Consolidated financial statements
as at 31 December 2014

Terna
TERNA GROUP

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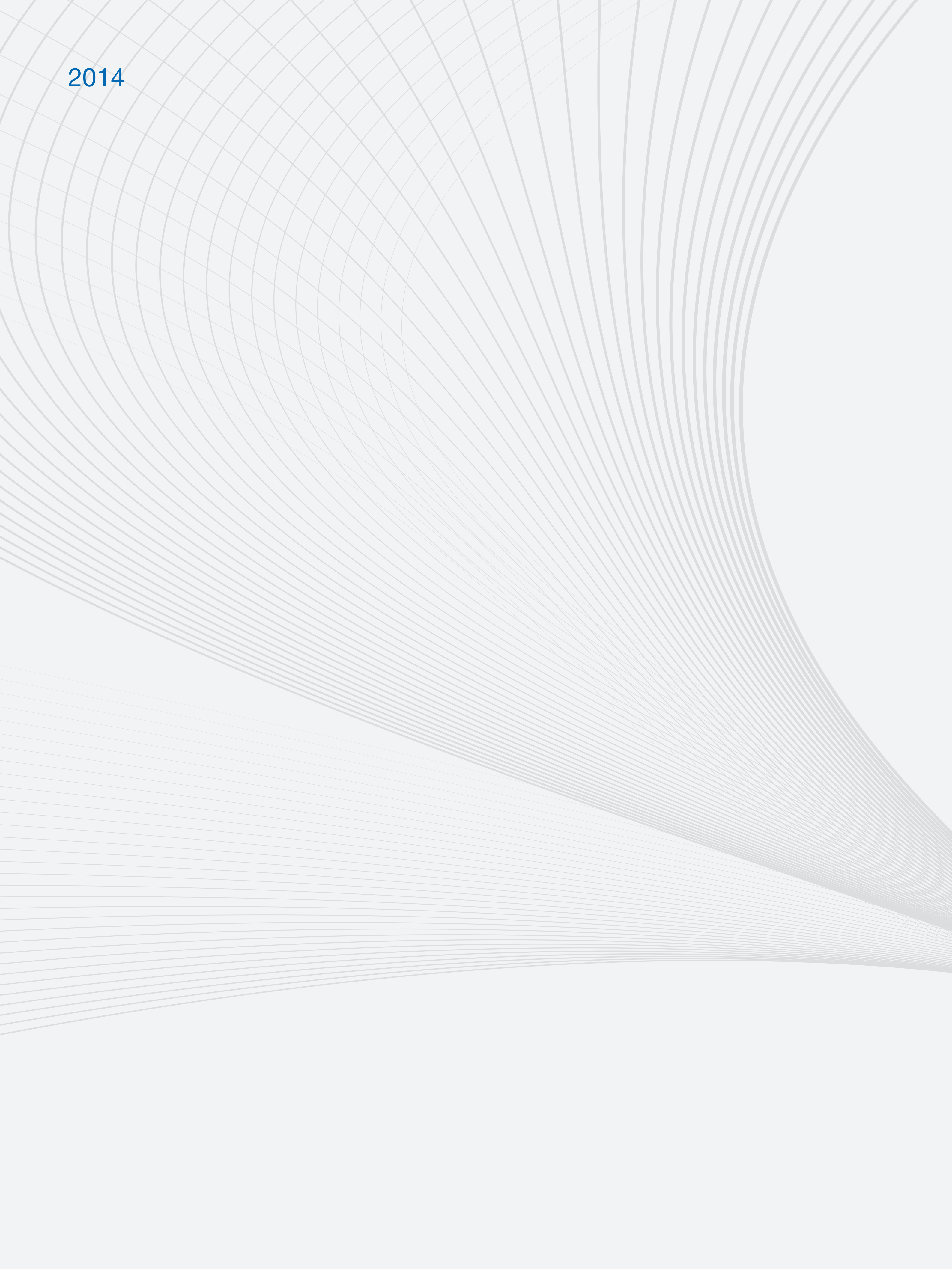

2014

Consolidated financial statements

Terna
TERNA GROUP

Consolidated income statement

€ million	Notes	2014	2013
A. Revenue			
1. Revenue from sales and services	1	1,922.8	1,844.6
of which: related parties		*1,428.8*	*1,442.0*
2. Other revenue and income	2	59.8	51.8
of which: related parties		*3.4*	*2.2*
Total revenue		**1,982.6**	**1,896.4**
B. Operating expenses			
1. Raw materials and consumables	3	40.1	14.7
2. Services	4	160.8	140.9
of which: related parties		*3.9*	*14.7*
3. Personnel expenses	5	265.0	206.3
- gross personnel expenses		*337.2*	*279.5*
- gross personnel expenses, capitalised		*(72.2)*	*(73.2)*
of which: related parties		*4.3*	*0.9*
4. Amortisation, depreciation and impairment	6	480.6	450.4
5. Other operating expenses	7	39.0	46.4
of which: related parties		*0.3*	*0.3*
Total expenses		**985.5**	**858.7**
A-B Operating profit		**997.1**	**1,037.7**
C. Financial income/expense			
1. Financial income	8	24.0	65.8
2. Financial expense	8	(159.6)	(167.6)
of which: related parties		*(6.4)*	*(6.3)*
3. Share of profit/(losses) deriving from equity-accounted investees	9	7.7	1.6
D. Profit before taxes		**869.2**	**937.5**
E. Income taxes of the year	10	**335.7**	**423.9**
F. Profit for the year from continuing operations		**533.5**	**513.6**
G. Profit for the year from discontinued operations	11	**11.0**	**-**
F. Net profit for the year		**544.5**	**513.6**
Profit for the year attributable to owners of the Parent		***544.5***	***513.6***
Earnings per share			
Basic earnings per share	11	0.271	0.256
Diluted earnings per share		0.271	0.256

Consolidated statement of comprehensive income

€ million	Notes	2014	2013
Net profit for the year		**544.5**	**513.6**
Other comprehensive income for the year which will be subsequently released to the income statement			
- Cash flow hedges net of tax effect	23	27.3	34.9
Other comprehensive income for the year which will not be subsequently released to the income statement			
- Actuarial gains (losses) on employee benefits net of tax effect	23	(17.5)	5.8
Comprehensive income for the year		**554.3**	**554.3**
Net comprehensive income for the year attributable to:		**554.3**	**554.3**
Owners of the Parent		*554.3*	*554.3*

Consolidated statement of financial position
Assets

€ million	Notes	at 31.12.2014	at 31.12.2013
A. Non-current assets			
1. Property, plant and equipment	13	10,778.6	10,119.9
of which: related parties		*17.1*	*21.2*
2. Goodwill	14	190.2	190.2
3. Intangible assets	15	262.3	271.6
4. Equity-accounted investees	16	79.2	74.0
5. Non-current financial assets	17	787.1	528.1
6. Other non-current assets	18	9.8	7.8
Total non-current assets		**12,107.2**	**11,191.6**
B. Current assets			
1. Inventories	19	21.6	8.0
2. Trade receivables	20	1,577.8	1,721.1
of which: related parties		*297.6*	*413.6*
3. Current financial assets	17	63.4	97.1
of which: related parties		*0.2*	*0.3*
4. Cash and cash equivalents	21	1,217.3	1,617.1
5. Income tax assets	22	25.9	20.8
6. Other current assets	18	46.0	79.4
Total current assets		**2,952.0**	**3,543.5**
Total assets		**15,059.2**	**14,735.1**

Consolidated statement of financial position
Liabilities

€ million	Notes	at 31.12.2014	at 31.12.2013
C. Equity attributable to owners of the Parent			
1. Share capital		442.2	442.2
2. Other reserves		793.5	783.6
3. Retained earnings		1,453.4	1,341.9
4. Interim dividend		(140.7)	(140.7)
5. Net profit for the year		544.5	513.6
Total equity attributable to owners of the Parent	23	**3,092.9**	**2,940.6**
D. Non-current liabilities			
1. Long-term loans	24	8,085.2	8,009.9
of which: related parties		*500.0*	*500.0*
2. Employee benefits	25	146.3	120.1
3. Provisions for risks and charges	26	209.5	177.0
4. Deferred tax liabilities	27	85.1	155.6
5. Non-current financial liabilities	24	29.9	80.0
6. Other non-current liabilities	28	128.7	132.9
Total non-current liabilities		**8,684.7**	**8,675.5**
E. Current liabilities			
1. Current portion of long-term loans	24	764.1	697.8
2. Trade payables	29	2,103.8	2,062.3
of which: related parties		*27.7*	*33.6*
3. Tax liabilities	29	1.2	31.5
4. Current financial liabilities	24	154.1	151.4
of which: related parties		*0.9*	*1.1*
5. Other current liabilities	29	258.4	176.0
of which: related parties		*66.9*	*1.3*
Total current liabilities		**3,281.6**	**3,119.0**
Total liabilities and equity		**15,059.2**	**14,735.1**

Statement of changes in consolidated equity

€ million	Share capital	Legal reserve	Share premium reserve	Cash-flow-hedge reserve
	CONSOLIDATED SHARE CAPITAL AND RESERVES			
Equity at 31 December 2013	**442.2**	**88.4**	**20.0**	**(53.3)**
Net profit for the year				
Other comprehensive income:				
Change in fair value of cash flow hedging derivatives net of tax effect				27.3
Actuarial gains (losses) on employee benefits net of tax effect				
Total other comprehensive income	-	-	-	**27.3**
Net comprehensive income	-	-	-	**27.3**
Transactions with equity owners:				
Allocation of 2013 profit				
- Retained earnings				
- Dividends				
Interim dividend 2014				
Total transactions with equity owners	-	-	-	-
Other changes				
Equity at 31 December 2014	**442.2**	**88.4**	**20.0**	**(26.0)**

31 DECEMBER 2012 - 31 DECEMBER 2013

€ million	Share capital	Legal reserve	Share premium reserve	Cash-flow-hedge reserve
	CONSOLIDATED SHARE CAPITAL AND RESERVES			
Equity at 31 December 2012	**442.2**	**88.4**	**20.0**	**(88.2)**
Adjustment of opening balances	-	-	-	-
Equity at 31 December 2012	**442.2**	**88.4**	**20.0**	**(88.2)**
Profit for the year				
Other comprehensive income:				
Change in fair value of cash flow hedging derivatives net of tax effect				34.9
Actuarial gains (losses) on employee benefits net of tax effect				
Total other comprehensive income	-	-	-	**34.9**
Net comprehensive income	-	-	-	**34.9**
Transactions with equity owners:				
Allocation of 2012 profit				
- Retained earnings				
- Dividends				
Interim dividend 2013				
Total transactions with equity owners	-	-	-	-
Other changes				
Equity at 31 December 2013	**442.2**	**88.4**	**20.0**	**(53.3)**

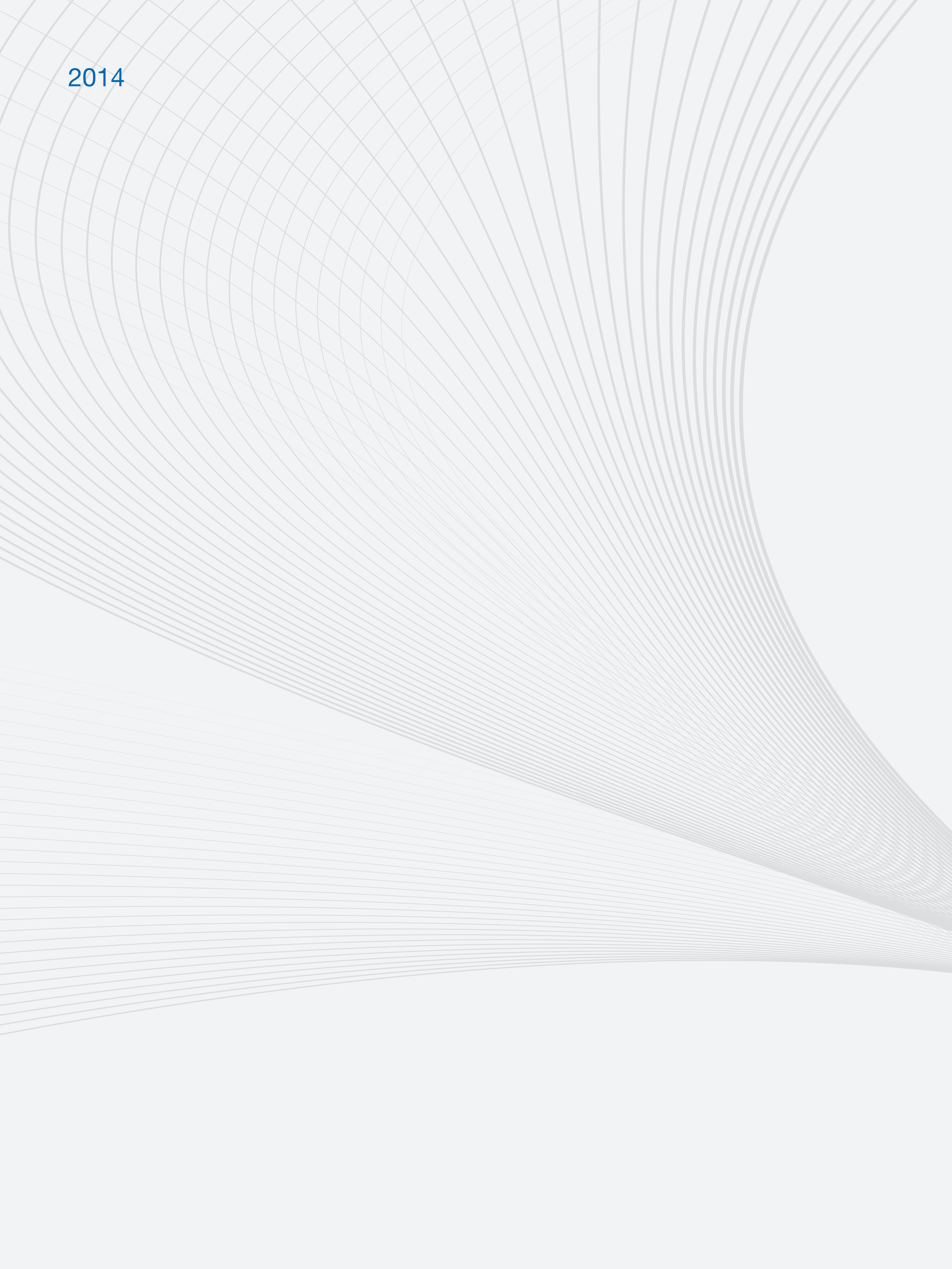
Other reserves	Retained earnings	Interim dividend	Net profit for the year	Equity attributable to the owners of the Parent
728.5	1,341.9	(140.7)	513.6	2,940.6
			544.5	544.5
				27.3
(17.5)				(17.5)
(17.5)	-	-	-	9.8
(17.5)	-	-	544.5	554.3
	111.5		*(111.5)*	-
		140.7	*(402.1)*	*(261.4)*
		(140.7)		(140.7)
-	111.5	-	(513.6)	(402.1)
0.1				0.1
711.1	1,453.4	(140.7)	544.5	3,092.9

Other reserves	Retained earnings	Interim dividend	Net profit for the year	Equity attributable to the owners of the Parent
728.7	1,280.3	(140.7)	463.6	2,794.3
(6.0)	-	-		(6.0)
722.7	1,280.3	(140.7)	463.6	2,788.3
			513.6	513.6
				34.9
5.8				5.8
5.8	-	-	-	40.7
5.8	-	-	513.6	554.3
	61.6		*(61.6)*	-
		140.7	*(402.0)*	*(261.3)*
		(140.7)		(140.7)
-	61.6	-	(463.6)	(402.0)
728.5	1,341.9	(140.7)	513.6	2,940.6

Consolidated statement of cash flows*

€ million	2014	2013
Net profit for the year	**544.5**	**513.6**
Adjustments for:		
Amortisation, depreciation, impairment losses/(reversals of impairment losses) on property, plant and equipment and intangible assets (non-current)	458.4	430.9
Provisions (including employee-related provisions) and impairment losses	94.5	48.9
(Gains)/Losses on disposals of property, plant and equipment	(1.8)	(1.7)
Financial (income)/expense	135.1	103.8
Income taxes	335.7	423.9
Cash flows generated by operating activities, before changes in net working capital	**1,566.4**	**1,519.4**
Increase/(Decrease) in provisions (including employee-related and tax provisions)	(65.3)	(36.6)
(Increase)/decrease in inventories	(13.6)	(1.4)
(Increase)/decrease in trade receivables and other current assets	170.7	129.4
Increase/(decrease) in trade payables and other current liabilities	186.3	(210.0)
Increase/(decrease) in other non-current liabilities	(1.8)	3.3
(Increase)/decrease in other non-current assets	(4.0)	(0.7)
Interest income and other financial income received	160.2	202.4
Interest expense and other financial expense paid	(319.9)	(305.6)
Income taxes paid	(491.4)	(536.4)
Cash flows generated by operating activities [a]	**1,191.2**	**763.8**
Investments in non-current property, plant and equipment, net of grants received	(1,031.2)	(1,151.1)
Recognition of newly-acquired property, plant and equipment	(40.1)	
Proceeds from sale of non-current property, plant and equipment and intangible assets and other changes	12.0	(12.5)
Capitalised financial expense	34.4	26.3
Investment in non-current intangible assets, net of grants received	(47.4)	(47.4)
Recognition of intangible assets, new acquisitions	(1.7)	
(Increase)/decrease in equity interests in associates	(5.2)	(0.5)
Acquisition of equity investments	0.0	(0.2)
Cash flows used in investing activities [b]	**(1,079.2)**	**(1,185.4)**
Increase/(decrease) in net income and accumulated losses	0.1	0.0
Dividends paid	(402.0)	(402.0)
Change in short- and medium/long-term financial payables (including short-term portions)***	(109.9)	(69.4)
Change in short-term financial investments		0.0
Cash flows generated by financing activities [c]	**(511.8)**	**(471.4)**
Increase/(decrease) in cash and cash equivalents [a+b+c]	**(399.8)**	**(893.0)**
Opening cash and cash equivalents	1,617.1	2,510.1
Closing cash and cash equivalents	1,217.3	1,617.1

* For comments on the Consolidated Statement of Cash Flows, please see the section "Notes to the Statement of Cash Flows" in the "NOTES TO THE FINANCIAL STATEMENTS"
** Net of set-up grants taken to income statement for the year.
*** Net of derivatives and of impacts on adjustment to fair value.


2014

Notes to the Consolidated Financial Statements

Terna
TERNA GROUP

A. Accounting policies and measurement criteria

Introduction

Terna S.p.A. has registered offices in Viale Egidio Galbani 70, Rome, Italy. The Consolidated Financial Statements at and for the year ended 31 December 2014 include the separate financial statements of the Company and those of the subsidiaries (the "Group"), as well as the Group's shareholding in associates and joint ventures. The subsidiaries included within the scope of consolidation are listed below.
These Consolidated Financial Statements were authorised for publication by the Directors on 26 March 2015.
The Consolidated Financial Statements at and for the year ended 31 December 2014 are available upon request at the Terna S.p.A. registered offices in Viale Egidio Galbani 70, Rome, or on the company's website www.terna.it.

Compliance with IAS/IFRS

The consolidated financial statements at 31 December 2014 have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), endorsed by the European Commission ("IFRS-EU") at that date.
This document has also been prepared taking into account the provisions of Legislative Decree no. 38 of 28 February 2005, the Italian Civil Code and Consob Resolutions nos. 15519 ("*Provisions governing financial statements in implementation of Art. 9, paragraph 3, of Legislative Decree no. 38/2005*") and 15520 ("*Amendments to the implementing rules for Legislative Decree no. 58/1998*"), both of 27 July 2006, as well as Consob Communication no. DEM/6064293 of 28 July 2006 ("*Disclosure requirements for listed issuers and issuers of financial instruments that are widely held among the public pursuant to Art. 116 of the Consolidated Law on Finance*").
The Consolidated Financial Statements have been prepared on a historical cost basis, modified where necessary for certain financial instruments, as well as on a going-concern basis. The Group has determined that, despite the challenging economic and financial environment, it does not face material uncertainties (as defined in paragraph 25 of IAS 1R) that might cast doubt on its ability to continue as a going concern.

Basis of presentation

The Consolidated Financial Statements are composed of the Statement of Financial Position, the Income Statement, the Statement of comprehensive income, the Statement of Cash Flows, the Statement of Changes in Equity and the Notes thereto.
In the Statement of Financial Position, assets and liabilities are classified on a "current/non-current" basis, with separate reporting of assets and liabilities held for sale. Current assets, which include cash and cash equivalents, are those held for realisation, sale or consumption in the Group's normal operating cycle; current liabilities are those expected to be settled in the Group's normal operating cycle or within one year from the close of the financial year.
The Income Statement is classified on the basis of the nature of costs. The Income Statement is presented as two statements, the first of which (Income Statement) presents the components of profit or loss for the year; while the second (Statement of Comprehensive Income) starts with the result for the year and then presents the revenue and expense items (including reclassification adjustments) that are recognised in equity rather than profit or loss for the year.
The statement of cash flows has been prepared using the indirect method.
The Consolidated Financial Statements are accompanied by the Report on Operations for Terna S.p.A. and the Terna Group, which as from the 2008 financial year has been prepared as a single document, exercising the option granted under Legislative Decree no. 32 of 2 February 2007, which amended Art. 40 (Directors' Report on Operations) of Legislative Decree no. 127 of 9 April 1991.
These Consolidated Financial Statements are presented in millions of euro, and all figures are shown in millions of euro, unless otherwise indicated.
The Consolidated Financial Statements have been prepared using the historical cost method, with the exception of items that are recognised at fair value in accordance with IFRS-EU, as indicated in the accounting policies for each item.

