

Strategies and future performance in the short, medium and long term

As already noted in the section, “Organisation, reference context and business,” Terna’s Strategic Plan which takes a five-year view, defines objectives, priorities and investments helping the Group to identify the instruments for continuing to create value.

This takes the form of identifying the medium- and long-term trends which could present challenges and deciding how to resolve them. This is the case, for instance, of the changing energy scenario and consequent need to adapt the electricity transmission grid or, the increasing integration of grids at the European level.

In the long term, an increase in the importance of unregulated business is expected, including in the creation of value. The focus on stakeholders and wish to maintain a relationship of trust with them fuels sustainability policies helping to make the business model more solid in the medium and long term.

Energy trends 2014-2024

As usual, in 2014 Terna published the document outlining forecasts for electricity demand in Italy and the necessary power requirements⁶⁵. The analysis illustrates the new medium/long-term forecasts for electricity demand from 2014-2024 - in energy and power - and the necessary power requirements. Below are some elements and trends related to the demand for electricity and the final uses, which arose from the analysis:

- *Structural changes in demand*

As already noted in “Energy context” in the section “Organisation, reference context and business”, in 2014⁶⁶ the demand for electricity dropped by 3% with respect to 2013, a year in which it had already fallen by 3.0% with respect to 2012, settling at 318.5 billion kWh. This level is near that reached in 2002-2003. This means a return to the maximum demand levels seen in Italy in 2007-2008 has been postponed. With reference to the definitive 2013 figures, the industrial component has a heavy influence on total demand but, differently from previous years, there was also a decline in electricity consumption from the services sector, as well as the residential sector.

- *Energy efficiency*

An important component of the structural change in consumption is that related to the effects of actions aimed at improving energy efficiency and savings, already in effect for some time, but more is expected in the coming years. To that end, the 2014 Terna analysis gave the maximum value to the potential associated with greater energy efficiency.

- *Extension of forecast horizons*

Strategic EU objectives connected to energy supplies and balance in infrastructure and grids have led institutions and experts in the industry to extend over time the horizon of energy scenarios, known as visions, out to a very long perspective, even extending to 2050.

- *Electrification of energy demand*

The new applications conceived for the use of the electricity vector - for example electric cars - and those able to increase the flexibility of use (storage), suggest further changes over the long term in the process of replacement of energy sources. This principle - which can also be verified in the final figures of the Italian Energy Budget - is communicated in terms of **electrification of demand**. In the long-term visions, in fact it is hypothesised that the spectrum of electricity applications in non-traditional sectors, such as heating and transport will widen, as well as in industrial applications, where the process of replacement has already been gradually occurring for some time.

Future energy prospects

The conclusions of the document published by Terna this year divides the forecasts on the basis of two different reference scenarios:

- basic scenario and
- development scenario⁶⁷.

In particular, the analysis indicates that in 2024, the demand for electricity in Italy will reach 357 billion kWh in the development scenario while, in the basic scenario, the volumes required have been assessed at around 302 billion kWh.

(65) The work has now reached its XIV edition. Forecasts since 2005 can be found at: http://www.terna.it/default/Home/SISTEMA_ELETRICO/statistiche/previsioni_domanda_elettrica.aspx

(66) The figures for December 2014 are provisional.

(67) In forecasting energy demand for the coming decade, Terna has found it appropriate to refer to two different evolution scenarios: the basic scenario and the “development” scenario. In addition, in consideration of the strong focus on energy efficiency, in both Europe and Italy, it adopts special caution in forecasting the trend of Italian electricity intensity, in particular in the basic scenario, identifying it as a scenario in which the potential of energy efficiency is developed to the highest degree. For the “development” scenario - above all appropriate for the purposes of planning electricity infrastructure - it is hypothesised that from 2014-2024 total electricity intensity will be stable at current values for the entire country, equal to an average rate of around 0.0% per year. A second “basic scenario” was developed with a very optimistic hypothesis related to the implementation of energy savings objectives, corresponding to electricity intensity falling with a CAGR (Compound Annual Growth Rate) of -1.5%.

On the basis of the development scenario, two hypotheses were constructed to forecast power demand at the peak, in the same objective year. They indicate values falling between 66 GW with extremely hot summer conditions, representing the peak, and 61 GW with average winter conditions.

