

2014

Annual Report
Integrated Report
Terna S.p.A. and the Terna Group

2014

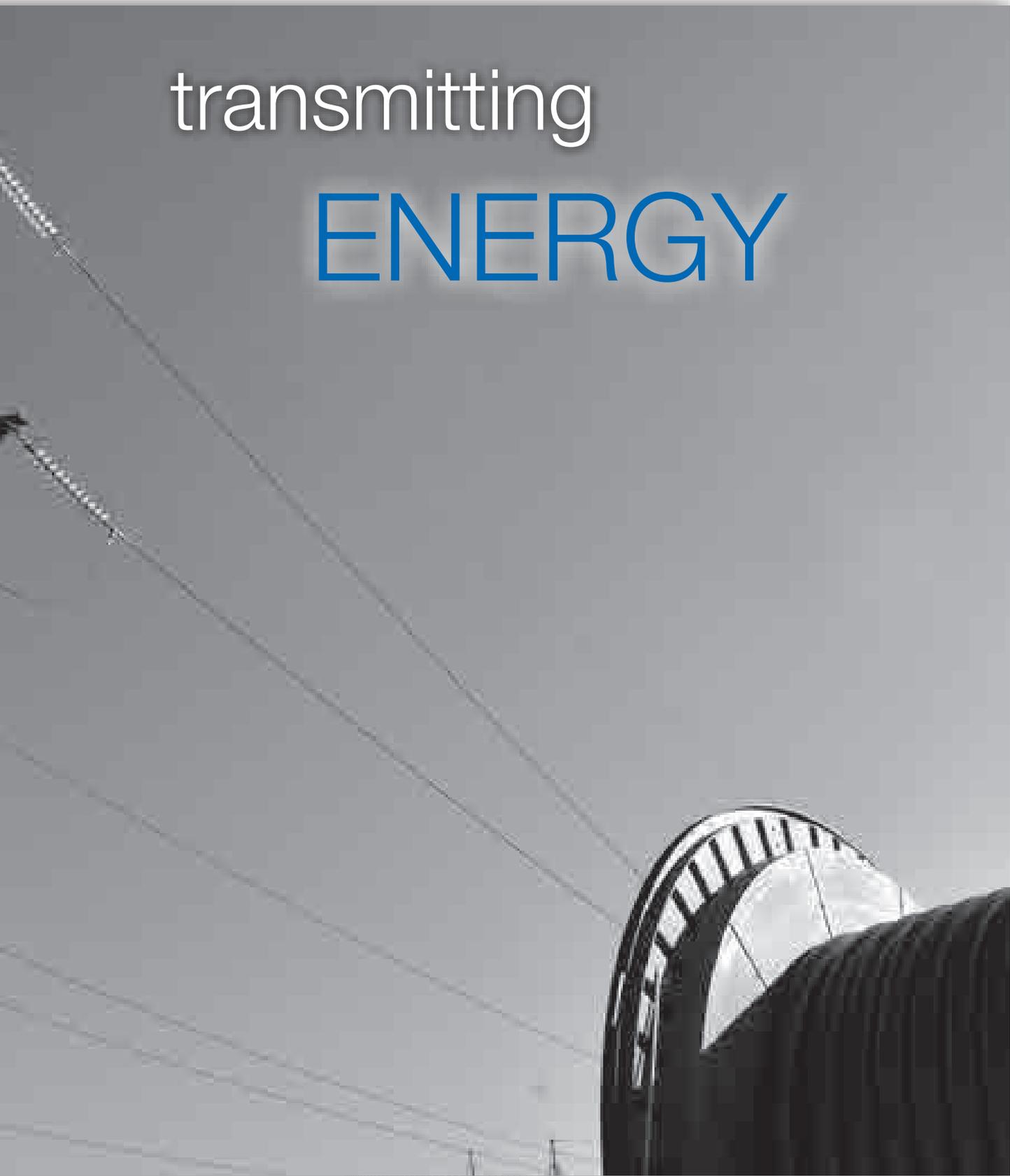
Annual Report
Integrated Report
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*(This is a translation of the original Italian text.
For any difference in the meaning between the original Italian text and its translation, the Italian text prevails)*



transmitting

ENERGY





transmitting
VALUE



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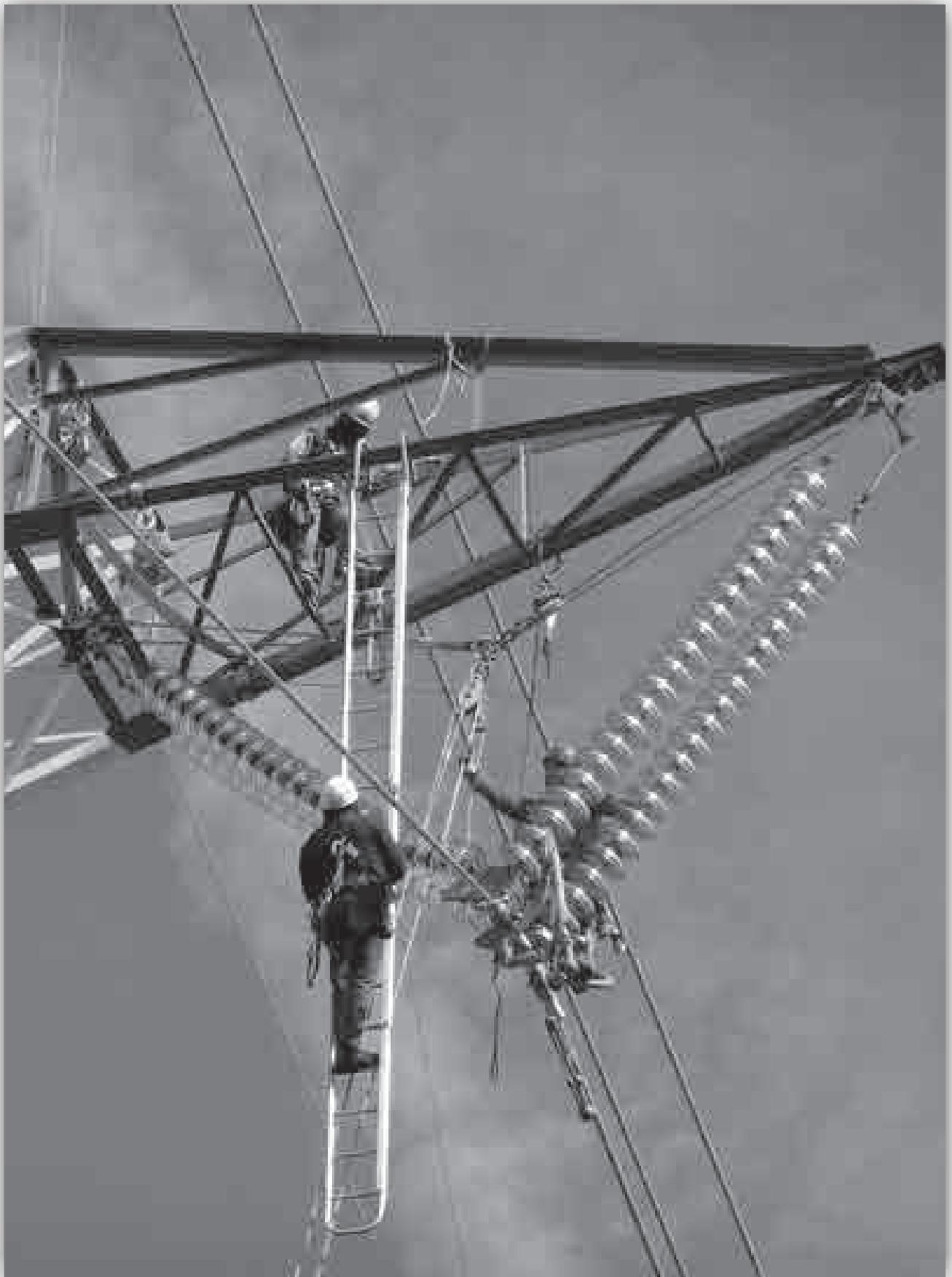
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Letter to the Shareholders



Dear Shareholders,

The 2014 Annual Report, the tenth since Terna's listing, further consolidates a longstanding trend of positive results. But this is also the first Annual Report that we present as the new Top Management, after taking office one year ago. We are therefore particularly proud to present continued growth in the company's results, but also the virtuous change necessary to design a Terna of the future, in a rapidly developing environment at both European and global level.

Over the past months, we have improved our understanding of a strong company, among the top European network operators, that strives to achieve excellence in the sustainable development of infrastructures, in innovation and in services for users, with consequent benefits for the electricity system, without overlooking attractive remuneration for shareholders.

2014 represents a solid starting point, both from an economic and financial point of view, as well as from the equally important perspective of sustainability performance.

Regarding the first point, results reflect the positive contribution of both Regulated and Non-Regulated Activities. Compared to 2013, revenues increased by 5.3%, almost reaching 2 billion euro, EBITDA reached almost one and a half billion euro and Net Profit increased by 6%, well above 500 million euro. Capex, in line with the Development Plans, stood at approximately 1.1 billion and during the year new strategic infrastructures have become operational, such as the "Trino-Lacchiarella" and "Foggia-Benevento" lines, significant projects for the Country's safety and energy efficiency. Regarding technological innovation, we carried on with our efforts to develop energy storage systems. Despite high investment levels, the Group generated 260 million in Free Cash Flow and Net Debt has been kept below 7 billion euro, confirming close attention to the management of the financial structure. Within Non-Regulated Activities, during 2014 we have worked hard to incorporate the Tamini Group into the Terna Group.

Progress has also been considerable in terms of sustainability performance. The per capita training hours have been increased to 43, involving 91% of employees; the number of occupational injuries has decreased, with the injury rate down to 1.27%. On the environmental front, containment programs have enabled us to reduce the impact of SF₆ leakage – the Group's main source of direct greenhouse gas emissions – down to 0.55%, below our target of 0.60%. Grid development has continued to provide an indirect but significant contribution to the growth of electricity production from wind and solar systems, that in 2014 reached 14.3% of total production. Research activities have been focused on the development of new sustainable technologies. The commitment to continuous improvement of processes has focused on relations with the stakeholders: the new map presented in this Report is the first step towards better organisation of involvement methods.

These results represent an important reference to explore and seize new opportunities that may arise, as well as to face the challenges posed by the general market conditions, the evolution of the European electricity sector and the new regulation expected in 2015. For this reason the new 2015-2019 Strategic Plan foresees specific management actions focused on a further strengthening of the electricity system, with a view to an increasingly interconnected European grid; on a more selective approach to investments, with lower impacts on electricity tariffs and debt; on the development of Non-Regulated Activities, with particular reference to Tamini and the Interconnectors; and finally, on increased operating efficiency, also thanks to the new organisational structure and the launch of an important voluntary generational turnover programme.

To sum up, starting from the results achieved and from a track record of value creation, we believe the Group is well positioned to positively face and overcome future challenges, leveraging the competence, willingness and strong values of all members of the Terna team.

The Chairwoman
CATIA BASTIOLI

The Chief Executive Officer
MATTEO DEL FANTE

Notice of Call - Call of ordinary Shareholders' Meeting

The ordinary Shareholders' Meeting of TERNA S.p.A. has been convened in Rome, at TERNA's Auditorium in Piazza Giuseppe Frua no. 2, on a single call, for its ordinary session on June 9, 2015 at 11 a.m. to discuss and resolve on the following

AGENDA

1. Separate Financial Statements at December 31, 2014. Reports by the Board of Directors, the Board of Statutory Auditors and the Independent Auditors. Related resolutions. Presentation of the consolidated financial statements at December 31, 2014;
2. Allocation of the profit for the year;
3. Appointment of a member of the Board of Directors and relative resolutions;
4. Annual Remuneration Report: consultation on the Remuneration Policy pursuant to Art. 123 *ter*, paragraph 6 of Italian Legislative Decree No. 58/1998 (Consolidated Law on Finance).

Reports and documentation

The illustrative reports by the Directors on the items on the agenda, required by current legislation, will be made available to the public at the Company head office by May 9, 2015.

Documents submitted to the Shareholders' Meeting will be made available to the public at the Company head office in the terms provided for by current legislation. The reports and documents relative to the Shareholders' Meeting will be published on the Company website (www.terna.it - Investor Relations) and on the website of the authorised storage system "1Info" (www.1info.it), and filed with the Borsa Italiana S.p.A. stock exchange. They will also be accessible from the Borsa Italiana S.p.A. website. (www.borsaitaliana.it). Shareholders and non-shareholders entitled to participate in the Shareholders' Meeting have the right to obtain copies.

Right to supplement the agenda and presentation of additional resolution proposals

Shareholders who represent at least a fortieth of the share capital with voting rights, also jointly, may, pursuant to and according to the procedures detailed in art. 126-*bis* of Italian Legislative Decree 58/1998 (Consolidated Law on Finance), within ten days of the publication of this notice (by May 8, 2015) ask for additional items to be included in the agenda, indicating in the request the additional items proposed, or present further resolution proposals on matters already included in the Meeting's agenda (without prejudice to the possibility, for those with voting rights, of individually present resolution proposals at the Shareholders' Meeting).

The request must be submitted in writing, may be made via hard-copy or e-mail, and must be accompanied by information making it possible to identify the party presenting the request, and indicating further, wherever possible, a telephone contact. It must reach TERNA S.p.A. by the deadline set out above (i.e. May 8, 2015), either by being brought to TERNA S.p.A. at its head office (FAO: Legal and Corporate Affairs Management - TERNA S.p.A. Group Corporate Affairs), or sent by mail or fax to +39 06 8313 8218, or by e-mail or certified electronic mail to the following certified e-mail address: assemblea2015@pec.terna.it.

Within the same deadline and using the same methods indicated to present the request, the Board of Directors of TERNA S.p.A. must also receive a report that indicates the motivation for the resolution proposal on the new subjects that are being proposed to be dealt with, or the motivation relating to the additional resolution proposals presented on matters already included on the agenda.

Please remember that pursuant to law, additions to the agenda are not allowed for subjects, which the Shareholders' Meeting will be resolving upon according to the law and based on Directors' proposals or on the basis of a project or a report prepared by them that is different from the one dealing with the subjects in the agenda.

In the event of supplements to the agenda and/or the presentation of new resolution proposals, notice shall be given with the same methods of publication as this notice, at least fifteen days before the date scheduled for the Shareholders' Meeting (May 25, 2015). At the same time – with the same methods indicated for the Reports of the Directors on the subjects on the Agenda – the report presented by the shareholders is made available to the public, together with any assessments of the Board of Directors.

Share capital

Please note that as of the date of this notice, and pursuant to Article 5.1 of the Bylaws (the “Bylaws”), published in the website of the Company (www.terna.it - “Investor Relations”) the share capital is 442,198,240 euros, completely paid-in and divided into 2,009,992,000 ordinary shares having a value of 0.22 euros each, each of which, pursuant to Article 6.1 of the Bylaws, entitles the holder to one vote. The Company does not hold any own shares.

Right to participate in the Shareholders' Meeting and exercise the right to vote

The right to participate in the Shareholders' Meeting and exercise the right to vote, according to the provisions in Article 10.1 of the Bylaws, is governed by applicable legislation and regulatory provisions. Pursuant to Article 83sexies of the Consolidated Law on Finance, such right is demonstrated by notification to the Company by an intermediary, in compliance with its own accounting records, on behalf of the individual who is entitled to the right to vote, based on evidence related to the close of the accounting day of the seventh open-market day prior to the date set for the Shareholders' Meeting (i.e. May 29, 2015), the record date.

The credit and debit registrations made on accounts subsequent to the said term are not significant for purposes of legitimizing the exercise of the right to vote in the Shareholders' Meeting. Therefore, those who appear as owners of the Company shares subsequent to said date will not be allowed to participate and vote.

Communications by intermediaries for participation must be received by the Company by the end of the third open-market day prior to the date set for the Shareholders' Meeting (i.e., June 4, 2015). There is no prejudice to the entitlement to participate and vote if the Company has received the communications after said indicated term, provided that they are received by the time the Meeting begins. There are no procedures for voting by mail or by electronic means.

With regard to the exercise of voting rights, please note specifically that the provisions of Article 10.2 of the Bylaws on the conflict of interest apply under Article 2373 of the Civil Code adopted by the Company pursuant to Directive No. 2009/72/EC of July 13, 2009, of Legislative Decree No. 93 of June 1, 2011, and the resolutions of the Regulatory Authority for Electricity, Gas and Water (AEEGSI) No. ARG/com 153/11 and 142/2013/R/EEL with which AEEGSI governed the certification procedures for the electricity transmission system operator and adopted the final decision to certify TERNA S.p.A. as the electricity “transmission system operator” (“Unbundling Regulations”).

For this purpose, without prejudice to the assessments made by the AEEGSI in the context of the certification of the Company as the electricity “transmission system operator”, each participant in the Shareholders' Meeting is invited to declare, under its own responsibility, the possible existence of a conflict of interest.

Representation at the Shareholders' Meeting

Ordinary proxy

All shareholders who have a right to speak and vote at the Meeting may be represented through proxy, granted in writing or with an electronic document signed electronically pursuant to art. 21, paragraph 2, of Italian Legislative Decree 82/2005, according to the provisions of art. 11.1 of the Bylaws, as required by current legislation. For this purpose, the proxy form issued upon request of the entitled party by the qualified intermediaries can be used, or the proxy form available on the Company's website (www.terna.it - “Investor Relations”) or at the head office.

The proxy may be notified to the Company by filing notification at the company offices (Legal and Corporate Affairs Management - TERNA Group S.p.A Corporate Affairs); or by post (to the attention of the Legal and Corporate Affairs Management - TERNA Group S.p.A Corporate Affairs - Viale Egidio Galbani, 70 - 00156 Rome); or by sending it via e-mail or certified e-mail to the certified e-mail address assemblea2015@pec.terna.it; or via the appropriate section of the Company website (www.terna.it - Investor Relations); or by fax to the No. +39 06 8313 8218; and it must be received by the Company before the start of the Shareholders' Meeting. Pursuant to the applicable Article 135novies of the Consolidated Law on Finance, as a replacement of the original, the representative may deliver or transmit to the Company a copy of the proxy, also by electronic means, stating under his/her own responsibility that the proxy is in compliance with the original, as well as confirming the identity of the person issuing the proxy.

Designated Representative Proxy

The proxy may also be conferred, with voting instructions, to Computershare S.p.A. (previously Servizio Titoli S.p.A.), with head offices in Milan, Via Lorenzo Mascheroni No. 19 - 20145, appointed by the Company as “Appointed Representative” pursuant to art. 135-undecies Consolidated Law on Finance. For this purpose one may use the specific web application provided and managed by Computershare S.p.A. which provides instructions on how to fill in the Designated Representative proxy form, which may be accessed via the appropriate section of the Company website (www.terna.it - Investor Relations). The Designated Representative proxy form is also available in a printable version from the website, or from the Company's offices. Proxies may not be conferred to Computershare S.p.A., unless in its capacity as designated representative of the Company.

The Designated Representative proxy must contain voting instructions to all or some of the subjects on the agenda and the original must be given to said Designated Representative by the end of the second open-market day prior to the date set for the Shareholders' Meeting (i.e. by June 5, 2015) at the following address: Computershare S.p.A. (ref "Proxy Terna S.p.A. Shareholders' Meeting") Via Monte Giberto No. 33 - 00138 Rome. A copy of the proxy, accompanied by a declaration stating that it complies with the original, can be sent in advance to the Designated Representative by the same term by fax to: +39 06 4541 7450 or to the certified e-mail address: terna@pecserviziitolitoli.it.

A Designated Representative proxy is valid only for resolutions proposed at the Shareholders' Meeting for which the person issuing the proxy gave voting instructions. The proxy and the voting instructions are revocable within the same term as hereinabove (i.e. by June 5, 2015), with the methods and terms indicated above.

Right to submit queries regarding items on the agenda

Under the terms of Art. 127-ter of the Consolidated Law on Finance, those with voting rights in the Shareholders' Meeting can submit queries regarding the items on the agenda, also before the meeting. The questions must be posed in writing and sent to TERNA S.p.A. to its head office (FAO Legal and Corporate Affairs Management - TERNA S.p.A. Group Corporate Affairs) by fax at the number +39 06 8313 8218, or by e-mail or certified electronic mail at the certified e-mail address: assemblea2015@pec.terna.it.

Without prejudice to any other provisions in this notice, whoever intends making use of this right, must send his/her queries to the Company at the latest three days prior to the date of the Shareholders' Meeting (namely by June 6, 2015). In this regard, a specific indication must be given as to the item on the agenda that the proposed individual queries refer to. A response will be provided to the queries received prior to the start of the Shareholders' Meeting at the latest during the Shareholders' Meeting itself. The Company may provide a single response to queries with the same content. There is no obligation for a response, even during the Shareholders' Meeting, in the event of queries submitted prior to the Meeting, where the information required is already available in the "Frequently Asked Questions" section of the Company website (www.terna.it – "Investor Relations"), or when the response has already been published in that section of the Company's website. The response will be deemed to have been given during the Shareholders' Meeting, when provided in hard-copy format and made available to everyone entitled to vote at the start of the meeting.

Appointment of a member of the Board of Directors

The procedures laid down in Article 14.5 of the Bylaws, and the rules and regulations in force shall apply to the appointment of the member of the Board of Directors referred to in the third item on the agenda, and the Shareholders' Meeting will resolve on this matter pursuant to Article 14.3(d) of the Bylaws, according to the majorities of law and of the Bylaws and, therefore, without the application of the voting list.

The appointed Director's term of office will expire together with those already in office, in accordance with Article 2386, paragraph 3, of the Civil Code, i.e. at the Shareholders' Meeting called to approve the 2016 financial statements.

Regarding the appointment of the member of the Board of Directors, please note specifically that the following statutory provisions shall apply: (i) provisions on the requirements of integrity, professionalism and independence of the Directors listed in Article 15 of the Bylaws, including the provisions on the matter of incompatibility set out in Article 15.5 adopted pursuant to the Unbundling Regulations; (ii) provisions on the limits to the exercise of the right to vote in the election of Directors listed in Article 14.3(e) of the Bylaws.

In addition, please note that also the specific provisions of Article 14.3(f) of the Bylaws shall apply on conflicts of interest in the context of the election of Directors under Article 2373 of the Civil Code, adopted pursuant to the above-mentioned Unbundling Regulations. For this purpose, without prejudice to the assessments made by the Authority for Electricity, Gas and Water in the context of the certification of the Company as transmission system operator, each participant in the Shareholders' Meeting is invited to declare, under its own responsibility, the possible existence of a conflict of interest.

Annual Remuneration Report

Regarding the fourth item on the agenda, please remember that the Meeting, pursuant to and in compliance with Article 123ter, paragraph 6, Consolidated Law on Finance, is called to resolve in favour of or against the first section of "Terna's Annual Remuneration Report"; this report details the Remuneration Policy adopted by TERNA S.p.A. concerning the remuneration of the members of administration bodies, of general directors and of managers holding strategic responsibilities, as well as the procedures used for adopting and implementing such Policy. As established by the abovementioned provisions, the resolution is not binding.

Further Information

Further information concerning the subjects on the agenda is made available to the shareholders in the Directors' report concerning the respective items on the agenda, as well as in the Bylaws and in applicable legislation, which should be referred to for any information not expressly provided for in this notice.

No provision is made for participating in this Shareholders' Meeting by electronic means.

Regarding the exercise of the company rights mentioned in this notice, please remember that pursuant to Articles 22 and 23, paragraph 1, of the "Regulation governing centralised management services, liquidation, systems of guarantee and of the relative management companies", adopted by the Bank of Italy and by Consob with the provision of February 22, 2008 and subsequently amended by deed of the Bank of Italy/Consob dated December 24, 2010, and updated with provisions of February 11 and 24, 2015 ("Bank of Italy/Consob Regulation"), the legitimacy of exercising, also jointly, corporate rights such as participation in and exercising the right to vote in the Shareholders' Meetings, the right to supplement the agenda and to present additional resolution proposals and the right to submit queries on subjects on the agenda, is certified by a communication to the issuer made by the intermediary in compliance with his/her accounting records for shareholders. Pursuant to Article 25 of the Bank of Italy/Consob Regulation, legitimization to rights different from those provided for in Articles 22 and 23 is assessed by certification issued by the intermediary in compliance with his/her own accounting records.

To facilitate the verification of one's right to participate in the Shareholders' Meeting, those entitled to vote can send the documentation proving this right to the Company by mail (to the Legal and Corporate Affairs Management - TERNA S.p.A. Group Corporate Affairs – Viale Egidio Galbani, 70 – 00156 Rome), also with a copy or via fax to +39 06 8313 8218, at least two days before the date set for the Shareholders' Meeting.

Please note that the offices in charge of personal identification and verification of entitlement to participate in the Shareholders' Meeting will be available on the day of the Shareholders' Meeting, two hours before the Meeting begins.

A service dedicated to Meeting assistance is available to give further information at the following numbers: telephone +39 06 4541 7413 - fax +39 06 4541 7450.

For further information, reference is made to the section on the Company website dedicated to this Shareholders' Meeting (www.terna.it – "Investor Relations").

The Chairwoman of the Board of Directors

Catia Bastioli

This notice was published on the Company website www.terna.it on April 28, 2015 and in extract form in the daily newspaper "Il Sole 24 Ore" on April 28, 2015.

TERNA S.p.A. - Head office in Rome – Viale Egidio Galbani, No. 70
Share Capital 442,198,240 euros fully paid-in
Rome Companies Register, Tax ID code and VAT code No. 05779661007
R.E.A. of Rome No. 922416

Proposal for the allocation of profits for the year

For FY 2014, the Board of Directors proposes distributing a total dividend of € 401,998,400.00, equal to € 0.20 per share, of which € 0.07 per share resolved as an interim dividend on 12 November 2014.

The Board of Directors therefore proposes to allocate the net profit for FY 2014 of Terna S.p.A., totalling € 450,403,902.25, as follows:

- € 140,699,440.00 to cover the account paid on the dividend as from 26 November 2014;
- € 261,298,960.00 to pay the balance of the dividend to be distributed in the amount of € 0.13 for each of the 2,009,992,000 ordinary shares outstanding to be assigned for payment – gross of any statutory withholdings – on 24 June 2015, with detachment date of coupon No. 22 to coincide with 22 June 2015 (record date, pursuant to Art. 83-*terdecies* of Italian Legislative Decree No. 58 of 24 February 1998, the “Consolidated Law on Finance”: 23 June 2015);
- € 48,405,502.25 as profit carried forward.

Interim dividend 2014

In the session of [12 November 2014](#), Terna S.p.A.'s Board of Directors resolved payment of an interim dividend for the year 2014, on the basis of the opinion expressed by the auditing company PricewaterhouseCoopers S.p.A. provided for by Article 2433-*bis* of the Italian Civil Code. Bearing in mind that, in the first half of 2014, Terna S.p.A. posted a net profit of € 229.7 million, the Company approved distribution of the interim dividend of € 0.07 per share, payable from 26 November 2014 (with an ex dividend date (coupon 21) of 24 November 2014).

Corporate administration and control bodies¹

Board of Directors

Chairwoman

Catia Bastioli

Chief Executive Officer

Matteo Del Fante

Board members

Cesare Calari
Carlo Cerami
Fabio Corsico
Luca Dal Fabbro
Yunpeng He²
Gabriella Porcelli
Stefano Saglia

Board Secretary

Filomena Passeggio

Board of Statutory Auditors

Chairman

Riccardo Enrico Maria Schioppo

Standing auditors

Vincenzo Simone
Maria Alessandra Zunino de Pignier

Alternate auditors

Raffaella Annamaria Pagani
Cesare Felice Mantegazza
Renata Maria Ricotti

Auditing company

PricewaterhouseCoopers S.p.A.

(1) The Board of Directors and Board of Statutory Auditors which expired with the approval of the separate financial statements at 31 December 2013 were renewed by the Shareholders' Meeting on 27 May 2014.

(2) Director co-opted on 21 January 2015 to replace Director Simona Camerano, who resigned from office on 27 November 2014.

Terna Group's management





The Terna Group, briefly

> Terna is

- the largest independent **Transmission System Operator (TSO)** in Europe
- **owner** of the National Transmission Grid (NTG)³
- responsible for **transmission and dispatching of** electricity throughout Italy
- responsible for planning, building and maintaining the NTG, with **~3,500 employees**
- listed on the **Italian Stock Exchange** since 2004
- **€ 3.8 billion** in cumulative dividends for the listing (IPO) and Total Shareholder's Return (TSR) **>300%**⁴

> Our Grid

~63,900 _{km} of three-phase power lines
 21 foreign interconnection lines⁵
 491 transformer stations

> The electricity market

~309 _{TWh} of energy demand
 51.5 _{GW} highest energy peak demand (12 June 2014)

> Sustainability

- Constant growth in sustainability ratings
- Appreciation of socially responsible investors
- Inclusion in the main international stock exchange sustainability indexes⁶

(3) Approximately 99% of the National Transmission Grid.

(4) Performance including dividends.

(5) Owned by Terna.

(6) Gold Class in the RobecoSAM, Sustainability Yearbook 2015, Dow Jones Sustainability (World and Europe), STOXX Global ESG, FTSE4Good (Global and Europe), ECPI, FTSE ECPI; MSCI, ASPI Eurozone, Ethibel and Axia.

Highlights 2014

The Terna stock

- Total Shareholder's Return 8.9%⁷
- Peak of the stock at 4.11 €/share reached on 20th June

Financial and economic performance

INCOME STATEMENT



INVESTMENTS AND NET DEBT



Development of the Transmission Grid

Completed work

- > new 380 kV power line **Trino - Lacchiarella**
- > new 380 kV power line **Scilla - Rizziconi**
- > strenghtening of the 380 kV connection **Foggia - Benevento**
- > storage systems: **Energy Intensive** plants of Ginestra and Flumeri (18MW power), **Power Intensive** plants in Sicily and in Sardinia (8.6MW power)

Work in progress⁸

- > **HVDC Italia - Montenegro** (107_{€mln}) interconnection
- > 380 kV **Sorgente - Rizziconi** power line (70_{€mln})
- > **Codrogianos ES Synchronous Condenser** station (40_{€mln})
- > 380 kV **Udine Ovest-Redipuglia** power line (33_{€mln})
- > **Capri Continente** interconnection (32_{€mln})
- > **Foggia - Villanova** power line (29_{€mln})
- > storage systems: **Energy Intensive** (70_{€mln}), **Power Intensive** (22_{€mln})

(7) Performance including dividends.

(8) Net of capitalised borrowing costs.

2014

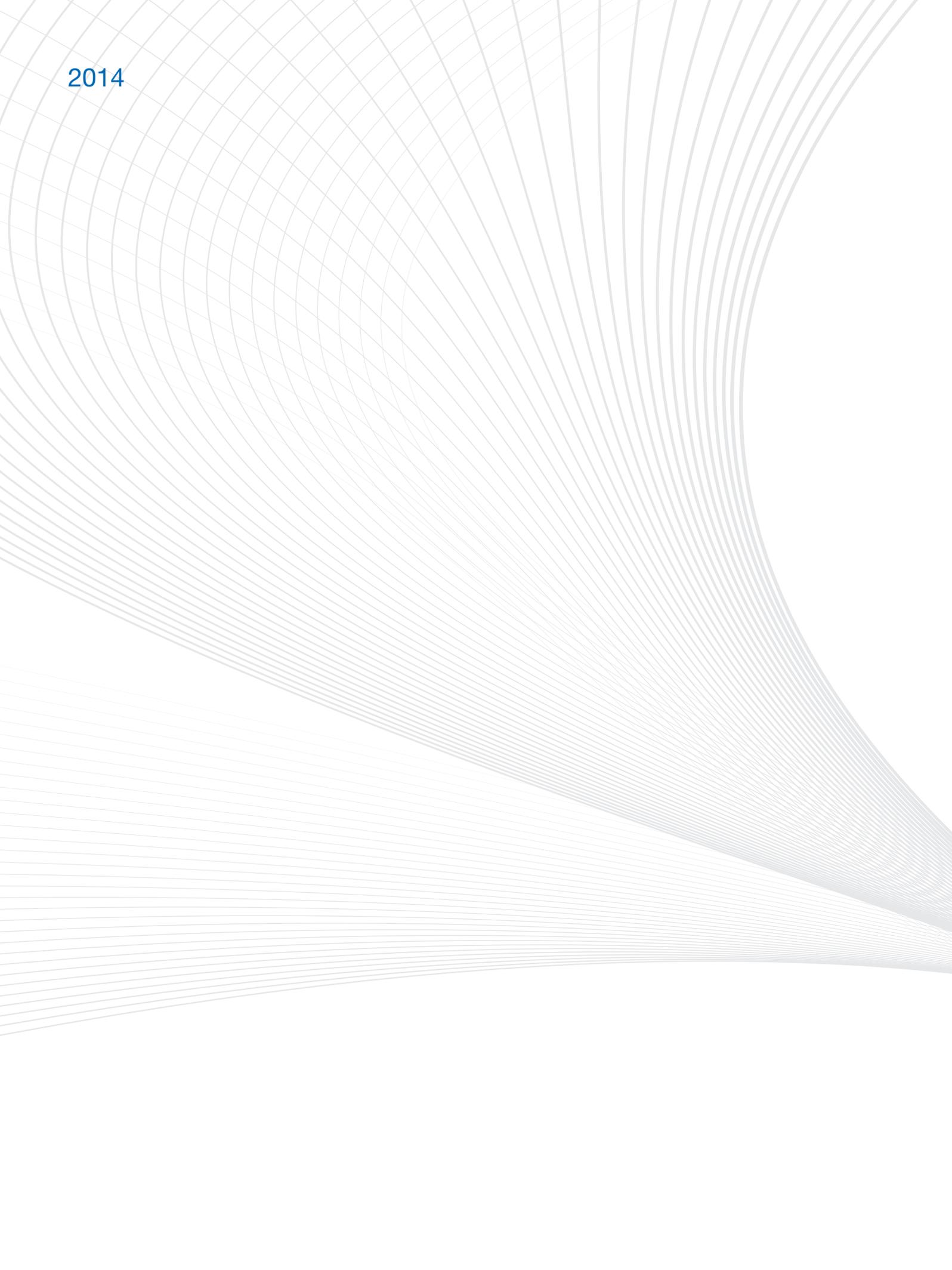




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Introduction

The 2014 Terna Group Report is prepared with the objective of providing information on financial performance and sustainability in the context of an interpretative framework which highlights the correlations between elements of the scenario and the operating context, as well as results and strategic objectives, thus emphasising the Group's ability to create value.

In particular, with an eye to providing the markets and stakeholders, especially investors, with ever more complete and transparent information, Terna prepared this document while taking into account the principles and indications issued by the International Integrated Reporting Council (IIRC), the international organisation which since 2010 has been working to define a framework for preparation of the Integrated Report⁹.

In this context, the document has been divided into four sections: "Organisation, reference context and business"; "Risks and opportunities"; "Performance" and "Future prospects", within the scope of which the results of the "materiality analyses"¹⁰ defined by Terna are also considered, so as to identify the relevant issues for the Group and for its stakeholders, and assess their impact on the creation of value and corporate strategies.

The first section, **Organisation, Reference Context and Business**, illustrates the Group's history and organisation, its ownership and operating structure, the business model, strategies and the way in which this organisation fits into the operating context, as well as the more significant factors which could influence the Group's ability to create value.

Considering the fact that Terna provides a service which is essential for the functioning of the entire electricity system and that the Company thus has a responsibility towards society, it was deemed appropriate to illustrate its commitment to creating a relationship of trust with its stakeholders (from the public to its employees), as well as to manage one of the most important resources for the company and for the country's economic and production system, represented by the National Transmission Grid (NTG).

The **Risks and Opportunities** section shows the risks and opportunities which such context presents and how sustainability issues cross paths with Terna's strategy, especially in its relations with local communities and its environmental impact. Respect for the environment and for local communities – in the overall relations of the organisation with local communities – is in fact decisive for determining Terna's ability to make the investments provided for in its Development Plan.

The other types of risk which the Group could encounter in performing its business, and which could influence corporate results, are always handled with utmost care and using constantly updated methods and techniques.

The **Performance** section provides a picture of the financial and sustainability results which the Terna Group has achieved through its organisation and in the context described above, highlighting the close interdependence of operating and service objectives with those of economic performance and environmental and social responsibility.

The synthesis of these areas completes the search for operating efficiency and growth opportunities, whilst fulfilling service obligations and, in particular, ensuring the security of the electricity system.

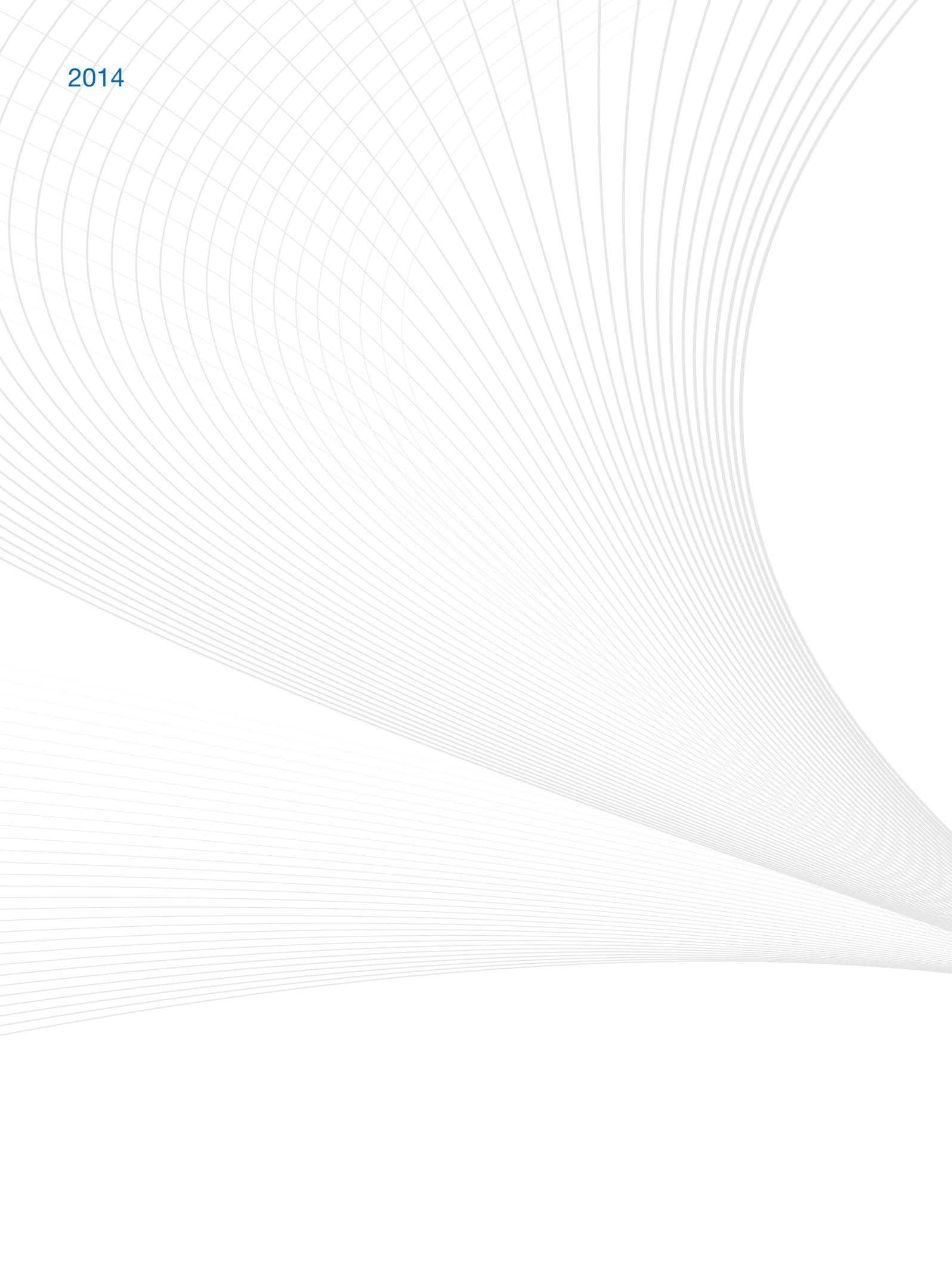
The fourth and last section **Future prospects** illustrates the medium- and long-term prospects for the Terna Group, bearing in mind the uncertainties and potential critical issues/opportunities which it could encounter in implementing its strategies.

Aware of the fact that the solidity of an organisation's business model is measured by going beyond the achievement of short-term objectives and considering the medium and long term, Terna pays particular attention to the more general objective of sustainable economic growth in the interests and respect of all the stakeholders involved.

(9) Since 2011, Terna has supported the IIRC and participates in its Pilot Programme.

(10) For the "Materiality Analysis," please see the 2014 Sustainability Report.

2014



Organisation, reference context and business







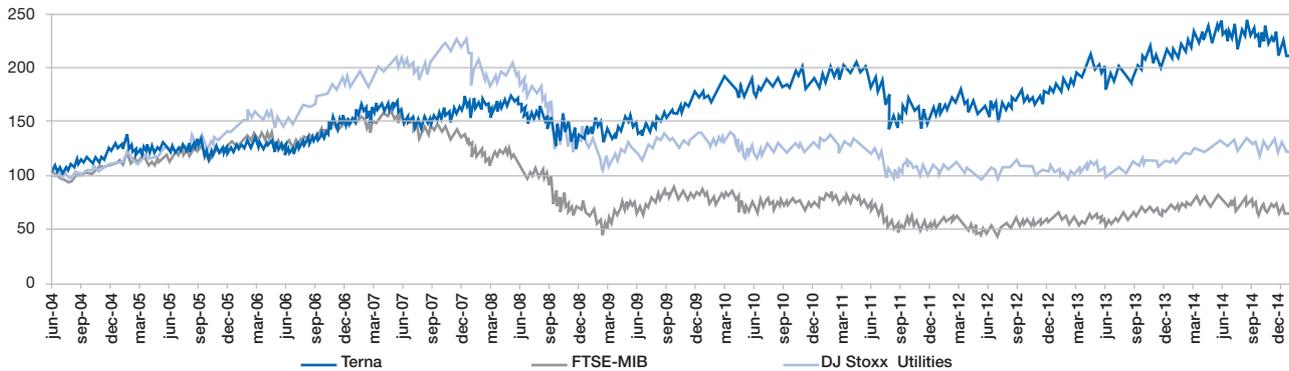
Organisation and context in which the Group operates

Terna S.p.A. operates mainly in the Italian electricity system (approximately 93% of consolidated revenue in financial year 2014 came from regulated activities). Within the industry supply chain – the production, transmission, distribution and sale of electricity – Terna manages the transmission segment, in the role of Italian TSO (**Transmission System Operator**), **a monopoly position through government concession**. The activities performed by Terna are regulated by the Italian Regulatory Authority for Electricity Gas and Water (AEEGSI) and the Ministry for Economic Development.

The Terna Group **owns almost all of the National Transmission Grid (NTG) in Italy** and is responsible for the transmission and dispatching of electricity on the High and Extra High Voltage grid throughout the country, as well as the planning, implementation and maintenance of the grid.

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

Terna S.p.A. has been **listed** on the Borsa Italiana electronic market since 2004 and is one of the leading Italian companies in terms of stock market capitalisation. Since they were listed on the stock market, the shares have more than doubled in price, as shown in the graph below:



Shareholders

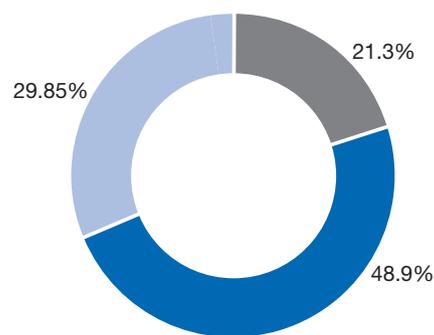
At the reporting date, Terna's share capital amounted to € 442,198,240, represented by 2,009,992,000 ordinary shares, with a par value of € 0.22 each, fully paid-up.

On the basis of the shareholder register and other information gathered when this report was prepared, ownership of Terna S.p.A. is divided as follows:

- CDP RETI S.p.A. 29.85%¹¹ (subsidiary of Cassa Depositi e Prestiti S.p.A.)¹²
- Institutional Investors 48.9%
 - of which People's Bank of China 2.01%¹¹
- Retail 21.3%

SHAREHOLDING STRUCTURE BY TYPE

● Cassa Depositi e Prestiti S.p.A.	29.85%
● Institutional Investors	48.9%
● People's Bank of China	2.01%
● Retail	21.3%

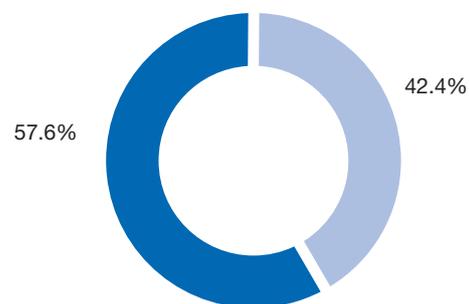


Total 100%

On the basis of the regular surveys carried out by the Company, it is believed that 57.6% of Terna shares are held by Italian investors (CDP RETI S.p.A. 29.85%, Retail 21.3% and Institutional Investors 6.5%), with the remaining 42.4% held by Foreign Institutional Investors, mainly American and European.

SHAREHOLDING STRUCTURE BY GEOGRAPHIC AREA

● Foreign Institutional Investors	
of which United Kingdom/Ireland	11.0%
of which USA/Canada	8.3%
of which Rest of Europe	12.3%
of which Middle East, Asia and Australia	4.7%
Other	6.0%
● Italian Shareholders	
of which Cassa Depositi e Prestiti S.p.A.	29.85%
of which Retail Shareholders	21.3%
of which Institutional Investors	6.5%



(11) This shareholder has a stake in Terna S.p.A.'s share capital above the thresholds indicated in CONSOB Resolution No 11971/99, based on the information available, and communications from CONSOB.

(12) **Shareholders' Agreements:** on 27 November 2014, a shareholders' agreement was signed by Cassa Depositi e Prestiti S.p.A. (CDP), on the one part, and State Grid Europe Limited (SGEL) and State Grid International Development Limited (SGID), on the other, in relation to CDP RETI S.p.A. (CDP RETI), SNAM S.p.A. and TERNA S.p.A. The basic information relating to this Shareholders' Agreement has been published on the CONSOB and Terna websites, pursuant to the regulations in force.

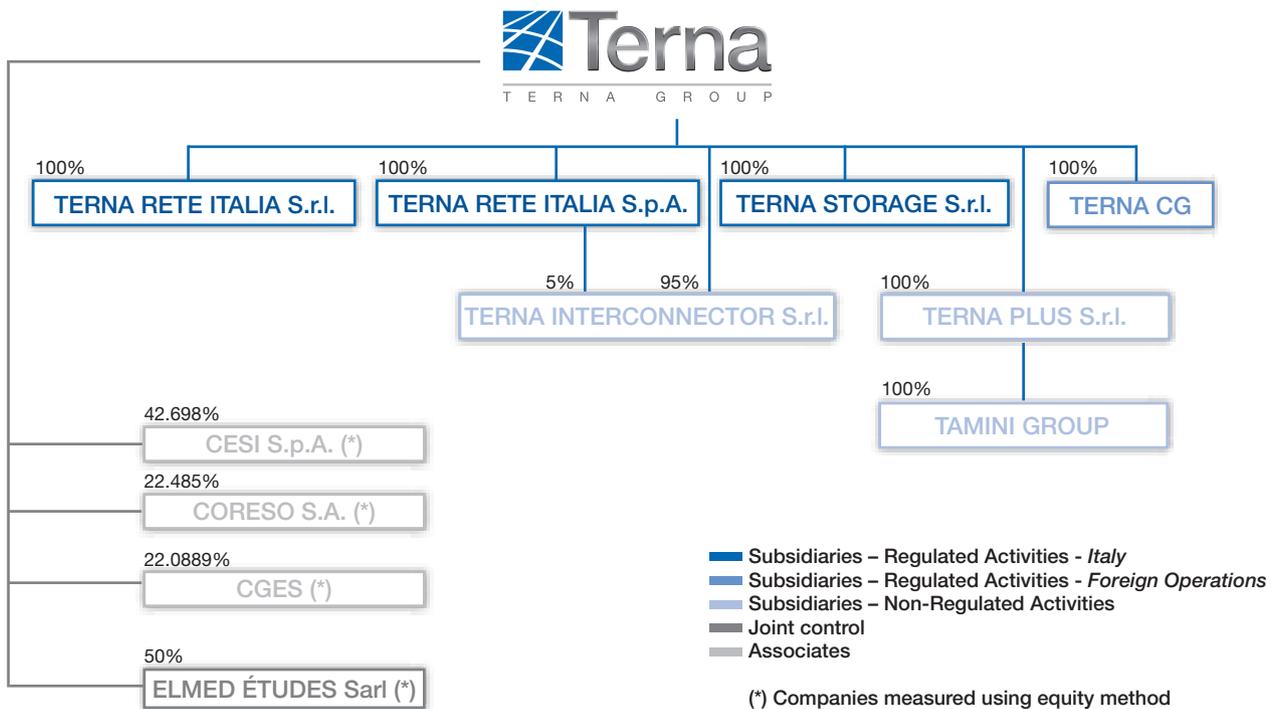
At the end of 2014, socially responsible investors hold 14.9% of Terna's share capital. There were 81 SRI (Socially Responsible Investors), i.e. those choosing to invest in Terna with a sustainable approach in mind, based on the consideration of ESG (Environmental, Social and Governance) aspects (in line with the 2013 number of 85) and representing 6.1% of the floating shares (7.2% at the end of 2013), and 10% of the shares held by institutional investors. This amount is in line with the 10% registered at the end of 2013.

The "Report on Corporate Governance and Ownership Structures", approved by the Board of Directors for the financial year 2014 – Section II: Information on Ownership Structures, published together with the Annual Report of Terna and the Terna Group, contains information on ownership structures, restrictions on the transfer of shares, shares which grant special rights, and restrictions on voting rights required under Article 123-bis of the Consolidated Law on Finance (Legislative Decree No. 58 of 24 February 1998 – "CLF").

Moreover, in order to safeguard Terna's independence and impartiality, no operator in the electricity industry may exercise voting rights in appointing the Board of Directors for a stake of more than 5% of the share capital.

Corporate structure

Below is the Terna Group's corporate structure at 31 December 2014:



Parent company

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

Subsidiaries

Regulated Activities

- **Terna Rete Italia S.p.A.**

The company is tasked, within the Terna Group, with performing all Regulated Activities, ordinary and extraordinary maintenance of the section of the NTG owned, managing and performing work on developing the grid as provided for in the Concession for transmission and dispatching, and on the basis of the provisions of the Parent Company's Development Plan. To this end, with effect from 1 April 2012, Terna Rete Italia S.p.A. signed a *business unit rental contract with the Parent Company* with consequent ad hoc intra-group contracts for regulating business.

The main accounting data of Terna Rete Italia S.p.A., approved for financial year 2014, are presented below:

€ thousands	
REVENUE	396,839.4
EBITDA (Gross Operating Margin) and EBIT (Operating Profit)	28,827.1
NET PROFIT FOR THE YEAR	5,597.6

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

The company owns approximately 12.1% of the NTG infrastructure; the design, construction, management, development, running and maintenance of high-voltage electricity lines fall within its corporate purpose. In this regard we can note that, in July, Terna Rete Italia S.r.l. acquired the business unit Brulli Trasmissione, obtaining ownership of nine NTG stations, as commented on in detail in the paragraph "Significant events" in the section "Performance".

The main accounting data of Terna Rete Italia S.r.l., approved for financial year 2014, are presented below:

€ thousands	
REVENUE	190,187.2
EBITDA (Gross Operating Margin)	166,730.3
EBIT (Operating Profit)	125,070.1
NET PROFIT FOR THE YEAR	72,831.0

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

The Company is responsible, pursuant to an *ad hoc* contract signed with the Parent company, for **safeguarding the construction of diffused energy storage systems projects, as well as related coordination, study and research activities.**

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

The main accounting data of Terna Storage S.r.l.¹³, approved for financial year 2014, are presented below:

€ thousands	
REVENUE (Value of Production)	1,221.4
EBITDA (Gross Operating Margin) and EBIT (Operating Profit)	142.0
NET PROFIT FOR THE YEAR	93.2

(13) Terna Storage S.r.l. and Terna Plus S.r.l. prepare the financial statements in accordance with the Italian accounting standards.

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

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

Non-Regulated Activities

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

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

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

The main accounting data of Terna Plus S.r.l.¹⁴, approved for financial year 2014, are presented below:

€ thousands	
REVENUE (Value of Production)	6,595.3
EBITDA (Gross Operating Margin)	(962.8)
EBIT (Operating Profit)	(2,005.1)
NET PROFIT FOR THE YEAR	10,467.8

The sphere of Non-Regulated Activities includes some of the extraordinary operations which characterised financial year 2014 and which regarded:

- completion on **20 May 2014** of the operation for acquisition by Terna Plus S.r.l. of the entire capital of **Tamini Trasformatori S.r.l.** and of the companies controlled by the latter: V.T.D. Trasformatori S.r.l., Verano Trasformatori S.r.l.¹⁵ and Tamini Transformers USA L.L.C. The Tamini Group operates in the production and sale of industrial and power electricity transformers and owns 4 manufacturing facilities, all situated in Italy, in Legnano, Melegnano, Novara and Valdagno. At the acquisition date, the Tamini Group's employees numbered 377 and revenue amounted to approximately € 58.2 million¹⁶;
- the incorporation on **23 July 2014** by the parent company Terna and the subsidiary Terna Rete Italia S.p.A. of **Terna Interconnector S.r.l.** with share capital of € 10,000, subscribed 95% by Terna S.p.A. and for the remainder by the aforementioned subsidiary.

The incorporation of the company is part of the process to develop the Terna Group's Non-Regulated Activities, mainly with reference to the development and management of foreign interconnection infrastructure.

For more details about these extraordinary transactions, please refer to "Significant events" in the section "Economic-financial performance," as well as the subsequent section "Other activities."

Associate companies

CESI

This is a leading company in testing and certifying electro-mechanical equipment, and electrical system consultation. It covers all stages of the electricity system life cycle and offers companies operating in the electricity system (generation, transmission and distribution), the manufacturers of electrical and electronic equipment, large electricity consumers, and local and national public administrations a full range of services aimed at resolving problems related to the production processes of the entire electrical energy sector.

The main accounting data of CESI S.p.A., approved for financial year 2014, are presented below:

(14) Terna Storage S.r.l. and Terna Plus S.r.l. prepare the financial statements in accordance with the Italian accounting standards.

(15) The company Verano Trasformatori S.r.l. was subsequently incorporated into Tamini Trasformatori S.r.l., as of 1 January 2015.

(16) Measured according to the accounting criteria adopted by the Terna Group.

€ thousands	
REVENUE (Value of Production)	90,058
EBITDA (Gross Operating Margin)	16,381
EBIT (Operating Profit)	10,696
NET PROFIT FOR THE YEAR	2,057

CORES0

This is a Belgian service company with its headquarters in Brussels; Terna became a shareholder in November 2010 with a 22.485% stake. The shareholding structure of the company includes the operators of France (RTE), Belgium (Elia) and Great Britain (National Grid), each with a share equal to that of Terna, and the German operator, 50Hertz Transmission, with 10%. CORESO prepares daily forecasts and real-time analyses of energy flows in Central and Western Europe, identifying possible critical issues and duly informing the TSOs concerned in a timely manner.

CrnoGorski Elektroprenosni Sistem AD ("CGES")

This is the Montenegrin TSO (Transmission System Operator) of which Terna became a shareholder, holding 22.09% of the capital, following approval by the CGES shareholders' meeting of a capital increase restricted to Terna. The agreement is the result of industrial and country-system cooperation and is part of the intergovernmental agreements between Italy and Montenegro, which began on 19 December 2007 and were ratified with the signing of a strategic partnership agreement in November 2010, for the construction of a new undersea electricity interconnection and the implementation of a partnership between the national transmission operators.

Joint ventures

ELMED ÉTUDES

This is a Tunisian company in which Terna and the Tunisian electrical company STEG hold 50% each. The company's purpose is to carry out preliminary research and consulting for:

- the preparation of tender documents for the construction and operation of an electricity generation site in Tunisia, pursuant to the Joint Declaration signed on 20 June 2007 by the Italian Ministry for Economic Development and the Tunisian Ministry of Industry, Energy and Small Business and,
- the execution of studies related to all the work necessary to connect the Tunisian and Italian electricity grids, including conversion stations, located in Tunisia and Italy, respectively.

Due to changes in the political and economic situations, the project and therefore the tender for the creation of the generation site were not pursued. Nonetheless, as the creation of an undersea interconnection between Italy and Tunisia remains strategic, on 31 July 2013 the ELMED Études shareholders' meeting resolved to separate the study related to creating the connection from those related to creating the generation site, authorising the joint managers of the company to carry out all necessary actions for this purpose.

Group's history

Creation

31 May 1999

Terna is created
Legislative Decree No. 79/99 (the "Bersani Decree") begins liberalisation of the electricity sector. It provides for the separation of ownership and management of the national transmission grid. Two new companies are created: Terna, to own the grid, and the National Transmission Grid Operator (NTGO) to manage the grid.

11 May 2004

Terna manager and owner of the Grid
The Prime Ministerial Decree of 11 May 2004 sets out criteria, methods and conditions for combining the ownership and management of the national transmission grid under Terna. It also defines a new corporate governance which aims to guarantee the neutrality and impartiality of Terna's operations.

23 June 2004

Entry onto the stock market
Terna is listed on the Italian electronic share market in the Blue Chip segment. The placement is 50% of the share capital (the other 50% is held by Enel, which is still the major shareholder) and the fixed price for a single share is € 1.70. At the end of the day, the stock, mainly bought by US, British and Italian funds, closes with an increase of 3.60%, breaking the volume record with over 90 million exchanges.

15 September 2005

Terna consolidates its ownership structure
Cassa Depositi e Prestiti S.p.A. (CDP) buys 29.99% of Terna shares from Enel and becomes a major shareholder. Enel's holding falls to 5%. The company's shareholder structure becomes what it is today, the most suitable for its strategic role. The Ministry for the Economy and Finance is present through CDP: a further safeguard of the duty of general interest entrusted to Terna as the National Transmission Grid operator.

1 November 2005

The new Terna
The ownership and management of the National Transmission Grid – set out the previous year in the Prime Ministerial Decree of 11 May – are brought together in Terna. This is the culmination of a process which began in 1999 and the start of a new phase in Terna's mission in the country's service: record industrial and financial performance, value creation for shareholders and stakeholders, sustainable and shared development.

Key periods of growth

2005

The new Terna, the new BoD
The Shareholders' Meeting appoints the new Board of Directors. **Flavio Cattaneo is Chief Executive Officer, Luigi Roth the Chairman.**

2007

Increasingly sustainable development
Terna launches the "**10 projects for sustainable development**": 1,200 km of old overhead power lines will be demolished and replaced with 450 km of new high-tech lines and underground cables.

2008

19 December
Terna is Europe's largest TSO
After purchasing 18,600km of High-Voltage line from Enel for € 1,152 million, Terna is confirmed as the largest **independent grid operator in Europe and seventh in the world.**

2009

Top security
30 July
Terna and the Ministry of the Interior sign an agreement that makes Italy a pioneer in protecting the country's strategic sectors as regards security.

3 November

Terna sells the Brazilian subsidiary Terna Participações SA, generating a capital gain of over € 400 million, which is reinvested in developing the Italian grid and allocated to supplement the dividends policy.

2010

New strategic results

15 March

Terna receives the “EEI International Utility Award”: best European utility for total shareholder returns 2007/2009.

18 October

Terna closes the biggest photovoltaic deal in Europe, transferring to Terra Firma plants which produce around 150 MWp in power. The operation increased the Italian photovoltaic park by almost 10%.

23 November

The strategic partnership with the Montenegrin transmission operator CGES AD is signed.

Terna to build Italy-Montenegro submarine connection.

2011

The grid that unites Italy

March-July

Terna builds infrastructure of international excellence: it opens the SA.PE.I. (Sardinia-Italian peninsula) and the Chignolo Po-Maleo in Lombardy. It also opens the construction sites for the Sorgente-Rizziconi (between Sicily and Calabria).

5 July

The Terna 2010 Sustainability Report is given an A+, the highest grade possible for completeness of the information published.

2012

Company reorganisation

April

The new company structure becomes operational, with a greater focus on regulated activities and on the new non-regulated activities: in addition to the parent company Terna, two new operational companies are founded: **Terna Rete Italia S.p.A. (regulated)** and **Terna Plus S.r.l. (non-regulated)**.

A company of Italian excellence

January

Terna is the only Italian electricity company, of the 104 monitored in the world, to enter the Gold Class of the “Sustainability Yearbook 2012” of the international sustainability rating agency SAM.

2013

Gains for the country, profits for the shareholders

March

For the second consecutive time, Terna receives the EEI International Utility Award: it is the best European utility in terms of total shareholder returns in 2010/2012.

August/December

Terna begins initial work with batteries: innovative products, at the leading edge worldwide, for storage of electricity produced by renewable energy.

December

The value of Terna’s grid more than doubles: from around 5 billion in 2005 to over 12 billion currently.

It has caught up with, and in some cases, passed, its European counterparts.

2014

January/June

The Trino-Lacchiarella (between Piedmont and Lombardy) and Foggia-Benevento (between Campania and Apulia) lines begin operating. The Italian grid becomes not only more efficient, secure, economical and sustainable, but also more innovative thanks to the use of innovative supporting structures (single-stem and “Germoglio” (“Bud”)).

May

The Terna Group expands and diversifies its know-how by acquiring Tamini, an Italian company which is a world leader in the production of industrial and power electrical transformers.

Renewal of the BoD

27 May

The Shareholders’ Meeting appoints the new Board of Directors and elects Catia Bastioli as the Chairwoman.

At its first meeting, the new BoD unanimously appoints Matteo Del Fante as Chief Executive Officer and General Manager.

TSO and other activities

The national TSO and electricity transmission

Terna's core business is the transmission of electricity in Italy.

The Italian electricity system consists of four stages: producing, transmitting, distributing and selling electricity.

Terna is responsible for managing the electricity system by:

- operating the High-Voltage grid and dispatching;
- maintaining infrastructure;
- planning grid development;
- carrying out development projects.



The main stages of the transmission service are as follows:

Grid operation and dispatching

In operating the grid, it is **essential to ensure a balance between input and output at all times**, i.e. between the supply of energy, produced domestically and imported, and consumption by end users.

Preparation for real-time operation includes **planning unavailability** (of the grid and of production plants) with different time horizons, forecasting national electricity demand, comparing demand for consistency with the production plan determined as the result of the free energy market (Electricity Market and contracts outside of the Electricity Market), acquisition of resources for dispatching, and checks on the power transits for all the transmission grid lines. During the **real-time control** stage, the National Control Centre, coordinating other centres around the country, monitors the electricity system and dispatches electricity, intervening, by communicating commands to producers and Remote-Control Centres, in order to vary grid supply and distribution. To avoid the risk of grid degeneration and prolonged power outages, it may also intervene in an emergency to reduce the demand.

Maintenance

By virtue of the aforementioned business unit rental contract, Terna Rete Italia S.p.A. maintains power lines and stations through three Area Offices, which are divided into eight Operational Transmission Areas and which employ around 71% of the Group's human resources.

Grid development planning

Analysing electricity flows in the grid and producing demand projections allow Terna to **identify the critical points of the grid and work to be carried out** in order to ensure that the system is adequate in terms of meeting demand, securing operations, reducing congestion, and improving service quality and continuity. Work to be carried out is detailed in the National Transmission Grid Development Plan, which is presented every year to the Ministry for Economic Development for approval. Terna then follows the authorisation process, from prior consultation with local government through to construction authorisation.

Terna Rete Italia S.p.A. also sets the engineering standards for plants connected to the grid, particularly construction standards and the performance required from equipment, machinery, and station and power line components. As far as plant construction is concerned, **projects are prepared for the authorised works**; working methods and technical specifications are set out for the components and materials that will be used in constructing the new lines or stations, including the adoption of innovative methods. The construction of new plants is normally outsourced. Finally, by analysing the grid, Terna also identifies the **best ways of connecting to the transmission grid** for all operators who wish to connect their plants.

Other activities

Terna and Non-Regulated Activities

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

Activities performed in Italy

During financial year 2014, Terna Plus continued to perform activities related to work orders for third parties connected to the creation and/or extension of power stations for photovoltaic, wind and industrial systems, and the provision of installation, activation and rental services to independent operations for Rapidly Installable Connection Stations (henceforth, "RICSs")¹⁷, to which it added the concession in use service for the MV/HV substations (user cabins) used to connect photovoltaic systems owned by third parties¹⁸.

The other Non-Regulated Activities performed by the Terna Group include mostly 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 grid maintenance services (in particular for the Wind Group). Also important is fulfilling orders to make changes to the NTG, with particular reference to activities related to Expo 2015.

Interconnector

With reference to the development of interconnections with nearby countries, Terna's actions worked towards the goal of greater security, savings and sustainability for supplies. Investments in foreign countries are an indispensable action for diversification with respect to investments within in Italy. This all occurs, with an eye to a "country-wide system", in cooperation with energy operators with a strong presence abroad.

With regard to the first type of investment, Italy is the most interconnected state in Europe; particularly with the Mediterranean countries: France, Slovenia, Greece and soon Malta (in 2015) and Montenegro (in 2019).

Development abroad

Focusing international development on the Mediterranean basin allows Terna to benefit from Italy's competitive advantage: its geographical positioning – not only a potential outlet market but a hub between continental Europe and the Mediterranean. This also has an impact on the security of the system; following the integration of renewable sources in the grid, and European regulations to create a single market, it is essential to create strong interconnections with foreign countries and, therefore, natural outlet markets such as the Balkans and North Africa.

Foreign investments, focused on countries with positive growth trends, predictable regulatory/legal structures and the need to establish electricity infrastructure, represent a business opportunity for the Group, allowing it to take advantage of its world class skills and best practices.

Tamini

On 20 May 2014 the operation to acquire the Tamini Group by Terna Plus S.r.l. was completed. The Group operates in the production and sale of industrial and power transformers, through 4 production plants located throughout Italy, in Legnano, Melegnano, Novara and Valdarno. 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.

(17) RICSs are mobile high voltage stations that can be used both for fast connection to the NTG for new users, and for the renewal of existing plants. They are used in particular in the case of station malfunction, serving as temporary emergency stations, as well as for generation systems using renewable sources, during the time needed to construct the definitive station.

(18) Terna Plus is the owner of seven RICSs and six user cabins.

Reference context

Social context

Community

Terna's main business is the provision of a service which is indispensable for the operation of the entire electricity system and to ensure electricity for all citizens and businesses. The greatest social and economic impact of the company's business lies in its ability to provide the general public with a reliable, efficient electricity service. The commitment made to service is therefore the main reference point, also in terms of the approach towards sustainability.

In general, Terna's intent, as ratified in its Code of Ethics, is to construct and develop relationships based on trust with stakeholders, which are able to create value for the business and for the stakeholders themselves.

Although the end users of the electricity service are not direct customers of Terna, but of companies which distribute and sell electricity, the essential role it performs in the electricity system makes the company **ethically responsible for the service in relation to Italian society**. Thus Terna is fully aware of the responsibility entrusted to it by the government concession, and shares its objectives:

- to provide a secure, reliable, continuous, and cost-effective service;
- to keep the transmission system efficient and to develop it;
- to observe the principles of impartiality and neutrality in order to ensure equal treatment for all grid users.

Business activities and sustainability questions are closely linked for Terna, so much so that the company and its stakeholders consider adopting a **responsible approach to planning the NTG** a priority.

This means being pro-actively concerned about the possible environmental and social impact of any development, by adopting all the necessary measures to prevent and minimise such an impact, and pursuing a **constructive dialogue with local communities** who live in the area where the development is planned, or where there are power lines.

For Terna, respect for the environment and for local communities is a rule of conduct which can trigger a virtuous cycle: it allows biodiversity and the richness of the landscape and local culture to be preserved, and facilitates acceptance and the creation of new infrastructure, generating financial benefits for shareholders and for society, which can enjoy a more secure, more efficient and less costly service. Focus on the community is also demonstrated by the creation of social, humanitarian and cultural initiatives which are a concrete sign of participation in the growth of civil society.

Important Terna Group stakeholders

When establishing its Code of Ethics, Terna identified the eight most significant categories of stakeholders in terms of continuity of the relationship and of the importance of the Company's impact on them and vice versa.

In 2014 this map was revised to highlight more stakeholders that were previously merged with others, raising to 12 the most significant categories of stakeholders.



As regards the most important commitments expressed in the Code of Ethics and the specific engagement tools such as monitoring and checking expectations and opinions, see the paragraph on “Safeguarding relations with stakeholders” in the “Risks and opportunities” section of the document.

Energy context

Demand for electricity in Italy

For the third consecutive year, demand for electrical energy in Italy fell. In 2014, the demand for electrical energy in Italy was 309,006 million kWh (provisional data), a drop of -3.0% in comparison with 2013, which, in turn, ended with the same decline compared with 2012. The electricity demand recorded this year takes us back to the same level as the early years of the 21st century.

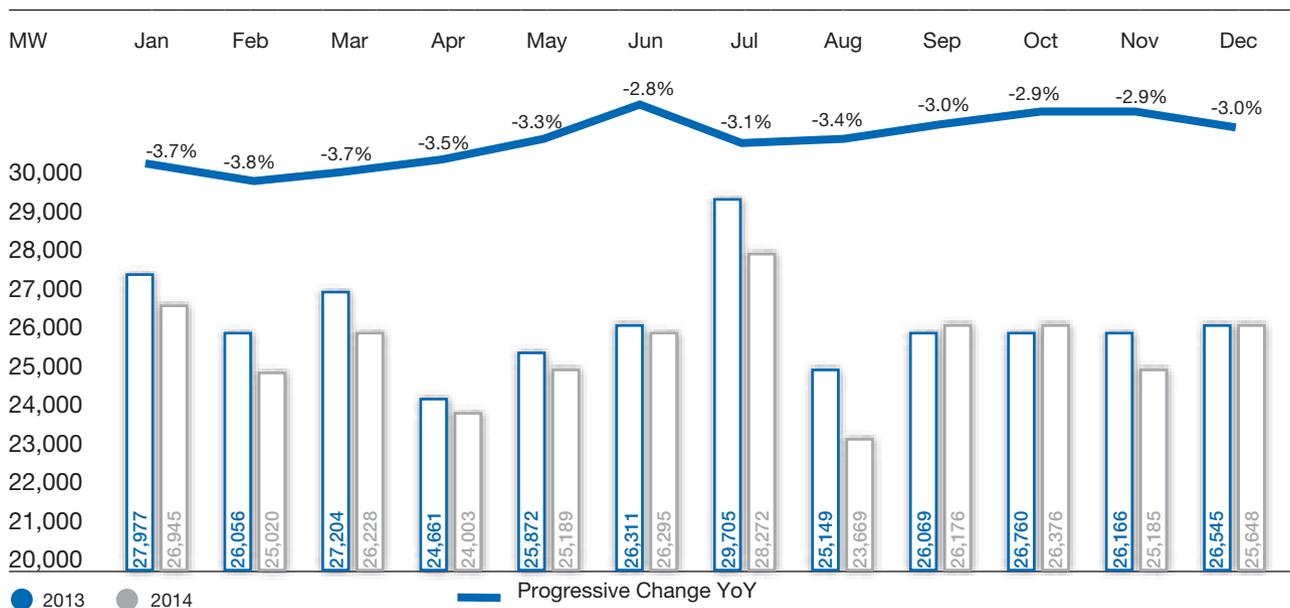
When comparing the 2014 results with those of the previous year, with same days and temperatures, the above decline was 2.1%. Calendar and temperature effects in this instance are cumulative: in conjunction with an average temperature that was approximately half a degree lower in the summer months and more than two degrees higher in the winter months, 2014, while having the same number of days as 2013, had two fewer working days.

ELECTRICITY BALANCE SHEET FOR ITALY

GWh	2014*	2013	Change	%
Net production	267,557	278,832	(11,275)	(4.0)%
From foreign suppliers	46,724	44,338	2,386	5.4%
Sold to foreign clients	3,021	2,200	821	37.3%
For pumping	2,254	2,495	(241)	(9.7)%
Total demand in Italy	309,006	318,475	(9,469)	(3.0)%

* Provisional data

The trend of electricity requirements in Italy in 2014, compared to the previous year, is shown in the graph below:



Electricity generation

In 2014, net Italian production was 267,557 million kWh (provisional data), showing a fall of 4.0% from the previous year. The same production, divided according to source, shows that, in comparison with 2013, there was a fall in the production of thermal energy and an increase in production from renewable sources¹⁹ including wind, solar and geothermal. There was also a sharp increase in hydroelectric production (please see the following table).

ELECTRICITY PRODUCTION IN ITALY

GWh	2014*	2013	Change	%
Net hydro generation	58,067	54,068	3,999	7.4%
Net thermal production ²⁰	165,684	183,404	(17,720)	(9.7)%
Net wind, photovoltaic and geothermal production	43,806	41,360	2,446	5.9%
Total net production	267,557	278,832	(11,275)	(4.0)%

* Provisional data

Regulatory context

Revenue structure and the regulatory framework

In 2014, the Terna Group's revenue amounted to € 1,996.4 million. The majority of this revenue (about 93%) derives from activities regulated by the Electricity and Gas Regulatory Authority (hereafter, the Authority) and 7% refers to non-regulated activities, mainly represented by revenues of the Tamini Group and for specialised services provided by the Terna Group companies to third-party entities such as maintenance activities on HV facilities, plant engineering, maintenance of the fibre optic network, housing of TLC equipment, as well as other consulting activities in the transmission sector.

Regulated revenue

Regulated revenue is generated by the fees for transmission and dispatching,²¹ and by incentive mechanisms related to specific spheres of the service and aimed at improving the same. **As is implicit in incentive mechanisms, upon reaching objectives, the benefit to service users will be a multiple of the incentive paid to Terna.** These mechanisms can be divided into:

- a) tariff incentive mechanisms, implemented in the calculation of unit tariffs;
- b) non-tariff incentive mechanisms, such as bonuses/penalties for transmission service quality.

Transmission service

The income linked to the transmission service fee (CTR) represents the main item of regulated revenue. It is invoiced by Terna to the distribution firms which take energy from the NTG, in proportion to the respective energy quantities taken from the NTG.

This payment is to remunerate Terna (and the other subjects which hold residual portions of the NTG) for the activities directly connected to the transmission service, and it also includes certain incentives aimed at promoting investment in infrastructure.

The Authority, with Resolution No. 199/11, following a consultation process, set out (i) the criteria and formulae for calculating the grid transmission fee, valid for the entire regulatory period 2012-2015, (ii) the rules for the annual updating of the unit value of the grid transmission fee during the same regulatory period.

The unit value of the grid transmission fee is therefore determined annually by the Authority, on the basis of rules defined at the beginning of every four-year regulatory period. For the years 2013, 2014 and 2015, the unit amount of the grid transmission fee was updated respectively by Authority Resolutions No. 565/12, No. 607/13 and No. 653/14.

The unit amount of the grid transmission fee for the energy transport service absorbed by the NTG Distributors during the course of the year "Y" is determined at the end of every year "Y-1" as the ratio between:

- A. the costs paid to Terna and the other holders of residual portions of the NTG for the transmission service in the year "Y-2" and
- B. the forecast of the quantity of energy transported on the NTG in the year "Y" (year in which the unit tariff is applied).

(19) Renewable production can be defined as total production from wind, solar, geothermoelectric, biomass (included in the table under thermal production) and hydro power net of pumping plant production.

(20) A proportion of thermoelectric production, amounting to approximately 16,400GWh, was attributable to biomass, a renewable source.

(21) Regulated revenue also includes revenue that Terna receives for the metering service, although the related tariff is of a negligible amount for the purposes of the results of the period.

The components of costs paid, considered when determining the transmission rates belong to three main categories:

1. **Cost paid to cover the RAB remuneration:** the value of the RAB (Regulated Asset Base) is revalued annually on the basis of Istat data regarding the change in the gross-fixed-investment deflator and is updated to account for net investments made by Terna and decommissioning carried out during the year. The RAB remuneration is made up of:
 - *Base remuneration*
Pursuant to Resolution No. 199/11, as subsequently updated, the RAB is remunerated by the Authority at a base return rate (WACC) linked to that of the market:
 - 2012 and 2013 Tariffs: WACC at 7.4%;
 - 2014 and 2015 tariffs: pursuant to Art. 2 of Resolution No. 199/11, the WACC has been updated by the Authority to 6.3%; it is also contemplated that all the investments made after 31 December 2011 should benefit from an additional 1%, recognised by the Authority in order to compensate the “regulatory lag”, i.e. the delay with which the tariffs remunerate investments (as indicated above, the tariffs related to the year “Y” reflect the return on investments up to the year “Y-2”). Therefore, the RAB base return on such investments (starting from the 2014 tariffs) is 7.3% (6.3%, +1%).
 - *Incentive remuneration (tariff incentive mechanisms)*
For some specific types of investment, incentives are contemplated aimed at promoting investment in infrastructure:
 - *Additional WACC* (on investments which have entered into service): for some types of investment, the WACC is increased for 12 years from the date of commissioning.
 - *Acceleration of investments:* for some strategically important investments, an increase in the WACC is contemplated also in the construction period (works in progress), provided Terna reaches certain effectiveness indicators.

In 2014, RAB remuneration (base + incentives) constituted approximately 51% of Terna’s recognised costs.
2. **Cost paid for depreciation and amortisation:** recognised depreciation and amortisation are adjusted in accordance with the useful life of assets and new investments which have come into operation. They are also revalued annually according to changes in the deflator of gross fixed investments. The portion of amortisation/depreciation remuneration represented approximately 31% of the total recognised costs in 2014.
3. **Cost paid to cover operating costs:** the component covering these costs, which in 2014 came to around 18%, is based on annual operating costs, valid for the entire regulatory period (i.e. 2010 for the regulatory period 2012-2015) and on the residual portions - temporarily left to Terna - of the extra-efficiency achieved in the two previous regulatory periods. The entire amount is revalued annually on the basis of inflation and reduced by an efficiency factor aimed at completing, over time, the transfer to the final users of the extra-efficiency achieved.

The grid transmission fee is for the transmission of all the holders of portions of the NTG, and it is therefore calculated by the Authority on the basis of the recognised costs of the entire transmission sector. The transmission revenues are entirely collected by Terna, which later, after deducting certain parts exclusively due to Terna, shares it out according to competence between all the holders of NTG portions.

Dispatching service

The fee for the dispatching service (DIS) remunerates Terna for activities directly connected to the dispatching service, and it is invoiced by Terna to the withdrawal dispatch users²², in proportion to the respective quantities of energy dispatched. The related revenues are entirely due to Terna, as the only subject responsible for this service.

Resolution No. 204/11 calculated the DIS fee for the year 2012 and decided on the annual updating with the same criteria and methods as contemplated by Resolution No. 199/11 for the grid transmission fee.

For the years 2013, 2014 and 2015, the unit amount of the DIS fee has been updated respectively by Resolutions No. 576/12, No. 636/13 and No. 658/14.

Revenue guarantee mechanism

Once the unit amounts of the transmission and dispatch tariffs have been established (recognised costs divided by the reference quantity), the returns gained by Terna depend on the actual trend of the physical quantities concerned, and particularly on the energy transported by the NTG and the energy dispatched. The sharp decline in consumption that began in the second half of 2008, together with the increase in energy input into the distribution networks due to incentives for the production of renewable energy, have rendered the trend in energy transported by the NTG less predictable and led the Authority to confirm, for the IV regulatory period (four-year period 2012-2015), the mechanism to partially neutralise the volume effect, introduced by Resolution ARG/elt 188/08. According to this mechanism:

- if the final energy total is less than that used to calculate the tariffs, Terna’s remuneration is increased for the portion of volumes which exceed the -0.5% exemption;
- if the final energy total is greater than that used to calculate the tariffs, Terna is required to return the excess earnings for the portion of volumes which exceed the +0.5% exemption.

(22) “Dispatch users” means subjects that have signed a dispatching service contract with Terna.

2014 Incentive schemes

The Authority has introduced specific bonus and penalty schemes aimed at encouraging service improvement, both in terms of technical reliability and cost. As is implicit in incentive mechanisms, upon reaching objectives, the benefit to service users will be a multiple of the incentive paid to Terna. In particular, in 2014 incentive mechanisms were provided:

- for the transmission service quality (non-tariff incentive mechanism);
- for the promotion of significant investments (tariff incentive mechanisms: additional WACC and investment acceleration, described previously).

The bonuses/penalties connected to achievement of the objectives established as part of the incentive schemes are included in Terna's total regulated revenue.

2014 INCENTIVE SCHEMES

Objective	Authority Resolution	Period applicable
Quality of transmission service	Resolution 197/11	2012-2015
Promotion of particularly important investments (additional WACC and investment acceleration)	Resolution 199/11	2012-2015

Regulatory changes

With Resolution No. 483/14, the Authority began the procedure that will give rise to the definition of the provisions for the V regulatory period (starting on 1 January 2016) with regard to the tariffs for electricity transmission, distribution and metering services, as well as the quality of these services and the technical/economic conditions for the connection service.

To that end, on 15 January 2015, the Authority published Consultation Document 5/2015/R/EEL regarding "Regulation criteria for the tariffs and quality of electricity transmission, distribution and metering services for the fifth regulatory period". On the basis of the provisions of this document, according to the Authority's forecasts, the consultation regarding the V regulatory period will take place during 2015.

Pass-through items

In addition to regulated revenues and those generated by non-regulated activities, Terna manages cost and revenue items connected to the transactions, completed with electricity market operators, to buy and sell the energy necessary for the dispatching services: these are the "pass through" items, i.e. those which do not influence net income on the Terna Group's Income Statement (revenues equal costs).

These items include payments such as the capacity payment which Terna collects from withdrawal dispatching users and passes on to the producers who make the capacity available on the market. It also includes the payment that Terna collects from the withdrawal dispatching users and passes on to the operators which supply the load interruption service. A significant proportion of pass-through items consist of uplift, a tariff component which includes various system costs, including covering the net expenses incurred to procure resources on the Dispatching Service Market (DSM).

In 2014, pass-through revenues and costs for the Terna Group totalled € 5,882.2 million. The components of these transactions are detailed below.

€ million	2014
Revenue – Electricity Market	
- Foreign market - exports	0.5
- Sale of energy on the Day Ahead Market, Adjustment Market, Market for Dispatching Service and others	336.8
- Imbalances and other minor items	769.6
- Resources procurement for the Market for Dispatching Services	1,962.8
- Congestion revenue - (RTC), Res. No. 288/06	811.3
- Other items - Power Exchange	60.9
- Interconnector/Shipper	72.8
- Market coupling Res. 143/10	20.5
Total revenue - Power Exchange	4,035.2
Revenue - non-Electricity Market	
Revenue components under Res. Nos 168/04 - 237/04 and others	1,447.2
Other items	384.1
Total revenue from outside the Power Exchange	1,831.3
Pass through transmission fee	
Transmission fee revenues, other owners	15.7
Total transmission fees, other NTG owners	15.7
Total revenue	5,882.2
Costs - Electricity Market. Energy purchases	
- On Day Ahead Market and Adjustment Market	261.9
- To provide the dispatching service	1,839.7
- For unbalancing	831.0
- On the foreign market - imports	0.5
- Electricity Market Operator fees	0.1
- Congestion revenue - (RTC), Res. No. 288/06	486.4
- Other items - Power Exchange	53.3
- Interconnector/Shipper	560.9
- Market coupling Res.143/10	1.4
Total costs - Power Exchange	4,035.2
Costs - non-Electricity Market	
Purchase of electricity-market related services	1,447.2
Other items	384.1
Total costs from outside the Power Exchange	1,831.3
Pass through transmission fee	
Fees payable to NTG owners	15.7
Total fees payable to NTG owners	15.7
Total expenses	5,882.2

Legislative context

With reference to the legislative context the Terna Group works within, please refer to Annex “Italy’s Regulatory Framework” in this section, for a more detailed description of the main regulatory provisions of interest for the Group’s companies issued during the course of 2014 and, subsequently, up to the date this Annual Financial Report was prepared.

The annex is divided into the sections “Legislative framework” for the main legal measures, “Resolutions of the Italian Regulatory Authority for Electricity, Gas and Water” for the more strictly regulatory area and “Other information” which includes indications required by specific laws or regulations governing the sector.

The Group's business and capital

The financial, productive, intellectual, relational and human resources of the Terna Group constitute the inputs of the business model described above, which, through the organisation's activities and choices, tend to change according to the Group's strategies, with the primary objective of creating value in the short, medium and long term.

Aware of the importance its services have for the overall functioning of the electricity system and its responsibilities towards the community, Terna has always been dedicated to effectively managing the National Transmission Grid (NTG), a resource that is of the utmost importance for both the company and the entire nationwide system. In addition it works to create trust with its stakeholders (from the general community to its employees), thereby ensuring a solid business model, both medium and long-term.

National Transmission Grid (NTG) – The 2014 Development Plan

Among Terna's assets, the National Transmission Grid has a primary role.

The National Transmission Grid Development Plan

The NTG must gradually evolve and expand in accordance with developments in the generation and consumption of electricity. Both the supply and demand of electricity evolve 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 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 NTG development investments for 2014-2023; 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 DP. The DP 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 AEEGSI, and also subjected to evaluation by the Grid User Consultation Committee, according to the provisions of the Terna Grid Code.

In particular, on 6 October 2014 the consultation phase for the 2013 and 2014 DPs ended, with observations on the development plan formulated by the stakeholders being sent. Subsequently, upon request by the Authority, in November 2014 Terna sent its own comments on the observations which had been received.

In addition, pursuant to Legislative Decree 152/06, as amended, the DP is also subject to the Strategic Environmental Assessment (**SEA**)²³ process carried out by the Ministry of the Environment and Protection of Land and Sea, in collaboration with the Ministry for Heritage, Culture and Tourism.

The 2014 DP envisages investments totalling around € 8.1 billion, thanks to which efficiencies will be achieved for the electricity system of over € 1.4 billion as well as other notable benefits:

- reduction of energy losses of 1.1 billion kilowatt-hours per year;
- reduction of CO₂ emissions of approximately 13 million tonnes/year;
- reduction of congestions for an amount of more than 5,000 MW;
- greater foreign exchange capacity, estimated at more than 6,000 MW;
- greater power capacity generated by renewable sources of around 6,000 MW.

In addition, implementation of the 2014 DP will lead to an increase in the dimensions of the NTG of around 4,500 km of new power lines and more than 110 new stations for a new transformation capacity of over 17,000 MVA.

(23) It may also be subject to screening to check whether it should undergo SEA pursuant to Legislative Decree No 1 of 24 January 2012.

Finally, we note that at the end of December 2014, in the European context, under the aegis of ENTSO-E (European Network of Transmission System Operators for Electricity) the Ten-Year Network Development Plan of the European electricity grid 2014 edition is being prepared (TYNDP 2014), on the basis of the provisions of the European Community Regulation regarding the “Third Energy Package”. Terna is directly involved with this plan in the context of the working groups and Regional Forums established: Continental Central South and Continental South East.

The Development Plan Strategic Environmental Assessment Procedure

The process for obtaining approval of the 2014 Development Plan from the Ministry for Economic Development requires the acquisition of a reasoned opinion, on completion of the SEA procedure²⁴, expressed by the Ministry for the Environment and Protection of the Territory and the Sea (the competent authority), together with the Ministry for Heritage, Culture and Tourism.

The goal of the SEA is to contribute to integrating environmental considerations into the process of preparing the plan, in order to guarantee environmental sustainability for the plan in question. Over the course of the years, Terna has shared a methodological/procedural approach to applying the SEA to the DP with the Ministry of the Environment and Protection of Land and Sea and the other relevant institutional organisations, focused on prior consultation with the relevant territorial authorities (Regions, Provinces, and Municipalities). The objective is a shared search for local sustainable solutions, in terms of environmental/local corridors, for the actions foreseen in the DP²⁵.

A summary of the progress of the SEA procedures for each of the relevant DPs follows:

- **2012 DP:** on 21 December 2012, Terna published the Environmental Report, for which the consultation phase ended on 19 February 2013. On 19 November 2014, the Ministry of the Environment and Protection of Land and Sea expressed its reasoned opinion.
- **2013 DP:** on 21 June 2013, Terna sent its Preliminary Report to the aforementioned authority, to verify whether it was subject to the SEA. With a note issued on 2 December 2013, the authority suspended the procedure, awaiting approval of the SEA relative to the 2012 DP.
- **2014 DP:** Terna has made itself available for prior consultation with the relevant authority, to allow for the addition of environmental considerations in preparing the Plan and prior to its approval. To this end, various meetings were held with the Ministry of the Environment, after which the drafting of the “Guidelines Report” was shared. This testifies to the cooperation with the authority in regards to the objectives of the Plan itself, on the basis of indications deriving from European and national environmental sustainability strategies. On 22 December 2014, Terna sent the Preliminary Report to the Ministry for Economic Development, aimed at verifying whether the 2014 DP was to be subject to the SEA, so that it could be sent on to the competent authority.
- **2015 DP:** confirming this path, the Guidelines Report was prepared following the 2014 DP model.

Planning and development of storage systems

Terna has affirmed its commitment to guaranteeing secure and economical grid management by launching an innovative storage system agenda. The plan is divided into two macro-projects (“**Energy Intensive**” and “**Power Intensive**”) which envisage the installation of various types of systems. The two macro-projects, as well as being highly innovative, are also unique in kind and purpose. The development of the projects, which received the extra economic incentives from AAEGSI, is supervised by Terna Storage S.r.l..

The “**Energy Intensive**” project was first introduced in the 2011 Development Plan and envisages the construction of three electrochemical NaS-technology storage systems in Southern Italy with a total capacity of 34.8MW:

- **Ginestra** (Benevento) 12 MW;
- **Flumeri** (Avellino) 12 MW;
- **Scampitella** (Avellino) 10.8 MW.

These plants will allow the 150kV backbones of the National Electricity Grid, which are present in areas with a high concentration of non-programmable renewable energy sources, to be managed with greater security and flexibility.

In the first part of 2014, construction of the Ginestra and Flumeri plants commenced and by December the first had been commissioned, as well as the first 6MW of the second.

(24) The SEA is a procedure instituted specifically, by Community Directive 2001/42/EC, for the strategic environmental assessment of plans or programs that could have significant effects on the environment. This Directive was implemented in Italy through Legislative Decree 152/2006, taking effect on 31 July 2007. Therefore, the first DP to be subjected to the SEA procedure was the 2008 DP.

(25) The method involves the application of a set of localised criteria in the GIS (Geographic Information Systems) environment, known as the ERPA criteria, which make it possible to carry out an objective analysis of the area in which new electricity transmission infrastructure will be placed. In fact, the corridors identified by the ERPA criteria avoid the areas of “Exclusion” (where the regulations in effect prohibit the creation of new infrastructure), tend to avoid areas of “Repulsion” (classified under the regulations in effect as areas with natural, landscape or cultural assets) and prefer areas of “Attraction” (existing infrastructural corridors).

Construction of the Scampitella plant was authorised by the Ministry for Economic Development in March 2014 and construction work subsequently began.

Pursuant to AEEGSI Resolution 66/2013, which acknowledges the “Energy Intensive” projects as forming part of the remuneration category for investments related to testing the storage pilot projects on the National Transmission Grid, these plants will be subject, in the next 12 years, to monitoring of the main parameters and indicators, in order to verify the use and actual application in terms of grid requirements.

From the start of the projects, the Group's total investments as of 31 December 2014 in “Energy Intensive” storage systems have come to **€ 125.6 million**, of which **€ 71.3 million** in reference to 2014, essentially regarding procurement of the NGK battery modules for the three said sites of Ginestra, Flumeri and Scampitella.

In regard to the “**Power Intensive**” project put forward in the 2012 Security Plan and which envisages the creation of 40MW, in 2014 the AEEGSI published Monitoring Resolution 12/2014, which details the tests that are to be conducted on storage systems, as well as the data that must be reported every six months.

During the year, two sites were confirmed, authorised and created – Ciminna in Sicily and Codrongianos in Sardinia – which are intended to house the Storage Systems.

Having procured lithium- and ZEBRA-based storage technologies, an activity which began in 2013, a total of 12 storage systems were constructed: 5 in Sicily and 7 in Sardinia. With the installation of these systems, accelerated testing in the laboratories was also undertaken and the results are expected in the first quarter of 2015. In regard to the 12 systems installed at the two sites, 8 came into operation in 2014, for a total of 8.6MW, with 3.2 MW in Sicily and 5.4 MW in Sardinia. Upon completion of the 16MW planned in this initial phase of the project, procurement initiatives have commenced for a further 4MW of flow and supercapacitor based technology.

From the start of the projects, the Group's total investments as of 31 December 2014 in “Power Intensive” storage systems have come to **€ 31.1 million**, of which **€ 22.0 million** in reference to 2014, essentially regarding the delivery of the modules to the Codrongianos site in Sardinia.

Below is a summary of the main investment figures regarding the Terna Group's storage systems:

Project	Total investments since project start	2014 Investments
Development Plan: “Energy Intensive” storage systems	125.6	71.3
Defence Plan: “Power Intensive” storage systems	31.1	22.0
Total investments	156.7	93.3

National Transmission Grid (NTG) – Number of plants

The number of plants belonging to Terna S.p.A. and Terna Rete Italia S.r.l. as at 31 December 2014, compared to the situation as at 31 December 2013, is shown in the following table:

	31.12.2014		31.12.2014	31.12.2013	Change
	Terna S.p.A.	Terna Rete Italia S.r.l.			
Stations	462	29	491	475	+ 16
Transformers	659	2	661	651	+ 10
	140,563 MVA	320 MVA	140,883 MVA	138,719 MVA	+ 2,165 MVA
Bays	5,084	121	5,205	5,105	+ 100
Lines	41,398 km	16,473 km	57,871 km	57,539 km	+ 331 km
Three-phase power lines	2,396	1,737	4,133	4,108	+ 25
	46,345 km	17,546 km	63,891 km	63,594 km	+ 298 km

Km and MVA are calculated to 3 decimal places and rounded to the unit.

A further detail of the number of Terna S.p.A. and Terna Rete Italia S.r.l. plants at 31 December 2014 is shown in the following two tables:

ELECTRICAL STATIONS	Units	2014	2013	Change	%
380kV					
Stations	No.	157	152	+ 5	+ 3.29
Power transformed	MVA	108,098	105,698	+ 2,400	+ 2.27
220 kV					
Stations	No.	149	150	- 1	- 0.67
Power transformed	MVA	29,826	30,171	- 346	- 1.15
Lower voltages (≤150kV)					
Stations	No.	185	173	+ 12	+ 6.94
Power transformed	MVA	2,960	2,850	+ 110	+ 3.86
Total					
Stations	No.	491	475	+ 16	+ 3.37
Power transformed	MVA	140,883	138,719	+ 2,165	+ 1.56

MVA calculated to 3 decimal places and rounded to the unit. Percentages calculated to 5 decimal places and rounded to 2 decimal places.

POWER LINES	Units	2014	2013	Change	%
380kV					
Three-phase power line length	km	12,099	11,824	+ 274	+ 2.32
Line length	km	11,086	10,908	+ 178	+ 1.63
220 kV					
Three-phase power line length	km	11,700	11,915	- 215	- 1.80
Line length	km	9,456	9,569	- 113	- 1.18
Lower voltages (≤150kV)					
Three-phase power line length	km	40,092	39,854	+ 238	+ 0.60
Line length	km	37,328	37,062	+ 266	+ 0.72
Total					
Three-phase power line length	km	63,891	63,594	+ 298	+ 0.47
overhead	km	60,978	60,734	+ 244	+ 0.40
buried cables	km	1,566	1,512	+ 54	+ 3.55
undersea cables	km	1,348	1,348	-	-
Line length	km	57,871	57,539	+ 331	+ 0.58
overhead	km	54,957	54,679	+ 278	+ 0.51
buried cables	km	1,566	1,512	+ 54	+ 3.55
undersea cables	km	1,348	1,348	-	-
Proportion of direct-current connections (200 - 400 - 500 kV)					
Three-phase power lines	km	2,066	2,066	-	-
% of total	%	3.25	3.23	- 0.02	- 0.62
Lines	km	1,746	1,746	-	-
% of total	%	3.03	3.02	- 0.01	- 0.33

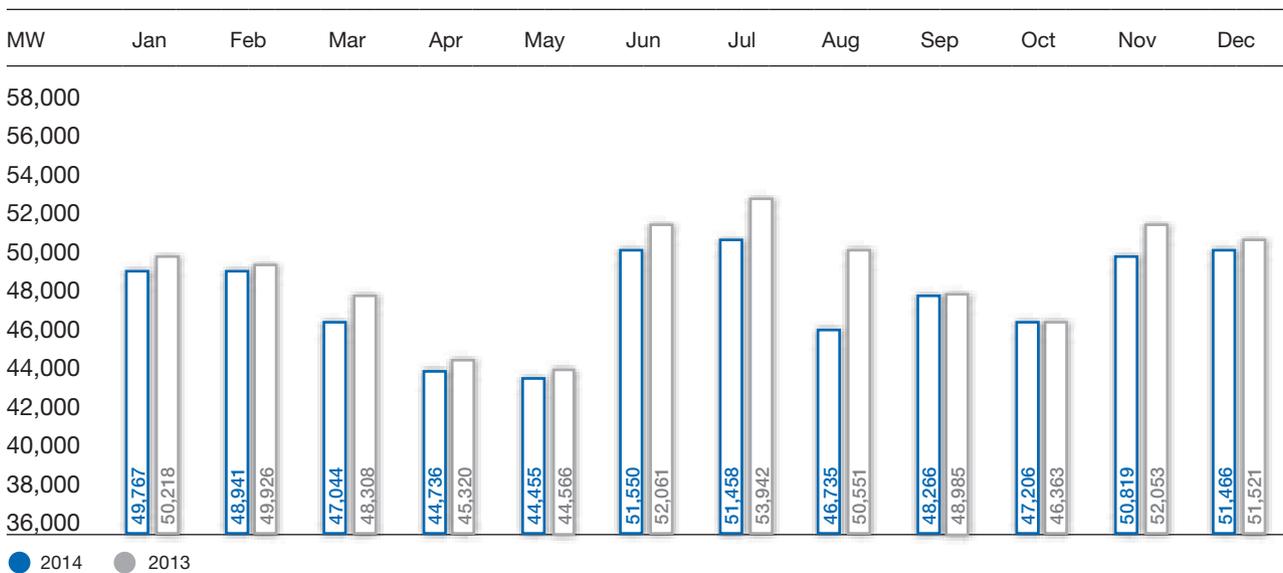
Km calculated to 3 decimal places and rounded to the unit. Percentages calculated to 5 decimal places and rounded to 2 decimal places.