Use of estimates

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

Current taxes and adjustment of deferred tax assets and liabilities
On 11 February 2015 the Constitutional Court published Ruling 10/2015, with which it declared unconstitutional the so-called Robin Hood Tax (Art. 81, paragraphs 16, 17 and 18 of Italian Legislative Decree no. 112/2008) which had introduced an IRES surcharge of 6.5% from 2014.
As, in the Court’s opinion, retroactive application of this declaration of unconstitutionality would determine a serious breach of the balanced State budget enshrined in Art. 81 of the Constitution (which prescribes, among other things, an obligation to balance the budget), the unconstitutionality takes effect starting from the day after publication of this ruling. As usually happens in practice, an Ordinary Law of the State is expected in the next few months, formally abolishing the law that had introduced the RHT and establishing in detail the tax period starting from which the surcharge is considered abolished.
On the basis of the legislative framework outlined, the Terna Group determined the current taxes for financial year 2014 applying the IRES rate with the 6.5% surcharge; deferred tax assets and liabilities, in addition, are adequate for the rate provided for at the moment of payment (27.5%, without applying the RHT surcharge).
This adjustment created a positive effect on the Income Statement of approximately € 30 million and an impact on Other Comprehensive Income of € -3.9 million.

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

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

Impairment losses

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

The recoverable amount of goodwill and intangible assets with indefinite useful lives, where present, as well as intangible assets not yet available for use, is estimated at least annually. The recoverable amount is equal to the greater of the fair value less costs to sell and value in use that is measured by discounting estimated future cash flows considering information available at the time of estimate and on the basis of subjective assessments of the performance of future variables, such as prices, costs, demand growth rates, production profiles, and discounted at a pre-tax rate that reflects current market assessment of the time value of money for the investment period and risks specific to the asset. If the intangible asset does not generate cash inflows that are amply independent, the asset's recoverable amount is calculated as part of the CGU to which it belongs.

An impairment loss is recognised in the Income Statement when the asset's book value, or the net invested capital of the CGU to which it belongs, is greater than its recoverable amount.

Impairment losses of CGUs are first taken as a reduction in the carrying amount of any allocated goodwill and then as a reduction in other assets of the CGU on a pro rata basis. Except for goodwill, impairment losses may be reversed up to the recoverable amount if there is an indication that the impairment loss no longer exists or when there is a change in the methods used to measure recoverable amount.

Allowance for doubtful accounts

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

Subsidiaries and the scope of consolidation

The consolidation scope includes the Parent Company Terna S.p.A. and the companies over which the Parent Company has the power to exercise directly or indirectly, control understood as power, or the possibility to guide significant activities (which have a substantial impact on the Parent Company's returns), and the exposure, or the right, to the variable returns deriving from the relationship with the subsidiaries, and finally the ability to exercise its power over the subsidiaries in order to influence these returns.

The financial statements of subsidiaries are included in the consolidated financial statements on a line-by-line basis from the date when the Parent Company gains control until the date when such control ceases.

The companies included within the scope of consolidation are listed below:

Company	Registered office	Business	Currency	Share capital	% held	Consolidation method
COMPANIES CONTROLLED DIRECTLY BY TERNA S.P.A.						
Terna Rete Italia S.p.A.	Rome	design, construction, management, development, operation and maintenance of grid structures and lines and of other infrastructures connected to the said grids, of plants and equipment functional to the said business in the sectors of electricity dispatch and transmission and in similar, related or connected segments.	€	120,000	100%	Line-by-line
Terna Rete Italia S.r.l.	Rome	design, construction, management, development, operation and maintenance of high-voltage power lines.	€	243,577,554	100%	Line-by-line
Terna Storage S.r.l.	Rome	design, construction, management, development and maintenance of diffused energy storage systems (including batteries), pumping and/or storage systems, as well as plants, equipment and infrastructure, including grids.	€	10,000	100%	Line-by-line
Terna Crna Gora d.o.o.	Podgorica	authorisation, construction, and management of transmission infrastructures comprising the Italy-Montenegro electrical interconnection in Montenegro territory.	€	36,000,000	100%	Line-by-line
Terna Plus S.r.l.	Rome	design, construction, management, development, operation and maintenance of plants, equipment and infrastructures including grids and systems, diffused energy accumulation, pumping and/or storage.	€	16,050,000	100%	Line-by-line
Terna Interconnector S.r.l.	Rome	design, construction, management, development, operation and maintenance, also on behalf of third parties, of lines and grid structures and other related infrastructures, plants and equipment functional to the said activities in the sector of electricity transmission or in analogous, related or connected sectors.	€	10,000	95%*	Line-by-line
COMPANIES CONTROLLED THROUGH TERNA PLUS S.R.L.						
Tamini Trasformatori S.r.l.	Melegnano (Milan)	construction, repair and sales of electrical machinery.	€	3,000,000	100%	Line-by-line
COMPANIES CONTROLLED THROUGH TAMINI TRASFORMATORI S.R.L.						
Verbano Trasformatori S.r.l.**	Novara	construction, repair and sales of electrical machinery.	€	1,500,000	100%	Line-by-line
V.T.D. Trasformatori S.r.l.	Valdagno (Vicenza)	production, repair and sales in any form allowed by current laws of electrical and electro-mechanical instruments and machinery.	€	774,000	100%	Line-by-line
Tamini Transformers USA LLC	Oakbrook (Chicago - Illinois)	sales of industrial and power electrical transformers.	USD	37,770	100%	Line-by-line

* 5% held by Terna Rete Italia S.p.A.
** incorporated into Tamini Trasformatori S.r.l. with effect from 1 January 2015.

The change in the Terna Group's scope of consolidation compared with the situation at 31 December 2013 regards the acquisition, during the first half of 2014, of the **Tamini Group** companies and the incorporation, on 23 July 2014, of **Terna Interconnector S.r.l.**, 95% owned by the parent company Terna and 5% by the subsidiary Terna Rete Italia S.p.A.

Associates

Investments in associates are those over which the Terna Group has significant influence but which are neither subsidiaries nor joint ventures. In assessing whether or not Terna has a significant influence, potential voting rights that are presently exercisable or convertible are also considered.
These investments are initially recognised at acquisition cost and subsequently measured using the equity method. The profits or losses attributable to the Group are recognised in the Consolidated Financial Statements when significant influence begins and until that influence ceases.
In the event that the loss pertaining to the Group exceeds the book value of the equity interest, the latter is written off and any excess is recognised in a specific provision if the Parent Company is required to meet the legal or constructive obligations of the investee or, in any case, to cover its losses.

Joint ventures

In assessing the existence of joint control it is ascertained whether the parties are bound by a contractual agreement and whether this agreement attributes to the parties the joint control of the agreement itself. Specifically, joint control is given by the sharing, on a contractual basis, of control over an agreement, which exists only when decisions relating to the relevant activities require the unanimous consent of all parties that share control.
Investments in jointly-controlled entities, in which the Group exercises control jointly with other entities, are recognised initially at cost and subsequently measured using the equity method. Profits or losses attributable to the Group are recognised in the Consolidated Financial Statements when significant influence begins and until that influence ceases.
In assessing whether or not the Parent Company has a joint interest, potential voting rights that are actually exercisable or convertible are also considered.
The associates and joint ventures are listed below:

Company	Registered office	Business	Currency	Share capital	% held	Consolidation method
ASSOCIATES						
Cesi S.p.A.	Milan	experimental electro-technical research.	€	8,550,000	42.698%	Equity method
Coreso S.A.	Brussels (Belgium)	technical centre owned by various electrical energy transmission companies which implements joint TSO technical coordination activities in order to improve and strengthen security and coordination of the electrical system in central/western Europe.	€	1,000,000	22.485%	Equity method
CGES A.D.	Podgorica	electricity dispatch and transmission operator in Montenegro.	€	155,108,283	22.0889%	Equity method
COMPANY SUBJECT TO JOINT CONTROL						
ELMED Etudes Sarl	Tunis	preliminary analysis and consulting for preparing documentation on the Tunisian government's tender for the construction and management of the electricity generation site in Tunisia involved in the project for the interconnection between Italy and Tunisia.	Tunisian Dinar	2,700,000	50%	Equity method

Consolidation policies

All separate financial statements of investees used to prepare the Consolidated Financial Statements were drafted as of 31 December 2014 and have been approved by their respective Shareholders' Meetings; they have been adjusted, where necessary, to align them with the Parent Company's accounting policies.
During preparation of the consolidated financial statements, intercompany balances, transactions, revenue and costs are fully eliminated, net of the related tax effect, where material ("consolidation on a line-by-line basis").
Unrealised gains and losses with associates and joint ventures are eliminated in proportion to the Group's holding therein. In both cases, unrealised losses are eliminated, unless they represent impairment losses.

Translation of foreign currency items

Terna S.p.A. prepares its financial statements in euro, which is also the functional currency. In these financial statements, all transactions in currencies other than the functional currency are recognised at the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities in currencies other than the functional currency are subsequently adjusted at the exchange rate prevailing at year end. Any exchange rate differences are taken to the Income Statement.
Non-monetary assets and liabilities in foreign currency stated at historic cost are converted at the exchange rate prevailing when the transaction was initially recognised. Non-monetary assets and liabilities in foreign currency stated at fair value are converted at the exchange rate prevailing when fair value was measured.

Property, plant and equipment

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

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

DEPRECIATION RATES

Civil and industrial buildings	2.50%
Transmission lines	2.50%
Transformer stations:	
- Electrical machinery	2.38%
- Electrical devices and equipment	3.13%
- Automation and control systems	6.70%
Central systems for remote management and control:	
- Devices, electrical equipment and ancillary plants	5.00%
- Electronic calculation equipment	10.00%

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

Intangible assets

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

- the development and innovation of software applications to manage the electricity invoicing process;
- the development and innovation of software applications to protect the electrical system;
- software applications related to the development of the Power Exchange, particularly relating to the registration of operators, consumption units and the development of foreign procedures.

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

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

Goodwill

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

In adopting the IFRSs endorsed by the European Commission, the Group decided to restate only those business combinations that occurred after the transition date (1 January 2004). Goodwill arising on acquisitions before that date corresponds to the amount recognised using the previous accounting policies.

Inventories

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

Contract work in progress

When the result of work done to order can be reliably estimated, the related contract costs and revenue are recognised separately in the Income Statement on a percentage of completion basis. Progress is determined based on the work carried out and measured proportionally to the ratio of costs for the works carried out up to the reporting date and total cost of the contract (cost-to-cost method). Differences between the value of completed contracts and payments on account received are recognised under Statement of Financial Position assets or liabilities, considering any impairment losses on the work carried out so as to take into account the risks of customers' refusal to recognise the work performed. Expected contract losses are immediately taken to the Income Statement.
Contract costs include all costs that relate directly to the specific contract, as well as fixed and variable costs incurred by the Group as part of normal operations.

Financial instruments

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

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

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

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

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

Derivative financial instruments

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

When hedging derivatives cover the risk of changes in the fair value of hedged instruments (fair value hedges), they are recognised at fair value in the Income Statement. Accordingly, the hedged items are adjusted to reflect changes in the fair value associated with the hedged risk.

Changes in the fair value of derivatives that do not meet hedge accounting requirements in accordance with the EU IFRSs are recognised in the Income Statement.

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

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

This analysis is conducted at the time the entity becomes party to the contract or when the contract is renegotiated in a manner that produces a material change in the original associated cash flows.

The measurement techniques used for derivatives existing at year end did not change with respect to the previous year. Accordingly, the effects in the Income Statement and on equity of these measurements are essentially attributable to normal market developments, as well as new derivative contracts signed during the year.

Employee benefits

The liability in respect of employee benefits payable upon or after termination of employment relates to defined-benefit plans (termination benefits, AMP[74], ILN[75], energy discount, ASEM health benefits and other benefits) or other long-term employee benefits (loyalty bonus) and is recognised net of any plan assets. It is measured separately for each plan on the basis of actuarial calculations that estimate the amount of future benefits that employees have accrued at the reporting date. The liability is recognised on an accruals basis over the vesting period. It is measured by independent actuaries.

Provisions for risks and charges

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

(74) Additional Months' Pay.
(75) Indemnity for Lack of Notice.

Grants

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

Revenue

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

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

Financial income and expense

Financial expense directly attributable to the acquisition, construction or production of an asset that qualifies for capitalisation are capitalised as part of the cost of the asset. The property, plant and equipment and intangible assets involved are those that require at least one year before being ready for use. The directly attributable financial expense is that which would not have been incurred if the expenditure for the asset had not been incurred.
Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings. Where funds are raised through general borrowing, the eligible amount is determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate will be the weighted average of the financial expense applicable to the general pool, excluding any specifically borrowed funds. The amount of financial expense capitalised during a year shall in any case not exceed the amount of financial expense incurred during that year.
Capitalisation commences as from the date all the following conditions have been met: (a) expenditures have been incurred for the asset; (b) financial expense have been incurred; and (c) activities to prepare the asset for its intended use or sale are in progress.
Capitalisation ceases when the activities necessary to prepare the asset for its intended use or sale are substantially complete.
The capitalisation rate used for 2014 amounts to 2.51% and that for 2013 amounts to 2.06%.
Financial income and expense other than capitalised amounts are recognised on an accruals basis in respect of the interest on the net value of the related financial assets and liabilities using the effective interest rate.

Dividends

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

Earnings per share

Basic earnings per share are calculated by dividing the profit or loss for the year attributable to holders of ordinary shares by the weighted average of outstanding ordinary shares during the year.
Diluted earnings per share are calculated by dividing the profit for the year attributable to holders of ordinary shares by the weighted average of outstanding shares, adjusted to consider the effects of all potential ordinary shares that could have a diluting effect.

Income taxes

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

New standards

International accounting standards taking effect from 1 January 2014
On 1 January 2014 a number of new accounting standards and a number of amendments to the accounting standards already applicable came into force. Most of these concern cases not applicable to the Terna Group. Among the new amendments that concern cases that could potentially affect the Group, we can note:

New accounting standards on consolidation
On 11 December 2012 the European Commission endorsed the following 5 standards on consolidation (IFRS 10, IFRS 11, IFRS 12, IAS 27 Revised, and IAS 28 Revised), which did not have significant impacts on the Consolidated Financial Statements at 31 December 2014. Specifically:

IFRS 10 – Consolidated Financial Statements
The standard introduces a new definition of control, based on the figures of the investee (a company actually or potentially controlled) and the investor (the Parent Company drawing up the Separate financial statements), which has control if it is exposed, or has variable returns with respect to its involvement in the investee and has the possibility of affecting these returns through its power over the investee. Additionally, in identifying the investor it is essential to consider both potential but substantive voting rights, where the holder has the real possibility of exercising these rights, and actual control, understood as the possibility of unilaterally guiding activities.

IFRS 11 – Joint Arrangements
The new standard introduces important simplifications as it supersedes the classification into three types envisaged by IAS 31. The new classification is based on analysing the rights and obligations arising from the agreement and establishes only two types: Joint Operations and Joint Ventures. The former derive from a non-structured agreement through a vehicle separate from the parties, which determines rights on the assets and obligations from liabilities. For accounting purposes, the controlling stake of assets, liabilities and corresponding costs and revenue is recognised.

The latter, on the other hand, are classified as joint ventures where there are structured agreements through an SPE which is separate from the parties. In this case, the entity must carry out assessments based on the legal form of the "SPE", the contractual terms and the other facts and circumstances from which the rights over the net assets of the agreement derive. For joint ventures, the standard provides for the elimination of the proportional consolidation method, replaced by the equity method only. The new standard therefore replaces IAS 31 and SIC 13.

IFRS 12 – Disclosure of interest in other entities

The standard governs the disclosure to be made in financial statements with regard to equity interests held in subsidiaries, associates and joint ventures in addition to structured entities, in lieu of the requirements previously included in IAS 27 and IAS 28. The purpose of the new standard is to provide more information in the financial statements in relation to the basis for measuring control, any limits to consolidated assets and liabilities and risk exposure deriving from involvement with the entity.

IAS 27 – Separate Financial Statements

IAS 27 Revised provides the rules to be applied in recognising equity investments held in subsidiaries, joint ventures and associates in preparing only Separate (Unconsolidated) Financial Statements. The amendment therefore leaves unchanged the provisions for Separate Financial Statements, and replaces the parts relating to Consolidated Financial Statements with the prescriptions of the new IFRS 10 and IFRS 12, to which reference should be made for further details.

IAS 28 – Investments in Associates and Joint Ventures

IAS 28 Revised (as amended in 2011) sets out the requirements for applying the equity method when accounting for investments in associates and joint ventures.
In addition in this context the following amendments were endorsed:

Amendment to IFRS 10, IFRS 11 and IFRS 12 - Transition Guidance

The amendment endorsed on 4 April 2013 by the European Commission contains clarifications of the rules for transition to the new standards on consolidated accounts (IFRS 10, IFRS 11, IFRS 12), defining the methods for their first adoption and retrospective application.

Amendment to IFRS 10, IFRS 12 and IAS 27 - Investment Entities

The amendment to the new standards IFRS 10, IFRS 12 and IAS 27R, endorsed on 20 November 2013 by the European Commission, establishes the introduction of "Investment Entities" as a separate type of entity which, by virtue of the investment business performed, are excluded from the consolidation accounting requirements set out by the new standards. This situation is currently not relevant to the Group's financial statements.

Amendment to IAS 36 – Recoverable Amount Disclosure for Non-financial Assets

On 19 December 2013, the European Commission endorsed the amendment to the standard IAS 36 - Impairment of Assets, which provides clarifications regarding disclosure in the event of impairment of assets, when the recoverable value was determined as fair value less costs to sell and, furthermore, proposes limits on the obligation of indicating in the disclosures the recoverable value of the assets or the cash generating units (CGUs). This amendment had no impact on the Consolidated Financial Statements at 31 December 2014.

Amendment to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting

The amendment to IAS 39 was endorsed on 19 December 2013. It defines certain exemptions to the Hedge Accounting requirements when, owing to new laws or regulations, an existing derivative must necessarily be replaced with a new instrument with a Central Counterparty (CCP); in these cases (novation), the amendment allows the hedging to continue regardless of the novation. This amendment had no impact on the Consolidated Financial Statements at 31 December 2014.
In addition the European Commission endorsed the amendment to IAS 32 – Financial Instruments: Presentation – "Offsetting Financial Assets and Financial Liabilities", which provides clarifications on the presentation of offset financial instruments. The amendment governs a case currently not relevant to the Group's financial statements.

International financial reporting standards endorsed but not yet in force

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

Interpretation IFRIC 21 - Levies

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

Improvements to IFRSs (2011-2013 Cycle)

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

International financial reporting standards not yet endorsed

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

IFRS 15 – Revenue from Contracts with Customers

New standard on accounting for revenue, published by the IASB on 28 May 2014, which replaces IAS 11 and IAS 18. The new standard is valid for all transactions in all sectors and is based on a five-step model: identify the contract with the customer, identify the performance obligations provided for in the contract, determine the transaction price, allocate the transaction price and finally recognise revenue when the performance obligations are satisfied. Performance occurs when control over goods or services (assets) underlying the performance obligation is passed to the customer. Control is defined as "the ability to direct the use of and obtain substantially all of the remaining benefits from the asset".

IFRS 14 – Regulatory Deferral Accounts

Interim standard, published by the IASB on 30 January 2014, as part of the wider project Rate-Regulated Activities. This standard, which applies only to those that are adopting the IFRSs for the first time, permits amounts relating to rate regulation to continue to be recognised, if permitted by the national accounting standards adopted.

IFRS 9 - Financial Instruments

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

Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions

On 21 November 2013 the IASB published the amendment to IAS 19 which enables recognition of contributions paid by employees to reduce the service costs of a defined benefit plan for employees.

Improvements to IFRSs (2010-2012 Cycle)

On 12 December 2013 the IASB published the annual Improvements related to the 2010-2012 cycle, which makes minor amendments to the standards IFRS 2, IFRS 3, IFRS 8, IAS 16, IAS 24, IAS 37, IAS 38 and IAS 39.

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

On 6 May 2014 the IASB published the amendment that clarifies the accounting treatment in the event of acquisitions of interests in a joint operation the activities of which represent a business under the terms of IFRS 3; for the criteria for recognising assets/liabilities reference is made to the provisions of the said IFRS 3.

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

On 12 May 2014 the amendment to the standards IAS 16 and IAS 38 was published by the IASB. This proposes to eliminate the amortisation method based on revenue generated by the asset (the revenue-based method) because it is not considered appropriate, since it reflects exclusively the revenue flow generated by this asset and not, instead, the method of consumption of the economic benefits embodied in the asset.

Amendments to IAS 27 – Equity Method in Separate Financial Statements

On 12 August 2014 the IASB published the amendment that extends use of the equity method for recognising investments in subsidiaries, joint ventures and associates also in the investor's Separate Financial Statements.

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

On 11 September 2014 the amendment to the standards IFRS 10 and IAS 28 was published. This allows full recognition in the Income Statement of the profit or loss deriving from the sale or contribution of an asset to an associate or joint venture that constitute a business under the terms of IFRS 3.

Improvements to IFRSs (2012-2014 Cycle)

On 25 September 2014 the annual Improvements related to the 2012-2014 cycle were published by the Board; these contain minor amendments to a number of standards. In particular the following standards are amended: IFRS 5, IFRS 7, IAS 19, IAS 34.

