Report on Operations

Terna
TERNA GROUP

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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 Report[9].
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.

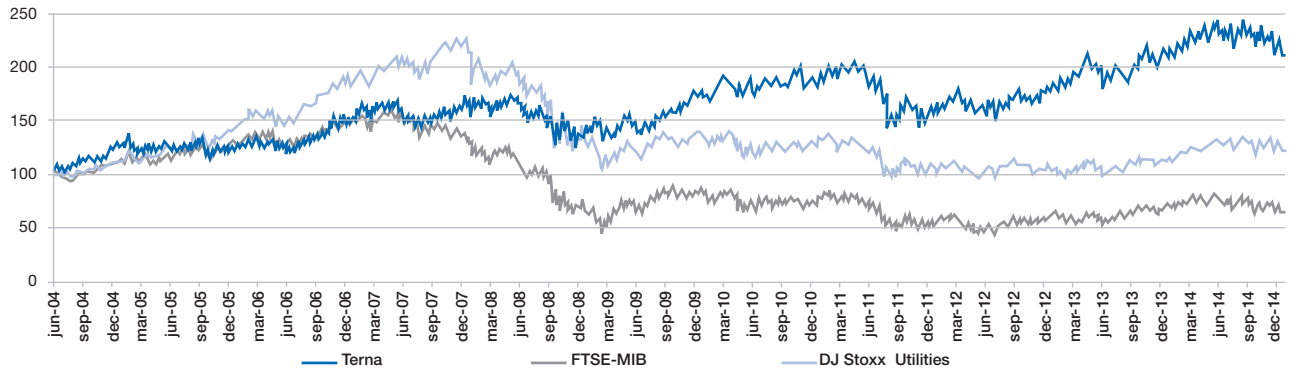
(9) Since 2011, Terna has supported the IIRC and participates in its Pilot Programme.
(10) For the "Materiality Analysis," please see the 2014 Sustainability Report.

2014

Terna
TERNA GROUP

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:



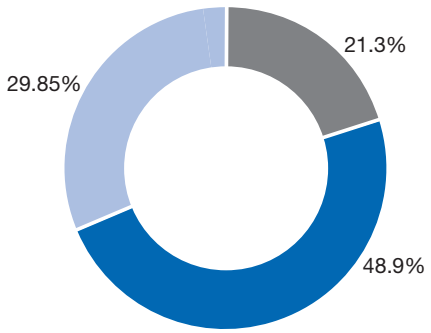
Shareholders

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

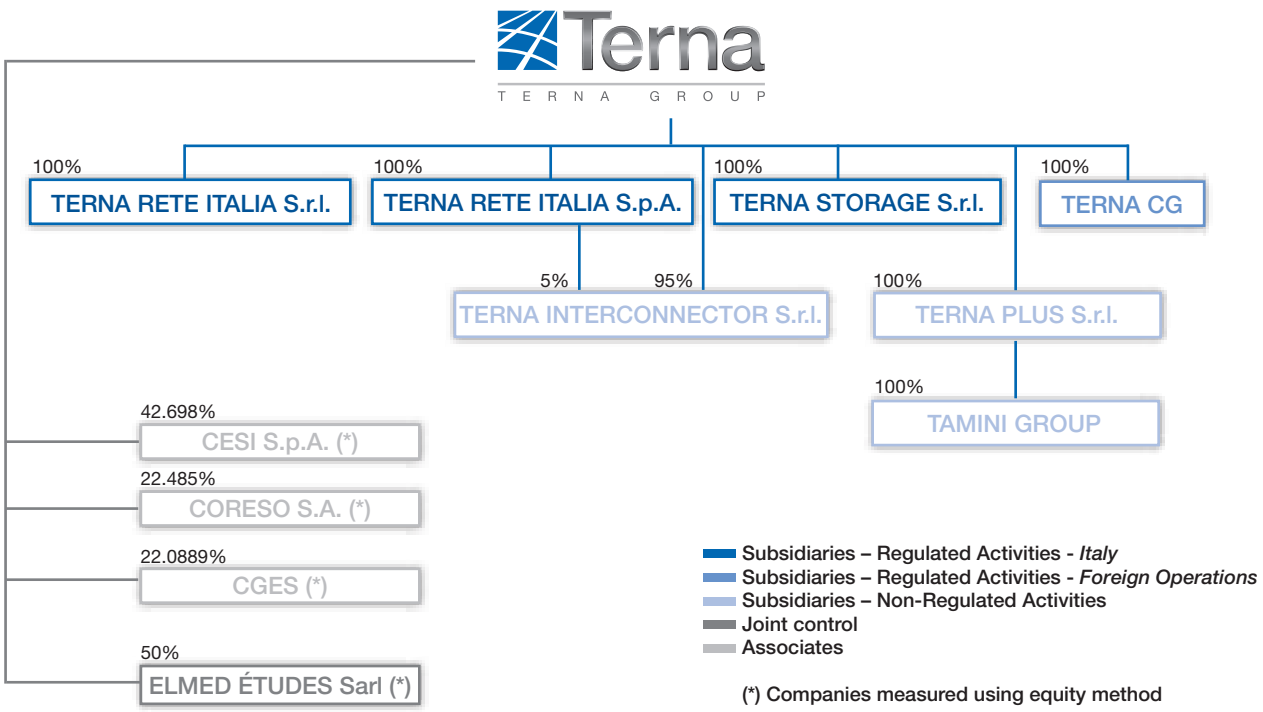
Foreign Institutional Investors	
of which United Kingdom/Ireland	11.0%
of which USA/Canada	8.3%
of which Rest of Europe	12.3%
of which Middle East, Asia and Australia	4.7%
Other	6.0%
Italian Shareholders	
of which Cassa Depositi e Prestiti S.p.A.	29.85%
of which Retail Shareholders	21.3%
of which Institutional 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) EBIT (Operating Profit)	166,730.3 125,070.1
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., Verbano 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 million[16];
- 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 Verbano 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**

CORESO

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 Degree 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

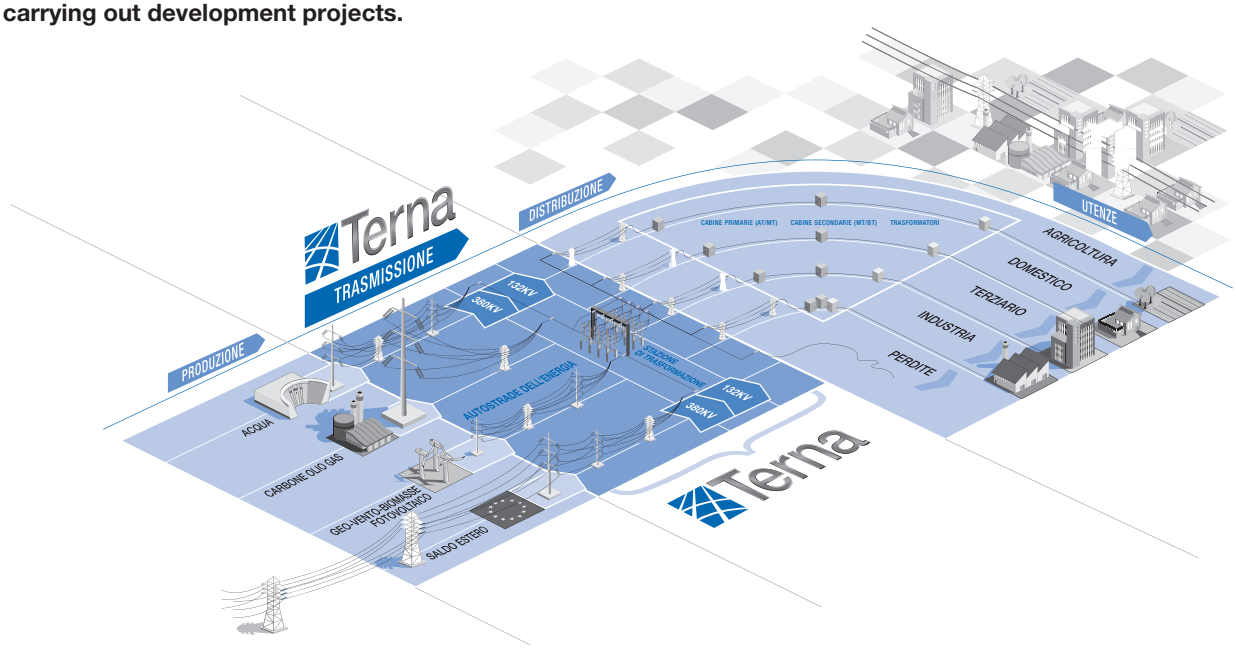
27 May
The Shareholders' Meeting appoints the new Board of Directors and elects Catia Bastioli as the Chairwoman.
At its first meeting, the new BoD unanimously appoints Matteo Del Fante as Chief Executive Officer and General Manager.

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 parties[18].
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 Valdagno. 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.