The main changes in the figures of the NTG owned by the Parent Company and the subsidiary Terna Rete Italia S.r.l. are shown in the Annex "Evolution of the National Transmission Grid (NTG)" to which the reader is referred.

Electrical energy dispatching

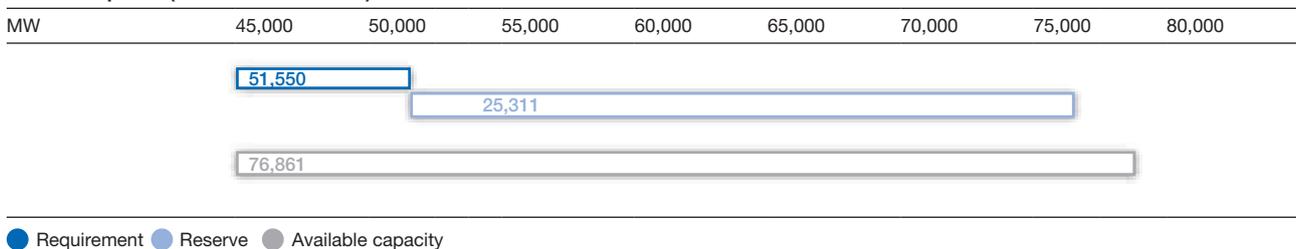
Coverage of demand

Coverage of demand, the trend of which is described in the section above, "Demand for electricity in Italy," is guaranteed by Terna through appropriate production margins as part of the process of planning the non-availability of grid elements in coordination with the non-availability of generation and considering production by plants using renewable sources. The table below shows the maximum figures for power in MW seen during each month of 2014, and compared with the same period for the previous year:



In 2014, demand reached a peak of 51,550 MW on 12 June 2014 at 12:00 p.m., -4% below the peak recorded in 2013. The table below shows available power and reserves in correspondence to the highest peak of 2014:

Summer peak (12/06/2014 12:00)

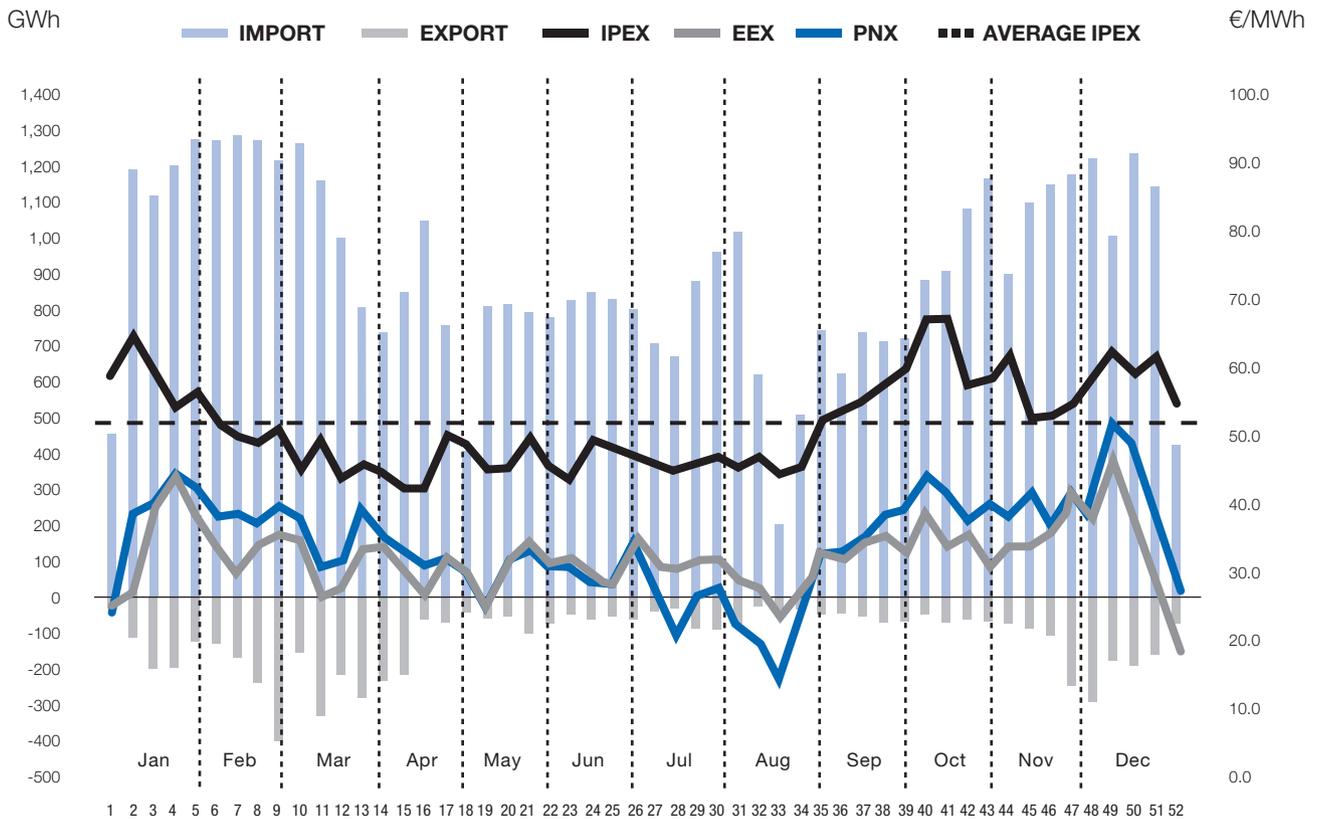


In 2014, foreign trade recorded net imports up by approximately 1.5 TWh compared to the previous year (+ 3.7% yoy). The **average median hourly price on the Italian energy exchange (IPEX/PUN)** for 2014 came to € 52/MWh, a notable decrease (-17% yoy) in comparison to 2013. It is still higher than the prices on the foreign French (PNX) and German (EEX/PHELIX) markets, which also dropped, but to a lesser degree in absolute figures than the PUN (Single National Price):

- price on the French energy exchange (PNX) of € 35/MWh (-20% yoy);
- price on the German energy exchange (EEX/PHELIX) of € 33/MWh (-13% yoy).

As a consequence, the spread between IPEX and the foreign exchanges decreased by around € 4/MWh, going from € 22/MWh to € 18/MWh. The difference in price of the exchanges is justified by the different generation fleet, characterised in Italy by greater production costs, hence the prevalence of import trade.

The trade and the weekly average prices in 2014 are presented below.



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

For the tenth consecutive year, generation from renewable sources - solar, hydro, wind and biomass - has seen significant growth, now covering 38% of all demand in 2014. On the other hand, for the third consecutive year total demand for electricity declined, as commented on in the “Energy Context” section, to which the reader is referred.

All of this clearly has an effect on electricity prices. The PUN, Single National Price, in fact was equal to € 52/MWh, the lowest since the start of the Electricity Market²⁶, -17% with respect to 2013, an effect determined both by the factors cited above, as well as the lowering of gas prices which mean that numerous traditional plants became more competitive. As a consequence, the price differential with bordering countries declined, despite the continuation of the positive sign, mainly due to the different generation fleet. The trend for exchanges abroad and prices on the Italian and foreign stock markets showed, in certain hours, exports from Italy with the spread nearly vanishing. For example, during the spring, coinciding with planned maintenance of French nuclear plants, or in August, when Greece reached extremely high peak demand due to tourism. Among other things, the spread with Greece is negative on average, as the Italian price is lower than the Greek one.

(26) 2004 is not considered in this comparison, the year in which the Electricity Market began operations, as negotiations were limited to 29% of the market, compared to 66% in 2014.

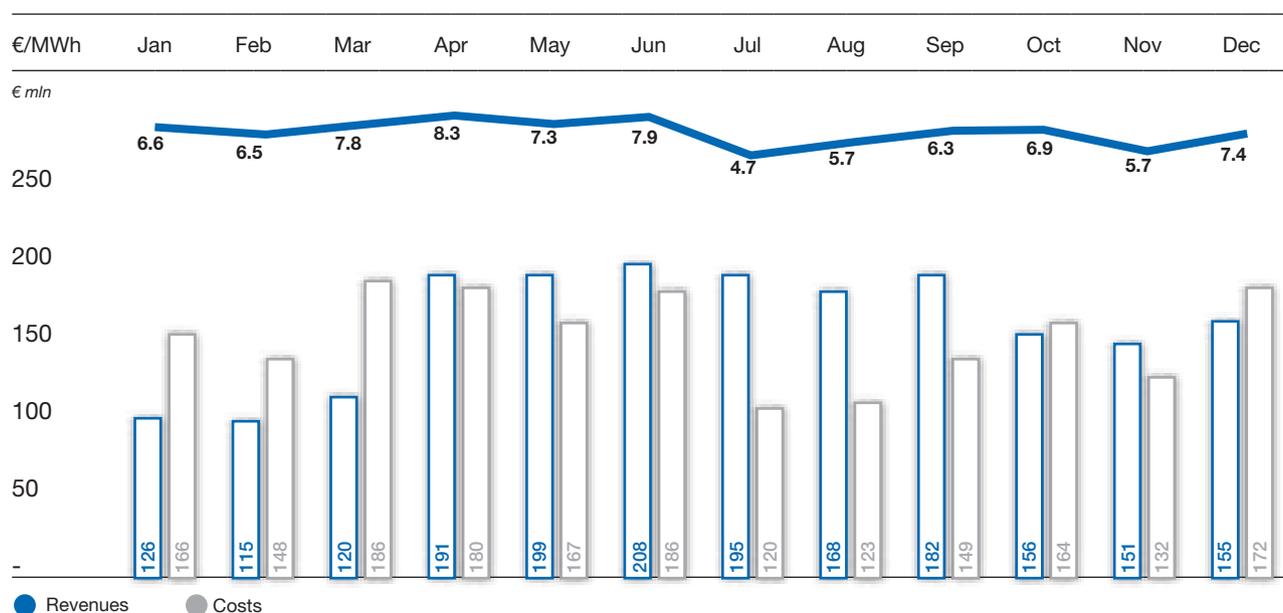
Price for supplying resources on the Dispatching Services Market (uplift)

The price for provisioning of resources on the Dispatching Services Market (known as *uplift*), pursuant to AEEGSI Resolution No. 111/06 Art. 44, as amended, represents the net expense associated with the following energy-related items:

- purchases and sales on the DSM;
- premiums for forward contracts signed as an alternative to the declaration of essentiality;
- remuneration of plant goodwill on the DSM (so-called goodwill and structure change tokens);
- imbalances;
- congestion revenues and related financial hedges;
- virtual interconnection service (Interconnector);
- other smaller items.

This price is invoiced pro-rata to users of the dispatching on the energy withdrawn, to cover the envisaged accruing monthly cost and the prior differences.

In 2014, the final uplift cost amounted to **€ 1,894 million**, substantially in line with the previous year. Withdrawals were also similar, with a unit price that was essentially in line with 2013. The graph below also shows the monthly trends from revenue from invoicing the uplift (“Turnover”)²⁷ and the related final cost (“Costs”)²⁸ also in terms of a monthly unit price.



(27) On the basis of AEEGSI Resolution 111/06, the estimated unit price is calculated quarterly in advance as the ratio between the hedging items/costs related to the previous quarter and the estimate of electricity withdrawn by all dispatching users in the current quarter.

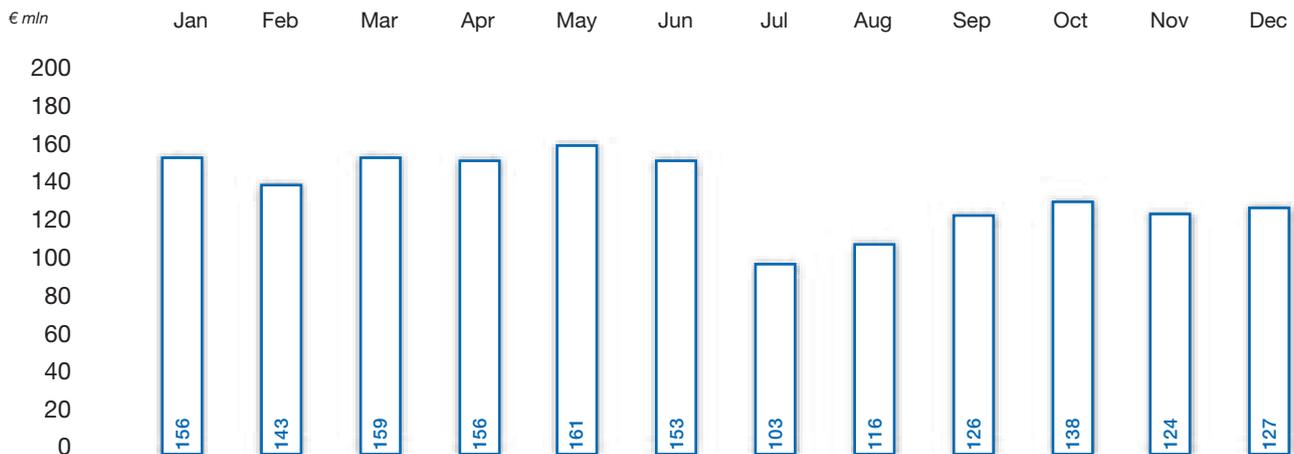
(28) The final unit price is calculated monthly as the ratio between the related hedging items/costs recorded in the previous month and the electricity withdrawn by all dispatching users in the previous month.

Dispatching Services Market

On the Dispatching Services Market (**DSM**), Terna procures dispatching resources to guarantee the security and adequacy of the system.

In 2014, **net expenses** for the DSM were € 1,662 million, a reduction with respect to 2013 (-2% yoy). Below is the trend of monthly net expenses:

DSM



The reduction in the cost during the second half is mainly due to the **improvement of prices**.

Focus on other activities

The increase in Non-Regulated Activities in 2014, totalling +€79.1 million, is substantially due to revenues from work orders carried out by the Tamini Group subsequent to its inclusion within the Terna Group (+€53.5 million), as commented on in detail in the “Performance” section.

Tamini Group

With almost a century of experience and a high degree of know-how, Tamini represents a historic industrial company, recognised in the electrical sector in Italy and abroad, as well as one of the most important groups in Europe in terms of developing, producing and selling industrial and power electrical transformers, a brand that represents 23% of the global market for electrical components.

With almost 400 specialised employees, customers in over 90 countries throughout the world and 200 transformers installed each year, Tamini creates industrial machines with an artisan touch. On the basis of their customers’ specific system requirements, manual labour combines with the perfection offered by the most sophisticated design and calculation techniques, thanks to the use of cutting edge software and simulation models.

With over 8,000 transformers produced and installed, Tamini exceeds every other operator in the world in this sector in terms of number of machines installed. In addition, Tamini is the manufacturer of the most powerful transformer in the world, located in Turkey. It owns 4 manufacturing plants, each of which specialises in the construction of a different type of machine, all located in Italy, in Legnano, Melegnano, Novara and Valdagno.

In line with the policies of the Terna Group, after the Group was acquired by the subsidiary Terna Plus S.r.l., in the second half of 2014 a series of initiatives were begun with the aim of improving and increasing the efficiency of company processes connected with the work order cycle. The project involved all areas of the company and produced new regulations for work orders, as well as an organisational overhaul needed to guarantee that activities and responsibilities matched.

Terna Interconnector

The establishment of Terna Interconnector S.r.l. falls within the context of the development and creation of the **“Interconnector Italy-France” Project** for which, on 16 December 2013, the Parent Company and other category Federations signed the Memorandum of Understanding, aimed at creating and managing the foreign interconnection infrastructure (Interconnections or Interconnector), pursuant to article 32 of Italian Law 99/2009²⁹.

The new “Italy-France” interconnection (Piossasco-Grand’lle), for which work officially began over a year ago, combined with the projects to strengthen existing lines, will make the French electricity border the most important for Italy, significantly increasing the cross-border interconnection capacity. The power line will be the longest underground line in the world. Thanks to this cutting edge project and associated technology, the new 190 km power line will be invisible. The company will mainly be responsible for the part of the project authorised as a private line.

The Balkans

The Balkan Peninsula is the area of greatest strategic interest for Terna, considering its proximity and the energy potential in the region, particularly with regard to renewable resources.

The new underwater power line between Italy and Montenegro, incorporated into the NTG Development Plan, will link Italy to the Balkans via 415 km of 500 kV cable between the hubs in Villanova (Pescara, Italy) and Kotor (Montenegro), with a transmission capacity of 1,000MW.

The power line is based on agreements between the two governments³⁰, and between Terna, the Government of Montenegro and local transmission operator CGES through a strategic partnership between Terna and CGES, in which Terna holds a stake.

The construction of the interconnection cable received the necessary authorisation. The international tenders have been awarded: in Italy, the work is managed by Terna Rete Italia, while in Montenegro by Terna Crna Gora d.o.o.

North Africa

At present, Terna is not currently investing in North Africa, but is involved in preliminary development studies on:

- the creation of an electrical corridor between the Maghreb and Europe involving the interconnection of the countries involved. Terna is currently exploring the possibility of a Tunisian interconnection with the TSO in Tunisia, STEG;
- participating in cooperation, institutional and industrial initiatives. To this end, Terna was one of the promoters of **Med-TSO**, the association of Mediterranean electricity grid operators established to create a special space for cooperation between the TSOs in order to support the integration of the electricity systems in the Mediterranean area (see section below).

Cooperation between Mediterranean TSOs: Med-TSO

Med-TSO is the association of 20 transmission system operators from 18 countries around the Mediterranean. Terna was the driving force behind setting it up in 2012 and hosts the organisation’s head offices.

In 2014, Med-TSO prepared the Mediterranean Project, with the goal of promoting infrastructure projects in the area, as well as the associated 2015 - 2017 Action Plan, structured into five activity lines, cofinanced by the European Commission:

- Rules: Mediterranean Grid Code and Technical Rules for International Electricity Exchanges, in cooperation with Medreg (the Association of Mediterranean Electricity and Gas Regulators, whose Italian offices are located within AAEG);
- Infrastructure: coordinated planning of developments to the Mediterranean grids;
- International exchange of electricity: promotion of international exchange of electricity;
- Med-TSO database: sharing information between electricity businesses in the Mediterranean;
- Knowledge network: development of a network to exchange knowledge and experience in partnership with universities in the Med-TSO countries.

The development of the Mediterranean Project is based on multilateral cooperation between institutions and companies. For this reason, the European Commission cofinances the Mediterranean Project, on the basis of a cooperation agreement signed in December 2014.

During the Euro-Mediterranean Conference of Energy Ministers held last November, the EC, MedReg and Med-TSO signed a Partnership Agreement in Rome, which recognises the two associations as institutional partners for relations in the Euro-Mediterranean energy sector.

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

(30) The Intergovernmental Agreement signed by the Italian and Montenegro governments on 6 February 2010 was officially transposed into Italian law in June 2014.

Research and Development

When introducing technological and plant solutions, new instruments and methods aimed at improving the reliability of power plants and, in turn, service quality, Terna mainly uses in-house technicians who base their work on carefully monitoring and analysing the performance of plants and equipment. The Group also uses the specialised support of manufacturers, collaboration with universities, RSE S.p.A. (Ricerca Sistema Energetico) and CESI S.p.A., a specialised service company in which it has a 42.698% equity interest. In particular, in 2014 the Terna Group incurred costs of € 18.2 million in respect of the associate CESI S.p.A., of which € 16.3 million were capitalised.

Studies for innovation and development of new engineering solutions mainly centre around three themes:

- *Optimisation of infrastructure and materials*

Work continues on designing pylons with reduced visual impact and which are more easily integrated into the surrounding environment, as well as on researching conductors able to boost the transmission capacity of existing overhead lines, and on developing new technology for high-voltage cables. We can note the following activities in 2014:

- engineering new single-stem supports with a lattice pylon structure in 380kV double three-phase circuit, construction and factory testing of five supports intended for the “Villanova-Gissi” line;
- research on HTLS (High Temperature Low Sag) conductors, capable of withstanding higher temperatures without suffering mechanical degradation during operating life;
- start of collaboration with other utilities (ACEA and ENEL Distribuzione in particular) for a study which assesses the use of vegetable insulation fluids – highly biodegradable and with a high flash point – in transformers, as an alternative to mineral insulating oils.

- *New equipment and plant configurations*

Research is focused on developing and implementing compact rapid-installation stations. After a positive trial run with the 150 kV Rapid Installation Connection Station, a similar project has been planned for 380 kV, the viability of which has been confirmed by the manufacturers. Furthermore, it was decided that constituent models developed for the 380kV Compact Rapid-Installation Station would be used in innovative systems solutions for the construction of “parallel bar bays”. Implementation is planned for 2015.

For the HV cable lines, in the light of the trials conducted in the laboratory and in the field, the Pry-Cam™ portable tool, developed by Prysmian Electronics S.r.l. was validated for partial discharge measurement in tests performed after installation, without any contact being made with the component being tested, thus ensuring the utmost safety.

- *Plant safety and the environment*

The aim of research is to guarantee greater levels of safety at plants and in the surrounding area in the event of external, potentially dangerous events such as fires, earthquakes and extreme environmental conditions.

For 2014, we note:

- for stations: the completion, through cooperation with Roma Tre University, of a study on the seismic vulnerability of the plants, an area in which Terna has obtained a patent for the Wipe - Rope TRI system. Efficacy tests done in the laboratory indicated a 50% reduction in structural stresses. During the year, the plan to install the technology in stations located in sites with a high seismic risk started and was 90% completed, and assessment of implementation in sites with medium risk is in progress.

Testing also began, in the laboratory and in the field, on innovative instrument transformers, which are intrinsically safe, both from an environmental perspective (no oil or SF₆) and in terms of the physical safety of people and objects;

- overhead lines: in particular, we note the launch of an installation campaign in northern Italy of the anti-rotation device for overhead conductors, able to counteract the formation and growth of “sleeves” of wet snow and the implementation of a software model that predicts the formation of “sleeves” of ice.

“BEST PATHS” Project

In 2014, after two years working alongside the European Commission, the Best Paths (*BEyond State-of-the-art Technologies for re-Powering AC corridors & multi-Terminal HVDC Systems*) project is under way. This ambitious four-year research and development project is, focused on developing high-capacity, flexible, pan-European transport grids³¹, necessary to satisfy Europe’s long-term energy objectives and to fully incorporate renewable energy.

(31) The overall objective of the project is to identify technological best paths to develop more robust and flexible grids, able to support greater quantities of renewable energy and bridge the gap between production, often located in remote areas, and large consumption areas, creating benefits for the integrated electricity market and an ever more sustainable energy system.

With a € 63 million investment, 50% co-financed by the EU, Best Paths is the largest energy research and development project of the European Union's Seventh Framework Programme.

In addition to being one of the founders of the initiative, Terna is also the leader of the largest research line (worth € 23 million), related to the development of technology, components and systems in HVDC, inspired by the needs related to the future renewal of the SACOI connection between Sardinia, Corsica and mainland Italy. The research developments within the SACOI framework will also be useful in a more general sense in regards to HVDC systems. Terna's task, with the assistance of the research organisation RSE, is project management and coordination with the other participants. In addition, Terna will create the system architecture. It will then coordinate the development and subsequent tests in the field by the industries involved. Terna will also coordinate laboratory tests to assess the reliability of innovative isolator for DC overhead lines and improvement of techniques used to find malfunctions in the very long cables that typify HVDC connections.

With this project, through Terna's project proposal, Italy will be able to play a primary role in the use of European funds allocated to maintain or acquire technological leadership in the context of energy systems.

Management of human capital

The Group's organisational structure

In carrying out its activities, Terna makes use of the assistance of **3,797** employees, 357 of which come from the Tamini Group, which was acquired during the year by the subsidiary Terna Plus S.r.l., as commented on in the "Significant events" section, to which the reader is referred. Terna employees are distributed among the companies of the Group as follows:

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

*Local employees

In the context of the Group's structure, the organisational model of the subsidiary Terna Rete Italia S.p.A. is significant, as the largest company in terms of employees - as seen in the above table. Specifically, the organisational model of the subsidiary includes three Area Offices (North-West, North-East and Central-South) and is aimed at reinforcing regional supervision of the activities related to operating and maintaining the plants and managing operating processes.

Personnel framework: structure and changes

The following tables show data for the Group, with the same perimeter as 2013. Therefore, not included are the data for the 357 Tamini Group employees. For the sake of reporting uniformity, we have also excluded the three employees on local contracts with the Montenegrin subsidiary Terna Crna Gora d.o.o..

PERSONNEL COMPOSITION BY CATEGORY

	2014	2013	Change
Total	3,437	3,442	(5)
Senior executives	61	62	(1)
Junior management	541	501	40
Office staff	1,887	1,922	(35)
Production workers	948	957	(9)

In 2014, the Group's personnel decreased slightly compared to 2013. At the end of the year, the number of employees of the Group's Italian companies totalled 3,437 (-5 from 2013).

PERSONNEL CHANGES

	2014	2013	Change
Total employees	3,437	3,442	(5)
Employees recruited during the year	68	70	(2)
Employees who left during the year	73	61	12
<i>Turnover rate on termination (%) ⁽¹⁾</i>	<i>2.12</i>	<i>1.8</i>	

(1) The turnover rates show the ratio of terminations to the number of employees as of 31 December of the previous year.

Retirement is by far the most common reason for employees leaving, and is concentrated in the highest age brackets. The turnover rate for spontaneous resignations remains very low (0.32% in 2014; 0.26% in 2013): the total turnover rate, therefore, essentially reflects terminations owing to retirement. The average length of service of employees who left the Company in 2014 was 32.8 years.

PERSONNEL COMPOSITION

	2014	2013	Change
Total employees	3,437	3,442	(5)
<i>By contract type</i>			
- permanent	3,382	3,412	(30)
- temporary	55	30	25
<i>By gender</i>			
- men	3,042	3,048	(6)
- women	395	394	1
<i>Average age of personnel (years)</i>			
Average age	46.6	46.2	

In 2014, Terna made use of 54 temporary workers (compared with 39 in 2013), employees of agencies that provide a temporary employment service to Terna.

The increase in temporary employees reflects the use of the apprenticeship contract.

Over time, the generational turnover the Company is experiencing, and its hiring policies, have led to an increase in the educational qualifications of the corporate population. Today, 71% of the corporate population has a degree or high school diploma (70% in 2013).

Management of generational turnover

Cost excellence has been identified by management as a strategic priority among factors that will allow the Group to become a best performer in the European context. Therefore, the Group has begun programmes aimed at obtaining efficiency and savings. Of particular note is "management of generational turnover".

On the basis of current Italian legislation regarding retirement (Art. 24 of Italian Law No 214/2011), which raised the age and years of contribution requisites necessary for entitlement to a pension, personnel who could potentially retire during the 2015-2017 period total around 400 individuals. For these employees, it is expected that there will be greater use of the option of continuing work and developing a better pension. For the above objective, in the last quarter of 2014 the Company launched an initiative, which has been successfully completed, aimed at bringing forward generational change through incentives for voluntary early retirement. Specifically, the project offered early retirement incentives for employees who had the requirements for receiving a pension as of 31 March 2015, based on their age. This initiative was repeated in March 2015 for employees who achieve the pension requirements by 31 December 2015.

Additionally, in the context of the initiatives related to the 2015 - 2019 Industrial Plan, Terna intends to make use of the options foreseen in the legislation in effect regarding union involvement. In order to manage generational turnover, for some time Terna has made use of several initiatives. We can note the most important:

- the transmission of knowledge and experience, often specific exclusively to Terna by increasing use of training courses taught by in-house teaching staff;
- professional orientation projects aimed at creating and transmitting technical and managerial skills enabling adequate performance of critical roles.

Research and selection

The personnel recruited from the external labour market are above all graduates – in particular engineers – and qualified people with diplomas from professional institutes, most with an electrical specialisation. Once employed, the new recruits expand their knowledge and the necessary specific skills through dedicated introductory training courses.

The process of searching for and selecting personnel is managed by the Human Resources and Organisation Department, which also handles relations with schools, universities and employment agencies.

The preferred recruitment channel for candidates is the “**Working at Terna**” section of the company website.

From 2008-13, Terna consolidated and expanded its relations with universities and the world of postgraduate training and institutional training in general, to support the process of finding new staff and create a virtuous circle of exchange between the Company and the outside world. The Company has entered into agreements with the leading Italian universities and business schools to fund the creation of specialised Master’s courses.

Key figures 2014

28 agreements with universities and business schools

3 sponsored masters

119 hours of teaching by Terna employees at universities and business schools

679 students from university or Master’s courses visiting the plants

32 traineeships, internships and project work begun in 2014 (in addition to 25 begun in 2013 and completed in 2014)

7 participations in career days

Training

Training at Terna continuously embraces all aspects of professional life. It is aimed at creating value for people through increasing and diversifying skills and employability and creating value for the company through the development of human capital in line with the mission and the business strategy. *Campus - Esperienze in Rete* (Experiences in the Network) is the brand for all the training provided. The training model is based on *knowledge sharing* in that the transfer of specialist know-how is entrusted to the most experienced staff of the internal Faculty. These experiences are supported by external collaborations (with universities and business schools) in order to ensure multiple teaching inputs. A dedicated office at an operating site of the Company in Rome has been active since 2012 and can accommodate up to 200 employees involved in training activities at the same time.

Key figures 2014

91% of employees have attended at least one training course (89% in 2013)

148,955 hours of training provided (120,115 in 2013), of which 130,070 in the Training section

66,627 hours of training provided within the Training section involved Safety (including the multiskill training component)

12% of training hours dedicated to new employees

99.8% of hours provided in the classroom (99.5% in 2013)

43 hours of training per head (35 in 2013)

70 hours of training per capita for operators (including the multiskill component)

17% of hours provided (all in the Safety section) financed by Fondimpresa

Developing human capital

Terna’s system for staff development, and therefore professional growth of staff, is based largely on performance as the key indicator.

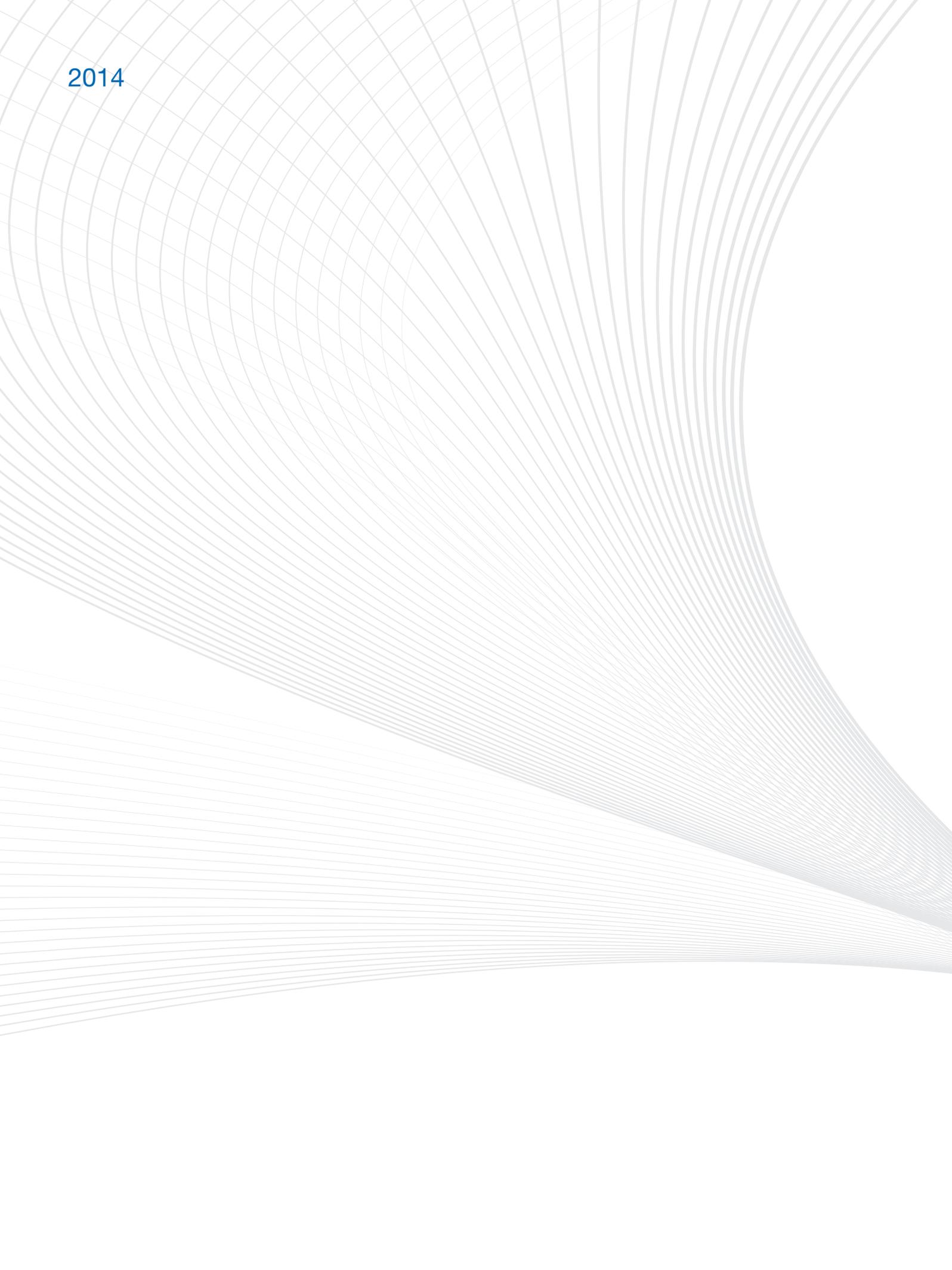
At the core of the Terna Group system is the **Global Performance System (GPS)**, based on a definition of performance comprising two aspects:

- **the concrete achievement of pre-set targets;**
- **the organisational procedures implemented to achieve them.**

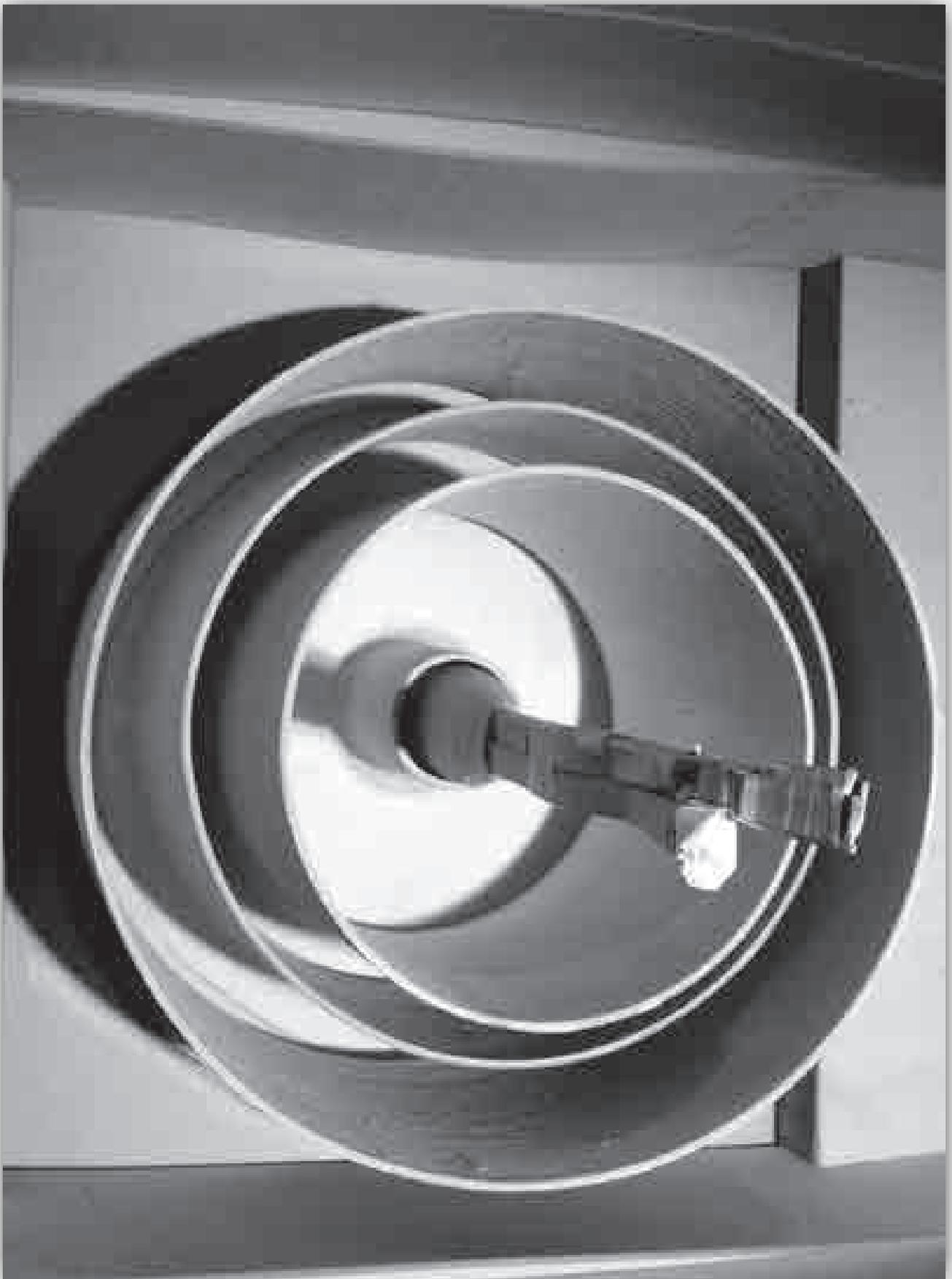
Targets, conduct, assessments and feedback are collected using IT software accessible to all personnel involved, which guarantees traceability over time and constant monitoring of growth.



2014







The situation regarding risks and opportunities for the Terna Group

Compliance with concession requirements is a precondition of Terna's business. For this reason, the operating risks related to management of the grid - risks of disruption - have always been handled with the utmost care and constantly updated methods and techniques are employed. Regarding transmission activities, Terna's monopoly position reduces market risks; the regulatory framework determines the scope of risks and opportunities. Other risks - e.g. financial risks - are identified and continually monitored and managed. The identification of business opportunities in non-traditional spheres is also part of the corporate strategy and takes into consideration important trends of the sector, such as the increase in production from renewable sources.

More generally, contextual risks and opportunities emerge from Terna's relations with stakeholders. In this context, respect for the environment and local communities impacts Terna's ability to make the investments provided for in the Development Plan, as detailed below.

Communication with the community

The community and communication are fundamental issues for Terna, with acceptance from the local community being essential. Beyond relationships with institutions, which are already based on solutions agreed in advance, increasing the degree of acceptance of electricity infrastructure in the communities involved is a very important goal, as exemplified by the disputes discussed below. With respect to this objective, involvement and communication play an important role, as do local institutions and regional associations representing civil society.

With regard to electromagnetic fields, Terna's commitment is expressed by its scrupulous compliance with Italian law, which is among the strictest internationally. Considering the sensitivity of public opinion surrounding the issue, Terna pays constant attention to advances in scientific research on electromagnetic fields to assess any risks connected with its work and will continue providing the public with accurate information on the matter.

Consultation with local administrations

Terna's approach to local areas, which is especially important when new lines must be constructed, consists of a voluntary process of prior engagement with local institutions (regional and local administrations, park authorities, etc.). This process involves the sharing of NTG development needs with local institutions, a willingness to listen to stakeholder opinions and the search for a shared solution regarding the positioning of new infrastructures and the reorganisation of existing ones. To facilitate acceptance of electricity infrastructure by local communities, Terna, in fact, considers it fundamental to hold discussions with local administrations as early as possible, right from the moment in which the need for a new NTG development project is recognised. In this way, the conditions are created in which to develop and "build" the grid together, thus making it more sustainable and acceptable.

Terna's approach to local areas envisages a voluntary pre-authorisation procedure illustrated in detail in the chapter on extending the grid, which should be consulted for further information.

In 2014, 181 meetings were held with local administrations, involving around one hundred bodies.

In this context, in cases which may involve local opposition, Terna is willing to examine the situation and find alternative solutions, including ones which are technically more complex than those originally identified, provided that they are compatible with the general interest of the electricity service in terms of security, efficiency and cost-effectiveness.

Risks and uncertainties facing Terna and the Group

Terna has always paid careful attention to the prevention of risks of all kinds that could affect or limit the company's results within the two years subsequent to the ending of the financial year. This paragraph aims to provide a clearer, more complete representation of these risks which are summarised along with the uncertainties to which the Company is exposed, and which, besides, are already known to the market and shareholders, considering their presentation in the financial statements and financial prospectuses previously published.

Regulatory risk

In 2014, over 93% of the revenues received by the Terna Group derived from activities regulated by the Authority for Electricity, Gas and Water (hereinafter, AEEGSI).

With Resolutions 199/11 and 204/11 (as subsequently updated), the AEEGSI set out the tariff framework for transmission and dispatching services for the regulatory period 2012-2015, as well as the rules for the annual update of the relative unit costs (within the same regulatory period).

In 2015, the unit costs of the transmission and dispatching fees were respectively updated by AEEGSI resolutions 653/14 and 658/14.

In resolution 197/11 (and relative subsequent amendments) the AEEGSI also established how the quality of the transmission service should be regulated for the same regulatory period (2012-2015).

With particular reference to RAB (Regulatory Asset Base) remuneration relative to transmission and dispatching activities, resolution 199/11, article 2, provides for the updating by 30 November 2013 of the remuneration rate of invested capital for the period 1 January 2014 - 31 December 2015 on the basis of the average value of 10-year BTPs recorded in the period November 2012 - October 2013.

In implementing such provision, Resolution 607/13 updated the rate of return in question to 6.3% compared to the previous value of 7.4%) to be applied starting from the 2014 tariffs.

With Resolution 483/2014/R/eel, AEEGSI began the procedure to develop provisions regarding tariffs and quality of electricity transmission, distribution and metering services, as well as the technical/economic conditions for the provision of the connection service for the regulation period that will begin on 1 January 2016. This document was followed by:

- a) Consultation Document 5/2015/R/eel, which provides the general framework and lays down the criteria at the base of the main lines of action that the Authority intends to develop during the procedure;
- b) Consultation Document 48/2015/R/eel which examines in more depth from a technical point of view the lines of action contained in Consultation Document 5/2015/R/eel on the subject of regulating electricity transmission, distribution and measurement service quality for the fifth regulation period.

With Resolution 597/2014/R/com, AEEGSI also began the parallel procedure for the adoption of the provisions regarding methodology and criteria for the determination and updating of the remuneration rate for capital invested in the electrical and gas sectors. These provisions will also take effect on 1 January 2016.

During 2015, it is expected that the two above procedures will be completed through public consultation processes in which Terna will be involved.

• *Volume effect*

The unit costs for transmission and dispatching services are determined annually on the basis of the recognised costs of the aforesaid activities and of the respective physical quantities forecast (forecast of electricity transported on the NTG and of electricity dispatched). During the year Terna issues its invoices on the basis of the aforesaid fees and effective volumes of electricity respectively transmitted and dispatched. The effective volumes (and thus the potential difference between the effective volumes and forecast volumes used to calculate the unit tariff) depend on factors outside the Group's control and Group revenue may thus prove higher or lower than expected on account of this "volume effect".

With the Resolutions 199/11, 204/11, 565/2012 and 607/13, the volume mitigation mechanism introduced by the earlier Resolution 188/08 was confirmed for the IV regulatory period (2012-2015). This states that any impact on Group revenues caused by possible variations in electricity volumes withdrawn from the transmission grid and dispatched, would be limited to a range of +/- 0.5%.

In consultation document 5/2015/R/eel, AEEGSI indicated its intention to assess the possibility of introducing regulatory "menus" to be offered to operators which foresee solutions with a lower volume risk and a consequent reduction in remuneration, as well as solutions with higher volume risk for the grid manager which offer higher remuneration levels.

• *Quality of transmission service*

Premiums and penalties for energy not delivered

Quality regulation of the transmission service provides for a mechanism of bonuses/penalties which takes into consideration solely the energy-not-delivered indicator. The maximum potential impact for the Terna Group deriving from this incentive mechanism lies within a range of € -12/+30 million per year.

Services provided by distribution companies – Mitigation

In some specific types of power outage, in which the electricity supply from the RTN to EHV/MV or HV/MV transformation plants directly connected to the NTG is temporarily interrupted, the distributor companies can mitigate the difficulties for users connected to their grid counter-supplying these plants from MV grids and/or by inserting mobile generator units. These services, aimed at continuity of the electricity supply, give the distributors the right to receive a fee, paid by Terna, calculated according to the counter-supplied (mitigated) energy.

The amounts related to mitigation services are subject to a maximum limit per single outage and, in certain circumstances, to specific deduction mechanisms. The annual amount paid by Terna for mitigation is also subject to a maximum limit of € 18 million (as regards any payments to distribution companies exceeding the annual limit, Terna may make a supplementary request to the Authority using the dedicated “Electricity services quality account”).

Sharing of the penalties/refunds paid by the distribution companies to customers connected to the MV and LV distribution grids

The regulation provides mechanisms on the basis of which Terna may be called to “share” the penalties/refunds paid by the distribution companies to end customers connected to their grids (MV/LV) when outages exceeding the specific standards established by the Authority are identified, up to a maximum annual limit of € 70 million.

In specific cases or for the portion of refunds exceeding the maximum annual limit, Terna may request the refund of the excess from the “Exceptional Events Fund”.

The referenced consultation document 48/2015/R/eel also examines some possible changes to the regulations for the quality of the transmission service, but at present it would be premature to make any assessments of the potential impact these changes could have.

Domestic and European legislative risk

• Tax laws

Tax legislation may affect the Group’s economic and financial results.

• Laws on environmental protection

The Group’s activities are affected by the generation of environmental legislation at the national, European and international levels (e.g. electromagnetic fields, landscape, etc.), and also, in the case of international activities, by laws expressed in the legal systems of foreign countries. Infrastructure investment projects must be subjected to the administrations responsible for the environment for examination and respect the instructions issued by the same. Amendments to the legislation in effect are expected to occur to implement EU Directive 2014/52, regarding environmental impact assessments. The Italian legislative provisions must be adjusted by 16 May 2017. The Group may incur additional costs due to the implementation of environmental regulations calling for preventive measures or requirements defined on the basis of regulations.

• Laws on energy

The Group’s activities may be affected by changes in national and European legislation governing the electricity market, strategic infrastructures, the authorisation process for National Transmission Grid works, the sphere of activities which Terna may perform or regulatory changes which affect relations between the Group companies and other stakeholders (producers, distributors, etc.).

At the European level, initiatives to implement the new European strategy regarding the Energy Union are currently being defined, including the action plan to achieve the 10% interconnection objective by 2020. As a consequence of these initiatives, a series of European legislative proposals are expected in 2015/2016 regarding the design of a European electricity market.

• Employment and contract laws

As regards electromagnetic fields, Directive 2013/35/EU has been adopted on the exposure of workers to risks from electromagnetic fields, and should be transposed by 1 July 2016 into the national legal system. In addition, new European Directives have recently been adopted in regards to tenders (see for the special sectors Directive 2014/25/EU), to which Italy must conform by April 2016. In general, more onerous rules governing contracts and health and safety in the workplace might have an adverse effect on the Group’s economic/financial performance.

Operational risks: risks connected with NTG malfunction

In the context of the Terna Group's operations, risks of unexpected service interruptions caused by external events that are beyond Terna's control are calculated. These may include accidents, defects or breakdowns involving control systems or other equipment, deteriorating plant performance, natural disasters, terrorist attacks and other extraordinary events of this kind. Besides the economic risk associated with repairs to the sections of the NTG owned by the Group, possible claims for compensation by third parties as a result of such events could arise if the Group is found to be responsible.

Specifically, in regards to employee injury risks, our company, which is certified BS OHSAS 18001, uses the BS 18004:2008 methodology, with the adoption of an estimate matrix which, in addition to qualitative assessments, also includes a quantitative assessment, based on frequency and consolidation of national injury statistics over the last 15 years.

In addition, each Production Unit prepares and annually updates an "Safety and Environment Improvement Plan", which contribute to guaranteeing continuous monitoring with the goal of managing the residual risk which is an integral part of the Risk Assessment Document.

Additionally, employee injuries are analysed through assessment of the gravity and frequency indexes foreseen in the UNI 7249 regulation which, specifically, after verifying the individual causes and situations in which the injuries occurred, foresees the activation of specific analytical commissions for the most serious cases.

Finally, data relative to injuries at contractors are also gathered and monitored annually and reported, together with the above indexes, in the sustainability report published each year.

Specific insurance cover has been arranged to mitigate the effect of operational risks.

Litigation risk: legal disputes

The Terna Group companies are involved in a certain number of disputes, both as plaintiffs and defendants and both in and out of court. They derive from the normal performance of business activities and relate to environmental and health protection issues, provisions related to regulated activities, the construction of new plants and the operating of existing ones, management of employment contracts with employees, the projects and services assigned to third parties, and relationships with the public administration and public organisations.

It is likely that in the future the Group may again be involved in new disputes of the types indicated above.

Regarding this matter, please see the sections "Commitments and risks" of the Notes to the Financial Statements of Terna S.p.A. and of the Terna Group.

Market and financial risks

In carrying out its operations, the Group is exposed to various financial risks: market risk (interest-rate risk and inflation risk), liquidity risk and credit risk.

In its financial risk management policies approved by the Board of Directors, the Terna Group has defined responsibilities and operational procedures for financial risk management activities, making specific reference to the tools to be used and setting clear operating limits for their management.

Terna's risk management policies seek to identify and analyse the risks the Company is exposed to, establishing appropriate limits and controls and monitoring risks and compliance with such limits. These policies and related systems are reviewed on a regular basis in order to reflect any changes in market conditions and the activities of the Group.

This matter is discussed in more depth in paragraph E. "Commitments and risks" of the Notes to the Financial Statements of Terna S.p.A. and of the Terna Group.

Risks connected with financing needs

Even under current market conditions, the Group expects to maintain sufficient capacity to generate financial resources from its operating activities. However, the plan for future investments in the next two years is expected to lead to an increase in existing net debt. In relation to the condition of the financial markets, the need to finance and refinance the existing debt could determine, in the medium term, an increase in financial expenses and also entail higher risks for the Group in refinancing the maturing debt.

Risk of non-regulated activities

A significant component of non-regulated activities is related to market opportunities for the design, implementation and management of high-voltage plants which serve in connecting production from renewable sources in Italy or abroad. Consequently, any changes to the legislative or regulatory framework of reference for non-regulated activities may make investment in this sector less attractive and, consequently, lead to a reduction of market opportunities for Terna's non-regulated activities.

In addition, in the context of non-regulated activities, following acquisition of the Tamini Group, we can note the risk typical of industrial business, with reference in particular to the credibility, solvency and country risk of counterparties, as well as product warranty risks, although these are estimated with appropriate provisions.

Climate change risks

Terna, as a utility company, transmits electricity as its core business. It is not involved in any way in the generation of electricity and thus is not subject to any obligation to reduce emissions or to any emission-trading schemes.

At present, there are no fiscal (e.g. a carbon tax) or regulatory measures (e.g. emission-reduction targets, inclusion in emission-trading schemes) which have direct consequences on Terna's business and financial performance.

Terna's management has identified potential, albeit remote, risks connected with global warming and the reactions it might provoke within governments and in consumer habits.

Areas of overlap with Terna's work are as follows:

- the task of maintaining a balance between the input and withdrawal of electricity to/from the grid becomes more difficult when weather conditions are extreme. Examples of this include during water shortages and in extreme heat or freezing conditions. The probability of critical situations increases, which can result in the temporary disconnection of users in certain areas of the country. This consequently draws the attention of the public authorities and the mass media towards Terna; In this regard Terna is carrying out research initiatives in two directions. The first is oriented to increasing knowledge of the potential consequences of extreme weather scenarios – in line with the IPCC (Intergovernmental Panel on Climate Change) data – on grid infrastructure and on transmission operations; the second is aimed at developing technological solutions for securing the service in specific adverse weather conditions;
- concern over climate change could lead to a reduction in the elasticity of energy demand to GDP growth. Research into greater energy efficiency has already altered the traditional relationship between economic growth and demand for electricity. This trend could also result in lower growth in the demand for electricity than currently seen, under equal conditions. The current regulations provide for a mechanism of partial sterilisation of the volume effect, with an excess of $\pm 0.5\%$ on the volumes of energy transported (see also the paragraph "Regulatory context");
- the increase in the production of energy from renewable sources poses various challenges for Terna in relation to the need to plan and implement investments to resolve grid congestion problems and for efficient and safe management of non-programmable production. Furthermore, intermittent production (in particular wind production) makes dispatching more difficult, increasing the need for power reserves and regulation.

Risk protection

Terna operates as legal monopoly on the basis of a government concession for the transmission and dispatching activity. This particular context which transforms some market risks into regulatory risks, influences our approach to risk management.

Terna also performs activities of a general and essential nature for the functioning of the electricity system. For this reason the risks involved are often systemic (e.g. outages, increased costs for the community).

For all these reasons the type of risks managed by Terna is partially defined by the AEEGSI.

With regard to reputational risk, across all of the Group's activities, protection is guaranteed and strengthened by a sustainable approach to business. This begins with the premise that is necessary to adhere to the law and it therefore considers all potential environmental and social consequences in order to prevent and mitigate the effects of such risks. Lastly, Terna constantly monitors risks associated with aspects of sustainability which may have a negative impact on its reputation and its intangible value, through ratings analyses by the main agencies which periodically produce sustainability assessments (such as RobecoSAM, Vigeo and Eiris).

Governance

Terna represents a part of the country's "critical infrastructure", and assesses and analyses possible risk scenarios, paying particular attention to operational risks in order to reduce service disruption and damage to the health of staff in the workplace, as well as to optimise business processes.

The corporate governance model adopted by Terna aims to create value for the shareholders, while reflecting awareness of the social significance of the Group's work and the need to appropriately consider all the interests involved, and, bearing in mind, as CONSOB itself states, that "good corporate governance can trigger a virtuous circle in terms of corporate efficiency and integrity, such as to positively reflect on other stakeholders too".

Hierarchical structure

Corporate governance

Terna S.p.A.'s governance structure is based on the traditional administrative and control model, and is compliant with the provisions of Italian law on listed companies. Terna has adhered to the Corporate Governance Code of the listed companies published by the Corporate Governance Committee promoted by ABI, ANIA, Assonime, Assogestioni, Borsa Italiana and Confindustria, as issued in December 2011 and updated in July 2014 (available on the Borsa Italiana S.p.A. website <http://www.borsaitaliana.it>) and, according to the adjustment timetable set out by the transitional provision, has approved and implemented the revisions of the Corporate Governance system to observe the commitments set out by the Code³².

Chairwoman of the Board of Directors

The Chairwoman is vested by the articles of association with the powers to represent the Company legally and to sign on its behalf. She presides over shareholders' meetings, convenes and presides over the Board of Directors, and ascertains that the Board's Resolutions are carried out; he/she also detains all the powers attributed to him/her by law and by the Corporate Governance Code which the Company has adopted³³. The Chairwoman Catia Bastioli has been given the institutional responsibility of representing the company, guiding and directing the work of the Board and assuming the promotional and advisory role of CSR (corporate social responsibility), as well as overseeing activities related to participation in the company CESI - Centro Elettrotecnico Sperimentale Italiano Giacinto Motta S.p.A., in coordination with the Chief Executive Officer.

CEO

The Chief Executive Officer is also vested, by the articles of association, with the powers to represent the Company legally and to sign on its behalf, and in addition is vested, by a Board Resolution, with all powers for managing the Company, with the exception of those that are otherwise assigned by law or by the articles of association or reserved for the Board of Directors³⁴.

Board of Directors

The Board is vested by the articles of association with the broadest powers for the ordinary and extraordinary management of the Company, and, specifically, has the power to carry out all the actions it deems advisable to implement and attain the corporate purpose, with the sole exception of actions reserved for the shareholders by law and by the articles of association³⁵.

Committees within the Board

In particular, the **Remuneration Committee** and the **Audit, Risk and Corporate Governance Committee** and the **Appointments Committee**, all with proactive and advisory functions and composed of at least three administrators, as provided for by the Corporate Governance Code, are present within the Board of Directors³⁴.

The criteria adopted relative to the composition, duties and responsibilities of said Committees have been identified in line with the relevant Corporate Governance Code which Terna has adopted, and the methods for holding meetings are governed by the internal ad hoc Organisational Regulations adopted by the Board of Directors.

The Remuneration Committee, the Appointments Committee and the Audit, Risk and Corporate Governance Committee are all composed of solely independent Directors.

(32) Further details on governance structure and hierarchy are given in the "Report on corporate governance and ownership structures", approved by the administrative body, published jointly with the Terna and Terna Group Annual Financial Report.

(33) For further details see section IV of the "Report on corporate governance and ownership structures", published jointly with the Terna and Terna Group Annual Financial Report.

(34) For further details see sections VI, VII, VIII and X of the "Report on corporate governance and ownership structures", published together with the Terna and Terna Group Annual Report.

(35) For further details see sections I and IV of the "Report on corporate governance and ownership structures", published jointly with the Terna and Terna Group Annual Financial Report.

(36) For further details see sections VI and XII of the "Report on corporate governance and ownership structures", published jointly with the Terna and Terna Group Annual Financial Report.

The composition of such Committees complies with the provisions of the Corporate Governance Code. Also within the Board of Directors, the **Transactions with Related Parties Committee** was set up as the body performing the role required by the “Regulation containing provisions concerning transactions with related parties” issued by CONSOB in March 2010 and having investigative, proactive and advisory duties and powers³⁶. In particular, the **Audit, Risk and Corporate Governance Committee**, which is assigned the responsibilities provided in the Corporate Governance Code to which Terna adheres, has responsibilities to offer consulting and proposals to support the Board in assessments and decisions regarding the internal audit and risk management system and in periodically verifying its adequacy with respect to the characteristics of the business and its risk profile, as well as its effectiveness. Corporate policy on the internal audit system also establishes a direct relationship between the Audit, Risk and Corporate Governance Committee and the Chief Risk Officer (CRO). The Chief Risk Officer (CRO) – appointed in May 2013 by the Director in charge of the Internal Audit and Risk Management System, after consultation with the Audit, Risk and Corporate Governance Committee – is responsible for supporting senior management in their handling of the Risk Management process at the Group level effectively, with respect to all financial, operational, business and other risks. Terna carries out this process by using the Enterprise Risk Management (ERM) methodology, in accordance with sector best practices. As part of the integrated and systematic risk management which distinguishes it, Terna adopts structural management tools and prevention measures in line with its own Risk Management rationale.

The Code of Ethics

The Code of Ethics - approved by the Board of Directors on 21 December 2006 - is the highest reference point for identifying sustainability issues relevant to Terna and for defining internal policies and guidelines. It can be used as a concrete guide in decisions, helping to achieve the objective of establishing and consolidating trust with stakeholders. One of the commitments expressed in the Code is to provide evidence in the Sustainability Report each year of the implementation of the Company’s environmental and social policy, as well as the consistency between the objectives and results achieved.

The Global Compact

When it joined the Global Compact (2009), the United Nations’ multi-stakeholder network, Terna further cemented its commitment to observing the ten principles of the Global Compact on human rights, employment, the environment and preventing corruption. These principles were already set out in Terna’s Code of Ethics as a benchmark for the company’s corporate responsibility and sustainability initiatives.

Risk management systems and instruments

Continuous awareness of risk and actions to contain it, in the various forms in which it can arise for “critical infrastructure” of national and European importance that Terna represents, are the core activities for the organisational structures within the Security Services Department (SIS) which are responsible for safety, working within a broad area that ranges from the safety of individuals, to that of “processes”, and that of the Group’s tangible and intangible assets. During 2014, these SIS structures maintained direct supervision of all the risk scenarios that weigh on the company’s activities and assets, in particular those which involve the health and safety of employees in the workplace and with operating risk scenarios, especially those which could more realistically and frequently arise in the Terna situation, focussing on given safety objectives aimed at resilience and operational continuity.

Risk Management for operating processes

In 2014 a risk assessment was carried out on the following processes, in accordance with the new ERM model:

- Dispatching and operating services: which has the objective of managing the physical flows of energy, maintaining balance between energy input and consumption, while respecting the principles of safety, reliability, quality, continuity and cost-effectiveness for the service, as well as impartiality and neutrality to ensure equal treatment for all users of the grid.
- Grid Code: aimed at studying and analysing the reference regulatory situation and analysing the operational impacts with consequent updates of the Grid Code.
- Contract management: to manage contracts with operators on the electricity market.

- Settlement: for adjustment of physical and economic items with electricity market operators, in compliance with changes in the regulatory situation.

For all the activities that make up the cited company processes, objectives have been determined and the inherent risks, existing controls and residual risks have been identified.

The Risk Assessment for these processes indicated an understanding of the company risk factors, and for the largest of these, the necessary actions to contain them have been identified.

Security Operations Centre (SOC)

Terna's Security Operations Centre (SOC) acts as a single structure for centralised control and coordination of integrated security, both through systems that monitor the Group's digital systems and networks, and through equipment that physically supervises its electrical substations.

The SOC consists of a modern control room located in a protected area, with staff present 24 hours a day, every day of the year, who are specialised and able to monitor and manage all the technological infrastructure installed to supervise Terna's digital and physical assets.

The objective is to protect the electrical stations from accidental events, but above all from intentional malicious actions, and avoid or contain events that could compromise the operation of the National Electricity System.

The substation monitoring plan aims at covering all the substations listed in the national security plan. Currently, the monitoring system consists of video surveillance systems installed in 157 substations, according to risk priority criteria, with a projected installation plan to install new systems in more NTG substations.

The Physical Security Integrated System (PSIS) represents highly structured and sophisticated infrastructure, based on diversified technology aimed at preventing intrusion of the substations, and able to process events and present them on a single central work station located in the SOC and managed by the operator on duty. Specifically, the PSIS makes it possible to remotely monitor and manage complex perimeter security systems and detailed on site video surveillance systems, thanks to software applications used to centralise alarm signals.

The Terna Security Operations Center is also a cutting edge center for the prevention of digital incidents, thanks to constant and pervasive monitoring of events coming from external platforms.

This activity, carried out through next generation IT tools, is supported by a structured process aimed at quickly identifying and containing security incidents, minimising information loss and working to restore any involved services. In addition, the SOC has responsibility for measuring the risk to which company assets and the information contained in them are exposed.

With reference to 2014, the activities regarded also management of the service to counter the phenomenon of unwanted electronic mail (so-called Antispam Service), issuing and managing the life cycle of digital certificates and certified email address (serving as the Registration Office), and issuing bulletins to increase awareness of digital security (periodic Security Bulletins).

Integrated Management System

Activities done to supervise the corporate management system have the main goal of guaranteeing that systems are effective and efficient, while identifying any potential risks in the areas observed and implementing any necessary mitigation actions. The main stages of the management system supervision process are:

- creating new management systems and, if held to be desirable, requesting certification or accreditation;
- supervising and updating existing corporate management systems;
- implanting internal checks on corporate management systems;
- reviewing the management systems;
- preparing organisational structures for inspections by certification and/or accreditation organisations.

In January 2014, new certificates were released relative to the "Quality, Environment and Occupational Health and Safety Management Systems" for the companies in the Terna Group, extended also to the subsidiaries Terna Cma Gora and Terna Storage which, having become part of the systems adopted by the Parent Company, are subject to internal and external inspections.

In February 2014, following accreditation checks carried out by the multi-site Test Laboratory, the Terna Group became the reference point for the High Voltage energy sector at both the national and European level, as the sole subject accredited to issue certifications in regards to tests carried out on LLW (live-line working) equipment.

The activities of the testing laboratory for live work equipment have been accredited by the national external agency Accredia, guaranteeing ever greater controls and reliability.

During 2014, the documentation supporting the activities of Calibration Centre activities in Florence, Turin and Cagliari was also prepared and the accreditation process was begun, in accordance with the ISO/IEC 17025 standard, which is necessary to carry out metrological tests on active electrical energy meters and on electricity measurement systems used to determine energy flows for tax purposes, as foreseen by the Customs Agency.

This accreditation, in addition to rendering the tests valid for fiscal purposes, will also make the metrological testing process even more reliable and secure, as it will be structured in accordance with the best practices established under the regulations and subject to the controls envisaged by the same.

During 2014, finally, a management system for the prevention of serious accidents was implemented, in compliance with the indications of Italian Legislative Decree 344/99 (Seveso Directive). This system is obligatory, as the Terna Group, specifically Terna Storage, controls and works within their own sites where energy storage systems will be installed that fall under the Seveso Directive.

Physical security and emergency management

In 2014, a slight decrease was seen in the total number of criminal events, in comparison to 2013.

During 2014, new security intelligence activities were begun. These consist of continuous Open Source INTelligence (OSINT) monitoring of all the open information relating to the activities and interests of the Terna Group, both in Italy and abroad.

All the information is read and assessed if pertinent. Then certain informational services are produced for management and top executives.

Security intelligence activities provide informational support for activities to increase security done in the context of various Group initiatives, with particular reference to the most critical construction sites and on-site engineering work.

Communication between Terna and the Security Information Department (SID) continues to be very active. In 2014, Terna cooperated with it to manage threats aimed at critical infrastructure.

Terna participated at meetings with the SID for the launch of the program to protect critical infrastructure, with both Physical Security and Information Security present, the latter focusing on cyber threats.

In view of EXPO 2015, which will be in Milan the coming year, Terna took part in the activities and work groups launched by the Milan Prefecture with the objective of creating a Security and Public Order System, as well as Civil Defence. Specifically the aim is to prevent security problems during the EXPO, as well as to draw up preparation and management plans for any emergencies, and to plan beforehand all the technical and organisational solutions that will make it possible to manage the high influx of people to the Greater Milan area and, finally, to create a network of organisations (institutional, critical infrastructure, etc.) which will coordinate their work for the entire period, both for ordinary operations and to manage extraordinary, critical or emergency events, including special crisis offices created for the EXPO.

Qualification of plants

The GAUDI system (Unique Plants Data Management), established by AEEGSI with Resolution 124/10, is the system that supports integrated management of the plants and production units, both primary and secondary. The system came into force in the initial version in January 2011 and became fully operative in March 2012.

During 2014, the process to align databases with both the GSE and distributors was completed. At the end of 2014, there were over 660,000 qualified plants in the system.

In addition, other modules were developed using the GAUDI platform: GEDI (Distributed Generation) and SSPC (Simple Production and Consumption Services).

The **GEDI** module responds to the indications contained in the following AEEGSI resolutions:

- [Resolution 84/2012/R/eel](#) which approved Annex A70 to the Terna Grid Code and defined the minimum requirements which must be satisfied by generation plants distributed in MV and LV, in terms of voltage, frequency and protection.
- [Resolution 421/2014/R/eel](#), which, approving the changes to Annex A72 to the Grid Code, containing the procedure to reduce distributed generation under emergency conditions for the National Electricity System, in compliance with annex M to CEI Regulation 0-16, introduces a new type of plant (known as GDRM) which can be remotely disconnected from the distributing company more quickly. The new regulation takes effect as of 1 September 2015.

For plants in existence as of 31 March 2012, the aforementioned resolutions envisage a gradual retrofitting programme over time by the GSE. This process is managed and monitored by the GEDI module.

The **SSPC** module makes it possible to manage and monitor the Simple Production and Consumption Services qualification process, on the basis of that indicated in Resolution 578/2013/R/eel.

The Simple Production and Consumption Services are *electrical systems*, directly or indirectly connected to the public grid, *within which the transport of electricity* for delivery to the consumption units of which it is composed *is not classified* as transmission and/or distribution, but as *auto-procurement of energy*. They are “simple” systems, in that they generally consist of production plants belonging to the same corporate group, which supply consumption units of one corporate group, which is not necessarily the same as the producer.

Classification of Simple Production and Consumption Services is necessary to properly apply the fees which cover the general charges associated with the system. Specifically, Resolution 609/2014/R/eel, in application of the provisions of Italian Legislative Decree 91/2014, identified the GAUDI system as the information source that distributors must use to invoice the associated general system charges to users which satisfy their consumption requirements with units of electricity self produced in the context of the EES (Efficient Energy Systems) and ESEEEES (Existing System Equivalent to Efficient Energy Systems).

Supplier qualification

Terna S.p.A. makes use of a *Company Qualification System*, established pursuant to the EU Directives (Italian Legislative Decree 163/2006 “Public contracts code for labour, services and provisions”, as amended), for all the main core areas of supplies, labour and services that Terna itself intends to supervise, established on the basis of the strategic importance, degree of competitiveness and annual volumes supplied

Fraud Management

During 2014 Terna continued with the activities of Fraud Management whose objective is to guarantee that corporate assets (tangible and intangible resources, direct and upstream benefits) are protected with regard to all illegal events that could compromise them, through activity aimed at preventing and managing corporate fraud.

As part of this prevention, Fraud Management, in order to identify potential internal vulnerabilities and then act to remove them, has developed a reference methodological model based on the systematic analysis of preconditions that can be associated with fraudulent events, identifying “critical areas” in which fraudulent phenomena is more likely and tracing the triggers back to any organisational and operational problems in the processes.

Activities carried out during 2014 including continuous monitoring of processes, verification and management of notifications of criminal activity, and assessing and controlling compliance risk.

In particular, a number of processes were launched and specific preventive policies defined, providing for new governance and control rules and procedures.

231 Model monitoring

In 2014, Terna carried out intensive research and analysis in regard to sector regulations and the main legal judgements in regard to corporate liability. Then, following the acquisition of the Tamini Group, the Unit acted to update the Organisational Model of the acquired Group so as to ensure it was appropriate, effective and efficient, as well as in line with Terna’s.

In particular, updates were drafted for the Organisational and Management Model, after the “*Map of Business Areas at Risk for Crimes/Identification and Analysis of Risk Areas*” was prepared, containing the results of the work completed previously to identify and analyse activities at risk of crime in the light of the new legislation.

Information Security

In 2014 important results were achieved following the introduction of innovations and projects by Information and Communication Technology (ICT) so as to improve the security of the national electricity system and the efficiency of corporate processes.

Security improvements of the National Electricity System (NES)

During 2014, as regards defence systems, a new “telescato” (remote switch) at Priolo became operational in April. This can optimise the insertion of power on the grid from the production sites of Priolo Gargallo and Anapo. The automation introduced involves the disconnection of one or more units in the event of loss of one of the lines controlled, in order to minimise dangerous overloads of the 220/150 kV grid in the eastern area of the island.

The new SCCT system was extended to ensure adequate operational management of Storage Systems by the control rooms. The introduction of new functions makes it possible to exchange data for proper real-time monitoring, remote control, and management of power programs.

Finally, the Disaster Recovery System (DR) was reinforced. This system is tasked with intervening in the case of unavailability of the systems and/or headquarters of the National Control Centre. The DR perimeter was extended to IT applications for the electricity market, while system automation and procedures necessary to quickly manage events were also improved.

Improved efficiency of corporate procedures

In 2014, significant changes were introduced to systems for the start-up of the new DSM (Dispatching Services Market) with the aim of rendering the procurement of dispatching resources by Terna more flexible. On one hand, the goal was to improve dispatching of resources to take into account the growing importance of renewable sources, while on the other producers were given the possibility to optimise the resources offered to the market, bringing them more into line with the technical constraints and production costs of their plants.

The procedures envisaged in AEEGSI Resolution 231/2013/R/eel were implemented, to allow all units able to provide the service access, on a voluntary basis, to the mechanism that allows remuneration of the contribution to the primary frequency regulation.

Significant changes were made to the settlement procedures used to calculate energy units affected by regulatory changes. This included adjustment of the procedure used to determine the variable cost paid for essential plants, revising the market macrozones pursuant to Resolution 525/2014/R/eel and adjustment to the non-compliance of the switch-on order, following Resolution 65/2014/R/eel.

In addition, new procedures were developed to assign instant interruptible and emergency resources for 2015-2017, following that provided for in Resolutions 301/2014/R/eel and 566/2014/R/eel, as well as the simultaneous adjustment of the procedures used to calculate the fees to implement that indicated in the regulations.

Finally, the Transparency Report platform was created, which is the new application required under EU Regulation No. 543/2013, obligatory for all TSOs. This regulation requires making a series of data available to the market, including total load, consumption, transmission, electricity generation and congestion management, which can be viewed using the platform managed by ENTSO-E.

Information security and cyber security

Terna uses a great deal of new technology to support its business activities, and for this reason it uses a structured approach to face the growing threats which menace the Group’s vast quantity of information assets (both tangible and intangible assets, that is data and information both corporate and pertaining to electricity operators, IT infrastructure, networks, IT systems, automation and control systems). To this end, it adopted some time ago a security governance system inspired by international best standards and practices.

This model is now well established, and is based on a detailed structure of policies and procedures, combined with an operating programme coordinated by Information Risk Management (IRM), with a focus on all the risk factors (organisational, technical and technological, physical/environmental, cyber, etc.), including compliance with laws on data processing and the fight against cyber crime.

In 2014, this programme continued to give priority to a preventive approach, through the adoption of controls aimed at guaranteeing, “by design”, the necessary security and resilience features for ICT assets, prioritising the most critical or even vital for the proper functioning of the Critical Infrastructure (CI), such as the grids and electricity grid control systems and the National Electricity System. In this programme, the security logic of the numerous databases which store “business sensitive” company data was an area of particular focus, as well as the data related to users of the transmission and dispatching services, those of electricity producers and traders (for example, production capacity and injection programmes), and the data gathered for sector statistics (as part of the Italian National Statistics System) or made available by the sector authority for monitoring the electricity market.

Together with internal initiatives aimed at preventing and managing cyber-risks, during the year Terna established the foundations for increased cooperation with Italian institutional organisations (MiSE-CERT, CNAIPIC, and DIS) which, on the basis of recent legislation serve as the strategic framework for national cyber security, in order to create the relationships and synergies that are indispensable in managing extended emergencies and crises due to cyber attacks. Finally, in regard to personal data protection, Terna guarantees the necessary monitoring of compliance with the legislative framework and, again in 2014, as in previous years, there were no complaints received from users for breach of privacy, or for inappropriate or unauthorised use of personal data entrusted to the Group's companies, either through the email address (privacy@terna.it) created expressly for such notifications, or through the other channels used for notification or identification.

Security of the electricity system 2014

In 2014 Terna implemented the **electricity system Security Plan**. The Plan was approved by the Ministry for Economic Development. It is drawn up every year and makes reference to a four-year planning period. The approach to electricity system security has become increasingly structured in successive editions of the Plan.

The current structure of the Security Plan envisages 8 different areas for scheduling, control, regulation and protection, restarting and monitoring of the electricity system, and an area for the secure and optimal management of renewable sources.

In the context of the aforementioned areas of intervention, the 2014 Security Plan confirms the short-medium term initiatives already identified in the previous edition, which also include innovative projects (in particular, power intensive electrochemical storage systems for ultra rapid frequency regulation and equipment to compensate for reactive power), aimed at securely managing the system, in particular on the larger islands, in the expected operating scenarios characterised by increasing production from non-programmable renewable sources.

In this context and also in consideration of the limited growth of the load and the progressive disposal of obsolete conventional thermal plants, with the consequent decrease of the system regulating capacity, the 2014 Plan includes studies to provide the main interconnection lines on the north Italian border with appropriate Phase Shifter Transformers (PSTs). In fact, these devices are particularly useful for the regulation and balancing of systems in critical situations, in particular under low load conditions or with excess production from non-programmable renewable sources.

In 2013 investments made in relation to projects provided for in the Security Plan amounted to € 73 million. The eleventh edition of the Security Plan for 2014-2017 provides for investments of around € 303 million.

Safeguarding relations with stakeholders

Building a relationship based on mutual trust with our stakeholders begins with taking their interests into account and analysing their compatibility with those of the Company, in order to be able to adopt a consistent and transparent approach.

The stakeholder map of the Terna Group was reviewed in 2014, updating the 2006 version used as a premise to the drafting of the Code of Ethics.

The eight categories of the previous map, divided into 48 subcategories, were rearranged to provide more evidence to stakeholders previously merged with others. The current map is divided into 12 categories and 73 subcategories.

For every category of stakeholder, the following table shows the most important commitments expressed in the Code of Ethics and the specific engagement tools, such as monitoring and checking expectations and opinions. The various monitoring tools are used to different extents.



Terna Group Stakeholders

	Commitments	Tools of engagement
SHAREHOLDERS <i>Controlling shareholders; Institutional equity investors; Retail investors; Financial analysts; Proxy advisors; SRI Investors; ESG rating analysts and agencies.</i>	<ul style="list-style-type: none"> Balanced management of financial, security and service quality objectives. Creating value for shareholders in the short and long term. Corporate governance aligned with best practices. Adopting systems to forestall and control risks. Listening to shareholders and informing them in a timely and equal manner. Commitment to avoiding insider trading. 	Road shows, conference calls, dedicated meetings, dedicated email and websites. Sustainability ratings.
BUSINESS PARTNERS <i>Business partners; Investee companies; Purchasers of interconnection lines; Public safety organisations; Applied research institutions; Business developers.</i>	<ul style="list-style-type: none"> Transparency and fulfilment of agreements and contractual commitments. 	Partnership agreements. Protocols. Meetings for specific projects. Structured collaboration.
CUSTOMERS <i>(non-regulated activities)</i> <i>Non-traditional business customers; potential customers</i>	<ul style="list-style-type: none"> Efficient, quality service aiming at constant improvement. 	Dedicated meetings.
COMMUNITIES <i>Current and future end-users of the electrical service.</i>	<ul style="list-style-type: none"> Ensuring the security, quality and cost-effectiveness of the service over time. Assessing the long-term effects of the Company's choices. Reducing the environmental impact of company activities. 	Toll free number active 24 hours a day. Open channels for alerts (post, e-mail). Public consultation. Periodic sample population surveys.
LOCAL COMMUNITIES <i>Landowners affected by grid development; Associations representing local interests; Local media; Local administrators; Local suppliers and subcontractors; Owners of property and land close to existing lines; Territorial committees; Local politicians; Local opinion-makers; Infrastructural sector operators; Other citizens affected by grid development; Other local authorities; Other citizens affected by existing lines.</i>	<ul style="list-style-type: none"> Assessing the long-term effects of the Company's choices. Reducing the environmental impact of company activities. Advancing dialogue with local institutions to invest in a way that is respectful of the environment, landscape and local interests. Supporting social, humanitarian and cultural initiatives. Providing evidence of the implementation of environmental and social policies. 	Consultation process in planning the electricity grid. Formal communications and reports within regulated processes. Meetings with the general public.
PUBLIC DECISION-MAKERS AND AUTHORITIES <i>Ministries with responsibilities relevant to the electricity supply chain; Other Government Bodies; Regions and their Bodies; Parliament and Commissions; EU Institutions; Other regulation and audit institutions; the Judiciary; Strikes Information Commission; National institutions of other countries of interest; International institutions.</i>	<ul style="list-style-type: none"> Transparent, complete and reliable information. Respect for deadlines. Representing the Company's interests and positions in a transparent, scrupulous and consistent fashion, avoiding collusion. 	Regular meetings. Formal communications and reports within regulated processes.

	Commitments	Tools of engagement
LENDERS <i>Banks; Rating agencies; Debt investors; International financial institutions; National and international public lenders.</i>	<ul style="list-style-type: none"> Adopting systems to forestall and control risks. 	Regular meetings. Dedicated informative documentation. Ratings.
SUPPLIERS <i>Core suppliers; Non-core suppliers; Trade associations representing suppliers; potential suppliers.</i>	<ul style="list-style-type: none"> Opportunity to compete on the basis of quality and price. Transparency and fulfilment of agreements and contractual commitments. Transparent procurement processes. Supplier qualification, including through quality, environmental and social certification. Anti-Mafia and anti-money laundering efforts with suppliers. 	Procurement portal. Direct meetings. Post-tender feedback. Discussion panels with associations.
MEDIA AND OPINION-MAKERS <i>National and international media; National and international opinion groups; Web users; Universities; Other scientific and research organisations; National and international study and steering groups.</i>	<ul style="list-style-type: none"> Public and uniform dissemination of information. Excluding exploitation and manipulation of information to the advantage of the Company. Pursuing areas of cooperation in the interests of both parties, with associations representing stakeholders. 	Presenting and distributing the Sustainability Report and the Development Plan. Organising seminars, workshops and targeted surveys. Collaboration and partnership initiatives. Participation in structured working panels. Mailbox and profiles on social networks.
ELECTRICITY SYSTEM OPERATORS <i>Distributors; Producers; Potential users requesting connection to the NTG; Wholesalers; Associations representing industry operators; Other electricity supply chain organisations; Interruptible customers; Other transmission system operators (TSO); Industry bodies; Other NTG owners.</i>	<ul style="list-style-type: none"> Efficient, quality service aiming at constant improvement. No arbitrary discrimination between operators. Confidentiality of information regarding grid users. Representing the Company's interests in a transparent and scrupulous manner, avoiding collusion. Ensuring utmost clarity in relations. 	Grid Code Consultation Committee. Dedicated meetings. Participation in structured working panels. "Operator Consulting" section on Terna's website. Reports provided and regulated by the Grid Code. "My Terna" platform for dispatching users, with dedicated call centre. GAUDI Portal for integrated management of plant and production units.
PEOPLE IN THE ORGANISATION <i>Employees; Governance bodies; External staff; Trade unions; Educational system; Workers' representatives.</i>	<ul style="list-style-type: none"> Safeguarding the physical integrity of employees and their personal dignity. Non-discrimination and equal opportunity. Investment in professional development. Recognition of individual capacities and merit. 	Direct surveys, on a sampling basis or involving all employees. Internal communication initiatives. Focus groups on specific issues. Consultations, discussions and negotiation with the Trade Unions.
REGULATORS OF LICENSED ACTIVITY <i>AEEGSI, Ministry for Economic Development, European Regulatory Institutions.</i>	<ul style="list-style-type: none"> Transparent, complete and reliable information. Respect for deadlines. Fair and collaborative approach to facilitate regulation. 	Regular meetings. Ongoing relations with the AEEGSI offices and Committee. Formal communications and reports within regulated processes. Transmission of information and evaluations in response to specific requests or on the initiative of Terna.

Public decision-makers and authorities

Terna's work requires constant dialogue with governmental institutions (Prime Minister's Office, Ministry for Economic Development, Ministry of the Environment, Ministry for Cultural Assets and Heritage), Parliament (Chamber and Senate of the Republic), political contacts and national associations. This also requires attendance at hearings, meetings, conferences and forums to promote shared interests. In addition, continual discussion with regional and local authorities is also necessary to work on legislation governing the industry, authorisation procedures, and consultations with local communities.

During 2014, the Company was invited, on several occasions, to take part in Parliamentary hearings on important issues relating to Terna's operations.

By way of example we indicate the following:

- the Chamber Production Commission hearing (February 2014) on the inquiry on the National Energy Strategy;
- the Senate Industry Commission hearing on the results of State-owned companies (March 2014);
- the informal hearing at the united Senate Commissions for Industry and Territory on the electricity system outages in Veneto in the winter of 2013 (June 2014);
- the hearing at the Senate Industry Commission on the new leadership's strategies regarding the main directly or indirectly State-owned companies (October 2014);
- the informal Chamber Production Commission hearing on the Company's general strategies (October 2014).

A constant and collaborative dialogue was maintained with representatives of the political parties, Government and Members of Parliament, aimed at representing Terna's point of view, as the transmission operator, on issues relating to the Italian electricity sector.

Bilateral meetings with the Prime Minister's Office, and with the institutions, on subjects of particular significance to the company and for the development of the national electricity system also intensified. In particular, meetings with the Ministry for Economic Development increased as part of the process of drafting European legislation relating to the industry, promoting the involvement of national institutions in the activities of the Committee of Member States. This related specifically to the issue of implementing the third energy package (e.g. the European Grid Codes).

Suppliers

The usual point of contact for Terna and its suppliers is the "**Procurement Portal**", the section of the institutional website where it is possible to learn about tenders, participate in online tenders, and go through the qualification process for inclusion on the Supplier Register.

In 2014, Terna adopted the electronic platform for managing contract tenders. This tool ensures that the tender procedures are done digitally and that all the documentation produced is also digital.

Terna also maintains direct contact with suppliers to manage contractual relations and improve the Company's knowledge of specific problems with groups of suppliers. To that end, meetings are periodically organised with specialist companies or industrial associations to inform them about any updates to the requirements, or points of attention related to the ethical conduct to be followed in relations with Terna.

Terna presents and discusses its main investment projects and relative procurement plans with the **electromechanical companies in the energy industry** (mostly members of Confindustria ANIE) and organises meetings on specific issues with particular reference to safety. The important action programme requires an even greater effort on the part of suppliers, who are required to act not merely as simple contractors but as real technological partners.

In order to expand its portfolio of suppliers, Terna continuously engages in "procurement marketing" by market scouting, benchmarking and monitoring the performance of suppliers. This involves constant meetings with both Italian and overseas supplier firms.

Media and opinion-makers

In 2014, Terna's external communication was again assessed using the Demoskopea survey "City Giornalisti", a reference tool for finding out how effective journalists think companies' communication strategies are and how they judge their relations with press offices.

"City Giornalisti" saw Terna's press office finish in fifth place in the overall classification. It involved 80 economic and financial journalists from national newspapers and was conducted on a sample of 45 firms.

In 2014 the overall media coverage, within the 12-month period, recorded about 28,600 releases – an increase of 57% compared to 2013; specifically, +22% in the press, +20% in TV and +73% on the web.

The Web and online communication tools, consulted across the board by all company stakeholders, are essential engagement tools: a website is in fact the first channel for getting to know any company. Terna has long had a system for "reading and interpretation" of these channels with open field web monitoring that covers sites, blogs and social networks. The system accurately counts and detects Terna's web presence through related content.

Daily alerts detect references to the company on the web and, additionally, weekly and monthly reports track trends in content and how these influence the company's brand reputation with detailed analysis and evaluation of the results. The evaluation of opinions is, in fact, a key element to consider in the planning of activities aimed at building relationships with online journalists, citizens who talk about the Company on their social and business networks, and finally with employees.

Electricity service operators

Terna maintains relations with grid users and electricity industry operators through various communication channels. In addition to communication portals and updates of reports and data - MyTerna and GAUDI – the Consultation Committee offers a space for communication with operators, which takes place as described below.

Consultation Committee

The Committee is the technical consultation body for users established in accordance with the Prime Minister's Decree of 11 May 2004, setting out rules for the unification of ownership and management of the National Transmission Grid. The Committee is a permanent base for consultation with companies involved in the electricity industry and includes representatives from the various user categories, namely: distributors, producers (from both conventional and renewable sources), large industrial customers, wholesalers, and consumers. The Regulatory Authority for Electricity, Gas and Water and the Ministry for Economic Development participate as observers.

The Committee has a predominantly advisory role regarding the general criteria for the development of the grid and interconnections, maintenance of grid security, general criteria for the classification of sensitive information and access to the same. The Committee may also advocate changes to current rules and propose conciliatory regulations since, at the request of the parties, it may facilitate the resolution of any disputes between grid users resulting from the application of the rules of the Terna Grid Code.

This body was also part of Terna's activities in 2014 to promote the involvement of electricity operators.

Specifically, in 2014 the Committee was involved in the consultation process related to the revision of Annex A.72 to the Grid Code, and expressed its opinion on the same, which contains the "*Procedure for the Reduction of Distributed Generation in a state of emergency for the National Electricity System*", known as the RIGEDI Procedure, aimed at implementing the indications contained in annex M to CEI Regulation 0-16, regarding remote disconnection of generation plants exceeding 100 kW and connected to the grids in Medium Voltage.

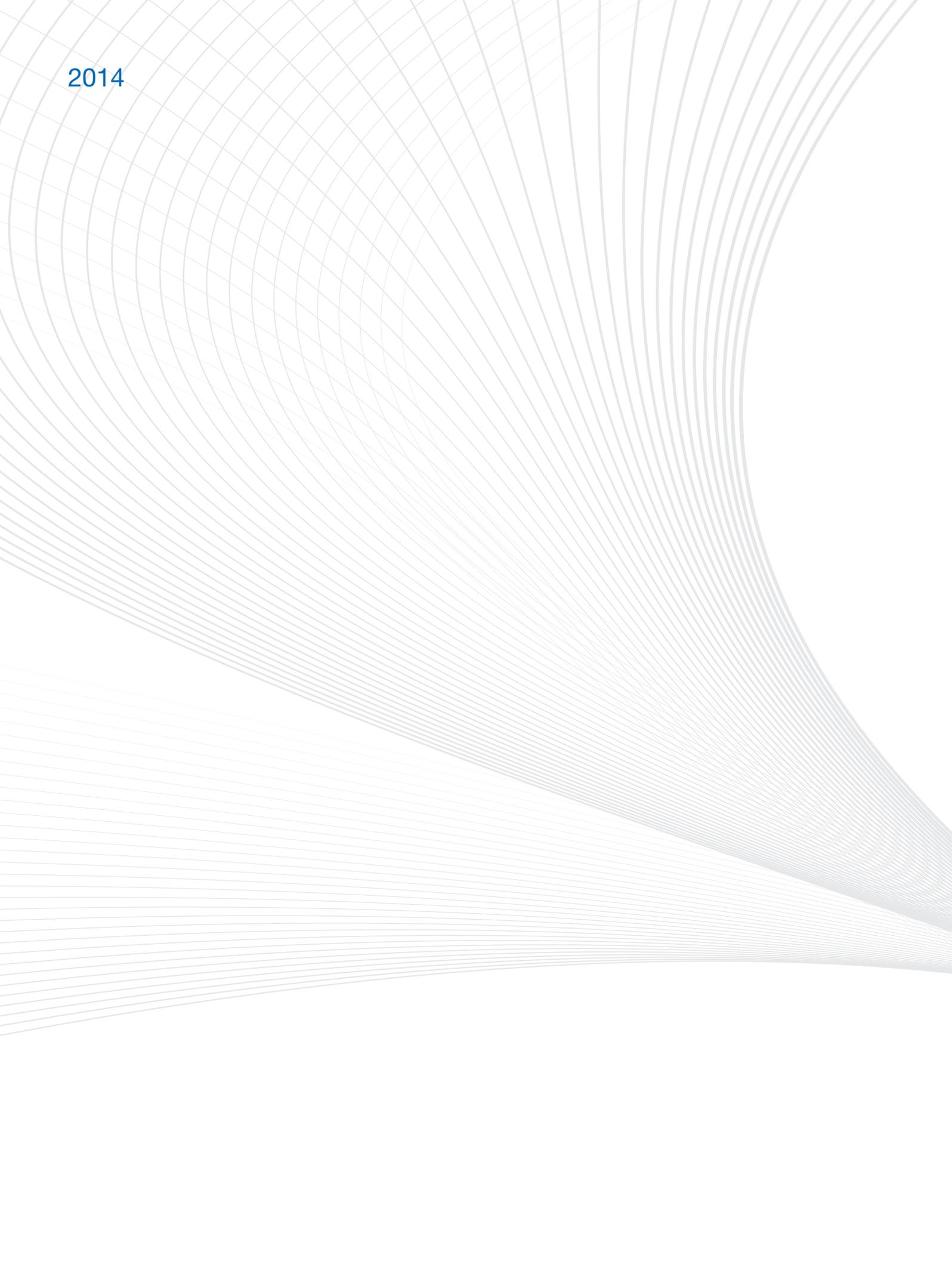
In addition to this issue, on which the Committee was formally called to express its opinion, in 2014 Terna kept Committee participants continuously up to date on the 2014 National Transmission Grid Development Plan, the state of implementation of the Plan, new requirements and developments, and regulatory changes that have taken place regarding simple production and consumption systems. Finally, information was given on the methodology developed within ENTSO-E – Cost-benefit analysis methodology – for a harmonised European-level analysis of the costs and benefits of the works included in the European Development Plan.

Regulators of licensed activity

Terna works mainly in a regulated context and the AEEGSI is the main stakeholder: through tariffs it determines almost all Terna's revenues and, with its measures, it defines the methods and conditions for carrying out the business for which Terna is the licensee.

Since 2012, in accordance with Legislative Decree 93/11, the AEEGSI has, through public consultation, intervened in the evaluation process of the Development Plan produced by Terna. In particular, in July 2014, the Authority launched the public consultation process for the 2013 and 2014 Development Plans. The process continued until September and included a seminar held at Terna headquarters. On this occasion, Terna presented the main contents of the Plans to stakeholders and responded to specific questions.

2014







From the year's results to the creation of shared value

Terna constantly monitors and measures the correct application of its business model and the consequent effects on its capital; it then publishes a report on these for all stakeholders concerned.

This section is devoted to Terna's financial performance and sustainability, also highlighting the impact on stakeholders – from its human resources to local communities – on the environment and on biodiversity.

Performance of Terna stock

In a fragile macroeconomic context, the main European stock exchanges ended 2014 with contrasting performances: IBEX Madrid +3.7%, FTSE MIB Milan +0.2%, DAX Frankfurt -0.1%, CAC Paris -0.5%, FTSE 100 London -2.7%.

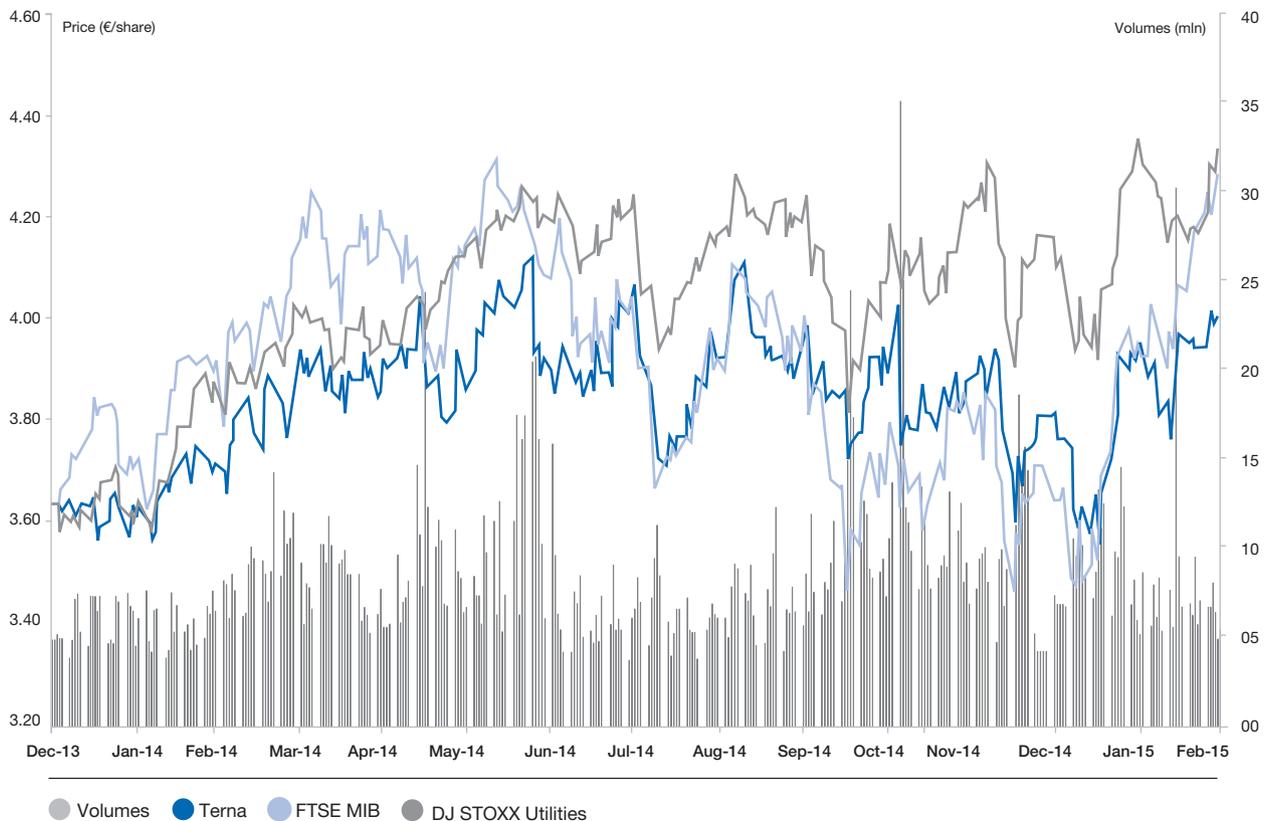
The indices reflected a slower-than-expected economic recovery, a deflationary scenario and high unemployment levels. These macro factors were combined with fears linked to the various situations of difficulty and instability in Eastern Europe, the Balkans, the Middle East and North Africa and with a falling oil price.

As regards government bonds, the announcements of further expansive monetary policy measures by the European Central Bank (the so-called Quantitative Easing, QE), in a context of official interest rates close to zero, enabled a significant reduction in government bonds yields. In particular, the yield of Italian ten-year BTPs fell by more than 50%, going down from 4.1% to 1.9% at the end of the year.

In the USA, the continuing economic stimulation policies facilitated growth and the reduction of unemployment levels. In this context, Wall Street gained approximately 8% (INDU New York +7.5%) closing at a record high.

In 2014, Terna recorded a 3.5% rise and guaranteed a Total Shareholder's Return (TSR) of 8.9%. On 20 June, the stock reached a record high of € 4.11 per share. The average volume traded in 2014 stood at approximately 8.4 million shares daily. It should also be noted that, since its listing on the stock exchange (23 June 2004), the stock has increased in value by 121.2% with a TSR of 317.7%. This performance is in sharp contrast with the market (TSR FTSE MIB +1.0%) and is more than twice that of the sector (TSR DJ Stoxx Utilities +132.1%). Finally, we note that in the first two months of 2015, the stock gained 7.2%, exceeding the average figure for the sector (DJ Stoxx Utilities +5.11%).

Trend of Terna stock and the FTSE MIB and DJ STOXX 600 Utilities indexes



Source: Bloomberg. Data at 27 February 2015.

Terna and the financial markets

FINANCIAL INDICATORS		31 December 2014
Weight of Terna shares⁽¹⁾		
> in the FTSE MIB index		2.13%
> in the FTSE Italia All Share index		1.88%
Rating		
Standard & Poor's	<i>Outlook</i>	Stable
	M/L term	BBB
	Short Term	A-2
Moody's	<i>Outlook</i>	Stable
	M/L term	Baa1
	Short Term	Prime-2
Fitch	<i>Outlook</i>	Stable
	M/L term ⁽²⁾	BBB+
	Short Term	F2

(1) Source: Borsa Italiana. Data as at 31 December 2014.

(2) Issuer Default Rating.

Economic-financial performance

Significant events

Below is a summary of the main events recorded in FY 2014. Please note that **during the year, no significant, non-recurring, atypical or unusual transactions were carried out, either with third parties or with related parties.**

Regulatory

AAEGSI Resolution on the positive ascertainment of milestones for the second half of 2013

On 6 June 2014 the Italian Regulatory Authority for Electricity Gas and Water published Resolution 259/2014/R/eel whereby it ascertained the achievement status of the milestones for the strategic NTG development investments in relation to the second half of 2013 (including the milestones relating to subsequent years achieved in advance), on the basis of the documentation submitted by Terna, verifying that the 70% threshold of the total conventional value of these milestones had been passed.