Amendments to IAS 1 – Disclosure Initiative

On 18 December 2014 as part of the "Disclosure Initiative", an amendment was published that provides a number of clarifications on disclosure obligations provided for in IAS 1. In the short term the project (Disclosure Initiative) addresses limited aspects regarding materiality, disaggregation of accounting items, structure of the Notes to the Financial Statements and disclosure on debt, Income Statement, OCI and accounting policies. In the medium term the intention is to arrive at a new IFRS to replace IAS 1 (Presentation of Financial Statements), IAS 7 (Statement of Cash Flows) and IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors).

B. Notes to the consolidated income statement

Revenue

1. Revenue from sales and services – € 1,922.8 million

"Revenue from sales and services" for the years 2014 and 2013 is analysed in the following table:

€ million	2014	2013	Change	Tamini Group	Δ (same scope)
Grid transmission fees	1,643.9	1,639.1	4.8	-	4.8
Adjustments for prior year grid transmission fees	6.8	5.3	1.5	-	1.5
Service quality	33.9	24.6	9.3	-	9.3
Other energy revenue	147.7	145.2	2.5	-	2.5
Other revenue from sales and services	90.5	30.4	60.1	51.2	8.9
Total	**1,922.8**	**1,844.6**	**78.2**	**51.2**	**27.0**

Grid transmission fees and related adjustment

Grid transmission fees refer to the remuneration paid to the Parent Company for use of the National Transmission Grid – NTG (€ 1,468.6 million). It also comprises the net revenue from the portion of the NTG owned by the subsidiary Terna Rete Italia S.r.l. (€ 182.1 million).

Net of the change in contingencies (€ 1.5 million) which include among other things adjustments connected to the revision of the grid perimeters, the increase in the remuneration of the grid (€ +4.8 million) is attributable mainly to additional transmission fees to correct the calculation of the 2014 fee (€ +5.4 million) as laid down by the Italian Regulatory Authority for Electricity Gas and Water (AEEGSI) in Resolution 653/2014.

Service quality

The higher bonuses for service quality recognised in the year (€ +9.3 million), were due to the net effects of the RENS (Regulated Energy Not Supplied) incentive mechanism pursuant to Res. 197/11 (€ +22.4 million), partially offset by the revenues recorded in 2013 for the incentives paid to Terna on the Dispatching Services Market as envisaged by Resolution 213/09 (€ 13.1 million).

Other energy revenue

This relates mainly to the fee paid to the Company by the electricity operators for the dispatching service (DIS component, € 117.3 million). The item also includes revenue from construction and development of dispatching infrastructures recognised on applying IFRIC 12 (€ 30.4 million). We should note that, as specified in the section "A. Accounting policies and measurement criteria", this last revenue corresponds to the costs incurred during the period to purchase raw materials and consumables, and for services and staff which are included in operating expenses.

The increase in Other energy revenue, of € 2.5 million, was due essentially to the effect of the higher contingent liabilities recognised in 2013.

Pass-through revenue/costs

This item includes the revenue and costs "passed-through" by the Group (whose net balance is therefore nil), which relate entirely to the Parent. These flows arise with operators active in the electricity market, and involve the daily purchase and sale of energy in order to carry out dispatching activities. To this end, the measurements at each point of input and withdrawal are taken and the differences from the energy market schedules are calculated. These differences (called imbalances) are measured using algorithms established by the regulatory framework. The net expense resulting from measuring these imbalances and of buying and selling transactions executed by the Parent Company Terna on the Market for Dispatching Services are billed on a pro rata basis to each consumer with the uplift fee.

The item also includes the grid transmission fee which the Parent Company pays to other owners of the grid.

The components of these transactions are detailed below:

€ million	2014	2013	Change
Revenue - Power Exchange:			
- Foreign market - exports	0.5	0.4	*0.1*
- Sale of energy on the Day Ahead Market, Adjustment Market, Market for Dispatching Services and others	336.8	337.8	(1.0)
- Imbalances and other minor items	769.6	783.8	(14.2)
- Resources procurement for the Market for Dispatching Services	1,962.8	1,953.4	9.4
- Congestion revenue - Rights for use of Transportation Capacity (RTC), Res. 288/06	811.3	879.3	(68.0)
- Other items - Power Exchange	60.9	53.3	7.6
- Interconnector/shipper	72.8	72.8	0.0
- Market coupling Res. 143/10	20.5	65.5	(45.0)
Total revenue - Power Exchange	***4,035.2***	***4,146.3***	***(111.1)***
Revenue components under Res. Nos 168/04 - 237/04 and others	1,447.2	1,302.5	144.7
Other items	384.1	341.2	42.9
Revenue from grid transmission fees of other owners and NTGO share CIP/6	15.7	17.3	(1.6)
Total revenue from outside the Power Exchange	***1,847.0***	***1,661.0***	***186.0***
Total pass-through energy revenue	**5,882.2**	**5,807.3**	**74.9**
Energy purchases:			
- On Day Ahead Market and Adjustment Market	261.9	171.0	90.9
- To provide the dispatching service	1,839.7	1,964.6	(124.9)
- For unbalancing	831.0	807.9	23.1
- On the foreign market - imports	0.5	1.6	(1.1)
- Electricity Market Operator fees	0.1	0.4	(0.3)
- Congestion revenue - Rights for use of Transportation Capacity (RTC), Res. No. 288/06	486.4	579.6	(93.2)
- Other items - Power Exchange	53.3	43.9	9.4
- Interconnector/shipper	560.9	542.8	18.1
- Market coupling Res. 143/10	1.4	34.5	(33.1)
Total costs - Power Exchange	***4,035.2***	***4,146.3***	***(111.1)***
Purchase of electricity market related services	1,447.2	1,302.5	144.7
Other items	384.1	341.2	42.9
Fees to be paid to NTG owners, NTGO and others	15.7	17.3	(1.6)
Total services and fees	***1,847.0***	***1,661.0***	***186.0***
Total pass-through energy costs	**5,882.2**	**5,807.3**	**74.9**

Other revenue from sales and services

The item “Other revenue from sales and services” amounts to € 90.5 million and for the most part refers to revenue from:

- work orders completed by the Tamini Group (€ 51.2 million);
- diversified specialised activities in the field of High and Extra-High Voltage provided to third-party customers (€ 30.3 million);
- line design for interconnection with abroad (€ 7.4 million).

The difference in the item (€ +60.1 million) is mainly due to revenue from work orders completed by the Tamini Group after the merger into the Terna Group (€ +51.2 million), to higher revenue from the work of designing interconnections with abroad (€ +5.6 million), to higher revenue from diversified business (€ +6 million), partially offset by lower revenue from Electricity Equalisation Fund for the additional employee energy discount (€ -2.0 million).

2. Other revenue and income – € 59.8 million

The item “Other revenue and income” for the years 2014 and 2013 is broken down in the following table:

€ million	2014	2013	Change	Tamini Group	Δ (same scope)
Rental income	23.0	23.4	(0.4)	-	(0.4)
Sundry grants	19.7	12.5	7.2	-	7.2
Contingent assets	8.0	4.2	3.8	-	3.8
Insurance settlements for losses	3.9	1.0	2.9	1.9	1.0
Gains on the disposal of plant components	2.4	2.4	0.0	-	0.0
Income from extraordinary transactions	1.1	5.6	(4.5)	0.0	(4.5)
Sales to third parties	1.0	1.7	(0.7)	-	(0.7)
Contractual penalties at suppliers' expense	0.1	0.1	0.0	-	0.0
Other revenue	0.6	0.9	(0.3)	0.4	(0.7)
Total	**59.8**	**51.8**	**8.0**	**2.3**	**5.7**

“Other revenue and income”, amounting to € 59.8 million, mainly refers to the Parent Company for € 49.3 million and to the company Terna Rete Italia S.r.l. and to the Tamini Group respectively for € 6.6 and 2.3 million.
The significant items are rental income related mainly to housing of the Wind Group’s optical fibre on grids (€ 20.7 million), sundry grants (€ 19.7 million), contingent assets (€ 8 million), insurance settlements for losses (€ 3.9 million), capital gains on disposal of plants (€ 2.4 million) and use by Enel Distribuzione of infrastructures for the purpose of power line communication belonging to the Parent Company (€ 0.7 million).
The increase in the item (€ 8 million) is mainly due to:

- higher grants for making changes to the NTG (€ +7 million), with particular reference to activities related to Expo 2015;
- higher contingent assets (€ +3.8 million of which € +6.0 million recognised in the year following the settlement in our favour of litigation with another market operator);
- higher insurance settlements for losses (€ +2.9 million);

partially offset by lower revenue from extraordinary operations (€ -4.5 million) deriving from extraordinary disposal operations relating to 2013 and lower sales to third parties (€ -0.7 million).

Operating expenses

3. Raw materials and consumables – € 40.1 million

This item, amounting to € 40.1 million, expresses the value of consumption of materials and miscellaneous equipment used for the core business of operating and maintaining Group and third party plants, purchase costs for raw and subsidiary materials, consumables and goods, in addition to the change in inventories of the Tamini Group and costs for materials recognised in pursuance of IFRIC 12 and with reference to investments in dispatching infrastructures.
The increase of € 25.4 million compared with the previous year (€ 14.7 million in 2013), derives essentially from consolidation of the Tamini Group (€ +25.3 million).

4. Services – € 160.8 million

The cost of services totalled € 160.8 million, of which € 78.0 million relating to the subsidiary Terna Rete Italia S.p.A. and € 61.0 million to the Parent Company.
The cost of “Services” for the years 2014 and 2013 is broken down in the following table:

€ million	2014	2013	Change	Tamini Group	Δ (same scope)
Maintenance and sundry services	71.2	53.8	17.4	12.6	4.8
Tenders on plants	30.6	28.8	1.8	-	1.8
IT services	21.6	22.1	(0.5)	-	(0.5)
Remote transmission and telephone	14.5	16.2	(1.7)	0.2	(1.9)
Leases and rentals	12.2	12.1	0.1	0.2	(0.1)
Insurance	10.7	7.9	2.8	0.7	2.1
Total	**160.8**	**140.9**	**19.9**	**13.7**	**6.2**

In the item “Services” the main components are costs of other maintenance operations, professional services and general services (€ 71.2 million) and costs related to contracts and services for routine maintenance operations and maintaining the efficiency of Group and third party plants (€ 30.6 million); it also includes costs of IT services (€ 21.6 million), remote transmission and telephone services (€ 14.5 million), leases and rentals (€ 12.2 million) and insurance (€ 10.7 million). It is specified that the costs relating to remuneration to the Board of Statutory Auditors for the period amount to € 0.4 million.
The increase (€ 19.9 million) compared with the previous year is mainly due to the costs of the Tamini Group after the merger into the Terna Group (€ +13.7 million), and to higher costs of contracts and for performing non-regulated activities, net of the generalised savings in expenses for external resources (technical and professional advice, telephones, etc.).

5. Personnel expenses – € 265.0 million

“Personnel expenses” for the years 2014 and 2013 are analysed in the following table:

€ million	2014	2013	Change	Tamini Group	Δ (same scope)
Wages, salaries and other short-term employee benefits	271.6	253.7	17.9	12.8	5.1
Directors' fees	2.1	2.3	(0.2)	0.2	(0.4)
Termination benefits, electricity discount and other post-employment benefits	17.6	17.0	0.6	0.5	0.1
Early retirement incentives	45.9	6.5	39.4	-	39.4
Personnel expenses, gross	***337.2***	***279.5***	***57.7***	***13.5***	***44.2***
Personnel expenses, capitalised	(72.2)	(73.2)	1.0	(1.0)	2.0
Total	**265.0**	**206.3**	**58.7**	**12.5**	**46.2**

This item includes the cost of wages and salaries, social security contributions and other costs incurred by the Parent Company for redundancy incentives, as well as benefits paid to employees who stay with the company and termination indemnities provided for by the current National Collective Employment Contract for the electricity sector.
Net of the contribution of the Tamini Group (€ 12.5 million) total personnel expenses increased by € 46.2 million, owing mainly to the provision, of € 36.6 million, set aside for redundancy incentives associated with the corporate reorganisation plan launched by the Company during the year, the pay increases envisaged for 2014 in the National Collective Employment Contract and lower capitalisations deriving from a drop in investment activities, in line with the Strategic Plan.

The following table shows the number of Group employees by category at year end and the average number for the financial year:

	Average number		Final number	
	2014	2013	31.12.2014	31.12.2013
Senior Executives	68	63	68	62
Junior management	536	508	557	501
White-collar workers	1,977	1,934	2,007	1,925
Production workers	1,098	960	1,165	957
Total	**3,679**	**3,465**	**3,797**	**3,445**

The net change in the average number of employees at the end of 2013 was +214 units.
Please note that at 31 December 2014, the workforce of the Terna Group was as follows:

	Terna S.p.A.	Terna Rete Italia S.p.A.	Terna Storage S.r.l.	Terna Crna Gora d.o.o.	Terna Plus S.r.l.	Tamini Group
Units	384	3,037	5	3*	11	357

(*) Local employees.

For the reconciliation of the opening and closing present value of the liability for employee benefits and the main assumptions used in the actuarial estimate, please refer to section "25. Employee benefits".

6. Amortisation, depreciation and impairment – € 480.6 million

These relate to amounts set aside during the year calculated on the basis of amortisation and depreciation rates that reflect the useful lives of the Group companies' plant, property and equipment and intangible assets (€ 478.1 million), and the writedowns of trade receivables which are considered unlikely to be collected (€ 2.5 million).
The following table details the amortisation, depreciation and impairment for the years 2014 and 2013:

€ million	2014	2013	Change	Tamini Group	Δ (same scope)
Amortisation of intangible assets	58.6	56.0	2.6	0.2	2.4
- of which: infrastructure rights	*36.4*	*33.1*	*3.3*	-	*30.5*
Depreciation of property plant and equipment	419.5	387.4	32.1	1.6	30.5
Impairment of trade receivables	2.5	7.0	(4.5)	0.4	(4.9)
Total	**480.6**	**450.4**	**30.2**	**2.2**	**28.0**

The increase in the item of € 30.2 million reflects, in particular, growth in depreciation and amortisation (€ 34.7 million) compared with 2013 attributable essentially to the Parent Company of € +30.4 million above all as a result of more property, plant and equipment and intangible assets that came into service in the year and for new decommissioning programmes defined at the end of the year (respectively higher depreciation and amortisation of € +27.6 and +2.8 million), partially offset by the decrease in impairment of trade receivables (€ -4.5 million) considered unlikely to be to be collected.

7. Other operating expenses – € 39.0 million

“Other operating expenses” for the years 2014 and 2013 are broken down in the following table:

€ million	2014	2013	Change	Tamini Group	Δ (same scope)
Power failure charges	(2.2)	24.1	(26.3)	-	(26.3)
of which estimated costs of Mitigation and Sharing	(1.6)	19.1	(20.7)	-	(20.7)
of which contributions to the Exceptional Events Fund	(0.6)	5	(5.6)	-	(5.6)
Indirect and local taxes and duties	20.0	9.9	10.1	0.3	9.8
Contingent liabilities	11.2	2.2	9.0	0.9	8.1
Losses on disposal/decommissioning of plant	0.6	0.7	(0.1)	-	(0.1)
Allocations made to Provisions for disputes	1.9	0.6	1.3	-	1.3
Other operating expenses	7.5	8.9	(1.4)	0.5	(1.9)
Total	**39.0**	**46.4**	**(7.4)**	**1.7**	**(9.1)**

The Group’s other operating expenses, of € 39 million, are mainly attributable to the Parent Company (€ 34.2 million).

The most significant components of the item are costs for indirect and local taxes and duties of € 20 million (of which € 15.3 million for local property tax (*Imposta Municipale Unica* - IMU) and € 3.4 million for tax on the occupation of public spaces and areas (*Tassa per l’Occupazione del Suolo Pubblico* - TOSAP and tax on waste and municipal services (*Tassa Rifiuti e Servizi* - TARES) and contingent liabilities of € 11.2 million.
The decrease in this item of € -7.4 million derives to a large extent from the following events:

- a decrease in service quality expenses (€ -26.3 million) mainly attributable to measurement of the sharing and mitigation mechanisms, and contributions to the Exceptional Events Fund consequent to outage events which mainly characterised the end of FY 2013;
- an increase in taxes, duties and local levies (€ +10.1 million) mainly due to the local property tax (€ +10.0 million) substantially for the provision made during the year, connected to the 2015 Stability Law which, while awaiting the implementation of the revision of the cadastral regulations, confirms the instructions pursuant to the Land Registry Circular No. 6/2012 regarding re-registration of electrical substations;
- higher contingent liabilities (€ +9.0 million) related mainly to a contractual supply agreement of 2012.

Financial income and expense

8. Net financial income/(expense) – € -135.6 million

This item is analysed below:

€ million	2014	2013	Change
Financial income			
Interest income and other financial income	21.8	63.4	(41.6)
Debt adjustment (bonds) and related hedges	2.0	0.4	1.6
Exchange gains	0.2	*2.0*	(1.8)
Total income	**24.0**	**65.8**	**(41.8)**
Financial expense			
Financial expense from the Parent	(6.4)	(6.3)	(0.1)
Other financial expense	(0.3)	-	(0.3)
Interest expense on medium/long-term loans and related hedges	(183.4)	(184.5)	1.1
Discounting of termination benefits and other personnel-related provisions	(3.2)	(3.1)	(0.1)
Capitalised financial expense	34.4	26.3	8.1
Impairment of equity investments	(0.7)	-	(0.7)
Total expense	**(159.6)**	**(167.6)**	**8.0**
Total	**(135.6)**	**(101.8)**	**(33.8)**

Net financial expense amounted to € 135.6 million, entirely attributable to the Parent Company, comprising € 159.6 million in financial expense and € 24.0 million in financial income. The increase of € 33.8 million with respect to the previous financial year is the net result of the following main factors:

- lower financial income (€ -41.6 million) which was primarily attributable to the joint effect of:
  - a general decrease in the market interest rates at which liquidity was invested (€ -29.2 million) and lower liquidity invested (€ -11.2 million);
  - recognition of lower net income for uplift (€ -1.7 million);
  - higher default interest for the late payment of receivables deriving from dispatching activities (€ 0.3 million);
- lower exchange differences (€ -1.8 million);
- the positive net economic effects deriving from the fair value adjustment of bonds and the related hedges (€ +1.6 million);
- lower financial expense deriving from medium and long-term debt and the related hedges (€ +1.1 million) mainly due to a decrease in the inflation rate during 2014;
- greater financial expense deriving from the discounting of employee benefits and provisions for risks and charges (€ -0.1 million);
- higher capitalised financial expense (€ +8.1 million) due to the higher cost of net debt in 2014 compared with that recognised in 2013;
- recognition of expenses for impairment related to other equity investments in the portfolio (€ -0.7 million).

9. Share of profit/(losses) from equity-accounted investees – € 7.7 million

This item, counting for € 7.7 million, includes mainly the economic effects deriving from the adjustment to the share of shareholders' equity at 31 December 2014 of the equity investments in the associates of the CESI S.p.A. Group (€ 4.9 million) and CGES (€ 2.8 million).
The difference in the item (€ +6.1 million) compared to the figure for the previous year was due to the impact of measuring the aforementioned equity investments at equity (respectively € +3.9 million for CESI S.p.A. and € +2.2 million for CGES).

10. Income taxes – € 335.7 million

On 11 February 2015, the Constitutional Court published Ruling 10/2015, which declared the unconstitutionality of the so-called Robin Hood Tax. As, in the Court's opinion, retroactive application of this declaration of unconstitutionality would determine a serious breach of the balanced State budget enshrined in Art. 81 of the Constitution, the unconstitutionality takes effect starting from the day after publication of the ruling. As usually happens in practice, an Ordinary Law of the State is expected in the next few months, formally abolishing the law that had introduced the RHT and establishing in detail the tax period starting from which the supplement is considered abolished.
As specified in the section A. Accounting policies and measurement criteria – Use of estimates, to which you are referred, net deferred tax liabilities were adjusted considering the effects of the declaration of unconstitutionality of the IRES surcharge (the so-called Robin Hood Tax, of 6.5% in 2014). Current taxes, instead, were determined applying the IRES rate of 34%, thus including the surcharge.
Income taxes for the year amounted to € 335.7 million, down by € 88.2 million compared to the previous year.
The following table reports changes in taxes with respect to 2013:

€ million	2014	2013	Change
Income taxes of the year			
Current taxes:			
- IRES (corporate income tax)	350.0	406.7	(56.7)
- IRAP(regional tax on productive activities)	69.5	78.4	(8.9)
Total current taxes	***419.5***	***485.1***	***(65.6)***
New temporary differences:			
- deferred tax assets	(24.1)	(21.7)	(2.4)
- deferred tax liabilities		0.0	0.0
Reversal of temporary differences:			
- deferred tax assets	25.2	20.3	4.9
- deferred tax liabilities	(48.4)	(58.4)	10.0
Tax rate adjustment	(31.5)	0.9	(32.4)
Total change in deferred tax assets and liabilities	***(78.8)***	***(58.9)***	***(19.9)***
Adjustment of prior-year taxes	(7.1)	(4.8)	(2.3)
Other one-off changes	2.1	*2.5*	(0.4)
Total	**335.7**	**423.9**	**(88.2)**

Current taxes
Current taxes, of € 419.5 million, fell with respect to the previous year by € 65.6 million, due not only to the lower pre-tax profit, but also essentially to the effect of the reduction in the IRES surcharge, provided for by Law Decree No. 138 of 13.08.2011 (Robin Hood Tax), which for 2014 went from 10.5% to 6.5%, bringing the IRES rate of current taxes down to 34% (compared to 38% in 2013).