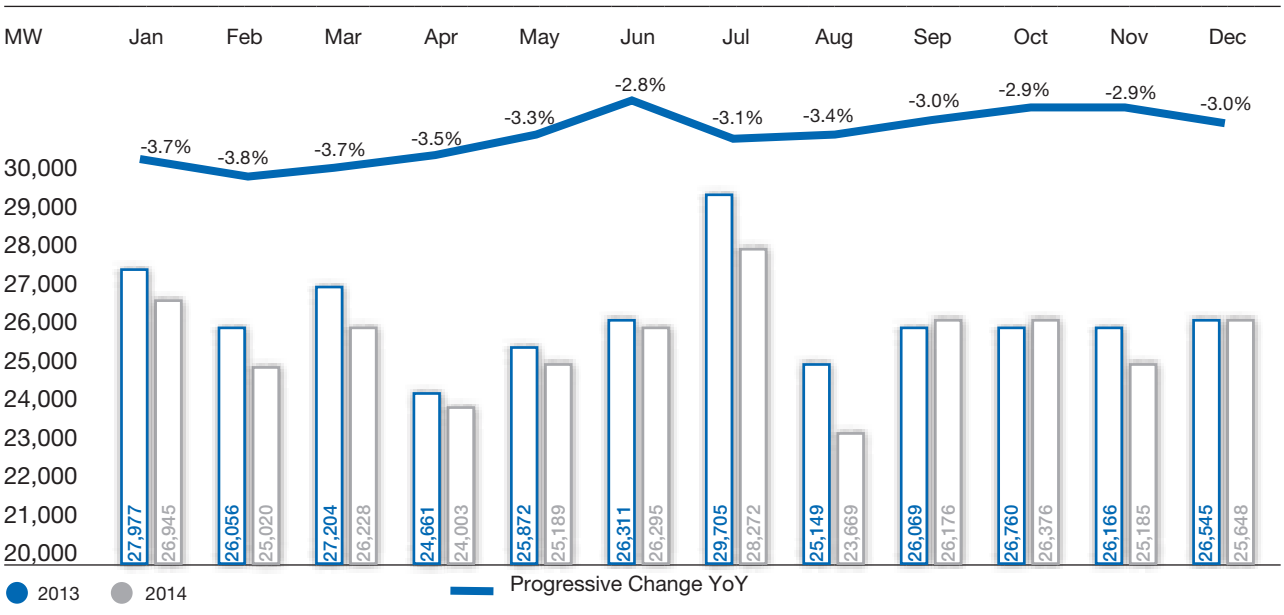
When comparing the 2014 results with those of the previous year, with same days and temperatures, the above decline was 2.1%. Calendar and temperature effects in this instance are cumulative: in conjunction with an average temperature that was approximately half a degree lower in the summer months and 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 sources[19] 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 users[22], 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 CO_2 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 procedure[24], 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 DP[25].
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

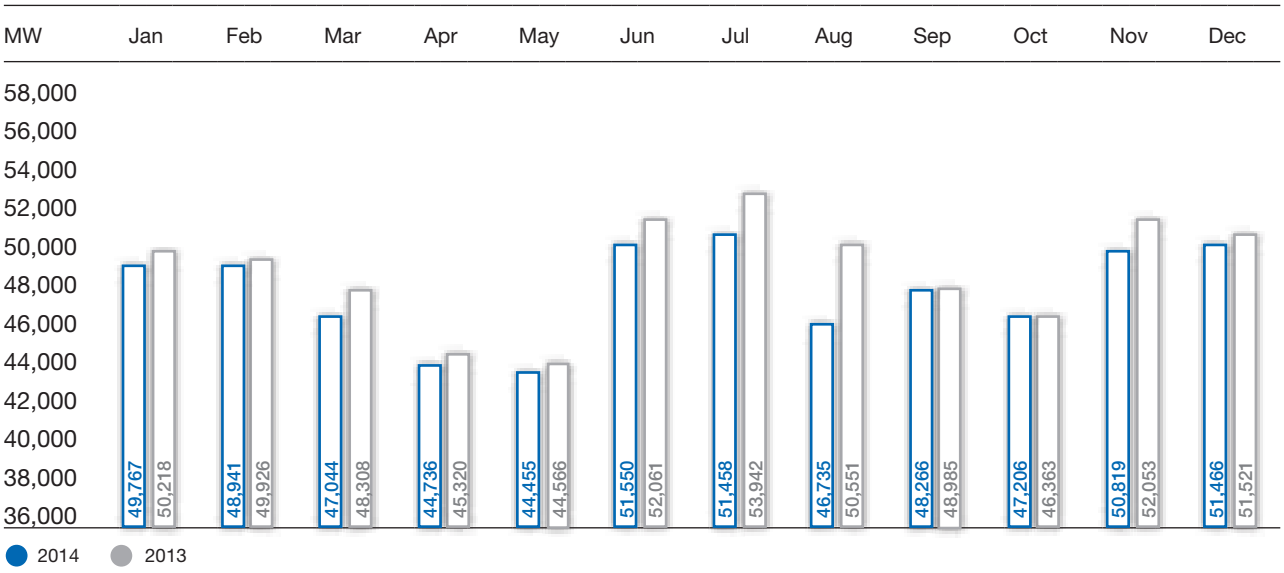
Km calculated to 3 decimal places and rounded to the unit. Percentages calculated to 5 decimal places and rounded to 2 decimal places.

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

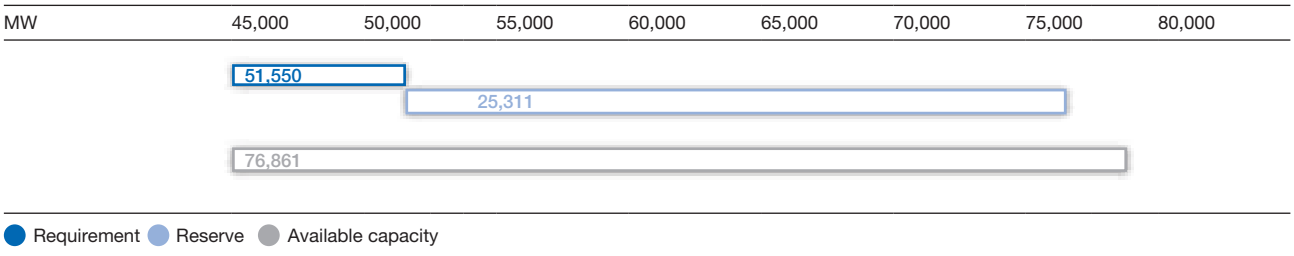
Coverage of demand

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)

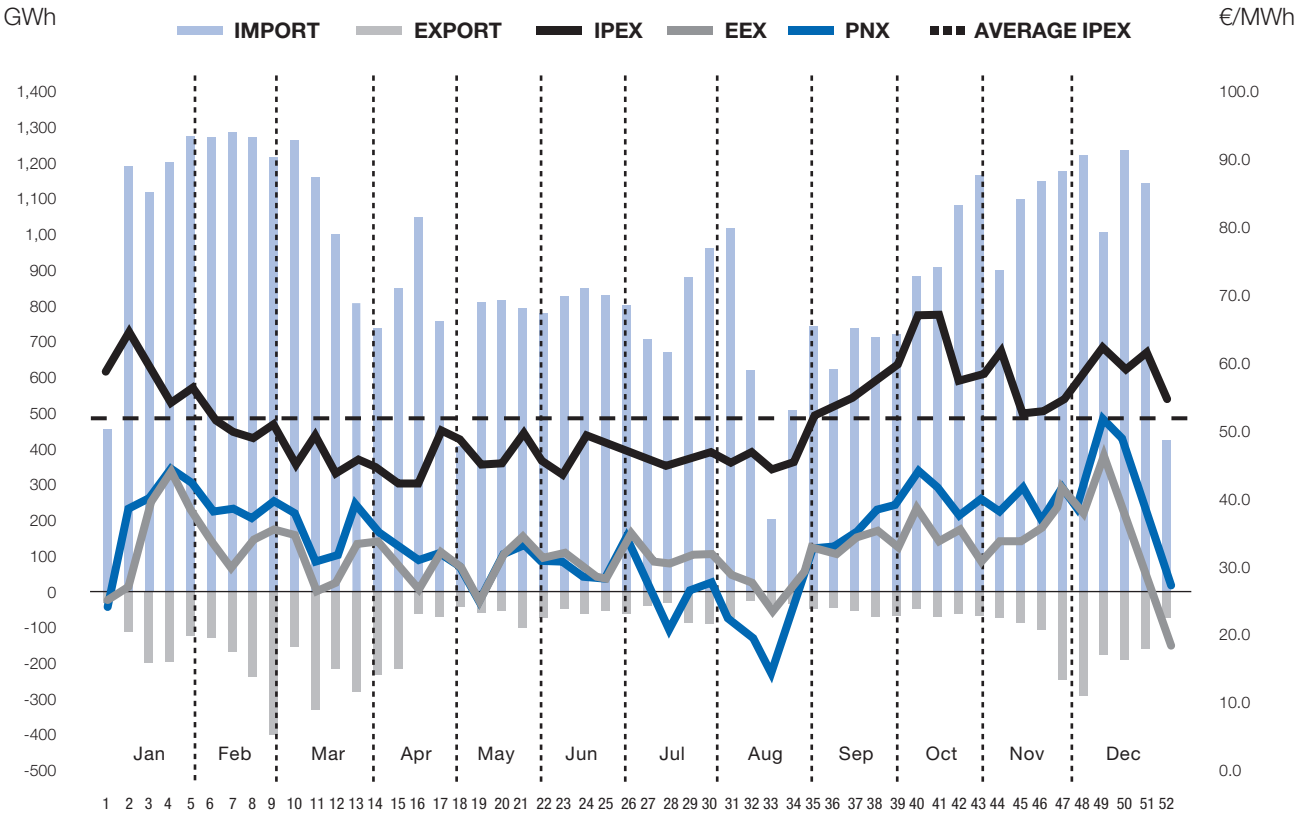


In 2014, foreign trade recorded net imports up by approximately 1.5 TWh compared to the previous year (+ 3.7% yoy). The **average median hourly price on the Italian energy exchange** (IPEX/PUN) for 2014 came to € 52/MWh, a notable decrease (-17% yoy) in comparison to 2013. It is still higher than the 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 Market[26], -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.

