, the parent company CDP S.p.A has ascertained its de facto control over TERNA. The existence of de facto control was also confirmed following the transfer of TERNA from CDP to CDP RETI, which took place in October 2014. Consequently, as of that date CDP RETI has proceeded to the full line-by-line consolidation of TERNA. Taking into account the fact that TERNA's financial statements were not available on the date the transaction became effective, and that the transaction was finalised near the end of the financial year, only assets and liabilities were consolidated at 31 December 2014. These consolidated financial statements at 31 December 2015 also include the financial performance of TERNA which, for purposes above mentioned, is not included for comparative purposes in the income statement figures at 31 December 2014.

In relation to the equity investment in SNAM, in consideration of:

- the number of voting rights held in absolute terms;
- the number of these voting rights as a proportion of all shareholders, i.e. the absence for SNAM of any major shareholders or shareholders' agreements;
- the outcomes of recent meetings;
- the opportunity of appointment of the majority of the Board of Directors;

CDP found that, subsequent also to discussions with Consob, that there was sufficient evidence of the existence of de facto control, in accordance with IFRS 10. Consequently, as of financial year 2014, the equity investment in SNAM has been consolidated on full line-by-line basis in the consolidated financial statements of the CDP Group. Therefore, in line with the shareholders' agreements signed by CDP and SGEL, which provide for the CDP RETI group to use the same methods of consolidation adopted by CDP, SNAM is consolidated on a full line-by-line basis in these consolidated financial statements.

The following table shows the list of equity investments included in the full line by line consolidation:

EQUITY INVESTMENTS IN SUBSIDIARIES

	Name	Operating office	Registered office	Type of relationship (1)	Equity investment		% of votes (2)
					Investor	% holding	
1	Terna S.p.a.	Rome	Rome	1	CDP RETI S.p.A.	29.85%	29.85%
2	Terna Rete Italia S.r.l.	Rome	Rome	1	Terna S.p.a.	100%	100%
3	Terna Rete Italia S.p.a.	Rome	Rome	1	Terna S.p.a.	100%	100%
4	Terna Plus S.r.l.	Rome	Rome	1	Terna S.p.a.	100%	100%
5	Terna Storage S.r.l.	Rome	Rome	1	Terna S.p.a.	100%	100%
6	TERNA CRNA GORA D.O.O.	Podgorica	Podgorica	1	Terna S.p.a.	100%	100%
7	Terna Interconnector S.r.l.	Rome	Rome	1	Terna S.p.a.	65%	65%
				1	Terna Rete Italia S.p.a.	5%	5%
8	V.T.D. Trasformatori S.r.l.	Valdagno (VI)	Valdagno (VI)	1	Tamini Trasformatori S.r.l.	100%	100%
9	Tamini Transformers USA L.L.C.	Chicago (USA)	Chicago (USA)	1	Tamini Trasformatori S.r.l.	100%	100%
10	Tamini Trasformatori S.r.l.	Melegnano (MI)	Melegnano (MI)	1	Terna Plus S.r.l.	70%	70%
11	TES Transformer Electro Service Asia Private Limited	Magarpatta City, Hadapsar, Pune	Magarpatta City, Hadapsar, Pune	1	TES Transformer Electro Service S.r.l.	100%	100%
12	Piemonte Savoia S.r.l.	Rome	Rome	1	Terna Interconnector S.r.l.	100%	100%
13	Monita Interconnector S.r.l.	Rome	Rome	1	Terna S.p.a.	95%	95%
				1	Terna Rete Italia S.p.a.	5%	5%
14	Terna Chile S.p.A.	Santiago (Chile)	Santiago (Chile)	1	Terna Plus S.r.l.	100%	100%
15	Rete S.r.l.	Rome	Rome	1	Terna S.p.a.	100%	100%
16	TES Transformer Electro Service S.r.l.	Ospitaletto (BS)	Ospitaletto (BS)	1	Tamini Trasformatori S.r.l.	100%	100%
17	SNAM S.p.A.	San Donato Milanese (MI - ITALY)	San Donato Milanese (MI - ITALY)	1	CDP RETI S.p.A.	28.98%	28.98%
18	ACAM GAS S.p.A.	La Spezia	La Spezia	1	Italgas S.p.A.	100%	100%
19	Azienda Energia e Servizi Torino S.p.A.	Turin	Turin	1	Italgas S.p.A.	100%	100%
20	Gasrule Insurance Ltd	DUBLIN	Dublin	1	SNAM S.p.A.	100%	100%
21	GNL Italia S.p.A.	San Donato Milanese	San Donato Milanese	1	SNAM S.p.A.	100%	100%
22	Italgas S.p.A.	Turin	Turin	1	SNAM S.p.A.	100%	100%
23	SNAM RETE GAS S.p.A.	San Donato Milanese	San Donato Milanese	1	SNAM S.p.A.	100%	100%
24	Stogit S.p.A.	San Donato Milanese	San Donato Milanese	1	SNAM S.p.A.	100%	100%
25	Napoletana Gas SpA	Naples	Naples	1	Italgas S.p.A.	99.69%	99.69%

Key
(1) Type of relationship:
1 = Majority of voting rights in ordinary shareholders' meeting
2 = Dominant influence in ordinary shareholders' meeting
3 = Agreements with other shareholders
4 = Other form of control
5 = Unitary management pursuant to Article 26.1 of Legislative Decree 87/92
6 = Unitary management pursuant to Article 26.2 of Legislative Decree 87/92
(2) Actual percentage of votes in ordinary shareholders' meeting, distinguishing between effective and potential votes

The financial statements of the subsidiary is used for the full line-by-line consolidation of those relating to 31 December 2015, as approved by the competent bodies of the consolidated companies, adjusted where necessary to bring them into line with the Group's accounting policies.

Full consolidation involves the line-by-line incorporation of the aggregates of the Balance sheets and Income statements of subsidiaries. After the allocation to non-controlling interests, reported as a separate item, of their share of equity and net income, the value of the equity investment is cancelled against the residual value of the equity of the subsidiary.

Assets, liabilities, income and expenses between consolidated companies are totally eliminated.

I.1.4. Events subsequent to the reporting date of the consolidated financial statements

During the period between the reporting date for these financial statements and their approval by the Board of Directors, no events occurred that would require an adjustment to the figures approved.

A more detailed analysis of accrued events can be found in "Significant Events after 31 December 2015" of the Report on Operation.

I.1.5. OTHER ISSUES

USE OF ESTIMATES

The application of international accounting standards in preparing the consolidated financial statements requires the company to formulate estimates for certain balance sheet items that are considered reasonable and realistic on the basis of the information available at the time the estimate is made. Such estimates impact the carrying amount of the assets and liabilities and the disclosures on contingent assets and liabilities as of the reporting date, as well as the amounts reported for revenues and costs for the period under review. Changes in the conditions underlying the judgements, assumptions and estimates used could also have an impact on future results.
The main items estimated at the reporting date of these consolidated financial statements are attributable to the following:

- current and deferred taxes;
- recoverable amount of equity investments;
- assessment of the fair value of goodwill and other intangible assets;
- employee benefits;
- provisions;
- provision for bad debts.

ACCOUNTING OF TRANSACTIONS BETWEEN COMPANIES BELONGING TO THE GROUP

According to IAS 8, and in the absence of a Standard or an Interpretation that specifically applies to a transaction, other event or condition, management must use its judgement in developing and applying an accounting policy that results in information that is relevant and reliable.
Transactions among entities under common control are therefore accounted using values of the acquired entity in the holding company.

For this reason, the conferral of TERNA from CDP to CDP RETI has been accounted keeping in CDP RETI consolidated financial statements the same values booked in CDP, already as from 2014.

I.2. SECTION PERTAINING TO THE MAIN ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT

The following pages provide a description of the accounting policies adopted in preparing the consolidated financial statements.

An asset or liability is classified as "**current**" when its trading, realisation or settlement is expected within twelve months from the reporting date of the consolidated financial statements or within the normal business cycle if after twelve months; all other assets and liabilities are classified as "**non-current**".

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment refers to non-current assets for long-term use in business operations.
Property, plant and equipment and other tangible assets used in operations are governed by IAS 16, while investment property (land and buildings) is governed by IAS 40.
Property, plant and equipment is recognised at purchase cost including incidental expenses directly allocable, needed to make the assets available for use.
The consolidated financial statements show the carrying amount of property, plant and equipment, net of depreciation. The depreciation rates are calculated based on rates considered adequate to reflect the remaining useful life of each asset or value, and any accumulated impairment losses. As well as any costs (discounted) of dismantling and removing the assets which will be incurred as a result of contractual obligations to restore assets to their original condition.
Newly purchased assets are depreciated starting from when they are used in the production process.
Land and buildings are treated as separate assets for accounting purposes, even if purchased together. Land is considered to have an indefinite life and, as such, is not depreciated.

Buildings are depreciated over a 40-year period, which is considered to be the useful life of the buildings.

Assets whose use or nature classifies them as capital equipment are depreciated on a straight-line basis over their remaining useful lives.

Maintenance and repair costs that do not increase the utility or useful lives of assets are charged directly to income for the year. Alternately, these costs are posted to assets when it is likely that they will increase the future economic benefits expected.

"Assets under construction and advances" are composed of advances or expenses incurred in respect of assets and materials that have not been completed or are undergoing testing before entering service. Since they have not yet entered the company's production cycle, depreciation is suspended.

ASSETS USED IN FINANCE LEASES

Leased assets, if the operation has a financial purpose, are recognised in the consolidated financial statements of the user. A financial purpose is assumed when the lease agreement substantially transfers to the lessee the main part of risks and rewards attached to the leased items. It is also presumed when the agreement, at the time of signature, establishes that the actual value of the asset at the time of exercise of the buyout option is significantly higher than the remaining price.

These include assets under finance leases (for the lessee) and operating leases (for the lessor), as well as leasehold improvement costs. In determining whether a contract contains a lease, the provisions of IFRIC 4 are applied.

INTANGIBLE ASSETS

Intangible assets are those assets without identifiable physical form which are controlled by the company and capable of producing future economic benefits, as well as goodwill, when purchased for consideration.

Intangible assets include assets pertaining to service concession agreements for the development, financing, management and maintenance of infrastructure under concession arrangements, as well as rights on infrastructure or assets for the performance of dispatching activity provided under concession agreements.

They also include industrial patent and intellectual property rights, concessions, licences, marks and similar rights, as well as development costs.

For IAS purposes, "Intangible assets" are governed by IAS 38.

Intangible assets are recognised at purchase or development cost including incidental expenses and are amortised over their estimated useful life (period of time in which it is expected that the company may use the asset), which, at the end of each year, is subject to impairment testing in order to verify the appropriateness of the estimates.

An intangible asset is only recognised under the following conditions:

a) the company can control the future economic benefits generated by the asset;
b) future economic benefits from the asset are expected to flow to the entity;
c) the cost of the asset can be measured reliably.

Intangible assets are therefore derecognised when sold or when future economic benefits are no longer expected.

Costs incurred for the purchase and development of software by third parties are amortised, usually on a straight-line basis, over the residual useful lives of the assets, which is no greater than 5 years.

Costs incurred for software development before the year in which the project is completed are capitalised when the development/implementation of the project is likely to be successful and the utility of the product extends over more than one year. In this case, the costs are amortised over a period of no more than 5

years. In the year in which the software is completed, the costs incurred and not yet amortised are imputed to the asset and the cost is amortised over 5 years.
"Assets under development and advances" are composed of advances or expenses incurred in respect of intangible assets that have not been completed or are undergoing testing before entering service. Since they have not yet entered the company's production cycle, amortisation is suspended.
Goodwill generated from the acquisition of subsidiaries is allocated to each identified cash generating unit (CGU). Following initial recognition, goodwill is not amortised but is reduced for any impairment losses. The estimate of the recoverable value of goodwill recognised uses a discounted cash flow model, which determines value in use on the basis of an estimation of future cash flows and an appropriate discount rate.
If an impairment loss, independently of amortisation, is identified, the asset is written down, with the original value being restored if the reasons for the writedown no longer apply.
Goodwill in respect of investments in associated companies and companies subject to joint control is included in the carrying amount of such companies. Negative goodwill is taken to the income statement at the time of the acquisition.

EQUITY INVESTMENTS

The item includes equity interests in joint ventures (IFRS 11) and associates subject to significant influence (IAS 28).
Joint ventures are companies in which control is shared with other parties, including on the basis of contractual agreements.
Associates are companies in which at least 20% of the voting rights are held by another company, either directly or indirectly, or, independently of the proportion of voting rights, companies over which it has significant influence, defined as the power to participate in determining financial and operating policies, but without exercising either control or joint control. Minority holdings are recognised as financial assets available for sale and are treated as described below.

Equity investments are initially recorded at cost, at the settlement date, and subsequently adjusted according to the equity method. Acquisitions are treated in the same manner as business combinations. Accordingly, the difference between the purchase price and the fraction of equity acquired is allocated on the basis of the fair value of the net identifiable assets of the associate. Any excess not allocated represents goodwill. The higher allocated price is not presented separately but is included in the carrying value of the investment (equity method).

Any positive difference between the value of the share of equity in the investee and the cost of the investment is recognised as income.

In applying the equity method, account is also taken of treasury shares held by the investee.

Where there is evidence that the value of an equity investment can be impaired, its recoverable value is determined, taking account of both its market value and the present value of future cash flows.

If this value is lower than the carrying amount, the difference is recognised in the income statement as an impairment loss. This loss is only recognised when the loss in value is significant or prolonged. Impairment losses on investments listed on active markets, unless there are additional, specifically justified reasons, shall be recognised when the impairment is deemed to be significant or prolonged. The reduction in fair value is deemed significant when it exceeds 40% of the initially recognised value, and prolonged when it continues for a period of more than 24 months.

Any losses of the investee attributed to the owner that exceed the carrying value of the investment are recorded in a specific provision to the extent to which the owner is required to respond to the legal or implicit obligations of the investee, or in any case to cover its losses.

When the reasons for the impairment losses entered no longer apply, equity investments are revalued up to the amount of the impairment losses entered with the effect posted to the income statement.

FINANCIAL ASSETS

Financial assets include:

1. Loans;
2. Financial assets held for trading;
3. Financial assets available for sale;
4. Financial assets held to maturity;
5. Hedging derivatives.

1) LOANS

Financial instruments, including debt securities, which are not listed on active markets which IAS 39 refers to as "loans and receivables", for which the company has a right to receive future cash flows are recognised as "Financial and other receivables".

Loans are recognised when the contract is executed, i.e. upon the unconditional acquisition of a right to payment of the amounts agreed, and are initially measured at fair value, which equals the amount disbursed including directly related transaction costs and commissions. Where the net amount disbursed does not equal the loan's fair value because the interest rate is lower than the market rate or the rate normally applied for similar loans, initial measurement is effected by discounting the future cash flows using an appropriate rate.

Interest on loans and on arrears is recognised as interest income and similar revenues, on an accruals basis.

The carrying amount of loans in the consolidated financial statements is subject to periodic testing for impairment that could reduce their expected realisable value.

The measurement of writedowns of loans is based on discounting the expected future cash flows of principal and interest net of collection costs, taking account of any guarantees securing the positions and any advances received. The key to determining the value of the future cash flows is in defining the estimated collections, the related timing, and the discount rate to be applied.

The impairment of problem loans is then written back only when the quality of the loan improves to the point that there is a reasonable certainty of a greater recovery of principal and interest and/or greater receipts have been recorded than the carrying amount of the loan recorded in the previous consolidated financial statements. In any event, given the method used to measure impairment losses, as the due dates for credit collection approach with the passing of time, the value of the loan is "written back", given that there is a reduction in the implicit finance costs previously recognised as a reduction in the value of the loans.

The recovery of all or a part of previously written down loans is recognised as a reduction in "Increases in the value of financial instruments".

Loans are derecognised when paid in full, when all of the related risks and rewards have been transferred, or when a loan is deemed to be definitively uncollectible. "Loans to customers" include unlisted financial assets in respect of customers (loans, debt securities, operating receivables, etc.).

2) FINANCIAL ASSETS HELD FOR TRADING

"Financial assets held for trading" refer to all financial assets, regardless of type (debt securities, equity, loans, derivatives, etc.), allocated to the trading portfolio and held for the purpose of generating profits over the short term as a result of changes in the price of such instruments, as well as the derivative contracts operationally connected with financial liabilities at fair value (under the fair value option) and derivatives with a positive value, including those resulting from the separation of embedded derivatives, that are not deemed to be effective for hedging purposes.

Financial assets held for trading meet the following prerequisites:

a) they are purchased with the intention of being sold in the short term;
b) they are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
c) they are derivatives (with the exception of derivatives that are designated and effective hedging instruments).

Such financial assets are initially recognised at fair value, which generally equals the amount paid or received net of transactions costs or income. Where the amount paid is different from the fair value, the financial asset is recognised at fair value, and the difference between the two amounts is recognised through profit or loss. Initial recognition is carried out at the signing date for derivative contracts and at the settlement date for debt and equity securities, with the exception of those for which delivery is governed by conventions on the market concerned, for which initial recognition is at the settlement date.

Financial assets held for trading also include derivative contracts embedded in other financial instruments or contracts and which have financial and risk characteristics that are not correlated with the host instrument or which meet the requirements to be classified themselves as derivative contracts, recognising them separately after separating the embedded derivative from the main contract, which is then treated in accordance with the accounting rules for its own category. This is not done in cases in which the compound instrument containing the derivative is measured at fair value through profit or loss.

The financial instruments are measured subsequently at fair value based on the official prices as of the reporting date of these consolidated financial statements if they are listed on active markets. For financial instruments, including equity, not listed on active markets, fair value is determined by using measurement techniques and information available on the market, such as the price of similar instruments on an active market, discounted cash flows, option pricing models and values registered in recent similar transactions. For equity securities and related derivative instruments, if the fair value obtained using such measurement techniques cannot be reliably determined, the financial instruments are measured at cost and written down in the event of impairment losses.

If the fair value of a financial asset becomes negative, it is recognised as a financial liability held for trading.

Financial assets held for trading are derecognised when payment is received, when the contractual rights to the cash flows expire, or a sale transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with the financial asset is retained, the asset remains on the balance sheet even if official title has been transferred.

3) FINANCIAL ASSETS AVAILABLE FOR SALE

"Financial assets available for sale" are non-derivative financial assets (debt securities, equity, etc.) that are classified as being available for sale and not as (a) loans and receivables, (b) held-to-maturity investments, or (c) financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised on the contract date for all financial assets, with the exception of those for which delivery is governed by conventions on the market concerned, for which initial recognition is carried out at the settlement date and on the disbursement date in the case of loans.

The financial assets are initially recognised at fair value, which generally equals the amount paid or received net of transactions costs or gains. Where the amount paid is different from the fair value, the financial asset is recognised at fair value, and the difference between the two amounts is recognised through profit or loss.

Unrealised gains or losses on available-for-sale securities are recorded in a specific equity reserve, net of tax effects, until the investment is sold or written down.

The financial instruments are measured subsequently at fair value based on the official prices as of the reporting date of these consolidated financial statements if they are listed on active markets. For financial instruments, including equity securities, not listed on active markets, fair value is determined by using measurement techniques and information available on the market, such as the price of similar instruments on an active market, discounted cash flows, option pricing models and values registered in recent comparable transactions. If the fair value of financial instruments not listed on active markets cannot be reliably determined, the financial instruments are measured at cost and written down in the event of impairment losses.

Available-for-sale financial assets undergo impairment testing to determine whether there is objective evidence of impairment. Where the decline in the fair value of an available-for-sale security with respect to its initial cost value is significant or long lasting, an impairment is recognised through profit or loss, regardless of other measurement considerations. To this end, the "significance" and "durability" of the reduction in fair value are measured separately, setting appropriate materiality thresholds.

When an available-for-sale security is impaired, the cumulative, unrealised change in value recorded in the equity reserve is recognised through profit or loss. The impairment is recognised when the purchase cost (net of any amortisation and repayments of principal) of an available-for-sale financial asset exceeds its recoverable amount. The amount of this loss is measured using specific valuation techniques and models for equity securities. Any writebacks of investments in equity instruments are not recognised in the income statement but in an equity reserve, while any writebacks of investments in debt instruments go through the income statement. The value of the instrument after the writeback shall in any event not exceed the amortised cost that the instrument would have had in the absence of the prior adjustments.

Dividends on equity instruments that are available for sale are recognised as income when the right to receive payment is established.

In addition to the recognition of impairment losses, the cumulative gains or losses in the equity reserve are, as mentioned above, recognised through profit and loss at the time of the sale of the asset. Accordingly, in the event of disposal of an investment in available-for-sale securities, the related cumulative, unrealised change in value recorded in equity is recognised through profit and loss.

Available-for-sale financial assets are derecognised when payment is received, when the contractual rights to the cash flows expire, or a sale transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with the financial asset is retained, the asset remains on the balance sheet even if official title has been transferred.

4) FINANCIAL ASSETS HELD TO MATURITY

Financial assets held to maturity include financial assets other than derivatives with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

If, following a change in such intention or ability, it is no longer appropriate to continue to classify an investment as held to maturity, it is reclassified under financial assets available for sale.
Held-to-maturity financial assets are initially recognised at fair value, which is normally equal to the price paid or received. In cases where the price differs from fair value, the asset is recognised at fair value and the difference between the price and the fair value is taken to the income statement.
The value at which such assets are recognised includes incidental costs and revenues attributable to the transaction.
Following initial recognition, financial assets held to maturity are measured at amortised cost and undergo impairment testing. The amortised cost of a financial asset is equal to the amount at which it is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility. If the reasons for a previous impairment loss cease to be valid, the value of the asset is restored up to the value of applying the amortised cost if the write-down had not been made.
Such assets are derecognised when the contractual rights to the cash flows from the assets expire or when the assets are divested by transferring substantially all the risks and rewards of ownership of the assets.

5) HEDGING DERIVATIVES

Financial assets include financial derivatives, which at the reporting date showed a positive fair value.
Refer to the paragraph below on hedging transactions for a description of the accounting standards adopted for the recognition of hedging derivatives.

HEDGING TRANSACTIONS

In accordance with the IAS definition, hedging instruments are designated derivatives or (limited to the hedging of foreign currency risk) non-derivative financial assets or liabilities the fair value or cash flows of which are expected to offset the changes in fair value or cash flows of a designated position. A hedged item is an asset, liability, firm commitment, a highly probable forecast transaction, or a net investment in a foreign operation that (a) exposes the organisation to the risk of a change in fair value or future cash flows and (b) is designated as being hedged. The effectiveness of the hedge is the extent to which the change in fair value or cash flows of the hedged position that is attributable to a hedged risk are offset by the change in fair value or cash flows of the hedging instrument.

When a financial instrument is classified as a hedging instrument, the following are to be formally documented:

- the relationship between the hedging instrument and the position hedged, including the risk management objectives;
- the hedging strategy, which must be in line with established risk management policies;
- the methods to be used in order to verify the effectiveness of the hedge.

Accordingly, both at the inception of the hedge and throughout its life, the change in the fair value of the derivative is analysed in order to determine whether it is highly effective in offsetting the changes in fair value of the hedged position.

A hedge is deemed to be highly effective if, both at inception and throughout its life, the changes in fair value of the hedged position or in the expected cash flows attributable to the risk being hedged are almost entirely offset by the changes in fair value of the hedging derivative, with the relationship of these changes falling within a range of between 80% and 125%.

If the hedge is not effective as described above, the hedging instrument is reclassified under trading instruments, while the hedged item is measured in accordance with the criteria for its category. Hedge accounting also ceases in the event the hedging instrument expires, is sold or exercised or where the hedged item expires, is sold or is repaid.

In the event of hedges designed to neutralise the risk of changes in future cash flows arising from future transactions that are considered as highly probable as

at the balance-sheet date (cash flow hedge), the fair value changes of the derivative after initial recognition are recognised, to the extent of the effective portion, under the item “reserves” in shareholders’ equity. When the economic effects of the hedged item materialize, the reserve is transferred to operating profit or loss. If the hedge is not fully effective, the fair value change of the hedging instrument, to the extent of the ineffective portion, is immediately recognised through profit or loss.
If, during the life of a derivative, the expected hedged cash flows are no longer considered as highly probable, the portion of that instrument recognized as “reserves” is immediately recycled through profit or loss. Conversely, if the derivative is sold or no longer qualifies as an effective hedge, the portion of "reserves" corresponding to the fair value changes of the instrument recognised up to that time, continues to be recognised in equity and shall be recycled through profit or loss, in accordance with the above mentioned classification criteria, as the economic effects of the underlying hedged item materialize. If the hedged transaction is no longer considered as probable, the cumulative unrealised gains or losses recognised in equity are immediately recycled through profit or loss.

INVENTORIES

Inventories are recognised at the lower of the cost and the net realisable value. The cost calculation method selected is that of the weighted average cost. The net realisable value is the selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Work in progress and semi-finished products are valued at production cost less financial charges and general overheads.
Inventories, including compulsory stock, are stated at the lesser of their cost and their net realisable value, represented by the amount that the business expects to obtain from their sale in the normal course of its activities, less selling costs. Cost is measured as the weighted average cost. The net realisable value is the selling price in the ordinary course of business less the estimated completion costs and those necessary to sell the good. Work in progress and semi-finished

goods are valued at production cost, excluding financial charges and overheads. Sales and purchases of strategic gas do not generate an actual transfer of the risks and rewards associated with ownership and, therefore, do not result in changes in inventory.

CONSTRUCTION CONTRACTS

The revenues and contract costs associated with construction contracts are separately recorded in the income statement depending on the progress status of the contract activity, when the outcome of a construction contract can be estimated reliably. The state of progress is determined based on the work carried out and measured proportionally to the costs of the contracts incurred up to the reference date and the total estimated contract costs. The positive or negative difference between the value of the contracts performed and that of the advances received is recorded in the balance sheet assets or liabilities, depending on the case, considering any impairment losses on the work carried out so as to take into account the risks of customers' refusal to recognise the work performed. Expected contract losses are immediately taken to profit or loss under contract costs.

Contract costs include all those costs that relate directly to the specific contract, as well as fixed and variable costs incurred by Group companies as part of normal operations.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are measured at nominal value, corresponding to the fair value.

The item includes cash in hand, cash at banks and at parent companies based on an irregular deposit held with said company, with returns aligned to market conditions, as well as other short-term financial assets with maturity no more than three months from purchase, readily convertible into cash with no cashing expenses and subject to an insignificant risk of changes in value.

Cash and cash equivalents take account of the interest accrued on the same, albeit not yet paid.

CURRENT AND DEFERRED TAXATION

Corporate income tax (IRES) and regional tax on business activities (IRAP) are recognised on an accruals basis using a realistic estimate of the negative and positive tax components for the year and were calculated on the basis of the tax rates currently in force.

Deferred tax items regard the recognition of the effects of temporary differences between the valuation of accounting items under tax regulations, which are used to determine taxable income, and that under statutory reporting regulations (which seek to quantify the result for the year).
More specifically, "taxable temporary differences" between statutory and tax values are those that will give rise to taxable amounts in future tax periods, while "deductible temporary differences" are those that will give rise to deductible amounts in the future.