The table below represents the forecast for consumption by electricity sector in the development scenario:

Development scenario

	2013	2019	2024	2013-2024
	(twh)	(twh)	(twh)	t.m.a. %*
Agriculture	5.7	5.8	5.9	0.3
Industry	124.9	113.7	123.1	(0.1)
intermediary goods	54.8	49.7	52.8	(0.3)
not basic and other	70.1	64.0	70.4	0.0
Tertiary	99.8	114.3	122.9	1.9
Domestic	67.0	73.8	81.1	1.7
Total consumption	297.3	307.7	332.9	1.0
grid losses	21.2	20.7	24.1	1.2
ITALY	318.5	328.5	357.0	1.0

* average annual growth rate

In this context, in October 2014, Terna hosted the environmental association Greenpeace for a panel on possible energy scenarios in 2030. The starting point for the debate was the Report “PowE[R] 2030. A European Grid for 3/4 Renewable Energy by 2030”, the third produced by Greenpeace on this subject, focused on the feasibility of a European energy system with about 70% of energy production covered by renewable sources by 2030.

Grid development

The transmission grid must gradually evolve and expand in accordance with developments in the generation and consumption of electricity. Both the supply and demand of electricity grow at different rates in different areas of Italy. The combination of these elements changes the flows of electricity in the system, causing congestion in the existing grid. To tackle these issues, Terna prepares annual **grid development investment programmes**, so as to stay up to date with the evolution of production capacity and consumption, and to increase their efficiency and security. The development work that Terna plans and carries out also has positive repercussions on society; in fact, the assumption underlying its implementation is that the collective financial benefit that this work generates outweighs its cost.

Every year, Terna prepares a **Transmission Grid Development Plan (DP)** containing the **National Transmission Grid development projects** envisaged for the next ten years and the progress made on development works planned in previous years.

The 2014 Development Plan is concerned with the transmission grid development investments for 2015-2024; it describes the theoretical framework, the objectives and the criteria used to set out the planning process for the transmission grid, the new development needs identified in 2013, priorities for action and the expected results of the Plan. It is accompanied by a closer examination of analyses carried out on the economic sustainability of the main development plans.

Every Development Plan follows a detailed path, in that it is assessed and approved by the Ministry for Economic Development, also following public consultation (pursuant to article 36.13 of Legislative Decree 93/11) by the Authority for Electricity and Gas, and also subject to evaluation by the Grid User Consultation Committee.

In addition, pursuant to Italian Legislative Decree 152/06, as amended, the DP is also subject to the Strategic Environmental Assessment (SEA)⁶⁸ process carried out by the Ministry for Environment, Land and Sea in collaboration with the Ministry for Cultural Heritage.

(68) It is also potentially subject to screening to check whether it should undergo SEA pursuant to Italian Legislative Decree No. 1 of 24 January 2012.

Smart Transmission Solutions

One of Terna's main needs is to make the transmission grid dynamic, i.e. capable of evolving rapidly and effectively in response to unpredictable and rapidly changing circumstances.

For this reason, in the Development Plan Terna plans projects able to guarantee security, reliability and efficiency in the electricity system under various operating conditions, while maximising the timely and flexible use of existing infrastructure and thus facilitating integration of growing production from renewable sources, including those not directly connected to the NTG.

Among these projects we note:

- installing electrical equipment (Phase Shifting Transformers – PSTs) for controlling energy flows on the High and Extra-High voltage grid;
- installing synchronous condensers to improve the stability and operating security of the system;
- installing reactors and condensers for proper management of reactive power flows on the grid, with consequent cost reduction for the Dispatching Market;
- the use of systems that allow real time monitoring of transport capacity on existing lines, also as a function of effective environmental conditions (Dynamic Rating). To that end, the testing, about to be completed, will make it possible to define types and standards for applying the method, in order for it to be progressively implemented and diffused, in particular on the critical Central North – North and Central South – South line sections and on renewable collection lines;
- testing of diffused storage systems to maximise the exploitation of power from renewable sources and to improve the regulation of the High and Very-High-Voltage systems;
- initiatives based on smart logic, aimed at improving the forecast and control of distributed generation. These solutions generally have **reduced environmental impact** (allowing use of existing assets to be maximised), and implementation times and costs which are typically lower than those necessary for the creation of new network infrastructures (High-Voltage lines and stations).