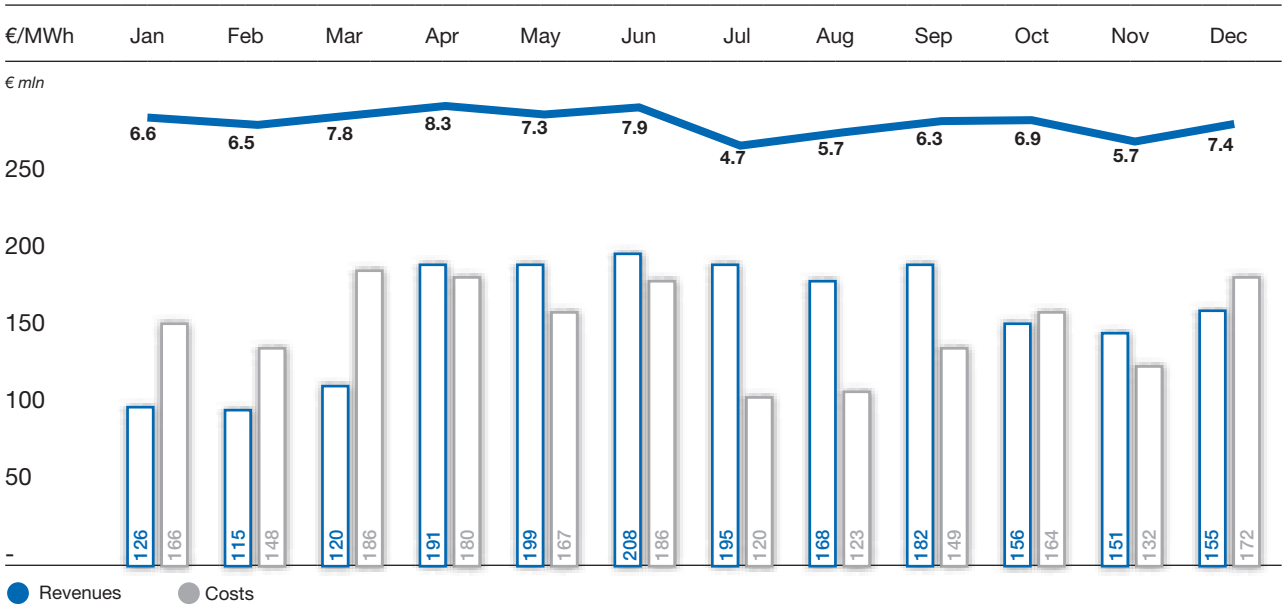
Price for supplying resources on the Dispatching Services Market (uplift)

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.

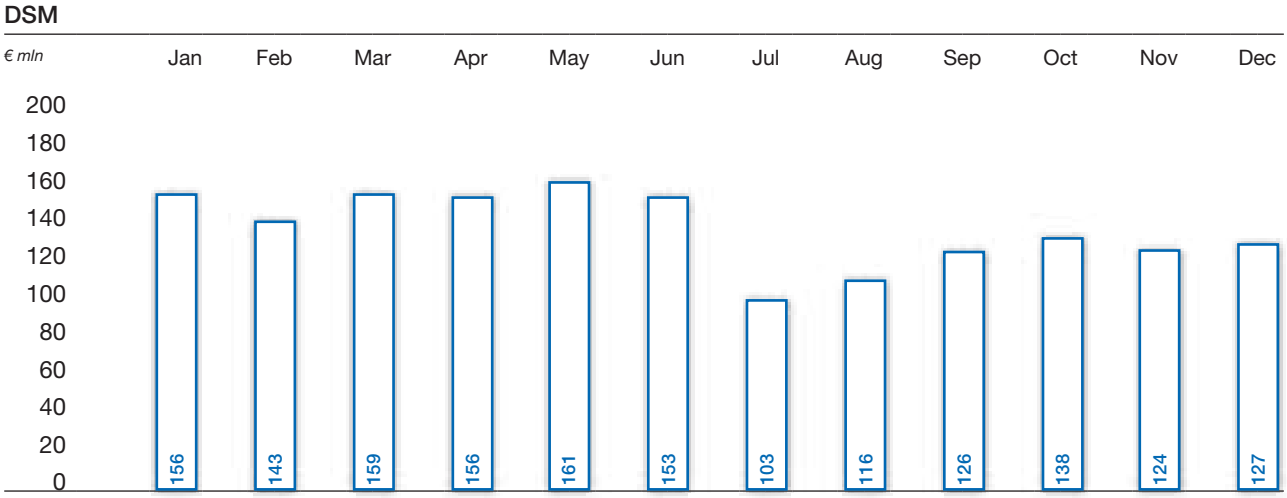


(27) On the basis of AEEGSI Resolution 111/06, the estimated unit price is calculated quarterly in advance as the ratio between the hedging items/costs related to the previous quarter and the estimate of electricity withdrawn by all dispatching users in the current quarter.

(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:



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 plans, 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 99/2009[29].

The new "Italy-France" interconnection (Piossasco-Grand'Ile), 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 governments[30], 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 SF_6) 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 grids[31], 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	1887	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
Turnover rate on termination (%) [(1)]	*2.12*	*1.8*	

(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)**
By contract type			
- permanent	3,382	3,412	(30)
- temporary	55	30	25
By gender			
- men	3,042	3,048	(6)
- women	395	394	1
Average age of personnel (years)			
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