Deferred tax assets and liabilities
In this context the most significant factor was adjustment of deferred tax liabilities al 31 December 2014 to the IRES rate of 27.5% (with a positive impact of approximately € 31.5 million) consequent to the judgement of unconstitutionality of the aforementioned “Robin Hood Tax”. This positive effect was in part offset by the effects of the reduction in the IRES surcharge (from 38% to 34% for payments and from 34% to 27.5% for new temporary differences) despite the recognition of higher deferred tax assets associated mainly with the net provision for redundancy incentives associated with the corporate reorganisation plan launched by the company during the year.

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

Adjustment of prior-year taxes, of € -5 million, relates to the higher current taxes paid in prior years (€ -7.1 million) and the other one-off changes, of € +2.1 million, relating to provisions for tax risks set aside by the Group.

The effective proportion of income taxes (€ 335.7 million) to the profit before taxes was 38.3% compared with 45.2% in 2013 owing substantially to the effects related to the so-called Robin Hood Tax commented on above.

For a clearer presentation of the differences between the theoretical and actual tax rates, the table below reconciles the profit before taxes with taxable income for IRES purposes:

€ million	2014	2013
Profit before taxes	869.2	937.5
Theoretical tax	**295.5**	**356.3**
IRAP	69.5	78.4
Permanent differences	7.2	(9.3)
Actual tax charge	**372.2**	**425.3**
Effective rate (net of adjustments of prior-year taxes and one-off variations)	**42.8%**	**45.4%**
Tax rate adjustment	(31.5)	0.9
Adjustment of prior-year taxes	(7.1)	(4.8)
Other one-off changes	2.1	2.5
Actual tax net of prior year adjustments	**335.7**	**423.9**

11. Profit for the year from discontinued operations – € 11.0 million

The item includes the effect of releasing the provision set aside by Suntergrid S.p.A., incorporated into Terna Plus S.r.l. in 2013, to adjust the estimate of probable charges connected to extraordinary operations completed in 2011 in the photovoltaic sector (€ 13.8 million) net of the related deferred tax effect (€ 2.8 million).

12. Earnings per share

Basic earnings per share, which correspond to diluted earnings per share, amount to € 0.271 (numerator of € 544.5 million, corresponding to the profit for the year, and denominator of 2,009,992.0 thousand shares).

C. Operating segments

Consistent with the 2014-2018 Strategic Plan, the following are the operating segments identified within the Terna Group:
- **Regulated Activities**
- **Non-Regulated Activities**

Regulated activities include the development, operation and maintenance of the National Transmission Grid in addition to dispatching. These activities are represented in a single operating segment, as activities regulated by the AEEG with similar characteristics in terms of the remuneration model and the method for determining the fees (tariffs).
The operating segment of non-regulated activities instead includes specialised services provided to third parties mainly relating to systems engineering services, the operation and maintenance of high and extra high voltage plants and the housing of telecommunications equipment and optical fibre network maintenance services. These activities are provided in a free market context by means of specific commercial initiatives. Note that the operating segment of non-regulated activities also includes the results of the management of the Tamini Group as of the acquisition date, essentially with reference to the construction and sale of electrical machinery, in particular power transformers.
Below are the results of the operating segments of the Terna Group in 2014 and 2013, in line with the evidence of the Group management control system and the reconciliation with the Group's profit before taxes.

€ million	2014	2013	Change
Total revenue	**1,996.4**	**1,896.4**	**100.0**
Total revenue from regulated activities	1,853.3	1,832.4	20.9
Total revenue from non-regulated activities	143.1	64.0	79.1
of which revenue from discontinued operations	*13.8*	-	*13.8*
EBITDA	**1,491.5**	**1,488.1**	**3.4**
of which EBITDA regulated activities	1,423.0	1,441.1	(18.1)
of which EBITDA non-regulated activities	68.5	47.0	21.5
EBITDA margin	***74.7%***	***78.5%***	
EBITDA margin on regulated activities*	76.8%	78.6%	
EBITDA margin on non-regulated activities**	47.9%	73.4%	
Reconciliation of segment result with pre-tax result			
EBITDA**	**1,491.5**	**1,488.1**	
Amortisation, depreciation and impairment	480.6	450.4	
EBIT**	**1,010.9**	**1,037.7**	
Financial income/(expense)	(135.6)	(101.8)	
Portion of income/(expense) of equity-accounted investees	7.7	1.6	
Pre-tax profit/(loss)	**883.0**	**937.5**	

(*) EBITDA including indirect costs.
(**) Includes profit from discontinued operations.
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Taking into account the profit from discontinued operations the Group's revenue amounted to € 1,996.4 million recording growth of 100.0 million (+5.3%) compared with to 2013.
EBITDA (Gross Operating Margin) came out at € 1,491.5 million, an increase of € 3.4 million (+0.2%) compared to the € 1,488.1 million of 2013.

The decrease in **EBITDA of regulated activities** was mainly due to the higher costs attributable to one-off items such as provisions for redundancy incentives for personnel and provisions for IMU (local property tax) partially offset by higher revenue from the quality of the electrical service recognised in 2014.

The increase in the **EBITDA of non-regulated activities** benefits from the profit from discontinued operations relating to adjustment of the estimate of probable expenses associated with extraordinary operations completed in 2011 in the photovoltaic sector, higher revenue related to the execution and completion of work orders for changes to the NTG for third-parties, and revenue for new maintenance contracts for photovoltaic systems owned by third-parties.

The Group's ***EBITDA margin*** went down from 78.5% in 2013 to 74.7% owing to the dilutive effect of acquisition of the Tamini Group and the impact of one-off costs on the margin of regulated activities.

The financial information provided periodically to the Senior Management makes no direct reference to the single segment activities, but rather to assessing and representing the gross invested capital overall; this indicator is presented below for the years 2014 and 2013:

€ million	31.12.2014	31.12.2013
Net non-current assets[76]	11,322.4	10,664.5
NWC[77]	(820.8)	(573.4)
Gross invested capital[78]	10,501.6	10,091.1
Investments in associates and joint ventures	79.2	74.0

As regards the dependence of Terna Group companies on external customers, in 2014 transactions that generated revenue from individual customers or companies under common control equal to more than 10% of consolidated revenue were represented by transactions with related parties in respect of regulated activities; for more information, please see the section on "Related party transactions".

(76) Net fixed assets include the value of the items "Property, plants and equipment", "Goodwill", "Intangible assets", "Equity-accounted investees", "Other non-current assets" and "Non-current financial assets" for the carrying amount of the other equity investments (€ 0.3 million) and of deferrals on Revolving Credit Facility commissions (€ 2.0 million).
(77) NWC (Net Working Capital) is equal to the difference between total current assets, net of cash and cash equivalents and of the item "Current financial assets" and total current liabilities and the item "Other non-current liabilities" net of the short-term portion of long-term financing and net of the item "Current financial liabilities".
(78) The gross invested capital is equal to the sum of net non-current assets and the NWC (Net Working Capital).

D. Notes to the consolidated statement of financial position

Assets

13. Property, plant and equipment – € 10,778.6 million

Property, plant and equipment amounted to € 10,778.6 million (€ 10,119.9 million at 31 December 2013). The amount and changes for each category are reported in the following table:

€ million	Land	Buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Total
Cost at 01.01.2014	**100.5**	**1,311.8**	**12,989.6**	**79.1**	**116.8**	**1,861.9**	**16,459.7**
Investments	-	0.1	5.6	2.3	1.5	1,039.2	1,048.7
Entry into use	3.9	107.7	945.4	-	10.8	(1,067.8)	-
Contribution of new acquisitions	2.8	25.8	37.8	7.4	4.2	2.2	80.2
Disposals	-	(0.2)	(64.3)	(0.1)	(0.9)	(0.5)	(66.0)
Other changes	-	-	(8.9)	-	-	(8.6)	(17.5)
Reclassifications	-	(0.4)	(0.6)	-	0.5	8.2	*7.7*
Cost at 31.12.2014	**107.2**	**1,444.8**	**13,904.6**	**88.7**	**132.9**	**1,834.6**	**17,512.8**
Accumulated depreciation at 01.01.2014	**-**	**(368.1)**	**(5,840.1)**	**(52.8)**	**(78.8)**	**-**	**(6,339.8)**
Depreciation for the period	-	(32.8)	(366.9)	(4.9)	(14.9)	-	(419.5)
Contribution of new acquisitions		(5.3)	(14.6)	(6.6)	(4.0)		(30.5)
Disposals		0.1	55.0	-	0.5		55.7
Accumulated depreciation at 31.12.2014	**-**	**(406.1)**	**(6,166.6)**	**(64.3)**	**(97.2)**	**-**	**(6,734.2)**
Carrying amount							
At 31 December 2014	**107.2**	**1,038.7**	**7,738.0**	**24.4**	**35.7**	**1,834.6**	**10,778.6**
At 31 December 2013	**100.5**	**943.7**	**7,149.5**	**26.3**	**38.0**	**1,861.9**	**10,119.9**

"Plant and equipment", at 31 December 2014 includes, in particular, the energy transportation network as well as the transformation stations in Italy.

The item "Property, plant and equipment" shows an increase on the previous financial year amounting to € 658.7 million, as a result of ordinary transactions made during the year, relating to:

- investments during the year for € +1,048.7 million, of which € 1,036.1 million made in the area of the Group's regulated activities (and mainly relating to the parent company Terna for € 963.3 million, to the subsidiaries Terna Rete Italia S.r.l. and Terna Crna Gora d.o.o., respectively for € 57.6 million and € 15.2 million); in the area of unregulated activities, we can note investments of € 12.6 million, mainly due to changes made for third parties essentially covered by the related grants;
- the contribution of the assets of the Tamini Group (totalling € 28.9 million at the date of acquisition by Terna Plus), the Brulli Trasmissione business unit (acquired by Terna Rete Italia S.r.l., totalling € 11.8 million); as well as the acquisition of certain transmission assets from Sorgenia (totalling € 9 million, by Terna S.p.A.);
- Depreciation accruing (€ -419.5 million) and also disposals, reclassifications and other changes (€ -20.2 million).

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

€ million	
Investments	
- Transmission lines	549.4
- Transformation stations	336.9
- Storage systems	93.3
- Other	56.5
Investments in property, plant and equipment – Regulated Activities	***1,036.1***
Investments in property, plant and equipment - Non-Regulated Activities	***12.6***
Total investments in property, plant and equipment	**1,048.7**
Acquisition from third parties	**49.7**
Depreciation	(419.5)
Disposals, reclassifications and other changes	(20.2)
Total	**658.7**

As regards investments during the year in **regulated activities** (€ 1,036.1 million), we can note, in particular, those of the Parent Company, related mainly to:

Italy-Montenegro interconnection (€ 109.2 million)
- As regards cable connections:
  - final planning activities are continuing, survey activity is at an advanced stage, production of the first stretch of marine cable and production of the terrestrial cable related to the first hub were completed.
- With regard to conversion stations, the following can be noted:
  - planning activity is in progress, preparation of the Cepagatti station site was completed and the Kotor station construction sites were opened.

380 kV Sorgente-Rizziconi power line (€ 82.9 million)
- With regard to power lines/cables:
  - in Calabria: the Rizziconi-Scilla power line was completed and came into operation; excavation activities are continuing in the Favazzina tunnel;
  - as regards Sicily, construction of the foundations was completed and assembly of the pylons for the Villafranca-Sorgente power line and the stringing activities are nearing completion. Activities to create the underground cable section are continuing.
- With regard to electrical stations:
  - in Calabria: the new 380/150 kV transformation station in Scilla was completed and the approval test was performed;
  - in Sicily: in Villafranca the civil works finishing activities are in progress, assembly of the armoured 380 kV line was completed, assembly of the armoured 150 kV line and the machinery is at an advanced stage.

Codrongianos ES Synchronous Condenser (€ 40.1 million): both the synchronous condensers were completed and brought into operation, activities for remote management are being completed.

380 kV Udine West-Redipuglia power line (€ 33.6 million)
- With regard to power lines/cables:
  - the supplies are being procured and construction of the foundations of a number of pylons has begun.
- With regard to the electrical station:
  - the civil works finishing activities are in progress, electromechanical assembly and assembly of the auxiliary/general services are nearing completion.

Capri-Continent Interconnection (€ 32.5 million): laying and protection of the submarine cable were completed.

Foggia-Villanova power line (€ 30.0 million)

- As regards the power line:
  - the supplies are being procured and construction of the foundations of further pylons is in progress.
- With regard to electrical stations:
  - in the Villanova electrical station the expansion of the 380 kV section in GIS was completed with entry into operation of a new 250 MVA 400/135 kV ATR, while the activities needed to activate a further ATR to be connected to the same 380 kV section in GIS are continuing; in the Gissi electrical station the civil works for the creation of the aerial expansion of two line bays of the 380 kV section were completed.

Restructuring of the 220 kV City of Naples grid (€ 22.1 million)

- With regard to power lines/cables:
  - operations to install the Fratta-Gricignano cable, joints and terminals were completed and the HV approval test performed; the optical fibre is being installed. Work has begun on the Poggioreale-Secondigliano cable connection and activities to make the Casalnuovo-Acerra cable connection are at an advanced stage; preparation of the preliminary design aimed at obtaining authorisation for the Castelluccia-San Sebastiano cable connection is in progress.
- With regard to electrical stations:
  - installation of a reactor at the Castelluccia electrical station and the work on activating the S. Maria Capua Vetere 380/220 kV ATR were completed. The doubling of the auxiliary services is being activated.

Restructuring of the City of Turin grid (€ 21.3 million)

- With regard to power lines/cables:
  - the 220 kV Politecnico-Torino Centro, Politecnico - Torino Sud, Pianezza-Pellerina and Politecnico-Pellerina cable power lines are in service.
- With regard to electrical stations:
  - the new Politecnico 220 kV electrical station, made up of a double system of bars and two bays, is in service.

Storage systems (€ 93.3 million)

- "Energy Intensive" projects (€ 71.3 million)

In the early months of 2014 construction of the Ginestra and Flumeri plants began, and in December the former and the first 6 MW of the latter came on-stream.
Construction of the Scampitella plant was authorised by the Ministry for Economic Development in March 2014 and later the construction work began.
Commissioning of the remaining 6MW of the Flumeri plant and the entire Scampitella plant is planned for 2015.

- "Power Intensive" projects (€ 22.0 million)

During the year the two sites – Ciminna in Sicily and Codrongianos in Sardinia – designed to host the Storage Systems were confirmed, authorised, and created.
The procurement of lithium- and ZEBRA-based storage technologies[79], which had begun in 2013, was completed and a total of 12 storage system were constructed: 5 in Sicily and 7 in Sardinia. Of these 8 came into operation in 2014, for a total of 8.6 MW, with 3.2 MW in Sicily and 5.4 MW in Sardinia. Upon completion of the 16MW planned in the initial phase of the project, procurement initiatives have commenced for a further 4MW of Flow- and Supercapacitor-based technology[80].
We can note also that during the period the 380 kV Foggia-Benevento II power line came into operation in provisional mode (€ 23.0 million in 2014), and the Trino-Lacchiarella connection was also completed (€ 13.4 million in 2014).
The item "Other" includes purchase and/or renovation of offices (€ 21.9 million) and the campaign to replace copper conductors (€ 20.6 million).

The main works relating to **non-regulated activities** (€ 12.6 million) involved essentially variants for third parties.

(79) Both technologies are characterised by electrochemical cells interconnected in series to form battery modules. In lithium technology, the elementary electrochemical cell consists of two electrodes with interspersed lithium ions inside them. In the Z.E.B.R.A. technology during operation the electrodes are in a molten state, with interspersed sodium and nickel in the respectively negative and positive electrodes.
(80) Flow batteries consist of two tanks containing the same number of electrolytes which through pumps pass into a cell (stack) generating an electrical potential. In Supercapacitors the negative electrode is made of graphite with lithium ions interspersed inside it, while the positive one is made of active carbon. The technology combines the characteristics of a lithium battery with those of a capacitor, characterised by very high power (and overload capacity) but with low storage capacity.

The details of the transmission lines and of the transformation stations referable to main works of the above investments are presented below:

	€ million
Main projects - lines and stations	**371.6**
of which transport lines	***270.9***
of which transformer stations	***100.7***
Italy-Montenegro Interconnection	**109.2**
of which transport lines	*98.0*
of which transformer stations	*11.2*
380 kV Sorgente - Rizziconi power line	**82.9**
of which transport lines	*57.6*
of which transformer stations	*25.3*
Codrongianos ES Synchronous Condenser	**40.1**
of which transport lines	*0.0*
of which transformer stations	*40.1*
380 kV Udine West-Redipuglia power line	**33.6**
of which transport lines	*20.3*
of which transformer stations	*13.3*
Capri-Continent interconnection	**32.4**
of which transport lines	*30.7*
of which transformer stations	*1.7*
380 kV Foggia-Villanova power line	**30.0**
of which transport lines	*22.9*
of which transformer stations	*7.1*
Restructuring of the 220 kV City of Naples grid	**22.1**
of which transport lines	*21.1*
of which transformer stations	*1.0*
Restructuring of the 220 kV City of Turin grid	**21.3**
of which transport lines	*20.3*
of which transformer stations	*1.0*

14. Goodwill – € 190.2 million

Goodwill amounted to € 190.2 million and it is unchanged from the balance of the previous year.

Impairment testing

Cash Generating Unit – NTG

The estimate of the recoverable value of goodwill deriving from acquisition of Terna Rete Italia S.r.l., recognised for a value of € 101.6 million, and of goodwill deriving from acquisition of RTL (merged into by the Parent Company in 2008), recognised for a value of € 88.6 million, was made determining the fair value of the NTG Cash Generating Unit (CGU). The fair value of the CGU, calculated taking into consideration the average Stock Exchange quotation of the Terna stock in 2014, was found to be higher than the carrying amount, for a value of more than € 2,800 million.
In addition, as further support of the assessment of impairment, the estimate of the recoverable value of goodwill was also determined on the basis of the criterion of value in use applying the “Discounted Cash Flow” method (unlevered version) to the NTG Cash Generating Unit (CGU). In line with the provisions of IAS 36, the cash flow forecasts have been prepared for the time frame 2015-2019, taking the estimates given in the last Industrial Plan approved by the Board of Directors on 26 March 2015. This Industrial Plan has been developed considering the latest estimates of the electricity sector and the latest macroeconomic forecasting (cancellation of the IRES Robin Hood Tax surcharge from 2015). Considering a final value equal to the calendary RAB (Regulatory Asset Base) at the end of 2019 and discount rates of between 4% and 6%, the value in use of the CGU was higher than that recognised.

15. Intangible assets – € 262.3 million

Changes during the year in intangible assets are detailed below:

€ million	Infrastructure rights	Concessions	Other assets	Assets under development and payments on account	Total
Balance at 31.12.2013	**131.0**	**89.7**	**29.2**	**21.7**	**271.6**
Investments	-	-	0.6	46.8	47.4
Entry into use	24.4	-	16.2	(40.6)	-
Contribution of new acquisitions	-	-	1.7	-	1.7
Amortisation	(36.4)	(5.6)	(16.6)	-	(58.6)
Reclassifications	-	-	0.5	-	0.5
Disposals	-	-	(0.3)	-	(0.3)
Balance at 31.12.2014	**119.0**	**84.1**	**31.3**	**27.9**	**262.3**
Cost	376.1	135.4	178.5	27.9	717.9
Accumulated amortisation	(257.1)	(51.3)	(147.2)	-	(455.6)
Balance at 31.12.2014	**119.0**	**84.1**	**31.3**	**27.9**	**262.3**

Intangible assets amounted to € 262.3 million (€ 271.6 million at 31 December 2013). This item, in particular, includes:

- infrastructures used for the dispatching services, carried out under concession and recognised as set out by "IFRIC 12 – Service Concession Arrangements", for a net Carrying amount at 31 December 2014 of € 119.0 million for infrastructures which came into operation and € 22.2 million for infrastructures under construction included in the category "Assets under development and payments on account" (€ 131.0 million and € 16.0 million respectively at 31 December 2013);
- the 25-year licensing for the provision of electricity transmission and dispatching services in Italy (with net carrying amount of € 84.1 million at 31 December 2014), recognised initially during 2005 at fair value and subsequently measured at cost.

Other intangible assets mainly comprise application software developed internally or purchased when implementing systems development projects. Related investments (€ 16.8 million) are made essentially through internal development.
The difference with respect to the previous financial year (€ -9.3 million) is due to the combined effect of routine movements during the period, regarding mainly amortisation (€ 58.6 million, of which € 36.4 million relating to dispatching infrastructures and € 5.6 million relating to the concession), investments (€ 47.4 million, of which € 30.6 million for infrastructure rights) mainly in application software and also the contribution of the Tamini Group's intangible assets of € 1.7 million.
Investments for the year in intangible assets (€ 47.4 million, of which in regulated activities € 47.1 million referred entirely to the Parent Company), we can note in particular those for the development and evolution of software for the Remote Management System for Dispatching (€ 12.2 million), for the Power Exchange (€ 7.7 million) and for the protection of the Electrical System (€ 1.2 million), as well as software applications and general use licenses (€ 14.9 million).

16. Equity accounted investees – € 79.2 million

This item amounted to € 79.2 million and relates to the equity investment of the Parent Company Terna S.p.A.:

- in the associate CESI S.p.A. (€ 40.5 million), representing a stake in the share capital of 42.698%;
- in the associate CORESO S.A. (€ 0.4 million), which was acquired in November 2010, representing a stake in the share capital of 22.485%;
- in the associate CGES - CrnoGorski Elektroprenosni Sistem AD (€ 38.3 million), which was acquired in January 2011, representing a stake in the share capital of 22.0889%.