Deferred tax assets/liabilities are classified as non-current assets/liabilities pursuant to IAS 1.56.
Deferred tax items are therefore recognised as non-current liabilities under "Deferred tax liabilities”, where they are related to items that will become taxable in future tax periods. Where they represent assets, i.e. they are related to items that will be deductible in future tax periods, they are recognised as "Deferred tax assets", under non-current assets in the balance sheet.
If the deferred tax items regard operations that directly affected equity, they are recognised in equity.
Deferred income taxes are determined using tax rates that are expected to apply to the period when the related differences are realized or settled.

Provisions

Provisions are allocated only to cover liabilities that are specific, certain or probable, but whose value or date of occurrence cannot be determined at the end of the reporting period.

"Provisions" are therefore recognised solely under the following conditions:

a) there is a present (legal or constructive) obligation resulting from a past event;
b) it is probable/expected that a charge, i.e., an outflow of resources embodying economic benefits, will be required to settle the obligation;
c) a reliable estimate can be made of the amount of the obligation.

When the financial impact of the time factor is significant and the dates of payment of the obligation can be estimated reliably, the provision is measured as the present value (discounted at market rates as of the reporting date of these consolidated financial statements) of the charges that are expected to be incurred in order to settle the obligation.

Provisions for employee benefits

The liabilities pertaining to the benefits recognised to employees and paid upon or after termination of the employment relationship and pertaining to defined benefit plans and other long-term benefits are recorded net of any assets in favour of the plan, separately for each plan, on the basis of actuarial assumptions and reported by accrual consistent with the work service required to obtain the benefits on the reference date. Liabilities are valued by independent actuaries.

Actuarial profits and losses, resulting from the re-measurement of the liability recorded for commitments towards employees for each financial year, are entered into Valuation reserves included in the equity.

Financial liabilities

Financial liabilities, including payables for loans but other than derivatives, are recognised at the cost on the settlement date, represented by the fair value of the liabilities reduced by any directly attributable transaction costs. Subsequently, the financial liabilities are measured with the amortised cost criteria, using the effective interest rate method.

Revenues

Depending on the type of transaction, revenues are recognised on the basis of the following specific criteria:

- revenues from the sale of goods are recognised when the material risks and rewards of ownership of the goods have been transferred to the buyer;
- revenues from services are recognised with reference to the stage of completion of the service. If revenues cannot be reliably measured, they are recognised to the extent of recoverable costs;
- revenues from charges collected for compensation of the National Transmission Grid (NTG) are valued on the basis of the tariffs established by the Authority for Electricity and Gas.

Amounts collected on behalf of third parties, such as the fees paid to non-Group grid owners, as well as revenues recognised for managing activities related to the balancing of the national electrical system, which do not increase equity, are reported net of the related costs.

Grants

The revenues are recognised when it is probable that the economic benefits of the operation will flow to the entity. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectible amount, or the value in respect of which recovery has ceased to be probable is recognised as an expense.

Grants received in relation to specific assets whose value is recognised under non-current assets are recognised as a direct reduction in the value of the related asset.
Grants for operating expenses are expensed in full when the conditions for recognition are satisfied.

INTEREST INCOME AND EXPENSE

Interest income and expense is recognised in the income statement for all instruments based on amortised cost using the effective interest method.
Interest also includes the net balance, positive or negative, of differentials and margins pertaining to financial derivatives contracts.

DIVIDENDS

Dividends received from investee companies not consolidated on a line-by-line basis are recognised as income in the period in which they are approved for distribution.
Dividends pertaining to companies valued with the equity method are deducted from the book value of equity investments.

SHARE-BASED PAYMENTS

The cost of employee service remunerated through stock option plans is measured at the fair value of the options granted to employees at the grant date. The fair value of options granted is recognised under personnel expenses over the vesting period, with a corresponding increase in equity, considering the best possible estimate of the number of options that employees will be able to exercise. Such estimate is reviewed where subsequent information indicates that the expected number of instruments representative of capital that will mature differs from the estimate previously carried out, regardless of achievement of the market conditions.

The measurement method used to calculate fair value considers all the characteristics of the options (term, price and conditions, etc.), as well as the price of the underlying stock at the grant date, its volatility and the yield curve at the grant date, in line with the term of the plan.

At maturity, the estimate is revised through the income statement to recognise the actual amount corresponding to the number of equity instruments that have actually matured, regardless of achievement of the market conditions.

CAPITALISED BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of an asset that qualify for capitalisation are capitalised as part of the cost of the asset. The qualifying assets (property, plant and equipment and intangible assets) involved are those that require at least one year before being ready for use. The directly attributable borrowing cost is that which would not have been incurred if the expenditure for the asset had not been incurred.

Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred, less any income earned on the temporary investment of such borrowings. Where funds are part of a general pool, the eligible amount is determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate will be the weighted average of the borrowing costs applicable to the general pool, excluding any specifically borrowed funds. The

amount of borrowing costs capitalised during a year shall in any case not exceed the amount of borrowing costs incurred during that year.
Capitalisation commences as from the date all the following conditions have been met: (a) expenditures have been incurred for the asset; (b) borrowing costs are being incurred; and (c) activities to prepare the asset for its intended use or sale are in progress.
Capitalisation ceases when the activities necessary to prepare the asset for its intended use or sale are substantially complete.

TRANSACTIONS WITH RELATED PARTIES

Reporting is provided on transactions with related parties identified according to the criteria established by IAS 24.

II - INFORMATION ON THE BALANCE SHEET

I. ASSETS

NON-CURRENT ASSETS

A1. PROPERTY, PLANT AND EQUIPMENT

The composition of Property, Plant and Equipment of CDP Reti Group, which at 31 December 2015, had a net value of €33,235 million (€32,061 million at 31 December 2014) is shown as follows:

(thousands of euros)

PROPERTY, PLANT AND EQUIPMENT: COMPOSITION

	31/12/2015			31/12/2014		
	Gross amount	Provision for amortisation, depreciation and impairment	Net value	Gross amount	Provision for amortisation, depreciation and impairment	Net value
Land	357,098		357,098	272,240		272,240
Buildings	2,313,461	(700,839)	1,612,622	2,155,761	(642,189)	1,513,572
Plant and equipment	42,133,728	(14,296,018)	27,837,710	39,700,455	(13,248,339)	26,452,116
Industrial and commercial equipment	354,215	(260,254)	93,961	315,606	(235,809)	79,797
Other assets	319,452	(233,869)	85,583	284,553	(205,589)	78,964
Assets under development and advances	3,248,261		3,248,261	3,663,872		3,663,872
Total	**48,726,215**	**(15,490,980)**	**33,235,235**	**46,392,487**	**(14,331,926)**	**32,060,561**

The item mainly regards the Terna Group’s investments in electricity transmission lines and transformation stations, and the SNAM group's investments in gas transportation, storage, distribution and regasification infrastructure.
Moreover, the added value resulting from the allocation of the purchase price (Purchase Price Allocation of the subsidiaries Snam and Terna compared to the value of their equity at the purchase date, is recorded as a positive variance of €5.7 million under the item Property, Plant and Equipment.

During the year, the SNAM Group invested €846 million, mainly in the transportation (€656 million), storage (€163 million) and distribution (€20 million) sectors.
With respect to the TERNA Group, the increases for the year mainly refer to investments in the Group's regulated activities for €1,019 million and to the

contributions of the Company Rete S.r.l. purchased on 23 December 2015, amounting to € 719 million.

Changes in Property, Plant or Equipment during 2015 are shown below:

(thousands of euros)

PROPERTY, PLANT AND EQUIPMENT: CHANGE FOR THE YEAR

	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Assets under development and advances	Total
A. Gross opening balance	**272.240**	**2.155.761**	**39.700.455**	**315.606**	**284.553**	**3.663.872**	**46.392.487**
A.1 Net total value decrease	0	(642.189)	(13.248.339)	(235.809)	(205.589)	0	(14.331.926)
A.2 Net opening balance	**272.240**	**1.513.572**	**26.452.116**	**79.797**	**78.964**	**3.663.872**	**32.060.561**
B. Increases:	**84.858**	**151.054**	**2.481.336**	**38.180**	**75.817**	**1.877.066**	**4.708.311**
B.1 Purchases	59.861	5.035	704.431	17.854	3.210	1.877.066	2.667.457
of which business combinations (net):	*56.115*	*3.139*	*666.950*	*189*	*692*	*397*	*727.482*
- gross amount	*56.115*	*3.373*	*699.294*	*1.981*	*1.186*	*397*	*762.346*
- adjustment provision	*0*	*234*	*32.344*	*1.792*	*494*	*0*	*34.864*
B.2 Capitalised expenses for improvements							
B.3 Writebacks							
B.4 Fair value increases recognised in:							
a) equity							
b) income statement							
B. 5 Positive exchange rate differences							
B.6 Transfers of buildings held for investment							
B.7 Other changes:	24.997	146.019	1.776.905	20.326	72.607	0	2.040.854
- gross amount	*24.997*	*153.692*	*1.776.905*	*21.260*	*72.607*	*0*	*2.049.461*
- adjustment provision	*0*	*7.673*	*0*	*934*	*0*	*0*	*8.607*
C. Decreases:	**0**	**52.004**	**1.095.742**	**24.016**	**69.198**	**2.292.677**	**3.533.637**
C.1 Sales		489	2.314	1.645	50		4.498
of which business combinations							
C.2 Amortisation, depreciation and impairment		50.743	1.081.835	21.719	30.555		1.184.852
C.3 Impairment adjustments recognised in:			9.461			15.874	25.335
a) equity							
b) income statement			9.461			15.874	25.335
C.4 Fair value decreases recognised in							
a) equity							
b) income statement							
C.5 Negative exchange rate differences							
C.6 Transfers to:							
a) property, plant end equipment held for investment							
b) assets held for sale							
C.7 Other changes:		772	2.132	652	38.593	2.276.803	2.318.952
- gross amount	0	772	78.093	652	41.362	2.276.803	
- adjustment provision	0	0	75.961	0	2.769	0	
D. Net closing balance	**357.098**	**1.612.622**	**27.837.710**	**93.961**	**85.583**	**3.248.261**	**33.235.235**
D.1 Net total value decrease		(700.839)	(14.296.018)	(260.254)	(233.869)		(15.490.980)
D.2 Gross closing balance	**357.098**	**2.313.461**	**42.133.728**	**354.215**	**319.452**	**3.248.261**	**48.726.215**

A2.INVENTORIES - COMPULSORY STOCK

INVENTORIES - COMPULSORY STOCK

	31/12/2015		31/12/2014	
	Carrying amount in thousands of euros	**Volumes (billions of cubic**	**Carrying amount in thousands of euros**	**Volumes (billions of cubic**
Compulsory stock	362,713	5	362,713	5

Inventories - compulsory stock, equal to €363 million, includes minimal quantities of natural gas that storage companies are required to hold under Presidential Decree 22 of 31 January 2001. The stock of gas, equivalent to approximately 4.5 billion standard cubic metres of natural gas, is determined by the Ministry for Economic Development on an annual basis.

A3. INTANGIBLE ASSETS

The following table shows the composition of Intangible Assets, which, at 31 December 2015, amounted to €7,824 million (€7,704 million at 31 December 2014).

INTANGIBLE ASSETS: COMPOSITION *(thousands of euros)*

	31/12/2015			31/12/2014		
	Gross amount	Provision for amortisation, depreciation and impairment	Net value	Gross amount	Provision for amortisation, depreciation and impairment	Net value
Goodwill	850,775	0	850,775	840,709	0	840,709
Service concession agreements:	9,122,712	(3,483,542)	5,639,170	8,740,680	(3,133,964)	5,606,716
Industrial patent and intellectual property rights	890,937	(709,592)	181,345	806,811	(647,558)	159,253
Concessions, licenses, trademarks and similar rights	1,127,829	(140,423)	987,406	1,121,206	(132,417)	988,789
Other intangible assets	300,840	(217,700)	83,140	233,870	(197,396)	36,474
Assets under development and advances	82,563	0	82,563	71,648	0	71,648
Total	**12,375,656**	**(4,551,257)**	**7,824,399**	**11,814,924**	**(4,111,335)**	**7,703,589**

The main component of intangible assets is SNAM's service concession agreements, which concern public-private agreements relating to the development, financing, maintenance and operation of infrastructures under concession arrangements from the granting entity. The rules on service concession agreements are applicable to SNAM in relation to the public service of natural gas distribution, i.e. agreements whereby the operator undertakes to provide the public service of natural gas distribution at the tariff set by the Authority for Electricity, Gas and the Water System (AEEGSI), with the right to use the infrastructure controlled by the granting authority in order to provide the public service.

The item Goodwill, in implementation of the "partial goodwill method" for the recognition of goodwill envisaged by IFRS 3, represents the only share due to CDP Reti Group for the goodwill recorded in TERNA's and SNAM's consolidated financial statements, as well as the share recorded as a result of the process for the allocation of differences between the prices paid for the purchase of equity investments and the relevant equity. The increase versus the previous financial year is due to the acquisition of the companies TES and Rete S.r.l. by the TERNA Group.

Goodwill recognised in the balance sheet as at 31 December 2015 in the amount of €851 million, consists of:

- €363 million for Terna
- €488 million for SNAM

CGUs to which goodwill was allocated coincide with the individual legal entities and the recoverable value is equivalent to the market value of the companies, determined on the basis of the average of the stock market prices of the last 24 months.

Both companies' fair values were higher than the value of their respective net assets, inclusive of the results of the purchase price allocation and goodwill.

The following table shows the changes in Intangible assets, which grew during the financial year by approx. €121 million net of transfers of assets under development and advances recorded in the financial statements at 31 December 2014.

Increases for the period refer for approx. €78 million to the contributions from new companies purchased by the TERNA Group, and in particular to the recognition under Other Intangible Assets of the existing contract for the laying of fibre optic cables acquired with the company Rete S.r.l., recognised in process of allocation at the highest price paid by the TERNA Group, as well as to the contributions resulting from TES's acquisition.

(thousands of euros)

INTANGIBLE ASSETS: CHANGE FOR THE YEAR

	Goodwill	Service concession agreements	Industrial patent and intellectual property rights	Concessions, licenses, trademarks and similar rights	Other intangible assets	Assets under development and advances	Total
A. Opening balance	**840,709**	**8,740,680**	**806,811**	**1,121,206**	**233,870**	**71,648**	**11,814,924**
A.1 Net total value decrease		(3,133,964)	(647,558)	(132,417)	(197,396)		(4,111,335)
A.2 Net opening balance	**840,709**	**5,606,716**	**159,253**	**988,789**	**36,474**	**71,648**	**7,703,589**
B. Increases	**34,343**	**489,240**	**85,506**	**6,651**	**68,555**	**127,739**	**812,034**
B.1 Purchases	34,094	321,419	5,538	93	60,567	127,739	549,450
of which business combinations	*34,094*	*0*	*0*	*23*	*44,250*	*0*	*78,367*
B.2 Increases of in-house intangible assets							
B.3 Writebacks							
B.4 Fair value increases:							
- to net equity							
- to income statement							
B. 5 Positive exchange rate differences							
B.6 Other changes	249	167,821	79,968	6,558	7,988		262,584
C. Decreases	**24,277**	**456,786**	**63,414**	**8,034**	**21,889**	**116,824**	**691,224**
C.1 Sales		488					488
of which business combinations							*0*
C.2 Writedowns		385,317	62,034	8,029	20,956		476,336
- amortisation, depreciation and impairment		385,317	62,034	8,029	20,956		476,336
- Impairment:							
- to net equity							
- to income statement							
C.3 Fair value increases:							
- to net equity							
- to income statement							
C.4 Transfers to non-current assets held for sale							
C.5 Negative exchange rate differences							
C.6 Other changes:	24,277	70,981	1,380	5	933	116,824	214,400
- gross amount	*24,277*	*106,720*	*1,380*	*28*	*1,585*	*116,824*	*250,814*
- adjustment provision	*0*	*35,739*	*0*	*23*	*652*	*0*	*36,414*
D. Net closing balance	**850,775**	**5,639,170**	**181,345**	**987,406**	**83,140**	**82,563**	**7,824,399**
D.1 Net total value adjustments		(3,483,542)	(709,592)	(140,423)	(217,700)		(4,551,257)
E. Gross closing balance	**850,775**	**9,122,712**	**890,937**	**1,127,829**	**300,840**	**82,563**	**12,375,656**

A4. EQUITY INVESTMENTS

SNAM and Terna's equity investments are listed below, together with information on the investment relationships.

(thousands of euros)

EQUITY INVESTMENTS IN JOINT VENTURES, COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE AND OTHER COMPANIES: INFORMATION ON INVESTMENTS

Name	Registered office	Equity investment		Voting rights %	Carrying amount *(thousands of euros)*	Data referred to	Valuation method
		Investor	% holding				
A.1 Joint ventures							
GasBridge 1 B.V.	Rotterdam (NL)	Snam S.p.A.	50.00%	50.00%	65,483	31/12/2015	Equity
GasBridge 2 B.V.	Rotterdam (NL)	Snam S.p.A.	50.00%	50.00%	65,553	31/12/2015	Equity
TIGF Holding S.A.S.	Pau (FR)	Snam S.p.A.	40.50%	40.50%	446,409	31/12/2015	Equity
Trans Austria Gasleitung G.M.B.H. (TAG) (*)	Vienna (AT)	Snam S.p.A.	84.47%	84.47%	495,447	31/12/2015	Equity
Metano Sant'Angelo Lodigiano S.p.A.	Sant'Angelo Lodigiano (IT)	Italgas S.p.A.	50.00%	50.00%	2,142	31/12/2015	Equity
Toscana Energia S.p.A.	Firenze (IT)	Italgas S.p.A.	48.08%	48.08%	249,672	31/12/2015	Equity
Umbria Distribuzione Gas S.p.A.	Terni (IT)	Italgas S.p.A.	45.00%	45.00%	13,346	31/12/2015	Equity
ELMED ETUDES sarl	Tunis (TN)	Terna S.p.A.	50.00%	50.00%		31/12/2015	Equity
A.2 Companies subject to significant influence							
Trans Adriatic Pipeline	Baar (CH)	Snam S.p.A.	20.00%	20.00%	130,164	31/12/2015	Equity
CESI S.p.A.	Milan (IT)	Terna S.p.A.	42.70%	42.70%	42,825	31/12/2015	Equity
CGES A.D.	Podgorica (MNE)	Terna S.p.A.	22.09%	22.09%	392	31/12/2015	Equity
CORESO S.A.	Brussels (BE)	Terna S.p.A.	20.00%	20.00%	34,961	31/12/2015	Equity
A.3 Other companies							
Agenzia Napoletana per l'energia e per l'ambiente	Napoli (IT)	Napoletanagas S.p.A.	12.96%	12.96%	54		Cost
Acqua Campania Spa	Napoli (IT)	Italgas S.p.A.	0.53%	0.00%	31		Cost
PRISMA European Capacity Platform Gmbh	Leipzing (DE)	SNAM RETE GAS S.p.A.	14.66%	14.66%	38		Cost

(*) The percentage of financial rights is equal to 89.22%

During the year, the value of equity investments recorded in the consolidated financial statements changed as follows:

(thousands of euros)

EQUITY INVESTMENTS: CHANGE FOR THE YEAR

	31/12/2015
A. Opening balance	**1,575,744**
- of which total revaluations	**57,695**
- of which total adjustments	**-**
B. Increases	**376,575**
B.1 Purchases	190,209
of which business combinations	
B.2 Writebacks	
B.3 Revaluations	137,837
B.4 Other increases	48,529
C. Decreases	**405,802**
C.1 Sales	
of which business combinations	
C.2 Writedowns	3,331
C.3 Other decreases	402,471
D. Closing balance	**1,546,517**
E. Total revaluations	**195,532**
F. Total impairments	**3,331**

The increases over the year, equal to €190 million, refer to:

- SNAM's purchase of 20% of the share capital of the company Trans Adriatic Pipeline (TAP) for an amount of €130 million;
- the purchase of 51% of the company Acam Gas against a payment of €46 million, as a result of that Italgas acquired the entire share capital of the company, which, as a result, was fully consolidated from 1 April 2015, leaving the portfolio of equity investments valued at net equity;

- the cash adjustment for the fee for the acquisition of the equity investment in TAG for an amount €14 million of perfected in December 2014 by CDP GAS.

A5.NON-CURRENT FINANCIAL ASSETS

(thousands of euros)

NON-CURRENT FINANCIAL ASSETS: BREAKDOWN AND FAIR VALUE LEVELS

	31/12/2015									31/12/2014								
	Available for sale			Held to maturity			Hedging derivatives			Available for sale			Held to maturity			Hedging derivatives		
	L1	L2	L3	L1	L2	L3	L1	L2	L3	L1	L2	L3	L1	L2	L3	L1	L2	L3
1. Debt securities	-	-	-	-	-	-	X	X	X	-	-	-	-	-	-	X	X	X
2. Equity securities	-	-	65	X	X	X	X	X	X	-	-	285	X	X	X	X	X	X
3. Units in collective investment undertakings	-	-	-	X	X	X	X	X	X	-	-	-	X	X	X	X	X	X
4. Loans	-	-	3,610	-	-	78,149	X	X	X	-	-	1,925	-	-	423	X	X	X
5. Trading derivatives	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
6. Hedging derivatives	X	X	X	X	X	X	-	692,885	-	X	X	X	X	X	X	-	789,749	-
Total	**-**	**-**	**3,675**	**-**	**-**	**78,149**	**-**	**692,885**	**-**	**-**	**-**	**2,210**	**-**	**-**	**423**	**-**	**789,749**	**-**

The main component of non-current financial assets (€775 million at 31 December 2015, €792 million at 31 December 2014) is fair value hedges of bond issues recognised in the financial statements of Terna. The fall in the fair value of the derivatives compared to 31 December 2014 is mainly attributable to the trend in the relevant medium-long term interest rate curve seen at the end of 2015.

Non-current financial assets held to maturity also include financial receivables for €78 million that are instrumental to the operational activities taken over by Snam from the subsidiary TAP.

A6.DEFERRED TAX ASSETS

Deferred tax assets recorded in the financial statements at 31 December 2015 and amount to €624 million (€729 million at 31 December 2014), of which €612 million are a counter-party in the income statement.

(thousands of euros)

DEFERRED TAX ASSETS

	31/12/2015	31/12/2014
Deferred tax assets		
- recognised in income statement	612,125	706,974
- recognised in equity	11,789	22,157
Total	**623,914**	**729,131**

The following table shows the composition of deferred assets

(thousands of euros)

DEFERRED TAX ASSETS: COMPOSITION

	31/12/2015	31/12/2014
Deferred tax assets recognised in income statement	**612,125**	**706,974**
- losses carried forward		
- non-repayable grants	23,326	35,514
- misc. impairment		
- financial instruments	746	204
- payables		
- site decommissioning and reinstatement	143,949	204,584
- provisions	110,949	157,472
- write-downs on receivables	38,320	11,168
- Equity investments		
- property, plant and equipment/intangible assets	209,837	108,847
- employee benefits	32,983	49,167
- exchange rate differences		
- other temporary differences	52,015	140,018
Deferred tax assets recognised in equity	**11,789**	**22,157**
- financial assets available for sale		
- exchange rate differences		
- cash flow hedge	3,207	9,764
- other	8,582	12,393
Total	**623,914**	**729,131**

The changes in deferred taxes (offsetting entry in income statement) during the financial year are shown below:

(thousands of euros)

CHANGES IN DEFERRED TAX ASSETS (RECOGNISED IN INCOME STATEMENT)

	31/12/2015
Opening balance	**706,974**
2. Increases	**48,409**
2.1 Deferred tax assets recognised during the year	46,791
a) in respect of previous periods	
b) due to change in accounting policies	
c) writebacks	
d) other	46,791
2.2 New taxes or increases in tax rates	
2.3 Other increases	1,618
2.4 Business combinations	
3. Decreases	**143,258**
3.1 Deferred tax assets derecognised during the year	29,298
a) reversals	27,683
b) writedowns for supervening non-recoverability	
c) due to change in accounting policies	
d) other	1,615
3.2 Reduction in tax rates	68,957
3.3 Other decreases	45,003
3.4 Business combination transactions	
Closing balance	**612,125**

The changes in deferred taxes (offsetting entry in income statement) for the financial year are shown below:

(thousands of euros)

CHANGES IN DEFERRED TAX ASSETS (RECOGNISED IN EQUITY)

	31/12/2015
1. Opening balance	**22,157**
2. Increases	**1,221**
2.1 Deferred tax assets recognised during the year	1,221
a) in respect of previous periods	
b) due to change in accounting policies	
c) others	1,221
2.2 New taxes or increases in tax rates	
2.3 Other increases	
2.4 Business combination transactions	
3. Decreases	**11,589**
3.1 Deferred tax assets derecognised during the year	
a) reversals	
b) writedowns for supervening non-recoverability	
c) due to change in accounting policies	
d) other	
3.2 Reduction in tax rates	1,112
3.3 Other decreases	10,477
3.4 Business combination transactions	
4. Closing balance	**11,789**

A7. Other non-current assets

Other non-current assets at 31 December 2015, amounting to €143 million (€172 million at 31 December 2014).

The composition table is shown below:

(thousands of euros)

OTHER NON-CURRENT ASSETS: COMPOSITION

	31/12/2015	31/12/2014
Accrued income and prepaid expenses from regulated activities	71,893	96,667
Accrued income and prepaid expenses	20,949	27,623
Guarantee deposits	16,082	16,659
Loans and advances to employees	9,079	8,867
Other assets	25,393	21,762
Total	**143,396**	**171,578**

Accrued income and prepaid expenses from regulated activities of €72 million at 31 December 2015, which represent the majority of Other non-current assets, relate to the natural gas transport service recognised in SNAM's financial statements and mainly concern the lower amounts invoiced compared to the limit set by the Regulator.

A14.NON-CURRENT ASSETS HELD FOR SALE

Assets held for sale, amounting to €24.5 million (€23.8 million at 31 December 2014), relate to a building complex owned by Italgas for which sales negotiation in under way as a result of the obligations resulting from the acquisition of Italgas by Eni.

(thousands of euros)

NON CURRENT ASSETS AND ASSET GROUPS HELD FOR SALE: COMPOSITION BY TYPE OF ACTIVITY

	31/12/2015	31/12/2014
A. Individual assets		
A.1 Financial assets		
A.2 Equity investments		
A.3 Tangible assets		
A.4 Intangible assets		
A.5 Other assets		
Total A		
B. Asset groups (discontinued operating units)		
B.1 Property, plant and equipment	24,479	23,783
B.2 Inventories		
B.3 Intangible assets		
B.4 Equity investments		
B.5 Financial assets		
B.6 Other assets		
Total B	**24,479**	**23,783**

CURRENT ASSETS

A8.CURRENT FINANCIAL ASSETS

(thousands of euros)

CURRENT FINANCIAL ASSETS: BREAKDOWN AND FAIR VALUE LEVELS

	31/12/2015									31/12/2014								
	Available for sale			Hedging derivatives			Loans and receivables			Available for sale			Hedging derivatives			Loans and receivables		
	L1	L2	L3	L1	L2	L3	L1	L2	L3	L1	L2	L3	L1	L2	L3	L1	L2	L3
1. Debt securities				X	X	X						-	X	X	X			
2. Equity securities			119	X	X	X						119	X	X	X			
3. Units in collective investment undertakings				X	X	X						-	X	X	X			
4. Loans			2,791	X	X	X			4,330			3,030	X	X	X			216,181
5. Trading derivatives	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
6. Hedging derivatives	X	X	X		65,299		X	X	X	X	X	X		61,858		X	X	X
Total			**2,910**		**65,299**				**4,330**			**3,149**		**61,858**				**216,181**

Current financial assets, which 31 December 2015 amounted to €73 million (€281 million at 31 December 2014) mainly related to the fair value of bond issues recognised in the financial statements of the TERNA Group.