In particular, the Authority has determined a value of 93%, well above the above 70% threshold, subject to in situ verification of the effective achievement of the milestone, and has therefore granted Terna incentives to accelerate investment on assets under development relating to investments I=3 at 31 December 2013, to be applied to transmission rates for the year 2015.

Italian Regulatory Authority for Electricity, Gas and Water (AEEGSI) Resolution 531/2014/R/gas of 30 October 2014 and impact on operators' share prices

In Resolution 531/2014/R/gas of 30 October 2014, the AEEGSI approved the tariff regulation criteria for the natural gas storage service for the period 2015-2018. Unlike a previous consultation document (189/2014/R/gas, April 2014), the resolution does not contain explicit reference to recognition of inflation changes in determining the remuneration rate (real pre-tax WACC). The financial market operators interpreted the absence of such a reference as a desire on the part of the Authority not to recognise inflation adjustment in revising remuneration rates also of other regulated services (both gas and electricity), possibly having a negative effect on the share prices on the Stock Exchange. In the trading session of 3 November, the price of Terna shares, and those of various other companies active in the above sectors, felt a significant negative effect. On the evening of 3 November, the AEEGSI published a press release in which it specified that it would proceed with an overall reform of the WACC fixing methods, in relation to the variables exposed to factors exogenous to the regulated sector. This communication by the Authority allowed the share prices on the Stock Exchange to stabilise over the following days.

Corporate

Terna: inauguration of the new Board of Directors, the appointment of Matteo Del Fante as Chief Executive Officer and General Director, granting of powers to the Chairwoman and Chief Executive Officer, establishment of board committees.

On **27 May 2014** the new Board of Directors of Terna S.p.A., chaired by Catia Bastioli, met in Rome for the first time. The board was elected by shareholders in the ordinary session on the same date.

The Board unanimously appointed Matteo Del Fante Chief Executive Officer and General Director of the Company. The Board then approved the division of powers, giving the Chairwoman Catia Bastioli the institutional responsibility of representing the company, guiding and directing the work of the Board and assuming the promotional and advisory role of CSR (corporate social responsibility), as well as overseeing activities related to participation in the company CESI - Centro Elettrotecnico Sperimentale Italiano Giacinto Motta S.p.A., in coordination with the Chief Executive Officer. The Chief Executive Officer has been granted, in line with the previous arrangement, all powers for the administration of the Company, except for those otherwise assigned by applicable law, the Company Bylaws or retained by the Board as part of its powers. On the basis of the statements made by the Directors, the Board of Directors has determined that all Directors fulfil the independence requirements under the rules for electricity “transmission system operators”, as well as the possession of integrity requirements and the absence of grounds for ineligibility and incompatibility, as required by law. Based on the assessments made by the Board of Directors with reference to the statements made by individual Directors and taking into account all the evaluation parameters provided by the Corporate Governance Code, the independence requirements demanded by law, the Terna Company Bylaws and the Corporate Governance Code of the listed companies are held by the following Board members: Cesare Calari, Carlo Cerami, Fabio Corsico, Luca Dal Fabbro, Gabriella Porcelli and Stefano Saglia. The Chairwoman Catia Bastioli, in possession of the independence requirements provided by law, cannot be declared independent under the provisions of the Corporate Governance Code, by reason of the position held as Chairwoman of the Company. The Board has also ascertained the requirements of professionalism, integrity and independence of the members of the Board of Statutory Auditors in accordance with Italian Ministerial Decree no. 162 of 30 March 2000, referred to by Art. 26 of the Company Bylaws and by Art. 148, paragraphs 3 and 4 *quater* of the Consolidated Law on Finance. The Board has therefore reorganised the internal committees already in place and, with a view to continuous improvement of the system of corporate governance, has established an Appointment Committee and expanded the powers of the Control and Risk Committee (now called the “Control, Risk and Corporate Governance Committee”), expanding the latter’s existing competences with those inherent in the system of corporate governance and providing for the appointment of Members in accordance with the guidelines of the Corporate Governance Code.

Terna’s Board of Directors makes use therefore today of the following Committees made up as indicated:

“Control, Risk and Corporate Governance Committee”

- Cesare Calari (Chairman, independent)
- Carlo Cerami³⁷ (non-executive)
- Luca Dal Fabbro (independent)

“Compensation Committee”

- Carlo Cerami (Chairman, independent)
- Fabio Corsico (independent)
- Gabriella Porcelli (independent)

“Appointment Committee”

- Luca Dal Fabbro (Chairman, independent)
- Carlo Cerami (independent)
- Stefano Saglia (independent)

“Committee on Transactions with Related Parties”

- Stefano Saglia (Chairman, independent)
- Gabriella Porcelli (independent)
- Fabio Corsico (independent).

Following his appointment as Chief Executive Officer and General Director of Terna, Matteo Del Fante resigned from the post of General Manager of CDP, as announced by the latter on **28 May 2014**. A summary of the professional profiles of the new Directors and Statutory Auditors is available on the company website www.terna.it and in the Report on Corporate Governance and Ownership Structures, included in the Integrated Report (see page 333 thereafter).

(37) Appointed on 4 March 2015 in place of Simona Cemerano who resigned on 27 November 2014.

Acquisition of Tamini Trasformatori

On 20 May 2014, as part of the implementation of Non-Regulated Activities, the Terna Group concluded the acquisition by Terna Plus S.r.l., a wholly owned subsidiary of the Parent Company, of the entire share capital of Tamini Trasformatori S.r.l. and its subsidiaries.

The agreement, which follows the announcement of the transaction by Terna Plus S.r.l. on 25 February 2014 - envisages a consideration for the shares acquired of € 23.9 million, in addition to the values of the working capital and the net financial position. At 31 December 2014, approximately € 54 million had been paid and a price adjustment mechanism is envisaged.

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 Tamini Group produces and sells industrial electrical and power transformers. It has four production plants all located in Italy in Legnano, Melegnano, Novara and Valdagno, and is made up of the subsidiaries V.T.D. Trasformatori S.r.l., Verano Trasformatori S.r.l. and Tamini Trasformers USA L.L.C..

The business unit Brulli Trasmissione moves to the subsidiary Terna Rete Italia S.r.l.

On 14 July 2014 the subsidiary Terna Rete Italia S.r.l. acquired the business unit Brulli Trasmissione, after a bankruptcy auction procedure organised by the Court of Reggio Emilia. As part of the business unit, the ownership of 9 Brulli Trasmissione NTG stations (for a value of € 11.1 million) covered by specific leasing contracts, was transferred to the subsidiary, along with an electrical station under construction at the Cassano d'Adda site (for a value of € 2.2 million) and the warehouse (for a value of € 1.5 million), in addition to the related contractual relationships.

The purchase price of the business unit, fully paid, was € 3.7 million.

Incorporation of the company Terna Interconnector S.r.l.

As part of the process of carrying out the Group's Non-Regulated Activities, with particular reference to the creation and management of infrastructures for interconnection with other countries, on 23 July 2014 the parent company Terna and the subsidiary Terna Rete Italia S.p.A. incorporated the company **Terna Interconnector S.r.l.** with share capital of € 10,000, subscribed 95% by Terna S.p.A. and the remainder by the aforesaid subsidiary.

The purpose of the new company is to design, create, manage, develop, operate and maintain, also on behalf of third parties, lines and network structures and other related infrastructures, plants and equipment functional to the mentioned activities in the sector of electricity transmission or in analogous, related or connected sectors. Terna Interconnector may also carry out research, and provide advice and assistance in the sectors listed above, as well as any other activity that enables better use and enhancement of the grids, structures, resources and skills employed.

Pierpaolo Cristofori new Senior Executive in charge of the preparation of the company's accounting documents

The Terna S.p.A. Board of Directors, meeting on 15 October 2014, assigned Pierpaolo Cristofori, who has the requirements set out in article 21.4 of the Articles of Association and having first obtained the favourable opinion of the Board of Auditors, the role of executive in charge of the preparation of the company's accounting documents, pursuant to article 154-bis of Italian Legislative Decree no. 58 of 1998. As of this date, Pierpaolo Cristofori will also serve as the Chief Financial Officer (CFO) for Terna S.p.A.

The parent company CDP transfers the equity investment held to CDP Reti

With a communication issued on 30 October 2014 (declaration pursuant to article 120 of the TUF), the parent company Cassa Depositi e Prestiti S.p.A. (CDP) informed Terna S.p.A. that on 27 October 2014, as part of the operation to open the share capital of CDP Reti S.p.A. to third-party investors, the entire equity investment held by CDP in Terna S.p.A., consisting of 599,999,999 shares, 29.851% of the total share capital, was transferred to CDP Reti.

The transfer of the equity investment held in Terna was carried out by CDP subscribing and paying up a CDP Reti capital increase, resolved by the latter's shareholders' meeting on 24 September 2014, and reserved for subscription by the sole shareholder CDP, following the non-exercise by the Prime Minister's Office of the special powers pursuant to Italian Law Decree No. 21/2012.

As a result of this transfer, CDP Reti, which already holds a 30.000% stake in SNAM S.p.A., also holds a 29.851% stake in Terna.

At the date of the above communication, CDP Reti S.p.A. was declared as a company wholly owned by Cassa Depositi e Prestiti S.p.A.. On 27 November 2014 a total stake of 40.9% of CDP RETI's share capital was transferred to State Grid Europe Limited (SGEL), a State Grid Corporation of China Group company, and to a group of Italian institutional investors; SGEL, in particular, acquired a 35% equity interest.

The de facto controlling relationship existing between CDP and Terna, declared by the Holding Company with a communication of 19 April 2007, is unchanged as of today.

Changes approved to adapt the Articles of Association to the new regulations regarding special powers for the Italian government for strategic sectors

The Terna S.p.A. Board of Directors, meeting on **18 December 2014**, approved certain updates to the Articles of Association to adjust its contents to new regulatory provisions and eliminate reference to certain delegations to increase share capital which, due to the passing of time, have already been carried out.

Specifically, in implementation of Italian Legislative Decree no. 21 of 15 March 2012, converted to law with article 1, paragraph 1 of Italian Law no. 56 of 11 May 2012 (Golden Power Decree), the clauses regarding special powers found in the Terna S.p.A. Articles of Association were eliminated, as well as certain transitional clauses which had been exceeded related to the last sentence of article 6.4, and the clauses in article 5 (articles 5.3, 5.4, and 5.5), which were no longer effective, relative to the delegation for capital increases supporting stock option plans.

Non-binding Memorandum of Understanding signed for the project to acquire High Voltage electricity grids from the FS Group

On **30 December 2014** Terna S.p.A. (Terna) signed, with Ferrovie dello Stato Italiane S.p.A. (FS), RFI – Rete Ferroviaria Italiana S.p.A. (RFI) and S.E.L.F. – Società Elettrica Ferroviaria S.r.l. (SELF), (all companies within the FS Group), a non-binding Memorandum of Understanding which starts the process to evaluate the potential purchase by Terna of the High and Very High Voltage electricity transmission grids currently owned by the FS Group.

This acquisition would involve both the grids already included in the National Electricity Transmission Grid, and those destined for future insertion, subordinated to their acquisition by Terna, in accordance with that foreseen in article 1, paragraph 193 of Italian Law no. 190 of 23 December 2014, containing “Provisions for drafting the annual and multi-year financial statements of the State” (2015 Stability Law).

Specifically, the Memorandum of Understanding provides for the start of due diligence regarding the perimeter of acquisition to be identified. When the due diligence is successfully completed, the parties will begin negotiations aimed at defining the terms of the transaction, which could be completed by summer 2015.

The extent of the acquisition and the associated economic conditions could be determined by the parties as the negotiations continue, also on the basis, and in any case not prior to the determinations made by AEEGSI relative to the electricity grids to be acquired.

In relation to this operation, if the required aspects are found to exist, Terna will make the information under article 71 of the CONSOB Issuers’ Regulations available to the public, and/or those for transactions with related parties.

Finance

Terna’s ratings

On **18 February 2014** Moody’s Investors Services (**Moody’s**) raised the outlook assigned to Terna from negative to stable. The issuer rating and the Senior Unsecured Debt rating were confirmed at Baa1, as was the rating assigned to the EMTN Programme at P(Baa1). The short-term rating for Terna remained unchanged at Prime-2. The shift in the outlook from negative to stable reflects the close connection between Terna’s credit quality and that of the Italian Republic.

On **12 March 2014**, Fitch Ratings reduced the Long-Term Issuer Default Rating (IDR) and the Senior Unsecured Rating of Terna S.p.A. to “BBB+” from “A-”, thus aligning itself with the level of the other agencies. The outlook moved from negative to stable. The Short-Term IDR was confirmed at F2.

On **9 December 2014** Standard and Poor’s (S&P) cut Terna’s long-term rating from BBB+ to BBB, confirming at the same time the company’s short-term rating at ‘A-2’. The outlook assigned to the rating is stable. This action follows the recent downgrade by a notch, from BBB to BBB-, of the Italian Republic. In any case, Terna’s rating remains one notch above that of the Italian Republic.

€ 750 million revolving credit facility subscribed

On **11 December 2014**, the Parent Company subscribed a back-up revolving credit facility, in the form of a “committed” line (the “Revolving Credit Facility” or “Facility”), for a total amount of € 750 million, with a pool of banks including UniCredit, Barclays, BNP Paribas, Banca IMI and Cassa Depositi e Prestiti (CDP), serving as Joint Mandated Lead Arrangers and Bookrunners.

CDP is a related party of Terna’s, as it exercises indirect control over the Company after the transfer to CDP RETI S.p.A. (controlled at present by CDP with 59.102% of the capital) on 27 October 2014, of the entire shareholding held by CDP in Terna, which on that date amounted to 29.851% of the share capital. The portion of the Facility pertaining to CDP is € 350 million and, pursuant to the CONSOB Regulation adopted with Resolution no. 17221 of 12 March 2010, as subsequently amended, the transaction is classified as of “lesser importance”. In line with the Terna Related Party Transactions Procedure, the transaction was approved by the Company’s Board of Directors, after receiving a positive opinion from the Related Parties Committee.

The Revolving Credit Facility will have a duration of 5 years and the amount available will be usable throughout the duration of the loan with prior notification. The interest rate is linked to the EURIBOR plus a margin between 0.70% and 1.10% (based on the portion used), in line with market conditions, as confirmed by the four largest national and institutional credit institutions.

The operation will allow Terna to replenish adequate liquidity reserves, also following the repayment of a € 600 million bond which took place on 26 October.

EMTN programme renewed

On 16 December 2014 Terna S.p.A. renewed its bond issue programme entitled “Euro Medium Term Note Programme” (EMTN) as resolved by the Board of Directors on 27 May 2014. Deutsche Bank and Citigroup were the Joint Arrangers for the programme, which obtained ratings of BBB from Standard & Poor’s, (P)Baa1 from Moody’s and BBB+ from Fitch.

Sustainability

Memorandum of Understanding between Terna and the National Association of Italian Municipalities

On 12 February 2014, Terna and ANCI, the National Association of Italian Municipalities, to which 7,318 Municipalities belong – representing 90% of the population – signed a memorandum of understanding in Rome, the main aim of which is to share the localisation of electricity works in Italy through increased harmonisation between Terna’s development activities and the town and territorial planning instruments of the municipalities.

The agreement contemplates, in particular, the institution of a Permanent Coordination Committee between ANCI and Terna, to define specific instruments useful in the consultation phase between the Company and the town councils on routes and on the execution of the works contemplated by Terna’s Development Plan. Special consultation committees will also be set up between the town councils and Terna, relative to the individual works, to allow the relevant public bodies to be involved.

Terna: the only independent grid operator in the Dow Jones Sustainability Index in 2014 - The Company once again confirmed as a sustainability leader for the 6th straight year

On 20 January 2014 Terna was confirmed for the sixth consecutive time in the prestigious Dow Jones Sustainability Index: this is the result of the annual review carried out by the Swiss sustainability rating agency RobecoSAM, which also confirmed the Company’s place, for the fifth consecutive time, in the Dow Jones Sustainability Europe index.

The confirmation of Terna in both indexes with a total score of 87, up by 3 points compared with last year and among the highest in the Electric Utilities sector (average score: 56), acknowledges the Company’s constant commitment to sustainable operations and constitutes for investors a sign of the ability to create value also in the medium to long term. The fact is confirmed also by the proportion of Terna’s float held by investors attentive to sustainability performance, which has tripled in the last three years, coming out at 7.2% at the end of 2013. A significant international acknowledgement if one considers that this year only 8 Electric Utilities appeared in the World Index (9 in 2013) and just 3 in the Europe Index (5 in 2013).

Terna’s improved score is above all due to the improvement of its performance in the environmental area, in particular in the Climate Strategy and Operational Eco Efficiency sections. It also improved its performance in the social arena in the Health and Safety and Labor Practice Indicator sections.

Besides being in the DJSI, Terna is included in the international sustainability indexes: FTSE4Good (Global and Europe), ECPI (Ethical Global, Euro and EMU), MSCI (ESG World, EAFE, EMU, Europe), ESI (Excellence Europe), Ethibel (Pioneer and Excellence), STOXX ESG (Global, Environmental, Social and Governance) Vigeo Euronext (World, Europe and Eurozone), and in the Italian indexes FTSE ECPI Italia SRI Benchmark and Italia SRI Leaders, prepared with only companies listed on the Italian Stock Exchange.

Terna Group performance and financial position

Introduction

The 2014 annual report of the Terna Group has been prepared in accordance with the provisions of Art. 154-ter of Italian Legislative Decree 58/98 introduced by Italian Legislative Decree No. 195 of 6 November 2007 (the “Transparency Decree”), as amended by Italian Legislative Decree No. 27 of 27 January 2010.

In implementation of the provision of Italian Legislative Decree No. 38 of 28 February 2005 and EEC Regulation No. 1606/2002, the Terna Group prepares the consolidated financial statements as at and for the year ended 31 December 2014 in compliance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board and endorsed by the European Commission (hereinafter “EU IFRSs”).

The 2014 annual report has been prepared on a historic cost basis, modified where necessary for certain financial instruments, as well as on a going concern basis.

Scope of consolidation

As already illustrated in the section “Organisation, reference context and business”, the change in the Terna Group’s scope of consolidation compared with the situation at 31 December 2013 regards, in the context of the Non-Regulated Activities, the acquisition, during the first half of 2014, of the **Tamini Group** companies and the incorporation, on 23 July 2014, of the company **Terna Interconnector S.r.l.**, owned 95% by the parent company Terna and 5% by the subsidiary Terna Rete Italia S.p.A..

Basis of presentation

The measurement and recognition criteria applied in this Annual Financial Report are consistent with those adopted in the consolidated financial statements at 31 December 2013.

In order to present the performance of the Terna Group and to analyse its financial position, separate reclassified statements have been prepared that differ from those required by the EU-IFRS adopted and contained in the consolidated financial statements.

These reclassified tables contain alternative performance indicators with respect to those resulting directly from the tables of the consolidated financial statements, which management considers useful for monitoring Company trends, and representative of the economic and financial results produced by the business.

In line with Recommendation CESR/05-178b, the criteria for constructing these indicators are described in the footnotes to the reclassified statements, which reconcile them with the schedules contained in the consolidated financial statements.

For the purposes of better comparison some economic balances have been reclassified, but without altering the amounts of the results for financial year 2013.

In addition, note that following the declaration³⁸ of unconstitutionality of the so-called Robin Hood Tax (article 81, paragraphs 16, 17 and 18 of Italian Legislative Decree no. 112/2008) which had introduced an IRES (Italian corporate income tax) surcharge of 6.5% as of 2014, the Terna Group determined current taxes for financial year 2014 applying the IRES rate with an increase of 6.5% and adjusting the net deferred taxes to the rate in force at the time of payment (27.5% without application of the additional RHT). This adjustment created a positive effect on the income statement in the amount of approximately € 30 million and an impact on other comprehensive income of € -3.9 million.

(38) On 11 February 2015, the Constitutional Court published sentence 10/2015, which declared the unconstitutionality of the so-called Robin Hood Tax. Given that, in the Court’s opinion, “the retroactive application of this declaration of unconstitutionality would create a serious violation of the balance of the budget” of the State, sanctioned in article 81 of the Constitution, “the unconstitutionality is effective as of the day following the publication of this sentence.” It is expected that in the coming months, as generally occurs in practice, an ordinary law will be issued by the government which officially abolishes the regulation which introduced the RHT and specifically establishes the tax period in which the increase will be abolished.

Group reclassified income statement

The economic results for financial year 2014 for the Terna Group, compared with the previous year, are summarised in the following Operating Income Statement. The performance of the Tamini Group is reflected in the Income Statement for 2014 as of 20 May 2014, the date on which the acquisition by the Terna Group was completed.

€ million	2014	2013	Δ	%
Revenues				
Transmission fee ⁽¹⁾	1,650.7	1,644.4	6.3	0.4%
Dispatching fee ⁽¹⁾	117.3	114.4	2.9	2.5%
Other operating revenue	198.0	106.8	91.2	85.4%
<i>of which other revenue from Regulated Activities⁽¹⁾</i>	<i>54.9</i>	<i>42.8</i>	<i>12.1</i>	<i>28.3%</i>
<i>of which revenue from Non-Regulated Activities⁽²⁾</i>	<i>143.1</i>	<i>64.0</i>	<i>79.1</i>	<i>123.6%</i>
Revenue from construction of assets in concession ⁽³⁾ (1)	30.4	30.8	(0.4)	(1.3%)
Total revenue	1,996.4	1,896.4	100.0	5.3%
Operating expenses				
Personnel expenses ⁽³⁾	258.9	198.9	60.0	30.2%
Services, leases and rentals ⁽³⁾	139.5	120.8	18.7	15.5%
Materials ⁽³⁾	37.1	11.4	25.7	225.4%
Other expenses	39.0	46.4	(7.4)	(15.9%)
Costs of construction of assets in concession ⁽³⁾ (4)	30.4	30.8	(0.4)	(1.3%)
Total operating expenses	504.9	408.3	96.6	23.7%
EBITDA (GROSS OPERATING PROFIT)	1,491.5	1,488.1	3.4	0.2%
Amortisation, depreciation and impairment	480.6	450.4	30.2	6.7%
EBIT (OPERATING PROFIT/LOSS)	1,010.9	1,037.7	(26.8)	(2.6%)
Net financial income (expense) ⁽⁵⁾	(127.9)	(100.2)	(27.7)	27.6%
PROFIT/LOSS BEFORE TAXES	883.0	937.5	(54.5)	(5.8%)
Income taxes for the year ⁽⁶⁾	338.5	423.9	(85.4)	(20.1%)
NET PROFIT FOR THE YEAR	544.5	513.6	30.9	6.0%

In the Consolidated Income Statement:

- (1) the balance is included in the item "Revenue from sales and services";
- (2) the balance corresponds to the item "Other revenue and income", to the item "Revenue from sales and services" of € 69.5 million and to the item "net profit from discontinued operations" of € 13.8 million, relating to the release of 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;
- (3) they correspond to the items "Personnel expenses", "Services" and "Raw materials and consumables" respectively, net of the construction costs of assets in concession pursuant to IFRIC 12 (€ 30.4 million, of which € 6.1 million for "Personnel expenses", € 21.3 million for "Services, leases and rentals" and € 3 million for "Materials");
- (4) the balance is included in the items "Personnel expenses", "Services" and "Raw materials and consumables", as detailed in note (3) above;
- (5) corresponds to the total of the items presented in points 1, 2 and 3 of letter C - "Financial income/expense";
- (6) corresponds to the item "Income taxes" and to the item "net profit from discontinued operations" of € -2,8 million, related to the tax effect of reversing the provision commented on in the note (2) above.

In 2014, the Terna Group achieved **revenues** totalling **€ 1,996.4 million**, € 1,722.6 million pertaining to the Parent Company and € 188.9 million to the subsidiary Terna Rete Italia S.r.l., with an increase of € 100 million with respect to the previous year (+5.3%). This change is mainly attributable to Non-Regulated Activities, for € 79.1 million, and to a lesser degree to Regulated Activities, in the amount of € 21.3 million.

In the context of **Regulated Activities**⁽⁴⁰⁾, the increase of € 21.3 million derived mainly from:

- the integration of the transmission fees for correction of the calculation of the 2014 tariff (€ +5.4 million) as established by the Authority for Electricity, Gas and Water (AEEGSI) in Resolution 653/2014/R/eel "Update of tariffs for providing the electricity transmission service, for the year 2015";
- net positive balance for contingent items for transmission and dispatching activities compared with the previous year (€ +3.9 million);

(39) Recognised pursuant to IFRIC 12 "Service Concession Arrangements".

(40) Revenue from Regulated Activities including revenue from the items "Transmission Fee", "Dispatching Fee" and the related "Other operating revenue".

- greater bonuses for service quality during the year (€ +9.3 million), referred to the net effects of the Regulated Energy Not Supplied (RENS) incentive mechanism, pursuant to Resolution 197/11 (€ +22.4 million)⁴¹, partially offset by the revenues recorded in 2013 for the incentives paid to Terna on the Dispatching Service Market as envisaged by Resolution 213/09 (€ 13.1 million).

Below we detail the economic effects of the bonus/penalty mechanisms related to service quality for financial year 2014, compared with 2013:

Quality of service	2014	2013	Δ
Revenue			
RENS Bonuses (2012/2013/2014)	33.9	11.5	22.4
Dispatching incentives pursuant to Res. 213/09	-	13.1	(13.1)
	33.9	24.6	9.3
Costs			
Estimated costs connected to mitigation and sharing mechanisms	(1.6)	19.1	(20.7)
Grants to Exceptional Events Provision	(0.6)	5	(5.6)
	(2.2)	24.1	(26.3)
Net service quality impact	36.1	0.5	35.6

The increase in **Non-Regulated Activities**, totalling € +79.1 million, is substantially due to revenues from work orders carried out by the Tamini Group subsequent to its inclusion within the Terna Group (€ +53.5 million). In addition, of note are higher payments related to:

- the execution of work orders for changes to the NTG for third parties (€ +7.1 million, in particular related to activities connected to Expo 2015);
- activities to design international interconnections (€ +5.6 million);
- the effects of the agreement signed with EDF-Electricité de France related to the operation and maintenance of the SACOI connection (€ 3.8 million); as well as
- the release of 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).

Operating expenses for the year, amounting to € 504.9 million, mainly related to the Parent Company (€ 188.7 million) and to the subsidiary Terna Rete Italia S.p.A. (€ 250.7 million). They grew compared with 2013 (€ +96.6 million) and include the effect of final operating costs for management of the Tamini Group, post-acquisition (€ +53.2 million).

The Group's expenses in the year are detailed in the table below:

€ million	2014	2013	Δ Total	Δ (same scope)	Tamini Group
Personnel expenses	258.9	198.9	60.0	47.5	12.50
Services, leases and rentals	139.5	120.8	18.7	5	13.7
Materials	37.1	11.4	25.7	0.4	25.3
Other expenses	39	46.4	(7.4)	(9.1)	1.7
Costs of construction of assets in concession	30.4	30.8	(0.4)	(0.4)	0
Total expenses	504.9	408.3	96.6	43.4	53.2

Net of the contribution of the Tamini Group, the trend for operating expenses was an increase of € 43.4 million, mainly due to the provision for retirement incentives of € 36.6 million, supporting the voluntary generational turnover project to be completed in 2015, which provides for the recruitment of new young professionals and a voluntary early retirement plan; also important were the salary increases envisaged for 2014 in the national collective employment contract (CCNL) and lower capitalisations due to the decrease in investment activities, in line with the Strategic Plan.

As regards the other items we can note:

- Services, leases and rentals € +5 million, attributable to greater costs for tenders, as well as for the execution of Non-Regulated Activities, net of generalised savings for expenses for external resources (technical and professional consulting, telephone services, etc.);

(41) Also includes integration for financial year 2012, recognised on the basis of that defined in AEEGSI Resolution 118/2014, for € +5.7 million.

- “Other expenses”: down € 9.1 million, reflecting greater charges for transmission service quality recognised during the previous year (€ -26.3 million), net of the provision of € 10 million for IMU (local property tax), connected to the 2015 Stability Law which, while awaiting the implementation of the changes to the cadastral regulations, confirms the instructions contained in the Agenzia del Territorio (Land Registry) Circular no. 6/2012. In addition, note contingent liabilities related to a supply contract from 2012 (€ 8.6 million).

EBITDA (gross operating margin) for the year came to **€ 1,491.5 million**, with a slight increase of € 3.4 million over the € 1,488.1 million in 2013. The **EBITDA margin** went from 78.5% in 2013 to **74.7%** in 2014, mainly due to the dilutive effect of the acquisition of the Tamini Group, as well as the extraordinary items commented on above, in particular with reference to the provisions for voluntary retirement incentives.

The item **amortisation, depreciation and impairment** for the period, amounting to € 480.6 million (of which € 426.7 million of the Parent Company and € 50.5 million of the subsidiary Terna Rete Italia S.r.l.), grew by € 30.2 million compared with 2013, essentially due to the entry into operation of new plants and for new decommissioning programs defined at the end of the year.

EBIT (operating profit/loss), after deducting amortisation, depreciation and impairment, came to **€ 1,010.9 million**, compared to € 1,037.7 million in 2013 (-2.6%).

Net financial expense for the year, amounting to € 127.9 million, mainly attributable to the parent company (€ 126.2 million), revealed an increase of € 27.7 million, compared to € 100.2 million in 2013, which was affected by higher financial income due to the greater liquidity invested at more favourable rates.

After deducting net financial expense, **profit before taxes** came out at € 883.0 million, down by € 54.5 million compared with the previous year (-5.8%).

Income taxes for the year amounted to € 338.5 million, down € 85.4 million (-20.1%) compared to the previous year, partly because of the lower pre-tax profit, but mainly due to the reduction of the IRES surcharge under Italian Law Decree no. 138 of 13 August 2011 (so-called Robin Hood Tax), which went from 10.5% to 6.5%, bringing the IRES rate for current taxes to 34% (compared to 38% in 2013), and because of the adjustment of deferred net taxes consequent to the recent declaration made by the Constitutional Court that the above mentioned IRES surcharge was unconstitutional (which brings the IRES rate to 27.5% as of 2015).

The tax rate for the year dropped, going from 45.2% in 2013 to 38.3% in 2014.

Net profit for the year reached **€ 544.5 million**, an increase of € 30.9 million (+6%) with respect to € 513.6 million in 2013.

Results by business segment

Economic results

The breakdown of the Terna Group's results by business segment, in relation to financial years 2014 and 2013, is detailed in the table below⁽⁴²⁾:

€ million	Financial year 2014	Financial year 2013	Δ	Δ %
Total revenue from Regulated Activities	1,822.9	1,801.6	21.3	1.2%
Transmission Fee	1,650.7	1,644.4	6.3	
Dispatching revenues	117.3	114.4	2.9	
Quality of service	33.9	24.6	9.3	
Other core revenue	21.0	18.2	2.8	
Total revenue from Non-Regulated Activities	143.1	64.0	79.1	123.6%
Tamini Group revenue	53.5	-	53.5	
Other non-regulated revenue	89.6	64.0	25.6	
Revenue from construction of assets in concession	30.4	30.8	(0.4)	
Total revenue	1,996.4	1,896.4	100.0	5.3%
Total costs of Regulated Activities	399.9	360.5	39.4	10.9%
Personnel	236.0	190.6	45.4	
External resources	129.3	128.4	0.9	
Service quality	(2.2)	24.1	(26.3)	
Other charges	36.8	17.4	19.4	
Total costs of Non-Regulated Activities	74.6	17.0	57.6	338.8%
Tamini Group costs	53.2	-	53.2	
Other non-regulated costs	21.4	17.0	4.4	
Costs from construction of assets in concession	30.4	30.8	(0.4)	
Total operating expenses	504.9	408.3	96.6	23.7%
EBITDA	1,491.5	1,488.1	3.4	0.2%
EBITDA Regulated Activities ⁽⁴³⁾	1,423.0	1,441.1	(18.1)	(1.3%)
EBITDA Non-Regulated Activities	68.5	47.0	21.5	45.7%

Regulated Activities

The **EBITDA of Regulated Activities** amounted to € 1,423.0 million, down € 18.1 million compared to the figure for the previous year. This decrease can be referred to the increase in operating costs (+ € 39.4 million, +10.9%), mainly due to the increase in personnel expenses (+ € 45.4 million, due to the provision for early retirement incentives of € 36.6 million and salary increases provided for 2014 in the CCNL), which was greater than the increase in revenues (€ 21.3 million, +1.2%), mainly due to transmission fee (€+6.3. million) and service quality (€ +9.3 million, mainly connected to the incentive mechanism connected to Regulated Energy Not Supplied).

Non-Regulated Activities

EBITDA for Non-Regulated Activities amounted to € 68.5 million, an increase of 21.5 million with respect to the previous year's figure, due to higher revenues totalling € 25.6 million, mainly due to the execution of work orders for changes to the NTG for third parties (€ +7.1 million), activities to design international interconnections (€ +5.1 million), and the effects of the agreement signed with EDF-Electricité de France related to the operation and maintenance of the SACOI connection (€ 3.8 million). Finally, note the release of the provision due to the adjustment in the estimate of probable charges connected to extraordinary operations completed in 2011 in the photovoltaic sector (€ 13.8 million).

(42) The Terna Group's business segments are in keeping with the internal management control system adopted by the Parent Company, in line with the 2014-2018 Strategic Plan.

(43) Note that conventionally, indirect costs are entirely attributed to the EBITDA for Regulated Activities.

Investments

In 2014, the Terna Group made investments for € 1,096.1 million, of which € 1,048.1 million (approximately 95.6%) were investments in Regulated Activities, i.e. remunerated by the AEEGSI; in particular, with reference to remunerated investments, we can note that:

- 44.7% receives extra remuneration of 2% (investment categories I3 and I4);
- 33.9% benefits from extra remuneration of 1.5% (investment category I2);
- 21.4% receives the basic remuneration (investment category I1).

Investments	Financial year 2014	Financial year 2013	Δ	Δ %
Incentive +2% (Category I3/I4)	468.7	508.1	(39.4)	(7.7%)
Incentive +1.5% (Category I2)	355.3	429.5	(74.2)	(17.3%)
Investments with incentives	824.0	937.6	(113.6)	(12.1%)
Basic remuneration (Category I1)	224.1	228.9	(4.8)	(2.1%)
Investments in Regulated Activities	1,048.1	1,166.5	(118.4)	(10.2%)
Other ⁴⁴	48.0	45.8	2.2	4.8%
Total investments	1,096.1	1,212.3	(116.2)	(9.6%)

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

The Group's reclassified statement of financial position

The reclassified consolidated statements of financial position of the Terna Group at 31 December 2014, and 31 December 2013, are presented below.

€ million	at 31.12.2014	at 31.12.2013	Change
Net non-current assets			
Intangible assets and goodwill	452.5	461.8	(9.3)
Property plant and equipment	10,778.6	10,119.9	658.7
Financial assets ⁽¹⁾	91.3	82.8	8.5
Total	11,322.4	10,664.5	657.9
Net working capital			
Trade receivables ⁽²⁾	670.8	846.1	(175.3)
Inventories	21.6	8.0	13.6
Other assets ⁽³⁾	24.4	16.8	(7.6)
Net tax assets ⁽⁴⁾	6.2	32.9	(26.7)
Trade payables ⁽⁵⁾	742.9	780.0	(37.1)
Net payables for pass-through energy items ⁽⁶⁾	453.9	407.3	46.6
Other liabilities ⁽⁷⁾	347.0	289.9	57.1
Total	(820.8)	(573.4)	(247.4)
Gross invested capital	10,501.6	10,091.1	410.5
Sundry provisions ⁽⁸⁾	440.9	452.7	(11.8)
NET INVESTED CAPITAL	10,060.7	9,638.4	422.3
Equity attributable to the owners of the Parent	3,092.9	2,940.6	152.3
Net financial debt⁽⁹⁾	6,967.8	6,697.8	270.0
TOTAL	10,060.7	9,638.4	422.3

(44) These include investments in Non-Regulated Activities and capitalised borrowing costs.

In the Consolidated Statement of Financial Position they correspond to:

- (1) the items "Equity-accounted investees", "Other non-current assets" and "Non-current financial assets" for the carrying amount of the other investments (€ 0.3 million) and of deferrals on Revolving Credit Facility commissions (€ 2.0 million);
- (2) the item "Trade receivables" net of energy-related pass-through revenue receivable (€ 907.0 million);
- (3) the item "Other current assets" net of other tax assets (€ 21.6 million);
- (4) the items "Income tax assets", "Other current assets" for the amount of the other tax assets (€ 62.6 million), "Other current liabilities" for the amount of other tax liabilities (€ 19.0 million) and "Income tax liabilities";
- (5) the item "Trade payables" net of energy-related pass-through costs payable (€ 1,360.9 million);
- (6) the items "Trade receivables" for energy-related pass-through revenue receivable (€ 875.0 million) and "Trade payables" for energy-related pass-through costs payable (€ 1,360.9 million);
- (7) the items "Other non-current liabilities", "Current financial liabilities" and "Other current liabilities" net of other tax liabilities (€ 40.1 million);
- (8) the items "Employee benefits", "Provisions for risks and charges" and "Deferred tax liabilities";
- (9) the items "Long-term loans", "Current portions of long-term loans", "Non-current financial liabilities", "Cash and cash equivalents", "Non-current financial assets" for the value of FVH derivatives (€ 784.8 million), "Current financial assets" and "Current financial liabilities".

The increase in **Net non-current assets** of € 657.9 million, compared with the figure of 31 December 2013, is mainly attributable to the item **Property, plant and equipment** (+€ 658.7 million) owing to the combined effect of:

- investments of € 1,048.7 million, of which € 1,036.1 million in Regulated Activities;
- the contribution of the assets of the Tamini Group (totalling € 28.9 million as of the date of the 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.);
- amortisation and depreciation for the year of € 419.5 million.

Disposals and other changes in the year, such as the recognition of set-up grants, accounted for the change in the item to € 658.7 million compared to 31 December 2013.

Intangible assets and goodwill recorded a reduction of € 9.3 million as compared with the previous year, attributable to the combined effect of investments in the period of € 47.4 million (of which € 30.6 million in dispatching infrastructures), and the portion of amortisation accruing of (€ 58.4 million, of which € 36.4 million relating to amortisation of dispatching infrastructures and € 5.6 million relating to amortisation of the concession). The net book value of the infrastructures used for the dispatching service as at 31 December 2014 totals € 141.1 million (as compared with the € 147 million booked as at 31 December 2013).

Total investments made by the Group in 2014 were € 1,096.1 million, in line with the Strategic Plan and down (-9.6%) compared to the € 1,212.3 million in 2013 which reflected, among other things, non-recurring effects.

With reference to investments during the year, we note in particular, those made by the Parent Company, mainly regarding two strategic 380 kV power lines, Trino-Lacchiarella and Foggia-Benevento, the continuation of activities to complete the 380 kV Sorgente - Rizziconi power line, and for the HVDC Italy - Montenegro interconnection, as well as the acquisition of synchronous condensers for the Codrogianos substation in Sardinia. In addition, actions to develop the storage systems continued. In 2014 they included the start of operations for the Ginestra - Benevento plant, with a capacity of 12 MW and Flumeri (Avellino) with a capacity of 6 MW ("**Energy Intensive**" project) and the completion of 5 storage systems in Sicily and 7 in Sardinia for a total of 8.6 MW of the 40 MW foreseen for the "**Power Intensive**" project. Below is the operative classification of investments according to remuneration category:

TERNA GROUP INVESTMENTS (1,096.1 mln)



Net working capital amounted to € -820.8 million and during the year generated liquidity totalling € 247.4 million with respect to 2013, mainly due to the joint effects of:

Liquidity generated

- decrease in **trade receivables** of € 175.3 million: the reduction in Group receivables was mainly due to collections from Electricity Equalization Fund for residual receivables of the Parent Company related to the incentive mechanism for dispatching services, pursuant to Resolution AEEGSI 213/09 (€ 63.2 million) and the receivable for the integration of NTG revenues for Terna S.p.A. relative to 2012, net of associated ascertainties (€ 43.8 million); in addition, of note is the delayed collection in January 2014 of the NTG fee portion from a market operator pertaining to the last part of 2013, net of the portion of receivables related to the Tamini Group, totalling € 55.7 million;

- increase in **net energy related pass-through payables** related to electricity dispatching activities carried out by the Parent Company, for € 46.6 million, mainly attributable to greater payables connected to payment for units essential for the security of the electricity system and availability of production capacity;
- decrease in **net tax receivables** for € 26.7 million, attributable to the Group's debit position with respect to the tax authorities for VAT, compared to the credit situation seen at the end of 2013 (€ -57.8 million, in consideration of the € 34.6 million credit existing at 31 December 2013) partially compensated for by a reduction in net payables due to tax authorities for current taxes (€ 35.4 million) due to greater tax advances paid with respect to the tax load for the year;
- increase in **other liabilities** (€ 57.1 million), mainly in reference to grants received for projects financed by Ministry for Economic Development/European Union (€ +60 million), greater payables to employees (€ +7.6 million), net of the reduction in guarantee deposits received from electricity market operators guaranteeing the contractual obligations connected to dispatching contracts (€ -23.3 million).

Liquidity absorbed

- decrease in **trade payables** (-€ 37.1 million) deriving mainly from certain payable items for investing activities in being at 31 December 2013, payment of which was deferred to first days of the current year.

Gross invested capital, therefore, amounted to € 10,501.6 million, recording an increase compared with the previous financial year of € 410.5 million.

Sundry provisions declined by € 11.8 million, owing mainly to:

- use of previous allocations to the deferred tax provision of the Parent Company Terna and the subsidiary Terna Rete Italia S.r.l., pertaining to additional depreciation with respect to the economic/technical rates (respectively € 41.8 million and € 3.5 million); use of net deferred taxes for € 30.6 million for an adjustment consequent to the previously noted elimination of IRES surcharge (6.5%, the so-called Robin Hood Tax);
- contribution of the provisions for risks and charges of the Tamini Group, equal to € 12.5 million at 31 December 2014;
- net increase to the provision for early retirement incentives for € 30.9 million, essentially due to the provision of € 36.6 million connected to the corporate reorganisation programme begun by the company during the year;
- adjustment to the provision for probable charges connected to extraordinary transactions completed in 2011 in the photovoltaic sector (€ 13.8 million);
- provision of € 10 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;
- increase in liabilities relating to employee benefits, for € 26.2 million, mainly related to the registration of actuarial gains and losses accruing during the year (€ 24.2 million deriving from the adjustment of the reference interest rate).

Net invested capital amounted to € 10,060.7 million, an increase of € 422.3 million compared with 31 December 2013 and is financed by shareholders' equity for € 3,092.9 million (compared with € 2,940.6 million at 31 December 2013) and by net financial indebtedness for € 6,967.8 million (€ +270.0 million compared with the € 6,697.8 million of 31 December 2013).

Table reconciling the period result and shareholders' equity of the Group with the same values recorded by the parent company

A reconciliation of consolidated equity and profit with the amounts reported by the Parent is provided below:

€ million	Net profit 2014	Equity at 31.12.2014
Financial Statements of the Parent Company	450.4	2,756.7
Results and equity contributed by the Group companies in Regulated Activities business	81.6	242.1
Results and equity contributed by other Group companies in Non-Regulated Activities business	7.3	67.0
Equity-accounted investees	5.2	27.1
Terna Group Consolidated Financial Statements	544.5	3,092.9

Cash flows

Net financial debt

The Group's net financial debt at 31 December 2014 (€ 6,967.8 million) is broken down in the table below:⁴⁵

€ million	31.12.2014	31.12.2013	Δ
Financial debt			
A. Medium- and long-term debt			
Bond ⁽¹⁾	5,983.6	5,723.0	260.6
Floating-rate loans ⁽¹⁾	2,101.6	2,286.9	(185.3)
Derivative financial instruments ⁽²⁾	(754.9)	(447.1)	(307.8)
Total	7,330.3	7,562.8	(232.5)
B. Short-term debt (liquidity):			
Floating-rate loans (current portions) ⁽³⁾	764.1	79.0	685.1
Bonds (current portion) ⁽³⁾	-	618.8	(618.8)
Derivative financial instruments ⁽⁴⁾	5.6	(18.4)	24.0
Other net current financial liabilities ^{46 (5)}	85.1	72.7	12.4
Cash and cash equivalents	(1,217.3)	(1,617.1)	399.8
Total	(362.5)	(865.0)	502.5
Total net financial debt	6,967.8	6,697.8	270.0

In the Consolidated Statement of Financial Position:

- (1) this figure corresponds to the item "Long-term loans";
(2) this figure corresponds to "Non-current financial liabilities" and "Non-current financial assets" for the value of FVH derivatives (€ 748.8 million);
(3) this figure corresponds to the item "Current portion of long-term loans";
(4) the balance corresponds to "Current financial liabilities" for the value of cash flow hedge derivatives (€ 5.6 million);
(5) the balance corresponds to the item "Current financial assets" and to the item "Current financial liabilities" for the value of the deferred liabilities on financial instruments in the portfolio (€ 48.5 million);

The structure of net financial debt, which increased overall in financial year 2014 by € 270.0 million, presents the following changes:

- reduction in bonds (€ 358.2 million) following the repayment on 26 October 2014 of the bond issued in 2004 for a nominal value of € 600 million, net of the effects of adjustments to the fair value of the same financial instruments (€ +240.5 million, including amortised costs), and the capitalisation of inflation for the period (€ +1.3 million), connected to the inflation linked bond;
- an increase in floating-rate loans (€ 499.8 million), due essentially to the combined effect of the following changes:
 - disbursement by the European Investment Bank (EIB) of a loan for € 570.0 million on 25 June 2014, with maturity of 2030;
 - repayment of EIB loan instalments due of € -79 million;
 - recognition of payables (€ 8.8 million) related to the takeover in four leasing contracts relating to the acquisition of the business unit Brulli Trasmissione, commented on in the paragraph "Significant events";
- increase in the positive net balance of derivative financial instruments (€ 283.8 million), mainly due to the decrease in the reference interest rate curve with respect to December 2013;
- absorption of liquid assets (€ 399.8 million).

(45) Includes interest accrued not yet liquidated at 31 December 2014.

(46) At 31 December 2014, these refer to current net financial liabilities for interest accrued not yet paid/collected relative to:
- Bonds and loans (€ 135.1 million at the end of 2014 and € 138.4 million at the end of 2013);
- Derivative financial instruments (€ -47.2 million at the end of 2014 and € -50.2 million at the end of 2013);
- Cash and cash equivalents (€ -2.8 million at the end of 2014 and € -15.5 million at the end of 2013).

Cash flow

The cash flows for FYs 2014 and 2013 are shown in the table below.

€ million	Cash flow 31.12.2014	Cash flow 31.12.2013
Profit for the year	544.5	513.6
Amortisation, depreciation and impairment	480.6	450.4
Net financial expense	127.9	100.2
Net change in provisions	(11.8)	(27.4)
<i>of which Tamini Group contribution*</i>	15.1	-
Net Losses (Gains) on asset disposals	(1.8)	(1.7)
Self-financing (Operating Cash Flow)	1,139.4	1,035.1
Change in net working capital**	244.9	(150.0)
<i>of which Tamini Group contribution*</i>	(39.3)	-
Other changes in non-current assets	(33.6)	0.6
<i>of which Tamini Group contribution*</i>	(30.6)	-
Change in equity investments	(4.5)	(0.7)
Other changes in equity attributable to owners of the Parent	9.8	40.7
Change in NWC and other (Cash Flow from Operating Activities)	1,356.0	925.7
Total investments	(1,096.1)	(1,212.3)
Free Cash Flow	259.9	(286.6)
Dividends paid to owners of the Parent	(402.0)	(402.0)
Net financial expense	(127.9)	(100.2)
Change in net financial debt	(270.0)	(788.8)

* Opening value at the acquisition date of 20 May 2014.
 ** Does not take into account impairment of trade receivables accruing (€ 2.5 million in 2014).

The cash provided by operating activities in 2014 came to approximately € 1,356 million and is attributable to self-financing (€ 1,139.4 million) and to financial resources provided by net working capital (€ 244.9 million) net of other changes (€ -28.3 million).

The most substantial effect on **self-financing** was that of profit for the year, € 544.5 million, before amortisation, depreciation and impairment accruing of € 480.6 million and net financial expense for the year (€ 127.9 million).

The change in **net working capital**, at € +244.9 million, is mainly due to management of trade items (including pass-through energy items) and the collection of contributions for projects financed by Ministry for Economic Development/ European Union. The **Other changes** refer mainly to:

- contribution of the assets of the Tamini Group (€ 28.9 million), of the Brulli Trasmissione business unit (€ +11.8 million) as well as acquisition of certain transmission assets from Sorgenia (€ 9 million) net of set-up grants (of € 11 million);
- other changes in the Group's equity for recognition at fair value of cash flow hedge derivatives hedging floating-rate debt (€ 27.3 million, net of the deferred tax effect), net of the recognition of the actuarial loss on employee benefits accruing to the year (€ -17.5 million, considering also the tax effect) related essentially to adjustment of the relevant interest rate.

The Group's **total investments** made in the year amounted to € 1,096.1 million referable to property, plant and equipment for € 1,048.7 million and to Intangible assets for € 47.4 million.

Therefore the **free cash flow** provided by operating activities amounted to € 259.9 million.

The **remuneration of shareholders** (distribution of the 2013 dividend balance of € 261.3 million and of the 2014 interim dividend of € 140.7 million) and of **third-party capital** (net financial expense of € 127.9 million) generated total financial requirements of € 529.9 million, in part covered by the net free cash flow of € 259.9 million and for the remainder, substantially by increasing net financial debt (€ 270 million).

In line with Recommendation CESR/05-178b, the cash flow data are compared with the consolidated accounting statements through specific reconciliation notes illustrated in the table below:

€ million	Cash flow 31.12.2014	Reconciliation financial statements	Cash flow 31.12.2013	Reconciliation financial statements
Net profit for the year	544.5		513.6	
Amortisation, depreciation and impairment	480.6		450.4	
Net financial expense	127.9		100.2	
Net change in provisions	(11.8)		(27.4)	
<i>Employee benefits</i>		26.2		(8.3)
<i>Provisions for future risks and charges</i>		32.5		10.1
<i>Deferred tax liabilities</i>		(70.5)		(29.2)
Net Losses (Gains) on asset disposals ⁽¹⁾	(1.8)		(1.7)	
Self-financing (Operating Cash Flow)	1,139.4		1,035.1	
Change in net working capital:	244.9		(150.0)	
<i>Inventories</i>		(13.6)		(1.4)
<i>Trade receivables*</i>		140.8		156.0
<i>Income tax assets</i>		(5.1)		(2.2)
<i>Other current assets</i>		33.4		(19.8)
<i>Trade payables</i>		41.5		(247.9)
<i>Income tax liabilities</i>		(30.3)		(63.5)
<i>Other liabilities</i>		78.2		28.8
Other changes in non-current assets	(38.1)		(0.1)	
<i>Intangible assets</i> ⁽³⁾		(1.9)		-
<i>Property, plant and equipment</i> ⁽²⁾		(27.7)		1,3
<i>of which contribution of newly-acquired companies</i>				
<i>Non-current financial assets</i>		(1.3)		(0.2)
<i>Other non-current assets</i>		(2.0)		(0.7)
<i>Equity-accounted investees</i>		(5.2)		(0.5)
Other changes in equity attributable to owners of the Parent ⁽⁴⁾	9.8		40.7	
<i>Equity attributable to owners of the Parent</i>		9.8		40,7
<i>Share capital, Other reserves and Retained earnings</i>				
Change in NWC and other (Cash Flow from Operating Activities)	1,356.0		925.7	
Investments				
Total investments	(1,096.1)		(1,212.3)	
<i>Property, plant and equipment</i> ⁽²⁾		(1,048.7)		(1,212.3)
<i>Intangible assets</i> ⁽³⁾		(47.4)		
Total cash flows provided by/(used in) investing activities	(1,096.1)		(1,212.3)	
Free Cash Flow	259.9		(286.6)	
Own funds				0.0
Dividends paid to owners of the Parent	(402.0)		(402.0)	
Third party financing				
Net financial expense	(127.9)		(100.2)	
Change in net financial debt	(270.0)		(788.8)	
Change in loans	(129.8)		(104.2)	
<i>Non-current financial assets</i>		(257.7)		227.8
<i>Current financial assets</i>		39.3		(14.0)
<i>Non-current financial liabilities</i>		(50.1)		(61.2)
<i>Long-term loans</i>		73.5		(899.5)
<i>Current portion of long-term loans</i>		68.1		628.4
<i>Current financial liabilities</i>		(2.9)		14.3
Change in cash and cash equivalents	(399.8)		893.0	

*Does not take into account impairment of trade receivables accruing (€ 2.5 million in 2014).

(1) included in the "Other revenue and income" and "Other operating costs" items of the consolidated financial statements;

(2) see note 13 to the financial statements;

(3) see note 15 to the financial statements;

(4) see the Statement of Changes in Consolidated Equity.

Terna S.p.A. performance and financial position

Introduction

The 2014 annual report of Terna S.p.A. has been prepared in accordance with the provisions of Art. 154-ter of Italian Legislative Decree 58/98 introduced by Italian Legislative Decree No. 195 of 6 November 2007 (the “Transparency Decree”), as amended by Italian Legislative Decree No. 27 of 27 January 2010.

In implementation of the provision of Italian Legislative Decree No. 38 of 28 February 2005 and EEC Regulation No. 1606/2002, Terna S.p.A. prepares the financial statements at and for the year ended 31 December 2014 in compliance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board and endorsed by the European Commission (hereinafter “EU IFRSs”).

The 2014 annual report has been prepared on a historic cost basis, modified where necessary for certain financial instruments, as well as on a going concern basis.

In compliance with the provisions of Art. 2364 of the Italian Civil Code and Art. 9.2 of the company’s Articles of Association, the Board of Directors has resolved to call the shareholders to meet within one hundred and eighty days of the financial year end, insofar as Terna S.p.A. is a company required to prepare the consolidated financial statements.

Basis of presentation

The measurement and recognition criteria applied in this Annual Financial Report are consistent with those adopted in the separate financial statements at 31 December 2013.

In order to present the performance of Terna S.p.A. and to analyse its financial position, separate reclassified statements have been prepared that differ from those required by the EU-IFRS adopted by the Company and contained in the financial statements for the year.

These reclassified tables contain alternative performance indicators with respect to those resulting directly from the tables of the separate financial statements, which management considers useful for monitoring Company trends, and representative of the economic and financial results produced by the business.

In line with Recommendation CESR/05-178b, the criteria for constructing these indicators are described in the footnotes to the reclassified statements, which reconcile them with the schedules contained in the Condensed Consolidated Half-Yearly Financial Statements.

Some balances of the financial statements at 31 December 2013, provided for comparison, have been reclassified, without, however, altering the equity values at 31 December 2013 and those of the income statement for 2013. In particular, the recognition of items related to transmission service quality were revised, as a result of the improved interpretation of the service contract between Terna S.p.A. and Terna Rete Italia S.p.A.

In addition, note that following the declaration⁴⁷ of unconstitutionality of the so-called Robin Hood Tax (article 81, paragraphs 16, 17 and 18 of Italian Legislative Decree no. 112/2008) which had introduced an IRES surcharge of 6.5% as of 2014, Terna determined current taxes for financial year 2014 applying the IRES rate with an increase of 6.5% and adjusting the net deferred taxes to the rate foreseen at the time of payment (27.5% without application of the additional RHT). This adjustment created a positive effect on the income statement in the amount of approximately € 20 million and an impact on other comprehensive income of € -2.9 million.

(47) On 11 February 2015, the Constitutional Court published ruling 10/2015, which declared the unconstitutionality of the so-called Robin Hood Tax. Given that, in the Court’s opinion, “the retroactive application of this declaration of unconstitutionality would create a serious violation of the balance of the budget” of the State, sanctioned in article 81 of the Constitution, “the unconstitutionality is effective as of the day following the publication of the ruling”. It is expected that in the coming months, as generally occurs in practice, an ordinary law will be issued by the government which officially abolishes the regulation which introduced the RHT and specifically establishes the tax period in which the increase will be abolished.

Reclassified income statement of Terna S.p.A.

The reclassified Income Statement of Terna S.p.A. for 2014 and 2013 is shown below.

€ million	Financial year 2014	Financial year 2013	Δ	Δ %
Revenues:				
Transmission Fee ⁽¹⁾	1,468.6	1,467.8	0.8	0.1%
Dispatching Fee ⁽¹⁾	117.3	114.4	2.9	2.5%
Other operating revenue ⁽²⁾	171.8	142.9	28.9	20.2%
<i>of which other revenue from Regulated Activities</i>	<i>118.2</i>	<i>105.1</i>	<i>13.1</i>	<i>12.5%</i>
<i>of which revenue from Non-Regulated Activities</i>	<i>53.6</i>	<i>37.8</i>	<i>15.8</i>	<i>41.8%</i>
Revenue from construction of Assets in concession ^{48 (1)}	30.4	30.8	(0.4)	(1.3%)
Total revenue	1,788.1	1,755.9	32.2	1.8%
Operating expenses:				
Personnel expenses ⁽³⁾	87.7	46.8	40.9	87.4%
Services, leases and rentals ⁽³⁾	346.4	318.1	28.3	8.9%
Materials ⁽³⁾	4.3	4.0	0.3	7.5%
Other expenses	34.2	43.0	(8.8)	(20.5%)
Costs of construction of assets in concession ^{48 (4)}	30.4	30.8	(0.4)	(1.3%)
Total operating expenses	503.0	442.7	60.3	13.6%
EBITDA (GROSS OPERATING PROFIT)	1,285.1	1,313.2	(28.1)	(2.1%)
Amortisation, depreciation and impairment	426.7	400.2	26.5	6.6%
EBIT (OPERATING PROFIT/LOSS)	858.4	913.0	(54.6)	(6.0%)
Net financial income (expense) ⁽⁵⁾	(121.2)	(88.5)	(32.7)	36.9%
PROFIT/LOSS BEFORE TAXES	737.2	824.5	(87.3)	(10.6%)
Income taxes	286.8	369.7	(82.9)	(22.4%)
NET PROFIT FOR THE YEAR	450.4	454.8	(4.4)	(1.0%)
In the Consolidated Income Statement:				
(1) the balance is included in the item "Revenue from sales and services";				
(2) the balance corresponds to the item "Other revenue and income" and to the item "Revenue from sales and services" of € 93.7 million;				
(3) they correspond to the items "Personnel expenses", "Services" and "Raw materials and consumables" respectively, net of the construction costs of assets in concession pursuant to IFRIC 12 (€ 30.4 million, of which € 0.2 million for "Personnel expenses", € 28.8 million for "Services, leases and rentals" and € 1.4 million for "Materials");				
(4) the balance is included in the items "Personnel expenses", "Services" and "Raw materials and consumables", as detailed in note (3) above;				
(5) corresponds to the total of the items presented in points 1, 2 and 3 of letter C - "Financial income/expense".				

In financial year 2014, Terna received revenues totalling € 1,788.1 million, with an increase of 1.8% (€ +32.2 million) with respect to 2013, mainly attributable to the positive performance of the mechanisms linked to electricity service quality and results from Non-Regulated Activities.

In particular, **Regulated Activities**⁴⁹ showed an increase of € 16.8 million related essentially to greater bonuses for service quality recognised during the year (€ +9.3 million), related to the net effects of the RENS incentive mechanism, pursuant to Resolution 197/11 (€ +22.4 million)⁵⁰, partially offset by the revenues recorded in 2013 for the incentives paid to Terna on the Dispatching Service Market as envisaged by Resolution 213/09 (€ 13.1 million);

In the context of transmission activities (€ +0.8 million), the positive effect deriving from remuneration linked to work in progress (WIP) incentives and the change in the fee due to the correction of a material error in the calculation of the 2014 tariff (€ +5.4 million)⁵¹ was partially compensated for by greater contingent liabilities arising in 2013 for adjustments to the perimeter of the NTG. The fee for dispatching activities (€ +2.9 million) also benefited from greater one off negative effects recognised in 2013.

(48) Recognised pursuant to IFRIC 12 "Service Concession Arrangements".

(49) Revenue from Regulated Activities includes revenue from the items "Transmission fee", "Dispatching fee" and the related "Other operating revenue".

(50) Also includes integration for financial year 2012, recognised on the basis of that defined in AEEGSI Resolution 118/2014, for € +5.7 million.

(51) The recognition was done on the basis of that established by the Authority for Electricity, Gas and Water (AEEGSI) in Resolution 653/2014/R/eel "Update of tariffs for providing the electricity transmission service, for the year 2015".

Non-Regulated Activities saw an increase of € 15.8 million, mainly due to higher revenue deriving from:

- execution of work orders for changes to the NTG for third parties (€ +5.8 million, in particular related to activities connected to Expo 2015);
- activity to design international interconnections (€ +5.6 million); as well as
- effects of the agreement signed with EDF-Electricité de France related to the operation and maintenance of the SACOI connection (€ 3.8 million).

Operating expenses amounted to € 503 million, an increase of € 60.3 million with respect to the balance the previous year (+13.6%), due to the effects of the following phenomena:

- “Personnel expenses”: the increase of € 40.9 million is essentially attributable to the provision for early retirement incentives of € 36.6 million supporting the generational turnover project to be completed in 2015, which provides for the recruitment of new young professionals and a voluntary early retirement plan; also important were the salary increases envisaged for 2014 in the national collective employment contract (CCNL);
- “Costs for services, leases and rentals”: the € 28.3 million increase was mainly due to:
 - the performance bonus connected to transmission service quality paid to Terna Rete Italia S.p.A. as a synthetic economic recognition of the annual performance of the subsidiary in executing the activities envisaged in the existing service contract. In particular, in 2014, in consideration of the final figures for the year connected to the above described service quality mechanisms, Terna paid Terna Rete Italia S.p.A a bonus of €10 million⁵², in contrast to the penalty of € 10 million recognised in 2013;
 - greater activities carried out during the year by Terna Rete Italia S.p.A. on plants owned by the Company and third parties on the account of Terna (€ +7.3 million);
- “Other costs”: the change of € -8.8 million is mainly due to the combined effect of:
 - quality of service: € -26.3 million mainly in connection with the valuation of mitigation and sharing mechanisms and contributions to the exceptional events provision, consequent to the interruption events which mainly occurred at the end of financial year 2013;
 - IMU cost: +€ 10 million 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;
 - recognition of contingent liabilities related to a supply contract from 2012 (€ 8.6 million).

EBITDA (gross operating margin) amounted to € 1,285.1 million, equal to 71.9% of revenues (in contrast to 74.8% in 2013), down by € 28.1 million with respect to the 2013 figure (-2.1%), mainly due to the effects of the provision for early retirement incentives, referred to above.

The item “**Amortisation and depreciation**” for the year amount to € 426.7 million and are up by € 26.5 million on 2013 (+6.6%), due both to the entry into operation of the plants and new decommissioning programs defined at the end of the year.

EBIT (operating profit) therefore amounted to € 858.4 million, down by € 54.6 million (-6%) with respect to 2013.

Net financial expense for the year, totalling € 121.2 million, saw an increase of € 32.7 million with respect to the € 88.5 million of the previous year, due to the financial income deriving from greater liquidity invested at more favourable rates in 2013, net of greater capitalised financial expenses.

After deducting net financial expense, **profit before taxes** came out at € 737.2 million, down by € 87.3 million compared with the previous year (-10.6%), substantially compensated for by tax management which suffered from effects connected to the so-called Robin Hood Tax.

In particular, **income taxes** for the year came to € 286.8 million, a decrease with respect to the previous year of € 82.9 million (-22.4%). This decrease is attributable to lower profits after taxes and the positive effect on taxes for the year deriving from the decrease in the IRES surcharge foreseen in Italian Legislative Decree no. 138 of 13 August 2011 (so-called Robin Hood Tax), which went from 10.5% to 6.5%, attesting to the IRES rate of 34% (compared to 38% in 2013). Also of note was the adjustment in net deferred taxes at 31 December 2014 to the IRES rate of 27.5% (with a positive impact of around € 20 million), following the ruling of unconstitutionality for the aforementioned “Robin Hood Tax”. More information can be found in the introduction.

The **tax rate** therefore came to 38.9%.

Consequently, **net profit for the period** came out at € 450.4 million, down € 4.4 million compared with the net profit of FY 2013 (-1%).

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

Reclassified statement of financial position of Terna S.p.A.

The reclassified statement of financial position of Terna S.p.A. at 31 December 2014 and 2013 is summarised below. The table is obtained by reclassifying the data stated in the Statement of financial position.

€ million	at 31.12.2014	at 31.12.2013	Δ
Net non-current assets			
Intangible assets and goodwill	346.2	356.1	(9.9)
Property plant and equipment	9,577.0	8,972.6	604.4
Financial assets ⁽¹⁾	685.1	683.3	1.8
Total	10,608.3	10,012.0	596.3
Net working capital			
Trade receivables ⁽²⁾	628.5	846.2	(217.7)
Inventories	0.7	0.7	-
Other assets ⁽³⁾	6.5	8.2	(1.7)
Trade payables ⁽⁴⁾	609.3	724.4	(115.1)
Net payables for pass-through energy items ⁽⁵⁾	488.1	449.4	38.7
Net tax liabilities ⁽⁶⁾	0.7	(32.0)	32.7
Other liabilities ⁽⁷⁾	335.0	301.9	33.1
Total	(797.4)	(588.6)	(208.8)
Gross invested capital	9,810.9	9,423.4	387.5
Sundry provisions ⁽⁸⁾	258.0	260.7	(2.7)
NET INVESTED CAPITAL	9,552.9	9,162.7	390.2
Equity	2,756.7	2,688.1	68.6
Net financial debt ⁽⁹⁾	6,796.2	6,474.6	321.6
Total	9,552.9	9,162.7	390.2

In the Consolidated Statement of Financial Position they correspond to:

- (1) the items "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);
- (2) the item "Trade receivables" net of energy-related pass-through revenue receivable (€ 907.0 million);
- (3) the item "Other current assets" net of other tax assets (€ 9.5 million);
- (4) the items "Tax assets", "Other current assets" for the amount of the other tax assets (€ 62.6 million), "Other current liabilities" for the amount of other tax liabilities (€ 19.0 million) and "Tax liabilities";
- (5) the item "Trade payables" net of energy-related pass-through costs payable (€ 1,282.3 million);
- (6) the items "Trade receivables" for energy-related pass-through revenue receivable (€ 875.0 million) and "Trade payables" for energy-related pass-through costs payable (€ 1,282.3 million);
- (7) the items "Other non-current liabilities", "Current financial liabilities" and "Other current liabilities" net of other tax liabilities (€ 40.1 million);
- (8) the items "Employee benefits", "Provisions for risks and charges" and "Deferred tax liabilities";
- (9) the items "Long-term loans", "Current portion of long-term loans", "Non-current financial liabilities", "Cash and cash equivalents", "Non-current financial assets" for the value of FVH derivatives (€ 784.8 million), "Current financial assets" and "Current financial liabilities".

The increase in **Net non-current assets** of € 596.3 million, compared with the figure of 31 December 2013, is mainly attributable to the item **Property, plant and equipment** which saw an increase of € 604.4 million.

The following is a breakdown of the changes in property, plant and equipment for the year:

€ million	
Investments	
Transmission lines	484.4
Transformation stations	329.1
Storage systems	93.3
Other	56.5
Investments in property, plant and equipment - Regulated Activities	963.3
Investments in property, plant and equipment - Non-Regulated Activities	11.3
Total investments in property, plant and equipment	974.6
Intra-group purchases	1.7
Acquisitions from third parties	9.0
Depreciation and amortisation	(367.5)
Disposals, reclassifications and other changes	(13.4)
Total	604.4

The change (€ 604.4 million) is mainly traceable to the effect of new investments (€ 974.6 million, of which € 963.3 million in Regulated Activities) and acquisitions of assets (€ +10.7 million, of which € 1.7 million pertaining to the Group), net of amortisation and depreciation during the year (€ -367.5 million) and disposals and other changes (€ -13.4 million). In particular, on 22 September 2014, Terna acquired from the subsidiary Terna Plus, the substation located in the Municipality of Alfonsine (Ravenna)⁵³ for € 1.7 million and on 22 December 2014, the acquisition of a power line, an electrical substation and the land on which they are located was finalised with Sorgenia Power S.p.A. - included within the perimeter of the NTG with Ministerial Decree 8 August 2014, for a value of € 9 million.

In the context of other changes (€ -13.4 million), worthy of note are the contributions received from third parties and used directly to reduce assets under development and construction (€ 11.6 million).

With reference to activities to develop the NTG, we note, in addition to the start of operations of two strategic 380 kV power lines, Trino-Lacchiarella and Foggia-Benevento, the continuation of activities to complete the 380 kV Sorgone - Rizziconi power line, and for the HVDC Italy - Montenegro interconnection, as well as the acquisition of synchronous condensers for the Codrogianos substation in Sardinia. In addition, actions to develop the storage systems continued. In 2014 they included the start of operations for the Ginestra - Benevento plant, with a capacity of 12 MW and Flumeri (Avellino) with a capacity of 6 MW ("Energy Intensive" project) and the completion of 5 storage systems in Sicily and 7 in Sardinia for a total of 8.6 MW of the 40 MW foreseen for the "Power Intensive" project.

Intangible assets and goodwill fell by € 9.9 million on 2013, owing to ordinary changes in the period, in particular:

- period investments of € 47.1 million (of which € 30.6 million in dispatching infrastructures);
- portion of amortisation/depreciation accruing (€ 58.4 million of which, in particular, € 36.4 million relating to the amortisation of the dispatching infrastructures and € 5.6 million relating to amortisation of the concession).

Net working capital stands at € -797.4 million and generated € 208.8 million in liquidity during the year essentially deriving from the following:

Liquidity generated

- **trade receivables:** € -217.7 million, mainly attributable to receivables deriving from transmission and dispatching activity; collections from the Electricity Equalisation Fund also were recognised, from the residual credit related to the incentive mechanism foreseen for dispatching services, pursuant to Res. AEEGSI 213/09 (€ 63.2 million) and the collection of the receivable for the integration of NTG revenues, net of associated ascertainties (€ 43.8 million); in addition, of note is the delayed collection in January of the NTG fee portion from a market operator pertaining to the last part of 2013;
- **net energy-related pass-through payables:** € +38.7 million, mainly due to greater debts connected to remuneration of units considered essential for the security of the electricity system and availability of production capacity;
- **net tax liabilities:** € +32.7 million, essentially attributable to the Company's debit position with respect to the tax authorities for VAT, compared to the credit situation seen at the end of 2013 (€ +72.6 million, in consideration of the € 43.6 million credit existing at 31 December 2013) partially compensated for by a reduction in net payables due to tax authorities for current taxes (€ 39.2 million) due to greater tax advances paid with respect to the tax load for the year;

(53) The Alfonsine substation is part of the plants operated by Terna S.p.A. as "NTG units" on which no third party can exercise any usage rights.

- **other liabilities:** € +33.1 million, mainly attributable to the following phenomena:
 - contributions received for projects financed by Ministry for Economic Development/European Union (€ +60 million), net of;
 - reduction in guarantee deposits received from electricity market operators securing their obligations in respect of dispatching contracts (€ 23.3 million);
 - decrease in payables due to Terna Rete Italia S.p.A. (€ 3 million) following liquidation by the subsidiary of payables due to employees including in the business unit.

Liquidity absorbed

- **trade payables:** € -115.1 million attributable, among other things, to acquisitions and services related to greater investment activities carried out in the last period of the previous year.

Gross invested capital therefore amounted to € 9,810.9 million, with an increase of € 387.5 million compared to 31 December 2013.

Sundry provisions came to € 258 million, with a decrease of € 2.7 million, essentially due to the combined effect of the following changes:

Provisions/liabilities - personnel

- net increase to the provision for early retirement incentives for € 30.9 million, essentially due to the provision of € 36.6 million connected to the corporate reorganisation programme begun by the company during the year;
- increase of the liability relating to employee benefits for the recognition of actuarial gains and losses accruing to the year (€ 9.8 million without an impact on the income statement) essentially referable to adjustment of the relevant interest rate;

Provision for risks - taxes

- provision of € 10 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;
- use of deferred net taxes for € 48.4 million which, net of the above described changes, reflect, besides the use of previous provisions related to additional amortisation/depreciation with respect to economic/technical rates (€ 41.8 million), the effect of the adjustment following the elimination of the IRES surcharge (€ 17.2 million); in this context, also of note was the use of deferred tax assets related to the fair value adjustment associated with cash flow hedges for € 15.1 million.

Net invested capital stands at € 9,552.9 million and is financed through **equity** for € 2,756.7 million (as compared with € 2,688.1 million at 31 December 2013) and by **net financial debt** for € 6,796.2 million (€ +321.6 million compared with 31 December 2013).

Cash flows

Net financial debt

The Company's net financial debt at 31 December 2014 (€ 6,796.2 million) is broken down in the table below:⁵⁴

€ million	31.12.2014	31.12.2013	Change
A. Medium- and long-term debt			
Bonds ⁽¹⁾	5,983.6	5,723.0	260.6
Floating-rate loans ⁽¹⁾	2,094.4	2,286.9	(192.5)
Derivative financial instruments ⁽²⁾	(754.9)	(447.1)	(307.8)
Loan to Terna Rete Italia S.r.l. ⁽³⁾	-	(500.0)	500.0
Total	7,323.1	7,062.8	260.3
B. Short-term debt (liquidity):			
Bonds (current portions) ⁽⁴⁾	-	618.8	(618.8)
Floating-rate loans (current portions) ⁽⁴⁾	762.4	79.0	683.4
Derivative financial instruments ⁽⁵⁾	5.6	(18.4)	24.0
Other net current financial liabilities ^{55 (6)}	85.1	70.9	14.2
Net intercompany treasury current account position ⁽⁷⁾	(181.1)	269.5	(450.6)
Cash and cash equivalents ⁽⁷⁾	(1,198.9)	(1,608.0)	409.1
Total	(526.9)	(588.2)	61.3
Total	6,796.2	6,474.6	321.6

In the Consolidated Statement of Financial Position:

(1) this figure corresponds to the item "Long-term loans";

(2) this figure corresponds to "Non-current financial liabilities" and "Non-current financial assets" for the value of FVH derivatives (€ 748.8 million);

(3) this figure is included under "Non-current financial assets";

(4) this figure corresponds to the item "Current portion of long-term loans";

(5) the balance is included in the item "Current financial liabilities" for the value of cash flow hedging derivatives (€ 5.6 million);

(6) the balance corresponds to the item "Current financial assets" and to the item "Current financial liabilities" for the value of the deferred liabilities on financial instruments in the portfolio (€ 148.5 million);

(7) the balance corresponds to the item "Cash and cash equivalents".

The structure of the Company's net financial debt, which increased overall in financial year 2014 by € 321.6 million, presents the following changes:

- reduction in bonds (€ 358.2 million) following the repayment on 26 October 2014 of the bond issued in 2004 for a nominal value of € 600 million, net of the effects of adjustments to the fair value of the same financial instruments (€ +240.5 million, including amortised costs), and the capitalisation of inflation for the period (€ +1.3 million), connected to the inflation linked bond;
- an increase in floating-rate loans (€ 490.9 million), due essentially to the combined effect of the following changes:
 - disbursement by the European Investment Bank (EIB) of a loan for € 570.0 million on 25 June 2014, with maturity of 2030;
 - repayment of EIB loan instalments due of € -79 million;
 - repayment of the active loan for € 500 million, disbursed to the subsidiary Terna Rete Italia S.r.l. in 2009;
 - increase in the positive net balance of derivative financial instruments (€ 283.8 million), mainly due to the decrease in the reference interest rate curve with respect to December 2013;
- net positive balance of intercompany current accounts for € 181.1 million, compared to the negative balance of € 269.5 million at the end of 2013;
- a decrease in cash and cash equivalents (€ 409.1 million).

(54) Includes interest accrued not yet liquidated at 31 December 2014.

(55) These refer to current net financial liabilities for interest accrued not yet paid/collected relating to:

- Bonds and loans (€ 135.1 million at the end of 2014 and € 136.6 million at the end of 2013);
- Derivative financial instruments (€ -47.2 million at the end of 2014 and € -50.2 million at the end of 2013);
- Cash and cash equivalents (€ -2.8 million at the end of 2014 and € -15.5 million at the end of 2013).

Cash flow

The cash flows for FYs 2014 and 2013 are shown in the table below.

€ million	Cash flow 31.12.2014	Cash flow 31.12.2013
Net profit for the year	450.4	454.8
Amortisation, depreciation and impairment	426.7	400.2
Net financial expense	121.2	88.5
Net change in provisions	(2.7)	(11.5)
Net Losses (Gains) on asset disposals	(1.8)	(1.7)
Self-financing (Operating Cash Flow)	993.8	930.3
Change in net working capital *	206.9	(121.5)
Change in equity investments	0.7	(2.2)
Other changes in Non-current assets	1.8	(35.5)
Other changes in Equity	20.2	36.8
Change in NWC and other (Cash Flow from Operating Activities)	1,223.4	807.9
Total investments	(1,021.8)	(1,119.5)
Free Cash Flow	201.6	(311.6)
Dividends paid to shareholders	(402.0)	(402.0)
Net financial expense	(121.2)	(88.5)
Change in net financial debt	(321.6)	(802.1)

* Does not take into account impairment of trade receivables accruing (€ 1.9 million in 2014).

The cash provided by operating activities during the year, about € 1,223.4 million, is related to **self-financing** (€ +993.8 million), net of the financial resources generated by **net working capital** (€ 206.9 million) and by other changes (€ 22.7 million).

In particular, in reference to **self-financing**, of note was profit for the year, € 450.4 million, before amortisation, depreciation and impairment accruing of € 426.7 million and net financial expense for the year (€ 121.2 million).

Management of net working capital, generated liquidity totalling € 206.9 million and is mainly due to the decrease of trade receivables (including pass-through energy items) and the collection of contributions for projects financed by Ministry for Economic Development/European Union. The other changes refer mainly to:

- the aforementioned operation to purchase certain transmission assets from Sorgenia Power S.p.A., for a value of € 9 million and the disposals, reclassifications and other changes in non-current assets (€ 13.4 million);
- other changes in the equity for recognition at fair value of cash flow hedge derivatives hedging floating-rate debt (€ 27.3 million, net of the deferred tax effect), net of the recognition of the actuarial loss on employee benefits accruing to the year (€ -7.1 million, considering also the tax effect) related essentially to adjustment of the relevant interest rate.

The **investments** made in the year by the Company amounted to € 1,021.8 million referable to property, plant and equipment (€ 974.6 million, of which € 963.3 million in Regulated Activities) and to intangible assets (€ 47.1 million).

Therefore the **free cash flow** in the year came out at € 201.6 million.

The **remuneration of shareholders** (distribution of the 2013 dividend balance of € 261.3 million and of the 2014 interim dividend of € 140.7 million) and of **third-party capital** (net financial expense of € 121.2 million) generated total financial requirements of € 523.2 million, in part covered by the net free cash flow of € 201.6 million and for the remainder, substantially by increasing net financial debt (€ 321.6 million).

In line with Recommendation CESR/05-178b, the cash flow data are compared with Terna S.p.A.'s accounting statements through specific reconciliation notes illustrated in the table below:

€ million	Cash flow 31.12.2014	Reconciliation financial statements	Cash flow 31.12.2013	Reconciliation financial statements
Net profit for the year	450.4		454.8	
Amortisation, depreciation and impairment	426.7		400.2	
Net financial expense	121.2		88.5	
Net change in provisions	(2.7)		(11.5)	
<i>Employee benefits</i>		10.3		(0.7)
<i>Provisions for risks and charges</i>		35.4		14.3
<i>Deferred tax liabilities</i>		(48.4)		(25.1)
Net Losses (Gains) on asset disposals ⁽¹⁾	(1.8)		(1.7)	
Self-financing (Operating Cash Flow)	993.8		930.3	
Change in net working capital:	206.9		(121.5)	
<i>Inventories</i>		-		(0.7)
<i>Trade receivables*</i>		183.8		135.3
<i>Income tax assets</i>		(14.7)		12.5
<i>Other current assets</i>		50.9		(13.1)
<i>Trade payables</i>		(44.4)		(239.9)
<i>Income tax liabilities</i>		(30.6)		(18.9)
Other changes in non-current assets	2.5		(37.7)	
<i>Property, plant and equipment</i>		4.6		(35.5)
<i>Intangible assets</i> ⁽³⁾		(0.3)		-
<i>Non-current financial assets</i>		(1.2)		(2.2)
<i>Other non-current assets</i>		(0.6)		
Other changes in equity	20.2		36.8	
Equity - Share capital and Other reserves ⁽⁴⁾		20.2		36.8
Change in NWC and other (Cash Flow from Operating Activities)	1,223.4		807.9	
Investments				
Total investments	(1,021.8)		(1,119.5)	
<i>Property, plant and equipment</i> ⁽²⁾		(974.7)		(1,072.5)
<i>Intangible assets</i> ⁽³⁾		(47.1)		(47.0)
Total cash flows provided by/(used in) investing activities	(1,021.8)		(1,119.5)	
Free Cash Flow	201.6		(311.6)	
Own funds				0.0
Dividends ⁽⁴⁾	(402.0)		(402.0)	
Third party financing				
Net financial expense	(121.2)		(88.5)	
Change in net financial debt	(321.6)		(802.1)	
Change in loans	363.1		(104.1)	
<i>Current financial assets</i>		41.1		(13.9)
<i>Non-current financial assets</i>		244.2		227.8
<i>Non-current financial liabilities</i>		(50.1)		(61.2)
<i>Long-term loans</i>		64.4		(899.5)
<i>Current portion of long-term loans</i>		66.4		628.4
<i>Current financial liabilities</i>		(2.9)		14.3
Change in cash and cash equivalents	41.5		(906.2)	

* Does not take into account impairment of trade receivables accruing (€ 1.9 million in 2014).

(1) included in the "Other revenue" and "Other operating costs" items of the financial statements;

(2) see note 10 to the financial statements;

(3) see note 12 to the financial statements;

(4) see the statement of changes in equity.

Value added⁵⁶

The 2012-2014 period shows an increase equal to 3.0% of the added value generated by the Group, in the context of which the impact of borrowed capital remained basically stable (on average equal to 14%). In regards to staff remuneration, the impact on global net added value (equal to 20% in 2012 and 2013) saw an increase of 3.9%, attributable to both the provision for early retirement incentives connected to the corporate reorganisation program begun by the Parent Company during the year and the contribution of the Tamini Group, which was acquired in May 2014.

With reference to direct and indirect taxes, the tax incidence with respect to global net added value, on average equal to 29% in previous years, saw a decrease of 6.6% with respect to the 2012 figure, mainly connected to effects linked to the Robin Hood Tax, pursuant to Legislative Decree 138/2011. In particular, the Group's 2014 tax management reflected the impact of the reduction of the IRES surcharge from 10.5% to 6.5% (bringing the IRES rate to 34% compared to 38% in 2013), and also the adjustment of net deferred taxes at 31 December 2014, following the issuing of the ruling which declared it to be unconstitutional⁵⁷.

Return on risk capital, in relation to total net added value, is substantially in line with 2012 (-0.9%), while the effect of provisions increased from around 4% to around 10%.

NET GLOBAL VALUE ADDED (1,430.3 mln)



(56) **Value Added** is a measurement of a company's earnings during a given period. In corporate accounting terms, value added is calculated by subtracting costs incurred for purchasing intermediary goods and services necessary for production from the value of production (revenue associated with goods and services produced during the year). These costs do not include labour costs, which are instead part of the value the company adds, through its activities, to intermediary goods and services. The difference between sales revenue from the final product and the cost of raw materials (and support services) is value added. Other than the cost of labour, value added also includes profits and the share of income allocated to paying interest on debts or taxes.

(57) On 11 February 2015, the Constitutional Court published ruling 10/2015, which declared the unconstitutionality of the so-called Robin Hood Tax. Given that, in the Court's opinion, "the retroactive application of this declaration of unconstitutionality would create a serious violation of the balance of the budget" of the State, sanctioned in article 81 of the Constitution, "the unconstitutionality is effective as of the day following the publication of this ruling." Therefore, the Tema Group determined current taxes for financial year 2014 by applying the IRES rate with an increase of 6.5%, and adjusted net deferred taxes to the rate applicable at the time of the payment (27.5%, without application of the additional RHT). This adjustment had a positive impact on the income statement of around € 30 million.

TERNA GROUP – VALUE ADDED STATEMENT*

Euro	Year 2014	Year 2013	Year 2012
Non-subordinate personnel	2,108,765	2,314,044	2,222,526
Subordinate personnel, direct remuneration	269,713,726	216,983,787	209,498,296
Subordinate personnel, indirect remuneration	68,632,924	63,293,832	64,045,853
A - Staff Remuneration	340,455,415	282,591,663	275,766,675
Direct taxes	335,703,743	423,935,663	412,696,487
Indirect taxes	19,956,191	9,855,050	24,701,769
B - Remuneration of public authorities	355,659,934	433,790,713	437,398,256
Short-term loan expense	58	230	468
Interest on bank loans	80,340,393	78,682,981	82,220,620
Interest on bonds	109,326,040	112,084,212	129,226,227
C - Return on borrowed capital	189,666,491	190,767,423	211,447,315
Dividends**	401,998,400	401,998,400	401,998,400
D - Return on risk capital	401,998,400	401,998,400	401,998,400
Allocations to reserves	142,535,590	111,606,710	61,541,976
E - Remuneration of the Company	142,535,590	111,606,710	61,541,976
TOTAL NET GLOBAL VALUE ADDED	1,430,315,830	1,420,754,909	1,388,152,622

* The amounts related to the creation and distribution of the Value Added are taken from the Consolidated Financial Statements, which were prepared according to the IFRS/IAS international accounting standards. Specifically, the Terna Group has used the IFRS/IAS International Accounting Standards since 2005.

** The 2014 dividends refer to the interim dividend distributed in November 2014 (€ 140.7 million) and to the final dividend proposed to the Meeting of the BoD in the session on 26 March 2014 (€ 261.3 million).

Operating performance

Service quality

Continuity is the most important measure of the performance of the electricity service. Each stage of the electricity system – generation, transmission, and distribution – contributes to the final result: ensuring the availability of electricity for society, with outages below pre-set thresholds and with appropriate technical quality standards.

Terna monitors the quality of the service provided using different indexes and identifies targets for improvement. The indexes referred to below, where not otherwise specified, are defined by AEEGSI (Resolution 250/04) and by the Terna Grid Code.

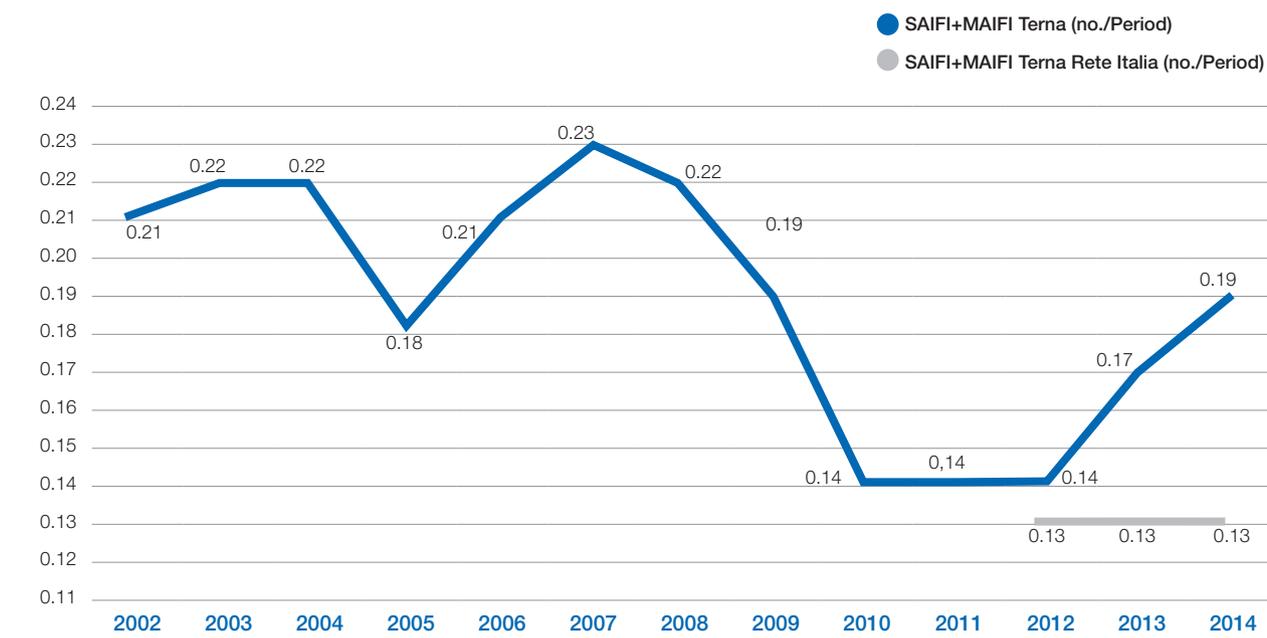
The change in the indexes does not reveal significant trends. Each index moves within a very small range in ratio to the overall service measured. In addition, among the causes of change are both external factors, such as weather conditions, and events (for example faults) attributable to management of the NTG. Analysis of the latter does not show systematic trends.

CONTINUITY INDICATOR

Short Average Interruption Frequency Index + Medium Average Interruption Frequency Index (SAIFI+MAIFI)

The interruption frequency index is calculated as the ratio between the number of customers (distributors and customers⁵⁸ directly connected to the NTG) involved in short (less than 3 minutes) and long (more than 3 minutes) interruptions, and the number of users of the National Transmission Grid. The lower the level of the indicator, the better the service performance. The performance achieved during the year, with reference to the Terna NTG⁵⁹, is shown in the graph below, which shows the trend of the index from 2002 to 2014:

No. Customers interrupted/No. NTG Users

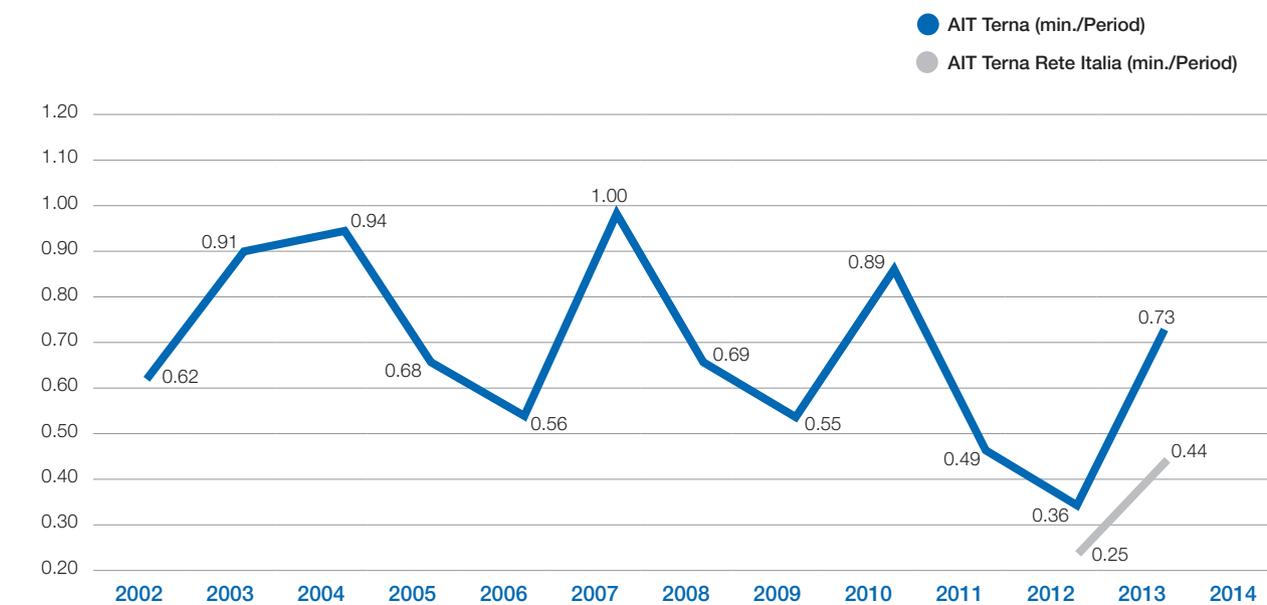


SYSTEM CONTINUITY INDICATOR

Average Interruption Time (AIT)

The index of the average electricity system interruption time (NTG) in a year is calculated as the ratio between the energy not supplied over a certain period (ENS value) and the average power absorbed by the electricity system in the period in question. The lower the level of the indicator, the better the service performance. The performance achieved during the year, with reference to the Terna NTG⁶⁰, is shown in the graph below, which shows the trend of the index from 2002 to 2013⁶¹, net of the amount attributable to significant incidents:

average interruption time (min)



(58) Customers with high energy consumption.

(59) Since 2012, the interruption frequency index (SAIFI+MAIFI) has also been monitored with reference to the portion of the NTG owned by the subsidiary Terna Rete Italia S.r.l.

(60) Since 2012, the AIT indicator has also been monitored with reference to the portion of the NTG owned by the subsidiary Terna Rete Italia S.r.l.

(61) The AIT index for 2014 was not available at the time this report was published, as it is linked to the RENS index (Regulated Energy Not Supplied) which has not yet been calculated by the AEEGSI.

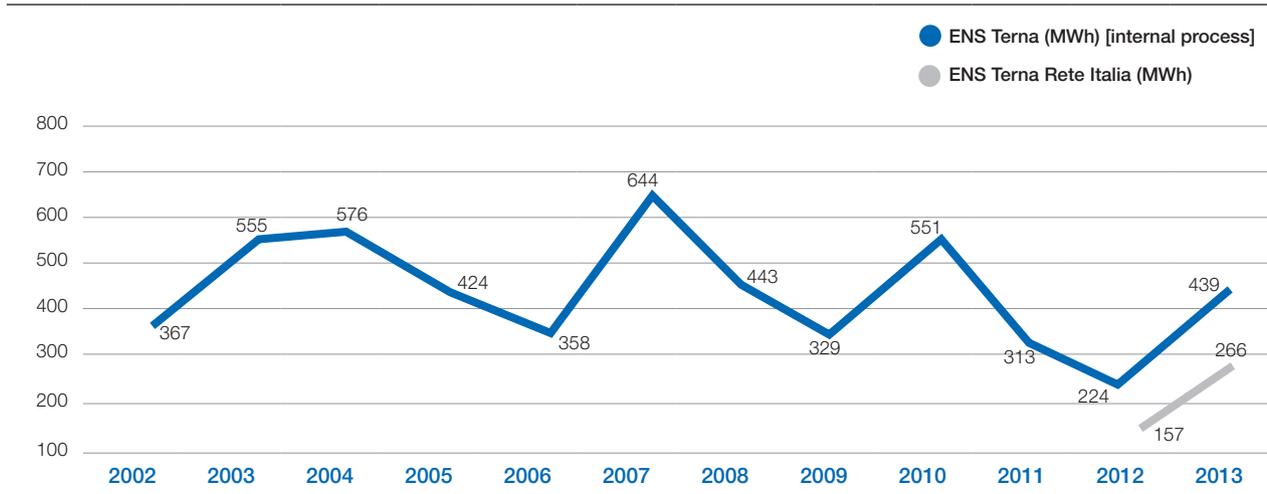
SERVICE CONTINUITY INDICATOR

Service continuity indicators measure the energy not supplied to users of the grid following certain events. The lower the indicator, the better the service performance. The final evaluation of the following continuity indicators for 2014 by the AEEGSI was not available at the time this Report was published. However, the provisional data illustrate a better performance with respect to targets and the final figures from the previous year. The following therefore shows the changes in these indicators from when they were introduced and until 2013.

Energy Not Supplied (ENS)

The Energy Not Supplied (ENS) indicator shows the energy not supplied to users connected to the NTG⁶² following events which affect the NTG, net of the amount attributable to relevant incidents.

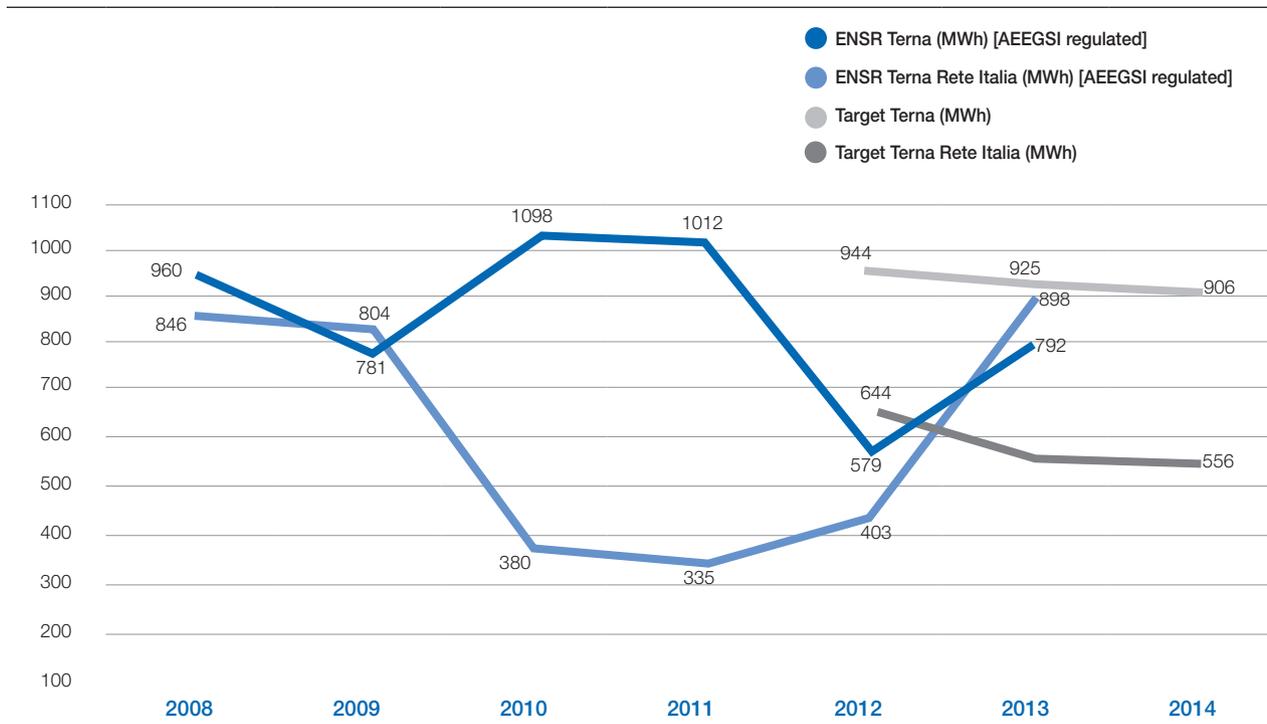
MWh



Regulated Energy Not Supplied (RENS)⁶³

The AEEGSI has regulated the quality of the service provided by Terna using an incentive/penalty mechanism set out by Resolution AEEGSI 197/11. It is applicable to the regulatory period 2012-2015 and relates to the Regulated Energy Not Supplied (RENS) index referring to the Terna S.p.A. grid and the subsidiary Terna Rete Italia S.r.l. grid.