The following innovative solutions are also planned:

- participation in the GREEN-ME project (Grid integration of REnewable Energy sources in the North - Mediterranean): in July 2014, a request was presented to the European Commission for financing, as part of the Connecting Europe Facility by Italian and French TSOs and DSOs (Distribution System Operators). It involves the development of systems to integrate distributed generation from the South of France to the Regions of Northern Italy. The project has been added to the list of Projects of Common Interest (PCI) published by the European Commission in October 2013, as one of the “Smart Grid” projects. The project is conditional on receiving funding from the European Commission; it was also re-nominated in the updated list of PCI projects presented in 2014;
- improving grid identification and control with digital systems. By exploiting the potential offered by digital equipment, the aim is to provide measurements directly for the analysis and monitoring of service quality;
- monitoring grids. The growing impact of renewable sources on the distribution grids requires data collection and modelling which will enable a more detailed overview of the load/generation on distribution systems that operate with the transmission grid.

Terna and ENTSO-E: the ten-year development plan for the European Network



Terna is a member of the ENTSO-E, the European Network of Transmission System Operators, which represents 41 TSOs belonging to 34 countries, including the countries of South-East Europe (excluding Albania and Kosovo). Since 3 March 2011, the ENTSO-E, with head office in Brussels, under the terms of the EU's "Third Energy Package" has been the official body for cooperation among grid operators at the EU level. The activities of the ENTSO-E are carried out in close cooperation with the European Commission and the Agency for the Cooperation of National Energy Regulators (ACER).

European Network Codes

The ENTSO-E has the task of preparing European Network Codes which refer to grid connection (generators, distributors and end users), the market, and the operation of the electricity system. Once they have been finalised (including the consultation process with the reference stakeholders), they will be adopted by the European Commission, becoming supra-national, and binding legislative acts which shall take precedence over national codes in cross-border issues.

In 2011, the European Commission, the ENTSO-E and the ACER established a three-year work programme which provides for the composition of twelve European Network Codes for the electricity industry and which takes into account the political conclusions of the European Council of 4 February 2011, which fixed 2014 as the term for completing the integration of the national and regional electricity markets.

In order to achieve the objective, between 2013 and 2014 ENTSO-E presented ACER with nine Grid Codes for recommendation for approval by the European Commission. On the 5 December 2014 the European Commission formally adopted the CACM Network Code (Capacity Allocation and Congestion Management) which, subject to approval by the Parliament and the Council expected in 2015, will become a binding legislative act for all EU Member States. Of the remaining eight codes, seven were approved by the ACER in 2014 and will be submitted in 2015 to be considered by the EU Member States for final approval via the comitology⁶⁹ process, while only one is still waiting to be assessed by the ACER.

(69) Comitology process means the procedure by which the European Commission (to implement legislation uniformly in the member states) or the Council (to execute acts related to foreign policy and common security) in exercising their implementation powers, are assisted by representatives of the member states, grouped together in committees.

Market transparency and integrity

ENTSO-E contributes to energy market transparency by establishing a centralised platform for the publication of privileged data and information. In June 2013, the European Commission adopted EU Regulation 543/2013, regarding transparency. To that end, ENTSO-E has implemented a new centralised European platform which, as of 5 January 2015, makes the data of 41 European grid managers public, in accordance with that required under the Regulation.

In addition, in accordance with EU Regulation 1227/2009 on integrity and transparency in the electricity market, ENTSO-E is collaborating with ACER in order to construct a European monitoring platform, ARIS (ACER REMIT Information System), which will be used to identify any potential manipulation of the electricity markets.