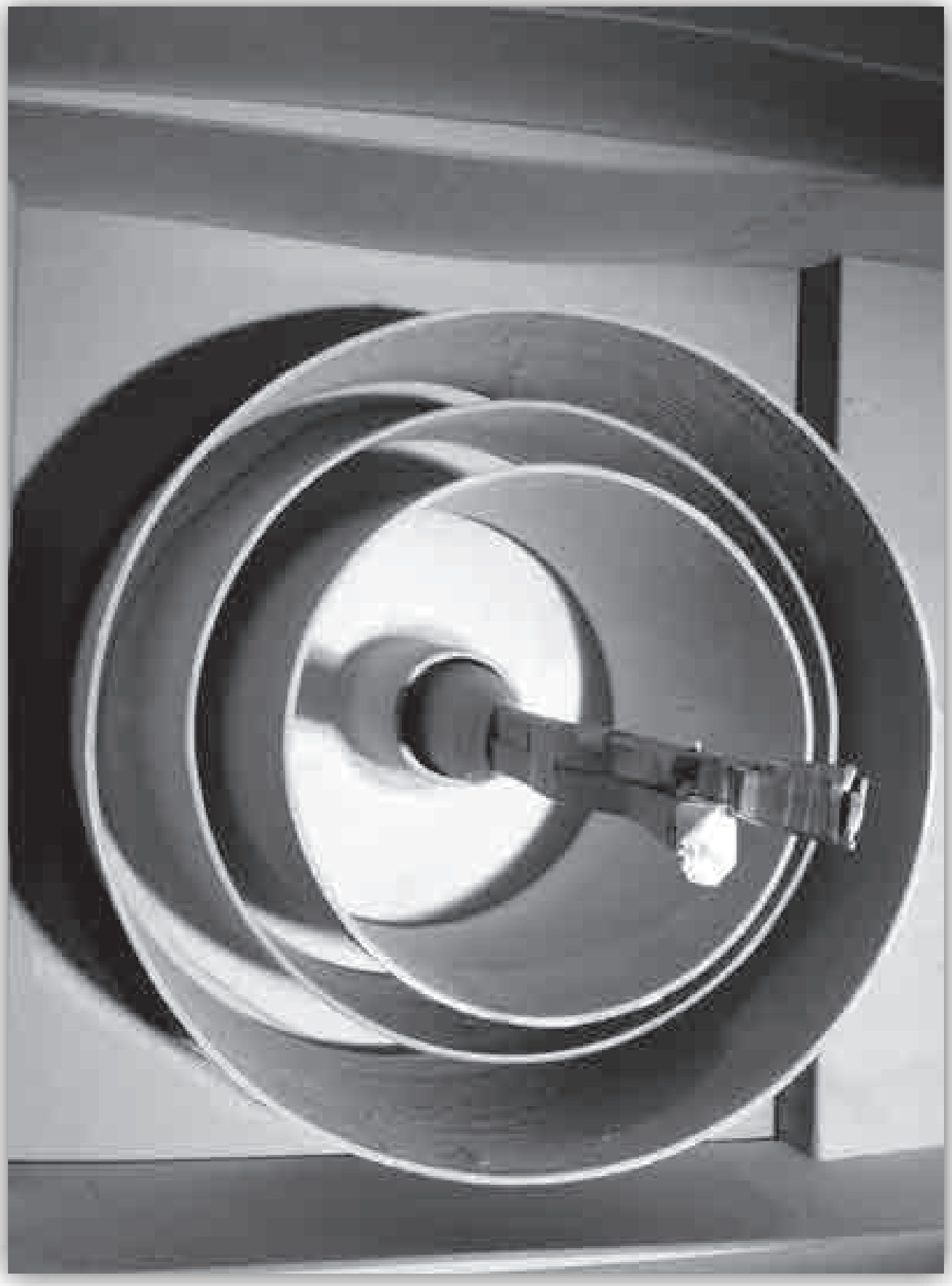
Developing human capital

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

Terna
TERNA GROUP



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 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 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 ±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 Code[32].

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 adopted[33]. 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 Directors[34].

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 association[35].

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 Directors[34].
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 powers[36].
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 GAUDÌ 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 ESEEES (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 “telescatto” (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 date 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 *Controlling shareholders; Institutional equity investors; Retail investors; Financial analysts; Proxy advisors; SRI Investors; ESG rating analysts and agencies.*	• 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 *Business partners; Investee companies; Purchasers of interconnection lines; Public safety organisations; Applied research institutions; Business developers.*	• Transparency and fulfilment of agreements and contractual commitments.	Partnership agreements. Protocols. Meetings for specific projects. Structured collaboration.
CUSTOMERS (non-regulated activities) *Non-traditional business customers; potential customers*	• Efficient, quality service aiming at constant improvement.	Dedicated meetings.
COMMUNITIES *Current and future end-users of the electrical service.*	• 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 *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.*	• 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 *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.*	• 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 *Banks; Rating agencies; Debt investors; International financial institutions; National and international public lenders.*	• Adopting systems to forestall and control risks.	Regular meetings. Dedicated informative documentation. Ratings.
SUPPLIERS *Core suppliers; Non-core suppliers; Trade associations representing suppliers; potential suppliers.*	• 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 *National and international media; National and international opinion groups; Web users; Universities; Other scientific and research organisations; National and international study and steering groups.*	• 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 *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.*	• Efficient, quality service aiming at constant improvement. • No arbitrary discrimination between operators. • Confidentiality of information regarding gird 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 *Employees; Governance bodies; External staff; Trade unions; Educational system; Workers' representatives.*	• 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 *AEEGSI, Ministry for Economic Development, European Regulatory Institutions.*	• 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 to 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

Terna
TERNA GROUP

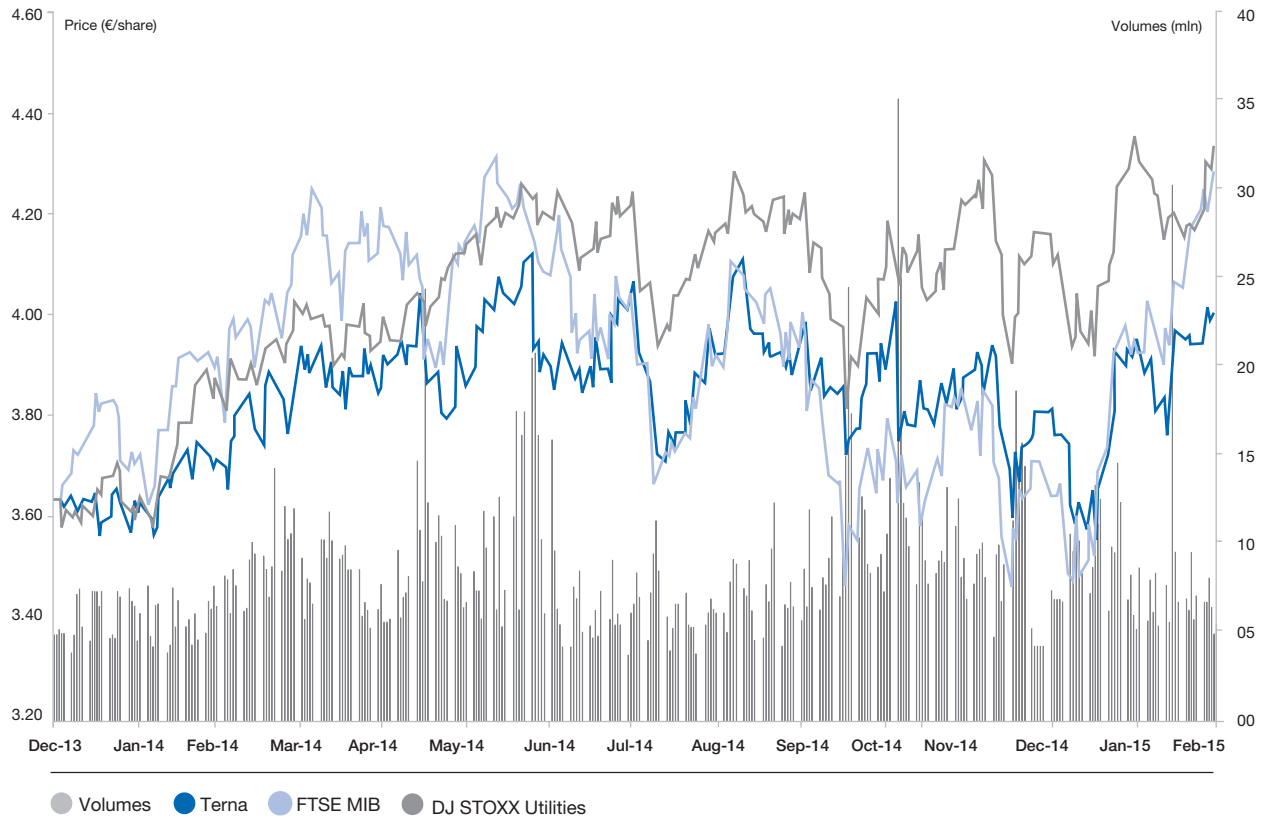
From the year's results to the creation of shared value

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	*Outlook*	**Stable**
	M/L term	**BBB**
	Short Term	**A-2**
Moody's	*Outlook*	**Stable**
	M/L term	**Baa1**
	Short Term	**Prime-2**
Fitch	*Outlook*	**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 Cerami[37] (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., Verbano 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.EL.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 declaration[38] 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%
of which other revenue from Regulated Activities[1]	*54.9*	*42.8*	*12.1*	*28.3%*
of which revenue from Non-Regulated Activities[2]	*143.1*	*64.0*	*79.1*	*123.6%*
Revenue from construction of assets in concession[39] [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[39] [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.

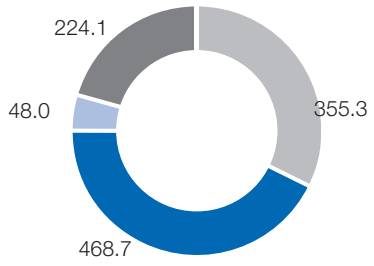
In the Consolidated Statement of Financial Position they correspond to:
(1) the items "Equity-accounted investees", "Other non-current assets" and "Non-current financial assets" for the carrying amount of the other investments (€ 0.3 million) and of deferrals on Revolving Credit Facility commissions (€ 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 condensors 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)

	€ million
Category I1 (base remuneration)	224.1
Category I2 (+1.5%)	355.3
Category I3 e I4 (+2%)	468.7
Other (non-regulated activities and capitalised financial expense)	48.0