MWh



(62) Since 2012, the ENS indicator has also been monitored with reference to the portion of the NTG owned by the subsidiary Terna Rete Italia S.r.l.

(63) For the RENS indicator, the targets for 2012-2015 have been set as an average of the RENS 2008-2011 indicator, referred to in AEEG Resolution 197/11, with a 2% improvement in performance year on year.

Main grid development work in progress

Each year, grid development work involves numerous projects at different stages of the implementation cycle.

Completed work

In 2014, Terna increased its transformation capacity by about 2,165 MVA of power and put approximately 330 km of new high and very-high-voltage lines into operation. Among the projects completed, of note are those of primary utility, specifically: new 380 kV power line “Trino - Lacchiarella”, strengthening of the 380 kV connection “Foggia – Benevento”, new 380 kV power line “Scilla – Rizziconi”, 220 kV cable power lines “Martinetto – Levanna”, “SE Pellerina – SE Politecnico”, “SE Politecnico – TO Centro”, “SE Politecnico – TO Sud” and “Pianezza – Pellerina” to improve the security of the service in the Turin metropolitan area; relative to plants with the goal of collecting and using production from renewable sources in the south, strengthening of extensive portions of the grid at 150 kV was completed. We also note that reactors were installed at the electrical substations of Udine West, Planais, Vignole, Piossasco, Teramo, Ospiate and Cattolica Eraclea.

Progress on construction sites

The major works still in progress in 2014 aim to reduce grid congestion, connect new power plants (particularly those based on renewable sources) and to make the National Transmission Grid more reliable with a greater emphasis on the environment and safety. In this direction, for example, are the 380kV “Gissi-Villanova” power line (the first of the sections needed to double the Adriatic backbone to 380kV) and the 380 kV “Sorgente-Rizziconi” power line.

In addition, important interconnection initiatives with foreign countries are under way, in particular the Italy-Montenegro HVDC interconnection.

Work also continues at the Udine South electrical substation, as part of the wider Udine West –Redipuglia project.

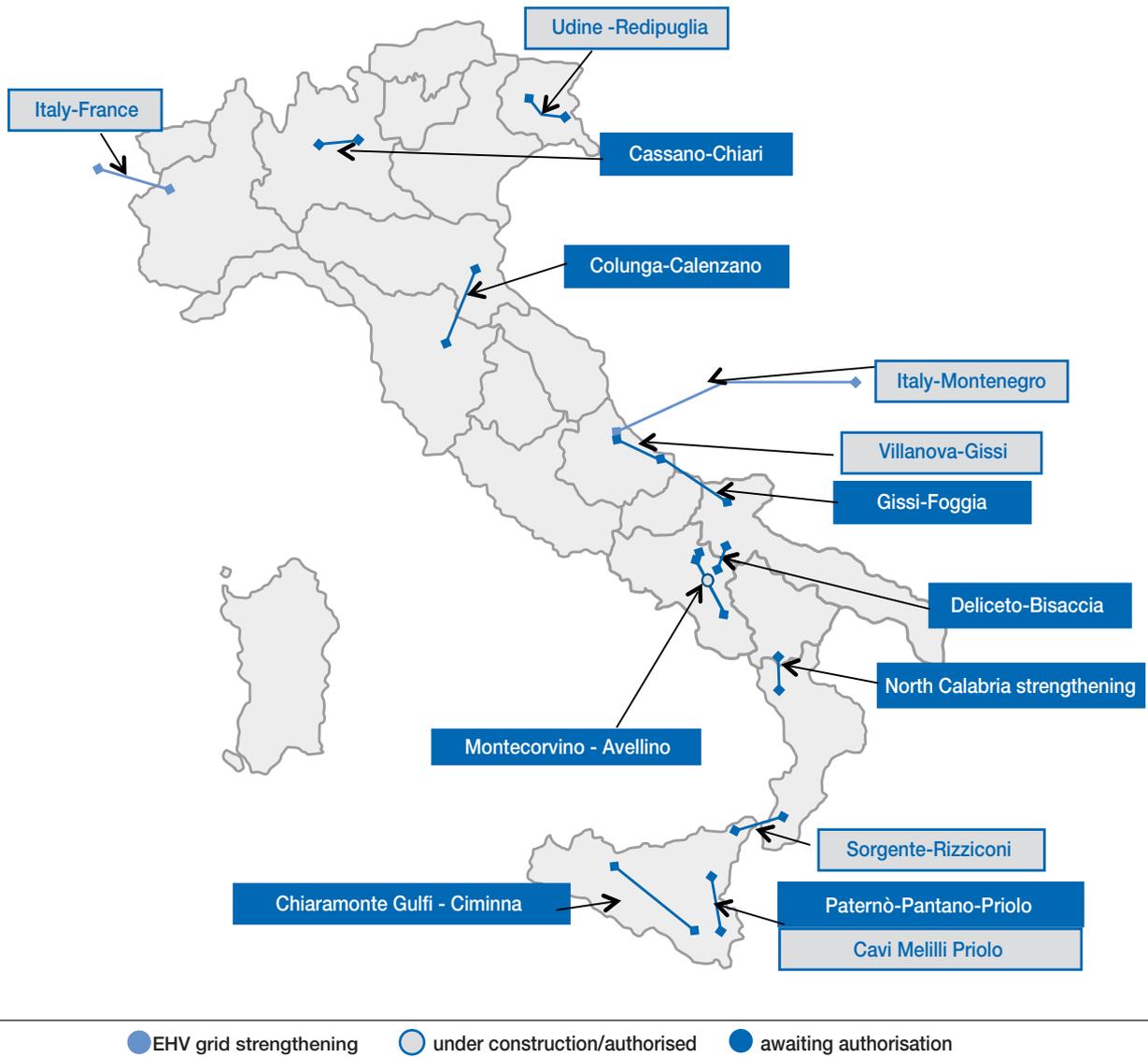
Authorised work and authorisation procedures in progress

In 2014, authorisation procedures were initiated for the 380/220/132kV Mese transformer station and the 132/110kV Brennero transformer station, for the reorganisation of the line inputs at the Pellerina electrical substation and for the 150kV connection cables between 380/150kV stations in Castellaneta in order to feed in production from renewable sources.

Following an approach based on the utmost transparency towards its stakeholders, the Company has developed a new web platform, which, since March 2011, has made it possible to visualise up-to-date on-line information on the progress of projects included in the Development Plan⁶⁴.

(64) See the corporate website at www.terna.it/default/Home/SISTEMA_ELETTRICO/CantieriTernaPerItalia.aspx.

The figure below summarises the main projects included in the Development Plan which are currently authorised or awaiting authorisation:



Projects set out in the Development Plan for use of renewable energy systems

Implementing Directive 2009/28/EC and the National Action Plan (NAP) prepared by the Ministry for Economic Development in 2010, Terna included a specific section in the National Development Plan which defines the action needed for full use of the energy deriving from the production of renewable source systems.

The grid analyses carried out in order to facilitate the use and development of production from renewable sources have enabled us to identify action to be taken both on the primary 380-220kV transmission grid, and on the 150-132kV High-Voltage grid. The figure below shows an overview of the main development work carried out on the 380kV Extra-High-Voltage grid, aimed at fully using the energy produced by renewable sources:



Sustainability performance

Sustainability results

The improvement in Terna's environmental and social performance is based on a constant commitment to making progress in all areas of sustainability, which translates into sustainability objectives and plans. Among the **2014 results**, the following are worth noting:

- the preparation of Terna's first Integrated Report. After three years of active participation in the Pilot Programme of the International Integrated Reporting Council (IIRC) and experimentation with the interactive version on the website, in 2014 the first Integrated Report was published, coinciding with the Report on Operations in the Annual Financial Report, fully reviewed in line with the guidelines of the "International <IR> Framework" issued by the IIRC in December 2013;
- new mapping of Terna stakeholders, with associated analysis of their importance;
- updating of ISO 14001 environmental analysis and the BS OHSAS 18001 management system, in both cases to take new energy storage (battery) activities into account;
- the completion of an internal study on the effective level of adherence to the principles of the Global Compact, with further investigation of the component relative to human rights according to the indications found in the United Nations Ruggie Report.

The new mapping of stakeholders constitutes a further step, after the materiality analysis carried out in 2013, in the direction of a stakeholder management model, the design of which will be completed in 2015. The goal is to reinforce and systematize company tools that can help to manage relationships with stakeholders, learn about their expectations and opinions and plan appropriate actions.

Finally, we note that on 25 November 2014, Terna Plus was awarded by VedoGreen for its capacity to innovate. Selected from among the 30 best "green" companies in Italy, it received the award from the International Jury comprised of VedoGreen, UK Trade & Investment and Dintec, for its demonstrated capacities to innovate in a sustainable way.

In this context, some of the innovative projects that the company is working on include the development of "Smart Islands", to reduce the cost and environmental impact of electricity production on the minor islands.

Sustainability indicators

The 2013 materiality analysis, reprocessed and updated in 2014, has revealed that many of the matters described at various points of this report are relevant: from quality of service through to the planning of the NTG Manager, economic and financial performance and HR development. Below are both indicators relating to some other relevant issues and aspects and indicators that the international community holds to be indicative in terms of evaluating business sustainability performance. In particular, we also provide some information identified in accordance with the indications of the National Council of Accountants and Tax Consultants – CNDCEC - on sustainability in mandatory corporate communications (Report on the compilation of financial statements in the light of the reforms introduced by legislative decree No. 32/2007, CNDCEC January 2009).

The complete report of Terna's social and environmental indicators, in accordance with the most widely-accepted standard for sustainability reporting (GRI - Global Reporting Initiative) is available in the Sustainability Report published annually by Terna and in the "Sustainability" section of the institutional website www.terna.it.

Occupational injuries

As in previous years, in 2014 there were no fatal occupational injuries suffered by the Group's employees.

The total number of injuries fell considerably compared to 2013, from 41 to 36 in 2014. Both the injury frequency rate and the lost-day rate showed a reduction compared to the previous year.

OCCUPATIONAL INJURIES – TERNA EMPLOYEES

GRI-ILO definitions ⁽¹⁾	2014	2013	Change
Injury Rate	1.27	1.42	(0.15)
Lost Day Rate ⁽²⁾	44.16	52.94	(8.78)
Number of injuries	36	41	(5)
- of which serious	-	2	(2)
- of which fatal	-	-	-

(1) As required by the GRI protocols, the definitions adopted are those provided for by the International Labour Organization (ILO). To facilitate comparison with other sources, the following notes show the figures of the same indicators calculated with alternative formulae. It was not considered necessary to further break down the data by region, because Terna operates only in Italy.

(2) The figure published for the year 2013 is different than that published previously, because the criteria used to calculate days not worked due to injuries was reviewed.

Injury rate: this is the number of injuries with at least one day's abstention from work divided by the number of hours worked during the year and multiplied by 200,000 (corresponding to 50 working weeks x 40 hours x 100 employees). To facilitate comparison with other sources, this indicator was also calculated using a multiplication factor of 1,000,000 instead of 200,000 (consequently obtaining an injury rate five times that of the ILO). With this calculation method, the injury rate came out at 6.3 in 2014, 7.1 in 2013, and 8.8 in 2012.

Lost-day rate: this is the ratio between days not worked owing to injury and hours worked in the year, multiplied by 200,000 (corresponding to 50 working weeks x 40 hours x 100 employees). Days not worked are calendar days, counted from when the injury occurred. To facilitate comparison with other sources, this indicator was also calculated using a multiplication factor of 1,000. With this calculation method, the lost-day rate came out at 0.2 in 2014, 0.2 in 2013, and 0.3 in 2012.

The overall picture that is revealed by this data – which always show low figures and report the absence of fatal injuries – testify to the effectiveness of the policies and practices implemented to ensure employee health and safety.

More specifically, the intense training and information delivered on the matter, together with the constant supervision are what lies behind the management system that has obtained, and maintained (since 2007), OHSAS 18001 certification for all the company's business. The activities are managed by an organisational structure assigned to safety, structured into a central supervisory office and managers around the country.

Equal opportunities

The large majority of Terna Group employees are men because of the traditional scarcity of female labour supply in more technical occupations.

However, the presence of women is increasing: **the percentage of female employees** at Terna in Italy was 9.0% at the end of 2005 (the year in which Terna gained operating autonomy) and **has grown continually to reach 11.5% at the end of 2014**. The increase also regards higher-qualified positions of responsibility (senior and junior executives).

Moreover, the portion of female managers out of all female employees (17.6%) exceeds the share of female workers. This shows that the personnel selection and development systems recognise and reward performance. We should finally point out that all forms of discrimination are specifically prohibited by the Group's Code of Ethics.

Key figures 2014

11.5% of all employees are women (11.5% in 2013)

17.6% of all managerial positions are occupied by women (17.9% in 2013)

Percentage values	2014	2013	Change
<i>Women out of total employees</i>			
Women out of total	11.5	11.5	-
Women out of total net of production workers	15.9	15.9	-
Female senior executives out of total senior executives	16.4	16.1	0.3
Female senior and junior executives out of total senior and junior management	17.6	17.9	(0.3)
<i>Managerial positions</i>			
Female senior executives out of total women	2.5	2.5	-
Male senior executives as % of male employees (excluding production workers)	2.4	2.5	(0.1)

Costs for the environment

The table below best shows the costs incurred by Terna for the environment (see below for more details on the accounting method used).

These costs exclude expenses regarding internal resources and consider only expenses for external purchases. An exception is the "Environmental activities – existing plants" item, which includes the costs of internal personnel.

In accordance with the method adopted and the footnotes to the table, it should be noted that the environmental costs shown are a subset of the total environmental costs actually incurred, as defined above.

COSTS FOR THE ENVIRONMENT - INVESTMENTS AND OPERATING COSTS

€ million	2014	2013	Change
Investments			
Environmental offsets	12.7	8.4	4.3
Environmental-impact studies	2.1	3.9	(1.8)
Environmental activities – new plants	4.4	5	(0.6)
Environmental activities – existing plants	9.8	7.8	2
Demolitions	4.7	1	3.7
Total investments	33.7	26.1	7.6
Operating expenses			
Costs for environmental activities	19.2	17.9	1.3
Total operating costs	19.2	17.9	1.3

Environmental offsets: these are amounts for offsetting the works set out in the Grid Development Plan, as determined by special agreements entered into with local institutions. The increase of the amount entered in the table reflects the progress of the activities scheduled in the Development Plan.

Environmental-impact studies: these relate to plants provided for in the Grid Development Plan that are at the construction stage or in the process of being authorised by the competent administrations.

Environmental activities – new plants: the amount shown is the result of an estimate. On the basis of an analysis of several large investment projects, it turned out that at least 1% of the total expenses of the project regard environmental items, usually determined by obligations (for example, masking with trees, barriers against noise, installation of dissuaders for birdlife, environmental monitoring, analysis of excavated earth and rocks). Therefore, a value of 1% of 2013-2014 investment costs for projects with similar features was considered.

Environmental activities – existing plants: expenses for upgrading existing plants in accordance with prescriptions and new regulations in the environmental field (for example, noise, visual landscape aspects).

Demolitions: costs for the definitive dismantling of lines as part of rationalization projects.

Costs for environmental activities: cutting trees, cutting grass, waste management and demolitions/dismantling for small amounts not included in investments. These cost items, which can be determined directly from the industrial accounting, do not exhaust the year's total environmental costs, but represent the majority of them. The costs incurred for environmental reasons, both as investments and operating expenses, show Terna's commitment to the environment.

Recording methods

Environmental costs were shown separately on the basis of the definitions presented below, by aggregating information deducible from the company's general and industrial accounting. These definitions and the methodology described below have been taken from the Terna Group operating guidelines. Environmental costs are identified firstly on the basis of the definitions available, in particular those of the ISTAT (the National Statistical Institute), Eurostat and the GRI as well as on the European Commission's recommendation on the recognition, measurement and disclosure of environmental issues in annual accounts and annual reports (Recommendation 2001/453/EC). On the basis of this recommendation the term "environmental expenditure" includes the cost of steps taken by an organisation or on its behalf by others, to prevent, reduce or repair damage to the environment which results from its operating activities.

Secondly, the aforesaid definitions were applied to the environmental aspects considered significant (for example, the noise of stations, electromagnetic fields, etc.) in the Company's ISO 14001-certified Environmental Management System to identify in the main corporate processes those of Terna's operating and investment activities with environmental significance. Many of Terna's activities described in this Report entail environmental expenses. However, several limitations were introduced in determining the reporting boundary:

- exclusion of integrated costs, i.e. regarding activities whose purpose is not exclusively environmental (for example, the use of pylons with features that are innovative also from the point of view of their environmental integration) because of the subjectivity of accounting only for the environmental components;
- exclusion of the additional costs connected with the consideration of restrictions or requests for safeguarding of the environment during the stage of planning and designing new lines (detours and burials).

Other conditions were that the costs had to be:

- a) significant;
- b) consistent with the annual reporting of accounts (operating costs and investment clearly distinguished);
- c) directly recognizable on the basis of the existing corporate accounting system.

This last condition fulfils the need to minimize recourse to estimates based on off-the-books analysis.

Direct CO₂ emissions

Terna's business is electricity transmission and it has no production activities, which in the electricity industry – and among all businesses in general – are those most responsible for greenhouse gas emissions. For this reason, Terna is not subject to emission reduction obligations according to the Kyoto targets, nor to emission trading schemes of any kind. For all these reasons, CO₂ emissions are not a significant indicator of the Group's sustainability performance. However, given the commitment that Terna has voluntarily made to limit emissions and in response to the attention paid by various institutions to this issue, below is data on the Group's direct emissions.

TOTAL DIRECT GREENHOUSE-GAS EMISSIONS

equivalent tonnes of CO ₂ ⁽¹⁾	2014	2013	Change
Total direct emissions	75,280	64,743	10,537

⁽¹⁾ The conversion of direct consumption of energy and leaks of sulphur hexafluoride (SF₆) in equivalent CO₂ emissions is done using the parameters indicated in the Greenhouse Gas Protocol (GHG) Initiative and in particular, using the emission factors indicated in the Fourth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC).

Direct greenhouse-gas emissions connected with Terna's activities are caused by:

- direct consumption of energy sources (petrol and diesel for vehicles, natural gas for heating, oil for generators and heating);
- leaks of SF₆ (sulphur hexafluoride), a greenhouse gas used in station equipment for its high insulating power.

SF₆ leaks are the main direct source of greenhouse-gas emissions by Terna; in particular in 2014 they accounted for 90% of total direct emissions. In the last five year period the quantity of SF₆ present in Terna's plants increased by 174 tonnes (+48%). This is a trend – common to many transmission operators – destined to continue in the next few years for technical reasons associated with the higher insulating performance of the gas and to the smaller size of stations built with equipment containing SF₆, compared with more traditional solutions. For this reason the indicator Terna looks at is the percentage of leaks compared with the total gas present in the equipment. In the last few years, the leak percentage figure has fallen constantly and in 2014 came to 0.55%. This figure, considered net of an incident which occurred in 2014, would be 0.41%, lower even than in 2013 (0.49%).

Compliance with the law

In addition to what has been presented so far, we should also recall that in the two years considered (2013-2014):

- no fatal or serious accidents, occurred, even in previous years, for which corporate liability was definitively ascertained;
- no allegations were recorded regarding workplace bullying or work-related illness - regarding current or former employees for which Terna was held liable in a final ruling;
- there were no definitive criminal convictions or plea bargaining for injuries to third parties caused by Terna's assets;
- as of 31 December 2014 there was no pending litigation nor had any legal proceedings been conclusive regarding corruption, unfair competition, anti-trust, or monopolistic practices. Regarding these same matters, no definitive administrative or judicial, monetary or non-monetary penalties were imposed for non-observance of laws or regulations, including environmental ones, that imposed an obligation on Terna to "do/not do" (e.g. prohibitions) or criminally convicted its employees;
- no cases of environmental damage were registered for which Terna was held culpable in a final ruling;
- no final penalties or sanctions were levied against the Parent Company for environmental damage.

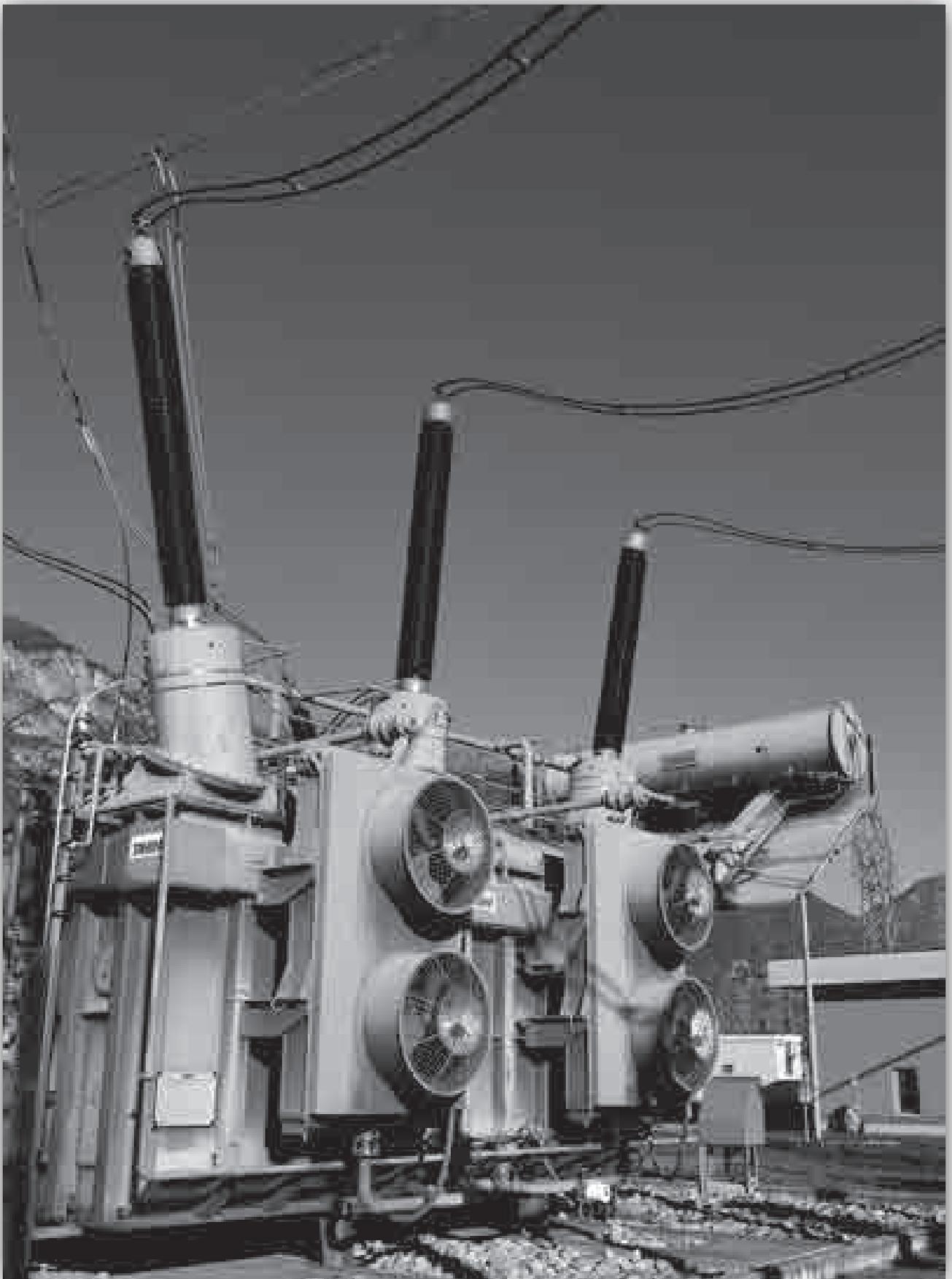
Sustainability indexes

Terna's commitment to improving its ESG (Environmental, Social and Governance) performance is corroborated by its sustainability ratings, its inclusion in the main international quoted sustainability indices and the appreciation of socially responsible investors.

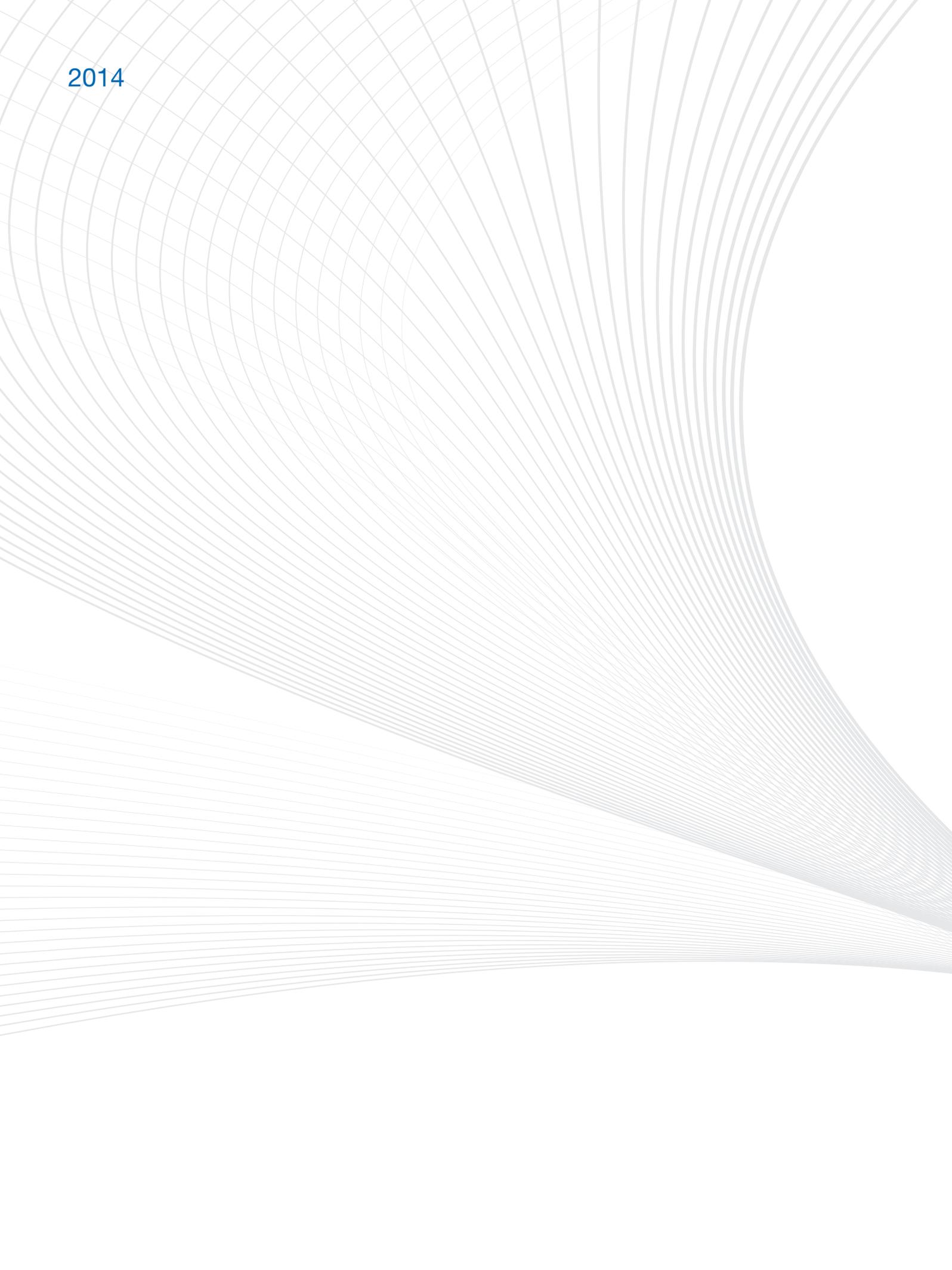
During the course of 2014, Terna's membership of all the main international, quoted sustainability indices was confirmed. In January 2015, for the third year running, Terna was included in the Gold Class in the "RobecoSAM Sustainability Yearbook 2015". There are only three companies in the Electric Utilities sector globally which achieved this accolade. To be part of the Gold Class, companies must achieve a rating which is within 1% of that of the sector leader.

TERNA'S PRESENCE IN SUSTAINABILITY INDICES AS OF 31 DECEMBER 2014

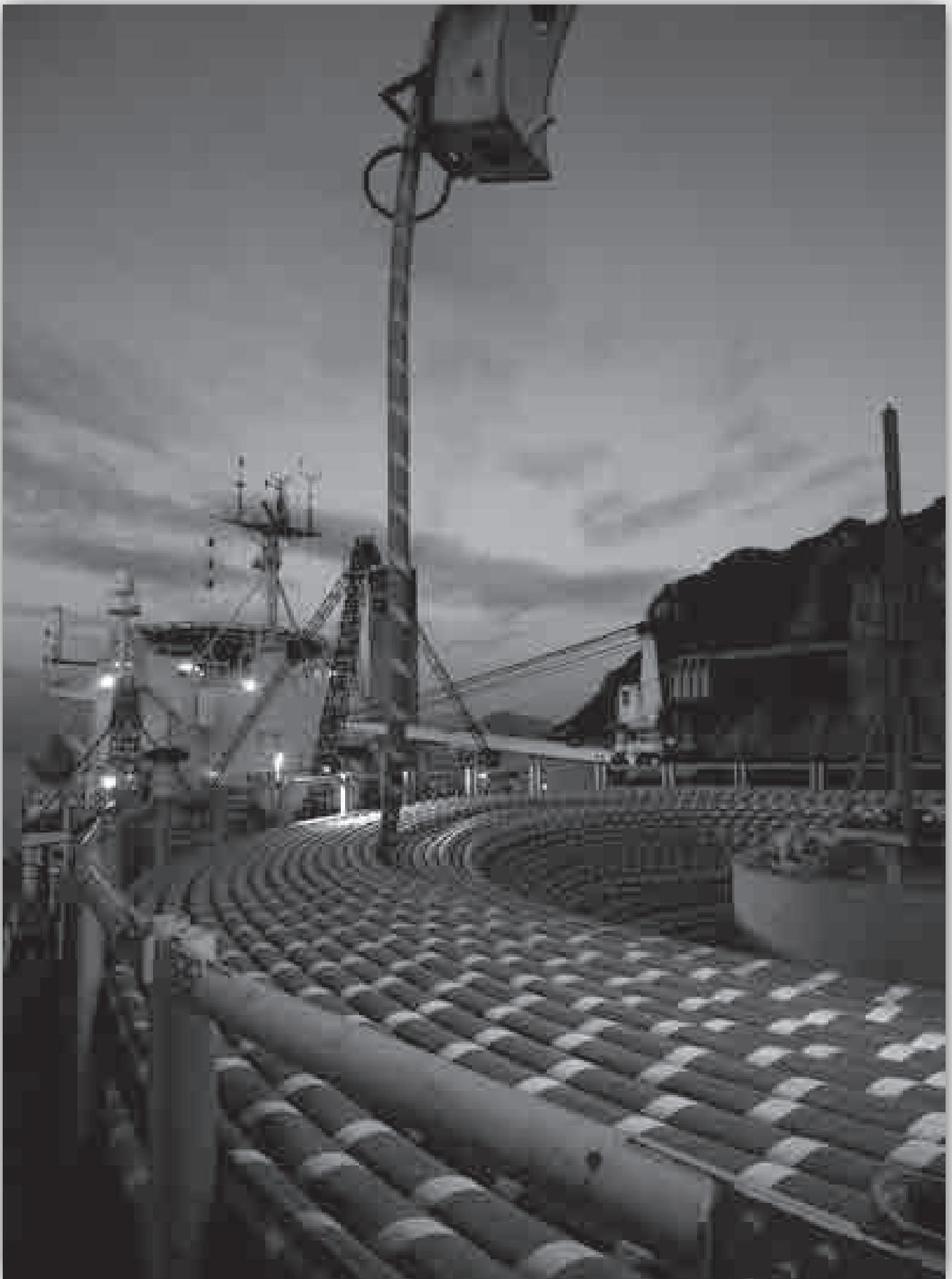
INDEX	YEAR INCLUDED	INDEX FEATURES
FTSE4Good - Global - Europe	2005	The FTSE4Good indices include the best companies in terms of sustainability performance on the basis of the analyses of the EIRIS agency. The index is reviewed twice a year, in March and September, in order to include any new firms and to exclude those which have not maintained the required sustainability standards. Terna has been continually present on the index since 2005.
AXIA - Global - ASI	2006	Axia Financial research produces sustainability indexes which select the best practices in the area of sustainability from the most highly capitalised companies in Italy and in Europe. Terna is present on the Axia Global Sustainable Index and, since its creation in March 2012, on the Axia Sustainable Index (ASI) which includes the 40 top stocks by market capitalisation listed on the Italian market.
ECPI - Ethical Global - Ethical Euro - Ethical EMU	2007	These indexes were designed to be used by customers for investment analysis, benchmarking, and performance measurement based on the analyses of the ECPI agency.
MSCI - WORLD ESG - EAFE ESG - EMU ESG - EUROPE ESG	2007	These continue the KLD Indexes, which were among the first to trace the non-financial performances of companies and still constitute one of the most highly regarded references in the United States. Terna's shares are permanently included in the numerous indexes belonging to the families indicated.
ETHIBEL - PIONEER - EXCELLENCE - Investment Registers	2009	The indexes are developed on the basis of the ratings provided by the Vigeo rating agency. Inclusion is subject to the positive opinion of the Ethibel Forum, a panel of independent experts on the different aspects of sustainability.
ESI - Excellence - Europe	2009	The indexes are developed on the basis of the ratings provided by the Vigeo rating agency. Inclusion is subject to the positive opinion of the Ethibel Forum, a panel of independent experts on the different aspects of sustainability.
Dow Jones Sustainability indices - World - Europe	2009 2010	The DJSI indices select the companies with the best sustainability performance among those most highly capitalised (the top 319 out of 2,500 in the world for the World Index and the top 154 out of 600 European companies for the European index) according to the rankings calculated by the agency RobecoSAM.
FTSE ECPI - Italia SRI Benchmark - Italia SRI Leaders	2010	Introduced in 2010, and based on the analyses of ECPI, these are the only sustainability indexes that include solely companies listed on the Italian Stock Exchange.
STOXX® ESG - Global ESG Leaders Index - Global Environmental Leaders - Global Social Leaders - Global ESG Governance Leaders	2011	Launched in 2011, these indexes are prepared on the basis of the assessments of the Sustainalytics rating agency and select the 313 best stocks for ESG performance among the 1,800 present in the general STOXX® Global index. To be included in the Global ESG Leaders Index, it is necessary to be included in at least one of the 3 specialised indexes (Global Environmental Leaders, Global Social Leaders and Global ESG Governance Leaders). Terna is the only Italian utility company included in all three.
VIGEO - Euronext Vigeo World 120 - Euronext Vigeo Europe 120 - Euronext Vigeo Eurozone 120	2012	Presented in 2012 by the social, environmental and governance rating agency Vigeo, these indices are made up of companies listed in the North American, Asian and European markets and included in the STOXX® 1800 benchmark. Vigeo's new ESG indexes are prepared on the basis of a methodology with more than 330 indicators and 38 sustainability criteria.



2014







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.

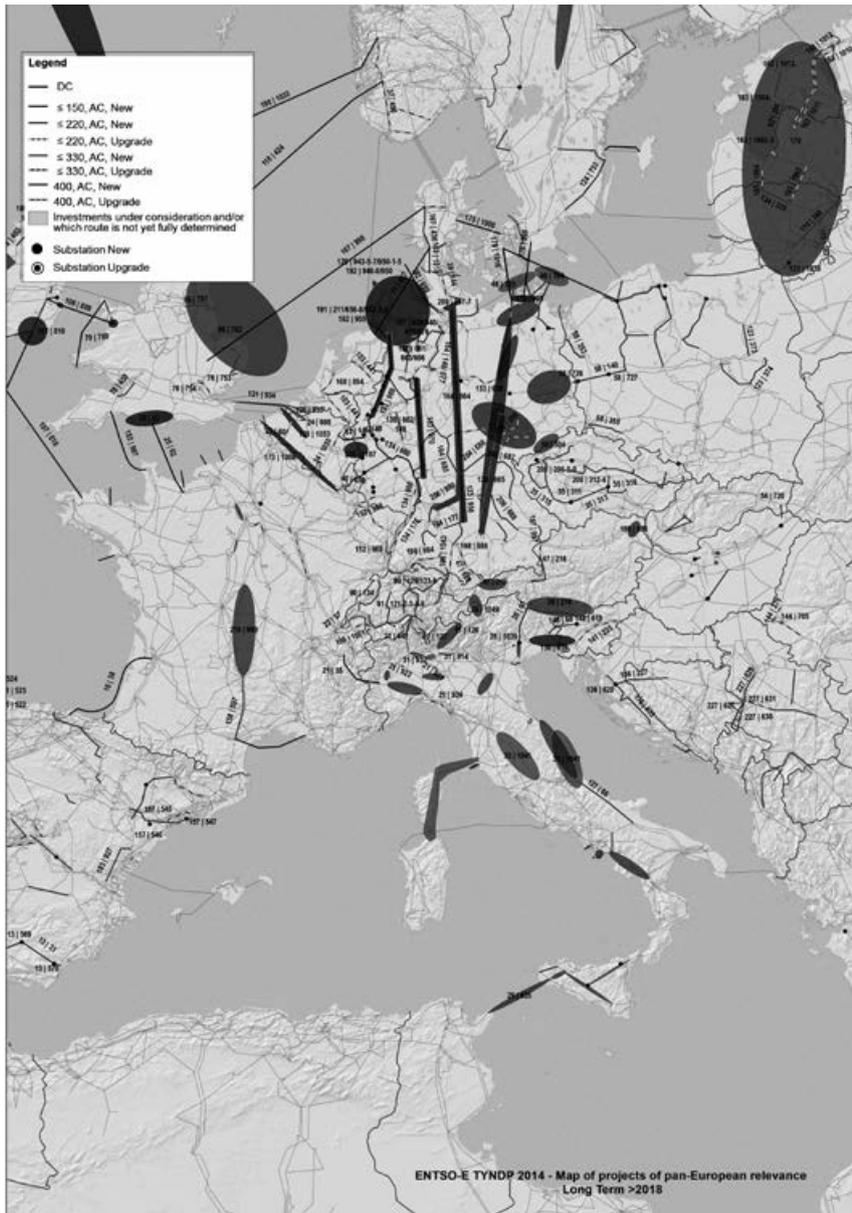
Ten-Year European Network Development Plan

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.

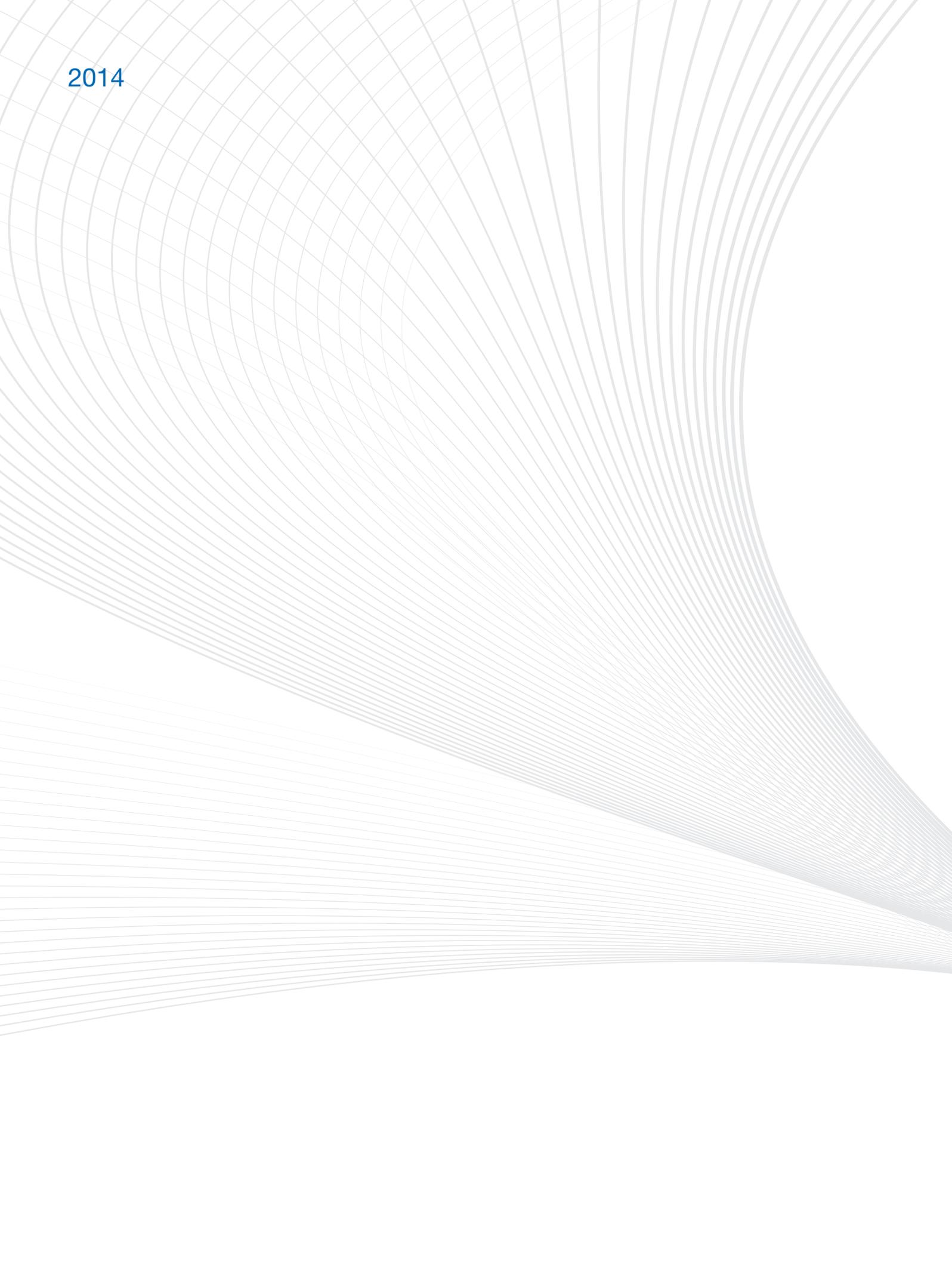
As in previous years, the Group will pursue activities to rationalise processes and efficiency in relation to operating costs. With reference to non-regulated activities, the focus on value creation is confirmed, through activities for third-parties in the areas of engineering, creation and maintenance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







ANNEXES - “Organisation, reference context and business” section

Italy’s regulatory framework

Regulatory framework

Below is a brief description of the main recent regulatory measures of interest for the Parent Company issued during 2014 and, subsequently, up to the date of preparation of the present Annual Financial Report.

Measures issued in 2013 with effect from 2014

Italian Law No. 147 of 27 December 2013 containing “Provisions for drafting the annual and multi-year accounts of the State”, published in the Italian Official Journal of 27 December 2013, No. 87.

The law acts on the matter of taxation of capital real estate, providing for the deductibility of 20% of IMU for the purposes of IRES (at 30% for the taxation period in progress at 31 December 2013 only).

Taxation on property was then widely reviewed with the introduction of a local property tax, replacing TARES and consisting of two components, one to cover the operating costs of the urban refuse service (TARI) and one to fund the related, indivisible services (TASI).

Parliament made changes to stamp duty, increasing that on periodic statements to customers related to financial products (securities accounts) from 1.5 to 2 thousandths of the market value of the securities, starting from 2014.

Starting from the taxation period in progress at 31 December 2014, firms increasing the number of permanent employees compared to the average number of permanent employees in the previous year may deduct a part of labour costs for three years (the year of hiring and the following two years). The deductible sum may not exceed € 15,000 for each new employee hired. Again on the matter of employment, in the case of moving from a fixed-term contract to a permanent contract, starting from 2014 the additional contribution of 1.4 % paid during the fixed-term contract is returned in full to the employer and no longer just for the last six months. The parameters for calculating detractions for employed work for income groups up to € 55,000 were also redetermined. A reduction in premium sand contributions is envisaged for insurance against workplace injuries and occupational disease (reduction then established in the amount of 14.17% for 2014 by the Decree of the Ministry for Labour and Social Policies of 22 April 2014, implementing the provision contained in the Stability Law).

Italian Decree of 19 December 2013 on the “Methods and criteria for the importation of electricity for 2014”, published in the Italian Official Journal of 21 January 2014, No. 16.

The Decree sets out the methods and criteria for importing electricity for 2014 on the national transmission grid.

Italian Law Decree No. 150 of 30 December 2013 on “Extension of the terms envisaged by legislative measures” published in the Italian Official Journal of 30 December 2013, No. 304, converted with Italian Law No. 15 of 27 February 2014, published in the Italian Official Journal of 28 February 2014, No. 49.

The decree postpones from 1 January 2013 to 1 July 2014 the application deadline for exclusively electronic acquisition of tender documentation.

Measures issued in 2014

On tax and social security contributions

Law Decree No. 4 of 28 January 2014, “Urgent measures for tax and social security contributions and referral of terms related to fulfilment of tax and social security contributions”, published in the Italian Official Journal of 29 January 2014 No. 23, converted by Law of 28 March 2014 No. 50, published in the Official Journal of 29 March 2014, No. 74.

The decree provides for the postponement of the INAIL payments deadline to 16 May 2014.

Law of 11 March 2014 No. 23, “Subordinated government delegation for the provision of rules for a fairer, more transparent and growth-oriented tax system”, published in the Official Journal of 12 March 2014, No. 59.

The law carries a subordinated delegation to the Government for the issue, by 27 March 2015 of legislative decrees reforming the tax system.

In the context of tax reform, there are plans for the introduction of new forms of energy and environmental taxation, intended “to steer the market towards sustainable patterns of consumption and production”, as well as a review of the rules of excise duties on energy products and electricity, “also in relation to carbon content and nitrogen oxide and sulphur emissions”.

The additional revenue will be used “primarily for reductions in income tax, particularly for work generated by the green economy, for the diffusion of technologies and products with low carbon content and the financing of sustainable production and consumption models, as well as a revision of the funding of subsidies for energy production from renewable sources”. The implementing decrees will carry provisions for the revision of the land registry, the restructuring of indirect taxation, the revision of the method of calculation of income and production for tax purposes in respect of VAT, substitute tax and the taxation of employee severance allowances.

[Italian Law No. 190 of 23 December 2014 containing “Provisions for drafting the annual and multi-year accounts of the State \(2015 Stability Law\)”, published in the Italian Official Journal of 29 December 2014, No. 99.](#)

The Stability Law provides for inclusion of the High and Extra High Voltage electricity grids and of the related portions of stations owned by Ferrovie dello Stato Italiane S.p.A. or its subsidiaries in the National Electricity Transmission Grid; the inclusion is conditional on completion of the acquisition of the above assets by Terna or one of its subsidiaries.

Upon completion of the acquisition, the concessions, authorisations and all other administrative provision concerning these assets shall be understood to have been validly and effectively issued in favour of the purchaser.

The Stability Law provides for an increase in the rates to be applied for revaluation of severance pay and the net results of the pension funds. It also foresees, for the 2015 tax period, deductibility of permanent employment costs for the purposes of IRAP and contribution relief for new hires. The maximum limit for the TASI rate is confirmed at 2.5 per thousand again in 2015.

The law also provides for the possibility for workers to request, for the pay periods from 1 March 2015 to 30 June 2018, the payment of the portion maturing of termination benefits in the pay packet and it is established that the “income tax bonus” of € 80 euro a month for incomes up to € 24 thousand a year and, in a lower amount, for employees with incomes from € 24 to € 26 thousand a year.

A subsidised tax regime is introduced for income deriving from the use of intellectual property, industrial patents and other corporate intangible assets. The assistance consists in a 50% exclusion of taxation on this income and is granted through prior agreement with the Tax Authority.

In addition, the 2015 Stability Law extends the reverse charge rules to transfers of electricity to a taxpayer-reseller for a period of 4 years, as of 1 January 2015.

On contracts and employment

[Law Decree No. 34 of 20 March 2014, “Urgent measures to favour the recovery of employment and to simplify the requirements for businesses,” published in the Italian Official Journal of 20 March 2014 No. 66, converted by Conversion Law No. 78 of 16 May 2014, published in the Official Journal of 19 May 2014, No. 114.](#)

The decree provides for the establishment of a new real time electronic system of verification of regular contributions by businesses, also for the purposes of the Contracts Code. The outcome of the requests will be valid for 120 days, except when they are identified by the Decree of the Minister of Labour for the implementation of the provision. There will also be legislative changes in the law relating to employment, with particular reference to apprenticeship contracts and temporary contracts. In the case of the latter, the number of temporary contract jobs will be capped at 20% of the total workforce, there will no longer be a requirement to indicate in the contract the technical and organisational reasons justifying the determination of a term, and provision will be made for the possible extension of the contract term to 36 months.

[Italian Law Decree No. 66 of 24 April 2014, “Urgent measures for competition and social justice. Delegations to the Government for the completion of the review of the structure of the budget of the State, the reordering of the regulations for the management of the budget and the strengthening of the cash budget, as well as the adoption of a consolidated law regarding State and treasury accounting,” converted by Conversion Law no. 89 of 23 June 2014, published in the Official Journal no. 143 of 23 June 2014.](#)

The Decree envisages the payment of a credit in favour of employees, for 2014, in the annual amount of € 640, in the case of total annual income up to € 24,000, or for the part corresponding to the ratio between the amount of € 26,000, decreased by the total income, and the amount of € 2,000, for incomes between € 24,000 and € 26,000. This credit is paid in monthly instalments and withholding agent can recover the sums disbursed through set-off.

As of 1 July 2014, withholdings and substitute taxes on capital gains deriving from the transfer of financial instruments and income deriving from financial assets other than government securities and supplementary pension funds increased from 20 to 26%.

Again in regard to taxes, for 2014 the substitute tax on income taxes applied to the net results achieved by pension funds increased from 11 to 11.5%. Finally, the deadline for the payment of the first TASI instalment was postponed to 16 October 2014 for those cities that have not yet approved the relative rates.

The Decree also establishes rules regarding tenders, abolishing as of 2016 the requirement to publish the tenders and notifications in newspapers and placing the burden of the cost of publishing in the Official Journal on the contractor.

The Law Decree also included a reduction in the IRAP rates, which the subsequent Law No. 190 of 23 December 2014 (Stability Law) abrogated.

[Italian Law Decree No. 90 of 24 June 2014, “Urgent measures for simplification and administrative transparency and for the efficiency of judicial offices,” published in Italian Official Journal No. 144 of 24 June 2014, converted by Conversion Law No. 114 of 11 August 2014, published in Official Journal No. 190 of 18 August 2014.](#)

The Decree concerns independent authorities, extending the regime of incompatibility and introducing measures aimed at containing and rationalising costs. The Decree abolishes the Authority for Supervision of Public Contracts, transferring its responsibilities to the National Anti-Corruption Authority. From 1 January 2015, the Ministry of the Economy will acquire information relating to the equity investments held by the public administrations in joint stock companies through existing databases or by requesting that the said administrations send the information. Finally, a gradual reduction in the amount of annual fees due to the Chamber of Commerce is included (35% in 2015, 40% in 2016, 50% in 2017).

[Italian Legislative Decree No. 153 of 13 October 2014 containing “Further supplementary and corrective provisions to Italian Legislative Decree No. 159 of 6 September 2011 on the Code of anti-Mafia laws and preventive measures, as well as new provisions on anti-Mafia documentation, in application of articles 1 and 2 of Italian Law No. 136 of 13 August 2010”, published in the Italian Official Journal No. 250 of 27 October 2014.](#)

This provision amends and supplements Italian Legislative Decree No. 136/10, establishing temporary rules until activation of the Single National Data Bank and corrective measures on the consultation and issuing methods for anti-Mafia documentation and communications via the same data bank. Furthermore, it expands on the content of anti-Mafia communications, with information relating to people living with those who hold important positions in the company.

[Italian Law No. 183 of 10 December 2014, containing “Powers delegated to the Government with regard to reforming social programmes, labour services, and proactive policies, as well as revising the employment regulations, inspection activities, and supervision and reconciling the needs for healthcare, life and employment,” published in Official Journal No. 290 of 16 December 2014.](#)

The Law delegates the Government to issue legislative decrees, by June 2014, to reform employment regulations. The delegation also provides for the introduction of contracts with gradual protections for newly hired permanent employees and rationalisation of existing contract types. Changes are foreseen to the regulations related to employment relationships, also with reference to job descriptions, care for relatives, administrative charges, and communication requirements. The delegation also includes a reform of social programmes and proactive labour policies.

[Italian Law Decree No. 192 of 31 December 2014 on “Extension of the terms envisaged by legislative measures” published in Italian Official Journal No. 302 of 31 December 2014, converted with Italian Law No. 15 of 27 February 2015, published in Italian Official Journal No. 49 of 28 February 2015.](#)

The Law Decree extends the obligation to pay an advance on work contracts for 2015 and 2016.

For 2015 it also introduces an increase in the obligatory advance which goes up from 10 to 20 per cent of the amount.

The Decree also postpones to 2016 the effectiveness of the provision that abolishes the obligation for the taxpayer to present online, by the end of February of each year, a communication of the data on value added tax with reference to the previous calendar year and the obligation to present the annual single tax return for subjects whose tax period coincides with the calendar year obliged to present an income tax return and an annual return for VAT purposes.

[Italian Legislative Decree No. 23 of 4 March 2015, containing “Provisions on the subject of permanent employment contracts with growing protections, implementing Italian Law No. 183 of 10 December 2014”.](#)

The measure implements one of the delegated powers contained in Italian Law 183/14, introducing the contracts with growing protections. The new rules on permanent contracts applies to employees taken on permanently from a date subsequent to 6 March 2015. The new penalty system provides for re-employment only in cases of dismissal which is ineffective because it is communicated orally, dismissal which is invalid because it is discriminatory, total non-existence of the alleged conduct and collective dismissal communicated without observing the written form. In other cases of illegitimate dismissal, a monetary penalty is provided for in the form of compensation, equal to 2 months’ pay (one in the case of mere formal or procedural defect) for each year of service, in any case not less than 4 and not more than 24. The decree also states that the employer may make a conciliatory offer equal to 1 month’s pay for each year of service (in any case not less than 2 and not more than 18), which once accepted by the worker precludes the possibility of a subsequent appeal against dismissal.

On infrastructures and energy

Presidential Decree No. 85 of 25 March 2014, “Regulations for the identification of assets of strategic relevance in the energy, transport and communications sector, pursuant to article 2, paragraph 1, of Law Decree No. 21 of 15 March 2012,” published in the Official Journal of 6 June 2014.

The Regulation identifies the area of application of the regulations on special powers envisaged by Legislative Decree 21/12. The National Transmission Grid and the infrastructure that provides electricity to other countries, the control and dispatching systems and the management activities connected to usage of the said infrastructure are subject to the so-called “Golden Power” regulations. As regards these assets, the regulations on special powers provide for an obligation to notify the Council of Ministers beforehand of the deeds, decisions and operations relevant in relation to their management (for example changes in ownership, control or availability of the same, changes in the use, merger or division operations, etc.) and veto power or the ability to set conditions on the part of the Government.

The Decree specifies that, with a continuous license, *“without prejudice to the obligation of notification, the special powers are applied to the degree in which the protection of the essential interests of the State..., including those connected to adequate infrastructure development, are not adequately guaranteed by the existence of specific sector regulations, including of a conventional nature”*.

Finally, certain categories of deeds and intragroup operations indicated by the Decree are excluded from the exercising of the special powers, unless information exists regarding the threat of serious impacts for the public interests related to the security and operation of the grids and the systems and continuity of the supply.

Presidential Decree No. 86 of 25 March 2014, “Regulations for the identification of procedures for the activation of special powers for the energy, transport and communications sector, pursuant to Article 2, paragraph 9, of Law Decree No. 21 of 15 March 2012,” published in the Official Journal of 6 June 2014.

The Regulation establishes the methods by which the requirements are fulfilled and the special powers envisaged in Law Decree 21/12 are exercised.

Law Decree No. 83 of 31 May 2014, “Urgent provisions to protect cultural heritage, develop culture and relaunch tourism,” published in Official Journal No. 125 of 31 May 2014.

The Decree acts to simplify landscape authorisations.

Law Decree No. 91 of 24 June 2014, “Urgent provisions for the agricultural sector, environmental protection and energy efficiency for school and university buildings, the recovery and development of companies, and containment of costs weighing on electricity tariffs, as well as the immediate definition of requirements deriving from European regulations,” published in Official Journal No. 144 of 24 June 2014, converted by Conversion Law No. 116 of 11 August 2014, published in Official Journal No. 192 of 20 August 2014.

The Decree intervenes on certain aspects of the Consolidated Law on Finance, introducing the possibility of providing, in the articles of association of companies with listed shares, for a majority vote and a mandatory takeover bid, not only for any subject that acquires a stake that gives the right to more than 30% of voting rights, but also when a subject, *“following purchases, comes to hold a stake higher than the threshold of twenty-five per cent in the absence of another shareholder that holds a higher stake”*. It also introduces a tax credit in the amount of 15% for spending on new capital goods (division 28 of the ATECO table), incurred from 25 June and up to 30 June 2015, which exceed the average of investments during the five preceding tax periods, with the right to exclude the period in which investments were greatest from the calculation of the average. The credit is divided and used in three annual portions of equal amount, starting from the second tax period subsequent to the purchase.

Other measures are aimed at reducing the energy costs sustained by small and medium-sized enterprises, through actions to remodulate incentives for photovoltaics, to eliminate the subsidised tariffs paid to employees in the electricity sector, partial participation in general system charges on the part of IUGs, EESs, and ESEEEESs, also in relation to the energy consumed and not taken from the grid, revision of the regulations which guarantee coverage of the extra costs incurred on islands not interconnected to the national electricity grid.

Italian Legislative Decree No. 102 of 4 July 2014, “Implementation of Directive 2012/27/EU on energy efficiency, which amends Directives 2009/125/EC and 2010/30/EU and abrogates Directives 2004/8/EC and 2006/32/EC”, published in Italian Official Journal No. 165 of 18 July 2014.

The Decree sets an energy saving target of 20 million TEP of primary energy and 15.5 million TEP of final energy by the end of 2020.

The measure also intervenes on the subject of transmission and grid management, providing for certain energy criteria in regulating energy networks and for the electricity grid fees. In particular, grid fees must reflect “the cost savings in the grids attributable to demand and to demand management and distributed production measures, including savings obtained thanks to the reduction of delivery costs or of investments in the grids and to better operation of the latter”.

The system operators are also obliged to prepare and make public “standard rules on the subject of assumption and distribution of the costs of technical adaptations, such as grid connections and the expansion of the grid, better grid management and rules on the subject of non-discriminatory application of the network codes necessary to integrate new producers who put in to the interconnected grid electricity produced by high-yield cogeneration”.

The Authority for Electricity and Gas is also given certain tasks including to regulate access and participation of demand in the markets for balancing, reserve and other system services, to update measures aimed at ensuring that the remuneration of investments for the construction and operation of the grid works and storage systems takes adequately into account the effectiveness for the purposes of withdrawing energy from renewable sources, of the rapidity of execution and entry into operation of such works, also with reference, in a differentiated manner, to each area of the electricity market and to the different storage technologies.

[Italian Economic Development Ministerial Decree of 15 October 2014 on “supplements to the Italian Decree of 19 December 2013 on the methods and criteria for the importation of electricity for 2014”, published in the Italian Official Journal No. 253 of 30 October 2014.](#)

The Decree, in supplementing the Italian Decree of 19 December 2013 on the methods and criteria for the importation of electricity in Italy for 2014, details that Terna should respect reserves of 50 MW of Italy’s transit capacity with foreign countries in favour of the Vatican City State, through a division of income from the allocation of rights to use the transport capacity across the French border.

On development and loans to businesses

[Italian Law Decree No. 133 of 12 September 2014, “Urgent measures for starting work, carrying out public works, digitalising the country, simplifying bureaucracy, the hydrogeological instability emergency and for the recovery of productive activities”, published in Official Journal No. 212 of 12 September 2014, converted with Conversion Law no. 164 of 11 November 2014, published in Official Journal no. 262 of 11 November 2014.](#)

The decree provides for measures aimed at encouraging investments for growth and extends the scope of activities of Cassa Depositi e Prestiti to financing operations in sectors of general interest, initiatives of public utility, investments for research, development, innovation and energy efficiency.

It also provides for certain changes to the rules on project bonds, pursuant to Article 157 of Italian Legislative Decree 163/06, permitting that they be dematerialised and eliminating the obligation to highlight also on the security the warning about the risk profile associated with the operation.

Other changes to the laws in effect were aimed at simplifying authorisation procedures and providing greater stability to the administrative provisions issued, limiting cases in which acts can be revoked and unifying the date as of which the validity begins for final provisions and procedural acts released in service consultations.

[Italian Law Decree No. 3 of 24 January 2015 containing “Urgent measures for the banking system and investments”, published in Italian Official Journal No. 19 of 24 January 2015.](#)

The Decree extends SACE’s scope of activities in support of exports and the internationalisation of the Italian economy, specifying that it can also make direct loans to businesses.

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

Below is a summary of the main resolutions passed by the Italian Regulatory Authority for Electricity Gas and Water (the "Authority") during 2014 and, later, up to the date of preparation of this Annual Report.

Resolutions 37/2014/R/eel, 38/2014/R/eel, 39/2014/R/eel, 41/2014/R/eel, 42/2014/R/eel, 43/2014/R/eel and 530/2014/R/eel – Rules on Internal User Grids

With these resolutions, the Authority intervened on the subject of Internal User Grids (IUGs), introducing changes to Table 1 of Resolution ARG/elt 52/10 containing the list of the IUGs, also rejecting some applications related to the inclusion of plants in the IUGs owned by certain companies, for failure to comply with the requirements of Italian Law No. 99 of 23 July 2009.

Resolution 55/2014/R/eel – Decisions on the essential production plants San Filippo del Mela 220 kV, San Filippo del Mela 150 kV, Ottana and Trapani TG

With this measure, the Authority determined the amounts of the advance fee for cost reintegration, in relation to some of the plants essential for the year 2013 (S. Filippo del Mela and Ottana) and changed the values of the relevant parameters for application of the cost reintegration arrangements for the year 2014, with reference to the Trapani TG plant.

Resolution 65/2014/R/eel – Revision of the fee for non-compliance with a switch-on order

With this measure, the Authority provided a review of the fee for non-compliance of the order of switch-on (the so-called MROA, designed to cancel or curtail the remuneration paid to the user of the dispatching in the event that switch-on does not take place or takes place with times and methods other than those required), requiring Terna to prepare a proposal to amend the Grid Code in accordance with the criteria defined by the Authority. In particular, the Authority requires that:

- the index of non-compliance of the switch-on order (NMROA) is calculated taking into account only the switch-ons ordered by Terna in the Dispatching Service Market (DSM) in excess with regard to the switch-on operations carried out within the energy market;
- in case it is not possible to uniquely associate the remuneration of the switch-on fee to a specific switch-on manoeuvre ordered in the Dispatching Services Market, the NMROA index is calculated using a conventional criterion defined by Terna.

Resolution 66/2014/R/eel – Transitory system for remuneration of the energy output of production units for primary frequency regulation

With this measure, the Authority introduced a transitional mechanism, in the context of its full operation, which allows the recognition of the remuneration of the contribution to the primary regulation provided by the production unit as early as 1 April 2014, on the basis of the proposal made by Terna in this regard. The transitional mechanism envisages activation of tests remotely by Terna from the month of July 2014 and authorisation requirements for the production units similar to those provided by the mechanism in normal operation. There are also measures similar to the operational mechanism, notwithstanding non-recognition of the remuneration of the contribution to the primary regulation from the date of authorisation, in cases of operator failure to start tests remotely and of negative outcome of the first remote test after verification of Terna.

Resolution 90/2014/R/eel – Amendments and additions to Authority Resolution 48/04, on the extra fee for transitory remuneration of available production capacity

With this measure, the Authority updated the transitional rules for the further remuneration fee for availability of electricity generation capacity referred to in Article 36 of Resolution 48/04 and, in particular, it determined that:

- in the context of the outcome of the cases pending before the Council of State on the method of calculation of the additional remuneration fee for availability of production capacity, Terna shall pay market operators an advance on the further fee relating to the years 2012 and 2013;
- the amount to be allocated to the further fee relating to the years 2012 and 2013 is equal to € 60 million per year, deriving, overall, from the residues of the years from 2009 - 2013 and from part of the 2014 revenue.

Resolution 118/2014/R/eel – Determination of bonuses for electricity transmission service quality for the year 2012

With this measure, the Authority provided for the determination of bonuses for electricity transmission service quality for the year 2012. The total amount of bonuses amounted to € 19,040,000, divided between the two distinct indicators RENS – Terna S.p.A. and RENS – Terna Rete Italia S.r.l.. With the same resolution, the Authority also gave mandate to the Electricity Industry Adjustment Fund to perform, before 30 April 2014, the payment of the total of bonuses to Terna, to the account “Electrical services quality.”

Resolution 176/2014/E/rht – Revision of the criteria and methods used to supervise observance of the prohibition on passing on the tax surcharge - “Robin Hood Tax”

With this provision, the Authority established the review of the criteria and methods used to supervise respect for the prohibition on transfers to consumer prices of the so-called Robin Hood tax increase, effective as of financial year 2013. Specifically, the provision introduced some simplifications with reference to the information requested and the time allowed to comply with the data gathering established by the Authority, also establishing that subjects for whom revenues are fixed administratively must transmit minimal accounting information. The Authority also made certain changes to the criteria followed by the same for any accounting verifications of the supervised subjects.

Resolution 206/2014/R/eel – Payment and coverage of final costs, for the year 2013, communicated by Terna S.p.A., for performance of market monitoring activities – and Resolution 561/2014/R/eel – Payment of the costs estimated for the year 2015, communicated by Terna S.p.A., for performance of the wholesale electricity market monitoring activities

With Resolution 206/2014/R/eel, the Authority set down the payment and coverage of final costs for the execution of market monitoring activities, communicated by Terna for the year 2013. Specifically, the Authority quantified the amount of final costs recognised to Terna for the execution of monitoring activities at € 834,250 and the income coming from the difference between the final costs recognised and the estimated costs recognised at € 130,280 to be recovered through the fee for Terna operations, relative to the year 2015.

With Resolution 561/2014/R/eel, the Authority then acted to quantify the amount of the estimated costs recognised for 2015 for Terna for its monitoring activities at € 902,924, stating that the amount of € 772,644 (difference between estimated costs and the difference quantified in Resolution 206/2014/R/eel) would be covered through the fee for Terna operations for the year 2015.

Resolution 227/2014/R/eel – Acceptance of Terna S.p.A.’s application on the subject of the location of power intensive storage systems

With this provision, the Authority accepted the request by which Terna had asked to replace the sites for the construction of the power intensive accumulation systems, originally approved and identified with Resolution 43/2013/R/eel. With the same total installed capacity, the Ottana site is therefore replaced with the Codrongianos site and the name of the project is changed from “Ottana” to “Sardegna” and the site of Caltanissetta is replaced with the sites of Ciminna and Casuzze and the name of the project is changed from “Caltanissetta” to “Sicilia.”

Resolution 231/2014/R/com – Rules on the subject of accounting separation (unbundling) obligations for the electricity and gas sector

With this provision, the Authority introduced new provisions regarding the obligations for separate accounts for the electricity and gas sectors. Specifically, with this provision the Authority approved the new “Integrated Accounting Unbundling Rules” (IAUR - Annex A), establishing their efficacy as of financial year 2014 and repealing the accounting separation provisions contained in the “Integrated Unbundling Rules” (IUR - Annex A to provision no. 11/07), which are contrary to the same, while simultaneously giving a mandate to the Infrastructure Unbundling and Authority Certification Direction to establish a technical working group with category operators and associations aimed at preparing a regulatory accounting manual which contains specific detailed techniques for the preparation of separate annual financial statements pursuant to the IAUR. The Authority also postponed to subsequent provisions the review of functional unbundling obligations for the electricity and gas sector.

Resolution 235/2014/A – Determination of the contribution rate for the operation of the Authority for electricity, gas and water, payable for the year 2014 by subjects operating in the sectors of electricity, gas and water services.

With this provision, the 2014 contribution rate for operating charges was set for the Authority, owed by subjects operating in the sectors of electricity, gas and water services. For subjects operating in Italy in the electricity and gas sectors, including companies operating under foreign law, the resolution establishes the contribution rate in the amount of 0.28 per thousand of income resulting from the financial statements approved relating to financial year 2013 and establishes that this contribution be paid by 31 July 2014.

Resolution 247/2014/R/eel – Decisions on the subject of higher charges incurred for the gas emergency related to 7 - 15 February 2012

With this provision, the Authority established determinations regarding the greater charges sustained for the gas emergency related to 7 - 15 February 2012. Specifically, the provision is aimed at determining the incremental fixed costs and the specific criteria for the calculation of the variable cost recognised for certain Enel Produzione S.p.A. thermoelectric units, affected by the measures adopted at the time of the gas emergency during February 2012.

Resolution 249/2014/R/eel – Payment of the costs incurred in the year 2013 by Terna for performance of activities regarding the management and development of the Single Production Plant Database Management System – and Resolution 657/2014/R/eel – Payment of the estimated operating expenses, for the years 2015-2019, related to the single production plant database management system

With Resolution 249/2014/R/eel, the Authority recognised the costs sustained in 2013 by Terna for the execution of activities regarding the management and development of the Consolidated Records Management System of Production Plants (GAUDI). Specifically, the Authority quantified the final costs for 2013 recognised for activities to develop and use the Gaudi system at € 851,767 and envisaged that the savings deriving from the difference between the final costs and the portion of estimated costs recognised for the year 2013, equal to € 213,893, be considered with a negative sign for the purposes of the quantification of the payment for Terna operations relative to the year 2015.

With Resolution 657/2014/R/eel, the Authority then established recognition of these estimated operating costs, for the years 2015-2019, relative to the Gaudi system. Specifically, the Authority approved the evaluations done by Terna for 2015 and each year in the fifth regulatory period, updating operating costs for 2015 equal to € 1,358,912 and recognising an estimated cost for each year from the period 2016 - 2019, equal to € 1,428,000.

Resolution 256/2014/E/com – Launch of a fact-finding enquiry on investments of regulated companies

With this provision, the Authority began an investigatory review in order to verify the accuracy of the information communicated to it by the companies regulated and to acquire elements useful for evaluating the congruity of the relative investments with the needs of the service in terms of adequacy, efficiency and security of the infrastructure, with reference to their repercussions on tariffs and respect for investment programs. The provision also establishes that the review may be divided into multiple stages and that, during the first stage. The information sent for the determination of reference tariffs for the distribution service will be investigated, relative to the years 2012, 2013 and 2014.

Resolution 259/2014/R/eel – Ascertainment of progress in achieving the milestones of strategic investments for development of the National Transmission Grid in relation to the second half of 2013 – and Resolution 654/2014/R/eel – Update of the milestones and target dates of strategic investments for development of the National Transmission Grid

With Resolution 259/2014/R/eel, the Authority expressed its opinion regarding the achievement of the milestones for the development projects for the National Transmission Grid envisaged for the second half of 2013. Specifically, the Authority ascertained the achievement status of the milestones for the development projects planned for the second half of 2013, including those related to subsequent years and completed in advance, as well as the reaching of the threshold of 70% of the total conventional value of said milestones. Therefore, the Authority established that Terna be granted the incentive for accelerating investments on fixed assets in progress relating to the I=3 investments in existence at 31 December 2013, to be included in the transmission fees related to the year 2015.

With Resolution 654/2014/R/eel, the Authority acted to update the milestones and target dates for strategic investments to develop the National Transmission Grid. The provision concluded with the Authority's assessments regarding Terna's associated proposal and updated, pursuant to article 26.4 of the TIT and for each of the actions allowed under the incentive mechanism for acceleration and the penalty mechanism, the target date and methods for ascertaining its achievement, the milestones, associated methods of ascertainment and the value agreed upon for each milestone.

Resolution 265/2014/R/eel - Verification of conformity on the proposed amendments to the Code of Transmission, Dispatching, Development and Security of the Electricity Grid

With this provision, the Authority approved, with amendments, the proposed revision of the Grid Code formulated by Terna for the purposes of the introduction of market coupling. Specifically, the Authority asked to amend the reference program with respect to which dispatching users must formulate offers valid for the scheduling stage of the Dispatching Services Market; it postponed to 30 September 2014 the deadline for sending the new proposal for subdividing the relevant grid in zones valid for the three year period from 2015-2017 to the Authority; it repealed the regulations resulting from resolution 111/06 that envisaged the possibility for Terna to present sales and purchasing offers on the day ahead market in exceptionally critical situations. The Authority also found it appropriate to accept the proposal to introduce an additional session of the Intraday Energy Market, and consequently the Dispatching Services Market, already subjected to public consultation.

Resolution 278/2014/R/eel – Decisions on essential production plants.

This provision is aimed at the determination of the amounts for the advance of the payment for reintegration of costs in relation to the essential systems for the year 2013 available from Enel Produzione S.p.A. and the approval of the typical technical parameters of the systems under the reintegration regime for 2013 for Edipower S.p.A. and Enel Produzione S.p.A. With this provision, the Authority also integrated the regulations, updating the provision regarding the determination of the economic items relative to the Emissions Trading Scheme.

Resolutions 301/2014/R/eel, 566/2014/R/eel e 578/2014/R/eel – Rules on the subject of interruptible electrical resources

With these resolutions, the Authority defined the procedures for supplying interruptible resources.

Specifically, with Resolution 301/2014/R/eel, the Authority arranged for the extension for the second half of 2014, without prejudice to the right to withdrawal, of the existing interruption service contracts. The Resolution also envisaged that Terna continue to carry out monthly auctions starting from the month of July and continuing through December 2014, pursuant to the regulations in effect.

The Resolution also governed the procedures for forward supply contracts by Terna in regard to instant and emergency interruptibility resources, effective as of 1 January 2015, postponing the definition of certain parameters to a later decision of the Authority on the basis of any directions received from Parliament and the Government.

Subsequently, with Resolutions 566/2014/R/eel and 578/2014/R/eel, the Authority, taking into account the guidelines of the Ministry for Economic Development, consolidated the structure governing the interruption service pursuant to Resolution 301/2014/R/eel and approved the Regulations for the forward procurement procedure of the interruption services for the period 2015-2017 and the standard contract model for disbursement of said services, as sent by Terna.

Resolution 316/2014/R/eel – Determination of the advance of the reintegration fee for essential production units available to Enel Produzione S.p.A.

The provision is aimed at determining the amounts to be paid to Enel Produzione S.p.A, as an advance, for the payment for reintegration of the costs for the years 2010 and 2011, in relation to the essential production units, for the availability of Enel Produzione, which operates on electricity grids with the obligation of connection to third parties that are not interconnected with the National Transmission Grid.

Resolution 320/2014/R/eel – Proposal, to the Ministry for Economic Development, to integrate the regulations for the transitional mechanism for remuneration of capacity with respect to the needs for flexibility of the electricity system

With this provision, the Authority presented the Ministry for Economic Development, pursuant to article 1, paragraph 153 of La 147/13, with a proposal to integrate the regulations for the transitional mechanism for remuneration of capacity with respect to the needs for flexibility of the electricity system. Specifically, the provision contains a proposal to restructure the transitional mechanism for forward supplies of production capacity appropriate to provide adequate flexibility services on a three year basis, with reference to 2015-2017.

With regard to the capacity market when fully operational, the Authority also held it appropriate to act as a priority, with the reform of the Dispatching Services Market relative to the flexibility services, so as to envisage at a later time the possible integration of the capacity market with a segment of the market for trading of flexible products.

Resolution 400/2014/R/eel – Rules on the extra fee for transitory remuneration of the available production capacity. Amendments and additions to Authority Resolution 48/04

With this measure the Authority adopted rules on the tariff for transitory remuneration of the available production capacity and a number of changes and additions to Resolution 48/04. In particular, the Authority changed the transitory rules on the extra tariff remunerating the available electricity generation capacity for the years from 2010 to 2013, in the light of Judgement 3051/2014 of the Council of State, excluding the component related to green certificates from the formula for calculating the effective revenue of market operators.

With particular regard to the years 2012 and 2013, the Authority ruled that Terna must determine and pay the extra tariff, established according to the indications of the Council of State, net of the advance paid to the operators under the terms of Resolution 90/2014/R/eel and that the revenue destined for these tariffs must remain € 60 million for each year in question. In relation to the years 2010 and 2011, the Authority also ruled that Terna must determine and pay the extra tariff, established using the criterion of retaining the amounts deriving from the previous methodology, revised to take into account the indications expressed in the Council of State's judgement.

Resolutions Nos 347/2014/R/eel and 425/2014/R/eel – Rules on essential production plants.

With these measures the Authority set forth a number of provisions and updates in relation to rules on essential production units.

In particular, with Resolution 347/2014/R/eel, the Authority made rulings on the subject of the essential production plants available to the company Edipower S.p.A., establishing, in particular, that Terna must pay this company, by 31 August 2014, the balance of the tariff covering the generation costs for the year 2012 for the San Filippo del Mela 150 kV and San Filippo del Mela 220 kV plants.

With Resolution 425/2014/R/eel, the Authority introduced a number of changes relating to the systems for remunerating essential plants pursuant to Resolution No. 111/06 and to determination of the tariff covering the costs for the year 2011 in relation to the essential production capacity of the company E.ON Global Commodities SE, establishing that Terna must pay this company the balance of the tariff covering the costs in relation to the year 2011.

As regards essential plants for the year 2011, the Resolution also stated that Terna must make the adjustments to the tariff covering the costs, taking into account the provisions of Resolution 400/2014/R/eel, on the subject of the extra tariff remunerating the available generation capacity. The Resolution, in addition, changes the method for calculating the revenues of essential plants under the system of covering costs to be used for calculating both the expenses and the revenues in relation to the amount due for CO₂ emissions.

Resolution 421/2014/R/eel – Further changes related to distributed generation plants aimed at ensuring the security of the national electricity system

With this measure the Authority adopted a number of further changes related to distributed generation plants aimed at ensuring the security of the national electricity system, approving the updated version of Annex A. 72, “Procedure for Reduction of Distributed Generation in emergency situations of the National Electricity System (RIGEDI)”, the application of which was set as starting from 1 September 2015. Among other things, the Authority established:

- that distributor companies are obliged to implement a centralised system capable of sending the necessary signals to activate remote disconnection by 1 September 2015;
- a retrofit programme for wind and solar production plants of power greater than or equal to 100 kW already connected or to be connected in Medium Voltage, for which an application for connection was presented prior to 1 January 2013;
- that Terna must assess further solutions in addition to those currently available and to those that will become available by implementing the measure, in order to tackle any future critical problems in the electricity system, informing the Authority of such;
- that the interruptions consequent to RIGEDI should not entail the automatic refunds provided for in the regulation on quality for distributors and should not contribute to the calculation of relevant energy not supplied for Terna, therefore requiring the company to amend Annex A. 54 to the Grid Code containing “*Classification and recording of user interruptions related directly or indirectly to the National Transmission Grid*”.

Resolution 424/2014/R/eel – Extension of the validity of the subdivision into zones of the main grid in force for the three years 2012-2014, to the year 2015

With this measure the Authority ordered an extension of the validity of the subdivision into zones of the main grid in force for the three years 2012-2014, also for the year 2015, in order to ensure timely implementation of market coupling on the northern borders. The Resolution also postponed the deadline for transmission, by Terna to the Authority, of the proposed subdivision into zones of the main grid to a date to be set in a subsequent measure, to be identified taking into account the need to ensure definition of a new zonal configuration for the three years 2016-2018.

Resolution 426/2014/R/eel – Additions and amendments to the regulation relating to simple production and consumption systems

With this measure the Authority provided a number of clarifications on application of the Integrated Text on simple production and consumption systems (TISSPC) pursuant to Resolution 578/2013/R/eel. The measure is aimed at clarifying certain requirements provided for in the regulation for the purpose of issue by the Energy Services Operator (ESO) of qualification as Simple Production and Consumption System (SPCS), as Efficient Energy System (EES) and as Existing System Equivalent to Efficient Energy Systems (ESEES).

Resolution 427/2014/R/eel – Monitoring the development of distributed generation systems in Italy for the year 2012

With this measure, the Authority approved the annual report monitoring the development of distributed generation plants for the year 2012, on the basis of the information transmitted by Terna. In particular, the report highlights the state of distributed generation and small generation in Italy compared to 2012 and provides the reference regulatory framework for distributed generation.

In order to promote the integration of distributed generation plants in the electricity system, encouraging their sustainable growth over time, ensuring at the same time the security of the electricity system itself, the Authority also stated its intention to continue in the process of modifying dispatching and promoting the development of network infrastructures.

Within the measure the Authority also stressed the significance of the process of rationalising information flows relating to production plants through the GAUDÌ system.

Resolution 440/2014/E/eel – Approval of an inspection of the electricity transmission company, on the subject of service quality

With this measure the Authority ordered an inspection to be carried out on the subject of service quality in relation to Terna, to be performed by 31 December 2014. In particular, the Resolution precisely defined the methods through which the verification operations will take place and the subject of the same, with particular reference to correct application of the obligations to record outages and of the calculations of energy-not-supplied indicators, communicated by the company to the Authority during 2014.

Resolution 446/2014/R/com – Criteria and methods for assessing infrastructural investments and for awarding the incentives in relation to the higher risks faced by infrastructural projects of common interest in the electricity and natural gas sectors

With this measure, implementing the provisions of Regulation (EU) 347/2013 and in keeping with the ACER recommendation of 27 June 2014, the Authority published a document that illustrates the criteria and methods currently used to assess infrastructural investments, including assessment of possible greater risk faced by Projects of Common Interest (PCIs) in the electricity and natural gas sectors.

The Resolution notes, in general, that the principles adopted by the Authority to regulate infrastructural services for electricity transmission and transport, regasification and storage of natural gas are aimed at pursuing the objectives of adequacy, efficiency and security of the infrastructures, reconciling these objectives with the protection of final customers. However, considering the fact that particular situations could occur in which the framework of current rules is not sufficient to support the creation of PCIs, the Resolution provides for the possibility – for promoters that consider that their Projects of Common Interest present greater risk compared with that normally associated with an infrastructural project the coverage of which is governed by current regulations – to present an application to the Authority for the purpose of obtaining the incentives provided for in Article 13, paragraph 1, first sentence, of Regulation (EU) No. 347/2013.

Resolutions 487/2014/R/eel – Criteria for assigning the instruments hedging the volatility risk of the transport capacity use fee – and 533/2014/R/eel – Approval of the proposal by Terna regarding implementation of the procedures for assigning instruments hedging against the volatility risk of the transport capacity use fee (CCC and CCP) for the year 2015

With these measures the Authority laid down provisions on the subject of instruments hedging against the risk of volatility of the transport capacity use fee (CCC) for the year 2015.

In particular, with Resolution 487/2014/R/eel the Authority defined the criteria for assignment of the CCCs for 2015. The Resolution states, in particular, that by 15 October 2014 Terna must transmit to the Authority the proposed regulation on the competitive procedures for the year 2015 taking into account the following criteria:

- annual assignment of the CCCs must be carried out preserving the mechanism for calculating the maximum quantity of CCCs assignable to each operator currently in force;
- to the production capacity located in the hubs of Brindisi, Foggia and Priolo, in keeping with the provisions of Resolution 424/14/R/eel on subdivision into zones for the year 2015, the same limits should be applied as those envisaged for assignment of the CCCs on an annual basis used in the adjacent zone;
- a number of clarifications are provided and, following the last session of the tender procedure, details of the offers presented by the operators in that session are released to the operators.

In addition, the Resolution states that starting from the competitive procedures for 2016, Terna must update the methods for calculating the production capacity of non-thermoelectric production units, so as to take into account the seasonality typical of such units.

Finally, during the course of 2015, the Authority and Terna will have to carry out research aimed at verifying the possibility of using the register established pursuant to Regulation 1227/2011 (REMIT) to define the maximum quantity of CCC that can be assigned to a single market operator, with reference to the notion of corporate groups.

With Resolution 533/2014/R/eel, the Authority approved Terna's proposal for implementing the tender procedure for assignment of the CCCs for the year 2015, considered compliant with the criteria indicated above.

Resolution 500/2014/R/eel, Resolution 521/2014/R/eel, Resolution 667/2014/R/eel – Rules on essential plants

With these measures the Authority laid down provisions on essential plants.

In particular, with Resolution 500/2014/R/eel, the Authority defined the technical and economic parameters relevant in applying the contractual regimes, pursuant to Article 65-*bis* of Resolution 111/06, in relation to the macro-zones Continent and Sardinia, while with Resolution 521/2014/R/eel specific provisions are laid down with reference to essential plants located in Sicily, implementing the provisions of Art. 23, Section 3-*bis*, of Italian Law Decree 91/14. This Law Decree, in fact, delegated to the Authority the definition of the methods of offer and remuneration of the said units which, until the “Sorgente–Rizziconi” 380kV power line comes into operation, are considered essential resources for the security of the electrical system. As regards the criteria for offer and remuneration of the essential units, the system of rules on cost reintegration is replicated, in general, without prejudice to certain specific rules, in relation to the methods and quantification of the offers. An obligation for Terna to insert these units in a dedicated section of the list of essential plants is also provided for. Terna must also notify the Authority and the users of the dispatching that own such units when the Sorgente–Rizziconi power line comes into operation. This is currently planned for no later than 30 June 2015.

With Resolution 667/2014/R/eel, the Authority added to the provisions pursuant to Resolution 521/2014/R/eel with reference to the essential non-renewable programmable units pursuant to Law Decree 91/14 and:

- approved the parameters communicated to Terna and the relative requests presented by dispatching users, with reference to the essential plants pursuant to Law Decree 91/14, for the purposes of determining the variable cost recognised;
- determined the methods Terna must use to update and publish information about the date and methods by which the Sorgente-Rizziconi will begin operations.

Resolution 575/2014/R/eel – Decisions on the requests for advance payment of the reintegration fee, in relation to essential plants

With this resolution, the Authority adopted certain determinations in regard to claims for the recognition of the reintegration fee relative to essential plants. Specifically, the resolution determined the amounts to be paid for reintegration of the costs pertaining to the Montemartini plant for the years 2010 and 2011, and an advance of said amount, in relation to each essential plant, for the year 2013.

Resolution 600/2014/R/eel – Decisions on alternative systems for the essential plants

With this resolution, the Authority adjusted the values of the relevant technical/economic parameters in the context of alternative remuneration systems for essential plants for the year 2015, in consideration of Enel Produzione S.p.A.’s decision to partially adhere to these systems.

Resolution 638/2014/R/eel – Rules on the subject of essential plants pursuant to Authority Resolution 111/06, in the Sicily macro-zone, for the year 2015, relevant also for the implementation of Law Decree 91/14

With this resolution, the Authority established provisions regarding essential plants, pursuant to Resolution 111/06, in the Sicily macrozone. Specifically, this resolution is aimed at determining the values of certain relevant parameters for the application of the typical systems and the system pursuant to Law Decree no. 91 of 24 June 2014, as converted by Law no. 116 of 11 August 2014, for essential production plants in Sicily, for the year 2015.

Resolution 639/2014/R/eel – Rules on the subject of essential plants pursuant to Authority Resolution 111/06, in the continent and Sardinia macro-zones, for the year 2015. Amendments and additions to Resolution 111/06.

With this resolution, the Authority established provisions regarding essential plants, pursuant to Authority Resolution 111/06, in the Continent and Sardinia macrozones, approving to that end the proposals put forward by Terna, with a few exceptions requested by the relevant dispatching users. Specifically, the resolution is aimed at determining the values of certain relevant parameters for the application of the typical systems to essential production plants for the year 2015.

Resolution 668/2014/R/eel – Decisions on the requests for admission, for the year 2015, to the cost reintegration system pursuant to Authority Resolution 111/06

With this resolution, the Authority adopted determinations regarding requests for admission, for the year 2015, to the reintegration of costs system, pursuant to Resolution no. 111/06. Specifically, with respect to the admission requests received from dispatching users who own plants classified as essential, the Authority:

- accepted the requests relative to the 150 kV San Filippo del Mela plants (dispatching user: Edipower), and those in Assemini, Portoferraio and Sulcis (dispatching user: Enel Produzione) and Ottana (dispatching user: Ottana Energia);
- rejected the requests relative to the 220kV San Filippo del Mela plant (dispatching user: Edipower), that in Milazzo (dispatching user: Edison Trading) and that in Priolo (dispatching user: Enel Produzione);

asking Terna to consequently modify the list of essential plants pursuant to paragraph 63.1 of Resolution 111/06 for the year 2015, keeping these plants in the list of the essential units prepared with reference to plants subject to the system envisaged in Law Decree 91/14.

Resolution 669/2014/R/eel – Approval of the contractual templates in relation to the alternative systems for essential plants, for the year 2015

With this provision, the Authority approved the proposed contractual templates relative to the alternative systems for essential plants sent by Terna in implementation of Resolution no. 111/06. These contracts are aimed at regulating the methods used to fulfil obligations for dispatching users which, for the year 2015, have chosen to adhere to the alternative system envisaged for essential plants.

Resolution 522/2014/R/eel – Rules on dispatching of non-programmable renewable sources following the judgement of the Council of State – Sixth Section – No. 2936 of 9 June 2014 – and Resolution 643/2014/R/efr – Approval of amendments to the network code made by Terna in relation to the unbalancing of non-programmable renewable sources

With this resolution, the Authority, in implementation of Council of State judgement no. 2936/14, revised the rules on unbalancing for non-programmable renewable sources (NPRS).

The measure in brief provides a mechanism for assessing unbalancing for NPRS plants characterised by:

- a) bands differentiated on the basis of the source (49% for significant wind-powered PUs, 31% for significant PV PUs, 8% for significant flowing water PUs, 1.5% for significant other-source PUs, 8% for the aggregate of non-significant PUs);
- b) assessment of unbalancing above the band with the same methods with which unbalancing of unenabled production units is currently assessed;
- c) allocation to producers of the costs of unbalancing within the band, by applying a unitary fee differentiated by market zone to the energy involved in the unbalancing.

As an alternative to this method of assessing unbalancing, dispatching users may opt, on an annual basis, for the unbalancing price envisaged for unenabled production units to be applied to all unbalancing.

With Resolution 643/2014/R/efr, the Authority positively verified amendments made by Terna to Chapter 7 of the Grid Code concerning Settlement of the economic items relating to the dispatching service and to the transmission service, in order to incorporate the provisions of [Resolution 522/2014/R/eel](#).

Resolution 525/2014/R/eel – Amendments and additions to the rules on effective unbalancing of electricity

With this measure the Authority provided for changes and additions to the rules on effective unbalancing of electricity. In particular, in accordance with the provisions of Art. 23, Section 3-*bis*, of Italian Law Decree 91/14, for the purposes of calculating the unbalancing prices, the Sicily and Sardinia macro-zones are removed by merging these macro-zones with the South macro-zone.

In addition, the Authority makes explicit the application to all physical production and consumption units of the obligation to define input programmes using the best estimates of the quantities of electricity effectively produced by the said units, in accordance with the principles of diligence, prudence, expertise and foresight.

Resolution 534/2014/R/eel – Rules on treating withdrawal points in relation to the company RFI S.p.A., for the purposes of defining the settlement items for applying the special fee system provided for in the ITT

With this measure the Authority laid down rules on the subject of treating withdrawal points in relation to the Italian rail network company Rete Ferroviaria Italiana (RFI) S.p.A., introducing the obligation, for this company, to sign separate contracts with Terna and the distributor companies for its withdrawal points according to the way in which the energy withdrawn is used.

Resolution 546/2014/R/eel - Approval of the rules for allocating the cross-border transport capacity valid starting from the year 2015

With this resolution, the Authority approved the new version of the rules for the annual, monthly and daily allocation of the cross-border transport capacity, known as the “Access Rules”. These rules were prepared by Terna together with the other grid managers participating in the work of the Regional Initiatives for Central South and Central West Europe, Spain and Switzerland. The “Access Rules”, which take effect on 1 January 2015, update the current rules, also in consideration of the start of market coupling, expected during 2015, on the Italy/Austria and Italy/France borders.

Resolution 562/2014/R/eel – Approval of the regulations governing auctions for virtual electricity imports, for the year 2015

With this resolution, the Authority approved the regulations which govern auctions for the virtual importing service and the contract structure which regulates the relations between Terna and the subjects who undertake to execute the virtual importing service (shippers), selected as a result of the auctions for 2015, as transmitted by Terna.

Resolution 569/2014/E/eel – Determination of the bonuses and penalties related to electricity transmission service quality, for the year 2013

With this resolution, the Authority determined the amount of the bonuses/penalties relative to transmission service quality. Under the resolution Terna is held to pay a total penalty of € 1,280,000.00 for the year 2013 for the “Electricity Service Quality” account, and 31 December 2014 is set as the date by which this payment must be made to the Electricity Sector Adjustment Fund.

Resolution 574/2014/R/eel - Rules related to integrating electricity storage systems into the national electricity system— and Resolution 642/2014/R/eel - Further rules related to the installation and use of electricity storage systems. Rules related to application of the CEI 0-16 and CEI 0-21 Standards

With Resolution 574/2014/R/eel, the Authority established initial provisions aimed at allowing for management of storage systems in the context of disbursement of the public service, with particular reference to grid access and use. Specifically, the provisions included for the provision of the dispatching service are considered transitional, while awaiting the completion of the review of the dispatching service. The resolution also expressly excluded storage systems created by grid managers in the context of pilot projects from the scope of application.

The Authority also envisaged that Terna, by the 31 March 2015, will define and submit for verification by the Authority, a project relative to the changes to be made to the GAUDÌ system to allow for management of storage systems and the relative schedules for implementation, also requesting the definition of transitional methods which will guarantee connection and registration of storage systems installed previously. With Resolution 642/2014/R/eel, the Authority, following completion of the update to the technical regulations by the Italian Electro-technical Committee, in regard to the requirements for storage systems connected to distribution grids, then defined further provisions relative to the installation and use of the same, added to that provided in Resolution 574/2014/R/eel.

Resolution 587/2014/R/eel – Amendments and additions to the Integrated Settlement Rules - ISRs

With this resolution, the Authority established changes and additions to the Integrated Settlement Rules, effective as of 1 January 2015. Specifically, the Authority moved forward the schedule of the monthly settlements, with consequent determination of the economic dispatching items by the last day of the month subsequent to the month in question and liquidation of the same by the sixteenth (or seventeenth) business day of the second month subsequent to the month in question. The Authority also changed the schedule for adjustment and equalisation sessions, adding to each adjustment session (known as SEM 1 and SEM 2) a window of time that allows users to check the data sent to Terna by the distribution companies in the context of the adjustment sessions and notify the relevant distribution companies of any anomalies, so as to implement data correction in the same adjustment session without the need to wait for the subsequent year.

Resolution 595/2014/eel – Regulation of the service of measuring electricity produced

With this resolution, the Authority updated the regulations which govern the metering service for electricity produced. In particular, the Authority envisaged that:

- activities to collect, validate, register and make available the metering of electricity produced (remote reading) is the responsibility of the grid manager to which the plant is connected, even for production plants already operating as of 27 August 2012;
- in relation to activities to install and maintain the meters, the current regulatory framework was confirmed, with the exception of meters relative to Low Voltage production plants with a nominal power greater than 20 kW and provided with metering equipment owned by the producer, that cannot function with the remote reading system, for which the responsibility for installation and maintenance lies with the grid manager.

Resolution 599/2014/R/eel - Clarifications for application on the subject of economic treatment of energy output from production units for primary frequency regulation

With Resolution 599/2014/R/eel, the Authority specified application details related to the economic treatment of energy provided by production units for primary frequency adjustment. Specifically, the Authority asked Terna to amend the Grid Code, specifying as part of the formula used to calculate the value of the contribution to primary adjustment, pursuant to Resolution 231/2013/R/eel, the application of a maximum limit equal to the value of the electricity not supplied, pursuant to Resolution no. 111/06 (VENF) and a minimum limit of € 0/MWh.

With Resolution 643/2014/R/efr, the Authority subsequently approved the amendments made by Terna to the Grid Code, in order to implement that envisaged in Resolution 599/2014/R/eel.

Resolution 612/2014/R/eel – Implementation of the provisions of Law Decree 91/14 on in situ exchange

With this resolution, the Authority, in order to implement that provided in Law Decree no. 91/14, established specific changes to the regulations on in situ exchange, amending the Consolidated In Situ Exchange Regulations (TISP) and the Consolidated Simple Production and Consumption Services Rules (TISSPC).

Specifically, with reference to the TISP, the Authority established, among other things, that in situ exchange systems are classified as Simple Production and Consumption Services (ASSPC), that there is a distinction between ASSPC that have a right to access the in situ exchange system with installed power not greater than 20 kW, for which all production plants are exclusively powered by renewable resources (SSP-A) and the other ASSPC which have a right to access the in situ exchange system (SSP-B) and, finally, that access to in situ exchange also be extended to production plants with power up to 500 kW, powered by renewable resources and operating as of 1 January 2015.

With reference to the changes and additions to TISSPC, the resolution established a simplification of the procedure used to qualify ASSPC that access in situ exchange. The resolution also established a revision of the schedules and content of the informational flows exchanged between the Energy Services Operator, Terna and the distribution companies.

Resolution 640/2014/R/eel – Rules on managing measurement data in the Integrated Information System with reference to withdrawal points treated on a time basis

With this resolution, the Authority arranged for the start of experiments, in the context of the Integrated IT System, on management of consumption data related to withdrawal points registered on an hourly basis. These experiments are aimed at monitoring proper application of the provisions of the Integrated Metering Service regulations (TIME), relative to making the measurements available to transport users and, at the same time, verifying the alignment of the specific metering data for the transport service to the aggregate metering data use for the purposes of dispatching, and with the reference database.

Specifically, the Authority established that distribution companies must send the Integrated IT System, at the same time and parallel to them being made available to transport users, the consumption information relative to the points registered hourly, as well as the aggregate information sent monthly for settlement purposes. On the basis of that established in the resolution, the experiments will be implemented gradually, also in consideration of the time needed for the Integrated IT System Manager to prepare and carry out the technical specifications.

Resolution 653/2014/R/eel – Update of the fees for electricity transmission services, for the year 2015

With this measure, the Authority provided for the updating of the tariffs for the electricity transmission service for the year 2015. The main changes concern:

- updating of the CTR component, made equal to € 0.719/kWh;
- the inclusion of investment costs related to the Italy - Montenegro cable suffered outside of Italian territory within transmission service remuneration items;
- the payment to Terna, by the Electricity Equalization Fund, of the 2013 revenue additions, including the adjustments on invoicing figures for the 2009-2012 period, for a total amount of € 91,195.592;
- the inclusion within transmission tariffs of revenues for investments in the pilot projects relative to storage systems;
- the inclusion of the additional remuneration for works in progress for investments to develop transport capacity I=3 at 31 December 2013, equal to 2% for 12 years, consequent to exceeding the 70% limit of the overall conventional value of the milestones estimated for the second half of 2013, as part of the incentive mechanism to accelerate investment.