CESI S.p.A. operates in the construction and management of laboratories and plants for tests, inspections, studies and experimental research relating to the electro-technical field in general and to the technical and scientific developments in that area. The value of the equity investment fell with respect to the previous financial year by € 0.1 million as a result of the adjustment of the investment to equity at year end with reference to the stake held by the Group in said company.
The company CORESO S.A. is the first technical centre owned by various Electricity Transmission System Operators which carries out joint TSO technical coordination activities in order to improve and strengthen security and coordination of the Electrical System in central/western Europe; it prepares daily forecasts and analyses in real time of energy flows in the region, identifying potentially critical areas and promptly notifying the TSOs which are affected. The value of the equity investment was unchanged from the balance of the previous year.

CGES is the operator responsible for electricity dispatch and transmission in Montenegro. Terna's financial investment in CGES, made following an industrial cooperation and country system process and included as part of inter-governmental understandings reached by Italy and Montenegro, enshrines the institutional commitment to developing a new submarine electrical interconnection and implementing a partnership between national transmission operators. The value of the equity investment increased with respect to the previous financial year by € 0.6 million as a result of the adjustment of the investment to equity at year end with reference to the stake held by the Group in said company.

17. Financial assets

The following table details financial assets recognised in the Consolidated Financial Statements:

	Carrying amount		
€ million	31.12.2014	31.12.2013	Change
FVH derivatives	784.8	527.1	257.7
RCF commissions	2.0	-	2.0
Equity interests	0.3	1.0	(0.7)
Non-current financial assets	**787.1**	**528.1**	**259.0**
FVH derivatives	-	18.4	(18.4)
Deferred assets on FVH derivatives	60.4	62.9	(2.5)
Other current financial assets	3.0	15.8	(12.8)
Current financial assets	**63.4**	**97.1**	**(33.7)**
Total	**850.5**	**625.2**	**225.3**

The item "Non-current financial assets", of € 787.1 million, included at 31 December 2014 the value of equity investments, fair value hedging derivatives hedging bonds and commissions paid on the Revolving Credit Facility granted in December 2014.
"Other investments" (€ 0.3 million) refers to the 8.3% interest held in the share capital of CASC CWE S.A. acquired in November 2010. The reduction of € 0.7 million was due to the writedown for impairment of the equity investments in Medgrid S.A.S. (€ 0.6 million) and Desertec Industrial Initiative (€ 0.1 million), with a view to refocusing Terna's presence in this type of project.
The fair value of the FVH derivatives hedging the Company's bonds, equal to € 784.8 million, is calculated by discounting forecast cash flow with the market interest rate curve at the reporting date. The increase in the fair value of derivatives (€ 257.7 million) with respect to 31 December 2013 is due to the decrease of the interest rate curve at the end of 2014.
The item "Current financial assets" showed a balance of € 63.4 million (€ 97.1 million at 31 December 2013) and recorded a decrease compared to the previous year of € -33.7 million due to:

- the natural maturity of FVH derivatives taken out to cover the € 600 million bond reimbursed on 28 October 2014 (€ -18.4 million);
- the amount of net financial income matured on the related financial instruments, but not yet paid (€ -2.5 million);
- the decrease in interest matured and not yet collected at the reporting date, relating to short-term cash investments (€ -12.8 million).

18. Other assets

"Other assets" are broken down below:

€ million	31.12.2014	31.12.2013	Change
Receivables due from others:			
- loans and advances to employees	8.8	7.2	1.6
- deposits with third parties	1.0	0.6	0.4
Other non-current assets	**9.8**	**7.8**	**2.0**
Other tax assets	21.6	62.6	(41.0)
Receivables due from others:			
- advances to employees	0.2	0.2	-
- other	24.2	16.6	7.6
Other current assets	**46.0**	**79.4**	**(33.4)**

"Other non-current assets" (€ 9.8 million) - which are presented in the table above - were essentially unchanged since the end of the previous year (€ 7.8 million) and mainly comprised loans and advances paid to employees by the parent company and the subsidiaries Terna Rete Italia S.p.A., Terna Plus and Terna Storage (€ 8.8 million).
The item "Other current assets", equal to € 46 million and whose composition is presented in the previous statement, decreased by € -33.4 million compared to 31 December 2013 owing to:

- other tax assets (€ -41.0 million), referable substantially to the lower VAT receivable from the tax authorities (€ -37.2 million) mainly of the Parent Company and of the subsidiary Terna Storage S.r.l. and to the lower balance of receivables from the tax authorities and withholdings on interest income accrued on the Parent Company's financial assets (€ -5.9 million);
- receivables from others (€ +7.6 million) with reference, in particular, to the receivables of the Tamini Group in being at the reporting date (€ 6.7 million) and also to a higher proportion of costs already paid, but accruing to subsequent years of € 1.0 million.

19. Inventories – € 21.6 million

Inventories under working assets, of € 21.6 million, consist mainly of materials and equipment destined for the work of operating, maintaining and building plants.
The item shows an increase of € 13.6 million compared to the figure for the previous year (€ 8.0 million) owing essentially to inclusion of the balance of inventories of Tamini Trasformatori S.r.l. and of its subsidiaries at the acquisition date (€ 11.2 million), net of the changes that occurred in the subsequent period (€ 3.0 million).

20. Trade receivables – € 1,577.8 million

Trade receivables are analysed as follows:

€ million	31.12.2014	31.12.2013	Change
Energy-related receivables	956.7	991.2	(34.5)
Grid transmission fee receivables	514.2	652.2	(138.0)
Other trade receivables	106.9	77.7	29.2
Trade receivables	**1,577.8**	**1,721.1**	**(143.3)**

Trade receivables amounted to € 1,577.8 million and show a decrease (€ 143.3 million) compared with the previous year, essentially attributable to the grid transmission fees receivable in relation to the remuneration paid to the Parent Company and to other owners for the use of the National Transmission Grid by electricity distributors.

They are measured net of impairment losses on items considered non-collectable that are covered by allowances for doubtful accounts (€ 24.0 million for energy items and € 9.6 million for other items in 2014, as compared with € 23.2 million for energy items and € 8.8 million for other items in 2013); the carrying amount shown is substantially equal to the fair value.

Energy-related receivables – € 956.7 million

They mainly include receivables in relation to the so-called "pass-through" energy items arising in respect of dispatching activities carried out by the parent company. This item also includes receivables for fees payable by market operators for dispatching activities (DIS fee as per AEEG Resolution 111/06 and its subsequent amendments and additions).
The decrease in this item of € -34.5 million from the previous year was mainly due to the combined effect of:

- lower receivables for the sale of electricity on the Power Exchange deriving mainly from a reduction in the balancing quantities and valuation prices (€ -28.7 million) and receivables related to electricity transits on foreign electricity grids deriving from cross-border trading (€ +13.0 million), offset by receivables for the uplift component (€ +41.1 million);
- an increase in receivables for the sale of electricity off the Power Exchange (€ +33.5 million) owing essentially to credit items relating to Essential Units for the Security of the Electricity System (€ +48.5 million) partially offset by a decrease in receivables for congestion revenues (€ -15.7 million).

Grid transmission fee receivables – € 514.2 million

The grid transmission fee receivables, € 514.2 million, are related to the remuneration paid to the Parent Company and to other owners for use of the National Transmission Grid by electricity distributors. The said receivable shows a decrease, of € 138.0 million, compared with the previous year due mainly to collection from the Electricity Equalisation Fund of the receivable for extra grid transmission fee revenue of Terna S.p.A. related to 2012 net of the accrual ascertainments (€ 43.8 million); also significant was the postponed collection in January 2014 of the portion of grid transmission fee of a market operator accruing to the last part of 2013.

Other trade receivables – € 106.9 million

Other trade receivables refer mainly to receivables from diversified business customers, for specialised services provided to third parties mainly in the context of systems engineering services, the operation and maintenance of High and Extra High Voltage plants and the housing of telecommunications equipment and optical fibre grid maintenance services.
The item shows an increase of € 29.2 million compared with the previous year deriving substantially from the contribution of the Tamini Group's receivables (€ 39.2 million at the reporting date), partially offset by the decrease in receivables from third parties for diversified business (€ -28.1 million) owing substantially to higher collections towards the end of the year.
This item also includes receivables for contract work in progress (€ 15.8 million) relative to works of multi-year duration which the Group has been implementing with third party customers, shown in the table below:

€ million	Payments on account	Contract value	Balance at 31.12.2014	Payments on account	Contract value	Balance at 31.12.2013
Others	(17.9)	33.7	15.8	(22.4)	24.7	2.3

The Group's contract work in progress show an increase compared with the previous year of € 13.5 million, owing substantially to the contribution of the Tamini Group's orders (€ 13.9 million at 31 December 2014).
The amount of guarantees issued to third parties by Terna at 31 December 2014 was € 83.3 million, of which € 78.9 million for sureties issued to secure the contractual obligations arising under the scope of operations and € 4.4 million as itemised below:

- € 0.5 million in guarantees issued on behalf of the subsidiary Terna Rete Italia S.r.l.;
- € 2.5 million on behalf of the subsidiary Terna Rete Italia S.p.A.;
- € 1.4 million on behalf of the subsidiary Terna Plus S.r.l.;

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

21. Cash and cash equivalents – € 1,217.3 million

Cash and cash equivalents at 31 December 2014 amounted to € 1,217.3 million of which € 650.0 million liquid funds invested in highly-liquid short-term deposits and € 567.3 million net liquidity in bank current accounts.

22. Income tax assets – € 25.9 million

Income tax assets amounted to € 25.9 million and recorded an increase of € 5.1 million compared to the previous year owing to the higher advances for IRES and IRAP taxes paid with respect to the tax burden of the year.

Liabilities

23. Equity attributable to the owners of the parent – € 3,092.9 million

Share capital – € 442.2 million
The share capital of the Parent Company is represented by 2,009,992,000 ordinary shares, par value € 0.22 each.

Legal reserve – € 88.4 million
The legal reserve amounts to 20% of the share capital of the Parent Company.

Other reserves – € 705.1 million
Other reserves increased by € 9.9 million, due substantially to Other Comprehensive Income, in particular owing to:
- adjustment to fair value of derivative instruments hedging the Parent Company's floating-rate loans - cash-flow hedges (€ 27.3 million, considering the related tax effect of € 17.4 million);
- recognition of actuarial gains and losses on employee benefits (€ -17.5 million, considering the related tax effect of € 6.7 million).

Retained earnings and losses – € 1,453.4 million
The increase in the year of the item "Retained earnings and losses" of € 111.5 million mainly refers to allocation of the residual profit achieved by the Group in 2013 compared to the distribution of the 2013 dividend on the part of the Parent Company (a total of € 402.1 million).

Interim dividend 2014
After receiving the report of the independent auditors required by Art. 2433-*bis* of the Italian Civil Code, on 12 November 2014 the Parent Company's Board of Directors approved the distribution of an interim dividend amounting to € 140.7 million, equal to € 0.07 per share, which is payable from 26 November 2014, with an ex dividend date (coupon 21) of 24 November 2014.

24. Loans and financial liabilities

The following table details loans and financial liabilities recognised in the consolidated financial statements at 31 December 2014:

	Carrying amount		
€ million	31.12.2014	31.12.2013	Change
Bonds	5,983.6	5,723.0	260.6
Bank loans	2,101.6	2,286.9	(185.3)
Long-term loans	**8,085.2**	**8,009.9**	**75.3**
CFH derivatives	29.9	80.0	(50.1)
Non-current financial liabilities	**29.9**	**80.0**	**(50.1)**
Bonds	-	618.8	(618.8)
Current portion of long-term loans	764.1	79.0	685.1
Short-term loans and current portion of medium/long-term loans	**764.1**	**697.8**	**66.3**
Total	**8,879.2**	**8,787.7**	**91.5**

Gross debt for the year increased with respect to the previous year by € 91.5 million to € 8,879.2 million.
The decrease in the value of bonds (€ -358.2 million) is attributable for € 600 million to repayment of the 2014 Bond on 28 October 2014, for € +239.6 million to changes in the fair value of the risk hedged, for € +1.7 million to the effect of the amortised cost of unhedged Bonds and for € +0.5 million to the capitalisation of inflation in the period.
The change associated with the hedging of interest rate risk comprises € 54.1 million in relation to the Inflation-Linked bond issue, € 85.7 million associated to the 2024 Bond, € 19.5 million for the Private Placement and € 80.3 million relating to the Bond issued in 2011.
The latest official prices for the bonds listed on the Luxembourg Stock Exchange are detailed below:

- bond maturity 2024: 2014 price € 131.29 and 2013 price € 114.28;
- bond maturity 2023: 2014* price € 121.14 and 2013 price € 109.90;
- bond maturity 2019: 2014 price € 119.03 and 2013 price € 114.60;
- bond maturity 2021: 2014 price € 122.80 and 2013 price € 112.74;
- bond maturity 2017: 2014 price € 107.67 and 2013 price € 108.27;
- bond maturity 2018: 2014 price € 106.85 and 2013 price € 104.20.

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

The debt originally at floating-rate shows an increase of € 499.8 million due essentially for € 570 million to drawing down a new EIB loan, for € 79.0 million to repayments of maturing portions of existing EIB loans and for € 8.8 million to leases related to the acquired company Brulli.

Long-term loans

The following table reports the book values of long-term debt and the repayment plan as of 31 December 2014, broken down by loan type, including amounts falling due within one year and average interest rate at year-end:

€ million	Maturity	31.12.2013	31.12.2014	Maturity within 12 months	Maturity beyond 12 months	2016	2017	2018	2019	After	Average interest rate at 31.12.2014
Bonds	2014-2024	1,596.2	1,081.9	-	1,081.9	-	-	-	-	1,081.9	4.65%
Bonds IL	2023	677.0	731.6	-	731.6	-	-	-	-	731.6	2.73%
Bonds PP	2019	672.4	691.9	-	691.9	-	-	-	691.9	-	4.88%
Bonds 1250	2021	1,402.6	1,483.0	-	1,483.0	-	-	-	-	1,483.0	4.75%
Bonds 1250	2017	1,246.9	1,247.8	-	1,247.8	-	1,247.8	-	-	-	4.13%
Bonds 750	2018	746.7	747.5	-	747.5	-	-	747.5	-	-	2.88%
Total fixed rate		**6,341.8**	**5,983.7**	**-**	**5,983.7**	**-**	**1,247.8**	**747.5**	**691.9**	**3,296.5**	
EIB	2014-2030	1,216.3	1,707.0	112.5	1,594.5	120.5	132.4	132.4	111.2	1,098.0	0.73%
Club Deal	2015	649.6	649.9	649.9	-	-	-	-	-	-	0.83%
CDP	2019	500.0	500.0	-	500.0	-	-	-	-	500.0	1.26%
Leasing	2019-2021-2022	-	8.8	1.7	7.1	1.7	1.7	1.7	1.9	0.1	1.51%
Total floating rate		**2,365.9**	**2,865.7**	**764.1**	**2,101.6**	**122.2**	**134.1**	**134.1**	**113.1**	**1,598.1**	
Total		**8,707.7**	**8,849.4**	**764.1**	**8,085.3**	**122.2**	**1,381.9**	**881.7**	**805.0**	**4,894.6**	

The total amount of the Group's borrowings at 31 December 2014 is equal to € 8,849.4 million, of which € 4,894.6 million is due after more than five years.

On maturity, on 15 September 2023, the Inflation-Linked Bond provides for repayment of the face value revalued to inflation, while repayment of the face value of the other Bonds, of € 4,650.0 million, provides for repayment of € 1,250 million on 17 February 2017, of € 750 million on 16 February 2018, of € 600 million on 3 October 2019, of € 1,250 million on 15 March 2021 and of € 800 million on 28 October 2024.

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

As regards the 2024 Bond, with an average coupon of 4.90%, if fair value hedging operations are taken into account, the average interest rate is equal to 0.77%.

For the inflation-linked bonds - and taking hedges into account - and assuming a 0.09% inflation rate, the average interest rate paid in the year was -0.96%.

The fixed-rate Private Placement was synthetically transformed to a floating rate security by means of derivative contracts with the same maturity. Consequently, the average interest rate paid in the year was 1.64%.

The average coupon of the 2021 Bond is 4.75%; if we consider FVH operations, the average interest rate amounts to 1.43%.

For the two bond issues made in 2012 maturing in 2017 and 2018, no hedges have been implemented and the average interest rate is 4.125% and 2.88% respectively.

With regard to floating-rate loans covered by fluctuations in interest rates - and taking into account the effect of derivative financial instruments booked as cash-flow hedges - an average rate of 2.57% is reported for EIB financing while for the Club Deal financing totalling € 650 million, the average rate was 3.37% and for the CDP financing the average rate was 3.94%.

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

€ million	Nominal debt at 31.12.2013	Carrying amount at 31.12.2013	Market value at 31.12.2013	Repayment and capitali-sation	Draw-downs	Delta Fair Value 31.12.2013 31.12.2014	Change in carrying amount	Nominal debt at 31.12.2014	Carrying amount at 31.12.2014	Market value at 31.12.2014
Bonds 2014-2024	1,400.0	1,596.2	1,531.1	(600.0)	-	85.7	(514.3)	800.0	1,081.9	1,050.4
Listed IL bond	565.4	677.0	621.4	0.5	-	54.1	54.6	565.9	731.6	685.5
Private Placement	600.0	672.4	687.6	-	-	19.5	19.5	600.0	691.9	714.2
2021 Bond	1,250.0	1,402.6	1,409.2	-	-	80.3	80.3	1,250.0	1,483.0	1,535.0
2017 Bond	1,250.0	1,246.9	1,353.4	-	-	0.9	0.9	1,250.0	1,247.8	1,345.9
2018 Bond	750.0	746.7	781.5	-	-	0.8	0.8	750.0	747.5	801.4
Total bonds	**5,815.4**	**6,341.8**	**6,384.2**	**(599.5)**	**-**	**241.3**	**(358.2)**	**5,215.9**	**5,983.7**	**6,132.2**
Bank loans	2,366.3	2,365.9	2,366.3	(79.0)	578.8	-	499.8	2,865.8	2,865.7	2,865.8
Total bank loans	**2,366.3**	**2,365.9**	**2,366.3**	**(79.0)**	**578.8**	**-**	**499.8**	**2,865.8**	**2,865.7**	**2,865.8**
Total financial debt	**8,181.7**	**8,707.7**	**8,750.5**	**(678.5)**	**578.8**	**241.3**	**141.6**	**8,081.7**	**8,849.4**	**8,998.0**

Compared with 31 December 2013, long-term debt shows an overall decrease of € 141.6 million, due for € 0.5 million to capitalisation of inflation in the year linked to the IL bond, for € 241.3 million to the increase in the fair value of bonds, also considering the amortised cost of all loans, for € 600 million to repayment of the 2014 Bond, for € 570 million to drawdown of a new EIB loan, for € 79 million to repayment of instalments on the EIB loans and for € 8.8 million to leasing contracts related to the acquired company Brulli.

At 31 December 2014 Terna had an additional debt capacity of approximately € 739 million for short term credit lines to which must be added the additional capacity of € 750 million represented by the revolving credit facility agreed in December 2014.

In addition, as provided for in IFRS 7, the table shows the fair value of financial payables which for bond loans is their market value on the basis of the prices at the reporting date, while for floating-rate loans it was assumed to be substantially equal to the notional amount of repayment.

The table below shows the amount and changes in non-current financial liabilities with respect to the figures at the end of 2014:

€ million	31.12.2014	31.12.2013	Change
CFH derivatives	29.9	80.0	(50.1)
Total	**29.9**	**80.0**	**(50.1)**

Fair value was measured by discounting the expected cash flows using the market yield curve at the reporting date. The change in the interest rate curve compared with 31 December 2013 resulted in a change amounting to € -50.1 million.

Current financial liabilities

At 31 December 2014 current financial liabilities include the value of cash flow hedging derivatives (€ 5.6 million) related to the Club Deal loan maturing in June 2015 and the value of net financial expense accrued on financial instruments, not yet settled. This item shows an increase, compared with the previous year, of € 2.7 million.

The details of the financial liabilities related to net Financial expense accrued but not settled are presented below, on the basis of the nature to which they refer:

€ million	31.12.2014	31.12.2013	Change
CFH derivatives	**5.6**	**-**	**5.6**
Deferred liabilities on:			
Derivatives			
- *hedging*	*13.2*	*12.7*	*0.5*
Bond			
- *Inflation Linked*	*4.6*	*4.6*	-
- *Private Placement*	*7.2*	*7.2*	-
- *5-year (2017)*	*44.9*	*44.9*	-
- *10-year (2014)*	*0.0*	*4.5*	*(4.5)*
- *20-year (2024)*	*7.0*	*7.0*	-
- *10-year (2021)*	*47.5*	*47.5*	-
- *5-year (2018)*	*18.9*	*18.8*	*0.1*
Total	**130.1**	**134.5**	**(4.4)**
Loans	5.2	4.2	1.0
Total deferred liabilities	**148.5**	**151.4**	**(2.9)**
Total current financial liabilities	**154.1**	**151.4**	**2.7**

Net financial position

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

		Carrying amount at
€ million		31.12.2014
A.	Cash	567.3
B.	Short-term deposits	650.0
C.	**Liquidity (A) + (B)**	**1,217.3**
D.	Current portion of long-term debt	764.1
E.	**Current financial debt (D)**	**764.1**
F.	**Net current financial debt (E) - (C)**	**(453.2)**
G.	Non-current bank payables	2,101.6
H.	Bonds issued	5,983.6
I.	Derivative financial instruments in portfolio	(749.3)
J.	Other financial liabilities	85.1
K.	**Net non-current financial debt (G) + (H) + (I) + (J)**	**7,421.0**
L.	**Net financial debt (K) + (F)**	**6,967.8**

For further details on the breakdown of the items present in the table please see Comments 17 “Current financial assets”, 21 “Cash and cash equivalents” and 24 “Loans and financial liabilities” in the present Notes.