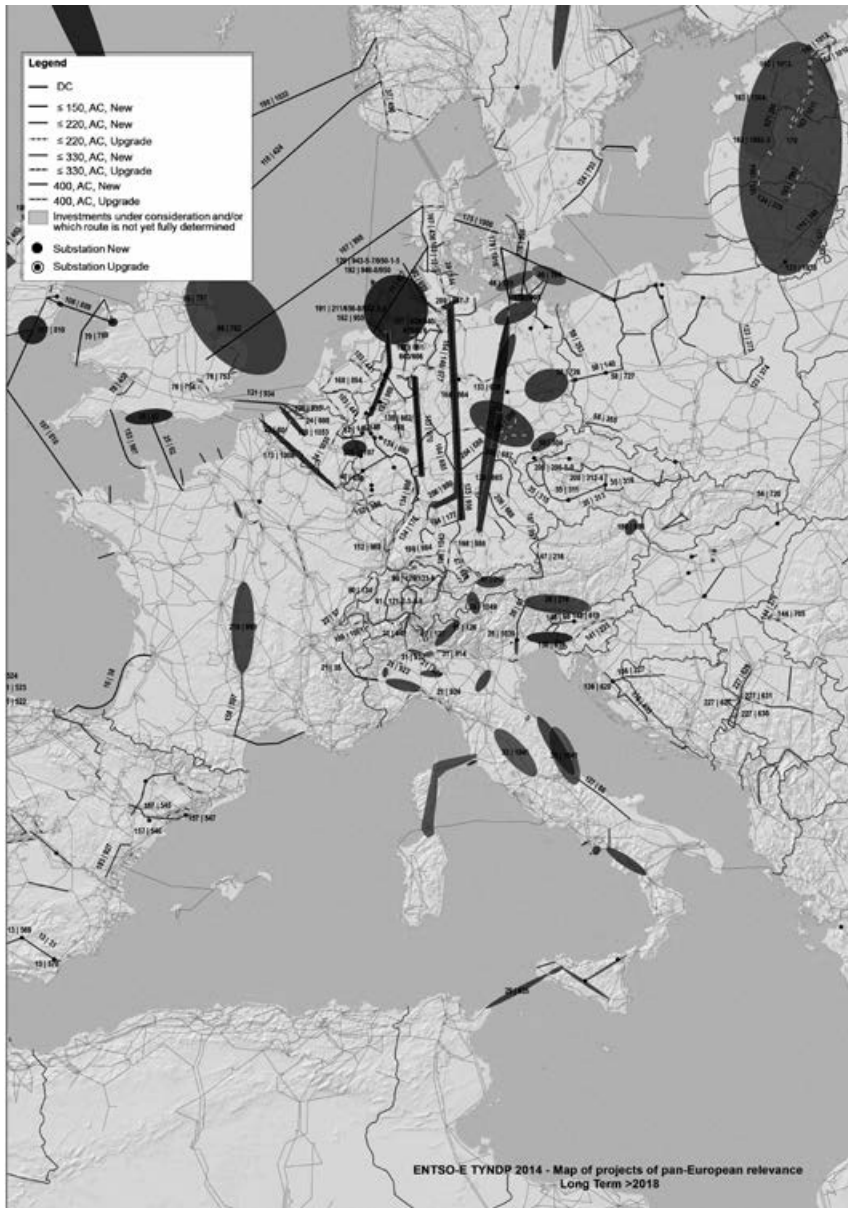
Ten-Year European Network Development Plan

The ENTSO-E prepares the Ten-Year European Network Development Plan (TYNDP), starting from the national investment plans, and taking into account EU guidelines on the trans-European energy network. In addition, the TYNDP identifies the need to develop cross-border capacity and any possible obstacles such as those deriving from authorisation procedures. The latest version of the Plan, which is published every two years, was released in December 2014 and is currently being considered by the European Regulation Agency (ACER). The new Plan is made up of six regional investment plans, the Development Plan for the European grid, and the report on the forecast scenarios and adequacy of the European electricity system. In addition, this edition will, for the first time, feature forecasts on the state of the grid in 2030. This looking ahead to 2030 represents an intermediate step in the modular development of the “Electricity Highways” for 2050, one of the objectives of the European Commission’s “Energy Roadmap 2050”, in order to complete decarbonisation of the European electricity system by that year.

Compared to the national development plans drawn up by the TSOs, the 2014 Development Plan for the European Grid includes only projects with a significant cross-border impact, around 130 in total, amounting to an expected investment of around € 150 billion between now and 2030. 10 Terna projects are included in this plan, for a total estimated investment of approximately € 5.9 billion.

The regional investment plan with the greatest focus on central-southern Europe within the 2019-2030 European Ten-Year Network Development Plan (TYNDP) is reported below:

European Ten-Year Network Development Plan (TYNDP) 2019-2030



European research plans

The mandates assigned to the ENTSO-E by the Third Energy Package include the publication of European Research and Development Plans regarding the electricity transmission industry. In 2012, the ENTSO-E then published a Ten-Year 2013-2022 Roadmap, which identifies technological gaps which need to be addressed in order to achieve the 20-20-20 community objectives set in 2009. The ENTSO-E updates the Roadmap Implementation Plan which defines the priority R&D themes which the European transmission system operators must begin working on in the forthcoming three-year period. The most recent implementation plan was updated in 2014, and covers the period from 2015-2017.