Resolution 658/2014/R/eel – Update of the dispatching fees for the year 2015

With this resolution, the Authority updated the dispatching fees for the year 2015. Specifically, in addition to updating the unit fees that dispatching users must pay as remuneration for production capacity, remuneration of the load interruptibility service, units essential to the security of the electricity system authorised to reintegrate costs, adhesion to mechanisms that compensate for costs correlated with the transport of electricity on foreign electricity grids (ITC), the Authority also updated the amount of the fee to cover the costs paid for Terna's operations (DIS) to € 0.0439/kWh.

Resolution 11/2015/R/eel – Launch of a procedure for defining the remuneration of the high and extra high voltage electricity grids owned by the company Ferrovie dello Stato italiane S.p.A. to be included in the national transmission grid

With this resolution, the Authority began the process to define remuneration for electricity transmission assets owned by the company Ferrovie dello Stato Italiane S.p.A. (FSI S.p.A.) to be included within the National Transmission Grid, pursuant to article 1, paragraph 193, of Italian law no. 190 of 23 December 2014 (2015 Stability Law), taking into account the constraints introduced in the law, the potential benefits for the electricity system and in line with the tariff regulation criteria indicated in the TIT (attachment A to Resolution ARG/elt 199/11).

For the purposes of analysing and verifying the data and information provided by FSI S.p.A., the resolution, in addition to providing for the establishment of an independent commission of experts, also envisaged that Terna carry out specific assessments regarding the potential net benefits for the national electricity system deriving from including the FSI grids in the NTG, and that it send the results to the Authority.

Other information

Further information required by specific legal or sector regulations is presented below.

Treasury shares

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

Related-party transactions

Considering that the Terna Group has been subject to de facto control by Cassa Depositi e Prestiti S.p.A. since 2007, the related-party transactions carried out by the Terna Group during 2014 included not only those with the associates and the employee pension funds (Fondenel and Fopen), but also those with Cassa Depositi e Prestiti, CDP Reti S.p.A. and the companies directly or indirectly controlled by the Ministry for the Economy and Finance.

Related party transactions carried out in 2014 consisted substantially of services under the scope of ordinary business and settled at market terms, as is described in greater detail in the Consolidated and Separate Statements at 31 December 2014⁷³.

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

We can note that, during 2014, no significant transactions, that is to say related party transactions identified in compliance with the provisions of Appendix 3 to the "Regulation containing rules on related-party transactions" (adopted with CONSOB Resolution No. 17221 of 12 March 2010, as amended with Consob Resolution No. 17389 of 23 June 2010), were carried out, nor were transactions subject to compulsory disclosures but concluded applying the exclusion established by the Regulation, insofar as they were "*transactions coming under the scope of the ordinary business of the Company's continuing operations or those of its subsidiaries or associates or financial activities related thereto, provided that they were concluded at conditions equivalent to market or standard terms*".

Information on ownership structures

Information required under Art. 123-bis "Report on Corporate Governance and ownership structures" of the "Consolidated Law on Financial Intermediation" (Italian Legislative Decree No. 58 of 24 February 1998), is presented in a separate report (Annex – Report on corporate governance and ownership structures), approved by the administrative body and published with this Report on Operations, which is available on the website of Terna S.p.A. (www.terna.it in the section "Investor Relations/Corporate Governance/Corporate Governance System/Report on Corporate Governance and Ownership Structures" approved by the Terna Board of Directors and published jointly with Terna and the Terna Group's Annual Financial Report).

Certifications in accordance with Article 2.6.2 of the Italian Stock Exchange Regulation with regard to the conditions pursuant to Articles 36 and 37 of the CONSOB Market Regulation (No. 16191/2007)

With regard to the provisions of Article 36 of the CONSOB Markets Regulation (No. 16191/2007 as subsequently amended), Terna S.p.A. does not hold any significant controlling interests under the terms of the aforementioned legislation in companies incorporated in and regulated by the laws of non-member countries of the European Union.

With regard to the provisions of Article 37 of said CONSOB Regulation, Terna S.p.A. is subject to the de facto control of Cassa Depositi e Prestiti S.p.A., which – as of 31 December 2013 – held an equity interest amounting to 29.851% in the share capital, according to that verified by Cassa Depositi e Prestiti and disclosed on 19 April 2007. At present, no management or coordination has been formalised or exercised; Terna S.p.A. goes about its business directly or through its subsidiaries with independent management and trading.

Participation in the legislative simplification process pursuant to CONSOB Resolution 18079 of 20 January 2012

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

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

ANNEXES - Section “Organisation, reference scenario and business”

Evolution of the National Transmission Grid (NTG)

Number of plants – Terna S.p.A.

The number of plants belonging to the company Terna S.p.A. as at 31 December 2014, compared to the situation as at 31 December 2013, is shown in the following table:

	Terna S.p.A.		
	31.12.2014	31.12.2013	Change
Stations	462	456	+ 6
Transformers	659 + 140,563 MVA	649 138,399MVA	+ 10 + 2,165 MVA
Bays	5,084	5,022	+ 62
Lines	41,398 km	41,064 km	+ 334 km
Three-phase lines	2,396 46,345 km	2,374 46,039 km	+ 22 + 306 km

Km and MVA are calculated to 3 decimal places and rounded to the unit.

Stations

With regard to the stations, the following variations are noted:

1) of entire plants:

- activation of the new 380 transformer station in Scilla (7 x 380kV bays and 10 x 150kV bays);
- activation of the new transformer station in Avellino Nord (4 x 380kV bays and 4 x 150kV bays);
- activation of the new 380 transformer station in Rotello (4 x 380kV bays and 2 x 150kV bays);
- activation of the new switching (future transformer) station in Fontelupo (4 bays at 220 kV);
- activation of the new transformer station in Pisticci, reconstructed on the site of the pre-existing system (1 x 220 kV bays and 3 x 150kV bays);
- activation of the new transformer station in Musocco (5 bays at 150 kV);
- activation of the new switching station in Camerelle (4 bays at 150 kV);
- activation of the new switching station in Flumeri (3 bays at 150 kV);
- acquisition from Sorgenia S.p.A. of the 380 Termoli station (1 bay at 380 kV);
- declassification from 220 kV to 150 kV of the switching station in Villa Castelli (4 bays);
- decommissioning of the 220 switching station in San Giacomo (7 x 220 kV bays);
- decommissioning of the switching station in Santa Massenza (220 kV);
- decommissioning of the 150 switching station in Scilla (7 x 150 kV bays).

2) of existing plants:

- activation of 31 new line bays in the stations of Rizziconi and Sincrono Codrongianos (2 bays at 380 kV each), Pellerina (3 bays at 220 kV), Taio (2 bays at 220 kV), Santa Massenza Switching and Ragusa (1 bay at 220 kV each), Bari Termica (3 bays at 150 kV), Taranto Nord (2 bays at 150 kV), Foggia, Manfredonia, Rotonda and Sortino (1 bay at 150 kV each), Genova Termica (5 bays at 132 kV), Rosara 2 (3 bays at 132 kV), Cagno, Ossana and Marginone (1 bay at 132 kV each);
- activation of 24 new machine and/or power factor correction bays in the stations of Baggio (1 bay at 380 kV and 1 bay at 220 kV), Foggia, Galatina and Erchie (1 bay at 380 kV and 1 bay at 150 kV, each), Piossasco, Vignole Borbera, Planais, Udine West, Marginone, Villanova and Teramo (1 bay at 380 kV each), Ospiate and Cattolica Eraclea (1 bay at 220 kV each), Ginestra (2 bays at 150 kV), Ciminna (1 bay at 150 kV), Ponte, Stazzona, Rubiera and Rosara 2 (1 bay at 132 kV each);
- activation of 10 new parallel and/or connector bays in the stations of Villanova (1 bay at 380 kV), Taio (1 bay at 220 kV and 1 bay at 132 kV), Foggia (2 bays at 150 kV), Genova Termica and Rubiera (2 bays at 132 kV each) and Suvereto (1 bay at 132 kV);

- declassification from 220 kV to 132 kV of 1 bay in the station of Livorno Marzocco;
- deactivation and/or demolition of 38 bays in the stations of Villanova (1 bay at 380 kV and 3 bays at 220 kV), Rotonda (7 bays at 220 kV and 2 bays at 150 kV), Marginone (1 bay at 220 kV and 1 bay at 132 kV), Bari Termica (8 bays at 150 kV), Taranto Nord (3 bays at 150 kV), Patria (1 bay at 150 kV), Genova Termica and Rosara 2 (5 bays at 132 kV each) and Ponte (1 bay at 132 kV).

Transformers

With regard to transformers, the following variations are noted:

- activation of 1 new 380/220 kV auto-transformer of 400 MVA in the Baggio station;
- activation of 3 new 380/150 kV auto-transformers of 250 MVA in the stations of Foggia, Erchie and Galatina (1 x ATR for each station);
- activation of 2 new 380/132 kV auto-transformers of 250 MVA in the stations of Marginone and Villanova (1 x ATR for each station);
- activation of 2 new 150/20 kV transformers of 40 and 16 MVA in the Ginestra station;
- activation of 4 new 380/150 kV auto-transformers of 250 MVA at the time the 380 stations in Scilla (2 x ATR), Avellino Nord and Rotello (1 x ATR, each) began operating;
- activation of 1 new 220/150 kV auto-transformer of 160 MVA at the same time the Pisticci station began operating;
- activation of 1 new 150/20 kV transformer of 40 MVA at the same time the Flumeri station began operating;
- replacement of 1 380/220/15 kV auto-transformer of 400 MVA with a 380/220 kV one of the same power in the Santa Sofia station;
- replacement of 1 380/150 kV auto-transformer of 250 MVA with a similar one of 400 MVA in the Bari West station;
- replacement of 1 220/132kV auto-transformer of 160 MVA with a similar one of the same power in the Villabona station;
- replacement of 1 220/132kV auto-transformer of 107 MVA with a similar one of 160 MVA in Taio station;
- replacement of 2 220/132/8 kV transformers of 73.5 MVA each with similar ones of 80 MVA in the Ponte station;
- replacement of 1 220/60/20 kV transformer of 100 MVA with a similar one of the same power in the Maddaloni station;
- replacement of 1 220/60/10kV transformer of 75 MVA with a similar one of 100 MVA in Castellucia station;
- replacement of 1 132/66/15 kV transformer of 32 MVA with a 132/15 kV one of 40 MVA in the Camporosso station;
- replacement of 1 132/15 kV transformer of 25 MVA with a similar one of 40 MVA in Leini station;
- decommissioning of 2 220/150 kV auto-transformers of 160 MVA each in the Villanova station;
- decommissioning of 1 220/150/9 kV auto-transformer of 100 MVA in the Rotonda station;
- decommissioning of 1 220/132 kV auto-transformer of 250 MVA in the Marginone station.

Power lines

With regard to power lines, the following variations are noted:

- entry into service of 17 new lines for a total of 300.5 km of three-phase line: Trino - Lacchiarella 380 kV (94.0 km overhead, double three-phase), Rizziconi - Scilla 380 kV (36.7 km overhead, double three-phase), Politecnico - Torino Sud 220 kV (4.6 km cable), Pellerina - Politecnico 220 kV (4.3 km cable), Torino Centro - Politecnico 220 kV (2.9 km cable), Martinetto - Levanna 220 kV (0.4 km cable), Taio - Taio c.le 220 kV (2 lines for a total 0.2 km cable), cp Bolognano - Bussi Smistamento 150 kV (10.4 km overhead), Sorgente - cp Pace del Mela 150 kV (4.5 km cable), Benevento Nord - Benevento RFI 150 kV (1.8 km cable), Bari Termica - Bari Termica Allacciamento (0.1 km cable), Grosotto - Lovero 132 kV (7.9 km cable), Fiorenza - Musocco 132 kV (2.0 km cable), Musocco - cp Musocco 132 kV (0.1 km cable);
- construction of 10 in-out derivations on the same number of operating lines with an overall increase of the same number of triads and 23.4 km of three-phase line, of which: + 3 lines + 0.7 km at 380 kV, + 6 lines + 22.7 km at 150 kV, + 1 line + 0.1 km at 132 kV;
- construction of variants, rigid derivations and/or changes in the line and/or grid distribution with a total reduction of 1 line and an increase of 7.8 km of three-phase line, of which: + 9.2 km at 380 kV, + 23.3 km at 220 kV, - 1 line - 0.1 km at 150 kV, - 24.6 km at 132 kV;
- declassification of 5 overhead lines, equal to 240.0 km of three-phase line, of which: 4 overhead lines and 192.7 km of three-phase lines from 220 kV to 150 kV, 1 overhead line and 47.3 km of three-phase lines from 220 kV to 132 kV;
- deactivation and/or demolition of 5 operating lines for a total of 30.6 km of three-phase lines, of which: 2 lines and 7.2 km at 220 kV, 1 line and 14.7 km at 150 kV, 2 lines and 8.8 km at 132 kV.

Number of plants – Terna Rete Italia S.r.l.

The number of plants belonging to the company Terna Rete Italia S.r.l. as at 31 December 2014, compared to the situation as at 31 December 2013, is shown in the following table:

	Terna Rete Italia S.r.l.		Change
	31.12.2014	31.12.2013	
Stations	29	19	+ 10
Transformers	2	2	-
	320MVA	320MVA	-
Bays	121	83	+ 38
Lines	16,473 km	16,476 km	- 3 km
	1,737	1,734	+ 3
Three-phase lines	17,546 km	17,555 km	- 8 km

Km and MVA are calculated to 3 decimal places and rounded to the unit.

Stations

Relative to the stations, we note the following changes at the level of the entire plants:

- acquisition from Brulli Trasmissione S.r.l. of 9 switching stations: Cassano 380 (5 bays at 380 kV), Vallesaccarda (6 bays at 150 kV), Vizzini and Mineo (4 bays at 150 kV each), Cocullo, Vicari, Carlentini, Florinas and Ploaghe (3 bays at 150 kV each);
- activation of the new switching station in Bonorva (4 bays at 150 kV).

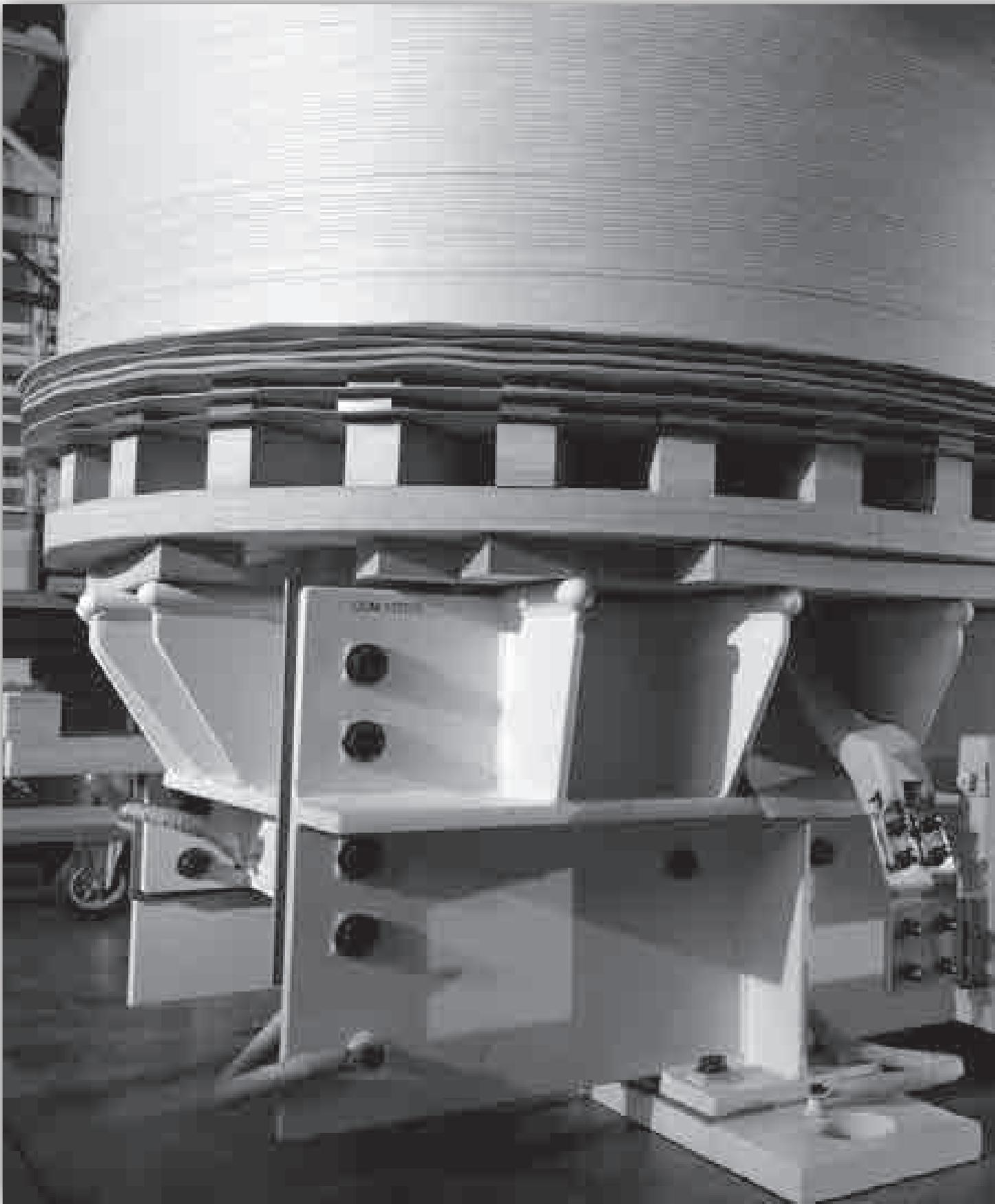
Transformers

No change occurred in the year, with regard to transformers.

Power lines

With regard to power lines, the following variations are noted:

- entry into service of 2 new 150 kV lines, for a total of 17.2 km of three-phase line: Avellino Nord FMA - Pratola Serra (8.0 km cable), Brindisi Pignicelle - Brindisi Industriale 1 (9.2 km overhead);
- construction of 5 in-out derivations on the same number of operating lines with an overall increase of the same number of triads and 3.9 km of three-phase line, of which: + 4 lines + 3.9 km at 150 kV, + 1 line + 0.1 km at 132 kV;
- reclassification of 1 overhead line, equal to 2.7 km of three-phase line, from 70 kV to 150 kV;
- construction of variants, rigid derivations and/or changes in the line and/or grid distribution with a total increase of 1 line and an increase of 7.2 km of three-phase line, of which: + 7.8 km at 150 kV + 1 line - 0.6 km at 132 kV;
- deactivation and/or demolition of 2 lines operating at 150 kV for a total of 5.9 km of three-phase line;
- transfer to Terzo of 1 line operating at 150 kV for a total of 1.8 km of three-phase line.





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as at 31 December 2014

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2014





Consolidated income statement

€ million	Notes	2014	2013
A. Revenue			
1. Revenue from sales and services	1	1,922.8	1,844.6
<i>of which: related parties</i>		1,428.8	1,442.0
2. Other revenue and income	2	59.8	51.8
<i>of which: related parties</i>		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
<i>of which: related parties</i>		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)
<i>of which: related parties</i>		4.3	0.9
4. Amortisation, depreciation and impairment	6	480.6	450.4
5. Other operating expenses	7	39.0	46.4
<i>of which: related parties</i>		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)
<i>of which: related parties</i>		(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
<i>Owners of the Parent</i>		<i>554.3</i>	<i>554.3</i>

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
<i>of which: related parties</i>		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
<i>of which: related parties</i>		297.6	413.6
3. Current financial assets	17	63.4	97.1
<i>of which: related parties</i>		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
<i>of which: related parties</i>		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
<i>of which: related parties</i>		27.7	33.6
3. Tax liabilities	29	1.2	31.5
4. Current financial liabilities	24	154.1	151.4
<i>of which: related parties</i>		0.9	1.1
5. Other current liabilities	29	258.4	176.0
<i>of which: related parties</i>		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

CONSOLIDATED SHARE CAPITAL AND RESERVES

€ million	Share capital	Legal reserve	Share premium reserve	Cash-flow-hedge reserve
Equity at 31 December 2013	442.2	88.4	20.0	(53.3)
Net profit for the year				
Other comprehensive income:				
Change in fair value of cash flow hedging derivatives net of tax effect				27.3
Actuarial gains (losses) on employee benefits net of tax effect				
Total other comprehensive income	-	-	-	27.3
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

CONSOLIDATED SHARE CAPITAL AND RESERVES

€ million	Share capital	Legal reserve	Share premium reserve	Cash-flow-hedge reserve
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



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, AMP⁷⁴, ILN⁷⁵, 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 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 at 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
<i>of which revenue from discontinued operations</i>	<i>13.8</i>	<i>-</i>	<i>13.8</i>
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.

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 technologies⁷⁹, 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 technology⁸⁰. 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
<i>of which transport lines</i>	<i>270.9</i>
<i>of which transformer stations</i>	<i>100.7</i>
Italy-Montenegro Interconnection	109.2
<i>of which transport lines</i>	<i>98.0</i>
<i>of which transformer stations</i>	<i>11.2</i>
380 kV Sorgente - Rizziconi power line	82.9
<i>of which transport lines</i>	<i>57.6</i>
<i>of which transformer stations</i>	<i>25.3</i>
Codrongianos ES Synchronous Condenser	40.1
<i>of which transport lines</i>	<i>0.0</i>
<i>of which transformer stations</i>	<i>40.1</i>
380 kV Udine West-Redipuglia power line	33.6
<i>of which transport lines</i>	<i>20.3</i>
<i>of which transformer stations</i>	<i>13.3</i>
Capri-Continent interconnection	32.4
<i>of which transport lines</i>	<i>30.7</i>
<i>of which transformer stations</i>	<i>1.7</i>
380 kV Foggia-Villanova power line	30.0
<i>of which transport lines</i>	<i>22.9</i>
<i>of which transformer stations</i>	<i>7.1</i>
Restructuring of the 220 kV City of Naples grid	22.1
<i>of which transport lines</i>	<i>21.1</i>
<i>of which transformer stations</i>	<i>1.0</i>
Restructuring of the 220 kV City of Turin grid	21.3
<i>of which transport lines</i>	<i>20.3</i>
<i>of which transformer stations</i>	<i>1.0</i>

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 calendarly 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:

€ million	Carrying amount		
	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 ascertainties (€ 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:

€ million	Carrying amount		Change
	31.12.2014	31.12.2013	
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:

	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
€ million											
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 capitalisation	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			
- <i>hedging</i>	13.2	12.7	0.5
Bond			
- <i>Inflation Linked</i>	4.6	4.6	-
- <i>Private Placement</i>	7.2	7.2	-
- <i>5-year (2017)</i>	44.9	44.9	-
- <i>10-year (2014)</i>	0.0	4.5	(4.5)
- <i>20-year (2024)</i>	7.0	7.0	-
- <i>10-year (2021)</i>	47.5	47.5	-
- <i>5-year (2018)</i>	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:

€ million	Carrying amount at 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:

	31.12.2013	Contribution of newly acquired companies	Provision	Interest cost	Utilisations and other changes	Actuarial gains/losses	31.12.2014
€ million							
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%
	0.60% for 2015	0.60% for 2015		0.60% for 2015	0.60% for 2015	
	1.20% for 2016	1.20% for 2016		1.20% for 2016	1.20% for 2016	
Inflation rate	1.50% 2017 and 2018	1.50% 2017 and 2018	n/a	1.50% 2017 and 2018	1.50% 2017 and 2018	3.00%
	2% from 2019 on	2% from 2019 on		2% from 2019 on	2% from 2019 on	
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:

	31.12.2013	Contribution of newly acquired companies	Impact recognised in Income Statement				Other changes	Impact recognised in statement of comprehensive income	31.12.2014
			Provisions	Utilisations and other changes	Assets held for sale				
€ million									
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.

€ million	2014				2013			
	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

€ million	2014				2013			
	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:

€ million	2014		2013		Change	
	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):

€ million	Carrying amount at		
	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:

€ million	Profit or loss			Statement of Comprehensive Income		
	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)
<i>Hypothetical change</i>	(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)
<i>Hypothetical change</i>	(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:

	Maturity	31.12.2013	31.12.2014	Maturity within 12 months	Maturity beyond 12 months	2016	2017	2018	2019	After
€ million										
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:

€ million	Carrying amount		Change
	31.12.2014	31.12.2013	
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:

€ million	31.12.2014		31.12.2013	
	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
CORESIO 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		
	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	
Company						
<i>De facto parent company:</i>						
Cassa Depositi e Prestiti S.p.A.	-	-	-	-	6.4	
Total de facto parent company	-	-	-	-	6.4	
<i>Associates:</i>						
Cesi S.p.A.	-	0.1	-	-	1.9	
CORESIO S.A.	-	-	-	-	1.5	
Total associates	-	0.1	-	-	3.4	
<i>Other related companies:</i>						
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	
<i>Pension funds:</i>						
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		Guarantees*
	Capitalised costs	Other	Financial	Other	Financial	
Company						
<i>De facto parent company:</i>						
Cassa Depositi e Prestiti S.p.A.	-	-	0.2	-	500.9	-
Total de facto parent company	-	-	0.2	-	500.9	-
<i>Associates:</i>						
Cesi S.p.A.	16.3	0.3	-	9.8	-	3.2
CORESIO SA	-	-	-	0.1	-	-
Total associates	16.3	0.3	-	9.8	-	3.2
<i>Other related companies:</i>						
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
<i>Pension funds:</i>						
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 inappropriate 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 project⁸¹ 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 months⁸².

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 TERNNA) 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



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





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

Sede legale e amministrativa: **Milano** 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Piazza dei Martiri 58 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43100 Viale Tanara 20/A Tel. 0521275911 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Via Grazioli 73 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Verona** 37135 Via Francia 21/C Tel. 0458263001



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)

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

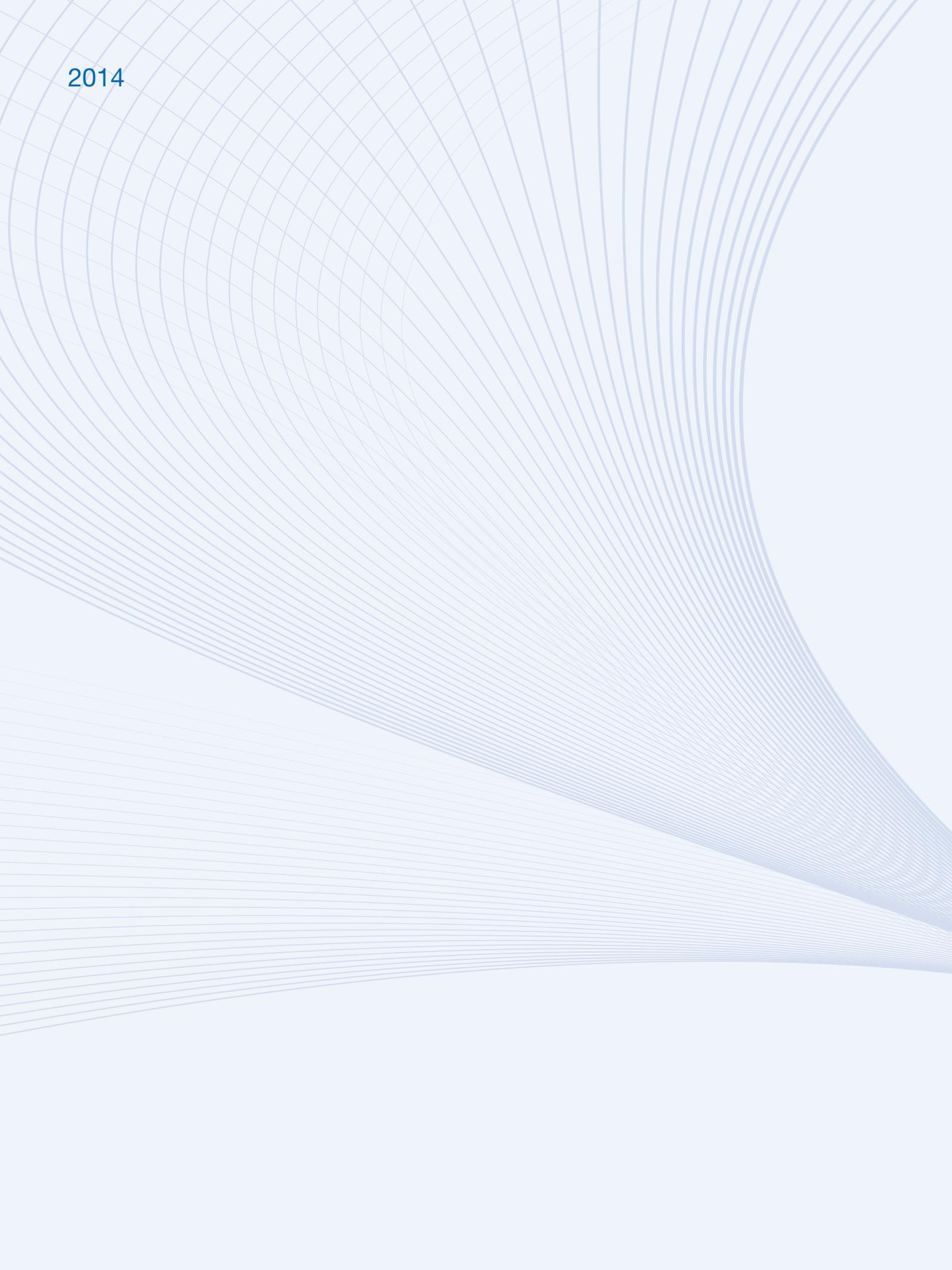
Separate Financial Statements
as at 31 December 2014

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2014





Income Statement of Terna S.p.A.

€	Notes	2014	2013
A. Revenue			
1. Revenue from sales and services	1	1,710,026,003	1,688,137,891
<i>of which: related parties</i>		1,463,628,589	1,483,460,467
2. Other revenue and income	2	78,070,051	67,742,577
<i>of which: related parties</i>		32,056,949	30,286,610
Total revenue¹		1,788,096,054	1,755,880,468
B. Operating expenses			
1. Raw materials and consumables	3	5,706,964	5,286,628
<i>of which: related parties</i>		27,777	0
2. Services	4	375,246,686	347,250,218
<i>of which: related parties</i>		315,805,378	297,390,750
3. Personnel expenses	5	87,934,164	47,080,947
- gross personnel expenses		89,729,100	49,466,938
- gross personnel expenses, capitalised		(1,794,936)	(2,385,991)
<i>of which: related parties</i>		545,092	545,755
4. Amortisation, depreciation and impairment	6	426,650,701	400,224,877
5. Other operating expenses	7	34,175,542	43,007,685
<i>of which: related parties</i>		254,176	26,687,358
Total expenses		929,714,057	842,850,355
A-B Operating profit		858,381,997	913,030,113
C. Financial income/expense			
1. Financial income	8	39,718,485	81,138,959
<i>of which: related parties</i>		16,278,507	15,609,350
2. Financial expense	8	(160,937,674)	(169,651,874)
<i>of which: related parties</i>		(9,858,533)	(10,439,745)
D. Profit before taxes		737,162,808	824,517,198
E. Income taxes of the year	9	286,758,906	369,741,381
F. Profit for the year		450,403,902	454,775,817

¹ Revenue from Regulated Activities including revenue from the items "Transmission Fee", "Dispatching Fee" and the related "Other operating revenue".

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

€	Notes	2014	2013
Profit for the year		450,403,902	454,775,817
Other comprehensive income for the year which will be subsequently released to the income statement:			
- Cash flow hedges net of tax effect	19	27,306,461	34,890,956
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	19	(7,075,450)	1,944,623
Comprehensive income for the year		470,634,913	491,611,396

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

€	Notes	at 31.12.2014	at 31.12.2013
A. Non-current assets			
1. Property, plant and equipment	10	9,576,992,660	8,972,615,577
<i>of which: related parties</i>		70,912,104	71,884,716
2. Goodwill	11	88,577,142	88,577,142
3. Intangible assets	12	257,556,128	267,474,173
4. Non-current financial assets	13	1,467,156,624	1,708,185,158
<i>of which: related parties</i>		0	500,000,000
5. Other non-current assets	14	2,841,680	2,271,725
Total non-current assets		11,393,124,234	11,039,123,775
B. Current assets			
1. Inventories	15	688,982	729,798
2. Trade receivables	16	1,535,444,643	1,721,152,252
<i>of which: related parties</i>		326,961,868	442,326,653
3. Current financial assets	13	63,430,693	98,874,733
<i>of which: related parties</i>		204,408	2,055,409
4. Cash and cash equivalents	17	1,380,081,564	1,607,966,194
<i>of which: related parties</i>		181,134,889	0
5. Income tax assets	18	20,799,820	6,092,729
6. Other current assets	14	15,964,929	66,980,480
Total current assets		3,016,410,631	3,501,796,186
Total assets		14,409,534,865	14,540,919,961

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

€	Notes	at 31.12.2014	at 31.12.2013
C. Equity			
1. Share capital		442,198,240	442,198,240
2. Other reserves		806,085,916	785,854,906
3. Retained earnings		1,198,738,217	1,145,960,799
4. Interim dividend		(140,699,440)	(140,699,440)
5. Net profit for the year		450,403,902	454,775,817
Total Equity	19	2,756,726,835	2,688,090,322
D. Non-current liabilities			
1. Long-term loans	20	8,078,074,278	8,009,942,333
<i>of which: related parties</i>		<i>500,000,000</i>	<i>500,000,000</i>
2. Employee benefits	21	33,969,125	23,677,046
3. Provisions for risks and charges	22	171,506,082	136,157,289
4. Deferred tax liabilities	23	52,489,776	100,880,850
5. Non-current financial liabilities	20	29,864,885	80,039,595
6. Other non-current liabilities	24	181,129,887	189,752,483
<i>of which: related parties</i>		<i>68,746,114</i>	<i>71,794,376</i>
Total non-current liabilities		8,547,034,033	8,540,449,596
E. Current liabilities			
1. Short-term loans	20	0	269,469,158
<i>of which: related parties</i>		<i>-</i>	<i>269,469,158</i>
2. Current portion of long-term loans	20	762,437,379	697,790,915
3. Trade payables	25	2,004,350,908	2,048,803,102
<i>of which: related parties</i>		<i>526,560,255</i>	<i>595,647,393</i>
4. Tax liabilities	25	872,937	31,473,939
5. Current financial liabilities	20	154,117,082	151,432,450
<i>of which: related parties</i>		<i>965,069</i>	<i>1,105,000</i>
6. Other current liabilities	25	183,995,691	113,410,479
<i>of which: related parties</i>		<i>64,055,919</i>	<i>708,903</i>
Total current liabilities		3,105,773,997	3,312,380,043
Total liabilities and equity		14,409,534,865	14,540,919,961

Statement of changes in equity

31 DECEMBER 2013 - 31 DECEMBER 2014

SHARE CAPITAL AND RESERVES OF TERNA S.P.A.

€ million	Share capital	Legal reserve	Share premium reserve	Cash-flow-hedge reserve	Other reserves	Retained earnings	Interim dividend	Net profit for the year	Equity
Equity at 31 December 2013	442.2	88.4	20.0	(53.3)	730.8	1,145.9	(140.7)	454.8	2,688.1
Net profit for the year								450.4	450.4
Other comprehensive income:									
- Change in fair value of cash flow hedging derivatives net of tax effect				27.3					27.3
- Actuarial gains (losses) on employee benefits net of tax effect					(7.1)				(7.1)
Total other comprehensive income	-	-	-	27.3	(7.1)	-	-	-	20.2
Net comprehensive income	-	-	-	27.3	(7.1)	-	-	450.4	470.6
Transactions with equity owners:									
- Allocation of 2013 profit									
- Dividends							140.7	(402.0)	(261.3)
- Retained earnings						52.8		(52.8)	-
- Interim dividend 2014							(140.7)		(140.7)
Transfer to Terna Plus									
Total transactions with equity owners and other transactions	-	-	-	-	-	52.8	-	(454.8)	(402.0)
Equity at 31 December 2014	442.2	88.4	20.0	(26.0)	723.7	1,198.7	(140.7)	450.4	2,756.7

31 DECEMBER 2012 - 31 DECEMBER 2013

SHARE CAPITAL AND RESERVES OF TERNA S.P.A.

€ million	Share capital	Legal reserve	Share premium reserve	Cash-flow-hedge reserve	Other reserves	Retained earnings	Interim dividend	Net profit for the year	Equity
Equity at 31 December 2012	442.2	88.4	20.0	(88.2)	729.5	1,084.7	(140.7)	463.2	2,599.1
Adjustment of opening balances	-	-	-	-	(0.6)	-	-	-	(0.6)
Equity at 31 December 2012	442.2	88.4	20.0	(88.2)	728.9	1,084.7	(140.7)	463.2	2,598.5
Net profit for the year								454.8	454.8
Other comprehensive income:									
- Change in fair value of cash flow hedging derivatives net of tax effect				34.9					34.9
- Actuarial gains (losses) on employee benefits net of tax effect					1.9				1.9
Total other comprehensive income	-	-	-	34.9	1.9	-	-	-	36.8
Net Comprehensive income	-	-	-	34.9	1.9	-	-	454.8	491.6
Transactions with equity owners:									
- Allocation of 2012 profit									
- Dividends							140.7	(402.0)	(261.3)
- Retained earnings						61.2		(61.2)	-
- Interim dividend 2013							(140.7)		(140.7)
Transfer to Terna Plus									-
Total transactions with equity owners and other transactions	-	-	-	-	-	61.2	-	(463.2)	(402.0)
Equity at 31 December 2013	442.2	88.4	20.0	(53.3)	730.8	1,145.9	(140.7)	454.8	2,688.1

Statement of cash flows*

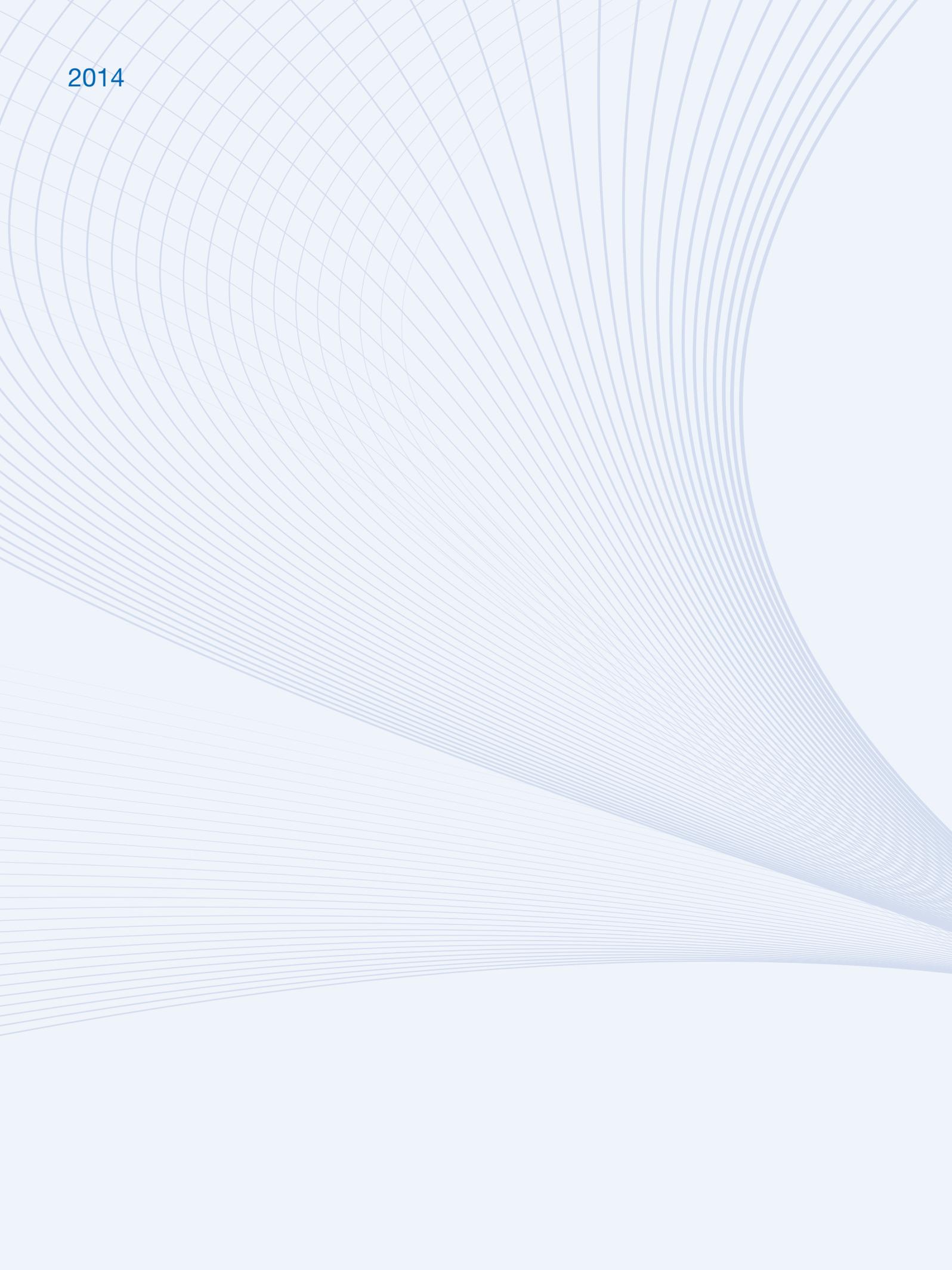
€ million	2014	2013
Net profit for the year	450.4	454.8
Adjustments for:		
Amortisation, depreciation, impairment losses/(reversals of impairment losses) on property, plant and equipment and non-current intangible assets**	408.0	383.4
Provisions (including employee-related provisions) and impairment losses	79.2	23.8
(Gains)/Losses on disposals of property, plant and equipment	(1.8)	(1.7)
Financial (income)/expenses	120.4	90.5
Income taxes	286.8	369.7
Cash flows generated by operating activities, before changes in net working capital	1,343.0	1,320.5
Increase/(decrease) in provisions (including employee-related and tax provisions)	(34.8)	(5.2)
(Increase)/decrease in inventories	0.0	(0.7)
(Increase)/decrease in trade receivables and other current assets	212.4	115.2
Increase/(decrease) in trade payables and other current liabilities	37.4	(216.8)
(Increase)/decrease in other non-current assets	(1.9)	-
Increase/(decrease) in other non-current liabilities	(3.1)	(8.9)
Interest income and other financial income received	175.7	216.8
Dividend received	2.5	1.1
Interest expense and other financial expense paid	(323.5)	(309.7)
Income taxes paid	(371.3)	(416.2)
Cash flows generated by operating activities [a]	1,036.4	696.1
Investments in non-current property, plant and equipment, net of recognised grants	(963.1)	(1,058.6)
Revenue from sale of property, plant and equipment and other changes	3.4	(12.8)
Investments in non-current intangible assets, net of grants received	(47.1)	(47.0)
Capitalised financial expense	34.0	26.3
Intra-group transactions	(1.7)	(36.6)
Asset acquisition	-9.0	-
(Increase)/decrease in equity interests	0.0	(2.2)
Cash flows used in investing activities [b]	(983.5)	(1,130.9)
Changes in reserves	-	-
Dividends paid	(402.0)	(402.0)
Change in medium/long-term financial payables (including short-term portions)***	390.6	(338.9)
Change in short-term financial investments	-	19.8
Cash flows generated by financing activities [c]	(11.4)	(721.1)
Increase/(decrease) in cash and cash equivalents [a+b+c]	41.5	(1,155.9)
Opening cash and cash equivalents	1,338.5	2,494.4
Closing cash and cash equivalents	1,380.0	1,338.5

(*) For comments on the Statement of Cash Flows, please see the section "Notes to the Statement of Cash Flows" in the notes to the financial statements

(**) Net of set-up grants taken to income statement for the year

(***) Net of FVH derivatives and impacts from fair value adjustment

2014



Notes to the Separate Financial Statements



A. Accounting policies and measurement criteria

Introduction

Terna S.p.A., which operates in the electrical energy transmission and dispatching sector, is a joint-stock company with headquarters at Viale Egidio Galbani 70, Rome, Italy.

These Separate Financial Statements were authorised for publication by the Directors on 26 March 2015.

The Separate 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 Separate Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), endorsed by the European Commission ("IFRS-EU") at that date.

This document has also been prepared taking into account the provisions of Legislative Decree No. 38 of 28 February 2005, the Italian Civil Code and Consob Resolutions nos. 15519 ("*Provisions governing financial statements in implementation of Art. 9, paragraph 3, of Legislative Decree no. 38/2005*") and 15520 ("*Amendments to the implementing rules for Legislative Decree no. 58/1998*"), both of 27 July 2006, as well as Consob Communication no. DEM/6064293 of 28 July 2006 ("*Disclosure requirements for listed issuers and issuers of financial instruments that are widely held among the public pursuant to Art. 116 of the Consolidated Law on Finance*").

The separate financial statements have been prepared on a historical cost basis, modified where necessary for certain financial instruments, as well as on a going concern basis. The Company, in fact, has determined that, despite the challenging economic and financial environment, it does not face material uncertainties (as defined in paragraph 25 of IAS 1R) that might cast doubt on its ability to continue as a going concern.

Basis of presentation

The separate financial statements consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity and the Notes to the Financial Statements.

In the Statement of Financial Position, assets and liabilities are classified on a "current/non-current" basis, with separate reporting of assets and liabilities held for sale. Current assets, which include cash and cash equivalents, are those held for realisation, sale or consumption in the Company's normal operating cycle. Current liabilities are those expected to be settled in the Company's normal operating cycle or within one year from the reporting date.

The Income Statement is classified on the basis of the nature of costs. The income statement is presented as two statements, the first of which (Income Statement) presents the components of profit or loss for the year; while the second (Statement of Comprehensive Income) starts with the result for the year and then presents the revenue and expense items (including reclassification adjustments) that are recognised in equity rather than profit or loss for the year.

The Statement of Cash Flows has been prepared using the indirect method.

The Separate Financial Statements are accompanied by the Report on Operations of the company and the Group, which as from the 2008 financial year has been prepared as a single document, exercising the option granted under Italian Legislative Decree no. 32 of 2 February 2007, which amended Art. 40 (Directors' Report on Operations) of Italian Legislative Decree no. 127 of 9 April 1991.

The Separate Financial Statements have been prepared in euro, while the figures in the notes are given in millions of euro, unless otherwise specified.

The Separate Financial Statements have been prepared using the historical cost method, with the exception of items that are recognised at fair value in accordance with the IFRSs-EU, as indicated in the accounting policies for each item. We must specify that some balances of the financial statements at 31 December 2013, provided for comparison, have been restated, without, however, altering the equity figures at 31 December 2013 and those of the Income Statement for 2013. In particular, the recognition of items related to transmission service quality were revised, as a result of the improved interpretation of the service contract between Terna S.p.A. and Terna Rete Italia S.p.A.

Use of estimates

Preparation of the Statement of Financial Position and the Income Statement in accordance with the IFRSs-EU requires the use of estimates and assumptions that affect the carrying amounts of assets and liabilities and related disclosures, in addition to contingent assets and liabilities at the reporting date. The estimates and associated assumptions are based on previous experience and various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other objective sources. Actual results may, therefore, differ from these estimates. The estimates and underlying assumptions are reviewed periodically and the effects of any changes are recognised in the Income Statement for the period, if they relate solely to that period. In the case that the revision affects both current and future years, the change is recorded in the year in which the estimate is reviewed as well as in the relative future years.

The critical areas for key estimates and assumptions used by management in applying the IFRSs endorsed by the European Commission that could have significant effects on the Separate Financial Statements or that could give rise to risks that would entail significant adjustments to the carrying amount of assets and liabilities in subsequent years are summarised below.

Current taxes and adjustment of deferred tax assets and liabilities

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 supplement 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% supplement; 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 supplement).

For the Company adjustment of deferred tax liabilities entailed a release with a positive effect on the Income Statement of approximately € 20 million and an impact on other comprehensive income of € -2.9 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 Company; the estimate of provisions to be set aside for town planning and environmental requalification projects, the so-called "offsets" aimed at offsetting the environmental impact of the development of electrical lines, is based on an analysis of the agreements signed with local entities involved and the progress of activities on the development of the new power lines. Where the time value of money is significant, provisions are discounted, using a rate that company management believes to be appropriate (a pre-tax rate is used, so as to reflect current market values of money and the specific risks connected with the liability). After initial recognition, the value of the risk provision is updated to reflect the passing of time and any changes in the estimate following alterations to the amounts envisaged, the timing and the discount rates used. Any increase in provisions associated with the passage of time is recognised in the Income Statement under "Financial expense".

Impairment losses

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

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

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

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

Allowance for doubtful accounts

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

Investments in subsidiaries and associates

Investments in subsidiaries are those in entities over which Terna has the power to directly or indirectly govern financial and operating policies so as to obtain benefits from their activities. Investments in associates are those in entities over which Terna has significant influence.

In assessing whether or not the Company has control or significant influence, potential voting rights that are presently exercisable or convertible are considered.

Investments in subsidiaries and associates are measured at cost, reduced to reflect impairment losses. If the reasons for the impairment losses no longer exist, the carrying amount of the investment is reinstated within the limits of the impairment losses, and the reversal is taken to the Income Statement.

In the event that an investee's losses attributable to the shareholders of the Parent Company exceed that investments' carrying amount, any excess is recognised in a specific provision, where the Parent Company is required to meet the legal or construction obligations of the investee or, in any case, to cover its losses.

Translation of foreign currency items

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

Property, plant and equipment

Property, plant and equipment are recognised at historical cost, including costs directly attributable to putting the asset in the condition necessary for it to be capable of operating in the manner for which it was acquired. In the event of legal or constructive obligations, cost also includes the present value of the estimated cost of disposal or removal of the asset. The corresponding liability is recognised in provisions for risks and charges. Borrowing costs directly attributable to the acquisition, construction or production of an asset that qualify for capitalisation pursuant to IAS 23 are capitalised as part of the cost of the asset. For more information, please see the section “Financial income and expense” below. Costs incurred after purchase are recognised as an increase in the carrying amount of the asset to which they relate if it is probable that the future benefits of that cost will flow to the Company and if the cost can be reliably measured. All other costs are recognised in the Income Statement when incurred.

Each element of an item of property, plant and equipment of material value, with respect to the total value of the item to which it belongs, is recognised and depreciated separately.

Certain assets that were revalued at 1 January 2005 (transition date) or previously are recognised at the revalued amount, which is considered deemed cost at the date of the revaluation.

Property, plant and equipment are shown net of accumulated depreciation and any impairment losses, which are measured as described below. Depreciation is calculated on a straight-line basis over the estimated useful economic life of the asset, which is reviewed annually, with revisions applied on a prospective basis. The depreciation of assets begins when the assets become available for use.

Liabilities associated with items of property, plant and equipment are taken to a specific provision as a balancing entry to the related asset. The amount is taken to the Income Statement through the depreciation of the asset.

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

DEPRECIATION RATES

Civil and industrial buildings	2.50%
Transmission lines	2.50%
Transformer 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 license to carry out electricity transmission and dispatching activities and other intangible assets. In particular, the parent company Terna S.p.A. obtained the license for electricity transmission and dispatching activities in Italy on 1 November 2005 when it acquired the TSO business unit. As established in the Decree issued by the Ministry of Productive Activities on 20 April 2005, this concession runs for twenty-five years, renewable for another twenty-five years, from the date of effective transfer of the activities, functions, assets and legal arrangements of the concession from GSE (formerly GRTN) to Terna S.p.A.. This intangible asset was initially recognised at cost, which reflected fair value.

Other intangible assets mainly relate to the following:

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

Development costs are capitalised by the Company only if all following conditions are met: costs can be reliably estimated and there are technical possibilities and intent to complete the intangible asset so as for it to be available after use; the asset can be used and it is possible to demonstrate that it will generate probable future economic benefits.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset pursuant to IAS 23R 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 23.

IFRIC 12, instead, is not applicable to the Company’s concession for the part relating to the transmission activities, since neither the concession nor related legislation envisage that the NTG will return to public ownership, either via the payment of an indemnity or otherwise.

Goodwill

Goodwill arising from the acquisition of subsidiaries is allocated to 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 booked within the Income Statement at the time of the acquisition.

Inventories

Inventories are recognised and measured at the lower of purchase cost and net estimated realisable value. Cost is calculated as the weighted average cost, including related charges. 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 profit or loss on a contract 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 measured 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). Differences between the value of completed contracts and payments on account received are recognised under Statement of Financial Position assets or liabilities, considering any impairment losses on the work carried out so as to take into account the risks of customers' refusal to recognise the work performed. Expected contract losses are immediately taken to the Income Statement.

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

Financial instruments

Financial assets

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

Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method, and net of any impairment losses due to sums considered non-recoverable, which are taken to the specific allowance for impairment. Impairment losses are measured on the basis of the present value of estimated future cash flows, discounted at the original effective interest rate.

Receivables with due dates that fall under normal commercial terms are not discounted.

Cash and cash equivalents

Cash and cash equivalents are stated at nominal value. They include monetary items, i.e. amounts that are available on demand or with a very short maturity, 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 recognised in the statement of comprehensive income and subsequently in the Income Statement, in line with the effects of the hedged transaction. The portion of the fair value of the hedging instrument that does not qualify as effective is taken to the Income Statement.

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

Changes in the fair value of derivatives that do not meet hedge accounting requirements in accordance with the IFRS-EU are recognised in profit or loss.

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 currency other than the euro at the year-end exchange rate.

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

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

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

Employee benefits

The liability in respect of employee benefits payable upon or after termination of employment relates to defined benefit plans (termination benefits, AMP⁸⁴, ILN⁸⁵, 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, accruals 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 provision due to the passage of time is recognised in the Income Statement as interest 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 profit or loss 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 happens, except for those costs expected for dismantling, removal and reclamation, which come as a result of changes in the timing and use of 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 profit or loss through depreciation.

(84) Additional Months' Pay.

(85) 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 profit or loss over the depreciation period of the related assets. Grants for operating expenses are expensed in full when the recognition requirements are satisfied.

Revenue

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

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

Financial income and expense

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

Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings. Where funds are 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.

Income taxes

Current income taxes are recognised as "Tax liabilities", net of advances paid, or "Tax assets" where the net balance of the captions 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 Company. Among the new amendments that concern cases that potentially could affect Terna S.p.A., we can note:

New accounting standards on consolidation

On 11 December 2012 the European Commission endorsed the following 5 standards (IFRS 10, IFRS 11, IFRS 12, IAS 27 Amended, and IAS 28 Amended), which did not have significant impacts on the 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 first derive from a non-structured agreement through a separate vehicle by the parties, which determines rights on the assets and obligations from liabilities. For accounting purposes, the controlling share of assets, liabilities and corresponding costs and revenue are 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 on 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.

Amendment to IAS 27 – Separate Financial Statements

The amendment to IAS 27 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.

Amendment to IAS 28 – Investments in Associates and Joint Ventures

The amendment to IAS 28 (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 financial statements at 31 December 2014.

Amendment to IAS 39 – Novation of Derivates 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 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 Company’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.

Improvement to IFRSs (2011-2013 Cycle)

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

International financial reporting standards not yet endorsed

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

IFRS 15 – Revenue from Contract 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 company to manage financial assets with reference to the collection of cash flows and on the characteristics of the contractual cash flows of the said financial assets. As regards impairment, the model provided for in IAS 39 based on the criterion of incurred loss, which postponed the recognition of losses on receivables to the moment of occurrence of the trigger event, was superseded, as it was considered a weak point. The new IFRS 9 provides for a model characterised by a prospective view, which requires the immediate recognition of losses on receivables expected over the life of the financial instrument, as a trigger event no longer needs to occur for recognition of losses on receivables. The new standard completed, in addition, the stage of the hedge accounting project, except for the rules on macro hedge accounting which will be published later and provides, among the other changes, substantial revision of hedge accounting so as to better reflect risk management activities in the financial statements.

Amendment to IAS 19 – Defined Benefit Plan: 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.

Amendment to IFRS 11 – Accounting for Acquisition of Interests in a Joint Operation

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.

Amendment 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.

Amendment 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.

Amendment 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.

Amendment 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) e IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors).

B. Notes to the income statement

Revenue

1. Revenue from sales and services - € 1,710.0 million

The table below details “Revenue from sales and services” for 2014 and 2013:

€ million	2014	2013	Change
CTR grid transmission fees	1,464.0	1,455.9	8.1
Adjustments for prior year grid transmission fees	4.6	11.9	(7.3)
Quality of service	33.9	24.6	9.3
Other energy revenue	147.7	145.2	2.5
Other revenue from sales and services	59.8	50.6	9.2
Total	1,710.0	1,688.1	21.9

Grid transmission fees and related adjustment

The item, of € 1,468.6 million, consists of the revenue of the “core business” referred to the remuneration due to the Company for use of the National Transmission Grid.

Net of the change in contingencies (€ -7.3 million), mainly regarding the higher negative adjustments recognised in 2013 for revision of the grid perimeters, the increase (€ +8.1 million) in the grid transmission fee is mainly attributable to the effects of updating the remuneration for providing the transmission services and to additional transmission fees to correct a material error in the calculation of the 2014 fee come as laid down by the Italian Regulatory Authority for Electricity Gas and Water (AEEGSI) in Resolution 653/2014 (€ 5.4 million).

Quality of service

The higher bonuses for service quality recognised in the year (€ +9.3 million), were due to the net effects of the ENSR 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 referred to remuneration of dispatching activities.

Pass-through revenue/costs

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

It also includes the remuneration paid by Terna to the other owners of the grid.

The components of these transactions are detailed below:

€ million	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 (RTC), Res. No. 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 GRTN share CIP/6	195.8	207.2	(11.4)
Total revenue from outside the Power Exchange	2,027.1	1,850.9	176.2
Total pass-through energy revenue	6,062.3	5,997.2	65.1
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 - (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, GRTN and other	195.8	207.2	(11.4)
Total services and fees	2,027.1	1,850.9	176.2
Total pass-through energy costs	6,062.3	5,997.2	65.1

Other revenue from sales and services

The item "Other revenue from sales and services" amounts to € 59.8 million and for the most part refers to revenue from:

- administrative services to the subsidiaries (€ 35.8 million, of which € 34.2 million for services rendered by Terna Rete Italia S.p.A.);
- diversified specialised activities in the field of High and Extra-High Voltage which the company provides to third-party customers (of € 14.8 million of which € 3.8 million referred to services for SACOI EDF-Electricité de France);
- line design for interconnection with abroad (€ 5.6 million).

The difference in the item (€ +9.2 million) is mainly due to higher revenue from the work of designing interconnections with other countries (€ +5.6 million), to higher revenue from other diversified business (€ 5.2 million), partially offset by lower revenue from the Electricity Equalisation Fund for the additional employee energy discount (€ -2.0 million).

2. Other revenue and income - € 78.1 million

“Other revenue and income” for the years 2014 and 2013 are analysed in the following table:

€ million	2014	2013	Change
Rental income	22.1	22.5	(0.4)
Business unit rent	25.4	24.3	1.1
Sundry grants	16.8	11.0	5.8
Contingent assets	7.8	3.5	4.3
Gains on the disposal of plant components	2.2	2.2	0.0
Insurance settlements for losses	2.1	0.6	1.5
Sales to third parties	0.8	1.5	(0.7)
Other revenue	0.9	2.2	(1.3)
Total	78.1	67.8	10.3

Under the item “Other revenue and income”, the significant items refer to revenue from the subsidiary Terna Rete Italia S.p.A. deriving from the business unit rental accruing to the year (€ 25.4 million), rental income (€ 22.1 million) relating to housing the Wind Group’s optical fibre on the company-owned network (approximately € 17.3 million) and for making available areas that can be equipped in favour of the subsidiaries Terna Rete Italia S.p.A., Terna Plus S.r.l. and Terna Storage S.r.l. in order to position employee workstations (€ 2.6 million), to sundry grants (€ 16.8 million), contingent assets (€ 7.9 million), capital gains on disposal of plants (€ 2.2 million), insurance settlements for losses (€ 2.0 million) and use by Enel Distribuzione of infrastructures for the purpose of power line communication belonging to the Company (€ 0.7 million).

The increase in the item of € 10.3 million is mainly due to higher revenue referred to:

- higher grants for making changes to the NTG (€ +5.8 million), with particular reference to activities related to Expo 2015;
- higher contingent assets of € 4.4 million (of which € +6.0 million recognised in the year following the settlement in our favour of litigation with another market operator).

Operating expenses

3. Raw materials and consumables - € 5.7 million

The item, of € 5.7 million, shows the value of purchases of sundry materials and supplies, mostly related to fuel for managing the vehicle fleet, as well as costs of materials used in investments in the Company’s dispatching infrastructures⁸⁶ (€ 1.4 million).

4. Services – € 375.2 million

The table below details services for 2014 and 2013:

€ million	2014	2013	Change
Intercompany technical and administrative services	313.1	291.2	21.9
Tenders on plants	3.2	2.7	0.5
Maintenance and sundry services	27.9	24.0	3.9
Remote transmission and telephone	8.6	9.5	(0.9)
IT services	7.8	4.2	3.6
Insurance	5.7	6.9	(1.2)
Leases and rentals	8.9	8.8	0.1
Total	375.2	347.3	27.9

(86) Recognised pursuant to IFRIC 12.

The main component “intercompany technical and administrative services” is costs accruing in executing specific contracts stipulated with the subsidiary Terna Rete Italia S.p.A. (€ 312,3 million), mainly relating to technical maintenance and operating services on owned plants (€ 270.2 million), investments in developing dispatching infrastructures - pursuant to IFRIC 12 (€ 20.4 million), the performance premium related to transmission service quality paid to Terna Rete Italia S.p.A. as a summary economic valuation of the annual service provided by the subsidiary in performing the activities provided for in the service contracts in being (€ 10.0 million), activities and services carried out on third-party plants (€ 5.8 million), and by way of remuneration for investment activities for developing plants (€ 4.0 million).

The item also includes costs paid to third parties for maintenance operations, professional services and general services (€ 27.9 million), contracts and services for routine maintenance operations and maintaining the efficiency of systems (€ 3.2 million), remote transmission and telephones (€ 8.6 million), IT services (€ 7,8 million), leases and rentals (€ 8.9 million) and insurance (€ 5.7 million). It is specified that the costs relating to remuneration of the Board of Statutory Auditors for the period amounted to € 0.2 million.

Net of the costs recognised applying IFRIC 12, the increase in the item was € 28.3 million, mainly due to the higher amounts paid to the subsidiary Terna Rete Italia S.p.A. (€ +27.7 million) mainly for:

- the performance bonus connected to transmission service quality paid to Terna Rete Italia S.p.A. as a synthetic economic recognition of the annual performance of the subsidiary in executing the activities envisaged in the existing service contract; in particular Terna S.p.A. paid Terna Rete Italia S.p.A. a bonus of €10 million⁸⁷, in contrast to the penalty of € 10 million recognised in 2013;
- more activities carried out in the year by the subsidiary Terna Rete Italia S.p.A. on plants owned by the Company and by third parties on behalf of Terna (€ +7.3 million).

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

€ million	2014	2013	Change
IT services	3.5	1	2.5
Tenders on plants	1.5	1.6	(0.1)
Maintenance and sundry services	3.3	0.4	2.9
Remote transmission	0	0.4	(0.4)
Costs for services from investments in dispatching infrastructures pursuant to IFRIC 12	8.3	3.4	4.9
Costs for services pursuant to IFRIC 12 - Services from Terna Rete Italia S.p.A.	20.4	25.7	(5.3)
Total costs for services from investments in dispatching infrastructures pursuant to IFRIC 12	28.7	29.1	(0.4)

5. Personnel expenses - € 87.9 million

Personnel expenses break down as follows:

€ million	2014	2013	Change
Wages, salaries and other short-term employee benefits	44.4	38.5	5.9
Directors' fees	1.7	2.0	(0.3)
Employee benefits, electricity discount and other post-employment benefits	2.6	2.5	0.1
Early retirement incentives	41.0	6.5	34.5
Personnel expenses, gross	89.7	49.5	40.2
Personnel expenses, capitalised	(1.8)	(2.4)	0.6
Total	87.9	47.1	40.8

(87) We can note in this regard that on the basis of Art. 9.3 of the services contract in being with the subsidiary, Terna S.p.A. undertakes to pay annually to Terna Rete Italia S.p.A. a premium or a penalty of an amount corresponding to the net total value of the premiums/penalties linked to the electrical service quality mechanisms recognised by the same for a maximum total value of € 10 million for each year of reference.

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

The increase in personnel expenses of € 40.8 million is essentially attributable to the provision of € 36.6 million for the redundancy incentive associated with the corporate reorganisation plan launched by the Company during the year and to the increases envisaged for 2014 by the National Collective Employment Contract.

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

	Average number		Final number	
	2014	2013	31.12.2014	31.12.2013
Senior Executives	27	25	25	26
Junior management	144	134	145	136
White-collar workers	211	192	214	210
Total	382	351	384	372

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

6. Amortisation, depreciation and impairment – € 426.7 million

The item relates to allocations during the year calculated on the basis of amortisation and depreciation rates that reflect the useful lives of the Company's plant, property and equipment and intangible assets (a total of € 424.8 million), and the writedowns of trade receivables, which are considered unlikely to be collected (€ 1.9 million).

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

€ million	2014	2013	Change
Amortisation of intangible assets	57.3	54.5	2.8
- of which: infrastructure rights	36.4	33.1	3.3
Depreciation of property, plant and equipment	367.5	339.9	27.6
Impairment of trade receivables	1.9	5.8	(3.9)
Total	426.7	400.2	26.5

The increase in the item of € 26.5 million reflects, in particular, growth in depreciation and amortisation as a result essentially of new 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), the change reflects the decrease in impairment of trade receivables (€ -3.9 million), considered unlikely to be to be collected.

7. Other operating expenses – € 34.2 million

Other operating expenses break down as follows:

€ million	2014	2013	Change
Service quality expenses	(2.2)	24.1	(26.3)
Indirect and local taxes and duties	18.3	8.4	9.9
Contingent liabilities	10.0	1.7	8.3
Allocations made to Provisions for disputes	1.8	0.5	1.3
Other operating expenses	6.3	8.3	(2.0)
Total	34.2	43.0	(8.8)

The most significant components of the item are costs for indirect and local taxes and duties (€ 18.3 million, of which € 15.2 million for the local property tax and € 2.4 million for TOSAP and TARES) and contingent liabilities (€ 10.0 million). The decrease in this item of € -8.8 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 (€ +9.9 million) mainly due to 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 (€ +8.3 million) attributable mainly to a contractual supply agreement of 2012.

Financial income and expense

8. Net financial income/(expense) - € -121.2 million

This caption is analysed below:

€ million	2014	2013	Change
Financial income			
Dividends from subsidiaries and associates	2.6	1.1	1.5
Financial income from subsidiaries	13.7	14.5	(0.8)
Interest income and other financial income	21.4	63.2	(41.8)
Debt adjustment (bonds) and related hedges	2	0.4	1.6
Exchange gains	0	2	(2)
Total income	39.7	81.2	(41.5)
Financial expense			
Financial expense from the Parent	(6.4)	(6.3)	(0.1)
Financial expense to subsidiaries	(3.5)	(4.2)	0.7
Other financial expense	(0.2)	0	(0.2)
Interest expense on medium/long-term loans and related hedges	(183.3)	(184.5)	1.2
Discounting of post-employment benefits and other personnel-related provisions	(0.7)	(1)	0.3
Exchange losses	(0.1)	0	(0.1)
Capitalised financial expense	34	26.3	7.7
Impairment of equity investments	(0.7)	0	(0.7)
Total expense	(160.9)	(169.7)	8.8
Total	(121.2)	(88.5)	(32.7)

Net financial expense amounted to € 121.2 million for the year, comprising € 160.9 million in financial expense and € 39.7 million in financial income. The increase of € 32.7 million with respect to the previous financial year is the net result of the following main factors:

- dividends distributed in 2014 by the associate CGES A.D. (€ +1.5 million);
- lower financial income from subsidiaries (€ -0.8 million) mainly attributable to full repayment of the loan granted to the subsidiary Terna Rete Italia S.r.l., on 17 November 2014;
- lower financial income (€ -41.8 million) which was primarily attributable to the combined 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);

- greater exchange gains for 2013, relative to adjustment to the exchange rate of the provision for probable expenses relating to tax obligations deriving from the sale of the equity interest held in the Brazilian subsidiaries (€ -2.1 million);
- the positive net economic effects deriving from the fair value adjustment of bonds and the related hedges (€ +1.6 million);
- lower financial expense with regard to subsidiaries (€ 0.7 million) in relation to interest accrued on correspondent accounts with the same;
- lower financial expense deriving from medium and long-term debt and the related hedges (€ +1.2 million) due to a decrease in the inflation rate during 2014;
- lower financial expense deriving from the discounting of employee benefits and provisions for risks and charges (€ +0.3 million);
- higher capitalised financial expense (€ -7.7 million) due to the higher cost of net debt in 2014 compared with that recognised in 2013.

9. Income taxes - € 286.8 million

Income taxes for the year amounted to € 286.8 million, down by € 82.9 million compared to the previous year. The following table shows changes in taxes with respect to 2013:

€ million	2014	2013	Change
Income taxes of the year			
Current taxes:			
- IRES	310.1	354.2	(44.1)
- IRAP	52.1	60.8	(8.7)
Total current taxes	362.2	415.0	(52.8)
New temporary differences:			
- deferred tax assets	(16.6)	(5.7)	(10.9)
- other changes	(8.6)	-	(8.6)
Reversal of temporary differences:			
- deferred tax assets	17.5	12.0	5.5
- deferred tax liabilities	(41.8)	(51.3)	9.5
Tax rate adjustment	(20.9)	1.4	(22.3)
Total change in deferred tax assets and liabilities	(70.4)	(43.6)	(26.8)
Adjustment of prior-year taxes	(5.0)	(4.1)	(0.9)
Other one-off changes	0.0	2.4	(2.4)
Total	286.8	369.7	(82.9)

Current taxes

Current taxes showed a decrease of € 52,8 million compared with the balance of the previous year essentially due to the lower pre-tax profit and to the positive effect on the taxes accruing deriving from the reduction in the IRES surcharge, provided for by Law Decree no. 138 of 13.08.2011 (the so-called Robin Hood Tax), which 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 at 31 December 2014 to the IRES rate of 27.5% (with a positive impact of approximately € 20.9 million) consequent to the ruling of unconstitutionality of the aforementioned "Robin Hood Tax"⁸⁸. The higher deferred tax assets associated mainly with the provision for the redundancy incentives associated with the corporate reorganisation plan launched by the company during the year and to the service quality mechanisms were partially offset by the effects of the reduction in the IRES surcharge.

Adjustment of prior-year taxes

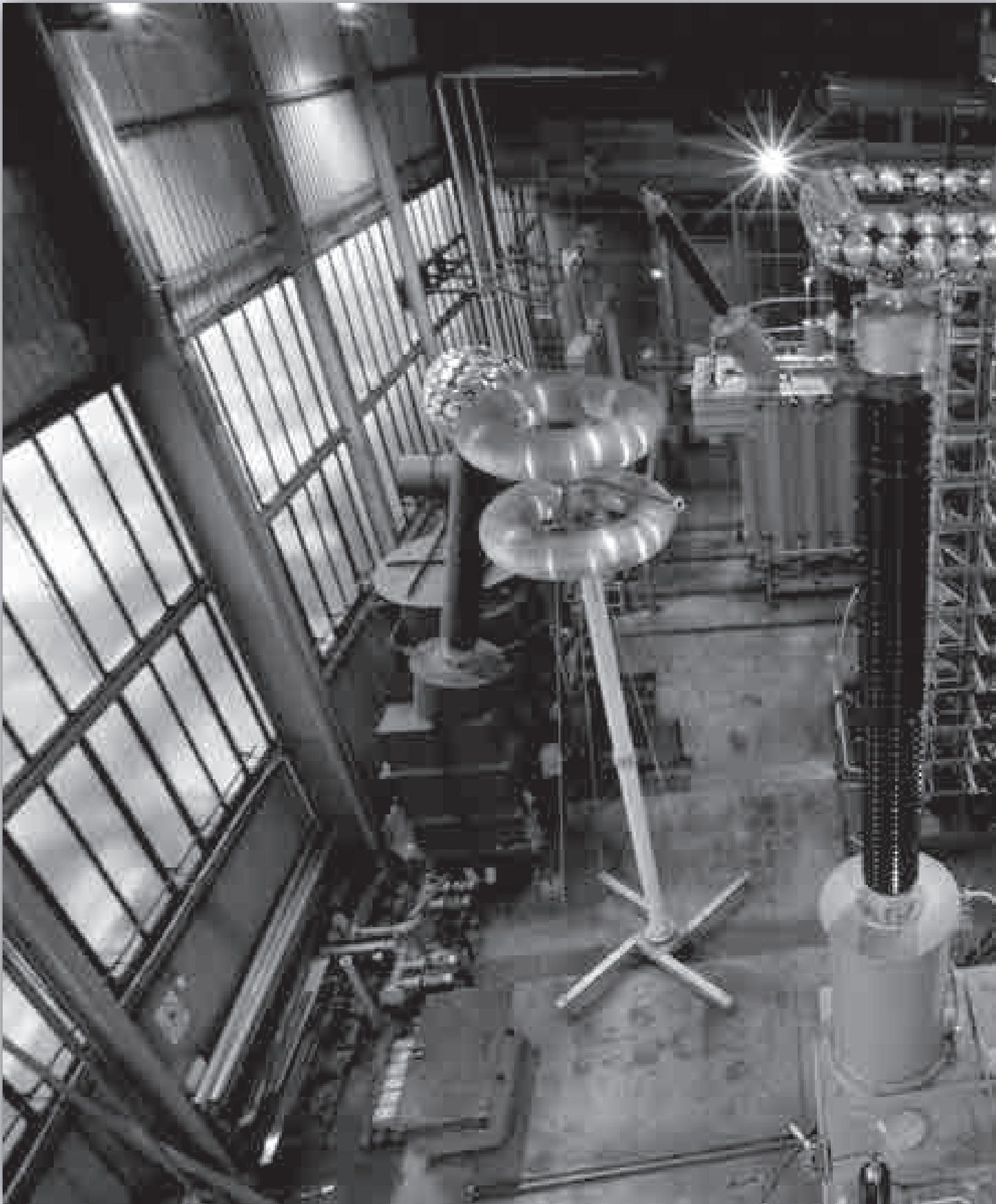
Adjustment of prior-year taxes, of € -5 million, are related to the higher current taxes paid in previous years.

The effective proportion of income taxes (€ 286.8 million) to the profit before taxes was 38.9% compared with 44.8% 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 theoretical tax rate with the effective tax rate for the year:

€ million	Taxable income	Tax	% change
Profit before taxes	737.2		
IRES - theoretical tax charge (34%)		250.6	
IRAP - theoretical tax charge (5.1% on operating profit of € 858.4 million)		43.8	
Total		294.4	
Theoretical tax rate			39.9%
<i>Permanent IRES differences</i>			
Employee benefits		1.2	0.2%
Contingencies		3.9	0.5%
IMU tax (including estimate pursuant to Circular 6/2012 of the Land Registry)		4.1	0.6%
Other increases/decreases		3.2	0.4%
IRAP - Art. 6 Law 28/01/2009		(1.8)	(0.2%)
IRAP on personnel expenses pursuant to Italian Law Decree no. 201/2011		(0.9)	(0.1%)
ACE Subsidy for economic growth		(2.3)	(0.3%)
Dividends		(0.8)	(0.1%)
<i>Permanent IRAP differences</i>			
Personnel expense		4.7	0.6%
Capitalised financial expense		1.7	0.2%
Other increases/decreases		1.3	0.2%
Actual tax rate net of adjustments to income taxes of previous years			41.9%
Tax rate adjustment		(20.9)	(2.8%)
Prior year taxes		(5.0)	(0.7%)
Other one-off changes		4.0	0.5%
Total taxes for the year		286.8	
Actual tax rate			38.9%

(88) On 11 February 2015 the Constitutional Court published Ruling 10/2015, with which it declared unconstitutional 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.





C. Operating segments

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

D. Notes to the statement of financial position

Assets

10. Property, plant and equipment - € 9,577.0 million

Property, plant and equipment amounted to € 9,577.0 million (€ 8,972.6 million at 31 December 2013). The amount and changes for each category are reported in the following table:

	Land	Buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Total
€ million							
Cost at 01.01.2014	100.3	1,307.0	11,169.0	78.9	116.4	1,807.2	14,578.8
Investments	-	0.1	5.5	2.2	1.5	965.3	974.6
Entry into use	3.9	107.7	896.6	-	10.9	(1,019.1)	-
Intra-group purchases	-	0.1	1.6	-	-	-	1.7
Contribution of newly acquired companies	0.1	0.9	8.0	-	-	-	9.0
Disposals and impairment	-	(0.2)	(55.8)	-	(0.7)	(0.5)	(57.2)
Other changes	-	-	(8.9)	-	-	(2.7)	(11.6)
Reclassifications	-	(0.4)	(0.4)	-	0.5	8.2	7.9
Cost at 31.12.2014	104.3	1,415.2	12,015.6	81.1	128.5	1,758.5	15,503.2
Accumulated depreciation and impairment at 01.01.2014	-	(367.8)	(5,107.0)	(52.8)	(78.6)	-	(5,606.2)
Depreciation charge for the year	-	(32.3)	(316.0)	(4.5)	(14.7)	-	(367.5)
Intra-group sales	-	-	-	-	-	-	-
Disposals and impairment	-	0.1	47.0	-	0.4	-	47.5
Accumulated depreciation and impairment at 31.12.2014	-	(400.0)	(5,376.0)	(57.3)	(92.9)	-	(5,926.2)
Carrying amount							
At 31 December 2014	104.3	1,015.2	6,639.6	23.8	35.6	1,758.5	9,577.0
At 31 December 2013	100.3	939.2	6,062.0	26.1	37.8	1,807.2	8,972.6

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

The item "Property, plant and equipment" shows an increase on the previous financial year amounting to € 604.4 million, as a result of ordinary transactions made during the year, mainly relating to:

- investments for the financial year (+€ 974.6 million, of which € 26.3 million for capitalised borrowing costs);
- depreciation accruing (€ -367.5 million), disposals and other changes (€ -21.3 million);
- to acquisition from Sorgenia Power S.p.A. of a power line, an electrical station and the land on which it stands – included within the perimeter of the NTG with a Ministerial Decree of 8 August 2014 – for an amount of € 9 million;
- the acquisition by the subsidiary Terna Plus S.r.l. of the user cabin located in the Municipality of Alfonsine (RA) for € 1.7 million.

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

€ million

Investments	
- Transmission lines	484.4
- Transformation stations	329.1
- Storage systems	93.3
- Other	56.5
Investments in property, plant and equipment – Regulated Activities	963.3
Investments in property, plant and equipment - Non-Regulated Activities	11.3
Total investments in property, plant and equipment	974.6
Intra-group purchases	1.7
Acquisitions from third parties	9.0
Depreciation	(367.5)
Disposals, reclassifications and other changes	(13.4)
Total	604.4

With reference to investments in the year in **regulated activities** (€ 963.3 million) we can note in particular:

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 technologies⁸⁹, 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 8.6MW, 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 technology⁹⁰. 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** (a total of € 11.3 million) involved essentially variants for third parties.

(89) 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.

(90) 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
<i>of which transport lines</i>	270.9
<i>of which transformer stations</i>	100.7
Italy-Montenegro Interconnection	109.2
<i>of which transport lines</i>	98.0
<i>of which transformer stations</i>	11.2
380 kV Sorgente - Rizziconi power line	82.9
<i>of which transport lines</i>	57.6
<i>of which transformer stations</i>	25.3
Codrongianos ES Synchronous Condenser	40.1
<i>of which transport lines</i>	0.0
<i>of which transformer stations</i>	40.1
380 kV Udine West-Redipuglia power line	33.6
<i>of which transport lines</i>	20.3
<i>of which transformer stations</i>	13.3
Capri-Continent interconnection	32.4
<i>of which transport lines</i>	30.7
<i>of which transformer stations</i>	1.7
380 kV Foggia-Villanova power line	30.0
<i>of which transport lines</i>	22.9
<i>of which transformer stations</i>	7.1
Restructuring of the 220 kV City of Naples grid	22.1
<i>of which transport lines</i>	21.1
<i>of which transformer stations</i>	1.0
Restructuring of the 220 kV City of Turin grid	21.3
<i>of which transport lines</i>	20.3
<i>of which transformer stations</i>	1.0

11. Goodwill - € 88.6 million

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

Impairment testing

Cash Generating Unit – Terna

The recoverable amount of the goodwill arising from the acquisition of RTL (merged into Terna in 2008), recognised for a value of € 88.6 million, was estimated determining the fair value of the Cash Generating Unit (CGU) Terna S.p.A.. The fair value of the CGU, calculated taking into consideration the average Stock Exchange quotation of the Terna S.p.A. stock in 2014, was found to be higher than the carrying amount, for a value of € 2,045 million.

12. Intangible assets - € 257.6 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	25.1	21.7	267.5
Investments	-	-	0.3	46.8	47.1
Entry into use	24.4	-	16.2	(40.6)	0.0
Amortisation	(36.4)	(5.6)	(15.3)	-	(57.3)
Reclassifications	-	-	0.3	-	0.3
Balance at 31.12.2014	119.0	84.1	26.6	27.9	257.6
Cost	376.1	135.4	167.0	27.9	706.4
Accumulated amortisation	(257.1)	(51.3)	(140.4)	-	(448.8)
Balance at 31.12.2014	119.0	84.1	26.6	27.9	257.6

Intangible fixed assets amount to € 257.6 million and in particular, include:

- 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 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 (€ 16.5 million) are made essentially through internal development. The difference with respect to the previous financial year (€ -9.9 million) is due to the combined effect of routine movements during the period, regarding amortisation accruing (€ -57.3 million, of which € 36.4 million relating to dispatching infrastructures) and investments (€ 47.1 million, of which € 30.6 million for infrastructure rights) mainly in application software.

Among the investments for the year we can note in particular those related to the development and evolution of application software, the Dispatching Remote Management System (€ 12.2 million), for the Power Exchange (€ 7.7 million) and for protection of the Electrical System (€ 1.2 million), as well as software applications and licenses (€ 14.9 million).

13. Financial assets

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

€ million	Carrying amount		Change
	31.12.2014	31.12.2013	
Investments in subsidiaries	628.0	628.0	-
Investments in associates	52.1	52.1	-
Other equity investments	0.3	1.0	(0.7)
Loan to Terna Rete Italia S.r.l.	-	500.0	(500.0)
FVH derivatives	784.8	527.1	257.7
Other assets	2.0	-	2.0
Non-current financial assets	1,467.2	1,708.2	(241.0)
FVH derivatives	-	18.4	(18.4)
Deferred assets on FVH derivatives contracts	60.4	62.9	(2.5)
Other current financial assets	3.0	17.6	(14.6)
Current financial assets	63.4	98.9	(35.5)
Total	1,530.6	1,807.1	(276.5)

At 31 December 2014 the item “Non-current financial assets”, of € 1,467.2 million, included the value of the equity investments, of fair value hedging derivatives hedging bonds and of commissions paid on the revolving credit facility granted on 11 December 2014.

“Investments in subsidiaries” (€ 628.0 million) refer to investments in subsidiaries held directly by Terna S.p.A., and remained unchanged compared with the figure at 31 December 2013. They are summarised below.

The value of “Investments in associates” (€ 52.1 million), in line with the balance of the previous year, refers to:

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

CESI S.p.A. operates in the construction and management of laboratories and plants for tests, inspections, studies and experimental research relating to the electro-technical field in general and to the technical and scientific developments in that area.

The company CORESO S.A. is the first technical centre owned by various Electricity Transmission System Operators which carries out joint TSO technical coordination activities in order to improve and strengthen security and coordination of the Electrical System in central/western Europe; it prepares daily forecasts and analyses in real time of energy flows in the region, identifying potentially critical areas and promptly notifying the TSOs which are affected.

CGES is the operator responsible for electricity dispatch and transmission in Montenegro. The financial investment of Terna in CGES, which was made following an industrial cooperation and country system and included as part of inter-governmental understandings reached by Italy and Montenegro, sanctions the institutional commitment to the development of a new submarine electrical interconnection and the implementation of the partnership between national transmission operators.

“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 following table summarises Terna S.p.A.'s direct investments in subsidiaries and associates at 31 December 2014, with data related to the last approved financial statements:

Company	Registered office	Business	Currency	Share capital	% held	Book value
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.	€	120,000	100%	3,120,000
Terna Rete Italia S.r.l.	Rome	design, construction, management, development, operation and maintenance of HV power lines.	€	243,577,554	100%	557,666,437
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%	36,000,000
Terna Plus S.r.l.	Rome	design, construction, management, development, operation and maintenance of plants, equipment and infrastructures including grids and systems, including diffused energy accumulation, pumping and/or storage.	€	16,050,000	100%	29,143,709
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%	2,030,000
Terna Interconnector S.r.l.*	Rome	design, construction, management, development, operation and maintenance, also on behalf of third parties, of lines and network structures and other related infrastructures, plants and equipment functional to the said activities in the sector of electricity transmission or in analogous, related or connected sectors.	€	10,000	95%*	9,500
ASSOCIATES						
CESI S.p.A.	Milan	experimental electro-technical research.	€	8,550,000	42.698%	17,563,381
CORESIO 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. It prepares daily forecasts and real-time analyses on energy flows in the region, identifying potentially critical areas and promptly informing any affected TSOs.	€	1,000,000	22.485%	281,082
CGES A.D.	Podgorica	electricity dispatch and transmission operator in Montenegro.	€	155,108,283	22.0889%	34,285,811
COMPANY SUBJECT TO JOINT CONTROL						
ELMED Études Sarl**	Tunis	preliminary analysis and consulting for preparing documentation on the Tunisian government's tender for construction and management of the electricity generation site in Tunisia involved in the project for the interconnection of Italy and Tunisia.	Tunisian Dinar	2,700,000	50%	-

(*) 5% held by Terna Rete Italia S.p.A.

(**) The value of the equity interest was reduced to zero in 2010 (€ 0.7 million) as a result of the impairment of Terna's investment in ELMED Études Sarl, consequent to the altered political situation seen in Tunisia, which currently makes its recovery difficult.

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. Also significant during 2014, in addition, were on the one hand the full repayment of the inter-company loan to the subsidiary Terna Rete Italia S.r.l., and on the other the granting of a revolving credit facility for a total amount of € 750 million the commissions of which are shown under non-current financial assets.

The item "Current financial assets" showed a balance of € 63.4 million (€ 98.9 million at 31 December 2013) and recorded a decrease compared to the previous year of € -35.5 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 (€ -14.6 million).

14. Other assets

"Other assets" are analysed below:

€ million	31.12.2014	31.12.2013	Change
Receivables due from others:			
- loans and advances to employees	2.3	1.8	0.5
- deposits with third parties	0.5	0.4	0.1
Other non-current assets	2.8	2.2	0.6
Other tax assets	9.5	58.7	(49.2)
Receivables due from others	6.5	8.2	(1.7)
Other current assets	16.0	66.9	(50.9)

"Other non-current assets" (€ 2.8 million) - which are shown in the table - are in line with the amounts of the previous year and mainly comprise loans and advances paid to employees (€ 2.3 million).

The item "Other current assets" of € 16.0 million, a breakdown of which is given in the table above, shows an decrease of € -50.9 million with respect to the balance at 31 December 2013, mainly due to other tax assets (€ -49.2 million), as a result, in particular, of the VAT payable situation of 2014 compared to the credit situation of the previous year (€ -43.6 million), and of the receivables from the tax office and withholdings on interest income accrued with reference to financial assets (€ -5.9 million).

15. Inventories – € 0.7 million

Inventories under working assets show a balance of € 0.7 million, in line with the balance of the previous year.

16. Trade receivables – € 1,535.4 million

Trade receivables can be broken down as follows:

€ million	31.12.2014	31.12.2013	Change
Energy-related receivables	956.7	991.2	(34.5)
Grid transmission fee receivables	514.1	652.2	(138.1)
Other trade receivables	32.5	46.9	(14.4)
Receivables from subsidiaries	32.1	30.9	1.2
Trade receivables	1,535.4	1,721.2	(185.8)

Trade receivables amounted to € 1,535.4 million and show a decrease (€ -185.8 million) compared with the previous year, attributable mainly to the higher receivables claimed by the Company for transmission fees.

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 € 8.2 million for other items in 2014, as compared with € 23.2 million for energy items and € 7.6 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 Terna S.p.A.. 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, owing essentially to receivable 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 - € 514.1 million

The grid transmission fees receivable, € 514.1 million, reflect the remuneration paid to the Company and to other owners for the use of the National Transmission Grid by distributors of electricity. The said receivable shows a decrease, of € 138.1 million, due essentially to the collection of the receivable for extra grid transmission fee revenue net of the accrued ascertainties (€ 43.8 million) and to the postponed collection in January of the portion of grid transmission fee of a market operator accruing to the last part of 2013 net of recognition of the accrued receivable (€ 94.3 million).

Other trade receivables - € 32.5 million

Other trade receivables mainly regard receivables due from third party customers of the Company for the diversified business; they show a drop of € 14.4 million, compared with the previous year essentially due to the higher collections during the year, owing also to settlement agreements with certain operators in the sector on receivables related to previous years. This item also includes net receivables for contract work in progress (€ 0.3 million), highlighted in the table below, related to works of multi-year duration which the Company has been implementing with third party customers, which show a balance in line with the previous year:

€ million	Payments on account	Contract value	Balance at 31.12.2014	Payments on account	Contract value	Balance at 31.12.2013
Others	(9.5)	9.8	0.3	(12.9)	13.6	0.7

Receivables from subsidiaries - € 32.1 million

The item, of € 32.1 million, shows a balance substantially in line with the figure for the previous year (€ 1.2 million) and relates substantially to the receivable from the subsidiary Terna Rete Italia S.p.A. (€ 31.1 million), with reference mainly to technical activities carried out by the subsidiary on the plants and to the business unit rent (€ 7.6 million).

The amount of the guarantees issued to third parties by Terna S.p.A., at 31 December 2014 comes to € 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..

17. Cash and cash equivalents – € 1,380.0 million

Cash and cash equivalents at 31 December 2014 amounted to € 1,380.0 million of which € 650.0 million liquid funds invested in highly-liquid short-term deposits and € 730.0 million net liquidity in bank current accounts.

18. Income tax assets - € 20.8 million

Income tax assets amounted to € 20.8 million and recorded an increase of € 14.7 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**19. Equity - € 2,756.7 million****Share capital - € 442.2 million**

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

Legal reserve - € 88.4 million

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

Other reserves - € 717.7 million

Other reserves increased by € 20.2 million, due to Other Comprehensive Income, in particular owing to:

- fair value adjustment of the derivative instruments hedging the Company's floating-rate loans - cash-flow hedges (€ 27.3 million, considering the related tax effect of € 17.4 million);
- recognition of the actuarial gains and losses on employee benefits (€ -7.1 million, considering the related tax effect of € 2.7 million).

Retained earnings and losses - € 1,198.7 million

The increase of € 52.8 million of the item "Retained earnings/Losses" regarded the allocation of the residual net profit for 2013, compared to the distribution of the dividend in the same year (a total of € 402.0 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 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.

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

€ million	31.12.2014	Possibility of use	Available portion
Share capital	442.2	-	-
Legal reserve	88.4	B	88.4
Other reserves			
- equity-related	416.1	A, B, C	416.1
- income-related*	301.6	A, B, C	301.6
Retained earnings	1,198.7	A, B, C	1,198.7
Interim dividend	(140.7)	A, B, C	-
Total	2,306.3		2,004.8

Key:

A - for share capital increase
B - to cover losses
C - for distribution to shareholders

(*) Includes the negative reserve that contains the effective portion of the fair value changes of cash flow hedging net of the tax effect, of € 26.0 million.

Of the total available portion, € 507.8 million refers to untaxed income-related reserves.

20. Loans and financial liabilities

The following table details loans and financial liabilities recognised in the separate financial statements of Terna S.p.A. at 31 December 2014:

€ million	Carrying amount		Change
	31.12.2014	31.12.2013	
Bonds	5,983.6	5,723.0	260.6
Bank loans	2,094.4	2,286.9	(192.5)
Long-term loans	8,078.0	8,009.9	68.1
CFH derivatives	29.9	80.0	(50.1)
Non-current financial liabilities	29.9	80.0	(50.1)
Short-term loans	-	269.5	(269.5)
Bonds	-	618.8	(618.8)
Current portion of long-term loans	762.4	79.0	683.4
Short-term loans and current portion of medium/long-term loans	762.4	967.3	(204.9)
Total	8,870.3	9,057.2	(186.9)

Gross debt for the year decreased with respect to the previous year by € 186.9 million to € 8,870.3 million.

The decrease in the value of bonds (€ -358.2 million) is attributable for € 600 million to repayment of the 2014 Bond, 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 payables 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, € 85.8 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 € 491.0 million due essentially for € 570 million to drawing down a new EIB loan, for € 79 million to repayments of maturing portions of existing EIB loans.

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:

	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
€ million											
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%
Total floating rate		2,365.9	2,856.9	762.4	2,094.5	120.5	132.4	132.4	111.2	1,598.0	
Total		8,707.7	8,840.6	762.4	8,078.2	120.5	1,380.2	879.9	803.1	4,894.5	

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.

The total amount of Terna's borrowings at 31 December 2014 is equal to € 8,840.5 million, of which € 4,894.5 million is due after more than five years.

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 4.12% 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:

Type of loan € million	Nominal debt at 31.12.2013	Carrying amount at 31.12.2013	Market value at 31.12.2013	Repayment and capitalisation	Drawdowns	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)	0.0	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)	570.0	0.0	491.0	2,857.0	2,856.9	2,857.0
Total bank loans	2,366.3	2,365.9	2,366.3	(79.0)	570.0	0.0	491.0	2,857.0	2,856.9	2,857.0
Total financial debt	8,181.7	8,707.7	8,750.5	(678.5)	570.0	241.3	132.8	8,072.9	8,840.6	8,989.2

Compared with 31 December 2013, long-term debt shows an overall decrease of € 132.8 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.

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.

Non-current financial liabilities

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)

“Non-current financial liabilities” includes the fair value measurement of cash-flow hedges.

Fair value was measured by discounting the expected cash flows using the market yield curve at the reporting date. The change in the interest rate curve compared with 31 December 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			
- <i>hedging</i>	13.2	12.7	0.5
Bond			
- <i>Inflation Linked</i>	4.6	4.6	-
- <i>Private Placement</i>	7.2	7.2	-
- <i>5-year (2017)</i>	44.9	44.9	-
- <i>10-year (2014)</i>	0.0	4.5	(4.5)
- <i>20-year (2024)</i>	7.0	7.0	-
- <i>10-year (2021)</i>	47.5	47.5	-
- <i>5-year (2018)</i>	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, the Company's net financial position is as follows:

€ million	Carrying amount at 31.12.2014
A. Cash	548.9
B. Short-term deposits	650.0
C. Net intercompany treasury current account position	181.1
D. Cash and cash equivalents (A) + (B) + (C)	1,380.0
E. Current portion of long-term debt	762.4
F. Current financial debt (E)	762.4
G. Net current financial debt (F) - (D)	(617.6)
H. Non-current bank payables	2,094.4
I. Bonds issued	5,983.6
J. Derivative financial instruments in portfolio	(749.3)
K. Other financial liabilities	85.1
L. Net non-current financial debt (H) + (I) + (J) + (K)	7,413.8
M. Net financial debt (L) + (G)	6,796.2

For further details on the breakdown of the items present in the table please see Comments 13 “Financial assets”, 17 “Cash and cash equivalents” and 20 “Loans and financial liabilities” in the present Notes.

For more information on the contractual provisions of outstanding loans at 31 December 2014, please see the Notes to the Consolidated Financial Statements.

21. Employee benefits - € 34.0 million

Terna provides benefits to its employees during their period of employment (loyalty bonus), at the termination of their employment (termination benefits, additional month’s pay and 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 Company when they reach certain seniority levels (25 and 35 years of service).

The benefits granted at the termination of employment are recognised for all employees (termination benefits), 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	Provision	Interest cost	Utilisations and other changes	Actuarial gains/losses	31.12.2014
Benefits payable to employees						
Loyalty bonus and other incentives	0.9	0.1	-	(0.5)	-	0.5
Total	0.9	0.1	-	(0.5)	-	0.5
Benefits payable upon termination of employment						
Termination benefits	3.8	-	0.1	(0.3)	0.6	4.2
IMA	0.4	-	-	-	0.10	0.5
Indemnities for lack of notice and similar	0.4	-	-	-	0.0	0.4
Total	4.6	-	0.1	(0.3)	0.7	5.1
Post-employment benefits						
Energy discount	13.6	-	0.4	0.7	8.0	22.7
ASEM	4.6	0.1	0.2	(0.3)	1.1	5.7
Total	18.2	0.1	0.6	0.4	9.1	28.4
Total	23.7	0.2	0.7	(0.4)	9.8	34.0

The item, of € 34.0 million at 31 December 2014 (€ 23.7 million at 31 December 2013), shows an increase of € 10.3 million compared with the previous period, mainly due to the recognition of actuarial gains/losses (€ 9.8 million, with impact on other Comprehensive Income) and of the discounting expense of the period (€ 0.7 million).