The change compare to the previous financial year is mainly due to the repayment of the Shareholders’ Loan granted by Snam to the subsidiary TAG within the framework of the refinancing transaction of the subsidiary's indebtedness for an amount of €216 million.

A9. INCOME TAX RECEIVABLES

Income tax receivables recorded in the consolidated financial statements at 31 December 2015 amounted to €88 million (€74 million at 31 December 2014) and were broken down as follows:

(thousands of euros)

INCOME TAX RECEIVABLES

	31/12/2015	31/12/2014
Income tax receivables		
- Ires receivables	44,048	61,496
- Irap receivables	30,166	12,301
- other tax receivables	13,864	
Total	**88,078**	**73,797**

Other tax receivables for €14 million were recorded in the consolidated financial statements of the SNAM Group against recovery of the tax on the TAG dividend withheld by the Austrian state, by virtue of the ban on double taxation between EU Member States.

A10. TRADE RECEIVABLES

Trade receivables recorded in the consolidated financial statements at 31 December 2015 amounted to €3,050 million (€3,306 million at 31 December 2014) and were broken down as follows:

(thousands of euros)

TRADE RECEIVABLES

	31/12/2015	31/12/2014
Energy-related receivables	825,966	956,743
Grid transport consideration receivables	400,023	514,149
Gas sector trade receivables	1,677,014	1,728,394
Other trade receivables	100,063	91,170
Construction contracts	47,313	15,761
Total	**3,050,379**	**3,306,217**

Trade receivables are calculated net of amounts deemed uncollectable and therefore recognised in the provision for bad debts.

The Gas sector trade receivables recognised in SNAM's financial statements (€1,677 million at 31 December 2015; €1,728 million at 31 December 2014) related mainly to the natural gas transportation (€993 million), distribution (€453 million) and storage (€210 million) sectors.

TERNA's trade receivables amount in total to €1,373 million, a decrease compared to the previous year, mainly attributable to energy-related receivables (€-131 million) and the grid transport consideration receivables relative to the remuneration for the use of the National Transmission Grid by electricity distributors (-€-114 million). This decrease was mainly driven by the payment by the Electricity Equalisation Fund (CCSE) of the receivable to supplement TERNA S.p.A.'s grid transport consideration revenues, as decided by AEEGSI Resolution 653/2014 (€91.2 million) for 2013, which was received in February 2015. Terna's remaining trade receivables are receivables from customers of non-regulated activities.

A11. INVENTORIES

(thousands of euros)

INVENTORIES

	31/12/2015			31/12/2014		
	Gross amount	**Provision for impairment**	**Net value**	**Gross amount**	**Provision for impairment**	**Net value**
Raw materials, supplies and consumables	153,598	(7,570)	146,028	152,067	(5,087)	146,980
Finished products and goods	49,984	(32,044)	17,940	59,844	(29,986)	29,858
Total	**203,582**	**(39,614)**	**163,968**	**211,911**	**(35,073)**	**176,838**

Inventories at 31 December 2015 were recorded in the financial statements for €164 million (€177 at 31 December 2014) and are recognised net of the provision of bad debts of €40 million (€35 million at 31 December 2014).

Raw materials, supplies and consumables consist mainly in natural gas used for transportation activities (€55 million), spare materials pertaining for the gas pipeline network (€ 43 million), the distribution network (€ 18 million) and

storage facilities for €12 million. For further €12 million, the item consists of materials and equipment for the operation of electricity sector plants.
Finished products inventories, equal to 18 million in total net of the relevant provision, consist instead of natural gas in the storage network.

A12. OTHER CURRENT ASSETS

The composition of Other Current Assets, which, at 31 December 2015, amounted to €410 million (€308 million at 31 December 2014), is shown below.

OTHER CURRENT ASSETS: COMPOSITION

	31/12/2015	31/12/2014
Accrued income and prepaid expenses from regulated activities	77,291	46,949
Accrued income and prepaid expenses	14,471	16,513
Guarantee deposits	80	69
Loans and advances to employees	1,231	1,337
Receivables for tax withholdings and direct taxes	128,814	31,291
Advances to suppliers	36,605	6,093
Other assets	151,426	205,366
Total	**409,918**	**307,618**

The increase versus 31 December 2014 of the item pertaining to Withholding tax and direct tax receivables, amounting to approx. €98 million, is mainly due to the greater VAT receivable recorded in TERNA's consolidated financial statements, compared to the payable situation recorded in the 2014 financial statements.
The main items recorded under Other, equal to €151 million, included:

- receivables of €48 million from the Electricity Equalisation Fund (CCSE) towards SNAM;
- IRES receivables due to the former Parent Company Eni resulting from for taking part in the tax consolidation of the SNAM Group, amounting to €34 million.

A13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, which, at 31 December 2015 amounted to €821 million (1,484 million at December 31, 2014) are broken down as follows:

(thousands of euros)

CASH AND CASH EQUIVALENTS

	31/12/2015	31/12/2014
Current accounts and demand deposits	80,489	833,126
Short-term deposits	400,000	650,000
Short-term financial investments	339,691	
Cash	528	463
Total	**820,708**	**1,483,589**

The change over 31 December 2014 is mainly attributable to the decrease in liquidity on the bank accounts of the TERNA Group.

The short-term financial investments included the amount pertaining to commercial papers issued by CDP and subscribed by CDP RETI at the end of December 2015, with original one-month maturity, with the features provided for by IAS 7 to be considered equivalent instruments to cash and cash equivalents.

II. LIABILITIES

P1. EQUITY

Net equity, for an amount of €4,339 million (€3,987 million at 31 December 2014) consists of the following:

(thousands of euros)

EQUITY ATTRIBUTABLE TO CDP RETI

	31/12/2015	31/12/2014
Share capital	162	162
Reserves	**3,827,143**	**3,625,811**
- Legal reserve	32	32
- Issue premium	1,315,158	1,315,158
- Reserve for shareholder payments for investments	2,029,920	2,029,920
- Other reserves	482,033	280,701
Valuation reserves	**(7,726)**	**(6,471)**
- Cash flow hedges	(4,494)	(794)
- Exchange rate differences	2,763	755
- Actuarial Profit (Loss) on defined-benefit pension plans	(6,524)	(5,818)
- Share of valuation reserves of equity investments accounted for using equity method	529	(614)
Net income for the period (+/-)	518,991	367,071
Total	**4,338,570**	**3,986,573**

During the year there were no changes to the composition of the ownership and the number of shares compared to 31 December 2014, which, therefore, remained the same:

Member	Share category A	Share category B	Share category C	%
CDP	95,458			59.10%
State Grid		56,530		35.00%
Cassa Forense			4,253	2.63%
Foundations and Savings Banks			5,273	3.26%
	95,458	**56,530**	**9,526**	**100.00%**

The 161,514 shares outstanding at the end of the financial year were fully paid-up.

NON-CURRENT LIABILITIES

P.2 PROVISIONS

Provisions recorded in the consolidated financial at 31 December 2015 amounted to €975 million (€1,223 million at 31 December 2014) and were broken down as follows:

(thousands of euros)

PROVISIONS: COMPOSITION

	31/12/2015	31/12/2014
Provision for site decommissioning and reinstatement	514,409	649,757
Provision for environmental risks and charges	135,219	139,651
Provision for risks of legal disputes	43,333	63,945
Provision for tax risks	44,464	15,083
Provision for early retirement incentives	40,791	53,040
Other provisions	196,383	301,606
Total	**974,599**	**1,223,082**

Provisions for the decommissioning and remediation of sites and for environmental obligations, which represent the majority of the financial statements item, were recognised for activities performed by the SNAM Group with respect to gas transportation, storage and distribution. Specifically, the decrease in the Provisions for the decommissioning and remediation of sites compared to the previous financial year is due to the review of the estimate of relevant discounted costs.

During the year, the changes for the provisions were as follows:

(thousands of euros)

PROVISIONS: CHANGE FOR THE YEAR

Items/Components	Provision for site decommissioning and reinstatement	Provision for environmental risks and charges	Provision for risks of legal disputes	Provision for tax risks	Provision for early retirement incentives	Other provisions
	31/12/2015					
Opening balance	**649,757**	**139,651**	**63,945**	**15,083**	**53,040**	**301,606**
Increases	**10,608**	**2,958**	**22,827**	**30,812**	**1,919**	**26,618**
Allocation in the year		1,660	2,978	143	1,780	16,394
Changes due to the passing of time	10,608	1,022				
Changes due to changes to the discount rate						
Other changes		276	19,849	30,669	139	10,224
C. Decreases	**145,956**	**7,390**	**43,439**	**1,431**	**14,168**	**131,841**
Use in the financial year						
- to charges	8,153	7,168	4,877	487		1,068
- due to surplus		222	14,046	39		12,861
Changes due to changes to the discount rate						
Other changes	21,130		24,516	905	14,168	117,912
D. Closing balance	**514,409**	**135,219**	**43,333**	**44,464**	**40,791**	**196,383**

Negative changes for Other provisions recorded during the year refer primarily to the reclassification in the Provision for account receivables, of the estimated charges resulting from the commercial balancing activity at 31 December 2014 for €85 million, carried out upon closure by the Authority of the process for the determination of the share of the expenses from non-collected receivables due to the entity in charge of the balancing (Snam Rete Gas).

P.3 Provisions for employee benefits

The composition of the provisions for employee benefits is reported below.

(thousands of euros)

PROVISIONS FOR EMPLOYEE BENEFITS

	31/12/2015	31/12/2014
Severance pay	151,658	180,364
Long-term service award	4,169	4,851
Supplementary health funds	17,534	19,379
Energy discount	33,709	49,008
Other employee benefits	64,577	33,674
Total	**271,647**	**287,276**

The fall in Staff Severance Pay provisions compared to 31 December 2014 is mainly attributable to the changes recorded by the subsidiary TERNA S.p.A. following the amounts utilised – mainly connected to the voluntary redundancy programme in place - and actuarial losses recorded in the period.

The increase recorded during the year in the Other employee benefits item, of €35 million, is linked to the recognition of the Gas Provision: an estimate, based on actuarial calculations, of the charges payable by the employer resulting from the elimination, effective from 1 December 2015, of the Gas Provision pursuant to Law no. 125 of 6 August 2015.

The changes to the Provisions for employee benefits are shown below.

(thousands of euros)

PROVISIONS FOR EMPLOYEE BENEFITS: CHANGE FOR THE YEAR

	31/12/2015				
Items/Components	**Severance pay**	**Long-term service award**	**Supplementary health funds**	**Energy discount**	**Other employee benefits**
Opening balance	**180,364**	**4,851**	**19,379**	**49,008**	**33,674**
Increases for business combinations	**1,813**	**0**	**0**	**0**	**0**
Current cost	107			899	35,368
Interest expense	2,271	(65)	415	723	5,457
Revaluations:					
- actuarial profit and loss due to changes in financial assumptions	(8,986)		(1,909)	(8,525)	(141)
- actuarial profit and loss due to changes in demographic assumptions					
- effect of past experience	(2,169)		(48)	(2,436)	(44)
Other changes	23	(417)	(1)	(540)	84
Paid benefits	(21,765)	(200)	(302)	(5,420)	(9,821)
Closing balance	**151,658**	**4,169**	**17,534**	**33,709**	**64,577**

P.4 Loans

Loans of the CDP RETI Group amounted to €22.5 billion at 31 December 2015 (€ 22.2 billion at 31 December 2014), also including the current portion of long-term loans, equal to €1,510 million.

The following table details the long-term portion of loans:

(thousands of euros)

LOANS: LONG-TERM PORTION

	31/12/2015	**31/12/2014**
Bonds	15,610,023	15,638,988.00
- EMTN programme	*14,862,052*	15,638,988.00
- other issues	*747,971*	-
Bank loans	4,552,253	3,828,863.00
Other lenders	919,706	1,001,958.00
Total	**21,081,982**	**20,469,809**

Loans relating to the item "EMTN Programme" refer to SNAM issues for €8.4 billion and to Terna issues for €6.4 billion.

The item other issues instead refers to the placement, concluded in May 2015 by CDP Reti, of an unsubordinated and unsecured fixed-rate bond, for a par value of €750 million.

The analysis of bond issues, with an indication of the issuer company, the currency, the interest rate and maturity:

BOND ISSUE: KEY FEATURES

Issuer	Currency	Notional debt	Accounting value	Market value	Maturity (year)	Average interest rate 2015	Portion with maturity date within 12 months	Portion with maturity date over 12 months	2017	2018	2019	2020	Over
CDP RETI	EUR	750	756	748	2022	1.88%	8	748					748
Terna Spa	EUR	800	1,050	1,024	2024	4.90%		1,050					1,050
Terna Spa	EUR	566	713	704	2023	2.730%		713					713
Terna Spa	EUR	600	677	695	2019	4.870%		677			677		
Terna Spa	EUR	1,250	1,453	1,489	2021	4.740%		1,453					1,453
Terna Spa	EUR	770	769	803	2017	4.120%		769	769				
Terna Spa	EUR	1,000	995	982	2022	0.870%		995					995
Terna Spa	EUR	750	748	790	2018	2.880%		748		748			
SNAM SpA	EUR	700	714	730	2016	4.375%	714						
Snam Spa	EUR	850	888	1,007	2019	5.000%	40	848			848		
Snam Spa	EUR	1,200	1,233	1,331	2018	3.875%	36	1,196		1,196			
Snam Spa	EUR	1,000	1,008	1,275	2022	5.250%	15	993					993
Snam Spa	EUR	500	519	571	2020	3.500%	23	496				496	
Snam Spa	EUR	750	770	858	2020	3.500%	15	755				755	
Snam Spa	EUR	800	808	836	2017	2.375%	10	798	798				
Snam Spa	EUR	200	203	209	2017	2.375%	2	200	200				
Snam Spa	EUR	500	513	575	2021	3.375%	16	498					498
Snam Spa	EUR	600	612	697	2024	3.250%	18	594					594
Snam Spa	EUR	500	502	521	2019	1.500%	5	497			497		
Snam Spa	EUR	250	255	270	2023	1.500%	3	252					252
Snam Spa	EUR	750	682	749	2023	1.375%	1	680					680
Snam Spa	EUR	70	70	74	2018	2.625%	1	70		70			
Snam Spa	YEN	76	76	84	2019	1.115%		76			76		
Snam Spa	EUR	300	300	300	2016	Euribor 3m+0.85	300						
Snam Spa	EUR	150	150	150	2016	Euribor 3m+0.65	150						
Snam Spa	EUR	500	507	512	2023	Euribor 12m+0.5645	5	501					501
Total		**16,182**	**16,973**	**17,983**			**1,363**	**15,610**	**1,768**	**2,014**	**2,098**	**1,251**	**8,479**

P.5 OTHER NON-CURRENT LIABILITIES

Other non-current financial liabilities recorded in the financial statements for a total of €12 million (€38 million at 31 December 2014) refer to the fair value of derivative contracts entered into to hedge the interest rate risk by the Terna Group's for €7.3 million, by CDP Reti for €4 million and by SNAM for €1 million:

(thousands of euros)

OTHER NON-CURRENT FINANCIAL LIABILITIES

	31/12/2015			31/12/2014		
	L1	L2	L3	L1	L2	L3
Fair value-related hedging derivatives						
a) interest rate risk						
b) exchange rate risk						
c) several risks						
Cash flow hedge-related derivatives		12,435			38,420	
a) interest rate risk		12,435			38,420	
b) exchange rate risk						
c) other						
Non-hedging derivatives						
Other financial liabilities						
Total		**12,435**			**38,420**	

The change recorded for the fair value of derivative instruments during the year relates to the change in the curve of the interest rates used for the discounting of expected cash flows.

P.6 DEFERRED TAX LIABILITIES

Deferred tax liabilities recorded in the financial statements at 31 December 2015 amounted to €3,110 million (€3,685 million at 31 December 2014), and are mainly due deferred tax liabilities entered as the offsetting item in the income statement.

(thousands of euros)

NON-CURRENT TAX LIABILITIES

	31/12/2015	31/12/2014
Deferred tax liabilities		
- recognised in income statement	3,110,039	3,685,024
- recognised in equity	17	35
Total	**3,110,056**	**3,685,059**

Deferred tax liabilities are broken down as follows:

(thousands of euros)

DEFERRED TAX LIABILITIES: COMPOSITION

	31/12/2015	31/12/2014
Deferred tax liabilities recognised in income statement	**3,110,039**	**3,685,024**
- surplus paid in instalments	18,107	35,931
- staff severance pay	8,290	9,764
- leasing		
- Property, plant and equipment	2,996,798	3,363,406
- own securities		
- equity investments	19,552	-
- other financial instruments		
- technical provisions		
- exchange rate differences		
- other temporary differences	67,292	275,923
Deferred tax liabilities recognised in equity	**17**	**35**
- financial assets available for sale		
- Law 169/83 reserves		
- Law 213/98 reserves		
- Other reserves		
- other	17	35
Total	**3,110,056**	**3,685,059**

Deferred tax liabilities for Property, Plant or Equipment amounted to €2,018 million, consisting of deferred taxes recognised with the recognition of the highest price paid for the purchase of the subsidiaries TERNA and SNAM (PPA).

The following table shows the changed in deferred taxes recorded during the financial year:

(thousands of euros)

CHANGES TO DEFERRED TAX ASSETS (RECOGNISED IN INCOME STATEMENT)

	31/12/2015
1. Opening balance	**3,685,024**
2. Increases	**30,296**
2.1 Deferred tax assets recognised during the year	7,380
a) in respect of previous periods	
b) due to change in accounting policies	
c) others	7,380
2.2 New taxes or increases in tax rates	
2.3 Other increases	3,364
2.4 Business combination transactions	19,552
3. Decreases	**605,281**
3.1 Deferred tax assets derecognised during the year	208,778
a) reversals	155,485
b) due to change in accounting policies	
c) others	
3.2 Reduction in tax rates	354,673
3.3 Other decreases	41,830
3.4 Business combination transactions	
4. Closing balance	**3,110,039**

The change in deferred tax liabilities recorded against the reduction in tax rates resulted from the forecast included in the 2016 Stability Law (Italian Law no. 208

of 28 December 2015) for the reduction of IRES rates from 27.5% to 24% with effect from 2017.

The table below shows the changes in deferred tax liabilities recorded (offsetting entry in equity):

(thousands of euros)

CHANGES IN DEFERRED TAX ASSETS (RECOGNISED IN EQUITY)

	31/12/2015
1. Opening balance	**35**
2. Increases	
2.1 Deferred tax assets recognised during the year	
a) in respect of previous periods	
b) due to change in accounting policies	
c) others	
2.2 New taxes or increases in tax rates	
2.3 Other increases	
2.4 Business combination transactions	
3. Decreases	**18**
3.1 Deferred tax assets derecognised during the year	
a) reversals	
b) due to change in accounting policies	
c) others	
3.2 Reduction in tax rates	
3.3 Other decreases	18
3.4 Business combination transactions	
4. Closing balance	**17**

P.7 OTHER NON-CURRENT LIABILITIES

The table below shows the composition of Other non-current liabilities, recorded in the financial statements at 31 December 2015 for €417 million (€ 397 million at 31 December 2014) and consisting mainly of accrued liabilities and deferred income from regulated activities of the SNAM Group.

(thousands of euros)

OTHER NON-CURRENT LIABILITIES: COMPOSITION

	31/12/2015	**31/12/2014**
Accrued liabilities and deferred income	22,478	27,826
Accrued liabilities and deferred income from regulated	272,763	265,925
Other liabilities	121,286	102,956
Total	**416,527**	**396,707**

P.14 LIABILITIES DIRECTLY ATTRIBUTABLE FOR AVAILABLE-FOR-SALE ASSETS

Liabilities directly attributable to assets held for sale, for an amount of approx. €7 million, concern environmental provisions for expenses for remediation work on a building complex classed under Assets held for sale.

(thousands of euros)

LIABILITIES DIRECTLY ATTRIBUTABLE FOR AVAILABLE-FOR-SALE ASSETS

	31/12/2015	31/12/2014
C. Liabilities associated to individual assets held for sale		
C.1 Debts		
C.2 Securities		
C.3 Other liabilities		
Total C		
D. Liabilities associated to groups of individual assets held for sale		
D.1 Loans payable		
D.2 Financial liabilities		
D.3 Securities issued		
D.4 Funds		
D.5 Other liabilities	6,782	7,249
Total D	**6,782**	**7,249**

CURRENT LIABILITIES

P.8 Current portion of long-term loans

The item, which at 31 December 2015 amounted to €1,510 million (€1,764 million at 31 December 2014) includes the current portion of long-term loans.

(thousands of euros)

LOANS: CURRENT PORTION

	31/12/2015	31/12/2014
Bonds	1,363,364	975,244
- EMTN programme	*1,355,065*	*975,244*
- other issues	*8,299*	*-*
Bank loans	143,759	787,801
Other lenders	3,197	743
Total	**1,510,320**	**1,763,788**

P.9 Trade payables

Trade payables recorded in the consolidated financial statements at 31 December 2015 amounted to €2,864 million (€2,920 million at 31 December 2014) and were broken down as follows:

(thousands of euros)

TRADE PAYABLES

	31/12/2015	31/12/2014
Payables due to suppliers	2,853,605.00	2,890,813.00
- energy-related payables	*1,435,677*	*1,361,789*
- non-energy-related payables	*724,308*	*712,627*
- GAS sector payables	*693,620*	*816,397*
Payables due to associates		9,887
Payables for construction contracts	10,349	19,500
Total	**2,863,954**	**2,920,200**

Energy-related trade payables (€1,436 million) are from TERNA's accounts, relating to the financial effects of "pass-through" costs, principally related to electricity dispatching operations of Terna, as well as the transport fees due to other owners of portions of the national transmission grid.

Non-energy trade payables of €724 million also result from the consolidation of the TERNA Group's accounts but refer to exposures to suppliers for invoices received and to be received in relation to contracts, performances, services and purchases of goods and equipment.

Trade payables in the GAS segment totalled €694 million and mainly refer to the gas transportation (€476 million, of which €414 million deriving from gas system balancing activities), distribution (€115 million) and storage (€52 million) sectors, and regasification of natural gas for €2 million.

P.10 INCOME TAX LIABILITIES

Current tax liabilities amounted to €17 million at 31 December 2015 (€2 million at 31 December 2014) and were broken down as follows:

(thousands of euros)

CURRENT TAX LIABILITIES

	31/12/2015	31/12/2014
Income tax payables		
- Ires payables	6,799	873
- Irap payables	8,567	1,442
- other tax payables	1,421	
Total	**16,787**	**2,315**

P.11 CURRENT FINANCIAL LIABILITIES

The item pertaining to Other financial liabilities amounted to €1,895 million at 31 December 2015 (€2,216 million at 31 December 2014) and referred mainly to uncommitted credit facilities used by SNAM and Terna.

(thousands of euros)

CURRENT FINANCIAL LIABILITIES

	31/12/2015			31/12/2014		
	L1	L2	L3	L1	L2	L3
Fair value-related hedging derivatives		3,107				
a) interest rate risk		3,107				
b) exchange rate risk						
c) several risks						
Cash flow hedge-related derivatives		587			6,859	
a) interest rate risk		587			6,859	
b) exchange rate risk						
c) other						
Non-hedging derivatives						
Other financial liabilities	120,610	3,373	1,767,168	148,475		2,060,563
Total	**120,610**	**7,067**	**1,767,168**	**148,475**	**6,859**	**2,060,563**

P.12 OTHER CURRENT LIABILITIES

Other Current tax liabilities amounted to €1,406 million at 31 December 2015 (€1,282 million at 31 December 2014) and were broken down as shown in the following table:

(thousands of euros)

OTHER CURRENT LIABILITIES :COMPOSITION

	31/12/2015	31/12/2014
VAT payables	34,821	33,468
Irpef withholdings on employees	6,295	5,564
Other duties and taxes	15,787	20,740
Accrued liabilities and deferred income	9,271	14,062
Advances	60,148	44,692
Payables due to pension and social security institutions	43,323	47,206
Payables due to employees	89,477	99,262
Accrued liabilities and deferred income from regulated activities	56,436	42,628
Other liabilities	1,090,217	973,571
Total	**1,405,775**	**1,281,193**

Other liabilities, totalling €1,090 million, are mainly ascribable to:

- debts for investing activities of the SNAM Group for €467 million;
- liabilities due to CCSE (€418 million) that mainly refer to accessory tariff components pertaining to natural gas transportation and distribution activities;
- securities for €57 million received by electricity market operators as a guarantee for contractual obligations with respect to electricity dispatching agreements.

III - INFORMATION ON THE INCOME STATEMENT

A. REVENUES

A.1 REVENUES FROM SALES AND SERVICES

(thousands of euros)

REVENUES FROM SALES AND SERVICES

	31/12/2015	31/12/2014
Revenues from electricity dispatching and distribution		
Grid transport consideration receivables	1,706,568	
CTR adjustments for previous years	(175)	
Service quality	(4,710)	
Other energy revenues	151,363	
Other sales and performance	158,867	
Total	**2,011,913**	
- of which IFRIC 12 revenues	26,170	
Revenues from storage, transportation, regasification and distribution of natural gas		
Storage	396,936	401,950
Distribution	1,347,525	1,288,623
Transport and dispatching	2,036,003	2,012,100
Regasification	17,880	18,495
Other sales and performance	57,860	63,296
Total	**3,856,204**	**3,784,464**
- of which IFRIC 12 revenues	320,826	315,690
Total	**5,868,117**	**3,784,464**

The increase on revenues from sales and services is attributable to the full line-by-line consolidation of Terna's income statement as of the financial year 2015.

Grid transport consideration receivables refer to the remuneration due to Terna for the use of the National Transmission Grid, and reflect the updated fees for 2015. Other energy revenues mainly comprise fees paid to Terna by electricity operators for dispatching. Lastly, other sales and performance derive from energy purchases and sales carried out daily with electricity market operators for dispatching purposes.

SNAM's revenues from core operations, which at 31 December 2015 stood at €3,856 million, relate mainly to the natural gas transportation (€2,036 million), distribution (€1,348 million), storage (€397 million), regasification of LNG (€18 million sectors) and other sales (€58 million). These revenues are shown net of additional tariffs to cover the general costs of the gas system. Amounts collected by SNAM are paid out at the same amount to the Electricity Equalisation Fund (CCSE).

A.2 Other revenues and income

The table below details the composition of other revenues and income, which at 31 December 2015 amounted to €184 million (€98 million at 31 December 2014).

(thousands of euros)

OTHER REVENUES AND INCOME

	31/12/2015	31/12/2014
Other revenues and income from electricity dispatching and distribution	**70,209**	
Rental income	22,845	
Lease of Business Unit		
Other contributions	12,731	
Other income	34,633	
Other revenues and income from storage, transportation, regasification and distribution of natural gas	**113,727**	**98,207**
Revenues from the sale of gas for the balancing service	48,840	45,177
Income from the sale of energy efficiency securities		
Gains on disposal from property, plant and equipment and intangible assets	2,825	1,293
Rental income	5,162	5,763
Revenues from disposal of goods no longer functional to the natural gas transport acti		-
Contractual penalties and other income relating to trade transactions	2,126	3,113
Other income	54,774	42,861
Total	**183,936**	**98,207**

B. Operating costs

B.1 Raw materials and consumables used

The composition of costs for raw materials and services is shown in the table below:

(migliaia di euro)

COSTI PER MATERIE PRIME

	31/12/2015	31/12/2014
Materie prime, sussidiarie, di consumo e merci	(357.617)	(191.779)
Incrementi per lavori interni	81.873	68.377
Totale	**(275.744)**	**(123.402)**

The item represents the value of the consumption of materials and miscellaneous equipment for ordinary plant operation and maintenance equipment, as well s the consumption of materials for the fulfilment of orders.