The Development Plan and reduction of the electricity system's CO₂ emissions

The construction of the new lines and stations provided for by the Development Plan will have positive effects not only in terms of service security and the final cost of electricity, but also in terms of reduced emissions from the electric system. This will have three effects:

- reduction of grid losses;
- improvement of the production mix and interconnection with other countries;
- connection of plants using renewable energy.

Overall, the reduction of CO₂ emissions within the time horizon of the 2015-2024 Plan could reach an amount of approximately 15.5 million tonnes a year.

Reduction of grid losses

Grid losses depend, among other things, on the distance the electricity travels on the transmission grid. The further the point of consumption (withdrawal from the NTG) is from the point of production (delivery into the NTG), the greater the losses for the same consumption. In addition, for the same distance, the losses are greater on a lower-voltage line.

Development work that improves the grid mesh brings withdrawal and consumption points closer: all other conditions being equal, the result is a reduction in grid losses. The same result is produced by upgrading a stretch of the grid, for example when a 380kV line replaces one at 150kV over the same route.

With the completion of the work set out in the 2015 Development Plan, the decrease in losses at the peak could reach a power value of approximately 180 MW, corresponding to a reduction in grid energy losses estimated at around 1,100 GWh/year. Assuming that the reduction of these losses is equivalent to a reduction in production from combustible sources, it can be considered that the work may also have the added positive effect of a decrease in CO₂ emissions, somewhere between 400,000 and 500,000 tonnes every year.

Improvement of the production mix and interconnection with other countries

One of the main purposes of developing the electricity transmission grid is to overcome the transport limits between "electricity zones". The existence of these limits impose a number of restrictions on the possibility of production by more efficient generation units, that is to say units which pollute less in terms of CO₂ emissions, and at the same time it makes production by obsolete stations necessary for grid security.

The work envisaged in the Development Plan, together with the expansion of interconnection with other countries, would enable a more efficient production mix than the current one, with a larger proportion of production by plants with higher yields. An identical final consumption would thus be covered with a smaller quantity of fuel: the benefits are quantifiable as a reduction in CO₂ emissions of up to approximately 8,000,000 tonnes a year.

Connection of plants using renewable energy

The main contribution to the reduction of CO₂ emissions comes from connecting production plants using renewable sources considered among the projects of the 2015 Development Plan. One of Terna's main tasks is to plan grid upgrading in order to encourage production of electricity from renewable energy sources; the aim is to try to overcome any grid and operating limitations that could impact renewable-energy input into the grid, which is entitled to dispatching priority. The development solutions planned include both action to strengthen sections of the primary grid, which make it possible to indirectly reduce the limits on the operation of Non-Programmable Renewable Source (NPRS) production, and action to locally expand the sub-transmission grids to which the NPRS generation is directly connected.

Besides this work, NPRS collection stations on the Extra-High-Voltage grid are planned which will make it possible to limit the construction of new power lines which would otherwise be needed.

The works included by Terna in the 2015 Development Plan will release about 5,500 MW of power from renewable sources, thus obtaining a reduction in CO₂ emissions amounting to about 7,000 ktCO₂/year.

Reduction of CO₂ emissions in 2014

In 2014, the benefits in terms of reduction of CO₂ emissions were mainly due to the installation of new "zero-emission" production units. The provisional figure for power installed from renewable sources in 2014 is presented below.

MW

Renewable energy source	Power installed
Wind	~8,700
Photovoltaic	~18,800
Total power installed	~ 27,500

From the 2014 provisional figures, it can be seen that, in the year, gross production using wind and photovoltaic energy increased by approximately **2,200 GWh**; this figure corresponds to a reduction of approximately **1,300 ktCO₂⁷⁰**.

Subsequent events

Terna, a global sustainability leader

For the third year, the Company led by Catia Bastioli and Matteo Del Fante was part of the Gold Class in the RobecoSAM Sustainability Yearbook 2015, as announced on **20 January 2015**, which assesses the performance of the sustainability policies of 3,000 of the largest global companies.

With one of the highest scores in the basket of companies, Terna was one of only three companies world wide in the Gold Class from the Electric Utilities sector, that is the best performing companies in terms of sustainability. Italy only has 4 companies in the Gold Class for their respective sectors.