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

€ million	Loyalty bonus and other incentives	Termination benefits	IMA	Indemnities for lack of notice and similar	Energy discount	ASEM	Total
Net impact recognised in profit or loss							
- cost relating to current work performed	0.1		-	-	-	0.1	0.2
- interest income and expense	-	0.1	-	-	0.4	0.2	0.7
Total recognised in income statement	0.1	0.1	-	-	0.4	0.3	0.9

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

€ million	Termination benefits	IMA	Energy discount	ASEM	Total
Actuarial gains/losses					
- based on past experience	0.0	0.0	(1.4)	(0.1)	(1.5)
- due to changes in demographical assumptions	0.0	0.0	0.0	0.0	0.0
- due to changes in other economical assumptions	(0.1)	0.0	4.9	0.1	4.9
- due to changes in discount rate	0.7	0.1	4.5	1.1	6.4
Total oci impacts	0.6	0.1	8.0	1.1	9.8

The statements below, finally, show the main actuarial assumptions used, a sensitivity analysis on the movements in these assumptions and the payment schedule envisaged in the plan. It should be noted that the interest rate used to determine the 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%	1.49%	0.72%	0.29% - 0.72%	1.49%	1.49%
Inflation rate	0.6% - 2.0%	0.6% - 2.0%	n/a	0.6% - 2.0%	0.6% - 2.0%	3.00%
Duration (in years)	11.66	11.70	8.87	0.83 - 6.79	13.31	13.38

€ million	Loyalty bonus and other incentives	Termination benefits	IMA	Indemnities for lack of notice and similar	Energy discount	ASEM	Total
Discount rate +0.25%	0.5	4.4	0.4	0.4	21.9	5.5	33.1
Discount rate -0.25%	0.4	4.2	0.5	0.4	23.5	5.9	34.9
Inflation rate +0.25%	0.5	4.1	n/a	n/a	23.5	n/a	28.1
Inflation rate -0.25%	0.5	4.4	n/a	n/a	21.9	n/a	26.8
Annual rate of increase in healthcare +3%	n/a	n/a	n/a	n/a	n/a	8.9	8.9
Annual rate of increase in healthcare -3%	n/a	n/a	n/a	n/a	n/a	3.9	3.9
Conversion value of KW/h +5%	n/a	n/a	n/a	n/a	23.8	n/a	23.8
Conversion value of KW/h -5%	n/a	n/a	n/a	n/a	21.6	n/a	21.6

€ million	Loyalty bonus and other incentives	Termination benefits	IMA	Indemnities for lack of notice and similar	Energy discount	ASEM	Total
By the end of 2014	0.1	0.3	0.0	0.1	0.9	0.2	1.6
By the end of 2015	0.0	0.1	0.0	0.0	0.9	0.3	1.3
By the end of 2016	0.0	0.3	0.1	0.0	0.9	0.2	1.5
By the end of 2017	0.0	0.2	0.0	0.0	0.9	0.3	1.4
By the end of 2018	0.0	0.2	0.0	0.0	0.8	0.4	1.4

22. Provisions for risks and charges - € 171.5 million

The items and changes of the provisions for risks and charges at 31 December 2014 are set out below:

€ million	Provision for disputes and litigation	Provisions for other risks and charges	Provision for early retirement	Total
Balance at 31.12.2013	15.0	99.1	22.0	136.1
Provision	1.8	38.7	36.6	77.1
Utilisations and other changes	(6.7)	(29.3)	(5.7)	(41.7)
Balance at 31.12.2014	10.1	108.5	52.9	171.5

Provision for disputes and litigation - € 10.1 million

The provision is set aside to cover the liabilities at year-end that may arise from lawsuits and out-of-court disputes relating to Company activities. The amount set aside takes into account the opinions both of internal and external legal counsel and shows a net decrease of € 4.9 million with respect to the previous year, due to utilisations in the period.

Lawsuits for which no potential charge can reasonably be calculated are described under “Off-balance sheet commitments and risks”.

Provisions for other risks and charges - € 108.5 million

The provisions showed a net increase of € 9.4 million with respect to the previous year, ascribable to provisions of € 38.7 million and utilisations of € -29.3 million in the course of the year. More specifically:

- provision of € 10.0 million for local property tax held probable, as a consequence of the confirmation in Italian Law No. 190 of 23/12/2014 (2015 Stability Law) of the provisions of Land Registry Circular 6/2012 related to re-registration of electrical substations;
- net provision (€ 7.1 million) for “Projects for urban and environmental renewal”, the aim of which is to offset the environmental impact following the construction of long-distance power lines;
- net utilisations referring to management incentive plans (€ -6.7 million);
- net utilisations of € -0.8 million for the charges due to distributing companies for power failures of the transformation plants connected to the NTG.

Provision for early retirement incentives - € 52.9 million

This provision reflects the estimated non-recurring charges related to the voluntary early termination of the working relationship of employees who are eligible for retirement. The item reflects an increase of € 30.9 million for net provisions made during the financial year.

23. Deferred tax liabilities – € 52.5 million

The changes in this provision are analysed below:

€ million	31.12.2013	Impact recognised in Income Statement		Other financial changes	Impact recognised in the statement of comprehensive income	31.12.2014
		Provisions	Utilisations			
Deferred tax liabilities						
Property, plant and equipment	227.2	-	(76.5)	-	-	150.7
Employee benefits and financial instruments	4.3	-	(0.8)	-	-	3.5
Total deferred tax liabilities	231.5	-	(77.3)	-	-	154.2
Deferred tax assets						
Provisions for risks and charges	30.2	14.9	(14.8)	0.9	-	31.2
Allowance for doubtful accounts	3.6	-	(0.7)	-	-	2.9
Employee benefits	9.4	1.7	(3.7)	0.4	2.7	10.5
CFH derivatives	27.2	-	-	-	(17.4)	9.8
Release of goodwill	60.2	-	(12.9)	-	-	47.3
Total deferred tax assets	130.6	16.6	(32.1)	1.3	(14.7)	101.7
Net deferred tax liabilities	100.9	(16.6)	(45.2)	(1.3)	14.7	52.5

This balance, equal to € 52.5 million, reflects the net changes in the Company's deferred tax assets and liabilities.

Deferred tax liabilities totalled € 154.2 million, down € 77.3 million, essentially due to:

- the use of previous provisions to cover the difference between additional depreciation and amortisation calculated using ordinary technical rates (€ 41.8 million), including the reversal in respect of the depreciation charge for the period attributable to the difference from merger eliminations allocated to property, plant and equipment following mergers carried out in previous years (€ 2.6 million);
- adjustment 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 (€ 101.7 million) show a decrease of € 28.9 million, mainly related to the following changes:

- net utilisations of € -14.7 million, attributable to the tax effect, which has no impact on the Income Statement, of changes in cash flow hedging financial instruments (€ -17.4 million) and of actuarial gains and losses on employee benefits (€ 2.7 million);
- utilisation, amounting to € -12.9 million, of the portion accruing of deferred tax assets allocated for the release of goodwill recognised following the merger of RTL, including the IRES rate adjustment to 27.5% (€ -9.4 million);
- net provision, of € 1.1 million, in relation to changes during the year to provisions for employee benefits, considering also the IRES rate adjustment owing to abolition of the so-called RHT of € -1.4 million.

24. Other non-current liabilities – € 181.1 million

The item (€ 181.1 million at 31 December 2014) includes the amount payable to Terna Rete Italia S.p.A. arising through the transfer of net liabilities included in the business unit (€ 68.7 million) and deferred positions relating to set-up grants (€ 112.4 million).

The decrease in the item, of € 8.7 million compared to the previous year, derived from the reduction in the payable to Terna Rete Italia S.p.A. following the liquidation by the subsidiary of payables to employees included in the business unit (€ 3.1 million) and from the release of set-up grant portions (€ 5.6 million).

25. Current liabilities

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

€ million	31.12.2014	31.12.2013	Change
Short-term loans *	-	269.5	(269.5)
Current portion of long-term loans *	762.4	697.8	64.6
Trade payables	2,004.4	2,048.8	(44.4)
Tax liabilities	0.9	31.5	(30.6)
Current financial liabilities *	154.1	151.4	2.7
Other current liabilities	184.0	113.4	70.6
Total	3,105.8	3,312.4	(206.6)

(*) See the comments in Note 20. LOANS AND FINANCIAL LIABILITIES.

Trade payables – € 2,004.4 million

Trade payables at 31 December 2014 can be broken down as follows:

€ million	31.12.2014	31.12.2013	Change
Suppliers:			
- Energy-related payables	1,396.0	1,347.0	49.0
- Non energy-related payables	119.0	156.9	(37.9)
Payables to subsidiaries	486.3	542.5	(56.2)
Payables to associates	0.5	0.5	-
Payables for contract work in progress	2.6	1.9	0.7
Total trade payables	2,004.4	2,048.8	(44.4)

Suppliers

Energy-related payables

This item reports the effects on the balance sheet of payables for “pass-through” costs not ascribable to the Company, and refers mainly to purchase of energy relative 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 € 49.0 million compared with the previous year is essentially attributable to the combined effect of:

- increased payables (€ 70.7 million) related to “pass-through items”, mainly ascribable to the joint effect of:
 - the increase in payables for the electrical energy purchases outside of the Electricity Market (€ +232.6 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);
 - 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), as already commented on in the section on the item “Trade receivables”;
- 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 Company for the Grid transmission fee relating to previous years (€ -5.9 million), as discussed in detail in the paragraph on “Grid transmission fee receivables” under “Trade receivables”.

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 downward change with respect to the previous year (€ -37.9 million) is essentially attributable to less services and less purchases recorded towards the end of the year with respect to the same period of the previous year.

Payables due to subsidiaries

The item, of € 486.3 million, shows a decrease of € -56.2 million, mainly attributable to lower payables to the subsidiary Terna Rete Italia S.p.A. (€ -50.4 million), owing essentially to investment activities carried out in the last quarter with respect to the corresponding period of the previous year (€ -63.0 million), offset by the recognition of the payable for the service quality premium/penalty (€ 10.0 million) and by greater maintenance activities on the plants carried out by the subsidiary (€ 3.0 million).

Payables due to associates

This item, of € 0.5 million and in line with the balance of the previous year (€ -0.5 million), mainly includes payables to the associate CESI for services provided to the Company in the construction and management of laboratories and plants for tests, inspections, studies and experimental research in the general field of electricity technology and scientific and technical progress.

Company commitments to suppliers totalled approximately € 306.3 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 amounted to € 2.5 million at 31 December 2014 and were substantially in line with 31 December 2013 (€ -0.6 million). They can be broken down as follows:

€ million	Payments on account	Contract value	Balance at 31.12.2014	Payments on account	Contract value	Balance at 31.12.2013
Other	(7.3)	4.7	(2.6)	(14.6)	12.7	(1.9)

Tax liabilities - € 0.9 million

The item refers to the Company's liabilities for IRES and IRAP taxes for the financial year. There was a net decrease, compared to the previous year, of € 31.5 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 - € 184.0 million

Other current liabilities break down as follows:

€ million	31.12.2014	31.12.2013	Change
Payments on account	80.7	22.2	58.5
Other tax liabilities	30.1	1.3	28.8
Payables to social security institutions	6.2	6.6	(0.4)
Payables to employees	11.5	8.1	3.4
Other payables to third parties	55.5	75.2	(19.7)
Total	184.0	113.4	70.6

Payments on account

This item (€ 80.7 million) includes the set-up grants received by the Company in relation to assets under construction at 31 December 2014.

Compared to the 2013 figure (€ 22.2 million), an increase of € 58.5 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 € 30.1 million, reflect mainly the Company's VAT payable and payables for IRPEF (personal income tax) withheld on wages and salaries. The change is due to the Parent Company's payables to the tax authority for VAT, compared to the credit situation at the end of 2013 (€ 29.0 million).

Payables to social security institutions

Payables to social security institutions, essentially relating to payables to the pensions agency INPS, show a balance of € 6.2 million, in line with the previous year.

Payables to employees

Payables to employees show a balance of € 11.5 million and mainly regard:

- amounts relating to staff retirement incentives to be paid the following year (€ 8.5 million);
- payments due to employees for unused holiday time and abolished public holidays (€ 1.7 million).

The increase compared with the previous year (€ 3.4 million) is essentially due to higher payables for early retirement incentives to be paid.

Other payables to third parties

Other payables to third parties, of € 55.5 million (€ 75.2 million at 31 December 2013), mainly regard security deposits (€ 40.7 million) received from electricity market operators securing their obligations in respect of dispatching contracts. The item shows a decrease of € 19.7 million, mainly attributable to guarantee deposits received covering contractual obligations involved in dispatching and virtual interconnection contracts (€ -23.3 million), net of the deferment of part of the revenue connected with the contract with Electricité De France (EDF) on the SACOI connection.



E. Commitments and risks

Risk management

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

During the financial year, in conducting its operations, Terna is exposed to various different financial risks: market risk (namely interest rate risk and inflation risk), liquidity risk and credit risk.

This section provides comprehensive information regarding Terna's exposure to all the above risks, along with a presentation of the objectives, policies and processes for managing those risks and the methods used to measure them, with further quantitative disclosures concerning the 2014 financial statements.

Terna's risk management policies seek to identify and analyse the risks the Company is exposed to, establishing appropriate limits and controls and monitoring risks and compliance with such limits. These policies and related systems are revised on a regular basis in order to reflect any changes in market conditions and the Company's activities.

As a part of the financial risk management policies approved by the Board of Directors, Terna 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.

€ million	31.12.2014				31.12.2013			
	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	1,380.0	-	-	1,380.0	2,108.0	-	-	2,108.0
Total	1,380.0	-	784.8	2,164.8	2,108.0	-	545.5	2,653.5

€ million	31.12.2014				31.12.2013			
	Payables	Loans at fair value	Hedging derivatives	Total	Payables	Loans at fair value	Hedging derivatives	Total
Liabilities								
Long-term debt	2,856.8	5,983.6	-	8,849.3	2,635.4	6,341.8	-	8,977.2
Derivative financial instruments	-	-	35.5	35.5	-	-	80.0	80.0
Total	2,856.8	5,983.6	35.5	8,875.9	2,635.4	6,341.8	80.0	9,057.2

Market risks

Market risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of changes in financial market conditions. Market risks include three types of risks: exchange rate risk, interest rate risk and inflation risk.

Risk management must be performed with the objective of maximising financial income and minimising the related risks by selecting counterparties and instruments compatible with the corporate risk management policy. Speculative activity is not envisaged in the corporate mission.

Terna S.p.A. seeks to adopt a dynamic approach to financial risk management. This approach is characterised by risk aversion, aiming at minimising risk through continuous monitoring of financial markets in order to plan hedging transactions in favourable market conditions. The dynamic approach makes it possible to take action to improve existing hedges where changes in market conditions or in the hedged item make the latter unsuitable or excessively expensive. The concept of hedging transaction is not restricted to hedges that qualify for hedge accounting, but rather encompasses the objective of total or partial hedging of the economic or financial item against interest rate risk.

All derivative contracts entered into have a notional amount and maturity date prior to or equal to that of the underlying financial liability, so that any change in the fair value and/or estimated cash flows of the contracts is offset by a corresponding change in the fair value and/or of the estimated cash flows of the underlying position. The fair value of financial derivatives reflects the estimated amount that Terna would pay or receive in order to extinguish contracts at the closing date.

The fair value of instruments is determined in accordance with the fair value hierarchy envisaged under IFRS 7 (Level 2) by means of appropriate valuation techniques for each category of financial instrument, using market data at the closing date (such as interest rates, exchange rates and volatility) and discounting projected cash flows on the basis of the market yield curve and inflation at the reporting date.

The financial assets and liabilities in respect of derivative instruments in place during the year can be classified as:

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

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

€ million	31.12.2014		31.12.2013		Change	
	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):

€ million	Carrying amount		
	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	2,164.8	2,653.5	(488.7)
- liabilities	2,856.8	2,635.4	221.4
Total	6,711.1	6,403.7	307.4

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:

€ million	Profit or loss			Statement of comprehensive income		
	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 (FVH, bonds, CFH)	(4.7)	2	8.7	(35.1)	(35.5)	(35.9)
<i>Hypothetical change</i>	(6.7)		6.7	0.4		(0.4)
31.12.2013						
Positions sensitive to interest rate variations (FVHs, bonds)	0.2	0.3	0	(78.1)	(80)	(82)
<i>Hypothetical change</i>	(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 € 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:

	Maturity	31.12.2013	31.12.2014	Maturity within 12 months	Maturity beyond 12 months	2016	2017	2018	2019	After
€ million										
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
Total floating rate		2,365.9	2,856.9	762.4	2,094.5	120.5	132.4	132.4	111.2	1,598.0
Total		8,707.7	8,840.5	762.4	8,078.1	120.5	1,380.2	879.9	803.1	4,894.5

Credit risk

Credit risk is the risk a customer or one of the counterparties to a transaction in financial instruments could cause a financial loss by failing to discharge an obligation. It is mainly generated by trade receivables and the financial investments of the Company.

The credit risk originated by open positions on transactions in financial derivatives is considered to be marginal since the counterparties, in compliance with financial risk management policies, are leading international credit institutions with high ratings and such transactions are diversified in compliance with specific concentration limits.

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

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

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

€ million	Carrying amount		
	31.12.2014	31.12.2013	Change
FVH derivatives	784.8	545.5	239.3
Intercompany loan to Terna Rete Italia S.r.l.	-	500	(500)
Net intercompany treasury current account position	181.1	-	181.1
Cash and cash equivalents	1,198.9	1,608.0	(409.1)
Trade receivables	1,535.4	1,721.2	(185.8)
Total	3,700.2	4,374.7	(674.5)

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	1,495.86	1,683.9
Euro-area countries	37.9	35.4
Other countries	1.79	1.9
Total	1,535.4	1,721.2

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	64.1	75.7
Total	1,535.4	1,721.2

(*) includes 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 receivables from customers by due date, reporting any potential impairment:

€ million	31.12.2014		31.12.2013	
	Impairment	Gross	Impairment	Gross
Not yet past due		1,427.7		1,451.7
0-30 days past due		62.0		215.7
31-120 days past due		13.7	(0.6)	10.0
More than 120 days past due	(32.2)	64.2	(30.2)	74.6
Total	(32.2)	1,567.6	(30.8)	1,752.0

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

€ million	31.12.2014	31.12.2013
Balance at 1 January	(30.8)	(26.5)
Release of provision	0.5	1.5
Impairment loss for the year	(1.9)	(5.8)
Balance at 31 December	(32.2)	(30.8)

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

€ million	31.12.2014	31.12.2013
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 “counterpart risk,” in particular with subjects with which active contracts 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. Counterpart risk is mitigated through the implementation of special procedures to assess counterparts, which measure economic, financial and reputational aspects of the subjects in question.

Default risk and debt covenants

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

Parent company guarantees issued in favour of suppliers of subsidiaries

The Company has issued parent company guarantees in favour of a number of suppliers of the subsidiary Terna Rete Italia S.p.A., for contracts connected with construction of the interconnection between Italy and Montenegro. The Company’s maximum exposure at 31 December 2014 amounted to € 10.7 million.

Legal disputes

The main off-balance sheet commitments and risks of the company at 31 December 2014 are as follows.

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. Terna is involved in various civil and administrative suits requesting the transfer or change in operations of allegedly-harmful long-distance power lines, even though they were installed in full compliance with applicable legislation (Italian Law no. 36 of 22 February 2001 and Prime Ministerial 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 rulings been issued against the Company. These have been appealed and the appeals are still pending, although 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, Terna has been involved in a number of cases appealing AEEG, Ministry for Economic Development and/or Terna measures relating to activities operated under the license. Only in those cases in which the plaintiffs not only claim defects in the measures, but also allege that Terna violated the rules established by such authorities has the Company appeared in court. Within the scope of this litigation, although a number of cases have seen the AEEG 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 Company when applying the Resolutions adopted by the Authority are sometimes the subject of challenges. In appropriate circumstances, the economic costs of such challenges may be borne by the Authority.

Tax Authority

On 27 March 2012, the parent company Terna S.p.A., as jointly and severally liable with Enel Distribuzione S.p.A. (“Enel Distribution”), received a notice for the payment of greater taxes due as a result of the sale transaction of the holding owned by Enel Distribuzione in Elat S.r.l. (later Telat S.r.l., today Terna Rete Italia S.r.l.) to Terna S.p.A. (for the amount of approximately € 38 million, including interest). According to the provisions of the 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

There were no business combinations during 2014.

G. Related-party transactions

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

- the GSE Group;
- the Enel Group;
- the Eni Group;
- the Ferrovie dello Stato (State Railway) Group;
- 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 Terna S.p.A. 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 the financial year 2014 are mainly services that are part of core business and regulated by market conditions.

It should be remembered that, in the current organisational structure of the Terna Group, in signing the business unit rental agreement with the Company, and the consequent specific infra-group contracts, the subsidiary Terna Rete Italia S.p.A. is tasked with performing all core operational activities, ordinary and extraordinary maintenance of the section of the NTG owned, and management and performance of work on developing the grid as provided for in the Concession for transmission and dispatching, and on the basis of the provisions of Terna’s Development Plan.

Terna also provides for the operative management of all subsidiaries by means of specific service agreements that not only assure the administrative and financial coordination and the coordination of institutional relations, but also enable it to act on behalf of the subsidiaries, or for and on their behalf.

Please also note that the Company has in being a two-year contract with the subsidiary Terna Storage S.r.l., for “safeguarding the construction” of diffused energy storage systems projects, as well as the related “coordination”, “study” and “research” activities.

As concerns the non-regulated activities, the Company uses the services offered by the subsidiary Terna Plus S.r.l., in accordance with the current intercompany service agreement. In addition, on 20 May 2014 the Company acquired through the said Terna Plus S.r.l. control over the "Tamini Group" - as commented on in the Significant Events section, to which the reader is referred - and on 2 October 2014 signed an agreement with the parent company Tamini Trasformatori S.r.l. related to the provision of administrative services.

Terna S.p.A. is also involved in the management of cash demands of subsidiaries through specific Treasury contracts that ensure the guidance and coordination of all transactions in relation to financial resource and needs management and treasury services, as well as the implementation of all related transactions. Under the scope of the centralised treasury management of financial resources, we can note that in November, at the contractual expiry provided for, Terna Rete Italia S.r.l. fully repaid the € 500.0 million loan granted by the Company to the subsidiary in 2009.

Below is a summary of the main intercompany contracts in place at 31 December 2014:

Counterparty	Type	Annual price
Terna Rete Italia S.p.A.	Service agreement:	
	<i>Operation & Maintenance</i>	€ 270,246,000*
	<i>Renewal and development</i>	equal to costs incurred +5.82% on the personnel expenses incurred
	<i>Administrative, assistance and consulting services</i>	
	- from Terna S.p.A. to Terna Rete Italia S.p.A. (receivable)	€ 34,154,771*
	- from Terna Rete Italia S.p.A. to Terna S.p.A. (payable)	€ 1,836,820*
	Lease of employee workstations	
	- from Terna S.p.A. to Terna Rete Italia S.p.A. (receivable)	€ 2,349,361
	- from Terna Rete Italia S.p.A. to Terna S.p.A. (liabilities)	€ 406,188
	Business unit rent	€ 25,427,757
Terna Rete Italia S.r.l.	Administrative service agreement (services rendered)	€ 402,170
Terna Plus S.r.l.	Service agreement:	
	<i>Non-traditional of Terna (payable) - Art. 2.6</i>	€ 43,915
	<i>Management fee (receivable) - Arts 2.1 and 2.2</i>	€ 641,104
	<i>Other administrative services att. On contract (receivable) - Art. 2.3</i>	€ 92,110
	Lease of employee workstations (receivable)	
	<i>from Terna S.p.A. to Terna Plus (receivable)</i>	€ 145,361
Tamini Group	Administrative service agreement (receivable)*	€ 130,004
Terna Storage S.r.l.	Administrative, assistance and consulting service agreement (receivable)	
	<i>from Terna S.p.A. to Terna Plus (receivable)</i>	€ 254,391
	Service agreement (payable)	
	<i>Coord., study and monitoring of storage system dev. activities (fee) - payable</i>	€ 800,000
	<i>Adjustment and development of storage systems</i>	equal to costs incurred +5.82% on the personnel expenses incurred
	Lease of employee workstations (receivable)	€ 66,073
Terna Crna Gora d.o.o.	Service agreement:	
	<i>Technical services</i>	equal to costs incurred + 5.82%
	<i>Administrative services</i>	€ 90,074

(*) 2014 price updated by agreement of the parties in accordance with Art. 9.6 bis and 7.1 of the service agreement.

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

	Contractual conditions - interest rates		
	Loan*	Intercompany current a/c	
		Inventories	Utilisations
Terna Rete Italia S.r.l.	Euribor 6 months +2.50%	Euribor monthly average 1 month +1.0%	Euribor monthly average 1 month + 2.00%
Terna Rete Italia S.p.A.	-	Euribor monthly average 1 month +1.0%	Euribor monthly average 1 month + 2.00%
SunTergrid S.p.A.	-	Euribor monthly average 1 month +1.0%	Euribor monthly average 1 month + 2.00%
RTS S.r.l.	-	Euribor monthly average 1 month +1.0%	Euribor monthly average 1 month + 2.00%
Terna Plus S.r.l.	-	Euribor monthly average 1 month +1.0%	Euribor monthly average 1 month + 2.00%
Terna Storage S.r.l.	-	Euribor monthly average 1 month +1.0%	Euribor monthly average 1 month + 2.00%
Terna Crna Gora d.o.o.	-	Euribor monthly average 1 month +1.0%	Euribor monthly average 1 month + 2.00%

(*) The Loan of € 500 million granted to Terna Rete Italia S.r.l. in 2009 was fully repaid on maturity by the subsidiary in November 2014

The tables on the next page instead specify the nature of the transactions implemented by the Company with related parties and the respective income and expense totalled during the year, in addition to the respective receivables and payables in place as of 31 December 2014:

€ million	Income statement				
	Income items			Operating expenses	
	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
Company					
<i>Subsidiaries</i>					
Terna Rete Italia S.p.A.	-	62.2	-	-	314.4
Terna Rete Italia S.r.l.	-	14.3	-	-	1.5
Tamini Group**	-	0.2	-	-	-
Terna Crna Gora d.o.o.	-	1.1	-	-	-
Terna Plus S.r.l.	-	0.9	-	-	0.8
Terna Storage S.r.l.	-	0.5	-	-	0.9
Total subsidiaries	-	79.2	-	-	317.6
<i>De facto parent company</i>					
Cassa Depositi e Prestiti S.p.A.	-	-	-	-	6.4
Total de facto parent company	-	-	-	-	6.4
<i>Associates:</i>					
Cesi S.p.A.	-	0.1	1.1	-	-
CGES A.D.	-	-	1.4	-	-
CORESIO	-	-	-	-	1.5
Total associates	-	0.1	2.5	-	1.5
<i>Other related companies:</i>					
GSE Group	42.3	0.5	-	-	-
Expo 2015 S.p.A.	-	3.1	-	-	-
Enel Group	1,379.6	1.0	-	-	0.4
Eni Group	7.5	-	-	-	0.1
Ferrovie Group	3.4	-	-	7.4	0.1
ANAS S.p.A.	-	0.1	-	-	-
Total other related companies	1,432.8	4.7	-	7.4	0.6
<i>Pension funds:</i>					
Fondenel	-	-	-	-	0.2
Fopen	-	-	-	-	0.2
Total pension funds	-	-	-	-	0.4
Total	1,432.8	84.0	2.5	7.4	326.5

€ million	Statement of financial position					
	Property, plant and equipment	Receivables and other assets		Payables and other liabilities		
	Capitalised costs	Other	Financial and position of inter-company current account	Other	Financial	Guarantees ^(*)
Company						
<i>Subsidiaries</i>						
Terna Rete Italia S.p.A.	69.8	31.1	(120.6)	497.2	-	-
Terna Rete Italia S.r.l.	-	0.1	337.0	34.2	-	-
Tamini Group**	-	0.2	-	-	-	-
Terna Crna Gora d.o.o.	-	0.3	-	-	-	-
Terna Plus S.r.l.	-	0.3	(32.5)	-	-	-
Terna Storage S.r.l.	0.4	0.1	(2.8)	57.8	-	-
Total subsidiaries	70.2	32.1	181.1	589.2	-	-
<i>De facto parent company</i>						
Cassa Depositi e Prestiti S.p.A.	-	-	0.2	-	500.9	-
Total de facto parent company	-	-	0.2	-	500.9	-
<i>Associates:</i>						
Cesi S.p.A.	0.6	0.3	-	0.4	-	3.2
CORESIO S.A.	-	-	-	0.1	-	-
Total associates	0.6	0.3	-	0.5	-	3.2
<i>Other related companies:</i>						
GSE Group	-	7.3	-	-	-	-
Expo 2015 S.p.A.	-	-	-	2.3	-	-
Enel Group	0.1	284.5	-	4.5	-	445.8
Eni Group	-	1.2	-	0.1	-	24.1
Ferrovie Group	-	0.7	-	1.3	-	22.0
ANAS S.p.A.	-	0.9	-	0.7	-	-
SNAM Group	-	-	-	0.1	-	-
Italian Ministry for Economic Development	-	-	-	60.5	-	-
Total other related companies	0.1	294.6	-	69.5	-	491.9
<i>Pension funds:</i>						
Fopen	-	-	-	0.2	-	-
Total pension funds	-	-	-	0.2	-	-
Total	70.9	327.0	181.3	659.4	500.9	495.1

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

(**) Acquired on 20 May 2014 by the subsidiary Terna Plus S.r.l..

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 € 1,036.4 million, which reflects around € 1,343 million in cash from operating activities (self-financing) and around € 306.6 million in financial resources generated by the management of net working capital.

Investing activities used net financial resources of around € 983.5 million, and mainly included € 963.1 million of investment in property, plant and machinery (€ 974.7 million net of plant grants totalling € 11.6 million) and € 47.1 million of investment in intangible assets.

Cash flow for investment activities also reflects the acquisition by the subsidiary Terna Plus of the user cabin located in the Municipality of Alfonsine (Ravenna) for € 1.7 million and the acquisition from Sorgenia Power S.p.A. of certain transmission assets for an amount of € 9 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 € 1,385.5 million in the year, part of which (€ 1,036.4 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 and 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 the 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 the 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 as 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 No. 112/2008

On 11 February 2015, Ruling 10/2015 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 regulation without being contained in a predetermined and temporary time frame.

An additional aspect rendering the regulation inappropriate 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 project⁹¹ 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 months⁹².

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)⁹³, 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.

(91) 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.

(92) 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 TERNIA) 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).

(93) **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 (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 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 position and the flows on the interconnection lines among the offer zones – and on implicit auctions and is facilitated by the PCR solution.

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.

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 Terna S.p.A. by the auditing company.

In €	Entity providing service	Fees due for the year
Statutory audit of accounts and Financial Statements	PWC	221,975.44
Attestation services	PWC*	134,200.00
Total		356,175.44

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

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

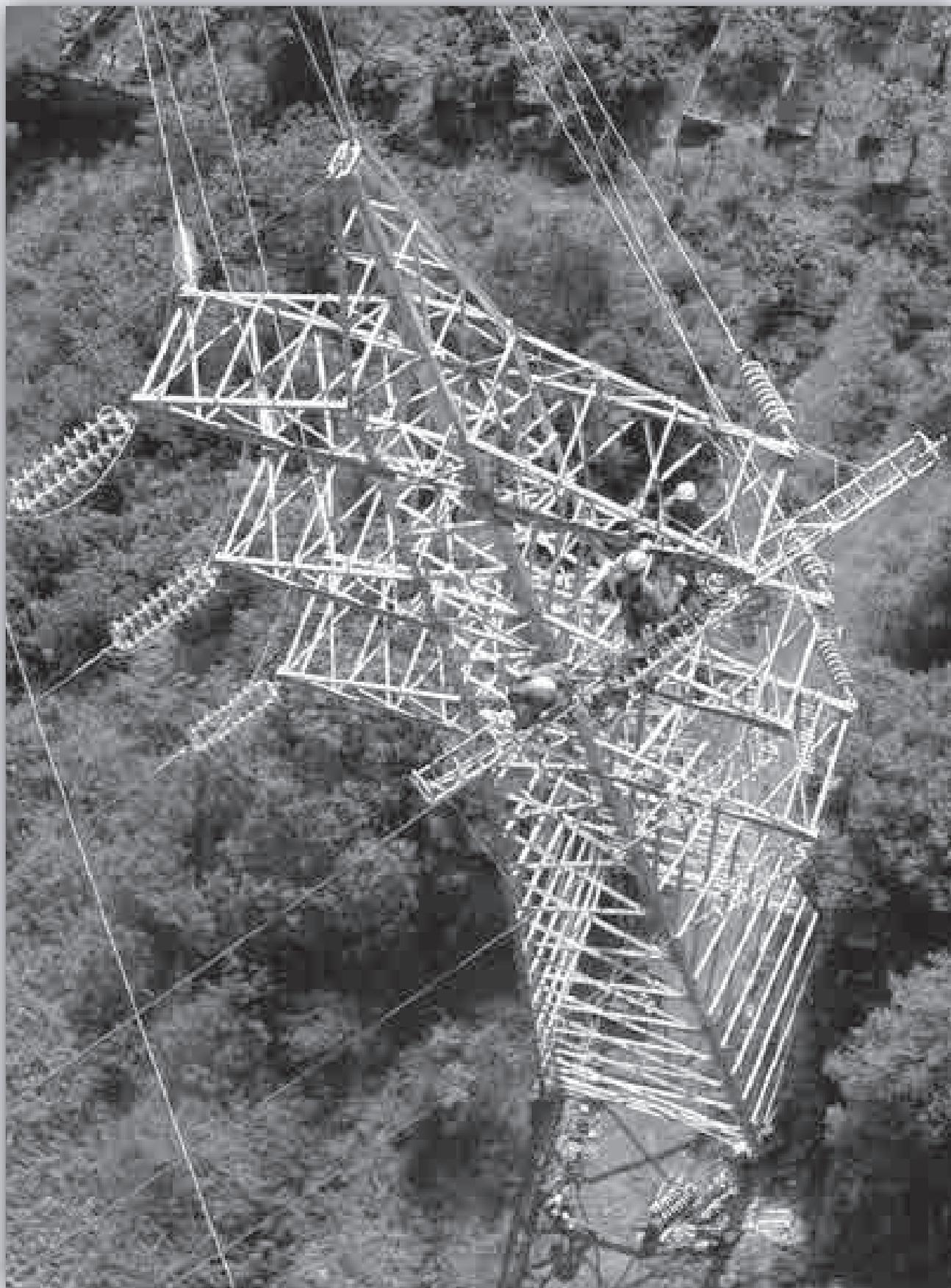
1. The undersigned Matteo Del Fante, as CEO, and Pierpaolo Cristofori, as Executive in Charge of the preparation of accounting documents for TERNA S.p.A., also considering that established by art. 154 *bis*, paragraphs 3 and 4 of Italian Legislative Decree no. 58 of 24 February 1998, certify:
 - the suitability in relation to the business characteristics; and
 - the effective application of the administrative and accounting procedures for the preparation of the separate financial statements during financial year 2014.
2. The assessment of the suitability of the administrative and accounting procedures for the preparation of the separate 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 separate 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;
 - 3.2. the report on operations includes a reliable analysis of the trend and operating result, in addition to the position of the issuer and a description of the main risks and uncertainties to which it is exposed.

Rome, 26 March 2015

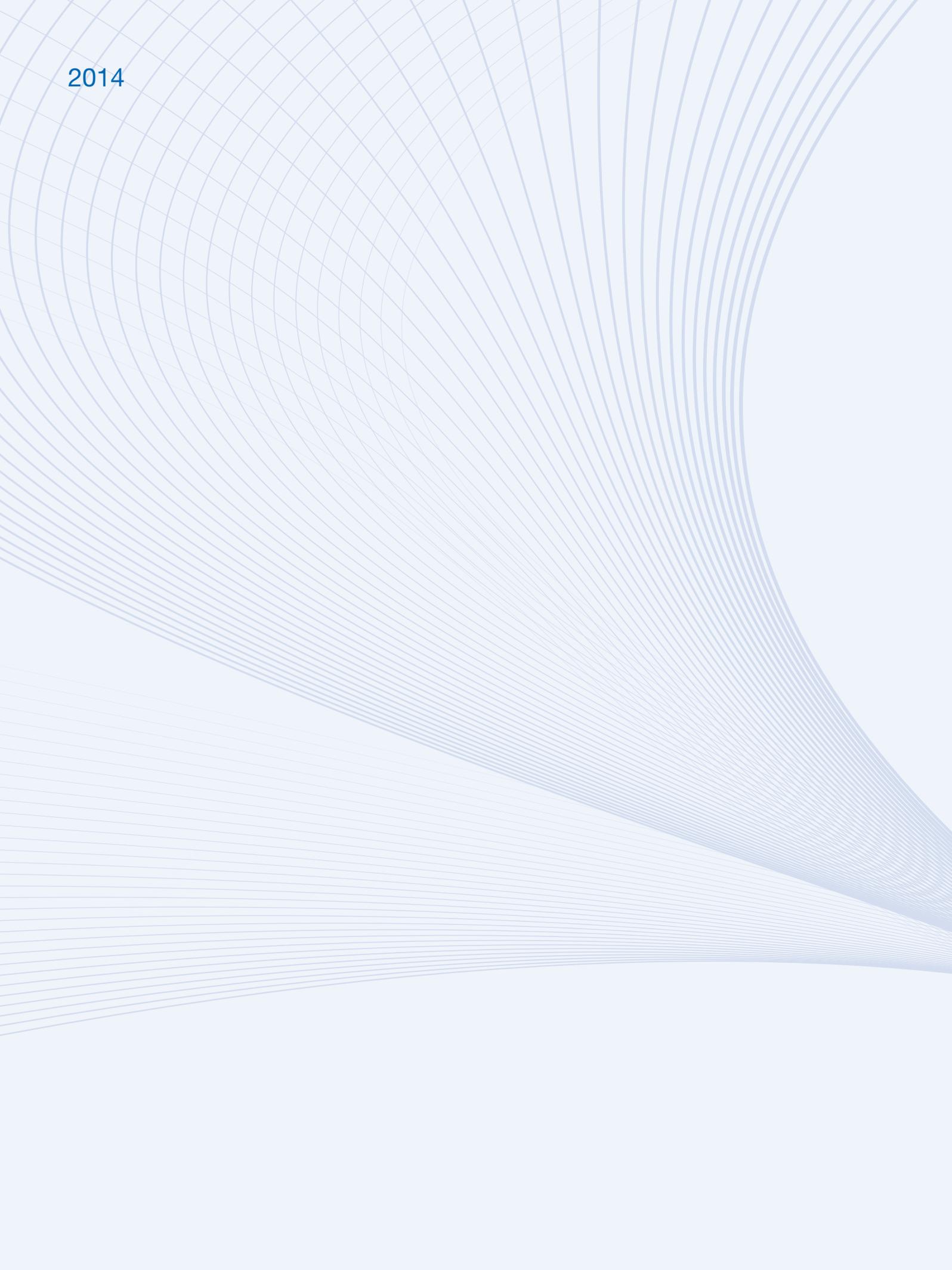
Delegated administrative bodies
(Matteo Del Fante)

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



Reports

Report by the Board of Statutory Auditors to the shareholders' meeting of Terna S.p.A.
Auditors' Report in accordance with articles 14 and 16 of Legislative Decree no. 39 of 27 January 2010
Financial Statements as of 31 December 2014



Report by the Board of Statutory Auditors to Terna S.p.A.'s Shareholders' Meeting
Pursuant to Article 153 of Legislative Decree No. 58 of 24 February 1998
(Consolidated Law on Finance)

Dear Shareholders,

During the year ended 31 December 2014, the Board of Statutory Auditors, both before and after the renewal of its members at the Shareholders' Meeting of 27 May 2014, carried out supervisory activities in accordance with the law, adapting its operations to the code of conduct of supervisory boards of listed companies issued by the Italian accounting profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili), the recommendations of the National Commission for Companies and the Stock Exchange (CONSOB) regarding corporate controls and activities of the supervisory board and the guidelines of the Corporate Governance Code of the Italian Stock Exchange (Corporate Governance Code).

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

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

- We monitored that the Law and the By-laws were complied with.
- We attended the meetings of the Board of Directors and specific preparatory meetings regarding the items on its agenda, as well as the meetings of the Audit, Risk and Corporate Governance Committee and of the Remuneration Committee and were regularly informed by the Directors regarding the activities carried out, the expected outlook and the most significant economic, financial and equity transactions of the Company, and we were satisfied that the resolutions adopted and implemented were compliant with the Law and the By-laws and were not manifestly imprudent, risky, and did not represent a potential conflict of interest, or contradict the resolutions passed by the Shareholders' Meeting or compromise the Company's assets. During the

assessments, no atypical and/or unusual operations were identified. In fulfilling our mandate, we analysed the information flows from various corporate structures and we also conducted interviews with senior management of the Company, with the auditing firm and with the supervisory bodies of the subsidiaries.

- The Board of Directors, at the meeting of 26 March 2015, on the proposal of the Remuneration Committee, approved the “Annual Remuneration Report” prepared, in accordance with Article 123-ter of the Consolidated Law on Finance and in compliance with the provisions of Article 6 of the Corporate Governance Code.
- We monitored the compliance and effective application of the "Procedure for Related-Party Transactions" adopted by the Board of Directors on 12 November 2010 and governed by Article 4 of the CONSOB Regulation referred to in Resolution No. 17221 of 12 March 2010, as subsequently amended and updated.
- The Company drafted the 2014 financial statements according to International Accounting Standards (IAS/IFRS). These financial statements were audited by PricewaterhouseCoopers S.p.A., which issued its own report on 16 April 2015 without objections or calls for further disclosure. The financial statements, together with the Report on Operations, was made available to us in the terms of the law and we have no particular comments.
- The Company drafted the 2014 consolidated financial statements of the Terna Group according to International Accounting Standards (IAS/IFRS). These financial statements were also audited by PricewaterhouseCoopers S.p.A., which issued its own report on 16 April 2015 without objections or calls for further disclosure. Among the significant transactions carried out during 2014 we note the following, referring you to the Report on Operations for a more detailed analysis:
 - acquisition of the Tamini Group;
 - taking out a revolving credit facility for € 750 million;
 - renewal of the EMTN bond issue program.

- We collected information and monitored, as far as our authority allowed, the adequacy of the Company's corporate structure, compliance with the principles of proper management and the adequacy of the provisions issued by the Company to the subsidiaries pursuant to Article 114, paragraph 2 of the Consolidated Law on Finance, by acquiring information from the Heads of the designated company departments, through meetings held with the Auditing firm and through meetings held with the audit bodies of the most important subsidiaries in terms of size.
- We monitored the adequacy of the administrative and accounting system, assessing the reliability of the latter in providing a true and fair view of operations; this activity was carried out by obtaining information from the heads of the various departments, by examining company documents and analysing the results of the work carried out by the auditing firm PricewaterhouseCoopers S.p.A.. The Board of Directors, after the favourable opinion of the Board of Statutory Auditors, appointed the Executive in charge of preparing the Company's accounting documents also checking he met the professional requirements. The Chief Executive Officer and the Executive in charge of preparing the Company's accounting documents have, with a special report attached to the 2014 financial statements, attested: a) the adequacy and effective application of accounting and administrative procedures; b) the conformity of the contents of financial reports to international accounting standards; c) the alignment of the documents themselves to the books and records and their ability to accurately reflect the assets, and economic and financial position of the Company. A similar attestation is attached to the Terna Group Consolidated Financial Statements.
- We assessed the adequacy of the internal audit system through: a) examination of the report of the Head of Internal Audits on the internal audit system; b) examination of the Internal Audit reports, as well as information on the results of monitoring; c) meetings with the supervisory bodies of the main subsidiaries pursuant to the first and second paragraph of Article 151 of the Consolidated Law on Finance; d) participation in meetings of the Audit, Risk and Corporate

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

On the basis of the activity carried out, considering the evolutionary nature of the Internal Audit System, the Board of Statutory Auditors expresses an evaluation of its overall adequacy and notes that there are no observations to report to the Shareholders' Meeting. With reference to the provisions of par. 9, point a) of Article 17 of Italian Legislative Decree No. 39/2010, the auditing firm PricewaterhouseCoopers S.p.A. has defined total fees for the Auditing of the Terna S.p.A.'s Separate and Consolidated financial statements as at 31 December 2014, as well as the limited auditing of the Interim financial statements, for the activities of assessment of regular accounting activities, and for the other assignments. The fees for these services (including expenses) totals € 187,000, composed as follows:

- Audit of Unbundling for AEEGSI	35,200
- Audit of reporting packages	17,600
- Opinion on interim dividends	35,200
- Certification of Sustainability Report	44,000
- Issue of EMTN comfort letter	55,000.

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

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

- We held periodic meetings with the representatives of the auditing firm, Pricewaterhouse Coopers S.p.A., pursuant to Article 150, paragraph 3 of the Consolidated Law on Finance, and no facts worthy to be mentioned in this Report emerged. We also note that on April 16, 2015 the Auditing firm has submitted its report, pursuant to the third paragraph of Article 19 of Legislative Decree No. 39/2010, reporting that in completing the auditing activities, no fundamental issues or significant lacks in the internal control system, with reference to the process of financial information reporting, have emerged.
- We monitored the procedures for effective implementation of the Corporate Governance Code adopted by the Company, as set forth in the Report on Corporate Governance and Ownership Structure approved by the Board of Directors on 26 March 2015. With reference to the recommendations within the competence of the Board of Statutory Auditors, we point out that:
 - we verified the correct application of the criteria and procedures for assessing independence, adopted by the Board of Directors;
 - regarding the self-assessment of the independence requirements of the members of the Board of Statutory Auditors, we have verified its initial existence after our appointment and subsequently during the meeting of the Board of Statutory Auditors of 4 March 2015, in a manner consistent with those adopted by the directors;
 - we complied with the provisions of the regulation for managing and handling confidential and privileged company information.

Finally, it should be noted that the Auditing firm expressed its opinion regarding coherence of information with respect to the separate and consolidated financial statements pursuant to paragraph 1) letters c), d), f), l), m) and to paragraph 2, letter

b), of Article 123-*bis* of the Consolidated Law on Finance in the Report on Corporate Governance and Ownership Structures.

- With reference to Legislative Decree No. 231 of 8 June 2001, the Company has, for some time, adopted an organisational and management model, not updated in 2014, which are compliant with best practices. Similar models have been adopted by the subsidiaries. During the year, the Board of Statutory Auditors maintained a constant information flow with members of the Supervisory Board. The information gathered did not reveal any critical issues with respect to the proper implementation of the organizational model that should be mentioned in this report.
- We have received no complaints under Article 2408 of the Civil Code, nor do we have knowledge of facts or statements which need to be passed on to the Shareholders' Meeting.
- We have verified compliance with the laws regarding the drawing up of the separate and consolidated financial statements and the Report on Operations, directly and with the collaboration of the Heads of departments and through information obtained by the Auditing firm, and we have nothing significant to report.
- We expressed the opinion required from the Board of Statutory Auditors by the third paragraph of Article 2389 of the Civil Code (remuneration of directors holding special office).
- The auditing firm issued the opinion referred to in paragraph 5 of Article 2433-*bis* of the Italian Civil Code (interim dividends).
- The members of the Board of Statutory Auditors have complied with the obligation to notify administration and audit assignments in Italian companies with the timeframes and methods provided for in Article 148-*bis* of the Consolidated Law on Finance and Heading II of title V-*bis* of the cited Issuer Regulation.
- During 2014, the Board of Statutory Auditors met six times, attended the ten meetings of the Board of Directors and the three meetings of the Audit, Risk and Corporate Governance Committee.

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

Having reviewed the financial statements at 31 December 2014, the Board of Statutory Auditors has no objections to raise as regards the proposed resolutions presented by the Board of Directors.

Rome, 16 April 2015

On behalf of the Board of Statutory Auditors

The Chairman

Riccardo Schioppo

This report is an English translation of the original report by the Board of Statutory Auditors, which was issued in Italian. This report has been prepared solely for the convenience of international readers





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 separate financial statements of Terna SpA 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 separate 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 separate 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 separate 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 separate financial statements of Terna SpA 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 SpA 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 separate financial statements of Terna SpA as of and for the year ended 31 December 2014.

Rome, 16 April 2015

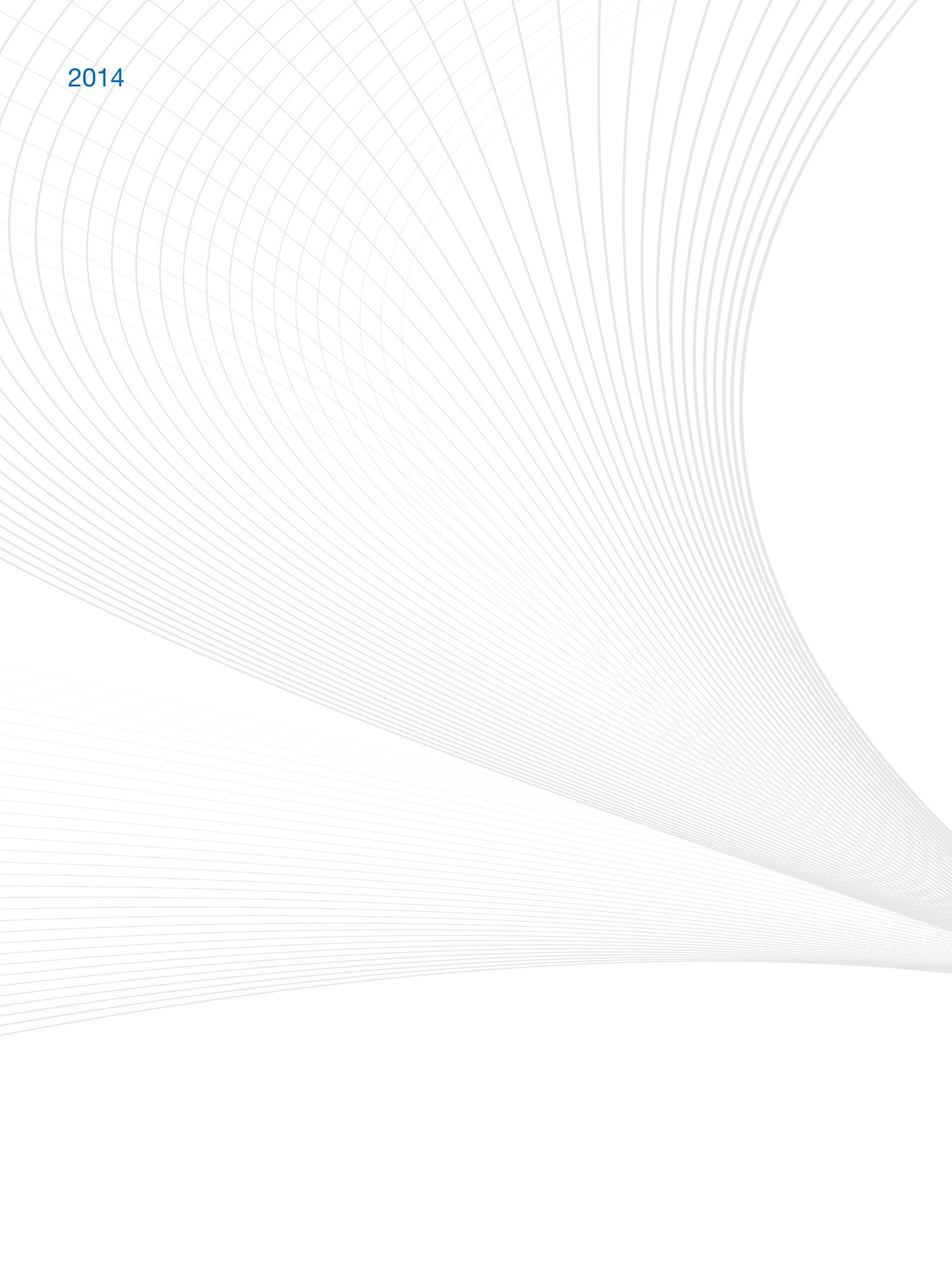
PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

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

2014



Report on corporate governance and ownership structures

(traditional administration and management model)

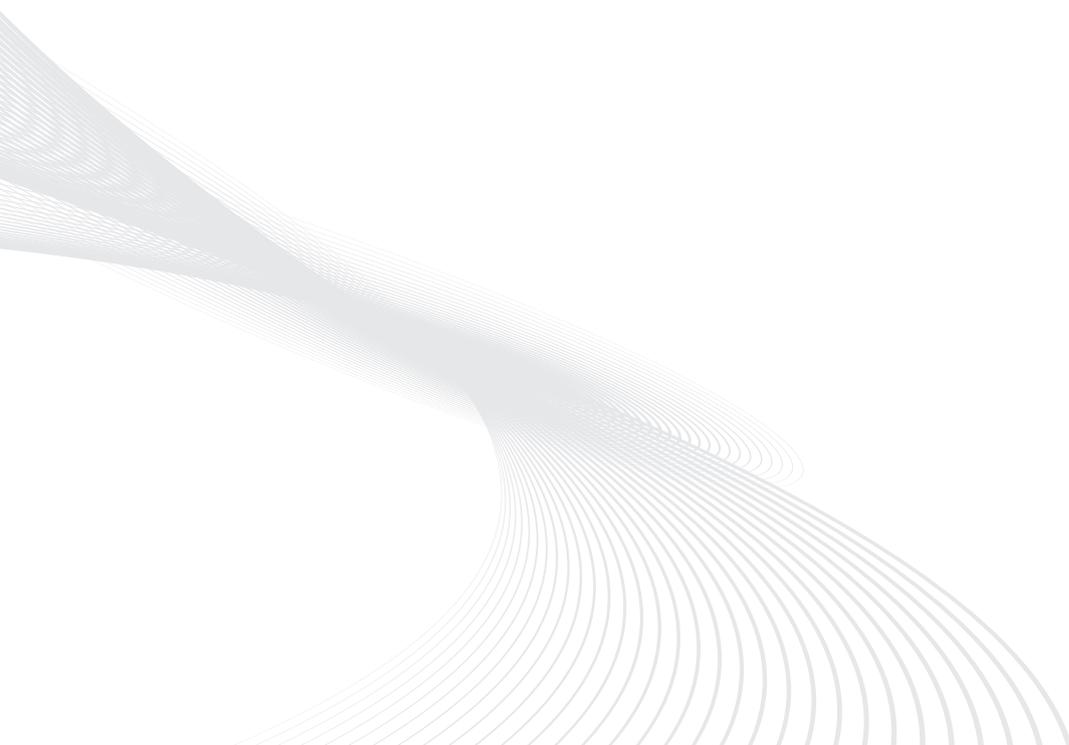


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Report on corporate governance and ownership structures

Foreword

Following the start-up of the trading of shares on the MTA stock market organised and managed by Borsa Italiana S.p.A. in June 2004, Terna S.p.A. adopted a corporate governance system that is compliant with the standards set out in the Corporate Governance Code prepared by the Committee for the Corporate Governance of listed companies promoted by Borsa Italiana and has progressively approved adjustments of the system as required by the further editions of the Corporate Governance Code – of which the latest was in July 2014 on the basis of the adjustment timing provided for in the transitory rules – implementing them in order to ensure compliance with the commitments made up until the date of approval of the draft financial statements for FY 2014 according to what is set out below.

Therefore, the Corporate Governance system in place at Terna is in line with the principles of the July 2014 edition of the Corporate Governance Code (hereinafter the “Corporate Governance Code”), as well as the the CONSOB recommendations on the subject and, more generally, with international best practices with which the Company compares itself.

This corporate governance system is essentially focused on the objective of creating value for shareholders, aware of the corporate relevance of the activities in which the Group is involved and the consequent need to suitably consider, in the related implementation, all interests involved and that – as noted by CONSOB – “good corporate governance can create a virtuous cycle in terms of efficiency and business integrity, such as to also have a positive impact on the other stakeholders”.

The corporate governance system also pays particular attention to the Italian and European rules on the subject of functional and/or ownership unbundling that apply to all businesses operating in the electricity and natural gas industries (“Unbundling Legislation”), taking into account the specific nature of the business carried on by Terna and its subsidiaries subject to regulation by the Regulatory Authority for Electricity, Gas and Water.

Since 2004, Terna has used this annual report to provide information on the evolution of its corporate governance system with reference to the recommendations contained in the various subsequent editions of the Corporate Governance Code and the conduct effectively adopted.

This Report on Corporate Governance and Ownership Structures – prepared in consideration of the instructions given by Borsa Italiana – provides a specific section containing the information required by Article 123-*bis* of Italian Legislative Decree no. 58/98 (the Consolidated Law on Finance) and by Article 144-*decies* of the “Regulation enacting Italian Legislative Decree no. 58 of February 24, 1998, concerning issuer regulations” adopted by CONSOB (Issuers Regulation) and includes a specific attachment that explains the main characteristics of the internal audit and risk management systems existing in relation to the financial disclosure process.

The resolutions on defining the company’s Corporate Governance rules are reserved for Terna’s Board of Directors. They are to be approved on the proposal of the Chief Executive Officer and are summarised in the present Report. Any non-compliance with certain specific rules of the Corporate Governance Code - according to the provisions contained in the guidelines of the Corporate Governance Code itself - is explained and justified in the section of the Report regarding the related governance practice and otherwise applied by the Company, describing also, if the decision to deviate was taken differently, the reasons for this, and whether the deviation is limited in time. If need be, the conduct adopted as an alternative to achieve the objective implicit in the recommendation or to contribute to good corporate governance is also described.

All the information included in the report, unless otherwise specified, was updated on the basis of information available as of the date of the Report’s approval.

Section I Issuer's Profile - Corporate Structure

Issuer's profile

Mission

"Terna is a leading grid operator for energy transmission. The Company manages electricity transmission in Italy and guarantees its safety, quality and affordability over time. It pursues electricity grid development, ever-increasing operating efficiency and integration with the European grid. It ensures equal access conditions for all grid users. It develops market activities and new business opportunities with the experience, discipline and technical expertise it has acquired in managing complex systems. It also creates value for shareholders thanks to continual commitment to professional excellence, and a responsible approach to the community, fully respecting the environment and the areas in which it operates".

Social Responsibility

Terna manages all its activities strongly focusing on their possible economic, social and environmental impacts, and in adopting a sustainable approach to business, has identified a method for creating, maintaining and consolidating a relationship of mutual trust with its stakeholders, that supports the creation of value for the Company, for society and for the environment.

Terna's main orientation in terms of Social Responsibility can be found in the Code of Ethics and in the Company's mission, and entails defining concrete and measurable responsibilities and objectives in economic, environmental and social areas, in addition to Terna's specific responsibility for the electricity service.

From the point of view of sustainability, respect for the environment is particularly important. The physical presence of pylons, electricity lines and substations which interact with the landscape and biodiversity represent the most significant impact of Terna's activities. That is why Terna has chosen the approach of negotiation and coordination with Local Authorities, also involving potentially critical stakeholders such as the main environmentalist associations to take environmental needs into consideration from the early stages of planning new lines. Terna has also developed a management system to control and limit the environmental impact of its activities. Thus, consideration of environmental issues matches the Company's interest in implementing grid development investments and in the more general interest of community for a reliable, inexpensive and environmentally safe electricity system.

The results of this management approach, oriented towards continuous improvement through the definition of economic, social and environmental responsibility objectives are presented in the Sustainability Report, identified by the Code of Ethics as an instrument aimed at providing stakeholders with an account of the degree of implementation of its undertakings, and published yearly since 2006.

For the Sustainability Report relating to financial year 2014, the new G4 release of the international standard of the Global Reporting Initiative (GRI), the leading global organisation that develops guidelines on reporting sustainability, has been adopted. The Sustainability Report has also been submitted to an external auditing firm for analysis and to the Board of Directors for approval.

Among the main results in 2014 for CSR it is worth mentioning:

- the preparation of Terna's first Integrated Report. After three years of active participation in the Pilot Programme of the International Integrated Reporting Council (IIRC), in 2014 the first Integrated Report was published. This coincided with the Report on Operations of the Annual Financial Report;
- the new mapping of Terna's stakeholders, with annexed relevance analysis. The new mapping of stakeholders constitutes a further step - after the materiality analysis carried out in 2013 - in the direction of a stakeholder management model, the design of which will be completed in 2015. The goal is to reinforce and systematise company tools that can help to manage relationships with stakeholders, learn about their expectations and opinions and plan appropriate actions;
- updating of ISO 14001 environmental analysis and the BS OHSAS 18001 management system, in both cases to take new energy storage (battery) activities into account;
- the completion of an internal study on the effective level of compliance with the principles of the Global Compact, with further investigation of the part relating to human rights according to the indications found in the United Nations Ruggie Report;
- in terms of community initiatives, the completion of the first cycle of the "Here Come Grandma and Grandpa" initiative, for which a questionnaire was prepared in cooperation with SDA Bocconi to measure the effects on its beneficiaries.

In 2014, Terna was confirmed on all main international sustainability stock markets.

The relationship between financial, environmental and social performance is illustrated in an innovative way in the Integrated Report, which Terna prepares in line with the indications of the "International <IR> Framework" made available by the IIRC in December 2013.

Corporate Structure

In compliance with the provisions of the Italian legislation concerning listed companies, the Corporate Structure – based on the traditional administration and management model – includes the following:

- a Board of Directors responsible for the Company management. To this end, the Board is entrusted with the widest powers so as to complete all the actions that it deems appropriate for the pursuit and the attainment of the Corporate purpose, excluding only the action that the Law and the Bylaws reserve to the Shareholders' Meeting;
- a Board of Statutory Auditors responsible for monitoring: (I) that the Company complies with the Law, the Bylaws and the principles of correct administration in performing Company activities, (II) the adequacy of the Company's organisational structure, Internal Audit System and administrative/accounting system as well as those of the foreign subsidiaries outside of the EU. It is also responsible for carrying out all duties assigned to the Board of Statutory Auditors by Law and by the Corporate Governance Code for listed companies. Pursuant to the provisions of article 19 of Italian Legislative Decree 39/2010, it is the responsibility of the Board of Statutory Auditors to supervise the financial disclosure process, the efficiency of the internal audit systems, of internal reviews and of risk management, the statutory audit of annual and consolidated results and the independence of the auditing company;
- the Shareholders' Meeting – ordinary and extraordinary – that resolves upon, inter alia, (I) the appointment and revocation of members of the Boards of Directors and of Statutory Auditors and their fees and duties, (II) the approval of the Financial statements and allocation of the profits for the year, (III) the purchase and sale of treasury shares, (IV) amendments to the Bylaws; (V) the issue of convertible bonds; (VI) authorizations for actions carried out by Directors concerning Transactions with Related Parties for which there was no favourable opinion by the competent independent body, in compliance with governing regulations and based on procedures adopted by the Board of Directors as well as on urgent transactions submitted by the Directors to an advisory vote of the Shareholders' Meeting (Article 13.3 of the Bylaws); and (VII) during consultations pursuant to Article 123-ter, paragraph 6 of the Consolidated Law on Finance, on Company Policy on matters of remuneration of members of administration bodies, of general managers and of executives with strategic responsibilities;
- a Company Executive in Charge of the preparation of the Company's accounting documents, who is given all assignments and responsibilities provided by legislation and regulations as well as those provided for by the Corporate Governance Code (Article 7.C.2).

Statutory auditing activities are entrusted to a specialized company enrolled in the specific register of legal auditors, which is appointed by the Shareholders' Meeting on proposal by the Board of Statutory Auditors.

Terna's independent statutory auditors also have similar engagements with the Company's main subsidiaries.

It has been some time since the Organizational Model adopted by the Company pursuant to Legislative Decree no. 231/01 – which was recently updated based on the provisions of Legislative Decree 39/2010 – has provided that the auditing of the Company's Financial statements and that of any company of the Group and of the Consolidated financial statements is not compatible with consultancy activities for Terna or any company of the Group, extending such compatibility to the entire network of the audit company as well as to shareholders, Directors, members of audit bodies and employees of the audit company and of the other companies belonging to the same network. In addition, in Terna, any assignments to the auditing firm other than that made under the terms of law, but in any event related to auditing activities, are submitted for authorisation to the Control and Risk Committee (now Control, Risk and Corporate Governance Committee). In order to ensure independence of the company and of the officer in charge of auditing, the assignment for the statutory audit of the Company's financial statements and that of any company of the Group and of the consolidated financial statements is not in any case given to audit companies that fall within one of the incompatibility scenarios pursuant to Article 17 of Italian Legislative Decree no. 39/2010 and Part III, Title VI, paragraph *I bis* of the Issuers Regulation.

The Shareholders' Meeting of May 27, 2014 approved the changes to Articles 4.1, 10, 14.3, 15.5 and 26.2 of the Company's Bylaws consequent to the resolutions of the Italian Regulatory Authority for Electricity Gas and Water (AEEGSI) nos ARG/com 153/11 and 142/2013/R/EEL with which the AEEGSI regulated the certification procedures of the electricity transmission operator and adopted the final decision on certifying Terna as electricity "transmission system operator".

Terna's Board of Directors, meeting on December 18, 2014, also approved a number of updates to the Bylaws to make their contents comply with new legal rules and eliminate references to certain delegated powers to increase the share capital which, now going back some time, had already been carried out.

In particular, implementing Italian Law Decree no. 21 of March 15, 2012, converted into law by Art. 1, paragraph 1, of Italian Law no. 56 of May 11, 2012, ("Golden Power Decree"), the clauses on the subject of special powers present in Terna's Bylaws and certain outdated transitory rules relating to the last sentence of Art. 6.4 (which, following the overall changes to the Bylaws, is renumbered as Art. 6.3) were eliminated, as were the clauses of Art. 5 (Arts 5.3, 5.4 and 5.5), which had become ineffective, relating to the delegated powers for share capital increases serving stock option plans.

Section II Information on ownership structures (pursuant to Article 123-bis, paragraph 1 of the Consolidated Law on Finance)

Share capital structure (pursuant to Article 123-bis, paragraph 1, letter a) of the Consolidated Law on Finance)

The Company's share capital as of March 26, 2015 amounts to € 442,198,240.00 and exclusively comprises nominative ordinary shares, for a total of 2,009,992,000 Terna ordinary shares with a face value of € 0.22 each, fully paid-up. Each share gives the right to one vote at both ordinary and extraordinary Shareholders' Meetings observing the limits set by current legislation and by the Bylaws. Ordinary shares grant further administrative and financial rights as provided for by the Law governing shares with voting rights.

Since June 23, 2004, Terna shares have been listed on the Italian stock exchange organised and managed by Borsa Italiana S.p.A., in the Electronic Stock Exchange (*Mercato Telematico Azionario "MTA"*) – Large Cap (or Blue Chip) segment comprising the 40 businesses that are most capitalised with the greatest level of liquidity and belong to the *Financial Times Stock Exchange – Milano Indice di Borsa* (FTSE MIB).

Pursuant to Article 5.2 of the Company Bylaws, the Shareholders' Meeting can approve capital increases through share issuance, also belonging to special categories, to be assigned free of charge pursuant to Article 2349 of the Italian Civil Code for employees, or rather as payment, and with the exclusion of the option right under Article 2441 of the Civil Code, in favour of subjects identified by shareholders.

The Company did not issue other financial instruments granting the right to subscribe newly issued shares.

Terna did not issue shares that were not negotiated on regulated markets of a country in the EU.

Significant interests in share capital and shareholders agreements (pursuant to Article 123-bis, paragraph 1, letters c) and g) of the Consolidated Law on Finance)

On the basis of the shareholders' book, communications received pursuant to the Issuers Regulation, and available information, and with reference to the Company's share capital as of March 26, 2015, equal to € 442,198,240.00 for a total of 2,009,992,000 Terna ordinary shares with a face value of € 0.22 each, the following investors hold an interest in the share capital in excess of the significance thresholds specified by CONSOB:

- CDP Reti S.p.A. (a joint-stock company controlled by Cassa Depositi e Prestiti S.p.A. in which in turn the Ministry for the Economy and Finance of the Italian Republic holds 80.1%), with 29.851% of the share capital;
- People's Bank of China, which holds 2.010% of the share capital.

On the basis of this evidence, as of December 31, 2014 the following investors held a stake in the capital in excess of the significance thresholds specified by CONSOB:

- CDP Reti S.p.A. (a joint-stock company controlled by Cassa Depositi e Prestiti S.p.A. in which in turn the Ministry for the Economy and Finance of the Italian Republic holds 80.1%), with 29.851% of the share capital.

BlackRock Inc. (with reference to shares held through management companies of the BlackRock Group, by way of asset management), declared that it was applying the exemption established under Article 119-bis, paragraphs 7 and 8 of the Issuers Regulation, as amended by CONSOB Regulation no. 18214, which came into force on June 6, 2012. Therefore, as from June 6, 2012, BlackRock Inc.: (i) requested that the investments declared previously in Terna, in excess of 2% and less than 5%, not be considered significant in terms of the disclosure obligations; (ii) declared that it be kept beneath the new medio tempore significance threshold established by the entry into force of CONSOB changes; and (iii) that it held (through management companies of the BlackRock Group, by way of asset management), as of November 8, 2012, an interest equal to 2.73% of the share capital.

No other investors own more than the significance thresholds indicated by CONSOB in Terna S.p.A.'s share capital.

With reference to the control situation in particular we can state that in a letter of October 30, 2014, Cassa Depositi e Prestiti S.p.A. ("CDP") made known that it had sold the entire equity investment held in Terna of 29.851% of the share capital to CDP Reti S.p.A. ("CDP Reti"), a company at that time wholly owned by CDP stating that there had been "no change in the de facto controlling relationship existing between CDP and Terna, declared in the communication of April 19, 2007". With a subsequent letter dated December 2, 2014, CDP made it known that:

- on the one hand, on November 27, 2014, it had sold a total stake of 40.898% in the share capital of CDP Reti to State Grid Europe Limited ("SGEL" or "the Investor") - a company wholly controlled by State Grid International Development Limited ("SGID"), of the State Grid Corporation of China Group - and to a group of Italian institutional investors and that, as a result of the said equity sale transaction, the controlling interest held by CDP in CDP Reti was made up of 95,458 category A shares, representing 100% of the category A shares and 59.102% of the share capital;
- on the other there had been instead "no change in the other data previously communicated in relation to the above equity investments".

In this regard we can state also that, in the context of shareholders' agreements signed by CDP, SGEL and SGID on November 27, 2014 and in relation to CDP Reti, Snam S.p.A. and Terna as below, CDP confirmed that it had exclusive control by right over CDP Reti.

As regards the agreements between shareholders we can state that, the only shareholders' agreement currently in being of which the Company is aware and relevant under the terms of Art. 122 of the Consolidated Law on Finance is the shareholders' agreement between CDP, SGEL and SGID, signed on November 27, 2014 and registered in the Rome Companies Register on December 1, 2014, as per the press release in the newspaper "Il Sole 24 Ore" of December 2, 2014 and the extract published on the websites of CONSOB and the Company (www.terna.it, in the section Investor Relations, under Shareholding Structure and Shareholders' Agreements) to which you are referred.

In this regard we can state in fact that, in a communication of August 5, 2014, CDP - in view of the sale transaction involving the equity interest in CDP Reti described above - communicated to the Company the essential information, under the terms of Art. 122 of the Consolidated Law on Finance and of Arts 127 and 130 of the Issuers Regulation, contained in the sale contract signed for the purpose on July 31, 2014 and published on the Company's website.

After the equity sale transaction, CDP communicated to the Company that it had signed with SGEL and SGID, on the same date as the sale and replacing the previous agreements of July 31, 2014 with the same parties, a shareholders' agreement in relation to CDP Reti, Snam S.p.A. and Terna, which gives SGEL rights of governance, transmitting the essential information on this agreement.

The Shareholders' Agreement contains (i) provisions regarding exercise of voting rights in Terna and in CDP Reti pursuant to Art. 122, paragraph 1, of the Consolidated Law on Finance; and (ii) clauses that place limits share transfers pursuant to Article 122, paragraph 5, letter b), of the Consolidated Law on Finance.

The duration of these agreements is set at 3 years from signing and automatic renewal for further periods of 3 years is provided for, subject to termination. If CDP communicates to the Investor its intention not to renew the agreement at least six months before the next expiry, the Investor will have the right to withdraw from CDP Reti.

As regards what we are concerned with here, the aforementioned agreement of November 27, 2014 attributes in particular to the Investor:

- with reference to CDP Reti
 - the right to appoint two of the five members of the Board of Directors of CDP Reti, while CDP retains the right to designate the others;
 - the right to appoint one standing auditor and one alternate auditor as long as the Investor holds an interest of at least 20% of the share capital of CDP Reti, while the Chairman of the board of auditors will in any case continue to be chosen from among the standing auditors designated by CDP;
 - some matters reserved for the control of the Board of Directors relating, among other things, (i) to the budget and business plan, (ii) to proposals to amend CDP Reti's bylaws, (iii) to decisions concerning the list of candidates to be presented for the purpose of renewing Terna's Board of Directors, (iv) to decisions on exercising CDP Reti's voting rights at Terna's extraordinary shareholders' meetings, (v) to the transfer, wholly or in part, of the 29.851% equity interest held by CDP Reti in Terna and to the purchase of any further Terna shares, if and to the extent to which this purchase gives rise to the obligation for CDP Reti to launch a mandatory takeover bid for Terna, (vi) to assumption of debt (further with respect to that existing when the agreement was signed) higher than certain thresholds and changes to the main terms and conditions of the loan agreements signed by CDP Reti before the agreement was signed, (vii) to proposals to distribute dividends and/or reserves and/or other distributions on the part of CDP Reti, (viii) to transactions with CDP Reti's related parties which are not at market conditions;
 - the Investor's right to veto resolutions under (v), (vi) and (vii) pursuant to the previous point, which cannot be adopted without a vote in favour of at least one of the directors designated by the Investor;
 - specific quorums for board resolutions that provide for the necessary participation of at least 1 member of CDP Reti's Board of Directors designated by the Investor, unless a new meeting of the Board is convened with the same agenda;
 - specific quorums for resolutions in CDP Reti's extraordinary shareholders' meetings, as long as the Investor holds an equity interest of at least 20% of CDP Reti's share capital, related to specific subjects, namely: share capital increases with the exclusion or limitation of shareholders' option rights, non-proportional demergers, mergers that do not regard companies wholly owned or 90% owned, changes to clauses in the bylaws that provide for rights protecting non-controlling shareholders;
 - the right to withdraw from CDP Reti if, among other things, for any reason, CDP's exclusive control by right over CDP Reti ceases (Change of Control);
- with reference to Terna and as long as the Investor holds an interest of at least 20% in CDP Reti's share capital
 - the right to designate a candidate to be included in the list of candidates for the position of Director of Terna, attributing to him or her a position in the list such as to guarantee appointment to him or her if the same obtains a majority of votes at Terna's Shareholders' Meeting.

According to the provisions of the law on the subject of mandatory takeover bids, in the context of the agreement illustrated it is forbidden respectively for the Investor and for CDP, by reason of the direct or indirect equity investment in CDP Reti, to purchase shares in Terna, directly or indirectly.

With regard next to certain agreements relating to intragroup transfers and those relating to the absolute non-transferability of equity investments held by the parties to such agreements in CDP Reti (“Absolute Non-Transferability”), we can note the specific one relating to the Non-Transferability of such equity investments to “a direct competitor of Snam and/or Terna - meaning by this any industrial subject the main business of which consists of managing natural gas and/or electricity transmission systems in the territory of the European Union and also any person who exercises control, directly or indirectly, including jointly, over this industrial subject” (“Non-Transferability to a Direct Competitor”).

In case of transfers of the equity investment to third parties, if one of the parties, following the transfer, comes to hold an equity interest in CDP Reti below 20% of its share capital, there is in any case provision for a reciprocal commitment by the parties to ensure that the Directors designated by it in CDP RETI and/or Terna will resign. The same commitment to ensure resignation of the Directors designated by the Investor in Terna is regulated when the Investor is no longer wholly owned, directly and/or indirectly by SGID. In the context of the said agreements specific provisions were also introduced that take account of the provisions of the Unbundling Legislation and of the rules of the corporate governance system of Terna, as the company operating in the electricity sector, aimed at guaranteeing observance.

In particular, the Investor undertook to ensure that the Director designated by it on Terna’s Board of Directors (if and to the extent to which this Director is not independent under the terms of Art. 148 of the Consolidated Law on Finance) abstains, as far as is permitted by law, from receiving information and/or documentation from Terna in relation to questions on which this Director has a conflict of interest on behalf of the Investor and/or of any subject affiliated to it, in relation to commercial opportunities in which both Terna and the Investor and/or a subject affiliated to it, has an interest and there may be competition (“Matters Involving Conflict”). In addition, this Director may not take part in the discussions of Terna’s Board of Directors concerning Matters Involving Conflict. Moreover, in order to resolve any breaches of the legislation on ownership unbundling wherein the Investor does not intend to comply with any prescriptions or measures imposed by the competent authorities, a specific exception to the rules of the agreement relating to Absolute Non-Transferability is provided for.

Powers to increase share capital and authorization for the purchase of treasury shares (pursuant to Article 123-bis, paragraph 1, letter m) of the Consolidated Law on Finance)

At the date of the present report, the Board of Directors has no delegated powers under the terms of Art. 2443 of the Civil Code to increase the share capital, nor authorisations to issue equity instruments or to purchase the Company’s own shares under the terms of Arts. 2357 and following of the Civil Code.

Terna does not own, nor has it purchased or sold during the year, including indirectly, treasury shares or shares of its parent company.

Employees’ shareholdings: system to express the right to vote (pursuant to Article 123-bis, paragraph 1, letter e) of the Consolidated Law on Finance)

The system for expressing the right to vote during the Shareholders’ Meeting through shareholding associations, including employee’s shareholding groups, is regulated based on the existing specific legal provisions on the subject.

Based on the provisions regarding the special legislation on listed companies, Terna’s Bylaws introduced a special provision aimed at facilitating the collection of voting proxies with its employee shareholding groups as well as those of its subsidiaries, encouraging in this way the relative involvement in meeting decision-making processes (Article 11.1 of the Bylaws).

As of March 26, 2015 the Company had not received any notification of the establishment of employee shareholding groups.

Change of control clauses (pursuant to Article 123-bis, paragraph 1, letter h) of the Consolidated Law on Finance) and statutory provisions regarding takeover bids (pursuant to Article 104, paragraph 1-ter, and 104-bis, paragraph 1 of the Consolidated Law on Finance)

Regarding significant agreements which Terna or any of its subsidiaries are parties of, and that come into effect, are amended, or expire in the event of shareholding change within Terna, the following should be noted.

The loan contracts stipulated with the European Investment Bank (EIB) include mandatory advance repayment clauses in the event the Company carries out or is involved in a merger, a split or transfer of a Company branch.

Should such events occur, the EIB will have the power to request any information that the latter may reasonably require regarding the Company situation, in order to understand any changes and relative consequences regarding the Company’s commitments towards the Bank. In such cases, should the EIB deem, according to its indisputable judgement, that these transactions may have negative consequences on the commitments undertaken by the Company, the bank itself will have the power to request the necessary changes in the loan contracts or alternative solutions that satisfy the Bank itself, such as early reimbursement of the loan.

On the subject of takeover bids and public offers to exchange, the bylaws do not provide for any exceptions to the provisions of the Consolidated Law on Finance on the passivity rule provided for in Art. 104, paragraphs 1 and 1-bis, of the Consolidated Law on Finance, nor are the neutralisation rules contemplated in Art. 104 bis, of the Consolidated Law on Finance provided for, without affecting – under the terms of Art. 104 bis paragraph 7, of the Consolidated Law on Finance – the rules of the bylaws and laws on the subject of limits on share possession and voting rights, pursuant to Art. 3 Law Decree no. 332 of May 31, 1994 converted with amendments by Law no. 474 of July 30, 1994 and subsequent amendments and additions (the “Privatisation Law”).

Restrictions on share transfer and shares granting special powers (pursuant to Article 123-bis, paragraph 1, letters b) and d), of the Consolidated Law on Finance)

There are no limits in the bylaws on the free availability of shares, except as already described in the previous section under “Significant interests in the share capital and shareholders’ agreements” in relation to the shareholders’ agreement signed by CDP, SGEL and SGID and to the provisions of the Bylaws in relation to the rules on the subject of privatisations of Law Decree no. 332 of May 31, 1994 converted with amendments by Law no. 474 of July 30, 1994 and subsequent amendments and additions – the “Privatisation Law”.

In particular, pursuant to Italian regulations concerning privatisations, Terna’s Bylaws establish a “maximum shareholding limit” – equal to a direct and/or indirect ownership of Terna’s shares of more than 5% of the share capital – for subjects other than the Italian Government, public bodies and entities subject to their respective control: application of these provisions, in some circumstances as indicated by the Bylaws, also has effects on voting rights.

The “maximum shareholding limit” (provided for by Article 6.3 of the Bylaws and pursuant to Article 3 of the “Privatisation Law”) is calculated also considering total share ownership related to the Parent Company, natural person or legal entity or company; to all direct and indirect subsidiaries as well as the subsidiaries under the same controlling subject; to all associated subjects as well as to natural persons bound by parental or affinity relationships up to second degree and by marriage, providing the spouse is not legally separated. Control occurs, also with reference to subjects other than companies, in cases provided for by Article 2359, paragraphs 1 and 2, of the Italian Civil Code. Association occurs in cases under Article 2359, paragraph 3, of the Civil Code, as well as between subjects who, directly or indirectly, through subsidiaries other than those managing common investment funds, stipulate, also with third parties, agreements related to the exercise of voting rights or to the transfer of shares or portions of third-party companies or, anyway, to agreements or pacts as per Article 122 of the Consolidated Law on Finance, with reference to other companies, if these agreements or pacts refer to at least 10% of the share capital with voting rights, in the case of listed companies, or 20% in the case of non-listed companies. With reference to the calculation of the above-mentioned limit of share ownership (5%), shares owned through trustees and/or through a third party and, generally, through an intermediary are also considered.

This limit established for share ownership - in accordance with the provisions of Article 3, paragraph 3 of the “Privatisation Law” - in any case fails to apply where it is exceeded as a result of a public takeover bid, as long as the bidder, following the offer, holds a stake of at least seventy-five percent of the capital with voting rights regarding the appointment or revocation of directors.

The right to vote related to share ownership exceeding the above-mentioned maximum limit cannot be exercised and proportionally reduces the right to vote of each subject to whom the limit in share ownership refers, except in the event of joint communications by the involved shareholders. In case of non-compliance, the decision can be appealed under Article 2377 of the Civil Code if the requested majority would not be achieved without the votes exceeding the above-mentioned limit. Shares for which the right to vote cannot be exercised are nevertheless included in calculations for the regular formation of the Shareholders’ Meeting.

As a result of abrogation of the rules contained in Art. 2, paragraph 1, of the Privatisation Law on the subject of “special powers” exercisable by the Italian State (represented to this end by the Ministry for the Economy and Finance, irrespective of the quantity of any Terna shares held by the said Ministry), which occurred with entry into force, from June 7, 2014, of both Presidential Decree no. 85 of March 25, 2014 (in O.J. June 6, 2014 containing “*Regulations for the identification of assets of strategic relevance in the energy, transport and communications sector, pursuant to Article 2, paragraph 1, of Law Decree no. 21 of March 15, 2012*” and the provisions of Law Decree no. 21 of March 15, 2012, converted into law by Art. 1, paragraph 1, of Italian Law no. 56 of May 11, 2012, (henceforth the “Golden Power Decree”), the clauses on the subject of “special powers” present in Terna’s Bylaws ceased to have effect, and were eliminated with a resolution of the Company’s Board of Directors of December 18, 2014 (as described above, under “Corporate Structure”).

On the basis of the provisions of the “Golden Power Decree”, parliament in fact laid down new provisions on the special powers of the government “in relation to strategic activities in the energy, transport and communications industries”, in order to standardise national legislation with the legislation of the European Union, assigning the Government powers of intervention to protect the lawful, essential and strategic interests of the country.

These provisions, set out under Articles 2 and 3 of the “Golden Power Decree” basically state:

- the issue of specific regulations, to be updated at least once every three years, aimed at identifying “*the grids and systems – including those needed to ensure the minimum provisioning and operations of essential public services, assets and reports of strategic relevance for the national interests in the fields of energy, transport and communication, and the type of acts or operations within a single group to which the regulations of this Article do not apply*”;
- the obligation to notify the Administrative Coordination Department of the Prime Minister’s Office – within 10 days and in any case before implementation – of resolutions, acts and operations adopted by a company holding one or more of the assets as identified above, which result in:
 - changes to the ownership, control or availability of the assets;
 - the change in their purpose, including resolutions of the Shareholders’ Meeting or administrative bodies concerning the merger or spin-off of the company;
 - the transfer of the company offices abroad;
 - a change to the company purpose;
 - wind-up of the company;
 - the amendment of any statutory clauses adopted in accordance with Article 2351, third paragraph of the Italian Civil Code, or introduced in accordance with Article 3, paragraph 1 of the “Privatisation Law”, as most recently amended by Article 3 of the same Decree;
 - the transfer of the business or a business unit encompassing these assets;
 - the assignment of them by way of guarantee;

and the obligation to notify resolutions passed by the Shareholders’ Meeting or administrative bodies concerning the transfer of subsidiaries holding said assets;

- the Prime Minister’s power to veto adopted – on the proposal of the Ministry for the Economy and Finance and on compliant resolution of the Council of Ministers – on resolutions, acts or operations notified that give rise “*to an exceptional situation, not regulated by national and European segment legislation, of a threat for serious damages to public interests concerning the safety and operation of the grids and systems and the continuity of service provision*”. The power to veto can also be exercised in the form of the imposition of specific provisions or conditions where such suffices to ensure the protection of the public interests in relation to the safety and operation of the grids and plants and the continuity of service provision. The veto is announced within 15 days of communication; said terms may be suspended once only for a request for information and until receipt of such, which must be within 10 days.

The resolutions, acts or operations adopted or implemented in breach of the disclosure obligations or in breach of the conditions, provisions or veto established by the Government are null. The Government may also demand that the company and any counterparty restore the previous situation at its own expense. Anyone not complying with the provisions relating to notification and veto, unless the action is a crime, is subject to the administrative sanctions specified in the “Golden Power Decree”;

- the obligation to notify the Administrative Coordination Department of the Prime Minister’s Office – within 10 days – of acquisitions for any reason, by a subject, whether natural person or legal entity, external to the European Union, or “*which does not have residence, usual place of domicile, registered office or administration or main centre of business in a European Union Member State or State of the European Economic Area or which is not in any case established therein*” of majority shareholdings in companies holding the assets identified as strategic “*of relevance such as to determine the permanent establishment of the buyer by virtue of the assumption of control over the company whose investment has been acquired*”. The notice is accompanied “by all information useful to providing a general description of the acquisition project, the buyer and its operational scope”. In calculating the significant shareholding, consideration is also taken of the investment held by third parties with which the buyer has stipulated shareholders’ agreements;
- the power of the Prime Minister, within 15 days from the notification of said acquisitions and to be exercised, at the request of the Ministry for the Economy and Finance, in accordance with paragraph 8 of said Article, and by compliant resolution of the Council of Ministers, sent at the same time to the appointed parliamentary commissions, to:
 - subject the effect of the acquisition to the assumption by the buyer of commitments intended to guarantee the protection of the essential interests of the Government “*in relation to the safety and functioning of the grids and plants and the continuity of service provision*” where the acquisition entails a threat of serious prejudice to said interests, or
 - oppose the acquisition, in exceptional cases of risk to the protection of the mentioned essential interests of the Government, which cannot be eliminated through the assumption of the above commitments.

Once these terms have expired, the operation can be implemented.

Until notification and expiry of the terms for the potential exercise of the special powers relating to the indicated acquisitions, voting rights and other non-capital rights connected with the shares representing the significant investment are suspended, just as such rights are suspended in the event of failure to comply with the commitments set as a condition of the admissibility of the acquisition, for the entire period for which the breach continues. Any resolutions passed with the determining vote of said shares or in any case resolutions or acts adopted in breach or infringement of the conditions set, are null. Any buyer failing to comply with the commitments required is also subject, unless the action is a crime, to the administrative sanctions specified in said “Golden Power Decree”.

In the event that the power of opposition is exercised, the buyer may not exercise voting rights and in any case those rights with a different nature to that of the capital rights connected with shares, which represent the significant shareholding. Any meeting resolutions adopted with the determining vote of said shares are null. Shares must be sold within 1 year and, in the event of failure to comply, at the request of the Government, the court orders the sale of said shares.

Without prejudice to the provisions commented on above, the acquisition, on any basis, by a party outside the European Union is permitted at mutual conditions, in compliance with the international agreements signed by Italy or by the European Union:

- the special powers of veto and opposition to acquisitions are exercised on the basis of objective criteria, such as:
 - the existence of connections between the operators involved and: (a) third party countries that do not recognise principles of democracy or the rule of law, which do not comply with rules of international law, or which have presented risk with regard to the international community, given the nature of their alliances; or (b) criminal organisations or subjects or entities connected to them;
 - the suitability of the structure resulting from the legal act or the operation to guarantee: (a) the security and continuity of service provision; (b) the maintenance, security and operation of grids and systems.

The procedures for notifications and for activating the “special powers” were regulated by Presidential Decree no. 86 of March 25, 2014 in O.J. June 6, 2014 (henceforth “Procedure”) and by Prime Ministerial Decree “of August 6, 2014, registered at the Italian Court of Auditors on September 26, 2014, containing rules on coordination activities of the Prime Minister’s Office preparatory to the exercise of special powers on corporate structures in the defence and national security sectors, and on activities of strategic importance in the energy, transport and telecommunications sectors” pursuant to the notice of publication that appeared in O.J. no. 229 of October 2, 2014, which implemented the rules of the Procedure identifying the competent offices involved (henceforth “implementing PMD”).

The Bylaws do not provide for multiple-vote shares (under the terms of Art.127 *sexies* of the Consolidated Law on Finance) or increased-vote shares (under the terms of Art.127 *quinquies* of the Consolidated Law on Finance).

Voting Restrictions (pursuant to Article 123-bis, paragraph 1, letter f) of the Consolidated Law on Finance)

Pursuant to the privatisation law, certain restrictions exist (under Articles 6.3 of the Bylaws) to the right to vote related to the limits of share ownership as mentioned above. Further restrictions are provided for on the basis of the rules laid down in the Golden Power Decree, according to the indications of the section above, in connection with activities preparatory to the exercise of special powers in relation to acquisitions for any reason, by a subject, whether natural person or legal entity, external to the European Union, or “*which does not have residence, usual place of domicile, registered office or administration or main centre of business in a European Union Member State or State of the European Economic Area or which is not in any case established therein*”, of controlling equity investments in Terna and, also, in the event that the power of opposition is exercised.

Finally, further restrictions are applied to operators of the electricity sector (as provided for by Article 3 of the Prime Ministerial Decree of May 11, 2004 as regards “*criteria, methods and conditions for unification of ownership and management of the National Transmission Grid*”) for which a limit of 5% of the share capital was established for exercising the right to vote on appointing Directors (Article 14.3 letter e) of the Company Bylaws.

As regards expression of the right to vote at Shareholders’ Meetings, please see the description in “Section XVI: Shareholders’ Meetings” below, on the subject of the rules in the Bylaws (pursuant specifically to Arts 10.2, 14.3 lett. f) and 26.2) introduced by the Company’s Shareholders’ Meeting of May 27, 2014 (as described above under “Corporate Structure”) which identify cases of conflict of interest for the purposes of Art. 2373 of the Italian Civil Code to comply with the provisions of Directive 2009/72/EC, Italian Legislative Decree no. 93 2011 and the resolutions of the Authority for Electricity, Gas and Water (AEEGSI) nos ARG/com 153/11 and 142/2013/R/EEL with which the AEEGSI regulated the certification procedures of the electricity transmission operator and adopted the final decision on certifying Terna as electricity “transmission system operator”.

Appointment and substitution of Directors and amendments to the Bylaws (pursuant to Article 123-bis, paragraph 1, letter I) of the Consolidated Law on Finance)

Appointment, requirements and term of office of Directors

The terms for appointing the members of the Board of Directors are governed by Article 14 of the Bylaws.

As resolved upon by the Meeting, the Board of Directors is made up of seven to thirteen members who are appointed for a period of no longer than three years (Article 14.1 of the Bylaws) and they may be reappointed at the end of their term (Article 14.2 of the Bylaws).

The Chairman is appointed by the Shareholders' Meeting among the members of the Board (Article 16.1 of Bylaws and Article 2380-bis, paragraph 5 of the Civil Code), and if this is not possible, by the Board itself. The Board can appoint a Deputy Chairman.

The appointment of the entire Board of Directors takes place – in compliance with the privatisation law and in compliance with the provisions of the Italian Law for listed companies – according to the mechanism of “list voting”, governed by Article 14.3 of the Bylaws, aimed at guaranteeing the presence in the management body of members designated by minority shareholders equal to 3/10 of the Directors to be appointed, rounding up in case of a fraction.

In accordance with the provisions of Article 4, paragraph 1-bis of the “Privatisation Law”, of Article 147-ter of the Consolidated Law on Finance and the implementing regulations of the above-mentioned legislative provisions included in Articles 144-ter and following of the Issuer Regulation, the elective system establishes that the lists of candidates can be submitted by the outgoing Board of Directors or by shareholders who, alone or with other shareholders, represent at least 1% of the share capital as provided for by the law – or a lower amount, as established by the law, of the shares with voting rights in the Meeting. For this purpose CONSOB, implementing the provisions of Art. 147-ter of the Consolidated Law on Finance and Article 144-septies of the Issuers Regulation, has established – with Resolution no. 19109 dated January 28, 2015 and for the year ended December 31, 2014 – the minimum equity interest required for submitting candidate lists to be appointed to Terna's administrative and auditing bodies at 1% of the share capital, taking into account the Company's capitalisation, and without prejudice to any lower stake provided for in the Bylaws. The presentation, filing and publication of the lists are regulated by specific referral of the Bylaws, by applicable legislation and regulation and, where required by the Bylaws, by indications provided by the Company in the notice convening the shareholders' meeting. More specifically, the presentation and filing of the lists must take place – in accordance with Article 147-ter, paragraph 1-bis of the Consolidated Law on Finance, at least 25 days prior to the date scheduled for the Shareholders' Meeting called to resolve on the appointment of the members of the Board of Directors.

Ownership of the minimum stake required to submit lists shall be determined – in accordance with the provisions of Article 147-ter, paragraph 1-bis of the Consolidated Law on Finance – by taking into account the shares that are registered in the name of the Shareholder(s) on the day on which the lists are filed with the Company. In order to prove ownership of the number of shares necessary for presenting the lists, shareholders with rights must present and/or deliver the related documentation issued in accordance with Article 23 of the “Regulation governing the centralised management services, liquidation, guarantee systems and related management companies” as in force (adopted by the Bank of Italy/CONSOB on February 22, 2008 as subsequently amended, the “single measure”), also after filing the list, as long as within the terms envisaged for publication of the lists (i.e. at least 21 days before the date set for the Shareholders' Meeting called to resolve on appointment of the administrative body). Each Shareholder may present or assist in the presentation of one single list and each candidate may be on one list only or will be considered ineligible. The lists shall set out candidates according to a progressive number (Article 14.3 of the Bylaws). Lists with three or more candidates must include candidates of different gender, in accordance with the provisions of the notice convening the meeting, in order to enable a Board of Directors to be formed in compliance with current legislation on the balance of gender in the administrative and auditing bodies of companies with listed shares pursuant to Italian Law no. 120 of July 12, 2011 and Article 147-ter, paragraph 1-ter of the Consolidated Law on Finance in accordance with the provisions of Articles 14.3 and 31.1 of the Company Bylaws.

The lists specify which candidates meet the independence requirements established by the law and the Bylaws (Article 147-ter of the Consolidated Law on Finance and Article 15.4 of the Company Bylaws) and all other information or declarations required by the legislation and regulations applicable and by the Bylaws for the respective positions.

As concerns the personal characteristics of the candidates and on the basis of that specified under Articles 2.P.3 and 3.C.3 and in the Comment to Article 2 of the Corporate Governance Code, in the notice convening the shareholders' meeting, shareholders are specifically asked, when preparing lists, to evaluate the characteristics of the candidates, also as concerns their professional characteristics, experience, including managerial experience, and gender, in relation to the dimensions of the Company and specific nature of the sector in which it operates.

Moreover, in accordance with that specified in the Comment under Article 5 of the Corporate Governance Code, the lists of candidates must also be accompanied by an indication of their potential suitability to be classified as independent, in accordance with Article 3 of said Code. In this regard, together with the lists, according to a specific mention included in the notice convening the meeting, the certification of each candidate must also be filed, at their own responsibility, stating whether they are able to be classified as independent in accordance with Article 3 of said Code.

The lists must include declarations with which each candidate accepts his or her candidacy and states, under his or her own responsibility, the non-existence of reasons for ineligibility and incompatibility (including those provided for in Art. 15.5 of the Bylaws introduced by the Shareholders' Meeting of May 27, 2014 for all the Company's Directors, to comply with the provisions of Directive 2009/72/EC, Italian Legislative Decree no. 93 2011 and the resolutions of the Authority for Electricity, Gas and Water (AEEGSI) nos ARG/com 153/11 and 142/2013/R/EEL with which the AEEGSI regulated the certification procedures of the electricity transmission operator and adopted the final decision on certifying Terna as electricity "transmission system operator"), and the information required by Article 144 *octies*, paragraph 1, letter b) of the Issuers Regulation and all other information required by applicable law and regulations, and by the Bylaws.

Shareholders presenting a "minority list" are addressees of the CONSOB communication no. DEM/9017893 of February 26, 2009 (concerning the "Appointment of the members of the administrative and auditing bodies"), which recommends that they file, together with the list, a declaration certifying the lack of any connection pursuant to Article 147-*ter*, paragraph 3 of the Consolidated Law on Finance, setting out the information listed in said Communication with regard to the election of the administrative body.

The lists, complete with information on the specific characteristics of the candidates and the additional declarations and information envisaged by Article 144-*octies*, paragraph 1 of the Issuers Regulation and CONSOB Communication no. DEM/9017893 of February 26, 2009, are made available to the public – in accordance with Article 147-*ter*, paragraph 1-*bis* of the Consolidated Law on Finance – at the company's headquarters, on the company's website and according to the methods set out by CONSOB, at least 21 days prior to the date of the Shareholders' Meeting called to resolve on the appointment of the members of the Board of Directors, thereby guaranteeing a transparent procedure for the appointment of the Board of Directors.

The Director must meet the requirements of integrity, professionalism and independence envisaged by the Company Bylaws. More specifically, the Company's Directors must meet certain integrity and professionalism requirements, similar to those required by the Auditors of listed companies (Article 15.2 of the Bylaws). The appointed Directors must communicate without hesitation the loss of requirements as per current regulations and according to the Bylaws to the Board of Directors, as well as any possible cause of ineligibility or incompatibility (Article 14.3 of the Bylaws).

As regards the requirements of professionalism, the Bylaws (Article 15.3) provide that those who have not accrued experience of at least three years cannot be appointed as Director, and if they are, they must step down:

- administrative, auditing and management activities in companies having a share capital not lower than € 2 million; or
- professional activities or university teaching in legal, economic, financial and technical/scientific subjects and closely related to the activities of the Company as defined in Article 26.1 of the Bylaws; or
- management roles in public bodies or public authorities in the finance and insurance fields or in fields closely related to that of the Company, as defined by the Article 26.1 of the Bylaws (subjects such as business law, tax law, business economics and finance, as well as subjects linked to energy in general, and network communications and structures, are to be considered as closely related to the Company's scope of activities).

With stricter application compared to the provisions of Article 147-*ter* paragraph 4 of the Consolidated Law on Finance, at least 1/3 of the Directors in office must also be in possession of specific independence requirements under Article 15.4 of the Bylaws based on the requirements of the Auditors indicated by Article 148, paragraph 3 of the Consolidated Law on Finance; furthermore, taking into account the specific activity carried out by the Company, the independence requirements set out by Article 15.5 of the Bylaws are applicable to Executive Directors.