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 ascertainments (€ 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)
*of which Tamini Group contribution**	*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)
*of which Tamini Group contribution**	*(39.3)*	-
Other changes in non-current assets	*(33.6)*	*0.6*
*of which Tamini Group contribution**	*(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 renainder, 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)	
Employee benefits		*26.2*		*(8.3)*
Provisions for future risks and charges		*32.5*		*10.1*
Deferred tax liabilities		*(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)	
Inventories		*(13.6)*		*(1.4)*
*Trade receivables**		*140.8*		*156.0*
Income tax assets		*(5.1)*		*(2.2)*
Other current assets		*33.4*		*(19.8)*
Trade payables		*41.5*		*(247.9)*
Income tax liabilities		*(30.3)*		*(63.5)*
Other liabilities		*78.2*		*28.8*
Other changes in non-current assets	(38.1)		(0.1)	
Intangible assets [3]		*(1.9)*		*-*
Property, plant and equipment [2]		*(27.7)*		*1,3*
of which contribution of newly-acquired companies				
Non-current financial assets		*(1.3)*		*(0.2)*
Other non-current assets		*(2.0)*		*(0.7)*
Equity-accounted investees		(5.2)		(0.5)
Other changes in equity attributable to owners of the Parent [4]	9.8		40.7	
Equity attributable to owners of the Parent Share capital, Other reserves and Retained earnings		*9.8*		*40,7*
Change in NWC and other (Cash Flow from Operating Activities)	**1,356.0**		**925.7**	
Investments				
Total investments	(1,096.1)		(1,212.3)	
Property, plant and equipment [2]		*(1,048.7)*		*(1,212.3)*
Intangible assets [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)***	
Non-current financial assets		*(257.7)*		*227.8*
Current financial assets		*39.3*		*(14.0)*
Non-current financial liabilities		*(50.1)*		*(61.2)*
Long-term loans		*73.5*		*(899.5)*
Current portion of long-term loans		*68.1*		*628.4*
Current financial liabilities		*(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 declaration[47] 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%
of which other revenue from Regulated Activities	*118.2*	*105.1*	*13.1*	*12.5%*
of which revenue from Non-Regulated Activities	*53.6*	*37.8*	*15.8*	*41.8%*
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 liked 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 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 million[52], 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 Sorgente - Rizziconi power line, and for the HVDC Italy - Montenegro interconnection, as well as the acquisition of synchronous condensors 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 ascertainments (€ 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)	
Employee benefits		*10.3*		*(0.7)*
Provisions for risks and charges		*35.4*		*14.3*
Deferred tax liabilities		*(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)	
Inventories		*-*		*(0.7)*
*Trade receivables**		*183.8*		*135.3*
Income tax assets		*(14.7)*		*12.5*
Other current assets		*50.9*		*(13.1)*
Trade payables		*(44.4)*		*(239.9)*
Income tax liabilities		*(30.6)*		*(18.9)*
Other changes in non-current assets	2.5		(37.7)	
Property, plant and equipment		*4.6*		*(35.5)*
Intangible assets [3]		*(0.3)*		*-*
Non-current financial assets		*(1.2)*		*(2.2)*
Other non-current assets		(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)	
Property, plant and equipment [2]		*(974.7)*		*(1,072.5)*
Intangible assets [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)**	
Current financial assets		*41.1*		*(13.9)*
Non-current financial assets		*244.2*		*227.8*
Non-current financial liabilities		*(50.1)*		*(61.2)*
Long-term loans		*64.4*		*(899.5)*
Current portion of long-term loans		*66.4*		*628.4*
Current financial liabilities		*(2.9)*		*14.3*
Change in cash and cash equivalents	**41.5**		**(906.2)**	

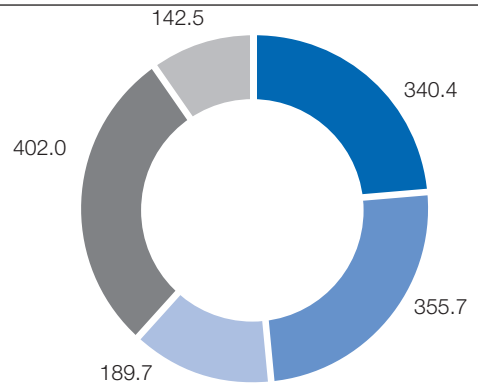
* Does not take into account impairment of trade receivables accruing (€ 1.9 million in 2014).
(1) included in the "Other revenue" and "Other operating costs" items of the financial statements;
(2) see note 10 to the financial statements;
(3) see note 12 to the financial statements;
(4) see the statement of changes in equity.

Value added[56]

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 unconstitutional[57].
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)

	€ million
Personnel remuneration	340.4
Remuneration of the PA	355.7
Return on borrowed capital	189.7
Return on risk capital	402.0
Remuneration of the Company	142.5
Total	**1,430.3**



(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 Terna 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.

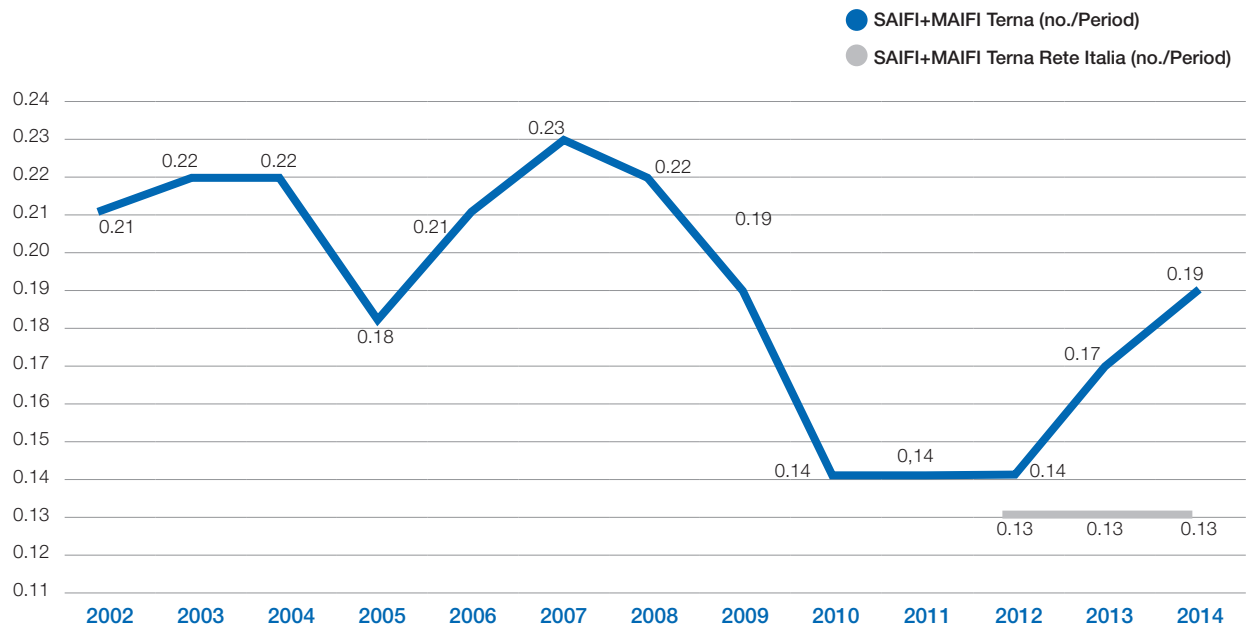
Terna monitors the quality of the service provided using different indexes and identifies targets for improvement. The indexes referred to below, where not otherwise specified, are defined by AEEGSI (Resolution 250/04) and by the Terna Grid Code.

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 customers[58] 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 NTG[59], is shown in the graph below, which shows the trend of the index from 2002 to 2014:

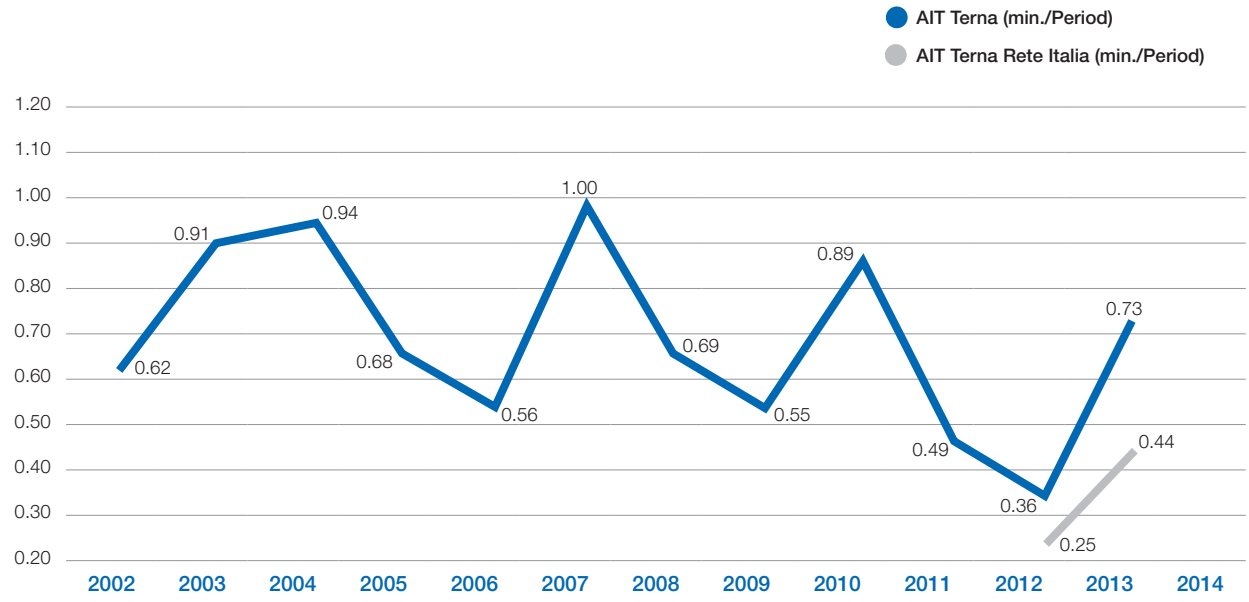
No. Customers interrupted/No. NTG Users



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 NTG[60], is shown in the graph below, which shows the trend of the index from 2002 to 2013[61], net of the amount attributable to significant incidents:

average interruption time (min)