Continuous improvement of its Environmental, Social and Governance (ESG) performance has earned Terna constant growth over time 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 areas analysed include risk management, corporate governance, environmental impacts, relations with the community, human resource management, stakeholder engagement, respect for human rights and control of the supply chain, all aspects for which the quality and management responsibility must be proven over time.

€ 1 billion 7-year bond issue completed successfully

On **23 January 2015** Terna S.p.A. successfully launched a Euro-denominated fixed rate bond to the market, for a total of € 1 billion, in the context of its € 6,000,000,000 Euro Medium Term Notes (EMTN) program, which was given a “BBB” rating with a stable outlook from Standard and Poor’s, “(P)Baa1” with stable outlook from Moody’s and “BBB+” with stable outlook from 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%, were issued at a price equal to 99.42%, with a spread of 52 basis points with respect to the midswap (the “Securities”). The Securities are listed on the Luxembourg Stock Exchange. The transaction 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 unites the main companies in the electro-technical and electronic sectors, signed a protocol related to the safety of the works necessary to guarantee maximum efficiency for the approximately 63,800 km of the national electricity grid. The Protocol - the first of its kind signed by Anie with an infrastructure company - follows that signed in 2012 regarding environmental safety on construction sites, and is the expression of synergistic cooperation that aims at minimising risks through the adoption of specific procedures for construction site activities. The agreement is composed of three technical documents, prepared in cooperation by Terna and Anie during the course of over 30 meetings, which establish the operating methods for activities to construct, maintain and remove the overhead power lines of the National Transmission Grid.

The construction sites for the Terna power lines - currently there are 230 in progress throughout Italy, with an investment of € 2.8 billion supporting development and growth, with the participation of 700 companies and 4,000 workers - have the characteristic of extending over large areas, often in areas that are difficult to access using normal transport and construction tools, with work progress that can be quick and discontinuous, creating a need for frequent reapplication of security measures as the work progresses. All of this is combined with the security actions that must be implemented to manage environmental interference, for example road and motorway crossings, railway networks, electricity grids, civil buildings and all areas commonly frequented by people.

(70) Considering a conversion ratio of 0.568 tCO₂/MWh and assuming that the new renewable capacity installed replaces an equivalent thermoelectric capacity.

This gave rise to the need to establish rules and procedures to execute all these 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 over time seen in the Group's organisational structure, Terna defined a Guideline for the adoption of the Code of Ethics within the companies of the Group, which includes guidelines to interpreting specific aspects of the Code and the operational situations of the Parent Company and its subsidiaries. The Code of Ethics is available in the "Investor Relations" section of Terna's website under "Corporate Governance".

Constitutional Court Ruling 10/2015: declaration of unconstitutionality of the IRES surcharge pursuant to Article 81, paragraphs 16, 17 and 18 of Italian Legislative Decree No. 112/2008

On 11 February 2015, the ruling was published through which the Constitutional Court declared the unconstitutionality of the so-called Robin Hood Tax (Article 81, paragraphs 16, 17 and 18 of Italian Legislative Decree No. 112/2008).

The Court focused on the unconstitutionality pursuant to Articles 53 and 3 of the Constitution, in that 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.

A further aspect that makes the law inadequate is its inability to achieve the solidarity purposes 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.

Nonetheless, the Court held that "the retroactive application of this declaration of unconstitutionality would create a grave violation of the balance of the budget" of the Government, sanctioned in article 81 of the Constitution. Therefore, "the unconstitutionality shall be effective as of the day subsequent to the publication of this 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 project⁷¹ along the Italian borders officially began. After a period of approval and testing successfully completed in January, starting from this date, the electrical markets of three of the five Italian borders, that is France, Austria and Slovenia, were "aligned" (or in the jargon "coupled") together through synchronisation of the respective Power Exchange and coordination of the respective TSOs.

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)⁷², 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 the market coupling to the MRC will involve a total of 20 European countries, for a total of around 2,800 TWh of annual consumption, or 75% of total European electricity needs.

There are several benefits obtained through market coupling: the mechanism integrates the electricity markets of several countries and allows assignment of the daily cross-border capacity, with the objective of maximising the overall economic surplus for market participants and increasing social well-being. Recently, the French energy regulator (CRE) emphasised that market coupling will allow the electricity supply costs for Italy and France to be reduced by € 30 million per year, thanks to more effective use of cross border interconnections. More generally, according to the study done by Booz&Company for the European Commission, the entire process of integrating the European energy markets could bring benefits of up to € 70 billion per year, of which 40 billion in the electricity sector: of this, a figure between € 2.5 and 4 billion would derive from the market coupling.