The presence of "Independent" Directors as provided for by the Corporate Governance Code becomes important in the composition of the Board Committees, as provided for by the Code itself and by the Related-Party Transactions Committee established within Terna for implementing the provisions of CONSOB Regulations that include provisions regarding related-party transactions issued with Resolution no. 17221 dated March 12, 2010 and subsequently amended with Resolution no. 17389 dated June 23, 2010.

The Board of Directors assesses the presence of integrity, professionalism and independence requirements, for every one of its members and periodically assesses the presence of independence requirements for every one of its non-executive members, on the basis of the information supplied by each member.

The Company has put in place a specific internal procedure that defines the criteria for assessing the independence of the non-executive members and for assessing the requirements necessary according to the Bylaws and the Corporate Governance Code ("Criteria of application and procedure for assessing the independence of Directors pursuant to Article 3 of the Corporate Governance Code"). This procedure, recently updated with the resolution of December 19, 2012, in line with the new provisions of the Corporate Governance Code, provides for the assessment of requirements following appointment, every time events take place that could interfere with the independence of a Director and in any case at least once a year (generally in the 30 days before approval of the draft financial statements).

To this end, Directors are asked for the information necessary to allow the Board to make its assessment. Additionally, considering that established by Article 5 of the Corporate Governance Code, it is established that non-executive directors who have declared their independence undertake to maintain that requirement for the entire duration of the appointment, submitting these requisites to verification by the Board of Directors.

If applicable, this can also be carried out with reference to criteria that differs partially from that identified and disclosed in accordance with the requirements of the Governance Code (Article 3.C.4).

On the basis of the procedure for appointing the Directors according to the “list voting” mechanism governed by Article 14.3 of the Company Bylaws, each person with the right to vote can only vote one list in the shareholders’ meeting. Seven tenths of the Directors to be elected (rounding down, if the proportion results in a fraction of less than one) are taken in the progressive order in which they are listed, from the list that obtained the greatest number of shareholder votes. The remaining directors are taken from the other lists (the “minority lists”), applying, to this end, the specific rules dictated under letters b) and c) of said Article 14.3.

If, once voting is complete, the requirements laid down by legislation on gender balance should not be met, Article 14.3, letter c-bis) of the Company Bylaws provides for the preparation of a new decreasing list of all candidates elected on the various lists (including the list that obtained the greatest number of votes) and the replacement of the candidate of the gender most represented but which obtained the lowest level of the list, with the first candidate of the gender least represented and not elected, belonging to the same list as the candidate replaced; this is without prejudice to compliance with the minimum number of independent directors established by the Bylaws. If quotas are equal, the replacement is taken from the list that obtained the most votes, without prejudice to the minimum number of independent directors established by the Bylaws. If there are no candidates on that list, the procedure continues with the legal majorities, respecting a proportional representation of minorities in the Board of Directors. If more than one candidate of a different gender to that of the other candidates elected should need to be appointed, the substitution procedure specified will be carried out starting from the bottom of the hierarchical list and moving upwards until the requirements of the legislation have been met.

The provisions of the Bylaws - introduced by Shareholders’ Meeting resolution of May 16, 2012 - aimed at guaranteeing compliance with current legislation on gender balance, apply, in accordance with the provisions of Article 31.1 of the Company Bylaws, to the first three renewals of the Board of Directors following the entry into force and effectiveness of the provisions of Article 1 of Italian Law no. 120 of July 12, 2011, published in Official Journal no. 174 of July 28, 2011 and in force as from August 12, 2011, without prejudice to any further extensions as may be provided for by law. In particular these provisions were first applied on the occasion of renewal of the corporate bodies whose office expired on approval of the 2013 financial statements resolved by the Shareholders’ Meeting of May 27, 2014.

According to the provisions of Article 147-ter, paragraph 3 of the Consolidated Law on Finance, at least one of the members of the Board of Directors should be appointed by the minority list that has obtained the highest number of votes and is not connected in any way, including indirectly, with the members who have submitted or voted the list with the majority of votes.

For the appointment of directors who, for any reason, are not elected according to the “list voting” procedure, the shareholders’ meeting resolves with the legal majorities and in such a way as to in any case ensure:

- the presence of the necessary number of directors meeting the independence requirements established by law (i.e. at least one director, if the board numbers no more than seven members, or two directors if the board numbers more than seven members);
- compliance with current legislation on gender balance.

Finally, the Bylaws establish a limit for electrical industry operators of 5% of the share capital as concerns the exercise of voting rights when appointing Directors, in accordance with that specified under the above-mentioned section. These restrictions are aligned with those laid down, more generally, for exercising voting rights at shareholders’ meetings implementing the law on the subject of privatisations currently in force and linked to the limits on share possession regulated by Article 6.3 of the Bylaws, according to what has already been described in the previous section under “Restrictions on share transfer and shares granting special powers”.

Any replacement of Directors will be carried out pursuant to Article 2386 of the Civil Code.

In any case, the replacement of Directors who have stood down is assured by the Board of Directors, guaranteeing the necessary number of Directors meeting the independence requirements laid down by the law and by Article 15.4 of the Bylaws and compliance with current gender-balance legislation.

If the majority of the Directors appointed by the Shareholders’ Meeting is not met, the entire Board of Directors is considered as having resigned and the Shareholders’ Meeting must be called without delay by the Directors still in office in order to appoint a new Board.

When the Directors are elected, in any of the ways provided for in the Bylaws, the specific provisions of the Bylaws (specifically Art. 14.3 lett. f of the Bylaws) on the subject of conflict of interest also apply for the purposes of Art. 2373 of the Italian Civil Code introduced under the terms of Directive no. 2009/72/EC of July 13, 2009, and of Italian Legislative Decree no. 93 of June 1, 2011, illustrated in more detail in Section XVI: “Shareholders’ Meetings” below.

Succession Plans

Considering the ownership structures of Terna and the concentration of shareholders, the Board of Directors resolved on March 20, 2012 – with reference to the provisions of paragraph VIII of the “Guidelines and transitional regime” which brought forward to last year the disclosure obligations with regard to the provisions of today’s Article 5.C.2 of the Governance Code for issuers belonging to the FTSE-MIB index – not to proceed with an assessment of succession plans for the Executive Directors. In any case, at its meeting on May 27, 2014, the Board of Directors set up the Appointment Committee, as described in more detail in Section VII: “Appointment Committee”, to which it attributed the task of supporting the Board of Directors, with fact-finding, recommendatory and advisory functions, in the assessments and decisions relating to the size and composition of the Board itself.

Amendments to the Bylaws

With regard to regulations applicable to the amendments to the Bylaws, the extraordinary Shareholders’ Meeting resolves on the matter with the majority envisaged by Law.

The Bylaws (Article 21.2), according to legal provisions, attributes the Board of Directors the power to adopt any resolutions pertaining to the Shareholders’ Meeting that can determine amendments to the Bylaws such as:

- a) merger and split, in the cases envisaged by Law;
- b) establishment or elimination of other offices;
- c) indication of the directors which represent the Company;
- d) reduction of the share capital in the case one or more members withdraw;
- e) amendment of the Bylaws according to regulations;
- f) national transfer of the Company headquarters.

The rules of the “Golden Power Decree” – as already described above in the section “Restrictions on share transfer and shares granting special powers” – attribute to the Government the “special power” of veto on the occasion of resolutions that concern changes to the Bylaws relating to the matters identified by the said “Golden Power Decree” which give rise to “*to an exceptional situation, not regulated by national and European legislation governing the industry, of a threat of serious damage to the public interests concerning the safety and operation of the grids and systems and the continuity of supply*”. The power to veto can also be exercised in the form of the imposition of specific provisions or conditions where such suffices to ensure the protection of the public interests in relation to the safety and operation of the grids and plants and the continuity of service provision. The veto is announced within 15 days of communication; said terms may be suspended once only for a request for information and until receipt of such, which must be within 10 days. The resolutions, acts or operations adopted or implemented in breach of the disclosure obligations or in breach of the conditions, provisions or veto established by the Government are null. The Government may also demand that the company and any counterparty restore the previous situation at its own expense. Anyone not complying with the provisions relating to notification and veto, unless the action is a crime, is subject to the administrative sanctions specified in the “Golden Power Decree”. In addition, according to the provisions of Art. 3, paragraph 3, of the “Privatisation Law”, Terna’s Bylaws state that the rules of Art. 6.4 of the said Bylaws relating to the “maximum shareholding limit” already illustrated in the section “Restrictions on share transfer and special rights” cannot be amended.

Indemnities for Directors in case of resignation, discharge or cessation of relation following a public take-over bid (pursuant to Article 123-bis, paragraph 1, letter i) of the Consolidated Law on Finance)

The information required by Article 123-bis, paragraph 1, letter i) of the Consolidated Law on Finance on the agreements between the Company and the Directors, which envisage indemnity in the case of redundancies or termination/revocation without just cause or where employment ceases following a public take-over bid, are reported within Terna’s “Annual Remuneration Report”, published by Terna in compliance with the provisions of Article 123-ter of the Consolidated Law on Finance and CONSOB Resolution no. 18049 of December 23, 2011 (published in Official Journal no. 303 of December 30, 2011) which, among other things, introduced Article 84-quater of the Issuers Regulation.

Management and coordination

Terna is subject to the de-facto control of Cassa Depositi e Prestiti S.p.A., currently held through CDP Reti S.p.A. (a joint-stock company controlled by Cassa Depositi e Prestiti S.p.A.), which has a 29.851% interest in the share capital. The check, from which existence of the said control emerged, was carried out by Cassa Depositi e Prestiti itself and made known to the Company and to CONSOB already on April 19, 2007 and, subsequently, as described in more detail in Section II, under “*Significant interests in the share capital and shareholders’ agreements*” above, with letters dated October 30, 2014 and December 2, 2014.

As of today, no management and coordination activity has been formalised or exercised; Terna carries out its activity either directly or through its subsidiaries in conditions of independent management and negotiation.

It is specified that the additional information on the Company's Corporate Governance envisaged in Article 123-*bis*, paragraph 2 of the Consolidated Law on Finance and Article 144-*decies* of the Issuers Regulation, with regard to:

- compliance, (pursuant to Article 123-*bis*, paragraph 2, letter a) of the Consolidated Law on Finance) are illustrated in the section of the Report specifically devoted thereto (section III);
- the principal characteristics of existing risk management and existing internal audit systems in relation to the financial informative note, also consolidated (pursuant to Article 123-*bis*, paragraph 2, letter b) of the Consolidated Law on Finance), and further relevant Corporate Governance practices (pursuant to Article 123-*bis*, paragraph 2, letter a) of the Consolidated Law on Finance) are illustrated in the section of the Report devoted to the internal audit and risk management system (section XI) and in Attachment 1 therein;
- the Shareholders' Meeting activity (pursuant to Article 123-*bis*, paragraph 2, letter c), of the Consolidated Law on Finance) in the section of the Report devoted to the Shareholders' Meeting (section XVI);
- the composition of the Board and the role of the Board Members as well as those relative to the appointment and composition of the audit body (pursuant to Article 123-*bis*, paragraph 2, letters a) and d) of the Consolidated Law on Finance and 144-*decies* of the Issuer Regulation), is illustrated in the Report respectively in the section devoted to the Board of Directors (section IV) and in subsequent sections devoted to the Board Internal Committees (sections VI, VII, VIII and X) and in the sections devoted to the appointment and composition of the Board of Statutory Auditors (sections XIII and XIV).

Section III Compliance

The Corporate Governance system in place in the Company, as illustrated in the introduction, is substantially in line with the principles found in the Corporate Governance Code for listed companies, published by the Committee for Corporate Governance promoted by ABI, ANIA, Assonime, Assogestioni, Borsa Italiana and Confindustria as of December 2011 (as most recently updated in July 2014, accessible on the Borsa Italiana S.p.A. website under <http://www.borsaitaliana.it/comitato-corporate-governance/codice/2014cleaneng.en.pdf>), and which Terna has accepted, with a resolution by the Board of Directors on July 24, 2012. It also amended the existing procedures affected by the new provisions in the Corporate Governance Code with subsequent resolutions by the Board of Directors on December 19, 2012 and May 27, 2014, at the time of renewal of the Board of Directors, whose term had expired with the approval of the 2013 Financial Statements, as indicated in the schedule for amendments provided for in the transitory regulations. Further actions aimed at improving the Group's Governance system are in progress and others will be assessed for constantly updating Terna's Governance system in line with best practices and for the Company's compliance with the rules of the new Corporate Governance Code. The Company is not subject to non-Italian laws that influence its Corporate Governance structure.

Section IV Board of Directors

Composition

In compliance with the shareholders' resolution passed during the ordinary meeting held on May 27, 2014, the Board of Directors numbers nine members, whose term will expire with the approval of the financial statements as of 2016.

The members of the Board of Directors, in accordance with that resolved by the Shareholders' Meeting of May 27, 2014 are: Catia Bastioli (Chairwoman), Matteo Del Fante (Chief Executive Officer), Carlo Cerami, Fabio Corsico, Stefano Saglia (Directors elected from the majority list drawn up by Cassa Depositi e Prestiti S.p.A.), Cesare Calari, Luca Dal Fabbro and Gabriella Porcelli (Directors elected from the minority list drawn up by a group of shareholders made up of asset management companies and other institutional investors as listed in the Company's specific press release relating to publication of the Lists of May 6, 2014).

Further information regarding the lists of candidates submitted and on the results of the voting is available on the Company's website at www.terna.it in the section "*Investor Relations/Corporate Governance/Company bodies/Shareholders' Meetings/Shareholders' Meeting of May 27, 2014*".

Following the resignation of the Director Simona Camerano (elected by the aforementioned Shareholders' Meeting from the majority list), the Board of Directors, at its meeting on January 21, 2015, resolved - with the express approval of the Board of Statutory Auditors and taking into account the positive assessment of the Appointment Committee - to appoint by co-option Yunpeng He (taking into account what had been reported by the relative majority shareholder CDP Reti S.p.A., a joint-stock company controlled by Cassa Depositi e Prestiti S.p.A. which selected the Director to resign), after checking, on the basis of the declarations made, the existence of the statutory requirements for his appointment (pursuant to Arts 15.2, 15.3 and 15.5 of the Bylaws).

The Director He, who is a member of the Board of Directors of CDP Reti S.p.A., declared - under the terms of the requirements provided for in Art.148 paragraph 3 of the Consolidated Law on Finance and in Art.3 of the Corporate Governance Code - that he did not possess the independence requirements. This appointment will be submitted to the next Shareholders' Meeting in accordance with the provisions of Art. 2386 of the Italian Civil Code.

On the basis of the statements made for the appointment, of the vote count and of the end of voting, the composition of the Board of Directors, also following the co-opting of Director He, also meets the requirements laid down both, on first application, by the relevant law on the subject of gender balance - as two of the members of the Board of Directors are women and seven are men - and by Article 147-ter, paragraph 3 of the Consolidated Law on Finance, as three members of the Board of Directors appointed by the Meeting on May 27, 2014 were taken from the minority list which obtained the highest number of votes, not connected in any way, even indirectly, with the shareholders that submitted or voted the list that received the highest number of votes.

The Board of Directors consists of executive and non-executive directors and provides for the presence of a Chairman, appointed by resolution of the Shareholders' Meeting of May 27, 2014, in accordance with Article 16 of the Bylaws, and a single executive director, the Chief Executive Officer, appointed by the Board of Directors in accordance with Article 22 of the Bylaws, in accordance with that specified under the following title in this section "Delegated bodies and other Executive Directors" with suitable competence and professionalism (Articles 2.P.1 and 2.P.4 of the Governance Code).

Terna's Directors are suitably competent and professional (Article 2.P.1 of the Corporate Governance Code).

A brief description of the Board members' professional background is provided below:

- **Catia Bastioli, 57 years old - Chairwoman**

[born in Foligno (Perugia) on October 3, 1957]

She has a Chemistry degree from Perugia University and in 1985 attended the Business Management school "Montedison High Potential" at Bocconi University. Since May 2014 she has been Chairwoman of Terna S.p.A.

She worked on materials science, environmental sustainability and renewable raw materials at the Guido Donegani Institute, Montedison Corporate Research Centre, until 1988. She was one of the founders of the Fertec research centre on renewable raw materials, which then became Novamont S.p.A., a company in which she holds the position of Chief Executive Officer and where she has worked since 1999 holding various positions, most notably Technical Manager and later General Manager. Within Novamont she is Chief Executive Officer of Matrica S.p.A. and Mater-Biotech S.p.A.. Catia Bastioli is Chairwoman of Mater-Biopolymer S.r.l.

A member of the Executive Committee and the Management Committee of Federchimica, of the Management Committee of PlasticsEurope Italia and Chairwoman of the Kyoto Club Association. Since May 2013 she has been a Director of the Cariplo Foundation.

She is a member of important Advisory Boards at the European level, namely the High Level Group on Key Enabling Technologies and the Bioeconomy Panel, the strategic platform whose aim is to support implementation of the bioeconomy strategy in Europe.

She is the Chairwoman of SPRING - *Sustainable Processes and Resources for Innovation and National Growth*, the Italian Technological Cluster of Green Chemistry. Since 2014 she has also been a member of the Representatives Committee of the Symbola Foundation for Italian Quality and of the Executive Committee of the Foundation for Sustainable Development, of the Executive Committee of the Civita Association and of the Assessment Committee of the Raul Gardini Foundation. Since December 2014 she has been a Full Member of the international NGO The Club of Rome.

She developed and tested the third-generation Biorefinery model. The author of significant scientific contributions in the form of both publications and international patents, she has contributed to creating an industrial culture particularly sensitive to the problems of environmental impacts and eco-sustainability of production processes and, for these reasons, in 2008 she received the Specialist Degree Honoris Causa in Industrial Chemistry from Genoa University. She has received numerous awards and recognitions and has been given the title of merit *Cavaliere Al Merito della Repubblica Italiana* by the Italian State. In 2013, she received the "Eureka Prize" for technological innovation and in 2007 the "European Inventor of the Year" award for her inventions related to bioplastics between 1991 and 2001 and for managing to translate her research results into industrial products.

- **Matteo Del Fante, 47 years old - Chief Executive Officer**

[born in Florence on May 27, 1967]

He has a degree in Political Economics from the “Luigi Bocconi” University in Milan. He attended specialisation courses in international financial markets at the Stern Business School, New York University.

Since May 2014 he has been Chief Executive Officer and General Manager of Terna S.p.A., a company in which since April 2008 he has been a member of the Board of Directors and the Control and Risk Committee.

He began his career in the JP Morgan Research Department in 1991 and, after holding various positions at the Milan and London offices, in 1999 he assumed the position of Managing Director.

He was with JP Morgan until 2003, having responsibility for public sector customers in the EMEA (Europe-Middle East-Africa) area, and in 2004 he joined Cassa Depositi e Prestiti S.p.A. (CDP) just after its privatisation, as Finance and M&A Manager. Here he launched the business in the real estate sector, holding the position of Chief Executive Officer of the Group’s asset management company (CDP Investimenti SGR S.p.A.) from 2009 to July 2014.

From June 2010 to May 2014 he was General Manager of CDP, until the appointment in Terna. He has also been a member of the boards of directors of numerous investee companies of the CDP Group, including STMicroelectronics (both STMicroelectronics N.V. - from 2005 to 2008 - and STMicroelectronics Holding - from 2008 to 2011) and of the European Energy Efficiency Fund (EEEF) from 2011 to 2013.

- **Cesare Calari, 60 years old - Director**

[born in Bologna on May 10, 1954]

He has a Law degree from Bologna University and in Economics/International Affairs from Johns Hopkins University/School of Advanced International Studies (Washington DC), with subsequent specialisation courses at Harvard and Stanford. He is a member of the Bretton Woods Committee and has taught as Adjunct Professor of International Finance at Johns Hopkins/SAIS in Washington. Director and Chairman of the Control, Risk and Corporate Governance Committee of Terna S.p.A. since May 2014.

After gaining vast experience in the sector of private equity, financial, banking and insurance services in emerging countries, since 2006 he has been Managing Director of Wolfensohn Fund Management LP, which is specialised in managing investments in private equity in emerging markets. He is currently also a Director of Global Ports Holdings (Global Liman Isletmeleri A.S. - Istanbul).

In the past, after a short period at the Bank of Italy, in 1981 he began a long career at the World Bank and he held positions of growing responsibility at the IFC – International Financial Corporation (an Agency of the World Bank Group), before assuming, in 2001, a top position in Washington, at the World Bank itself, as Vice President of the Financial Sector. He has held various administrative posts in several Italian and foreign companies: Director and member of the Internal Control and Related Parties Committees of Assicurazioni Generali S.p.A. (2010-2013); Director of Meritum Bank (Danzig, Poland 2011-2013), Moneda Asset Management (Santiago, Chile 2001-2005), Zivnostenska Banka (Prague, 1992-1995), International Bank in Poland (Warsaw, 1991-1994), Nomura Magyar Budapest, 1991-1994). He has served on the Capital Markets Advisory Committee of Georgetown University McDonough Business School (Washington DC) and on the Advisory Board of the Asia Society.

- **Carlo Cerami, 50 years old - Director**

[born in Verona on February 2, 1965]

He has a Law degree from Milan University, and is a Lawyer specialised in administrative law and owner of the Cerami-Administrative Law Office, he has gained great professional experience with local public administrations and with companies operating in the public services sector. He has provided and provides legal advice on the following subjects: territorial programming and planning, local public services, public works, construction, ecology and the environment, energy, local public finance, expropriations, trade, work contracts, concessions and in general contracts of the P.A. and the related tender procedures.

Since September 2013, he has been a member of the Study Group set up at the Ministry of Infrastructure and Transport to define a national legislative framework on the subject of governing the territory and social housing. Currently, beside the position of Deputy Chairman of the Board of Directors of Investire Immobiliare SGR, he is also a Director of Vita-Salute San Raffaele University. He has been a Director, Chairman of the Remuneration Committee and a member of the Appointment Committee of Terna S.p.A. since May 2014, and a member of the Control, Risk and Corporate Governance Committee since March 2015. In the past he was Chairman of Polaris Real Estate SGR, until December 2014, and a Director of Polaris Investment SGR (2010-2013), of the Cariplo Foundation with delegated powers in the field of social housing (2007-2013) and of Galileo Avionica S.p.A.- Finmeccanica Group (2007-2010).

- **Fabio Corsico, 41 years old - Director**

[born in Turin on October 20, 1973]

He has a degree in Political Science, is a manager, and has held prestigious public positions and management positions in important Italian companies. Since February 2005 he has been External Relations, Institutional Affairs and Development Manager of the Caltagirone Group within which he is also a Director of Cementir Holding S.p.A. In addition, he is Director of Grandi Stazioni S.p.A., “Il Gazzettino”, BSI (Banca Svizzera Italiana), and, since 2009, has been Senior Advisor for Italy at Credit Suisse. Furthermore, he is a Director of the CRT Foundation (of which he is Chairman of the Investments Committee) and Deputy Chairman of the Sviluppo e Crescita (Development and Growth) Foundation. He has been a Director, and member of the Remuneration Committee and the Related-Party Transactions Committee of Terna S.p.A. since May 2014. Among his past professional experience we can mention: his role as head of the Technical Secretariat of the Ministry for the Economy and Finance (2001) and member of the Committee for the Introduction of the Euro, the work on preparing international dossiers carried out within the Ministry of Defence at the Office of the Diplomatic Advisor of the Minister and at the Military Strategic Studies Centre (1997), and, in Enel, the role of head of Institutional Affairs, Relations with the Territory and Relations with Confindustria (2003). From 1998 to 2001 he worked for Olivetti/Mannesmann, at the Company Infostrada in the communication and Human Resources sectors, before taking on the role of Public Affairs Manager. In the same period he represented the Company in Assinform and AIP. He was a member of the Board of Directors of Avio (2009-2010), Biverbanca and Consum.it (2008-2012), Alleanza Assicurazioni (2009-2011) Alleanza Toro Assicurazioni (2011-2013), CUIEM-CRT (2010-2013), Aspen Junior Fellows, The Council for the United States and Italy Juniores, the board of Rivista Zero and Rivista Formiche, the Teatro Regio of Turin (2010-2013), and Chairman of Orione Investimenti (2010-2012). He has edited a number of publications for the Franco Angeli’s Strategic Studies series and on the subject of banking foundations.

- **Luca Dal Fabbro, 49 years old - Director**

[born in Milan on February 8, 1966]

He graduated in Chemical Engineering from Rome “La Sapienza” University with full marks. He obtained a Master in International Policy at the Université Libre de Brussels and completed the Advance Management course at the MIT Sloane School of Management in Boston. He is Chief Executive Officer of Dalfin S.r.l. and Domoenergia S.r.l. and, since January 2015, has been Chairman of EPS S.A. He has been a Director and Chairman of the Appointment Committee of Terna S.p.A. since May 2014.

In the area of associations he is a Member of the Board of Assofranchising and of the Friends of Aspen Group of the Aspen Association for internationalisation of entrepreneurial, political and cultural leadership of the country.

He gained significant experience in the electricity and gas industry holding important positions in E.ON Group as Chief Executive Officer of E.ON Italia S.p.A. (2009-2011) and previously in companies responsible for marketing and services: Chief Executive Officer E.ON Energia S.p.A., Director of AMGA - Azienda Multiservizi S.p.A. and Chairman of Somet, a company working in the sale and distribution of gas. Within the Enel Group, of which he was also Marketing Manager - Market Division of Enel S.p.A. (2001-2009), he was Chief Executive Officer of Enel Energia S.p.A., Director of Enel Gas S.p.A. and Marketing, Development and Structuring Manager of Enel Trade S.p.A. In the international context he also worked for Enron Capital & Trade as Development Manager London (1999-2001) and, in the Tenaris Group he was Strategic Marketing and Development Manager of Techint S.p.A. (1997-1999).

Consultant in Coopers & Lybrand Management Consultants (1996-1997) and Business Development Manager China/Far East of CTIP S.p.A. (1994-1996). In Brussels he held the post of European Product Projects Manager in Procter & Gamble (1991-1994). He did academic work and presentations at SAIS John Hopkins of Bologna and the Rome campus of St John’s University. He collaborated with the Institute of International Affairs (IIA). He represented Italy at the first “Asian-European Young Leaders Meeting” in Japan and took part as a speaker at UN conferences in Geneva at the UNCTAD and in various conferences and meetings on energy in Italy and abroad. Named Italian Talent by the Meritocracy Forum in 2012.

- **Yunpeng He, 50 years old - Director**

[born in Baotou City (Inner Mongolia, China) on February 6, 1965]

Degree and Master’s Degree in Electrical and Automation Systems at Tianjin University. Master’s Degree in Technology Management at the Rensselaer Polytechnic Institute (RPI). He currently holds the position of Director of CDP Reti S.p.A. and Snam S.p.A. and is Deputy Manager of the European office of State Grid Corporation of China. Since January 21, 2015 he has been a Director of Terna S.p.A.. He has also held the following main positions: Vice Chief Technical Officer (CTO) of State Grid Tianjin Electric Power Company from December 2008 to September 2012, Head of the Tianjin Binhai Power Company from December 2008 to March 2010 and Manager of the economic and legal department of State Grid Tianjin Electric Power Company (from June 2011 to September 2012). At State Grid Tianjin Electric Power Company he previously also held numerous prestigious positions including: Manager of the planning and development department (from October 2005 to December 2008), Manager of the planning and design department (from January 2002 to October 2005), Chairman of the Tianjin Electric Power Design Institute.

- **Gabriella Porcelli, 50 years old - Director**

[born in Rome on March 10, 1965]

A lawyer and industrial business manager, she has a degree cum laude in Law from Rome “La Sapienza” University with a Master in Common Law (“European Young Lawyers Scheme” promoted by the British Council). She later completed further study of an international nature and in the field of commercial and company law.

Since 2009 she has been Legal Affairs Manager (Senior Counsel Italy) of Philip Morris Italia S.r.l. (Philip Morris International Group). Director of the Italian Association of Company Lawyers (Associazione Italiana Giuristi d’Impresa – AIGI) and a member of the Competition Committee of the International Chamber of Commerce – Italian Section. She is also a member of the Nedcommunity association (Italian Association Non-Executive and Independent Directors), and the ACC – Europe (Association of Corporate Counsel). She teaches on the Master in Company Law at the Rome LUISS University. She has been a Director, a member of the Remuneration Committee and the Related-Party Transactions Committee of Terna S.p.A. since May 27, 2014. Her experience in companies includes the role of Deputy Legal Affairs Manager of Pfizer Italia S.r.l. (1998-2008), Senior Legal Advisor ENI-Agip S.p.A. and, subsequently, of Agip Petroli S.p.A. (1994-1998). In the professional field, her experience was gained in the field of legal advice and assistance of an international nature involving commercial and corporate matters, and in competition and corporate governance law and she did legal work at Italian and British courts and law offices (1991-1994). As part of these activities she has edited publications and taken part as a speaker at conferences. She was also an Official of Confcommercio (1989-1991) in Public Affairs relations with the EU area, regulations on structural funds for the tourism industry (tertiary).

- **Stefano Saglia, 44 years old - Director**

[born in Milan on February 1, 1971]

A strategic consultant in the industrial and financial sectors, he has worked for the company “Palazzo Novecento” since March 2013. He is a professional Journalist registered with the Order of Journalists of Lombardy, and an accountant. Currently he is also a member of the Senior Council Strategic Advice, of the Experts Group of the Ideas for Sustainable Development Committee of ENEA and of the Scientific Committee of the Magna Carta Foundation. He has been a Director and Chairman of the Related-Party Transactions Committee of Terna S.p.A. since May 2014.

He began his career as a professional journalist (from 1993) in various newspapers and, from 1995 to 2000 was Senior Manager of the President’s Office of Lombardy Regional Council.

He has held numerous posts and important institutional positions, including: Member of the Chamber of Deputies from 2001 to 2013; Under-secretary at the Ministry of Economic Development with delegated powers for Energy, technical regulations, cooperatives and protection of competition at the Chairman’s Office of the National Consumers’ Council from 2009 to 2011; Chairman of the “Public and Private Work” Commission at the Chamber of Deputies; Deputy Chairman of the Enquiry Commission on the waste cycle within the Chamber of Deputies Production Commission. He has held directorships in a number of Italian companies such as Immobiliare Fiera S.p.A. of Brescia from 2000 to 2002 and Consorzio INN.TEC S.r.l. of which he was also Deputy Chairman. As part of his parliamentary work he held the role of Rapporteur at the liaison stage for numerous legislative measures and was the promoter of important reforms, including: the reorganisation of the fuels network, the reform of gas distribution areas, incentive schemes for high-energy-consumption companies, reorganisation of hydroelectric concessions, tariffs on biomasses, high-yield cogeneration subsidies, promotion of incentives for renewable energy sources, and decommissioning of the Italian nuclear power stations. At the international level, he was the Head of numerous diplomatic economic missions and took part in the sessions of the European Energy Council and of the International Energy Agency.

On its appointment, the Board of Directors ascertained that each of its members possessed the requisites of integrity and professionalism (Art. 2.P.1 of the Corporate Governance Code) and those provided for in Art. 15.5 of the Bylaws as amended by the Shareholders’ Meeting of May 27, 2014 in relation to the provisions of the Unbundling Legislation.

The evaluation regarding the existence of the independence requirements for each of the non-executive members was made, taking into account the information provided by each individual, during the appointment and during the meeting held on March 26, 2015 according to the terms stated in the following paragraph “Independent Directors” (Art. 3.P.2 of the Corporate Governance Code).

Table 1 attached gives information on the members of the Board of Directors as at March 26, 2015 (Articles 1.C.1 letter i)-(1) of the Corporate Governance Code and 123-*bis*, paragraph 2, letter d) of the Consolidated Law on Finance).

Maximum number of positions in other companies

All the Directors accept their appointment to office when they believe they can devote the necessary time to the diligent performance of their duties – also considering the number and type of positions they hold outside the Company in other companies listed on regulated markets (also abroad), financial companies, banks, insurance companies and significantly large companies, and the work required in terms of additional working and professional activities carried out and the association offices held – and they devote the necessary time to the diligent performance of their duties, as they are well aware of the responsibilities of the office held.

To this end, since February 2007, in compliance with Article 1.C.3 of the Corporate Governance Code, Terna's Board of Directors approved its own guidelines regarding the maximum number of positions as Director or Auditor in significantly large companies that can be held still enabling the efficient performance of the duties as Director of Terna S.p.A. included in the internal document "Guidelines concerning the maximum number of positions that can be held by Directors of Terna S.p.A." requiring the Directors of Terna to consider these before accepting the office. More than 4 years after adoption, following the constant monitoring of the governance choices made by the company and in line with the practice seen in similar companies, in the meeting of October 7, 2011, the Board of Directors proceeded to review the said guidelines, which, in order to consider the clarifications provided by the Corporate Governance Code in the December 2011 edition, were further updated by the resolution of December 19, 2012.

To this end, "significantly large companies" were defined as:

- a) companies with shares listed on regulated markets, in Italy or abroad;
- b) Italian or foreign companies with shares not listed on regulated markets, and operating in the insurance, banking, brokerage, asset management or financial sectors;
- c) other Italian or foreign companies with shares not listed on regulated markets, not operating in the sectors listed in letter b), having net assets exceeding € 1 billion.

The Board has identified different general criteria for the commitments required of each role (CEO, Executive Director – for example Executive Chairman, Managing Director, i.e. with special proxy – Non-executive and/or Independent Director and Standing Auditor), considering the nature and size of the Company in which the positions are held and whether they are part of the Terna Group or are Terna's investees (which, originating from the assignment itself, are not calculated in the total number). It is specified that the attribution of deputy powers or powers for urgent cases only to directors without management powers of attorney does not, in itself, make them executive directors, except where such powers are, in actual fact, used with significant frequency. A "weight" was assigned to each type of position for the purposes of assessing the commitment required, and the Directors also established that the role of CEO at Terna is incompatible with the same role in other significantly large companies.

When more than one office is held within the same Group, also for a role with a company belonging to the Group itself, only the most important assignment is considered.

All the Directors in office that were appointed by the Meeting on May 27, 2014 gave details of the positions they held at the time the lists were submitted, and subsequently when they accepted their appointment. The Director co-opted by the Board of Directors on January 21, 2015 did likewise. Based on the updated information delivered to the Company in compliance with the approved guidelines, as of March 26, 2015, all Directors held a number of positions that is compatible with the guidelines set by the Board.

In the summaries of each Director's personal characteristics, all the positions held by them are indicated. The total number of positions held as Directors or Auditors in other significantly large companies is provided in the attached table 1. There have not been exceptions, issued by Terna's Shareholders' Meeting, to the prohibition of competition by the Directors provided for by Article 2390 of the Civil Code (Article 1.C.4 of the Corporate Governance Code).

Induction Programme

Terna has considered it appropriate to organise initiatives, by now a regular activity carried out at least annually, aimed at providing Directors and Auditors with suitable knowledge of the business segment in which the company operates, business dynamics and their evolution and the reference legislative and self-regulatory framework, as established by Article 2.C.2 of the Corporate Governance Code.

On the initiative of the Chairwoman in agreement with the Chief Executive Officer, after the appointment and also during financial year 2015, Terna's Directors, also in the context of meetings of the Committees established within the board, took part in meetings with the Company's management, which were attended also by the members of the Board of Statutory Auditors, in relation to the corporate governance system and to the fundamental Governance lines in being and the core business activities with particular reference to the National Transmission Grid Development Plan, the Defence Systems Improvement Plan for the Security of the National Electricity System ("Security Plan"), and to the regulatory and tariff framework provided for by the AEEGSI of interest to the Terna Group.

In line with the provisions of Art. 1.C.6 of the Corporate Governance Code, on the occasion of Board meetings, the Chief Executive Officer called upon to take part, also at the invitation of the Chairwoman or at the request of a single Director, senior executives of the Company whose presence was considered of assistance in providing better information on the matters placed on the agenda and, if required by the specific topic, to illustrate its relevant legal framework.

The same thing occurred in the work of the Committees established within the board, and at the invitation of the Chairman or Coordinator of the Committee.

The Directors are kept constantly informed by competent departments on the main legislative and regulatory innovations concerning the Company and the exercise of own functions.

Role of the Board of Directors

The Company's Board of Directors holds a crucial role in its organization. It has strategic and organizational functions and responsibilities with respect to the Company and the Group. It is also responsible for verifying that the necessary controls are in place to monitor the performance of the Company and its subsidiaries.

In addition to exercising the powers that are attributed to it by Law, the Company's Bylaws (Article 21.1), according to the law, attribute the Board the role of managing issues pertaining to the Shareholders' Meeting that can determine amendments to the Bylaws as previously described in "amendments to the Bylaws".

Within the limits as per Article 2381 of the Italian Civil Code, the Board of Directors may delegate its tasks to an executive committee and/or to one or more of its members (Article 22.1 of the Bylaws).

In this context and in compliance with the Law and the provisions of specific resolutions, and considering the provisions of Article 1 of the Corporate Governance Code, the Board of Directors reserved to itself a series of decisions necessary or useful to pursuing the company purpose. In particular, the Board of Directors:

- examines and approves the strategic, industrial and financial plans of the company and the Group it heads, regularly monitoring implementation. In this respect, the current structure of Company powers provides that, in particular, the Board of Directors approves the Company's annual budget and long-term plans updated on an annual basis (which include the combined annual budgets and long-term plans of the subsidiaries) (Article 1.C.1, letter a) of the Governance Code). Monitoring is carried out through the regular (quarterly) assessment of the trend of operations and specific Company Performance Management tools (BSC). In 2014, the Board of Directors examined and approved the strategic, industrial and financial plan of Terna and the Terna Group, presented to the market on March 25, 2014 (the 2014 - 2018 Strategic Plan), most recently updated on March 26, 2015 (the 2015 - 2019 Strategic Plan), thereby pursuing the creation of value for shareholders in the medium/long-term. Monitoring was carried out in accordance with the terms specified and according to board meetings to approve the accounts. With regard to the action planned, the Board provides specific guidelines, a description of the objectives, characteristics and application methods of the activity monitoring the business processes and risk analysis, and defines the nature and level of accounting risk with the strategic objectives relating to the implementation of the mission assigned to the company (Articles 1.P.2 and 1.C.1, letter b) of the Governance Code). With regard to this matter, reference should be made to section XI;
- defines the corporate governance system within the company and provides for appointment, and definition of functions and regulations of the internal committees of the board, as established by the current structure of powers in the company and presented in this Report (Articles 1.C.1, letter a); 7.P.3 and 7.C.1, letter d) of the Governance Code);
- resolves, with regard to the Group structure and regarding the establishment of new companies, the purchase and transfer of shares in companies, namely in companies or company branches with a value exceeding € 30 million, as envisaged by the current structure of powers in the company (Article 1.C.1, letter a) of the Governance Code);
- on the basis of the proposals by the specific Committee, approves Company Policy concerning remuneration of members of administration bodies, general directors and senior executives with strategic responsibilities, which is then submitted to the Shareholders' Meeting for an advisory vote, and after having heard the Board of Statutory Auditors, determines the remuneration of the CEO and of other Directors holding special office (Article 6.P.4 of the Governance Code) which it indicates annually in a specific report. With regard to this matter, reference should be made to section IX. On the basis of the proposals formulated by the specific Committee the Board of Directors also determines: (i) the remuneration of the Chief Executive Officer and of the other Directors holding special office; (ii) the criteria of a general nature for remuneration of the top management and for the incentive plans for which approval of the Shareholders' Meeting is required;
- constantly evaluates the suitability of the organisational, administrative and accounting structure of the company, defined by the CEO according to the proxies received, and its subsidiaries of strategic relevance (thereby meaning, in accordance with that resolved by the company's Board of Directors on February 22, 2007: a) subsidiaries listed on regulated markets and b) subsidiaries which abroad have a significant share of the segment of core business of the Group) and during the examination of internal procedures on the matter submitted to the Board and the resolutions passed on the various matters submitted to it during FY 2014. With specific reference to the internal audit and risk management system, it defines the relevant guidelines, at the proposal of the Director in Charge of the Internal Audit and Risk Management System and, upon seeking the opinion of the specific Committee (Articles 1.C.1, letter c) and 7.C.1, letter a) and b) of the Governance Code). The evaluation of the suitability of the Internal Audit and Risk Management System of the Terna Group with respect to the characteristics of the business and the risk profile assumed, as well as its efficiency, is carried out at least once a year, after obtaining the opinion of the Control, Risk and Corporate Governance Committee (Article 7.C.1, letter b) of the Corporate Governance Code). With regard to this matter, reference should be made to section XI;

- examines and approves transactions with a significant impact on the Company's financial position and results, especially if they are related-party transactions or could otherwise give rise to a potential conflict of interest. This is without prejudice to the powers assigned to the CEO for particularly urgent cases. In particular, in addition to the specific provisions of the special procedure for related-party transactions and the steps taken to identify and manage situations where a Director holds his or her own interest or an interest of third parties regarding a transaction that he or she should evaluate (for which we would refer you to the specific section XII under "Interests of Directors and related-party transactions") "significant operations" concluded also by means of subsidiaries identified under the scope of a specific internal procedure of the Board ("Approval of significant operations and management of situations of interest", most recently updated on March 31, 2011) are subjected to the prior approval or preventive examination (in case of operations for which the companies directly and/or indirectly controlled by Terna are competent) of the Board of Directors. These operations are identified as: (i) transactions that have as their object, amount and terms/time frames of implementation an impact on safeguarding the company assets or the completeness and correctness of Terna's information also of accounting information and that as such create an obligation for Terna to make available to the public an informative document in compliance with provisions by supervisory authorities of financial markets and/or (ii) financial transactions whose value exceeds € 50 million with the exception for transactions included in the budget and in approved financial plans as well as those regarding dispatching activity and all related services (Article 1.C.1, letter f) of the Corporate Governance Code). In this regard, it is specifically envisaged that the Board of Directors shall receive a suitable disclosure on the methods for implementation of significant operations, on timing and economic conditions for the implementation of such operations, on the evaluation procedure, the interests and reasoning underlying them and on any risks for Terna and its subsidiaries connected with said operations and, moreover, that can use the assistance of one or more independent experts for an opinion on the economic conditions and/or the executive and technical methods of the operation. Board resolutions taken in relation to intragroup transactions are suitably grounded with regard to the motivations for and benefits of the operation. According to the current structure of powers in the company, the Board of Directors is also entitled to pass resolutions on: the reduction of loans, assets and liabilities, in any form, in the medium/long-term, of a value in excess of € 100 million not envisaged by the budget and financial plans approved and not aimed at developing interventions that have already been approved by the Board in the National Transmission Grid Development Plan and/or the Strategic Plan, as well as the issue by the Company of sureties and real guarantees of an amount greater than € 30 million for each operation, not provided for in the budget or in the financial plans approved;
- receives, as does the Board of Statutory Auditors, in accordance with the provisions of Article 21.3 of the Bylaws, constant, complete information from the Chief Executive Officer on the activities carried out in the exercise of the proxies received and in relation to the trend of operations of the company, its foreseeable outlook and the most important operations, summarised on a quarterly basis in a specific report (Article 1.C.1, letter d) of the Governance Code). In particular, with respect to all significant transactions carried out by the Company and its subsidiaries (including any related-party transactions of lesser importance as identified in the specific Procedure adopted by Terna, and which are not exempt from application of the same, which do not require approval by the Board of Directors) the CEO reports to the Board of Directors on the (i) characteristics of the transactions, (ii) the parties involved and their relationship with the Company or its subsidiaries;
- assesses the general performance of Company operations, with specific reference to situations featuring conflict of interest, on the basis of the information received from the CEO and the Control, Risk and Corporate Governance Committee, periodically checking that planned results have been achieved (Article 1.C.1, letter e) of the Corporate Governance Code);
- carries out, at least once a year, an assessment on the operations of the Board and its committees and on their dimensions and composition. In this respect, we refer you to the details given under the title below "*Assessment of the Board of Directors' Activity*" (Article 1.C.1, letter g) of the Corporate Governance Code);
- assesses, having consulted with the Board of Statutory Auditors and received the opinion of the Control, Risk and Corporate Governance Committee, the results given by the legal auditor in any letter of suggestions and in the report on the essential issues that have emerged during the legal audit (Article 7.C.1, letter e) of the Governance Code);
- reports to the shareholders in the meeting, in accordance with the provisions of current legislation. With regard to this matter, reference should be made to section XVI.

Board of Directors Meetings and the role of the Chairwoman

The Directors gather regularly and carry out tasks autonomously and based on their full knowledge, pursuing the objective of creating value for shareholders, taking into account the social aspects of the Group's activities and the resulting need to adequately consider all stakeholders in the performance of those activities (Articles 1.P.1 and 1.P.2 of the Governance Code). During FY 2014, the Board of Directors held 10 meetings, each lasting an average of 2 hours, which saw the regular participation of the Directors and the attendance of the Board of Statutory Auditors and which also saw the attendance, in line with the provisions of Article 1.C.6 of the Corporate Governance Code, of executives of the Company, whose presence was considered of assistance in providing better information regarding the items on the agenda.

The percentage participation of each Director in the meetings held during FY 2014 is indicated in table 1 attached (Article 1.C.1, letter i)-(2) of the Corporate Governance Code and Article 123-*bis*, paragraph 2, letter d) of the Consolidated Law on Finance).

For 2015, all board meetings related to the examination of the economic and financial data by the Board of Directors have been scheduled according to what was officially communicated to the market on January 21, 2015. In the current year and as of the date of approval of the present Report, the Board of Directors met three times.

The activities of the Board of Directors are coordinated by the Chairwoman.

In accordance with the Bylaws, the latter has the legal power of representation of the company and the company signature, chairs the Shareholders' Meeting and the Board of Directors, convenes board meetings, establishes the agenda on the request of the CEO and guides the related events; she also verifies implementation of board resolutions (Article 25 of the Bylaws) and is assigned the tasks attributed to the Chairwoman by the law or the Corporate Governance Code which the Company has endorsed. With a resolution of the Board of Directors of May 27, 2014 the Chairwoman Catia Bastioli was also given the institutional responsibility of representing the company, guiding and directing the work of the Board and assuming the promotional and advisory role of CSR (corporate social responsibility), as well as overseeing activities related to the equity investment in the company "CESI - Centro Elettrotecnico Sperimentale Italiano Giacinto Motta S.p.A.", in coordination with the Chief Executive Officer.

More specifically, with regard to the duties involved in organising the Board works, the Chairwoman ensures that suitable documentation and information is given to enable the Board to rule knowledgeably on the matters submitted for its examination (Article 1.C.5 and Comment to Article 2 of the Governance Code).

To this end a specific software platform was also created to enable secure and confidential access to the board documentation together with an e-mail address dedicated to the exchange of correspondence between Directors and Statutory Auditors.

To this end, during the meeting held on December 19, 2012 – considering the provisions of the Corporate Governance Code and the set of governance rules of the company with regard to the meetings of the Board of Directors and the committees established within the board – the Board of Directors defined a disclosure prior to the board meeting and for the committees that is at least coherent with the terms envisaged for convening the meetings of these organisations, without prejudice to the fact that, where the subject so requires, the information given can be supplemented, including subsequently, by the presentation provided orally by the Chairwoman, the Chief Executive Officer or members of the Group management and/or consultants suitably authorised and invited during the meetings of said organisations, or the meetings of the Board of Statutory Auditors, or during specific informal meetings open to the participation of Directors and/or Auditors organised to further investigate matters of interest with reference to business management.

Subsequently to the resolution passed and until the date of approval of this Report, the disclosure made has been coherent with the Board's indications.

Assessment of the Board of Directors' Activity

In compliance with the Corporate Governance Code, Terna's new Board of Directors, with the support of the Appointment Committee, assessed the operation of the Board and its committees, and their size and composition, with reference to the work done since its appointment. The Board conducted this assessment, drawing on the assistance of the company Egon Zehnder International S.p.A. as a specialised external consultant to ensure the utmost objectivity of its evaluations. This initiative, considered in relation to the Board's three-year term, follows on from other analogous ones taken by Terna's Board of Directors since 2006 and up to just before the appointment of the new Board on the occasion of which the Board standing down, as provided for in Art. 1.C.1 lett. h) of the Corporate Governance Code, expressed the guidelines on the professional figures whose presence on the Board was considered opportune presented in the previous Report on Corporate Governance and Ownership Structures.

The analysis carried out highlighted, among other things, that the adequacy of the composition of Terna's Board and the specific skills of its members had, also in the past, helped to ensure that well-informed decisions were taken (Arts 2.P.1, 2.P.2, 2.P.3, 2.P.4 of the Corporate Governance Code).

It is hereby specified, pursuant to art. 1.C.1 lett. g) of the Corporate Governance Code, that the Egon Zehnder International S.p.A. company has expressly declared the non-existence of other consultancy activities and/or other professional assignments between Egon Zehnder International S.p.A. and Terna and between the same Egon Zehnder International S.p.A. and Terna's parent company, Cassa Depositi e Prestiti S.p.A.

The consultancy firm's analysis, begun during the course of the first quarter 2015, has been carried out by means of quality questionnaires and in depth personal interviews with all the Board members (that therefore represent both majority and minority shareholdings) with the support of a questionnaire which, relative to the first period of the assignment, addressed general issues relative to the size, composition and operation of the Board of Directors and the Committees, and through a subsequent assessment of the collected data. Further specific interviews have been held in order to collect the opinions of the members of the Board of Statutory Auditors on Board of Director dynamics. As part of the analysis a specific comparison has been carried out with the international situation (art. 1.C.1 lett. i)-(3) of the Corporate Governance Code).

In particular, the analysis has focused on numerous aspects relating to: a) the heterogeneous and appropriate structure and composition of the Board of Directors and the Committees, bearing in mind the professional expertise and experience, in managerial and assignment terms, as well as gender diversity, with reference to the legal provisions, the Company's Bylaws and the Corporate Governance Code relating to the composition of the Board of Directors and the Committees; b) the substantial independence, integration and appropriateness of training (Induction Program); c) the adequacy of the meetings in numerical terms both in terms of members present and active contributions provided, related to both the meeting agendas and the effectiveness of the decision making process; d) the availability for meeting of the independent Board members; e) the authoritative and leadership role performed by the Chairwoman; f) the climate within the Board, the relations with the Chairwoman and the Chief Executive Officer and the level of interaction between Board and Management; g) the tasks assigned to the Board of Directors and the Committees; h) the breadth and appropriate structure of the information flow even in terms of timing and information procedures; i) an assessment of the Company's Secretarial Activities and of the Secretary and the correctness of minute taking; l) the constructive contribution provided by the Board of Statutory Auditors; m) the benchmarking with national and international best practices. Said analysis has shown how Terna's Board of Directors is completely aligned with the Corporate Governance Code and rightfully stands as an instance of best practices at both Italian and international level, confirming the positive compliance assessment relative to these requirements.

The Board of Directors, in the meeting of 26 March 2015, based on the results of the analyses performed, has therefore reached a positive overall assessment of the size, composition and operation of the Board of Directors and its Committees, having been positively impressed by all the professional profiles examined, all intent on exercising their role to the best advantage. In particular, the Board, considering that the operation of the new board has confirmed the high level of efficiency and general tendency towards continuous improvement, has identified some areas of excellence. Among these: a) the governance structure as well as internal cohesion and independence; b) the decision making capacity helped by the transparent role played by the Chairwoman and the competence and prestige of the Chief Executive Officer; c) the internal climate, which affects the capacity for debate and the subsequent decision making phase; d) the high quality levels of Board members; e) the understanding of the business; f) the reliability of management and financial management and the shared approval of performance objectives and company strategy by the Board of Directors.

Delegated bodies and other Executive Directors

CEOs

On May 27, 2014 the current structure of the Board of Directors provides for only one CEO, to which the Board has attributed powers, defining their nature, limits and any methods for exercising them; no executive committee was established. The CEO has powers of legal representation of the Company and is entrusted with the widest powers for the administration of the Company, pursuant to the aforementioned Board Resolution, with the exception of those differently attributed by the Law, by the Bylaws or reserved for the Board of Directors, as described in this section under the "Role of the Board of Directors" (Article 2.C.1 of the Corporate Governance Code). The CEO informs the Board of Directors and the Board of Statutory Auditors of the activities and of the management of the Company as well as of the resolutions passed in exercising his powers pursuant to Article 21.3 of the Bylaws, at least on a quarterly basis and on occasion of Board meetings.

On a quarterly basis, specific reports are prepared in order to inform the Board regarding major actions and activities.

At the date of the present Report and under the terms of Art. 2.C.5 of the Corporate Governance Code, we can specify that there are no situations of cross directorship: in fact Terna's Chief Executive Officer does not hold any directorships in companies outside the Terna Group, of which another Director of Terna is Chief Executive Officer (CEO).

With the exception of the Chief Executive Officer Matteo Del Fante, the other 8 members of the Board of Directors (Catia Bastioli, Cesare Calari, Carlo Cerami, Fabio Corsico, Yunpeng He, Luca Dal Fabbro, Gabriella Porcelli and Stefano Saglia) must all be considered non-executive. In actual fact, we note, in this regard, that the Chairwoman Catia Bastioli does not hold an executive role, insofar as she has not been assigned individual management powers, nor does she have a specific role in preparing business strategies (Articles 2.P.1 and 2.C.1 of the Governance Code).

As already explained in the previous title "Board Meetings and role of the Chairwoman", the Bylaws assign the Chairwoman powers of legal representation of the Company and the company signature, the chair of the Shareholders' Meetings and the power to convene and chair the Board of Directors and verify the implementation of the Board's resolutions (Article 25 of the Bylaws); he or she is also assigned the duties assigned to the Chairwoman by law and by the Corporate Governance Code.

In this context, the separation of roles between the Chairwoman and CEO in Terna strengthens the characteristics of impartiality and balance required of the Chairwoman of the Board of Directors as envisaged by the Corporate Governance Code (Comment to Article 2 of the Governance Code). Non-executive directors (insofar as they do not have any operative delegated powers and/or management functions within the company):

- apply their specialised knowledge in the Board's discussions, allowing examination of the matters being discussed from various perspectives, and subsequently pass thoroughly analysed, informed and compliant resolutions in line with social interests (Article 2.P.2 of the Governance Code) and

- in terms of their number, knowledge, authority and availability of time, are capable of guaranteeing that their judgement can have a significant weight in the Board's decisions in line with what provided for by the Governance Code (Article 2.P.3 of the Corporate Governance Code).

The suitability of the size, composition and functioning of Terna's Board and its committees, in this regard is certified by the results of the annual board reviews, as illustrated in the previous section "Assessment of the Board of Directors' Activity".

Independent Directors

A suitable number, also in terms of competence, of non-executive Directors are independent.

Although independence characterises the activity of all the Directors, executives and non-executives, the presence of Directors that can be qualified as "independent" in compliance with the independence requirements set out by the law, the Bylaws and the Governance Code adopted by Terna, and whose role is significant both within the Board and its committees, suitably ensures adequate consideration of all shareholding members' interests.

The Company therefore put in place, back in February 2007, a specific internal procedure that defines the criteria for the evaluation of independence of the non-executive members and for the assessment of the requirements according to the Bylaws and the Corporate Governance Code ("Criteria for applying and procedure for assessing independence of the directors pursuant to Art. 3 of the Corporate Governance Code"), in keeping with the provisions of the Corporate Governance Code, according to the description already provided in the previous section II under "Appointment, requirements and term of office of Directors".

With reference to this criteria, and on the basis of the information supplied by the individual parties concerned, the Board of Directors has assessed compliance with the independence requirements set out by the law, the Bylaws and the Governance Code with each Director at the first opportunity following appointment (Articles 3.P.2 of the Governance Code and 144-*novies*, paragraph 1-*bis* of the Issuers Regulation) and, subsequently, once a year at the board review (Articles 3.P.2 and 3.C.4 of the Governance Code), with regard, as specifically required by the Governance Code, more to the substantive profile than the formal profile and rewarding merit rather than value of the office held.

In particular, at the meeting of March 26, 2015, during which the Board of Directors evaluated, on the basis of the information supplied by the individual parties concerned, the commercial, financial and professional relations entertained directly or indirectly by the Directors with Terna, which may be or could appear to be such as to compromise the independence of a Director by virtue of their significance, both in absolute terms and as concerns the economic-financial position of the party concerned, and thereby certified that independence criteria were met by the 6 non-Executive Directors: Cesare Calari, Carlo Cerami, Fabio Corsico, Luca Dal Fabbro, Gabriella Porcelli and Stefano Saglia (Arts 3.C.1, 3.C.2 and 3.C.4 of the Corporate Governance Code).

At the same time, the correct application of the defined criteria and the procedures adopted by the Board of Directors was verified by the Board of Statutory Auditors (Article 3.C.5 of the Corporate Governance Code).

Among the assessments carried out by the Board, with reference to the 6 Directors, the existence is proven of the independence requirements envisaged in Article 15.4 of the Bylaws that requires that at least 1/3rd of the Directors in office – rounding down in case of a fraction – meets the independence requirements established for Auditors by Article 148, paragraph 3, of the Consolidated Law on Finance.

The number of independent directors is therefore already more than in line with the requirements for members of the board as set out in the Corporate Governance Code for issuers belonging to the FTSE-MIB index (Article 3.C.3 of the Corporate Governance Code). The number and duties of the independent directors have also guaranteed a suitable membership of the committees indicated by the Corporate Governance Code and set up in Terna in accordance with the provisions of current transitional regulations of said Code (paragraph VIII of the "Guidelines and transitional regime" and 3.C.3, first sentence, of the Corporate Governance Code). Given the composition of the Board of Directors, characterised by a high number of independent Directors, and its working methods (illustrated in the section above under "Board of Directors Meetings and role of the Chairwoman"), and the significant participation of the independent directors in the composition of the Committees, in the operating system a constant exchange of information occurred among the said independent Directors both on the occasion of meetings of the internal Committees and on the occasion of the board meetings themselves which did not make necessary specific meetings reserved only for them. With a view to progressive improvement of practice and conduct to achieve best practice, some of the independent Directors requested meetings reserved for all the independent Directors who are members of the Board, to be held in financial year 2015. Terna, with a letter of the Chairwoman of the Board of Directors, stated expressly that the Company was willing to support their organisation (Art. 3.C.6 of the Corporate Governance Code).

With reference to the specific provisions of Terna's Bylaws introduced to implement the Unbundling Legislation, we can note finally that as part of the periodical assessment carried out by the Board, for all Directors appointed the existence of the independence requirements provided for in Art. 15.5 of the Bylaws was verified. The Bylaws, in fact, state that "the Company's directors may not hold, on penalty of disqualification, positions of director, member of the supervisory committee or of other bodies which legally represent a company that carries on the business of generating or supplying electricity or gas".

Lead independent director

The working method and composition of the Board of Directors has assured the suitable coordination of the contributions and the requests of the non-executive Directors and, in particular, of the Independent Directors; it has also guaranteed a preventive exchange of information which allows the work of the Board to be completely productive and focused on the real needs of the Company. On the basis of these assumptions, confirmed by the results of the board review to which the Board itself is subjected, and without the criteria being met as specified in the provisions of the Corporate Governance Code (Art. 2.C.3 of the Corporate Governance Code), in Terna the figure of Lead Independent Director has not yet been established (Art. 2.C.4 of the Corporate Governance Code).

Section V Management of company information

In April 2004, in accordance with the provisions of the Corporate Governance Code in force at the time, the Company's Board of Directors adopted a specific regulation for the internal management and processing of confidential information, also setting out procedures for the disclosure of documents and information concerning the Company and its subsidiaries, aimed at protecting confidential information, whilst also assuring that the market disclosure in relation to company data is correct, complete, suitable, timely and not selective.

This regulation – which also provides guidance for the subsidiaries, to assure that they provide Terna with all information necessary to fulfil the communication obligations laid down by law – was then supplemented in December 2006, with specific reference to the insider information pursuant to Article 114, paragraph 1 of the Consolidated Law on Finance, aimed at preventing insider trading and, most recently, updated on December 19, 2012 by the CEO according to the delegated powers received from the Board to take account of the applicable regulatory changes and the new organisational and documentary structure of the Group (Article 1.C.1, letter j) of the Corporate Governance Code).

The Directors and Auditors of Terna and its subsidiaries are required to comply with the provisions of this regulation and, in any case, to keep confidential all documents and information acquired in the performance of their duties, as well as the content of any discussions during Board meetings.

The regulation – available on the Company's website www.terna.it under the section "Investor Relations/Corporate Governance/Regulations and Procedures/Information Management Regulations" – assigns, on a general basis, the CEO of the Company and the respective company heads (Sole Director, Executive Chairman, Chief Executive Officers and/or General Managers, as applicable) of the subsidiaries, the management of the relevant confidential information, establishing that disclosure of information on the individual subsidiaries must in any case take place with the authorisation of the Company's CEO. Moreover, the regulation establishes specific procedures to be followed when disclosing corporate documents and information, with a particular focus on the disclosure of insider information. It also scrupulously governs the way in which company employees should deal with the press and other mass media, or rather with financial analysts and institutional investors (Comment to Article 1 of the Corporate Governance Code). Lastly, specific "Measures for persons committing violations" are also envisaged in the regulation. In addition, in the more general interests of protecting corporate information and to guarantee an adequate level of information protection and of cyber security of the IT networks and systems within the Group, in 2014 Terna carried out various initiatives to improve security, directed also at the subsidiaries, in keeping with the prescriptions of the regulatory framework of the "Information Security Policy" and with the Information Security Governance Model adopted within the Group, based on the best practices and major international standards on the subject.

In compliance with the provisions of Article 115-*bis* of the Consolidated Law on Finance and with the regulatory measures issued by CONSOB, Terna's Board of Directors created a specific list of people with access to insider information within Terna. It also prepared a specific regulation to govern how the list should be kept and updated. The same regulation requires that subsidiaries also create their own list. As of April 2004, the Company's Board of Directors also approved the code of conduct on internal dealing, in compliance with the regulatory measures laid down by Borsa Italiana S.p.A., establishing the market transparency requirement for listed companies with respect to significant transactions, involving the financial instruments of the same companies or their subsidiaries, carried out by people with significant decision-making powers in the company and with access to price-sensitive information ("relevant persons").

Following entry into force of the new internal dealing regulations that were introduced by Law no. 62 dated April 18, 2005 ("2004 Community Law" that integrated the provisions of Article 114 of the Consolidated Law on Finance) and of the related implementing provisions (Articles 152-*sexies* to 152-*octies* and Attachment 6 of the Issuer Regulation), starting from 2006 Terna adopted a specific internal procedure to identify Terna's "relevant persons" and to manage, handle and disseminate to the market information regarding the transactions in financial instruments carried out by them.

Within this procedure – subsequently updated based on CONSOB’s clarifications and on the Company’s structure – Terna deemed it appropriate to maintain, for the “relevant persons” identified, the obligation to refrain – either directly or indirectly – from carrying out transactions that are subject to internal dealing regulations during two blocking periods in concomitance with the approval of the draft separate financial statements and of the interim financial report by Terna’s Board of Directors.

The transparency obligations are governed by legislative and/or regulatory provisions of reference, as in force at the time (Article 114, paragraph 7 of the Consolidated Law on Finance and Article 152-*sexies* et seq. of the Issuer Regulation, as resulting following the simplifications made by CONSOB Resolution no. 18079 of January 20, 2012 published in the Official Journal of February 7, 2012, aimed at combining the competitiveness of the market with the necessary investor protection and the related thresholds for the disclosure of operations subsequent to those already disclosed).

This procedure is available on the Company’s website www.terna.it in the “*Investor Relations/Corporate Governance/Regulations and Procedures/Internal Dealing*” section. The procedure includes the following qualifying elements, which are considered adequate in raising the quality of its content:

- application of internal dealing transparency obligations towards “relevant persons” within the Company and its subsidiaries as identified in the procedure (in addition to Terna’s actual Directors and Standing Auditors, the list of whom is updated in line with the organisational changes made to the Company);
- “relevant persons” are not allowed to carry out transactions (other than the exercise of options) during the 30 days before approval of the draft separate financial statements and interim financial report by Terna’s Board of Directors. Moreover, the Board can establish additional blocking periods during the year, following specific events;
- an adequate penalty system was created for “relevant persons” identified as breaching the rules of this procedure.

Section VI Committees within the Board

The “Remuneration Committee”, the “Control, Risk and Corporate Governance Committee”, and the “Appointment Committee”, all with recommendatory and advisory functions and composed of at least three Directors, as provided for by the Corporate Governance Code, were set up within the Board of Directors, in order to guarantee the effective fulfilment of its duties.

The criteria adopted for the composition, duties and responsibilities of these Committees were identified in line with the provisions of the Corporate Governance Code of reference at the time and the methods for holding meetings are governed by specific internal Organisational Regulations adopted by the Board of Directors on January 24, 2007 and thereafter updated on December 19, 2012, with reference to the new provisions of the Corporate Governance Code and on May 27, 2014, as regards the “Control, Risk and Corporate Governance Committee” and the newly established “Appointment Committee” (Articles 4.P.1 and 4.C.1, letters a) and b) of the Corporate Governance Code).

The “Remuneration Committee”, the “Control, Risk and Corporate Governance Committee” and the “Appointment Committee” are made up of only independent Directors including the Chairman of the same. At least one member of the “Remuneration Committee” possesses adequate knowledge and experience in financial and remuneration-policy matters, and at least one member of the “Control, Risk and Corporate Governance Committee” possesses adequate expertise in accounting and finance or risk management matters. The composition of these committees is therefore in line both with the current transitional provisions of the Corporate Governance Code (paragraph VIII of the “Guidelines and transitional regime” and Article 3.C.3, first sentence, of the Corporate Governance Code) and with the new provisions of the Corporate Governance Code.

The information given in this Report on the activities carried out during the year, on the number and average duration of the meetings held, and the related percentage attendance of each member of the committees set up, is given with the support of the Chairman or other members, as far as their respective duties are concerned (Article 4.C.1, letter g) of the Corporate Governance Code).

Within the Board of Directors, another Committee was set up (“Related-Party Transactions Committee”) to fulfil the role required by the “Regulation on Related-Party Transactions” issued by CONSOB in March 2010 and subsequently amended and on the basis of the provisions in the “Procedure for Related-Party Transactions” adopted by the Company and illustrated in Section XII of this Report. The Committee is assigned preliminary, proactive and advisory duties and powers in evaluations and decisions concerning the above-mentioned Related-Party Transactions, both for the approval of the more important transactions and of the less important ones indicated in Terna’s procedure, as well as in relation to possible proposals for amendments to the same procedure adopted by Terna. This Committee is composed of at least three Directors, all independent, according to the provisions of the Corporate Governance Code.

Minutes are taken of committee meetings (Article 4.C.1, letter d) of the Corporate Governance Code). Each Committee also has the right to access the necessary information and corporate departments to carry out its tasks and can use possible external advisers within the limits provided for by the Board of Directors (Article 4.C.1, letter e) of the Corporate Governance Code).

Within the Company budget, adequate financial resources are allocated for implementing the tasks of each Committee (Article 4.C.1, letter e) of the Corporate Governance Code). At the invitation of the Chairman/Coordinator of each Committee, the meetings may be attended by other members of the Board of Directors or other people whose presence may prove helpful in ensuring the best possible fulfilment of the functions of the Committee with reference to the items on the agenda and in accordance with what is detailed below with reference to each of the Committees established (Article 4.C.1, letter f) of the Corporate Governance Code).

Section VII Appointment Committee

In the session of May 27, 2014, on the occasion of first renewal of the Board following the entry into force of the provisions of Art. 5.P.1 of the Corporate Governance Code, the Board of Directors set up the Appointment Committee, the tasks of which were identified in accordance with the rules of the Corporate Governance Code and the methods of conducting the meetings regulated in a specific internal organisational Regulation adopted by the Board of Directors on the same date (“Organisational Regulation of TERNA S.p.A.’s Appointment Committee”) (Art. 4.C.1 lett. b) of the Corporate Governance Code). The Appointment Committee has the task of supporting the Board of Directors, with fact-finding, recommendatory and advisory functions, in the assessments and decisions relating to the size and composition of the Board itself.

More specifically, the duties of the Committee are: (i) to formulate opinions or express recommendations to the Board of Directors on the size and composition of the same and on the professional figures whose presence on the Board is considered opportune; and on the positions to be taken by the Board with regard to the maximum number of appointments as director or statutory auditor in other companies listed on regulated markets (including abroad), in financial, banking and insurance companies or in large companies (Arts 5.C.1 lett. a) of the Corporate Governance Code); (ii) to propose to the Board of Directors candidates for the position of Director in cases of co-option and when the Board decides to avail itself of the option provided for in the Bylaws to present its own list (Art. 5.C.1 lett. b) of the Corporate Governance Code); (iii) to perform any further tasks assigned by the Board of Directors.

The Appointment Committee is currently made up of three independent Non-Executive Directors: Luca Da Fabbro (who chairs it and represents the minority shareholders), Carlo Cerami and Stefano Saglia (Art. 5.P.1 and 4.C.1 lett. a) of the Corporate Governance Code). According to the provisions of the Committee Regulation, no Director takes part in the meetings of the Appointment Committee in which proposals are formulated for the Board of Directors in relation to his or her own candidature or position within the Board or the Committees, unless they are proposals that regard all the members of the Committees set up within the Board of Directors.

Minutes are regularly taken at all meetings of the Committee. (Art. 4.C.1 lett. d) of the Corporate Governance Code). The Appointment Committee, in performing its duties had the option to access, through the Secretariat of the Board of Directors, the information and corporate departments necessary to perform its tasks and may make use of external consultants, within the limits approved by the Board of Directors and in the provisions of the Corporate Governance Code (Art. 4.C.1 lett. e).

Since it was set up in 2014, the Appointment Committee has held one meeting, which was attended by all its members and lasted for about 40 minutes. At the Committee’s request, the meetings were also attended by Company executives, whose presence was deemed helpful regarding the items on the agenda.

In 2015, the Committee will hold as many meetings as are sufficient for carrying out the duties assigned. During the year up to the date of approval of this Report, the Committee has held three meetings.

The percentage participation of each member of the Committee in the meetings held during 2014 is indicated in the annexed table 1 (Article 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance).

During 2014, the Appointment Committee, within the sphere of its duties, was mainly involved in analysing the tasks and activities assigned to it, appointing also the Secretary of the Committee.

During 2015, with reference to the specific recommendatory and advisory duties attributed to the said Committee in relation to the size and composition of the Board of Directors and to those in relation to replacing and appointing by co-opting a Director, the Committee also supported the Board for the appointment of a Director under the terms of Art. 2386 of the Italian Civil Code, and in the activities of the annual board review, with reference to identifying the working methods and selecting the specialised external consultant (as already illustrated in Section IV above under “Assessment of the Board of Directors’ Activity”).

At the invitation of the Chairman of the Committee, the meetings were attended by other members of the Board of Directors or other members of Terna's structure or other persons whose presence was of assistance for better performance of the functions of the Committee itself (Art. 4.C.1 lett. f) of the Corporate Governance Code).

During the meeting of March 26, 2015, the Board of Directors evaluated the duties and performance of the Committee. The generally positive evaluation of the composition, size and responsibilities of the Committee was confirmed by the Board of Directors as part of the annual review of the Board itself and the Committees.

The Committee has been granted adequate financial resources.

Section VIII Remuneration Committee

Functions of the Remuneration Committee

In 2004, a specific Remuneration Committee was established within the Board of Directors, the duties of which have been identified in line with the provisions of the Corporate Governance Code of reference, and the methods for holding meetings are governed by the specific internal Organisational Regulations adopted by the Board of Directors on January 24, 2007 ("Organisational Regulation of the Remuneration Committee of Terna S.p.A.") and thereafter updated on November 9, 2011 and most recently on December 19, 2012, to comply with the new provisions of the Corporate Governance Code (Article 6). More specifically, the duties of the Committee are: (i) related to the remuneration policy of the Directors and Executives with strategic responsibilities (Articles 6.P.4 and 6.C.5 of the Corporate Governance Code); (ii) related to the proposals and opinions for the remuneration of Executive Directors and other Directors holding specific roles; (iii) related to the fixing of performance objectives linked to the variable part of this remuneration; (iv) monitoring the application of the decisions taken by the Board; and (v) verifying the effective achievement of performance targets (Article 6.C.5 of the Corporate Governance Code). Following the renewal of the entire Board of Directors on May 27, 2014, the Committee is currently made up of three independent Non-Executive Directors, the majority of which is chosen by the minority shareholders: Carlo Cerami (who chairs it), Fabio Corsico and Gabriella Porcelli. At least one member is in possession of adequate knowledge and experience in financial or remuneration-policy matters (Art. 6.P.3 of the Corporate Governance Code).

The Chairman of the Committee or other member of the Committee reports to shareholders on how its duties are performed. To this end, it is envisaged that the Chairman of the Committee or another member of the Committee shall attend the Annual Shareholders' Meeting (Comment to Article 6 of the Corporate Governance Code). The Chairman of the Committee attended the Shareholders' Meeting of May 27, 2014, making a speech.

No Director takes part in Remuneration Committee meetings where proposals intended for the Board of Directors are formulated on matters concerning its own remuneration, unless proposals are presented which regard all members of the Committees established within the Board (Article 6.C.6 of the Corporate Governance Code).

At the request of the Chairman of the Committee, the meetings may be attended by members of the Control and Risk Committee and/or other members of the Board of Directors, the Chairman of the Board of Statutory Auditors or another Auditor appointed by him, and other Terna executives or other people whose presence may prove helpful for the best fulfilment of the Committee's functions (Article 4.C.1, letter f) and Comment to Article 6 of the Corporate Governance Code). During financial year 2014, the Remuneration Committee held a total of 3 meetings (of which 2 held by the renewed Committee following the appointment on May 27, 2014 of Terna's new Administrative Body), characterised by the regular attendance of its members and of the Chairman of the Board of Statutory Auditors. They lasted on average about 50 minutes each. None of the Directors attended Committee meetings which formulated proposals regarding their remuneration to be submitted to the Board of Directors. At the Committee's request, the meetings were also attended by Company executives, whose presence was deemed helpful regarding the items on the agenda.

Minutes were duly taken of all Committee meetings and the Committee had the chance to access the information and corporate departments necessary to go about its duties, and to use external consultants in accordance with the terms established by the Board (Article 4.C.1, letter e) of the Corporate Governance Code). In this latter regard, the Committee verified the existence of the independence requirement of the consultants used (Article 6.C.7 of the Corporate Governance Code).

In 2015, the Committee will hold as many meetings as are sufficient for carrying out the duties assigned. During the year up to the date of approval of this Report, the Committee has held three meetings.

The percentage participation of each member of the Committee in the meetings held during 2014 is indicated in the annexed table 1 (Article 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance).

As part of its duties, and with respect to the remuneration of the CEO and other Directors holding special office, overall during 2014 the Remuneration Committee dealt with the following matters:

- verification that the 2013 results had been achieved in order to pay the variable remuneration of the CEO, both for his administrative role and his role as manager;

- identification of the variable remuneration targets of the CEO for FY 2014, which look to be particularly challenging and which will involve much of the company's business and the development initiatives under way;
- opinion on the proposal of the Board of Directors which was submitted to the Shareholders' Meeting of May 27, 2014 – on the occasion of renewal of the Board of Directors standing down – with regard to the criteria for determining the fees of Directors with delegated powers of the Company and of its subsidiaries according to the provisions of Article 23 *bis*, paragraphs 5 *quater*, 5 *quinquies* and 5 *sexies* of Law Decree no. 201 of December 6, 2011 (“Urgent measures for growth, fairness and the consolidation of public accounts”, converted, with amendments, into law by Art. 1, paragraph 1 of Italian Law no. 214 of December 22, 2012), as most recently amended by Art. 84-*ter*, paragraph 1 of Italian Law Decree no. 69 of June 21, 2013 (the “Action Decree”), converted with amendments by Italian Law no. 98 of August 9, 2013;
- verification, with reference to the long-term incentive (LTI) plan, that the target objectives envisaged in the Plan had been achieved, following which the Committee suggested that the Board of Directors pay the remaining 50% of the Premium for the maximum amount as final adjustment;
- preparation, with the support of the company Towers Watson, of the Annual Remuneration Report submitted for the approval of the Board of Directors, under the scope of which the remuneration policy adopted by Terna for the remuneration of the executive directors, other directors holding special office, auditors, general directors and executives with strategic responsibilities submitted to the annual Shareholders' Meeting in accordance with Article 123-*ter*, paragraph 6 of the Consolidated Law on Finance, was presented;
- assessment of the overall adequacy and consistency, and the concrete application of the Remuneration Policy;
- proposal for the fee for directors holding special office and for the Committees within the Board, in the light of the Remuneration Policy adopted by Terna and of the “Action Decree” provisions.

The Committee, with its members renewed following the appointment on May 27, 2014 of Terna's new Administrative Body, also appointed the Secretary of the Committee.

During 2015, the Committee also formulated the proposal for the “Remuneration Policy” approved by the Board, which will be submitted to the Shareholders' Meeting called to approve the financial statements for financial year 2014 under the terms of Article 123-*ter*, paragraph 6 of the Consolidated Law on Finance and verified achievement of the 2014 results for payment of the variable remuneration of the Chief Executive Officer, both for his administrative role and his role as manager. During the meeting of March 26, 2015, the Board of Directors evaluated the duties and performance of the Committee. The generally positive evaluation of the composition, size and responsibilities of the Committee was confirmed by the Board of Directors as part of the annual review of the Board itself and the Committees.

The Committee has been granted adequate financial resources.

Section IX Remuneration of Directors

With regard to FY 2014, we would remind you that in December 2011, Terna's Board of Directors adopted the “Remuneration Policy” in implementation of the provisions of the reference Corporate Governance Code, in force at the time, at the proposal of the “Remuneration Committee”. Following entry into force of the regulatory provisions implementing Art. 123-*ter* of the Consolidated Law on Finance issued by CONSOB Resolution no. 18049 of December 23, 2011 (published in Official Journal no. 303 of December 30, 2011), which, among other things, introduced Art. 84-*quater* into the Issuer Regulation, on the proposal of the “Remuneration Committee”, in 2014, Terna's Board of Directors approved the update to the Policy adopted as described in the “Annual Remuneration Report”.

This report, published annually, is made available to the public at the registered office and on the Company's website (www.terna.it), as well as on that of the market management company, Borsa Italiana S.p.A. (www.borsaitaliana.it); it is also submitted for an advisory, non-binding vote to the Shareholders' Meeting, in accordance with Article 123-*ter*, paragraph 6 of the Consolidated Law on Finance: The shareholders' meeting has always approved it and the meeting of May 27, 2014 was no exception. The information and/or updates of the Company's Remuneration Policy approved by the Board of Directors on the proposal of the “Remuneration Committee”, regarding the remuneration of the members of administration bodies, general directors and executives with strategic responsibilities, at least with reference to the following year, and regarding the work of the Committee and the procedures used to adopt and implement said Policy, in addition to the information required by Article 6 of the Corporate Governance Code which Terna has endorsed, are summarised in the “Annual Remuneration Report”; this was approved by the Board of Directors on March 26, 2015 and will be published by Terna and submitted for the approval of the forthcoming annual Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2014, in compliance with the provisions of Article 123-*ter* of the Consolidated Law on Finance and the aforementioned CONSOB Resolution. With regard to the remuneration of the Directors, this is established by the Shareholders' Meeting for each Director (Article 24.1 of the Bylaws).

Extra fees for members of the Committees formed within the Board of Directors in compliance with the Corporate Governance Code are resolved, following evaluation by the Board of Statutory Auditors, in compliance with Article 2389, paragraph 3, of the Italian Civil Code and with Article 24.2 of the Bylaws, by the Board itself; the overall remuneration for the Chairwoman and the CEO is also identified by the Board of Directors based on the proposal submitted by the Remuneration Committee and following evaluation by the Board of Statutory Auditors.

As concerns the definition of remuneration when renewing the Board of Directors whose term of office ended with the approval of the 2013 financial statements, the Shareholders Meeting was also asked – under the provisions for companies directly or indirectly controlled by public administrations, pursuant to Article 1, paragraph 2, of Italian Legislative Decree no. 165 of March, 30 2001, which issue shares on regulated markets, introduced by Art. 84 ter, paragraph 1 of Italian Law Decree no. 69 of June 21, 2013, converted with amendments by Italian Law no. 98 of August 9, 2013 (the “Action Decree”), in force as from August 21, 2013, which amended the provisions of Art. 23-bis of Italian Law Decree no. 201 of 6 December 2011, converted with amendments by Italian Law no. 214 of 22 December 2011 (the “Save Italy Decree” [Decreto Salva Italia]) – to pass a resolution by virtue of which the Board of Directors complied, under the scope of its prerogatives as defined by Art. 2389 of the Italian Civil Code, in defining the fee for directors with delegated powers, with the restrictions set forth under Art. 5-*quinquies* of Art. 23-bis of the “Save Italy Decree”. At the time, the controlling public shareholder gave its consent to the proposal made in accordance with the said criteria. The total emoluments received by the members of the Board of Directors during the year are indicated in the note to the separate financial statements. For an adequate presentation of the fees paid during the year of reference, for any reason and in any way by the Company and subsidiaries or associates to members of the administrative body of Terna and executives with strategic responsibilities for FY 2014, including the representation of each of the items comprising remuneration, treatment established in the event of cessation of office or termination of employment, the claw-back clauses in accordance with the provisions of Art. 6.C.1 lett. f) of the Corporate Governance Code, and a judgement of consistency with the Company’s Remuneration Policy approved the previous year, we would refer you to the aforementioned “Annual Remuneration Report” which will be published and submitted to the forthcoming annual Shareholders’ Meeting called to approve the financial statements for the financial year ended on December 31, 2014 in compliance with the provisions of Article 123-*ter* of the Consolidated Law on Finance and the aforementioned CONSOB Resolution. Finally, based on the provisions of Article 84-*quater*, paragraph 4, of the Issuer Regulation, the “Annual Remuneration Report” includes information concerning compensation plans provided for by Article 114-*bis* of the Consolidated Law on Finance and information on shareholdings in Terna and in subsidiaries held by members of the administration and management bodies, by general directors, and by other executives with strategic responsibilities, as well as by spouses not legally separated and by children (minors), directly or through subsidiaries, trust companies or third parties.

Section X Control, Risk and Corporate Governance Committee

Functions of the Control, Risk and Corporate Governance Committee

In 2004, within the Board of Directors, a specific Internal Control Committee was established, with the task of providing instructions, in the form of advice and suggestions, and, in particular, supporting the Board of Directors in its assessments and decisions relating to the “Internal Audit System” and regularly monitoring its suitability, as well as in connection with specific aspects relating to the identification of the main business risks (for example, operational risk, financial risk, market risk, and compliance risk (in addition to accounting compliance), regularly reporting back to the Board on the suitability of the system and the work performed.

The duties of the Committee have been identified in compliance with the Corporate Governance Code and the methods of conducting the meetings have been regulated in specific Organisational Regulations, which were adopted by the Board of Directors on January 24, 2007.

In the meeting held on December 19, 2012, the Board of Directors resolved the necessary adjustments in relation to the members and duties of the committee in place in order to ensure that these Organisational Regulations were perfectly in line with the new provisions of the Corporate Governance Code on the internal audit and risk management system (Articles 7.P.3, letter a-ii), 7.C.1 and 7.C.2 of the Corporate Governance Code) making some changes to them. Following the renewal of the entire Board of Directors, in the meeting of May 27, 2014, with a view to continuous improvement of the corporate governance system, the Board of Directors expanded the duties of Control and Risk Committee, adding to the latter’s duties those related to the corporate governance system and making the consequent changes to the Organisational Regulation (now entitled “Organisational Regulation of Terna S.p.A.’s Control, Risk and Corporate Governance Committee”) appointing the Members in keeping with the indications of the Corporate Governance Code according to what was communicated to the market on the same date.

Consequently the “Control and Risk Committee” has been renamed “Control, Risk and Corporate Governance Committee”. More specifically, the “Control, Risk and Corporate Governance Committee” has the task of supporting the Board of Directors, with suitable guidance, in the assessments and decisions relating to the “Internal Control and Risk Management System” (the “System”), to Corporate Governance, to approval of the annual financial report and the interim financial report and to relations between the Company and the external auditor (Article 7.P.3, letter a-ii) of the Corporate Governance Code). In this regard, the Committee is specifically assigned the following tasks:

- supporting the Board of Directors in fulfilling the duties assigned in the Corporate Governance Code on internal audit and risk management, preparing specific opinions in this regard:
 - i. defining the System guidelines and level of compatibility of these risks with business management consistent with the strategic objectives identified by the Board of Directors (Article 7.C.1, letter b) of the Corporate Governance Code);
 - ii. regularly verifying the suitability of the System with respect to the characteristics of the business and the risk profile assumed and its effectiveness (Article 7.C.1 letter a) of the Corporate Governance Code);
 - iii. approving the plan of works prepared by the Internal Audit Department Manager (Article 7.C.1, letter c) of the Corporate Governance Code);
 - iv. describing the main characteristics of the system in the Annual Report on Corporate Governance and Ownership Structures and in the assessment of the suitability of the system (Article 7.C.1, letter d) of the Corporate Governance Code);
 - v. assessing the results presented by the legal auditor and in the report on the essential issues that emerged during the legal audit;
- assessing, together with the Executive in Charge of the preparation of the Company’s accounting documents, having heard the opinions of the legal auditor and the Board of Statutory Auditors, the correct application of accounting standards and their uniformity for preparation of the consolidated financial statements (Article 7.C.2, letter a) of the Corporate Governance Code);
- expressing opinions at the request of the CEO, on specific aspects concerning identification of the main business risks (Article 7.C.2, letter b) of the Corporate Governance Code);
- examining the regular reports concerning assessment of the system and those of particular relevance prepared by the Audit Department (Article 7.C.2, letter c) of the Corporate Governance Code);
- monitoring the independence, suitability, efficacy and efficiency of the Audit Department (Article 7.C.2, letter d) of the Corporate Governance Code). Please see the section below “Internal Audit Department Manager”;
- supporting the Board of Directors in performing the tasks assigned to the latter on the subject to general policies of the corporate governance system of the Company and of the Group acting to: (i) monitor the evolution of the legislation and the Italian and international best practice on the subject of corporate governance and inform the Board of Directors when there have been significant changes; (ii) check that the corporate governance system which the Company and the Group have developed is aligned with the legislation, the recommendations of the Corporate Governance Code and the national and international best practice, formulating to the Board of Directors any opinions or proposals on the said corporate governance system, if it sees the need or the opportunity;
- reporting at least once every six months to the Board of Directors during approval of the annual financial report and interim financial report, on the activities carried out and on the suitability of the system (Article 7.C.2, letter f) of the Corporate Governance Code);
- carrying out any additional duties as may be assigned by the Board of Directors.

Additional specific duties are assigned to the Committee based on the Organisational Model adopted by Terna in compliance with Legislative Decree 231/01 and with Terna’s Code of Ethics.

The Committee can ask the Internal Audit Department and the Chief Risk Officer to carry out checks on specific operating areas, simultaneously informing the Chairman of the Board of Statutory Auditors (Article 7.C.2, letter e) of the Corporate Governance Code). The Chairman of the Board of Statutory Auditors (or another auditor appointed by him) shall attend the meetings of the Committee, and in any case, all other auditors can also attend (Article 7.C.3, letter e) of the Corporate Governance Code).

At the invitation of the Committee Chairman, the meetings can be attended by the Internal Audit Department Manager and, with reference to the individual items on the agenda, the CEO (in his capacity as Director appointed to oversee the functions of the Internal Audit and Risk Management System), the members of the Remuneration Committee and/or other members of the Board of Directors or other people whose presence may be useful to ensure the best possible operation of the Committee (Article 4.C.1, letter f) of the Corporate Governance Code).

Following the replacement - on March 4, 2015 - of a Director who had resigned from the Board of Directors, the Committee is currently made up of three independent Non-Executive Directors: Cesare Calari (who chairs it and represents the minority shareholders), Carlo Cerami and Luca Dal Fabbro.

At least one member is in possession of adequate experience in accounting and financial or risk management matters (Art. 7.P.3 of the Corporate Governance Code).

Information on the number of meetings refers to the total activities of the Committee in FY 2014.

More specifically, during FY 2014, the Committee held a total of 3 meetings (of which 2 held by the renewed Committee following the appointment on May 27, 2014 of Terna's new Administrative Body), characterised by the regular attendance of its members and of the Board of Statutory Auditors, in view of the specific supervisory duties over the system that are assigned to the said Board by current legislation on listed companies and by the Corporate Governance Code (Articles 7.P.3, letter d) and 7.C.3 of the Corporate Governance Code).

The meetings lasted on average approximately 2 hours each. At the invitation of the Committee Chairman, the Internal Audit Department Manager attended the meetings.

At the Committee's request, the meetings were also attended by the Company executives whose presence was deemed helpful for the best information regarding the items on the agenda (Article 4.C.1, letter f) of the Corporate Governance Code). More specifically, overall during FY 2014, in accordance with the provisions of the Corporate Governance Code, the Committee:

- received ample information on financial operations and on the composition of and trend in the Company's debt, and on the related levels of risk and the related hedging and expressed its positive opinion on the determination made by the Board of the degree of compatibility of the main risks related to Terna and its subsidiaries with business management in keeping with the strategic objectives identified;
- in connection and with the involvement of various subjects and organisations concerned, expressed its opinion in favour of the suitability of the Internal Audit and Risk Management System with respect to the characteristics of the business and the risk profile concerned, and its effectiveness and examined the Report by the Chief Risk Officer (CRO), established as explained below in section XI "Internal Audit and Risk Management System";
- met the Internal Audit Department Manager and positively examined the structure of Terna's audit, the work schedule prepared by the Audit Department Manager and the regular reports prepared by the Audit Manager in 2014, obtaining elements for the evaluation of the audit and risk management system, also as concerns the Group reorganisation and formulating its opinion to the Board of Directors on the Internal Audit Department's Reporting line;
- met the independent auditing firm to assess the auditing activities with particular regard to the methods by which they were carried out and the results;
- appointed the Secretary following the renewal of the composition of the Committee itself.

Pursuant to the provisions of the Corporate Governance Code, the Committee assessed, together with the Executive in Charge of the preparation of the Company's accounting documents and having consulted with the legal auditor and the Board of Statutory Auditors, the correct use of the accounting standards and received information on auditing activities implemented for compliance with the provisions of Italian Law 262/05 and subsequent amendments. The Committee also received the required information from the Supervisory Board pursuant to Italian Legislative Decree 231/01 on the suitability and development of the Model and activities carried out by said Committee and reported to the Board at the time of approval of the annual and interim financial reports on the activities carried out and the suitability of the Internal Audit and Risk Management System (Articles 7.C.2, letter c) and f) of the Corporate Governance Code).

Minutes were duly taken of all Committee meetings and the Committee had the chance to access the information and corporate departments necessary to go about its duties, and to use external consultants in accordance with the terms established by the Board (Article 4.C.1, letter e) of the Corporate Governance Code).

In 2015, the Committee will hold as many meetings as are sufficient for carrying out the duties assigned. During the year up to the date of approval of this Report, the Committee has held three meetings.

The percentage participation of each member of the Committee in the meetings held during 2014 is indicated in the annexed table 1 (Article 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance).

During the meeting of March 26, 2015, the Board of Directors evaluated the duties and performance of the Committee. The generally positive evaluation of the composition, size and responsibilities of the Committee was confirmed by the Board of Directors as part of the annual review of the Board itself and the Committees.

The Committee has been granted adequate financial resources.

Section XI Internal Audit and Risk Management System

With regard to internal auditing, back in December 2006, on the basis of the prior enquiry by the Internal Control Committee (now the Control, Risk and Corporate Governance Committee), the Board of Directors:

- defined the “Internal Audit System of the Terna Group” (now the “Internal Audit and Risk Management System of the Terna Group” or the “IARMS”), taking its inspiration from national and international best practices such as the set of rules, procedures and organisational structures, which, through a suitable process identifying, measuring, managing and monitoring the main risks, enable correct, coherent business management with the objectives established by the Company;
- established the guidelines of the “Internal Audit and Risk Management System of the Terna Group” (IARMS), envisaged by the new Corporate Governance Code (by resolution of December 19, 2012), describing the rules, procedures and organisational structures prepared to ensure that the main risks faced by Terna and its subsidiaries are correctly identified and suitably measured, managed and monitored in accordance with criteria compatible with healthy, correct management in line with the strategic objectives identified (Articles 7.P.1, 7.P.2 and 7.C.1, letter a) of the Corporate Governance Code).

More specifically, these guidelines were updated by the Board of Directors – also considering the new provisions of the Corporate Governance Code – by resolution of December 19, 2012 and after obtaining an opinion of the Control, Risk and Corporate Governance Committee. At the same time and in accordance with the provisions of the aforementioned guidelines, after obtaining the opinion of the Control, Risk and Corporate Governance Committee, the board defined the nature and level of risk compatible with the strategic objectives of Terna and its subsidiaries.

The “Internal Audit and Risk Management System of the Terna Group” helps, with reasonable certainty, to guarantee the achievement of strategic objectives, the safeguarding of the company assets, the efficiency and effectiveness of the business processes, the reliability of the financial operations, compliance with the law, regulations, Bylaws and internal procedures and the reliability of the company’s reports and financial disclosure. Moreover, it is constructed considering the specific nature and type of activities carried out by Terna and the connected risks and corporate interests, with special attention paid to the part of the IARMS that has the objective of safeguarding the continuity of the electrical service and guaranteeing impartial conduct in carrying out licensed activities.

The IARMS is based on the following elements: audit environment; risk management system; audit activities; information, communication and monitoring. The coordinated functioning of these elements determines the overall effectiveness of the IARMS in achieving the objectives:

- the “audit environment”, the basis of all other elements, consisting of the set of ethical and cultural values, the governance and organisational model, the leadership style exercised by the company’s senior management and by the management and staff management policies. In these terms, the Code of Ethics is adopted; this document also from a moral point of view, stresses Terna’s unique position. It recalls the need to comply with universal ethical standards, in which everyone can immediately recognise themselves, and that should be fully adopted by the Group. It confirms legality, integrity and responsibility as being its general ethical principles and acknowledges that standards of good business management, respect in the broadest sense of the term, fairness as a basis for loyal, impartial behaviour, and transparency in conduct and communication, are particularly important. These ethical standards apply to all Group companies and employees are duly informed of them. Finally, an organisational structure is adopted with a clear assignment of roles and responsibilities and operating limits, in line with the skills required by the roles assigned;
- the “risk management system” implemented by the company’s senior executives and management starts from the definition of the business objectives (strategic plans, budget, key performance indicators, risk appetite) and enables the various levels of the organisation to identify the main risks of the individual processes to which the action plans are related. These action plans are to prevent and manage risk in order to keep it within acceptable limits, monitoring the results over time. The risk management models and methods adopted, the roles and responsibilities within the organisation are defined in specific corporate procedures and policies. In order to implement an integrated “risk management system”, in 2007 Terna created a Corporate Security (today Corporate Protection) Department significantly integrating its security tools and defining a transversal system for identifying, analysing and controlling business risks. Moreover, in accordance with the provisions of the guidelines of the “Internal Audit and Risk Management System of the Terna Group”, the role of the Chief Risk Officer (CRO) has been outlined (Comment on Article 7 of the Corporate Governance Code), appointed by the Director in Charge of the Internal Audit and Risk Management System in May 2013, to which the main responsibility assigned consists of supporting senior management in effectively implementing and managing the Group Risk Management process, with reference to all financial, operational, business and other risks. In addition to ensuring absolute compliance with legal provisions, this integrated model allows the achievement of corporate security levels that exceed the regular standards attainable through sectoral and fragmented security management;
- the “audit activities” carried out by the management and staff in order to achieve the specific business objectives are based on underlying reference principles such as self-control, hierarchical control, accountability, balancing different interests and the separation of roles;

- the “communication and information” processes which ensure that the company’s objectives, culture, values, roles, responsibilities and expected conduct are clearly communicated internally, while guaranteeing that disclosures to stakeholders outside the company are correct and transparent. More specifically, internal communication is implemented clearly and directly by management with regard to: business objectives, culture, values, roles and responsibilities, conduct and sanctions. In managing information, a suitable level of security must be guaranteed in relation to the nature of the data. External communication is then regulated by procedures and organisational systems that are able to guarantee the transparency and correctness of corporate communications and prevent corporate crime. In these terms, the “regulation for the management and processing of confidential information and external communication of documents and information” has been adopted (please refer to Section V, “Management of company information”);
- “monitoring” aims at constantly verifying the effectiveness of the “Internal Audit and Risk Management System of the Terna Group” through continuous activities carried out by personnel in the performance of their work, and through separate assessments that are regular, but not continuous, and typical of, but not exclusive to, the Audit Department.

In addition Terna has developed:

- an appropriate structure dedicated to preventing and managing corporate fraud activities also aimed at spreading the culture of legality and compliance with corporate rules. Continuously monitoring processes, verifying and managing reports of illegalities have led to introducing specific controls aimed at reducing such risks and at defining, for certain critical processes, specific procedures aimed at preventing illegal conduct;
- an EGRC (Enterprise Governance, Risk and Compliance) system, aimed at ensuring an integrated view of the risks in the Company, constituting the only access point for the collection and extraction of information, data and reporting in relation to risk management. This enables and ensures: integration of the departments that manage different types of risk (strategic, operational, financial and compliance) and consequently permits a coordinated analysis and a holistic vision on the risks of the organisation; the timeliness of information in support of the strategic and operational decision-making process; the structuring of the risk management process through a workflow system that manages transmission of requests, compilation, approval and review.

Upon completion of the resolutions passed on the IARMS as described above and on the basis of the positive opinion of the Control and Risk Committee (now Control, Risk and Corporate Governance Committee), during the meeting of December 19, 2012, the Board of Directors expressed a positive opinion on the suitability of the Internal Audit and Risk Management System with respect to the characteristics of the business and the risk profile assumed, as well as its effectiveness. This assessment, supported by the annual report of the Control, Risk and Corporate Governance Committee, was also confirmed by the Board of Directors during the meeting of March 26, 2015.

Terna’s Board of Directors’ meeting of March 26, 2015, in compliance with the opinion rendered by the Control, Risk and Corporate Governance Committee on the basis of the analyses made during 2014 and when approving the draft financial statements for FY 2014, confirmed the positive assessment given and judged the Internal Audit and Risk Management System of the Terna Group suitable to achieve an acceptable risk profile, in consideration of the industry in which Terna operates, of its size, and organisational and Corporate structure (Article 1.C.1, letter c) and 7.C.1 letter b) of the Corporate Governance Code).

The Control, Risk and Corporate Governance Committee, in its report, also made reference to the report of the Supervisory Board, appointed pursuant to Italian Legislative Decree no. 231/01 regarding the enactment of the Organisational Model at Terna and at other Group companies, as well as referring to the report of the Chief Risk Officer (CRO), focused on risk-management methods employed within Terna, as set out and quantified in the supporting documents.

Annex 1 to this Report includes the principal characteristics of existing risk management and internal audit systems with respect to the financial disclosure process, also at the consolidated level (pursuant to Article 123-*bis*, paragraph 2, letter b) of the Consolidated Law on Finance).