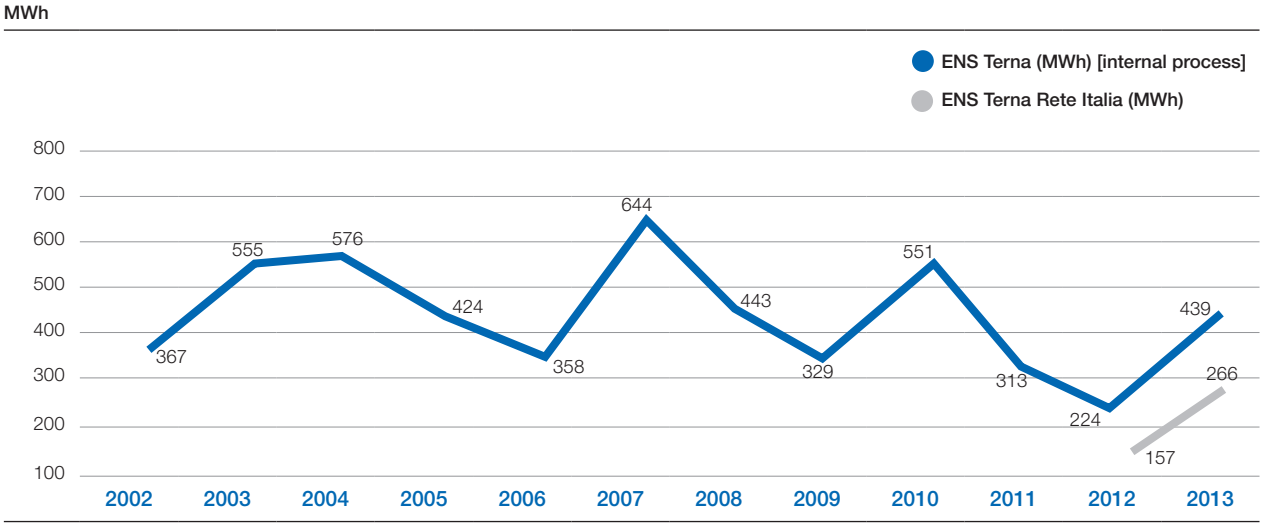
(58) Customers with high energy consumption.
(59) Since 2012, the interruption frequency index (SAIFI+MAIFI) has also been monitored with reference to the portion of the NTG owned by the subsidiary Terna Rete Italia S.r.l.
(60) Since 2012, the AIT indicator has also been monitored with reference to the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

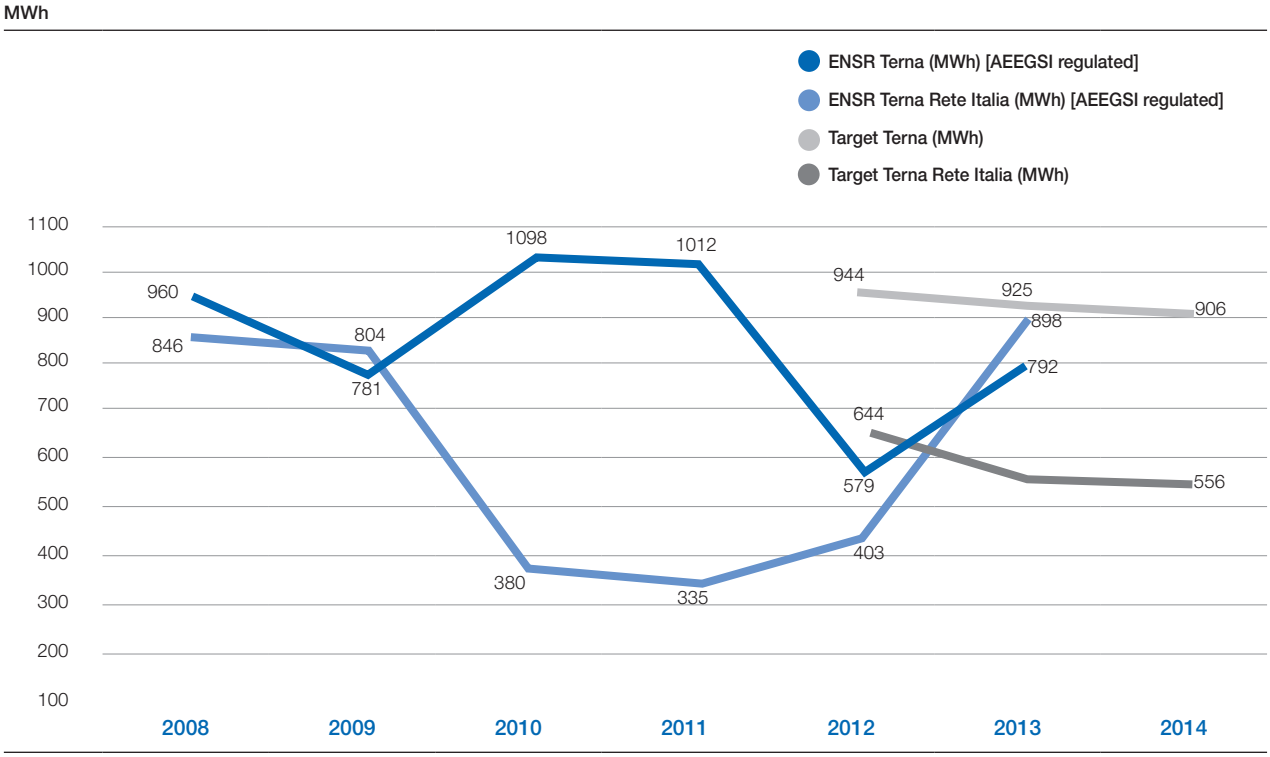
Energy Not Supplied (ENS)

The Energy Not Supplied (ENS) indicator shows the energy not supplied to users connected to the NTG[62] following events which affect the NTG, net of the amount attributable to relevant incidents.



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.



(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-Villlanova" 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.

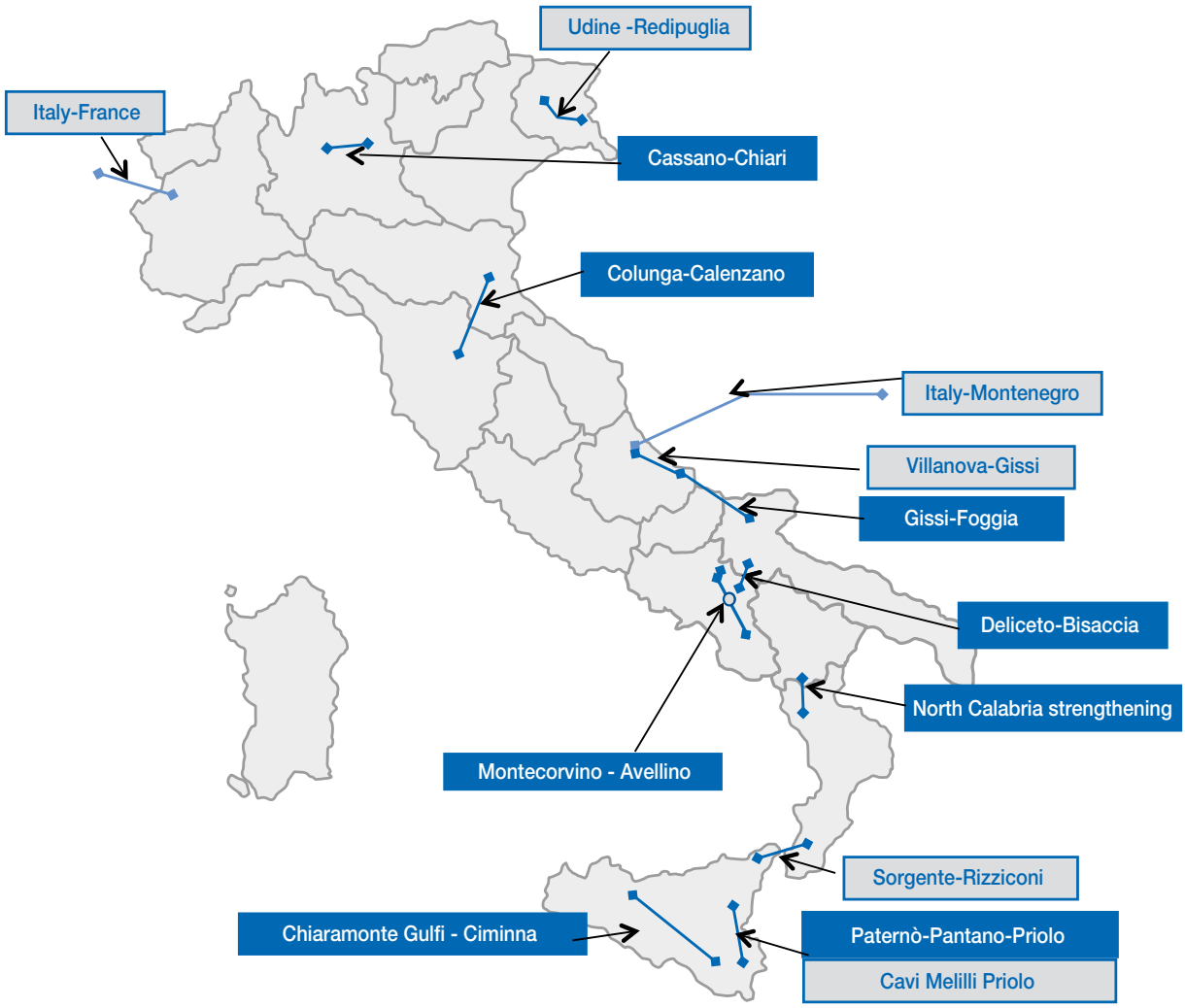
Authorised work and authorisation procedures in progress

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 Plan[64].