(71) The term **market coupling** means a mechanism which integrates the markets which, in determining the value of the electricity in the various relevant European market zones, simultaneously allocates the available transport capacity between the same zones, optimising its use. This method avoids separating transport capacity from sales of electricity, reducing the risks for operators that derives from having to estimate the value of the capacity and - for the system - that of allocating it inefficiently (unsold capacity, despite the existence of a price differential between the two markets, capacity used - appointed - in a way that is incongruous with the same differentials), meaning social well being is maximised.

(72) **Multi-Regional Coupling (MRC)** is a pan-European project dedicated to integrating the European spot electricity markets. It involves cooperation between the electricity exchanges (APX, Belpex, EPEX SPOT, Nord Pool Spot and OMIE) and the transmission system managers (50Hertz, 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 foresees price coupling solutions for the whole sale day ahead electricity markets, which will increase the efficiency of allocation of interconnection capacity between the involved countries, as well as overall social well-being. The MRC is based on a single algorithm - which simultaneously calculates the electricity market prices, the net positions and the flows on the interconnection lines between the supply areas - and on implicit auctions, supported by the PCR solution.

The concept of market coupling clearly is part of a context that extends throughout the continent, and in fact has become one of the main objectives on the European Commission's agenda. Integration of the markets thanks to new electricity connections between various countries and the completion of the Single Market, constitutes a fundamental step towards European competitiveness and, above all for Italy, which still has the highest wholesale energy prices in all of Europe. In addition, it also represents a concrete opportunity able to produce notable benefits for the Italian generation park. In fact, it can be hypothesised that the flexible characteristics of our system will make it possible, in the future, to offer tertiary and secondary reserves to an integrated European system.

In order to accelerate the creation of the Single Market, the European Commission has set the goal of increasing the interconnection capacity between member states from the current 8% to 15% by 2030. In this sense, Terna can play an important role, thanks to the 24 electricity interconnections already active along the Italian border, to which can be added another 6 currently being created (2 with the France and Montenegro, and those with Austria and Malta) and, in the future, additional projects currently in the research phase (Tunisia, Greece, Switzerland).

A necessary condition for starting market coupling for Italy was aligning the hours of the sessions for submitting offers for the day ahead market (DAM): in fact, starting on 10 February, Terna changed the hours of the DAM, moving closing from 9:00 am to 12:00 pm, thereby synchronising it with the hours of the other European countries, for the first time since the Italian electricity market was created in 2004.

Outlook

In the coming months, the Terna Group will be involved in executing what is foreseen in the 2015-2019 Strategic Plan, approved by the Board of Directors on 26 March 2015. In particular, the company will focus on generating the cash necessary to ensure a balanced and healthy financial structure and sustaining the dividends policy. This objective will be pursued through programs to ensure the efficiency of investments and operating costs, as well as developing new initiatives, such as the creation of new cross-border interconnections and new activities in the non-regulated area.

Specifically in regards to investments, approximately € 3.2 billion is forecast in 2015-2019 for the development and renewal of the NTG, as well as for the development of storage systems. In particular, in 2015 it is expected that the 380 kV double three-phase alternating current Sorgente-Rizziconi interconnection will begin operating, guaranteeing improved security for the connection between the Sicilian and mainland electricity grids, and increasing competition between operators which is expected to have a positive influence on prices. In addition, it is expected that 2015 will see the completion of activities to create storage systems for a total of 51 MW, of which 35 MW envisaged in the Development Plan and 16 MW in the Security Plan. This investment plan will allow the Group to establish a RAB value exceeding € 13 billion, starting in 2017.

As in previous years, the Group will pursue activities to rationalise processes and efficiency in relation to operating costs. With reference to non-regulated activities, the focus on value creation is confirmed, through activities for third-parties in the areas of engineering, creation and maintenance services mainly for the electrical and housing sector in the telecommunications business.

In addition the process of consolidating and developing the Tamini company will continue, with the goal of fully taking advantage of the company's skills.

In addition, in 2015 the signing of agreements to start the creation of an interconnection with France is planned, pursuant to Italian Law 99/2009 (the so-called Interconnector).



2014