B.2 Services

Costs for services recorded in the financial statements at 31 December 2015 amounted to €665 million (€535 million at 31 December 2014) and were broken down as follows:

(thousands of euros)

COSTS FOR SERVICES: COMPOSITION

	31/12/2015	31/12/2014
Construction, planning and works management	(179,592)	(165,561)
IT services (Information Technology)	(80,427)	(75,998)
Purchase of transport capacity (interconnection)	(58,622)	(57,000)
Maintenance services	(52,749)	(36,157)
Technical, legal, administrative and professional services	(49,663)	(46,693)
Personnel-related services	(32,778)	(29,613)
Telecommunications services	(25,351)	(22,062)
Electricity, thermal energy, water, etc.	(20,397)	(20,844)
Insurance	(25,042)	(18,087)
Other services	(104,604)	(53,735)
Costs for leases and rentals	(109,220)	(88,795)
- fees, patents and user licenses	*(66,059)*	*(62,420)*
- leases and rentals	*(43,161)*	*(26,375)*
Increases for internal work	77,340	79,654
Total	**(661,105)**	**(534,891)**

Costs for professional services included the 2015 fees for statutory accounting and certification services provided to companies of the CDP Reti Group by independent auditors.

The following disclosure is provided pursuant to Article 149-*duodecis* of CONSOB Issuers' Regulations:

(thousands of euros)

INDEPENDENT STATUTORY AUDITOR FEES

	PricewaterhouseCoopers		Ernst & Young
	CDP RETI	TERNA	SNAM
Auditing	176	479	1,037
Certification	56	152	415
Tax consultancy services			
Total	**232**	**631**	**1,452**

B.3 STAFF COSTS

Staff costs are analysed as follows:

(thousands of euros)

STAFF COSTS: COMPOSITION

	31/12/2015	31/12/2014
1) Employees	**(756,332)**	**(403,136)**
a) salaries and wages	(508,306)	(285,670)
b) social security charges	(119,690)	(89,533)
c) staff severance pay	(16,682)	(6,548)
d) pension costs	(34,245)	
e) provision for staff severance pay	(1,049)	
f) provision for post-employment benefits:	(2,367)	(19,522)
- defined contribution	0	
- defined benefits	(2,367)	(19,522)
g) payments to external supplementary pension plans:	(12,057)	0
- defined contribution	(3)	
- defined benefits	(12,054)	
h) costs related to payment agreements based on own equity instruments	0	
i) other benefits for employees	(61,936)	(1,863)
2) Other personnel in service	(4,314)	
3) Board of Directors and Board of	(11,702)	(3,938)
4) Retired personnel	0	
5 Increases for internal work - work	134,353	62,552
Total	**(637,995)**	**(344,522)**

Staff costs for employees, which, at 31 December 2015, before their recognition to fixed assets, totalled € 757 million, are mainly attributable:

- for € 305 million to Terna Group employees, whose average headcount totalled 3,801 in 2015;
- for € 452 million to SNAM Group employees, whose average headcount totalled 6,213 in the same period.

The following table shows the average headcount for group employees by contractual level:

Average headcount

	31/12/2015	31/12/2014
Senior Managers	206	184
Middle Managers	1,161	1,136
Office staff	5,367	5,198
Manual workers	3,283	3,035
Total	**10,017**	**9,553**

B.4 Amortisation, depreciation and impairment

The item Amortisation, depreciation and impairment, for an amount of €1,687 million (€1,038 million at 31 December 2014) consisted of the following:

(thousands of euros)

AMORTISATION, DEPRECIATION AND IMPAIRMENT

	31/12/2015				31/12/2014			
	Amortisation and depreciation (a)	Impairment adjustments (b)	Writebacks (c)	Net result (a+b+c)	Amortisation and depreciation (a)	Impairment adjustments (b)	Writebacks (c)	Net result (a+b+c)
Property, plant and equipment	(1,184,852)	(25,335)		(1,210,187)	(681,288)	(6,212)		(687,500)
Intangible assets	(476,336)			(476,336)	(350,366)			(350,366)
Total	**(1,661,188)**	**(25,335)**	**0**	**(1,686,523)**	**(1,031,654)**	**(6,212)**	**0**	**(1,037,866)**

Writedowns for impairment were mainly attributable to the contribution of the TERNA Group, as a result of the cancellation of the authorisation of the project for construction of the Dolo-Camin line and of the analysis on the effective recoverability of the book value of some specific Terna Plus plants.

B.5 Other operating costs

Other operating costs, which, at 31 December 2015, amounted to €143 million (€117 million at 31 December 2014), and are detailed in the table below:

(thousands of euros)

OTHER OPERATING COSTS: COMPOSITION

	31/12/2015	31/12/2014
Indirect duties and taxes	(37,371)	(25,587)
Losses from cancellation of property, plant and machine and intangible assets	(35,673)	(21,202)
Provisions for bad debts	(34,762)	1,216
Methane gas consumption tax	(1,121)	(1,181)
Electricity service quality charges	(7,878)	
Net provision for risks and charges	8,643	(64,295)
Other costs	(34,639)	(5,904)
Total	**(142,801)**	**(116,953)**

The provision for bad debts of €35 million is attributable to SNAM's contribution for €31 million: it refers mainly to the transportation sector and relates to the devaluation carried out on the nominal value of the receivables resulting from the balancing service against the partial recognition by the Authority of receivables for the period between 1 December 2011-23 October 2012.

C. Financial income (expense)

C.1. Financial income

The item Financial income, for an amount of €26 million (€21 million at 31 December 2014) consisted of the following:

(thousands of euros)

FINANCIAL INCOME: COMPOSITION

	31/12/2015	31/12/2014
Interest income and other financial income	10,573	1,683
Positive exchange rate differences	1,687	
Debt adjustment and relevant hedges	1,067	
Other financial income	12,581	19,276
Differentials on derivative contracts		
Adjustment at fair value of derivative contracts		167
Total	**25,908**	**21,126**

C.2. Financial income

Financial costs recorded in the financial statements at 31 December 2015 amounted to €571 million (€419 million at 31 December 2014) and were broken down as follows:

(thousands of euros)

BORROWING EXPENSES: COMPOSITION

	31/12/2015	31/12/2014
Interest expense on bonds	(366,187)	(349,349)
Interests and other charges payable to banks and other lenders	(208,501)	(37,778)
Debt adjustment and relevant hedges		
Other borrowing costs	(52,693)	(69,065)
Capitalised borrowing costs	58,301	37,414
Differentials on derivative contracts	(1,440)	(660)
Adjustment at fair value of derivative contracts	(378)	
Total	**(570,898)**	**(419,438)**

C.3 Portion of income (expenses) from equity investments valued with the equity method

Revenues and costs for equity investments, amounting to €136 million at 31 December 2015 (€81 million at 31 December 2014) consisted of the following:

(thousands of euros)

PORTION OF INCOME (EXPENSES) FROM EQUITY INVESTMENTS VALUED WITH THE EQUITY METHOD

	31/12/2015	31/12/2014
1. Joint ventures		
A. Income	**135,579**	**78,447**
1. Revaluations	135,542	52,490
2. Gains on disposal		
3. Writebacks		
4. Other	37	25,957
B. Charges		**(286)**
1. Impairment		
2. Impairment adjustments		
3. Losses on disposal		
4. Other		(286)
Net result	**135,579**	**78,161**
2. Companies subject to significant influence		
A. Income	**3,362**	**2,412**
1. Revaluations	2,295	
2. Gains on disposal		
3. Writebacks		
4. Other	1,067	2,412
B. Charges	**(3,331)**	
1. Impairment		
2. Impairment adjustments	(3,331)	
3. Losses on disposal		
4. Other	-	
Net result	**31**	**2,412**
Total	**135,610**	**80,573**

E. TAXES FOR THE FINANCIAL YEAR

Taxes for the financial year were recorded in the financial statements for €415 million (€128 million at 31 December 2014) and were broken down as follows:

(thousands of euros)

TAXES FOR THE YEAR

Component/Values		31/12/2015	31/12/2014
1.	Current taxes (-)	(940,597)	(720,951)
2.	Change in current taxes from previous years (+/-)	21,162	(1,280)
3.	Reduction of current taxes for the year (+)		
4.	Change in deferred tax assets (+/-)	(51,461)	(49,963)
5.	Change in deferred tax liabilities (+/-)	556,072	643,865
6.	Taxes for the year (-) (-1+/-2+3+/-4+/-5)	(414,824)	(128,329)

The reconciliation between the theoretical and actual tax liability is shown below:

(thousands of euros)

Income (loss) before taxes	**2,234,765**
IRES theoretical tax liability 27.5%	**(614,560)**
Increases in taxes	
- temporary differences	(86,329)
- permanent differences	(37,718)
- other changes	(191,874)
Decreases in taxes	
- dividends 95% exempt	117,653
- non-taxable income	0
- temporary differences	11,340
- permanent differences	(14,500)
- ACE benefit	18,031
Ires surtax (so-called Robin Hood tax)	0
Effect of different foreign tax rates	966
IRES Actual tax liability	**(796,991)**

(thousands of euros)

IRAP tax base	**3,038,105**
IRAP theoretical tax liability 3.9%	**(118,486)**
Increases in taxes	
- increases	(5,692)
- other changes	(2,697)
- effect of different regional tax rates	(17,176)
Decreases in taxes	
- decreases	445
IRAP Actual tax liability	**(143,606)**

G. NET INCOME FROM DISCOUNTED OPERATIONS

The item, which at 31 December 2015 amounted to €7.3 million (it had not been recorded in 2014), is attributable to Terna's contribution and records the effects of the release of the provision for tax obligation liabilities resulting from the sale of Terna Participações by the Parent Company, that are considered extinguished due to the expiry of the collection period for the Brazilian local authority.

IV - BUSINESS COMBINATIONS

BUSINESS COMBINATIONS CARRIED OUT DURING THE PERIOD

The business combinations carried out during the financial year are summarised below:

Acquisition of ACAM GAS S.p.A.

On 1 April 2015, Italgas (SNAM group) completed the acquisition from Acam of the 51% stake in Acam Gas, for a total price of €46 million. Through this transaction, Italgas, which already held 49% of Acam Gas, acquired the total share capital of the company, further strengthening its gas distribution operations within the local area of La Spezia. Acam Gas is the proprietor of the gas distribution service in the town of La Spezia and in 28 other municipalities located in the La Spezia province, with around 112,000 active re-delivery points and a network of about 1,400 Km.

Acquisition of TES – Transformer Electro Services S.r.l.

On 30 October 2015 the business combination between Tamini Trasformatori S.r.l. and TES was perfected, as a result of which Terna Plus holds a 70% of the share capital of Tamini, whereas Holdco TES owns the remaining 30%.
The fee was determined on the basis of the contribution to the balance of the Tamini Group on the acquisition date, for a share of 30%, equal to €24.7 million.

Acquisition of Rete S.r.l.

On 23 December 2015, Terna S.p.A. acquired the entire share capital of Rete S.r.l., up to then a company owned by Ferrovie dello Stato.
The transaction was structured in two phases: initially the company belonging to the Ferrovie RFI Group carried out a partial demerger of a Business Unit consisting of high and ultra-high power lines in favour of the beneficiary

company S.E.L.F. and then Terna S.p.A. acquired the entire share capital of the company, renaming it Rete S.r.l.
The price was set at €757 million and was fully paid.

V - TRANSACTIONS WITH RELATED PARTIES

V.1 INFORMATION ON DIRECTORS' AND STATUTORY AUDITORS' REMUNERATION

The following table reports the remuneration paid to members of the Board of Directors, Board of Auditors and key management personnel of the Parent Company and the wholly-owned consolidated subsidiaries.

(thousands of euros)

REMUNERATION FOR DIRECTORS AND STATUTORY AUDITORS

	Directors		Board of Auditors		Key management personnel	
	Amount due	Amount paid	Amount due	Amount paid	Amount due	Amount paid
a) short-term benefits	(9,641)	(2,133)	(1,176)	(350)	(3,478)	(3,406)
b) post-employment benefits	(154)					
c) other long-term benefits	(731)				(1,247)	
d) severance benefits						
e) share-based payments						
Total	**(10,526)**	**(2,133)**	**(1,176)**	**(350)**	**(4,725)**	**(3,406)**

V.2. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

The following table reports assets, liabilities, revenues and costs in respect of transactions undertaken by the CDP Reti Group in 2015 with companies subject to significant influence and joint control, companies of the CDP Group, and with companies controlled by the Ministry for the Economy and Finance.

(thousands of euros)

TRANSACTIONS WITH RELATED PARTIES

Name	Assets	Liabilities	Off-balance sheet	Economic relationships
ANAS S.p.A.	2,995	4,622	0	3,426
Cassa Depositi e Prestiti S.p.A.	344,075	1,183,582	0	(18,498)
CDP Gas S.r.l.	68	0	0	68
CESI S.p.A.	20,876	9,737	3,200	(2,962)
CORESO S.A.	0	0	0	(1,590)
Enel Italia	334,384	29,515	445,800	1,517,715
ENEL S.p.A.	109,456	46,751	0	441,485
ENI S.p.A.	506,451	163,887	3,250	1,951,908
EniPower SpA	1,327	573	24,100	5,580
Finmeccanica S.p.A.	4,726	110	0	(72)
Fintecna S.p.A.	25	0	0	(68)
Fondenel	0	0	0	(397)
Fopen	0	1,549	0	(1,950)
FS - Ferrovie dello Stato Italiane S.p.A.	1,613	3,006	22,000	(5,612)
GasBridge 1 B.V.	0	9,317	0	(91)
GasBridge 2 B.V.	0	9,382	0	(91)
GSE - Gestore dei Servizi Energetici S.p.A.	6,356	1,403	0	44,614
Metano S.Angelo Lodigiano S.p.A.	158	0	0	284
Ministry for the Economy and Finance	117	0	0	20
TIGF Holding S.A.S.	11	4	0	96
TIGF Investissements S.A.S.	1,048	21	0	142
TIGF S.A.	223	205	0	77
Toscana Energia S.p.A.	3,229	98	0	2,262
Trans Adriatic Pipeline AG	77,726	0	0	50
Trans Austria Gasleitung GmbH	1,745	1,138	0	1,707
Umbria Distribuzione Gas S.p.A.	531	0	0	560
Total	**1,417,140**	**1,464,900**	**498,350**	**3,938,663**

VI – FINANCIAL RISK MANAGEMENT

The policies for the management and monitoring of the main financial risks are described in the section 3.3 “Risk factor” of the Report on operations for the Group.

VII - SEGMENT REPORTING

This section of the notes to the consolidated financial statements has been drafted in compliance with IFRS 8 - Operating Segments, in force since 01 January 2009 in replacement of IAS 14 - Segment Information.

CDP RETI's corporate purpose is the holding and management, both on an ordinary and extraordinary basis, of the equity investments in SNAM and TERNA, monitoring the infrastructure they operate to ensure it is developed and maintained appropriately, and developing the necessary expertise in gas transport, dispatching, distribution, regasification and storage, and electricity transmission, in order to oversee its investments most effectively.

The segments that CDP RETI and its subsidiaries operate in essentially consist of:

- gas transport, distribution, regasification and storage handled by the companies of the SNAM Group;
- dispatch and transmission of electricity handled by the companies of the TERNA Group.

Below the results by business segment as at 2015 and 2014 as well as the reconciliation to the Group net income.

Reconciliation Income Statement - Sectors Key financial figures (millions of euros)	2015 CDP RETI	SNAM	TERNA	Consolidation	Group 2015
Revenues from sales and services	0	3,856	2,012	0	5,868
Other revenues and income	0	114	70	0	184
Revenues from financial statement	**0**	**3,970**	**2,082**	**0**	**6,052**
Reclassifications (*)	0	(321)	(26)	0	(347)
Revenues from sectors	**0**	**3,649**	**2,056**	**0**	**5,705**
EBITDA	**(4)**	**2,799**	**1,539**	**(3)**	**4,331**
EBITDA margin		*77%*	*75%*		*76%*
Ammortisation, depreciation and impairment	0	(849)	(517)	(321)	(1,687)
Operating profit (EBIT)	**(4)**	**1,950**	**1,022**	**(324)**	**2,644**
EBIT margin		53%	50%		46%
Financial income	374	13	13	(374)	26
Borrowing expenses	(24)	(393)	(154)	0	(571)
Portion of income (expenses) from equity investments valued with the equity method	0	136	0	0	136
Taxes for the year	13	(467)	(293)	332	(415)
Profit from discontinued operations	0	0	7	0	7
Net income from sectros	**358**	**1,238**	**595**	**(366)**	**1,827**

(*) Riclassification pursuant to IFRIC 12 “Service Concession Arrangements”.

Reconciliation Income Statement - Sectors Key financial figures (millions of euros)	2014 CDP RETI	SNAM	TERNA	Consolidation	Group 2014
Revenues from sales and services	0	3,784	0	0	3,784
Other revenues and income	0	98	0	0	98
Revenues from financial statement	**0**	**3,883**	**0**	**0**	**3,883**
Reclassifications (*)	0	(316)	0	0	(316)
Revenues from sectors	**0**	**3,567**	**0**	**0**	**3,567**
EBITDA	**(13)**	**2,776**	**0**	**0**	**2,763**
EBITDA margin		*77%*			*77%*
Ammortisation, depreciation and impairment	0	(803)	0	(235)	(1,038)
Operating profit (EBIT)	**(13)**	**1,973**	**0**	**(235)**	**1,725**
EBIT margin		55%			48%
Financial income	196	19	0	(194)	21
Borrowing expenses	(3)	(417)	0	0	(420)
Portion of income (expenses) from equity investments valued with the equity method	0	132	0	(51)	81
Taxes for the year	9	(509)	0	372	(128)
Profit from discontinued operations	0	0	0	0	0
Net income from sectros	**189**	**1,198**	**0**	**(108)**	**1,279**

(*) Riclassification pursuant to IFRIC 12 “Service Concession Arrangements”.

The consolidated information on balance sheet analyzed by senior management do not make direct reference to sector activities, but to the measurement and presentation of Equity, Net Financial Debt and Technical Investments.

VIII - GUARANTEES AND COMMITMENTS

Guarantees and commitments, amounting to €4.3 million in total at 31 December 2015 (€4.6 million at 31 December 2014) relate to SNAM and consisted of the following:

(thousands of euros)

GUARANTEES AND COMMITMENTS

	31/12/2015	31/12/2014
Guarantees pledged	124,439	134,022
Trade guarantees	124,439	75,940
Financial guarantees		0
Assets held as guarantee for third-party services		58,082
Commitments	1,898,604	1,563,241
Commitments for the purchase of goods and services	1,898,604	1,512,463
Commitments for the purchase of equity investments		46,530
Other		4,248
Risks	2,302,085	2,927,838
For third-party assets held for safekeeping	2,209,919	2,613,165
For damages and claims	92,166	314,673
Total	**4,325,128**	**4,625,101**

Guarantees

Other personal guarantees issued in the interest of subsidiaries (€124 million) refer to hold-harmless letters issued in favour of third parties mainly for participation in tenders and concessions relating to the natural gas distribution service (€68 million) and performance bonds (€53 million).

Commitments

Commitments with suppliers to purchase property, plant and equipment and provide services relating to investments in property, plant and equipment and intangible assets under construction totalled €1,898 million.

It is also noted that, with reference to TAP, the contractual agreements provide that the shareholders are responsible for the financing of the project for the

Western European gas exports, due to the equity investment held, until the entry into operation of the gas pipeline, as well as in case of expansion of its capacity.

Risks

Risks related to third-party assets on deposit, equal to €2,210 million relate to approximately 8.4 billion cubic metres of natural gas deposited in the storage plants by customers of the service.

Risks concerning compensation and litigation, equal to €93 million, are related to possible but not probable claims for compensation arising.

ANNEX: SCOPE OF CONSOLIDATION

PARENT COMPANY

Company name	Registered Office
CDP Reti S.p.A.	Roma (IT)

Company name	Registered Office	Investor	% holding	Consolidation method or valuation method
ACAM GAS S.p.A.	La Spezia (IT)	Italgas S.p.A.	100.00%	Line-by-line
Acqua Campania Spa	Napoli (IT)	Italgas S.p.A.	0.53%	Cost
Agenzia Napoletana per l'energia e per l'ambiente	Napoli (IT)	Napoletanagas S.p.A.	12.96%	Cost
Azienda Energia e Servizi Torino S.p.A.	Torino (IT)	Italgas S.p.A.	100.00%	Line-by-line
CESI S.p.A.	Milano (IT)	Terna S.p.A.	42.70%	Equity
CGES A.D.	Podgorica (MNE)	Terna S.p.A.	22.09%	Equity
CORESO S.A.	Bruxelles (BE)	Terna S.p.A.	20.00%	Equity
ELMED ETUDES sarl	Tunisi (TN)	Terna S.p.A.	50.00%	Equity
GasBridge 1 B.V.	Rotterdam (NL)	Snam S.p.A.	50.00%	Equity
GasBridge 2 B.V.	Rotterdam (NL)	Snam S.p.A.	50.00%	Equity
Gasrule Insurance Ltd	Dublino (IE)	SNAM S.p.A.	100.00%	Line-by-line
GNL Italia SpA	San Donato Milanese (IT)	SNAM S.p.A.	100.00%	Line-by-line
Italgas SpA	Torino (IT)	SNAM S.p.A.	100.00%	Line-by-line
Metano Sant'Angelo lodigiano S.p.A.	Sant'Angelo Lodigiano (IT)	Italgas S.p.A.	50.00%	Equity
Monita Interconnector S.r.l.	Roma (IT)	Terna S.p.a.	95.00%	Line-by-line
		Terna Rete Italia S.p.a.	5.00%	Line-by-line
Napoletana Gas SpA	Napoli (IT)	Italgas S.p.A.	99.69%	Line-by-line
Piemonte Savoia S.r.l.	Roma (IT)	Terna Interconnector S.r.l.	100.00%	Line-by-line
PRISMA European Capacity Platform Gmbh	Leipzing(DE)	Snam Rete Gas S.p.A.	14.66%	Cost
Rete S.r.l.	Roma (IT)	Terna S.p.a.	100.00%	Line-by-line
SNAM RETE GAS S.p.A.	San Donato Milanese (IT)	SNAM S.p.A.	100.00%	Line-by-line
SNAM S.p.A.	San Donato Milanese (IT)	CDP RETI S.p.A.	28.98%	Line-by-line
Stogit S.p.A.	San Donato Milanese (IT)	SNAM S.p.A.	100.00%	Line-by-line
Tamini Transformers USA L.L.C.	Chicago (USA)	Tamini Trasformatori S.r.l.	100.00%	Line-by-line
Tamini Trasformatori S.r.l.	Melegnano (IT)	Terna Plus S.r.l.	70.00%	Line-by-line
Terna Chile S.p.A.	Santiago del Cile (CL)	Terna Plus S.r.l.	100.00%	Line-by-line
Terna Crna Gora D.o.o.	Podgorica (ME)	Terna S.p.a.	100.00%	Line-by-line
Terna Interconnector S.r.l.	Roma (IT)	Terna S.p.a.	65.00%	Line-by-line
		Terna Rete Italia S.p.a.	5.00%	Line-by-line
Terna Plus S.r.l.	Roma (IT)	Terna S.p.a.	100.00%	Line-by-line
Terna Rete Italia S.p.a.	Roma (IT)	Terna S.p.a.	100.00%	Line-by-line
Terna Rete Italia S.r.l.	Roma (IT)	Terna S.p.a.	100.00%	Line-by-line
Terna S.p.a.	Roma (IT)	CDP RETI S.p.A.	29.85%	Line-by-line
Terna Storage S.r.l.	Roma (IT)	Terna S.p.a.	100.00%	Line-by-line
TES Transformer Electro Service Asia Private Limited	Magarpatta City, Hadapsar, Pune (IND)	TES Transformer Electro Service S.r.l.	100.00%	Line-by-line
TES Transformer Electro Service S.r.l.	Ospitaletto (IT)	Tamini Trasformatori S.r.l.	100.00%	Line-by-line
TIGF Holding S.A.S.	Pau (FR)	Snam S.p.A.	40.50%	Equity
Toscana Energia S.p.A.	Firenze (IT)	Italgas S.p.A.	48.08%	Equity
Trans Adriatic Pipeline	Baar (CH)	Snam S.p.A.	20.00%	Equity
Trans Austria Gasleitung G.M.B.H. (TAG) (*)	Vienna (AT)	Snam S.p.A.	84.47%	Equity
Umbria Distribuzione Gas S.p.A.	Terni (IT)	Italgas S.p.A.	45.00%	Equity
V.T.D. Trasformatori S.r.l.	Valdagno (IT)	Tamini Trasformatori S.r.l.	100.00%	Line-by-line

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

pursuant to Art. 154 bis of Legislative Decree 58/1998

Certification of the consolidated financial statements pursuant to Article 81ter of Consob Regulation no. 11971 of 14 May 1999 as amended

1. The undersigned Leone Pattofatto, in his capacity as Chief Executive Officer, and Alessandro Uggias, in his capacity as the manager responsible for the preparation of the financial reports of CDP RETI S.p.A., hereby certify, taking account of the provisions of Article 154-bis.3 and 4, of Legislative Decree 58 of 24 February 1998:

- the appropriateness with respect to the characteristics of the company and
- the effective adoption

of the administrative and accounting procedures for the preparation of the consolidated financial statements in 2015.

2. In this regard:

2.1 the assessment of the appropriateness of the administrative and accounting procedures followed in preparing the consolidated financial statements at 31 December 2015 was based on a process developed by CDP RETI S.p.A. in line with the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission, which is a generally accepted framework at the international level;

2.2 in 2015 the Financial Reporting Manager of CDP RETI S.p.A. assessed the adequacy and effective adoption of existing administrative and accounting procedures, with reference to the internal control system for financial reporting.

3. In addition, we certify that:

3.1 the consolidated financial statements:

a) have been prepared in compliance with the international accounting standards adopted in the European Union pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

b) correspond to the information in the books and other accounting records;

c) provide a true and fair representation of the performance and financial position of the issuer and the companies included in the scope of consolidation;

3.2 the report on operations contains a reliable analysis of operations and performance, as well as the situation of the issuer and the companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Rome, 27 April 2016

Chief Executive Officer	Financial Reporting Manager
/signature/Leone Pattofatto	*/signature/Alessandro Uggias*

REPORT OF THE INDEPENDENT AUDITORS

pwc

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

CDP RETI SPA

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

To the shareholders of
Cdp Reti SpA

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the Cdp Reti Group, which comprise the consolidated balance sheet as of 31 December 2015, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidate cash flows statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

PricewaterhouseCoopers SpA

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

www.pwc.com/it

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

Opinion

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

Report on compliance with other laws and regulations

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

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

Rome, 27 April 2016

PricewaterhouseCoopers SpA

Signed by

Lorenzo Pini Prato
(Partner)

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

CDP RETI S.p.A.