Default risk and debt covenants

This risk is associated with the possibility that the loan contracts or bond rules to which the Group is a party may contain provisions that, if certain events occur, authorise counterparties to call in such loans immediately, thereby generating liquidity risk.

Certain long-term loans obtained by the parent company Terna S.p.A. contain covenants that are typical of international practice. The principal covenants relate to:

1. the Company's bonds, comprising one issue of € 800 million in 2004, and five issues carried out under the bond issue programme of € 6 billion (€ 6,000,000,000 Euro Medium-Term Notes Programme, hereinafter the "EMTN Programme"), one of € 500 million in 2007, and one in the form of a Private Placement of € 600 million in 2009, one of € 1,250 million realised in March 2011, one of €1,250 million in February 2012 and one of € 750 million in October 2012;
2. bank payables, consisting in a "Club Deal" syndicated loan of € 650 million, and a loan from Cassa Depositi e Prestiti (CDP) of € 500 million that draws on EIB funds and a revolving credit facility of € 750 million;
3. loans to the Company from the European Investment Bank (EIB) totalling € 2,118 million.

The principal covenants relating to the issue of bonds and the € 6 billion EMTN Programme are summarised below:

- "negative pledge" clauses, under which the Issuer or Significant Subsidiaries (consolidated companies whose total assets represent at least 10% of total consolidated assets and, solely for the EMTN Programme, whose registered offices are in an OECD country) may not establish or maintain mortgages, liens or other encumbrances on all or part of its assets or revenue in order to secure listed bonds, unless these guarantees are extended on the same basis to the bonds concerned. There are certain exceptions (so-called "permitted guarantees" such as, for example, guarantees required by law, guarantees in place prior to the date of issue of the bonds, guarantees on new assets that only secure the payable arranged to acquire them etc.), in relation to which the Company is not bound by the above obligations;
- "*pari passu*" clauses under which the securities constitute a direct, unconditional and unsecured obligation of the issuer and are issued without preferential rights among them and have at least the same "seniority" as other present and future unsecured and unsubordinated borrowing of the Issuer;
- "event of default" clauses, under which predetermined events (e.g. failure to pay, initiation of liquidation proceedings of the Issuer, 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;
- reporting requirements, both periodic and occasional, on the occurrence of specified events.

The main covenants for the "Club Deal" syndicated loan, the € 500 million loan from CDP and the revolving credit facility of € 750 million are summarised below:

- "negative pledge" clauses, under which the Company and each Significant Subsidiary (consolidated companies whose total assets represent at least 10% of total consolidated assets) agree not to establish or maintain guarantees on all or part of their assets, securing any type of financial liability, with the exception of "permitted guarantees" (guarantees required by law, guarantees in place prior to the date of the loans, guarantees on new assets that only secure the debt arranged to acquire them, guarantees given to governmental or international entities, including the EIB, guarantees on financial borrowings whose amount does not exceed 10% of total assets of the Borrower, etc.);
- "*pari passu*" clauses under which the payment undertakings of the borrower in respect of loans are not subordinate to any obligation in respect of other unsecured and unsubordinated creditors, except in the case of statutory preferential rights;
- "event of default" clauses linked to the occurrence of specified events (such as failure to pay, serious inaccuracies in the documentation and/or the declarations, insolvency, termination of activities, seriously prejudicial events, breach of contractual obligations including the equality of the conditions applied by lenders, etc.) are considered to represent potential defaults 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 liability (above a threshold level), also constitutes a default event in respect of the loan concerned, which becomes immediately repayable;
- compulsory early redemption clause, under which the Company is required to repay the loan early, if its long-term credit rating is reduced below investment grade (BBB-) by a majority of the rating agencies that monitor the Company, or if the Company ceases to be monitored by at least one rating agency;
- reporting requirements, both periodic and occasional, on the occurrence of specified events.

The principal covenants governing the EIB loans are summarised below:

- "negative pledge" clauses, under which if the Company establishes, agrees, provides or decides to maintain restrictions in favour, whether directly or indirectly, of third parties (such as unsecured or secured guarantees, liens, encumbrances, charges or other rights), it must also extend equivalent guarantees to the Bank, upon simple request from the latter, except in the case of restrictions granted in relation to borrowing below a threshold level;
- clauses requiring the delivery of additional guarantees to the Bank in the event of a reduction in the rating under which, if the credit rating of the medium and long-term unsubordinated and unsecured debt is lowered and, consequently, is below: BBB+ for Standard & Poor's; Baa1 for Moody's; and BBB+ for Fitch or if the credit rating should cease to be published by all said ratings agencies, the Bank is entitled to require the Company to provide it with additional guarantees that are considered satisfactory at the unchallengeable but reasonable discretion of the Bank;
- "*pari passu*" clauses, under which, for the entire period of the loans, the Company will ensure that the payment obligations have the same seniority as those relating to all other unsecured and unsubordinated creditors;
- clauses regarding "termination of the contract/application of the acceleration clause/withdrawal" on which basis, where predetermined events occur (such as failure to pay, serious inaccuracies in the documentation and/or statements presented, insolvency, events resulting in negative consequences on the financial commitments made by the Company, special administration, liquidation, significant detrimental change, failure to fulfil contractual commitments, etc.), triggering immediate repayment; in addition, where the Company is required upon default to discharge in advance any other financial obligation in respect of loans, credit facilities, bank advances, discounting, the issue or subscription of any form of bond or security, except where certain thresholds are exceeded, such default shall also constitute default on the loan in question, triggering immediate repayment;
- obligatory early repayment clauses, based on which the Company will be required to repay the loan early should specific events occur (such as change in the control of the Company, loss of the concession, extraordinary corporate event) and, as a result of these, an agreement cannot be reached between the Company and the Bank regarding the changes to be made to the Contract, or if the Company does not constitute guarantees considered satisfactory at the reasonable discretion of the Bank, following a downgrading of the credit rating below certain contractually defined thresholds or following cessation of publication of the same by the three rating agencies indicated above;
- reporting requirements, both periodic and occasional on the occurrence of specified events concerning both the projects being financed and the Company itself.

25. Employee benefits – € 146.3 million

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

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

The composition of termination benefits and other employee-related provisions at 31 December 2014 is detailed below along with changes in the period:

€ million	31.12.2013	Contribution of newly acquired companies	Provision	Interest cost	Utilisations and other changes	Actuarial gains/losses	31.12.2014
Benefits payable to employees							
Loyalty bonus and other incentives	5.4		0.8	0.1	(1.4)	0.0	4.9
Total	**5.4**	**0.0**	**0.8**	**0.1**	**(1.4)**	**0.0**	**4.9**
Benefits payable upon termination of employment							
Termination benefits	63.0	2.7	0.0	1.6	(3.0)	8.4	72.7
IMA	8.9		0.2	0.2	(0.4)	0.9	9.8
Indemnities for lack of notice and similar	0.9		0.0	0.0	0.0	0.0	0.9
Total	**72.8**	**2.7**	**0.2**	**1.8**	**(3.4)**	**9.3**	**83.4**
Post-employment benefits							
Energy discount	35.0		0.7	1.1	(0.7)	12.9	49.0
ASEM	6.9		0.2	0.2	(0.3)	2.0	9.0
Total	**41.9**	**0.0**	**0.9**	**1.3**	**(1.0)**	**14.9**	**58.0**
Total	**120.1**	**2.7**	**1.9**	**3.2**	**(5.8)**	**24.2**	**146.3**

The item, equal to € 146.3 million at 31 December 2014 (€ 120.1 million at 31 December 2013 revised), increased by € 27.2 million from the previous year, due mainly to the recognition of actuarial gains and losses (€ 24.2 million), and to the contribution of termination benefits related to the Tamini Group's employees (€ 2.7 million).
Details of the pension cost relating to current employment and interest income and expense are shown below:

	Loyalty bonus and other incentives	Termination benefits	IMA	Energy discount	ASEM	Total
Impact recognised in income statement						
- cost relating to current employment	0.8	-	0.2	0.7	0.2	**1.9**
- interest income and expense	0.1	1.6	0.2	1.1	0.2	**3.2**
Total recognised in income statement	**0.9**	**1.6**	**0.4**	**1.8**	**0.4**	**5.1**

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

	Termination benefits	IMA	Energy discount	ASEM	Total
Actuarial gains/losses					
- based on past experience	(1.0)	(0.1)	(8.0)	(0.1)	**(9.2)**
- due to changes in other economic assumptions	(0.8)	-	10.3	0.1	**9.6**
- due to changes in discount rate	10.2	1.0	10.6	2.0	**23.8**
Total OCI impacts	**8.4**	**0.9**	**12.9**	**2.0**	**24.2**

The statements below, finally, show the main actuarial assumptions used, a sensitivity analysis on the changes in these assumptions and the payment schedule envisaged in the plan. It should be noted that the interest rate used to determine the present value of the obligation was determined, in line with 2013, considering the yield of the Iboxx Eurozone Corporates AA index at 31 December 2014 in line with the duration of the group of workers measured:

	Loyalty bonus and other incentives	Termination benefits	IMA	Indemnities for lack of notice and similar	Energy discount	ASEM
Discount rate	1.49%	0.96%	0.72%	0.59% - 0.41%	1.49%	1.49%
Inflation rate	0.60% for 2015 1.20% for 2016 1.50% 2017 and 2018 2% from 2019 on	0.60% for 2015 1.20% for 2016 1.50% 2017 and 2018 2% from 2019 on	n/a	0.60% for 2015 1.20% for 2016 1.50% 2017 and 2018 2% from 2019 on	0.60% for 2015 1.20% for 2016 1.50% 2017 and 2018 2% from 2019 on	3.00%
Duration (in years)	8.5 - 12	7.8 - 14	7.7 - 8.9	0.8 - 6.8	13.3 - 16.7	13.3 - 17.7

	Loyalty bonus and other incentives	Termination benefits	IMA	Indemnities for lack of notice and similar	Energy discount	ASEM	Total
Discount rate +0.25%	5.0	73.9	9.6	0.9	47.2	8.7	**145.3**
Discount rate (0.25%)	4.7	71.4	10.0	0.9	51.0	9.4	**147.4**
Inflation rate +0.25%	4.7	71.0	n/a	n/a	50.9	n/a	**126.6**
Inflation rate (0.25%)	5.0	74.2	n/a	n/a	47.2	n/a	**126.4**
Annual rate of increase in healthcare +3%	n/a	n/a	n/a	n/a	n/a	15.0	**15.0**
Annual rate of increase in healthcare (3%)	n/a	n/a	n/a	n/a	n/a	5.9	**5.9**
Conversion value of KW/h +5%	n/a	n/a	n/a	n/a	51.5	n/a	**51.5**
Conversion value of KW/h (5%)	n/a	n/a	n/a	n/a	46.6	n/a	**46.6**

	Loyalty bonus and other incentives	Termination benefits	IMA	Indemnities for lack of notice and similar	Energy discount	ASEM	Total
By the end of 2014	0.5	8.9	0.5	0.2	0.9	0.2	**11.3**
By the end of 2015	0.4	6.5	0.8	-	0.9	0.2	**8.9**
By the end of 2016	0.1	8.2	1.0	0.1	0.9	0.3	**10.6**
By the end of 2017	0.1	6.3	0.8	0.1	0.9	0.3	**8.5**
By the end of 2018	0.2	2.1	0.5	-	0.8	0.4	**4.0**

26. Provisions for risks and charges – € 209.5 million

The breakdown of and change in provisions for risks and charges at 31 December 2014 is detailed below:

€ million	Provision for disputes and litigation	Provisions for other risks and charges	Provision for early retirement	Total
Balance at 31.12.2013	**16.6**	**138.4**	**22.0**	**177.0**
Contribution of newly-acquired companies		12.3		12.3
Provisions	1.9	51.5	36.7	90.1
Utilisations and other changes	(6.7)	(57.5)	(5.7)	(69.9)
Balance at 31.12.2014	**11.8**	**144.7**	**53.0**	**209.5**

Provision for disputes and litigation – € 11.8 million

The provisions are set aside to cover the liabilities at year-end that may arise from lawsuits and out-of-court disputes relating to the Group companies' activities. The amount set aside takes into account the opinions both of internal and external legal counsel and recorded a net change of € -4.8 million with respect to the previous year, due to utilisations in the period.

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

Provision for other risks and charges – € 144.7 million

The provisions recorded a net increase of € 6.3 million with respect to the previous year, ascribable to the contribution of the Tamini Group at the acquisition date (€ 12.3 million), new provisions (€ 50.5 million) and utilisations (€ -56.5 million) in the year. More specifically:

- net provisions for "Projects for urban and environmental renewal" set aside by the Parent Company of € 7.1 million;
- provision of € 10.0 million for IMU held probable, as a consequence of the confirmation in the 2015 Stability Law of that envisaged in the Land Registry Circular 6/2012 related to re-registration of electrical substations;
- net utilisations referring to management incentive plans for € -7.3 million;
- adjustment to probable risks at 31 December 2014 of the provision set aside by Suntergrid S.p.A. (merged into Terna Plus) related to extraordinary transactions completed by the company in 2011, of € -15.8 million.

The provisions relating to the Tamini Group, at 31 December 2014, are related to provisions for warranties on transformers sold (€ 4.0 million).

Provision for early retirement incentives – € 53.0 million

This provision reflects the estimated extraordinary charges related to the voluntary early termination of the working relationship of employees of the Parent Company who are eligible for retirement. The item shows a net increase of € 31.0 million, essentially attributable to the provision of € 36.6 million associated with the corporate reorganisation plan launched by the Parent Company during the year.

27. Deferred tax liabilities – € 85.1 million

The changes in this provision are analysed below:

			Impact recognised in Income Statement					
€ million	31.12.2013	Contribution of newly acquired companies	Provisions	Utilisations and other changes	Assets held for sale	Other changes	Impact recognised in statement of comprehensive income	31.12.2014
Deferred tax liabilities								
Property, plant and equipment	310.4			(96.1)				214.3
Employee benefits and financial instruments	4.3			(0.8)				3.5
Total deferred tax liabilities	**314.7**			**(96.9)**				**217.8**
Deferred tax assets								
Provisions for risks and charges	39.4	5.0	16.6	(16.6)	(2.8)	0.2		41.8
Allowance for doubtful accounts	3.9			(0.7)				3.2
Employee benefits	28.2		7.4	(12.0)			6.7	30.3
FVH - CFH derivatives	27.2						(17.4)	9.8
Release of goodwill	60.1			(12.9)				47.2
Other	0.3		0.1					0.4
Total deferred tax assets	**159.1**	**5.0**	**24.1**	**(42.2)**	**(2.8)**	**0.2**	**(10.7)**	**132.7**
Net deferred tax liabilities	**155.6**	**(5.0)**	**(24.1)**	**(54.7)**	**2.8**	**(0.2)**	**10.7**	**85.1**

This balance, of € 85.1 million, reflects the net movements in the Group's deferred tax assets and liabilities.
Deferred tax liabilities totalled € 217.8 million, down € 70.5 million, essentially due to:

- utilisation of prior-period provisions covering the accelerated depreciation and amortisation with respect to the economic/technical rates by the parent company Terna and the subsidiary Terna Rete Italia S.r.l. (€ 41.8 million and € 5.0 million respectively), including the net reversal in respect of the amortisation/depreciation charge for the year attributable to the difference from merger eliminations allocated to property, plant and equipment, following mergers carried out in previous years (a total of € 3.2 million);
- release of the charge for the period of the deferred taxes calculated on the excess cost paid for the acquisition of Terna Rete Italia S.r.l. following its allocation to the transmission plants and to intangible assets (totalling € 3.4 million);
- adjustment (€ -48.5 million) of deferred tax liabilities at 31 December 2014 to the IRES tax rate of 27.5%, as resulting from the already amply mentioned Ruling 10/2015 of the Constitutional Court which declared unconstitutional the so-called Robin Hood Tax.

Deferred tax assets (€ 132.7 million) show a decrease of € 26.4 million, mainly related to the following changes:

- utilisation for € 17.4 million, attributable to the tax effect, which has no impact on the Income Statement, in respect of changes in cash flow hedging instruments of the Parent Company, including the tax rate adjustment (€ 2.3 million);
- release of the relevant proportion of prepaid tax allocated for the release of goodwill recorded following the merger of RTL into the parent company (€ 12.9 million, including the tax rate adjustment, of 9.5 million);
- contribution of the deferred tax assets related to the Tamini Group's provisions for risks and charges, acquired during the year (€ 5.0 million);
- utilisation of the deferred tax assets on the provision set aside by Suntergrid S.p.A. (incorporated into Terna Plus) related to extraordinary operations completed by the company in 2011, released in 2014, of € 2.8 million;
- a net increase, of € 2.1 million, in deferred tax assets on the Group's employee benefits, of which € 6.7 million with impact on Other Comprehensive Income.

28. Other non-current liabilities – € 128.7 million

This item, amounting to € 128.7 million at 31 December 2014 encompasses the deferred positions of set-up grants of the Parent Company (€ 112.4 million) and of Terna Rete Italia S.r.l. (€ 16.3 million).
The reduction in this item with respect to the previous financial year, of € 4.2 million, essentially derives from the release of the portion of grants in relation to depreciation of plants in the period for which they were recognised, net of new grants received by Terna Rete Italia S.r.l.

29. Current liabilities

Current liabilities at 31 December 2014 can be broken down as follows:

€ million	31.12.2014	31.12.2013	Change
Current portion of long-term loans*	764.1	697.8	66.3
Trade payables	2,103.8	2,062.3	41.5
Tax liabilities	1.2	31.5	(30.3)
Current financial liabilities*	154.1	151.4	2.7
Other current liabilities	258.4	176.0	82.4
Total	**3,281.6**	**3,119.0**	**162.6**

(*) See the comments in Note 24. Loans and financial liabilities.

Trade payables – € 2,103.8 million

Trade payables at 31 December 2014 break down as follows:

€ million	31.12.2014	31.12.2013	Change
Suppliers:			
- Energy-related payables	1,361.8	1,304.9	56.9
- Non energy-related payables	712.6	744.5	(31.9)
Payables due to associates	9.9	9.5	0.4
Payables for contract work in progress	19.5	3.4	16.1
Total trade payables	**2,103.8**	**2,062.3**	**41.5**

Suppliers

Energy-related payables

This item reports the effects on the balance sheet of payables generated by "pass-through" costs not ascribable to the Parent Company, and refers mainly to purchase of energy relating to dispatching activities and the transport fee due to the owners of other sections of the NTG; the carrying amount shown is substantially equal to the fair value.

The increase of € 56.9 million compared with the previous year is essentially attributable to:

- increased payables (€ 78.6 million) related to "pass-through items", mainly ascribable to the joint effect of:
  - the decrease in payables for electricity purchases on the Power Exchange (€ -162.0 million), deriving essentially from the combined effect of lower payable items generated by the reduction of volumes of resources procured on the Energy Market (€ -191.1 million), from lower payables deriving from virtual interconnection activities (€ -20.4 million) and from the reduction in payables related to the market coupling mechanism on the interconnection with Slovenia (€ -2.5 million), in part offset by the increase in the balancing quantities and valuation prices (€ +54.3 million);
  - the increase in payables for the purchase of electrical energy outside of the Electricity Market (€ -240.6 million), essentially deriving from the increase in payables for the UESS (Essential Units for Electricity System Security) (€ +273.0 million), partially offset by the lower payable items generated by congestion revenues (€ -43.2 million);
- lower "margin" payables (€ -21.7 million) to the Electricity Industry Clearing House attributable to recognition in the previous year of higher payable items related to the bonus and penalty mechanism on the subject of transmission service quality (ENSR) (€ -17.0 million), and to the higher receivable paid to the Parent Company for the grid transmission fee relating to previous years (€ -5.9 million).

Non energy-related payables

Amounts due to suppliers refer to invoices both already received and yet to be received for tenders, services and the purchase of materials and equipment.

The decrease compared with the previous year (€ -31.9 million) was essentially due to less services and purchases recorded towards the end of the year with respect to the same period of the previous year; the payables related to the Tamini Group were € 44.9 million.

Payables to associates

The item, € 9.9 million, basically shows payables to the associate, CESI, for services received by the Parent Company (€ 0.4 million) and the subsidiary Terna Rete Italia S.p.A. (€ 9.4 million) related to the construction and management of laboratories and plants for tests, inspections, studies and experimental research relating to the electro-technical field in general and to the technical and scientific developments.

The Company's commitments to suppliers totalled approximately € 2,600.8 million and refer to purchase commitments relating to the normal "operating cycle" planned for the period 2015-2019.

Payables for contract work in progress

Payables for contract work in progress of € 19.5 million at 31 December 2014, show an increase compared with the figure recorded at 31 December 2013 (€ +16.1 million), owing essentially to the contribution of items related to the Tamini Group (€ 16.5 million). The item is structured as shown below:

€ million	Payments on account	Contract value	Balance at 31.12.2014	Payments on account	Contract value	Balance at 31.12.2013
Other	(35.4)	15.9	(19.5)	(16.3)	12.9	(3.4)

Tax liabilities – € 1.2 million

The item refers to the Group's tax liabilities for the financial year and refers to:

- the Parent Company Terna in the amount of € 0.9 million;
- the subsidiary Terna Rete Italia S.p.A. in the amount of € 0.3 million.

There was a net decrease, compared to the previous year, of € 30.3 million, due substantially to the payment of higher tax advances in the year compared to the payable recognised for current taxes accrued.