(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:



EHV grid strengthening | under construction/authorised | 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:

EHV grid strengthening EHV/HV collection stations

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 adhesion 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
Women out of total employees			
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)
Managerial positions			
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 CO_2 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, CO_2 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 (SF_6) in equivalent CO_2 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 SF_6 (sulphur hexafluoride), a greenhouse gas used in station equipment for its high insulating power.

SF_6 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 SF_6 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 SF_6, 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

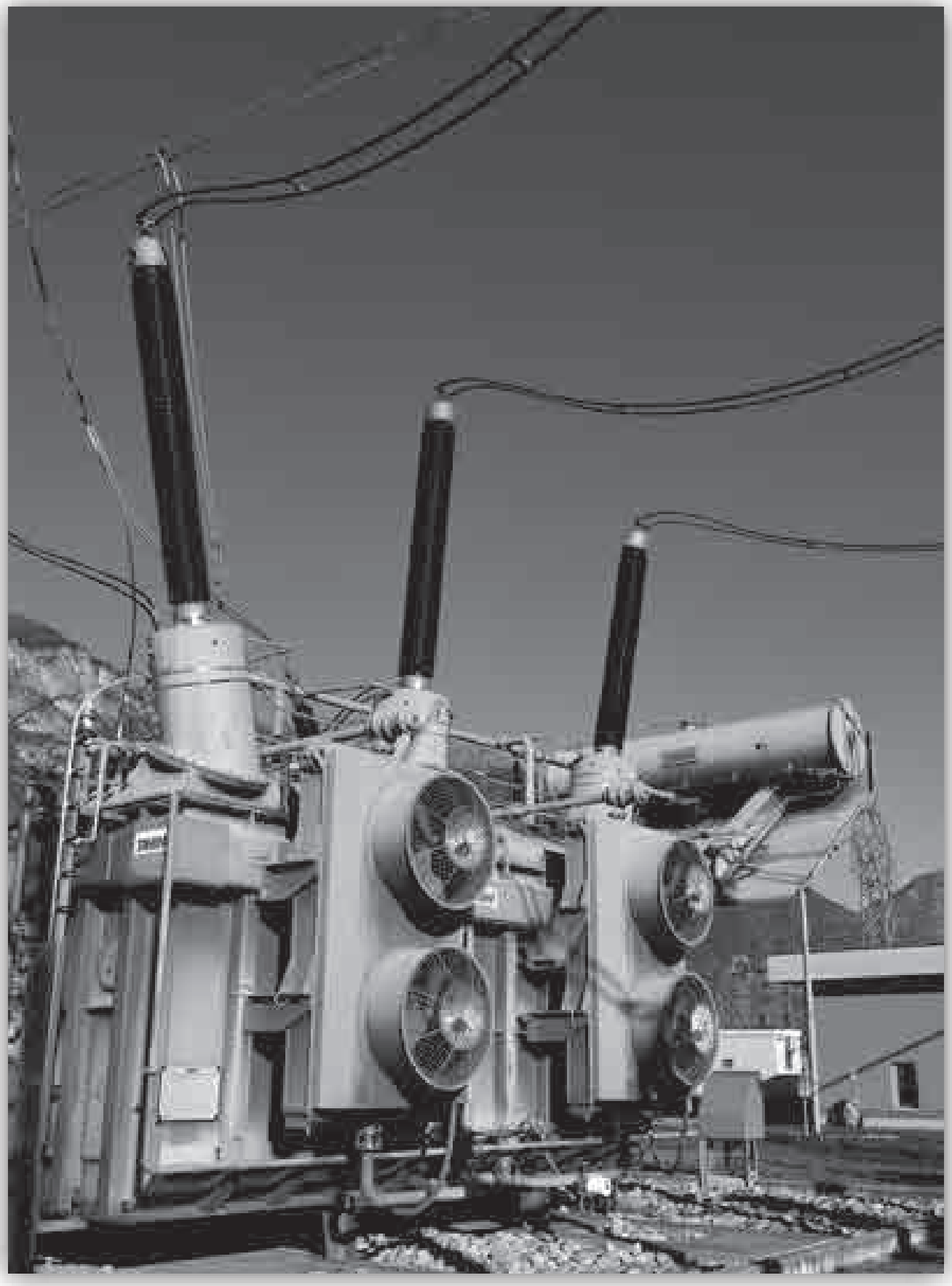
In addition to what has been presented so far, we should also recall that in the two years considered (2013-2014):
- no fatal or serious accidents, occurred, even in previous years, for which corporate liability was definitively ascertained;
- no allegations were recorded regarding workplace bullying 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.

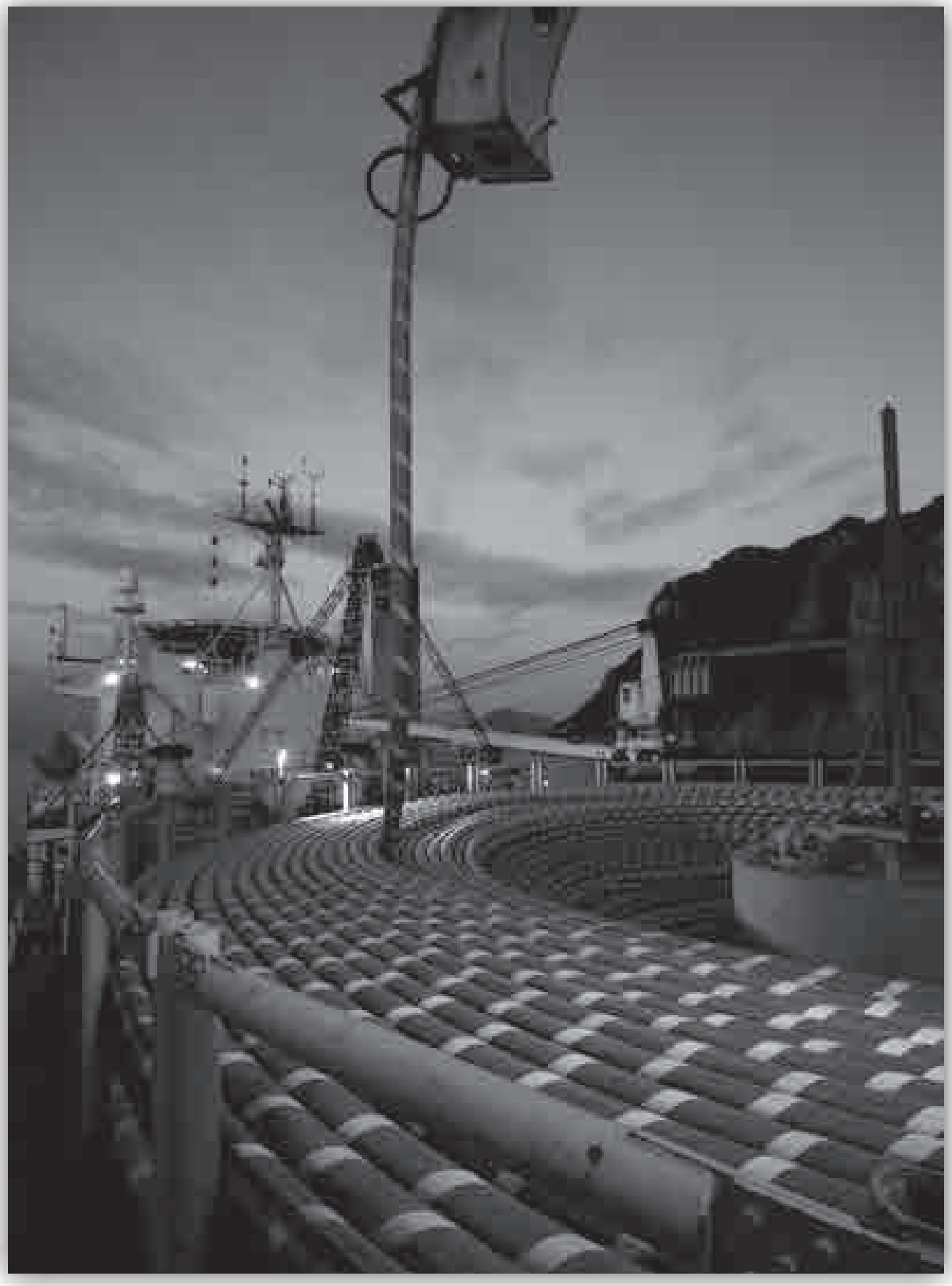
TERNA'S PRESENCE IN SUSTAINABILITY INDICES AS OF 31 DECEMBER 2014

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 Word 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

Terna
TERNA GROUP



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 requirements[65]. 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 2014[66] 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 scenario[67].