COMPANY BODIES AND OFFICERS

BOARD OF DIRECTORS (*)

Franco Bassanini	*Chairman*
Leone Pattofatto (**)	*Chief Executive Officer*
Cristiana Procopio (***)	*Director*
Jun Yu	*Director*
Yunpeng He	*Director*

BOARD OF AUDITORS (*)

Guglielmo Marengo	*Chairman*
Francesca Di Donato	*Auditor*
Paolo Sebastiani	*Auditor*

Independent auditors (****) **PricewaterhouseCoopers S.p.A.**

(*)Appointed by the Shareholders' Meeting of 27 November 2014 – in office up to the date of the Shareholders' Meeting called for the approval of the financial statements for the year ended 31 December 2016.

(**)Appointed by co-optation by the Board of Directors on 6 August 2015 to replace Giovanni Gorno Tempini, director and Chief Executive Officer, who submitted his resignation on 10 July 2015. The Shareholders' Meeting held on 11 January 2016 confirmed Mr. Pattofatto as a member of the Board of Directors with term of office aligned with that of the other Directors in office.

(***)Appointed by co-optation by the Board of Directors on 31 March 2016 to replace Ludovica Rizzotti, director, who submitted his resignation on 25 March 2016. The Shareholders' Meeting held on 31 March 2016 confirmed Ms. Procopio as a member of the Board of Directors with term of office aligned with that of the other Directors in office.

(****) Engagement granted by the Shareholders' Meeting of 24 June 2015 for the period 2015 - 2023.

CONTENTS

REPORT ON OPERATIONS

SEPARATE FINANCIAL STATEMENTS

- BALANCE SHEET
- INCOME STATEMENT
- STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR
- STATEMENT OF CHANGES IN EQUITY
- CASH FLOW STATEMENT
- NOTES
- ANNEXES

REPORT OF THE INDEPENDENT AUDITORS

REPORT OF THE BOARD OF AUDITORS

Report on CDP RETI S.p.A. Operations

1. PARENT COMPANY OPERATIONAL PERFORMANCE

1.1 Financial Highlights

(thousands of euros)

Key financial figures		31/12/2015	31/12/2014
Dividends	thousands of euros	373,623	194,174
- of which Snam	thousands of euros	253,623	152,174
- of which Terna	thousands of euros	120,000	42,000
Pofit (loss) on operations	thousands of euros	(27,986)	(13,814)
Net income (loss)	thousands of euros	358,327	189,097

Key balance sheet and cash flow figures		31/12/2015	31/12/2014
Equity investment in Snam	thousands of euros	3,520,230	3,520,230
Equity investment in Terna	thousands of euros	1,315,200	1,315,200
Equity	thousands of euros	3,701,129	3,534,369
Net financial debt	thousands of euros	(1,130,960)	(1,309,754)

Other key figures and ratios		31/12/2015	31/12/2014
Net cash flow for the period	thousands of euros	178,975	(59,779)
ROE (*)	%	10%	5%
Net financial debt/Equity	Number	0.31	0.37
Net financial debt/Dividends	Number	3	7

(*) Return on equity (ROE) was calculated as the ratio of net profit to the average of the beginning and end shareholders' equity for the

1.2 Income Performance

CDP RETI S.p.A.'s income in the 2015 compared with the previous year are summarised in the operational income statement shown below.

(thousands of euros)

Income statement	**31/12/2015**	**31/12/2014**
Dividends	373,623	194,174
Pofit (loss) on core business	**373,623**	**194,174**
Financial income and expenses	(23,859)	(938)
Administrative expenses	(4,127)	(12,876)
Pofit (loss) on operations	**(27,986)**	**(13,814)**
Operating income	**345,637**	**180,360**
Income taxes	12,690	8,737
NET INCOME (LOSS)	**358,327**	**189,097**

The main components of CDP RETI's income derive from i) dividends distributed by SNAM and TERNA, totalling €374 million, ii) income taxes (€13 million), which are positive mainly due to the ACE benefit (Aiuto per la Crescita Economica – Allowance for Corporate Equity), adjusted in the current period due to the positive outcome of the appeal. Regarding dividends, in the year 2015, CDP RETI received the 2014 dividend distributed by SNAM totaling approximately €254 million (€152 received in 2014), the balance of the 2014 dividend distributed by TERNA, which joined the corporate perimeter in October 2014, totalling approximately €78 million, in addition to the interim dividend for 2015 distributed by TERNA amounting to €42 million.

Among the expense items, financial expenses stood at €24 million, relating mainly to interest expense on the Bridge Loan (€5 million), the Term Loan (€9 million) and the Bond (€8 million). In this regard, it should be noted that such charges were effective as from the last quarter of 2014, since the loan agreements (Term Loan and Bridge Loan) were disbursed on 20 November 2014, while the Bond was issued in first half of 2015.

The financial income of about €1.6 million recorded at 31 December 2014 related mainly to interest income on the irregular[8] deposit with the parent CDP, which fell during the first nine months of 2015 due to the fall in the benchmark rate (1-month Euribor, with previous month average).

Administrative expenses relate mainly to commissions (€2 million) paid to lenders for loan restructuring in May 2015 and advisory services (€1 million) required for the placement of the bond.

Lastly, tax income stood at €13 million, incorporating the income from the receivables with the parent CDP for the ACE benefit for 2014, only partially booked at the time while the outcome of the appeal to the tax authorities was pending; its positive outcome justifies the aforementioned income being booked in the accounts.

---

[8] With regard to the deposit agreement "by which one party (custodian) receives from the other (depositor) movable goods with the obligation to preserve them and to return them in kind" (Art. 1766 of the Italian Civil Code), in the irregular deposit (concerning money or other fungible goods) the custodian is not required to return exactly the same goods, but must return the same amount of the same kind and quality of goods. The custodian, therefore, at the time of delivery, becomes the owner of the goods delivered to the same (Art. 1782 of the Italian Civil Code).

The income and expenses referred to above led CDP RETI to end the year 2015 with net income of €358 million, a significant increase on the same period of 2014 (approx. +89%) due to the higher dividends received (+€180 million, as described above).

1.3 STATEMENT OF FINANCIAL POSITION

The financial position of CDP RETI S.p.A. at 31 December 2015 and at 31 December 2014 is summarised in the tables below.

(thousands of euros)

Assets		**31/12/2015**	**31/12/2014**
Equity investment in Snam		3,520,230	3,520,230
Equity investment in Terna		1,315,200	1,315,200
Other assets		5,769	8,875
Cash and cash equivalents		371,842	192,867
	Cash and cash equivalents	32,151	192,867
	Commercial Paper	339,691	-
TOTAL ASSETS		**5,213,041**	**5,037,172**

At 31 December 2015, assets totalled €5,213 million and primarily consisted of items relating to the investments in SNAM and TERNA (worth a total of €4,835 million) and to cash and cash equivalents that include mainly the Commercial Paper (the value at 31 December 2015 is approx. 340 million) issued by the parent company CDP and purchased by CDP RETI at the end of 2015, the residually amount of approximately 32 million representing the cash and cash equivalents with a bank.

With regard to the value of the equity investments in SNAM and TERNA, also in view of the most recent stock market valuations (SNAM: closing price on 30 December 2015 equal to 4.83 euro, volume weighted average for December

2015 equal to 4.79 euro; TERNA: closing price on 30 December 2015 equal to 4.76 euro, volume weighted average for December 2015 equal to 4.67 euro), which are significantly higher than the carrying value (3.47 euro for SNAM and 2.19 euro for TERNA), and in view of currently available information, there are no indicators of impairment that would negatively affect the equity investments' ability to hold their carrying value.
Considering that the carrying amount of the equity investments has remained unchanged compared to 31 December 2014, the €176 million increase in assets is due mainly to the €179 million increase in cash and cash equivalents, mainly as a result of the dividends received in the period by SNAM and TERNA (totalling €374 million, of which €254 from SNAM received in May and €120 from TERNA, of which €78 collected in June and €42 in November), net of dividends distributed to shareholders (€189 million).

The other changes in assets are mainly connected to: i) interest payments (approx. 17 million) for loans granted by the Parent company and a pool of banks ii) collection of consolidation receivables, of which approx. 9 million recognised in 2014 and liquidated in June, with additional 13 million recorded during the year (and collected in December) following the positive outcome of the questioning application about the ACE benefit.
The following table summarises the cash and cash equivalents and other treasury investments at 31 December 2015 including interest accrued but not yet credited.

(thousands of euros)

Cash and cash equivalents: composition	**31/12/2015**	**31/12/2014**
Irregular deposit with CDP	26	163,938
Commercial paper issued by CDP	339,691	
Banks	32,125	28,929
Totale	**371,842**	**192,867**

(thousands of euros)

Equity and Liabilities	**31/12/2015**	**31/12/2014**
Equity	3,701,129	3,534,369
Share capital and reserves	3,342,802	3,345,272
Net income for the period	358,327	189,097
Loans	1,507,132	1,502,621
- of which owed to CDP	(678,210)	(676,179)
Other liabilities	4,780	182
- of which owed to CDP	(4,408)	(100)
TOTAL LIABILITIES	**5,213,041**	**5,037,172**

At 31 December 2015, equity includes mainly: i) the value of the contribution by CDP, to the investment reserve, of approximately €3.5 billion to finance the acquisition of the investment in SNAM, net of the portion of that reserve distributed to CDP during the previous year (approx. €1.5 billion); ii) the share premium reserve deriving from the transfer of TERNA (approx. €1.3 billion); iii) the v**aluation reserve** (negative at -2.5 million) representing the fair value of the Interest Rate Swap (IRS), net of the related deferred taxation. This derivative contract was designed to hedge the variable cash flows relating to the Term Loan, essentially enabling the conversion of the cost of the loan from the original variable rate to a fixed cost.

Net equity showed an increase of 167 million, resulting from the contribution of the profit for the year (358 million), offset only in part by dividend distribution (189 million) and the effective hedge component of the swap valued at fair value (2.5 million net of the respective deferred tax).

Loans at 31 December 2015 totalled €1,507 million, considering both current and non-current portions, composed as follows:

(thousands of euros)

Loans	**31/12/2015**		**31/12/2014**	
	Not current	**Current**	**Not current**	**Current**
Bond	747,971	8,299	-	-
Term loan facility	750,000	862	500,000	1,243
Bridge to bond facility	-	-	-	1,001,378
Total	**1,497,971**	**9,161**	**500,000**	**1,002,621**

While total loans remained substantially unchanged compared to the end of the previous year, their composition has changed during the year as a result of the settlement of the Bridge Loan, the restructuring of the Term Loan and the bond issue.

The modest increase of approx. 4 million is mainly attributable to the debt on the interest due on the bond issue, which will fall due in May 2016.

For a deeper understanding of total loans, refer also to the following section.

Other liabilities at 31 December 2015 refer mainly to other financial liabilities (around €4 million), representative of the value of the Interest Rate Swap (IRS) derivative contract taken out for the purposes described above. The item was also residually affected by payables (€0.3 million) to the parent CDP for services performed by the latter’s departments, as well as payables (€0.3 million) to external suppliers, Staff and Company Bodies and Officers.

1.4 NET FINANCIAL DEBT

The net financial position at 31 December 2015 of CDP RETI S.p.A., prepared in accordance with the recommendation of the European Securities and Market Authority-ESMA (formerly CESR) of 10 February 2005, compared with the end of 2014, is composed as follows:

(thousands of euros)

NET FINANCIAL DEBT	**31/12/2015**	**31/12/2014**
A. Cash (1)	-	-
B. Cash equivalent (1)	371,842	192,867
C. Trading securities	-	-
D. Liquidity (A)+(B)+(C)	**371,842**	**192,867**
E. Current Financial Receivable (2)	**4,330**	**-**
F. Current Bank debt (3)	-	550,758
G. Current portion of non current debt (3)	9,161	1,243
H. Other current financial debt (3)	-	450,620
I. Current Financial Debt (F)+(G)+(H)	**9,161**	**1,002,621**
J. Net Current Financial Indebtedness (I)-(E)-(D)	**(367,011)**	**809,754**
K. Non current Bank loans (4)	412,500	275,000
L. Bond Issued (4)	747,971	-
M. Other non current loans (4)	337,500	225,000
N. Non current Financial Indebtedness (K)+(L)+(M)	**1,497,971**	**500,000**
O. Net Financial Indebtedness (J)+(N)	**1,130,960**	**1,309,754**

In the balance sheet of CDP RETI S.p.A.:
(1) Cash and cash equivalents
(2) Current financial assets
(3) Current portion of loans
(4) Loans

The item Cash and Cash Equivalents include the aforementioned Commercial Paper (340 million) and the amounts deposited with credit institutes (32 million), whilst current financial receivables refer to the amounts deposited with the Parent Company CDP as security for the derivative contract.

Short-term financial payables refer primarily to interests on the Bond (approx. 8 million) that shall be paid in May 2016, and, on a residual basis, to those payable for the Term Loan.

Long-term financial payables refer to the Term Loan (750 million) and the Bond (748 million, equal to a par value of 750 million, minus associated costs that are amortised over the entire term of the Bond).

Net financial debt improved in the first nine months of 2015 by around €179 million, mainly attributable to changes in the cash and cash equivalents, considering that the changes in short-term and long-term financial liabilities were substantially the same and attributable to debt restructuring during the period, as discussed above.

With specific reference to the change (approx. €179 million) in cash (irregular deposit with CDP and other cash and cash equivalents with banks, Commercial Paper), the year was, in summary terms, affected by:

- incoming cash flow of about €373 million from operating activities, mainly attributable to (i) dividends received from SNAM (€254 million) and Terna (€120 million); (ii) income resulting from tax consolidation (approx. 21 million in total); (iii) outflows for the interest on the on the existing loan (Term Loan) and on the repaid loan (Bridge Loan), for 9 million and 5 million respectively; (iv) amounts paid to the Parent Company as a surety for the existing derivative contract (approx. 4 million). Outgoings relating to the bond will begin to take effect in May 2016.
- outgoing cash flow from financing activities mainly connected to the distribution of the 2014 dividend (189 million).

Compared to 2014, an improvement of financial ratios was recorded. Specifically, the Net Financial Debt/Net Equity ratio (so-called "leverage"), which represents the degree of soundness of the capital structure in terms mix between net borrowings and Shareholders' Equity (Company's degree of dependency on external borrowing sources), amounted to 0.31, versus 0.37 in 2014, benefiting from higher dividends received by the subsidiaries SNAM and TERNA.

Also the Net Financial Debt/Dividend ratio (representative of the profit (loss) on core business of the Company), indicated a higher ability to repay financial debt compared to the end of 2014 (3 vs. 7).

2. REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE OF CDP RETI PURSUANT TO ARTICLE 123-BIS.2 B) OF THE CONSOLIDATED LAW ON FINANCIAL INTERMEDIATION (TUF)

With reference to the "Report on corporate governance and ownership structure: main features of the risk management systems and internal control existing in relation to the financial reporting process, including consolidated, pursuant to Article 123-bis, paragraph 2, letter b) of T.U.F. ", it is possible to refer to what is already stated in the paragraph 8 of the Report on operation of the consolidated financial statements, also applicable to the separate financial statements of CDP RETI S.p.A..

3. PROPOSED ALLOCATION OF 2015 NET INCOME

The Board of Directors proposes, for 2015, to distribute a total dividend of €358,326,884.70 of which 322,984,391.22 approved as an interim dividend on 11 January 2016.

The Board of Directors proposes, therefore, to allocate the net profit for FY 2015 of CDP RETI S.p.A., totalling €358,327,140.44, as follows:

- €322,984,391.22 to cover the account paid on the dividend no later than 18 January 2016;
- €35,342,493.48 to pay the balance of the dividend to be distributed in the amount of € 218.82 for each of the 161,514 shares to be assigned for payment - gross of any statutory withholdings – on 30 May 2016;
- €255.74 as profit carried forward.

Interim dividend 2015

The Board of Directors of CDP RETI S.p.A., in its meeting of 11 January 2016, based on the opinion of the independent auditors PricewaterhouseCoopers S.p.A. provided for by Article 2433-bis of the Italian Civil Code, approved the distribution of an interim dividend for 2015. Bearing in mind that CDP RETI S.p.A. in the first nine months of 2015 achieved a net profit of €323 million, the Company distributed an interim dividend of €1,999.73 per share paid by 18 January 2016.

Financial Statements 2015

CDP RETI

Società per azioni

REGISTERED OFFICE

ROME – Via Goito, 4

COMPANY REGISTER OF ROME

Entered in Company Register of Rome no. 12084871008

Registered with Chamber of Commerce of Rome at no. REA RM-1349016

SHARE CAPITAL

Share capital €161,514.00 fully paid up

Tax code and VAT registration no. 12084871008

Company subject to management and coordination by Cassa depositi e prestiti società per azioni – Via Goito 4, Rome – Share capital €3,500,000,000.00 fully paid up, registered with Chamber of Commerce of Rome at no. REA 1053767 - Tax code and Company Register of Rome no. 80199230584 - VAT registration no. 07756511007

FORM AND CONTENT
OF THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2015

The financial statements at 31 December 2015 have been prepared in accordance with applicable regulations and consist of:

- **THE BALANCE SHEET**
- **THE INCOME STATEMENT**
- **THE STATEMENT OF COMPREHENSIVE INCOME**
- **STATEMENT OF CHANGES IN EQUITY**
- **THE CASH FLOW STATEMENT**
- **NOTES**

The Notes consist of the following:

INTRODUCTION

I - Basis of presentation and accounting policies

II - Information on the balance sheet

III - Information on the income statement

IV - Information on risks and related hedging policies

V - Transactions with related parties

VI - Segment reporting

The section "Annexes", which is an integral part of the financial statements, also includes the separate financial statements at 31 December 2014 of the parent company Cassa depositi e prestiti S.p.A.

SEPARATE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

Balance sheet

Income statement

Statement of comprehensive income

Statement of changes in equity

Cash flow statement

Balance sheet

(euros)

Assets	Notes	31/12/2015	31/12/2014
Non-current assets			
Property, plant and equipment			
Investment property			
Intangible assets			
Equity investments	I.1.1.	4,835,430,115	4,835,430,115
Non-current financial assets			
Deferred tax assets	I.1.2.	1,261,093	14,421
Other non-current assets			
Total non-current assets		**4,836,691,208**	**4,835,444,536**
Current assets			
Loans to investees			
Current financial assets	I.2.1.	4,330,000	
Tax receivables	I.2.2.	109,566	131,004
Other current assets	I.2.3.	67,781	8,729,405
Cash and cash equivalents	I.2.4.	371,842,079	192,866,999
Total current assets		**376,349,426**	**201,727,408**
Total assets		**5,213,040,634**	**5,037,171,944**

Balance sheet

(euros)

Liabilities and equity	Notes	31/12/2015	31/12/2014
Equity			
Share capital	II.1.1.	161,514	161,514
Reserves	II.1.2.	3,345,110,811	3,345,110,811
Valuation reserves	II.1.3.	(2,470,398)	
Net income for the period (+/-)		358,327,140	189,097,115
Total Equity		**3,701,129,067**	**3,534,369,440**
Non-current liabilities			
Provisions			
Staff severance pay	II.2.1.	3,920	
Loans	II.2.2.	1,497,971,287	500,000,000
Other financial liabilities	II.2.3.	4,024,143	
Deferred tax liabilities			
Other non-current liabilities			
Total non-current liabilities		**1,501,999,350**	**500,000,000**
Current liabilities			
Current portion of loans	II.3.1.	9,161,055	1,002,620,917
Tax payables	II.3.2.	9,495	
Other current liabilities	II.3.3.	741,667	181,587
- Trade payables		189,107	21,938
- Payables to parent companies		383,756	99,692
- Payables due to pension and social security institutions		15,977	
- Other payables		152,827	59,957
Total current liabilities		**9,912,217**	**1,002,802,504**
Total liabilities and equity		**5,213,040,634**	**5,037,171,944**

INCOME STATEMENT

(euros)

Income statement items	Notes	31/12/2015	31/12/2014
Revenues			
Dividends	III.1.1.	373,622,872	194,173,723
Capital gains on equity investments			
Increases in the value of financial instruments			
Total revenues		**373,622,872**	**194,173,723**
Costs			
Capital expenditure			
Capital losses on equity investments			
Decreases in the value of financial instruments			
Total costs			
Profit (loss) on operations		**373,622,872**	**194,173,723**
Financial income	III.2.1.	205,974	1,683,006
Borrowing expenses	III.2.2.	(24,064,506)	(2,620,917)
Administrative expenses:	III.2.3.	(4,127,139)	(12,875,606)
a) staff costs		(385,481)	(99,032)
b) other administrative expenses		(3,741,658)	(12,776,574)
Amortisation, depreciation and impairment of non-current assets			
Impairment of current assets			
Profit (loss) on operations		**(27,985,671)**	**(13,813,517)**
Other operating income (costs)		1	1
Other income	III.3.1.	1	1
Other cost			
Income before taxes		**345,637,202**	**180,360,207**
Income taxes, current and deferred taxes	III.4.1.	12,689,938	8,736,908
NET INCOME FOR THE YEAR		**358,327,140**	**189,097,115**

STATEMENT OF COMPREHENSIVE INCOME *(euros)*

	31/12/2015	31/12/2014
Income (loss) for the period	**358,327,140**	**189,097,115**
Other comprehensive income net of taxes not transferred to income statement		
Property, plant and equipment		
Defined benefit plans		
Other comprehensive income net of taxes transferred to income statement		
Financial assets available for sale		
Cash flow hedges	(2,470,398)	
Total other comprehensive income net of taxes	**(2,470,398)**	**-**
COMPREHENSIVE INCOME	**355,856,742**	**189,097,115**

STATEMENT OF CHANGES IN EQUITY *(euros)*

	Balance at 31.12.2014	Change in re-opening balances	Balance at 01.01.2015	Allocation of net income for previous year: Reserves	Allocation of net income for previous year: Dividends and other allocations	Changes for the period – Equity transactions: Payment of subscribed shares and changes in reserves	Changes for the period – Equity transactions: Issues of new shares	Changes for the period – Equity transactions: Purchase of own shares	Changes for the period – Equity transactions: Special dividend distribution	Changes for the period – Equity transactions: Changes in equity instruments	Changes for the period – Equity transactions: Stock options	Changes for the period: Comprehensive income for 2015	Equity at 31.12.2015
Share capital:													
shares subscribed	161,514		161,514										161,514
Share premium reserve	1,315,158,486		1,315,158,486										1,315,158,486
Reserves:													
a) income	32,303		32,303										32,303
b) other	2,029,920,022		2,029,920,022										2,029,920,022
Valuation reserves:													
a) available for sale													-
b) cash flow hedges												(2,470,398)	(2,470,398)
c) other reserves													-
Equity instruments													-
Treasury shares													-
Net income (loss) for the year	189,097,115		189,097,115		(189,097,115)							358,327,140	358,327,140
Equity	**3,534,369,440**		**3,534,369,440**	**-**	**(189,097,115)**	**-**	**-**	**-**	**-**	**-**	**-**	**355,856,742**	**3,701,129,067**

STATEMENT OF CHANGES IN EQUITY (prior period) *(euros)*

	Balance at 31.12.2013	Change in re-opening balances	Balance at 01.01.2014	Allocation of net income for previous year		Changes for the period							Equity at 31.12.2014
						Equity transactions						Comprehensive income for 2014	
				Reserves	Dividends and other allocations	Payment of subscribed shares and changes in reserves	Issues of new shares	Purchase of own shares	Special dividend distribution	Changes in equity instruments	Stock options		
Share capital:													
shares subscribed	100,000		100,000			61,514							161,514
Share premium reserve						1,315,158,486							1,315,158,486
Reserves:													
a) income	20,000		20,000			12,303							32,303
b) other	3,517,259,741		3,517,259,741			(1,487,339,719)							2,029,920,022
Valuation reserves:													
a) available for sale													-
b) cash flow hedges													-
c) other reserves													-
Equity instruments													-
Treasury shares													-
Net income (loss) for the year	284,323,720		284,323,720		(284,323,720)							189,097,115	189,097,115
Equity	**3,801,703,461**		**3,801,703,461**	**-**	**(284,323,720)**	**(172,107,416)**	**-**	**-**	**-**	**-**	**-**	**189,097,115**	**3,534,369,440**

(euros)

CASH FLOW STATEMENT

	31/12/2015	31/12/2014
Net income	**358,327,140**	**189,097,115**
Adjustments to net income to reflect cash flow from operating activities:		
Amortisation and depreciation		
Net writedowns (revaluations) of property, plant and equipment and intangible assets		
Effect of accounting using the equity method		
Net losses (gains) on disposals, cancellations and eliminations of assets		
Interest income		
Interest expense	9,494,180	2,620,917
Income taxes		(8,736,908)
Changes in capital over the year:		
- Inventories		
- Trade receivables		
- Trade payables	167,169	(57,062)
- Provisions		0
- Other assets and liabilities	4,758,519	29,037,450
Cash flow from working capital	**4,925,688**	**28,980,388**
Change in provisions for employee benefits	870	
Dividends received		
Interest received		
Interest paid		
income taxes paid net of tax credits reimbursed	(26,053)	(108,214)
Cash flow from operating activities	**372,721,825**	**211,853,298**
Investing activities:		
- Property, plant and equipment		
- Intangible assets		
- Companies in the scope of consolidation and business units		
- Equity investments		
- Change in payables and receivables relative to investing activities		
Cash flow from investing activities	*0*	*0*
Divestments:		
- Property, plant and equipment		
- Intangible assets		
- Equity investments		
- Change in payables and receivables relative to divestments		
Cash flow from divestments	*0*	*0*
Net cash flow from investing activities	**0**	**0**
Assumption of long-term financial debt	997,971,287	500,000,000
Repayments of long-term financial debt		
Increase (decrease) in short-term financial debt	(1,002,620,917)	1,000,000,000
	(4,649,630)	**1,500,000,000**
Net equity capital injections		(1,487,308,000)
Dividends distributed to shareholders	(189,097,115)	(284,324,000)
Net cash flow from financing activities	**(193,746,745)**	**(271,632,000)**
Net cash flow for the period	**178,975,080**	**(59,778,702)**
Cash and cash equivalents at start of year	**192,866,999**	**252,645,701**
Cash and cash equivalents at end of year	**371,842,079**	**192,866,999**

INTRODUCTION

COMPANY INFORMATION

See the Report on operations.

STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS

The financial statements of CDP RETI S.p.A. (hereinafter "CDP RETI") have been prepared based on the IAS/IFRS international accounting standards.

With Regulation (EC) 1606/2002 of 19 July 2002, the European Union made it compulsory, as of the 2006 financial year, for EU companies that issue equity or debt securities on a regulated market in the European Union to adopt IFRS in preparing their financial statements.
Italian Legislative Decree 38 of 28 February 2005 was then issued in Italy in order to govern the application of:

- the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB);
- the International Accounting Standards (IAS) issued by the International Accounting Standards Committee (IASC);

as well as the Implementation Guidance and Basis for Conclusions adopted by the International Financial Reporting Interpretations Committee (IFRIC, formerly the Standing Interpretations Committee, or SIC) and by the IASB.

The financial statements include the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and these notes to the financial statements, and are accompanied by the directors' report on operations.