Other current liabilities – € 258.4 million

Other current liabilities break down as follows:

€ million	31.12.2014	31.12.2013	Change
Payments on account	83.8	23.0	60.8
Other tax liabilities	40.1	19.0	21.1
Payables to social security institutions	24.0	22.8	1.2
Payables to employees	40.4	32.8	7.6
Other payables to third parties	70.1	78.4	(8.3)
Total	**258.4**	**176.0**	**82.4**

Payments on account

The item (€ 83.8 million) recognises set-up grants related to plants received by the Group (€ 80.5 million for the Parent Company and € 3.3 million for Terna Rete Italia S.r.l.) for assets under construction at 31 December 2014.
Compared to the 2013 figure (€ 23.0 million), an increase of € 60.8 million was recorded, essentially attributable to the contribution received for projects financed by the Ministry for Economic Development/European Union (€ +60 million).

Other tax liabilities

Other tax liabilities, of € 40.1 million, recorded an increase of € 21.1 million compared with the previous year, owing mainly to recognition of the VAT payable accruing to the year of the Parent Company and of the subsidiary Terna Rete Italia S.r.l. (a total of € 30.7 million) net of the decrease in the debit position of the subsidiary Terna Rete Italia S.p.A. (€ 10.2 million).

Payables to social security institutions

Amounts payable to social security institutions, mainly relating to payables due to INPS (the National Social Security Institute) by the Parent and the subsidiary Terna Rete Italia S.p.A, amounted to € 24.0 million (€ 22.8 million at 31 December 2013), and were basically in line with the previous year. The item also includes the payable due to Fondo Previdenza Elettrici – F.P.E. (Pension Fund for Electricians) (€ 4.6 million).

Payables to employees

Amounts payable to employees, which came to € 40.4 million (€ 32.8 million at 31 December 2013), pertain to the Parent Company and the subsidiary Terna Rete Italia S.p.A. and mainly regard:

- amounts relating to staff incentives to be paid the following year (€ 26.2 million);
- payments due to employees for unused holiday time and abolished public holidays (€ 10.3 million);
- termination benefits due to employees whose employment was terminated before 31 December 2014 (€ 1.4 million).

Other payables to third parties

Other payables to third parties, equal to € 70.1 million (€ 78.4 million at 31 December 2013), mainly regard security deposits (€ 40.9 million) received from electricity market operators securing their contractual obligations.
The item shows a decrease of € 8.3 million attributable essentially to lower guarantee deposits received covering contractual obligations involved in dispatching and virtual interconnection contracts (€ -23.3 million) partially offset by an increase in the Group's other payables to third parties (€ +11.3 million) net of the contribution of items related to the Tamini Group of € 3.3 million.

E. Commitments and risks

Risk management

Market and financial risks

During the financial year, in going about its business, the Terna Group is exposed to various different financial risks: market risk (namely exchange rate risk, interest rate risk and inflation risk), liquidity risk and credit risk.
This section provides information regarding the Terna Group's exposure to all the above risks, along with a presentation of the objectives, policies and processes for managing those risks and the methods used to measure them, with further quantitative disclosures concerning the 2014 financial statements.
The Group's risk management policies seek to identify and analyse the risks the companies are exposed to, establishing appropriate limits and controls and monitoring risks and compliance with such limits. These policies and the related systems are reviewed on a regular basis, in order to take account of any changes in market conditions or in the operations of the companies.
The exposure of the Terna Group to the aforementioned risks is substantially represented by the exposure of the Parent Company. As a part of the financial risk management policies approved by the Board of Directors, Terna has established the responsibilities and operating procedures for financial risk management, specifically as concerns the instruments to be used and the precise operating limits in managing them.

	2014				2013			
€ million	Receivables	Receivables at fair value	Hedging derivatives	Total	Receivables	Receivables at fair value	Hedging derivatives	Total
Assets								
Derivative financial instruments	-	-	784.8	784.8	-	-	545.5	545.5
Cash, short-term deposits and inter-company loans	1,217.3	-	-	1,217.3	1,617.1	-	-	1,617.1
Total	**1,217.3**	**-**	**784.8**	**2,002.1**	**1,617.1**		**545.5**	**2,162.6**

	2014				2013			
€ million	Payables	Loans at fair value	Hedging derivatives	Total	Payables	Loans at fair value	Hedging derivatives	Total
Liabilities								
Long-term debt	2,865.7	5,983.6	-	8,849.3	2,365.9	6,341.8	-	8,707.7
Derivative financial instruments	-	-	35.5	35.5	-	-	80.0	80.0
Total	**2,865.7**	**5,983.6**	**35.5**	**8,884.8**	**2,365.9**	**6,341.8**	**80.0**	**8,787.7**

Market risks

Market risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of changes in financial market conditions. Market risks include three types of risks: exchange rate risk, interest rate risk and inflation risk.
Risk management must be performed with the objective of maximising financial income and minimising the related risks by selecting counterparties and instruments compatible with the corporate risk management policy. Speculative activity is not envisaged in the corporate mission.
The Terna Group seeks to adopt a dynamic approach to financial risk management. This approach is characterised by risk aversion, aiming at minimising risk through continuous monitoring of financial markets in order to plan hedging transactions in favourable market conditions. The dynamic approach makes it possible to take action to improve existing hedges where changes in market conditions or in the hedged item make the latter unsuitable or excessively expensive.
The concept of hedging transaction is not restricted to hedges that qualify for hedge accounting, but rather encompasses the objective of total or partial hedging of the economic or financial item against interest rate risk.
All derivative contracts entered into have a notional amount and maturity date prior to or equal to that of the underlying financial liability, so that any change in the fair value and/or estimated cash flows of the contracts is offset by a corresponding change in the fair value and/or of the estimated cash flows of the underlying position. The fair value of financial derivatives reflects the estimated amount that Terna would pay or receive in order to extinguish contracts at the closing date.

The fair value of instruments is determined in accordance with the fair value hierarchy envisaged under IFRS 7 (Level 2) by means of appropriate valuation techniques for each category of financial instrument, using market data at the closing date (such as interest rates, exchange rates and volatility) and discounting projected cash flows on the basis of the market yield curve and inflation at the reporting date.
The financial assets and liabilities in respect of derivative instruments in place during the year can be classified as:
- cash flow hedging derivatives, related to hedging the risk of changes in cash flows associated with long-term floating-rate loans;
- fair value hedging derivatives, related to hedging the exposure to changes in the fair value of a financial asset or liability associated with fluctuations in interest rates (fixed-rate bonds).

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

	2014		2013		Change	
€ million	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
FVH derivatives	3,150.0	784.8	3,750.0	545.5	600.0	239.3
CFH derivatives	2,687.3	(35.5)	2,366.3	(80.0)	321.0	44.5

Interest rate risk

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

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

	Carrying amount at		
€ million	31.12.2014	31.12.2013	Change
Fixed-rate financial instruments			
- assets	-	-	-
- liabilities	6,019.1	6,421.8	402.7
Floating-rate financial instruments			
- assets	2,002.1	2,162.6	(160.5)
- liabilities	2,865.7	2,365.9	499.8
Total	**6,882.7**	**6,625.1**	**257.6**

Sensitivity to interest-rate risk

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

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

	Profit or loss			Statement of Comprehensive Income		
€ million	Current rates +10%	Rates at 31.12.2014	Current rates (10%)	Current rates +10%	Rates at 31.12.2014	Current rates (10%)
31.12.2014						
Positions sensitive to interest rate variations (FVHs, bonds, CFHs)	(4.7)	2.0	8.7	(35.1)	(35.5)	(35.9)
Hypothetical change	(6.7)	-	6.7	0.4	-	(0.4)
31.12.2013						
Positions sensitive to interest rate variations (FVHs, bonds)	0.2	0.3	-	(78.1)	(80.0)	(82.0)
Hypothetical change	(0.2)	-	(0.3)	1.9	-	(1.9)

Inflation risk

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

Exchange rate risk

Generally Terna hedges exchange rate risk through the forward sale or purchase of currencies (forward contracts) or the use of options. Currency options give Terna the right or the obligation to buy or sell predetermined amounts of a currency at a specific exchange rate at the end of a specific period of time. Normally, both forward contracts and options have maturities of no more than 12 months.
Such contracts have a notional amount and maturity date less than or equal to that of the underlying financial liability, or the expected cash flows, so that any change in the fair value and/or estimated cash flows deriving from a rise or fall of the euro against other currencies is fully offset by a corresponding change in the fair value and/or estimated cash flows of the underlying position.
At 31 December 2014 (as at 31 December 2013), no financial instruments exposed to exchange rate risk were present.

Liquidity risk

The liquidity risk is the risk Terna might encounter difficulty in discharging its obligations in respect of its financial liabilities and operational cycle. Liquidity risk management seeks to ensure adequate coverage of financial needs by obtaining adequate lines of credit and appropriate management of any surplus liquidity. At 31 December 2014, Terna had available short-term credit lines for approximately € 739 million and revolving credit lines for € 750 million. The table below shows the repayment plan at 31 December 2014 of the nominal long-term debt:

€ million	Maturity	31.12.2013	31.12.2014	Maturity within 12 months	Maturity beyond 12 months	2016	2017	2018	2019	After
Bonds	2014-2024	1,596.2	1,081.9	-	1,081.9	-	-	-	-	1,081.9
Bonds IL	2023	677.0	731.6	-	731.6	-	-	-	-	731.6
Bonds PP	2019	672.4	691.9	-	691.9	-	-	-	691.9	-
Bonds 1250	2021	1,402.6	1,483.0	-	1,483.0	-	-	-	-	1,483.0
Bonds 1250	2017	1,246.9	1,247.8	-	1,247.8	-	1,247.8	-	-	-
Bonds 750	2018	746.7	747.5	-	747.5	-	-	747.5	-	-
Total fixed rate		**6,341.8**	**5,983.7**	**-**	**5,983.7**	**-**	**1,247.8**	**747.5**	**691.9**	**3,296.5**
EIB	2014-2030	1,216.3	1,707.0	112.5	1,594.5	120.5	132.4	132.4	111.2	1,098.0
Club Deal	2015	649.6	649.9	649.9	-	-	-	-	-	-
CDP	2019	500.0	500.0	-	500.0	-	-	-	-	500.0
Leasing	2019-2021-2022	-	8.8	1.7	7.1	1.7	1.7	1.7	1.9	0.1
Total floating rate		**2,365.9**	**2,865.7**	**764.1**	**2,101.6**	**122.2**	**134.1**	**134.1**	**113.1**	**1,598.1**
Total		**8,707.7**	**8,849.4**	**764.1**	**8,085.3**	**122.2**	**1,381.9**	**881.7**	**805.0**	**4,894.6**

Credit risk

Credit risk is the risk a customer or one of the counterparties to a transaction in financial instruments could cause a financial loss by failing to discharge an obligation. It is mainly generated by trade receivables and the financial investments of the Group. The credit risk originated by open positions on transactions in financial derivatives is considered to be marginal since the counterparties, in compliance with financial risk management policies, are leading international credit institutions with high ratings and such transactions are diversified in compliance with specific concentration limits.

Terna provides its services essentially to counterparties considered solvent by the market, and therefore with a high credit standing, and does not have highly concentrated credit risk.

Credit risk management is guided by the provisions of AEEG Resolution No. 111/06, which, in Art. 49, introduced instruments for the limitation of risks related to the insolvency of dispatching customers, both on a preventive basis and in the event of actual insolvency. In particular, the Resolution establishes three instruments to safeguard the electricity market: a guarantee system (bank guarantees provided by individual dispatching customers, based on their turnover), the option of terminating dispatching contracts (in the event of insolvency or failure to replace enforced guarantees) and, finally, the possibility of recovering uncollected debts, after having taken all other possible collection actions, through a specific fee defined, when necessary, by the Authority.

The following table summarises the exposure to such risk as at the reporting date:

	Carrying amount		
€ million	31.12.2014	31.12.2013	Change
FVH derivatives	784.8	545.5	239.3
Cash and cash equivalents	1,217.3	1,617.1	(399.8)
Trade receivables	1,577.8	1,721.1	(143.3)
Total	**3,579.9**	**3,883.7**	**(303.8)**

The total value of exposure to credit risk at 31 December 2014 is represented by the carrying amount of financial assets (current and non-current), trade receivables and cash and cash equivalents.

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

GEOGRAPHICAL DISTRIBUTION

€ million	Carrying amount 31.12.2014	31.12.2013
Italy	1,505.4	1,676.0
Euro-area countries	44.8	35.4
Other countries	27.6	9.7
Total	**1,577.8**	**1,721.1**

CUSTOMER TYPE

€ million	Carrying amount 31.12.2014	31.12.2013
Distributors (*)	335.0	430.0
Electricity Equalisation Fund (**)	197.1	238.3
Input dispatching contractors	176.9	216.3
Withdrawal dispatching contractors	750.0	745.2
Parties which have signed virtual import contracts and virtual import services (interconnectors and shippers)	12.3	15.7
Sundry receivables	106.5	75.6
Total	**1,577.8**	**1,721.1**

(*) includes the receivable accrued in respect of Terna Rete Italia S.r.l. grid transmission fees.
(**) of which € 179.1 million from volume effect on grid transmission fees.

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

	31.12.2014		31.12.2013	
€ million	Impairment	Gross	Impairment	Gross
Not yet past due		1,450.6		1,429.3
0-30 days past due		69.0		216.8
31-120 days past due		16.0	(0.6)	22.6
More than 120 days past due	(33.6)	75.8	(31.4)	84.4
Total	**(33.6)**	**1,611.4**	**(32.0)**	**1,753.1**

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

€ million	2014	2013
Balance at 1 January	(32.0)	(26.5)
Release of provision	0.5	1.5
Impairment loss for the year	(2.1)	(7.0)
Balance at 31 December	**(33.6)**	**(32.0)**

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

€ million	2014	2013
Input dispatching activity	236.3	258.1
Withdrawal dispatching activity	989.6	843.1
Grid transmission fees - distributors	254.0	174.8
Virtual importing	87.8	171.2
Balance at 31 December	**1,567.7**	**1,447.2**

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

Default risk and debt covenants

This risk is associated with the possibility that the loan contracts or bond rules to which the Parent is a party may contain provisions authorising counterparties to call in such loans immediately upon the occurrence of certain events, thereby generating liquidity risk. For more information on the contractual provisions of outstanding loans at 31 December 2014, please see the section "Loans and financial liabilities" in the notes of Terna S.p.A..

Legal disputes

The main unrecognised commitments and risks of the Parent Company Terna and the subsidiaries Terna Rete Italia S.r.l., Terna Rete Italia S.p.A. and the Tamini Group companies at 31 December 2014 are illustrated below. The other subsidiaries had no unrecognised commitments and contingencies at that date.

Legal disputes concerning the environment and urban planning

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

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

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

In a limited number of cases, the possibility of an adverse outcome cannot be entirely ruled out. The possible consequences could, in addition to the award of damages, include, inter alia, the costs of modifying lines and the temporary suspension of their use. In any case, any unfavourable outcome would not jeopardise line operations.

Examination of the above litigation, having regard for the information provided by the external legal consultants, suggests that the likelihood of adverse outcomes is remote.

Legal disputes concerning concession activities

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

Legal disputes concerning supply contracts
The legal dispute in question concerns supply contracts signed by Tamini Group companies and their customers for the supply of transformers and components relating to them.
The said legal dispute regards mostly lawsuits initiated by the Tamini Group companies in order to recover the receivables deriving from the said contracts, and actions for compensation brought against the companies in question, for alleged damages caused by the machinery and/or components supplied by the same.
In relation to the said lawsuits, as of today unfavourable outcomes cannot be excluded.

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

F. Business combinations

Tamini Group acquisition
On 20 May 2014, in implementation of the preliminary sales contract signed on 25 February 2014, the Terna Group completed the acquisition by Terna Plus S.r.l, a company fully controlled by the Parent Company, for the entire capital of Tamini Trasformatori S.r.l. and its subsidiaries (“Tamini Group”).
The Tamini Group, in addition to Tamini Trasformatori S.r.l., includes the subsidiaries V.T.D. Trasformatori S.r.l., Verbano Trasformatori S.r.l. and Tamini Trasformers USA L.L.C. and produces and sells industrial and power electrical transformers. It has four production plants all located in Italy in Legnano, Melegnano, Novara and Valdagno.
The acquisition of the Tamini Group represents an opportunity to strengthen a historic Italian industrial company, recognised for its excellence in the electrical sector both in Italy and abroad.
The consideration was initially set at € 23.9 million, in addition to the value of the working assets and the net financial position, and subsequently determined definitively in accordance with the contractual terms, on the basis of the actual accounting situation as of the closing date (as better detailed below).
Assets and liabilities are recognised at fair value at the acquisition date; in particular, with reference to intangible assets the brand and technological know-how are measured with the relief from royalties method. Contingent liabilities connected with the operation were also identified. These are not recognised by the Tamini Group because they are considered not probable under the terms of IAS 37 - Provisions, Contingent Liabilities and Contingent Assets. These contingent liabilities are related to legal disputes and to the adjustment of provisions on contractual penalties paid to customers.
We can also note that ancillary costs for the merger operation, as of the date of this report, were € 0.5 million, recognised under operating costs for the year.

The table below summarises the payment made to acquire Tamini Trasformatori S.r.l. and the amount of the assets and liabilities acquired recognised on the acquisition date:

€ million	Amount of assets acquired and liabilities assumed at 20.05.2014
Assets	
Non-current assets	
Property, plant and equipment	28.9
Intangible assets	1.7
- of which Brand	*0.4*
- of which Technology	*1.2*
Non-current financial assets	0.2
Total Non-current Assets	**30.8**
Net deferred tax assets	5.0
Working capital	
Inventories	11.2
Trade receivables	53.2
Other receivables and other assets	14.0
Cash and cash equivalents	12.2
Total Working Capital	**90.6**
Total assets	**126.4**
Liabilities	
Non-current liabilities	
Provisions for other risks and charges	20.7
Provisions for deferred risks and charges	
Provision for termination benefits	2.8
Total non-current liabilities	**23.5**
Current liabilities	
Payables	35.0
Other liabilities	7.2
Total current liabilities	**42.20**
Total liabilities	**65.7**
Net assets acquired	**60.7**

The price at 31 December 2014 was approximately € 60.6 million, of which € 54.1 million already paid, while the further portion of deferred price currently estimated is approximately € 6.5 million. The expected final price amount is substantially in line with the value at the acquisition date of the net assets acquired (a gain from purchase at favourable prices of € 0.1 million emerges). The price will be defined, on the basis of the contractual agreements, within a year from conclusion of the transaction.
The revenue and the result (loss) achieved in financial year 2014 by the Tamini Group came to € 106.7 million and approx. € -6.9 million, respectively.
The contribution from the acquisition date of the Tamini Group to the consolidated revenue of financial year 2014 was € 53.5 million, while the contribution to consolidated EBITDA was € 0.3 million.

G. Related-party transactions

The Terna Group's transactions with related parties during the year, taking account of the de facto control exercised by Cassa Depositi e Prestiti S.p.A. ascertained in 2007, regarded relations with the associate companies Cesi S.p.A., CGES and Coreso S.A., the employee pension funds (Fondenel and Fopen), and with said Cassa Depositi e Prestiti, with CDP Reti S.p.A. and with companies belonging to:
- the GSE Group;
- the Enel Group;
- the Eni Group;
- the Ferrovie dello Stato (State Railway) Group;
- the SNAM Group;

and with the companies Expo 2015 S.p.A. and ANAS S.p.A.

Also relevant were transactions with the Ministry for Economic Development in relation the grants received for projects financed by the Ministry for Economic Development/European Union.
Given that the companies of the Terna Group and the aforementioned subsidiaries directly or indirectly controlled by the Ministry for the Economy and Finance fall within the definition of "Government-related entities" as per IAS 24 – "Related party disclosures", the Group adopts the partial exemption provided by the same standard, which dispenses with the required disclosures of relationships with other companies controlled, connected or under joint control of the same government body; in particular, the qualitative and quantitative indications of relationships with Government-related entities which have a significant impact on the Group's results are reported below in this section; no amounts relating to "pass-through items" are given here.

Related party transactions in 2014 are mainly services that are part of core business and regulated by market conditions.