Executive Director in Charge of the Internal Audit and Risk Management System

The CEO of Terna, as the “Director in Charge of the Internal Audit and Risk Management System” identified by the Board of Directors in its resolution of December 19, 2012, is responsible for establishing and maintaining the “Internal Audit and Risk Management System of the Terna Group”. In particular, he implements the guidelines set out by the Board of Directors, taking care of planning, enacting and managing the same and ensuring their continuing suitability and efficiency, adapting them based on operating conditions and the legislative and regulatory context. He also identifies the principal corporate risks, keeping up to date on the key features of the business carried out by the Company and its subsidiaries, and periodically submitting this information to the Board of Directors (Article 7.P.3, letters a)-i) and 7.C.4, letters a) and b) of the Corporate Governance Code). He carries out the duties assigned by the Corporate Governance Code (Article 7.C.4, letters c), d) and e) of the Corporate Governance Code). He also appoints and revokes the Chief Risk Officer (CRO), after consultation with the Control, Risk and Corporate Governance Committee, ensuring that the former has the resources necessary to fulfil the appointment.

He may also ask the Audit Department to audit specific operating areas and compliance with internal rules and procedures in the carrying out business operations, simultaneously informing the Chairwoman of the Board of Directors, the Chairman of the Control, Risk and Corporate Governance Committee and the Chairman of the Board of Statutory Auditors, and reports promptly to the Control, Risk and Corporate Governance Committee (or the Board of Directors) on any problems or critical issues that have emerged in going about his business or of which he has become aware, so that the committee (or Board of Directors) can take any necessary action.

In performing these duties during FY 2014, more specifically, the Chief Executive Officer implemented the guidelines of the “Internal Audit and Risk Management System of the Terna Group” defined by the Board of Directors, appointed the Chief Risk Officer (CRO) – as explained in section XI under “Internal Audit and Risk Management System” – and monitored the trend of the Company’s operating conditions as a result of the Group reorganisation, in this respect, through the appointed company structures, reporting back to the Control, Risk and Corporate Governance Committee.

Internal Audit Department Manager

The “Internal Audit and Risk Management System of the Terna Group” – according to the provisions of the “Internal Audit and Risk Management System of the Terna Group” guidelines, as most recently updated on December 19, 2012 and already presented in this section – provides for an Audit Department and the figure of the Internal Audit Department Manager appointed by the Board of Directors on the proposal of the “Director in Charge of the Internal Audit and Risk Management System” after obtaining the favourable opinion of the Control, Risk and Corporate Governance Committee and having consulted with the Board of Statutory Auditors (Article 7.C.1 of the Corporate Governance Code). The same is given the tasks indicated by the Corporate Governance Code (Art. 7.C.5 of the Corporate Governance Code) and is not placed in any operating area; he or she reports to the Board of Directors (Art. 7.C.5 lett. b) of the Corporate Governance Code) and also to the Chief Executive Officer in his capacity as “Director in Charge of the Internal Audit and Risk Management System”.

Terna’s structure incorporated a specific Internal Audit Department some time ago and assigned its responsibility to a Company executive with suitable requirements of professionalism without any operating responsibilities or appointments who reports to the Board of Directors, assigning to the same resources and means for overseeing the suitability, operations and function of the IARMS and remuneration coherent with business policies (Article 7.C.1 of the Corporate Governance Code). This structure has guaranteed the efficiency of the Audit Department in pursuing its mission and the conformity of the activities carried out with the Standard for the practice of Internal Auditing issued by the IIA and consequently, the Board of Terna has maintained its current structure and the figure of the Internal Audit Department Manager already in place in Terna and held by the engineer Mr Fulvio De Luca.

Terna’s Internal Audit Department Manager:

- checks, both continuously and in relation to specific needs and in compliance with international standards, on the operations and suitability of the Internal Audit and Risk Management System through the audit plan based on a structured process analysing and prioritising the main risks (Article 7.C.1, letter a) of the Corporate Governance Code);
- has direct access to all information useful for fulfilling the appointment. More specifically, in order to go about its duties, the Audit Department may access freely all company information systems, and all deeds and information in the company (Article 7.C.1, letter c) of the Corporate Governance Code);
- prepares regular reports containing suitable information on his work, on the way in which risks are managed and on compliance with the plans defined to limit them. The regular reports contain an assessment of the suitability of the Internal Audit and Risk Management System (Article 7.C.1, letter d) of the Corporate Governance Code);
- prepares prompt reports on particularly important events (Article 7.C.1, letter e) of the Corporate Governance Code);
- sends the reports pursuant to the above points to the Chairmen of the Board of Statutory Auditors and the Control, Risk and Corporate Governance Committee, and the Chairwoman of the Board of Directors, as well as to the “Director in Charge of the Internal Audit and Risk Management System” (Article 7.C.1, letter f) of the Corporate Governance Code);
- checks, as part of the audit plan, the reliability of the information systems including the accounting systems (Article 7.C.1, letter g) of the Corporate Governance Code).

The plan of works prepared by the Internal Audit Department Manager is approved by the Board of Directors at least once a year and having first sought the opinion of the Control, Risk and Corporate Governance Committee, having consulted with the Board of Statutory Auditors and the “Director in Charge of the Internal Audit and Risk Management System” (Article 7.C.1, letter c) of the Corporate Governance Code). For FY 2014, the plan of works was approved by the Board in the meeting of March 25, 2014, having first obtained the opinion of what was then the Control and Risk Committee and after consulting the Board of Statutory Auditors and the “Director in Charge of the Internal Audit and Risk Management System”. The new work schedule for FY 2015 was approved by the Board in the meeting held on March 4, 2015, having first obtained the favourable opinion of the Control, Risk and Corporate Governance Committee, having consulted with the Board of Statutory Auditors and the “Director in Charge of the Internal Audit and Risk Management System”.

The Internal Audit Department Manager operates through audits, the scope of application of which is extended to Terna and its subsidiaries. Audit activities are performed according to the annual action plan and can be carried out in connection with the departments that perform audits in the subsidiaries.

The Chief Executive Officer, as the “Director in Charge of the Internal Audit and Risk Management System”, may ask the Internal Audit Department to perform audits on specific operating areas and on compliance with the internal rules and procedures in the execution of business operations, communicating this at the same time to the Chairwoman of the Board of Directors, to the Chairman of the Control and Risk Committee and to the Chairman of the Board of Statutory Auditors (Art. 7.C.4 lett. d) of the Corporate Governance Code).

The Control, Risk and Corporate Governance Committee can ask the Audit Department to carry out audits on specific operating areas, simultaneously notifying the Chairman of the Board of Statutory Auditors (Article 7.C.1, letter e) of the Corporate Governance Code) and the “Director in Charge of the Internal Audit and Risk Management System”.

The Board of Statutory Auditors, within its own activities, can request the Audit Department to carry out assessments on specific operating areas or company operations (Article 8.C.4 of the Corporate Governance Code).

The Internal Audit Department Manager informs the “Director in Charge of the Internal Audit and Risk Management System” of the requests for audits received from the Control, Risk and Corporate Governance Committee and the Board of Statutory Auditors.

The Board of Statutory Auditors and the Control, Risk and Corporate Governance Committee exchange significant information to fulfil their tasks (Article 8.C.5 of the Corporate Governance Code).

During FY 2014, numerous significant corporate areas were audited, relating to: management of the electrical system and its safety, impartiality with regard to grid users, design and development activities, management in various significant areas namely: IT, human resources, procurement contracts, safety and the environment. In 2014, moreover, Terna’s Audit Department underwent a “Full External Quality Assessment” by qualified external experts, which assigned the Audit Department’s work the best possible score with respect to the “International Standards for the Professional Practice of Internal Auditing”. More specifically, the Audit activities were found to be: “generally compliant with the definition of Internal Auditing, the Profession’s Code of Ethics, the Standards regarding Auditors and Standards of Performance; suitable for the processes and procedures defined internally; aimed at facilitating the auditing processes, risk management and control governance; focused on continuous improvement; and aimed at adding value and improving the organisation’s operating processes”.

Code of Ethics

In May 2002, aware of the moral aspects involved in its core activities, Terna’s Board of Directors resolved to adopt its Code of Ethics (later updated in March 2004) to allow employees and all those having relations with Terna, to operate in the right way in order to establish trust, strengthen the Company’s positive reputation and create value. In 2006, following the change that made Terna an independent operator in the electricity transmission market, the Code of Ethics underwent an updating process to provide Terna with a set of rules and principles to follow on the basis of its new context of reference. The new Code of Ethics, which was approved by the Board of Directors on December 21, 2006, stresses also in ethical terms, Terna’s uniqueness. It underlines the need to respect universal ethical principles, that can be immediately recognised by everybody, and that should be fully adopted by the Group. It is not by coincidence that the Code of Ethics specifically notes the 10 principles of the Global Compact, the most prestigious expression of this vision that Terna has followed since 2009.

Terna’s Code of Ethics is broken down into five sections, which discuss, in this order:

- Terna’s fundamental ethical principles, which are organised into general ethical principles (legality, honesty and accountability), that are universal and therefore to be recognised and shared by all, and into four main principles that Terna believes are particularly important, given its activities and nature (good management, respect, fairness and transparency);
- the conduct required, especially from employees, based on three important elements: loyalty to the Company, conflicts of interest and the integrity of company assets;
- general instructions on conduct in relations with stakeholders, broken down into eight groups in which Terna requires a consistent approach;
- Terna’s commitment to comply with the Code and the conduct required in relation to certain stakeholders;
- the rules implementing the Code and the relevant people responsible for updating it and gathering reports, who should be contacted for any clarifications.

The Code of Ethics was approved in December 2006. It applies to all of Terna Group’s subsidiaries for sections 1 (Principles), 2 (Conflicts of interest, company loyalty and the integrity of company assets) and for section 3 (Relations with stakeholders) limited to the initial guidelines for the conduct to be followed with the individual categories of stakeholders. In addition, taking into account the evolution over time in the Terna Group’s organisational structure, in February 2015, specific Guidelines were adopted on the adoption of the Code of Ethics in the Terna Group’s subsidiaries, which contains interpretative guidance on the connection between specific contents of the Code and operating contexts of the Terna Group’s Parent Company and subsidiaries.

The Code of Ethics represents the Charter in which Terna sets out the ethical commitments made with regard to its stakeholders. These commitments translate into concrete and measurable objectives, which Terna reports on once a year in its Sustainability Report.

Back in 2009, Terna established an Ethics Committee to provide internal and external stakeholders with a new, specific channel for comparisons and reports on matters regarding the Code of Ethics. The Ethics Committee is an organisation comprising three members, appointed by the Chief Executive Officer from amongst the group employees.

231 Organisational Model (pursuant to Italian Legislative Decree 231/2001)

Since December 2002, Terna's Board of Directors has resolved to adopt an Organisational and Management Model that met the requirements of Legislative Decree no. 231 of June 8, 2001, which introduced into the Italian Law a system of administrative (and criminal) liability for companies with respect to certain types of offences committed by their Directors, Auditors, managers or employees in the companies' interest or to their benefit. The Model was updated in June 2004, after the Company's shares were listed.

During 2010, the Model was amended following changes in law provisions as per Article 24-ter regarding "organised crime offences" and Article 25-bis, 25-novies and 25-novies-(bis) regarding, respectively, "offences against industry and trade", "crimes related to the violation of copyright" and "crime of incitement to refrain from issuing statements or to issue false statements", introducing the new Special Section I, related to organised crime offences and updating the "General Section" and the "Special Sections" "A", "B", "G" and "H" for the other types of offences.

In addition to identifying areas deemed to be mostly at-risk for committing offences (so called "At-risk Areas"), the activity also involved defining conduct principles which all company representatives must comply with in order to prevent such offences, in addition to the provisions already included in the existing procedures within the Company.

This project goes hand-in-hand with the Code of Ethics, as the Company believes that the adoption of this Model – regardless of the regulations making it optional rather than mandatory – is a valid tool in increasing the awareness of those operating in the name and on behalf of Terna and its Group, so that their conduct is correct and transparent in performing their activities, to prevent the risk of the offences provided for by the Decree from being committed.

In 2011, due to the extension of the predicate offences category to environmental crimes, pursuant to Article 25-undecies of Legislative Decree no. 231/2001, an assessment was carried out, as well as the mapping of company areas, roles and responsibilities, identifying the "At-Risk Areas", and the definition of principles of conduct with which company representatives must comply in order to prevent the occurrence of new predicate offences. Therefore, following said activity, Model 231 was further extended, through the introduction of the Special Section "L" on "Environmental Offences".

In 2012, owing to the business reorganisation of the Terna Group, the Model of the parent company Terna S.p.A. was completely reviewed and updated and specific Organisational Models were prepared for the subsidiaries to consider their specific business. Under the scope of the new special part "D", the new Model also considers the extension of the list of predicate crimes established under Article 25-duodecies of Italian Legislative Decree no. 109 of July 16, 2012, which establishes the extension of the administrative liability to include entities where the minimum rules relating to the employment of citizens of third party countries with invalid permits to stay are exceeded, as established in Italian Legislative Decree no. 286 of July 25, 1998 (the Consolidated Law on Immigration).

In 2013, due to the extension of the list of predicate crimes defined following the issue of Italian Law no. 190/2012 on "anti corruption", the assessment and mapping of business areas, roles and responsibilities was carried out, thereby identifying the "At-Risk Areas" and defining the standards of conduct with which company representatives are required to comply, in order to prevent any instances of the newly defined predicate crimes. Therefore, following this activity, the Model was further supplemented, updating Special Parts A and B of the Model to consider in particular the changes made to the crimes of "undue encouragement to give or promise benefits", "extortion", "corruption in performing a duty" and the introduction of the crime of "corruption between private parties". In relation to organised crime, the new category of "trafficking of illegal influences" was added to special part I of the Model. This crime, although not included as a new predicate crime for the application of Italian Legislative Decree no. 231/01, does concern conduct similar to that of corruption, and as such was considered best mapped and included in the Model under crimes of association.

The Model is currently organised into eleven sections:

- a "general section" which describes, inter alia, the content of Legislative Decree no. 231/2001, the objectives of the Model and its implementation, the duties of the Supervisory Board – structured as a collective body – required to monitor the implementation and compliance of the Model, information flows and the penalty system. In this regard, in the meeting on December 19, 2012 and considering the current legislative and regulatory structure concerning the appointments and duties of the Board of Statutory Auditors, the Board of Directors chose not to transfer the functions of the Supervisory Board to this body (Comment to Article 7 of the Corporate Governance Code);
- a "special section A" concerning the crimes committed in transactions with the public administration and the crime of inducing someone not to make a declaration or to make untruthful declarations to the legal authorities;
- a "special section B", which discusses corporate crimes;

- a “special section C”, which deals with crimes of terrorism or subversion of the democratic order;
- a “special section D” in relation to crimes against the individual person and the employment of citizens from third countries with invalid residence permits;
- a “special section E”, concerning market abuse offences, with the addition of a specific “Compliance regulation for the prevention of offences and administrative market abuse crimes”;
- a “special section F” regarding dealing in stolen goods, money laundering and use of money or assets coming from illegal sources as introduced in Italian Decree no. 231/01 consequent to entry into force of Italian Legislative Decree 231/07;
- a “special section G”, regarding manslaughter and serious or very serious injuries committed in violation of the rules on occupational health and safety;
- a “special section H” relating to computer crime and breach of copyright;
- a “special section I” relating to organised crime offences;
- a “special section L”, concerning environmental crimes.

The content of this Model is consistent with the guidelines prepared for this purpose by trade associations. It is also in line with best practices, and represents the final step towards complete accuracy, transparency and accountability in internal and external relations, while offering shareholders a guarantee of efficient and correct management. As a supplement to the Model, back in 2008 Terna also approved a specific “Compliance regulation for the prevention of crimes and administrative market-abuse offences”, most recently updated in July 2012, aimed at providing the recipients of the Model with an additional operational tool for evaluating their conduct to include crimes and administrative market-abuse offences and consequently for preventing conduct potentially representing a source of administrative responsibility for the Company. In order to guarantee greater awareness of the adopted Model, it is published on the Company’s website (www.terna.it) under the “Investor Relations” section. Since 2010, a widespread, customised training campaign has been carried out involving all employees. In particular, also in 2014 an awareness raising campaign based on “At-risk areas” for crimes where everyone operates, and other activities were undertaken aimed at ensuring an effective process-modulated awareness of regulations and conduct to be followed by all company representatives. Moreover, an Intranet portal has been set up, with a specific section dedicated to the matters pursuant to Italian Legislative Decree no. 231/01, in which the Models of all Group companies can be accessed, along with detailed information on jurisprudence and case law and a manual on the “Organisational and Management Model for Procedures” intended for Terna’s personnel, called on to implement the Model in order to allow a simplified interpretation of the Model, but one that is complete in terms of clearly indicating proper conduct and conduct to be avoided in terms of liability.

Independent Auditors

The assignment of auditing the separate and consolidated financial statements was entrusted, pursuant to the resolution passed by the Shareholders’ Meeting of May 13, 2011 on proposal of the Board of Statutory Auditors, to the audit company PricewaterhouseCoopers S.p.A. for the 2011-2019 period in replacement of the audit company KPMG S.p.A., whose appointment expired with no possibility for renewal or extension pursuant to Article 17 of Legislative Decree no. 39 of January 27, 2010. In drafting the auditing assignment proposal submitted to the Meeting of May 13, 2011, the Board of Statutory Auditors preliminarily assessed the independence requirements of this company with reference to Terna and the Group. This company confirms its independence to the Board of Statutory Auditors once a year, in accordance with Article 17, paragraph 9 of Italian Legislative Decree no. 39 of January 27, 2010.

Executive in Charge of the preparation of the Company’s accounting documents and other company roles and functions

In implementation of Article 154-*bis* of the Consolidated Law on Finance – introduced by Italian Law no. 262 of December 28, 2005 and subsequently modified by Italian Legislative Decree no. 303 of December 29, 2006 – Terna’s Shareholders’ Meeting of May 24, 2007 provided for in the Bylaws (Article 21.4) the position of Executive in Charge of the preparation of the Company’s accounting documents, delegating his appointment to the Board of Directors, following the indication by the Board of Statutory Auditors, based on specific requirements of professionalism. The choice to reserve the appointment and revoking of the Executive in Charge of the preparation of the Company’s accounting documents to the Board of Directors was carried out in line with the legal provisions that directly give the Board of Directors the specific task of supervision (Article 154-*bis*, paragraph 4 of the Consolidated Law on Finance). In this regard, within the scope of the “Internal Audit and Risk Management System of the Terna Group” guidelines, as most recently updated on December 19, 2012 and already presented in this section, the Board has specifically assigned the “Director in Charge of the Internal Audit and Risk Management System”, regulated by the Corporate Governance Code, the task of making the appointment proposals, after consulting the Board of Statutory Auditors.

The Executive in Charge of the preparation of the Company's accounting documents must also be in possession of the requirements of honour indicated by law and professionalism indicated in the Bylaws (Article 21.4).

In particular, the Executive in Charge of the preparation of the Company's accounting documents must have at least three years' experience in:

- a) administration activities, finance and control and/or managing functions inherent to the activity of preparation and/or analysis and/or evaluation and/or verification of company documents whose accounting complexity is comparable to that of the Company accounting documents; or
- b) legal control of the accounts in companies listed in Italian regulated markets or in those of other countries of the European Union; or
- c) professional activities or university teaching in financial or accounting subjects.

The figure of the Executive in Charge of the preparation of the Company's accounting documents is regulated by specific "Regulations of the Executive in Charge of the preparation of the Company's accounting documents", a document that defines the tasks and associated responsibilities, and the related powers and resources attributed, prepared at Terna back in 2007 and subsequently updated in agreement with the "Director in Charge of the Internal Audit and Risk Management System".

In accordance with the relevant legislation, the Board of Directors acted quickly to appoint a Executive in Charge of the preparation of the Company's accounting documents. This position has been held since October 15, 2014 by Pierpaolo Cristofori, appointed by the Board of Directors after verification of the requirements of honour and professionalism. This appointment is in line with the evolution of the Company's organisational structure and of the functions assigned to Mr Cristofori as manager of the Administration, Finance and Control Department, a top management Department reporting directly to the Chief Executive Officer. The Executive in Charge of the preparation of the Company's accounting documents carries out all the activities necessary to allow the Board of Directors to comply with its supervisory tasks as per Article 154-*bis*, paragraph 4 of the Consolidated Law on Finance.

The Executive in Charge of the preparation of the Company's accounting documents issues a declaration on the compliance, under Article 154-*bis*, paragraph 2 of the Consolidated Law on Finance, with the Company acts and communications provided for by Law or communicated to the market, with reference to Company financial reporting, including interim reports, Company documents, and accounting books and records. These declarations have been made since the interim financial report of 2007.

In accordance with Article 154-*bis*, paragraph 3 of the Consolidated Law on Finance, the Executive in Charge of the preparation of the Company's accounting documents prepares suitable administrative and accounting procedures to compile the separate and consolidated financial statements and any other financial communication requiring issuance of a certificate by the same. In this regard, the Executive in Charge of the preparation of the Company's accounting documents certifies, together with the appointed administrative bodies, with a specific report on the separate financial statements, the abridged interim financial statements and the consolidated financial statements, their suitability and effective application, in accordance with paragraph 5 of the same Article, according to the model established in the Issuer Regulation. These declarations have been made on the basis of the financial statements as at December 31, 2007.

During 2014, in continuity with respect to the activities of the previous years, the Executive in Charge of the preparation of the Company's accounting documents updated:

- the Administrative and Accounting procedures;
- the Analysis documents of the Internal Audit and Risk Management System at the Entity level.

Upon completion of said updates and also for the purposes pursuant to Article 154-*bis* of the Consolidated Law on Finance, the Executive in Charge of the preparation of the Company's accounting documents has carried out specific monitoring aimed at verifying the correct application of said procedures.

In accordance with the provisions of the Corporate Governance Code, the Executive in Charge of the preparation of the Company's accounting documents has, together with the Control, Risk and Corporate Governance Committee, evaluated the correct use of the accounting standards (Article 7.C.2, letter a) of the Corporate Governance Code).

Coordination of the parties involved in the Internal Audit and Risk Management System

The "Internal Audit and Risk Management System of the Terna Group" involves, each insofar as they are competent, the Board of Directors, the CEO identified by the Board as the "Director in Charge of the Internal Audit and Risk Management System", the "Control, Risk and Corporate Governance Committee", the Board of Statutory Auditors, the Audit Department and its Manager, the Supervisory Board (SB) set up in accordance with Italian Legislative Decree no. 231 of June 8, 2001, the Executive in Charge of the preparation of the Company's accounting documents established in accordance with Article 154-*bis* of the Consolidated Law on Finance, the Chief Risk Officer (CRO), and provides for the ways in which they shall liaise, describing roles and duties as regards the Internal Audit and Risk Management System, in order to maximise the overall efficiency of the IARMS and reduce duplication of activities.

In order to guarantee suitable coordination between the parties involved in the IARMS, Terna implements:

- suitable, continuous flows of information between the parties involved in the IARMS;
- specific meetings for the management of specific situations or events, needed to ensure prompt control of exposure to risks and the recognition of operating anomalies;
- regular meetings to communicate the status of the risk management system and plan tests;
- systematic reporting on exposure to risks with different information levels according to the addressee.

Section XII Directors' interests and related-party transactions

Even before listing its shares in the stock market, Terna and its subsidiaries decided to lay the foundation for ensuring that related-party transactions were carried out in compliance with the principles of procedural and substantial correctness, in its own interest, and as a duty to the market.

As of February 22, 2007, in implementing the provisions of the 2006 edition of the Corporate Governance Code, Terna defined these conditions as part of specific internal procedures submitted in advance to the Internal Audit Committee and approved by the Board of Directors. Among other things, these procedures provided for specific reporting to the Board of Directors and Board of Statutory Auditors that was implemented periodically.

Following the publication of the "Regulation on Related-Party Transactions" issued by CONSOB with Resolution no. 17221 dated March 12, 2010, subsequently amended with Resolution no. 17389 dated June 23, 2010 ("CONSOB Related-Party Regulations"), Terna's Board of Directors – as announced to the market on November 12, 2010 – defined these conditions within a new Procedure ("Procedure for Related-Party Transactions"), effective as of January 1, 2011, taking into account the new regulations as well as the provisions of the Civil Code and those of the Corporate Governance Code. The resolution was approved unanimously following the positive opinion of the Committee established for this purpose and made up of independent Directors only (as established by Article 4, paragraph 3, of CONSOB Related-Party Regulations) whose members were identified among the Remuneration Committee set up at the time. The new Procedure has been published, since November 12, 2010, on the Company's website (www.terna.it, under the Investor Relations/Corporate Governance/Regulations and Procedures section).

Within the new Procedure and pursuant to Article 4 of CONSOB Related-Party Regulations, the following were implemented:

- related Parties were identified, Related-Party Transactions were defined and the new methods for identifying, approving and implementing the various categories of Related-Party Transactions were laid down;
- transactions of an insignificant amount were identified as well as cases in which the provisions of the Procedure should not be applied (in line with the provisions of Articles 13 and 14 of CONSOB Related-Party Regulations) having taken into account the size of the Company and the sector it operates in, as well as the ownership structure;
- the methods were identified for forming the Committee of Directors called upon to express its opinion on the single Transactions of greater or lesser importance, as well as the contents of this opinion and the independence requirements of the Committee members. Furthermore, specific measures were identified should at least 3 independent, non-related Directors not be present;
- the rules were established regarding cases in which Terna has to examine or approve transactions of Italian or foreign subsidiaries;
- the terms and time frames were established with which Directors and the Related-Party Transactions Committee should be provided with information on Related-Party Transactions and the related documentation;
- the choices were identified as made by the Company with reference to the possibilities included in CONSOB's Related-Party Regulations.

Compared to previous principles of conduct regarding Related-Party Transactions adopted by Terna, the new Procedure envisaged lowering the significance thresholds regarding certain types of Transactions which should be reported to the Board of Directors, so as to determine an increase in Related-Party Transactions classifiable – according to the definition indicated by CONSOB in the aforementioned resolution – as transactions of lesser importance.

The statutory changes required by the Procedure were approved in the resolution passed by the Shareholders' Meeting of May 13, 2011. Since 2011, an annual census has been carried out of the related parties as envisaged by Article 4.

According to the provisions of the document, as a first application, the "Procedure for Related-Party Transactions" was submitted for verification of possible amendments to the Terna's Board of Directors, which, on the basis of the opinion provided by the special Committee and taking into account that no critical issues have arisen, did not deem it necessary to change it. Further verifications of the "Procedure for Related-Party Transactions" are envisaged, based on this procedure, where deemed necessary, and at least every three months also considering the organizational structure of the Company and of the Group, the ownership structures and the effectiveness of the Procedure in its application.

The Related-Party Transaction Committee, following the renewal of the outgoing Board of Directors, is presently made up of Stefano Saglia (acting as Coordinator), Gabriella Porcelli and Fabio Corsico, all non-executive and independent Directors; at least one member is also in possession of adequate experience in accounting and financial matters.

The Board identified this Committee as the body in charge of carrying out the role required by “Regulations on Related-Party Transactions” issued by CONSOB with Resolution no. 17221 of March 12, 2010, subsequently amended with Resolution no. 17389 of June 23, 2010, for the approval of both more import transactions and those of lesser importance as indicated in the Terna Procedure. The Committee is assigned duties and powers to make enquiries and proposals and to provide advice, in assessments and decisions regarding the aforesaid Related-Party Transactions, as well as in relation to possible proposals to amend the Procedure adopted by Terna. A special “Organizational Regulation of the Related-Party Transaction Committee of Terna S.p.A.” approved in a resolution on December 12, 2010 and in force since January 1, 2011, governs the Committee’s composition, duties and operation.

The Company’s budget provides for adequate financial resources for carrying out the duties of the Related-Party Transactions Committee. Moreover, for the purposes of its own assessments, the said Committee may require the Company to utilize specialized, independent experts external to the Company, who are designated by this committee; costs for services rendered by consultants are met by the Company. At the invitation of the Coordinator, other people whose presence could be helpful for the smooth performance of the Committee’s functions may attend the meetings of the Related-Party Transactions Committee. During 2014, the Related-Party Transactions Committee held a total of 3 meetings, each lasting approximately 50 minutes, which were attended by Company executives whose presence was considered beneficial for providing the fullest information regarding the issues on the agenda.

In particular, during financial year 2014, the Related-Party Transactions Committee, renewed following the appointment on May 27, 2014 of Terna’s new Administrative Body - after appointing the Secretary, analysing the tasks attributed and planning the future activities - supported, preliminarily and in enquiries, the Board of Directors and Corporate Units charged with examining specific transactions provided for in the Procedure and availed itself of the power to request independent experts external to the Company specifically selected through a competitive contest. During the current year, up to the date of approval of this Report, the Committee has not held any meetings. The percentage attendance of each member of the committee at the meetings held during FY 2014 is indicated in the annexed Table 1 (Article 123-*bis*, paragraph 2, letter d) of the Consolidated Law on Finance). Terna has also identified specific methods for the approval of the significant operations concluded by the Company, also through subsidiaries (Article 1.C.1, letter f) of the Corporate Governance Code) – explained in section IV under “Role of the Board of Directors” – and for the identification and management of situations in which a Director holds his own interest or an interest of third parties regarding a transaction that he should evaluate, in compliance with the regulations of the previous edition of the Corporate Governance Code and according to the provisions of Article 2391 of the Italian Civil Code under the scope of a specific internal procedure adopted in 2007 and subsequently updated (most recently on March 31, 2011: “*Approval of significant operations and management of situations of interest*”), thereby ensuring procedural monitoring that also applies where the provisions on related-party transactions do not apply. In this regard, Directors who have an interest (including potential or indirect interests) in the transaction:

- are required to inform the Board of Directors and Board of Statutory Auditors in due time of the existence of the interest, specifying its nature, terms, origin and scope;
- are required to leave the Board meeting or refrain from voting at the time of resolving, unless the Board specifically authorizes participation in the related discussions and/or vote;
- are required to inform the Board of their positions at the time of their appointment and regularly update the Board in this regard.

Section XIII Appointment of the Statutory Auditors

Appointment and requirements of Statutory Auditors

The terms for appointing the members of the Board of Directors are governed by Article 26 of the Bylaws.

In compliance with the provisions of the Company’s Bylaws, the Board of Statutory Auditors is comprised of three Standing Auditors and three Alternate Auditors, who are appointed by the Shareholders’ Meeting for a period of three years and may be re-appointed at the end of their term.

All members of the Board of Statutory Auditors must meet the integrity and professionalism requirements as per the special legislation for Statutory Auditors of listed companies (Article 148, paragraph 4 of the Consolidated Law on Finance) now governed by Ministry for Justice Decree no. 162 of March 30, 2000, as supplemented by appropriate provisions of the Bylaws (Article 26.1 of Bylaws).

Each Statutory Auditor may not be Statutory Auditor of five or more companies that have issued securities and can hold other administrative and control positions in joint-stock companies according to Book V, Title V, Chapters V, VI and VII of the Italian Civil Code within the limits established by Article 144-*terdecies* of the Issuers Regulation implementing the provisions of Article 148-*bis* of the Consolidated Law on Finance.

All members of the Board of Statutory Auditors must also possess the independence requirements provided for by Article 148, paragraph 3 of the Consolidated Law on Finance. The appointment of the entire Board of Statutory Auditors takes place, in application of the provisions on privatisation and in compliance with the provisions of Italian legislation concerning listed companies, according to the “list voting” mechanism, governed by Article 26.2 of the Bylaws, aimed at guaranteeing the presence in the auditing body of a Standing Auditor and an Alternate Auditor appointed by the minority shareholders and aimed at establishing – according to the provisions of Article 144 *sexies*, paragraph 9, of the Issuers Regulation – the criteria for identifying the candidate to be elected if lists receive the same number of votes, by referral to the provisions on the appointment of the Board of Directors.

On the basis of this referral and in accordance with the provisions of Articles 4, paragraph 1-*bis*, of the Privatisation Law and modified by Italian Legislative Decree no. 27 of January 27, 2010, by Article 148 of the Consolidated Law on Finance and by the implementing rules for the above mentioned provisions included in Articles 144-*ter* and following of the Issuers Regulation, that the lists of candidates can be presented by shareholders that, alone or jointly with other shareholders, hold at least 1% of the share capital – or a lower amount as envisaged by the law – of shares with voting rights in the meeting. For this purpose CONSOB, implementing the provisions of Art. 148-*ter* of the Consolidated Law on Finance and Article 144-*septies* of the Issuers Regulation, has established – with Resolution no. 19109 dated January 28, 2015 and for the year ended December 31, 2014 – the minimum equity interest required for submitting candidate lists to be appointed to Terna’s administrative and auditing bodies at 1% of the share capital, taking into account the Company’s capitalisation, and without prejudice to any lower stake provided for in the Bylaws.

The presentation, filing and publication of the lists, by specific referral of the Bylaws, are regulated in a similar fashion as arranged for the appointment of the entire Board of Directors, where compatible with the legislation and regulations applicable and with the specific provisions of Article 26 of the Bylaws for the appointment of the Board of Statutory Auditors.

More specifically, the presentation and filing of the lists must take place - in accordance with Article 148, paragraph 2 and 147-*ter*, paragraph 1-*bis* of the Consolidated Law on Finance and 144-*sexies*, paragraph 4 of the Issuers Regulation - at least 25 days prior to the date scheduled to resolve on the appointment of the members of the Board of Statutory Auditors.

Ownership of the minimum stake required to submit lists shall be determined – in accordance with the provisions of Article 147-*ter*, paragraph 1-*bis* of the Consolidated Law on Finance – by taking into account the shares that are registered in the name of the Shareholder(s) on the day on which the lists are filed with the Company. In order to prove ownership of the number of shares necessary for presentation of the lists, shareholders with rights must present and/or deliver the related documentation issued in accordance with Articles 144 *sexies*, paragraph 4 *quater*, Issuers Regulation and 23 of the “Regulation governing the centralised management services, liquidation, guarantee systems and related management companies” in force at the time (adopted by the Bank of Italy and Consob on February 22, 2008 as subsequently amended, the so-called “single measure”), also after filing the list, as long as, within the terms envisaged for publication of the lists (i.e. at least 21 days before the date set for the Shareholders’ Meeting called to resolve on appointment of the auditing body).

Pursuant to Article 144-*sexies*, paragraph 5, of the Issuers Regulation, in the event that on the date due for the submission of the lists for the Board of Statutory Auditors only one list has been filed, or only lists submitted by members who are connected to each other pursuant to the applicable legal provisions, lists may be submitted up to the third day following said date; In this case, the thresholds set forth above shall be reduced by half.

Each Shareholder may present or assist in the presentation of one single list and each candidate may be on one list only or will be considered ineligible in accordance with the provisions of the Bylaws and Article 144-*sexies*, paragraph 6 of the Issuer Regulation. Lists must not include more candidates than the number to be elected. The names are marked by a progressive number (Article 26.2 of the Bylaws) and the lists are divided into two sections, one for candidates for the position of Standing Auditor, and the other for candidates for the position of Alternate Auditor. The first of the candidates of each section of the lists must be registered in the register of Auditors and must have exercised the activity of legal auditing of accounts for a period of at least three years. Both the provisions of Article 26.2 on gender balance of the Auditors to be elected, and the provisions of the Bylaws on requisites of integrity and professionalism of Auditors, indicated under Article 26.1, apply.

In this regard, lists which, considering both sections, have three or more candidates must include, both in the first two places of the section of the list relating to Standing Auditors and in the first two places on the list relating to Alternate Auditors, candidates of different genders, in order to enable a Board of Statutory Auditors to be formed in compliance with current legislation on gender balance in the administrative and auditing bodies of companies with listed shares pursuant to Italian Law no. 120 of July 12, 2011 and Articles 147-*ter*, paragraph 1-*ter* and 148, paragraph 1-*bis* of the Consolidated Law on Finance.

These statutory provisions aimed at guaranteeing compliance with current legislation on gender balance – introduced by the resolution of the Shareholders' Meeting passed on May 16, 2012 – apply, in accordance with the provisions of Article 31.1 of the Bylaws, to the first three renewals of the Board of Statutory Auditors subsequent to entry into force and application of the provisions of Article 1 of Italian Law no. 120 of July 12, 2011, published in Official Journal no. 174 of July 28, 2011 and in force as from August 12, 2011 without prejudice to any extensions envisaged by the law.

In particular these provisions were first applied on the occasion of renewal of the corporate bodies whose office expired on approval of the 2013 financial statements resolved by the Shareholders' Meeting of May 27, 2014. On the same occasion, in accordance with the provisions of Article 31.2 of the Bylaws, the new provisions of the Bylaws applied, which – for the same purpose and for the first three renewals, save any additional extensions provided for by law – have increased the members of the Board of Statutory Auditors, which is made up of a total of three Standing Auditors and three Alternate Auditors. As concerns the personal characteristics of the candidates and on the basis of what is specified under Article 8.C.1 of the Corporate Governance Code, in the notice convening the shareholders' meeting, shareholders are specifically asked, when preparing lists, to evaluate the characteristics of the candidates, also as concerns their independence, as envisaged by Article 3 of the same Code with reference to Directors.

In order to ensure a transparent procedure for the appointment of the Board of Statutory Auditors, the lists are filed complete, in accordance with Article 144-*sexies*, paragraph 4 of the Issuers Regulation:

- a) with information on the identity of the shareholders who have submitted the lists, indicating the total percentage equity interest held;
- b) with a declaration by shareholders other than those who hold, also as a group, a controlling interest or relative majority, indicating the absence of relationships as set forth in Article 144-*quinquies* of the Issuers Regulation with the latter. In this regard, Consob, with Communication no. DEM/9017893 of February 26, 2009 (concerning the "Appointment of the members of the administrative and auditing bodies") recommends that shareholders presenting a "minority list" provide the information required with regard to the election of the auditing bodies in this declaration;
- c) with an accurate description of the personal and professional characteristics of the candidates, accompanied – pursuant to Article 2400, last paragraph of the Italian Civil Code – by a list of administration and auditing positions held within other companies as well as a statement by the candidates certifying possession of the requisites set by the law (including possession of independence requisites pursuant to Article 148, paragraph 3 of the Consolidated Law on Finance) and their acceptance of the candidacy.

The lists - complete with all information envisaged by Article 144-*octies*, paragraph 1 of the Issuers Regulation and CONSOB communication no. DEM/9017893 of February 26, 2009 - are therefore made available to the public - in accordance with Article 148, paragraph 2 of the Consolidated Law on Finance and with Article 144-*octies*, paragraph 1 of the Issuers Regulation - at the company's office, on the company's website and according to the ways established by Consob, at least 21 days prior to the date of the specified Shareholders' Meeting.

Pursuant to Article 148, paragraph 2 of the Consolidated Law on Finance, at least one effective member is appointed by the minority shareholders who are not connected, not even indirectly, with the shareholders who have introduced or voted the list which obtains the highest number of votes.

In this regard, on the basis of the procedure for appointing the Auditors according to the "list voting" mechanism governed by Article 26.2 of the Bylaws and Article 144-*sexies* of the Issuers Regulation, each person with the right to vote can vote a single list only in the shareholders' meeting. In the progressive order in which they appear in the list, two Standing Auditors and two Alternate Auditors are taken from the list that has obtained the most shareholder votes (the "majority list"); the remaining Standing Auditor and the remaining Alternate Auditor are instead taken from the other lists (the "minority lists") considering that which obtained the most votes, according to the mechanism described in letter b) of Article 14.3 for the election of Directors; this is to be applied separately to each of the sections into which the lists are divided and which has been presented and voted by shareholders who are not directly or indirectly connected, in accordance with Article 144-*quinquies* of the Issuers Regulation, with the shareholders who presented or voted the majority list.

In compliance with the Italian legislation for listed companies, the Bylaws (Article 26.2) attribute the role of chairman of the Board of Statutory Auditors to the Auditor appointed by the minority list. For the appointment of Statutory Auditors taking place outside the context of the renewal of the entire Board of Statutory Auditors, the Shareholders' meeting shall resolve with the legal majorities and without observing the procedure described above, in any case in such a way as to assure a composition of the Board of Statutory Auditors in compliance with requirements of integrity and professionalism as envisaged by the law and the Bylaws, as well as ensuring compliance with current legislation on gender balance.

For any replacement of the Statutory Auditors, the terms of Article 26.2 of the Bylaws will be applied. If one of the Statutory Auditors is replaced, without prejudice to the possession of the legal requirements, the first of the Alternate Auditors taken from the same list shall take his or her place. If the replacement, carried out in this way, does not enable the reconstruction of a Board of Statutory Auditors compliant with current legislation on gender balance, the second of the Alternate Auditors on the same list shall be appointed. If, subsequently, it should be necessary to replace the other Statutory Auditor taken from the same list that has obtained the greatest number of votes, in any case the additional Alternate Auditor taken from the same list shall be appointed. If the Chairman of the Board of Statutory Auditors is replaced, this position will be taken by the Alternate Auditor taken from the same list.

When the Statutory Auditors are elected, in any of the ways provided for in the Bylaws, the specific provisions of the Bylaws (specifically Art. 14.3 lett. f) as referred to in Art. 26.2 of the Bylaws) on the subject of conflict of interest also apply for the purposes of Art. 2373 of the Italian Civil Code introduced under the terms of Directive no. 2009/72/EC of July 13, 2009, and of Italian Legislative Decree no. 93 of June 1, 2011, illustrated in more detail in Section XVI: “Shareholders’ Meetings” below.

Section XIV Composition and operation of the Board of Statutory Auditors

The Board of Statutory Auditors currently in office, appointed by the ordinary Shareholders’ Meeting of May 27, 2014, will be in office until the approval of the 2016 financial statements.

According to what was resolved by the Shareholders’ Meeting on May 27, 2014, the following make up the Board of Statutory Auditors: Riccardo Enrico Maria Schioppo (Chairman of the Board of Statutory Auditors elected from the minority list formulated by a group of shareholders made up of asset management companies and other institutional investors as listed in the Company’s specific press release relating to publication of the Lists of May 6, 2014), Vincenzo Simone and Maria Alessandra Zunino de Pignier (Standing Auditors appointed by the majority list submitted by Cassa Depositi e Prestiti S.p.A.). The following Alternate Auditors were also elected: Raffaella Annamaria Pagani (indicated by the minority list formulated by a group of shareholders made up of asset management companies and other institutional investors as listed in the Company’s specific press release relating to publication of the Lists of May 6, 2014), Cesare Felice Mantegazza and Renata Maria Ricotti (indicated by the majority list submitted by Cassa Depositi e Prestiti S.p.A.). The Auditors appointed represent both lists submitted for the said meeting. Further information regarding the lists of candidates submitted and on the results of the voting is available on the Company’s website at www.terna.it in the section “Investor Relations/Corporate Governance/Company bodies/Shareholders’ Meetings/Shareholders’ Meeting of May 27, 2014”. Following the statements made for the appointment, the vote count and after the voting, a standing member was elected by the minority members that are not connected, even indirectly, with the members who submitted or voted the list that obtained the highest number of votes. Since the appointment, at the Shareholders’ Meeting of May 27, 2014, the composition of the Board of Statutory Auditors has remained unchanged. A summary of the professional background of the Auditors is provided below.

- **Riccardo Enrico Maria Schioppo, 64 years old – Chairman of the Board of Statutory Auditors**

[born in Milan on July 20, 1950]

Chartered Accountant registered in the Order of Milan and in the Register of Legal Auditors. He does professional work in the sectors of administration and auditing of joint-stock companies. In the Mediobanca Group he is the Chairman of the Board of Statutory Auditors of Che Banca! S.p.A. and of Spafid S.p.A. In the Roche Group he is a Standing Auditor of Roche S.p.A. and of Roche Diagnostics S.p.A.

He has acquired numerous and qualified professional experiences, also related to extraordinary operations, as legal auditing manager of leading Italian groups and companies listed on the Stock Exchange; CFO of Ernst & Young Italia from 2005 to 2013 and Audit Partner of Reconta Ernst & Young from 1984 to 2013. He was also a member of the Italian Commission for Accounting Standards of the Italian Council of Chartered Accountants.

- **Vincenzo Simone, 54 years old – Standing Auditor**

[born in Padula (SA) on November 20, 1960]

He has a degree in Business and Economics from Salerno University, Chartered Accountant, with an Office in Potenza, registered in the Register of Legal Auditors, registered on the List of Technical Consultants of the Court of Potenza and on the List of Statutory Auditors of the Puglia and Basilicata Association of Cooperative Banks.

He has done professional work since 1990 and is the majority shareholder and consultant of a joint-stock company which has operated, for more than thirteen years, in the sector of fiscal, financial and business consultancy.

As part of his professional activities he has held Directorships of commercial companies, also with delegated powers, and has been a Member of the Board of Statutory Auditors in companies, Public Bodies, Economic Public Bodies and Banks. He has performed business consultancy activities for Collective Loan Guarantee Consortia, and has been an official receiver, a liquidator, and a technical consultant appointed by the Court of Potenza and the Consortium for Industrial Development. He has been a Member of the Technical Committee of the loan consortium FIDI. He has prepared appraisals and valuations of companies and business units also on the occasion of extraordinary business combinations (transformations, mergers, demergers - also of banks -, contributions and liquidations).

• **Maria Alessandra Zunino de Pignier, 62 years old – Standing Auditor**

[born in Rome on May 1, 1952]

She has a degree in Business and Economics from the Catholic University of the Sacred Heart, Milan, and is a Chartered Accountant registered in the Register of Legal Auditors. A Partner of Alezio.net Consulting S.r.l., she has been dealing with private equity for years and provides advice on regulations and compliance of financial services mainly to banks and financial intermediaries. As regards membership of organisations, she is a member of the Italian Association of Financial Analysts (Associazione Italiana degli Analisti Finanziari - AIAF), of Assiom Forex and, through Alezio.net Consulting, of Assiosim.

She performs professional activity and was CEO or Statutory Auditor in some Italian financial institutions. Currently, she holds the position of Independent Director in Mediolanum S.p.A. and of Standing Auditor in Esperia Fiduciaria S.p.A. She is also Chairwoman of the Investments Committee of Banca IPIBI Financial Advisory S.p.A..

In the academic field, at the University of Trieste she was Visiting Professor from 2001 to 2003 and, since 2010, she has been Honorary Fellow in Social Geography, Geography of Financial Systems, Organisation and Systems. In the institutional field, she was an alternate member of the Milan Stock Exchange Deputation (1989) and National Councillor of the Stock Exchange Commissioners' Association (1987-1989).

She is the author of books and articles on rules governing markets, services and financial instruments.

During the appointment and taking account of the information provided by the individuals involved, the Board of Directors, based on the envisaged terms, has confirmed and verified the existence of the requisites of integrity, professionalism and independence of the members of the Board of Statutory Auditors appointed by the Shareholders' Meeting held on May 27, 2014. In the attached Table 2, information is included regarding the composition of the Board of Statutory Auditors as of March 26, 2015.

No Standing Auditor holds five assignments in other Italian companies issuing shares listed in the Italian regulated markets or in other countries of the European Union and in companies issuing financial instruments available to the public in significant amounts pursuant to Article 116 of the Consolidated Law on Finance as defined by Article 2-*bis* of the Issuers Regulation.

The total number of assignments as Director or Auditor in other companies according to Book V, Title V, Chapters V (S.p.A.), VI (S.A.p.A.) and VII (S.r.l.) of the Civil Code, relevant according to Article 148-*bis* of the Consolidated Law on Finance, is indicated in the annexed Table 2. The total number of assignments according to Article 144-*quinquiesdecies* of the above mentioned Issuers Regulation based on CONSOB Resolution no. 17326 dated May 13, 2010, is published by CONSOB and is available on its website (www.consob.it). In this regard, it should be remembered that following the amendments to Articles 144-*terdecies* and 144-*quaterdecies* of the Issuers Regulation as per CONSOB Resolution no. 18079 of January 20, 2012 (published in the Official Journal on February 7, 2012), the limits on the total number of assignments and the consequent obligation to notify CONSOB are not applicable to standing members of the auditing body who hold the position of standing member of the auditing body "in one issuer only".

During 2014, the Board of Statutory Auditors held a total of 6 meetings which lasted on average approximately 3 hours and 10 minutes each, with the regular participation of the Standing Auditors.

In the current year (2015), all the meetings prior to examination of the economic-financial data by the Board of Directors have been scheduled. During the year in progress up to the date of approval of this Report, the Board of Statutory Auditors has held 2 meetings.

The Board of Statutory Auditors – with reference to the provisions of Art. 148, paragraph 3, of the Consolidated Law on Finance, and on the basis of the criteria envisaged for assessing the independence of the non-executive members of the Board of Directors under the terms of Art. 3 of the Corporate Governance Code and in ways that comply with those envisaged for the Directors – with reference to the information supplied by the individual parties concerned – has certified that the independence requirements are met by all Standing Auditors (Article 8.C.1 of the Corporate Governance Code). This verification was most recently confirmed by the meeting held on March 4, 2015.

Terna's Board of Statutory Auditors, already from March 16, 2007, decided to make itself subject voluntarily to a system of transparency analogous to that of the Directors (explained in section XII) in case of operations in which they have an interest for themselves or for third parties (Article 8.C.3 of the Corporate Governance Code). This orientation was also confirmed by the Board of Statutory Auditors in office.

In 2014, overall the Board carried out its typical supervisory duties as established by Italian legislation on (I) observance of the Law and of the memorandum of association, including observance of principles of proper administration in carrying out corporate activities, (II) adequacy of the organisational structure, (III) adequacy and effectiveness of the Internal Audit and Risk Management System and (IV) suitability of the company's administrative-accounting system; (V) methods of concrete implementation of the rules of corporate governance set out by the code of conduct with which the Company has declared it complies; and (VI) the financial disclosure process and legal auditing of the annual and consolidated accounts (Article 7.P.3 and Comment to Article 8 of the Corporate Governance Code). It also verified implementation of the provisions pursuant to Article 114, paragraph 2 of the Consolidated Law on Finance relating to communication obligations.

The Board of Statutory Auditors also monitored the independence of the auditing firm verifying both observance of the provisions applicable on the matter, and the nature and quantity of the services other than the accounting and auditing provided to Terna and to its subsidiaries by PricewaterhouseCoopers S.p.A. and the entities belonging to its network.

The Board of Statutory Auditors verified the proper application of the criteria and procedures adopted by the Board of Directors for evaluating the independence of its members and also analysed the implementation of the regulations pursuant to Legislative Decree no. 231/01 and of the Regulations for the Executive in Charge of the preparation of the Company's accounting documents pursuant to Italian Law no. 262/05.

In FY 2014, the Board of Statutory Auditors, through its Chairman, received the results of the audits performed by the Internal Audit Unit Manager and the Auditors regularly attended meetings of the Board of Directors and the Control and Risk Committee (now the Control, Risk and Corporate Governance Committee). Furthermore, at the meetings of the Remuneration Committee, the Chairman has guaranteed adequate involvement of the Board of Statutory Auditors in a great many internal procedures.

In carrying out its activity, the Board of Statutory Auditors was coordinated with the Audit Unit and with the Control and Risk Committee (now the Control, Risk and Corporate Governance Committee) according to the terms included in the previous "Section XI: Internal Audit System" (Articles 8.C.4 and 8.C.5 of the Corporate Governance Code), with the Supervisory Board pursuant to Legislative Decree no. 231/01, with the Executive in Charge of the preparation of the Company's accounting documents pursuant to Law no. 262/05, as well as with the Boards of Statutory Auditors of the holding company and with the auditing firm, exchanging relevant information to perform their respective duties.

As regards participation of the Board of Statutory Auditors in initiatives aimed to provide to the Directors and Statutory Auditors adequate knowledge of the business segment in which the Company operates, the business performance and its evolution, and the legislative and self-regulatory framework of reference, as provided for in Art. 2.C.2 of the Corporate Governance Code, please see the description provided above in the Section IV, under "Composition", in paragraph "Induction Programme".

Section XV Investor Relations

Since its listing on the stock exchange, the Company has believed that is both in its best interest and a duty to the market to establish a constant dialogue, based on the mutual understanding or roles, with all shareholders and institutional investors: this dialogue is to be carried on in compliance with both the procedure for the disclosure of documents and information outside the Company and the principles included in the "Guide for market disclosures" and in recent regulatory measures and regulations on market disclosure.

In this regard, and also considering the Company's size, it was decided that this dialogue could be facilitated by the creation of specific Company structures.

Accordingly, the Company set up the (I) Investor Relations Unit, which is currently part of the Administration, Finance and Control Department, and has the task of managing relations with institutional investors under the responsibility of Antonio Colombi (Viale Egidio Galbani, 70, 00156 Rome - tel. +39 06 8313 9041 - fax +39 06 8313 9312 - e-mail: investor.relations@terna.it) – and (II) a department for relations with general shareholders within the Corporate and Legal Affairs Department under the direction of Attorney Francesca Covone (Viale Egidio Galbani, 70, 00156 Rome – tel. +39 06 8313 8136 - fax +39 06 8313 8218 - e-mail: azionisti.retail@terna.it) – (Articles 9.P.1, 9.P.2, and 9.C.1 of the Corporate Governance Code). Furthermore, the Company has further encouraged dialogue with investors by creating a specific section in its website (www.terna.it), where they can find both financial information (financial statements, half-yearly and quarterly reports and presentations to the financial community) and updated information and documents of interest to general shareholders (press releases, the Company structure, the Bylaws and regulations for Shareholders' Meetings, Corporate Governance information and documents, the Code of Ethics and the Organizational and Management Model pursuant to Legislative Decree no. 231/2001, distributed dividends, etc).

Individual alerts can also be activated on the Company's website, for future events in the company's calendar.

Section XVI Shareholders' Meetings

The Governance Code establishes that the Shareholders' Meetings should be considered as special occasions to initiate fruitful dialogue between shareholders and the Board of Directors (despite the wide-ranging diversification of the communications methods used by listed companies with their shareholders, institutional investors and the market). This was carefully evaluated and fully approved by the Company, which believed it necessary to adopt specific measures to adequately improve the meetings, in addition to guaranteeing the participation of its Directors (Article 9.C.2 of the Corporate Governance Code).

Also on the basis of special legislation enacted as expected in relation to listed companies, Terna introduced into its Bylaws a specific regulation aimed at facilitating the gathering of voting proxies for shareholders who are employees of the Company and its subsidiaries, so as to involve them in the decision-making process at the Shareholders' Meetings. Pursuant to Article 11.1 of the Bylaws, every shareholder that has the right to attend the Shareholders' Meeting can be represented according to the Law, through a proxy.

In order to facilitate the notification of proxies to the Company, with resolution of October 18, 2010, Terna's Board of Directors approved the amendments to the Bylaws necessary for adjusting the Company Bylaws to the novelties introduced by legal provisions regarding the rights of shareholders of listed companies aiming at favouring the participation of shareholders in the life of the Company (Directive 2007/36/EC and related implementing Legislative Decree no. 27 dated January 27, 2010) including notification of proxies by electronic means and, according to Article 125-*bis* of the Consolidated Law on Finance, mentioning such terms from time to time in the notice of call. At this time, the Board of Directors deemed it appropriate to allow shareholders the possibility to grant proxies together with specific voting instructions to a Designated Company Representative according to Article 135-*undecies* of the Consolidated Law on Finance without exercising the "opt-out" possibility provided for in the Consolidated Law on Finance (Article 9.P.1 of the Corporate Governance Code). Additionally, with a resolution of the Shareholders' Meeting held on May 13, 2011 and with reference to current legislation looking to encourage the participation of shareholders in company life, the possibility of using the single call of the Shareholders' Meeting has been envisaged, with a view to providing shareholders and the market with a single indication of the real date on which the meeting is held.

In order to facilitate the collection of proxies with the shareholders employed by the Company and its subsidiaries who are members of with shareholders' associations that meet the requirements envisaged by the existing laws, spaces to be used for communication and for carrying out activities for collecting proxies have been made available to these associations, according to the terms and methods agreed upon in each case with their legal representatives.

With regard to the right to attend a Shareholders' Meeting, the Bylaws (Article 10.1) – as modified by the Board of Directors on October 18, 2010 implementing Legislative Decree no. 27 of January 27, 2010 – envisage that attendance at the Shareholders' Meeting is allowed only to those who have the right to participate in the Meeting and to exercise the voting right pursuant to the legal or regulatory provisions in force.

On the basis of this provision and according to the current Article 83-*sexies* of the Consolidated Law on Finance, eligibility to participate in the Meeting and exercise voting rights is certified by a notice to the Company, made by an intermediary, in compliance with its own accounting books, in favour of the person entitled to voting rights on the basis of evidence of the accounts specified by Article 83-*quater*, paragraph 3 of the Consolidated Law on Finance related to the close of the accounting day of the seventh trading day prior to the date set for the Shareholders' Meeting on first (or only) call, the "record date".

These provisions do not entail any obstacles to subsequent trading of shares. The credit and debit registrations made on accounts subsequent to the said term are not material for purposes of legitimizing the exercise of the right to vote in the Shareholders' Meeting. Therefore, those who appear as owners of the Company shares subsequent to the said date will not be allowed to participate and vote in the Meeting.

Communications by intermediaries for participation must be received by the Company by the end of the third trading day prior to the date set for the first (or only) call of the Shareholders' Meeting. This involves no prejudice to the entitlement to participate and vote if the Company has received the communications after said indicated term, provided that they are received by the time the Meeting begins on single call (Article 83-*sexies*, paragraph 4 of the Consolidated Law on Finance). The Bylaws do not envisage attendance at the Shareholders' Meeting through telecommunications means or through the expression of the right to vote by correspondence or by electronic means.

The right to add to the agenda and to present new proposed resolutions on the part of the shareholders, by virtue of the general reference pursuant to Article 30 of the Bylaws, is held by the shareholders that, also jointly, represent at least one fortieth of the share capital according to the direct provisions of the Law (Article 126-*bis* of the Consolidated Law on Finance).

On the basis of this provision, shareholders can present a written application, also by correspondence or electronically, in compliance with any requirements strictly necessary to identify the applicants and as indicated by the company, within ten days of the publication of the notice convening the meeting, to supplement the agenda with additional items, specifying in the application what additional items are proposed, or presenting proposed resolutions on items already on the agenda, filing a report within these same terms, giving the reasoning for the proposed resolutions on the new items up for discussion or the reasoning in relation to the additional proposed resolutions presented on items already on the agenda, along with documentation certifying ownership of the shares in accordance with the “Regulation governing the centralised management services, liquidation, guarantee systems and related management companies” as in force (adopted by the Bank of Italy/Consob on February 22, 2008 and subsequently amended by the Bank of Italy/Consob measure of December 24, 2010 and updated, as from April 15, 2014, by the order of October 22, 2013). Those with voting rights can individually present proposed resolutions to the Shareholders’ Meetings. Additions to the list of items to be discussed are allowed only for those topics on which the Shareholders’ Meeting is authorized to resolve pursuant to the Law. These topics exclude those for which the Law itself envisages that a resolution be made on the proposal of the Directors or on the basis of one of their projects or of a report they have prepared, other than that on the items on the agenda.

In case of an addition to the agenda or the presentation of additional proposals, the modified list of matters to be discussed during the Meeting and the new proposals must be published according to the same terms as for the notice of call, at least fifteen days prior to the day scheduled for the Meeting. At the same time – using the same methods envisaged for the Directors’ Report on the items on the agenda – the report presented by the shareholders is made available to the public, accompanied by any considerations of the administrative body.

Under the terms of Art. 127-*ter* of the Consolidated Law on Finance, those with voting rights in the Shareholders’ Meeting can ask questions on the items on the agenda, even before the meeting. The notice convening the meeting specifies the terms and conditions in compliance with which any questions raised prior to the meeting must reach the company.

Starting March 3, 2004, with a special shareholders’ resolution, the Company implemented a specific regulation aimed at ensuring the exact and functional conduct of Shareholders’ Meetings, with detailed rules for the various phases, in compliance with each shareholders’ fundamental right to request clarifications on the various issues being discussed, express an opinion and submit proposals (Article 9.C.3 of the Corporate Governance Code). With the shareholders’ resolution of May 13, 2011, the text of the adopted “Regulations for Terna S.p.A.’s Shareholders’ Meetings” was adjusted to be in line with the provisions of Legislative Decree no. 27, dated January 27, 2010 with regard to the exercising of certain rights of shareholders of listed companies. At the same time, some further adjustments were made in order to better define the scope of certain provisions of the Regulations in light of the experience gained in applying them and to ensure smoother conduct of the Shareholders’ Meetings. The main amendments made, which were illustrated in detail to the shareholders with a specific report to the Shareholders’ Meeting, regarded provisions concerning rules on the right to participate and vote in a Shareholders’ Meeting and provisions concerning the right to pose questions on the items on the agenda, also before the Shareholders’ Meeting.

In particular, with regard to the right of each shareholder to speak regarding the items on the agenda, Article 6 of the Regulations envisages that those entitled to exercise the right to vote can ask for the floor only once for the topics being discussed, presenting observations, requesting information and formulating proposals. The request to speak may be submitted at the time the Shareholders’ Meeting is held and – unless otherwise stated by the Chairman – until the said Chairman has declared the discussion on the topic closed. The terms for such requests, for taking the floor and the related order, are established by the Chairman. Considering the topic and the importance of each item discussed, as well as the number of those requesting the floor and possible questions posed by shareholders before the Shareholders’ Meeting which were not answered by the Company, the Chairman predetermines the duration of the reports and the responses – usually not to exceed ten minutes for reports and five minutes for the responses – in order to guarantee that the Shareholders’ Meeting can complete its activity in a single session. The Chairman and, by his or her invitation, all those who assist him or her, respond to the speakers at the conclusion of all the reports, or after each report, taking into consideration also possible questions posed by shareholders before the Shareholders’ Meeting which were not answered by the Company. Those that have asked to speak may reply briefly. Although the said Regulation is not included in the Bylaws, it is approved by the Ordinary Shareholders’ Meeting under the specific power given to the shareholders by the Bylaws (Article 11.2).

The contents of the Regulation have been aligned with the most sophisticated models prepared by trade associations (Assonime and ABI), for listed companies. The “Regulations for Terna S.p.A.’s Shareholders’ Meetings” can be found on the Company’s website under the section: “Investor Relations/Corporate Governance/Corporate bodies/Shareholders’ Meeting”. The Board of Directors reports to the Shareholders’ Meeting on the activities carried out and planned on the occasion of approval of the financial statements and in the report on operations and, with specific reports, provides the shareholders with adequate information in a timely manner, so that they may pass resolutions with full knowledge of the facts; further clarifications, where required, are also provided in response to queries raised by shareholders during the meeting (Article 9.C.2 of the Corporate Governance Code). In this regard, the annual Shareholders’ Meeting held in financial year 2014, called upon to approve, among other things, the 2013 statutory financial statements, and the renewal of the corporate bodies, was attended by 5 Directors out of 9 and by the Chairman of the Board of Statutory Auditors and by a Standing Auditor.

On this occasion, the Chairman of the Remuneration Committee attended and also spoke (comments to Article 6 of the Corporate Governance Code).

With reference to the position expressed in the Comment on Art. 9 of the Corporate Governance Code, it is acknowledged that, in the case of resolutions submitted to the Shareholders’ Meeting for which the Board of Directors has not formulated a proposal of its own, the controlling shareholders provided their proposals to the Shareholders’ Meeting with sufficient advance notice. The Shareholders’ Meeting is chaired by the Chairwoman of the Board of Directors, or, in case of her absence or impossibility, by the Deputy Chairman, if appointed, or, in the absence of both, by another person designated by the Board of Directors; should all the above conditions not apply, the Shareholders’ Meeting appoints its own Chairman (Article 12.1 of the Bylaws).

The Chairman of the Shareholders’ Meeting is assisted by a secretary, even if not a shareholder, designated by those present at the request of the Chairman, and can appoint one or more tellers (Article 12.2 of the Bylaws and Article 4 of the Regulations for Terna S.p.A.’s Shareholders’ Meetings). The assistance of the secretary, according to the terms envisaged by the Law, is not necessary if the Chairman waives said assistance or when the minutes of the Shareholders’ Meeting are prepared by a notary public, even in cases in which it is not mandatory by law (Article 4 of the Regulations for Terna S.p.A.’s Shareholders’ Meetings).

The Shareholders’ Meeting, unless otherwise stated by the terms envisaged by Article 21.2 of the Bylaws, assigns to the Board of Directors, according to the terms established by Law, the power to adopt certain resolutions that fall under the duties of the Shareholders’ Meetings that can determine amendments to the Bylaws, and resolves on all the topics as established by the Law or the Bylaws (Article 13.1 of the Company Bylaws) according to the indications in the foregoing Section I under the heading: “Corporate Structure”.

Shareholders’ Meeting resolutions subject to the exercise of “special powers” of the Government “in relation to strategic activities in the energy, transport and communications industries” and indicated in the “Golden Power Decree” (as described in Section II above under “Restrictions on share transfer and shares granting special powers”) must be adopted and executed in accordance with the provisions of the same measures. Where not otherwise established by the Bylaws, resolutions for both the ordinary and extraordinary Shareholders’ Meetings are passed with the majorities required by the law applicable in the individual cases (Article 13.2 of the Bylaws). In particular, the Bylaws provide that: (i) for transactions with related parties that have not received a favourable opinion from the competent body, the Shareholders’ Meeting resolves, in addition to the majority provided for by law, in the presence of unrelated shareholders, as defined by governing regulations, who represent at least 10% of the share capital with voting rights and with a favourable vote by the majority of said unrelated shareholders; (ii) for urgent related-party transactions that have been submitted by the Directors for an advisory vote, the Shareholders’ Meeting adopts resolutions with the majority provided for by law (Article 13.3 of the Bylaws).

As regards the expression of the right to vote at Shareholders’ Meetings, (as described in Section II above under “Voting Restrictions”) the Bylaws identify (specifically in Arts 10.2, 14.3 lett. f) and 26.2) a number of cases of conflict of interest for the purposes of Art. 2373 of the Italian Civil Code under the terms of Directive no. 2009/72/EC of July 13, 2009 and of Italian Legislative Decree no. 93 of June 1, 2011 and subject to the assessments made by the Authority for Electricity, Gas and Water in the process of certifying the Company as a transmission system operator. In particular, for the purposes of Art. 2373 of the Italian Civil Code, the following are considered as having a conflict of interest:

- a) anyone who, directly or indirectly exercising control of the Company or holding in it a significant equity investment under the terms of Art. 120 of Italian Legislative Decree no. 58 of 24 February 1998, operates in the sector of generating or supplying electricity or gas or, directly or indirectly, controls a business operating in the sector of generating or supplying electricity or gas (Art. 10.2 of the Bylaws);
- b) anyone who at the moment of election of the directors, in any of the ways provided for in the Bylaws, operates in the sector of generating or supplying electricity or gas or, directly or indirectly, controls a business operating in the sector of generating or supplying electricity or gas or holds a significant equity investment in the same under the terms of Art. 120 of Italian Legislative Decree no. 58 of 24 February 1998. (Art. 14.3 lett. f) of the Bylaws). The same rule is applied at the moment of election of the Statutory Auditors (Art. 26.2 of the Bylaws).

To this end, each participant in the Shareholders' Meeting declares, under his/her own responsibility, any existence of a conflict of interest.

During 2014 – with reference to the regulations for minority rights and in compliance with the regulations and rules for the Company mentioned above – no significant changes were made in market capitalisation of the Company's shares or in the composition of its corporate bodies for which the Board of Directors had to evaluate the opportunity of proposing to the Shareholders' Meeting any amendments to the Bylaws regarding the percentages established for exercising shares and of the prerogatives set for minority protection (Article 9.C.4 of the Corporate Governance Code).

The two tables annexed hereto summarise some of the most significant information included in the fourth, eighth, tenth, twelfth and fourteenth sections of the document. An "Annex 1" is also attached; this contains a description of the "Main characteristics of existing risk management systems with regard to the financial disclosure process" (pursuant to Article 123-*bis*, paragraph 2, letter b) of the Consolidated Law on Finance).

Table 1

COMPOSITION OF TERNA'S BOARD OF DIRECTORS AND OF THE COMMITTEES

Position	Name (Last name and first name)	Year of birth	Date of first appointment	B.o.D.						C.R.C.		R.C.		A.C.		R.P.T. Committee		
				In office since	In office until	List	Exec.	Non exec.	Indep. based on Code	Indep. based on Cons. Law on Fin.	Attendance at meetings of the B.o.D.	Other assignments	(*)	(**)	(*)	(**)	(*)	(**)
Chairman	Bastioli Catia	03.10.57	27.05.14	27.05.14	31.12.16	M		•	•	•	6/6	1						
Chief Executive Officer • ◊	Del Fante Matteo	27.05.67	28.04.08 ¹	27.05.14	31.12.16	M	•				9/10	0						
Director	Calari Cesare	10.05.54	27.05.14	27.05.14	31.12.16	m		•	•	•	6/6	0	2/2	"C"				
Director	Cerami Carlo	02.02.65	27.05.14	27.05.14	31.12.16	M		•	•	•	6/6	2	"M" ²	2/2 "C"	1/1	"M"		
Director	Corsico Fabio	20.10.73	27.05.14	27.05.14	31.12.16	M		•	•	•	6/6	4		2/2 "M"			3/3	"M"
Director	Dal Fabbro Luca	08.02.66	27.05.14	27.05.14	31.12.16	m		•	•	•	6/6	0	2/2	"M"		1/1	"C"	
Director	Yunpeng He ³	06.02.65	21.01.15	21.01.15	31.12.16	M		•			-3	2						
Director	Porcelli Gabriella	10.03.65	27.05.14	27.05.14	31.12.16	m		•	•	•	6/6	0		2/2 "M"			3/3	"M"
Director	Saglia Stefano	01.02.71	27.05.14	27.05.14	31.12.16	M		•	•	•	6/6	0			1/1	"M"	3/3	"C"

DIRECTORS WHO RESIGNED FROM THEIR POSITION DURING THE YEAR IN QUESTION

Director	Camerano Simona	23.10.66	27.05.14	27.05.14	27.11.14	M		•			5/5	-	2/2	"M"	-	-				
Chairman	Roth Luigi	01.11.40	02.11.05	13.05.11	27.05.14	M		•			4/4	-			-	-				
CEO	Cattaneo Flavio	27.06.63	02.11.05	13.05.11	27.05.14	M	•				4/4	-			-	-				
Director	Dal Pino Paolo	26.06.62	28.04.08	13.05.11	27.05.14	M		•	•	•	1/4	-	1/1	"C"	2/2	"M"	-	-	0/0	"M"
Director	Machi Salvatore	28.05.37	16.09.04	13.05.11	27.05.14	m		•	•	•	4/4	-		2/2	"C"	-	-	0/0	"C"	
Director	Minozzi Romano	06.03.35	13.05.11	13.05.11	27.05.14	m		•	•	•	0/4	-		2/2	"M"	-	-	0/0	"M"	
Director	Pensato Francesco ⁴	17.02.47	29.07.11	13.05.11	27.05.14	M		•	•	•	4/4	-	1/1	"M"	-	-				
Director	Polo Michele	07.08.57	28.04.08	13.05.11	27.05.14	M		•	•	•	4/4	-	1/1	"M"	-	-				
Director	Segni Antonio ⁵	11.05.65	13.11.13	13.05.11	27.05.14	m		•	•	•		-			-	-				

LEGAL NUMBER NECESSARY FOR SUBMITTING THE LISTS DURING THE LAST APPOINTMENT:

1%

NUMBER OF MEETINGS HELD DURING THE YEAR IN QUESTION:

B.o.D.	C.R.C.	R.C.	A.C.	R.P.T. Committee
10	3	4	1	3

(1) From April 28, 2008 to May 27, 2014 the Chief Executive Officer Matteo Del Fante, within the B.o.D. had held position of Director and member of the Audit and Risk Committee.

(2) The Director Carlo Cerami took over as a member the Control, Risk and Corporate Governance Committee on March 4, 2015 replacing the Director Simona Camerano who had resigned on 27 November 2014.

(3) The Director Yunpeng He was appointed by co-optation under the terms of Art. 2386 of the Italian Civil Code on January 21, 2015 on the indication of the relative majority shareholder CDP Reti S.p.A., a joint-stock company controlled by Cassa Depositi e Prestiti S.p.A.

(4) The Director Francesco Pensato was appointed by co-optation under the terms of Art. 2386 of the Italian Civil Code on July 29, 2015 on the indication of the relative majority shareholder Cassa Depositi e Prestiti S.p.A. replacing the Director Andrea Camporese who had resigned on May 30, 2011. The appointment of the Director Pensato was subsequently confirmed by the Shareholders' Meeting of May 16, 2012.

(5) The Director Antonio Segni was appointed by co-optation under the terms of Art. 2386 of the Italian Civil Code on November 13, 2013 taking into account of what was reported by certain mutual investment funds and minority shareholders who had voted the list from which the previous resigning Director Fabio Buscarini had been chosen who had resigned on July 9, 2013.

Key:

B.o.D.:	Board of Directors of Terna S.p.A.
C.R.C.:	Control, Risk and Corporate Governance Committee. The "Control and Risk Committee", already established in Terna S.p.A. according to the provisions of the Corporate Governance Code, with a resolution of the Board of Directors of May 27, 2014 - adding to the previous duties relating to the Corporate Governance system, has been renamed "Control, Risk and Corporate Governance Committee".
R.C.:	Remuneration Committee of Terna S.p.A.
A.C.:	Appointment Committee established in Terna S.p.A. with a resolution of May 27, 2014.
RPT Committee:	Related-Party Transaction Committee established in Terna S.p.A. for approving the Procedure for Related-Party Transactions as indicated by the "Regulation on Related-Party Transactions" issued by CONSOB with Resolution no. 17221 dated March 12, 2010, as subsequently modified by Resolution no. 17389 dated June 23, 2010 ("CONSOB Regulations for Related Parties"). The Committee is made up of at least three directors in possession of the independence requirements provided for in the Procedure, of which one with acting as Coordinator.
Position:	indicates whether Chairman of the B.o.D., Deputy Chairman, CEO, etc.
Date of first appointment:	this is the date on which the director was appointed for the very first time to Terna S.p.A.'s B.o.D..
In office since:	this is the date on which the director was appointed for the very first time to Terna S.p.A.'s B.o.D. in the period of the relevant three-year mandate of the Administrative Body of which he or she has been a member (i.e.: for the BoD appointed by the Shareholders' Meeting of May 27, 2014, refers to the three years 2014-2016; for the BoD appointed by the Shareholders' Meeting of May 13 2011, refers to the three years 2011-2013).
In office until:	this is the date on which the mandate expires.
List:	indicates M/m based on whether the Director was appointed from the majority list ("M") or from the minority list ("m") or in any case appointed following co-optation.
Exec:	this is ticked if the Director can be qualified as an executive.
Non Exec:	this is ticked if the Director can be qualified as a non-executive.
Position:	indicates whether Chairman, Deputy Chairman, CEO, etc.
Indep. based on Code:	this is ticked if the Director can be qualified as independent according to the criteria of the Corporate Governance Code.
Indep. based on Consolidated Law on Finance:	this is ticked if the director has the independence requirements as per Article 148, paragraph 3 of the Consolidated Law on Finance as indicated by Article 147-ter, paragraph 4 of the same Law.
Attendance at meetings of the B.o.D.:	This column indicates the director's attendance at meetings of the B.o.D. during the year under consideration (indicates the number of meetings attended with respect to the total number of meetings at which he or she could have attended since assuming office on the B.o.D.; e.g. 6/8; 8/8 etc.).
Other positions:	indicates the total number stated of positions as director or statutory auditor held by the director in other companies listed in regulated markets (also foreign markets), in financial, banking and insurance companies or in large companies, identified on the basis of criteria defined by the Board. In calculating the positions indicated, those held in subsidiaries, either directly or indirectly controlled, namely TERNA's subsidiaries, were not included. When more than one office is held within the same Group, also for a role with a company belonging to the Group itself, only the most important assignment is considered. For the list of positions held by each Director, please see the brief professional resumes included in this Report.
(*):	This column indicates the director's attendance at meetings of the Committee during the year under consideration (indicates the number of meetings attended with respect to the total number of meetings at which he or she could have attended since assuming office on the Committee; e.g. 6/8; 8/8 etc.).
(**):	This column indicates the director's role in the Committee: "C": Chairman; "M": member. The RPT Committee provides for the figure of a Coordinator.
•	This symbol indicates the director in charge of Terna S.p.A.'s internal audit and risk management system.
◊	This symbol indicates the main manager of Terna S.p.A.'s operations (Chief Executive Officer or CEO).
Number of meetings held during the year in question:	The information refers the total number of meetings during the year under consideration.

Table 2

COMPOSITION OF THE BOARD OF STATUTORY AUDITORS

Position	Members (Last name and first name)	Year of birth	Date of first appointment	In office since	In office until	List	Indep. based on Code	Attendance at meetings of the Board of Statutory Auditors	Number of other assignments
Chairman	Schioppo Riccardo Enrico Maria	20/07/1950	27/05/2014	27/05/2014	31/12/2016	m	•	6/6	4 ⁶
Standing Auditor	Simone Vincenzo	20/11/1960	27/05/2014	27/05/2014	31/12/2016	M	•	6/6	0 ⁶
Standing Auditor	Zunino de Pignier Maria Alessandra	01/05/1952	27/05/2014	27/05/2014	31/12/2016	M	•	6/6	2 ⁶
Alternate Auditor	Pagani Raffaella Annamaria	21/06/1971	27/05/2014	27/05/2014	31/12/2016	m	-	-	-
Alternate Auditor	Mantegazza Cesare Felice	12/03/1954	27/05/2014	27/05/2014	31/12/2016	M	-	-	-
Alternate Auditor	Ricotti Renata Maria	28/09/1960	27/05/2014	27/05/2014	31/12/2016	M	-	-	-

AUDITORS WHO RESIGNED FROM THEIR POSITION DURING THE YEAR IN QUESTION

Chairman	Guarna Luca Aurelio	20/12/1972	28/04/2008	13/05/2011	27/05/2014	m	-	-	-
Standing Auditor	Gusmeroli Alberto Luigi	27/02/1961	13/05/2011	13/05/2011	27/05/2014	M	-	-	-
Standing Auditor	Pozza Lorenzo	11/10/1966	28/04/2008	13/05/2011	27/05/2014	M	-	-	-
Alternate Auditor	Bettoni Stefania	03/02/1969	28/04/2008	13/05/2011	27/05/2014	m	-	-	-
Alternate Auditor	Pizzini Flavio	09/03/1955	13/05/2011	13/05/2011	27/05/2014	M	-	-	-

LEGAL NUMBER NECESSARY FOR SUBMITTING THE LISTS DURING THE LAST APPOINTMENT: 1%

NUMBER OF MEETINGS HELD DURING THE YEAR IN QUESTION: 6

Key:

Position:	indicates whether Chairman of the Board of Statutory Auditors, Standing Auditor, Alternate Auditor.
Date of first appointment:	this is the date on which the statutory auditor was appointed for the very first time to Terna S.p.A.'s Board of Statutory Auditors.
In office since:	this is the date on which the statutory auditor was appointed for the very first time to Terna S.p.A.'s Board of Statutory Auditors in the period of the relevant three-year mandate of the Auditing Body of which he or she has been a member (i.e.: for the Board of Statutory Auditors appointed on May 27, 2014, it refers to the three years 2014-2016; for the Board of Statutory Auditors appointed by the Shareholders' Meeting of May 13 2011, it refers to the three years 2011-2013).
In office until:	this is the date on which the mandate expires.
List:	indicates M/m based on whether the statutory auditor was appointed from the majority list ("M") or from the minority list ("m").
Indep. based on Code:	this is ticked if the statutory auditor can be qualified as independent according to the criteria of the Corporate Governance Code.
Attendance at meetings of the Board of Statutory Auditors:	this column indicates the statutory auditor's attendance at meetings of the Board of Statutory Auditors during the year in question (indicates the number of meetings attended with respect to the total number of meetings which he or she could have attended since taking office on the Board of Statutory Auditors; e.g. 6/8; 8/8 etc.).
Number other assignments:	indicates the total number of positions as director or statutory auditor held by the statutory auditor in companies as per Book V, Title V, Chapters V (S.p.A.), VI (S.A.p.A.) and VII (S.r.l.) of the Italian Civil Code, that are significant according to Article 148-bis of the Consolidated Law on Finance. The total number of assignments according to Article 144-quinquiesdecies of the above mentioned Issuers Regulation based on CONSOB resolution no. 17326 dated May 13, 2010, is published by CONSOB and is available on its website www.consob.it .

(6) The provisions of Art. 144 *quinquiesdecies* of the Issuers Regulation do not apply to the Standing Auditor, according to the provisions of paragraph 3 *bis* of the same article, because this Standing Auditor is a member of the auditing body of only one issuer.

Attachment 1

Main characteristics of existing risk management and internal audit systems with regard to the financial disclosure process (pursuant to Article 123-*bis*, paragraph 2, letter b) of the Consolidated Law on Finance)

Introduction

The Terna Group has prepared the “262 Audit Model” which governs preparation of the financial statements in terms of the certifications required by paragraphs 2 and 5 of Article 154-*bis* of the Consolidated Law on Finance, with the aim of contributing towards the evaluation of the “Internal Audit and Risk Management System” (hereinafter the “IARMS”).

The “262 Audit Model” must be considered together with the “Internal Audit and Risk Management System”, insofar as they are elements of the same “system” described in the “Internal Audit and Risk Management System of the Terna Group” guidelines approved by the Board of Directors (last update December 19, 2012). In these guidelines, the IARMS is recognised as the “set of rules, procedures and organisational structures aimed at enabling the identification, measurement, management and monitoring of the main risks for running a business coherently with the business objectives defined by the Board of Directors and encouraging informed decision making”.

The provisions of Law no. 262 (dated December 28, 2005 subsequently modified by Legislative Decree no. 303 dated December 29, 2006) relating to the IARMS that oversees the drafting of the financial statements have the main objective of ensuring that financial disclosure provides a truthful and proper representation of the company’s equity as well as its economic and financial position in compliance with the commonly-accepted accounting standards.

On the basis of the provisions envisaged by Article 154-*bis* of the Consolidated Law on Finance, the IARMS which governs the drafting of the financial statements, actively involving all the corporate departments, is focused on the reliability objectives pursued by establishing adequate “accounting administrative procedures” and by verifying their actual implementation.

Definitions of the field of activity (scoping) and of the processes to be analysed are updated by the Executive in Charge of the preparation of the Company’s accounting documents at least once a year in order to analyse, identify and consider the variations that have impacted the IARMS and supplement/modify the administrative and accounting procedures accordingly.

This update is substantiated in order to guarantee the traceability of activities.

Description of the main characteristics of the existing risk management and internal audit systems with respect to the financial disclosure process

The analytical approach of the IARMS that governs preparation of the financial statements adopted by Terna is based on a twofold method of analysis:

Individual Company Analysis

Overall analysis (brief) on the individual companies of the Group with reference to the 5 elements that form the CoSO Report, specifically focusing on the adequacy of financial disclosure. This is mainly an analysis of the infrastructural components of the IARMS (the supervisory activities carried out by the Board of Directors, by the Control, Risk and Corporate Governance Committee, by the Board of Statutory Auditors, as well as the Corporate policies and general group policies etc.) conducted in general terms but with a particular focus on the consequences in terms of the quality of the economic and financial information.

The establishment, management and assessment of the IARMS at the individual company level is to be carried out by those in charge of the various company departments (management) with regard to their respective duties, in line with the structure of the “individual company” being analysed. The objective of the individual company analysis is to identify any shortcomings in the general control of the individual company that would potentially render ineffective even the best structure of audits overseeing the processes. The assessment is expressed with a “benchmarking” activity with respect to the reference procedures defined or referred to by official bodies or with the international best-practices adopted by companies similar to the Terna Group.

This method is applied by filling out a checklist based on the five components of the audit system (Audit Environment, Risk Assessment, Audit Activity, Information System and Communication Flows, and Monitoring), developed in specific audit objectives. Auditing is assessed on the basis of the following requirements, where applicable:

- existence of the audit tool (organizational structure, legal structure, process);
- adequate communication regarding the existence of the audit tool identified for all the bodies referred to;
- understanding on the part of the company’s employees of their role and responsibility in implementing the identified audit tool;
- appropriate and effective monitoring of the audit tool;
- management support in implementing the audit tool;
- application, or action undertaken by the management aimed at ensuring compliance with the implemented audit tool.

Individual Process Analysis

Analysis of relevant processes by establishing guidelines that define, for each activity, the principal risks on the financial disclosure and the related auditing aimed at mitigating them. The individual process analysis makes it possible to assess the action plan and the operation of the auditing on Corporate processes and sub-processes on which the financial disclosure is based. The terms for carrying out this analysis are the establishment of administrative and accounting procedures for preparing the separate financial statements/consolidated financial statements/condensed interim financial statements that include the execution of specific control activities aimed at preventing the occurrence of risks of significant accounting errors during the development of the processes. The process analysis and the subsequent establishment of administrative and accounting procedures requires the selection of “significant processes”. To this end it is necessary to carry out specific “scoping” both to identify the Group companies “singularly significant” for the purposes of the IARMS and the related significant accounting items, and to associate the significant information with the processes.

The relevance of the financial disclosure is assessed with reference to the possible consequence that its omission or misrepresentation could determine in decisions made by persons who are informed of the same through the financial statements. With regard to the above, quantity parameters are identified; these are normally defined in terms of percentages compared to average income before taxes for the last five financial years, a method which successfully normalises the parameter. Quality parameters are also identified; these include a risk-based approach, capable of rendering information relevant, even if the amount is lower than the level of relevance identified. Identifying significant information is carried out through the combination of quantitative parameters, linked to the level of significance defined for the Terna Group and quality parameters linked to the specific risk for sections of the financial statements or other disclosures.

Identifying quality parameters consists in considering possible “factors” that mean that certain companies, and therefore their accounts, are classified as significant, even if these do not exceed the threshold of materiality by themselves. Investors could demonstrate a certain interest in various calculations in the financial statements that represent an important performance indicator or an important indicator for the sector they belong to. The association of the information identified as being significant with the related processes they are based on enables identification activities to be concentrated on processes that can determine significant errors regarding the financial information. Each selected significant item of information/accounting item must be associated with the processes that contribute to its formation, in order to determine the significant processes. On the basis of quality and quantity parameters, after defining the significant information and selecting the relevant processes, the Executive in Charge of the preparation of the Company’s accounting documents establishes the guidelines for “risk activities and audits” that represent administrative and accounting procedures and assesses their adequacy and effective implementation (assessment of their operational level).

For this purpose, the analysis of significant processes occurs through the following operational steps:

- defining and analysing activities that form the processes (“mapping”);
- identifying and assessing risks for each activity and associating them with the auditing objectives;
- identifying and assessing existing audits;
- assessing the operational level of existing audits.

Analysing the activities that form the processes (“mapping”) is aimed at clearly identifying the process that creates the data or the comment to be presented in the financial statements, from identifying the initial event that originates it up to its being included in the accounting statements or in the notes.

Mapping the activities that form the processes supports achievement of the final objective of implementing checks in all stages of the preparation of the data and notes on the financial statements, and should be able to ensure that information with an administrative impact is collected, processed and transferred correctly and in a timely manner.

For every process, for the purposes of mapping and subsequently associating the risks and checks, the “key” elements useful in identifying existing risks and checks must be identified. The verification of the efficiency of the design and effective operation of the “key” audits is ensured through testing, namely monitoring for the purpose pursuant to Article 154-*bis* of the Consolidated Law on Finance, carried out by a dedicated structure using verification and sampling techniques recognised by international best practices. Control assessment, where deemed necessary, can involve identifying compensatory audits, corrective measures and improvement plans. The results of these activities are submitted to the evaluation of the Executive in Charge of the preparation of the Company’s accounting documents who in turn notifies the company executives.

Roles and Departments involved

Executive in Charge of the preparation of the Company’s accounting documents

In relation to the responsibilities assigned to him or her:

- he or she annually updates the field of activity and the significant processes considering the factors of change/risk communicated by the Directors of Terna S.p.A. and by the management of the companies that are individually significant;
- he or she prepares the updates to the “262 Audit Model” and the “Regulations of the Executive in Charge of the preparation of the Company’s accounting documents” in agreement with the “Director in Charge of the Internal Audit and Risk Management System”;
- he or she establishes and updates adequate administrative and accounting procedures for drafting the separate financial statements, the consolidated financial statements and the condensed interim financial statements;
- he or she reports regularly to the Chief Executive Officer, also in his or her capacity as “Director in Charge of the Internal Audit and Risk Management System”, on:
 - a) the activities carried out in order to monitor effective application of the administrative and accounting procedures and the critical issues that have emerged;
 - b) the corrective action plans defined to overcome the critical issues that have emerged and the results obtained;
 - c) the suitability of the means and resources made available to the Executive in Charge of the preparation of the Company’s accounting documents and the methods of use;
- he or she ensures, with the collaboration of all Directors, the implementation of corrective action plans and, with the collaboration of the Human Resources and Organisation Department, disseminates the administrative and accounting procedures;
- he or she supports the Directors and the management of the companies that are individually significant in executing operational, audit and reporting activities that are part of their specific duties.

The Executive in Charge of the preparation of the Company’s accounting documents can rely on the assistance of qualified external companies with specialized professional staff for carrying out plan assessment activities and the assessment of the operational levels of audits on administrative and accounting procedures.

Internal Audit and Risk Management

They are responsible for:

- sending the Executive in Charge of the preparation of the Company’s accounting documents the regular reports prepared and the reports prepared against specific needs, regarding the operations and suitability of the IARMS and to support the Executive in Charge in assessing the correct function of the internal audit system and the related risk governance mechanisms, including any IT implementations;
- coordinating with the Executive in Charge of the preparation of the Company’s accounting documents in defining the annual audit plan, for the part regarding administrative-accounting processes;
- providing the Executive in Charge of the preparation of the Company’s accounting documents with a suitable information flow in relation to the results of the activities connected with the respective audit plans relating to the responsibilities of the Executive in Charge of the preparation of the Company’s accounting documents following the shared methods;
- in case of involvement in specific testing activities, ensuring the necessary collaboration and changes in the audit plan and in defining priorities also, if necessary, with the assistance of the administrative body in charge.

Terna S.p.A.’s Directors

They are responsible for:

- coordinating those in charge of individual audits, including of subsidiaries, in executing the audits they are responsible for;
- coordinating individual audits, including of subsidiaries, in establishing and implementing the Action Plan;
- supporting the activities carried out by the Executive in Charge of the preparation of the Company’s accounting documents and ensuring access to all documents/information useful in carrying out his or her activities;
- preparing and forwarding in the time frames established by the reporting calendar the certifications regarding the audit activities and their operational level.

Human Resources and Organisation Manager

He or she is responsible for:

- supporting the Executive in Charge of the preparation of the Company's accounting documents in preparing and updating the administrative-accounting procedures;
- supporting the Executive in Charge of the preparation of the Company's accounting documents and the Departments/Units of the Terna Group in the correct implementation of the action plans that can give rise to organisational changes. To this end, the Executive in Charge of the preparation of the Company's accounting documents is informed in advance regarding any organisational changes.

The managements of individually significant companies

They are responsible for:

- coordinating those in charge of individual audits in executing the audits they are responsible for;
- assessing, in collaboration with the Executive in Charge of the preparation of the Company's accounting documents, the IARMS on the financial disclosure of individually significant companies;
- preparing and forwarding, in the time frame established by the reporting calendar, the certifications regarding the IARMS of individually significant companies.

To enable the Executive in Charge of the preparation of the Company's accounting documents and the administrative bodies in charge to issue the certificates in compliance with Article 154-*bis* of the Consolidated Law on Finance, it was necessary to define a system of "chain" certificates with the objective of ensuring the adequacy and actual implementation of administrative and accounting procedures drafted as part of the "262 Audit Model", of preparing and disseminating the Plan for corrective measures, where necessary, and to update such procedures. The certification, issued to the market following CONSOB's model, is based on a complex evaluation process that includes:

- collecting internal "chain" certificates issued both by the Directors of Terna S.p.A. and by the management of individually significant companies. The existence of a periodic reporting flow makes it possible to carry out:
 - periodic assessment of the plan for existing audits and consequent updating of administrative and accounting procedures;
 - assessment of the operational level of existing audits and subsequent certification of the actual implementation of administrative and accounting procedures;
 - assessment of the shortcomings (absence of audit or failure to execute audit) that emerge with reference to their impact on the accounting disclosure;
- the assessment of the actual operational level of administrative and accounting procedures carried out by the Executive in Charge of the preparation of the Company's accounting documents;
- the final assessment of the adequacy and effective application of administrative and accounting procedures by the CEO and the Executive in Charge of the preparation of the Company's accounting documents. This activity is supported by the assessment of the plan for specific audits as well as by that for their operational level as mentioned above. It is therefore carried out overall with reference to the probability that, following one or more significant shortcomings, an error in the financial statements could occur and with reference to the risk that this error may have been significant. To support the CEO and the Executive in Charge of the preparation of the Company's accounting documents in their final assessments concerning the concrete possibility that there is significant error in the financial statements, where one or more significant deficiencies are seen, compensatory checks and audits can be envisaged, which, if successful, despite the presence of one or more significant deficiencies identified specifically by the lines, enable the CEO and Executive in Charge of the preparation of the Company's accounting documents to issue their report without observations; any significant deficiencies highlighted by the assessment process must be notified promptly, together with the results of the compensatory controls performed by the CEO and the Executive in Charge of the preparation of the Company's accounting documents to the Control, Risk and Corporate Governance Committee, the Supervisory Board and the Board of Statutory Auditors of Terna S.p.A..



Glossary

Connection

Set of grid elements consisting of the transmission line and the stalls at the ends of the same, including the relative circuit sectioning devices. Classification of connections by voltage level is carried out with reference to the nominal voltage. The length of the connection is normally the length of the line constituting the actual link.

Connection line

Any power line that links the power distribution plant with the user's plant, or the power distribution plant with the connection station.

Development

Intervention within the electricity grid involving an adaptation or expansion of the transport, transformation, connection and interconnection capacity, an increase in operating flexibility of the grid or a disposal of grid elements.

Dispatching

Electricity cannot be stored. It is therefore necessary to continuously produce the quantity of energy requested by consumers and deliver it to the National Transmission Grid in such a way as to keep electricity supply and demand in equilibrium, thereby ensuring continuity and security in supplying this service. Management of these flows of electricity along the grid is known as "dispatching".

Frequency

Represents the number of oscillations per second, during which the value of an alternating quantity, such as voltage, varies from positive polarity to negative polarity. It is measured in Hertz (Hz).

Generator

Electrical machine that transforms a source of primary energy into electricity.

Gigawatt (GW)

Unit of measurement equal to one billion watts (1,000 megawatts).

Grid management

The set of activities and procedures that bring about operation and the operating plan, under every condition, of an electrical network. Said activities and procedures include the management of electricity flows, interconnection devices and the necessary auxiliary services, as well as the decisions for maintenance and development measures.

Gross production of electricity

Sum of the quantities of electrical energy produced, measured at the electrical generator terminals.

High voltage

Nominal voltage greater than 35 kV and less than or equal to 220 kV.

High-voltage electricity line

An electricity line is a system that connects two power stations, or a power station and an energy input or withdrawal point. The length of an electricity line (km/line) is expressed as the length of the circuits projection over the ground (geographical length).

High-voltage power station

A transfer power station is the part of the grid used both for dividing electricity among the grid's lines and for transferring electricity among grids with different voltages.

Interconnection line

High-voltage power line in alternating current (a.c.) or direct current (d.c.) which links two different electrical transmission or distribution grids or even two generation plants.

Interconnection of electricity grids

Connection between electricity grids required for the transfer of electricity.

Interoperability of electricity grids

Operating method for the completion of management, operation, maintenance and development activities for two or more interconnected grids, in order to ensure simultaneous and coordinated functioning of the same.

kilowatt-hour (kWh)

Unit of measurement that expresses the quantity of electricity equal to 1,000 watts provided or requested in one hour.

kW

Unit of measurement of power (1 kW=1000 J/sec).

kWh

Unit of measurement of energy.

Maintenance

Measures and intervention aimed at the maintenance or restoration of efficiency and proper functioning of electricity plants, taking into account any declines in performance.

Maximum total transport capacity on interconnection with foreign countries

Maximum transport capacity for importing along the lines of the interconnection grid with the electricity plants of neighbouring countries.

Medium voltage

Nominal voltage greater than 1 kV and less than or equal to 35 kV.

Megavolt-ampere (MVA)

Unit of measurement of the apparent electrical power.

Megawatt (MW)

Unit of measurement equal to one million watts.

National Transmission Grid (NTG)

National electricity transmission grid as defined by the Decree of the Ministry of Industry of 25 June 1999 and subsequent amendments and additions.

Net production of electricity

Sum of the quantities of electrical energy produced, measured at the outgoing points of the production plants.

Operations planning

Preparation of plans and schedules for operation of the electricity system.

Peak power

The highest value of electrical power supplied or absorbed at any point of the system during a specific time interval.

Planning

Definition of the usage plans, for a specific period of time, for the available means of production and transmission, in order to satisfy the energy requirements with respect to quality and continuity of service.

Power station

Part of a grid, concentrated and closed within a specific site, used to distribute electricity among the lines of a grid, transfer electricity among grids at different voltages and transform electricity into the lowest voltage for the user.

Producer

Natural or legal person that produces electricity, regardless of ownership of the generation plant.

Production

Generation of electrical energy, in any way.

RAB (Regulatory Asset Base)

Value of the net capital invested, as recognised by the Italian Authority for Electricity and Gas for transport and distribution companies for the purposes of determining the applicable tariffs.

Requirement

Demand for electrical energy to be satisfied by the national electricity system. It shows a variable trend throughout the day, month and year.

Stall

Set of power plants and accessory systems linked to a power line or transformer that links said elements to the grid with the busbars of a power station.

Switch

Sectioning and manoeuvring device able to carry and interrupt current under normal operating conditions, as well as during specific exceptional operating conditions, such as in the case of short circuits.

Switching station

Part of a grid consisting of the set of equipment used to distribute the electricity among the lines of a grid at the same level of voltage.

Transformation station

Part of a grid consisting of the set of equipment used to transfer electricity between grids with different voltages.

Transformer

Electrical machine used for the connection and transfer of energy between grids at different voltage levels.

Transmission

Electricity transport and transformation activities along the interconnected high- and very-high-voltage grid for the purposes of delivery to clients, distributors and recipients of self-produced energy.

Transmission activity

The activity of transporting and transformation electricity across the grid.

Transmission line

High- and very-high-voltage power line, overhead or cable, used for the transport of electricity from the production plants to the distribution systems or to users.

Unified management of the grid

Coordinated management of all portions of the Grid.

Very-high voltage

Nominal voltage over 220 kV.

Volt

Unit of measurement of voltage.

Watt

Unit of measurement of electric power.

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