The financial statements present a clear, true and fair view of the company's financial position and performance of operations.
The account balances correspond with the company's accounting records and fully reflect the transactions conducted during the year.
All figures in the financial statements and in the tables in the notes are in euros.

In the income statement, revenues are indicated without a sign, while costs are shown in parentheses.
The rounded totals for the various figures are obtained by summing the rounded balances of the items making up such totals.

As detailed below, the notes to the financial statements provide all information required by IAS, as well as any additional information deemed necessary in order to provide a true and fair view of the company's financial position and performance.

AUDITING OF THE FINANCIAL STATEMENTS

The financial statements of CDP Reti are audited by the independent auditors PricewaterhouseCoopers S.p.A., in compliance with the appointment of this firm to audit the financial statements and accounts for the period 2015-2023 with shareholders' resolution of 24 June 2015.

MANAGEMENT AND COORDINATION BY CDP S.P.A.

CDP RETI is 59.10% owned by CDP. The Company is managed and coordinated by CDP. This management and coordination is performed in such a way as to not infringe European law on state aid and, in particular, the principles of the Notice of the European Commission no. 2001/C 235/03 on "State aid and risk capital".

I – BASIS OF PRESENTATION AND ACCOUNTING POLICIES

I.1. GENERAL INFORMATION

I.1.1. DECLARATION OF CONFORMITY TO INTERNATIONAL ACCOUNTING STANDARDS

These financial statements have been prepared in accordance with IAS/IFRS issued by the IASB (including the interpretation documents SIC and IFRIC) endorsed by the European Commission, taking into account the minimum reporting requirements established by the Italian Civil Code, where compatible with the standards adopted.

I.1.2. BASIS OF PRESENTATION

The financial statements have been prepared in accordance with the IFRS issued by the IASB (including the SIC and IFRIC interpretations) endorsed by the European Commission pursuant to Regulation (EC) 1606 of 19 July 2002.

For the purposes of interpretation and to provide support in applying these standards, the following documents have also been considered, although they have not been endorsed by the European Commission:

- the Framework for the Preparation and Presentation of Financial Statements (issued by the International Accounting Standards Board in 2001);
- Implementation Guidance, Basis for Conclusions, IFRIC interpretations, and any other documentation prepared by the IASB or IFRIC to supplement the IFRS;
- Interpretation documents concerning the application of the IAS/IFRS in Italy, prepared by the *Organismo Italiano di Contabilità* (Italian Accounting Board; OIC).

Where the information required by international accounting standards is considered inadequate for providing a true and fair view, the notes to the financial statements also include additional information for such purpose.

New accounting standards applicable to financial statements for the year ended 31 December 2015

As required by IAS 8 (Accounting policies, changes in accounting estimates and errors) details of the new international accounting standards, or amendments to standards already in force, whose application became mandatory from 1 January 2015, are provided below.

- Endorsement Commission Regulation EU 634/2014 adopting IFRIC 21 - Levies. This Interpretation addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37 (Provisions, Contingent Liabilities and Contingent Asset). It also addresses the accounting for a liability to pay a levy whose timing and amount are uncertain.

- Commission Regulation (EU) 1361/2014 of 18 December 2014, published in the Italian Official Gazette as Law 365 of 19 December 2014 amending certain international accounting standards: IFRS 3, IFRS 13 and IAS 40. The amendments apply to the following accounting standards:
    - IFRS 3 Business combinations
      the amendment clarifies that the scope of application of IFRS 3 excludes the establishment of any type of joint arrangement as defined by IFRS 11;
    - IFRS 13 Fair value measurement
      the amendment clarifies that the exception under paragraph 48 of IFRS 13, pertaining to the possibility of measuring the fair value of a net position - in the event there are financial assets and liabilities with offsetting position in market risk or credit risk- applies to all contracts that fall into the scope of application of IAS 39 -and of IFRS 9 in future- irrespective of whether they fulfil the definition of

financial assets or liabilities provided in IAS 32;

- IAS 40 Investment property
  the amendment clarifies that IFRS 3 and IAS 40 are not mutually exclusive and that, in order to determine whether the purchase of a property falls within the scope of application of IFRS 3 or IAS 40, it is necessary to refer to the specific guidelines provided by the respective standards. As a matter of fact, an assessment is required in order to establish whether the purchase of a property investment represents the purchase of an asset, a group of assets or even a business combination pursuant to IFRS 3.

New accounting standards and interpretations already issued and approved by the European Union but not yet in force:

Listed below are the new standards and interpretations already issued but not yet in force and therefore not applicable to the preparation of the financial statements at 31 December 2015 (unless, where permitted, it is chosen to adopt them in advance):

- Endorsement Regulation EU 28/2015: Improvements to international accounting standards, 2010-2012 Cycle. The objective of the annual improvements is to address the relevant topics relating to inconsistencies identified in the IFRS or to clarify wording, which are not urgent in nature, but were discussed by the IASB during the project cycle started in 2011. In some cases the amendments represent clarifications or changes to the standards in question (IFRS 8, IAS 16, IAS 24 and IAS 38), and in other cases the amendments result in changes to the existing provisions or provide additional guidance concerning their application (IFRS 2 and 3).

- Commission Regulation (EU) 29/2015 of 17 December 2014, published in the Italian Official Gazette as Law 5 of 9 January 2015, adopting Amendments to IAS 19 – Defined benefit plans: Employee contributions.

The amendment to IAS 19 was needed to simplify the accounting, under particular conditions, for defined benefit plans that involve contributions from employees or third parties. If certain conditions are not met, the recognition of those contributions becomes more complex because they must be allocated to the individual periods of the plan through the actuarial calculation of the related liability.

- Commission Regulation (EU) 2015/2113 of 23 November 2015, published in the Official Journal L 306 of 24 November, adopting Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture - Agriculture: bearer plants. The IASB decided that plants, which are used solely to grow produce over several periods, known as bearer plants, should be accounted for in the same way as property, plant and equipment in IAS 16 Property, Plant and Equipment, because their operation is similar to that of manufacturing.

- Commission Regulation (EU) 2015/2173 of 24 November 2015, published in the Official Journal L 307 of 25 November, adopting Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations. The amendments provide guidance on accounting of acquisitions of interests in joint operations that constitute a business.

- Commission Regulation (EU) 2015/2231 of 2 December 2015, published in the Official Journal L 317 of 3 December, adopting Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets: Clarification of acceptable depreciation methods*. The amendment in question clarifies the appropriateness of a depreciation method based on revenues, i.e. on a depreciation plan for property, plant and equipment and intangible assets on the basis of the revenues generated by their use.

- Commission Regulation (EU) 2015/2343 of 15 December 2015, published in the Official Journal L 330 of 16 December, adopting the *IFRS - Annual* *improvements cycle 2012-2014*, in the context of normal rationalisation and clarification of the International accounting standards. The amendments included in the 2012-2014 improvements cycle concern: IFRS 5, IFRS 7, IAS 19, IAS 34 and IFRS 15.

- Commission Regulation (EU) 2015/2406 of 18 December 2015, published in the Official Journal L 333 of 19 December, adopting Amendments to IAS 1 – Presentation of Financial Statements: Disclosure initiative. The amendments aim at improving the effectiveness of the disclosure and to encourage companies to determine the information to be included in the financial statements within the scope of application of IAS 1 with professional judgement.

- Commission Regulation (EU) 2015/2441 of 18 December 2015, published in the Official Journal L 336 of 23 December, adopting Amendments to IAS 27 Separate Financial Statements: Equity Method in Separate Financial Statements. The changes are intended to allow entities to apply the equity method, described in IAS 28 Investments in associates and joint ventures for accounting investments in subsidiaries, joint ventures and associates in their separate financial statements.

IFRS that will enter into force as of the reporting periods beginning after 1 January 2016 but are not yet endorsed by the European Union

At the date of approval of these Financial Statements, certain accounting principles, interpretations and amendments were issued by the IASB, but were yet to be transposed into EU Law, including:

- IFRS 14 regulatory deferral accounts;
- IFRS 9, ‘Financial instruments’;
- IFRS 15, ‘Revenue from Contracts with Customers’;
- IFRS 16 Leases;

- Amendments to IFRS 10 Consolidated financial statements and IAS 28, Investments in associates and joint ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidation Exception (issued on 18 December 2014);
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses.

The financial statements have been prepared on an accruals and going-concern basis. The general principles of the materiality and significance of information and the prevalence of substance over form have also been taken into account.

In compliance with IAS 1 Revised, CDP RETI has conducted an assessment of the Company's ability to continue to operate as a going concern, considering all available information over the medium term.

Based on analysis of this information, CDP RETI considers it appropriate to prepare the financial statements on a going-concern basis.

No assets have been offset against liabilities, or revenues against costs, unless expressly required or allowed by accounting standards or a related interpretation.

I.1.3. EVENTS SUBSEQUENT TO THE REPORTING DATE

During the period between the reporting date for the financial statements and their approval by the Board of Directors on 12 April 2016, no events occurred requiring an adjustment to the figures approved or additional reporting.
It is pointed out that on 11 January 2016, the company approved the distribution to shareholders of an interim dividend for 2015 to the extent of €1,999.73 euros per share, for a total amount of €322,984,391.22 paid on 15 January 2016.

I.1.4. OTHER ISSUES

USE OF ESTIMATES

The application of international accounting standards in preparing the financial statements requires the company to make estimates for certain balance sheet items that are considered reasonable and realistic on the basis of the information available at the time the estimate is made. Such estimates impact the carrying amount of the assets and liabilities and the disclosures on contingent assets and liabilities as of the reporting date, as well as the amounts reported for revenues and costs for the period under review. Changes in the conditions underlying the judgements, assumptions and estimates used could also have an impact on future results.

The only items estimated at the reporting date relate to current and deferred taxes, the fair value of interest rate swap hedging derivatives and the recoverable amount of equity investments.

The estimates and assumptions used to prepare these financial statements are the same as were used to prepare the annual financial report of CDP RETI as at 31 December 2014.

I.2. THE MAIN FINANCIAL STATEMENT ACCOUNTS

The following pages provide a description of the accounting policies adopted in preparing the financial statements.

An asset or liability is classified as "**current**" when its trading, realisation or settlement is expected within twelve months from the reporting date or within the normal business cycle if after twelve months; all other assets and liabilities are classified as "**non-current**".

EQUITY INVESTMENTS

This item includes investments in other companies, both represented by securities and not, that give rise to a relationship of control or association or a joint venture. Securities and investments that are non-current and cannot be classified as equity investments are classified as financial instruments and are recognised as “Financial assets”.

“Equity investments” means investments in subsidiaries (IFRS 10), in companies subject to joint control (IFRS 11) and in companies under significant influence (IAS 28), other than investments recognised as “Financial assets”.

Subsidiaries are companies in which more than half of the voting rights are held directly or indirectly, or for the purpose of appointing directors or, in any event, when the power to determine financial and operating policies is exercised, regardless of the above.

Joint ventures are companies in which control is shared with other parties by contract.

Associates are companies in which CDP holds, either directly or indirectly, at least 20% of the voting rights or, independently of the proportion of voting rights, companies over which CDP has significant influence, which is defined as the power to participate in determining financial and operating policies, but without exercising either control or joint control.

Other equity investments are recognised as “Financial assets”.

In accordance with IAS 27, paragraph 10, equity investments are initially recognised and subsequently carried at cost at the settlement date.

If there is evidence of impairment, the recoverable amount of the investment is estimated. If this value is lower than the carrying amount, the difference is recognised in the income statement as an impairment loss. This loss is only recognised when the impairment is significant and prolonged.

In the absence of market prices or valuation models, the value of the equity investment is prudentially written down by the amount of the loss reported in the financial statements of the investee where the loss is considered to be a reliable indicator of impairment.

Equity investments are derecognised when the contractual rights to the cash flows of the business terminate or when the financial asset is sold, transferring substantially all risks and rewards connected with it.

FINANCIAL ASSETS

Financial assets include:

1. Loans;
2. Financial assets held for trading;
3. Financial assets available for sale;
4. Financial assets held to maturity.

1) LOANS

Financial instruments, including debt securities, which are not listed on active markets which IAS 39 refers to as “loans and receivables”, for which the company has a right to receive future cash flows are recognised as “Financial and other receivables”.

Loans are recognised when the contract is executed, i.e. upon the unconditional acquisition of a right to payment of the amounts agreed, and are initially measured at fair value, which equals the amount disbursed including directly related transaction costs and commissions. Where the net amount disbursed does not equal the loan's fair value because the interest rate is lower than the market rate or the rate normally applied for similar loans, initial measurement is effected by discounting the future cash flows using an appropriate rate.

Interest on loans and on arrears is recognised as interest income and similar revenues, on an accruals basis.

The carrying amount of loans is subject to periodic testing for impairment that could reduce their expected realisable value.

The measurement of writedowns of loans is based on discounting the expected future cash flows of principal and interest net of collection costs, taking account of any guarantees securing the positions and any advances received. The key to determining the value of the future cash flows is in defining the estimated collections, the related timing, and the discount rate to be applied.

The impairment of problem loans is then written back only when the quality of the loan improves to the point that there is a reasonable certainty of a greater recovery of principal and interest and/or greater receipts have been recorded than the previously recorded carrying amount of the loan. In any event, given the method used to measure impairment losses, as the due dates for credit collection approach with the passing of time, the value of the loan is "written back", given that there is a reduction in the implicit finance costs previously recognised as a reduction in the value of the loans.

The recovery of all or a part of previously written down loans is recognised as a reduction in "Increases in the value of financial instruments".

Loans are derecognised when paid in full, when all of the related risks and rewards have been transferred, or when a loan is deemed to be definitively uncollectible.

2) FINANCIAL ASSETS HELD FOR TRADING

"Financial assets held for trading" refer to all financial assets, regardless of type (debt securities, equity, loans, derivatives, etc.), allocated to the trading portfolio and held for the purpose of generating profits over the short term as a result of changes in the price of such instruments, as well as the derivative contracts operationally connected with financial liabilities measured at fair value (under the fair value option) and derivatives with a positive value, including those resulting from the separation of embedded derivatives, that are not deemed to be effective for hedging purposes.

Financial assets held for trading meet the following prerequisites:

d) they are purchased with the intention of being sold in the short term;
e) they are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
f) they are derivatives (with the exception of derivatives that are designated and effective hedging instruments).

Such financial assets are initially recognised at fair value, which generally equals the amount paid or received net of transactions costs or income. Where the amount paid is different from the fair value, the financial asset is recognised at fair value, and the difference between the two amounts is recognised through profit or loss. Initial recognition is carried out at the signing date for derivative contracts and at the settlement date for debt and equity securities, with the exception of those for which delivery is governed by conventions on the market concerned, for which initial recognition is at the settlement date.

Financial assets held for trading also include derivative contracts embedded in other financial instruments or contracts and which have financial and risk characteristics that are not correlated with the host instrument or which meet the requirements to be classified themselves as derivative contracts, recognising them separately after separating the embedded derivative from the main contract, which is then treated in accordance with the accounting rules for its own category. This is not done in cases in which the compound instrument containing the derivative is measured at fair value through profit or loss.

The financial instruments are measured subsequently at fair value based on the official prices as of the reporting date if they are listed on active markets. For financial instruments, including equity, not listed on active markets, fair value is determined by using measurement techniques and information available on the market, such as the price of similar instruments on an active market, discounted cash flows, option pricing models and values registered in recent similar transactions. For equity securities and related derivative instruments, if the fair value obtained using such measurement techniques cannot be reliably determined, the financial instruments are measured at cost and written down in the event of impairment losses.

If the fair value of a financial asset becomes negative, it is recognised as a financial liability held for trading.

Financial assets held for trading are derecognised when payment is received, when the contractual rights to the cash flows expire, or a sale transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with the financial asset is retained, the asset remains on the balance sheet even if official title has been transferred.

3) FINANCIAL ASSETS AVAILABLE FOR SALE

"Financial assets available for sale" are non-derivative financial assets (debt securities, equity, etc.) that are classified as being available for sale and not as (a) loans and receivables, (b) held-to-maturity investments, or (c) financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised on the contract date for all financial assets, with the exception of those for which delivery is governed by conventions on the market concerned, for which initial recognition is carried out at the settlement date and on the disbursement date in the case of loans.

The financial assets are initially recognised at fair value, which generally equals the amount paid or received net of transactions costs or gains. Where the amount paid is different from the fair value, the financial asset is recognised at fair value, and the difference between the two amounts is recognised through profit or loss.

Unrealised gains or losses on available-for-sale securities are recorded in a specific equity reserve, net of tax effects, until the investment is sold or written down.

The financial instruments are measured subsequently at fair value based on the official prices as of the reporting date if they are listed on active markets. For financial instruments, including equity securities, not listed on active markets, fair value is determined by using measurement techniques and information available on the market, such as the price of similar instruments on an active market, discounted cash flows, option pricing models and values registered in recent comparable transactions. If the fair value of financial instruments not listed on active markets cannot be reliably determined, the financial instruments are measured at cost and written down in the event of impairment losses.

Available-for-sale financial assets undergo impairment testing to determine whether there is objective evidence of impairment. Where the decline in the fair value of an available-for-sale security with respect to its initial cost value is significant or long lasting, an impairment is recognised through profit or loss, regardless of other measurement considerations. To this end, the "significance" and "durability" of the reduction in fair value are measured separately, setting appropriate materiality thresholds.

When an available-for-sale security is impaired, the cumulative, unrealised change in value recorded in the equity reserve is recognised through profit or loss. The impairment is recognised when the purchase cost (net of any amortisation and repayments of principal) of an available-for-sale financial asset exceeds its recoverable amount. The amount of this loss is measured using specific valuation techniques and models for equity securities. Any writebacks of investments in equity instruments are not recognised in the income statement but in an equity reserve, while any writebacks of investments in debt instruments go through the income statement. The value of the instrument after the writeback shall in any event not exceed the amortised cost that the instrument would have had in the absence of the prior adjustments.

Dividends on equity instruments that are available for sale are recognised as income when the right to receive payment is established.

In addition to the recognition of impairment losses, the cumulative gains or losses in the equity reserve are, as mentioned above, recognised through profit and loss at the time of the sale of the asset. Accordingly, in the event of disposal of an investment in available-for-sale securities, the related cumulative, unrealised change in value recorded in equity is recognised through profit and loss.

Financial assets available for sale are derecognised when payment is received, when the contractual rights to the cash flows expire, or a sale transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with the financial asset is retained, the asset remains on the balance sheet even if official title has been transferred.

4) FINANCIAL ASSETS HELD TO MATURITY

Financial assets held to maturity include financial assets other than derivatives with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

If, following a change in such intention or ability, it is no longer appropriate to continue to classify an investment as held to maturity, it is reclassified under financial assets available for sale.

Held-to-maturity financial assets are initially recognised at fair value, which is normally equal to the price paid or received. In cases where the price differs from fair value, the asset is recognised at fair value and the difference between the price and the fair value is taken to the income statement.

The value at which such assets are recognised includes incidental costs and revenues attributable to the transaction.

Following initial recognition, financial assets held to maturity are measured at amortised cost and undergo impairment testing. The amortised cost of a financial asset is equal to the amount at which it is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility. Such assets are derecognised when the contractual rights to the cash flows from the assets expire or when the assets are divested by transferring substantially all the risks and rewards of ownership of the assets.

CURRENT AND DEFERRED TAXATION

Corporate income tax (IRES) and regional tax on business activities (IRAP) are recognised on an accruals basis using a realistic estimate of the negative and positive tax components for the year and were calculated on the basis of the tax rates currently in force (27.5% for IRES and 5.57% for IRAP).

As regards IRES, in particular, following the CDP Group joining the tax consolidation scheme and in compliance with Regulations on consolidation and legal theory and practice, the Company determines its own "potential" liability, recognising the loan to the consolidating Company which, in conformity to the new regulation, is the only party required to settle with the Financial Administration.

Deferred tax items regard the recognition of the effects of temporary differences between the valuation of accounting items under tax regulations, which are used to determine taxable income, and that under statutory reporting regulations (which seek to quantify the result for the year).
More specifically, "taxable temporary differences" between statutory and tax values are those that will give rise to taxable amounts in future tax periods, while "deductible temporary differences" are those that will give rise to deductible amounts in the future.

Deferred tax assets/liabilities are classified as non-current assets/liabilities pursuant to IAS 1.56.
Deferred tax items are therefore recognised as non-current liabilities under "Deferred tax liabilities", where they are related to items that will become taxable in future tax periods. Where they represent assets, i.e. they are related to items that will be deductible in future tax periods, they are recognised as "Deferred tax assets", under non-current assets in the balance sheet.
If the deferred tax items regard operations that directly affected equity, they are recognised in equity.

FINANCIAL LIABILITIES

Financial liabilities, including payables for loans but other than derivatives, are recognised at the cost on the settlement date, represented by the fair value of the liabilities reduced by any directly attributable transaction costs. Subsequently, the financial liabilities are measured with the amortised cost criteria, using the effective interest rate method.

HEDGING DERIVATIVES

Financial assets or liabilities include financial derivatives that at the reporting date have, respectively, a positive or negative fair value.
Refer to the paragraph below on hedging transactions for a description of the accounting standards adopted for the recognition of hedging derivatives.

Hedging transactions

In accordance with the IAS definition, hedging instruments are designated derivatives or (limited to the hedging of foreign currency risk) non-derivative financial assets or liabilities the fair value or cash flows of which are expected to offset the changes in fair value or cash flows of a designated position. A hedged item is an asset, liability, firm commitment, a highly probable forecast transaction, or a net investment in a foreign operation that (a) exposes the organisation to the risk of a change in fair value or future cash flows and (b) is designated as being hedged. The effectiveness of the hedge is the extent to which the change in fair value or cash flows of the hedged position that is attributable to a hedged risk are offset by the change in fair value or cash flows of the hedging instrument.
When a financial instrument is classified as a hedging instrument, the following are to be formally documented:

- the relationship between the hedging instrument and the position hedged, including the risk management objectives;
- the hedging strategy, which must be in line with established risk management policies;
- the methods to be used in order to verify the effectiveness of the hedge.

Accordingly, both at the inception of the hedge and throughout its life, the change in the fair value of the derivative is analysed in order to determine whether it is highly effective in offsetting the changes in fair value of the hedged position.

A hedge is deemed to be highly effective if, both at inception and throughout its life, the changes in fair value of the hedged position or in the expected cash flows attributable to the risk being hedged are almost entirely offset by the changes in fair value of the hedging derivative, with the relationship of these changes falling within a range of between 80% and 125%.

If the hedge is not effective as described above, the hedging instrument is reclassified under trading instruments, while the hedged item is measured in accordance with the criteria for its category. Hedge accounting also ceases in the event the hedging instrument expires, is sold or exercised or where the hedged item expires, is sold or is repaid.

In the event of hedges designed to neutralise the risk of changes in future cash flows arising from future transactions that are considered as highly probable as at the balance-sheet date (cash flow hedge), the fair value changes of the derivative after initial recognition are recognised, to the extent of the effective portion, under the item “reserves” in shareholders’ equity. When the economic effects of the hedged item materialize, the reserve is transferred to operating profit or loss. If the hedge is not fully effective, the fair value change of the hedging instrument, to the extent of the ineffective portion, is immediately recognised through profit or loss.

If, during the life of a derivative, the expected hedged cash flows are no longer considered as highly probable, the portion of that instrument recognized as “reserves” is immediately recycled through profit or loss. Conversely, if the derivative is sold or no longer qualifies as an effective hedge, the portion of "reserves" corresponding to the fair value changes of the instrument recognised up to that time, continues to be recognised in equity and shall be recycled through profit or loss, in accordance with the above mentioned classification criteria, as the economic effects of the underlying hedged item materialize. If the hedged transaction is no longer considered as probable, the cumulative unrealised gains or losses recognised in equity are immediately recycled through profit or loss.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are measured at nominal value, corresponding to the fair value.
The item includes cash in hand, cash at banks and at parent companies based on an irregular deposit held with said company, with returns aligned to market conditions, as well as other short-term financial assets with maturity no more than three months from purchase, readily convertible into cash with no cashing expenses and subject to an insignificant risk of changes in value.
Cash and cash equivalents take account of the interest accrued on the same, albeit not yet paid.

INTEREST INCOME AND EXPENSE

Interest income and expense is recognised in the income statement for all instruments based on amortised cost using the effective interest method.

DIVIDENDS

Dividends are recognised as income in the period in which they are approved for distribution.

TRANSACTIONS WITH RELATED PARTIES

Reporting is provided on transactions with related parties identified according to the criteria established by IAS 24.

METHODS FOR DETERMINING FAIR VALUE CRITERIA

Fair value is the amount that an asset (or liability) could be exchanged for in a hypothetical transaction between independent parties with a reasonable degree of knowledge of market conditions and the key facts relating to the subject of the transaction.

In the definition of fair value, a key assumption is that the entity is operating normally and does not urgently need to liquidate or significantly reduce a position. Among other factors, the fair value of a security reflects its credit quality as it incorporates the risk of default of the counterparty or issuer.

For financial instruments, fair value can be determined in three ways:

- in the case of instruments listed on active markets, prices on financial markets are used (Level 1);
- in the case of financial instruments not listed on active markets, recourse is made, where possible, to valuation techniques that use observable market parameters other than quoted prices for the instrument but connected with its fair value by non-arbitrage relationships (Level 2);
- in other cases, recourse is made to internal valuation techniques that also use as inputs parameters that are not observable on the market and thus are inevitably subjective to some degree (Level 3).

A market is considered active if prices are readily and regularly available on regulated markets, organised trading facilities, brokers, intermediaries, pricing services, etc. and if those prices can reasonably be considered to be representative of actual and regular market transactions carried out close to the valuation date.

In the case of financial instruments that are not quoted on active markets, valuation using Level 2 inputs requires the use of valuation techniques that process market parameters at different levels of complexity. For example, valuation techniques may, in addition to interpolations and extrapolations, involve the specification of stochastic processes that represent market dynamics and the use of simulations or other numerical techniques to determine the fair value of the instruments being measured.
In selecting the valuation techniques to be used in Level 2 measurements, the company takes account of the following criteria:

- simpler valuation techniques are preferred to more complex techniques, all other conditions being equal and as long as they represents all of the relevant characteristics of the product, ensuring that they are reasonably in line with the practices and results of other sector operators;
- valuation techniques are applied consistently over time to uniform categories of instruments, unless objective grounds for replacement emerge;
- all other conditions being equal, preference is given to standard models whose mathematical structure and implementing procedures are familiar to practitioners.

The selection of market parameters as inputs for Level 2 valuations is carried out on the basis of non-arbitrage relationships or comparative relationships that define the fair value of the financial instrument being measured as the relative fair value compared with that of financial instruments listed on active markets.

In some cases, in determining fair value it is necessary to have recourse to valuation techniques that call for inputs that cannot be drawn directly from observable market variables, such as statistical or “expert based” estimates by the party performing the valuation (Level 3).

Here, too, Level 3 valuation techniques are applied consistently over time to uniform categories of instruments, unless objective grounds for replacement emerge. Similarly, parameters that cannot be drawn directly from observable market variables are applied consistently over time.

II - INFORMATION ON THE BALANCE SHEET

I. ASSETS

I.1. NON-CURRENT ASSETS

I.1.1. EQUITY INVESTMENTS

The balance of "Equity investments" refers to the value of equity investments in SNAM S.p.A. and in Terna S.p.A.. No changes were reported on the figure at 31 December 2014.