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_ELETTRICO/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 comitology[69] 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.

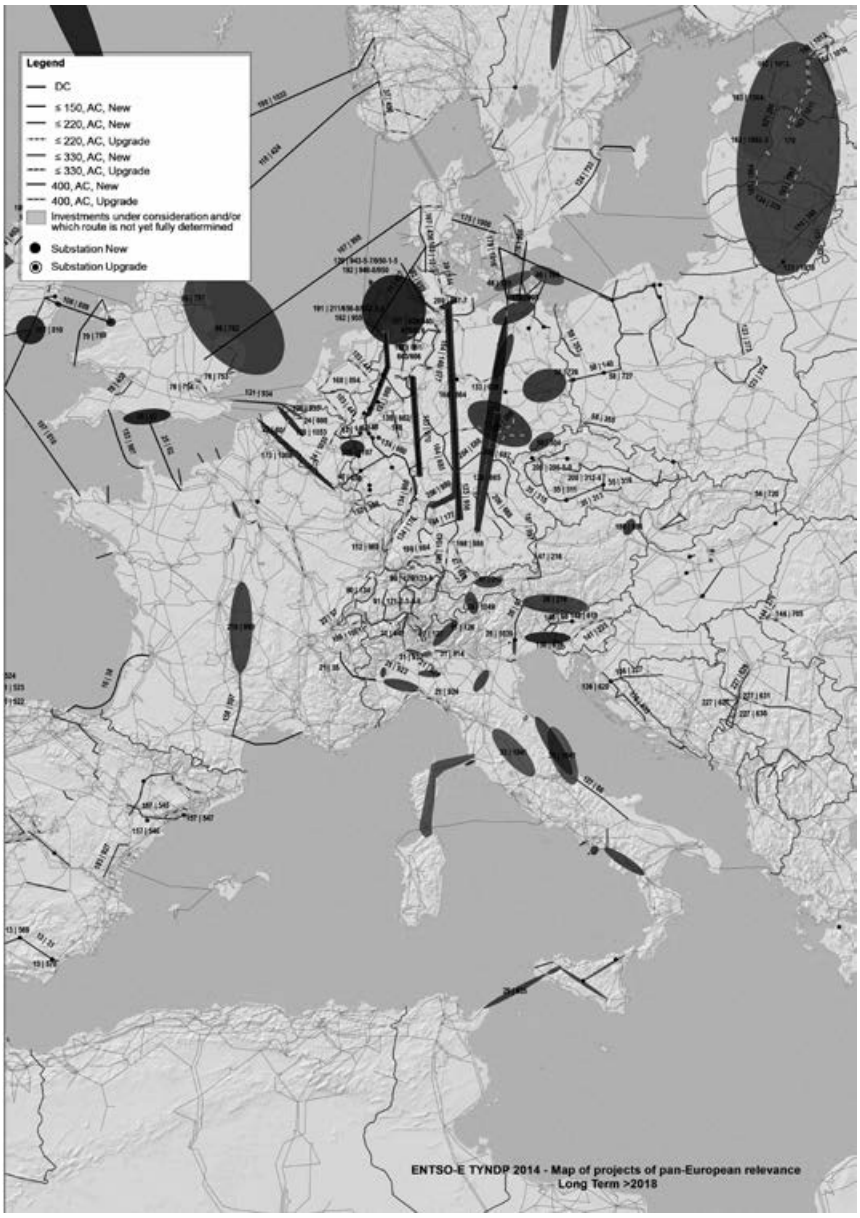
Market transparency and integrity

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 CO_2 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 CO_2 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 CO_2 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 CO_2 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 CO_2 emissions of up to approximately 8,000,000 tonnes a year.

Connection of plants using renewable energy

The main contribution to the reduction of CO_2 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 CO_2 emissions amounting to about 7,000 $ktCO_2$/year.

Reduction of CO_2 emissions in 2014

In 2014, the benefits in terms of reduction of CO_2 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 ktCO_2**[70].

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 tCO_2/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 project[71] 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

Terna
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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 ESEEESs, 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 CO_2 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 (ESEEES).

Resolution 427/2014/I/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 Italiane (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 gird 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 2014[73].
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	649	+ 10
	+ 140,563 MVA	138,399MVA	+ 2,165 MVA
Bays	5,084	5,022	+ 62
Lines	41,398 km	41,064 km	+ 334 km
Three-phase lines	2,396	2,374	+ 22
	46,345 km	46,039 km	+ 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.		
	31.12.2014	31.12.2013	Change
Stations	29	19	+ 10
Transformers	2	2	-
	320MVA	320MVA	-
Bays	121	83	+ 38
Lines	16,473 km	16,476 km	- 3 km
Three-phase lines	1,737	1,734	+ 3
	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).

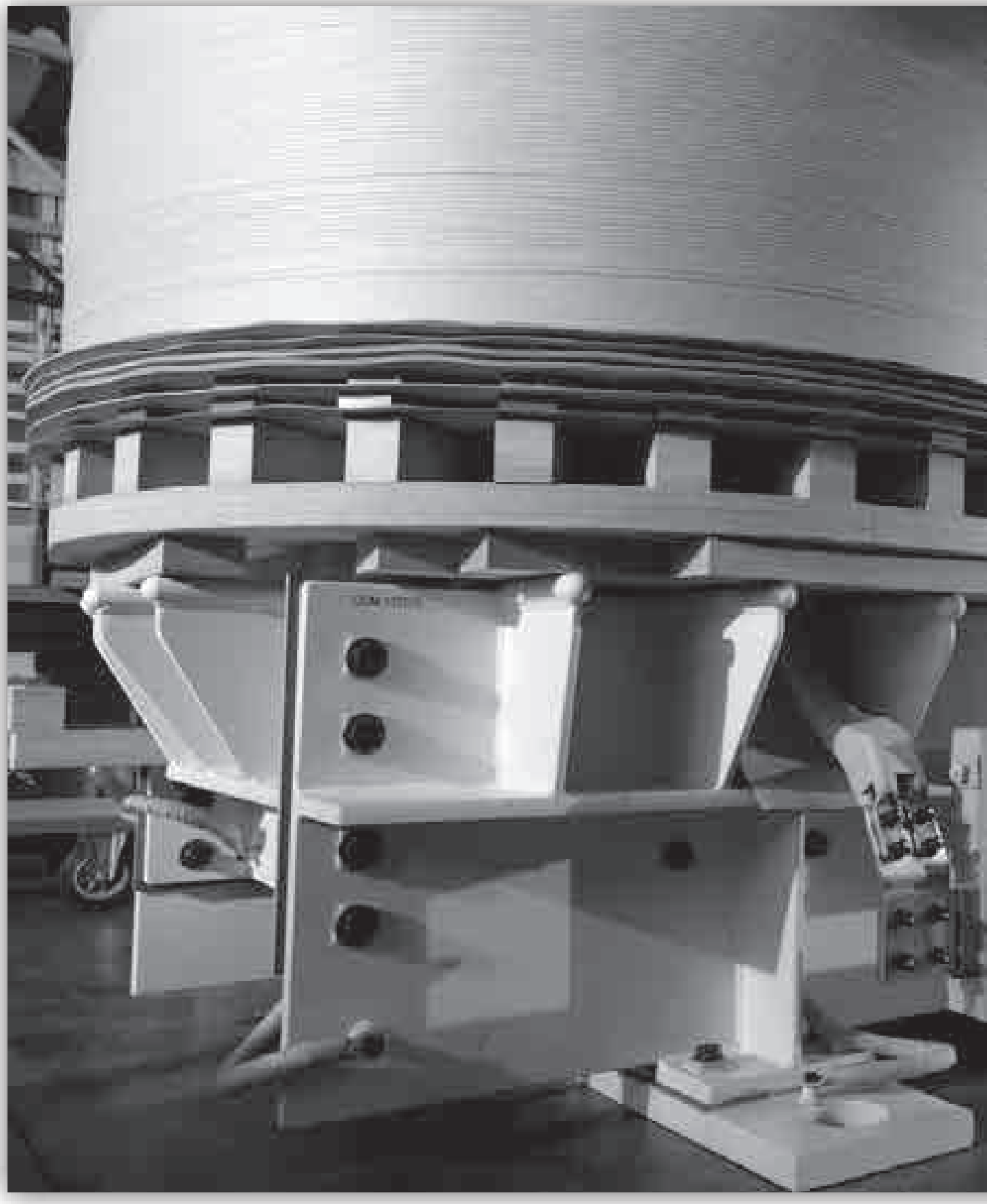
Transformers

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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