Below is an explanation of the nature of the transactions implemented by the Terna Group with related parties and the respective income and expense totalled during the year, in addition to the respective receivables and payables in place as of 31 December 2014:

Related party	Revenue transactions	Cost transactions
Cassa Depositi e Prestiti S.p.A.		**non energy-related items** Credit line
Cesi S.p.A.	**non energy-related items** Lease of laboratories and similar structures for specific purposes	**non energy-related items** Technical consultancy, studies and research, projects and experimentation
CORESO S.A.		**non energy-related items** Technical TSO coordination services
GSE Group	**energy-related items** MIS component, dispatching fees **non energy-related items** Specialist services, leases, IT services	
Enel Group	**energy-related items** NTG remuneration and measurement aggregation, dispatching fees **non energy-related items** Lease and rent, line maintenance, works to move/vary lines, maintenance of power line communication on company-owned power lines.	**non energy-related items** Return of electricity discount, staff administration, building services, supply of MV power to new stations, specialised services for connection to Terna control and protection systems
ENI Group	**energy-related items** Dispatch fees **non energy-related items** Line maintenance	
Ferrovie Group	**energy-related items** Dispatch fees **non energy-related items** Line moving	**energy-related items** NTG Remuneration **non energy-related items** Right-of-way fees
Anas S.p.A.	**non energy-related items** Line moving/variants	**non energy-related items** Right-of-way fees
Snam Group		**non energy-related items** Grants for line moving/variants
Expo 2015 S.p.A.	**non energy-related items** Work on line moving/variants	**non energy-related items** Grants for line moving/variants
Italian Ministry for Economic Development	**non energy-related items** Line moving/variants	**non energy-related items** Grants for line moving/variants
Fondenel and Fopen		**non energy-related items** Pension contributions borne by the Terna Group

€ million	Income statement				
	Income items			Operating expenses	
Company	Grid transmission fees and other energy-related items	Non energy-related items	Dividends	Grid transmission fees and other energy-related items	Non energy-related items
De facto parent company:					
Cassa Depositi e Prestiti S.p.A.	-	-	-	-	6.4
Total de facto parent company	**-**	**-**	**-**	**-**	**6.4**
Associates:					
Cesi S.p.A.	-	0.1		-	1.9
CORESO S.A.	-	-			1.5
Total associates	**-**	**0.1**	**-**	**-**	**3.4**
Other related companies:					
GSE Group	42.3	0.5	-	-	-
Expo 2015 S.p.A.		3.1			
Enel Group	1,379.6	2.6	-	-	2.4
Eni Group	7.5	0.4	-	-	0.1
Ferrovie Group	3.4	-	-	7.4	0.2
ANAS S.p.A.	-	0.1	-	-	-
Total other related companies	**1,432.8**	**6.7**	**-**	**7.4**	**2.7**
Pension funds:					
Fondenel	-	-	-	-	0.4
Fopen	-	-	-	-	2.0
Total pension funds	**-**	**-**	**-**	**-**	**2.4**
Total	**1,432.8**	**6.8**	**0.0**	**7.4**	**14.9**

€ million	Statement of financial position					
	Property, plant and equipment	Receivables and other assets		Payables and other liabilities		
Company	Capitalised costs	Other	Financial	Other	Financial	Guarantees*
De facto parent company:						
Cassa Depositi e Prestiti S.p.A.	-	-	0.2	-	500.9	-
Total de facto parent company	**-**	**-**	**0.2**	**-**	**500.9**	**-**
Associates:						
Cesi S.p.A.	16.3	0.3	-	9.8	-	3.2
CORESO SA	-	-	-	0.1	-	-
Total associates	**16.3**	**0.3**	**-**	**9.8**	**-**	**3.2**
Other related companies:						
GSE Group	-	7.3	-	-	-	-
Expo 2015 S.p.A.				2.3		
Enel Group	0.7	286.9	-	18.2	-	445.8
Eni Group	-	1.5	-	0.1	-	24.1
Ferrovie Group	0.1	0.7	-	1.4	-	22.0
ANAS S.p.A.	-	0.9	-	0.6	-	-
SNAM Group	-	-	-	0.1		-
Italian Ministry for Economic Development	-	-	-	60.5		-
Total other related companies	**0.8**	**297.3**	**-**	**83.2**	**-**	**491.9**
Pension funds:						
Fopen	-	-	-	1.6	-	-
Total pension funds	**-**	**-**	**-**	**1.6**	**-**	**-**
Total	**17.1**	**297.6**	**0.2**	**94.6**	**500.9**	**495.1**

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

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

No significant, non-recurring, atypical or unusual transactions – with the exception of those described above – were carried out during 2014, either with third parties or with related parties.

I. Notes to the statement of cash flows

The cash flow generated from **continuing operations** in the year amounted to around € 1,191.2 million, which reflects around € 1,566.4 million in cash from operating activities (self-financing) and around € 375.2 million in financial resources generated by the management of net working capital.

Investing activities used net financial resources of around € 1,079.2 million, and included € 1,031.2 million of investment in property, plant and machinery (€ 1,048.7 million net of plant grants totalling € 17.5 million) and € 47.4 million of investment in intangible assets. Capitalised financial expense is also recorded here, of € 34.4 million.

The net change in **loan flows** in relation to shareholders' equity drops by € 402.0 million due to the disbursement of the 2013 dividend balance (€ 261.3 million) and the 2014 interim dividend (€ 140.7 million).

Consequently, the financial resources used in investing activities and the remuneration of equity during the period, led to total financial requirements of € 1,481.1 million in the year, part of which (€ 1,191.2 million) was covered by the cash flows generated by operating activities and the remainder by increasing net debt.

L. Subsequent events

Terna at the top of global sustainability

On 20 January 2015, for the third year the Company led by Catia Bastioli and Matteo Del Fante was included in the Gold Class of the RobecoSAM, Sustainability Yearbook 2015, which assesses the performance of the sustainability policies of the 3,000 largest global companies.
With a score among the highest in the basket, Terna is one of only three global companies included in the Gold Class of the Electric Utilities sector, that is the most performing companies in terms of sustainability. Italy only has 4 companies in the Gold Class for their respective sectors.
Over time continuous improvement of its Environmental, Social and Governance (ESG) performance has earned Terna constant growth in sustainability ratings, appreciation of socially responsible investors and inclusion in the main international stock exchange sustainability indexes, including the Dow Jones Sustainability (World and Europe), STOXX Global ESG, FTSE4Good (Global e Europe), ECPI, FTSE ECPI; MSCI, ASPI Eurozone, Ethibel and Axia.
The result confirms the solidity of an Italian company which has always pursued its business objectives through a sustainable approach, confirmed also by the fact that this year a record number of international companies were present in the RobecoSAM: more than 3,000, of 42 countries, divided into 59 different sectors.
RobecoSAM is the international rating agency that screens the companies assessing their possibility of access to, stay in or exclusion from the Dow Jones Sustainability indexes on basis of severe economic, environmental and social performance criteria and a review of the main disputes.
The areas analysed include risk management, corporate governance, environmental impacts, community relations, human resources management, stakeholder engagement, respect for human rights, and supply chain supervision – all aspects for which quality and responsible management must be proven over time.

€ 1 billion 7-year bond issue completed successfully

On 23 January 2015 Terna S.p.A. successfully launched on the market a bond issue in Euro, at fixed rate, for a total of € 1 billion, as part of its € 6,000,000,000 Euro Medium Term Notes (EMTN) Programme, which has been given a "BBB" rating with stable outlook by Standard and Poor's, "(P)Baa1" with stable outlook by Moody's and "BBB+" with stable outlook by Fitch. The issue generated demand of around € 3.5 billion.
The securities, with a duration of 7 years, maturing on 2 February 2022, will pay a coupon of 0.875%, and will be issued at a price equal to 99.42%, with a spread of 52 basis points with respect to the midswap (the "Securities"). A request for admission to listing on the Luxembourg Stock Exchange will be made for such Securities.
The bond issue, destined for qualified investors, was placed by a syndicate of banks made up of Banca IMI, BofA, BNP Paribas, JP Morgan, SocGen and Unicredit as joint lead manager and joint bookrunner.
The operation is part of Terna's financial optimisation programmes, to cover the needs of the Group's Industrial Plan.

Terna and Anie launch the "Safe Construction Sites" project

On 26 January 2015, Terna and Anie, the Federation which brings together leading companies in the electro-technical and electronic sector, signed a protocol concerning the safety of the works necessary to guarantee the maximum efficiency of the approximately 63,800 km of the Italian electricity grid.
The Protocol – the first of this type signed by Anie with an infrastructural company – follows the one signed in 2012 on construction site environmental safety, and is an expression of synergistic cooperation which aims at minimising the risks by adopting specific procedures in construction site work. The agreement is divided into 3 technical documents, prepared jointly by Terna and Anie during more than 30 meetings, which lay down the operating methods of the work on constructing, maintaining and removing the overhead electrical lines of the national transmission grid.
The Terna power line construction sites – 230 are currently open all over the country, with an investment of € 2.8 billion in support of development and growth, employing 700 companies and 4,000 workers – have the characteristic of being developed over long stretches and mostly in areas that are of difficult access for the usual means of transport and site vehicles, with a very fast and discontinuous front of advancement of the work, and with the consequent need for frequent movements of equipment as the work advances. To all this must be added the safety operations to be carried out to manage the environmental interference, such as crossing roads and motorways, railways networks, electricity grids, civil buildings and places frequently visited by people. There is therefore a need to establish rules and procedures to perform all the complex activities as safely as possible. With this new Protocol, Terna undertakes to adopt specific shared guidelines to manage its workers' activities correctly, while Anie undertakes to promote their application also by its member companies. In addition, Terna and Anie expressed the mutual intention to present the contents of the documents signed on that day to the Ministry for Employment for recognition of good safety practice all over Italy.

Code of Ethics: new guidelines

In February 2015, considering the changes made over time to the Group's organisational structure, Terna developed guidelines for the adoption of the Code of Ethics by the companies of the Group, which contains interpretation instructions on the connection between the specific contents of the Code and the operational context of the Parent Company and its subsidiaries. The Code of Ethics is available in the "Investor Relations" and "Sustainability" sections of Terna's website under "Corporate Governance".

Ruling 10/2015 of the Constitutional Court: declaration of unconstitutionality of the IRES surcharge pursuant to Art. 81, paragraphs 16, 17 and 18 of Italian Law Decree n. 112/2008

On 11 February 2015 the Ruling was published with which the Constitutional Court declared unconstitutional the so-called Robin Hood Tax (Art. 81, paragraphs 16, 17 and 18 of Italian Law Decree No. 112/2008).
The Court focused on the unconstitutionality under the terms of Art. 53 and 3 of the Constitution since the IRES surcharge "*affects the whole income of the company, entirely lacking the establishment of a mechanism that allows separate and more severe taxing only of any part of the extra income connected to the privileged position of the activities performed by the taxpayer through the continuation of a given situation.*" In addition the rules remain in a structural manner in the legislation without being contained in a predetermined and temporary time frame.
An additional aspect rendering the regulation inappropriateness is connected to its ability to achieve the goals of solidarity which it explicitly intends to pursue. The Court notes in fact that the prohibition on passing the expenses on to consumer prices is difficult to subject to effective controls, aimed at ensuring that it is not evaded.

The Court considers however that retroactive application of this declaration of unconstitutionality would determine a serious breach of the balanced State budget enshrined in Art. 81 of the Constitution. Therefore the unconstitutionality takes effect starting from the day after publication of the ruling.

Market coupling along the Italian borders begins: the go-live is given in France, Austria and Slovenia

On 24 February 2015 the market coupling project[81] along the Italian borders officially began. After an inspection and testing period, which was successfully completed in January, the electricity markets of three of Italy and three of its neighbours, namely France, Austria and Slovenia, became aligned (or "coupled"), through synchronisation of their electricity exchanges and the coordination of the respective TSOs. For the electricity borders between Italy and Switzerland and between Italy and Greece, the process will begin in the coming months[82].

With the go live given for the project, which for Italy involves GME and Terna, our country has taken another important step towards an integrated European electricity market. In fact, with the implicit allocation of the capacity along the Italian/French, Italian/Austrian and Italian/Slovenian borders, Italy is now part of the larger Multi-Regional Coupling (MRC)[83], which already connects most of the electricity markets of the European Union, from Finland to Portugal to Slovenia. At the continental level, the extension of market coupling to the MRC will involve a total of 20 European countries, for a total of approximately 2,800 TWh of annual consumption, that is 75% of European electricity needs.

There are multiple benefits of market coupling: the mechanism integrates the electricity market of various countries and makes it possible to assign the daily transit capacity on the border, with the objective of maximising the overall economic surplus of the participants in the market and increasing social well-being. Recently, the French energy regulator (CRE) has stressed that the market coupling will make it possible to reduce Italian and French electricity procurement costs by € 30 million per year, thanks to more effective use of cross-border interconnections. More in general, instead, according to the study carried out by the company "Booz&Company" for the European Commission, the entire integration process of the European energy markets will bring benefits of up to € 70 billion per year, of which € 40 billion in electricity sector: of these, a figure of between € 2.5 and 4 billion derives from market coupling.

The concept of market coupling is therefore part of a context of a continental scope, and indeed it has become one of the main objectives on the European Commission's agenda. Integration of the markets, thanks to the new electrical connections between different countries and completion of the Single Market, is a fundamental step for the competitiveness of Europe and, above all of Italy, which still has the highest wholesale energy price of the entire continent. But it represents a concrete opportunity capable of producing notable benefits also for the Italian generation system: it is possible, in fact, that the flexible characteristics of our system will enable us, in the future, to offer tertiary and secondary reserve to an integrated European system.

To accelerate the Single Market creation times, in particular, the European Commission set itself the objective of increasing the interconnection capacity among the member states from the current 8% to 15% by 2030. In this sense, Terna can play an important part, thanks to the 24 electrical interconnections already active on the Italian border, to which must be added 6 more already being created (2 with France and Montenegro, and those with Austria and Malta) and, in prospect, further projects currently being studied (Tunisia, Greece, Switzerland).

A necessary condition for the launch of market coupling for Italy was also the alignment of the closing time of the session for submission of offers on the day-ahead market (DAM): starting from 10 February, in fact, Terna modified the times of the DAM, moving the closure from 09.00 a.m. to 12:00 p.m., thus synchronising – for the first time since the creation of the Italian electricity market (2004) – with the times of the other European countries.

(81) The term **market coupling** means a market integration mechanism which, in determining the value of electricity in the different European market areas involved, at the same time the transport capacity available between the said areas, optimising use. In this way it is possible to avoid separating the purchase of transport capacity from the buying and selling of electricity, reducing the risks for operators deriving from having to estimate the value of the capacity and – for the system – not allocating it efficiently (unsold capacity despite the existence of a price difference between the two markets, capacity used – nominated – in a way not consistent with the same differences) or maximising social well-being.

(82) The **Italian Borders Working Table (IBWT)** – this is the full name of the joint market coupling project – involves the transmission system operators (ADMIE, APG, ELES, RTE, SWISSGRID and TERNA) and the power exchanges (BSP, GME, EPEX, EXAA e LAGIE) of Austria, France, Greece, Italy, Slovenia, and Switzerland, with the support of CASC (Capacity Allocation Service Company), the centralised auction services company for allocating the cross-border transmission capacity among 12 European countries (Italy, Greece, France, Switzerland, Slovenia, Germany, Austria, Belgium, the Netherlands, Luxembourg, Denmark and Norway).

(83) **Multi-Regional Coupling (MRC)** is a pan-European project dedicated to integrating the spot electricity markets in Europe. It involves cooperation between the electricity exchanges (APX, Belpex, EPEX SPOT, Nord Pool Spot and OMIE) and the transmission system managers (50 Hertz, Amprion, Creos, Elia, Energinet.dk, Fingrid, National Grid, REE, REN, RTE, Statnett, Svenska Kraftnät, TenneT TSO B.V., TenneT TSO GmbH and TransnetBW). The cooperation involves a day-ahead wholesale electricity markets price coupling solution, which will make allocation of the interconnection capacity of the countries involved more efficient and increase overall social well-being. The MRC is based on a single algorithm – which calculates simultaneously the electricity market prices, the net positions and the flows on the interconnection lines among the offer zones – and on implicit auctions and is facilitated by the PCR solution.

Disclosure pursuant to art. 149-*duodecies* of the CONSOB issuers regulation

The following table, prepared in accordance with Art. 149-*duodecies* of the CONSOB Issuers Regulations, presents the fees for 2014 for the audit and non-audit services provided to the Terna Group by the auditing companies.

In €	Entity providing service	Fees due for the year
Statutory audit of accounts and Financial Statements	PWC S.p.A.	369,425.54
Statutory audit of accounts and Financial Statements	EY S.p.A.	56,294.61
Attestation services	PWC S.p.A.*	134,200.00
Total		**559,920.15**

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

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

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

   - the suitability in relation to the business characteristics; and
   - the effective application of the administrative and accounting procedures for the preparation of the consolidated financial statements during financial year 2014.

2. The assessment of the suitability of the administrative and accounting procedures for the preparation of the consolidated financial statements as at 31 December 2014, is based on a set of standards and methodologies defined by Terna S.p.A. in line with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, which represents a set of reference standards for the internal control and risk management system, generally accepted worldwide.

3. It is also specified that:

   3.1. the consolidated financial statements at 31 December 2014:

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

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

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

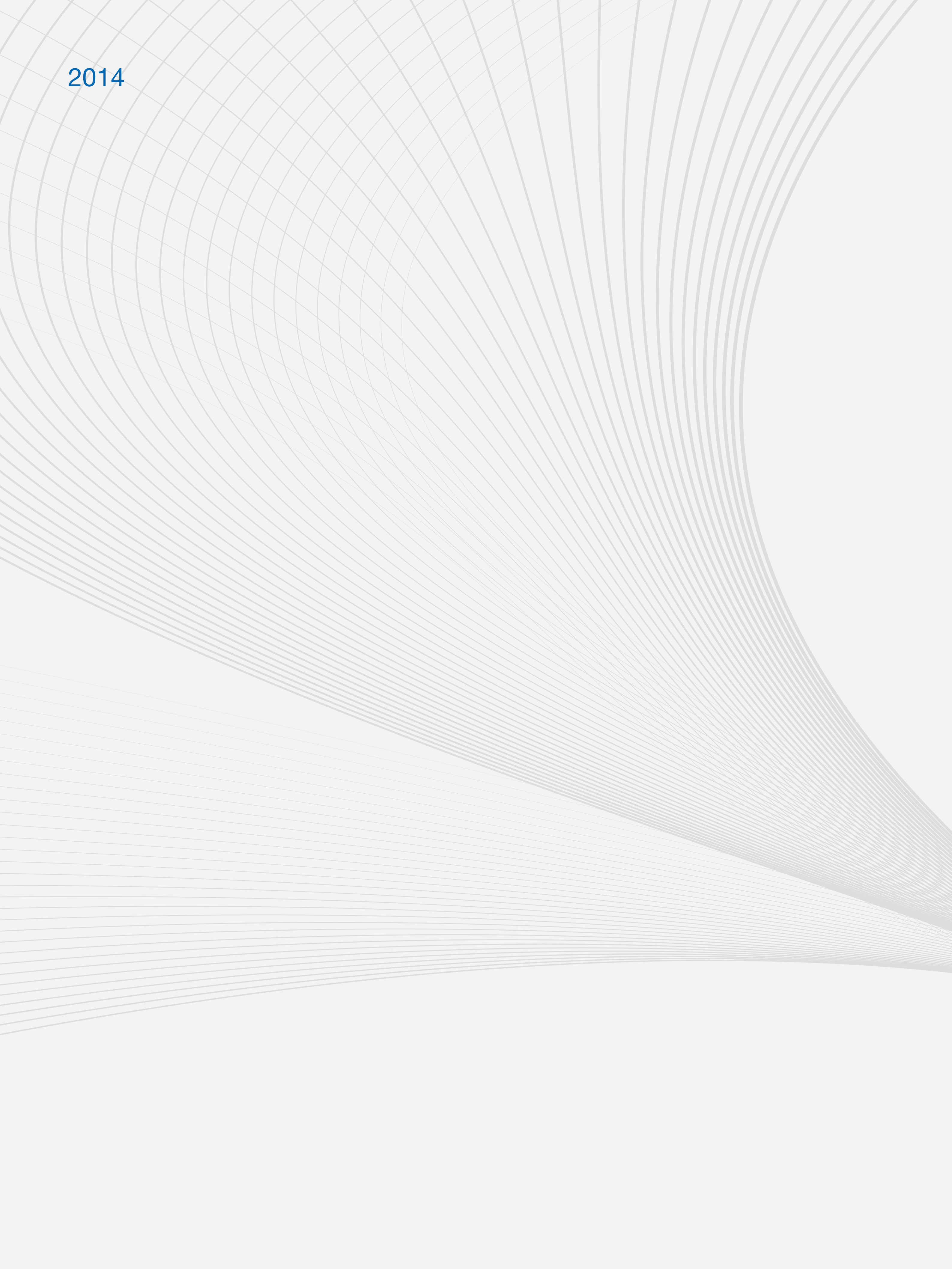
   3.2. the report on operations includes a reliable analysis of the trend and operating result, in addition to the position of the issuer and all businesses included in the scope of consolidation and a description of the main risks and uncertainties to which they are exposed.

Rome, 26 March 2015

Delegated administrative bodies
(Matteo Del Fante)

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

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


2014

Report

Auditors' Report in accordance with Articles 14 and 16 of Legislative Decree no. 39 of 27 January 2010

Consolidated Financial Statements as of 31 December 2014

Terna

TERNA GROUP

INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010

To the Shareholders of
Terna SpA

1. We have audited the consolidated financial statements of Terna SpA and its subsidiaries ("Terna Group") as of and for the year ended 31 December 2014 which comprise the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related notes. The directors of Terna SpA are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards, as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree No. 38/2005. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for listed Companies and Stock Exchange. Those standards require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free from material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference is made to our report dated 16 April 2014.

3. In our opinion, the consolidated financial statements of Terna Group as of and for the year ended 31 December 2014 comply with the International Financial Reporting Standards, as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree No. 38/2005; accordingly, they have been prepared clearly and give a true and fair view of the financial position as of 31 December 2014, result of operations and cash flows of Terna Group for the year then ended.

4. The directors of Terna SpA are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the information referred to in paragraph 1, letters c), d), f), l), m),

PricewaterhouseCoopers SpA

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and paragraph 2, letter b), of article 123-bis of Legislative Decree No. 58/98 presented in the report on corporate governance and ownership structure, with the financial statements, as required by law. For this purpose, we have performed the procedures required under Italian Auditing Standard 1 issued by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili) and recommended by Consob. In our opinion, the report on operations and the information referred to in paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), of article 123-bis of Legislative Decree No. 58/98 presented in the report on corporate governance and ownership structure are consistent with the consolidated financial statements of Terna Group as of and for the year ended 31 December 2014.

Rome, 16 April 2015

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

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