(euros)

Equity investments: composition	**31/12/2015**	**31/12/2014**
SNAM SpA	3,520,230,115	3,520,230,115
Terna SpA	1,315,200,000	1,315,200,000
Total	**4,835,430,115**	**4,835,430,115**

EQUITY INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE: INFORMATION ON INVESTMENTS

Name	**Registered office**	**% holding**
1. SNAM SpA	San Donato Milanese	28.98%
2. Terna SpA	Rome	29.85%

EQUITY INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE: ACCOUNTING DATA

(millions of euros)

	Total assets	**Total revenues**	**Net income (loss)**	**Equity**	**Carrying amount**	**Type of transaction**
SNAM SpA (1)	24,906	3,882	1,198	7,172	3,520	Control
Terna SpA (1)	15,059	1,983	545	3,093	1,315	Control

(1) Data from the 2014 Annual Report - Consolidated Financial Statements

The table below shows movements of equity investments recorded in the year:

(euros)

EQUITY INVESTMENTS: CHANGE FOR THE YEAR

	31/12/2015	31/12/2014
A. Opening balance	**4,835,430,115**	**3,520,230,115**
B. Increases	**-**	**1,315,200,000**
B.1 Purchases		1,315,200,000
B.2 Writebacks		
B.3 Revaluations		
B.4 Other increases		
C. Decreases		
C.1 Sales		
C.2 Writedowns		
C.3 Other decreases		
D. Closing balance	**4,835,430,115**	**4,835,430,115**
E. Total revaluations		
F. Total impairments		

I.1.2. DEFERRED TAX ASSETS

Below is a breakdown of "Deferred tax assets" recognised at 31 December 2015 for a total amount of €1,261 thousand (€14 thousand at 31 December 2014).

(euros)

Deferred tax assets: composition	**31/12/2015**	**31/12/2014**
Deferred IRES	40,474	14,421
Deferred tax assets recognized in equity	1,220,619	
Total	**1,261,093**	**14,421**

Deferred IRES is calculated on temporary differences in the values reported for tax purposes and those used for financial reporting that will become deductible in periods following the period in which they are recognised.

Deferred tax assets with an impact on equity are instead related to deferred tax recorded in relation to cash flow hedging derivatives.

The following tables indicate the change in deferred tax assets during the year:

(euros)

CHANGES IN DEFERRED TAX ASSETS (RECOGNISED IN INCOME STATEMENT)

	31/12/2015	31/12/2014
1. Opening balance	**14,421**	**6,811**
2. Increases	**27,108**	**7,610**
2.1 Deferred tax assets recognised during the year	27,108	7,610
a) in respect of previous periods		
b) due to change in accounting policies		
c) writebacks		
d) other	27,108	7,610
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**1,055**	
3.1 Deferred tax assets derecognised during the year	**1,055**	
a) reversals	1,055	
b) writedowns for supervening non-recoverability		
c) due to change in accounting policies		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	**40,474**	**14,421**

(euros)

CHANGES IN DEFERRED TAX ASSETS (RECOGNISED IN EQUITY)

	31/12/2015	31/12/2014
1. Opening balance	**-**	
2. Increases	**1,220,619**	
2.1 Deferred tax assets recognised during the year	1,220,619	
a) in respect of previous periods		
b) due to change in accounting policies		
c) others	1,220,619	
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases		
3.1 Deferred tax assets derecognised during the year		
a) reversals		
b) writedowns for supervening non-recoverability		
c) due to change in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	**1,220,619**	

I.2. CURRENT ASSETS

I.2.1. Current financial assets

(euros)

Current financial assets :composition	31/12/2015	31/12/2014
Loans to CDP for CSA	4,330,000	
Total	**4,330,000**	

"Current financial assets" at 31 December 2015 were booked at €4,330 thousand (none at 31 December 2014) and refer to the receivable with the parent CDP for the margin paid to it under the guarantee agreement *(Credit Support Agreement)* entered into when the cash flow hedge derivative was taken out.

I.2.2. Tax receivables

The balance of "Tax receivables" includes assets related to current taxes. The balance at 31 December 2015 refers only to the IRAP advance payment.

(euros)

Tax receivables: composition	31/12/2015	31/12/2014
Advances for IRAP	109,566	109,566
Taxes withheld		21,438
Total	**109,566**	**131,004**

I.2.3. Other current assets

The following table shows the breakdown of "Other current assets", which at 31 December 2015 were recognised for the amount of €68 thousand (€8,729 thousand at 31 December 2014):

(euros)

Other current assets: composition	31/12/2015	31/12/2014
Receivables from CDP for tax consolidation		8,729,405
Receivables from CDP for tax consolidation: withholdings	27,933	
Receivables from Fintecna	25,425	
Other current assets	14,424	
Total	**67,781**	**8,729,405**

The receivable from the parent CDP recognised at 31 December 2014, and deriving form adhesion, effective from 2013, to the CDP Tax Consolidation, was increased during the year following the actual payment of 2014 tax and due to the tax benefit obtained as a result of the ACE Benefit following the successful outcome of the related ruling. This receivable, the amount of which was finally determined to be €12,664 thousand, was fully collected by the company in December 2015.

At 31 December 2015, the Company recognised among Other current assets, the receivable from the parent company for the tax consolidation, solely relating to the tax withholdings incurred from 2013 to 2015.

The receivable due from Fintecna recognised at 31 December 2015 to the extent of €25 thousand originates from the transfer of employees from Fintecna to CDP RETI as of 1 October 2015.

Finally, other current assets mainly refer to the deferral of costs arising during the year but related to the following year.

I.2.4. Cash and cash equivalents

"Cash and cash equivalents" of CDP RETI at 31 December 2015 consist of:

- balance of the bank current account ;
- balance of the demand deposit held with the parent company CDP;
- amount relating to the commercial paper issued by the parent company CDP and purchased by the company with settlement date 30 December 2015, with original maturity on 1 February 2016.

The table below summarises cash and cash equivalents at 31 December 2015 including interest accrued and not yet paid.

(euros)

Current financial assets: composition	31/12/2015	31/12/2014
Deposit with CDP	25,898	163,937,752
Commercial paper issued by CDP	339,690,942	
Banks	32,125,239	28,929,247
Total	**371,842,079**	**192,866,999**

The balance of the demand deposit held with CDP, equal to approx. €26 thousand at 31 December 2015, changed during the year, mainly as a result of the following:

- receipt of dividends paid by SNAM of €253.6 million in May 2015;
- receipt of dividends paid by Terna of €78 million in June 2015;
- repayment of the bridge to bond loan of €750 million and the simultaneous issue of the unsubordinated and unsecured fixed-rate bond with a nominal value of €750 million (€748 million net of expenses directly related to the issue) in May 2015;
- distribution to CDP shareholder of a dividend following approval of the 2014 financial statements amounting to €112 million and payment on the bank current account of €76 million for distribution of such dividend to the other shareholders, for a total of €77 million;
- collection of the interim dividend for 2015 paid by Terna in November 2015 equal to €42 million;
- settlement of interest related to the Swap Transaction, under which €1,107 thousand were paid to CDP in November 2015;
- settlement of the margins paid in accordance with the guarantee contract signed at the same time as the hedging derivative, for the amount of €6,230 thousand;
- purchase of the commercial paper issued by CDP amounting to €339,691 thousand;

- capitalisation of interest accrued during the period amounting to €181 thousand.

II. Liabilities

II.1. Equity

II.1.1. Share capital

(euros)

Share capital: composition	31/12/2015	31/12/2014
Share capital	161,514	161,514
Total	**161,514**	**161,514**

During the year there were no changes to the composition of the ownership, which is therefore unchanged from the following situation resulting from the introduction, at the shareholders' meeting of 24 November 2014, of three separate categories of shares giving holders different rights concerning company governance:

Member	Share category A	Share category B	Share category C	%
CDP	95,458			59.10%
State Grid		56,530		35.00%
Cassa Forense			4,253	2.63%
Foundations and Savings Banks			5,273	3.26%
	95,458	**56,530**	**9,526**	**100.00%**

II.1.2. Reserves

At the end of the year, "Reserves" were as follows:

(euros)

Reserves: composition	31/12/2015	31/12/2014
Legal reserve	32,303	32,303
Share premium reserve	1,315,158,486	1,315,158,486
Reserve for shareholder payments for investments	2,029,920,022	2,029,920,022
Total	**3,345,110,811**	**3,345,110,811**

The item "Reserve for shareholder payments for investments" included the residual value of the payment made by CDP to fund the purchase of the investment in SNAM.

At 31 December 2015, the company did not hold treasury shares directly or through intermediaries.

Information required by Article 2427, point 7-bis, of the Italian Civil Code on the individual details of equity items is given, specifying their origin, possible use and possible distribution.

DATA PURSUANT TO ARTICLE 2427 OF THE ITALIAN CIVIL CODE *(euros)*

Items/Figures	Balance at 31/12/2015	Possible uses (*)	Amount available
Share capital	161,514		
Reserves			
- Legal reserve	32,303	B	32,303
- Share premium reserve	1,315,158,486	A, B, C	1,315,158,486
- Shareholder payment reserve	2,029,920,022	A, B, C	2,029,920,022
Valuation reserves			
- CFH reserve	(2,470,398)		
Total	**3,342,801,927**		**3,345,110,811**

(*) A = capital increase; B = loss coverage; C = distribution to shareholders

II.1.3. VALUATION RESERVES

(euros)

Valuation reserves	31/12/2015	31/12/2014
Valuation reserves CFH Swap	(2,470,398)	
Total	**(2,470,398)**	**-**

Valuation reserves recorded a change as a result of the measurement of the cash flow hedge derivative contract entered into by the company in May 2015, net of deferred tax.

II.2. NON-CURRENT LIABILITIES

II.2.1. STAFF SEVERANCE PAY

Al 31 December 2015 the company's non-current liabilities include €3,920 (nothing at 31 December 2014) relative to the "Staff severance pay" provision made in accordance with current regulations for the employees hired by the company in August 2015.

(euros)

Severance pay: change for the year	31/12/2015	31/12/2014
A. Opening balance		
B. Increases	**3,944**	
B.1 Allocation in the year	3,050	
B.2 Other increases	894	
C. Decreases	**24**	
C.1 Payments made		
C.2 Other decreases	24	
D. Closing balance	**3,920**	

II.2.2. LOANS

(euros)

Loans	31/12/2015		31/12/2014	
	Non current	Current	Non current	Current
Bond	747,971,287	8,299,180		
Term loan facility	750,000,000	861,875	500,000,000	1,243,084
Bridge to bond facility				1,001,377,833
Total	**1,497,971,287**	**9,161,055**	**500,000,000**	**1,002,620,917**

Loans at 31 December 2015 totalled €1,507 million, considering both current and non-current portions, and showed an increase of around €4 million on the figure recorded at 31 December 2014, mainly attributable to the debt on the interest due on the bond issue, which will fall due in May 2016.

Against a total figure essentially unchanged from the end of last year, during the period the breakdown of the item "Loans" changed considerably due to the following financial operations:

- restructuring of the term loan facility, which resulted in:
  - the increase to €750 million of the original amount (500 million);
  - the decrease of the margin with respect to the 6 month Euribor rate from the previous 195 *bps* to 100 *bps*;
  - the extension of the deadline to 20 May 2020;
- the placement, in May 2015, of an unsubordinated and unsecured fixed-rate bond, for a nominal value of €750 million;
- initial reduction of the bridge to bond facility from the original amount of €1 billion to €750 million (through the use of the liquidity obtained from the extension of the term loan facility), and subsequent settlement by using the liquidity obtained from the bond issue.

The breakdown of non-current loans into loans agreed or signed by the parent CDP, or by the lending banks and other institutional investors, is provided in the table below:

(euros)

Loans (non current)	31/12/2015			31/12/2014		
	CDP	Pool of Banks	Other Istitutional Investors	CDP	Pool of Banks	Other Istitutional Investors
Bond	336,587,079		411,384,208			
Term loan facility	337,500,000	412,500,000		225,000,000	275,000,000	
Total	**674,087,079**	**412,500,000**	**411,384,208**	**225,000,000**	**275,000,000**	**-**

II.2.3. OTHER FINANCIAL LIABILITIES

(euros)

Other financial liabilities :composition	31/12/2015	31/12/2014
Cash-flow hedge derivative contract	4,024,143	
Total	**4,024,143**	**-**

Other non-current financial liabilities assets include the fair value measurement (level 2) of the *cash flow hedge* derivative contract entered into by the company in May 2015 to hedge the interest-rate risk connected to the term loan facility.

II.3. CURRENT LIABILITIES

II.3.1. CURRENT PORTION OF LOANS

This item includes the current portion of the loans described above, as well as coupons maturing and expiring in the following year and interests related to Term Loan payable in May 2016. The table below shows the breakdown of the item at 31 December 2015:

(euros)

	31/12/2015			31/12/2014		
Loans: current portion	**CDP**	**Pool of Banks**	**Other Istitutional Investors**	**CDP**	**Pool of Banks**	**Other Istitutional Investors**
Bond	3,734,631		4,564,549			
Term loan facility	387,844	474,031		559,388	683,696	
Bridge to bond facility				450,620,025	550,757,808	
Total	**4,122,475**	**474,031**	**4,564,549**	**451,179,413**	**551,441,504**	**-**

II.3.2. TAX PAYABLES

Tax payables at 31 December 2015 mainly relate to withholding tax retained by the Company with reference to the freelance and employed workforce, which are paid to the revenue authorities the month other they are withheld.

(euros)

Tax payables: composition	31/12/2015	31/12/2014
Other tax payables	7,368	
Payable for withheld taxes	2,127	
Total	**9,495**	**-**

The balance for Other tax payables refers on the other hand almost entirely to the payable resulting from payment of VAT.

II.3.3. Other current liabilities

"Other current liabilities" refer to short-term payables that will be paid in the year following the reporting date.

(euros)

Other current liabilities: composition	31/12/2015	31/12/2014
- Trade payables	189,107	21,938
- Payables to parent companies	383,756	99,692
- Payables due to pension and social security institutions	15,977	
- Other payables	152,827	59,957
Total	**741,667**	**181,587**

Below is the breakdown of Trade payables:

(euros)

Trade payables: composition	31/12/2015	31/12/2014
a) Trade payables	46,330	
b) Trade payables for invoices to receive	142,778	21,938
Total	**189,107**	**21,938**

The increase in Trade payables during the period is mainly due to services of professional and financial nature provided to the company, also due to the increased level of operations of the same.

The table below provides a breakdown of amounts due to the parent company recognised in the financial statements at 31 December 2015:

(euros)

Payables to parent companies: composition	31/12/2015	31/12/2014
Administrative services	278,852	23,424
Seconded personnel	16,983	27,655
Payables to directors to pay to CDP	83,617	48,603
Other payables	4,304	
Total	**383,756**	**99,682**

Payables to pension and social security institutions recognised in the financial statements at 31 December 2015 amounted to €16 thousand euro (none at 31 December 2014) and refer to payables to INPS during the month of December 2015 with reference to the fixed and variables remuneration of employees.

Other payables recognised in the financial statements amounting to €153 thousand (€60 thousand at 31 December 2014), refer to the following:

(euros)

Other payables: composition	31/12/2015	31/12/2014
Due to company bodies	127,446	59,957
Payables to employees	23,508	
Payables to pension fund	1,873	
Total	**152,827**	**59,957**

Payables to corporate bodies refer to remuneration accrued by members of the Board of Directors (which are not paid to the parent) and the Board of Statutory Auditors during the year.

Payables to employees primarily originate from recognition under CDP RETI liabilities of deferred remuneration accrued by employees from other CDP Group companies, and from adjustment at the year end of the provision for holidays accrued but not taken.

II.4. REPORTING ON FINANCIAL INSTRUMENTS FOR IAS/IFRS PURPOSES

(euros)

ASSETS AND LIABILITIES AT FAIR VALUE ON A RECURRING BASIS: BREAKDOWN BY LEVEL OF FAIR VALUE INPUTS

Financial assets/liabilities measured at fair value	31/12/2015			31/12/2014		
	L1	L2	L3	L1	L2	L3
Non-current financial assets						
Current financial assets						
Total						
Non-current financial liabilities						
- Other financial liabilities		4,024,143				
Current financial liabilities						
Total		**4,024,143**				

(euros)

ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE OR MEASURED AT FAIR VALUE ON A NON-RECURRENT BASIS: BREAKDOWN BY LEVEL OF FAIR VALUE INPUTS

	31/12/2015				31/12/2014			
	CA	L1	L2	L3	CA	L1	L2	L3
Non-current assets								
Current assets								
- Current financial assets	*4,330,000*			*4,330,000*				
- Cash and cash equivalents	*371,842,079*		*339,690,942*	*32,151,137*	*192,866,999*			*192,866,999*
Total	**371,842,079**		**339,690,942**	**32,151,137**	**192,866,999**			**192,866,999**
Non-current liabilities□								
- Loans	*1,497,971,287*	*749,876,250*		*750,000,000*	*500,000,000*			*500,000,000*
Current liabilities								
- Current portion of loans	*9,161,055*	*8,299,180*		*861,875*	*1,002,620,917*			*1,002,620,917*
Total	**1,507,132,342**	**758,175,430**		**750,861,875**	**1,502,620,917**			**1,502,620,917**

II.5. OTHER INFORMATION

II.5.1. GUARANTEES ISSUED AND COMMITMENTS

The company did not issue guarantees or make commitments recognised in the memorandum accounts.

II.5.2. ASSETS PLEDGED AS COLLATERAL FOR OWN DEBTS AND COMMITMENTS

No collateral or guarantees were pledged either directly or indirectly in the interest of third parties.

II.5.3. OWN SECURITIES PORTFOLIO DEPOSITED WITH THIRD PARTIES

The shares of Snam S.p.A. equal to 1,014,491,489, and of Terna S.p.A., equal to 599,999,999, owned by CDP RETI, are held at the parent company CDP.

III - INFORMATION ON THE INCOME STATEMENT

III.1. Profit (loss) on core business

III.1.1. Dividends

Profit (loss) on core business comprises dividends from the subsidiary SNAM (€253,622,872 as the balance of the 2014 dividend) and €120,000,000 from the subsidiary Terna, of which €78,000,000 as the balance of the 2014 dividend and €42,000,000 as an advance on the 2015 dividend.

(euros)

Dividend: composition	2015	2014
SNAM dividend	253,622,872	152,173,723
Terna dividend	120,000,000	42,000,000
Total	**373,622,872**	**194,173,723**

III.2. Profit (loss) on operations

III.2.1. Financial income

Financial income at 31 December 2015 amounted to €206 thousand (€1,683 thousand at 31 December 2014) and came mainly from interest income accrued on the deposit held with the parent CDP and on the bank current account.

(euros)

Financial income:composition	2015	2014
Interest income on deposit contract with CDP	180,707	1,598,358
Interest income on current bank account	24,568	84,648
Other interest income	699	
Total	**205,974**	**1,683,006**

III.2.2. Borrowing expenses

Borrowing expenses at 31 December 2015 relating to interest expense for the period as detailed in the table below.

(euros)

Borrowing expenses: composition	2015	2014
Interest on Bridge to bond facility	5,144,992	1,377,834
Interest on Term facility	9,023,889	1,243,083
Interest on Bond	8,452,967	
Other interest expense	1,442,658	
Total	**24,064,506**	**2,620,917**

Other interest expense amounting to €1,443 thousand were recognised in relation to derivative hedging of cash flows amounting to €1,440 thousand and, for the remaining part, to the interest expense accrued in fulfilment of the guarantee agreement (CSA) entered into in conjunction with the signing of the CFH derivative.

III.2.3. Administrative expenses

"Administrative expenses" at 31 December 2015 amounted to €4,127 thousand (€12,876 thousand at 31 December 2014) and are divided as follows between staff costs and other administrative expenses:

(euros)

Administrative expenses: composition	2015	2014
a) staff costs	385,481	99,032
b) other administrative expenses	3,741,658	12,776,574
Total	**4,127,139**	**12,875,606**

STAFF COSTS

Staff costs of €385,481 (€99,032 at 31 December 2014) are broken down as follows:

(euros)

Staff costs: composition	2015	2014
1) Employees	168,393	
2) Other personnel in service		
3) Board of Directors and Board of Auditors	162,130	71,367
4) Retired personnel		
5) Recovery of expenses for employees seconded to other companies		
6) Reimbursement of expenses for third-party employees seconded to the Company	54,958	27,665
Total	**385,481**	**99,032**

In the first half of 2015, the Company made recourse to secondments from CDP which terminated in August 2015.

During the second half of the year, the company hired 4 employees, of which 2 initially seconded from other CDP Group companies and subsequently hired by CDP RETI as of 1 October 2015.

OTHER ADMINISTRATIVE EXPENSES

(euros)

Other administrative expenses: composition	2015	2014
Professional and financial services	3,386,195	12,717,427
Outsourcing CDP	302,276	46,848
General and administrative services	11,732	11,340
Utilities, taxes and other expenses	41,455	959
Total	**3,741,658**	**12,776,574**

Professional and financial services mainly included:

- fees, totalling €1,906,720, paid to lenders for the restructuring of the term loan facility in May 2015;

- advisory services, amounting to €993,086, required in the run-up to the placement of the bond;

The 2015 fees for the independent auditors PricewaterhouseCoopers S.p.A., also included under professional and financial services, are summarised below:

(euros)

FEES FOR AUDITING AND NON-AUDIT SERVICES

Type of service	Service Provider	Fees for the year
Auditing	PricewaterhouseCoopers SpA	175,570
Certification		55,706
	Total	**231,276**

III.3. OTHER OPERATING INCOME (COSTS)

III.3.1 OTHER INCOME

This item, with a balance of 1 euro, consists entirely of roundings up.

III.4. INCOME TAXES, CURRENT AND DEFERRED TAXES

III.4.1 INCOME TAXES, CURRENT AND DEFERRED TAXES

Taxes for 2015 are detailed below:

(euros)

INCOME TAXES: COMPOSITION	2015	2014
1. Current taxes (-)		8,729,298
- of which income from participation in the tax consolidation mechanism		*8,729,298*
2. Change in current taxes from previous years (+/-)	12,663,885	
3. Reduction of current taxes for the year (+)		
4. Change in deferred tax assets (+/-)	26,053	7,610
5. Change in deferred tax liabilities (+/-)		
6. Taxes for the year (-) (-1+/-2+3+/-4+/-5)	**12,689,938**	**8,736,908**

The change in current taxes with respect to previous years are due to the adjustment of the provision for taxes, which was estimated in the financial statements at 31 December 2014, following the positive response of the Revenue Agency to the application submitted by the Company, which recognised the greater ACE benefit for the year. The receivable recognised from the consolidating company in return for the income was fully collected during December 2015.

As for 2015, in June, adhesion to the CDP tax consolidation was renewed for the three-year period 2015–2017. Unlike last year, no income from tax consolidation was recognised, there not being the necessary conditions.

The reconciliation between the theoretical and actual tax liability is shown below:

(euros)

Income (loss) before taxes	**345,637,202**	**Tax rate**
IRES theoretical tax liability (rate 27.5%)	(95,050,231)	-27.50%
Increases in taxes		
- non-deductible temporary differences	(27,108)	-0.01%
- non-deductible permanent differences	(6,563,381)	-1.90%
Decreases in taxes		
- dividends 95% exempt	97,608,975	28.24%
- ACE benefit	4,030,690	1.17%
- other	1,055	0.00%
IRES Actual tax liability	**0**	**0.00%**

(euros)

Difference between revenues and production costs	**(3,994,172)**	**Tax rate**
IRAP Theoretical tax liability (5.57% rate)	222,475	-5.57%
Increases in taxes	(75,239)	n/s
Decreases in taxes	1,350,545	n/s
IRAP Actual tax liability	**0**	**n/s**

IV - INFORMATION ON RISKS AND RELATED HEDGING POLICIES

Below are the main risks to which the company is exposed.

Market risk

The risk deriving from the equity investments in the listed companies SNAM and TERNA is currently measured on the basis of market price volatility.

Risk related to the limits in the transfer of financial resources from SNAM and TERNA

The financial position and operating results of CDP RETI are strictly related to the flow of funds from SNAM and TERNA, in the form of dividends. This availability depends not only on the ability of SNAM and TERNA to generate sufficient cash flow, but also on the ability of the two groups to overcome any legal and contractual restrictions on the distribution of dividends. In order to mitigate this risk, CDP RETI closely monitors the results of investee companies, with particular attention to all aspects that may have an impact on the dividend distribution policy

Liquidity and credit risk

CDP RETI is exposed to the risk that, due to the inability of raising new funds or liquidating assets on the market, it is not able to fulfil its payment commitments, resulting in an impact on income if the company is forced to sustain additional costs to meet such commitments or, as an extreme consequence, a condition of insolvency that puts the continuation of company business at risk. This risk is mitigated through monitoring circumstances that may affect the financial situation of the company, also with a view to compliance with the existing covenants on existing loans.

V - TRANSACTIONS WITH RELATED PARTIES

V.1. INFORMATION ON THE COMPENSATION OF KEY MANAGEMENT PERSONNEL

(euros)

	Board of Directors	Board of Auditors	Key management personnel
a) short-term benefits	98,575	63,440	35,563
b) post-employment benefits			
c) other long-term benefits			
d) severance benefits			
e) share-based payments			
Total	**98,575**	**63,440**	**35,563**

(euros)

Name	Position	Period in office	Expiry of office (1)	Compensation and bonuses
Directors				
Franco Bassanini	Chairman	01/01/2015-31/12/2015	2016	9,534 (2)
Giovanni Gorno Tempini	Chief Executive Officer	01/01/2015-10/07/2015		(3)
Leone Pattofatto	Chief Executive Officer	06/08/2015-31/12/2015	2016	(3)
Ludovica Rizzotti	Director	01/01/2015-31/12/2015	2016	14,027 (4)
Jun Yu	Director	01/01/2015-31/12/2015	2016	(5)
Yunpeng He	Director	01/01/2015-31/12/2015	2016	(5)
Board of Auditors				
Guglielmo Marengo	Chairman	01/01/2015-31/12/2015	2016	25,376
Francesca Di Donato	Auditor	01/01/2015-31/12/2015	2016	19,032
Paolo Sebastiani	Auditor	01/01/2015-31/12/2015	2016	19,032

(1) Date of Shareholders' Meeting called to approve financial statements for the year.
(2) The amount refers to the remuneration accrued since 11/07/2015.
(3) Compensation paid to Cassa depositi e prestiti S.p.A.
(4) The amount refers to the remuneration accrued since 20/04/2015.
(5) Compensation is paid to State Grid International Development Limited.

V.2. Information on transactions with related parties

The Company is managed and coordinated by CDP, the majority shareholder.
The CDP Group did not carry out any atypical or unusual transactions with related parties whose size could have an impact on the assets and liabilities or performance of the company. All transactions with related parties were carried out on an arm's length basis and form part of CDP RETI's ordinary operations.

Transactions with the parent company

Transactions with CDP in 2015 concerned the following:

- the deposit agreement for holding the cash and cash equivalents of the Company and on which interest accrues;
- the cash flow hedge derivative agreement with regard to which, at 31 December 2015, the related liability and interest expense were recognised at fair value;
- the receivable deriving from the CSA financial transactions related to the derivative agreement;
- The commercial paper issued by CDP and signed by CDP RETI on 30 December 2015;
- the receivable arising from CDP RETI's participation in the tax consolidation scheme;
- the loans related to the amounts subscribed by CDP with reference to the Term Loan and the bond issue, as well as the interest accrued thereon;
- outsourcing services provided by CDP to CDP RETI;
- the cost of CDP personnel seconded to the company;
- the compensation of directors paid to the Parent Company.

Transactions, carried out on an arm's length basis, as at 31 December 2015 and relative financial and economic effects (including VAT where due) are summarised as follows:

(euros)

TRANSACTIONS WITH CDP SpA	31/12/2015	31/12/2014
Assets		
- Deposit balance	25,898	163,937,752
- Receivable for tax consolidation	27,933	8,729,405
- Receivable for CSA financial trans	4,330,000	
- Commercial Paper	339,690,942	
Liabilities		
- Payables for seconded personne	(16,984)	(27,665)
- Payables for directors' compensa	(83,617)	(48,603)
- Payables for outsourced services	(275,192)	(23,424)
- Other payables	(7,963)	
- CFH derivative agreement	(4,024,143)	
- Loans:		
included in current liabilities	*(4,122,475)*	*(451,179,413)*
included in non-current liabilities	*(674,087,079)*	*(225,000,000)*

	31/12/2015	31/12/2014
Revenues		
- Interest income on deposit contr	180,707	1,598,358
- Interest income on CSA financial	415	
- Interest income on Commercial P	284	
Costs		
- Interest expense on CDP loan	(10,179,832)	(1,179,413)
- Interest expense on CFH	(1,440,438)	
- Interest expense on CSA	(2,220)	
- Outsourced services rendered to	(302,276)	(46,879)
- Costs for personnel seconded to	(16,984)	(27,665)
- Costs for directors' compensatior	(35,014)	(23,836)
- Other personnel costs	(3,233)	
- Commissions for loan structuring	(858,024)	(5,702,663)

TRANSACTIONS WITH OTHER RELATED COMPANIES

During the year, the company put in place transactions with Fintecna SpA, originating in particular from the secondment, and subsequent transfer as of 1 October 2015, of personnel to CDP RETI and from the loan of office premises in Versilia, in Rome.

Transactions, carried out on an arm's length basis, as at 31 December 2015 and relative financial and economic effects (including VAT where due) are summarised as follows:

(euros)

TRANSACTIONS WITH FINTECNA SpA	31/12/2015	31/12/2014
Assets		
- Receivables for personnel transfer	25,425	
	31/12/2015	**31/12/2014**
Costs		
- Costs for personnel seconded to CDP RETI	(37,974)	
- Rental costs	(40,260)	

V.3. KEY DATA OF THE COMPANY PERFORMING MANAGEMENT AND COORDINATION

In compliance with Article 2497bis, paragraph 4 of the Italian Civil Code, key data from the last financial statements of the parent company Cassa depositi e prestiti S.p.A. are summarised below.

The key data are taken from the relative financial statements at 31 December 2014, which are available as provided for by law.

(millions of euros)

RECLASSIFIED BALANCE SHEET DATA	2014
Total assets	350,205
Cash and cash equivalents held with banks	180,890
Loans to banks and customers	103,115
Equity investments and shares	30,346
Postal funding	252,038
Other direct funding	73,248
Equity	19,553
RECLASSIFIED PERFORMANCE DATA	
Net interest income	1,161
Gross income	2,664
Operating income	2,409
Net income (loss)	2,170

The separate financial statements for 2014 of Cassa depositi e prestiti S.p.A. are attached.

VI - SEGMENT REPORTING

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

CERTIFICATION OF THE SEPARATE FINANCIAL STATEMENTS

pursuant to Art. 154 bis of Legislative Decree 58/1998

Certification of the separate financial statements pursuant to Article 81-ter of Consob Regulation no. 11971 of 14 May 1999 as amended

1. The undersigned Leone Pattofatto, in his capacity as Chief Executive Officer, and Alessandro Uggias, in his capacity as the manager responsible for the preparation of the financial reports of CDP RETI S.p.A., hereby certify, taking account of the provisions of Article 154-bis.3 and 4, of Legislative Decree 58 of 24 February 1998:

- the appropriateness with respect to the characteristics of the company and
- the effective adoption

of the administrative and accounting procedures for the preparation of the separate financial statements in 2015.

2. In this regard:

2.1 the assessment of the appropriateness of the administrative and accounting procedures followed in preparing the separate financial statements at 31 December 2015 was based on a process developed by CDP RETI S.p.A. in line with the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission, which is a generally accepted framework at the international level;

2.2 in 2015 the Financial Reporting Manager of CDP RETI S.p.A. assessed the adequacy and effective adoption of existing administrative and accounting procedures, with reference to the internal control system for financial reporting.

3. In addition, we certify that:

3.1 the separate financial statements:

a) have been prepared in compliance with the international accounting standards adopted in the European Union pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

b) correspond to the information in the books and other accounting records;

c) provide a true and fair representation of the performance and financial position of the issuer;

3.2 the report on operations contains a reliable analysis of operations and performance, as well as the situation of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Rome, 27 April 2016

Chief Executive Officer	Financial Reporting Manager
/signature/Leone Pattofatto	*/signature/Alessandro Uggias*

REPORT OF THE BOARD OF AUDITORS

CDP RETI S.p.A.

Registered offices: Rome – Via Goito n. 4

Rome Company Register, Tax Code and VAT: no. 12084871008

Enrolled in the Rome CCIAA no. REA RM-1349016

Fully paid-in share capital € 161,514.00

Company under the co-ordination and management of

Cassa Depositi e Prestiti S.p.A. - Roma

* * *

REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2015 PURSUANT TO ART. 2429, 2ND PARAGRAPH OF THE ITALIAN CIVIL CODE

Dear Shareholders,

Preliminarily we would like to remind you that the Board of Statutory Auditors, in its current composition, has been appointed on 27 November 2014 for the three-year period until the approval of the 2016 financial statements.

The Board of Statutory Auditors has prepared this report pursuant to art. 2429 of the Italian Civil Code, since the Company, on the basis of its By-Laws, has appointed as legal auditor of the accounts, as provided for by art. 13 of Legislative Decree dated 27 January 2010, no. 39 the Audit Firm PricewaterhouseCoopers S.p.A..

This report has been collectively approved, within the useful time to file the same with the Company, in the 15 days before the date of the first summoning of the Shareholders' meeting held to approve the financial statements at hand.

The Board of Directors has made available the following documents approved on 12 April 2016, related to the financial year ended as of 31 December 2015:

- draft financial statements, accompanied by the relevant Notes to the Financial Statements;
- Management Report.

The format of this report is compliant with the provisions of law and with the Rule no. 71 of the "Rules of Conduct for the Board of Statutory Auditors – Conduct principles for Boards of Statutory Auditors of non-quoted companies" issued by the CNDCEC and in force from 30 September 2015.

Knowledge of the Company and risk evaluation

Recognizing the consolidated knowledge that the Board of Statutory Auditors declares to have on the Company and with regard to:

- the type of business carried out;
- its organizational and accounting structure;

taking also into account the size and issues of the Company, it is herewith highlighted that the "*planning*" phase of the supervisory activity – in which it is necessary to evaluate the intrinsic risks and the criticalities related to the two above-mentioned parameters – has been carried out through the positive correspondence regarding the known facts based on information acquired over time.

This report therefore summarizes the activity envisaged by art. 2429, par. 2 of the Italian Civil Code, with a focus on:

- the result of the financial year;
- the activity performed in the carrying out of the duties envisaged by the provisions of law;
- the observations and proposals on the financial statements, with particular reference to the possible use by the Board of Directors of the exception provided for by art. 2423, par. 4 of the Italian Civil

Code;

- possible reports by the Shareholders, pursuant to art. 2408 of the Italian Civil Code.

The activities of the Board of Statutory Auditors have regarded, from a temporal point of view, the entire financial year and, during the same financial year, the meetings envisaged by art. 2404 of the Italian Civil Code have been regularly held and for such meetings the relevant minutes have been prepared and duly undersigned by unanimous approval.

Activity carried out

During the periodical controls, the Board of Statutory Auditors has been informed about the evolution of the Company's business, paying particular attention to contingent and/or extraordinary issues, in order to evaluate their economic and financial impact on the result for the financial year and on the assets, as well as any possible risk.

Therefore, the Board of Statutory Auditors has periodically evaluated the adequateness of the organizational and functional structure of the Company and any possible change to the same, arising from minimal needs generated by the business.

The relationships with those operating in the above-mentioned structure – Directors, Employees and Legal Auditors – have been inspired by the reciprocal collaboration, always respecting the roles assigned, after having clarified the Board of Statutory Auditors' duties.

The information required by art. 2381, par. 5 of the Italian Civil Code, has been provided by the Board of Directors with a frequency even higher than the fixed minimum of six months; this has happened in occasion of both the planned controls and the Board of Statutory Auditors' meetings at the Company's premises; from the above it can be inferred that the Directors have, both formally and substantially, respected their duties under the mentioned provision of law.

In conclusion, as far as it has been possible to acknowledge during the activities performed throughout the financial year, the Board of Statutory Auditors can state that:

- the resolutions taken by the Shareholders and the Board of Directors are compliant with the law and with the Company's By-Laws and have not been manifestly imprudent or such as to jeopardize the integrity of the corporate assets;
- sufficient information has been acquired with regard to general business trends and their foreseeable evolution, as well as to the most significant operations, by size or characteristics, carried out by the Company;
- also the operations carried out are compliant with the law and not potentially in contrast with the resolutions taken by the Shareholders' meeting or such as to jeopardize the integrity of the corporate assets;
- there are no specific observations regarding the organizational structure of the Company, nor on the adequateness of the administrative and accounting system, as well as on this latter's reliability to correctly represent the business facts. With particular reference to the organizational structure, the Company has continued to use, through contractual agreements with the parent company CDP, all the necessary competences and services provided by the same, to correctly carry out its business;
- during the supervisory activity, as above described, no further significant fact has emerged, such as to be mentioned in this report;
- it has not been necessary to intervene for omissions by the Board of Directors, as per art. 2406 of the Italian Civil Code;
- no report has been filed pursuant to art. 2408 of the Italian Civil Code;
- no report has been filed pursuant to art. 2409, par. 7 of the Italian Civil Code;
- during the financial year, the Board of Statutory Auditors has issued the opinions provided for by

the law and, more in detail, the motivated proposal for the appointment of the legal auditor of accounts pursuant to articles 13, 14 and 16 of Legislative Decree no. 39/2010, issued on 19 June 2015 and the opinion related to the appointment of the Financial Reporting Officer issued on 10 September 2015 pursuant to art. 154-*bis* of Legislative Decree dated 24 February 1998, no. 58.

Observations and proposals related to the financial statements and to their approval

With regard to the draft financial statements for the year ended on 31 December 2015, the following is to be noted:

a) the financial statements at hand have been prepared in compliance with the international accounting standards adopted with the EC Regulation no. 1606 of 19 July 2002 and enforced into the Italian provisions of law with Legislative Decree no. 38 of 28 February 2005;

b) the correct representation of the business facts into the accounting records and their inclusion in the financial statements, according to the IAS/IFRS standards, have been checked by the Audit Firm, in charge of the legal audit of accounts;

c) the financial statements as of 31 December 2015 show a profit for the year of € 358,327,140 and a net worth of € 3,701,129,067. The profit for the year, with regard to the positive income elements, depends on dividends and financial revenues, offset by negative income elements, mainly financial charges.

The draft financial statements have been then analyzed; in this regard, please find herewith below the following further information:

- the evaluation criteria of the assets and liabilities subject to such binding need, have been controlled and are not substantially different from those adopted in the previous years, in compliance with the provisions of art. 2426 of the Italian Civil Code;
- we have paid attention to the general setting of the financial statements, to their general

compliance with the law, with regard to their formation and structure and in this respect there are no observations to be included in this report;

- we have verified the observance of the provisions of law regarding the preparation of the Management Report and in this respect there are no observations to be included in this report;
- the Board of Directors, in preparing the financial statements, has made no exceptions to the provisions of law, pursuant to art. 2423, par. 4 of the Italian Civil Code;
- we verified that the financial statements correspond to the facts and information we are aware of as a consequence of the carrying out of our duties as Board of Statutory Auditors and in this regard we have no further comments to make.

With regard to the aspects under the responsibility of the Board of Statutory Auditors, the following relevant facts occurred during the financial year are to be highlighted:

- the changes to the corporate By-Laws resolved during the Shareholders' meeting held on 24 June 2015;
- the re-financing activities carried out during the financial year under exam.

The Board of Statutory Auditors has been assured that the Audit Firm is independent pursuant to the provisions of articles 10 and 17 of Legislative Decree no. 39/2010 and the relevant implementing regulations.

In compliance with the provisions of articles 2497 and following of the Italian Civil Code, the Company has provided in the Notes to the Financial Statements information about its being subject to the management and coordination of another entity. In particular, it has been confirmed that the Shareholder Cassa Depositi e Prestiti S.p.A. the entity carrying out such management and coordination activity.

On the occasion of the audit of the financial statements, the Board of Statutory Auditors has discussed with the Audit Firm the results of the audits performed and has acknowledged the activities carried out during the financial period of reference. The Audit Firm has not expressed specific observations on the financial statements as of 31 December 2015. In fact, in this regard, no finding is included in the report prepared and issued by the same on 27 April 2016.

Conclusions

Based on the above and as far as the Board of Statutory Auditors is concerned and has verified from the periodical controls carried out, it is unanimously deemed that there no obstacles to your approval of the draft financial statements for the period ended on 31 December 2015, as prepared by the Board of Directors, sharing the opinion of the same Board with regard to the allocation of the profit for the year.

Rome, 27 April 2016

The Board of Statutory Auditors

Dott. Guglielmo Marengo

Dott.ssa Francesca Di Donato

Dott. Paolo Sebastiani

This is an English courtesy translation of the original documentation prepared in Italian language. Please consider that only the original version in Italian language has legal value.

REPORT OF THE INDEPENDENT AUDITORS

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

CDP RETI SPA

pwc

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

To the shareholders of
Cdp Reti SpA

Report on the financial statements

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

Directors' responsibility for the financial statements

The directors of Cdp Reti S.p.A. are responsible for the preparation of financial statements that give a true and fair view in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree N° 38/2005.

Auditors' responsibility

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

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

PricewaterhouseCoopers SpA

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

www.pwc.com/it

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

Opinion

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

Report on compliance with other laws and regulations

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

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

Rome, 27 April 2016

PricewaterhouseCoopers SpA

Signed by

Lorenzo Pini Prato
(Partner)

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

ANNEXES

1. **LIST OF EQUITY INVESTMENTS**

2. **SEPARATE FINANCIAL STATEMENTS AT 31 DECEMBER 2014 OF CASSA DEPOSITI E PRESTITI SOCIETÀ PER AZIONI** (Registered office in Rome, Via Goito n. 4, tax code 80199230584)

   - **BALANCE SHEET**
   - **INCOME STATEMENT**
   - **STATEMENT OF COMPREHENSIVE INCOME**
   - **STATEMENT OF CHANGES IN EQUITY**
   - **CASH FLOW STATEMENT**

Annex 1

(euros)

	Name	Registered office	% holding	Carrying amount	Type of transaction
A.	**Listed companies**				
	SNAM S.p.A.	San Donato Milanese (MI)	28.98%	3,520,230,115	Control
	TERNA S.p.A.	Roma	29.85%	1,315,200,000	Control

ANNEX 2

Cassa depositi e prestiti società per azioni

Registered office in Rome, Via Goito n. 4, Tax Code 80199230584

(euros)

BALANCE SHEET

	Assets	31/12/2014	31/12/2013
10.	Cash and cash equivalents	3,431	3,530
20.	Financial assets held for trading	298,681,592	472,679,479
40.	Financial assets available for sale	6,907,788,220	4,939,291,611
50.	Financial assets held to maturity	21,339,001,554	18,327,082,721
60.	Loans to banks	26,507,878,599	14,851,354,609
	- of which segregated asset pool	*315,157,507*	-
70.	Loans to customers	263,886,601,722	242,136,225,003
80.	Hedging derivatives	683,756,741	325,064,442
100.	Equity investments	29,037,562,809	31,769,037,804
110.	Property, plant and equipment	231,831,135	217,930,399
120.	Intangible assets	5,653,001	6,252,398
130.	Tax assets	914,169,425	1,233,688,891
	a) current	688,383,445	1,065,965,451
	b) deferred	225,785,980	167,723,440
150.	Other assets	391,703,034	406,692,190
	Total assets	**350,204,631,263**	**314,685,303,077**

Cassa depositi e prestiti società per azioni

Registered office in Rome, Via Goito n. 4, Tax Code 80199230584

(euros)

BALANCE SHEET

	Liabilities and equity	31/12/2014	31/12/2013
10.	Due to banks	13,291,240,650	24,008,645,722
20.	Due to customers	302,765,016,422	261,520,355,925
30.	Securities issued	9,989,572,140	6,907,470,302
40.	Financial liabilities held for trading	290,043,654	444,815,354
60.	Hedging derivatives	2,305,630,570	1,449,143,501
70.	Adjustment of financial liabilities hedged generically (+/-)	47,921,746	52,258,202
80.	Tax liabilities	393,987,555	669,026,281
	a) current	228,138,672	565,597,478
	b) deferred	165,848,883	103,428,803
100.	Other liabilities	1,548,383,498	1,479,946,192
110.	Staff severance pay	887,491	756,139
120.	Provisions	18,526,685	14,928,023
	b) other provisions	18,526,685	14,928,023
130.	Valuation reserves	1,073,171,925	975,182,823
160.	Reserves	12,867,358,117	11,371,230,455
180.	Share capital	3,500,000,000	3,500,000,000
190.	Treasury shares (-)	(57,220,116)	(57,220,116)
200.	Net income for the period (+/-)	2,170,110,926	2,348,764,274
	Total liabilities and equity	**350,204,631,263**	**314,685,303,077**

Cassa depositi e prestiti società per azioni

Registered office in Rome, Via Goito n. 4, Tax Code 80199230584

(euros)

INCOME STATEMENT

		31/12/2014	31/12/2013
10.	Interest income and similar revenues	6,924,344,105	8,734,350,209
20.	Interest expense and similar charges	(5,762,905,636)	(6,194,954,542)
30.	**Net interest income**	**1,161,438,469**	**2,539,395,667**
40.	Commission income	52,431,196	40,300,483
50.	Commission expense	(1,643,658,781)	(1,623,148,314)
60.	**Net commission income**	**(1,591,227,585)**	**(1,582,847,831)**
70.	Dividends and similar revenues	1,846,798,798	3,088,977,849
80.	Net gain (loss) on trading activities	13,164,361	76,056,378
90.	Net gain (loss) on hedging activities	(44,393,865)	(14,833,356)
100.	Gains (losses) on disposal or repurchase of:	339,792,976	15,736,734
	a) loans	57,922,885	9,219,840
	b) financial assets available for sale	281,870,091	6,477,522
	c) financial assets held to maturity	-	39,372
120.	**Gross income**	**1,725,573,154**	**4,122,485,441**
130.	Net impairment adjustments of:	(130,744,682)	(45,290,748)
	a) loans	(113,031,124)	(42,802,267)
	d) other financial transactions	(17,713,558)	(2,488,481)
140.	**Financial income (expense), net**	**1,594,828,472**	**4,077,194,693**
150.	Administrative expenses:	(128,240,736)	(119,717,268)
	a) staff costs	(65,479,924)	(62,335,374)
	b) other administrative expenses	(62,760,812)	(57,381,894)
160.	Net provisions	(1,628,032)	(395,528)
170.	Net adjustments of property, plant and equipment	(4,822,935)	(5,147,912)
180.	Net adjustments of intangible assets	(2,242,113)	(2,345,796)
190.	Other operating income (costs)	4,164,148	4,758,168
200.	**Operating costs**	**(132,769,668)**	**(122,848,336)**
210.	Gains (losses) on equity investments	938,066,437	(1,008,947,000)
240.	Gains (losses) on the disposal of investments	(5,217)	91
250.	**Income (loss) before tax from continuing operations**	**2,400,120,024**	**2,945,399,448**
260.	Income tax for the period on continuing operations	(230,009,098)	(596,635,174)
270.	**Income (loss) after tax on continuing operations**	**2,170,110,926**	**2,348,764,274**
290.	**Income (loss) for the period**	**2,170,110,926**	**2,348,764,274**

Cassa depositi e prestiti società per azioni

Registered office in Rome, Via Goito n. 4, Tax Code 80199230584

(euros)

STATEMENT OF COMPREHENSIVE INCOME

		31/12/2014	31/12/2013
10.	**Income (loss) for the period**	**2,170,110,926**	**2,348,764,274**
	Other comprehensive income net of taxes transferred to income statement		
90.	Cash flow hedges	11,676,230	(1,380,880)
100.	Financial assets available for sale	86,312,872	11,145,386
130.	**Total other comprehensive income net of taxes**	**97,989,102**	**9,764,506**
140.	**Comprehensive income (items 10+130)**	**2,268,100,028**	**2,358,528,780**

Cassa depositi e prestiti società per azioni

Registered office in Rome, Via Goito n. 4, Tax Code 80199230584

(euros)

STATEMENT OF CHANGES IN EQUITY: CURRENT PERIOD

	Balance at 31.12.13	Changes in opening balance	Balance at 1.1.14	Allocation of net income for previous year		Changes for the period								Equity at 31.12.14
							Equity transactions						Comprehensive income for 2014	
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of own shares	Special dividend distribution	Changes in equity instruments	Derivatives on own shares	Stock options		
Share capital:														
a) ordinary shares	3,500,000,000		3,500,000,000											3,500,000,000
b) preference shares														
Share premium reserve														
Reserves:														
a) income	11,371,230,455		11,371,230,455	1,496,127,662										12,867,358,117
b) other														
Valuation reserves:														
a) available for sale	788,179,460		788,179,460										86,312,872	874,492,332
b) cash flow hedges	19,431,361		19,431,361										11,676,230	31,107,591
c) other reserves														
- revaluation of property	167,572,002		167,572,002											167,572,002
Equity instruments														
Treasury shares	(57,220,116)		(57,220,116)											(57,220,116)
Income (loss) for the period	2,348,764,274		2,348,764,274	(1,496,127,662)	(852,636,612)								2,170,110,926	2,170,110,926
Equity	**18,137,957,436**		**18,137,957,436**		**(852,636,612)**								**2,268,100,028**	**19,553,420,852**

Cassa depositi e prestiti società per azioni

Registered office in Rome, Via Goito n. 4, Tax Code 80199230584

(euros)

STATEMENT OF CHANGES IN EQUITY: PREVIOUS PERIOD

	Balance at 31.12.12	Changes in opening balance	Balance at 1.1.13	Allocation of net income for previous year		Changes for the period								Equity at 31.12.13
							Equity transactions							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of own shares	Special dividend distribution	Changes in equity instruments	Derivatives on own shares	Stock options	Comprehensive income for 2013	
Share capital:														
a) ordinary shares	2,450,000,000		2,450,000,000			1,050,000,000								3,500,000,000
b) preference shares	1,050,000,000		1,050,000,000			(1,050,000,000)								
Share premium reserve														
Reserves:														
a) income	9,517,249,132		9,517,249,132	1,853,981,323										11,371,230,455
b) other														
Valuation reserves:														
a) available for sale	777,034,074		777,034,074										11,145,386	788,179,460
b) cash flow hedges	20,812,241		20,812,241										(1,380,880)	19,431,361
c) other reserves														
- revaluation of property	167,572,002		167,572,002											167,572,002
Equity instruments														
Treasury shares								(57,220,116)						(57,220,116)
Income (loss) for the period	2,852,617,356		2,852,617,356	(1,853,981,323)	(998,636,033)								2,348,764,274	2,348,764,274
Equity	**16,835,284,805**		**16,835,284,805**		**(998,636,033)**			**(57,220,116)**					**2,358,528,780**	**18,137,957,436**

Cassa depositi e prestiti società per azioni

Registered office in Rome, Via Goito n. 4, Tax Code 80199230584

(euros)

CASH FLOW STATEMENT (indirect method)

A. OPERATING ACTIVITIES	**31/12/2014**	**31/12/2013**
1. Operations	**5,466,218,766**	**6,556,718,122**
- net income for the year (+/-)	2,170,110,926	2,348,764,274
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value (-/+)	(13,854,897)	(61,608,965)
- gains (losses) on hedging activities (-/+)	(16,215,828)	9,085,774
- net impairment adjustments (+/-)	131,452,791	45,290,748
- net value adjustments to property, plant and equipment and intangible assets (+/-)	7,065,048	7,493,709
- net provisions and other costs/revenues (+/-)	11,014,868	9,965,112
- unpaid charges, taxes and tax credits (+/-)	230,009,098	596,635,174
- net impairment adjustments of disposal groups held for sale net of tax effect (+/-)	-	-
- writedowns/writebacks of equity investments (+/-)	148,520,468	1,008,947,000
- other adjustments (+/-)	2,798,116,292	2,592,145,296
2. Cash generated by/used in financial assets	**(21,228,388,260)**	**(8,252,843,730)**
- financial assets held for trading	187,852,784	229,410,265
- financial assets at fair value	-	-
- financial assets available for sale	(1,641,091,987)	78,249,706
- loans to banks: on demand	-	-
- loans to banks: other	(11,755,990,288)	(1,347,809,928)
- loans to customers	(8,255,737,138)	(6,360,054,751)
- other assets	236,578,369	(852,639,022)
3. Cash generated by/used in financial liabilities	**29,656,011,695**	**5,145,738,562**
- due to banks: on demand	-	-
- due to banks: other	(10,548,512,701)	(10,076,287,893)
- due to customers	38,226,338,562	16,500,048,145
- securities issued	2,661,322,998	284,771,714
- financial liabilities held for trading	(154,771,699)	(32,272,324)
- financial liabilities at fair value	-	-
- other liabilities	(528,365,465)	(1,530,521,079)
Cash generated by/used in operating activities	**13,893,842,201**	**3,449,612,954**
B. INVESTING ACTIVITIES		
1. Cash generated by	**25,717,180,187**	**11,106,483,000**
- sale of equity investments	2,815,240,512	-
- dividends from equity investments	-	-
- sale of financial instruments held to maturity	22,901,939,675	11,106,483,000
- sale of property, plant and equipment	-	-
2. Cash used in	**(26,138,847,549)**	**(15,095,313,300)**
- purchase of equity investments	(221,921,860)	(2,519,511,610)
- purchase of financial assets held to maturity	(25,893,699,984)	(12,561,075,775)
- purchase of property, plant and equipment	(21,582,988)	(13,270,664)
- purchase of intangible assets	(1,642,717)	(1,455,251)
Cash generated by/used in investing activities	**(421,667,362)**	**(3,988,830,300)**
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares	-	(57,220,116)
- dividend distribution and other allocations	(852,636,612)	(998,636,033)
Cash generated by/used in financing activities	**(852,636,612)**	**(1,055,856,149)**
CASH GENERATED/USED DURING THE YEAR	**12,619,538,227**	**(1,595,073,495)**

RECONCILIATION

Items (*)		
Cash and cash equivalents at beginning of year	136,134,607,662	137,729,681,156
Total cash generated/used during the year	12,619,538,227	(1,595,073,495)
Cash and cash equivalents: effects of changes in exchange rates	-	-
Cash and cash equivalents at end of year	148,754,145,889	136,134,607,662